BANK VOZROZHDENIE

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

31 December 2011

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CONTENTS

Independent Auditor's Report

To the Shareholders and Board of Directors of Bank Vozrozhdenie:

1 We have audited the accompanying consolidated financial statements of Bank Vozrozhdenie and its subsidiary (the "Group") which comprise the consolidated statement of financial position as of 31 December 2011 and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

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

Opinion

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

ZAO PricewaTerhouse Coopers Audit

26 March 2012
Moscow, Russia

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In millions of Russian Roubles	Note	31 December 2011	31 December 2010
ASSETS			
Cash and cash equivalents	7	37 755	32 151
Mandatory cash balances with the CBRF		1 939	1 072
Trading securities	8	7 347	12 182
Due from other banks	9	967	5 860
Loans and advances to customers	10	124 383	104 046
Investment securities available for sale	11	1 377	2 043
Property, equipment and intangible assets	12	3 048	3 132
Other financial assets	13	1 254	1 644
Non-current assets classified as held for sale	14	975	106
Other assets	14	4 843	3 922
TOTAL ASSETS		**183 888**	**166 158**
LIABILITIES			
Due to other banks	15	8 202	7 772
Customer accounts	16	145 142	130 334
Debt securities in issue	17	6 722	5 794
Subordinated loans	18	4 217	4 293
Other financial liabilities	19	588	611
Other liabilities		555	494
TOTAL LIABILITIES		**165 426**	**149 298**
EQUITY			
Share capital	20	250	250
Share premium	20	7 306	7 306
Retained earnings	21	10 807	9 227
Other reserves		99	77
TOTAL EQUITY		**18 462**	**16 860**
TOTAL LIABILITIES AND EQUITY		**183 888**	**166 158**

Approved for issue and signed on behalf of the Board of Directors on 26 March 2012.

D. L. Orlov
President

A.A. Novikova
Chief Accountant

In millions of Russian Roubles	Note	2011	2010
Interest income	22	13 959	13 600
Interest expense	22	(6 503)	(8 109)
Net interest income		**7 456**	**5 491**
Provision for loan impairment	10	(2 304)	(1 872)
Net interest income after provision for loan impairment		**5 152**	**3 619**
Fee and commission income	23	5 232	4 295
Fee and commission expense	23	(410)	(360)
Gains less losses /(Losses less gains) from trading securities		7	(90)
Gains less losses from trading in foreign currencies		420	345
Foreign exchange translation losses less gains		(50)	(24)
Gains less losses from disposals of investment securities available for sale		12	15
Dividend income		3	2
Other operating income		219	225
Administrative and other operating expenses	24	(8 353)	(7 180)
Provision for impairment of other assets	14	(216)	(121)
Profit before tax		**2 016**	**726**
Income tax expense	25	(422)	(145)
PROFIT FOR THE YEAR		**1 594**	**581**
Other comprehensive income:			
Available-for-sale investments:			
Gains less losses/(Losses less gains) arising during the year		32	(5)
(Expense)/Income tax credit recorded directly in other comprehensive income	25	(10)	12
Other comprehensive income for the year		**22**	**7**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**1 616**	**588**
Earnings per share for profit attributable to the equity holders of the Bank, basic (expressed in RR per share)			
Ordinary shares	26	64	23

In millions of Russian Roubles	Note	Share capital	Share premium	Revaluation reserve for available-for-sale investments	Retained earnings	Total equity
Balance as at 31 December 2009		**250**	**7 306**	**70**	**8 660**	**16 286**
Profit for the year		-	-	-	581	581
Other comprehensive income		-	-	7	-	7
Total comprehensive income for 2010		**-**	**-**	**7**	**581**	**588**
Dividends declared	27	-	-	-	(14)	(14)
Balance as at 31 December 2010		**250**	**7 306**	**77**	**9 227**	**16 860**
Profit for the year		-	-	-	1 594	1 594
Other comprehensive income		-	-	22	-	22
Total comprehensive income for 2011		**-**	**-**	**22**	**1 594**	**1 616**
Dividends declared	27	-	-	-	(14)	(14)
Balance at 31 December 2011		**250**	**7 306**	**99**	**10 807**	**18 462**

In millions of Russian Roubles	Note	2011	2010
Cash flows from operating activities			
Interest received		14 660	13 199
Interest paid		(6 601)	(8 448)
Fees and commissions received		5 244	4 267
Fees and commissions paid		(410)	(360)
Net losses paid/income received from trading in trading securities		(32)	19
Net income received from trading in foreign currencies		420	345
Other operating income received		178	217
Administrative and other operating expenses paid		(7 708)	(6 575)
Income tax paid		(825)	(633)
Cash flows from operating activities before changes in operating assets and liabilities		**4 926**	**2 031**
Changes in operating assets and liabilities			
Net increase in mandatory cash balances with the Central Bank of the Russian Federation		(867)	(204)
Net decrease/(increase) in trading securities		4 920	(2 541)
Net decrease in due from other banks		4 912	506
Net increase in loans and advances to customers		(24 039)	(20 568)
Net decrease/(increase) in other financial assets		407	(425)
Net (increase)/decrease in other assets		(213)	148
Net increase in due to other banks		215	3 126
Net increase in customer accounts		13 773	17 978
Net increase/(decrease) in debt securities in issue		819	(333)
Net (decrease)/ increase in other financial liabilities		(24)	26
Net (decrease)/increase in other liabilities		(110)	41
Net cash from/(used in) operating activities		**4 719**	**(215)**
Cash flows from investing activities			
Acquisition of investment securities available for sale		(762)	(1 589)
Proceeds from disposal of investment securities available for sale		1 491	876
Acquisition of premises, equipment and intangible assets	12	(442)	(511)
Proceeds from disposal of premises, equipment and intangible assets		15	8
Proceeds from disposal of non-current assets held for sale		38	63
Proceeds from disposal of investment properties		181	7
Dividend income received		3	2
Net cash from/(used in) investing activities		**524**	**(1 144)**
Cash flows from financing activities			
Receipt of funding from international financial institution		-	407
Repayment of subordinated loans	18	(226)	(395)
Receipt of subordinated loans	18	-	91
Dividends paid	27	(14)	(14)
Net cash from financing activities		**(240)**	**89**
Effect of exchange rate changes on cash and cash equivalents		**601**	**(680)**
Net increase/(decrease) in cash and cash equivalents		**5 604**	**(1 950)**
Cash and cash equivalents at the beginning of the year		32 151	34 101
Cash and cash equivalents at the end of the year	7	**37 755**	**32 151**

1 Introduction

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") for the year ended 31 December 2011 for Bank Vozrozhdenie ("Bank") and its special-purpose entity, closed joint stock company "Ipotechny Agent Vozrozhdeniye 1" (together referred to as the "Group").

The Bank was incorporated and is domiciled in the Russian Federation. The Bank is an open joint-stock company and was set up in accordance with Russian regulations. The Bank is ultimately de-facto controlled by Mr. D. L. Orlov (2010: Mr. D. L. Orlov).

Principal activity. The Bank's principal business activity is commercial and retail banking operations within the Russian Federation. The Bank has operated under a full banking license issued by the Central Bank of the Russian Federation ("CBRF") since 1991. The Bank participates in the State deposit insurance scheme, which was introduced by Federal Law #177-FZ "Deposits of individuals insurance in Russian Federation" dated 23 December 2003. The State Deposit Insurance Agency guarantees repayment of 100% of individual deposits up to RR 700 thousand per individual in the case of the withdrawal of a licence of a bank or a CBRF imposed moratorium on payments.

The Bank has 53 (2010: 53) branches within the Russian Federation, the majority of which are in Moscow and Moscow region. The number of the Bank's employees as at 31 December 2011 was 6 668 (2010: 6 521).

The Bank's Head office is located at the following address: Luchnikov pereulok, 7/4 bld. 1, 101990, Moscow, Russian Federation.

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

2 Operating Environment of the Group

The Russian Federation displays certain characteristics of an emerging market. Tax, currency and customs legislation is subject to varying interpretations and contributes to the challenges faced by banks operating in the Russian Federation (Note 31).

The international sovereign debt crisis, stock market volatility and other risks could have a negative effect on the Russian financial and corporate sectors. Management determined loan impairment provisions by considering the economic situation and outlook at the end of the reporting period, and applied the 'incurred loss' model required by the applicable accounting standards. These standards require recognition of impairment losses that arose from past events and prohibit recognition of impairment losses that could arise from future events, no matter how likely those future events are. Refer to Note 4.

The future economic development of the Russian Federation is dependent upon external factors and internal measures undertaken by the government to sustain growth, and to change the tax, legal and regulatory environment. Management believes it is taking all necessary measures to support the sustainability and development of the Group's business in the current business and economic environment.

3 Summary of Significant Accounting Policies

Basis of preparation. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, as modified by the revaluation of trading and available for sale financial assets. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated (refer to Note 5).

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

3 Summary of Significant Accounting Policies (Continued)

Special Purpose Entities ("SPE") are the entities established for a clearly defined purpose such as securitisation of certain assets or obtaining certain borrowings. An SPE is consolidated if the nature of relationship between the bank and the SPE indicates that the Bank has control over the SPE.

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

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

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

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

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition and includes transaction costs. Measurement at cost is only applicable to investments in equity instruments that do not have a quoted market price and whose fair value cannot be reliably measured. Refer to Note 11.

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

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

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

The present value calculation includes all fees paid and received between parties to the contract that are an integral part of the effective interest rate.

3 Summary of Significant Accounting Policies (Continued)

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

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

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

Cash and cash equivalents. Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. All short term interbank placements, beyond overnight placements, are included in due from other banks. Amounts, which relate to funds that are of a restricted nature are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortised cost.

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

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

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

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

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

3 Summary of Significant Accounting Policies (Continued)

Impairment of financial assets carried at amortised cost. Impairment losses are recognised in profit or loss for the year when incurred as a result of one or more events (“loss events”) that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Bank determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics, and collectively assesses them for impairment. This rule does not apply to the financial assets recognised in the end of the reporting period (usually in December) for which not enough information has been collected to identify an impairment trigger event. The primary factors that the Bank considers in determining whether a financial asset is impaired are its overdue status and realisability of related collateral, if any.

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

- any instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the borrower experiences a significant financial difficulty as evidenced by borrower’s financial information that the Bank obtains;
- the borrower considers bankruptcy or a financial reorganisation;
- there is an adverse change in the payment status of the borrower as a result of changes in the national or local economic conditions that impact the borrower; or
- the value of collateral significantly decreases as a result of deteriorating market conditions.

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

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

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

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

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

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

3 Summary of Significant Accounting Policies (Continued)

Repossessed collateral. Repossessed collateral represents financial and non-financial assets acquired by the Bank in settlement of overdue loans. The acquired non-financial assets are initially recognised at fair value and are included in premises and equipment, long-term assets held for sale, investment property or inventories within other assets depending on their nature and the Bank's intention in respect of use of these assets and are subsequently remeasured and accounted for in accordance with the accounting policies for these categories of assets.

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

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

Investment property is initially recognised at cost, including transaction costs. Subsequently the Bank measures that investment property using the cost model less accumulated depreciation and provision for impairment according to IAS 16, Property, Plant and Equipment.

Land and construction in progress are not depreciated. Depreciation on premises is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives at annual rate of 2%.

If any indication exists that investment properties may be impaired, the Bank estimates the recoverable amount as the higher of value in use and fair value less costs to sell. The carrying amount of an investment property is written down to its recoverable amount through a charge to profit or loss for the year. An impairment loss recognised in prior years is reversed if there has been a subsequent change in the estimates used to determine the asset's recoverable amount.

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

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

Inventories. Inventories include the assets acquired or held for sale in the normal course of business and also those intended for the use in the course of service provision.

On initial recognition inventories are measured at cost. Subsequently, inventories are measured at the lower of cost and possible net realisable value. Cost of inventories includes all costs of acquisition and other costs of their conditioning for the intended use. Acquisition costs include purchase price, transportation costs and other costs directly attributable to the acquisition. The costs that are excluded from the cost of inventories and are recognised as expenses in the period when they are incurred include: holding costs, administrative overhead costs that are not associated with bringing inventories to their current location; costs to sell. Possible net realisable value is an estimated sales price in the course of normal business less possible costs of work and possible costs to sell.

Write-off of inventories to possible net realisable value is recognised as an expense within profit or loss during the period of write-off or the period of loss. If possible net realisable value increases the written down value of inventories is recovered within the amount not exceeding the earlier recognised loss.

3 Summary of Significant Accounting Policies (Continued)

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

Investment securities available for sale. This classification includes investment securities which the Bank intends to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

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

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

If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss for the year.

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

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

Costs of minor repairs and maintenance are expensed when incurred. Costs of replacing major parts or components of premises and equipment items are capitalised, and the replaced part is retired.

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

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

3 Summary of Significant Accounting Policies (Continued)

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

Premises	2%
Office and computer equipment	15-20%;
Intangible assets	20%.

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

Intangible assets. The Bank's intangible assets have definite useful life and primarily include capitalised computer software.

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

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

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

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

Debt securities in issue*.* Debt securities in issue include promissory notes, bonds, certificates of deposit and debentures issued by the Bank. Debt securities are stated at amortised cost. If the Bank purchases its own debt securities in issue, they are removed from the statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains arising from retirement of debt.

Mortgage backed bonds in issue. Mortgage backed bonds are bonds secured by mortgage loans collateralised by mortgage certificates. Mortgage backed bonds are recorded at amortised cost and are to be redeemed when the mortgage loans are repaid or can be redeemed pre-maturely. The latest matutiry date – 10 August 2044.

Subordinated loans. Subordinated loans are carried at amortised cost. Under the terms of the subordinated loans, in the event of liquidation of the Bank, the repayment of these loans is subordinated to all other creditors of the Bank. Subordinated loans are included in the calculation of capital in accordance with Russian Accounting Rules.

Derivative financial instruments. Derivative financial instruments, including forward agreements and foreign exchange contracts are carried at their fair value.

All derivative instruments are carried as assets when fair value at the end of the reporting period is positive and as liabilities when fair value at the end of the reporting period is negative. Changes in the fair value of derivative financial instruments are included in profit or loss. The Bank does not apply hedge accounting.

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

3 Summary of Significant Accounting Policies (Continued)

Current tax is the amount expected to be paid to, or recovered from, the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxes other than on income are recorded within administrative and other operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted or substantively enacted at the reporting date which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

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

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

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

Share capital. Ordinary shares and non-redeemable preference shares with discretionary dividends are both classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the share capital. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

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

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

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

3 Summary of Significant Accounting Policies (Continued)

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

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

Foreign currency translation. The functional currency of the Bank and the Group's presentation currency is the national currency of the Russian Federation, Russian Roubles ("RR").

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

As at 31 December 2011 the principal rate of exchange used for translating foreign currency balances was USD 1 = RR 32.1961 (2010: USD 1 = RR 30.4769) and EUR 1 = RR 41.6714 (2010: EUR 1 = RR 40.3331).

Fiduciary assets. Assets held by the Bank in its own name, but on the account of third parties, are not reported in the statement of financial position. Commissions received from fiduciary activities are shown in fee and commission income.

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

Earnings per share. Preference shares are not redeemable, and are considered to be participating shares. Earnings per share is determined by dividing the profit or loss attributable to shareholders of the Bank by the weighted average number of participating shares outstanding during the reporting year.

Staff costs and related contributions. Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the Bank. The Bank has no legal or constructive obligation to make pension or similar benefit payments beyond the unified social tax.

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

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies

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

Impairment losses on loans and advances. The Bank regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in profit or loss for the year, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

A 5% increase or decrease in actual loss experience compared to the loss estimates used would result in an increase or decrease in loan impairment losses of RR 120 million (2010: RR 91 million), respectively. Impairment losses for individually significant loans are based on estimates of discounted future cash flows of the individual loans, taking into account repayments and realisation of any assets held as collateral against the loans. A 5% increase or decrease in the actual loss experience compared to the estimated future discounted cash flows from individually significant loans, which could arise from differences in amounts and timing of the cash flows, would result in an increase or decrease in loan impairment losses of RR 288 million (2010: RR 597 million), respectively.

Deferred income tax asset recognition. The recognised deferred tax asset represents income taxes recoverable through future deductions from taxable profits, and is recorded in the statement of financial position. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. The future taxable profits and the amount of tax benefits that are probable in the future are based on a medium term business plan prepared by management that is based on a moderately optimistic scenario of the development of the Russian economy which includes measures undertaken by the government aimed at assuring macroeconomic equilibrium, stable national currency, consistent lowering of inflation, and investment and consumer demand. Key assumptions used in the business plan: average annual growth of assets is set at 11% until 2015 with the main focus on corporate and retail lending; increase of the efficiency of business processes; achieving pre-crisis financial ratios in 2012. A 10% increase or decrease in accrued interest income on non-performing loans would result in an increase or decrease in deferred tax assets of RR 81 million (2010: RR 60 million).

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

5 Adoption of New or Revised Standards and Interpretations

The following new standards and interpretations became effective for the Group from 1 January 2011:

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

Improvements to International Financial Reporting Standards (issued in May 2010 and effective from 1 January 2011). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: IFRS 1 was amended (i) to allow previous GAAP carrying value to be used as deemed cost of an item of property, plant and equipment or an intangible asset if that item was used in operations subject to rate regulation, (ii) to allow an event driven revaluation to be used as deemed cost of property, plant and equipment even if the revaluation occurs during a period covered by the first IFRS financial statements and (iii) to require a first-time adopter to explain changes in accounting policies or in the IFRS 1 exemptions between its first IFRS interim report and its first IFRS financial statements; IFRS 3 was amended (i) to require measurement at fair value (unless another measurement basis is required by other IFRS standards) of non-controlling interests that are not present ownership interest or do not entitle the holder to a proportionate share of net assets in the event of liquidation, (ii) to provide guidance on the acquiree's share-based payment arrangements that were not replaced, or were voluntarily replaced as a result of a business combination and (iii) to clarify that the contingent considerations from business combinations that occurred before the effective date of revised IFRS 3 (issued in January 2008) will be accounted for in accordance with the guidance in the previous version of IFRS 3; IFRS 7 was amended to clarify certain disclosure requirements, in particular (i) by adding an explicit emphasis on the interaction between qualitative and quantitative disclosures about the nature and extent of financial risks, (ii) by removing the requirement to disclose carrying amount of renegotiated financial assets that would otherwise be past due or impaired, (iii) by replacing the requirement to disclose fair value of collateral by a more general requirement to disclose its financial effect, and (iv) by clarifying that an entity should disclose the amount of foreclosed collateral held at the reporting date, and not the amount obtained during the reporting period; IAS 1 was amended to clarify the requirements for the presentation and content of the statement of changes in equity; IAS 27 was amended by clarifying the transition rules for amendments to IAS 21, 28 and 31 made by the revised IAS 27 (as amended in January 2008); IAS 34 was amended to add additional examples of significant events and transactions requiring disclosure in a condensed interim financial report, including transfers between the levels of fair value hierarchy, changes in classification of financial assets or changes in business or economic environment that affect the fair values of the entity's financial instruments; and IFRIC 13 was amended to clarify measurement of fair value of award credits. The above amendments resulted in additional or revised disclosures, but had no material impact on measurement or recognition of transactions and balances reported in these financial statements. The financial effect of collateral required to be disclosed by the amendments to IFRS 7 is presented in these financial statements by disclosing collateral values separately for (i) those financial assets where collateral and other credit enhancements are equal to, or exceed, carrying value of the asset ("over-collateralised assets") and (ii) those financial assets where collateral and other credit enhancements are less than the carrying value of the asset ("under-collateralised assets").

Other revised standards and interpretations effective for the current period. IFRIC 19 "Extinguishing financial liabilities with equity instruments", amendments to IAS 32 on classification of rights issues, clarifications in IFRIC 14 "IAS 19 - The limit on a defined benefit asset, minimum funding requirements and their interaction" relating to prepayments of minimum funding requirements and amendments to IFRS 1 "First-time adoption of IFRS", did not have any impact on these consolidated financial statements.

6 New Accounting Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2012 or later, and which the Group has not early adopted.

IFRS 9, Financial Instruments Part 1: Classification and Measurement. IFRS 9, issued in November 2009, replaces those parts of IAS 39 relating to the classification and measurement of financial assets. IFRS 9 was further amended in October 2010 to address the classification and measurement of financial liabilities and in December 2011 to (i) change its effective date to annual periods beginning on or after 1 January 2015 and (ii) add transition disclosures. Key features of the standard are as follows:

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

While adoption of IFRS 9 is mandatory from 1 January 2015, earlier adoption is permitted. The Group is considering the implications of the standard, the impact on the Group and the timing of its adoption by the Group.

IFRS 10, Consolidated Financial Statements (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), replaces all of the guidance on control and consolidation in IAS 27 "Consolidated and separate financial statements" and SIC-12 "Consolidation - special purpose entities". IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control. This definition is supported by extensive application guidance. The Group is currently assessing the impact of the amended standard on its consolidated financial statements.

IFRS 11, Joint Arrangements, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), replaces IAS 31 "Interests in Joint Ventures" and SIC-13 "Jointly Controlled Entities—Non-Monetary Contributions by Ventures". Changes in the definitions have reduced the number of types of joint arrangements to two: joint operations and joint ventures. The existing policy choice of proportionate consolidation for jointly controlled entities has been eliminated. Equity accounting is mandatory for participants in joint ventures.

IFRS 12, Disclosure of Interests in Other Entities, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. It replaces the disclosure requirements currently found in IAS 28 "Investments in associates". IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. To meet these objectives, the new standard requires disclosures in a number of areas, including significant judgements and assumptions made in determining whether an entity controls, jointly controls, or significantly influences its interests in other entities, extended disclosures on share of non-controlling interests in group activities and cash flows, summarised financial information of subsidiaries with material non-controlling interests, and detailed disclosures of interests in unconsolidated structured entities.

6 New Accounting Pronouncements (Continued)

IFRS 13, Fair Value Measurement, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), aims to improve consistency and reduce complexity by providing a revised definition of fair value, and a single source of fair value measurement and disclosure requirements for use across IFRSs. The Group is currently assessing the impact of the standard on its consolidated financial statements.

IAS 27, Separate Financial Statements, (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013), was changed and its objective is now to prescribe the accounting and disclosure requirements for investment in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The guidance on control and consolidated financial statements was replaced by IFRS 10, Consolidated Financial Statements. The Group is currently assessing the impact of the amended standard on its consolidated financial statements.

IAS 28, Investments in Associates and Joint Ventures, (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013). The amendment of IAS 28 resulted from the Board's project on joint ventures. When discussing that project, the Board decided to incorporate the accounting for joint ventures using the equity method into IAS 28 because this method is applicable to both joint ventures and associates. With this exception, other guidance remained unchanged.

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

Amendments to IAS 1, Presentation of Financial Statements (issued in June 2011, effective for annual periods beginning on or after 1 July 2012), changes the disclosure of items presented in other comprehensive income. The amendments require entities to separate items presented in other comprehensive income into two groups, based on whether or not they may be reclassified to profit or loss in the future. The suggested title used by IAS 1 has changed to 'statement of profit or loss and other comprehensive income'. The Group expects the amended standard to change presentation of its financial statements, but have no impact on measurement of transactions and balances.

Amended IAS 19, Employee Benefits (issued in June 2011, effective for periods beginning on or after 1 January 2013), makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. The standard requires recognition of all changes in the net defined benefit liability (asset) when they occur, as follows: (i) service cost and net interest in profit or loss; and (ii) remeasurements in other comprehensive income.

Disclosures—Offsetting Financial Assets and Financial Liabilities - Amendments to IFRS 7 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2013). The amendment requires disclosures that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off. The amendment will have an impact on disclosures but will have no effect on measurement and recognition of financial instruments.

Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2014). The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to net settlement. The Group is considering the implications of the amendment, the impact on the Group and the timing of its adoption by the Group.

6 New Accounting Pronouncements (Continued)

Other revised standards and interpretations: The amendments to IFRS 1 "First-time adoption of IFRS", relating to severe hyperinflation and eliminating references to fixed dates for certain exceptions and exemptions, will not have any impact on these financial statements. The amendment to IAS 12 "Income taxes", which introduces a rebuttable presumption that an investment property carried at fair value is recovered entirely through sale, will not have any impact on these financial statements. IFRIC 20, Stripping Costs in the Production Phase of a Surface Mine, considers when and how to account for the benefits arising from the stripping activity in mining industry.

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

7 Cash and Cash Equivalents

In millions of Russian Roubles	**2011**	**2010**
Cash on hand	10 582	10 792
Correspondent accounts and overnight placements		
- Russian Federation	7 906	202
- Other countries	13 482	15 823
Cash balances with the CBRF (other than mandatory reserve deposits)	5 785	5 334
Total cash and cash equivalents	**37 755**	**32 151**

Cash and cash equivalents are not impaired and are not collateralised.

The credit quality of cash and cash equivalents balances may be summarised as follows at 31 December 2011:

In millions of Russian Roubles	**Cash balances with the CBRF (other than mandatory reserve deposits)**	**Correspondent accounts and overnight placements with banks**	**Total**
Neither past due nor impaired			
- Central Bank of the Russian Federation	5 785	3 865	9 650
- Russian banks not Top 20	-	2 115	2 115
- Russian banks Top 20	-	180	180
- AA- to AA+ rated	-	9 821	9 821
- A- to A+ rated	-	307	307
- BBB- to BBB+ rated	-	3 986	3 986
- BB- to BB+ rated		1 100	1 100
- unrated	-	14	14
Total cash and cash equivalents, excluding cash on hand	**5 785**	**21 388**	**27 173**

7 Cash and Cash Equivalents (continued)

The credit quality of cash and cash equivalents balances may be summarised as follows at 31 December 2010:

In millions of Russian Roubles	**Cash balances with the CBRF (other than mandatory reserve deposits)**	**Correspondent accounts and overnight placements with banks**	**Total**
Neither past due nor impaired			
- Central Bank of the Russian Federation	5 334	-	5 334
- Russian banks not Top 20	-	15	15
- Russian banks Top 20	-	1 500	1 500
- AA- to AA+ rated	-	8 218	8 218
- A- to A+ rated	-	535	535
- BBB- to BBB+ rated	-	5 642	5 642
- B- to B+ rated	-	7	7
- unrated	-	108	108
Total cash and cash equivalents, excluding cash on hand	**5 334**	**16 025**	**21 359**

The credit ratings are based on Standard & Poor's ratings where available, or Moody's rating converted to the nearest equivalent on the Standard & Poor's rating scale.

At 31 December 2011, the estimated fair value of cash and cash equivalents was RR 37 755 million (2010: RR 32 151 million). Refer to Note 33.

Geographical, currency and interest rate analyses of cash and cash equivalents are disclosed in Note 29.

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

In millions of Russian Roubles	**2011**	**2010**
Non-cash operating activities		
Other assets acquired by the Bank in settlements of overdue loans and advances to customers	1 579	216
Repayment of loans and advances to customers by non-cash assets	(1 579)	(216)
Non-cash operating activities	**-**	**-**

Additional information on non-cash transactions is disclosed in Note 14 with a detailed description of assets acquired by the Bank in settlements of overdue loans and advances to customers.

8 Trading Securities

In millions of Russian Roubles	**2011**	**2010**
Corporate bonds	3 748	1 869
Corporate Eurobonds	2 954	431
Federal loan bonds (OFZ bonds)	457	269
Municipal bonds	188	1 126
CBRF bonds	-	4 588
VneshEconomBank 3% coupon bonds (VEB bonds)	-	3 898
Total debt securities	7 347	12 181
Corporate shares	-	1
Total trading securities	**7 347**	**12 182**

8 Trading Securities (Continued)

The entire trading securities portfolio includes trading securities quoted on the market. Analysis by credit quality of debt trading securities is as follows at 31 December 2011:

In millions of Russian Roubles	Corporate bonds	Corporate Euro-bonds	Federal loan bonds (OFZ bonds)	Municipal bonds	Total
Neither past due nor impaired (at fair value)					
- BBB- to BBB+ rated	3 142	1521	457	183	5 303
- BB- to BB+ rated	606	1433	-	-	2 039
- B- to B+ rated	-	-	-	5	5
Total neither past due nor impaired	**3 748**	**2 954**	**457**	**188**	**7 347**
Total debt trading securities	**3 748**	**2 954**	**457**	**188**	**7 347**

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

In millions of Russian Roubles	Corporate bonds	Corporate Euro-bonds	Federal loan bonds (OFZ bonds)	Municipal bonds	CBRF bonds	VneshEconomBank 3% coupon bonds (VEB bonds)	Total
Neither past due nor impaired (at fair value)							
- BBB- to BBB+ rated	1 577	193	269	1 060	4 588	3 898	11 585
- BB- to BB+ rated	292	238	-	-	-	-	530
- B- to B+ rated	-	-	-	54	-	-	54
- unrated	-	-	-	12	-	-	12
Total neither past due nor impaired	**1 869**	**431**	**269**	**1 126**	**4 588**	**3 898**	**12 181**
Total debt trading securities	**1 869**	**431**	**269**	**1 126**	**4 588**	**3 898**	**12 181**

The credit ratings are based on Standard & Poor’s ratings where available, or Moody’s rating converted to the nearest equivalent on the Standard & Poor’s rating scale.

Corporate bonds are interest-bearing securities issued by large Russian companies, denominated in Russian Roubles and freely tradable in the Russian Federation. These bonds have maturity dates ranging from June 2012 to May 2019 (2010: from July 2011 to April 2019), coupon rates from 7.5% to 14.8% p.a. (2010: from 8.5% to 16.8% p.a.) and yields to maturity from 6.2% to 8.3% p.a. (2010: from 5.6% to 7.4% p.a.), depending on the type of bond issue.

Corporate Eurobonds are interest bearing securities denominated in USD and Euro issued by large Russian companies, and are freely tradable internationally. These bonds have maturity dates ranging from January 2012 to December 2012 (2010: from June 2011 to October 2011), coupon rates from 4.6% to 8.0% p.a. (2010: from 6.9% to 9.0% p.a.) and yields to maturity from 1.4% to 3.6% p.a. (2010: from 1.7% to 3.5% p.a.), depending on the type of bond issue.

OFZ bonds are Russian Rouble denominated government securities issued by the Ministry of Finance of the Russian Federation. These bonds have maturity dates in January and August 2012 (2010: June and July 2011), coupon rate from 6.9% to 11.9% p.a. (2010: from 4.6% to 10.6% p.a.) and yield to maturity from 4.2% to 6.1% p.a. (2010: from 4.4% to 4.5% p.a.) depending on the type of bond issue.

Municipal bonds are interest bearing securities denominated in Russian Roubles issued by Russian regional authorities and are freely tradable in Russia. These bonds have maturity dates ranging from March 2012 to June 2012 (2010: from March 2011 to October 2011), interest rates from 8.0% to 17.9% p.a. (2010: from 6.5% to 10.0% p.a.) and yields to maturity from 6.3% to 7.4% p.a. (2010: from 1.8% to 7.1% p.a.), depending on the type of bond issue.

8 Trading Securities (Continued)

Corporate shares are shares of Russian companies.

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

Geographical, currency, interest rate and maturity analyses of trading securities are disclosed in Note 29.

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

9 Due from Other Banks

In millions of Russian Roubles	**2011**	**2010**
Short-term placements with other banks	601	1 055
Insurance deposits with non-resident banks	366	305
Deposits with the CBRF	-	4 500
Total due from other banks	**967**	**5 860**

Analysis by credit quality of amounts due from other banks outstanding at 31 December 2011 is as follows:

In millions of Russian Roubles	**Short-term placements with other banks**	**Insurance deposits with non-resident banks**	**Total**
Neither past due nor impaired			
- Russian banks not Top 20	600	-	600
- AA- to AA+ rated	-	140	140
- A- to A+ rated	-	226	226
- BBB- to BBB+ rated	1	-	1
Total neither past due nor impaired	**601**	**366**	**967**
Total due from other banks	**601**	**366**	**967**

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

In millions of Russian Roubles	**Deposits with the CBRF**	**Short-term placements with other banks**	**Insurance deposits with non-resident banks**	**Total**
Neither past due nor impaired				
- Central Bank of the Russian Federation	4 500	-	-	4 500
- Russian banks not Top 20	-	600	-	600
- AA- to AA+ rated	-	-	91	91
- A- to A+ rated	-	2	214	216
- BBB- to BBB+ rated	-	300	-	300
- B- to B+ rated	-	153	-	153
Total neither past due nor impaired	**4 500**	**1 055**	**305**	**5 860**
Total due from other banks	**4 500**	**1 055**	**305**	**5 860**

The credit ratings are based on Standard & Poor's ratings where available, or Moody's rating converted to the nearest equivalent on the Standard & Poor's rating scale.

9 Due from Other Banks (Continued)

As at 31 December 2011, the Bank had short-term deposits of RR 601 million with maturity dates in January 2012 and a contractual interest rate of 6.2% p.a. placed with banks not included in the top 20 Russian banks ranked by total equity (2010: RR 1 055 million with maturity dates in January 2011 and contractual interest rates from 0.5% to 3.2% p.a. not placed with top 20 Russian banks in terms of equity). All due from other banks are neither overdue, nor impaired. Amounts due from other banks are not collateralised.

As at 31 December 2011, in compliance with requirements of the Visa International payment system, the Bank placed insurance deposits of RR 366 million at LIBOR rate with non-resident banks located in Great Britain for the purpose of banking card settlements (2010: RR 305 million).

At 31 December 2011, the estimated fair value of due from other banks was RR 967 million (2010: RR 5 860 million). Refer to Note 33 for the estimated fair value of each class of amounts due from other banks.

Geographical, currency, maturity and interest rate analyses of due from other banks are disclosed in Note 29.

10 Loans and Advances to Customers

In millions of Russian Roubles	**2011**	**2010**
Corporate loans - large	40 168	31 715
Corporate loans - medium	50 306	48 206
Corporate loans - small	22 512	18 705
Mortgage loans	15 384	9 806
Other loans to individuals	8 978	6 804
Total loans and advances to customers (before impairment)	**137 348**	**115 236**
Less: Provision for loan impairment	(12 965)	(11 190)
Total loans and advances to customers	**124 383**	**104 046**

In accordance with the annually approved Credit policy loans are divided into corporate and retail.

Taking into consideration the Bank’s customer policy requirements for 2011 and 2010, the corporate portion of borrowers is further divided on the basis of total amount owed by the customer into the following categories: large – in excess of RR 750 million, medium – from RR 100 million to RR 750 million, small – less than RR 100 million.

Retail loans are divided into categories by product: mortgage loans and other loans to individuals including consumer loans, car loans and bank card loans.

Mortgage loans include mortgage loans of RR 3 853 million securitised in December 2011. The Bank's management determined that the Group had not transferred main risks with respect to the transferred assets, and, consequently, such transfer was not the ground for their derecognition. As at 31 December 2011 the carrying value of those mortgage loans equals their nominal value. Refer to Note 17.

Movements in the provision for loan impairment during 2011 are as follows:

In millions of Russian Roubles	**Corporate loans - large**	**Corporate loans - medium**	**Corporate loans - small**	**Mortgage loans**	**Other loans to individuals**	**Total**
Provision for loan impairment at 1 January 2011	**2 014**	**5 086**	**3 026**	**480**	**584**	**11 190**
Provision for impairment during the year	1 500	612	175	(48)	65	2 304
Amounts written off during the year as uncollectible	-	-	(146)	-	(7)	(153)
Results from disposal of loans under cession agreements	-	(197)	(179)	-	-	(376)
Provision for loan impairment at 31 December 2011	**3 514**	**5 501**	**2 876**	**432**	**642**	**12 965**

10 Loans and Advances to Customers (Continued)

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

In millions of Russian Roubles	Corporate loans - large	Corporate loans - medium	Corporate loans - small	Mortgage loans	Other loans to individuals	Total
Provision for loan impairment at 1 January 2010	**1 631**	**4 129**	**2 660**	**449**	**570**	**9 439**
Provision for impairment during the year	383	957	476	31	25	1 872
Amounts written off during the year as uncollectible	-	-	(110)	-	(11)	(121)
Provision for loan impairment at 31 December 2010	**2 014**	**5 086**	**3 026**	**480**	**584**	**11 190**

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

	2011		2010	
In millions of Russian Roubles	**Amount**	**%**	**Amount**	**%**
Manufacturing	37 743	27	28 261	24
Trade	31 510	23	27 118	24
Individuals	24 362	18	16 610	14
Construction	9 927	7	10 251	9
Agriculture	8 122	6	4 406	4
Real estate	7 693	5	5 267	4
Transport and communication	5 127	4	6 849	6
Finance	5 125	4	2 916	3
State and public organisations	2 711	2	8 097	7
Other	5 028	4	5 461	5
Total loans and advances to customers (before impairment)	**137 348**	**100**	**115 236**	**100**

State and public organisations exclude government owned profit orientated businesses.

As at 31 December 2011, loans and advances to customers include loans with the carrying amount of RR 3 331 million with the rights of claim pledged as collateral with respect to term placements of other banks. Refer to Notes 15 and 31.

At 31 December 2011, the Bank had 32 borrowers with aggregated loan amounts equal or above RR 750 million. The total aggregate amount of these loans was RR 40 168 million or 29.2% of the gross loan portfolio.

At 31 December 2010, the Bank had 23 borrowers with aggregated loan amounts equal or above RR 750 million. The total aggregate amount of these loans was RR 31 715 million or 27.5% of the loan portfolio.

The Bank usually issues loans in case there is a liquid and sufficient collateral that is documented in accordance with legally established procedures (except for some credit products used for lending to individuals, overdrafts without collateral, loans to RF constituents and municipal organisations, factoring financing, loans assessed on an individual basis and authorised for granting without collateral). Loans to legal entities may be collateralised by the following:

- real estate;
- equipment;
- motor vehicles;
- goods in turnover;
- guarantee deposit;

10 Loans and Advances to Customers (Continued)

- banking guarantee;
- state (municipal) guarantee;
- bank's promissory notes;
- highly liquid securities;
- refined precious metals (gold, silver, platinum and palladium);
- vested interest (for demand) implied from commitments under an agreement.

Loans collateralised by third parties may be issued once the third parties provide their guarantees as collateral. In this case:

- the financial position of a guarantor-legal entity should be classified as not worse than average in accordance with the Bank’s internal methodologies on evaluation of financial position;
- the financial position of an individual guarantor should be classified as good in accordance with the Bank’s internal methodologies on evaluation of financial position. A guarantee of an individual provided as collateral for a loan issued by the Bank to a legal entity is possible only if this is an additional pledge, and other main collateral that complies with the Bank’s internal regulations does exist.

Pledged real estate property (except for land), equipment, motor vehicles and inventory items should be insured. The insured amount of the collateral should be not less than its collateral value, the term of the insurance contract should expire not earlier than one month after the loan maturity date.

Loans to individuals may be collateralised by the following:

- real estate purchased under the mortgage agreement;
- real estate owned by individuals;
- motor vehicles;
- guarantees of third parties, in particular employers of the individual borrower;
- pledge of right of claim on the individual’s deposit; and
- other property owned by the borrower.

In addition, to mitigate the credit risk the Bank uses insurance by borrowers of the subject of pledge, the individual borrower’s life and disability or accident insurance.

Obligations of the borrowers can be collateralised with various types of collateral simultaneously. The collateral should be sufficient to repay the principal, interest and the amount of the Bank’s potential expenses associated with the fulfilment of debtor’s obligations. The liquidity of the collateral is assessed on the basis of the term during which it can be realised.

10 Loans and Advances to Customers (Continued)

Information about collateral at 31 December 2011 is as follows:

In millions of Russian Roubles	**Corporate loans - large**	**Corporate loans - medium**	**Corporate loans - small**	**Mortgage loans**	**Other loans to individuals**	**Total**
Unsecured loans	3 731	5 157	1 649	1 003	3 049	14 589
Loans collateralised by:						
residential real estate	-	-	-	14 318	1 251	15 569
other real estate	14 123	22 371	9 690	2	103	46 289
equipment, inventories, motor vehicles	5 501	10 972	7 277	-	579	24 329
securities (promissory notes, shares)	-	7	1	-	-	8
cash deposits	-	-	11	-	5	16
state guarantees and guarantees of RF constituents	792	1 254	528	-	-	2 574
other guarantees and third parties' guarantees	12 128	8 295	3 178	60	2 841	26 502
other assets (other types of property, rights)	3 893	2 250	178	1	1 150	7 472
Total loans and advances to customers (before impairment)	**40 168**	**50 306**	**22 512**	**15 384**	**8 978**	**137 348**

Information about collateral at 31 December 2010 is as follows:

In millions of Russian Roubles	**Corporate loans - large**	**Corporate loans - medium**	**Corporate loans - small**	**Mortgage loans**	**Other loans to individuals**	**Total**
Unsecured loans	5 613	7 404	2 046	707	1 140	16 910
Loans collateralised by:						
residential real estate	-	-	-	8 999	1 399	10 398
other real estate	13 928	24 127	8 273	-	-	46 328
equipment, inventories, motor vehicles	3 978	8 791	6 001	-	483	19 253
securities (promissory notes, shares)	-	-	22	1	10	33
cash deposits	-	116	17	-	51	184
state guarantees and guarantees of RF constituents	-	1 571	507	-	-	2 078
other guarantees and third parties' guarantees	5 061	3 266	1 694	97	2 458	12 576
other assets (other types of property, rights)	3 135	2 931	145	2	1 263	7 476
Total loans and advances to customers (before impairment)	**31 715**	**48 206**	**18 705**	**9 806**	**6 804**	**115 236**

Unsecured corporate loans mainly represent loans to RF constituents and municipalities, as well as overdraft loans. Unsecured loans to individuals mainly represent mortgage loans, whose mortgage documents are being registered with state bodies, as well as loans issued using banking cards.

The collateral value of property is determined when a loan is issued in accordance with the Bank's effective procedure based on the system of discounts that are applied to the estimated/market value and are equal to 20-30% (except for promissory notes and shares of the Bank) (in 2010 the discount was from 25% to 40%) depending on the valuation date and the credit product's life.

In addition, the Bank has a right for write-off from the borrower's settlement and current accounts in the Bank in case of non-fulfilment of loan contract obligations by the borrower.

Market value of property is assumed to be the collateral value of security in respect of credit products of retail portfolio. Market value of property is confirmed by the report on real estate market valuation prepared by a valuation company not earlier than 6 (six) months prior to execution of the pledge contract.

Bank card loans are secured by guarantees, life and disability insurance. If required and depending upon the amount of a credit limit, the borrower's occupation and place of work, the Bank may request additional collateral in the form of a pledge.

10 Loans and Advances to Customers (Continued)

Analysis by credit quality of loans outstanding at 31 December 2011 is as follows:

In millions of Russian Roubles	Corporate loans-large	Corporate loans-medium	Corporate loans-small	Mortgage loans	Other loans to indivi-duals	Total
Neither past due nor impaired						
- Large borrowers with credit history over two years	19 233	-	-	-	-	19 233
- Large new borrowers	18 955	-	-	-	-	18 955
- Corporate loans assessed on a portfolio basis issued in 2011	-	34 446	16 713	-	-	51 159
- Corporate loans assessed on a portfolio basis issued before 2011	-	10 942	2 948	-	-	13 890
Loans to individuals assessed on a portfolio basis:						
- mortgage loans issued in 2011	-	-	-	7 477	-	7 477
- mortgage loans issued before 2011				7 647	-	7 647
- consumer loans	-	-	-	-	6 063	6 063
- credit cards	-	-	-	-	1 948	1 948
- car loans	-	-	-	-	400	400
Total neither past due nor impaired	**38 188**	**45 388**	**19 661**	**15 124**	**8 411**	**126 772**
Past due but not impaired						
- less than 30 days overdue	215	21	35	23	34	328
- 30 to 90 days overdue	-	-	-	10	7	17
- 91 to 180 days overdue	-	-		16	2	18
- 181 to 360 days overdue	-	-	-	20	13	33
Total past due but not impaired	**215**	**21**	**35**	**69**	**56**	**396**
Loans collectively determined to be impaired (gross)						
- less than 30 days overdue	-	-	87	-	-	87
- 30 to 90 days overdue	-	-	133	-	13	146
- 91 to 180 days overdue	-	44	55	-	11	110
- 181 to 360 days overdue	-	220	296	-	18	534
- over 360 days overdue	-	2 776	2 025	-	188	4 989
Total collectively impaired loans (gross)	**-**	**3 040**	**2 596**	**-**	**230**	**5 866**
Loans individually determined to be impaired (gross)						
- not past due	923	-	-	-	-	923
- less than 30 days overdue	-	-	-	-	24	24
- 30 to 90 days overdue	-	477	-	-	13	490
- 91 to 180 days overdue	-	-	-	-	19	19
- 181 to 360 days overdue	-	-	-	-	12	12
- over 360 days overdue	842	1 380	220	191	213	2 846
Total individually impaired loans (gross)	**1 765**	**1 857**	**220**	**191**	**281**	**4 314**
Less impairment provision	(3 514)	(5 501)	(2 876)	(432)	(642)	(12 965)
Total loans and advances to customers	**36 654**	**44 805**	**19 636**	**14 952**	**8 336**	**124 383**

10 Loans and Advances to Customers (Continued)

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

In millions of Russian Roubles	Corporate loans-large	Corporate loans-medium	Corporate loans-small	Mortgage loans	Other loans to indivi-duals	Total
Neither past due nor impaired:						
- Large borrowers with credit history over two years	17 805	-	-	-	-	17 805
- Large new borrowers	10 974	-	-	-	-	10 974
- Loans to medium size entities	-	3 042	-	-	-	3 042
- Corporate loans assessed on a portfolio basis issued in 2010	-	32 214	13 260	-	-	45 474
- Corporate loans assessed on a portfolio basis issued before 2010	-	7 578	2 700	-	-	10 278
Loans to individuals assessed on a portfolio basis:						
- mortgage loans issued in 2010	-	-	-	3 651		3 651
- mortgage loans issued before 2010	-	-	-	5 676		5 676
- consumer loans	-	-	-	-	4 070	4 070
- credit cards	-	-	-	-	1 843	1 843
- car loans	-	-	-	-	345	345
Total neither past due nor impaired	**28 779**	**42 834**	**15 960**	**9 327**	**6 258**	**103 158**
Past due but not impaired						
- less than 30 days overdue	-	200	29	169	55	453
- 30 to 90 days overdue	-	2	-	34	6	42
- 91 to 180 days overdue	-	223	-	20	8	251
- 181 to 360 days overdue	-	-	-	17	5	22
Total past due but not impaired	**-**	**425**	**29**	**240**	**74**	**768**
Loans collectively determined to be impaired (gross)						
- 30 to 90 days overdue	-	-	56	-	12	68
- 91 to 180 days overdue	-	-	26	-	11	37
- 181 to 360 days overdue	-	100	68	-	23	191
- over 360 days overdue	-	870	2 347	-	181	3 398
Total collectively impaired loans (gross)	**-**	**970**	**2 497**	**-**	**227**	**3 694**
Loans individually determined to be impaired (gross)						
- not past due	2 086	884	-	-	-	2 970
- less than 30 days overdue	-	30	-	-	-	30
- 30 to 90 days overdue	-	-	-	-	8	8
- 91 to 180 days overdue	-	16	-	-	6	22
- 181 to 360 days overdue	-	1 180	86	-	13	1 279
- over 360 days overdue	850	1 867	133	239	218	3 307
Total individually impaired loans (gross)	**2 936**	**3 977**	**219**	**239**	**245**	**7 616**
Less impairment provision	(2 014)	(5 086)	(3 026)	(480)	(584)	(11 190)
Total loans and advances to customers	**29 701**	**43 120**	**15 679**	**9 326**	**6 220**	**104 046**

The primary factors that the Bank considers in determining whether a loan is impaired are its overdue status and realisability of related collateral, if any.

The Bank applied the portfolio provisioning methodology prescribed by IAS 39, *Financial Instruments: Recognition and Measurement*, and created portfolio provisions for impairment losses that were incurred but have not been specifically identified with any individual loan by the balance sheet date. The Bank's policy is to classify each loan as 'neither past due nor impaired' until specific objective evidence of impairment of the loan is identified. The impairment provisions may exceed the total gross amount of individually impaired loans as a result of this policy and the portfolio impairment methodology. Loans collectively determined to be impaired are represented by corporate small and medium loans, and loans to individuals except for mortgage loans, which have an overdue status as an impairment trigger event. In 2011 the Bank increased materiality for the collectively impaired loans.

10 Loans and Advances to Customers (Continued)

Past due but not impaired loans represent collateralised loans where the fair value of collateral together with consideration of discounting covers the overdue interest and principal repayments. The amount reported as past due but not impaired is the whole balance of such loans, not only the individual instalments that are past due.

The financial effect of collateral is presented by disclosing collateral values separately for (i) those assets where collateral and other credit enhancements are equal to or exceed carrying value of the asset ("over-collateralised assets") and (ii) those assets where collateral and other credit enhancements are less than the carrying value of the asset ("under-collateralised assets"). The effect of collateral at 31 December 2011:

	Over-collateralised assets		**Under-collateralised assets**	
In thousands of Russian Roubles	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Corporate loans - large	21 001	66 161	15 653	1 108
Corporate loans - medium	29 683	59 378	15 122	2 587
Corporate loans - small	14 710	28 874	4 926	821
Mortgage loans	13 979	25 468	973	10
Other loans to individuals	1 912	5 803	6 424	9

The effect of collateral at 31 December 2010:

	Over-collateralised assets		**Under-collateralised assets**	
In thousands of Russian Roubles	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Corporate loans - large	18 305	47 928	11 396	1 568
Corporate loans - medium	31 828	61 443	11 292	1 360
Corporate loans - small	12 182	25 522	3 497	506
Mortgage loans	8 517	20 968	809	3
Other loans to individuals	1 955	6 656	4 265	9

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

At 31 December 2011, the estimated fair value of loans and advances to customers was RR 125 156 million (2010: RR 103 990 million). Refer to Note 33 for the estimated fair value of each class of loans and advances to customers.

In 2011, the Bank did not issue loans at rates below market. In 2010, a loss on initial recognition of loans at rates below market of RR 1 million was recognised in profit or loss within administrative and other operating expenses.

Geographical, currency, maturity and interest rate analyses of loans and advances to customers are disclosed in Note 29. Information on related party balances and transactions is disclosed in Note 35.

11 Investment Securities Available for Sale

In millions of Russian Roubles	2011	2010
Corporate Eurobonds	831	197
Russian Federation Eurobonds	65	122
Municipal bonds	-	1 171
Corporate bonds	-	111
Total debt securities	896	1 601
Corporate shares	481	442
Total investment securities available for sale	**1 377**	**2 043**

Analysis by credit quality of debt securities available for sale at 31 December 2011 is as follows:

In millions of Russian Roubles	Corporate Eurobonds	Russian Federation Eurobonds	Total
Neither past due nor impaired (at fair value)			
- BBB- to BBB+ rated	697	65	762
- BB- to BB+ rated	134	-	134
Total neither past due nor impaired	**831**	**65**	**896**
Total debt investment securities available for sale	**831**	**65**	**896**

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

In millions of Russian Roubles	Municipal bonds	Corporate Eurobonds	Russian Federation Eurobonds	Corporate bonds	Total
Neither past due nor impaired (at fair value)					
- BBB- to BBB+ rated	1 171	-	122	54	1 347
- BB- to BB+ rated	-	197	-	57	254
Total neither past due nor impaired	**1 171**	**197**	**122**	**111**	**1 601**
Total debt investment securities available for sale	**1 171**	**197**	**122**	**111**	**1 601**

The credit ratings are based on Standard & Poor's ratings where available, or Moody's rating converted to the nearest equivalent on the Standard & Poor's rating scale.

Corporate Eurobonds are interest bearing securities denominated in USD and Euro issued by large Russian companies. These bonds have maturity dates in January 2012 and December 2012 (2010: in October 2011 and January 2012), coupon rates from 4.6% to 8.0% p.a. (2010: from 8.0% to 8.4% p.a.) and yields to maturity from 2.7% to 3.0% p.a. (2010: from 1.9% to 2.7% p.a.), depending on the type of bond issue.

Russian Federation Eurobonds are interest bearing securities denominated in USD, issued by the Ministry of Finance of the Russian Federation, and are freely tradable internationally. These bonds mature in April 2015, have a coupon rate of 3.6% and a yield to maturity of 3.4% p.a.

The primary factor that the Bank considers in determining whether a debt security is impaired is its overdue status. Debt investment securities available for sale are carried at fair value which also reflects any credit risk related write-downs. As debt investment securities available for sale are carried at their fair values based on observable market data, the Bank does not analyse or monitor impairment indicators. Debt investment securities available for sale are not collateralised.

11 Investment Securities Available for Sale (Continued)

Equity investment securities available for sale with a carrying value of RR 116 million (2010: RR 77 million) are traded on active markets and their fair value is determined by reference to the current market value at the end of the reporting period. The remaining equity investment securities available for sale with a carrying value of RR 365 million (2010: RR 365 million) are not publicly traded and are measured at cost. Due to the nature of the local financial markets, it is not possible to obtain current market value for these investments.

Geographical, currency, interest rate and maturity analyses of investment securities available for sale are disclosed in Note 29.

12 Property, Equipment and Intangible Assets

In millions of Russian Roubles	Note	Premises and land	Office and computer equipment	Construction in progress	Total premises and equipment	Computer software licenses	Total
Carrying amount at 31 December 2009		**1 849**	**1 132**	**63**	**3 044**	**58**	**3 102**
Cost as at 31 December 2009							
Opening balance		2 228	3 075	63	5 366	141	5 507
Additions		100	393	29	522	10	532
Transfers		75	-	(75)	-	-	-
Disposals		(5)	(112)	-	(117)	-	(117)
Cost at the end of the year		**2 398**	**3 356**	**17**	**5 771**	**151**	**5 922**
Accumulated depreciation							
Opening balance		379	1 943	-	2 322	83	2 405
Depreciation and amortisation	24	46	424	-	470	29	499
Disposals		(4)	(110)	-	(114)	-	(114)
Closing balance		**421**	**2 257**	**-**	**2 678**	**112**	**2 790**
Carrying amount at 31 December 2010		**1 977**	**1 099**	**17**	**3 093**	**39**	**3 132**
Cost as at 31 December 2010							
Opening balance		2 398	3 356	17	5 771	151	5 922
Additions		8	254	180	442	-	442
Transfers		138	-	(138)	-	-	-
Disposals		(7)	(110)	(2)	(119)	-	(119)
Cost at the end of the year		**2 537**	**3 500**	**57**	**6 094**	**151**	**6 245**
Accumulated depreciation							
Opening balance		421	2 257	-	2 678	112	2 790
Depreciation and amortisation	24	49	439	-	488	30	518
Disposals		(5)	(106)	-	(111)	-	(111)
Closing balance		**465**	**2 590**	**-**	**3 055**	**142**	**3197**
Carrying amount at 31 December 2011		**2 072**	**910**	**57**	**3 039**	**9**	**3 048**

Construction in progress consists of construction and refurbishment of the Head Office and branch premises. Upon completion, assets are transferred to premises and equipment.

13 Other Financial Assets

In millions of Russian Roubles	2011	2010
Credit and debit cards receivables	569	392
Receivables and advance payments	449	636
Settlements with currency and stock exchanges	193	506
Precious metals	-	56
Other	43	54
Total other financial assets	**1 254**	**1 644**

Other financial assets are not impaired and are not collateralised.

At 31 December 2011, the estimated fair value of other financial assets was RR 1 254 million (2010: RR 1 644 million). Refer to Note 33 for the estimated fair value of each class of other financial assets.

Geographical, currency and maturity analyses of financial assets are disclosed in Note 29.

14 Other Assets

In millions of Russian Roubles	Note	2011	2010
Inventory		2 074	2 827
Investment properties		1 880	601
Deferred income tax asset	25	958	566
Non-current assets classified as held for sale		984	114
Other		260	42
Total other assets (before provision for impairment of other assets)		**6 156**	**4 150**
Less: Provision for impairment of other assets		(338)	(122)
Total other assets		**5 818**	**4 028**

Inventories represent real estate assets, equipment, equipment, motor vehicles, inventory acquired by the Bank in settlement of overdue loans. The assets do not meet the definition of investment property and non-current assets held for sale, and are classified as inventories in accordance with IAS 2, *Inventories*. The assets were initially recognised at cost when acquired. All of the above assets are expected to be realised within more than twelve months after the year-end. Decision on the use of the repossessed property is taken by the Bank’s Management Board or the Board of Directors.

Investment property includes non-residential premises, residential premises and land plots repossessed by the Bank in settlements of overdue loans and leased out under operating lease or retained until the growth of their value.

To ensure operational management of the repossessed assets the Bank established a separate business unit – Restructured assets department – responsible for dealing with the non-core assets, determining the most efficient areas and forms of dealing with property, attracting independent experts and appraisers to determine the actual value of property, and analysing the sales market in order to attract potential buyers and lessees.

Movements in the carrying value of investment properties in 2011 are as follows:

In millions of Russian Roubles	2011	2010
Carrying value of investment properties as at 1 January	**490**	**609**
Additions	1 414	5
Disposal	(138)	(9)
Depreciation	3	(4)
Impairment loss provision	(7)	(111)
Carrying value of investment properties as at 31 December	**1 762**	**490**

14 Other Assets (Continued)

The Bank measures the investment properties using the cost model less accumulated depreciation and provision for impairment, where necessary.

The rental income from investment properties was RR 7 million (2010: RR 21 million) Direct operating expenses for investment properties that generate rental income amounted to RR 4 million (2010: RR 10 million) and consisted of costs related to property tax, land tax, insurance, security, utility services as well as depreciation charges. The Bank incurred direct operating expenses of RR 4 million for investment properties that did not generate rental income in 2011.

The Bank estimated the recoverable amount of investment properties as at 31 December 2011. At 31 December 2011, the fair value of investment properties was RR 1 775 million (2010: RR 596 million). The comparative sales method and express valuation and valuation by specialized valuation companies were used to assess the fair value of investment properties. In this context the Bank and the specialised valuation companies analysed price and other information with regards to similar properties. The sources of information included Internet publications containing advertisements on the sale/lease of similar properties, and web-sites of real estate agencies and other information.

The portfolio of assets held for sale consists of real estate, equipment and vehicles acquired by the Bank in settlements of overdue loans. The Bank actively markets these assets and expects the sale to complete by December 2012.

Tangible assets acquired by the Bank in settlements of overdue loans did not require the use of cash and cash equivalents and therefore were not included in the statement of cash flows (Refer to Note 7).

15 Due to Other Banks

In millions of Russian Roubles	**2011**	**2010**
Placements of other banks	7 940	6 936
Correspondent accounts of other banks	262	836
Total due to other banks	**8 202**	**7 772**

At 31 December 2011, included in placements of other banks are deposits of banks in the amount of RR 7 940 million with maturity dates from January 2012 to August 2018 and contractual interest rates from 1.2% to 7.0% p.a. At 31 December 2010, included in placements of other banks are deposits of banks in the amount of RR 6 936 million with maturity dates from March 2011 to January 2017 and contractual interest rates from 1.1% to 7.2% p.a.

Deposits of other banks include a deposit of OAO MSP Bank of RR 3 000 million attracted in December 2010 at a rate of 6.0% p.a. with maturity in November 2015. This deposit was attracted as part of the programme on providing state support to SME. The rights of claim for the loans issued under this agreement were pledged for the Bank's liabilities to its creditors. Refer to Note 31.

In 2011, the Bank continued participating in the program of the European Bank for Reconstruction and Development (EBRD) for lending to small and medium businesses including individual entrepreneurs.

Under the terms of the agreement with EBRD the Bank should comply with the financial covenants. As at 31 December 2011, the Bank was in compliance with the covenants. At 31 December 2010, the Bank violated one of the covenants. Refer to Note 31.

At 31 December 2011, the estimated fair value of due to other banks was RR 8 080 million (2010: RR 7 803 million). Refer to Note 33 for the estimated fair value of each class of amounts due to other banks.

Geographical, currency, maturity and interest rate analyses of due to other banks are disclosed in Note 29.

16 Customer Accounts

In millions of Russian Roubles	2011	2010
State and public organisations		
- Current/settlement accounts	254	245
- Term deposits	-	1 501
Other legal entities		
- Current/settlement accounts	33 053	28 201
- Term deposits	19 510	15 136
Individuals		
- Current/demand accounts	20 184	16 539
- Term deposits	72 141	68 712
Total customer accounts	**145 142**	**130 334**

State and public organisations exclude government owned profit orientated businesses.

Economic sector concentrations within customer accounts are as follows:

	2011		2010	
In millions of Russian Roubles	Amount	%	Amount	%
Individuals	92 325	64	85 251	65
Trade	18 466	12	10 341	8
Finance	10 203	7	12 594	10
Construction	7 628	5	3 335	3
Manufacturing	7 204	5	6 129	5
Transport and communication	5 607	4	3 663	3
Agriculture	2 436	2	1 358	1
State and public organisations	254	-	1 746	1
Other	1 019	1	5 917	4
Total customer accounts	**145 142**	**100**	**130 334**	**100**

At 31 December 2011, the Bank had 21 customers with balances above RR 300 million. The aggregate balance of these customers was RR 17 252 million or 11.9% of total customer accounts.

At 31 December 2010, the Bank had 16 customers with balances above RR 300 million. The aggregate balance of these customers was RR 15 528 million or 11.9% of total customer accounts.

At 31 December 2011, the estimated fair value of customer accounts was RR 145 236 million (2010: RR 130 963 million). Refer to Note 33 for the estimated fair value of each class of customer accounts.

Geographical, currency, interest rate and maturity analyses of customer accounts are disclosed in Note 29. Information on related party balances and transactions is disclosed in Note 35.

17 Debt Securities in Issue

In millions of Russian Roubles	2011	2010
Promissory notes	3 600	5 534
Mortgage backed bonds in issue	2 931	-
Deposit certificates	191	260
Total debt securities issued	**6 722**	**5 794**

At 31 December 2011, promissory notes in issue had maturity dates from January 2012 to December 2015 (2010: from January 2011 to December 2015) and effective interest rates from 1.0% to 9.0% p.a. (2010: from 1.0% to 10.3% p.a.).

17 Debt Securities in Issue (Continued)

At 31 December 2011, deposit certificates in issue had maturity dates from January 2012 to September 2012 (2010: from January 2011 to October 2011) and effective interest rates from 4.2% to 6.5% p.a. (2010: from 4.5% to 9.8% p.a.).

In December 2011, the Group issued bonds with an aggregate nominal value of RR 4 071 million as part of a securitisation transaction. The bonds were issued by Closed Joint Stock Company Ipotechny Agent Vozrozhdeniye 1, a consolidated special purpose company. Class A notes in the amount of RR 2 931 million were placed through open subscription on MICEX and Class B notes in the amount of RR 1 140 million were bought out by the Bank and, therefore, were not shown in these consolidated financial statements. The international rating agency Moody's issued the Baa2 credit rating to Class A notes. Class A notes have a fixed coupon rate of 8.95% p.a. Class A notes with the carrying value of RR 2 931 million should be fully repaid on 10 August 2044.

At 31 December 2011, the estimated fair value of debt securities in issue was RR 6 858 million (2010: RR 6 109 million). Refer to Note 33 for the estimated fair value of each class of debt securities in issue.

Geographical, currency, interest rate and maturity analyses of debt securities in issue are disclosed in Note 29. Information on debt securities in issue held by related parties is disclosed in Note 35.

18 Subordinated Loans

Subordinated loans represent long-term deposits of the Bank's customers, which mature from 2013 to 2018 and bear contractual interest rates ranging from 5.75% to 11.21% p.a. (2010: from 2.25% to 9.21% p.a.). The contractual interest rates are regularly revised in accordance with the terms of subordinated loan agreements No.7 and No.8. The subordinated debt ranks after of all other creditors in case of the Bank's liquidation. The details of subordinated loans attracted by the Bank are disclosed in the table below:

				2011		2010	
	Start date	Maturity	Currency	Contractual interest rate, %	Value, RR million	Contractual interest rate, %	Value, RR million
Subordinated loan 1	May 2000	April 2011	USD	-	-	2.25	241
Subordinated loan 2	June 2005	June 2013	USD	5.75	322	5.75	305
Subordinated loan 3	December 2005	December 2013	USD	8.00	226	8.00	214
Subordinated loan 4	March 2006	March 2014	USD	6.50	161	6.50	153
Subordinated loan 5	May 2006	May 2014	USD	6.50	97	6.50	91
Subordinated loan 6	June 2006	June 2014	USD	6.50	161	6.50	153
Subordinated loan 7	December 2006	December 2013	RR	8.00	1 000	7.75	1 000
Subordinated loan 8	April 2007	April 2014	RR	8.00	500	7.75	500
Subordinated loan 9	July 2008	August 2018	USD	11.21	1 653	9.21	1 545
Subordinated loan 10	August 2010	August 2018	USD	8.00	97	8.00	91
Total subordinated loans					**4 217**		**4 293**

On 18 April 2011, the Bank repaid subordinated loan No. 1 of USD 8 million.

Under the agreement on subordinated loan No. 9 the Bank should comply with these covenants. As at 31 December 2011, the Bank complied with the covenants. As at 31 December 2010 one of the covenants was violated. Refer to Note 31.

At 31 December 2011, the estimated fair value of subordinated loans was RR 4 485 million (2010: RR 4 404 million). (Refer to Note 33).

Geographical, currency, maturity and interest rate analyses of subordinated debt are disclosed in Note 29.

Subordinated loans No. 3 and 10 were received by the Bank from a related party. Refer to Note 35.

19 Other Financial Liabilities

Other financial liabilities comprise the following:

In millions of Russian Roubles	2011	2010
Credit and debit cards payables	461	489
Trade payables	72	97
Settlements on conversion operations	-	1
Other liabilities	55	24
Total other financial liabilities	**588**	**611**

At 31 December 2011, the estimated fair value of other financial liabilities was RR 588 million (2010: RR 611 million). Refer to Note 33 for the estimated fair value of each class of other financial liabilities.

Geographical, currency and maturity analyses of other financial liabilities are disclosed in Note 29.

20 Share Capital

In millions of Russian Roubles	Number of outstanding shares	Ordinary shares	Preference shares with a determined dividend amount	Share premium	Total
At 31 December 2009	**25 043 199**	**237**	**13**	**7 306**	**7 556**
At 31 December 2010	**25 043 199**	**237**	**13**	**7 306**	**7 556**
At 31 December 2011	**25 043 199**	**237**	**13**	**7 306**	**7 556**

The registered amount of the Bank's share capital as at 31 December 2011 is RR 250 million (2010: RR 250 million). At 31 December 2011 and 31 December 2010, all of the Bank's outstanding shares were paid in.

The total amount of the authorised ordinary shares is 23 748 694 shares (2010: 23 748 694 shares). All ordinary shares have a nominal value of RR 10 per share (2010: RR 10 per share) and rank equally. Each share carries one vote.

The total amount of the authorised preference shares is 1 294 505 shares (2010: 1 294 505 shares). All issued preference shares are fully paid. The preference shares have a nominal value of RR 10 (2010: RR 10) and carry no voting rights but rank ahead of the ordinary shares in the event of the Bank's liquidation. The preference shares give the holders the right to participate in general shareholders' meetings in instances where decisions are made in relation to reorganisation and liquidation of the Bank, and where changes and amendments to the Bank's charter which restrict the rights of preference shareholders are proposed. These shares are not redeemable. Preference share dividends are set at 20% of nominal value (2010: 20% of nominal value) and rank above ordinary dividends. Dividends on preference share are not cumulative. If preference dividends are not declared by ordinary shareholders, the preference shareholders obtain the right to vote as ordinary shareholders until the dividend is paid.

The Bank's ordinary shares were included into quotation list "A" of the second level of Closed Joint Stock Company MICEX Stock Exchange.

Share premium represents the excess of contributions to share capital received over the nominal value of shares issued.

As at 31 December 2011, 482 680 (2010: 482 680) ordinary shares of the Bank were circulating on international markets through Level One American Depository Receipts (ADR). One ADR is equal to one ordinary share of the Bank with a nominal value of RR 10.

21 Retained Earnings

In accordance with Russian legislation, the Bank distributes profits as dividends or transfers them to reserves on the basis of financial statements prepared in accordance with Russian Accounting Rules. The Bank's reserves under Russian Accounting Rules at 31 December 2011 amount to RR 9 749 million (2010: RR 8 208 million).

22 Interest Income and Expense

In millions of Russian Roubles	2011	2010
Interest income		
Loans and advances to customers - legal entities	10 134	10 218
Loans and advances to customers - individuals	3 008	2 220
Trading securities	506	766
Correspondent accounts and due from other banks	268	303
Investment securities available for sale	43	93
Total interest income	**13 959**	**13 600**
Interest expense		
Term deposits of individuals	4 201	5 743
Term deposits of legal entities	1 139	1 477
Debt securities in issue	390	392
Due to other banks	361	115
Subordinated loans	359	346
Current/settlement accounts of legal entities	53	36
Total interest expense	**6 503**	**8 109**
Net interest income	**7 456**	**5 491**

Information on related party balances and transactions is disclosed in Note 35.

23 Fee and Commission Income and Expense

In millions of Russian Roubles	2011	2010
Fee and commission income		
Settlement operations	1 418	1 107
Cash transactions	1 182	1 014
Credit/debit cards and cheques settlements	1 135	920
Payroll projects	517	530
Cash collection	272	229
Guarantees issued	250	182
Other	458	313
Total fee and commission income	**5 232**	**4 295**
Fee and commission expense		
Credit/debit cards and cheques settlements	313	258
Settlement operations	23	22
Settlements with currency and stock exchanges	21	26
Cash transactions	14	13
Guarantees received	5	9
Other	34	32
Total fee and commission expense	**410**	**360**
Net fee and commission income	**4 822**	**3 935**

24 Administrative and Other Operating Expenses

In millions of Russian Roubles	Note	2011	2010
Staff costs		4 910	3 998
Administrative expenses		654	604
Depreciation of premises and equipment and amortisation of intangible assets	12	518	499
Other costs related to premises, equipment and intangible assets		494	444
Contributions to the State Deposit Insurance Agency		338	298
Rent expense		304	279
Taxes other than on income		303	279
Repairs of premises and equipment		150	150
Advertising and marketing services		145	144
Other		537	485
Total administrative and other operating expenses		**8 353**	**7 180**

Included in staff costs are statutory contributions to non-budget funds of RR 858 million (2010: RR 573 million).

25 Income Taxes

(a) Components of income tax expense / (benefit)

Income tax expense comprises the following:

In millions of Russian Roubles	2011	2010
Current tax	824	647
Deferred tax	(402)	(502)
Income tax expense for the year	**422**	**145**

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

The income tax rate applicable to the majority of the Bank's income is 20% (2010: 20%). A reconciliation between the expected and the actual taxation charge is provided below.

In millions of Russian Roubles	2011	2010
IFRS profit before tax	**2 016**	**726**
Theoretical tax charge at statutory rate (2010-2011: 20%)	403	145
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Income which is exempt from taxation	(2)	-
- Income on government securities taxed at different rates	(10)	(37)
- Non-deductible expenses/other non-temporary differences	31	321
- Unrecognised deferred tax asset	-	(284)
Income tax expense for the year	**422**	**145**

Deferred taxation relating to the fair value remeasurement of investment securities available-for-sale is charged or credited directly to other comprehensive income and is subsequently recorded in other comprehensive income when the gain or loss on the securities is realised.

(c) Deferred taxes analysed by type of temporary difference

Differences between IFRS and Russian statutory taxation regulations give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases.

25 Income Taxes (Continued)

The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 20% (2010: 20%), except for income on state securities, which is taxed at 15% (2010: 15%).

In millions of Russian Roubles	**2009**	**Charged/ (credited) to profit or loss**	**Charged / (credited) directly to other compre-hensive income**	**2010**	**Charged/ (credited) to profit or loss**	**Charged / (credited) directly to other compre-hensive income**	**2011**
Tax effect of deductible/ (taxable) temporary differences							
Property, equipment and intangible assets	(61)	9	-	(52)	18	-	(34)
Loan impairment provision	92	11	-	103	(27)	-	76
Fair valuation of trading securities	(15)	13	-	(2)	(47)	-	(49)
Fair valuation of investment securities available for sale	(24)	-	12	(12)	-	(10)	(22)
Accrued income and expenses	313	134	-	447	411	-	858
Deferred fee and commission income	39	25	-	64	-	-	64
Other	(8)	26	-	18	47	-	65
Less: unrecognised deferred tax asset	(284)	284	-	-	-	-	-
Total deferred tax asset	**160**	**472**	**-**	**632**	**431**	**-**	**1 063**
Total deferred tax liability	**(108)**	**30**	**12**	**(66)**	**(29)**	**(10)**	**(105)**
Total net deferred tax asset	**52**	**502**	**12**	**566**	**402**	**(10)**	**958**

The net deferred tax asset represents income taxes recoverable through future income and is recorded within other assets Unrecognised deferred tax asset is composed of a temporary difference arising from interest income accrued on non-performing loans included in tax base in full but not fully recognised for the purposes of the financial statements in 2009 as due to unstable economic situation in 2009 the Group was unable to reliably estimate the recoverability of future tax deductions. The assessment of recoverability of the deferred tax asset is performed by the management of the Group and based on a medium term business plan. Refer to Note 4.

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

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

	2011			**2010**		
In millions of Russian Roubles	**Before-tax amount**	**Income tax (expense) / benefit**	**Net-of-tax amount**	**Before-tax amount**	**Income tax (expense) / benefit**	**Net-of-tax amount**
Available-for-sale investments:						
- Gains/(Losses) arising during the year	32	(10)	22	(5)	12	7
Other comprehensive income	**32**	**(10)**	**22**	**(5)**	**12**	**7**

26 Earnings per Share

Basic earnings per share are calculated by dividing the profit or loss by the weighted average number of ordinary shares in issue during the year, excluding treasury shares.

The Bank has no potentially dilutive ordinary shares.

In millions of Russian Roubles	Note	2011	2010
Profit for the year		1 594	581
Less dividends on preference shares	27	(3)	(3)
Undistributed profit for the year		**1 591**	**578**
Undistributed profit for the year attributable to ordinary shareholders based on terms of the shares		1 509	548
Undistributed profit for the year attributable to preference shareholders based on terms of the shares		82	30
Weighted average number of ordinary shares in issue (million)		23.7487	23.7487
Weighted average number of preference shares in issue (million)		1.2945	1.2945
Basic earnings per ordinary share (expressed in RR per share)		**64**	**23**

27 Dividends

	2011		2010	
In millions of Russian Roubles	Ordinary shares	Preference shares	Ordinary shares	Preference shares
Dividends payable at 1 January	-	-	-	-
Dividends declared during the year	11	3	11	3
Dividends paid during the year	(11)	(3)	(11)	(3)
Dividends payable at 31 December	**-**	**-**	**-**	**-**
Dividends per share declared during the year (expressed in RR per share)	**0.5**	**2.0**	**0.5**	**2.0**

All dividends are declared and paid in Russian Roubles.

28 Segment Analysis

The segment analysis is prepared in accordance with IFRS 8, Operating segments.

Operating segment is a distinguishable component of the Bank that is engaged in providing products or services (business segment) with the purpose to generate income, whose operating results are regularly reviewed by the Bank's Management Board based on statutory management accounts in terms of each operating segment. The functions of chief operating decision maker (CODM) are performed by the Management Board of the Bank. Operating management and performance of an operating segment are the responsibility of the Deputy Chairman of the Management Board of the Bank supervising corresponding business line.

(a) Description of products and services from which each reportable segment derives its revenue

For the purpose of management, the Bank's operations are split by types of products and services and by classes of clients acquiring them, into the following operating segments:

- Corporate business – representing direct debit facilities, current accounts, deposits, loans, overdrafts, credit lines and other credit facilities, foreign currency and derivative products.

28 Segment Analysis (Continued)

- Retail business – representing private banking services, private customer current accounts, savings, deposits, investment savings products, custody, consumer loans and mortgages.
- Bank cards business – representing settlement services to individuals with the use of bank cards, overdrafts and revolving loans with the use of bank cards, payroll project services, acquiring, self-service operations on ATMs, information service to plastic cards holders.
- Financial business – representing transactions in the interbank lending market and securities transactions.
- Liquidity – representing reallocation of funds between operating segments.

(b) Factors that management used to identify the reportable segments

Reportable segments are identified on the basis of the organisational structure that is used to assess performance and to take a decision on allocating resources. The Bank's segments are strategic business units that focus on different customers. They are managed separately because each business unit requires different marketing strategies and service level. For the purposes of these consolidated financial statements each operating segment of the Bank is presented as a reportable segment. The "other" category includes items unallocated items.

An operating segment is reported separately if it meets any of the following quantitative thresholds:

- the amount of reported revenue, including revenue earned from sales to external customers, intersegment sales or transfers are ten percent or more of aggregated income (internal and external) of all operating segments.
- the absolute value of its reported profit or loss is ten percent or more of the aggregate reported profit of all operating segments that were not loss making in the reported period, or aggregate reported loss of all operating segments that were loss-making in the reported period;
- its assets are ten percent or more of aggregate assets of all operating segments.

The aforementioned reportable segments are to be separately disclosed in the consolidated financial statements as they comply with one of the above quantitative thresholds.

(c) Measurement of operating segment profit or loss, assets and liabilities

Transactions between the operating segments are on normal commercial terms and conditions. Funds are ordinarily reallocated between operating segments, resulting in funding cost transfers disclosed in interest income and expense. Interest rates for these funds are differentiated depending on the attraction terms and are based on market indicators.

Segment assets and liabilities include operating assets and liabilities representing a major part of the Bank's assets and liabilities, as well as funds reallocated between operating segments, but excluding taxation. Internal charges and transfer pricing adjustments have been reflected in the performance of each operating segment. Segment performance is based on profitability and cost-effectiveness of operating assets.

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

(i) the fair value changes in available for sale securities are reported within the segments' profits or losses rather than in other comprehensive income;

(ii) funds are generally reallocated between segments at internal interest rates set by the Treasury department, which are determined by reference to market interest rate benchmarks, contractual maturities for loans and observed actual maturities of customer accounts balances;

(iii) income taxes are not allocated to segments;

(iv) loan provisions are recognised based on Russian law, rather than based on the incurred loss model prescribed in IAS 39;

28 Segment Analysis (Continued)

(v) commission income related to lending is recognised immediately rather than deferred using the effective interest method;

(vi) liabilities for the Bank's unused vacation payments are not recognised.

The CODM evaluates performance of each segment based on profit before income tax.

(d) Information about reportable segment profit or loss, assets and liabilities

The table below represents the segment information of interest-bearing assets and interest-bearing liabilities per reportable segments for the year ended 31 December 2011 and 31 December 2010. For the purpose of preparation of the management accounts the amount of assets and liabilities is calculated as average balances for the respective accounting period. Total assets and liabilities do not include the subsequent events.

The Group does not disclose geographical information in its segment analysis as the majority of transactions and revenues of the reportable segments are concentrated basically in Russia. The analysis of the reportable segments is based on the banking products and services but not on the geographical factors.

In millions of Russian Roubles	**Corporate business**	**Retail business**	**Bank cards trans-actions**	**Financial business**	**Liquidity**	**Other**	**Total**
31 December 2011							
Total reportable segment assets	**107 979**	**17 987**	**2 486**	**37 630**	**-**	**713**	**166 795**
Total reportable segment liabilities	**59 826**	**68 552**	**16 095**	**5 520**	**-**	**1 469**	**151 462**
31 December 2010							
Total reportable segment assets	**86 386**	**12 580**	**2 436**	**42 392**	**-**	**-**	**143 794**
Total reportable segment liabilities	**50 269**	**60 491**	**14 227**	**3 174**	**-**	**1 519**	**129 680**

28 Segment Analysis (Continued)

The table below represents information of income and expenses per reportable segment for the year ended 31 December 2011: The Bank's management considers operating income before provision for loan impairment as a key measurement of reportable segments results.

In millions of Russian Roubles	**Corporate business**	**Retail business**	**Bank cards transact-tions**	**Financial business**	**Liquidity**	**Other**	**Total**
2011							
- Interest income	10 274	2 539	402	794	-		14 009
- Non-interest income	3 643	907	1 585	224	-	53	6 412
- Transfer income	2 908	5 415	264	270	2 364	136	11 357
Total revenues	**16 825**	**8 861**	**2 251**	**1 288**	**2 364**	**189**	**31 778**
- Interest expense	(1 926)	(4 150)	(46)	(225)	-	(149)	(6 496)
- Non-interest expense	(154)	(11)	(273)	(43)	-	(10)	(491)
- Transfer expense	(9 026)	(1 746)	(191)	(394)	-	-	(11 357)
Total expense	**(11 106)**	**(5 907)**	**(510)**	**(662)**	**-**	**(159)**	**(18 344)**
Operating income before provision for loan impairment	**5 719**	**2 954**	**1 741**	**626**	**2 364**	**30**	**13 434**
Provision for loan impairment	(2 485)	(1)	(5)	-	-	-	(2 491)
Operating income	**3 234**	**2 953**	**1 736**	**626**	**2 364**	**30**	**10 943**
Administrative and other operating expenses	(2 996)	(3 163)	(1 421)	(69)	-	(66)	(7 715)
Depreciation of premises and equipment and amortisation of intangible assets	(163)	(138)	(70)	(3)	-	(2)	(376)
Losses from cession	(464)	-	-	-	-	-	(464)
Profit/(loss) before tax (Segment result)	**(389)**	**(348)**	**245**	**554**	**2 364**	**(38)**	**2 388**

28 Segment Analysis (Continued)

Segment information for the Bank's reportable segments for the year ended 31 December 2010 is set out below:

In millions of Russian Roubles	Corporate business	Retail business	Bank cards transact-tions	Financial business	Liquidity	Other	Total
2010							
- Interest income	10 004	1 770	399	1 123	-	3	13 299
- Non-interest income	3 205	805	1 382	154	-	62	5 608
- Transfer income	2 834	5 726	294	322	814	140	10 130
Total revenues	**16 043**	**8 301**	**2 075**	**1 599**	**814**	**205**	**29 037**
- Interest expense	(2 050)	(5 694)	(48)	(163)	-	(140)	(8 095)
- Non-interest expense	(186)	-	(215)	(55)	-	(35)	(491)
- Transfer expense	(8 044)	(1 438)	(206)	(442)	-	-	(10 130)
Total expense	**(10 280)**	**(7 132)**	**(469)**	**(660)**	**-**	**(175)**	**(18 716)**
Operating income before provision for loan impairment	**5 763**	**1 169**	**1 606**	**939**	**814**	**30**	**10 321**
Provision for loan impairment	(2 082)	(26)	(25)	-	-	-	(2 133)
Operating income	**3 681**	**1 143**	**1 581**	**939**	**814**	**30**	**8 188**
Administrative and other operating expenses	(2 508)	(2 745)	(1 240)	(84)	-	(22)	(6 599)
Depreciation of premises and equipment and amortisation of intangible assets	(164)	(164)	(84)	(5)	-	(5)	(422)
Profit/(loss) before tax (Segment result)	**1 009**	**(1 766)**	**257**	**850**	**814**	**3**	**1 167**

28 Segment Analysis (Continued)

(e) Reconciliation of reportable segment profit or loss, assets and liabilities

The reconciliation of assets, liabilities, income and expenses of the Bank's reportable segments for the year ended 31 December 2011 and 31 December 2010 is as follows

Reconciliation of reportable segment assets

In millions of Russian Roubles	2011	2010
Total reportable segment assets	**166 795**	**143 794**
Assets unallocated between operating segments	20 553	19 707
Accrued income	932	1 351
Differences in financial statements format*	(6 210)	2 080
Deviation due to recording of reportable segment assets without regard to the events after the end of the reporting period	(18)	(39)
Differences in fair valuation of securities	102	19
Adjustment of provisions for loan impairment based on the incurred loss model	(594)	(735)
Recognition of commission income from lending using the effective interest method	(147)	(220)
Fair valuation of instruments with non-market rates	-	(1)
Recognition of financial instruments using the effective interest method	96	324
Provision for impairment of other financial assets.	(338)	(122)
Consolidation	2 717	-
Total assets under IFRS	**183 888**	**166 158**

Reconciliation of reportable segment liabilities

In millions of Russian Roubles	2011	2010
Total reportable segment liabilities	**151 462**	**129 680**
Liabilities unallocated between operating segments	1 144	1 105
Liabilities on interest payment	2 017	2 068
Differences in financial statements format*	8 108	16 473
Deviation due to recording of reportable segment liabilities without regard to the events after the end of the reporting period	(8)	(5)
Recognition of liabilities at amortised cost	(10)	(23)
Consolidation	2 713	
Total liabilities under IFRS	**165 426**	**149 298**

* Differences in financial statements format arise from presentation of assets and liabilities of reportable segments calculated as average balances for the reporting period and recognition of reportable segment assets before provision for impairment for the purpose of management accounts preparation.

28 Segment Analysis (Continued)

Reconciliation of income and expense before tax of the reportable segments

Reconciliation of profit before tax and other material income or expenses (interest income and expense, non-interest income or expense, provision for loan impairment, administrative and other operating expenses) for the reportable segments with the Consolidated statement on comprehensive income under IFRS for the year ended 31 December 2011 is as follows:

In millions of Russian Roubles	**Profit before tax**	**Interest income**	**Non-interest income**	**Interest expense**	**Non-interest expense**	**Provision for loan impairment**	**Administrative and other operating expenses**
Total amount for all reportable segments	**2 388**	**14 009**	**6 412**	**(6 496)**	**(491)**	**(2 955)**	**(8 091)**
Recognition of commission income from lending using the effective interest method	73	49	24	-	-	-	-
Recognition of other fees and commissions by reference to completion of the specific transaction	(36)	-	(36)	-	-	-	-
Recognition of interest income/expense using the effective interest method	(13)	-	(10)	(3)	-	-	-
Differences in fair valuation of trading securities	42	-	42	-	-	-	-
Adjustment of provisions for loan impairment based on the incurred loss model	192	(128)	(237)	-	-	557	-
Accrued liabilities for unused vacations	(30)	-	-	-	-	-	(30)
Differences in depreciation charge on premises and equipment	(141)	-	-	-	-	-	(141)
Recognition of financial instruments using the effective interest method	(228)	(228)	-	-	-	-	-
Reclassification of management accounts items	-	257	(293)	(4)	31	90	(81)
Provision for impairment of other assets	(216)	-	-	-	-	-	-
Consolidation	4					4	
Other	(19)	-	(9)	-	-	-	(10)
IFRS	**2 016**	**13 959**	**5 893**	**(6 503)**	**(460)**	**(2 304)**	**(8 353)**

28 Segment Analysis (Continued)

Reconciliation of profit before tax and other material income or expenses (interest income and expense, non-interest income or expense, provision for loan impairment, administrative and other operating expenses) for the reportable segments with the Consolidated statement on comprehensive income under IFRS for the year ended 31 December 2010 is as follows:

In millions of Russian Roubles	Profit before tax	Interest income	Non-interest income	Interest expense	Non-interest expense	Provision for loan impairment	Administrative and other operating expenses
Total amount for all reportable segments	**1 167**	**13 299**	**5 608**	**(8 095)**	**(491)**	**(2 133)**	**(7 021)**
Recognition of commission income from lending using the effective interest method	(81)	(154)	73	-	-	-	-
Recognition of other fees and commissions by reference to completion of the specific transaction	(44)	-	(44)	-	-	-	-
Recognition of interest income/expense using the effective interest method	(13)	-	-	(13)	-	-	-
Differences in fair valuation of trading securities	(38)	(49)	11	-	-	-	-
Fair valuation of instruments with non-market rates	1	1	-	-	-	-	-
Adjustment of provisions for loan impairment based on the incurred loss model	(64)	-	(328)	-	-	264	-
Accrued liabilities for unused vacations	(22)	-	-	-	-	-	(22)
Capitalised software implementation costs	10	-	-	-	-	-	10
Differences in depreciation charge on premises and equipment	(81)	-	-	-	-	-	(81)
Recognition of financial instruments using the effective interest method	10	10	-	-	-	-	-
Reclassification of management accounts items	-	493	(479)	(1)	56	(3)	(66)
Provision for impairment of inventories	(121)	-	-	-	-	-	-
Other	2	-	2	-	-	-	-
IFRS	**726**	**13 600**	**4 843**	**(8 109)**	**(435)**	**(1 872)**	**(7 180)**

29 Financial Risk Management

The risk management function within the Bank is carried out in respect of financial risks, operational risks and legal risks. Financial risk comprises market risk (including currency risk, interest rate risk and other price risk), credit risk, liquidity risk and geographical risk. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimise operational and legal risks.

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

29 Financial Risk Management (Continued)

The Bank's maximum exposure to credit risk is reflected in the carrying amounts of financial assets in the consolidated statement of financial position. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant. For guarantees and commitments to extend credit, the maximum exposure to credit risk is the amount of the commitment. The credit risk is mitigated by collateral and other credit enhancements as disclosed in Note 10.

The Bank has developed and applies policies and procedures aimed at prevention and mitigation of the damage that the Bank might incur as a result of exposure to credit risk.

Thus, within the Bank there is a Credit and Investments Committee (CIC) with a system of subcommittees. For credit risk management purposes the CIC of the Bank has the following members and subcommittees:

- Senior members of CIC – review general issues of managing credit risk, determining and implementing the credit policy within the scope of the Bank's approved development strategy;
- Junior members of CIC – review issues related to implementing the credit policy within the scope of delivery of products with inherent credit risk to customers of the Bank within established authority, investments of the Bank;
- Subcommittee for corporate clients – credit risk management issues and credit policy implementation within the scope of delivery of products with inherent credit risk to corporate customers of the Bank within established authority;
- Subcommittee for retail loans – credit risk management issues and credit policy implementation within the scope of delivery of products with inherent credit risk to retail customers of the Bank (except bank cards) within established authority;
- Subcommittee for bank cards – credit risk management issues and credit policy implementation within the scope of delivery of products with inherent credit risk using bank cards to retail customers of the Bank within established authority.

Key functions and objectives of CIC:

- review and development of the credit policy of the Bank within the approved development strategy;
- operational decisions on the diversification of credit risks;
- within the authority set by the Management Board, decisions on the following issues:
  - delivery of Russian Rouble or US Dollars denominated products with inherent credit risk to the Bank's borrowers;
  - purchasing or acceptance of external issuers' promissory notes;
  - setting limits for counterparty banks.
- taking decisions focused at strengthening and modernising the methodological basis of the Bank;
- taking decisions on developing and implementing new types of lending and services in order to expand capabilities and enhance the competitive advantages of the Bank on the credit market;
- reviewing and approving new products and services;
- issues relating to writing off uncollectible loans and interest thereon against loan loss provision, overdue loans and debt equivalent to overdue loans, subject to approval by the relevant authorised body of the Bank;
- identifying the level of authority of CIC subcommittees, structural business units of the Central Office of the Bank (hereafter - "CO"), managers and individual specialists in business units of the CO, and independent crediting by branches with subsequent approval by the Management Board;
- approving the total number of members and membership in the branch credit committees;
- setting limits for the CIC subcommittees, structural business units of the CO, heads and individual specialists from CO business units on implementing credit programs with subsequent approval by the Management Board;
- making decisions on the Bank's investments within authorities set by the Management Board;
- considering acquisition and sale by the Bank of corporate and state securities.

29 Financial Risk Management (Continued)

The Junior members of the CIC of the Bank review and approve limits of up to RR 500 million on Rouble loans and Rouble equivalent on currency loans to legal entities, up to RR 30 million for individuals and from RR 6 to 10 million on bank card loans. Loan applications in excess of the above maximum limits are approved by the Management Board of the Bank.

The CIC subcommittees and management of the Bank, in charge of retail loans, as well as Junior members of the CIC are assigned the individual authority on taking credit risks limiting the amount of obligations of one borrower (guarantor) and aggregate amount of authority.

Additionally to general limits, the Bank's credit policy sets certain budgeted qualitative and quantitative indices representing the segment, industry, regional structure of the corporate loan portfolio and the structure of the loan portfolio in terms of currency and maturity.

The authority and certain types of limits, terms and conditions for issuing loans within corresponding authority are subject to mandatory approval by the Management Board of the Bank and quarterly review within the scope of Regulations on Major Principles of the Bank's Rouble and Currency Resource Management.

Credit risk management techniques (besides the system of authority and decision taking) also include:

- a centralised system for applying and adjusting interest rates and tariffs (approved quarterly by the Management Board in accordance with the Regulations on Major Principles of the Bank's Rouble and Currency Resource Management which establish underlying interest rates by loan types and borrowers' categories);
- a system of credit risk limits. General limits-restrictions aimed at reducing the concentration risk and the related parties risk applied to all loans (irrespective of the client sector to which the borrower belongs) are approved annually by the Management Board in accordance with the Credit Policy of the Bank:
  - the maximum loan amount issued by the Bank to one borrower – 15% of the Bank's equity calculated in accordance with CB RF Instruction No. 110-I as of 16 January 2004 "On Obligatory Ratios for Banks" (hereinafter – "the Bank's equity"); to a group of related borrowers - 25% of the Bank's equity;
  - the maximum amount of all large loans (the amount of loans issued to one borrower exceeding 5% of the Bank's equity) – 400% of the Bank's equity;
  - the maximum amount of all loans issued by the Bank to shareholders of the Bank – 20% of the Bank's equity;
  - the maximum amount of all loans issued by the Bank to insiders of the Bank – 3% of the Bank's equity. The Bank also manages credit risk through establishing and fixing requirements to the borrower on securing its credit obligation, pledge assessment, insurance of pledge or the borrower, levy of execution upon pledge in normative, instructive and functional-technological documents approved by the Management Board of the Bank.

Classification of collateral into various groups and its assessment is exercised based on the Regulation on Ensuring Performance of Obligations by Borrowers of the Bank on Products Exposed to Credit Risk and also on the basis of an expert opinion based on the market situation existing as at the credit risk assessment date.

Analytical reports on credit quality containing information on non-performing loans by client, credit programs, days and amounts overdue are summarised on a regular basis by responsible divisions of the Central Office and communicated to the Bank's Management on a monthly basis for corporate loans, on a weekly basis for retail loans and on a daily basis for bank card loans. The materials of analytical reports are further used when reviewing credit applications.

The Bank's branches monitor the current loans on a daily basis.

29 Financial Risk Management (Continued)

Current loans are transferred under the supervision of the CO, if the following factors, or at least one, arise:

- overdue status of principal and/or interest amount during more than thirty calendar days. If a borrower is a part of a group of related borrowers, in which other borrowers have overdue debts to the Bank during more than thirty calendar days, all borrowers of the group are transferred under the supervision of the CO;
- repeated change of the contractual maturity date;
- the amount of transfers to a borrower's settlement account from its settlement account in other bank (as replenishment) during the prior month is more than a half of the total replenishments;
- existence of negative information on a borrower or its management (for legal entities);
- existence of information on conflicts between the owners (shareholders, participants) of a business;
- failure of a third party which is a borrower, guarantor or pledger to fulfil its obligations under its contracts signed with the Bank.

As a result of further deterioration of servicing, loans are transferred to the Legal Department for control and supporting the collection by enforcement procedures. The terms and criteria for transferring non-performing loans are outlined by the Regulation on monitoring of loans and advances issued to legal entities and individual entrepreneurs that are under CO monitoring, the Regulation on monitoring the retail loan portfolio and the Regulation on procedures in respect of overdue and impaired credit cards loans issued to individuals.

A loan is considered to be uncollectible in the following cases:

- the time allowed for claims has expired;
- the obligation is cancelled in accordance with the Civil Law as its fulfilment is not possible;
- the obligation has been cancelled pursuant to an act from government authorities; or
- the obligation has been cancelled following the liquidation of the borrower;
- the fact the borrower failed to fulfil its obligations to creditors within the period of at least one year from the date of the decision to write-off the loan is confirmed by documents. In addition to that, all required and sufficient legal and practical measures to collect this loan have been taken and any further action is legally impossible and/or the expected expenses will exceed the result.

Uncollectible loans are written-off from the statement of financial position of the Bank against the loan loss provision in accordance with the Regulations approved by the Board of Directors. Uncollectible loans are written-off to the off-balance sheets accounts as follows:

- on the basis of the decision of the Management Board if the amount of the loan is less than 1% of equity as at the latest end of the reporting period prior to taking the decision; or
- on the basis of the decision of the Board of Directors if the amount of the loan is equal or exceeds 1% of equity as at the latest end of the reporting period before the decision; or the loan is issued to a shareholder or affiliate of the Bank and/or an affiliate thereof.

The amount of uncollectible loan written off from the Bank's balance sheet as well as related interest shall be generally accounted for on off-balance sheet accounts during at least five years in order to monitor collection possibility in case of change in conditions.

The Credit Risk Monitoring Department monitors the credit risk of the Bank and its main objectives are as follows:

- prevention, detection and mitigation of the damage that the Bank might incur as a result of exposure to credit risk;
- determining the aggregate credit risk taking into account all financial instruments;
- forecasting future credit risks arising;
- an objective assessment of credit risks, monitoring the loan loss provisions adequacy and communicating to Management with a view to taking appropriate management decisions.

29 Financial Risk Management (Continued)

The Internal Control and Audit Function follows up credit transactions of branches during internal audits performed in accordance with six months internal audit plans for branches approved by the Board of Directors of the Bank.

Taking into account the current situation in financial market and to maintain the Group's competitiveness in financial services market, and to attract and retain clients, some lending conditions for corporate borrowers were facilitated:

- for uncollateralised overdraft loans the maximum limit was increased up to 30% of the average credit turnovers on the customer's accounts in the Bank;
- issuing loans to small and medium businesses (in the regions where the Bank operates) collateralized by the guarantees of funds established by the Ministry of Economic Development and Trade of the Russian Federation;
- providing loans to corporate clients secured by goods in turnover, however the share of the goods in turnover should not exceed 70% of the customer's liabilities against the Bank;
- there were changes in the approach to calculation of the loans to customers, which should be collateralised, based on the terms of the loan.

Market risk. The Bank takes on exposure to market risks. Market risks arise from open positions in (a) currency, (b) interest rate and (c) equity products, all of which are exposed to general and specific market movements. The Board of Directors and the Assets and Liabilities Management Committee set limits on the volume of risk exposure and monitor it on a daily basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

Currency risk. The Bank is exposed to currency risk due to the fact that its assets and liabilities are denominated in different currencies as well as due to existence of open currency positions resulting from foreign currency transactions. The Bank manages currency risk by ensuring maximum possible consistency between the currency of its assets and the currency of its liabilities by currency within established limits. The Assets and Liabilities Management Committee sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily.

The table below summarises the Bank's exposure to foreign currency exchange rate risk at 31 December 2011:

In millions of Russian Roubles	RR	USD	Euro	Other	Total
Monetary financial assets					
Cash and cash equivalents	23 165	7 400	6 966	224	37 755
Mandatory cash balances with CBRF	1 390	357	192	-	1 939
Trading securities	4 393	2 033	921	-	7 347
Due from other banks	600	366	1	-	967
Loans and advances to customers	108 710	11 772	3 901	-	124 383
Investment securities available for sale	-	199	697	-	896
Other financial assets	921	267	66	-	1 254
Total monetary financial assets	**139 179**	**22 394**	**12 744**	**224**	**174 541**
Monetary financial liabilities					
Due to other banks	3 263	2 104	2 835	-	8 202
Customer accounts	117 617	17 883	9 633	9	145 142
Debt securities in issue	6 678	44	-	-	6 722
Subordinated loans	1 500	2 717			4 217
Other financial liabilities	575	13	-	-	588
Total monetary financial liabilities	**129 633**	**22 761**	**12 468**	**9**	**164 871**
Net balance sheet position	**9 546**	**(367)**	**276**	**215**	**9 670**
Credit related commitments (Note 31)	**21 611**	**802**	**2 075**	**-**	**24 488**

29 Financial Risk Management (Continued)

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

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

In millions of Russian Roubles	RR	USD	Euro	Other	Total
Monetary financial assets					
Cash and cash equivalents	15 149	8 718	8 261	23	32 151
Mandatory cash balances with CBRF	769	184	119	-	1 072
Trading securities	7 814	4 329	38	-	12 181
Due from other banks	5 401	457	2	-	5 860
Loans and advances to customers	95 834	5 714	2 498	-	104 046
Investment securities available for sale	111	319	1 171	-	1 601
Other financial assets	985	337	266	-	1 588
Total monetary financial assets	**126 063**	**20 058**	**12 355**	**23**	**158 499**
Monetary financial liabilities					
Due to other banks	3 831	1 922	2 019	-	7 772
Customer accounts	104 352	15 769	10 211	2	130 334
Debt securities in issue	5 572	53	169	-	5 794
Subordinated loans	1 499	2 794	-	-	4 293
Other financial liabilities	599	12	-	-	611
Total monetary financial liabilities	**115 853**	**20 550**	**12 399**	**2**	**148 804**
Net balance sheet position	**10 210**	**(492)**	**(44)**	**21**	**9 695**
Credit related commitments (Note 31)	**19 906**	**399**	**1 745**	**-**	**22 050**

At 31 December 2011, if the US Dollar exchange rate had been 10.0% higher (or 10.0% lower) with all other variables held constant, profit for the year would have been RR 37 million lower (RR 37 million higher), mainly as a result of higher interest expense on attracted funds denominated in US Dollars.

At 31 December 2010, if the US Dollar exchange rate had been 5.0% higher (or 5.0% lower) with all other variables held constant, profit for the year would have been RR 25 million lower (RR 25 million higher), mainly as a result of higher interest expense on attracted funds denominated in US Dollars.

At 31 December 2011, if the Euro exchange rate had been 8.0% higher (or 8.0% lower) with all other variables held constant, profit for the year would have been RR 22 million lower (RR 22 million higher), mainly as a result of higher interest expense on client accounts denominated in Euro.

At 31 December 2010, if the Euro exchange rate had been 2.5% higher (or 2.5% lower) with all other variables held constant, profit for the year would have been RR 1 million lower (RR 1 million higher), mainly as a result of higher interest expense on client accounts denominated in Euro.

In 2010-2011, the Bank estimated a reasonably possible change of USD and Euro currency rates based on the futures contracts for the next twelve months period in calculation of sensitivity to changes in foreign currency rates.

Interest rate risk. The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event of unexpected movements.

29 Financial Risk Management (Continued)

Assessment of the Bank's exposure to interest rate risk is managed upon gap analysis of financial instruments sensitive to changes in interest rates (SFI). The principal methodological approach of gap analysis within the framework of interest rate risk evaluation is recognition of future payment flows under SFI at carrying amounts. These carrying amounts are broken down by the earlier of contractual interest repricing or maturity dates.

Any changes in net interest income resulting from changes in the value of SFI at the date of their redemption or interest repricing determine the amount of interest rate risk exposure. Any changes in the amount of net interest income depend upon net cumulative gap on SFI and possible changes in interest rate at the end of the annual reporting period.

For the purposes of analysis of financial instruments that are sensitive to interest rate changes a year long period is selected as the maximum analysed interval.

The table below summarises the Bank's exposure to interest rate risks at the annual reporting dates.

In millions of Russian Roubles	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**More than 1 year**	**Non-monetary**	**Total**
31 December 2011						
Total financial assets exposed to interest rate changes	42 063	39 741	30 237	48 716	-	160 757
Total financial liabilities exposed to interest rate changes	59 909	28 105	32 065	44 204	-	164 283
Net interest sensitivity gap at 31 December 2011	**(17 846)**	**11 636**	**(1 828)**	**4 512**	**-**	**(3 526)**
Gap coefficient (aggregate relative cumulative gap)	**0.70**	**0.93**	**0.93**	**0.98**		
31 December 2010						
Total financial assets exposed to interest rate changes	42 821	36 604	25 393	40 123	-	144 941
Total financial liabilities exposed to interest rate changes	55 926	34 918	27 196	30 153	-	148 193
Net interest sensitivity gap at 31 December 2010	**(13 105)**	**1 686**	**(1 803)**	**9 970**	**-**	**(3 252)**
Gap coefficient (aggregate relative cumulative gap)	**0.77**	**0.87**	**0.89**	**0.98**		

At 31 December 2011, if interest rates at that date had been 200 basis points higher (2010: 200 basis points higher) with all other variables held constant, profit for the year would have been RR 186 million (2010: RR 244 million) lower, mainly as a result of higher interest expense on term deposits of individuals and legal entities and due to other banks. At 31 December 2011, other components of equity would have been RR 6 million (2010: RR 8 million) higher, mainly as a result of an increase in the fair value of fixed rate financial instruments classified as available for sale.

At 31 December 2011, if interest rates at that date had been 200 basis points lower (2010: 200 basis points lower) with all other variables held constant, profit for the year would have been RR 186 million (2010: RR 244 million) higher as a result of lower interest expense on term deposits of individuals and legal entities and due to other banks. At 31 December 2011, other components of equity would have been RR 6 million (2010: RR 8 million) lower, mainly as a result of a decrease in the fair value of fixed rate financial instruments classified as available for sale.

Risk management comprises minimising net gap established in analysis of assets and liabilities sensitive to interest rate changes. Depending upon the net gap amount the Bank takes the decision to issue or attract resources at certain rates for a certain period in order to minimise potential losses as a result of changes in the market interest rate.

29 Financial Risk Management (Continued)

The Bank monitors interest rates for its financial instruments. The table below summarises interest rates based on reports reviewed by key management personnel of the Bank:

	2011				2010			
In % p.a.	**RR**	**USD**	**Euro**	**Other**	**RR**	**USD**	**Euro**	**Other**
Assets								
Cash and cash equivalents	1%	0%	0%	0%	0%	0%	0%	0%
Trading securities	7%	3%	3%	-	4%	2%	2%	-
Due from other banks	4%	0%	-	-	3%	1%	0%	-
Loans and advances to customers	11%	8%	8%	-	12%	10%	8%	-
Investment securities available for sale	-	3%	3%	-	6%	3%	2%	-
Liabilities								
Due to other banks	6%	7%	3%	-	6%	7%	2%	-
Customer accounts								
- current and settlement accounts	0%	0%	0%	0%	0%	0%	0%	0%
- term deposits	7%	5%	4%	-	9%	6%	5%	-
Debt securities in issue	8%	2%	-	-	7%	5%	2%	-
Subordinated loans	8%	9%	-	-	8%	8%	-	-

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

Other price risk. This risk is not significant for the Bank as the Bank has limited exposure to equity price risk.

The Bank is exposed to prepayment risk through providing fixed rate loans, including mortgages, which give the borrower the right to early repay the loans. The Bank’s current year profit or loss and equity at the current reporting date would not have been significantly impacted by changes in early repayment rates because such loans are carried at amortised cost and the early repayment right is at or close to the amortised cost of the loans and advances to customers.

29 Financial Risk Management (Continued)

Geographical risk concentrations. The geographical concentration of the Bank's financial assets and liabilities at 31 December 2011 is set out below:

In millions of Russian Roubles	Russia	OECD	Non-OECD	Total
Financial assets				
Cash and cash equivalents	24 276	13 474	5	37 755
Mandatory cash balances with CBRF	1 939	-	-	1 939
Trading securities	7 347	-	-	7 347
Due from other banks	600	367	-	967
Loans and advances to customers	124 172	-	211	124 383
Investment securities available for sale	1 260	117	-	1 377
Other financial assets	1 254	-	-	1 254
Total financial assets	**160 848**	**13 958**	**216**	**175 022**
Non-financial assets	**8 866**	**-**	**-**	**8 866**
Total assets	**169 714**	**13 958**	**216**	**183 888**
Financial liabilities				
Due to other banks	3 262	4 939	1	8 202
Customer accounts	142 929	505	1 708	145 142
Debt securities in issue	6 722	-	-	6 722
Subordinated loans	1 822	1 653	742	4 217
Other financial liabilities	588	-	-	588
Total financial liabilities	**155 323**	**7 097**	**2 451**	**164 871**
Non-financial liabilities	**555**	**-**	**-**	**555**
Total liabilities	**155 878**	**7 097**	**2 451**	**165 426**
Net balance sheet position	**13 836**	**6 861**	**(2 235)**	**18 462**
Credit related commitments (Note 31)	**24 488**	**-**	**-**	**24 488**

Assets, liabilities and credit related commitments have been based on the country in which the counterparty is located. Cash on hand, premises and equipment and intangible assets have been allocated based on the country in which they are physically held.

29 Financial Risk Management (Continued)

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

In millions of Russian Roubles	Russia	OECD	Non-OECD	Total
Assets				
Cash and cash equivalents	16 324	15 815	12	32 151
Mandatory cash balances with CBRF	1 072	-	-	1 072
Trading securities	12 182	-	-	12 182
Due from other banks	5 553	307	-	5 860
Loans and advances to customers	103 763	-	283	104 046
Investment securities available for sale	1 967	76	-	2 043
Other financial assets	1 644	-	-	1 644
Total financial assets	**142 505**	**16 198**	**295**	**158 998**
Non-financial assets	**7 160**	**-**	**-**	**7 160**
Total assets	**149 665**	**16 198**	**295**	**166 158**
Liabilities				
Due to other banks	3 836	3 936	-	7 772
Customer accounts	128 125	339	1 870	130 334
Debt securities in issue	5 686	-	108	5 794
Subordinated loans	2 046	1 545	702	4 293
Other financial liabilities	611	-	-	611
Total financial liabilities	**140 304**	**5 820**	**2 680**	**148 804**
Non-financial liabilities	**494**	**-**	**-**	**494**
Total liabilities	**140 798**	**5 820**	**2 680**	**149 298**
Net balance sheet position	**8 867**	**10 378**	**(2 385)**	**16 860**
Credit related commitments (Note 31)	**22 050**	**-**	**-**	**22 050**

29 Financial Risk Management (Continued)

Liquidity risk. Liquidity risk is defined as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw downs, guarantees and from margin and other calls on cash-settled derivative instruments. The Bank does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The overall liquidity management is carried out by the Management Board of the Bank, which may delegate some functions to the Asset and Liability Committee.

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

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

- Instant liquidity ratio (N2), which is calculated as the ratio of highly-liquid assets to liabilities payable on demand. The ratio was 55.1% at 31 December 2011 (2010: 86.8%). As at 31 December 2011 and 31 December 2010 the minimum required level for N2 ratio was 15%.

- Current liquidity ratio (N3), which is calculated as the ratio of liquid assets to liabilities maturing within 30 calendar days. The ratio was 86.6% at 31 December 2011 (2010: 101.5%). As at 31 December 2011 and 31 December 2010 the minimum required level for N3 ratio was 50%.

- Long-term liquidity ratio (N4), which is calculated as the ratio of assets maturing after one year to Bank's regulatory capital and liabilities maturing after one year. The ratio was 76.5% at 31 December 2011 (2010: 81.7%). As at 31 December 2011 and 31 December 2010 the maximum required level for N4 ratio was 120%.

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

The daily liquidity position is monitored and regular liquidity stress testing, under a variety of scenarios covering both normal and more severe market conditions, is performed by the Treasury Department.

The table below shows assets and liabilities by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows. Such undiscounted cash flows differ from the amount included in the consolidated statement of financial position because the balance sheet amount is based on discounted cash flows.

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

29 Financial Risk Management (Continued)

The undiscounted maturity analysis of financial assets and liabilities at 31 December 2011 is as follows:

In millions of Russian Roubles	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 12 months to 2 years	From 2 year to 3 years	Over 3 years	Total
Assets							
Cash and cash equivalents	37 755	-	-	-	-	-	37 755
Mandatory cash balances with the CBRF	1 939	-	-	-	-	-	1 939
Trading securities	7 347	-	-	-	-	-	7 347
Due from other banks	600	1	1	-	-	365	967
Loans and advances to customers	4 703	53 819	38 058	17 548	14 243	54 503	182 874
Investment securities available for sale	615	1	716	2	2	66	1 402
Other financial assets	1 254	-	-	-	-	-	1 254
Total potential future payments for financial assets	**54 213**	**53 821**	**38 775**	**17 550**	**14 245**	**54 934**	**233 538**
Liabilities							
Due to other banks	435	736	441	805	665	6 392	9 474
Customer accounts	59 344	24 361	32 569	27 514	5 590	1 007	150 385
Debt securities in issue	471	2 773	825	310	262	10 707	15 348
Subordinated loans	-	126	247	1 908	1 129	2 449	5 859
Other financial liabilities	588	-	-	-	-	-	588
Total potential future payments for financial obligations	**60 838**	**27 996**	**34 082**	**30 537**	**7 646**	**20 555**	**181 654**
Net liquidity gap arising from financial instruments at 31 December 2011	**(6 625)**	**25 825**	**4 693**	**(12 987)**	**6 599**	**34 379**	**51 884**
Cumulative liquidity gap as at 31 December 2011	**(6 625)**	**19 200**	**23 893**	**10 906**	**17 505**	**51 884**	
Financial guarantees	9 736	-	-	-	-	-	9 736
Other credit related commitments	14 752	-	-	-	-	-	14 752

29 Financial Risk Management (Continued)

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

In millions of Russian Roubles	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 12 months to 2 years	From 2 year to 3 years	Over 3 years	Total
Assets							
Cash and cash equivalents	32 151	-	-	-	-	-	32 151
Mandatory cash balances with the CBRF	1 072	-	-	-	-	-	1 072
Trading securities	12 182	-	-	-	-	-	12 182
Due from other banks	5 558	1	1	1	-	305	5 866
Loans and advances to customers	5 577	44 744	32 772	19 898	11 079	34 404	148 474
Investment securities available for sale	446	119	1 289	100	4	128	2 086
Other financial assets	1 644	-	-	-	-	-	1 644
Total potential future payments for financial assets	**58 630**	**44 864**	**34 062**	**19 999**	**11 083**	**34 837**	**203 475**
Liabilities							
Due to other banks	2 432	495	278	393	320	4 937	8 855
Customer accounts	53 275	33 864	24 990	21 955	1 458	1 194	136 736
Debt securities in issue	321	1 584	4 073	33	-	-	6 011
Subordinated loans	-	348	221	325	1 831	3 263	5 988
Other financial liabilities	611	-	-	-	-	-	611
Total potential future payments for financial obligations	**56 639**	**36 291**	**29 562**	**22 706**	**3 609**	**9 394**	**158 201**
Net liquidity gap arising from financial instruments at 31 December 2010	**1 991**	**8 573**	**4 500**	**(2 707)**	**7 474**	**25 443**	**45 274**
Cumulative liquidity gap as at 31 December 2010	**1 991**	**10 564**	**15 064**	**12 357**	**19 831**	**45 274**	
Financial guarantees	8 987	-	-	-	-	-	8 987
Other credit related commitments	13 063	-	-	-	-	-	13 063

29 Financial Risk Management (Continued)

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

In accordance with amendments to IFRS 7, *Financial Instruments: Disclosures*, the maturity analysis of liabilities should include issued financial guarantee contracts at the maximum amount of the guarantee in the earliest period in which the guarantee could be called.

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

The Bank does not use the above undiscounted maturity analysis to manage liquidity. Instead, the Bank monitors expected maturities, which may be summarised as follows at 31 December 2011.

In millions of Russian Roubles	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**Over 12 months**	**Total**
Financial assets					
Cash and cash equivalents	37 755	-	-	-	37 755
Mandatory cash balances with the CBRF	775	357	414	393	1 939
Trading securities	7 347	-	-	-	7 347
Due from other banks	600	1	1	365	967
Loans and advances to customers	6 818	39 740	29 539	48 286	124 383
Investment securities available for sale	615	-	697	65	1 377
Other financial assets	1 254	-	-	-	1 254
Total financial assets	**55 164**	**40 098**	**30 651**	**49 109**	**175 022**
Financial liabilities					
Due to other banks	419	608	261	6 914	8 202
Customer accounts	59 081	24 764	31 145	30 152	145 142
Debt securities in issue	409	2 678	659	2 976	6 722
Subordinated loans	-	55	-	4 162	4 217
Other financial liabilities	588	-	-	-	588
Total financial liabilities	**60 497**	**28 105**	**32 065**	**44 204**	**164 871**
Net liquidity gap based on expected maturities at 31 December 2011	**(5 333)**	**11 993**	**(1 414)**	**4 905**	**10 151**
Cumulative liquidity gap as at 31 December 2011	**(5 333)**	**6 660**	**5 246**	**10 151**	
Financial guarantees	9 736	-	-	-	9 736
Other credit related commitments	14 752	-	-	-	14 752

29 Financial Risk Management (Continued)

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

The expected maturity of investment securities available for sale is based on offer agreement date.

The expected maturities are as follows at 31 December 2010:

In millions of Russian Roubles	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	Over 12 months	Total
Financial assets					
Cash and cash equivalents	32 151	-	-	-	32 151
Mandatory cash balances with the CBRF	421	270	213	168	1 072
Trading securities	12 182	-	-	-	12 182
Due from other banks	5 553	1	1	305	5 860
Loans and advances to customers	3 834	36 493	24 123	39 596	104 046
Investment securities available for sale	442	110	1 269	222	2 043
Other financial assets	1 644	-	-	-	1 644
Total financial assets	**56 227**	**36 874**	**25 606**	**40 291**	**158 998**
Financial liabilities					
Due to other banks	2 415	408	162	4 787	7 772
Customer accounts	53 191	32 663	23 151	21 329	130 334
Debt securities in issue	320	1 560	3 883	31	5 794
Subordinated loans	-	287	-	4 006	4 293
Other financial liabilities	611	-	-	-	611
Total financial liabilities	**56 537**	**34 918**	**27 196**	**30 153**	**148 804**
Net liquidity gap based on expected maturities at 31 December 2010	**(310)**	**1 956**	**(1 590)**	**10 138**	**10 194**
Cumulative liquidity gap as at 31 December 2010	**(310)**	**1 646**	**56**	**10 194**	
Financial guarantees	8 987	**-**	**-**	**-**	8 987
Other credit related commitments	13 063	**-**	**-**	**-**	13 063

As at 31 December 2010 the Bank classified its obligation on long-term borrowing agreement in the amount of RR 1 573 million as on demand due to the breach of the covenant set in the loan agreement with the European Bank for Reconstruction and Development. Refer to Notes 15 and 31.

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

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

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

30 Management of Capital

The Bank's objectives when managing capital are (i) to comply with the capital requirements set by the Central Bank of the Russian Federation, (ii) to safeguard the Bank's ability to continue as a going concern and (iii) to maintain a sufficient capital base to achieve a capital adequacy ratio based on the Basel Accord of at least 8%.

Under the current capital requirements set by the Bank of Russia, banks have to maintain the ratio of regulatory capital to risk weighted assets ("statutory capital ratio") above the prescribed minimum level of 10%. As at 31 December 2011 statutory capital ratio is 11.9% (2010: 14.4%). Compliance with this ratio is monitored daily, with monthly reports outlining their calculation sent to the Central Bank of the Russian Federation. As at 31 December 2011 regulatory capital calculated based on these reports according to the requirements of the Central Bank of the Russian Federation is RR 19 607 million (2010: RR 19 347 million).

The table below shows the level of the Bank's capital adequacy ratio as at 31 December 2011 and 31 December 2010 calculated by the Bank in accordance with the requirements of the Basel Accord, as defined in the International Convergence of Capital Measurement and Capital Standards (adopted July 1998, amended November 2005) and the Amendment to the Basel Capital Accord to incorporate market risks (updated November 2005), commonly known as Basel I:

In millions of Russian Roubles	**2011**	**2010**
Tier 1 capital		
Share capital formed by ordinary shares	250	250
Share premium	7 306	7 306
Retained earnings	10 807	9 227
Total tier 1 capital	**18 363**	**16 783**
Tier 2 capital		
Revaluation reserve for available-for-sale investment securities	99	77
Subordinated capital	2 745	3 117
Total tier 2 capital	**2 844**	**3 194**
Total capital	**21 207**	**19 977**
Risk weighted assets		
Credit risk	150 489	129 656
Market risk	3 389	2 221
Total risk weighted assets	**153 878**	**131 877**
Total capital adequacy ratio (Total capital to risk weighted assets)	**13.78%**	**15.15%**
Tier 1 capital adequacy ratio (Tier 1 capital to risk weighted assets)	**11.93%**	**12.73%**

The Bank has complied with all externally imposed capital requirements throughout 2011 and 2010.

31 Contingencies and Commitments

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

Tax contingencies. Russian tax legislation which was enacted or substantively enacted at the end of the reporting period, is subject to varying interpretations when being applied to the transactions and activities of the Group. Consequently, tax positions taken by management and the formal documentation supporting the tax positions may be successfully challenged by relevant authorities. Russian tax administration is gradually strengthening, including the fact that there is a higher risk of review of tax transactions without a clear business purpose or with tax incompliant counterparties. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

31 Contingencies and Commitments (Continued)

Russian transfer pricing legislation enacted during the current period is effective prospectively to new transactions from 1 January 2012. It introduces significant reporting and documentation requirements. The transfer pricing legislation that is applicable to transactions on or prior to 31 December 2011, also provides the possibility for tax authorities to make transfer pricing adjustments and to impose additional tax liabilities in respect of all controllable transactions, provided that the transaction price differs from the market price by more than 20%. Controllable transactions include transactions with interdependent parties, as determined under the Russian Tax Code, all cross-border transactions (irrespective of whether performed between related or unrelated parties), transactions where the price applied by a taxpayer differs by more than 20% from the price applied in similar transactions by the same taxpayer within a short period of time, and barter transactions. Significant difficulties exist in interpreting and applying transfer pricing legislation in practice. Any prior existing court decisions may provide guidance, but are not legally binding for decisions by other, or higher level, courts in the future.

Tax liabilities arising from transactions between companies are determined using actual transaction prices. It is possible, with the evolution of the interpretation of the transfer pricing rules, that such transfer prices could be challenged. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the entity.

As Russian tax legislation does not provide definitive guidance in certain areas, the Group adopts, from time to time, interpretations of such uncertain areas that reduce the overall tax rate of the Group. While management currently estimates that the tax positions and interpretations that it has taken can probably be sustained, there is a possible risk that outflow of resources will be required should such tax positions and interpretations be challenged by the relevant authorities. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the Group.

At 31 December 2011 the management has not created any provision for potential tax liabilities (31 December 2010: nil), as the management of the Bank believes that its interpretation of the relevant legislation is appropriate and the Bank's tax, currency and customs positions will be sustained.

Capital expenditure commitments. At 31 December 2011 the Bank has contractual capital expenditure commitments in respect of and equipment and premises renovation totalling RR 64 million (2010: RR 34 million). The Bank has already allocated the necessary resources in respect of these commitments. The Bank believes that future net income and funding will be sufficient to cover this and any similar such commitments.

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

In millions of Russian Roubles	**2011**	**2010**
Due within 1 year	207	199
Later than 1 year and not later than 5 years	403	277
Over 5 years	506	305
Total operating lease commitments	**1 116**	**781**

Compliance with covenants. The Bank is subject to certain covenants relating to deposits from other banks and subordinated loans. Refer to Notes 15 and 18. These covenants include capital adequacy, single borrower concentration and other covenants. Non-compliance with such covenants may result in creditor's demand for early repayment of provided funds.

As at 31 December 2011 the Bank was in compliance with covenants related to deposits from other banks and subordinated loans.

As at 31 December 2010 the Bank breached one of the covenants set forth by the debt agreement with the European Bank for Reconstruction and Development with regard to cost to income ratio in percentages. The actual value of this covenant was 72.5% with the maximum level of 70%. As confirmed by the Bank's creditor on 14 March 2011, they agreed to waive the breach with regard to the above covenant and increased the maximum limit of the covenant. The waiver was effective up to 31 December 2011. Refer to Note 15.

31 Contingencies and Commitments (Continued)

As at 31 December 2010 the Bank breached one of the covenants with regard to the open credit risk ratio, set forth in the subordinated loan agreement. The actual value of this covenant was 39.6% with the maximum limit of 15%. As a penalty for this breach during 2011 the contractual interest rate was increased by the creditor by 2% p.a.. No other penalties were imposed on the Group by the creditor.

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

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

Outstanding credit related commitments are as follows:

In millions of Russian Roubles	**2011**	**2010**
Unused limits on overdraft loans	12 076	10 497
Guarantees issued	9 736	8 987
Undrawn credit lines	1 684	1 561
Import letters of credit	992	935
Letters of credit for settlements in the Russian Federation	-	70
Total credit related commitments	**24 488**	**22 050**

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

Credit related commitments are denominated in currencies as follows:

In millions of Russian Roubles	**2011**	**2010**
Russian Roubles	21 611	19 906
Euros	2 075	1 745
US Dollars	802	399
Total	**24 488**	**22 050**

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

	Note	**2011**		**2010**	
In millions of Russian Roubles		**Asset pledged**	**Related liability**	**Asset pledged**	**Related liability**
Pledged rights (claims) on loans	10, 15	3 331	3 000	3 004	3 000
Total		**3 331**	**3 000**	**3 004**	**3 000**

Mandatory cash balances with the CBRF in the amount of RR 1 939 million (2010: RR 1 072 million) represent mandatory reserve deposits which are not available to finance the Bank's day to day operations.

32 Derivative Financial Instruments

Derivative financial instruments entered into by the Bank include foreign exchange contracts and forward agreements with precious metals. Derivatives have potentially favourable (assets) or unfavourable (liabilities) conditions as a result of fluctuations in market interest rates, foreign exchange rates or other variables relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

At 31 December 2011 the Bank did not have outstanding derivative contracts, except outstanding obligations from forward agreements with precious metals maturing in March 2012.

The fair value gain on these derivative contracts at 31 December 2011 was RR 5 million (2010: RR 4 million). The contracts are short term in nature.

33 Fair Value of Financial Instruments

(a) Fair values of financial instruments carried at amortised cost.

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

	31 December 2011		31 December 2010	
In millions of Russian Roubles	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
FINANCIAL ASSETS				
Cash and cash equivalents				
- Correspondent accounts and overnight placements	21 388	21 388	16 025	16 025
- Cash on hand	10 582	10 582	10 792	10 792
- Cash balances with the CBRF	5 785	5 785	5 334	5 334
Mandatory cash balances with CBRF	1 939	1 939	1 072	1 072
Due from other banks				
- Deposits with the CBRF	-	-	4 500	4 500
- Short-term placements with other banks	601	601	1 055	1 055
- Insurance deposits with non-resident banks	366	366	305	305
Loans and advances to customers				
- Corporate loans - large	36 654	36 664	29 701	29 978
- Corporate loans - medium	44 805	45 154	43 120	43 069
- Corporate loans - small	19 636	19 338	15 679	15 252
- Mortgage loans	14 952	15 763	9 326	9 448
- Other loans to individuals	8 336	8 237	6 220	6 243
Other financial assets				
- Credit and debit cards receivables	569	569	392	392
- Receivables and advance payments	449	449	636	636
- Settlements with currency and stock exchanges	193	193	506	506
- Other assets	38	38	106	106
TOTAL FINANCIAL ASSETS CARRIED AT AMORTISED COST	**166 293**	**167 066**	**144 769**	**144 713**

33 Fair Value of Financial Instruments (Continued)

In millions of Russian Roubles	31 December 2011 Carrying amount	31 December 2011 Fair value	31 December 2010 Carrying amount	31 December 2010 Fair value
FINANCIAL LIABILITIES				
Due to other banks				
- Placements of other banks	7 940	7 818	6 936	6 967
- Correspondent accounts of other banks	262	262	836	836
Customer accounts				
- Current/settlement accounts of state and public organisations	254	254	245	245
- Term deposits of state and public organisations	-	-	1 501	1 499
- Current/settlement accounts of other legal entities	33 053	33 053	28 201	28 201
- Term deposits of other legal entities	19 510	19 784	15 136	15 582
- Current/demand accounts of individuals	20 184	20 184	16 539	16 539
- Term deposits of individuals	72 141	71 961	68 712	68 897
Debt securities in issue				
- Promissory notes	3 600	3 735	5 534	5 849
- Deposit certificates	191	192	260	260
- Mortgage backed issued bonds	2 931	2 931	-	-
Subordinated loans	4 217	4 485	4 293	4 404
Other financial liabilities				
- Debit or credit card payables	461	461	489	489
- Trade payables	72	72	97	97
- Settlements on conversion operations	-	-	1	1
- Other liabilities	55	55	24	24
TOTAL FINANCIAL LIABILITIES CARRIED AT AMORTISED COST	**164 871**	**165 247**	**148 804**	**149 890**

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

The Bank uses the following hierarchy for determining and disclosing fair values of financial instruments:

Level 1: current quoted (unadjusted) prices of financial assets or quoted prices for similar financial assets.

Level 2: valuation technique, whose inputs that have a significant impact on the fair value can be directly or indirectly observed in the market.

Level 3: valuation technique taking into account significant adjustments of market data or based on a significant volume of data inaccessible to objective observation.

33 Fair Value of Financial Instruments (Continued)

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

	31 December 2011		31 December 2010	
In millions of Russian Roubles	**Level 1**	**Level 3**	**Level 1**	**Level 3**
FINANCIAL ASSETS				
Trading securities				
- Corporate bonds	3 748	-	1 869	-
- Corporate Eurobonds	2 954	-	431	-
- Federal loan bonds (OFZ bonds)	457	-	269	-
- Municipal bonds	188	-	1 126	-
- CBRF bonds	-	-	4 588	-
- VneshEconomBank bonds (VEB bonds)	-	-	3 898	-
- Corporate shares	-	-	1	-
Investment securities available for sale				
- Corporate Eurobonds	831	-	197	-
- Corporate shares	116	365	77	365
- Russian Federation Eurobonds	65	-	122	-
- Municipal bonds	-	-	1 171	-
- Corporate bonds	-	-	111	-
Other financial assets				
- Derivative financial instruments	5	-	4	-
TOTAL FINANCIAL ASSETS CARRIED AT FAIR VALUE	**8 364**	**365**	**13 864**	**365**

Management applies judgement in categorising financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement.

(c) Reconciliation of movements in instruments belonging to level 3 of the fair value hierarchy.

A reconciliation of movements in Level 3 of the fair value hierarchy by class of instruments is as follows:

In millions of Russian Roubles	**2011 Securities available for sale Corporate shares**	**2010 Securities available for sale Corporate shares**
Fair value at 1 January	**365**	**401**
Sales	-	(36)
Fair value at 31 December	**365**	**365**
Cumulative revaluation gains less losses recognised in profit or loss for the current or prior years for assets held at 31 December	-	-

33 Fair Value of Financial Instruments (Continued)

The fair value of non-quoted investments available for sale was assessed based on the discounted cash flows model and the following assumptions: selected discount rate and net profit growth rate. Net profit growth rate was assessed as 16% p.a..

An increase in net profit growth rate by 1% would result in decrease in the estimated fair value of the investment by RR 26 million. A decrease in net profit growth rate by 1% would result in increase in the estimated fair value of the investment by RR 29 million.

As at 31 December 2010 the fair value of the investment was estimated by an independent appraiser. The appraiser used applied the sales comparison approach.

(d) The methods and assumptions applied in determining fair values

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price. If there is no active market price, the Bank applies analysis based on both observable and non-observable market data.

The estimated fair values of financial instruments have been determined by the Bank using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. The Russian Federation continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets.

Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

Discount rates used to calculate the estimated fair value of instruments carried at amortised cost depend on the Bank's credit risk, as well as the currency and maturity of the counterparty's instrument. These rates are analysed below:

	2011	2010
Due from other banks		
- Short-term placements with other banks	0 % to 5 % p.a.	1 % to 3 % p.a.
Loans and advances to customers		
- Corporate loans - large	10 % p.a.	9 % p.a.
- Corporate loans - medium	11 % p.a.	11 % p.a.
- Corporate loans - small	12 % p.a.	12 % p.a.
- Mortgage loans	13 % p.a.	13 % p.a.
- Other loans to individuals	17 % p.a.	17 % p.a.
Other financial assets		
- Receivables and advance payments	0 % p.a.	0 % p.a.
- Credit and debit cards receivables	0 % p.a.	0 % p.a.
Due to other banks		
- Placements of other banks	3 % to 7 % p.a.	3 % to 7 % p.a.
- Correspondent accounts of other banks	0 % p.a.	0 % p.a.
- Short-term placements of the CBRF	-	-
Customer accounts		
- Current/settlement accounts of state and public organisations	0 % p.a.	0 % p.a.
- Term deposits of state and public organisations	-	5 % p.a.
- Current/settlement accounts of other legal entities	0 % p.a.	0 % p.a.
- Term deposits of other legal entities	2 % to 7 % p.a.	2 % to 5 % p.a.
- Current/demand accounts of individuals	0 % p.a.	0 % p.a.
- Term deposits of individuals	4 % to 7 % p.a.	4 % to 7 % p.a.
Debt securities in issue		
- Promissory notes	0% to 7% p.a.	2 % to 6 % p.a.
- Deposit certificates	5 % p.a.	5 % p.a.
- Mortgage backed issued bonds	9 % p.a.	-
Subordinated loans	8 % p.a.	8 % p.a.
Other financial liabilities		
- Trade payables	0 % p.a.	0 % p.a.
- Credit and debit cards payables	0 % p.a.	0 % p.a.

34 Presentation of Financial Instruments by Measurement Category

For the purposes of measurement, IAS 39, Financial Instruments: Recognition and Measurement, classifies financial assets into the following categories: (a) loans and receivables; (b) available- for-sale financial assets; (c) financial assets held for trading. The following table provides a reconciliation of classes of financial assets with these measurement categories as at 31 December 2011:

	Loans and receivables	Available-for-sale assets	Trading assets	Total
ASSETS				
Cash and cash equivalents				
- Correspondent accounts and overnight placements	21 388	-	-	21 388
- Cash on hand	10 582	-	-	10 582
- Cash balances with the CBRF	5 785	-	-	5 785
Mandatory cash balances with CBRF	1 939	-	-	1 939
Trading securities				
- Corporate bonds	-	-	3 748	3 748
- Corporate Eurobonds	-	-	2 954	2 954
- Federal loan bonds (OFZ bonds)	-	-	457	457
- Municipal bonds	-	-	188	188
Due from other banks				
- Short-term placements with other banks	601	-	-	601
- Insurance deposits with non-resident banks	366	-	-	366
Loans and advances to customers				
Corporate loans - large	36 654	-	-	36 654
Corporate loans - medium	44 805	-	-	44 805
Corporate loans - small	19 636	-	-	19 636
Mortgage loans	14 952	-	-	14 952
Other loans to individuals	8 336	-	-	8 336
Investment securities available for sale				
- Corporate Eurobonds	-	831	-	831
- Russian Federation Eurobonds	-	65	-	65
- Corporate shares		481		481
Other financial assets				
- Credit and debit cards receivables	569	-	-	569
- Receivables and advance payments	449	-	-	449
- Settlements with currency and stock exchanges	193	-	-	193
- Other	38	-	5	43
TOTAL FINANCIAL ASSETS	**166 293**	**1 377**	**7 352**	**175 022**
NON-FINANCIAL ASSETS	-	-	-	8 866
TOTAL ASSETS	**166 293**	**1 377**	**7 352**	**183 888**

33 Presentation of Financial Instruments by Measurement Category (Continued)

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

	Loans and receivables	Available-for-sale assets	Trading assets	Total
ASSETS				
Cash and cash equivalents				
- Correspondent accounts and overnight placements	16 025	-	-	16 025
- Cash on hand	10 792	-	-	10 792
- Cash balances with the CBRF	5 334	-	-	5 334
Mandatory cash balances with CBRF	1 072	-	-	1 072
Trading securities				
- Corporate bonds	-	-	1 869	1 869
- Corporate Eurobonds	-	-	431	431
- Federal loan bonds (OFZ bonds)	-	-	269	269
- Municipal bonds	-	-	1 126	1 126
- CBRF bonds			4 588	4 588
- VneshEconomBank 3% coupon bonds (VEB bonds)			3 898	3 898
- Corporate shares			1	1
Due from other banks				
- Deposits with the CBRF	4 500	-		4 500
- Short-term placements with other banks	1 055	-	-	1 055
- Insurance deposits with non-resident banks	305	-	-	305
Loans and advances to customers				
Corporate loans - large	29 701	-	-	29 701
Corporate loans - medium	43 120	-	-	43 120
Corporate loans - small	15 679	-	-	15 679
Mortgage loans	9 326	-	-	9 326
Other loans to individuals	6 220	-	-	6 220
Investment securities available for sale				
- Municipal bonds	-	1 171	-	1 171
- Corporate Eurobonds	-	197	-	197
- Russian Federation Eurobonds	-	122	-	122
- Corporate bonds	-	111	-	111
- Corporate shares	-	442	-	442
Other financial assets				
- Settlements with currency and stock exchanges	636	-	-	636
- Credit and debit cards receivables	506	-	-	506
- Receivables and advance payments	392	-	-	392
- Precious metals	56	-	-	56
- Other	50	-	4	54
TOTAL FINANCIAL ASSETS	**144 769**	**2 043**	**12 186**	**158 998**
NON-FINANCIAL ASSETS	-	-	-	7 160
TOTAL ASSETS	**144 769**	**2 043**	**12 186**	**166 158**

All financial liabilities of the Bank are carried at amortised cost.

35 Related Party Transactions

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

The outstanding balances with related parties were as follows:

	31 December 2011			31 December 2010		
In millions of Russian Roubles	Share-holders	Directors	Related compa-nies	Share-holders	Directors	Related compa-nies
Loans and advances to customers						
Gross amount of loans and advances to customers (contractual interest rate: 31 December 2011: 3.2%-16.0%; 31 December 2010: 3.1%-22.0%;	-	13	1 148	-	9	712
Impairment provisions for loans and advances to customers at 31 December	-	-	(23)	-	-	(17)
Customer accounts						
Current/settlement accounts (contractual interest rate: 31 December 2011: 0.0% 31 December 2010: 0.0%)	19	65	17	13	29	19
Term deposits (contractual interest rate: 31 December 2011: 4.25%-8.0%; 31 December 2010: 2.5%-16.0%)	770	3 507	-	579	2 824	3
Debt securities in issue (contractual interest rate: 31 December 2011: 0%; 31 December 2010: 3.5%)	-	-	-	84	-	-
Subordinated loans (contractual interest rate: 31 December 2011: 8.0%; 31 December 2010: 8.0%)	323	-	-	305	-	-

The income and expense items with related parties for the years 2011 and 2010 were as follows:

	2011			2010		
In millions of Russian Roubles	Share-holders	Directors	Related compa-nies	Share-holders	Directors	Related compa-nies
Interest income:						
Loans and advances to customers	-	2	85	-	1	52
Interest expense:						
Term deposits	46	157	-	27	188	-
Debt securities in issue	-	-	-	3	-	-
Subordinated loans	26	-	-	21	-	-

Aggregate amounts lent to and repaid by related parties during 2011 and 2010 were:

	2011			2010		
In millions of Russian Roubles	Share-holders	Directors	Related compa-nies	Share-holders	Directors	Related compa-nies
Amounts lent to related parties during the period	23	18	806	-	27	672
Amounts repaid by related parties during the period	23	14	375	-	19	309

In 2011, the total remuneration of members of the Management Board comprised salaries, discretionary bonuses and other short-term benefits of RR 255 million (2010: RR 186 million), including payments to social funds RR 2 million (2010: RR 2 million).