PROMSVYAZBANK

Consolidated financial statements

for the year ended

31 December 2011

Contents

pwc

Independent Auditor's Report

To the Shareholders and Board of Directors of OAO "Promsvyazbank":

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

Management's Responsibility for the Consolidated Financial Statements

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

ZAO PricewaterhouseCoopers Audit

19 March 2012
Moscow, Russia

ZAO "PricewaterhouseCoopers Audit", White Square Office Center, 10 Butyrsky Val, Moscow, Russia, 125047
Telephone +7 (495) 967 6000, Fax +7 (495) 967 6001, www.pwc.ru

Promsvyazbank
Consolidated Statement of Financial Position as at 31 December 2011
(expressed in thousands of Russian Roubles – refer to note 2)

	Note	31 December 2011	31 December 2010
ASSETS			
Cash and cash equivalents	4	55 830 766	45 182 249
Obligatory reserves with central banks	5	5 878 191	3 015 876
Placements with banks and other financial institutions	6	5 701 366	12 122 032
Financial assets at fair value through profit or loss	7	40 269 514	46 004 572
- *Unpledged*		*39 500 341*	*42 718 424*
- *Pledged under sale and repurchase agreements*		*769 173*	*3 286 148*
Amounts receivable under reverse repurchase agreements	8	23 524 806	15 949 846
Loans to customers	9	396 136 966	310 947 643
Investments available for sale	10	1 308 984	2 203 213
Investments held to maturity	11	2 729 316	3 966 911
Assets held for sale	12	-	5 944 765
Other assets	13	2 076 257	2 513 778
Current income tax prepayments		86 908	612 254
Deferred tax asset	23	127 732	1 065 008
Investment property	14	3 547 874	-
Property and equipment	15	25 335 199	25 598 772
TOTAL ASSETS		**562 553 879**	**475 126 919**
LIABILITIES			
Financial liabilities at fair value through profit or loss	16	645 799	1 593 384
Deposits and balances from banks and other financial institutions	17	65 539 190	59 677 877
Amounts payable under repurchase agreements	18	1 607 662	2 790 016
Current accounts and deposits from customers	19	338 602 371	297 046 845
Own securities issued	20	56 724 741	32 127 497
Other borrowed funds	21	16 169 918	12 802 195
Other liabilities	22	2 513 675	2 439 590
Current income tax payable		16 573	948
Deferred tax liability	23	49 995	55 645
Subordinated borrowings	24	26 578 362	21 817 689
TOTAL LIABILITIES		**508 448 286**	**430 351 686**
EQUITY			
Share capital	25	12 201 899	11 511 052
Share premium		20 612 247	17 303 093
Additional paid-in-capital		81 919	81 919
Revaluation reserve for property		2 836 942	2 717 232
Revaluation reserve for investments available for sale		(231 863)	(80 230)
Retained earnings		18 648 805	13 242 167
Total equity attributable to owners of the parent		**54 149 949**	**44 775 233**
Non-controlling interest		**(44 356)**	**-**
TOTAL EQUITY		**54 105 593**	**44 775 233**
TOTAL LIABILITIES AND EQUITY		**562 553 879**	**475 126 919**

Approved by the Management Board on 19 March 2011.

Konstandian A.G
President

Volchenko A.U.
First Vice-president

(expressed in thousands of Russian Roubles – refer to note 2)

	Note	2011	2010
Interest income		45 768 599	46 321 190
Interest expense		(22 129 694)	(25 712 013)
Net interest income	26	**23 638 905**	**20 609 177**
Fee and commission income	27	8 877 951	7 559 980
Fee and commission expense	28	(1 797 968)	(1 522 700)
Net fee and commission income		**7 079 983**	**6 037 280**
Net gain/(loss) on financial instruments at fair value through profit or loss and (loss)/gain on early redemption of senior loan participation notes	29	382 071	(350 153)
Net foreign exchange gain		1 209 909	614 460
Other income and expense	30	1 202 260	1 309 893
Operating income		**33 513 128**	**28 220 657**
Loan impairment charge	9	(9 362 793)	(10 335 714)
Other impairment charge	31	(43 369)	(82 578)
Net loss on revaluation of property	15	(83 960)	(68 021)
General and administrative expenses	32	(16 959 393)	(14 854 862)
		(26 449 515)	**(25 341 175)**
Profit before tax		**7 063 613**	**2 879 482**
Income tax expense	33	(1 845 027)	(402 333)
Profit after tax		**5 218 586**	**2 477 149**
Profit attributable to:			
Owners of the parent		5 259 229	2 477 149
Non-controlling interest		(40 643)	-

Promsvyazbank
Consolidated Statement of Comprehensive Income for the year ended 31 December 2011
(expressed in thousands of Russian Roubles – refer to note 2)

	Note	2011	2010
Profit after tax		**5 218 586**	**2 477 149**
Other comprehensive income			
Revaluation of property	15	333 899	454 156
Income tax related to revaluation of property		(66 780)	(90 831)
Revaluation of investments available for sale		(189 541)	(100 488)
Income tax related to revaluation of investments available for sale		37 908	20 098
Other comprehensive income, net of tax		**115 486**	**282 935**
Total comprehensive income		**5 334 072**	**2 760 084**
Total comprehensive income attributable to:			
Owners of the parent		5 374 715	2 760 084
Non-controlling interest		(40 643)	-

(expressed in thousands of Russian Roubles – refer to note 2)

	Notes	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest received		46 227 651	44 144 863
Fees and commission received		8 727 414	7 706 584
Interest paid		(20 849 462)	(25 630390)
Fee and commission paid		(1 787 038)	(1 462 494)
Net receipts/(payments) from financial instruments at fair value through profit or loss		106 251	(698 628)
Net receipts/(payments) from foreign exchange transactions		1 346 477	(978 519)
Other income received		(251 205)	1 158 445
General and administrative expenses paid		(15 725 565)	(13 229753)
		17 794 523	**11 010 108**
(Increase)/decrease in operating assets			
Obligatory reserves with central banks		(2 862 356)	133 837
Placements with banks and other financial institutions		6 491 401	(8 118 293)
Financial assets at fair value through profit or loss		7 064 298	(4 118 300)
Amounts receivable under reverse repurchase agreements		(7 572 213)	(5 869 384)
Loans to customers		(88 686 575)	(54 644 128)
Other assets		810 075	(608 466)
(Decrease)/increase in operating liabilities			
Financial liabilities at fair value through profit or loss		(1 502 587)	1 144 126
Deposits and balances from banks and other financial institutions		5 729 770	(2 277 723)
Amounts payable under repurchase agreements		(1 181 683)	2 728 643
Current accounts and deposits from customers		42 197 716	9 566 249
Promissory notes and certificates of deposit		3 004 608	(1 006)
Other liabilities		22 674	23 162
Net cash used in operating activities before income tax		**(18 690 349)**	**(51 031 175)**
Income tax paid		(400 889)	(1 172 907)
Cash flows used in operations		**(19 091 238)**	**(52 204 082)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of non-controlling interest and subsidiaries, net of cash acquired	45	7 573	(1 548 666)
Disposal of investments available for sale		-	63 635
Purchases of investments available for sale		(628 924)	(2 329 214)
Purchases of investment property	14	(1 413 332)	-
Purchases of investments held to maturity		-	(1 491 850)
Redemption of investments held to maturity		1 227 089	4 785 931
Purchases of property and equipment	15	(1 171 409)	(3 308 867)
Disposals of property and equipment		307 353	238 639
Purchases of assets held for sale		-	(3 344 764)
Disposal of assets held for sale		6 139 660	-
Cash flows from/(used in) investing activities		**4 468 010**	**(6 935 156)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of senior loan participation notes and domestic bonds		29 395 186	7 366 076
Repayment of senior loan participation notes and domestic bonds		(10 467 143)	(18 214 245)
Proceeds from other borrowed funds		12 678 395	9 669 025
Repayment of other borrowed funds		(9 905 900)	(10 437489)
Proceeds from subordinated borrowings		6 183 818	6 048 840
Repayment of subordinated borrowings		(2 714 134)	(2 379 696)
Proceeds from issuance of share capital		4 000 001	5 431 906
Cash flows from/(used in) financing activities		**29 170 223**	**(2 515 583)**
Net increase/(decrease) in cash and cash equivalents		**14 546 995**	**(61 654 821)**
Effect of changes in exchange rates on cash and cash equivalents		(3 898 478)	(1 485 578)
Cash and cash equivalents at the beginning of the year	4	45 182 249	108 322 648
Cash and cash equivalents at the end of the year	4	**55 830 766**	**45 182 249**

(expressed in thousands of Russian Roubles – refer to note 2)

	Attributable to owners of the parent								
	Share capita	**Share premium**	**Additional paid-in-capital**	**Revaluation reserve for property**	**Revaluation reserve for investments available for sale**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total equity**
Balance at 1 January 2010	**10 062 544**	**13 319 695**	**1 056 102**	**2 353 907**	**160**	**11 147 632**	**37 940 040**	**265 341**	**38 205 381**
Profit after tax	-	-	-	-	-	2 477 149	2 477 149	-	2 477 149
Other Comprehensive income, net of tax	-	-	-	363 325	(80 390)	-	282 935	-	282 935
Total comprehensive income	**-**	**-**	**-**	**363 325**	**(80 390)**	**2 477 149**	**2 760 084**	**-**	**2 760 084**
Share issue	1 448 508	3 983 398	-	-	-	-	5 431 906	-	5 431 906
Purchase of non-controlling interest of subsidiary	-	-	(974 183)	-	-	(382 614)	(1 356 797)	(265 341)	(1 622 138)
Balance at 1 January 2011	**11 511 052**	**17 303 093**	**81 919**	**2 717 232**	**(80 230)**	**13 242 167**	**44 775 233**	**-**	**44 775 233**
Profit after tax	-	-	-	-	-	5 259 229	5 259 229	(40 643)	5 218 586
Other comprehensive income	-	-	-	267 119	(151 633)	-	115 486	-	115 486
Total comprehensive income	**-**	**-**	**-**	**267 119**	**(151 633)**	**5 259 229**	**5 374 715**	**(40 643)**	**5 334 072**
Share capital issue	690 847	3 309 154	-	-	-	-	4 000 001	-	4 000 001
Disposal of buildings - effect on retained earnings	-	-	-	(147 409)	-	147 409	-	-	-
Purchase of non-controlling interest of subsidiary	-	-	-	-	-	-	-	(3 713)	(3 713)
Balance at 31 December 2011	**12 201 899**	**20 612 247**	**81 919**	**2 836 942**	**(231 863)**	**18 648 805**	**54 149 949**	**(44 356)**	**54 105 593**

(expressed in thousands of Russian Roubles – refer to note 2)

1 Background

Principal activities

Promsvyazbank Group (the "Group" or "Promsvyazbank") consists of various legal entities formed under the laws of the Russian Federation (the "RF") and other countries (refer to note 2 for the list of subsidiaries). OAO Promsvyazbank (the "Bank"), which is the parent company of the Group, was initially established in the Russian Federation as a limited liability company converting subsequently to a closed joint-stock company in July 2001 and finally to an open joint-stock company in September 2007. The Bank was granted a banking license for operations in roubles on 12 May 1995. The Bank's operations were expanded to include transactions with all types of foreign currencies and transactions in foreign currencies with legal entities and individuals on 30 December 1996 and 31 December 1997, respectively.

The activities of the Bank are regulated by the Central Bank of the Russian Federation (the "CBR"). The Bank holds a full (general) banking license from the CBR and is also authorised by the CBR to trade in precious metals. In October 2004, the CBR accepted the Bank into the State deposit insurance system. In addition, the Group holds licenses from the Federal Service for Financial Markets (the "FSFM") to act as a broker, dealer, custodian and a securities manager in the Russian securities market. The Group also holds a license from the FSFM as a commodities exchange broker to trade futures and options.

The Group's principal activities are in commercial banking. These activities consist of corporate, small and medium size entities ("SME") and retail banking. Corporate banking includes deposit taking and lending to corporate borrowers, factoring, settlements, cash operations, documentary transactions. Corporate banking services also include trade and project finance. SME banking includes deposit taking and lending to small and medium entities, settlements and cash operations. Retail banking includes deposit taking and retail lending, money transfer and banking card services, foreign exchange and cash operations with individuals and asset management.

The Group also offers investment banking services, including corporate finance, debt and equity capital markets, brokerage, repo transactions and securities trading, foreign exchange, precious metals and banknote operations.

The table below summarises the information about the branch network.

	2011	2010
Branches	14	47
Full-service sub-branches	23	130
Retail and SME sub-branches	245	72
Representative offices	5	4
Total number of offices	**287**	**253**

As at 31 December 2011 the Bank operated 14 branches (2010: 47 branches) located within the Russian Federation and a branch located in Limassol (Cyprus). As at 31 December 2011 representative offices are located in the Russian Federation, China, India, Ukraine and Kazakhstan. The Group is currently in the process of reorganization of branche network.

The Bank's head office is registered at the following address: 109052, Smirnovskaya 10, Moscow, Russian Federation.

(expressed in thousands of Russian Roubles – refer to note 2)

1 Background (Continued)

Shareholders as at 31 December 2011 and 2010

	2011	2010
Promsvyaz Capital B. V.*	73.88%	72.93%
Commerzbank Auslandsbanken Holding AG	14.37%	15.32%
European Bank for Reconstruction and Development	11.75%	11.75%
	100.00%	**100.00%**

* - Promsvyaz Capital B. V. (Netherlands) is owned by Peters International N. V. (Netherlands). Mr D. N. Ananyev and Mr A. N. Ananyev each beneficially own 50% of Peters International N.V.

These consolidated financial statements were authorised for issue on 19 March 2012 by the Management Board. The entity's management have the power to amend the financial statements after issue.

Russian business environment

During recent years, the Russian economy has become more integrated into the international system of trading and movement of capital. As a result, the domestic economy is significantly affected by the price of export products (oil, gas, metal) and by transboundary capital flows. In times of market optimism and high commodity prices, we have witnessed an increase in export income and an inflow of capital, which strengthens the rouble but also increases potential inflationary pressure.

Russia was significantly affected by capital outflows and lower commodity prices in 2008, but provision of liquidity and other stimulus measures mitigated the effect considerably and the domestic economy returned to growth in 2009 and subsequent years, albeit at a lower level than prior to 2008. A Stabilization Fund was established to capture high oil and energy revenues and it was used to neutralize the negative effects of external factors, becoming a significant anti-cyclical credit factor. Although the Government budget depends heavily on income from oil and gas (contributing about 50% of budget revenues), stimulus programs over the next two years are likely to cause budget deficits. The Central Bank has declared its intention to target inflation and limit any currency market intervention.

Russia's economic and business activity has recovered to levels before the crisis. However, ongoing financial concerns in Europe continue to affect the degree of confidence of Russian business and there is still need for further diversification. While government measures are working on improving the situation, there is no certainty about favorable effects on clients of the Group. Future events and trends cannot be predicted with any degree of certainty. However management of the Group has taken measures to protect the Group's interests and security and has reflected all known risks in the financial statement attached in accordance with IFRS standards.

Major factors which are expected to increase growth in the banking sector are government stimulation and budgetary policy, stabilization of the exchange rate of the rouble, increasing investment activity including effective infrastructure spending and a decrease of uncertainty on international financial markets.

Future growth in the banking sector may be limited by liquidity risk, credit risk and other risks and the need to attract foreign funding and capital. The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations and frequent changes. Furthermore, the need for further developments in the bankruptcy laws, the absence of effective procedures for the registration and enforcement of collateral especially a personal property register, and other legal and fiscal impediments, contribute to the challenges faced by banks currently operating in the Russian Federation.

(expressed in thousands of Russian Roubles – refer to note 2)

2 Basis of preparation

Statement of compliance

The accompanying consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS").

Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except that the financial instruments at fair value through profit or loss and available for sale investments for which fair value can be reliably measured are stated at fair value, and buildings are revalued periodically.

Going concern

Management prepared these financial statements on a going concern basis.

Functional and presentation currency

The national currency of the Russian Federation is the Russian Rouble ("RUB"). The functional currency for all group companies is the Russian Rouble. Functional currency is determined as the currency of the primary economic environment in which the company operates. Management determined the RUB as the functional currency for the Bank, both group companies domiciled in the Russian Federation and those group companies domiciled outside of the Russian Federation, because it reflects the economic substance of the underlying events and circumstances. The RUB is also the presentation currency for the purpose of these consolidated financial statements.

Financial information presented in RUB is rounded to the nearest thousand.

Consolidated companies

The consolidated financial statements include the following principal subsidiaries of the Bank:

Name	Country of Incorporation	Main Activity	Consolidated as at 31 December 2011, %	Consolidated as at 31 December 2012, %
PSB Finance S.A.	Luxembourg	Financial Activity	100%	100%
OOO "UK Promsvyaz"	Russian Federation	Financial Activity	100%	100%
OOO "Open Leasing Company"	Russian Federation	Leasing	100%	100%
OOO "Promsvyazfactoring"	Russian Federation	Factoring	100%	100%
OOO "Saint-Petersburg International Banking Conference"	Russian Federation	Services	100%	100%
OOO "Kassa -24"	Russian Federation	Services	51%	51%

PSB Finance S.A. is special purpose entity established to facilitate the issues of debt securities (refer to notes 20 and 24). The entity is not owned by the Group and control arises through the predetermination of the entities' activities.

OOO "UK Promsvyaz"

The principal activity of OOO "UK Promsvyaz" is asset management. The Group directly controls 100% of this entity.

2 Basis of preparation (Continued)

OOO "Open Leasing Company" was established by the Group in July 2007. The Group controls 100% of OOO "Open Leasing Company".

OOO "Promsvyazfactoring"

In December 2009 the Group acquired control of OOO "Promsvyazfactoring" (OOO "PSF") through an option agreement dated 31 December , with its owner who is a related party to the Group's shareholders. Under the terms of this agreement the Group has the unconditional right to buy 100% of the share capital in OOO "PSF" for cash of RUB 5 500 thousand for a period of 5 years starting from the date of the option agreement.

OOO "Saint-Petersburg International Banking Conference" was established by the Group in December 2010. The Group controls 100% of OOO "Saint-Petersburg International Banking Conference".

OOO "Kassa 24"

In March 2011, the Group acquired 51% shares of OOO "Kassa 24" which provides payment terminals.

Use of estimates and judgments

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expense. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources.

Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. Judgments that have the most significant effect on the amounts recognised in these consolidated financial statements include:

- Loan impairment estimates and accrual on recoverable amount - note 9;
- Building revaluation estimates - note 15;
- Deferred tax assets – note 23.

3 Significant accounting policies

The following significant accounting policies are applied in the preparation of the consolidated financial statements. The accounting policies are consistently applied. Changes in accounting policies are described at the end of this note.

Basis of consolidation

Subsidiaries

Subsidiaries are those entities controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases.

Special purpose entities

The Group has established a number of special purpose entities ("SPE") to facilitate the Group's issue of debt securities. The Group does not have any direct or indirect shareholdings in these entities and control arises through the predetermination of the entities' activities and exposure to residual risks of the SPEs through guarantees.

Acquisitions and disposals of subsidiaries

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

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

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

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

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

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

3 Significant accounting policies (Continued)

Purchases and sales of non-controlling interests. The Group applies the economic entity model to account for transactions with owners of non-controlling interest. Any difference between the purchase consideration and the carrying amount of non-controlling interest acquired is recorded as a capital transaction directly in equity. The Group recognises the difference between sales consideration and carrying amount of non-controlling interest sold as a capital transaction in the statement of changes in equity.

Disposal of subsidiaries

The results of subsidiaries acquired or disposed of during the year are included in profit or loss from the effective date of acquisition or up to the effective date of disposal, as appropriate.

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

On disposal of a subsidiary, associate or jointly controlled entity, the attributable amount of goodwill is included in the determination of profit or loss on the date of disposal.

Business combinations involving business under common control

For a business combination involving an entity or business under common control, all assets and liabilities of the subsidiary are measured at the predecessor carrying values recorded in the stand-alone financial statements of the subsidiary (with fair value adjustments, if any, originating in the business combination when the entity was first brought under common control). The difference between the carrying value of the acquired share in net assets of the subsidiary and the cost of acquisition are recorded directly in equity attributable to the owners of the parent.

These consolidated financial statements were prepared using the predecessor accounting method in case a business combination is executed with related party under common control. Under this method, the comparative balances of the Group as at 31 December 2011 and 2010 were prepared by adding assets and liabilities of consolidated companies (refer to note 2) to the assets and liabilities of the Bank and eliminating the intercompany balances. Comparatives in the consolidated income statement, consolidated statement of comprehensive income and consolidated statement on cash flows of the Group were prepared based on balances reported by the Bank in its financial statements as at 31 December 2011 and 2010 prepared in accordance with IFRS, by adding amounts reported in the income statement and statement of comprehensive income, after elimination of intercompany balances. Any difference between the carrying amount of net assets and the consideration for acquisition is accounted for in these consolidated financial statements as an adjustment to retained earnings within equity. The consolidation of consolidated companies basically affected the amount of the premises and equipment recorded on the consolidated statement of the financial position.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

Goodwill. Goodwill is carried at cost less accumulated impairment losses, if any. The Group tests goodwill for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired and is carried at cost less accumulated impairment losses. Goodwill is allocated to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the business combination. Such units or group of units represent the lowest level at which the Group monitors goodwill and are not larger than an operating segment. Gains or losses on disposal of an operation within a cash generating unit to which goodwill has been allocated include the carrying amount of goodwill associated with the operation disposed of, generally measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit which is retained. Negative goodwill arising on an acquisition is recognised immediately in profit or loss.

(expressed in thousands of Russian Roubles – refer to note 2)

3 Significant accounting policies (Continued)

Non-controlling interest

Non-controlling interest is that part of the profit or loss and net assets of a subsidiary attributable to interests which are not owned, directly or indirectly through subsidiaries, by the parent company.

Non-controlling interest is presented in the consolidated statement of financial position within equity, separately from the equity attributable to owners of the parent company. Non-controlling interest in the profit or loss is separately disclosed, as attribution of profit, in the consolidated income statement.

Foreign currency transactions

Transactions in foreign currencies are translated to the appropriate functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated to the functional currency at the foreign exchange rate ruling at the date of the transaction. Non-monetary assets and liabilities that are stated at fair value and whose appraised value is denominated in foreign currencies are translated to the functional currency at the foreign exchange rate ruling at the dates the fair values were determined. Foreign exchange differences arising on translation of monetary assets and liabilities are recognised in profit or loss.

	31 December 2011	31 December 2010
RUB / 1 USD	32.1961	30.4769
RUB / 1 EUR	41.6714	40.3331

Inflation accounting

The Russian Federation ceased to be hyperinflationary with effect from 1 January 2003 and accordingly no adjustments for hyperinflation have been made for periods subsequent to this date. The hyperinflation-adjusted carrying amounts of assets, liabilities and equity items as at 31 December 2002 became their carrying amounts as at 1 January 2003 for the purpose of subsequent accounting.

Cash and cash equivalents

The Group considers cash and nostro accounts with the CBR, as well as nostro accounts and placements with banks and other financial institutions with an original maturity less than one month to be cash and cash equivalents. The minimum reserve deposits with central banks are not considered to be a cash equivalent due to restrictions on their ability to withdraw.

3 Significant accounting policies (Continued)

Financial instruments

Classification

Financial instruments at fair value through profit or loss held for trading are financial assets or liabilities that are:

- acquired or incurred principally for the purpose of selling or repurchasing in the short-term;
- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking;
- a derivative (except for a derivative that is a designated and effective hedging instrument); or,

The Group also designates financial assets and liabilities at fair value through profit or loss where either:

- the assets or liabilities are managed and evaluated on a fair value basis;
- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise; or
- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

All trading derivatives in a net receivable position (positive fair value), as well as options purchased, are reported as an asset. All trading derivatives in a net payable position (negative fair value), as well as options written, are reported as a liability.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that:

- the Group intends to sell immediately or in the short-term;
- the Group, upon initial recognition, designates as at fair value through profit or loss;
- the Group, upon initial recognition, designates as available for sale; or
- the Group may not recover substantially all of its initial investment, other than because of credit deterioration.

Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity, other than those that:

- the Group upon initial recognition designates as at fair value through profit or loss;
- the Group designates as available for sale; or
- meet the definition of loans and receivables.

3 Significant accounting policies (Continued)

Available for sale assets are those financial assets that are designated as available for sale or are not classified as loans and receivables, held to maturity investments or financial instruments at fair value through profit or loss.

Management determines the appropriate classification of financial instruments at the time of the initial recognition.

The Group analyses financial instruments by designation of rating agency. If major rating agencies have different ratings for the same issuer, the securities of the issuer are reported using the lower rating. The following table presents rating classification based on international long-term credit ratings:

Classification	Standard & Poor's	Moody's	Fitch
Rated AAA	AAA	Aaa1	AAA
Rated from AA- to AA+	AA+	Aa1	AA+
Rated from AA- to AA+	AA	Aa2	AA
Rated from AA- to AA+	AA-	Aa3	AA-
Rated A- to A+	A+	A1	A+
Rated A- to A+	A	A2	A
Rated A- to A+	A-	A3	A-
Rated from BBB- to BBB+	BBB+	Baa1	BBB+
Rated from BBB- to BBB+	BBB	Baa2	BBB
Rated from BBB- to BBB+	BBB-	Baa3	BBB-
Rated from BB- to BB+	BB+	Ba1	BB+
Rated from BB- to BB+	BB	Ba2	BB
Rated from BB- to BB+	BB-	Ba3	BB-
Rated from B- to B+	B+	B1	B+
Rated from B- to B+	B	B2	B
Rated from B- to B+	B-	B3	B-
Rated below B-	CCC+	Caa1	CCC+
Rated below B-	CCC	Caa2	CCC
Rated below B-	CCC-	Caa3	CCC-
Rated below B-	CC	Ca	CC
Rated below B-	C	C	C
Rated below B-	SD	-	SD
Rated below B-	D	-	D

Recognition

Financial assets and liabilities are recognised in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instrument. All regular purchases of financial assets are accounted for at the settlement date.

Measurement

A financial asset or liability is initially measured at its fair value plus, in the case of a financial asset or liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability.

3 Significant accounting policies (Continued)

Subsequent to initial recognition financial assets, including derivatives that are assets, are measured at their fair values, without any deduction for transaction costs that may be incurred on sale or other disposal, except for:

- loans and receivables which are measured at amortised cost using the effective interest method;
- held to maturity investments which are measured at amortised cost using the effective interest method; and
- investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, which are measured at cost.

All financial liabilities, other than those at fair value through profit or loss (including financial derivatives) and financial liabilities that arise when a transfer of a financial asset carried at fair value does not qualify for derecognition, are measured at amortised cost. Amortised cost is calculated using the effective interest method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

Where a valuation based on observable market data indicates a fair value gain or loss on initial recognition of an asset or liability, the gain or loss is recognised immediately in profit or loss. Where an initial gain or loss is not based entirely on observable market data, it is deferred and recognised over the life of the asset or liability on an appropriate basis, or when prices become observable, or on disposal of the asset or liability.

Fair value measurement principles

The fair value of financial instruments is based on their quoted market price at the reporting date without any deduction for transaction costs. If a quoted market price is not available, the fair value of the instrument is estimated using pricing models or discounted cash flow techniques.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate at the reporting date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the reporting date.

The fair value of derivatives that are not exchange-traded is estimated at the amount that the Group would receive or pay to terminate the contract at the reporting date taking into account current market conditions and the current creditworthiness of the counterparties.

Gains and losses on subsequent measurement

A gain or loss arising from a change in the fair value of a financial asset or liability is recognised as follows:

- a gain or loss on a financial instrument classified as at fair value through profit or loss is recognised in profit or loss;
- a gain or loss on an available for sale financial asset is recognised in other comprehensive income (except for impairment losses and foreign exchange gains and losses) until the asset is derecognised, at which time the cumulative gain or loss previously recognised in other comprehensive income is reclassified to profit or loss. Interest income on available for sale debt securities is recognised as earned in profit or loss and calculated using the effective interest method.

3 Significant accounting policies (Continued)

For financial assets and liabilities carried at amortised cost, a gain or loss is recognised in profit or loss when the financial asset or liability is derecognised or impaired, and through the amortisation process.

Derecognition

A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire or when the Group transfers rights to the cash flows and substantially all of the risks and rewards of ownership of the financial asset. Any rights or obligations created or retained in the transfer are recognised separately as assets or liabilities. A financial liability is derecognised when it is extinguished.

The Group also derecognises certain assets when it writes off as uncollectible balances.

Repurchase and reverse repurchase agreements

Securities sold under sale and repurchase ("repo") agreements are accounted for as secured financing transactions, with the securities retained in the consolidated statement of financial position and the counterparty liability included in amounts payable under repo transactions. The difference between the sale and repurchase price represents interest expense and is recognised in profit or loss over the term of the repo agreement using the effective interest method.

3 Significant accounting policies (Continued)

Securities purchased under agreements to resell ("reverse repo") are recorded as amounts receivable under reverse repo transactions. The differences between the purchase and resale prices are treated as interest income and accrued over the term of the reverse repo agreement using the effective interest method.

If assets purchased under agreement to resell are sold to third parties, the obligation to return securities is recorded as a trading liability and measured at fair value.

Spot and derivative financial instruments

Derivative financial instruments include swaps, forward transactions in foreign exchange and precious metals.

Spot and derivative financial instruments are initially recognised at fair value on the date on which a spot or derivative contract is entered into and are subsequently remeasured at fair value. All spot and derivative financial instruments are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Changes in the fair value of spot and derivative financial instruments are recognised immediately in profit or loss.

Although the Group trades in derivative instruments for risk hedging purposes, these instruments do not qualify for hedge accounting.

Offsetting

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

Investment property

Investment property is property held by the Group for capital appreciation which is not occupied by the Group.

3 Significant accounting policies (Continued)

Investment property is initially recognised at cost, including transaction costs, and subsequently remeasured at fair value updated to reflect market conditions at the end of the reporting period. Fair value of investment property is the price at which the property could be exchanged between knowledgeable, willing parties in an arm's length transaction, without deduction of any transaction costs.

Market value of the Group's investment property is determined based on reports of independent appraisers, who hold a recognised and relevant professional qualification and who have recent experience in the valuation of property of similar location and category.

Gains and losses resulting from changes in the fair value of investment property are recorded in profit or loss for the year and presented separately.

Property and equipment

Owned assets

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses, except for buildings and land which are stated at revalued amounts as described below.

Where an item of property or equipment comprises major components having different useful lives, it is accounted for a separate items of property or equipment.

Leased assets

Leases under which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Equipment acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

Revaluation

Buildings and land are subject to revaluation on a regular basis. The frequency of revaluation depends upon the movements in the fair values of the buildings and land being revalued. A revaluation increase on a building and land is recognised directly in the consolidated statement of comprehensive income except to the extent that it reverses a previous revaluation decrease recognised in profit or loss, in which case it is recognised in profit or loss. A revaluation decrease on an item of buildings and land is recognised in profit or loss except to the extent that it reverses a previous revaluation increase recognised directly in consolidated statement of comprehensive income, in which case it is recognised directly in consolidated statement of comprehensive income.

Depreciation

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Land is not depreciated. The estimated useful lives are as follows:

Buildings	50 years
Fixtures and fittings	7 years
Office equipment	6 years
Vehicles	5 years
Leasehold improvements	5 years
Computers	4 years
Other	5 years

3 Significant accounting policies (Continued)

Assets held for sale

Non-current assets that are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale. Immediately before classification as held for sale, the assets are remeasured in accordance with the Group's accounting policies. Thereafter, the assets are measured at the lower of their carrying amount and fair value less cost to sell.

Impairment

Financial assets carried at amortised cost

Financial assets carried at amortised cost consist principally of loans, other receivables, unquoted promissory notes, placements with banks and other financial institutions, amounts receivable under reverse repurchase agreements and investments held to maturity. The Group reviews its financial assets carried at amortised cost to assess impairment on a regular basis. Financial assets carried at amortised cost are impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of financial assets carried at amortised cost and that event (or events) has had an impact on the estimated future cash flows of the asset that can be reliably estimated.

Objective evidence that financial assets are impaired include default or delinquency by a borrower, breach of loan covenants or conditions, restructuring of a loan or advance by the Group on terms that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, deterioration in the value of collateral, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers in the group, or economic conditions that correlate with defaults in the group.

The Group first assesses whether objective evidence of impairment exists individually for assets that are individually significant, and individually or collectively for assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed assets, whether significant or not, it includes the loan in a group of assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on an asset has been incurred, the amount of the loss is measured as the difference between the carrying amount of the asset and the present value of estimated future cash flows including amounts recoverable from guarantees and collateral discounted at the asset's original effective interest rate. Contractual cash flows and historical loss experience adjusted on the basis of relevant observable data that reflect current economic conditions provide the basis for estimating expected cash flows.

In some cases the observable data required to estimate the amount of impairment loss on an asset may be limited or no longer fully relevant to current circumstances. This may be the case when a borrower is in financial difficulties and there is little available historical data relating to similar borrowers. In such cases, the Group uses its experience and judgment to estimate the amount of any impairment loss.

All impairment losses in respect of assets at amortised cost are recognised in profit or loss and are only reversed if a subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

When an asset at amortised cost is uncollectable, it is written off against the related allowance for loan impairment. The Group writes off the balance (and any related allowances for impairment losses) when management determines that the balances are uncollectible and when all necessary steps to collect the asset are completed.

3 Significant accounting policies (Continued)

In 2010 the Group stopped accruing the interest income on balances overdue for more than 365 days due to the low probability of recoverability. The Group continues accruing interest income on overdue assets for more than 180 days but less than 365 days as the Group believes that the recoverability of such assets is probable.

Non financial assets

Other non financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of non financial assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit, exceeds its recoverable amount.

All impairment losses in respect of non financial assets are recognised in profit or loss and reversed only if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Available-for-sale share investments

Share investments are impaired when there is objective evidence that the future recoverability is in doubt. 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.

Credit related commitments

In the normal course of business, the Group enters into credit related commitments, comprising undrawn loan commitments, letters of credit and guarantees, and provides other forms of credit insurance.

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

A financial guarantee liability is recognised initially at fair value net of associated transaction costs, and is measured subsequently at the higher of the amount initially recognised less cumulative amortisation or the amount of provision for losses under the guarantee. Provisions for losses under financial guarantees and other credit related commitments are recognised when losses are considered probable and can be measured reliably.

Financial guarantee liabilities and provisions for other credit related commitments are included within other liabilities.

3 Significant accounting policies (Continued)

Share capital

Share premium

Share premium represents the excess of consideration received for an issue of the Bank's shares over the nominal value of shares issued.

Repurchase of share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a decrease in equity.

Dividends

The ability of the Group to declare and pay dividends is subject to the rules and regulations of Russian legislation.

Dividends in relation to ordinary shares are reflected as an appropriation of retained earnings in the period when they are declared.

Taxation

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

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and temporary differences related to investments in subsidiaries and associates where the parent is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences, unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Income and expense recognition

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

3 Significant accounting policies (Continued)

Loan origination fees, loan servicing fees and other fees that are considered to be integral to the overall profitability of a loan, together with the related direct costs, are deferred and amortised to interest income over the estimated life of the financial instrument using the effective interest rate method.

Other fees, commissions and other income and expense items are recognised when the corresponding service has been provided.

Dividend income is recognised in profit or loss on the date that the dividend is declared.

Segment reporting

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

New standards and interpretations effective for annual periods on or after 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. As a result of the revised standard, the Group now obliged to disclose contractual commitments to purchase and sell goods or services to its related parties.

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; 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.

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 financial statements.

3 Significant accounting policies (Continued)

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 adopted earlier.

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 only payments of principal and interest (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.

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

- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated as at fair value through profit or loss in other comprehensive income.

While adoption of IFRS 9 is mandatory from 1 January 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 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. The Group is currently assessing the impact of the amended standard on its financial statements.

3 Significant accounting policies (Continued)

IFRS 12, Disclosure of Interest 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. The Group is currently assessing the impact of the amended standard on its financial statements.

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

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 financial statements.

Amendments to IAS 1, Presentation of Financial Statements (issued 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.

(expressed in thousands of Russian Roubles – refer to note 2)

3 Significant accounting policies (Continued)

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

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 the mining industry.

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

4 Cash and cash equivalents

	2011	2010
Cash	18 136 867	12 653 525
Due from the Central Bank of the RF – nostro accounts	6 545 931	12 009 806
Deposits with the Central Bank of the RF	1 666 868	900 074
Placements with banks and other financial institutions with an original maturity less than one month:		
Rated AAA	1 614 136	-
Rated from AA- to AA+	779 687	705 151
Rated A- to A+	12 593 101	10 804 942
Rated BBB	6 167 430	2 720 412
Rated from BB- to BB+	2 955 583	154 955
Rated from B- to B+	1 292 986	1 354 964
Rated below B+	77 541	-
Not rated	4 000 636	3 878 420
Total cash and cash equivalents	**55 830 766**	**45 182 249**

Maturity, currency and interest rate analyses of cash and cash equivalents are disclosed in notes 35 and 43. Fair value of cash and cash equivalents is disclosed in note 42.

As at 31 December 2011 and 2010 cash equivalents are neither past due nor impaired.

(expressed in thousands of Russian Roubles – refer to note 2)

5 Obligatory reserves with central banks

	2011	2010
Minimum reserve deposit with the Central Bank of the RF	5 455 526	2 567 026
Minimum reserve deposit with the Central Bank of Cyprus	422 665	448 850
Total obligatory reserves with central banks	**5 878 191**	**3 015 876**

The minimum reserve deposit with the CBR is a mandatory non-interest bearing deposit.

Maturity, currency and interest rate analyses of obligatory reserves with central banks are disclosed in notes 35 and 43. Fair value of obligatory reserves with central banks is disclosed in note 42.

6 Placements with banks and other financial institutions

	2011	2010
Rated AAA	32 404	-
Rated A- to A+	848 308	-
Rated BBB	-	9 340
Rated from BB- to BB+	1	-
Rated from B- to B+	2 285 176	12 001 028
Rated below B-	2 197 563	-
Not rated	337 914	111 664
Total placements with banks and other financial institutions	**5 701 366**	**12 122 032**

Maturity, currency and interest rate analyses of placements with banks are disclosed in notes 35 and 43. Fair value of placements with banks and other financial institutions is disclosed in note 42.

Concentration of placements with banks and other financial institutions

As at 31 December 2011 and 2010, placements with banks, which individually comprised more than 10% of total placements with banks, are as follows:

	2011	2010
Bank 1	2 197 563	3 186 062
Bank 2	1 827 123	-
Bank 3	-	4 436 641
Bank 4	-	2 730 818
Bank 5	-	1 580 153
	4 024 686	**11 933 674**

As at 31 December 2011 and 2010, placements with banks and other financial institutions are neither past due nor impaired.

(expressed in thousands of Russian Roubles – refer to note 2)

7 Financial assets at fair value through profit or loss

The Group irrevocably designated securities, which are not part of its trading book, as at fair value through profit or loss. The securities meet the criteria for classification at fair value through profit or loss because key management personnel assess performance of the investments based on their fair values.The following tables present an analysis by rating agency designation of securities. If major rating agencies have different ratings for the same issuer, the securities of the issuer are reported using the lower rating:

	Rated from BBB- to BBB+	Rated from BB- to BB+	Rated from B- to B+	Not rated	Total at 31 December 2011
Unpledged					
Financial assets held for trading					
Debt and other fixed-income instruments					
Corporate bonds	4 213 987	5 063 379	3 758 382	2 572 706	15 608 454
Russian Government Federal bonds (OFZ)	7 714 947	-	-	-	7 714 947
Corporate Eurobonds	4 745 327	1 625 999	1 219 389	-	7 590 715
Russian Federation Eurobonds	67 673	-	-	-	67 673
Promissory notes	2 965 041	2 114 876	845 238	-	5 925 155
Russian municipal and regional bonds	762 680	835 518	7 626	-	1 605 824
Foreign Government bonds	-	-	63 215	-	63 215
Foreign Government Eurobonds	-	-	58 087	-	58 087
Equity investments					
Corporate shares	1	4	-	39	44
Spot and derivative financial instruments					
Foreign currency and precious metals contracts	-	-	-	551 437	551 437
Designated at fair value through profit or loss					-
Corporate shares - listed	-	314 790	-	-	314 790
Total unpledged financial assets at fair value through profit or loss	**20 469 656**	**9 954 566**	**5 951 937**	**3 124 182**	**39 500 341**
Pledged under sale and repurchase agreements					
Financial assets held for trading					
Corporate bonds - listed	470 206	144 609	-	-	614 815
Russian municipal and regional bonds	109 173	-	-	-	109 173
Russian Government Federal bonds (OFZ)	45 185	-	-	-	45 185
Total financial assets at fair value through profit or loss pledged under sale and repurchase agreements	**624 564**	**144 609**	**-**	**-**	**769 173**
Total financial assets at fair value through profit or loss	**21 094 220**	**10 099 175**	**5 951 937**	**3 124 182**	**40 269 514**

(expressed in thousands of Russian Roubles – refer to note 2)

7 Financial assets at fair value through profit or loss (Continued)

	Rated from BBB- to BBB+	Rated from BB- to BB+	Rated from B- to B+	Not rated	Total at 31 December 2010
Unpledged					
Financial assets held for trading					
Debt and other fixed-income instruments					
Corporate bonds	3 180 526	2 913 825	2 567 893	3 051 595	11 713 839
Russian Government Federal bonds (OFZ)	10 812 845	-	-	-	10 812 845
Corporate Eurobonds	4 359 359	1 623 791	899 987	-	6 883 137
Central Bank of the Russian Federation bonds (OBR)	4 717 356	-	-	-	4 717 356
Promissory notes	2 303 991	439 379	1 752 785	89 644	4 585 799
Russian municipal and regional bonds	1 661 500	187 885	407 321	-	2 256 706
Russian municipal and regional Eurobonds	1 363 588	-	-	-	1 363 588
Equity investments					
Corporate shares	-	-	-	9	9
Spot and derivative financial instruments					
Foreign currency and precious metals contracts	-	-	-	122 258	122 258
Designated at fair value through profit or loss					
Corporate shares - listed	-	-	-	262 887	262 887
Total unpledged financial assets at fair value through profit or loss	**28 399 165**	**5 164 880**	**5 627 986**	**3 526 393**	**42 718 424**
Pledged under sale and repurchase agreements					
Financial assets held for trading					
Corporate bonds - listed	1 499 349	-	21	-	1 499 370
Corporate Eurobonds	1 410 237	-	-	-	1 410 237
Russian municipal and regional bonds	376 541	-	-	-	376 541
Total financial assets at fair value through profit or loss pledged under sale and repurchase agreements	**3 286 127**	**-**	**21**	**-**	**3 286 148**
Total financial assets at fair value through profit or loss	**31 685 292**	**5 164 880**	**5 628 007**	**3 526 393**	**46 004 572**

As at 31 December 2011 and 2010, financial assets at fair value through profit or loss are neither past due nor impaired.

Corporate bonds are securities issued by medium and large Russian companies and banks denominated in Russian Roubles.

(expressed in thousands of Russian Roubles – refer to note 2)

7 Financial assets at fair value through profit or loss (Continued)

Corporate Eurobonds are interest-bearing securities denominated in U.S. Dollars and Euros and issued primarily by large Russian companies.

Promissory notes represent debt securities denominated in Russian Roubles issued by Russian banks and companies.

Russian Government Federal bonds (OFZ) are Russian Rouble denominated government securities issued by the Ministry of Finance of the Russian Federation.

Russian municipal and regional bonds are interest-bearing securities issued by Russian municipal and regional authorities denominated in Russian Roubles.

Central Bank of the Russian Federation bonds (OBR) are Russian Rouble denominated securities issued by the Central Bank of the Russian Federation.

Equity instruments represent ordinary shares issued primarily by large Russian companies. The following table provides details of debt trading securities as at 31 December 2011:

	Maturity		Coupon rate per annum		Yield to maturity per annum	
	Earliest	Latest	Minimum	Maximum	Minimum	Maximum
Corporate bonds	January 2012	October 2019	6.3%	19.0%	6.1%	22.6%
Corporate Eurobonds	January 2012	June 2035	2.6%	12.0%	1.4%	16.0%
Promissory notes	January 2012	October 2012	-*	-*	6.0%	11.0%
Russian Government Federal bonds (OFZ)	July 2012	February 2036	6.0%	12.0%	4.4%	9.0%
Russian municipal and regional bonds	June 2012	June 2022	7.0%	15.0%	6.2%	9.4%
Russian Federation Eurobonds	April 2020		5.0%		4.4%	
Foreign Government bonds	December 2012		8.7%		17.4%	
Foreign Government Eurobonds	January 2018		9.0%		13.0%	

* - discount-bearing securities

(expressed in thousands of Russian Roubles – refer to note 2)

7 Financial assets at fair value through profit or loss (Continued)

The following table provides details of debt trading securities as at 31 December 2010:

	Maturity		Coupon rate per annum		Yield to maturity per annum	
	Earliest	Latest	Minimum	Maximum	Minimum	Maximum
Corporate bonds	April 2011	October 2017	6.5%	19.0%	3.9%	53.8%
Corporate Eurobonds	February 2011	November 2025	2.6%	12.0%	1.5%	10.6%
Promissory notes	January 2011	January 2012	-*	-*	5.7%	9.8%
Russian Government Federal bonds (OFZ)	January 2011	February 2036	4.6%	11.9%	1.7%	8.0%
Russian municipal and regional bonds	June 2011	June 2022	7.0%	15.0%	6.0%	9.0%
Central Bank of the Russian Federation bonds (OBR)	March 2011	March 2011	-*	-*	3.8%	3.8%
Russian municipal and regional eurobonds	October 2011	October 2011	6.5%	6.5%	2.2%	2.2%

* - discount-bearing securities

For information on spot and derivative financial instruments refer to note 37.

Maturity, currency and interest rate analyses of financial assets at fair value through profit or loss are disclosed in notes 35 and 43. The information on related party balances is disclosed in note 44.

(expressed in thousands of Russian Roubles – refer to note 2)

8 Amounts receivable under reverse repurchase agreements

The Group purchases financial instruments under agreements to resell them at future dates. The seller commits to repurchase the same or similar instruments at an agreed future date. Reverse repurchase agreements are entered into as a facility to provide funds to banks and customers. As at 31 December 2011 and 2010, amounts lent to banks and customers were as follows:

	2011	2010
Amounts receivable from banks and other financial institutions		
Rated BBB	-	165 330
Rated from BBB- to BBB+	4 620 088	-
Rated from BB- to BB+	-	46 622
Rated from B- to B+	7 665 643	4 156 076
Rated below B-	3 690 750	-
Not rated	3 445 411	5 739 943
Total amounts receivable from banks and other financial institutions	**19 421 892**	**10 107 971**
Amounts receivable from corporate customers		
Rated from BB- to BB+	-	329 752
Rated from B- to B+	-	336 333
Not rated	4 102 914	5 175 790
Total amounts receivable from corporate customers	**4 102 914**	**5 841 875**
Total amounts receivable under reverse repurchase agreements	**23 524 806**	**15 949 846**

As at 31 December 2011 and 2010, amounts receivable under reverse repurchase agreements are neither past due nor impaired.

Repurchase and reverse repurchase agreements have no terms which limit sale and purchase of the securities pledged as collateral.

Maturity, currency and interest rate analyses of amounts receivable under reverse repurchase agreements are disclosed in notes 35 and 43. Fair value of amounts receivable under reverse repurchase agreements is disclosed in note 42.

Collateral

As of 31 December 2011 and 2010, amounts receivable under reverse repurchase agreements are collateralised by the following securities:

	Fair value	Fair value
Operations with banks and other financial institutions	**2011**	**2010**
Russian corporate shares	1 498 012	707 908
Promissory notes issued by Russian banks	837 209	2 705 962
Russian corporate bonds	781 118	1 803 378
	3 116 339	**5 217 248**
Operations with customers		
Russian Government Federal bonds (OFZ)	19 637 157	3 862 878
Russian corporate shares	1 607 299	1 156 950
Russian corporate bonds	671 288	5 416 107
Promissory notes issued by Russian companies	358 909	337 912
Russian municipal and regional bonds	50 529	1 105 454
Promissory notes issued by Russian companies	-	418 605
	22 325 182	**12 297 906**
	25 441 521	**17 515 154**

(expressed in thousands of Russian Roubles – refer to note 2)

9 Loans to customers

	2011	2010
Loans to corporate clients		
Loans to corporate clients not involved in international business	278 064 864	223 967 823
Factoring loans	36 237 809	29 102 961
Loans to corporate clients involved in international business	35 568 461	36 309 270
Total corporate loans	**349 871 134**	**289 380 054**
Loans to small and medium enterprises	**38 255 956**	**26 704 789**
Loans to individuals		
Consumer loans	25 122 523	18 658 332
Mortgage loans	4 873 318	1 963 008
Auto loans	4 055 562	8 318 508
Loans to VIP clients	1 647 000	1 205 372
Credit cards	1 500 493	2 254 720
Express-loans	28 004	135 393
Total loans to individuals	**37 226 900**	**32 535 333**
Gross loans to customers	**425 353 990**	**348 620 176**
Impairment allowance	(29 217 024)	(37 672 533)
Net loans to customers	**396 136 966**	**310 947 643**

Movements in the loan impairment allowance for the years ended 31 December 2011 and 2010 were as follows:

	2011	2010
Balance at the beginning of the year	37 672 533	38 845 803
Net charge for the year	9 362 793	10 335 714
Reclassification from promissory notes	-	277 865
Sale of loans	(14 731 475)	(8 710 053)
Write-offs	(3 086 828)	(3 076 796)
Balance at the end of the year	**29 217 024**	**37 672 533**

As at 31 December 2011 interest accrued on impaired loans net of impairment allowance amounts to RUB 6 345 303 thousand (2010: RUB 6 163 975 thousand).

Non-performing loans comprise loans with principal or/and interest overdue by more than 90 days (except for loans to individuals and SME for which partial repayment of overdue principal or/and interest took place during last quarter of the year ended 31 December 2011). The analysis of non-performing loans as at 31 December by loan groups is presented below:

	2011	2010
Loans to corporate clients	15 877 951	20 303 056
Loans to small and medium enterprises	2 931 720	3 704 520
Loans to individuals	5 439 120	8 076 613
Total non-performing loans	**24 248 791**	**32 084 189**

(expressed in thousands of Russian Roubles – refer to note 2)

9 Loans to customers (Continued)

Credit quality of commercial loan portfolio

The following table provides information on the credit quality of the commercial loan portfolio as at 31 December 2011:

	Gross loans	Impairment allowance	Net loans	Impairment allowance to gross loans
Loans to corporate clients not involved in international business				
Total loans for which no impairment has been identified	**218 170 383**	**(1 649 042)**	**216 521 341**	**0.76%**
Impaired loans:				
- Impaired, but not overdue	46 397 380	(5 510 291)	40 887 089	11.88%
- Overdue less than 30 days	909 826	(152 055)	757 771	16.71%
- Overdue 30-89 days	372 978	(16 477)	356 501	4.42%
- Overdue 90-179 days	929 867	(675 267)	254 600	72.62%
- Overdue 180 - 360 days	1 776 741	(981 317)	795 424	55.23%
- Overdue more than 360 days	9 507 689	(6 516 339)	2 991 350	68.54%
Total impaired loans	**59 894 481**	**(13 851 746)**	**46 042 735**	**23.13%**
Total loans to corporate clients not involved in international business	**278 064 864**	**(15 500 788)**	**262 564 076**	**5.57%**
Factoring loans				
Total loans for which no impairment has been identified	**31 423 894**	**(170 019)**	**31 253 875**	**0.54%**
Impaired loans:				
- Impaired, but not overdue	3 175 803	(1 371 935)	1 803 868	43.20%
- Overdue less than 30 days	1 678	(233)	1 445	13.89%
- Overdue 30-89 days	10 103	(4 091)	6 012	40.49%
- Overdue 90-179 days	8 478	(6 328)	2 150	74.64%
- Overdue 180 - 360 days	4 753	(3 985)	768	83.84%
- Overdue more than 360 days	1 613 100	(1 384 146)	228 954	85.81%
Total impaired loans	**4 813 915**	**(2 770 718)**	**2 043 197**	**57.56%**
Total factoring loans	**36 237 809**	**(2 940 737)**	**33 297 072**	**8.12%**
Loans to corporate clients involved in international business				
Total loans for which no impairment has been identified	**29 166 506**	**(229 965)**	**28 936 541**	**0.79%**
Impaired loans:				
- Impaired, but not overdue	4 364 632	(526 817)	3 837 815	12.07%
- Overdue 180 - 360 days	474 533	(270 484)	204 049	57.00%
- Overdue more than 360 days	1 562 790	(438 080)	1 124 710	28.03%
Total impaired loans	**6 401 955**	**(1 235 381)**	**5 166 574**	**19.30%**
Total loans to corporate clients involved in international business	**35 568 461**	**(1 465 346)**	**34 103 115**	**4.12%**
Total loans to corporate clients	**349 871 134**	**(19 906 871)**	**329 964 263**	**5.69%**
Loans to small and medium enterprises				
Total loans for which no impairment has been identified	**33 822 108**	**(37 785)**	**33 784 323**	**0.11%**
Impaired loans:				
- Overdue less than 30 days	361 722	(47 107)	314 615	13.02%
- Overdue 30-89 days	139 970	(77 600)	62 370	55.44%
- Overdue 90-179 days	264 478	(199 232)	65 246	75.33%
- Overdue 180 - 360 days	319 815	(234 834)	84 981	73.43%
- Overdue more than 360 days	3 347 863	(2 783 990)	563 873	83.16%
Total impaired loans	**4 433 848**	**(3 342 763)**	**1 091 085**	**75.39%**
Total loans to small and medium enterprises	**38 255 956**	**(3 380 548)**	**34 875 408**	**8.84%**
Total commercial loans	**388 127 090**	**(23 287 419)**	**364 839 671**	**6.00%**

(expressed in thousands of Russian Roubles – refer to note 2)

9 Loans to customers (Continued)

The following table provides information on the credit quality of the commercial loan portfolio as at 31 December 2010:

	Gross loans	Impairment allowance	Net loans	Impairment allowance to gross loans
Loans to corporate clients				
Loans to corporate clients not involved in international business				
Total loans for which no impairment has been identified	**163 930 593**	**(1 110 656)**	**162 819 937**	**0.68%**
Impaired loans:				
- Impaired, but not overdue	44 757 163	(6 978 401)	37 778 762	15.59%
- Overdue less than 30 days	1 497 096	(1 004 957)	492 139	67.13%
- Overdue 30-89 days	384 186	(58 509)	325 677	15.23%
- Overdue 90-179 days	2 478 067	(1 024 840)	1 453 227	41.36%
- Overdue 180-360 days	1 771 066	(1 070 334)	700 732	60.43%
- Overdue more than 360 days	9 149 652	(6 214 544)	2 935 108	67.92%
Total impaired loans	**60 037 230**	**(16 351 585)**	**43 685 645**	**27.24%**
Total loans to corporate clients not involved in international business	**223 967 823**	**(17 462 241)**	**206 505 582**	**7.80%**
Loans to corporate clients involved in international business				
Total loans for which no impairment has been identified	**30 067 743**	**(206 141)**	**29 861 602**	**0.69%**
Impaired loans:				
- Impaired, but not overdue	4 417 572	(635 427)	3 782 145	14.38%
- Overdue less than 30 days	47 987	(7 414)	40 573	15.45%
- Overdue less than 30-89 days	20 172	(3 026)	17 146	15.00%
- Overdue 90-179 days	587 516	(108 499)	479 017	18.47%
- Overdue 180-360 days	4 468	(652)	3 816	14.59%
- Overdue more than 360 days	1 163 812	(397 292)	766 520	34.14%
Total impaired loans	**6 241 527**	**(1 152 310)**	**5 089 217**	**18.46%**
Total loans to corporate clients involved in international business	**36 309 270**	**(1 358 451)**	**34 950 819**	**3.74%**
Factoring loans				
Total loans for which no impairment has been identified	**22 730 688**	**(133 187)**	**22 597 501**	**0.59%**
Impaired loans:				
- Impaired, but not overdue	1 011 001	(311 277)	699 724	30.79%
- Overdue less than 30 days	115 305	(36 705)	78 600	31.83%
- Overdue 30-89 days	97 492	(37 971)	59 521	38.95%
- Overdue 90-179 days	241 496	(73 101)	168 395	30.27%
- Overdue 180-360 days	1 458 651	(478 082)	980 569	32.78%
- Overdue more than 360 days	3 448 328	(2 974 136)	474 192	86.25%
Total impaired loans	**6 372 273**	**(3 911 272)**	**2 461 001**	**61.38%**
Total factoring loans	**29 102 961**	**(4 044 459)**	**25 058 502**	**13.90%**
Total loans to corporate clients	**289 380 054**	**(22 865 151)**	**266 514 903**	**7,90%**
Loans to small and medium enterprises				
Total loans for which no impairment has been identified	**21 150 040**	**(47 871)**	**21 102 169**	**0.23%**
Impaired loans:				
- Overdue less than 30 days	306 130	(50 962)	255 168	16.65%
- Overdue 30-89 days	183 099	(123 496)	59 603	67.45%
- Overdue 90-179 days	308 988	(253 500)	55 488	82.04%
- Overdue 180-360 days	698 725	(568 049)	130 676	81.30%
- Overdue more than 360 days	4 057 807	(3 231 152)	826 655	79.63%
Total impaired loans	**5 554 749**	**(4 227 159)**	**1 327 590**	**76.10%**
Total loans to small and medium enterprises	**26 704 789**	**(4 275 030)**	**22 429 759**	**16.01%**
Total corporate loans and loans to small and medium enterprises	**316 084 843**	**(27 140 181)**	**288 944 662**	**8.59%**

9 Loans to customers (Continued)

As at 31 December 2011 and 2010, there are no loans to customers which are past due but not impaired.

The credit quality of loans for which no impairment has been identified is not homogeneous due to the variety of industry risks and financial conditions associated with the borrowers.

The Group estimates loan impairment for the commercial loan portfolio for which no individual impairment triggers has been identified based on the past loss experience and factoring in the current economic conditions.

Changes in these estimates could affect the loan impairment allowance. For example, to the extent that the net present value of the estimated cash flows the Group would receive on loans granted differs by plus/minus one percent, the loan impairment on corporate loans as of 31 December 2011 would be RUB 3 648 397 thousand lower/higher (2010: RUB 2 889 447 thousand).

For the purpose of credit quality disclosure the Group excluded loans from overdue category if overdue debt was paid after 30 days after reporting date.

During 2011, the Group sold to third parties portfolio of commercial loans with carrying amount RUB 8 380 522 thousand.

For the purpose of evaluating credit quality of a borrower, the Group created the methodology of conferring internal credit ratings for corporate clients. The internal credit rating is a formalised valuation of a client's creditworthiness; his ability and willingness to meet his financial engagement fully and on time. An appropriation of credit ratings are based on the model, which considerably impacts the quantity and quality factors of credit risk. Quantity analysis consists of debt rate, structure of capital, liquidity level and also business effectiveness. Quality analysis consists of business stability (according to experience of business, size, diversity and influence of competitors), management quality, transparency of business, trade risk, tax, legal and reputation risk.

For the purpose of stability, transparency and the continuity of evaluation of risks, every principle of evaluation is approved. Comprehensive and balanced analytical opinion about risk level is the main factor in evaluating risks.

In addition to internal credit ratings which show the creditworthiness of a borrower, the Group uses supporting data which shows the influence of external support from government or the owners of the business; the owner's support may be sufficient to meet the requirements of the Group, if the client were to encounter some financial difficulties. The probability of government support is evaluated by a detailed evaluation of the client's significance to the economy as a whole. The probability of the owner's support is evaluated with reference to the financial resources, which the owners can provide to the company.

The basic model is implemented for all corporate clients with standard loans. In future, the Group plans to develop special models for clients with project financing or credit products concatenated with decreasing risk levels. The Group is also developing models to assess the creditworthiness of individuals.

(expressed in thousands of Russian Roubles – refer to note 2)

9 Loans to customers (Continued)

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

	Loans to corporate clients not involved in international business	Loans to corporate clients involved in international business	Factoring loans	Total loans to corporate clients
Total loans for which no impairment has been identified:				
High creditworthiness	21 890 327	915 227	2 695 623	**25 501 177**
Good creditworthiness	50 175 005	16 850 602	16 346 534	**83 372 141**
Average creditworthiness	77 900 914	6 500 114	7 158 901	**91 559 929**
Low creditworthiness	6 599 545	576 111	148 566	**7 324 222**
Not rated	61 604 592	4 324 452	5 074 270	**71 003 314**
Total loans for which no impairment has been identified	**218 170 383**	**29 166 506**	**31 423 894**	**278 760 783**
Total impaired loans	**59 894 481**	**6 401 955**	**4 813 915**	**71 110 351**
Less impairment allowance	**(15 500 788)**	**(1 465 346)**	**(2 940 737)**	**(19 906 871)**
Net loans	**262 564 076**	**34 103 115**	**33 297 072**	**329 964 263**

Analysis of collateral

There is a special Collateral Department which is responsible for managing all types of collateral accepted by the Group for the commercial loan portfolio. The policies and procedures for valuing and managing collateral comprise two stages.

The first stage is related to the decision-making process about the granting of a loan or acquisition of a financial asset, which is subject to credit risk. At this stage, the Collateral Department performs an examination the proposed collateral, which includes the preparation of a package of documents relating to collateral including physical inspection of collateral, verification of any encumbrances, assessment of fair value of collateral and forecasting of possible changes in the fair value of collateral.

The second stage is related to monitoring and managing of collateral that has already been accepted by the Group. This stage includes regular monitoring of the collateral and reassessment of its fair value.

As at 31 December 2011, the amount of allowance for impairment losses for commercial loans if collateral was not taken into account would have been higher by RUB 9 213 817 thousand (2010: RUB 3 346 935):

	2011	2010
Loans to corporate clients not involved in international business	8 952 087	3 251 861
Loans to corporate clients involved in international business	261 730	95 074
Total effect of collateral on provision	**9 213 817**	**3 346 935**

The Group does not take into account collateral for allowance for impairment losses calculation for factoring loans and loans to small and medium enterprises.

(expressed in thousands of Russian Roubles – refer to note 2)

9 Loans to customers (Continued)

Analysis of movements in the impairment allowance

Movements in the loan impairment allowance by classes of commercial loans for the year ended 31 December 2011 are as follows:

	Loans to corporate clients not involved in international business	Factoring loans	Loans to corporate clients involved in international business	Loans to small and medium enterprises	Total
Loan impairment allowance as at 1 January 2011	**17 462 241**	**4 044 459**	**1 358 451**	**4 275 030**	**27 140 181**
Loan impairment charge during the year	3 024 938	267 920	156 116	1 190 585	4 639 559
Reclassification	-	-	-	-	-
Sale of loans	(3 305 548)	(332 898)	(40 003)	(1 738 786)	(5 417 235)
Loans written off during the year as uncollectible	(1 680 843)	(1 038 744)	(9 218)	(346 281)	(3 075 086)
Loan impairment allowance as at 31 December 2011	**15 500 788**	**2 940 737**	**1 465 346**	**3 380 548**	**23 287 419**

Movements in the loan impairment allowance by classes of commercial loans for the year ended 31 December 2010 are as follows:

	Loans to corporate clients not involved in international business	Loans to corporate clients involved in interna-tional business	Factoring loans	Loans to small and medium enterprises	Total
Loan impairment allowance as at 1 January	**16 095 323**	**1 961 072**	**5 659 474**	**4 079 074**	**27 794 943**
Loan impairment charge	5 971 331	(602 621)	193 999	368 532	5 931 241
Reclassification of bonds	277 865	-	-	-	277 865
Sale of loans	(3 663 487)	-	(58 404)	(85 526)	(3 807 417)
Loans written off as uncollectible	(1 218 791)	-	(1 750 610)	(87 050)	(3 056 451)
Loan impairment allowance as at 31 December	**17 462 241**	**1 358 451**	**4 044 459**	**4 275 030**	**27 140 181**

(expressed in thousands of Russian Roubles – refer to note 2)

9 Loans to customers (Continued)

Credit quality of loans to individuals

The following table provides information on the credit quality of loans to individuals portfolios as at 31 December 2011:

	Gross loans	Provision for impairment	Net loans	Impairment to gross loans
Consumer loans				
- Not past due	21 318 223	(13 407)	21 304 816	0,06%
- Overdue less than 30 days	312 810	(12 025)	300 785	3,84%
- Overdue 30-89 days	188 400	(37 843)	150 557	20,09%
- Overdue 90-179 days	249 943	(118 458)	131 485	47,39%
- Overdue 180 - 360 days	517 835	(429 829)	88 006	83,01%
- Overdue more than 360 days	2 535 312	(2 514 979)	20 333	99,20%
Total consumer loans	**25 122 523**	**(3 126 541)**	**21 995 982**	**12,45%**
Mortgage loans				
- Not past due	4 457 629	(12)	4 457 617	0,00%
- Overdue less than 30 days	43 652	(12)	43 640	0,03%
- Overdue 30-89 days	15 728	(105)	15 623	0,67%
- Overdue 90-179 days	25 118	(100)	25 018	0,40%
- Overdue 180 - 360 days	11 472	(394)	11 078	3,43%
- Overdue more than 360 days	319 719	(60 561)	259 158	18,94%
Total mortgage loans	**4 873 318**	**(61 184)**	**4 812 134**	**1,26%**
Loans to VIP clients				
- Not past due	1 642 704	(2)	1 642 702	0,00%
- Overdue less than 30 days	-	-	-	0,00%
- Overdue 30-89 days	-	-	-	0,00%
- Overdue 90-179 days	-	-	-	0,00%
- Overdue 180 - 360 days	-	-	-	0,00%
- Overdue more than 360 days	4 296	(4 279)	17	99,60%
Total loans to VIP clients	**1 647 000**	**(4 281)**	**1 642 719**	**0,26%**
Auto loans				
- Not past due	1 331 640	(2 765)	1 328 875	0,21%
- Overdue less than 30 days	91 308	(5 322)	85 986	5,83%
- Overdue 30-89 days	63 209	(14 168)	49 041	22,41%
- Overdue 90-179 days	105 637	(49 970)	55 667	47,30%
- Overdue 180 - 360 days	250 963	(198 660)	52 303	79,16%
- Overdue more than 360 days	2 212 805	(2 186 194)	26 611	98,80%
Total auto loans	**4 055 562**	**(2 457 079)**	**1 598 483**	**60,59%**
Credit cards				
- Not past due	1 188 484	(2 861)	1 185 623	0,24%
- Overdue less than 30 days	35 955	(2 126)	33 829	5,91%
- Overdue 30-89 days	18 447	(6 433)	12 014	34,87%
- Overdue 90-179 days	21 598	(14 147)	7 451	65,50%
- Overdue 180 - 360 days	46 489	(41 452)	5 037	89,17%
- Overdue more than 360 days	189 520	(187 578)	1 942	98,98%
Total credit cards	**1 500 493**	**(254 597)**	**1 245 896**	**16,97%**
Express-loans				
- Not past due	1 138	-	1 138	0,00%
- Overdue less than 30 days	-	-	-	0,00%
- Overdue 30-89 days	-	-	-	0,00%
- Overdue 90-179 days	209	(76)	133	36,36%
- Overdue 180 - 360 days	2 873	(2 315)	558	80,58%
- Overdue more than 360 days	23 784	(23 532)	252	98,94%
Total express-loans	**28 004**	**(25 923)**	**2 081**	**92,57%**
Total loans to individuals	**37 226 900**	**(5 929 605)**	**31 297 295**	**15,93%**

(expressed in thousands of Russian Roubles – refer to note 2)

9 Loans to customers (Continued)

The following table provides information on the credit quality of loans to individuals portfolios as at 31 December 2010:

	Gross loans	Impairment allowance	Net loans	Impairment allowance to gross loans
Consumer loans				
- Not past due	10 728 543	(13 072)	10 715 471	0.12%
- Overdue less than 30 days	391 568	(13 048)	378 520	3.33%
- Overdue 30-89 days	365 838	(40 397)	325 441	11.04%
- Overdue 90-179 days	577 818	(113 542)	464 276	19.65%
- Overdue 180-360 days	980 764	(479 502)	501 262	48.89%
- Overdue more than 360 days	5 613 801	(5 508 817)	104 984	98.13%
Total consumer loans	**18 658 332**	**(6 168 378)**	**12 489 954**	**33.06%**
Auto loans				
- Not past due	3 682 752	(3 046)	3 679 706	0.08%
- Overdue less than 30 days	229 513	(4 571)	224 942	1.99%
- Overdue 30-89 days	203 320	(13 370)	189 950	6.58%
- Overdue 90-179 days	343 464	(48 249)	295 215	14.05%
- Overdue 180-360 days	387 658	(160 212)	227 446	41.33%
- Overdue more than 360 days	3 471 801	(3 419 940)	51 861	98.51%
Total auto loans	**8 318 508**	**(3 649 388)**	**4 669 120**	**43.87%**
Credit cards				
- Not past due	1 529 517	(5 965)	1 523 552	0.39%
- Overdue less than 30 days	65 065	(3 771)	61 294	5.80%
- Overdue 30-89 days	42 656	(9 744)	32 912	22.84%
- Overdue 90-179 days	46 485	(15 269)	31 216	32.85%
- Overdue 180-360 days	140 506	(89 208)	51 298	63.49%
- Overdue more than 360 days	430 491	(415 537)	14 954	96.53%
Total credit cards	**2 254 720**	**(539 494)**	**1 715 226**	**23.93%**
Mortgage loans				
- Not past due	1 495 068	(141)	1 494 927	0.01%
- Overdue less than 30 days	46 549	(156)	46 393	0.34%
- Overdue 30-89 days	41 751	(1 196)	40 555	2.86%
- Overdue 90-179 days	19 925	(1 249)	18 676	6.27%
- Overdue 180-360 days	44 057	(3 165)	40 892	7.18%
- Overdue more than 360 days	315 658	(43 024)	272 634	13.63%
Total mortgage loans	**1 963 008**	**(48 931)**	**1 914 077**	**2.49%**
Express-loans				
- Not past due	8 031	(11)	8 020	0.14%
- Overdue less than 30 days	1 160	(25)	1 135	2.16%
- Overdue 30-89 days	1 310	(67)	1 243	5.11%
- Overdue 90-179 days	1 386	(277)	1 109	19.99%
- Overdue 180-360 days	4 591	(3 219)	1 372	70.12%
- Overdue more than 360 days	118 915	(117 304)	1 611	98.65%
Total express-loans	**135 393**	**(120 903)**	**14 490**	**89.30%**
Loans to VIP clients				
- Not past due	1 199 555	(1 476)	1 198 079	0.12%
- Overdue less than 30 days	938	(39)	899	4.16%
- Overdue 30-89 days	31	(9)	22	29.03%
- Overdue 90-179 days	1 808	(836)	972	46.24%
- Overdue 180 - 360 days	2 881	(2 740)	141	95.11%
- Overdue more than 360 days	159	(158)	1	99.37%
Total loans to VIP clients	**1 205 372**	**(5 258)**	**1 200 114**	**0.44%**
Total loans to individuals	**32 535 333**	**(10 532 352)**	**22 002 981**	**32.37%**

The Group estimates loan impairment based on its historic loss experience on these types of loans. Management estimates losses based on the historic loss migration pattern for the past 12 months and adjusts such statistics to reflect the current market environment.

(expressed in thousands of Russian Roubles – refer to note 2)

9 Loans to customers (Continued)

Changes in these estimates could affect the loan impairment allowance. For example, to the extent that the net present value of the estimated cash flows the Group would receive on loans granted differs by plus/minus one percent, the loan impairment on retail loans as of 31 December 2011 would be RUB 312 973 thousand lower/higher (2010: RUB 220 030 thousand).

During 2011, the Group sold to third parties portfolio of retail loans with carrying amount RUB 10 302 766 thousand.

Analysis of collateral

Mortgage loans are secured by underlying housing real estate. Auto loans are secured by the underlying car. Credit cards and express loans are not secured.

Management believes that at inception the total fair value of collateral received from individuals is higher than the amount of loans to individuals portfolios.

As at 31 December 2010, the amount of allowance for impairment losses for loans to individuals if collateral was not taken into account, would have been higher by RUB 258 995 thousand (2010: RUB 310 550 thousand).

Analysis of movements in the impairment allowance

Movements in the loan impairment allowance by classes of retail loans for the year ended 31 December 2011 are as follows:

	Consumer loans	Mortgage loans	Loans to VIP clients	Auto loans	Credit cards	Express-loans	Total
Loan impairment allowance as at 1 January 2011	**6 168 378**	**48 931**	**5 258**	**3 649 388**	**539 494**	**120 903**	**10 532 352**
Loan impairment losses during the year	2 895 865	12 685	(977)	1 540 174	219 933	55 555	4 723 235
Sale of loans	(5 931 193)	-	-	(2 728 566)	(504 248)	(150 233)	(9 314 240)
Loans written off during the year as uncollectible	(6 509)	(432)	-	(3 917)	(582)	(302)	(11 742)
Loan impairment allowance as at 31 December 2011	**3 126 541**	**61 184**	**4 281**	**2 457 079**	**254 597**	**25 923**	**5 929 605**

(expressed in thousands of Russian Roubles – refer to note 2)

9 Loans to customers (Continued)

Movements in the loan impairment allowance by classes of retail loans for the year ended 31 December 2010 are as follows:

	Consumer loans	Auto loans	Credit cards	Mortgage loans	Express-loans	Loans to VIP clients	Total
Loan impairment allowance as at 1 January	**7 029 692**	**2 150 654**	**1 316 804**	**27 159**	**526 551**	**-**	**11 050 860**
Loan impairment charge	2 031 426	1 498 734	371 619	21 772	475 664	5 258	4 404 473
Sale of loans	(2 872 395)	-	(1 148 929)	-	(881 312)	-	(4 902 636)
Loans written off as uncollectible	(20 345)	-	-	-	-	-	(20 345)
Loan impairment allowance as at 31 December	**6 168 378**	**3 649 388**	**539 494**	**48 931**	**120 903**	**5 258**	**10 532 352**

Industry and geographical analysis of the loan portfolio

Loans to customers as at 31 December are issued to customers operating in the following economic sectors:

	2011		2010	
Loans to individuals	37 226 900	8.75%	32 535 333	9.33%
Commercial loans				
Food production and food trade	52 120 959	12.25%	41 839 408	12.00%
Durables trade	33 629 845	7.91%	29 828 249	8.56%
Real estate management	32 595 311	7.66%	25 268 664	7.25%
Other non-food trade	29 229 552	6.87%	24 625 054	7.06%
Metallurgy	24 985 926	5.87%	17 547 390	5.03%
Wood processing	23 356 422	5.49%	17 003 255	4.88%
Finance, leasing and insurance	19 554 751	4.60%	14 856 701	4.26%
Residential real estate construction	17 478 798	4.11%	14 393 654	4.13%
Construction materials	14 149 623	3.33%	13 636 347	3.91%
Transport	13 707 987	3.22%	11 102 278	3.18%
Industrial real estate construction	11 696 411	2.75%	10 271 321	2.95%
Commercial real estate construction	11 685 173	2.75%	9 848 081	2.82%
Car trade	10 073 107	2.37%	8 873 737	2.55%
Services	9 771 139	2.30%	8 656 766	2.48%
Agriculture	9 573 704	2.25%	7 399 895	2.12%
Chemical production	7 824 760	1.84%	7 209 486	2.07%
Information technology	7 730 150	1.82%	5 765 990	1.65%
Pharmaceutical	7 197 024	1.69%	5 155 879	1.48%
Energy	6 441 707	1.51%	4 810 261	1.38%
Machinery	4 851 718	1.14%	4 660 964	1.34%
Luxury industry	4 681 986	1.10%	3 895 770	1.12%
Oil industry	4 481 474	1.05%	3 494 014	1.00%
Telecommunications	4 379 208	1.03%	3 309 792	0.95%
Defence industry	4 360 499	1.03%	2 913 027	0.84%
Media	3 464 310	0.81%	2 534 753	0.73%
State and Local Authorities	2 294 972	0.54%	2 321 202	0.67%
Other	16 810 574	3.96%	14 862 905	4.26%
	425 353 990	**100.00%**	**348 620 176**	**100.00%**
Provision for impairment	(29 217 024)		(37 672 533)	
Total loans to customers	**396 136 966**		**310 947 643**	

(expressed in thousands of Russian Roubles – refer to note 2)

9 Loans to customers (Continued)

Loans as at 31 December are granted to customers in the following geographical areas:

	2011	2010
Russian Federation		
Moscow and Moscow region	265 569 038	196 671 696
Siberia	40 827 885	44 428 624
Central Chernozem and Central region	33 056 446	31 184 508
Volgo-Viatskiy and Volga region	26 222 334	22 973 265
North-Western and North region	23 182 160	18 687 213
South region	19 204 301	17 715 101
Urals	10 514 117	9 978 456
Far East	6 777 709	6 981 313
	425 353 990	**348 620 176**
Impairment allowance	(29 217 024)	(37 672 533)
Loans to customers	**396 136 966**	**310 947 643**

Significant credit exposures

As at 31 December 2011 and 2010, the Group had 10 and 9 borrowers, respectively, or groups of related borrowers, whose loan balances exceed 10% of equity. The gross value of exposures as of 31 December 2011 and 2010 are RUB 70 217 327 thousand and RUB 55 050 227 thousand, respectively, or 18.1% and 15.8% of gross loans to customers.

Loan maturities

The maturity of the loan portfolio is presented in note 35, which shows the remaining period from the reporting date to the contractual maturity of the loans. Due to the short-term nature of the loans, it is likely that many of the loans to customers will be prolonged on maturity. Accordingly, the effective maturity of the loan portfolio may be significantly longer than the classification indicated based on contractual terms.

Maturity, currency and interest rate analyses of loans to customers are disclosed in notes 35 and 43. The information on related party balances is disclosed in note 44. Fair value of loans to customers is disclosed in note 42.

Net investment in leases

Included within loans to customers as of 31 December 2011 and 2010 are net investment in leases. As of 31 December 2011 and 2010, the gross investment in leases and the related unearned finance income and impairment allowance are as follows:

	2011	2010
Gross investment in leases	1 651 406	1 936 809
Unearned finance income	(530 142)	(512 082)
Net investment in leases	**1 121 264**	**1 424 727**
Impairment allowance	(6 931)	(24 012)
Net investment in leases less impairment allowance	**1 114 333**	**1 400 715**

(expressed in thousands of Russian Roubles – refer to note 2)

9 Loans to customers (Continued)

An analysis of net investment in lease by type of assets is presented below:

	2011	2010
Equipment	618 100	823 509
Transport	503 164	598 283
Other	-	2 935
Net investment in leases	**1 121 264**	**1 424 727**
Impairment allowance	(6 931)	(24 012)
Net investment in leases less impairment allowance	**1 114 333**	**1 400 715**

The contractual maturity of the net investment in leases as of 31 December 2011 is as follows:

	Gross lease receivable	Unearned income	Impairment allowance	Net investment in leases
Less than one year	669 750	(279 728)	(3 626)	386 396
One year to five years	981 644	(250 414)	(3 304)	727 926
More than five years	11	-	-	11
	1 651 405	**(530 142)**	**(6 930)**	**1 114 333**

The contractual maturity of the net investment in leases as of 31 December 2010 is as follows:

	Gross lease receivable	Unearned income	Impairment allowance	Net investment in leases
Less than one year	1 041 398	(245 543)	(20 431)	775 424
One year to five years	895 411	(266 539)	(3 581)	625 291
	1 936 809	**(512 082)**	**(24 012)**	**1 400 715**

(expressed in thousands of Russian Roubles – refer to note 2)

10 Investments available for sale

	2011	2010
Closed unit investment funds		
Land and building, Yaroslavl (ownership – 49%)	583 817	611 232
Land and building, Moscow (ownership – 49%)	376 226	-
Land and building, Tomskaya obl (ownership – 49%)	241 367	-
Land, St.-Petersburg (ownership – 49%)	-	1 337 700
	1 201 410	1 948 932
Equity investments		
Corporate shares	107 574	254 281
Net investment in leases less impairment allowance	**1 308 984**	**2 203 213**

In 2011, the Group purchased from the third party additional 51% of the share in investments in Land, St.-Petersburg. At 31 December 2011 these investments are transfered to investment property (refer to note 14).

As at 31 December 2011 and 2010, the closed unit investment fund mainly invests in buildings and other property.

Maturity and currency analyses of investments available for sale are disclosed in note 35.

(expressed in thousands of Russian Roubles – refer to note 2)

11 Investments held to maturity

The following table presents an analysis by rating agency designation of debt investments held to maturity as at 31 December. If major rating agencies have different ratings for the same issuer, the securities of the issuer are reported using the lower rating.

	Rated from BBB- to BBB+	Rated from BB- to BB+	Not rated	Impaired	Total at 31 December 2011
Investments held to maturity					
Russian Government Federal bonds (OFZ)	2 523 598	-	-	-	2 523 598
Corporate bonds	-	51 759	100 979	-	152 738
Corporate Eurobonds	16 201	-	8 468	28 311	52 980
Total investments held to maturity	**2 539 799**	**51 759**	**109 447**	**28 311**	**2 729 316**

	Rated from BBB- to BBB+	Rated from BB- to BB+	Not rated	Impaired	Total at 31 December 2010
Investments held to maturity					
Russian Government Federal bonds (OFZ)	3 516 870	-	-	-	3 516 870
Corporate bonds	-	54 556	272 675	30 108	357 339
Corporate Eurobonds	14 597	42 761	-	35 344	92 702
Total investments held to maturity	**3 531 467**	**97 317**	**272 675**	**65 452**	**3 966 911**

As at 31 December 2011 and 2010 the Group individually evaluated assets held to maturity for impairment and found that financial instruments with carrying value of RUB 28 311 thousand and RUB 65 452 thousand, respectively, are impaired due to the significant deterioration in the financial position of the issuers indicating their potential inability to fulfill the obligation of repayment of principal falling due on the following year. The debt securities are not collateralised.

Movements in the allowance for impairment losses for the years ended 31 December 2011 and 2010 are disclosed in note 31.

The following table provides details of debt investments held to maturity as at 31 December 2011:

	Maturity		**Coupon rate per annum**		**Yield to maturity per annum**	
	Earliest	**Latest**	**Mini-mum**	**Maxi-mum**	**Mini-mum**	**Maxi-mum**
Russian Government Federal bonds (OFZ)	July 2012	July 2013	6.0%	6.1%	6.2%	7.0%
Corporate bonds	January 2012	June 2013	8.5%	13.8%	5.5%	17.3%
Corporate Eurobonds	March 2012	March 2017	4.3%	6.3%	(1.7%)	12.6%

(expressed in thousands of Russian Roubles – refer to note 2)

11 Investments held to maturity (Continued)

The following table provides details of debt investments held to maturity as at 31 December 2010:

	Maturity		Coupon rate per annum		Yield to maturity per annum	
	Earliest	Latest	Minimum	Maximum	Minimum	Maximum
Russian Government Federal bonds (OFZ)	May 2011	July 2013	5.8%	6.1%	6.2%	10.9%
Corporate bonds	September 2011	July 2013	8.1%	14.0%	9.0%	14.6%
Corporate Eurobonds	June 2011	March 2017	4.3%	9.3%	(1.7%)	12.6%

Included in investment held to maturity as at 31 December 2011 and 2010 are debt investments with carrying values of RUB 2 103 308 thousand and RUB 2 339 449 thousand, respectively, which were reclassified into this category in July 2008 following amendments to IAS 39.

As at 31 December 2011 and 2010 investments held to maturity are not past due.

Maturity, currency and interest rate analyses of investments held to maturity are disclosed in notes 35 and 43. Fair value of investments held to maturity is disclosed in note 42.

12 Assets held for sale

	2010
Office building, Moscow	2 322 717
Land, St.-Petersburg region	1 500 000
Office building, Moscow	1 100 001
Land, St.-Petersburg	1 022 047
Total assets held for sale	**5 944 765**

Assets held for sale are expected to be recovered primarily through sale. These assets are available for immediate sale in their present condition and location.

Assets held for sale are measured at the lower of cost or fair value less costs to sell.

Assets held for sale are included in the International business, investments and financial markets operating segment.

During 2011, assets held for sale were sold to third parties.

(expressed in thousands of Russian Roubles – refer to note 2)

13 Other assets

	2011	2010
Other financial assets:		
Accrued commission income	228 593	145 029
Plastic card receivables	163 191	5 276
Debtors under securities deals	70 837	-
Commissions on guarantees	4 048	33 173
Securities lending operations	-	564 554
Impairment allowance	(30 453)	-
	436 216	**748 032**
Other non-financial assets:		
Advances and prepayments	1 259 664	979 392
Value added tax (VAT)	224 893	223 613
Deferred expenses	209 582	197 293
Other equipment for sale	98 243	259 254
Equipment purchased for leases	23 120	285 474
Other	3 853	34
Impairment allowance	(179 314)	(179 314)
	1 640 041	**1 765 746**
Total other assets	**2 076 257**	**2 513 778**

Other financial assets are classified into the “Not rated” category.

Maturity and currency analyses of other financial assets are disclosed in note 35. The information on related party balances is disclosed in note 44. Fair value of other financial assets is disclosed in note 42.

As at 31 December 2011 and 2010, other financial assets are not past due.

Movements in the allowance for impairment losses for the years ended 31 December 2011 and 2010 are disclosed in note 31.

14 Investment property

	2011
Investment properties at fair value at 1 January	-
Additions	1 413 332
Transfer from investments available for sale	1 333 898
Transfer from other assets	420 464
Fair value gain	380 180
Total assets held for sale	**3 547 874**

Investment property represented by land and property and held for capital appreciation.

The investment properties are valued annually on 31 December at fair value by an independent, professionally qualified valuer who has recent experience of valuing similar properties in the Russian Federation.

(expressed in thousands of Russian Roubles – refer to note 2)

15 Property and equipment

	Buildings and land	Computers and software	Office equipment	Vehicles	Furniture fixtures and fittings	Leasehold improvements	Other	Construction in progress	Total
Cost/Revalued amount									
At 1 January 2011	11 649 047	1 953 573	2 031 343	312 832	324 885	837 768	7 259	11 673 501	28 790 208
Additions	71 185	29 201	30 824	9 473	1 147	17 211	363	1 012 005	1 171 409
Transfers from									
Construction in progress	463 104	74 061	196 154	37 872	19 392	41 930	225	(832 738)	-
Acquisition of subsidiaries	-	777	-	-	-	-	1 940	2 178	4 895
Disposals	(489 493)	(205 627)	(126 451)	(38 746)	(11 840)	(182 422)	(296)	(62 947)	(1 117 822)
Elimination of accumulated depreciation of revalued assets	(256 649)	-	-	-	-	-	-	-	(256 649)
Revaluation recognised in other comprehensive income	333 899	-	-	-	-	-	-	-	333 899
Revaluation recognised in profit or loss	(83 960)	-	-	-	-	-	-	-	(83 960)
At 31 December 2011	**11 687 133**	**1 851 985**	**2 131 870**	**321 431**	**333 584**	**714 487**	**9 491**	**11 791 999**	**28 841 980**
Depreciation and amortisation									
At 1 January 2011	-	1 109 084	1 085 697	202 176	155 288	634 319	4 872	-	3 191 436
Depreciation charge	262 033	363 043	295 998	49 917	41 262	90 625	2 092	-	1 104 970
Disposals	(5 384)	(203 211)	(98 560)	(35 198)	(8 597)	(181 422)	(604)	-	(532 976)
Elimination of accumulated depreciation of revalued assets	(256 649)	-	-	-	-	-	-	-	(256 649)
At 31 December 2011	-	1 268 916	1 283 135	216 895	187 953	543 522	6 360	-	3 506 781
Carrying value at 31 December 2011	**11 687 133**	**583 069**	**848 735**	**104 536**	**145 631**	**170 965**	**3 131**	**11 791 999**	**25 335 199**

(expressed in thousands of Russian Roubles – refer to note 2)

15 Property and equipment (Continued)

	Buildings and land	Computers and software	Office equipment	Vehicles	Furniture fixtures and fittings	Leasehold improvements	Other	Construction in progress	Total
Cost/Revalued amount									
At 1 January 2010	11 423 166	1 712 235	1 897 308	303 845	311 084	811 343	6 828	9 140 095	25 605 904
Additions and transfers	246 773	261 849	180 259	27 391	27 148	30 989	1 052	3 087 197	3 862 658
Disposals and transfers	(158 198)	(20 511)	(46 224)	(18 404)	(13 347)	(4 564)	(621)	(553 791)	(815 660)
Elimination of accumulated depreciation of revalued assets	(248 829)	-	-	-	-	-	-	-	(248 829)
Revaluation recognised in other comprehensive income	454 156	-	-	-	-	-	-	-	454 156
Revaluation recognised in profit or loss	(68 021)	-	-	-	-	-	-	-	(68 021)
At 31 December 2010	**11 649 047**	**1 953 573**	**2 031 343**	**312 832**	**324 885**	**837 768**	**7 259**	**11 673 501**	**28 790 208**
Depreciation and amortisation									
At 1 January 2010	-	754 262	823 512	165 428	124 412	526 373	3 975	-	2 397 962
Depreciation charge (note 32)	249 691	368 912	295 378	53 330	40 459	110 661	1 190	-	1 119 621
Disposals	(862)	(14 090)	(33 193)	(16 582)	(9 583)	(2 715)	(293)	-	(77 318)
Elimination of accumulated depreciation of revalued assets	(248 829)	-	-	-	-	-	-	-	(248 829)
At 31 December 2010	**-**	**1 109 084**	**1 085 697**	**202 176**	**155 288**	**634 319**	**4 872**	**-**	**3 191 436**
Carrying value at 31 December 2010	**11 649 047**	**844 489**	**945 646**	**110 656**	**169 597**	**203 449**	**2 387**	**11 673 501**	**25 598 772**

(expressed in thousands of Russian Roubles – refer to note 2)

15 Property and equipment (Continued)

During 2008 and 2010, the Group acquired the investment rights for 29 530 square meters of an office building under construction by a Russian developer. The total amount invested in the construction in progress as at 31 December 2011 is RUB 10 705 456 thousand (2010: 10 615 690 thousand).

At 31 December 2011 and 2010 the following equipment is held under finance leases:

	Computers and software	Office equipment	Vehicles	Total
Carrying amount at 31 December 2011	-	-	-	-
Carrying amount at 31 December 2010	57 546	104 008	73 221	234 775

Revalued assets

Buildings and land were independently valued at 31 December 2011. The valuation was carried out by an independent firm of appraisers. Centr nezavisimoy expertizi OOO "Invest Proect", which hold recognised and relevant professional qualifications and which have recent experience of the valuation of assets of similar location and category.

The appraisals were performed using the market approach, based upon an analysis of the results of comparable sales and/or offer of similar buildings.

The appraisers apply various adjustment factors to the market prices of similar buildings to make them comparable with the Groups' buildings and land. These adjustments could affect the value of the buildings and land. For example, to the extent that the adjustments differ by plus/minus ten percent, the building valuation as of 31 December 2011 would be RUB 1 168 713thousand (2010: RUB 1 164 905 thousand) higher/lower.

The carrying value of land and buildings as of 31 December 2011, if the buildings and land had not been revalued, would be RUB 9 540 169 thousand (2010: RUB 9 315 779 thousand).

(expressed in thousands of Russian Roubles – refer to note 2)

16 Financial liabilities at fair value through profit or loss

	2011	2010
Trading liabilities	-	1 502 587
Spot and derivative financial instruments	645 799	90 797
Total financial liabilities at fair value through profit or loss	**645 799**	**1 593 384**

The securities meet the criteria for classification at fair value through profit or loss because key management personnel assess performance of these financial liabilities based on their fair values.

For information on the spot and derivative financial instruments refer to note 37.

Trading liabilities represent a short position on Russian Federation Eurobonds.

Maturity and currency analyses of financial liabilities at fair value through profit or loss are disclosed in note 35.

17 Deposits and balances from banks and other financial institutions

	2011	2010
Term deposits of local banks	21 786 426	17 570 624
Trading finance of foreign banks	18 086 365	16 767 032
Long-term finance of foreign banks	10 121 176	11 085 493
Term deposits of foreign banks	9 046 753	6 590 876
Vostro accounts	6 498 470	7 663 852
Total deposits and balances from banks and other financial institutions	**65 539 190**	**59 677 877**

Trade finance and long-term finance represents funds to be used in documentary credit transactions. Trade finance is used for financing working capital of clients through documentary letters of credit. Long-term finance is used to finance targeted assets of clients through documentary letters of credit.

Maturity, currency and interest rate analyses of deposits and balances from banks and other financial institutions are disclosed in notes 35 and 43. Fair value of deposits and balances from banks and other financial institutions is disclosed in note 42. Covenants related to the deposits and banks from other financial institutions are disclosed in note 36.

Concentration of deposits and balances from banks and other financial institutions

As of 31 December 2011, the ten largest aggregate balances of deposits and balances from banks and other financial institutions amount to RUB 36 265 972 thousand or 55% of total deposits and balances from banks and other financial institutions excluding term deposits from the CBR (2010: RUB 28 620 230 thousand or 48%).

(expressed in thousands of Russian Roubles – refer to note 2)

18 Amounts payable under repurchase agreements

	2011	2010
Amounts payable to customers	1 567 660	403 887
Amounts payable to banks and other financial institutions	40 002	2 386 129
Total amounts payable under repurchase agreements	**1 607 662**	**2 790 016**

Maturity, currency and interest rate analyses of amounts payable under repurchase agreements are disclosed in notes 35 and 43. Fair value of amounts payable under repurchase agreements is disclosed in note 42.

Securities pledged

As at 31 December 2011 and 2010, the Group pledged certain securities as collateral under repurchase agreements (refer to note 8).

19 Current accounts and deposits from customers

	2011	2010
Current accounts and demand deposits		
- Corporate	74 846 644	68 413 408
- Retail	21 648 415	20 854 482
Term deposits		
- Corporate	139 566 263	120 964 334
- Retail	102 541 049	86 814 621
Total current accounts and deposits from customers	**338 602 371**	**297 046 845**

As at 31 December 2010, the corporate term deposits include finance lease liabilities in the amount of RUB 19 613 thousand.

Maturity, currency and interest rate analyses of current accounts and deposits from customers are disclosed in notes 35 and 43. The information on related party balances is disclosed in note 44. Fair value of current accounts and deposits from customers is disclosed in note 42.

Blocked accounts

As at 31 December 2011, the Group maintained customer deposit balances of RUB 5 824 824 thousand (2010: RUB 3 362 102 thousand) that are blocked as collateral for loans and off-balance sheet credit instruments.

Concentrations of current accounts and deposits from customers

As at 31 December 2011, the ten largest aggregate balances of current account and deposits from customers amount to RUB 85 127 447 thousand or 25% of total current accounts and deposits from customers (2010: RUB 83 347 660 thousand or 28% of total current accounts and deposits from customers).

(expressed in thousands of Russian Roubles – refer to note 2)

19 Current accounts and deposits from customers (Continued)

Funds were attracted from the customers operating in the following economic sectors as at 31 December:

	2011		2010	
	Amount	%	Amount	%
Retail	124 189 464	36.68%	107 669 103	36.25%
Corporate customers				
State and local authorities	50 036 008	14.78%	42 341 936	14.25%
Finance and investment	43 374 742	12.81%	31 230 413	10.51%
Energy and mineral resources	24 028 088	7.10%	37 402 026	12.59%
Trade and commerce	23 775 976	7.02%	24 045 185	8.09%
Manufacturing	21 047 533	6.22%	7 690 356	2.59%
Development and construction	12 714 376	3.75%	15 194 667	5.12%
Transport and other services	10 269 537	3.03%	11 735 505	3.95%
Media and telecommunications	6 018 218	1.78%	6 771 555	2.28%
IT and science	4 653 387	1.37%	4 965 896	1.67%
Food production and agriculture	2 982 495	0.88%	1 437 191	0.48%
Other	15 512 547	4.58%	6 563 012	2.22%
Total current accounts and deposits from customers	**338 602 371**	**100.0%**	**297 046 845**	**100.0%**

(expressed in thousands of Russian Roubles – refer to note 2)

20 Own securities issued

	2011	2010
Promissory notes	23 925 235	20 632 071
Senior loan participation notes	18 044 239	8 650 527
Domestic bonds	14 724 814	2 781 695
Certificates of deposit	30 453	63 204
Total own securities issued	**56 724 741**	**32 127 497**

The Group issued promissory notes at a discount to nominal value, and interest bearing promissory notes denominated in Russian Roubles, US dollars and Euros with effective interest rates from 1.8% p.a. to 14.3% p.a. and maturity dates from January 2012 to January 2016.

Senior loan participation notes comprise notes issued through PSB Finance S.A. (refer to note 2).

The table below provides a summary of all senior loan participation notes issued as at 31 December:

Special purpose entity used for issue	Issue date	Maturity date	Coupon rate	Commentary	2011	2010
PSB Finance S.A.	July 2008	July 2013	10.75%	Non-subordinated	3 824 156	3 236 421
PSB Finance S.A.	April 2011	April 2014	6.20%	Non-subordinated	14 220 083	-
PSB Finance S.A.	October 2006 March 2007	October 2011	8.75%	Non-subordinated	-	5 414 106
Total senior loan participation notes					**18 044 239**	**8 650 527**

During the year ended 31 December 2011, the Group purchased from the market senior loan participation notes amounting to USD 218 484 thousand (RUB 7 034 333 thousand). The gain on the repurchase of these senior loan participation notes was RUB 187 189 thousand (refer to note 29).

During the year ended 31 December 2010, the Group purchased from the market senior loan participation notes amounting to USD 154 879 thousand (RUB 4 720 232 thousand). The loss on the repurchase of these senior loan participation notes was RUB 183 862 thousand (refer to note 29).

During the years ended 31 December 2011 and 2010, the Group sold senior loan participation notes amounting to USD 168 155 thousand (RUB 5 413 935 thousand) and USD 79 650 thousand (RUB 2 427 485 thousand), respectively.

(expressed in thousands of Russian Roubles – refer to note 2)

20 Own securities issued (Continued)

The table below provides a summary of domestic bonds issued as at 31 December:

Issue date	Maturity date	Current coupon rate	2011	2010
May 2007	May 2012	7.75%	4 541 606	1 499 624
June 2008	June 2013	8.25%	5 014 543	1 282 071
February 2011	February 2014	8.60%	5 168 665	-
Total domestic bonds			**14 724 814**	**2 781 695**

In May 2010, the Group redeemed at nominal value RUB 4 087 086 thousand of the RUB 4.5 billion issue from holders under a mandatory call offer. Subsequent to this the Group re-issued in 2011 and 2010 RUB 3 013 785 thousand and RUB 1 073 301 thousand, respectively, of these bonds.

In December 2010, the Group redeemed at nominal value RUB 3 853 202 thousand of the RUB 5 billion issue from holders under a mandatory call offer. Subsequent to this the Group re-issued in 2011 and 2010 RUB 3 718 502 thousand and RUB 3 483 577 thousand, respectively, of these bonds.

Maturity, currency and interest rate analyses of own securities issued are disclosed in notes 35 and 43. The information on related party balances is disclosed in note 44. Fair value of own securities issued is disclosed in note 42.

(expressed in thousands of Russian Roubles – refer to note 2)

21 Other borrowed funds

	2011	2010
Syndicated loans	11 205 935	7 550 513
Other borrowed funds	4 963 983	5 251 682
Total other borrowed funds	**16 169 918**	**12 802 195**

In October 2011, the Group borrowed a syndicated loan with nominal amount USD 350 000 thousand (RUB 11 268 635 thousand).

In April 2010, the Group repaid the first tranche of a syndicated loan from the European Bank for Reconstruction and Development amounting to USD 232 000 thousand (RUB 7 237 333 thousand) and in June the Group repaid in advance the remaining part of the syndicated loan.

In June 2010, the Group borrowed USD 250 000 thousand (RUB 7 798850 thousand) as a syndicated loans from the European Bank for Reconstruction and Development which were repaid in 2011.

In November and December 2010, the Group borrowed RUB 1 900 000 thousand from the Russian Bank for Development.

Maturity, currency and interest rate analyses of other borrowed funds are disclosed in notes 35 and 43. Fair value of other borrowed funds is disclosed in note 42. Covenants related to other borrowed funds are disclosed in note 36. The information on related party balances is disclosed in note 44.

(expressed in thousands of Russian Roubles – refer to note 2)

22 Other liabilities

	2011	2010
Other financial liabilities:		
Financial guarantees	674 485	741 458
Plastic card payables	267 260	135 422
Other accrued liabilities	138 711	109 899
Payables on factoring deals	84 785	60 144
Securities lending operations	47 135	-
	1 212 376	**1 046 923**
Other non-financial liabilities:		
Employee compensation payable	769 406	1 006 085
Taxes payable	277 404	255 348
Prepayments and advances received	230 985	120 822
Provision for guarantees and letters of credit issued	17 422	4 455
Obligations under option agreements	5 500	5 500
Liability to purchase leasing equipment	208	143
Other	374	314
	1 301 299	**1 392 667**
Total other liabilities	**2 513 675**	**2 439 590**

Maturity and currency analyses of other financial liabilities are disclosed in note 35. The information on related party balances is disclosed in note 44. Fair value of financial liabilities is disclosed in note 42.

(expressed in thousands of Russian Roubles – refer to note 2)

23 Deferred tax asset/liability

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax assets and liabilities as of 31 December 2011 and 2010.

These deductible temporary differences are listed below at their tax effected accumulated values:

	Assets		Liabilities		Net	
	2011	2010	2011	2010	2011	2010
Financial assets at fair value through profit or loss	-	27 159	(179 735)	(37 948)	(179 735)	(10 789)
Amounts receivable under reverse repurchase agreements	-	-	(710)	(771)	(710)	(771)
Loans to customers	1 105 750	1 260 838	(174 576)	(49 588)	931 174	1 211 250
Investments available for sale	57 966	20 057	-	-	57 966	20 057
Investments held to maturity	15 319	13 134	-	-	15 319	13 134
Other assets	35 034	93 904		-	35 034	93 904
Investment property	-	-	(76 036)	-	(76 036)	-
Property and equipment	-	-	(609 624)	(422 500)	(609 624)	(422 500)
Deposits and balances from banks and other financial institutions	-	-	(8 412)	(15 532)	(8 412)	(15 532)
Amounts payable under repurchase agreements	-	13	-	-	-	13
Current accounts and deposits from customers	-	-	(174 342)	-	(174 342)	-
Own securities issued	-	-	(19 439)	(11 179)	(19 439)	(11 179)
Other borrowed funds	-	-	(24 051)	(25 769)	(24 051)	(25 769)
Other liabilities	165 588	193 035	-	-	165 588	193 035
Current income tax payable	-	-	-	-	-	-
Subordinated borrowings	-	-	(34 995)	(35 490)	(34 995)	(35 490)
Net tax assets/(liabilities)	**1 379 657**	**1 608 140**	**(1 301 920)**	**(598 777)**	**77 737**	**1 009 363**

(expressed in thousands of Russian Roubles – refer to note 2)

23 Deferred tax asset/liability (Continued)

Movement of tax effect in temporary differences during the year ended 31 December 2011:

	Balance as at 1 January 2011	Recognised in income	Recognised in equity	Acquisition of subsidiaries	Balance as at 31 December 2011
Financial assets at fair value through profit or loss	(10 789)	(168 946)	-	-	(179 735)
Amounts receivable under reverse repurchase agreements	(771)	61	-	-	(710)
Loans to customers	1 211 250	(280 076)	-	-	931 174
Investments available for sale	20 057	1	37 908	-	57 966
Investments held to maturity	13 134	2 185	-	-	15 319
Other assets	93 904	(59 283)	-	413	35 034
Investment property	-	(76 036)	-	-	(76 036)
Property and equipment	(422 500)	(120 344)	(66 780)	-	(609 624)
Deposits and balances from banks and other financial institutions	(15 532)	7 120	-	-	(8 412)
Amounts payable under REPO deals	13	(13)	-	-	-
Current accounts and deposits from customers	-	(174 342)	-	-	(174 342)
Own securities issued	(11 179)	(8 260)	-	-	(19 439)
Other borrowed funds	(25 769)	1 718	-	-	(24 051)
Other liabilities	193 035	(27 447)	-	-	165 588
Subordinated borrowings	(35 490)	495	-	-	(34 995)
	1 009 363	**(903 167)**	**(28 872)**	**413**	**77 737**

(expressed in thousands of Russian Roubles – refer to note 2)

23 Deferred tax asset/liability (Continued)

Movement of tax effect in temporary differences during the year ended 31 December 2010:

	Balance as at 1 January 2010	Recognised in profit or loss	Recognised in other comprehensive income	Balance as at 31 December 2010
Financial assets at fair value through profit or loss	203 065	(213 854)	-	(10 789)
Amounts receivable under reverse repurchase agreements	(713)	(58)	-	(771)
Loans to customers	443 185	768 065	-	1 211 250
Investments available for sale	560	(601)	20 098	20 057
Investments held to maturity	(6 443)	19 577	-	13 134
Other assets	27 287	66 617	-	93 904
Property and equipment	(538 650)	206 981	(90 831)	(422 500)
Financial liabilities at fair value through profit or loss	65 906	(65 906)	-	-
Deposits and balances from banks and other financial institutions	(18 584)	3 052	-	(15 532)
Amounts payable under repurchase agreements	(191)	204	-	13
Own securities issued	(41 118)	29 939	-	(11 179)
Other borrowed funds	(39 128)	13 359	-	(25 769)
Other liabilities	192 117	918	-	193 035
Subordinated borrowings	-	(35 490)	-	(35 490)
	287 293	**792 803**	**(70 733)**	**1 009 363**

24 Subordinated borrowings

	2011	2010
Subordinated loan participation notes	23 091 839	21 817 689
Subordinated borrowings	3 486 523	-
Total subordinated borrowings	**26 578 362**	**21 817 689**

In December 2011, the Group borrowed RUB 3 500 000 thousand as a subordinated loan from the European Bank for Reconstruction and Development. The loan matures in 2018 and the coupon rate is at 14.96% per annum.

In July 2010, the Group issued subordinated loan participation notes with a nominal value of USD 200 000 thousand (RUR 6 095 380 thousand) which mature in 2016 and bear interest at 11.25% per annum.

Maturity, currency and interest rate analyses of subordinated borrowings are disclosed in notes 35 and 43. Fair value of subordinated borrowings is disclosed in note 42.

(expressed in thousands of Russian Roubles – refer to note 2)

25 Share capital

Issued capital

	Balance as at 1 January 2011
Number of ordinary shares	1 044 300 846 000
Nominal amount per share, RUB	0.01
Nominal amount, RUB thousand	10 443 008
Inflation adjusted amount, RUB thousand	11 511 052

	Balance as at 31 December 2011
Number of ordinary shares	1 113 385 474 671
Nominal amount per share, RUB	0.01
Nominal amount, RUB thousand	11 133 854
Inflation adjusted amount, RUB thousand	12 201 899

In December 2011, the Central Bank of the Russian Federation registered an additional issue of 69 084 628 671 shares with a nominal value of RUB 690 847 thousand and a share premium amounting to RUB 3 309 154 thousand. All issued ordinary shares are fully paid.

On February 2010 the Central Bank of the Russian Federation registered an additional issue of 144 850 846 000 shares with a nominal value of RUB 1 448 508 thousand and a share premium amounting to RUB 3 983 398 thousand. All issued ordinary shares are fully paid.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at the annual and general meetings of the shareholders.

Dividends

Dividends payable are restricted to the maximum retained earnings of the Bank, which are determined according to legislation in the Russian Federation. In accordance with the legislation of the Russian Federation, as of the reporting date reserves available for distribution amount to RUB 9 103 239 thousand (2010: RUB 5 906 410 thousand).

(expressed in thousands of Russian Roubles – refer to note 2)

26 Net interest income

	2011	2010
Interest income		
Loans to customers	40 918 351	40 651 403
Financial assets at fair value through profit or loss	2 970 767	3 229 142
Placements with banks and other financial institutions and cash and cash equivalents	897 781	1 377 981
Reverse repurchase agreements	747 292	719 663
Investments held to maturity	234 408	343 001
Total interest income	**45 768 599**	**46 321 190**

	2011	2010
Interest expense		
Current accounts and deposits from customers	12 928 777	16 983 882
Own securities issued	3 716 579	3 283 850
Subordinated borrowings	2 468 491	2 111 376
Deposits and balances from banks and other financial institutions	2 147 250	2 489 136
Other borrowed funds	705 285	708 163
Repurchase agreements	163 312	135 606
Total interest expense	**22 129 694**	**25 712 013**
Net interest income	**23 638 905**	**20 609 177**

27 Fee and commission income

	2011	2010
Commission on documentary operations	2 843 225	2 306 537
Money transfer fees	1 957 480	1 576 281
Commission for servicing plastic cards	1 803 011	1 344 236
Commission for operations with cash	855 065	819 649
Commission on foreign currency operations	620 326	775 188
Commission on undrawn loan commitments	327 324	212 635
Securities trading fees	164 298	99 883
Cash collection fees	86 816	90 213
Commission on banknote operations	79 969	103 311
Investment banking fees	68 048	121 584
Agent fees	29 813	11 583
Other	42 576	98 880
Total fee and commission income	**8 877 951**	**7 559 980**

28 Fee and commission expense

	2011	2010
Commission for servicing plastic cards	699 635	446 932
Money transfer fees	295 808	240 865
Commission on documentary operations	261 744	247 780
Cash collection fees	169 840	95 891
Agent fees	149 852	147 221
Commission on foreign currency operations	126 643	267 120
Commission on banknote operations	53 374	48 939
Securities trading fees	26 546	25 427
Other	14 526	2 525
Total fee and commission expense	**1 797 968**	**1 522 700**

(expressed in thousands of Russian Roubles – refer to note 2)

29 Net gain/(loss) on financial instruments at fair value through profit or loss and gain/(loss) on early redemption of senior loan participation notes

	2011	2010
Net gain/(loss) on early redemption of senior loan participation notes (note 20)	187 189	(183 862)
Net gain/(loss) on debt securities - trading	136 783	(282 900)
Net gain on equity instruments - designated upon initial recognition as at fair value through profit or loss	51 904	119 091
Net gain/(loss) on equity securities - trading	3 013	(21)
Net gain/(loss) on interest rate swaps	3 182	(2 461)
Net gain/(loss) on financial instruments at fair value through profit or loss and gain /(loss) early redemption of senior loan participation notes	**382 071**	**(350 153)**

Interest income on debt instruments is included in interest income on financial assets at fair value through profit or loss (refer to note 26).

30 Other income and expense

	2011	2010
Other income:		
Gain from sale of assets held for sale	1 073 285	-
Revaluation of investment property	380 180	-
Fines and penalties received	64 104	41 388
Dividend income	265	7 574
Gain from sale of loans to customers	-	1 215 934
Net gain on purchase of interest in subsidiaries	-	151 448
Other income	149 772	277 187
	1 667 606	**1 693 531**
Other expense:		
Contributions under obligatory deposit insurance	(397 575)	(383 638)
Loss from sale of loans to customers	(67 771)	-
Total other income and expense	**1 202 260**	**1 309 893**

31 Allowance for other impairment losses

The movements in allowance for other impairment losses were as follows:

	Investments available for sale (note 10)	Investments held to maturity (note 11)	Other assets (note 13)	Guarantees (note 40)	Total
31 December 2009	**3 109**	**117 093**	**-**	**58 501**	**178 703**
Other impairment charge	(3 109)	(88 731)	228 464	(54 046)	82 578
Write-off of assets	-	-	(49 150)	-	(49 150)
31 December 2010	**-**	**28 362**	**179 314**	**4 455**	**212 131**
Other impairment charge	-	(51)	30 453	12 967	43 369
Write-off of assets	-	-	-	-	-
31 December 2011	**-**	**28 311**	**209 767**	**17 422**	**255 500**

(expressed in thousands of Russian Roubles – refer to note 2)

32 General and administrative expenses

	2011	2010
Employee compensation	10 221 702	8 771 795
Communications and information services	1 160 870	626 555
Depreciation	1 104 970	1 119 621
Occupancy	789 803	702 831
Repairs, maintenance and supply	720 461	656 758
Advertising and marketing	718 855	375 115
Insurance	489 843	491 454
Security	461 690	389 984
Taxes other than income tax	353 622	700 414
Transportation	239 294	193 355
Charity and sponsorship	146 509	132 429
Other	551 774	694 551
Total general and administrative expenses	**16 959 393**	**14 854 862**

Charity and sponsorship expenses include grants to the Russian Society of Invalids, hospices, hospitals, culture institutions and to the Russian Orthodox Church.

33 Income tax expense

	2011	2010
Current tax expense		
Current year	941 860	1 195 136
Deferred tax benefit		
Origination and reversal of temporary differences (note 23)	903 167	(792 803)
Total income tax expense	**1 845 027**	**402 333**

The applicable tax rate for current and deferred tax is 20%.

Reconciliation of effective tax rate:

	2011	%	2010	%
Profit before tax	**7 063 621**		**2 879 481**	
Theoretical income tax charge at the statutory rate	1 412 724	20.0%	575 896	20.0%
Tax effect of items which are not deductible or assessable for taxation purposes:				
- Non deductible expenses including charity expenses	132 834	1.9%	124 572	4.3%
- Income on government securities taxed at different rates	(59 982)	(0.8%)	(54 511)	(1.9%)
- Previous year income tax	261 417	3.7%	(142 789)	(5.0%)
- Effect of income earned by the branch in Cyprus	61 041	0.9%	38 562	1.3%
Effect of tax for non-resident	36 993	0.5%	-	-
- Reversal of provision on deferred tax asset	-	-	(139 397)	(4.8%)
Income tax expense	**1 845 027**	**26.1%**	**402 333**	**14.0%**

34 Analysis by segment

The Group is organised into four main reportable operating segments. The segments are identified on the basis of organisational structure and types of clients. Each operating segment involves areas of business that are under the control and responsibility of one of the Management Board members. Internal management reports are reviewed by the Management Board on a periodical basis and by the Board of Directors on a quarterly basis. The following summary describes the operations in each of the reportable segments:

- Corporate banking – this operating segment includes the following services provided to legal entities including state and local authorities and excluding small and medium size enterprises: settlements and money transfer; deposit taking; issuance of promissory notes and certificates of deposit; trade and long-term finance; commercial lending; overdraft lending; factoring; leasing; letters of credit; guarantees; foreign exchange services; cash collection; currency conversion; all transactions with precious metals.

- Retail banking – this operating segment includes the following services provided to retail customers: settlements and money transfer; deposit taking and lending to individuals (excluding VIP clients); foreign exchange services; banking card products; settlement and cash services.

- International business, investments and financial markets – this operating segment includes the following services provided to banks and other financial institutions, state and local authorities, VIP clients (individuals): deposit taking; borrowings from banks and other financial institutions; issuance of domestic bonds, loan participation notes and promissory notes on the market; repo transactions; interbank lending; syndicated and subordinated borrowings; VIP clients (individuals); trading and brokerage in securities; foreign exchange (except currency conversion for clients); trading in derivatives; export letters of credit; guarantees; banknote operations; depositary services; settlements and money transfer. For the year ended 31 December 2010 the segment included services provided to state and local authorities.

- Small and medium size enterprises - this operating segment includes the following services provided to small and medium size enterprises: commercial lending; deposit taking; issuance of promissory notes; money transfer; guarantees; brokerage in securities; foreign exchange services.

The Group does not allocate equity between segments.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before income tax as included in the internal management reports that are reviewed by the Board of Directors. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to others who operate within these industries. Information on segment income tax expense in the tables below is presented for information purposes.

The intersegment revenue from other segments related to exchange of resources between segments is calculated on the basis of a transfer pricing system, in accordance with which the prices of the internal placement/funding depend on the currency and term of placement/funding.

The Group does not allocate obligatory reserves with central banks, net book value of property and equipment, and current and deferred tax assets and liabilities between the segments to determine segment assets/liabilities. These captions are included in the "Reconciling items" category in the reconciliation of the total segment assets/liabilities to total assets/liabilities of the Group. Other assets and liabilities are included in the "Reconciling items" category when they cannot reasonably be distributed among the segments. The "Reconciling items" category also includes assets/liabilities and attributable income/expense relating to assets and liabilities internal management operations performed by the Group's Treasury Department.

(expressed in thousands of Russian Roubles – refer to note 2)

34 Analysis by segment (Continued)

General and administrative expenses are allocated between the segments on the basis of an activity-based costing model that identifies activities and assigns the cost of each activity's resources to all products and services according to their actual consumption.

The Group allocates income tax benefit/expense using the financial result of each segment and the overall effective tax rate of each subsidiary.

Segment breakdown of assets and liabilities as at 31 December 2011 is set out below:

	Corporate banking	Retail banking	International business, investments and financial markets	Small and medium size enterprises	Reconciling items	Total
Cash and cash equivalents	4 502 238	9 065 631	6 867 249	5 244 117	30 151 531	55 830 766
Obligatory reserves with central banks	-	-	-	-	5 878 191	5 878 191
Placements with banks and other financial institutions	-	-	5 690 298	-	11 068	5 701 366
Financial assets at fair value through profit or loss	-	-	35 607 301	-	4 662 213	40 269 514
Amounts receivable under reverse repurchase agreements	-	-	9 534 868	-	13 989 938	23 524 806
Loans to customers	329 964 263	29 654 576	1 642 719	34 875 408	-	396 136 966
Investments available for sale	-	-	1 308 984	-	-	1 308 984
Investments held to maturity	-	-	608 286	-	2 121 030	2 729 316
Assets held for sale	-	-	-	-	-	-
Other assets	240 114	149 936	43 729	15 045	1 627 433	2 076 257
Current income tax prepayments	-	-	-	-	86 908	86 908
Deferred tax asset	-	-	-	-	127 732	127 732
Investment property	-	-	-	-	3 547 874	3 547 874
Property and equipment	-	-	-	-	25 335 199	25 335 199
TOTAL ASSETS	**334 706 615**	**38 870 143**	**61 303 434**	**40 134 570**	**87 539 117**	**562 553 879**
LIABILITIES						
Financial liabilities at fair value through profit or loss	-	-	645 799	-	-	645 799
Deposits and balances from banks and other financial institutions	26 140 614	334 807	35 718 054	-	3 345 715	65 539 190
Amounts payable under repurchase agreements	-	-	1 607 662	-	-	1 607 662
Current accounts and deposits from customers	176 646 837	74 083 714	59 467 317	28 404 503	-	338 602 371
Own securities issued	13 276 633	-	43 213 099	235 009	-	56 724 741
Other borrowed funds	-	-	16 169 918	-	-	16 169 918
Other liabilities	784 345	293 144	67 465	50 592	1 318 129	2 513 675
Current income tax payable	-	-	-	-	16 573	16 573
Deferred tax liability	-	-	-	-	49 995	49 995
Subordinated borrowings	-	-	26 578 362	-	-	26 578 362
TOTAL LIABILITIES	**216 848 429**	**74 711 665**	**183 467 676**	**28 690 104**	**4 730 412**	**508 448 286**

(expressed in thousands of Russian Roubles – refer to note 2)

34 Analysis by segment (Continued)

Segment breakdown of assets and liabilities as at 31 December 2010 is set out below:

	Corporate banking	Retail banking	International business, investments and financial markets	Small and medium size enterprises	Reconciling items	Total
Cash and cash equivalents	3 536 155	3 822 498	5 786 406	-	32 037 190	45 182 249
Obligatory reserves with central banks	-	-	-	-	3 015 876	3 015 876
Placements with banks and other financial institutions	-	-	12 112 692	-	9 340	12 122 032
Financial assets at fair value through profit or loss	-	-	41 287 207	-	4 717 365	46 004 572
Amounts receivable under reverse repurchase agreements	-	-	9 599 684	-	6 350 162	15 949 846
Loans to customers	264 218 648	20 802 867	3 496 369	22 429 759	-	310 947 643
Investments available for sale	-	-	2 203 213	-	-	2 203 213
Investments held to maturity	-	-	868 394	-	3 098 517	3 966 911
Assets held for sale	-	-	5 944 765	-	-	5 944 765
Other assets	122 547	5 680	575 157	3 404	1 806 990	2 513 778
Current income tax prepayments	-	-	-	-	612 254	612 254
Deferred tax asset	-	-	-	-	1 065 008	1 065 008
Property and equipment	-	-	-	-	25 598 772	25 598 772
Total assets	**267 877 350**	**24 631 045**	**81 873 887**	**22 433 163**	**78 311 474**	**475 126 919**
Financial liabilities at fair value through profit or loss	-	-	1 593 384	-	-	1 593 384
Deposits and balances from banks and other financial institutions	18 676 388	266 863	35 144 292	-	5 590 334	59 677 877
Amounts payable under repurchase agreements	-	-	2 062 365	-	727 651	2 790 016
Current accounts and deposits from customers	127 419 983	64 851 187	82 843 305	21 932 370	-	297 046 845
Own securities issued	9 522 228	-	22 400 736	204 533	-	32 127 497
Other borrowed funds	-	-	12 802 195	-	-	12 802 195
Other liabilities	820 228	146 624	26 479	12 436	1 433 823	2 439 590
Current income tax payable	-	-	-	-	948	948
Deferred tax liability	-	-	-	-	55 645	55 645
Subordinated borrowings	-	-	21 817 689	-	-	21 817 689
Total liabilities	**156 438 827**	**65 264 674**	**178 690 445**	**22 149 339**	**7 808 401**	**430 351 686**

(expressed in thousands of Russian Roubles – refer to note 2)

34 Analysis by segment (Continued)

Segment information for the reportable business segments for the year ended 31 December 2011 is set out below:

	Corporate banking	Retail banking	International business, investment, financial markets	Small and medium size enterprises	Reconciling items	Total
Interest income	28 015 459	6 819 809	4 214 472	5 927 690	791 169	45 768 599
Interest expense	(8 042 608)	(3 057 796)	(10 706 859)	(169 090)	(153 341)	(22 129 694)
Net interest income	**19 972 851**	**3 762 013**	**(6 492 387)**	**5 758 600**	**637 828**	**23 638 905**
Net revenue from other segments	(9 691 855)	1 517 298	9 661 550	(1 382 964)	(104 029)	-
Fee and commission income	4 753 091	2 462 681	389 858	1 268 663	3 658	8 877 951
Fee and commission expense	(548 231)	(973 688)	(111 172)	(111 281)	(53 596)	(1 797 968)
Net fee and commission income	**4 204 860**	**1 488 993**	**278 686**	**1 157 382**	**(49 938)**	**7 079 983**
Net (loss)/gain on financial instruments at fair value through profit or loss	-	-	249 125	-	132 946	382 071
Net foreign exchange gain	373 206	-	459 492	64 376	312 835	1 209 909
Other income	(75 417)	293 608	918 838	(475 922)	541 153	1 202 260
Operating income of the segment	**14 783 645**	**7 061 912**	**5 075 304**	**5 121 472**	**1 470 795**	**33 513 128**
Provison for loan imparment	(3 364 181)	(4 724 212)	(83 815)	(1 190 585)	-	(9 362 793)
Other impairment charge	(13 774)	(44)	1 330	(428)	(30 453)	(43 369)
Loss on revaluation of fixed assets	-	-	-	-	(83 960)	(83 960)
Administrative expenses	(4 628 107)	(6 598 916)	(1 033 665)	(3 075 490)	(1 623 215)	(16 959 393)
Operating expenses	**(8 006 062)**	**(11 323 172)**	**(1 116 150)**	**(4 266 503)**	**(1 737 628)**	**(26 449 515)**
Profit before tax	**6 777 583**	**(4 261 260)**	**3 959 154**	**854 969**	**(266 833)**	**7 063 613**
Income tax expense	(1 770 317)	1 113 048	(1 034 137)	(223 319)	69 698	(1 845 027)
Segment profit for the period	**5 007 266**	**(3 148 212)**	**2 925 017**	**631 650**	**(197 135)**	**5 218 586**
Revenue of the segment	**48 024 044**	**14 689 565**	**17 990 842**	**8 860 842**	**36763 102**	**126 328 394**

(expressed in thousands of Russian Roubles – refer to note 2)

34 Analysis by segment (Continued)

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

	Corporate banking	Retail banking	International business, investments and financial markets	Small and medium size enterprises	Reconcil-ing items	Total
Interest income	29 304 099	6 308 365	5 230 128	4 423 435	1 055 163	46 321 190
Interest expense	(7 673 523)	(4 764 963)	(12 802 442)	(230 151)	(240 934)	(25 712 013)
Net interest income	**21 630 576**	**1 543 402**	**(7 572 314)**	**4 193 284**	**814 229**	**20 609 177**
Net revenue from other segments	(10 802 992)	2 601 585	12 574 686	(1 605 434)	(2 767 845)	-
Fee and commission income	4 011 171	2 147 815	350 349	1 037 970	12 675	7 559 980
Fee and commission expense	(465 857)	(799 486)	(158 118)	(49 397)	(49 842)	(1 522 700)
Net fee and commission income	**3 545 314**	**1 348 329**	**192 231**	**988 573**	**(37 167)**	**6 037 280**
Net loss on financial instruments at fair value through profit or loss and loss on early redemption of senior loan participation notes	-	-	(732 533)	-	382 380	(350 153)
Net foreign exchange gain	345 739	-	473 610	29 010	(233 899)	614 460
Other income and expense	849 073	185 282	12 150	82 015	181 373	1 309 893
Operating income of the segment	**15 567 710**	**5 678 598**	**4 947 830**	**3 687 448**	**(1 660 929)**	**28 220 657**
Loan impairment charge	(5 700 997)	(4 399 215)	133 030	(368 532)	-	(10 335 714)
Other impairment charge	39 185	-	57 548	3	(179 314)	(82 578)
Loss on revaluation of property	-	-	-	-	(68 021)	(68 021)
General and administrative expenses	(4 241 496)	(5 987 981)	(1 143 591)	(3 007 819)	(473 975)	(14 854 862)
Operating expenses	**(9 903 308)**	**(10 387 196)**	**(953 013)**	**(3 376 348)**	**(721 310)**	**(25 341 175)**
Profit/(loss) before income tax	**5 664 402**	**(4 708 598)**	**3 994 817**	**311 100**	**(2 382 239)**	**2 879 482**
Income tax (charge)/benefit	(791 453)	657 905	(558 174)	(43 468)	332 857	(402 333)
Profit/(loss) for the year after tax	**4 872 949**	**(4 050 693)**	**3 436 643**	**267 632**	**(2 049 382)**	**2 477 149**
Revenue of the segment	**45 459 264**	**14 925 639**	**21 656 289**	**6 318 430**	**33 967 894**	**122 327 517**

34 Analysis by segment (Continued)

Analysis of revenues by products and services

The Group's revenues are analysed by products and services in notes 26 (Net interest income), note 27 (Fee and commission income) and in note 30 (Other income and expense).

Information about major customers

Substantially all revenues from external customers relate to residents of the Russian Federation. The total amount of revenues from each single external customer or group of external customers known to be under common control does not exceed 10 per cent of revenues. Substantially all non-current assets are located in the Russian Federation.

35 Risk management

Management of risk is fundamental to the business of banking and is an essential element of the Group's operations. The major risks faced by the Group are those related to credit risk (including country and counterparty risk), market risk, which includes price, interest rate and currency risks, and liquidity risk.

In 2011, there was active introduction of culture and principles of management of the risks, based on the known world practice and recommendations of the Basel Committee on Banking Supervision.

The complex valuation of all significant types of risk, the regular development of existing management models of separate types of risks and existing systems of limits and restrictions, and the timely actualisation of all necessary internal documents, allowed the Group activity in all key business segments. At the same time the Group possesses reasonable levels of risk.

Risk management policies and procedures

The risk management policies aim to identify, analyse and manage the risks faced by the Group, to set appropriate risk limits and controls, and to continuously monitor risk levels and adherence to limits. Risk management policies and procedures are reviewed regularly to reflect changes in market conditions, products and services offered and emerging best practice.

The Board of Directors has overall responsibility for the oversight of the risk management framework, overseeing the management of key risks and reviewing its risk management policies and procedures as well as approving significantly large exposures.

The Management Board is responsible for monitoring and implementation of risk mitigation measures and ensuring that the Group operates within the established risk parameters. The Vice-president - Head of Credit Risk Management and the Head of the Financial and Retail Risk Department of the Bank are responsible for the overall risk management functions, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting both financial and non-financial risks. They report directly to the First Vice-president of the Bank, responsible for Finance and Risk Management.

Credit, market and liquidity risks, both at portfolio and transactional levels are managed and controlled through a system of Credit Committees and an Asset and Liability Management Committee.

35 Risk management (Continued)

Both external and internal risk factors are identified and managed throughout the Group's organisational structure. Particular attention is given to developing risk maps that are used to identify the full range of risk factors and serve as a basis for determining the level of assurance over the current risk mitigation procedures. Apart from the standard credit and market risk analysis, the Credit Risk Department, Credit Risk Monitoring Department and Financial and Retail Risk Department monitor financial and non-financial risks by holding regular meetings with operational units in order to obtain expert judgments in their areas of expertise.

An integrated risk report for all types of banking risks is provided to the management of the Group and Board of Directors regularly. Every type of risks is assessed, as well as key performance quantitative and qualitative indicators. All changes of assessment are analysed.

Market risk

Market risk is the risk that movements in market prices, including foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its portfolios. Market risks comprise currency risk, interest rate risk and price risk. Market risk arises from open positions in interest rate, currency and equity financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, whilst optimising the return on risk.

Overall authority for market risk is vested in the Asset and Liability Committee (ALCO), chaired by the President of the Bank. Market risk limits are approved by ALCO based on recommendations of the Financial and Retail Risk Department and Treasury.

The Group manages its market risk by setting open position limits in relation to financial instrument, interest rate maturity and currency positions and stop-loss limits which are monitored on a regular basis and reviewed and approved by the Management Board.

Interest rate risk

The Group is exposed 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 also reduce or create losses in the event that unexpected movements arise.

Interest rate risk is the risk of incurring losses and/or gains on financial instruments sensitive to interest rate changes due to change in market interest rates. As a result, interest payments may substantially exceed interest receipts.

The management of interest rate risk for the banking book is different compared to interest rate management in respect of the trading portfolios. Banking book interest risks covers, all balance sheet instruments sensitive to interest rate changes. The trading book includes debt instruments (bonds, Eurobonds, promissory notes etc.) measured at their fair values through profit or loss.

The Group is exposed to cash flow interest rate risk, principally through assets and liabilities for which interest rates are reset as market rates change. The Financial and Retail Risk Department monitors on a monthly basis and sets limits for the level of mismatch of interest rate repricing that may be undertaken.

The management of interest rate risk for the banking book by monitoring interest rate gaps is supplemented by monitoring the sensitivity of net interest margin to various standard and non-standard interest rate scenarios.

(expressed in thousands of Russian Roubles – refer to note 2)

35 Risk management (Continued)

The Group is exposed to risk by the effects of fluctuations in the levels of market interest rates on its financial position and cash flows, as interest rates on its assets and liabilities vary with market interest rates.

The Financial and Retail Risk Department monitors on a monthly basis and sets limits for the level of mismatch of interest rate repricing that may be undertaken.

Interest rate repricing risk

An analysis of sensitivity of net profit and equity to interest rate repricing risk based on the most likely scenario of a 200 basis points (bp) symmetrical fall or rise in all yield curves and positions of interest-bearing assets and liabilities (except for current accounts and demand deposits that are considered to have negligible and stable interest rates) existing as at 31 December 2011 and 2010, respectively, is as follows:

2011		2010	
200 bp parallel increase	200 bp parallel decrease	200 bp parallel increase	200 bp parallel decrease
(132 748)	177 412	(97 699)	116 098

Fair value interest rate risk

An analysis of sensitivity of the net (loss)/profit and equity as a result of changes in fair value of debt securities due to changes in interest rates (also known as price value basis point ("PVBP") based on positions existing as at 31 December 2011 and 2010 and a simplified scenario of a 200 bp rise or fall in all yield curves is as follows:

2011		2010	
200 bp parallel increase	200 bp parallel decrease	200 bp parallel increase	200 bp parallel decrease
(1 018 160)	1 018 160	(982 880)	982 880

Total effect of interest rate risk is as follows:

2011		2010	
200 bp parallel increase	200 bp parallel decrease	200 bp parallel increase	200 bp parallel decrease
(1 150 908)	1 195 572	(1 080 579)	1 098 978

(expressed in thousands of Russian Roubles – refer to note 2)

35 Risk management (Continued)

The table below summarises the exposure to interest rate risk, as at 31 December 2011. Included in the table are the financial assets and financial liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

	Demand and less than 1 month	From 1 to 6 months	From 6 months to 1 year	From 1 year to 5 years	More than 5 years	Non interest bearing	Total
Financial assets							
Cash and cash equivalents	28 290 347	-	-	-	-	27 540 419	55 830 766
Obligatory reserves with central banks	422 665	-	-	-	-	5 455 526	5 878 191
Placements with banks and other financial institutions	1 501 738	3 137 406	335 027	727 195	-	-	5 701 366
Financial assets at fair value through profit or loss	1 358 362	7 362 080	9 373 488	18 944 938	2 364 373	866 273	40 269 514
Amounts receivable under reverse repurchase agreements	23 524 806					-	23 524 806
Loans to customers	41 053 875	146 449 410	67 491 776	126 470 861	14 671 044	-	396 136 966
Investments available for sale	-	-	-	-	-	1 308 984	1 308 984
Investments held to maturity	51 758	16 201	2 121 030	503 547	36 780	-	2 729 316
Other financial assets	-	-	-	-	-	436 216	436 216
Total financial assets	**96 203 551**	**156 965 097**	**79 321 321**	**146 646 541**	**17 072 197**	**35 607 418**	**531 816 125**
Financial liabilities							
Financial liabilities at fair value through profit or loss	-	-	-	-	-	645 799	645 799
Deposits and balances from banks and other financial institutions	23 413 100	36 556 223	5 519 526	50 341	-	-	65 539 190
Amounts payable under repurchase agreements	1 607 662	-	-	-	-	-	1 607 662
Current accounts and deposits from customers	148 974 621	88 235 057	73 811 850	27 580 843	-	-	338 602 371
Own securities issued	3 842 010	20 907 812	3 288 772	28 686 147	-	-	56 724 741
Other borrowed funds	11 206 474	1 072 227	223 541	3 667 676	-	-	16 169 918
Other financial liabilities	-	-	-	-	-	1 212 376	1 212 376
Subordinated borrowings	556 163	10 056 889		12 791 232	3 174 078		26 578 362
Total financial liabilities	**189 600 030**	**156 828 208**	**82 843 689**	**72 776 239**	**3 174 078**	**1 858 175**	**507 080 419**
Interest rate sensitivity gap	**(93 396 479)**	**136 889**	**(3 522 368)**	**73 870 302**	**13 898 119**	**33 749 243**	**24 735 706**
Net position on interest bearing assets and liabilities	**(93 396 479)**	**136 889**	**(3 522 368)**	**73 870 302**	**13 898 119**	**33 749 243**	**24 735 706**

(expressed in thousands of Russian Roubles – refer to note 2)

35 Risk management (Continued)

The table below summarises the exposure to interest rate risk, as at 31 December 2010. Included in the tables are the financial assets and financial liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

	Demand and less than 1 month	From 1 to 6 months	From 6 months to 1 year	From 1 year to 5 years	More than 5 years	Non interest bearing	Total
Financial assets							
Cash and cash equivalents	17 185 004	-	-	-	-	27 997 245	45 182 249
Obligatory reserves with central banks	448 850	-	-	-	-	2 567 026	3 015 876
Placements with banks and other financial institutions	2 695 667	2 598 827	6 818 780	8 758	-	-	12 122 032
Financial assets at fair value through profit or loss	1 779 229	11 136 406	9 159 138	21 713 166	1 831 481	385 152	46 004 572
Amounts receivable under reverse repurchase agreements	15 949 846	-	-	-	-	-	15 949 846
Loans to customers	49 338 469	109 810 827	54 694 203	89 413 509	7 690 635	-	310 947 643
Investments available for sale	-	-	-	-	-	2 203 213	2 203 213
Investments held to maturity	-	1 049 615	3 536	2 878 416	35 344	-	3 966 911
Other financial assets	-	-	-	-	-	748 032	748 032
Total financial assets	**87 397 065**	**124 595 675**	**70 675 657**	**114 013 849**	**9 557 460**	**33 900 668**	**440 140 374**
Financial liabilities							
Financial liabilities at fair value through profit or loss	-	-	-	-	-	1 593 384	1 593 384
Deposits and balances from banks and other financial institutions	23 071 255	25 929 572	10 220 892	456 158	-	-	59 677 877
Amounts payable under repurchase agreements	2 790 016	-	-	-	-	-	2 790 016
Current accounts and deposits from customers	117 374 558	87 235 044	72 247 031	20 190 212	-	-	297 046 845
Own securities issued	1 528 659	12 076 537	10 234 755	8 287 546	-	-	32 127 497
Other borrowed funds	786	6 996 854	749 660	5 054 895	-	-	12 802 195
Other financial liabilities	-	-	-	-	-	1 046 923	1 046 923
Subordinated borrowings	530 454	130 855	-	12 107 795	9 048 585	-	21 817 689
Total financial liabilities	**145 295 728**	**132 368 862**	**93 452 338**	**46 096 606**	**9 048 585**	**2 640 307**	**428 902 426**
Interest rate sensitivity gap	**(57 898 663)**	**(7 773 187)**	**(22 776 681)**	**67 917 243**	**508 875**	**31 260 361**	**11 237 948**

(expressed in thousands of Russian Roubles – refer to note 2)

35 Risk management (Continued)

Geographical concentration

Assets and liabilities are classified depending on the country in which the counterparties are located. Balances with off-shore companies of Russian counterparties are allocated to the heading Russian Federation. Cash is allocated based on the country in which it is physically held. Own securities issued are allocated based on the country of the first holder.

The geographical concentration of financial assets and financial liabilities as of 31 December 2011 is as follows:

	Russian Federation	Non-OECD countries	OECD countries	Total
Financial assets				
Cash and cash equivalents	37 727 550	2 010 050	16 093 166	55 830 766
Obligatory reserves with central banks	5 455 526	422 665	-	5 878 191
Placements with banks and other financial institutions	1 291	4 819 365	880 710	5 701 366
Financial assets at fair value through profit or loss	39 839 515	76 127	353 872	40 269 514
Amounts receivable under reverse repurchase agreements	20 363 377	3 161 429	-	23 524 806
Loans to customers	396 136 966	-	-	396 136 966
Investments available for sale	1 303 302	-	5 682	1 308 984
Investments held to maturity	2 729 316	-	-	2 729 316
Other financial assets	436 216	-	-	436 216
Total financial assets	**503 993 059**	**10 489 636**	**17 333 430**	**531 816 125**
Financial liabilities				
Financial liabilities at fair value through profit or loss	213 411	133 705	298 683	645 799
Deposits and balances from banks and other financial institutions	23 959 033	8 942 826	32 637 331	65 539 190
Amounts payable under repurchase agreements	1 607 662	-	-	1 607 662
Current accounts and deposits from customers	309 740 418	20 772 454	8 089 499	338 602 371
Own securities issued	43 486 729	9 121 516	4 116 496	56 724 741
Other borrowed funds	3 891 756	320 170	11 957 992	16 169 918
Other financial liabilities	2 513 675	-	-	2 513 675
Subordinated borrowings	6 374 766	1 904 361	18 299 235	26 578 362
Total financial liabilities	**391 787 450**	**41 195 032**	**75 399 236**	**508 381 718**
Net position as at 31 December 2010	**112 205 609**	**(30 705 396)**	**(58 065 806)**	**23 434 407**

(expressed in thousands of Russian Roubles – refer to note 2)

35 Risk management (Continued)

The geographical concentration of financial assets and financial liabilities as of 31 December 2010 was as follows:

	Russian Federation	Non-OECD countries	OECD countries	Total
Financial assets				
Cash and cash equivalents	31 590 796	575 950	13 015 503	45 182 249
Obligatory reserves with central banks	2 567 026	448 850	-	3 015 876
Placements with banks and other financial institutions	458	12 121 574	-	12 122 032
Financial assets at fair value through profit or loss	45 739 484	201 890	63 198	46 004 572
Amounts receivable under reverse repurchase agreements	15 003 685	946 161	-	15 949 846
Loans to customers	310 947 643	-	-	310 947 643
Investments available for sale	2 197 713	-	5 500	2 203 213
Investments held to maturity	3 966 911	-	-	3 966 911
Other financial assets	183 478	-	564 554	748 032
Total financial assets	**412 197 194**	**14 294 425**	**13 648 755**	**440 140 374**
Financial liabilities				
Financial liabilities at fair value through profit or loss	1 037 488	5 880	550 016	1 593 384
Deposits and balances from banks and other financial institutions	21 255 141	5 281 368	33 141 368	59 677 877
Amounts payable under repurchase agreements	1 642 229	-	1 147 787	2 790 016
Current accounts and deposits from customers	272 703 247	20 962 503	3 381 095	297 046 845
Own securities issued	25 010 287	1 483 195	5 634 015	32 127 497
Other borrowed funds	2 806 701	-	9 995 494	12 802 195
Other financial liabilities	1 046 923	-	-	1 046 923
Subordinated borrowings	6 025 075	1 798 161	13 994 453	21 817 689
Total financial liabilities	**331 527 091**	**29 531 107**	**67 844 228**	**428 902 426**
Net position as at 31 December 2010	**80 670 103**	**(15 236 682)**	**(54 195 473)**	**11 237 948**

Currency risk

The Group has assets and liabilities denominated in several foreign currencies. Foreign currency risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liabilities in that currency. In addition to the total open foreign exchange position limit, position limits on each currency, 1-Day and 40-Days stop loss limits, the Group uses limits on Value-at-Risk for net off balance sheet foreign exchange positions in order to mitigate market risk for currency trading.

The Group is exposed to currency risk due to the fact that its assets and liabilities are denominated in different currencies as well as due to the existence of open currency positions resulting from foreign currency transactions. The Group manages currency risk by ensuring maximum possible correspondence between the currency of its assets and the currency of its liabilities by currency within established limits. In respect of currency risk, management reviews the currency position and sets limits on the level of exposure by currency and in total for both end of banking day and intra-day positions, which are monitored daily.

(expressed in thousands of Russian Roubles – refer to note 2)

35 Risk management (Continued)

The following table shows the currency structure of financial assets and financial liabilities as at 31 December 2011:

	RUB	USD	EUR	Other	Total
Financial assets					
Cash and cash equivalents	28 659 340	13 278 039	11 302 623	2 590 764	55 830 766
Obligatory reserves with central banks	5 455 526	-	422 665	-	5 878 191
Placements with banks and other financial institutions	371 850	4 691 267	636 830	1 419	5 701 366
Financial assets at fair value through profit or loss	32 017 691	5 943 211	1 963 829	344 783	40 269 514
Amounts receivable under reverse repurchase agreements	23 524 806	-	-	-	23 524 806
Loans to customers	246 972 212	124 264 764	24 204 247	695 743	396 136 966
Investments available for sale	1 303 302	-	5 682	-	1 308 984
Investments held to maturity	2 676 335	52 981	-	-	2 729 316
Other financial assets	389 579	20 836	25 792	9	436 216
Total financial assets	**341 370 641**	**148 251 098**	**38 561 668**	**3 632 718**	**531 816 125**
Financial liabilities					
Financial liabilities at fair value through profit or loss	15 378	589 127	24 402	16 892	645 799
Deposits and balances from banks and other financial institutions	29 223 643	22 035 548	13 642 812	637 187	65 539 190
Amounts payable under repurchase agreements	1 607 662	-	-	-	1 607 662
Current accounts and deposits from customers	238 996 407	72 002 204	25 210 325	2 393 435	338 602 371
Own securities issued	33 357 194	21 526 772	1 840 775	-	56 724 741
Other borrowed funds	3 836 406	12 333 512	-	-	16 169 918
Other financial liabilities	1 033 624	144 681	34 071	-	1 212 376
Subordinated borrowings	3 486 523	23 091 839	–	-	26 578 362
Total financial liabilities	**311 556 837**	**151 723 683**	**40 752 385**	**3 047 514**	**507 080 419**
Net on balance sheet position as at reporting date	**29 813 804**	**(3 472 585)**	**(2 190 717)**	**585 204**	**24 735 706**
Net off balance sheet position as at reporting date	**1 101 539**	**(2 123 214)**	**1 017 414**	**4 261**	**-**
Net on and off balance sheet positions as at reporting date	**30 915 343**	**(5 595 799)**	**(1 173 303)**	**589 465**	**24 735 706**
Guarantees issued as at 31 December 2011	**(62 564 966)**	**(10 530 405)**	**(2 132 399)**	**(17 014)**	**(75 244 784)**
Other credit related commitments as at 31 December 2011	**(62 886 667)**	**(25 381 737)**	**(7 471 435)**	**(2 002)**	**(95 741 841)**

(expressed in thousands of Russian Roubles – refer to note 2)

35 Risk management (Continued)

The following table shows the currency structure of financial assets and financial liabilities as at 31 December 2010:

	RUB	USD	EUR	Other	Total
Financial assets					
Cash and cash equivalents	23 968 729	12 647 595	4 428 368	4 137 557	45 182 249
Obligatory reserves with central banks	2 567 027	-	448 849	-	3 015 876
Placements with banks and other financial institutions	14 494	5 605 817	6 501 721	-	12 122 032
Financial assets at fair value through profit or loss	36 310 744	5 695 180	3 979 340	19 308	46 004 572
Amounts receivable under reverse repurchase agreements	15 949 846	-	-	-	15 949 846
Loans to customers	180 809 109	107 291 732	22 198 615	648 187	310 947 643
Investments available for sale	2 197 714	-	5 499	-	2 203 213
Investments held to maturity	3 874 209	92 702	-	-	3 966 911
Other financial assets	137 764	590 505	19 337	426	748 032
Total financial assets	**265 829 636**	**131 923 531**	**37 581 729**	**4 805 478**	**440 140 374**
Financial liabilities					
Financial liabilities at fair value through profit or loss	1 020 926	558 638	6 666	7 154	1 593 384
Deposits and balances from banks and other financial institutions	21 613 417	22 249 044	15 523 536	291 880	59 677 877
Amounts payable under repurchase agreements	1 642 229	1 147 787	-	-	2 790 016
Current accounts and deposits from customers	205 236 349	58 505 159	29 484 504	3 820 833	297 046 845
Own securities issued	22 538 569	9 361 557	227 371	-	32 127 497
Other borrowed funds	2 806 700	9 995 495	-	-	12 802 195
Other financial liabilities	858 243	167 886	20 644	150	1 046 923
Subordinated borrowings	-	21 817 689	-	-	21 817 689
Total financial liabilities	**255 716 433**	**123 803 255**	**45 262 721**	**4 120 017**	**428 902 426**
Net on balance sheet position as at 31 December 2010	**10 113 203**	**8 120 276**	**(7 680 992)**	**685 461**	**11 237 948**
Net off balance sheet position as at 31 December 2010	**7 298 131**	**(12 649 946)**	**5 723 363**	**(371 548)**	**-**
Net on and off balance sheet positions as at 31 December 2010	**17 411 334**	**(4 529 670)**	**(1 957 629)**	**313 913**	**11 237 948**
Guarantees issued as at 31 December 2010	**52 680 003**	**9 128 742**	**1 068 351**	**12 197**	**62 889 293**
Other credit related commitments as at 31 December 2010	**39 143 100**	**17 406 422**	**4 709 490**	**61 364**	**61 320 376**

(expressed in thousands of Russian Roubles – refer to note 2)

35 Risk management (Continued)

The following table presents an analysis of sensitivity of net (loss)/profit and equity to changes in the foreign currency exchange rates based on positions existing as at 31 December 2011 and 2010 and a simplified scenario of a percentage change in all foreign currencies to the Russian Rouble exchange rate. Currency risk has been determined based on "reasonably possible changes in the risk variable". The level of these changes is estimated by management and is contained within the risk reports provided to key management personnel.

	2011	2010
Appreciation of USD against RUB (2011- 5%;2010 - 2%)	(224 106)	(72 475)
Depreciation of USD against RUB (2011- 5%;2010 - 2%)	224 106	72 475
Appreciation of EUR against RUB (2011- 7%;2010 - 2%)	(66 167)	(78 305)
Depreciation of EUR against RUB (2011- 7%;2010 - 2%)	66 167	78 305
Appreciation of other currencies against RUB (2011- 5%;2010 -2%)	23 578	5 023
Depreciation of other currencies against RUB (2011- 5%;2010 - 2%)	(23 578)	(5 023)

Price risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or factors affecting all instruments traded in the market. Price risk arises when the Group takes a long or short position in a financial instrument.

In addition to the total equity trading position limit, position limits on each issuer, 1-Day and 40-Days stop loss limits, the Group uses limits on Value-at-Risk for its equity trading portfolio in order to mitigate market risk.

An analysis of sensitivity of net (loss)/profit and equity to changes in securities prices based on positions existing as at 31 December 2011 and 2010, and a simplified scenario of a 4% and 3%, respectively, increase in all securities prices is as follows:

	2011	2010
Corporate shares at fair value through profit or loss	12 593	6 309
Corporate shares available for sale	4 303	6 103

Credit risk

Credit risk is the risk of financial losses occurring as a result of default by a borrower or counterparty on the obligations to the Group. The Group has policies and procedures for the identification, assessment, control and management of credit risk, and also all necessary related regulations and methodologies, including those in respect of the borrower's financial condition. Governing bodies involved in the implementation of the credit policy are the Credit Committee, the Committee on Assets and Liabilities Management and the Management Board. These bodies establish crediting principles, make decisions on specific credit projects, set limits for counterparties, and also determine aggregate limits for instruments exposed to credit risk.

The credit policy establishes:

- principles of arrangement of credit process and types of lending limits;
- basic requirements of the clients;
- lending priorities, including the priority sectors of the economy to be credited;
- risks not accepted by the Group.

35 Risk management (Continued)

Corporate

The Group conducts ongoing efforts to find ways for optimisation of the corporate lending process and improvement of credit risk management.

In 2011, considerable attention has been paid to the core training of lending officers, aimed at improving the quality of credit analysis. Recommendations for investment project analysis were developed, as well as approaches to analysis and risk assessment, taking into account the specifics of customers of the Medium-sized business segment. In addition, simplified procedures for the analysis of a number of loan products were introduced. These products are associated with low risk for the Group.

Within the framework of transition to a quantifiable measure of credit risk and to use a risk-pricing system, the Group has implemented a model of internal credit ratings of corporate clients. The model is a formal assessment of a client's creditworthiness.

To minimise the risks of lending to investment projects, the Group implemented formal procedures for the development and approval of credit limits monitoring. The Group approved standard terms of credit products, as well as criteria for monitoring project implementation.

The Group continues the process of improving the existing multi-level powers, aimed at improving the efficiency of lending decisions by delegating authority to lower levels.

As a result of automating the decision making process and the signing of decisions on approval of credit limits, a reliable and structured storage and handling of the assigned credit limit was provided. Automation allows the Group to optimise procedures for the maintenance of lending databases

The Group monitors customer credit limits on a permanent basis from the approval stage to the termination of the period of the credit limit. The purpose of monitoring of lending limits is:

- timely detection of a breach by the client of the conditions of the established lending limit;
- identification of a possible increase in the level of credit risk of the client;
- compliance with the regulatory requirements established by the CBR regarding the regular assessment of credit risk.

Small and medium business

Regarding the lending to clients of small and medium business, decision-making resides with the Credit Committee of Small and Medium Business. The Credit Committee of Small and Medium Business may include members assigned with the individual categories that determine the maximum size of individual office employees. The individual category is assigned based on regular assessment, depending on the level of competence of the employee.

The duties of the sub-division in charge of Credit Risk Management for Small and Medium Business includes the ongoing review of policies and assessment of products to understand credit risks, review of standard contracts, and also the monitoring of the credit portfolio of small and medium business.

The Group annually updated internal document defines the principles of lending for small and medium-sized businesses, including requirements for customers, the priorities in lending, as well as the principles of credit risk management at every stage of the lending process.

35 Risk management (Continued)

In 2011, models were developed assigning internal credit ratings to customers, taking into account the different levels of significance of individual risk factors, depending on the size of loans. The models provide a framework for development of the risk-pricing model in 2012, improvements of methods of calculating credit limits, optimisation of the decision-making authority for small and medium-sized businesses and increase the level of automation of the decision making process.

In order to optimise efficiency of decision-making and minimize losses, risk reporting is regularly presented to the management of the Group, in respect of the condition of credit portfolio of small and medium business. Reporting reflects the results of analysis of the reasons for defaults and increase in overdue indebtedness. Results of age analysis of overdue indebtedness have also been developed.

The Group assigned the area of responsibility, regarding the work to standardise and automate the lending process in accordance with the plan of action to improve the processes of SME lending, prepared according to the analysis of procedures. Now the group is developing a system of regular reporting on the quality of recovery.

Retail

In the course of examination of retail credit applications, all applications pass, when examined, through a single system in which the information from credit history bureaus in respect of each borrower is automatically requested. In 2009 a system of centralised credit decision-making in respect of applications for retail credits and credit cards was introduced.

Since the end of the 2010, the retail credit policy has been simplified. New rules of credit decision making includes optimisation rules of credit history review and development separate scoring cards.

In order to manage retail credit risks, specific methods of analysis of the ageing of the overdue, other statistical analysis methods and regular calibration of existing scoring models on the basis of the data of credit history bureaus and internally accumulated statistics of defaults are performed. A special analytical system has been introduced to increase the efficiency of these processes. The purpose of this system is to reduce risks due to the increase of efficiency and effectiveness of monitoring of dynamics of risk-parameters in the context of products and business units (including in the context of branches and supplementary offices of the network). In the fourth quarter of 2010, the new project has commenced. The purpose of the project is the optimisation of the retail lending process in relation to the decision-making process.

Methods of statistical analysis of retail credit portfolios and analysis of efficiency of performance of collections have been introduced. In addition, an automated system of verification of retail credit applications has been launched.

In 2011 the Group implemented a pricing system based on the credit rating of the customer. Loan interest rate calculated individually for each customer based on an assessment of the creditworthiness of the customer.

Portfolio limits

A system of portfolio limits - large exposures, related parties, industry limits - operates for the purpose of limitation of credit risk concentration. Monitoring of portfolio limits is performed with use of the principle of early notification – when 90% of a limit is reached, the relevant information is brought to the attention of the management. This ensures the efficiency of the making of management decisions aimed at the limitation of credit risk in respect of the Group as a whole.

The Group monitors concentrations of credit risk by industry/sector and by geographic location. For the analysis of concentration of credit risk in respect of loans to customers, refer to note 9 "Loans to customers".

35 Risk management (Continued)

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet its commitments. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of financial institutions, including the Group. It is unusual for financial institutions 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 it can also increase the risk of losses.

The Group maintains liquidity management with the objective of ensuring that funds will be available at all times to honour all cash flow obligations as they become due. The liquidity policy is reviewed and approved by the Management Board.

The Group seeks to actively support a diversified and stable funding base comprising debt securities in issue, long-term and short-term loans from other banks, core corporate and retail customer deposits, accompanied by diversified portfolios of highly liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The liquidity management policy requires:

- projecting cash flows by major currencies and considering the level of liquid assets necessary in relation thereto;
- maintaining a diverse range of funding sources;
- managing the concentration and profile of debts;
- maintaining debt financing plans;
- maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any interruption to cash flow;
- maintaining liquidity and funding contingency plans;
- monitoring balance sheet liquidity ratios against regulatory requirements.

The Treasury Department receives information from business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. The Treasury Department then provides for an adequate portfolio of short-term liquid assets to be maintained, largely made up of short-term liquid trading securities, loans to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole.

The daily liquidity position is monitored by the Treasury Department. Liquidity reports covering the liquidity position are presented to senior management on a weekly basis. Decisions on liquidity management are made by the Asset and Liability Management Committee and implemented by the Treasury Department.

The Group developed a system of coefficients and limits for liquidity risk that was based on the known work practices and Basel Committee recommendations. The system of coefficients and limits is subject to regular update in the light of stressful events in the economy.

The Bank also calculates mandatory liquidity ratios on a daily basis in accordance with the requirements of the Central Bank of Russia. The Bank was in compliance with these ratios during the years ended 31 December 2011 and 2010.

(expressed in thousands of Russian Roubles – refer to note 2)

35 Risk management (Continued)

As at 31 December 2011 and 2010, the contractual maturities of securities included into financial assets at fair value through profit or loss are as follows:

	2011	2010
Less than 1 month	1 300 177	1 895 374
1 to 6 months	6 398 943	9 833 921
6 months to 1 year	5 012 708	7 293 956
1 year to 5 years	21 673 381	21 508 024
More than 5 years	5 018 032	5 088 143
No maturity	314 836	262 896
	39 718 077	**45 882 314**

As at 31 December 2011 and 2010, the contractual maturities or offer date of securities included into investments held to maturity were as follows:

	2011	2010
Less than 1 month	73 083	24 754
1 to 6 months	17 879	1 052 442
6 months to 1 year	2 104 585	11 787
1 year to 5 years	497 688	2 843 246
More than 5 years	36 081	34 682
	2 729 316	**3 966 911**

The maturity table below shows assets and liabilities by their remaining contractual maturity as at 31 December 2011 and 2010, with the exception of securities included into financial assets at fair value through profit or loss as at 31 December 2011. Securities approved by the CBR as collateral for its loans are shown in the category "Less than 1 month"; other securities are shown in accordance with their remaining contractual maturity as at 31 December 2011.

Domestic bonds issued are presented in the table below in accordance with their put dates. The contractual maturity dates are presented in note 20.

In accordance with Russian legislation, term deposits of individuals may be withdrawn before maturity. However management believes that in spite of this early withdrawal option and the fact that a substantial portion of customers accounts are on demand, diversification of these customer accounts and deposits by number and type of depositors, and the past experience of the Group indicates that these customer accounts provide a long-term and stable source of funding.

As at 31 December 2011 the Group included part of current accounts from customers amounting to RUB 65 511 707 thousand (31 December 2010: RUB 57 484 344 thousand) in the category "From 1 to 6 months" based on historical experience of stable customer current accounts.

Overdue assets are classified within the "Demand and less than 1 month" column. As at 31 December 2011 overdue assets classified within this category amount to RUB 28 969 970 thousand (2010: RUB 13 686 048 thousand).

The Group has undrawn lines of credit with the CBR and other financial institutions. Accordingly, the Group in its liquidity forecasts estimates that the liquidity gaps in the table below will be sufficiently covered by the continued retention of current accounts and deposits from customers, as well as the undrawn credit line facilities from the CBR and other financial institutions mentioned above.

(expressed in thousands of Russian Roubles – refer to note 2)

35 Risk management (Continued)

The following table shows the maturity analysis of financial assets and financial liabilities as monitored by management as of 31 December 2011:

	Demand and less than 1 month	From 1 to 6 months	From 6 months to 1 year	From 1 year to 5 years	More than 5 years	No maturity	Total
Financial assets							
Cash and cash equivalents	55 830 766	-	-	-	-	-	55 830 766
Obligatory reserves with central banks	1 288 915	2 538 777	1 280 005	786 259	(15 765)	-	5 878 191
Placements with banks and other financial institutions	1 501 738	3 137 406	335 027	727 195	-	-	5 701 366
Financial assets at fair value through profit or loss	19 176 227	3 136 052	3 764 788	11 047 546	2 830 065	314 836	40 269 514
Amounts receivable under reverse repurchase agreements	23 524 806	-	-	-	-	-	23 524 806
Loans to customers	37 113 077	137 306 854	69 193 564	136 964 007	15 559 464	-	396 136 966
Investments available for sale	1 201 517	-	-	-	-	107 467	1 308 984
Investments held to maturity	73 083	17 879	2 104 585	497 688	36 081	-	2 729 316
Other financial assets	436 216	-	-	-	-	-	436 216
Total financial assets	**140 146 345**	**146 136 968**	**76 677 969**	**150 022 695**	**18 409 845**	**422 303**	**531 816 125**
Financial liabilities							
Financial liabilities at fair value through profit or loss	263 860	361 734	11 153	9 052	-	-	645 799
Deposits and balances from banks and other financial institutions	22 310 597	26 043 288	8 052 847	8 385 246	747 212	-	65 539 190
Amounts payable under repurchase agreements	1 607 662	-	-	-	-	-	1 607 662
Current accounts and deposits from customers	83 462 914	153 712 760	73 845 854	27 580 843	-	-	338 602 371
Own securities issued	3 842 010	20 907 812	3 288 772	28 686 147	-	-	56 724 741
Other borrowed funds	44 952	279 574	11 562 338	4 283 054	-	-	16 169 918
Other liabilities	542 745	140 497	223 267	287 143	-	18 724	1 212 376
Subordinated borrowings	556 163	6 591 777	-	12 791 232	6 639 190	-	26 578 362
Total financial liabilities	**112 630 903**	**208 037 442**	**96 984 231**	**82 022 717**	**7 386 402**	**18 724**	**507 080 419**
Net liquidity position as at 31 December 2011	**27 515 442**	**(61 900 474)**	**(20 306 262)**	**67 999 978**	**11 023 443**	**403 579**	**24 735 706**
Cumulative liquidity position as at 31 December 2011	**27 515 442**	**(34 385 032)**	**(54 691 294)**	**13 308 684**	**24 332 127**	**24 735 706**	

The management of the Group believes that Investments available for sale can be sold at any time.

(expressed in thousands of Russian Roubles – refer to note 2)

35 Risk management (Continued)

The following table shows the maturity of financial assets and financial liabilities analysis as monitored by management as of 31 December 2010:

	Demand and less than 1 month	From 1 to 6 months	From 6 months to 1 year	From 1 year to 5 years	More than 5 years	No maturity	Total
Financial assets							
Cash and cash equivalents	45 182 249	-	-	-	-	-	45 182 249
Obligatory reserves with central banks	567 083	1 460 004	757 815	249 996	(19 022)	-	3 015 876
Placements with banks and other financial institutions	2 695 667	2 598 827	6 818 780	8 758	-	-	12 122 032
Financial assets at fair value through profit or loss	32 874 973	3 257 688	1 489 849	5 415 067	2 704 109	262 886	46 004 572
Amounts receivable under reverse repurchase agreements	15 949 846	-	-	-	-	-	15 949 846
Loans to customers	44 135 209	103 968 742	56 348 063	97 857 035	8 638 594	-	310 947 643
Investments available for sale	-	-	1 948 931	-	-	254 282	2 203 213
Investments held to maturity	24 754	1 052 442	11 787	2 843 246	34 682	-	3 966 911
Other financial assets	748 032	-	-	-	-	-	748 032
Total financial assets	**142 177 813**	**112 337 703**	**67 375 225**	**106 374 102**	**11 358 363**	**517 168**	**440 140 374**
Financial liabilities							
Financial liabilities at fair value through profit or loss	1 575 982	16 089	1 313	-			1 593 384
Deposits and balances from banks and other financial institutions	21 562 175	13 959 090	14 104 519	9 467 421	584 672	-	59 677 877
Amounts payable under repurchase agreements	2 790 016	-	-	-	-	-	2 790 016
Current accounts and deposits from customers	59 825 740	144 655 742	72 346 004	20 219 359	-	-	297 046 845
Own securities issued	1 528 659	12 076 537	10 234 755	8 287 546	-	-	32 127 497
Other borrowed funds	785	4 976 642	1 003 674	6 821 094	-	-	12 802 195
Other financial liabilities	296 697	188 563	272 426	272 278	504	16 455	1 046 923
Subordinated borrowings	530 454	130 855	-	12 107 795	9 048 585	-	21 817 689
Total financial liabilities	**88 110 508**	**176 003 518**	**97 962 691**	**57 175 493**	**9 633 761**	**16 455**	**428 902 426**
Net liquidity position as at 31 December 2010	**54 067 305**	**(63 665 815)**	**(30 587 466)**	**49 198 609**	**1 724 602**	**500 713**	**11 237 948**
Cumulative liquidity position as at 31 December 2010	**54 067 305**	**(9 598 510)**	**(40 185 976)**	**9 012 633**	**10 737 235**	**11 237 948**	

(expressed in thousands of Russian Roubles – refer to note 2)

35 Risk management (Continued)

The following tables shows the undiscounted cash flows on financial liabilities and unrecognised credit related commitments on the basis of their earliest possible contractual maturity. The total gross amount (inflow)/outflow disclosed in the table is the contractual, undiscounted cash flow on the financial liability or commitment.

The gross undiscounted cash flows as at 31 December 2011 are as follows:

	Demand and less than 1 month	From 1 to 6 months	From 6 months to 1 year	From 1 year to 5 years	More than 5 years	No maturity	Total gross amount outflow/ (inflow)	Carring amount
Non-derivative liabilities								
Deposits and balancs from banks and other financial institutions	22 403 370	26 498 269	8 316 606	8 933 474	774 988	-	66 926 707	65 539 190
Amounts payable under repurchase agreements	1 607 947	-	-	-	-	-	1 607 947	1 607 662
Current accounts and deposits from customers	149 682 629	91 266 384	76 589 790	30 167 283	-	-	347 706 086	338 602371
Own securities issued	3 874 149	21 818 103	4 558 446	31 386 763	-	-	61 637 461	56 724 741
Other borrowed funds	68 419	479 032	11 941 432	5 104 476	-	-	17 593 359	16 169 918
Other financial liabilities	542 745	140 498	223 267	287 143	-	18 723	1 212 376	1 212 376
Subordinated borrowings	571 481	7 401 375	1 247 494	21 602 223	8386578	-	39 209 151	26 578 362
Derivative liabilities								
Inflow	(100 105 037)	(11 089 969)	(1 643 653)	(12 879)	-	-	(112 851 538)	(551 437)
Outflow	99 502 206	11 221 065	1 647 126	9 052	-	-	112 379 449	645 799
Total	**178 147 909**	**147 734 757**	**102 880 508**	**97 477 535**	**9 161 566**	**18 723**	**535 420 998**	**506 528 982**
Credit related commitments	**170 986 625**	**-**	**-**	**-**	**-**	**-**	**170 986 625**	**691 907**
Total potencial cash outflow	**349 134 534**	**147 734 757**	**102 880 508**	**97 477 535**	**9 161 566**	**18 723**	**706 407 623**	**507 220 889**

(expressed in thousands of Russian Roubles – refer to note 2)

35 Risk management (Continued)

The gross undiscounted cash flows as at 31 December 2010 were as follows:

	Demand and less than 1 month	From 1 to 6 months	From 6 months to 1 year	From 1 year to 5 years	More than 5 years	No maturity	Total gross amount outflow/ (inflow)	Carrying amount
Non-derivative liabilities								
Deposits and balances from banks and other financial institutions	21 627 859	14 501 590	14 395 919	9 851 603	612 236	-	60 989 207	59 677 877
Amounts payable under repurchase agreements	2 791 914	-	-	-	-	-	2 791 914	2 790 016
Current accounts and deposits from customers	117 959 828	89 663 479	73 966 927	21 957 520	-	-	303 547 754	297 046 845
Own securities issued	1 544 811	12 517 363	11 021 695	9 571 766	-	-	34 655 635	32 127 497
Other borrowed funds	1 312	5 253 714	1 255 356	7 669 942	-	-	14 180 324	12 802 195
Other financial liabilities	296 697	188 563	272 426	272 278	504	16 455	1 046 923	1 046 923
Subordinated borrowings	540 965	678 728	1 220 366	19 509 868	10 792 634	-	32 742 561	21 817 689
Spot, derivative and trading liabilities								
- Inflow	(43 743 521)	(3 898 759)	(2 862 200)	-	-	-	(50 504 480)	(122 258)
- Outflow	45 244 767	3 878 450	2 474 631	-	-	-	51 597 848	1 593 384
Total	**146 264 632**	**122 783 128**	**101 745 120**	**68 832 977**	**11 405 374**	**16 455**	**451 047 686**	**428 780 168**
Credit related commitments	**124 209 669**	**-**	**-**	**-**	**-**	**-**	**124 209 669**	**745 913**
Total potencial cash outflow	**270 474 301**	**122 783 128**	**101 745 120**	**68 832 977**	**11 405 374**	**16 455**	**575 257 355**	**429 526 081**

35 Risk management (Continued)

Operational risk

Operational risk is the risk of losses from inadequacy or failure of internal processes or systems or from external events. The Group's operational risk management strategy, developed and approved by the Management Board, provides for identification, assessment, monitoring and control of operational risks and allocates operational risk management responsibilities. Fraud risk forms a separate type of operational risk.

The Group manages its operational and legal risks, fraud risk and reputational risk through internal monitoring and compliance policies.

The Internal Control Department ("ICD") reviews all internal documentation in order to identify potential shortfalls in internal control procedures and business operations, notifies the Management Board of violations and supervises the correction of such violations. The ICD, the Legal Department, Financial and Retail Risk Department together with other divisions monitor compliance with, and seek to ensure the proper functioning of, internal policies and procedures designed to minimise operational and legal risks, respectively, and also monitor compliance with relevant Russian legislation. The head of the ICD reports directly to the Group's President and Board of Directors.

The Group conducts the majority of its transactions using standard forms approved by its Legal Department. The Legal Department reviews all non-standard forms before the relevant transactions take place.

The Group has in place internal documents and procedures that set forth the job descriptions and responsibilities of its personnel. The decision-making capacity and authority of particular departments and members of management are strictly regulated. The Group is also in the process of developing internal documents describing all of its business processes in compliance with existing legislation.

The Group applies various kinds of insurance to minimise potential loss from transaction risks, including insurance of cash in transit, other property and obligatory deposit insurance. The Bank has also an insurance policy covering numerous types of operational losses including losses from fraud and crimes committed in the electronic and computer area (Bankers Blanket Bond).

The Operational and Fraud Prevention Division of the Financial and Retail Risk Department is responsible for risks detection and valuation, development of instructions for risks minimisation and aggregation of occurred losses database. A separate database exists for registering all known fraud cases as well as databases for legal issues and reputational damages.

The developed approach of determination of key risk indicators allows the Group to monitor the level of operational risk and forecasts the possibility of operational risk events in the future. This will help the Group to move to the advanced approach of risk analysis in accordance with Basel II.

(expressed in thousands of Russian Roubles – refer to note 2)

36 Capital management

The Bank monitors its capital adequacy levels calculated in accordance with the requirements of the Basel Accord, as defined in the International Convergence of Capital Measurement and Capital Standards (updated April 1998) and Amendment to the Capital Accord to incorporate market risks (updated November 2007), commonly known as Basel I. The following table shows the composition of the capital position calculated in accordance with the requirements of the Basel Accord, as at 31 December 2011:

	2011	**2010**
Tier 1 Capital		
Share capital	12 201 899	11 511 052
Share premium	20 612 247	17 303 093
Additional paid-in-capital	81 919	81 919
Retained earnings	18 648 805	13 242 167
Non-controlling interest	(44 356)	-
Less Goodwill	(3 854)	-
Total tier 1 capital	**51 496 660**	**42 138 231**
Tier 2 Capital		
Asset revaluation reserves	2 836 942	2 717 232
Revaluation reserve of investments available for sale	(231 863)	(80 230)
Subordinated debt excluding accrued interest	17 444 489	15 847 988
Total Capital	**71 546 228**	**60 623 221**
Risk-weighted assets		
Banking book	480 199 952	390 838 100
Trading book	33 194 230	30 663 840
Total Risk-weighted assets	**513 394 182**	**421 501 940**
Tier 1 Ratio	**10.03%**	**10.00%**
Total Capital Adequacy Ratio	**13.94%**	**14.38%**

As at 31 December 2011 and 2010, included in Tier 2 Capital is RUB 17 444 489 thousand and RUB 15 847 988 thousand, respectively, of subordinated debt net of accrued interest, which represent loans and subordinated loan participation notes issued by the Group with the following conditions:

- original maturity is not less than 5 years;
- creditors have no right to claim the deposits before maturity;
- in the event of bankruptcy or default, subordinated deposits and loan participation notes are to be repaid only after the settlement of all other liabilities.

Long-term subordinated debt may not exceed 50% of Tier 1 capital.

The risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the nature of – and reflecting an estimate of credit, market and other risks associated with – each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-balance sheet exposure, with some adjustments to reflect the more contingent nature of the potential losses.

The Group is subject to minimum capital adequacy requirements calculated in accordance with the Basel Accord established by covenants under syndicated loans and a subordinated loan from EBRD. These covenants prescribe that the Group must maintain a total capital adequacy ratio not less than 12%. The Group complied with all externally imposed capital requirements during the years ended 31 December 2011 and 2010.

The Group also monitors capital requirements set by the Central Bank of Russia for credit institutions. Under current capital requirements banks have to maintain a ratio of capital to risk weighted assets ("statutory capital ratio") above the prescribed minimum level. As at 31 December 2011, this minimum level is 10%. The Bank was in compliance with the statutory requirements related to the capital ratio during the years ended 31 December 2011 and 2010.

(expressed in thousands of Russian Roubles – refer to note 2)

37 Spot and derivative financial instruments

Spot and derivative financial instruments are generally traded in an over-the-counter market with professional market counterparties on standardised or specific contractual terms and conditions.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recorded in the statement of financial position, but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the exposure to credit or price risks. The spot and derivative financial instruments become favourable (asset) or unfavourable (liability) as a result of fluctuations in market rates relative to their terms. The aggregate contractual or notional amount of spot and derivative financial instruments held, and the aggregate fair values of spot and derivative financial assets and liabilities can fluctuate significantly from time to time.

The principal or agreed amounts and fair values of spot and derivative instruments held are set out in the following table. This table reflects gross positions before the netting of any counterparty positions by type of instrument and covers the contracts with a maturity date subsequent to 31 December 2011 and 2010, respectively.

	2011			2010		
	Contract/ notional amount	Fair value		Contract/ notional amount	Fair value	
		Assets	Liabilities		Assets	Liabilities
Foreign currency derivative contracts						
Foreign currency spot contracts	41 072 780	91 866	(86 329)	10 829 501	8 876	(11 603)
Foreign currency forward contracts	52 077 382	336 624	(528 912)	5 203 727	37 952	(7 510)
Foreign currency swap contracts	10 570 910	15 840	(14 878)	31 517 133	55 686	(71 684)
Foreign currency options	234 545	1 544	(813)			
Foreign currency futures	-	-	-	-	-	-
Precious metals derivative contracts						
Precious metals forward contracts with fixed rates	758 302	-	-	-	-	-
Precious metals spot contracts with fixed rates	109 722	788	-	-	-	-
Precious metals forward contracts with floating rates	6 918 592	45 119	-	2 748 669	19 172	-
Securities derivative contracts						
Securities spot contracts	-	-	-	-	-	-
Securities forward contracts	680 122	54 482	-	90 628	572	-
Other derivative contracts						
Interest rate swaps	1 200 000	5 123	(8 248)	-	-	-
Interest rate futures	-	-	-	-	-	-
Precious metal futures	30 305	1	(1 819)	-	-	-
Interest rate forward	3 000 000	50	(4 800)	-	-	-
Total recognised derivative assets/(liabilities)		**551 437**	**(645 799)**		**122 258**	**(90 797)**

At 31 December 2011, the total positive fair value of spot and derivative financial instruments amounting to RUB 551 437 thousand (2010: RUB 122 258 thousand) is disclosed in note 7, and the total negative fair value amounting to RUB 645 799 thousand (2010: RUB 90 797 thousand) is disclosed in note 16.

(expressed in thousands of Russian Roubles – refer to note 2)

38 Credit related and capital commitments

Credit related commitments

At any time the Group has outstanding commitments to extend credit. These commitments take the form of approved loans and credit card limits and overdraft facilities.

The Group provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to five years. The Group also provides guarantees by acting as settlement agent in securities borrowing and lending transactions.

The contractual amounts of commitments and contingent liabilities as at 31 December 2011 and 2010 are set out in the following table by category. The amounts reflected in the table for commitments assume that amounts are fully advanced. The amounts reflected in the table for guarantees and letters of credit represent the maximum accounting loss that would be recognised at the reporting date if counterparties failed completely to perform as contracted.

	2011	2010
Contracted amount		
Guarantees	75 244 784	62 889 293
Undrawn overdraft facilities	67 863 916	48 438 691
Import letters of credit	8 745 044	5 969 835
Undrawn loan facilities	19 132 881	6 911 850
Total	**170 986 625**	**124 209 669**

The total outstanding contractual commitments to extend credit indicated above does not necessarily represent future cash requirements, as these commitments may expire or terminate without being funded.

Maturity and currency analyses of credit related commitments are disclosed in note 35. The information on related party balances is disclosed in note 44.

Compliance with covenants

The Group has to comply with certain covenants, primarily related to loans from other banks and other borrowed funds. These covenants include:

General business covenants, such as business conduct and reasonable prudence, conformity with legal requirements of the country in which the company is located, maintenance of accurate accounting records, implementation of controls, performance of independent audits, etc.;

Restrictive covenants, including constraints (without lender's consent) in respect of dividend payments and other distributions, and changes in the shareholding structure, restrictions on individual types of activities, use of assets and certain types of transactions;

Financial covenants, such as meeting certain liquidity and capital adequacy requirements, the amount of certain type of liabilities, risk per customer, profit before taxes to total assets ratio, amount of related party transactions; and

Reporting covenants, obliging the Group to provide its audited consolidated financial statements to the lender, as well as certain additional financial information and any other documents upon request.

Non-compliance with such covenants may result in negative consequences for the Group including growth in the cost of borrowings and declaration of default. As at 31 December 2011 and 31 December 2010, the Group's management believes that the Group fully meets all covenants of agreements.

(expressed in thousands of Russian Roubles – refer to note 2)

39 Operating leases

Leases as lessee

Non-cancellable operating lease rentals as at 31 December are payable as follows:

	2011	2010
Less than one year	764 766	555 766
From one to five years	1 578 703	1 168 556
More than five years	492 446	380 327
	2 835 915	**2 104 649**

The Group leases a number of premises under operating leases. Lease payments are usually increased annually to reflect market rentals. None of the leases includes contingent rentals.

During the year ended 31 December 2011, RUB 789 803 thousand was recognised as an expense in profit or loss in respect of operating leases (2010: RUB 768 811 thousand). Refer to note 32.

40 Contingencies

Insurance

The insurance industry in the Russian Federation is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Group does not have full coverage for its premises and equipment, business interruption, or third party liability in respect of property or environmental damage arising from accidents on Group property or relating to the Group's operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on operations and financial position.

Litigation

In the ordinary course of business, the Group is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints, will not have a material adverse effect on the consolidated financial condition or the results of future operations.

Taxation 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.

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.

40 Contingencies (Continued)

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.

The Group includes companies incorporated outside of Russia. The tax liabilities of the Group are determined on the assumption that these companies are not subject to Russian profits tax, because they do not have a permanent establishment in Russia. This interpretation of relevant legislation may be challenged but the impact of any such challenge cannot be reliably estimated currently; 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.

41 Custody activities

The Group provides custody services to its customers whereby it holds securities on behalf of customers and receives fee income for providing these services. For the year ended 31 December 2011 and 2010, the Group received fee income for custody services amounting to RUB 1,270 thousand and RUB 1,094 thousand, respectively. These securities are not assets of the Group and are not recognised in the consolidated statement of financial position.

42 Fair value of financial instruments

Estimated fair value disclosures of financial instruments are made in accordance with the requirements of *IFRS 7 "Financial Instruments: Disclosures"*. Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in a forced or liquidation sale. The estimates presented herein are not necessarily indicative of the amounts the Group could realise in a market exchange from the sale of its full holdings of a particular instrument.

The estimated fair values of financial instruments at fair value through profit or loss, loan participation notes and domestic bonds are based on quoted market prices at the reporting date without any deduction for transaction costs.

The estimated fair values of all other financial assets and liabilities are calculated using discounted cash flow techniques based on estimated future cash flows and discount rates for similar instruments at the reporting date.

(expressed in thousands of Russian Roubles – refer to note 2)

42 Fair value of financial instruments (Continued)

The fair value of financial assets and financial liabilities compared with the corresponding carrying amount in the consolidated statement of financial position of the Group is presented below:

	2011		2010	
In thousands of Russian Roubles	Carrying amount	Fair value	Carrying amount	Fair value
Financial Assets				
Cash and cash equivalents				
- Cash on hand	18 136 867	18 136 867	12 653 525	12 653 525
- Due from Central Bank – nostro accounts	6 545 931	6 545 931	12 009 806	12 009 806
- Deposits with the Central Bank of the RF	1 666 868	1 666 868	900 074	900 074
- Placements with banks and other financial institutions with a remaining maturity less than one month	29 481 100	29 481 100	19 618 844	19 618 844
Minimum reserve deposits with the CBR				
- Minimum reserve deposit with the Central Bank of the RF	5 455 526	5 455 526	2 567 026	2 567 026
- Minimum reserve deposit with the Central Bank of Cyprus	422 665	422 665	448 850	448 850
Placements with banks and other financial institutions				
- Placements with other banks with original maturities of more than one month	5 701 366	5 908 233	12 122 032	12 486 552
Amounts receivable under reverse repurchase agreements				
- Amounts receivable from banks and other financial institutions	19 421 892	19 421 892	10 107 971	10 107 971
- Amounts receivable from customers	4 102 914	4 102 914	5 841 875	5 841 875
Loans and advances to customers				
- Commercial loans	364 839 671	364 174 040	288 944 662	288 504 145
- Loans to individuals	31 297 295	30 760 289	22 002 981	20 388 106
Investment securities held to maturity				
- Russian government bonds	2 523 597	2 499 609	3 516 870	3 506 255
- Corporate bonds	152 738	147 610	357 339	264 129
- Corporate eurobonds	52 981	16 303	92 702	59 452
Assets held for sale				
- Assets held for sale	-	-	5 944 765	5 944 765
Other financial assets				
- Securities lending operations	-	-	564 554	564 554
- Accrued commission income	228 593	228 593	145 029	145 029
- Plastic card receivables	163 191	163 191	5 276	5 276
- Debtors under securities deals	40 384	70 837	-	-
- Other	4 048	4 048	33 173	33 173
Total financial assets carried at amortised cost	**490 237 627**	**489 206 516**	**397 877 354**	**396 049 407**

42 Fair value of financial instruments (Continued)

	2011		2010	
In thousands of Russian Roubles	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
Financial liabilities				
Due to other banks				
- Term deposits of local banks	21 786 426	21 798 518	17 570 624	17 725 717
- Trading finance of foreign banks	18 086 365	18 107 272	16 767 032	16 874 052
- Long-term finance of foreign banks	10 121 176	10 121 186	11 085 493	11 090 591
- Term deposits of foreign banks	9 046 753	9 060 251	6 590 876	6 608 658
- Vostro accounts	6 498 470	6 498 469	7 663 852	7 663 851
Amounts payable under repurchase agreements				
- Amounts payable to customers	1 567 660	1 567 660	403 887	403 887
- Amounts payable to banks and other financial institutions	40 002	40 002	2 386 129	2 386 129
Customer accounts				
- Current accounts of legal entities	74 846 644	74 846 644	68 413 408	68 413 408
- Term deposits of legal entities	139 566 263	138 423 842	120 964 334	120 088 683
- Current accounts of individuals	21 648 415	21 648 415	20 854 482	20 854 482
- Term deposits of individuals	102 541 049	106 560 573	86 814 621	86 557 104
Debt securities in issue				
- Promissory notes	23 925 235	23 925 235	20 632 071	20 632 071
- Loan participation notes	18 044 239	17 876 618	8 650 527	9 215 480
- Domestic bonds	14 724 814	14 487 230	2 781 695	2 800 412
- Certificates of deposit	30 453	30 453	63 204	63 204
Other borrowed funds				
- Syndicated loans	11 205 935	11 304 356	7 550 513	7 732 891
- Other borrowed funds	4 963 983	4 942 995	5 251 682	5 286 136
Other financial liabilities				
- Financial guarantees	674 485	674 485	741 458	741 458
- Plastic card payables	267 260	267 260	135 422	135 422
- Other accrued liabilities	138 711	138 711	109 899	109 899
- Payables on factoring deals	84 785	84 785	60 144	60 144
- Securities lending operations	47 135	47 135	-	-
Subordinated debt				
- Subordinated debt	26 578 362	28 010 122	21 817 689	23 689 247
Total financial liabilities carried at amortised cost	**506 434 620**	**510 462 217**	**427 309 042**	**429 132 926**

Financial instruments recognised at fair value are broken down for disclosure purposes into a three level fair value hierarchy based on the observability of inputs as follows:

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

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

- Valuation techniques involving the use of non-market observable inputs incorporating information other than observable market data – Valuations based on inputs that are unobservable and significant to the overall fair value measurement. Valuation techniques involving the use of non-market observable inputs were based on the analysis of discounted cash flows due from issuers. As at 31 December 2011, a discount rate of 15% is used for discounting future cash flows from corporate bonds in this category.

(expressed in thousands of Russian Roubles – refer to note 2)

42 Fair value of financial instruments (Continued)

The following table shows an analysis of financial instruments recorded at fair value, between those whose fair value is based on quoted market prices or calculated using valuation techniques as at 31 December 2011:

	Quoted market prices	Valuation techniques based on observable inputs	Valuation techniques involving the use of non-market observable inputs	Total
Financial assets				
Financial assets at fair value through profit or loss	40 026 444	-	243 070	40 269 514
Investments available for sale	101 785	1 201 411	5 788	1 308 984
Financial liabilities				
Derivative financial instruments	645 799	-	-	645 799

Fair value interest rate risk

An analysis of sensitivity of the net (loss)/profit and equity as a result of changes in fair value of corporate bonds due to changes in the interest rates (also known as price value basis point ("PVBP") based on positions existing as at 31 December 2011 and 2010 and a simplified scenario of a 200 bp, rise or fall in all yield curves, is as follows:

2011		2010	
200 bp parallel increase	**200 bp parallel decrease**	**200 bp parallel increase**	**200 bp parallel decrease**
(326 160)	326 160	(654 000)	654 000

The following table shows an analysis of financial instruments recorded at fair value, between those whose fair value is based on quoted market prices or calculated using valuation techniques as at 31 December 2010:

	Quoted market prices	Valuation techniques based on observable inputs	Valuation techniques involving the use of non-market observable inputs	Total
Financial assets				
Financial assets at fair value through profit or loss	45 966 126	-	38 446	46 004 572
Investments available for sale	248 783	1 948 931	5 499	2 203 213
Financial liabilities				
Trading liabilities	1 502 587	-	-	1 502 587
Spot and derivative financial instruments	90 797	-	-	90 797

The estimates of fair value are intended to approximate the amount for which a financial instrument can be exchanged between knowledgeable, willing parties in an arm's length transaction. However, given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realisable in an immediate sale of the assets or settlement of liabilities.

(expressed in thousands of Russian Roubles – refer to note 2)

42 Fair value of financial instruments (Continued)

The following table shows the movement of financial instruments recorded at fair value whose fair value is based on valuation techniques involving the use of non-market observable inputs:

	Financial assets at fair value through profit or loss	Investments available for sale
Balance as at 1 January 2010	**983 016**	**5 943**
Purchase during the year 2009	14 464	-
Sale during the year 2010	(981 980)	-
Net gain recognised in consolidated income statement	22 946	(444)
Balance as at 1 January 2011	**38 446**	**5 499**
Purchase during the year 2010	195 697	-
Net gain recognised in consolidated income statement	8 927	289
Balance as at 31 December 2011	**243 070**	**5 788**

43 Average effective interest rates

The table below displays the interest bearing assets and interest bearing liabilities as at 31 December 2011 and 2010 and their corresponding average effective interest rates as at those dates.

	2011	2011	2010	2010
	Carrying amount	Average Effective Interest Rate	Carrying amount	Average Effective Interest Rate
Interest earning assets				
Cash and cash equivalents				
- RUB	9 841 504	5.5%	2 567 043	3.0%
- other currencies	18 389 887	0.3%	14 617 961	0.2%
Obligatory reserves with central banks				
- other currencies	422 665	1.0%	448 850	1.0%
Placements with banks and other financial institutions				
- RUB	371 850	10.9%	14 494	11.4%
- other currencies	5 329 516	8.0%	12 107 538	6.8%
Financial assets at fair value through profit or loss				
- RUB	31 686 768	8.2%	35 962 456	6.4%
- other currencies	7 716 475	5.9%	9 656 962	4.0%
Amount receivable under reverse repurchase agreements				
- RUB	23 524 806	5.3%	15 949 846	4.2%
Loans to customers				
- RUB	246 972 209	13.7%	180 809 109	14.7%
- other currencies	149 164 757	10.0%	130 138 534	13.9%
Investments held to maturity				
- RUB	2 676 335	6.7%	3 874 209	7.4%
- other currencies	52 981	0.4%	92 702	10.4%

(expressed in thousands of Russian Roubles – refer to note 2)

	2011 Carrying amount	2011 Average Effective Interest Rate	2010 Carrying amount	2010 Average Effective Interest Rate
Interest bearing liabilities				
Vostro accounts of banks and other financial institutions				
- RUB	5 185 162	2.0%	6 519 845	0.7%
- other currencies	1 313 307	0.7%	1 144 007	0.2%
Deposits and balances from banks and other financial institutions, other borrowed funds and subordinated borrowings due to banks except for vostro accounts				
- RUB	31 361 407	7.3%	17 899 110	5.8%
- other currencies	46 444 744	2.8%	45 793 336	3.7%
Amounts payable under repurchase agreements				
- RUB	1 607 662	1.9%	1 642 229	2.7%
- other currencies	-	-	1 147 787	1.3%
Term deposits from customers, other borrowed funds and subordinated borrowings due to customers				
- RUB	162 343 259	7.5%	136 319 131	7.4%
- other currencies	80 655 062	3.5%	72 582 437	4.6%
Current accounts from customers				
- RUB	76 653 149	0.0%	68 917 219	0.0%
- other currencies	19 841 911	0.0%	20 350 671	0.0%
Loan participation notes including subordinated and domestic bonds				
- RUB	14 724 814	8.4%	2 781 695	8.2%
- other currencies	41 136 079	10.1%	30 468 216	11.5%
Promissory notes and certificates of deposit				
- RUB	18 632 380	7.9%	19 756 874	7.2%
- other currencies	5 323 308	3.9%	938 401	4.0%

44 Related party transactions

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

(expressed in thousands of Russian Roubles – refer to note 2)

44 Related party transactions (Continued)

The outstanding balances and the related average interest rates as at 31 December 2011 with related parties are as follows:

	Parent		Directors and Board of Management		Entities under common control		Total
	Carrying amount	Average Interest Rate	Carrying amount	Average Interest Rate	Carrying amount	Average Interest Rate	Carrying amount
Statement of Financial Position							
Assets							
Loans to customers (gross amount)	705 464	12%	50 291	11.8%	10 684 877	8.8%	11 440 632
less provision for impairment	-	-	(2)	-	(19 518)	-	(19 520)
Other assets	-	-	-	-	176 923	-	176 923
Liabilities							
Current accounts and deposits from customers and other borrowed funds	801 185	4.4%	373 814	6.1%	2 215 877	1.1%	3 390 876
Own securities issued	-	-	261	7.1%	-	-	261
Other liabilities	276	-	-	-	64 481	-	64 757
Off balance sheet items							
Suretiships received	-	-	-	-	7 085 449	-	7 085 449
Guarantees issued	371 376	-	-	-	2 792 164	11.8%	3 163 540
Letters of credit issued	-	-	-	-	191 645	-	191 645

Entities under common control comprise mainly entities controlled by the ultimate shareholders of the Group.

As stated in note 1, minority shareholders of the Group are European Bank for Reconstruction and Development and Commerzbank Auslandsbanken Holding AG. The Group's management does not consider minority shareholders as related parties as they do not exercise significant influence over the Group's financial or operational decisions.

As at 31 December 2011, outstanding balances with EBRD comprised RUB 3 053 842 thousand (2010: RUB 1 581 015 thousand) in Deposits and balances from banks and other financial institutions, RUB 3 500 000 thousand in subordinated borrowings and RUB 236 568 thousand (2010: RUB 8 776 043 thousand) in other borrowed funds.

As at 31 December 2011, outstanding balances with Commerzbank comprised RUB 208 892 thousand (2010: RUB 138 475 thousand) in Placements with banks and other financial institutions, RUB 4 756 002 thousand (2010: RUB 3 294 378 thousand) in Deposits and balances from banks and other financial institutions and RUB 804 902 thousand in other borrowed funds.

(expressed in thousands of Russian Roubles – refer to note 2)

44 Related party transactions (Continued)

The outstanding balances and the related average interest rates as of 31 December 2010 with related parties are as follows:

	Parent		Directors and Management Board		Entities under common control		Total
	Carrying amount	Average Interest Rate	Carrying amount	Average Interest Rate	Carrying amount	Average Interest Rate	Carrying amount
Statement of Financial Position							
Assets							
Financial assets at fair value through profit or loss	-	-	-	-	629 713	11.5%	629 713
Loans to customers (gross amount)	1	-	79 375	11.4%	8 229 389	9.5%	8 308 765
less impairment allowance	-	-	(66)	-	(4 638)	-	(4 704)
Other assets	-	-	-	-	187 993	-	187 993
Liabilities							
Current accounts and deposits from customers	1 735 772	10,9%	398 114	9.1%	4 561 213	0.4%	6 695 099
Own securities issued	-	-	244	7.1%	-	-	244
Other liabilities	-	-	-	-	176 521	-	176 521
Off balance sheet items							
Suretiships received	-	-	40 000	-	2 920 825	-	2 960 825
Guarantees issued	-	-	-	-	1 667 322	11.9%	1 667 322
Letters of credit issued	-	-	-	-	453 877	-	453 877

Entities under common control comprise mainly entities controlled by the ultimate shareholders of the Group.

(expressed in thousands of Russian Roubles – refer to note 2)

44 Related party transactions (Continued)

Profit or loss amounts in respect of transactions with related parties for the year ended 31 December 2011, are as follows:

	Parent	Directors and Board of Management	Entities under common control	Total
Interest income	9 574	8 656	1 041 129	1 059 359
Fee and commission income	6 720	12	164 315	171 047
Net gain or loss on financial instruments at fair value through profit or loss	-	-	(3 106)	(3 106)
Other income	3	20	2	25
Interest expense	(40 740)	(19 534)	(71 336)	(131 610)
Fee and commission expense	-	-	(20 740)	(20 740)
General administrative expenses	(60 000)	(624 906)	(284 747)	(969 653)
Charge for (reversal of) loan impairment losses	-	65	(14 880)	(14 815)

Profit or loss amounts in respect of transactions with related parties for the year ended 31 December 2010, are as follows:

	Parent	Directors and Management Board	Entities under common control	Total
Interest income	1 276	6 792	881 975	890 043
Fee and commission income	1 167	65	131 512	132 744
Interest expense	(39 260)	(21 196)	(36 962)	(97 418)
Fee and commission expense	-	-	(4 996)	(4 996)
Recovery of impairment losses	-	469	44 514	44 983
Administrative expenses	-	(621 858)	(302 567)	(924 425)

Entities under common control comprise mainly entities controlled by the ultimate shareholders of the Group.

During the year ended 31 December 2011, short-term compensation of the Directors and members of the Management Board amounts to RUB 624 906 thousand (2010: RUB 621 858 thousand).

45 Presentation of Financial Instruments by Measurement Category

As of 31 December 2011 and 31 December 2010 all of the Group's financial assets have been classified in loans and receivables measurement category except for:

- corporate shares included in financial assets at fair value through profit or loss which are classified as designated at fair value through profit or loss,
- investments available for sale which are classified as available for sale,
- Investments held to maturity,
- finance lease receivables
- all other financial assets at fair value through profit or loss and derivative financial instruments included in other financial assets which are classified as held for trading,

As of 31 December 2011 and 31 December 2010 all of the Group's financial liabilities except for derivatives and trading liabilities were carried at amortised cost. Derivatives and trading liabilities belong to the fair value through profit or loss measurement category.

46 Subsequent events

On January 2012, it was announced that Commerzbank Auslandsbanken Holding AG will exit the equity capital of the Bank.

On February 2012, OAO Promsvyazbank fully placed bonds of BO-2 and BO-4 series for a total amount of RUB 10 billion. The bonds mature in 3 years. The first coupon rate amounts to 8.75% per annum.

On February 2012 the Group sold RUB 1 526 114 thousand of outstanding principal balance of loans to individuals.