Bank of Moscow
(Open Joint Stock Company)

Consolidated financial statements

for the year ended 31 December 2011
and Independent auditors' report

Contents

Ernst & Young

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Independent auditors' report

To the Shareholders and Board of Directors of Joint Stock Commercial Bank – Bank of Moscow (Open Joint-Stock Company)

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

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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

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

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

Basis for qualified opinion

1. We were not able to obtain sufficient appropriate audit evidence about the amount of allowance for impairment on loans and advances to customers of RUR 148,533.9 million as at 31 December 2010 and of RUR 43,305.6 million as at 31 December 2009, and provision charge for impairment on loans and advances to customers of RUR 120,737.6 million and of RUR 105,516.4 million for the years ended 31 December 2011 and 2010, respectively, and the related income tax, because the Group's management had no possibility to reliably estimate the possible retrospective effect of the circumstances disclosed in Note 2 "Going concern" to the accompanying consolidated financial statements.
2. We were not able to obtain sufficient appropriate audit evidence about the carrying amount of equity investment securities available for sale of RUR 14,005.3 million as at 31 December 2010 and of RUR 14,266.8 million as at 31 December 2009, and the related impairment loss of RUR 10,565.7 million and of RUR 5,017.4 million for the years ended 31 December 2011 and 2010, respectively, and the related income tax, because the Group's management had no possibility to reliably estimate the possible retrospective effect of the circumstances disclosed in Note 2 "Going concern" to the accompanying consolidated financial statements.

3. We were not able to obtain sufficient appropriate audit evidence about the completeness of disclosures of the Group's operations with related parties presented in Note 39 "Related party transactions" to the accompanying consolidated financial statements in respect of outstanding balances as at 31 December 2010 and results of operations for 2010 and 2011 because the Group's management does not have complete information about companies related to the Group during the period through 12 April 2011 when the powers of the Bank's former President were suspended.

Qualified opinion

In our opinion, except for the possible effect of the circumstances described in "Basis for Qualified 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 cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other matters

The consolidated financial statements of the Group for the year ended 31 December 2010 were audited by another auditor who expressed a modified opinion on those statements on 27 July 2011, which contains qualifications in respect of allowance for impairment on loans and advances to customers and related party disclosures.

Ernst & Young Vneshaudit ZAO

16 May 2012

Group of Joint Stock Commercial Bank - Bank of Moscow (Open Joint Stock Company)
Consolidated statement of financial position as at 31 December 2011
(in millions of Russian Roubles)

	Note	2011	2010 (restated)	2009 (restated)
Assets				
Cash and cash equivalents	9	62,851.3	71,530.7	75,164.7
Obligatory reserve deposits with central banks		9,753.7	5,588.8	4,748.4
Financial assets held for trading	10	33,434.7	86,609.0	90,441.1
Financial assets pledged under repurchase agreements	11	185,247.3	38,175.7	4,936.0
Due from other banks	12	158,825.9	79,485.1	50,703.3
Loans and advances to customers	13	533,735.5	505,720.3	558,165.1
Financial assets available for sale	14	18,258.3	14,723.9	15,032.3
Investment securities held to maturity	15	324.0	418.2	265.2
Investments in associates	16	3,121.9	3,247.8	3,820.8
Premises and equipment and intangible assets	17	20,457.8	15,965.1	17,284.0
Investment property	18	3,785.1	3,638.0	–
Current income tax assets		5,602.4	3,671.6	750.3
Deferred income tax assets	33	9,204.6	14,865.8	76.1
Other assets	19	5,076.8	5,842.2	3,822.8
Assets of disposal group held for sale	20	10,330.0	–	–
Total assets		**1,060,009.3**	**849,482.2**	**825,210.1**
Liabilities				
Due to other banks	21	44,001.5	145,198.2	137,760.1
Customer deposits	22	418,688.5	543,140.2	428,028.5
Deposit received from State Corporation Deposit Insurance Agency (SC DIA)	25	144,386.8	–	–
Due to the Central Bank of the Russian Federation (CBR)	26	159,745.6	–	73,845.2
Debt securities issued	23	73,616.0	81,103.9	56,862.4
Current income tax liabilities		224.6	39.4	89.7
Deferred income tax liabilities	33	613.6	135.0	1,631.4
Other liabilities	27	11,533.5	8,738.1	6,918.0
Liabilities of disposal group held for sale	20	8,502.2	–	–
Subordinated debt	24	35,821.5	34,173.5	35,346.1
Total liabilities		**897,133.8**	**812,528.3**	**740,481.4**
Equity				
Share capital	28	29,651.3	20,476.7	18,313.5
Share premium		146,449.6	53,624.1	34,090.4
Fair value reserve for financial assets available for sale		142.2	105.9	64.3
Premises revaluation reserve		3,882.6	3,882.6	3,882.6
Currency translation difference		(528.6)	13.5	(39.9)
(Accumulated deficit)/Retained earnings		(16,965.1)	(41,577.9)	28,172.5
Equity attributable to shareholders		**162,632.0**	**36,524.9**	**84,483.4**
Non-controlling interests		243.5	429.0	245.3
Total equity		**162,875.5**	**36,953.9**	**84,728.7**
Total liabilities and equity		**1,060,009.3**	**849,482.2**	**825,210.1**

M. V. Kuzovlev,
President - Chairman of the Management Board
15 May 2012

M. Yu. Berezov,
Chief Financial Officer,
Deputy President -
Chairman of the Management Board

(in millions of Russian Roubles)

	Note	*2011*	*2010 (restated)*
Interest income	29	58,913.6	77,193.8
Interest expense	29	(35,095.2)	(37,569.9)
Net interest income		**23,818.4**	**39,623.9**
Provision charge for impairment of due from other banks and loans and advances to customers	30	(120,737.0)	(105,513.0)
Net interest income after provision for impairment		**(96,918.6)**	**(65,889.1)**
Gain from initial recognition of deposit received from SC Deposit Insurance Agency	25	152,002.0	–
Losses arising from early repayment of deposit received from SC Deposit Insurance Agency	25	(1,111.2)	–
Gain on initial recognition and restructuring of financial instruments	24	–	1,112.8
Gains less losses arising from financial instruments held for trading		48.3	3,793.5
Unrealized gains less losses from financial assets available for sale	14	(10,565.7)	(5,017.4)
Gains less losses arising from dealing in foreign currency and precious metals		5,883.8	2,255.7
Foreign exchange translation (losses net of gains)		(2,635.0)	(2,196.9)
Fee and commission income	31	7,830.6	7,135.2
Fee and commission expense	31	(1,942.4)	(1,675.3)
Other impairment and provisions	17, 30	(1,114.4)	(2,989.1)
Other operating income less expenses		894.9	1,902.9
Net non-interest income		**52,372.3**	**(61,567.7)**
General and administrative expenses	32	(9,567.3)	(8,352.3)
Staff costs		(9,980.4)	(9,499.6)
Operating income		**32,824.6**	**(79,419.6)**
Share in net profit/(loss) of associates	16	(757.8)	(3,091.1)
Net (loss)/gain on acquisition and sale of subsidiaries	41	306.9	(2,756.0)
Loss on net monetary position		(952.2)	–
Profit/(loss) before taxation		**31,421.5**	**(85,266.7)**
Income tax (expense)/recovery	33	(6,805.0)	15,524.3
Net profit/(loss)		**24,616.5**	**(69,742.4)**
Net profit/(loss) attributable to:			
Shareholders of the Bank		**24,612.8**	**(69,750.4)**
Non-controlling interests		**3.7**	**8.0**
Basic and diluted earnings per share (Russian Roubles per share)	34	**136.2**	**(411.4)**

(in millions of Russian Roubles)

	Note	2011	2010 (restated)
Net profit/(loss)		**24,616.5**	**(69,742.4)**
Other comprehensive income:			
Unrealized gains less losses from financial assets available for sale		45.4	52.5
Effect of translation		(550.5)	43.3
Income tax relating to components of other comprehensive income	33	(9.1)	(10.9)
Total other comprehensive (loss)/income		**(514.2)**	**84.9**
Total comprehensive income/(loss) attributable to:		**24,102.3**	**(69,657.5)**
Shareholders of the Bank		24,107.0	(69,655.4)
Non-controlling interests		(4.7)	(2.1)

(in millions of Russian Roubles)

	Note	*2011*	*2010 (restated)*
Cash flows from operating activities			
Interest received		52,542.6	77,002.8
Interest paid		(32,473.8)	(36,538.2)
Income received/(losses incurred) on transactions with financial instruments held for trading		(916.7)	5,514.3
Income received on dealing in foreign currency and precious metals		5,899.8	2,406.7
Fees and commissions received		6,613.8	7,125.2
Fees and commissions paid		(2,016.4)	(1,647.2)
Other operating income received less expenses paid		880.6	1,139.1
General and administrative expenses paid		(8,470.8)	(7,958.1)
Staff costs paid		(11,216.6)	(7,052.8)
Income tax paid		(3,444.5)	(3,693.0)
Cash flows from operating activities before changes in operating assets and liabilities		**7,398.0**	**36,298.8**
Net decrease/(increase) in operating assets			
Net increase in obligatory reserve deposits with central banks		(4,292.6)	(840.4)
Net decrease/(increase) in financial assets held for trading		66,235.8	(19,614.0)
Net increase in due from other banks		(81,059.3)	(28,775.5)
Net increase in loans and advances to customers		(33,313.2)	(73,730.5)
Net decrease in other assets		1,014.6	16.7
Net (decrease)/increase in operating liabilities			
Net (decrease)/increase in due to other banks		(85,914.9)	29,212.4
Net (decrease)/increase in customer deposits		(100,882.5)	114,352.1
Net increase/(decrease) in promissory notes issued		907.6	(821.4)
Net decrease in other liabilities		(1,909.4)	(861.7)
Net cash (used in)/from financing activities		**(231,815.9)**	**55,236.5**
Cash flows (used in)/from investing activities			
Acquisition of OFZ under financial stabilization plan		(285,000.0)	–
Dividends received		97.0	44.4
Proceeds from sale or redemption of financial assets available for sale		–	919.7
Acquisition of financial assets available for sale		(13,002.3)	(5,367.1)
Acquisition of subsidiaries, net of cash acquired	41	(88.3)	(2,849.4)
Disposal of subsidiaries, net of cash disposed		(2,161.5)	–
Acquisition of interests in associates			(2,707.4)
Disposal of interests in associates		–	194.5
Acquisition of investment securities held to maturity		(99.0)	(258.8)
Proceeds from redemption of investment securities held to maturity		110.8	125.5
Purchase of premises and equipment		(2,486.0)	(2,646.4)
Proceeds from sale of premises and equipment		837.0	314.3
Purchase of intangible assets		(169.5)	–
Reclassification of assets and liabilities of disposal group held for sale	20	(1,334.9)	–
Net cash (used in) investing activities		**(303,296.7)**	**(12,230.7)**

(in millions of Russian Roubles)

	Note	*2011*	*2010 (restated)*
Cash flows used in financing activities			
Redemption of bonds		(7,747.6)	(1,131.9)
Bonds issued		953.9	914.3
Sale of previously bought-back bonds		–	960.0
Eurobonds issued		3,481.5	32,956.7
Repayment of Eurobonds		(7,650.7)	(8,636.9)
Repayment of syndicated loans		(16,063.5)	(21,762.6)
Proceeds from funds received from the CBR		159,745.5	–
Repayment of funds received from the CBR		–	(73,845.2)
Proceeds from funds received from SC DIA	25	294,811.0	–
Repayment of funds received from SC DIA		(2,191.7)	–
Proceeds from share issue less transaction costs	28	102,000.0	21,696.9
Changes in non-controlling interests in subsidiaries		–	268.0
Net cash from/(used in) financing activities		**527,338.4**	**(48,580.7)**
Effect of exchange rates changes on cash and cash equivalents		(905.2)	1,940.9
Net increase/(decrease) in cash and cash equivalents		**(8,679.4)**	**(3,634.0)**
Cash and cash equivalents at the beginning of the year	9	71,530.7	75,164.7
Cash and cash equivalents at the end of the year	9	**62,851.3**	**71,530.7**

(in millions of Russian Roubles)

	Equity attributable to the shareholders of the parent Bank								
	Share capital	*Share premium*	*Unrealized gains on financial assets available for sale*	*Premises revaluation reserve*	*Currency translation difference*	*Retained earnings / (Accumulated deficit)*	*Total*	*Non-controlling interests*	*Total equity*
Balance as at 31 December 2009 (in accordance with previously issued financial statements)	**18,313.5**	**34,090.4**	**(5.0)**	**3,882.6**	**(39.9)**	**30,109.1**	**86,350.7**	**245.3**	**86,596.0**
Restatement of prior period errors	–	–	69.3	–	–	(1,936.6)	(1,867.3)	–	(1,867.3)
Balance as at 31 December 2009 (restated)	**18,313.5**	**34,090.4**	**64.3**	**3,882.6**	**(39.9)**	**28,172.5**	**84,483.4**	**245.3**	**84,728.7**
Share issue									
- nominal value	2,163.2	–	–	–	–	–	2,163.2	–	2,163.2
- share premium	–	19,533.7	–	–	–	–	19,533.7	–	19,533.7
Comprehensive income for the period (restated)	–	–	41.6	–	53.4	(69,750.4)	(69,655.4)	(2.1)	(69,657.5)
Acquisition of non-controlling interests	–	–	–	–	–	–	–	(29.5)	(29.5)
Acquisition of subsidiaries	–	–	–	–	–	–	–	52.0	52.0
Disposal of non-controlling interests	–	–	–	–	–	–	–	163.3	163.3
Balance as at 31 December 2010 (restated)	**20,476.7**	**53,624.1**	**105.9**	**3,882.6**	**13.5**	**(41,577.9)**	**36,524.9**	**429.0**	**36,953.9**
Share issue (Note 28)									
- nominal value	9,174.6	–	–	–	–	–	9,174.6	–	9,174.6
- share premium	–	92,825.5	–	–	–	–	92,825.5	–	92,825.5
Comprehensive income for the period	–	–	36.3	–	(542.1)	24,612.8	24,107.0	(4.7)	24,102.3
Acquisition of non-controlling interests	–	–	–	–	–	–	–	(51.8)	(51.8)
Acquisition of subsidiaries (Note 41)	–	–	–	–	–	–	–	104.9	104.9
Disposal of subsidiaries	–	–	–	–	–	–	–	(233.9)	(233.9)
Balance as at 31 December 2011	**29,651.3**	**146,449.6**	**142.2**	**3,882.6**	**(528.6)**	**(16,965.1)**	**162,632.0**	**243.5**	**162,875.5**

(in millions of Russian Roubles)

1. Principal activities of the Group

Joint Stock Commercial Bank – Bank of Moscow (open joint stock company) (hereinafter the "Bank" or the "Bank of Moscow") and its subsidiaries (jointly referred to as the "Group") include Russian and foreign commercial banks and other companies controlled by the Group.

The Bank of Moscow is a joint stock commercial bank registered in the Russian Federation. The Bank of Moscow was set up in March 1995 through reorganization of Moscow Settlement Bank registered in the Russian Federation in 1994.

The Bank operates under General Banking License No. 2748 issued by the Central Bank of the Russian Federation (hereinafter, the "CBR") on 14 October 2004. The Bank also holds licenses required for holding and trading securities and engaging in other securities-related activities, including acting as a broker, a dealer and a custodian, and engaging in transactions with precious metals. The Bank and other Russian Group banks are regulated and supervised by the CBR and the Federal Service for Financial Markets. Foreign Group banks operate under the bank regulatory regimes of their respective countries.

On 28 October 2004, the Bank became a member of the mandatory deposit insurance system provided by the State Corporation Agency for Deposits Insurance. Russian subsidiary banks of OJSC CB Mosvodokanalbank and OJSC CJSB Bezhitsa-Bank also participate in the mandatory deposit insurance system. The State deposit insurance scheme implies that the SC DIA guarantees repayment of individual deposits up to the maximum total amount of guaranteed payment of RUR 700 thousand with a 100% compensation of deposited amount from 1 October 2008.

The principal activity of the Group is commercial banking comprising corporate, investment and retail banking services, asset management, private banking and transactions on financial markets. Provision of services to individuals makes up a considerable portion of the Bank's operations. The Group operates both in Russian and international markets.

The list of the Bank's shareholders is presented below:

Shareholder	***2011***	***2010***
VTB Group,	94.8%	–
including		
CJSC VTB Debt Center	*61.1%*	–
LLC VTB Pension Administrator	*33.7%*	–
Group of companies OJSC Metropolitan Insurance Group	1.5%	17.3%
including		
OJSC Metropolitan Insurance Group	*1.5%*	*1.7%*
OJSC Insurance Group MSK	–	*10.5%*
LLC TBIH Russian Funds	–	*5.1%*
Property Department of the City of Moscow	–	46.5%
LLC Plastoinstrument	–	4.1%
LLC Stroyelectromontazh	–	3.6%
LLC NPO Pharmatsevtika	–	3.3%
LLC Gazdorstroy	–	3.2%
LLC Centrotransport	–	3.2%
LLC Khimpromexport	–	3.0%
LLC GCM	–	3.3%
LLC GCM Investments	–	3.2%
PLENIUM INVEST LTD.	3.0%	–
Other	0.7%	9.4%
Total	**100.0%**	**100.0%**

As at 31 December 2011, the ultimate shareholder of the Bank was OJSC VTB Bank, which is controlled by the Russian Federation through the Federal Property Agency.

The Bank is registered at the following address: 8/15, Rozhdestvenka Str., Moscow, Russian Federation.

The Bank's 141 offices and sub-office are located in all administrative districts of Moscow and in large towns of Moscow region. The Bank is the financial agent of the Government of the City of Moscow for investment programs and is the authorized dealer for bonds issues of the City of Moscow. The Bank is an active participant of a number of Moscow financial and industrial programs. It provides services to many municipal and commercial organizations participating in the implementation of the Moscow Government programs.

As at 31 December 2011, 2010 the Group operations in Russia are carried out through one pare bank, which has a regional network of 48 branches and 2 subsidiary banks. The Group's activities outside of Russia are carried out through 3 subsidiaries located in the Republic of Belarus, the Republic of Ukraine and the Republic of Serbia and one representative office located in Germany.

1. Principal activities of the Group (continued)

As at 31 December 2010, the Group also carried out its activities through 2 subsidiary banks located in the Republic of Estonia and the Republic of Latvia.

A list of major subsidiaries and associates included in these consolidated financial statements is provided in Note 40.

As at 31 December 2011, the average number of the Group employees was 10,139 (as at 31 December 2010: 10,258).

Credit quality of the Bank of Moscow is affirmed by credit ratings issued by international rating agencies. As at 1 January 2012, the Bank's long-term ratings were set at "Ba2" (Moody's Investors Service) and "BBB-" (Fitch).

Unless otherwise noted herein, all amounts are expressed in millions of Russian Roubles rounded off to one decimal.

2. Going concern

The Group's management prepared these consolidated financial statements based on the assumption that the Group will operate as a going concern in the foreseeable future and that it neither intends nor has to liquidate or significantly curtail its activities, and, therefore, its liabilities will be duly discharged. The Group analyzes and takes into account the key factors driving returns on assets and providing wider access to diversified financial resources.

Following the early resignation of Moscow Mayor Mr. Y. Luzhkov in September 2010, the new administration of the Moscow city announced its intention to dispose of its share in the Bank's capital. Later in 2010, JSC VTB Bank stated that it was interested in obtaining control over the Bank.

On 22 February 2011, JSC VTB Bank acquired a 46.48% stake in the Bank's share capital from the Government of Moscow and a 25% stake + 1 share in the share capital of JSC Metropolitan Insurance Group. As of the date of transaction, JSC Metropolitan Insurance Group held 17.3% of the Bank's share capital.

Following the court ruling, the powers of Mr. A. Borodin, former President of the Bank and Chairman of its Management Board, were suspended on 12 April 2011.

On 21 April 2011, an extraordinary shareholders' meeting of the Bank resolved to terminate the powers of Mr. A. Borodin, elect Mr. M. Kuzovlev as new President of the Bank and Chairman of its Management Board and approve the new membership structure of the Bank's Board of Directors and Management Board. Mr. A. Kostin, President of JSC VTB Bank and Chairman of its Management Board, was appointed Chairman of the Bank's Board of Directors.

At the end of 2010 and in the first half of 2011, the Accounts Chamber of the Russian Federation, the Bank of Russia and the new management of the Bank reviewed the Bank's activities and identified a number of violations made by the former management of the Bank with regard to corporate lending. The reviews identified a significant portfolio of assets associated with the financing of projects in the interests of Mr. A. Borodin, the Bank's former President, and a number of other persons. Shortly after A. Borodin resigned, management of the Bank of Moscow faced attempts to illegally sell the assets that were acquired for the loans issued by the Bank or pledged as collateral for loans issued by the Bank.

Beginning from June 2011, State Corporation Deposit Insurance Agency (hereinafter, "SC DIA") and the Bank of Russia started to implement bankruptcy prevention procedures in respect of the Bank in accordance with Federal Law No. 175-FZ dated 27 October 2008 "On Additional Measures to Strengthen the Stability of the Banking System until 31 December 2011". The plan providing for the Agency's involvement in the bankruptcy prevention procedures was approved by the Board of Directors of the Bank of Russia and the Management Board of the SC DIA on 30 June 2011 (hereinafter, the "Action Plan"). The aim of the bankruptcy prevention measures is to improve the quality of assets, make adequate provisions for possible losses from distressed assets, restore the Bank's financial soundness and ensure that the Bank meets all the requirements of the Bank of Russia regarding the financial stability of credit organizations.

The measures taken under the Action Plan in 2011 were as follows:

- On 20 July 2011, SC DIA, JSC VTB Bank, LLC VTB Pension Administrator, CJSC VTB Debt Center and the Bank signed a general agreement setting out the procedures and conditions under which the parties should cooperate to implement the Action Plan. As at 1 June 2011, the total amount of the Bank's assets classified by the parties in this agreement as distressed assets (hereinafter, "distressed assets") was RUR 351,980 million, including the principal balance under loan receivables in the amount of RUR 330,499 million and non-quoted investments in the amount of RUR 21,481 million.
- On 28 September 2011, VTB Group increased its stake in the Bank's share capital to 80.57% by acquiring the Bank's shares from non-resident shareholders.

2. Going concern (continued)

- On 29 September 2011, SC DIA provided a loan to the Bank in the amount of RUR 294,811 million maturing in 10 years with quarterly interest payment at the rate of 0.51% p. a. (Note 25)
- On 30 September 2011, the Bank purchased federal loan bonds (serial №: 46023) with the amortization of debt. The bonds have a nominal value of RUR 295,000 million and mature date on 23 July 2026. These bonds were placed by the Ministry of Finance of the Russian Federation via private subscription on 30 September 2011. The coupon rate on the bonds was set at 8.16% p. a.
- The Bank and SC DIA developed a financial recovery plan for the Bank. The plan was approved by the Management Board of SC DIA on 27 October 2011. According to the plan, the Bank is to gradually achieve financial stability through rapid and sustainable development of its business.
- On 28 December 2011, the Bank of Russia registered the fifteenth issue of the Bank's shares. The Bank placed 91,745,594 ordinary voting shares with a nominal value of RUR 100 via private subscription at the price of RUR 1,111.77 per share, which totaled RUR 102,000 million, including a share premium of RUR 92,825 million (Note 28). The issue was fully purchased by VTB Group.
- In December 2011, VTB Group also purchased 11.65% of the Bank's shares from JSC Metropolitan Insurance Group. Thus, as at 31 December 2011, VTB Group consolidated 94.84% of the Bank's share capital.

Financial recovery plan

During the established recovery period from 2011 through 2015, the Bank plans to take the following additional measures:

- reorganize the Bank's risk management systems, including credit risk, market risks, operational risk;
- improve the quality of the loan portfolio by increasing corporate lending volumes, developing the retail lending program, segmenting the portfolio, actively managing distressed debt;
- increase the Bank's funding base through corporate and retail deposits;
- optimize the Bank's organizational structure and general and administrative expenses;
- upgrade the Bank's IT infrastructure;
- restructure the Bank's branch network and enhance its efficiency;
- raise the Bank's external ratings, ensure that the Bank starts generating positive news and restore its reputation.

The Bank reviews the FRP implementation targets on a monthly basis and reports the results achieved to SC DIA.

Managing distressed assets

In 2011, new management of the Bank performed a detailed review of distressed assets to identify an adequate level of the credit risk and design plans for handling such assets in the future. The key areas of the Bank's distressed asset management are as follows:

- take actions to determine whether it is appropriate to restructure borrowers' debt;
- enter into transactions involving compensations in respect of the assets held in borrowers' balance sheets;
- claim debt in a court action, foreclosure of collateral and debtors' assets;
- instigate bankruptcy proceedings in respect of insolvent borrowers, take part in bankruptcy proceedings as a creditor;
- sell collateral;
- engage collection agencies to deal with the most complex distressed assets;
- accept new collateral for previously issued loans;
- exercise control over borrowers' financial flows through representatives of the Bank and VTB Group in the collegial governing bodies.

A specific list of measures is determined individually for each borrower.

2. Going concern (continued)

As a result of the efforts taken in respect of distressed assets in the second half of 2011, the amount of such assets decreased from RUR 351,980 million as at 1 June 2011 (the date when SC DIA, the Bank and VTB Group determined the amount of distressed assets) to RUR 286,265 million as at 31 December 2011. The decrease occurred since a number of borrowers repaid their debt to the Bank.

Based on the analysis of distressed assets, in 2011 the new management of the Bank applied an expert judgment on the amount of impairment of such assets as at 31 December 2011, which was recognized in these financial statements. The judgment of management in respect of loan receivables is based on the estimates of cash flows that the Bank may receive in the course of implementing the most effective measures in respect of each specific borrower. The cash flows and the amount of asset impairment were estimated based on the information available to the Bank's management as at 31 December 2011. As at 31 December 2011, the value of distressed assets (before deduction of the provision for possible losses) recognized in these financial statements and pledged under the loan from SC DIA was RUR 245,757 million. The provision for impairment of distressed loans was RUR 196,231 million.

The impairment of unquoted investments was calculated based on the fair value of investments as at 31 December 2011, determined using the valuation methods and based on the information available to the Bank's management as at 31 December 2011. As at 31 December 2011, the fair value of unquoted investments falling under the category of distressed assets was RUR 3,699 million.

The new management of the Bank does not have all the necessary information that would make it possible to make a reliable conclusion concerning the extent to which the impairment provision for distressed assets made as at 31 December 2011 may relate to the prior reporting periods. Therefore, provisions of RUR 120,737 million relating mainly to distressed loans and recognition of impairment of available-for-sale securities in the amount of RUR 10,565.7 million are disclosed in the Bank's income statement for 2011.

The Bank will continue to actively manage distressed debt in 2012.

3. Operating environment of the Group

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

The global financial crisis had an impact on the Russian economy. Despite certain signs of economic recovery, there continues to be uncertainty regarding future economic growth, access to capital and cost of capital, which could adversely affect the Group's financial position, results of operations and business prospects.

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

In 2011 deterioration in economic conditions in Belarus continued. Deterioration was accompanied by considerable devaluation of local currency, high inflation rates and large negative trade balance. Belarusian economy is considered to be hyperinflationary as defined by IAS 29 *Financial Reporting in Hyperinflationary Economies* with the effect from 1 January 2011.

While Group’s management believes that it is taking appropriate measures to support the sustainability of the Group’s business in the current circumstances, unexpected further deterioration in the areas described above could negatively affect the Group’s results and financial position in a manner not currently determinable.

4. Basis of financial statements preparation

General

These consolidated financial statements ("financial statements") have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The Bank and its subsidiaries and associates maintain their accounting records in accordance with regulations applicable in their country of registration. These financial statements are based on those accounting books and records, as adjusted and reclassified to comply with IFRS.

(in millions of Russian Roubles)

4. Basis of financial statements preparation (continued)

General (continued)

These financial statements have been prepared under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value, the revaluation of premises and investment properties, available-for-sale financial assets, and financial instruments categorized as held for trading. The accounting policies applied in the preparation of these financial statements are summarized in Note 6. These policies have been consistently applied to all the periods presented, unless otherwise stated.

Inflation

The Russian economy is characterized by relatively high inflation rates. Annual inflation rates for the last seven years are presented in the table below:

Year ended	*Inflation rate for the period*
31 December 2011	6.1%
31 December 2010	8.8%
31 December 2009	8.8%
31 December 2008	13.3%
31 December 2007	11.9%
31 December 2006	9.0%
31 December 2005	10.9%

These financial statements are presented in Russian Rubles (RUR), the national currency of the Russian Federation, where the Bank is domiciled.

5. Correction of prior period errors and reclassifications

In the course of preparing the financial statements for 2011, the Bank has identified and corrected the following errors in the previously issued financial statements for 2009 and 2010:

- deferred tax assets as at 31 December 2010 were overstated by RUR 3,737.3 million (as at 31 December 2009: deferred tax liabilities were understated by RUR 130.6 million) due to the incorrect calculation of taxable temporary differences for loans and advances to customers, provisions for impairment of financial instruments;
- as at 31 December 2010, the fair value of financial instruments held for trading was overstated by RUR 766.4 million (as at 31 December 2009: RUR 881.1 million);
- in 2010, the Bank did not recognize gain on subordinated debt restructuring in the amount of RUR 1,112.8 million (Note 24); as a result, the amortized cost of subordinated debt as at 31 December 2010 was overstated by RUR 1,027.1 million;
- as at 31 December 2009, other assets were overstated by RUR 941.8 million due to incorrect impairment assessment;
- as at 31 December 2010, financial instruments were incorrectly classified. As a result, financial assets held for trading were overstated by RUR 25,168.0 million (as at 31 December 2009: RUR 21,961.5 million), loans and advances to customers were understated by RUR 21,719.7 million (as at 31 December 2009: RUR 20,753.8 million), financial assets available for sale were understated by RUR 3,448.3 million (as at 31 December 2009: RUR 1,207.7 million);
- as at 31 December 2010, financial assets pledged under repurchase agreements in the amount of RUR 38,175.7 million (as at 31 December 2009: RUR 4,936.0 million) were incorrectly classified as financial assets held for trading in the amount of RUR 21,983.8 million (as at 31 December 2009: RUR 4,936.0 million) and loans and advances to customers in the amount of RUR 16,191.9 million;
- as at 31 December 2010 and 2009, loans and advances to customers were incorrectly recognized within other assets and netted off for accounts payable. As a result, loans and advances to customers as at 31 December 2010 were understated by RUR 1,586.9 million (as at 31 December 2009: RUR 2,463.5 million), other liabilities were understated by RUR 1,586.9 million (as at 31 December 2009: RUR 1,586.9 million), and impairment of RUR 559.2 million for 2010 was incorrectly classified as other impairment and provisions instead of provision charge for impairment of due from other banks and loans and advances to customers (as at 31 December 2009: other assets were overstated by RUR 876.6 million);

(in millions of Russian Roubles)

5. Correction of prior period errors and reclassifications (continued)

- as at 31 December 2010, gross assets and liabilities related to delivery of securities were presented incorrectly. As a result, financial assets held for trading were overstated by RUR 2,509.4 million, other liabilities were overstated by RUR 2,811.4 million, and amounts due from other banks were overstated by RUR 302 million;
- as at 31 December 2010 and 2009, the value of derivative financial instruments was incorrectly increased by the amount of the collateral. As a result, financial assets held for trading were overstated by RUR 208.7 million (as at 31 December 2009: RUR 242.0 million), other liabilities were understated by RUR 854.4 million (as at 31 December 2009: RUR 216.2 million), loans and advances to customers were understated by RUR 670.5 million (as at 31 December 2009: RUR 458.1 million), amounts due from other banks were understated by RUR 392.6 million;
- as at 31 December 2010, loans and advances to customers in the amount of RUR 364.2 million were incorrectly recognized within other assets;
- as at 31 December 2010, construction in progress in the amount of RUR 1,223.8 million was incorrectly recognized within other assets (as at 31 December 2009: RUR 388.7 million);
- as at 31 December 2010, precious metals in the amount of RUR 1,497.6 million were reclassified from cash and cash equivalents into other assets (as at 31 December 2009: RUR 790.8 million).

In the course of preparing the financial statements for 2011, the following reclassifications have been made to the comparative data for 2009 and 2010 to conform to the 2011 presentation.

- financial liabilities at fair value through profit and loss were reclassified to other liabilities;
- subordinated debt in the amount of RUR 35,200.6 million (as at 31 December 2009: RUR 35,346.1 million) was separated from amounts due to other banks totaled RUR 14,132.3 million (as at 31 December 2009: RUR 14,109.5 million) and debt securities issued in the amount of RUR 21,068.4 million (as at 31 December 2009: RUR 21,236.6 million);
- amounts due to the Central Bank of Russia were separated from amounts due to other banks;
- gains less losses arising from financial liabilities at fair value through profit or loss were reclassified into gains less losses arising from financial instruments held for trading;
- staff costs were separated from general and administrative expenses;
- deposit insurance expenses were recognized within general and administrative expenses;
- provision charge for premises and equipment and intangible assets, provision charge for impairment of other assets and provision charge for impairment of financial assets held to maturity were reclassified into other impairment and provisions;
- dividends received were reclassified into other operating income less expenses;
- deferred tax expenses in the amount of RUR 19,891.8 were reclassified into income tax (expense)/recovery.

Amounts in the financial statements for 2009 and 2010 were restated. The effect of the restatement on those financial statements is presented below.

2010

Consolidated statement of financial position	*As previously reported*	*Correction of errors*	*Reclassifica-tions*	*As restated*
Cash and cash equivalents	73,028.3	(1,497.6)	–	71,530.7
Financial assets held for trading	137,214.7	(50,605.7)	–	86,609.0
Financial assets pledged under repurchase agreements and loaned financial assets	–	38,175.7	–	38,175.7
Due from other banks	79,402.6	82.5	–	79,485.1
Loans and advances to customers	497,570.8	8,149.5	–	505,720.3
Financial assets available for sale	11,152.4	3,571.5	–	14,723.9
Premises and equipment and intangible assets	14,741.3	1,223.8		15,965.1
Deferred tax assets	18,603.1	(3,737.3)	–	14,865.8
Other assets	5,932.7	(90.5)	–	5,842.2
Due to other banks	159,330.6	(0.1)	(14,132.3)	145,198.2
Debt securities issued	102,172.4	(0.2)	(21,068.3)	81,103.9
Other liabilities	4,208.5	(370.1)	4,899.7	8,738.1
Subordinated debt	–	(1,027.1)	35,200.6	34,173.5
Financial liabilities at fair value through profit or loss	4,899.7	–	(4,899.7)	–
Fair value reserve for financial assets available for sale	2.6	103.3	–	105.9
Accumulated deficit attributable to shareholders	(38,143.8)	(3,434.1)	–	(41,577.9)
Non-controlling interests	428.8	0.2	–	429.0

(in millions of Russian Roubles)

5. Correction of prior period errors and reclassifications (continued)

2010

Consolidated statement of comprehensive income	*As previously reported*	*Correction of errors*	*Reclassifications*	*As restated*
Interest income	77,027.9	165.9	–	77,193.8
Interest expense	(37,367.7)	(202.2)	–	(37,569.9)
Provision charge for impairment of due from other banks and loans and advances to customers	(104,953.7)	(559.3)	–	(105,513.0)
Gain on initial recognition and restructuring of financial instruments	–	1,112.8	–	1,112.8
Gains less losses arising from financial instruments held for trading	3,824.7	114.6	(145.8)	3,793.5
Unrealized gains less losses from financial assets available for sale	(5,011.4)	–	(6.0)	(5,017.4)
Gains less losses arising from financial liabilities at fair value through profit or loss	(212.3)	–	212.3	–
Gains less losses arising from dealing in foreign currency and precious metals	2,406.7	–	(151.0)	2,255.7
Fee and commission expense	(1,647.2)	–	(28.1)	(1,675.3)
Dividends received	44.4	–	(44.4)	–
Other impairment and provisions	(1,222.3)	1,501.1	(3,267.9)	(2,989.1)
Provision charge for impairment of financial assets held to maturity	0.4	–	(0.4)	–
Provision charge for impairment of premises and equipment and intangible assets	(3,082.6)	–	3,082.6	–
Other operating income less expenses	1,583.4	(31.4)	350.9	1,902.9
General and administrative expenses	(17,118.2)	–	8,765.9	(8,352.3)
Deposit insurance expenses	(731.5)	–	731.5	–
Staff costs	–	–	(9,499.6)	(9,499.6)
Income tax (expense)/recovery	(768.7)	(3,598.8)	19,891.8	15,524.3
Deferred tax expense	19,891.8	–	(19,891.8)	–

2010

Statement of cash flows	*As previously reported*	*Correction of errors*	*Reclassifications*	*As restated*
Cash flows from operating activities				
General and administrative expenses paid	(14,279.3)	–	6,321.2	(7,958.1)
Deposit insurance expenses paid	(731.5)	–	731.5	–
Staff costs	–	–	(7,052.8)	(7,052.8)
Income tax paid	(3,743.6)	50.6	–	(3,693.0)
Cash flows from operating activities before changes in operating assets and liabilities	**36,248.3**	**50.6**	**(0.1)**	**36,298.8**
Net decrease/(increase) in operating assets				
Net decrease/(increase) in financial assets held for trading	(21,854.7)	2,240.7	–	(19,614.0)
Net increase in loans and advances to customers	(68,038.6)	(5,691.9)	–	(73,730.5)
Net decrease/(increase) in other assets	(1,457.4)	2,391.2	(917.1)	16.7
Net (decrease)/increase in operating liabilities				
Net decrease/(increase) in due to other banks	(66,395.4)	–	95,607.8	29,212.4
Net increase/(decrease) in promissory notes issued	536.7	–	(1,358.1)	(821.4)
Net increase/(decrease) in other liabilities	(734.8)	–	(126.9)	(861.7)
Net cash from operating activities	**(36,959.7)**	**(1,009.4)**	**93,205.6**	**55,236.5**
Cash flows (used in)/from investing activities				
Proceeds from sale or redemption of financial assets available for sale	1.3	–	918.4	919.7
Proceeds from sale of financial assets available for sale	918.4	–	(918.4)	–
Acquisition of financial assets available for sale	(3,126.4)	(2,240.7)	–	(5,367.1)
Acquisition of subsidiaries, net of cash acquired	(6,456.3)	807.9	2,799.0	(2,849.4)
Cash increase on acquisition of subsidiary	91.7	–	(91.7)	–
Disposal of subsidiaries and associates	251.6	–	(251.6)	–
Acquisition of interests in associates	–	–	(2,707.4)	(2,707.4)
Disposal of interests in associates	–	–	194.5	194.5
Net cash (used in)/from investing activities	**(10,740.7)**	**(1,432.8)**	**(57.2)**	**(12,230.7)**

(in millions of Russian Roubles)

5. Correction of prior period errors and reclassifications (continued)

2010

Statement of cash flows	*As previously reported*	*Correction of errors*	*Reclassifica-tions*	*As restated*
Cash flows used in financing activities				
Redemption of bonds	–	–	(1,131.9)	(1,131.9)
Bonds issued	–	–	914.3	914.3
Proceeds from sale of previously bought-back bonds	–	–	960.0	960.0
Repayment of Eurobonds	(9,379.4)	–	742.5	(8,636.9)
Repayment of syndicated loans	–	–	(21,762.6)	(21,762.6)
Proceeds from funds received from the CBR	–	–	(73,845.2)	(73,845.2)
Changes in non-controlling interests in subsidiaries	–	–	268.0	268.0
Net cash from/(used in) financing activities	**45,274.2**	**–**	**(93,854.9)**	**(48,580.7)**
Effect of exchange rates changes on cash and cash equivalents	(501.3)	2,442.2	–	1,940.9
Net increase/(decrease) in cash and cash equivalents	**(2,927.5)**	**–**	**(706.5)**	**(3,634.0)**
Cash and cash equivalents at the beginning of the year	75,955.8	–	(791.1)	75,164.7
Cash and cash equivalents at the end of the year	**73,028.3**	**–**	**(1,497.6)**	**71,530.7**

2009

Consolidated statement of financial position	*As previously reported*	*Correction of errors*	*Reclassifica-tions*	*As restated*
Cash and cash equivalents	75,955.8	(791.1)	–	75,164.7
Financial assets held for trading	118,461.7	(28,020.6)	–	90,441.1
Financial assets pledged under repurchase agreements and loaned financial assets	–	4,936.0	–	4,936.0
Loans and advances to customers	534,489.5	23,675.6	–	558,165.1
Financial assets available for sale	13,738.0	1,294.3	–	15,032.3
Premises and equipment and intangible assets	16,895.3	388.7	–	17,284.0
Other assets	5,239.2	(1,416.4)	–	3,822.8
Due to other banks	225,714.7	–	(87,954.6)	137,760.1
Funds received from the CBR	–	–	73,845.2	73,845.2
Debt securities issued	78,098.8	0.3	(21,236.7)	56,862.4
Deferred tax liabilities	1,500.8	130.6	–	1,631.4
Other liabilities	2,774.8	1,802.9	2,340.3	6,918.0
Subordinated debt	–	–	35,346.1	35,346.1
Financial liabilities at fair value through profit or loss	2,340.3	–	(2,340.3)	–
Fair value reserve for financial assets available for sale	(5.0)	69.3	–	64.3
(Accumulated deficit)/Retained earnings attributable to shareholders	30,109.1	(1,936.6)	–	28,172.5

6. Changes in accounting policies

The Group has adopted the following revised IFRS and new IFRIC Interpretations during the year. The effects of these changes are as follows:

IAS 24 Related Party Disclosures (Revised)

The revised IAS 24, issued in November 2009 and effective for annual periods beginning on or after 1 January 2011, simplifies the disclosure requirements for government-related entities and clarifies the definition of a related party. Previously, an entity controlled or significantly influenced by a government was required to disclose information about all transactions with other entities controlled or significantly influenced by the same government. The revised standard requires disclosure about these transactions only if they are individually or collectively significant. Related party transactions are disclosed in Note 39.

Amendment to IAS 32 Financial Instruments: Presentation – Classification of Rights Issues

The amendment was issued by the IASB in October 2009 and is effective for annual periods beginning on or after 1 February 2010. The definition of a financial liability has been amended to classify rights issues as equity instruments if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, and the rights are to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The amendment had no impact on the Group's consolidated financial statements.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

IFRIC 19 was issued in November 2009 and is effective for annual periods beginning on or after 1 July 2010. The Interpretation clarifies the accounting when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor to extinguish all or part of the financial liability. This interpretation had no impact on the Group's consolidated financial statements.

Improvements to IFRS

In May 2010, the IASB issued the third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. Most of the amendments are effective for annual periods beginning on or after 1 January 2011. There are separate transitional provisions for each standard. Amendments included in these Improvements to IFRS had an impact on the accounting policies, financial position or performance of the Group:

- IFRS 3 *Business Combinations*: limits the scope of the measurement choices for non-controlling interests. The amendment specifies that only the components of non-controlling interests that are present ownership interests that entitle their holders to a proportionate share of the entity's net assets, in the event of liquidation, are measured either at fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets.

- IFRS 7 *Financial Instruments*: *Disclosures*: introduces the amendments to quantitative and credit risk disclosures. The additional requirements had minor impact as the required information was readily available.

- Other amendments to IFRS 1, IFRS 3, IAS 1, IAS 27, IAS 34 and IFRIC 13.

The following amendments to standards and interpretations did not have any impact on the accounting policies, financial position or performance of the Group:

- IFRS 1 *First-time Adoption of International Financial Reporting Standards – Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters*

- IFRIC 14 *Prepayments of a Minimum Funding Requirement*

IFRSs and IFRIC interpretations not yet effective

The Group has not early adopted the following IFRSs and Interpretations of the International Financial Reporting Interpretations Committee (IFRIC) that have been issued but are not yet effective:

IFRS 9 Financial Instruments (first phase)

In November 2009 through 2011 the IASB issued the first phase of IFRS 9 *Financial Instruments*. This Standard will eventually replace IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 becomes effective for annual periods beginning on or after 1 January 2015. The first phase of IFRS 9 introduces new requirements on classification and measurement of financial instruments. In particular, for subsequent measurement all financial assets are to be classified at amortized cost or at fair value through profit or loss with the irrevocable option for equity instruments not held for trading to be measured at fair value through other comprehensive income. For financial liabilities designated at fair value through profit or loss using fair value option IFRS 9 requires the amount of change in fair value attributable to changes in credit risk to be presented in other comprehensive income. The Group now evaluates the impact of the adoption of the standard and considers the initial application date.

6. Changes in accounting policies (continued)

IFRSs and IFRIC interpretations not yet effective (continued)

IFRS 10 Consolidated Financial Statements

IFRS 10 *Consolidated Financial Statements* establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27. In addition, IFRS 10 introduces specific application guidance for agency relationships. The standard also contains accounting requirements and consolidation procedures, which are carried over unchanged from IAS 27. IFRS 10 replaces the consolidation requirements in SIC-12 *Consolidation – Special Purpose Entities* and IAS 27 *Consolidated and Separate Financial Statements* and is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. The Group now evaluates the possible effect of IFRS 10 on its financial position and performance.

IFRS 11 Joint Arrangements

IFRS 11 removes the option to account for jointly controlled entities using proportionate consolidation. Instead, jointly controlled entities that meet the definition of a joint venture must be accounted for using the equity method. IFRS 11 replaces IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly Controlled Entities – Non-monetary Contributions by Venturers* and becomes effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. The Group now evaluates the possible effect of IFRS 11 on its financial position and performance.

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 includes all the disclosures that were previously included in IAS 27 related to consolidated financial statements, as well as all the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required for such entities. This standard is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. The adoption of the standard will require additional disclosures to be made in the financial statements of the Group but will have no impact on its financial position or performance.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not affect when an entity is required to use fair value, but rather provides guidance on how to measure fair value when fair value is required or permitted by IFRS. This standard is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. The adoption of IFRS 13 may have effect on the measurement of the Group's assets and liabilities accounted for at fair value. The Group now evaluates the possible effect of IFRS 13 on its financial position and performance.

IAS 27 Separate Financial Statements (as revised in 2011)

As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)

As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed IAS 28 *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

Amendments to IFRS 7 Financial Instruments: Disclosures

In October 2010, the IASB issued the amendments to IFRS 7 effective for annual periods beginning on or after 1 July 2011. The amendment introduces additional disclosure requirements for transferred financial assets that are not derecognized to enable the users of the Group's financial statements to understand the relationship with the assets that have not been derecognized and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognized assets to enable the users to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognized assets. The amendment affects disclosure only and has no impact on the Group's financial position or performance.

6. Changes in accounting policies (continued)

IFRSs and IFRIC interpretations not yet effective (continued)

Amendments to IAS 12 Income Taxes – Deferred Taxes: Recovery of Underlying Assets

In December 2010, the IASB issued amendments to IAS 12 effective for annual periods beginning on or after 1 January 2012. The amendment clarifies the determination of deferred tax on investment properties measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment properties measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. The amendment also introduces the requirement that deferred tax on non-depreciable assets measured using the revaluation model in IAS 16 should always be measured on a sale basis. The Group now evaluates the possible impact of these amendments.

Amendment to IAS 19 Employee Benefits

The amendment to IAS 19 becomes effective for annual periods beginning on or after 1 January 2013. The amendment introduces significant changes to the method of accounting for employee benefits, including the removal of the option for deferred recognition of changes in pension plan assets and liabilities (known as the "corridor approach"). In addition, the amendment limits the changes in the net pension assets (liabilities) recognized in profit or loss to net interest income (expense) and service costs. The amendment will have no impact on the Group's financial position or performance.

Amendment to IAS 1 Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income

The amendment to IAS 1 becomes effective for annual periods beginning on or after 1 July 2012. The amendment changes the grouping of items presented in other comprehensive income. Items that could be reclassified to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment will change presentation but will have no effect on the Group's financial position or performance.

Amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters

This amendment becomes effective for annual periods beginning on or after 1 July 2011. It introduces a new deemed cost exemption for entities that have been subject to severe hyperinflation. The amendment will have no impact on the Group's financial position or performance.

Amendments to IAS 32 Financial Instruments: Presentation (guidance on offsetting financial assets and liabilities), and amendments to IFRS 7 Financial Instruments: Disclosures (disclosures on offsetting financial assets and liabilities)

In December 2011, the IASB issued amendments to its current guidance in IAS 32 on offsetting financial assets and liabilities and introduced new disclosure requirements in IFRS 7. The amendments to IFRS 7 are to be applied retrospectively for annual periods beginning on or after 1 January 2013 and the amendments to IAS 32 are to be applied retrospectively for annual periods beginning on or after 1 January 2014. Earlier application is permitted. The amendments to IAS 32 clarify that rights to set-off must not only be legally enforceable in the normal course of business, but must also be enforceable in the event of default, bankruptcy or insolvency of all the counterparties to the contract. The amendments to IAS 32 also clarify that rights to set-off must not be contingent on a future event. The amendments to IAS 32 also clarify the offsetting criteria that the reporting entity is required to intend either to settle on a net basis, or to realize the asset and settle the liability simultaneously. The amendments to IFRS 7 require the reporting entity to disclose information about rights to set-off and related arrangements for all recognized financial instruments that are set off in accordance with IAS 32. The Group now evaluates the impact of the adoption of new amendments and considers the initial application date.

7. Summary of significant accounting policies

Subsidiaries

Subsidiaries are those entities, in which the Group has direct or indirect interest of more than one half of the voting rights, or otherwise has power to control the financial and operating policies so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or currently convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are no longer consolidated from the date that control ceases. All intragroup balances and transactions, including income, expenses, dividends and unrealized gains on transactions between the Group members are eliminated in full; unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the accounting policies adopted by the Group.

7. Summary of significant accounting policies (continued)

Subsidiaries (continued)

Acquisition of subsidiaries

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group. Identifiable assets acquired and liabilities assumed, including contingent liabilities, which are a present obligation and can be measured reliably, are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

The excess of the aggregate of: i) purchase consideration paid, ii) the amount of any non-controlling interest in the acquiree and iii) acquisition-date fair value of the acquirer's previously held equity interest in the acquiree (in case of the business combination achieved in stages), over the fair value of the acquiree's identifiable net assets is recorded as goodwill. If the result of the above calculation is negative, the difference is recognized directly in the consolidated income statement.

Non-controlling interest is the interest in subsidiaries not attributable, directly or indirectly to the Group. The Group measures non-controlling interest that represents present ownership interest and entitles the holder to a proportionate share of net assets in the event of liquidation 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. This choice is made by the acquirer for each business combination. Non-controlling interests that are not present ownership interests are measured at fair value. Non-controlling interest at the subsequent reporting date represents the initially recognized amount of non-controlling interest at the acquisition date and the non-controlling interest's portion of movements in comprehensive income and equity since the date of the combination. Non-controlling interest is presented as a separate component within the Group's equity.

In a business combination achieved in stages, the acquirer has to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognize the resulting gain or loss, if any, in profit or loss. Acquisition-related costs will be accounted for separately from the business combination and therefore recognized as expenses rather than included in goodwill. An acquirer has to recognize at the acquisition date a liability for any contingent purchase consideration. The Group applies IFRS 3 and IAS 27.

Increases in ownership interests in subsidiaries

The differences between the carrying values of net assets attributable to acquired interests in subsidiaries and the consideration paid for the interests are charged or credited to retained earnings.

Investments in associates

Associates are entities, in which the Group generally has between 20% and 50% of the voting rights, or is otherwise able to exercise significant influence (e.g., through representation in government bodies), but which it does not control. Investments in associates are accounted for under the equity method and are initially recognized at cost, including goodwill. Subsequent changes in the carrying value reflect the post-acquisition changes in the Group's share of net assets of the associate and accumulated goodwill impairment losses, if any. The Group's share of its associates' profits or losses is recognized in the consolidated income statement, and its share of other comprehensive income is recognized in other comprehensive income of the Group. However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognize further losses, unless the Group is obliged to make further payments to, or on behalf of, the associate.

Profit and losses from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates.

Financial assets

Initial recognition of financial assets

Financial assets are initially recognized at fair value. All other financial assets which not classified as financial instruments held for trading are initially recognized at fair value including transaction costs. The Group determines the classification of its financial assets at initial recognition and subsequently can reclassify financial assets in certain cases as described below.

Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets. The Group uses valuation techniques, which are based on discounted cash flow models and other pricing models, to determine the fair value of financial assets that are not traded in an active market. For such assets differences may arise between the fair value at initial recognition, which is considered to be the transaction price, and the amount determined at initial recognition using the valuation technique. Such differences are not recognized as "day 1" gain or loss but rather are amortized on a straight line basis over the term of the relevant financial assets.

7. Summary of significant accounting policies (continued)

Financial assets (continued)

Fair value measurement

The fair value of financial instruments traded at the reporting date in an active market is determined on the basis of market or dealer quotations (bid price for long positions and ask price for short positions), plus the transaction costs incurred.

For all other financial instruments not listed in an active market, fair value is determined by using appropriate valuation techniques. Such techniques include using recent arm's length market transactions, reference to the current market value of another instrument, which is substantially the same, and discounted cash flow analysis.

Classification of financial assets

Financial assets in the scope of IAS 32 and IAS 39 are classified as either financial assets held for trading; loans and advances to customers; investments held to maturity, or financial assets available for sale, as appropriate.

Financial assets held for trading

Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated as and are effective hedging instruments. Gains or losses on financial assets held for trading are recognized in the consolidated income statement.

Financial assets held for trading are recognized at fair value. Interest earned on debt securities held for trading calculated using the effective interest method is presented in the consolidated income statement as interest income. Dividends are included in dividend income within other operating income when the Group's right to receive the dividend payment is established. All other elements of changes in fair value are recorded in the consolidated income statement as gains less losses from financial assets held for trading in the period, in which they arise.

Loans and advances to customers

Loans and advances to customers are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortized cost using the effective interest method. This amortized cost is computed as the amount initially recognized minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initially recognized amount and the maturity amount. This calculation includes all fees and charges paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. Gains and losses are recognized in the consolidated income statement when these assets are derecognized or impaired, as well as through the amortization process.

Loans and advances to customers of acquired subsidiaries are initially recorded in the consolidated statement of financial position at their estimated fair value at the date of acquisition.

Investments held to maturity

Quoted non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held to maturity when the Group has the positive intention and ability to hold them to maturity. Investments intended to be held for an undefined period are not included in this classification. Investments held to maturity are subsequently measured at amortized cost. For investments carried at amortized cost, gains and losses are recognized in the consolidated income statement when the investments are disposed or impaired, as well as through the amortization process.

Financial assets available for sale

Financial assets available for sale are those non-derivative financial assets that are designated as available for sale or are not classified in any of the three preceding categories. After initial recognition financial assets available for sale are measured at fair value with gains or losses being recognized as a separate component of equity until the investment is derecognized or impaired. However, interest calculated using the effective interest method is recognized in the consolidated income statement.

When the Group derecognizes financial assets available for sale, the Group reclassifies the cumulative gain or loss previously recognized in other comprehensive income in a separate component of equity to a separate line in the consolidated income statement.

If there is evidence that a financial asset available for sale is impaired, the cumulative loss previously recognized in other comprehensive income being the difference between the acquisition cost and the current fair value (less any impairment loss on that asset previously recognized in the consolidated income statement) is reclassified from equity to the consolidated income statement.

7. Summary of significant accounting policies (continued)

Financial assets (continued)

Reclassification of financial assets

If a non-derivative financial asset classified as held for trading is no longer held for the purpose of selling in the near term, it may be reclassified from financial assets held for trading in one of the following cases:

- a financial asset that would have met the definition of loans and receivables above may be reclassified to loans and receivables category if the Group has the intention and ability to hold it for the foreseeable future or until maturity;
- other financial assets may be reclassified to available for sale or held to maturity categories only in rare circumstances.

A financial asset classified as available for sale that would have met the definition of loans and receivables may be reclassified to loans and receivables category if the Group has the intention and ability to hold it for the foreseeable future or until maturity.

Financial assets are reclassified at their fair value on the date of reclassification. Any gain or loss already recognized in profit or loss is not reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortized cost, as applicable.

Derecognition of financial assets

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

- the rights to receive cash flows from the asset have expired;
- the Group has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a ‘pass-through’ arrangement and has no obligation to pay amounts to eventual recipients unless it collects equivalent amounts from the original assets; and
- the Group either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset, and has neither transferred, nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group’s continuing involvement in the asset. Continuing involvement, that takes the form of a guarantee over the transferred asset, is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration, that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group’s continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including cash-settled options or similar provisions) on an asset measured at fair value, the extent of the Group’s continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Restructuring of financial assets

The Group from time to time may restructure some of its financial assets. This mostly relates to loans and receivables. The accounting treatment of such restructuring is conducted in the following basic scenarios:

- If the currency of the loan has been changed the old loan is derecognized and the new loan is recognized. As a result the new loan will be recognized which requires the estimation of a new effective interest rate. If the new effective interest rate is below the market interest rate, the loss on initial recognition is recognized in the reporting period.
- If the loan restructuring is not caused by the financial difficulties of the borrower but the cash flows were renegotiated on the favorable terms for the borrower, the loan is not recognized as impaired. The loan is not derecognized but the new effective interest rate is determined based on the remaining cash flows under the loan agreement until maturity. If the new effective interest rate is below the market rate at the date of restructuring, the new carrying value is calculated as the fair value of the loan after restructuring, being the present value of the future cash flows discounted using the market rate at the date of restructuring. In this case, the difference between the carrying value before restructuring and the fair value of the loan after restructuring is recognized as a loss from restructuring.

7. Summary of significant accounting policies (continued)

Financial assets (continued)

- If the loan is impaired after being restructured, the Group uses the original effective interest rate in respect of the new cash flows after renegotiation to estimate the recoverable amount of the loan. The difference between the recalculated present value of the new cash flows taking into account collateral and the carrying value before restructuring is included in the provision charges for debt financial assets for the period.

The Group discloses information on the carrying value of overdue or impaired loans and advances with renegotiated conditions as if the initial conditions of loan agreements had not been renegotiated.

Financial liabilities

Financial liabilities in the scope of IAS 32 and IAS 39 are classified as either financial liabilities at fair value through profit or loss, or other financial liabilities, as appropriate. The Group determines the classification of its financial liabilities at initial recognition. When financial liabilities are recognized initially, they are measured at fair value. If financial liabilities are not measures at fair value through profit and loss, they are recognized at fair value less directly attributable transaction costs. Other financial liabilities are carried at amortized cost using the effective interest method. Financial liabilities recognized at amortized cost using the effective interest method include due to other banks, customer deposits, deposits received from SC DIA, due to the Central Bank of the Russian Federation, debt securities issued and subordinated debt. The related expenses are recorded as interest expense in the consolidated income statement using the effective interest method.

Financial liabilities of acquired subsidiaries are initially recorded in the consolidated statement of financial position at their estimated fair value at the date of acquisition.

Financial liabilities are classified as financial liabilities at fair value through profit and loss if they are issued for the purpose of their settlement in the near term. Such financial liabilities generally include trade financial liabilities or "short" positions in securities. Derivatives with negative fair value are also classified as financial liabilities at fair value through profit and loss. Gains or losses on financial liabilities at fair value through profit or loss are recognized in the consolidated income statement.

Derecognition of financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same creditor on substantially different terms, or the terms of an existing liability are substantially modified, such replacement or modification is treated as derecognition of the original liability and a new liability is recognized with the difference in the respective carrying values recorded in the consolidated income statement.

When a financial liability is repurchased (bought-back) by a certain Group member, it is derecognized. The difference between the carrying value (amortized cost) of a financial liability as of the date of buy-back and the consideration paid is recognized in the consolidated income statement as the gain or loss arising from extinguishment of liability.

Offsetting

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognized amounts and there is an intention to realize the asset and settle the liability simultaneously.

Cash and cash equivalents

Cash and cash equivalents are items, which can be converted into cash within a day. All short-term interbank placements, including overnight placements, are included in due from other banks. Amounts, which relate to funds that are of a restricted nature, are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortized cost, which approximates their fair value.

Precious metals

Gold and other precious metals are recorded within other assets at the officially set CBR rates approximating their fair value, quoted at a discount to London Metal Exchange rates. Changes in the CBR prices are recorded as exchange differences within gains less losses from revaluation of foreign currency and precious metals in the consolidated income statement.

7. Summary of significant accounting policies (continued)

Obligatory reserve deposits with central banks

Obligatory reserve deposits with the CBR and other central banks are carried at amortized cost and represent non-interest bearing deposits, which are not available to finance the Group's day-to-day operations and hence are not considered as part of cash and cash equivalents for the purposes of preparation of the statement of cash flows.

Due from other banks

Amounts due from other banks are recorded when the Group advances funds to counterparty banks with no intention of trading the resulting receivable, which is due on fixed or determinable dates. Amounts due from other banks are carried at amortized cost less provision for impairment.

Repurchase and reverse repurchase agreements and lending of financial instruments

Sale and repurchase agreements ("repo agreements") are treated as secured financing transactions. Securities or other financial assets sold under repurchase agreements are not derecognized. The financial assets are not reclassified in the consolidated statement of financial position unless the transferee has the right by contract or custom to sell or repledge the financial assets, in which case they are reclassified into financial assets pledged under repurchase agreements (repurchase receivables). The corresponding liabilities are presented within due to other banks, customer deposits or due to the CBR.

Financial assets purchased under agreements to resell (reverse repurchase agreements) are recorded as due from other banks or loans and advances to customers, as appropriate.

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

Financial assets lent to counterparties are retained in the financial statements in their original category unless the counterparty has the right by contract or custom to sell or repledge the financial assets, in which case they are reclassified and presented separately.

Financial assets borrowed are not recorded in the financial statements, unless these are sold to third parties, in which case the result of the transaction is recorded as gains less losses from financial instruments held for trading within the consolidated income statement. The obligation to return the financial assets ("short position") is recorded at fair value through profit or loss in other liabilities in the consolidated statement of financial position.

Derivative financial instruments

In the normal course of business, the Group enters into various derivative financial instruments including futures, forwards, swaps and options and other instruments in the foreign exchange and capital markets. Such financial instruments are primarily held for trading and are initially recognized in accordance with the policy for initial recognition of financial instruments and are subsequently measured at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses from these instruments are included in the consolidated income statement as gains less losses from financial instruments held for trading or gains less losses arising from dealing in foreign currencies and precious metals, depending on the nature of the financial instrument.

An embedded derivative is a component of a hybrid (combined) financial instrument that includes both the derivative and the host contract with the effect that some of the cash flows of the combined instrument vary in a similar way to a stand-alone derivative. Derivative instruments embedded in other financial instruments are treated as separate derivatives if their risks and characteristics are not closely related to those of the host contracts and the host contracts are not carried at fair value with unrealized gains and losses reported in the consolidated income statement.

Regular way transactions

Regular way transactions are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace. All regular way purchases and sales of financial assets are recognized on the settlement date, i.e. the date that the asset is delivered to or by the Group. Regular way transactions are not recognized as derivatives because of the short duration of the commitment to deliver financial assets between the trade and settlement date.

Any changes in the fair value of the financial assets held for trading to be received during the period between the trade and the settlement date are recognized in the consolidated income statement and for financial assets available for sale is recognized in other comprehensive income for financial assets purchased. For financial assets sold on a regular way basis no changes in fair value are recognized in the consolidated income statement or in other comprehensive income between the trade and settlement date. Assets carried at cost or amortized cost are not affected by the change in fair value during the period between the trade and settlement date.

7. Summary of significant accounting policies (continued)

Promissory notes purchased

Promissory notes purchased are included in financial assets held for trading, due from other banks, loans and advances to customers, investment securities held to maturity, depending on their substance and are recorded, subsequently remeasured and accounted for in accordance with the accounting policies for these categories of assets. If promissory notes are pledged under repurchase agreements and the counterparty has rights to resell them, they are recorded in the relevant section within financial assets pledges under repurchase agreements.

Leases

Operating lease – Group as lessor. The Group presents assets subject to operating lease in the consolidated statement of financial position according to the nature of the asset. Lease income from operating lease is recognized in the consolidated income statement on a straight-line basis over the lease term as other income. The aggregate cost of incentives provided to lessees is recognized as a reduction of rental income over the lease term on a straight-line basis. Initial direct costs incurred specifically to earn revenues from an operating lease are added to the carrying amount of the leased asset.

Operating lease – Group as lessee. Leases of assets under which the risks and rewards of ownership are effectively retained by the lessor are classified as operating lease. Lease payments under operating lease are recognized as expenses on a straight-line basis over the lease term and included into operating expenses.

Provisions for impairment of financial assets

Impairment of financial assets carried at amortized cost

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

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

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

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

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the provision through profit or loss, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

Uncollectible assets are written-off against the related provision for impairment after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined.

7. Summary of significant accounting policies (continued)

Provisions for impairment of financial assets (continued)

Impairment of financial assets available for sale

If an asset available for sale is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in the consolidated income statement, is transferred from equity to the consolidated income statement. Reversals in respect of equity instruments classified as available for sale are not recognized in the consolidated income statement, but are rather retained in other comprehensive income in a separate component of equity. Reversals of impairment losses on debt instruments are reversed through the consolidated income statement if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized.

A significant or prolonged decline in the fair value of an equity instrument classified as available for sale below its cost is also objective evidence of impairment of this instrument.

Investment property

Investment property is land or premises or an item of premises held to earn rental income or capital appreciation and which is not used by the Group or held for sale in the ordinary course of business. Property that is being constructed or developed or redeveloped for future use as investment property is also classified as investment property.

Investment property is initially recognized at cost, including transaction costs, and subsequently remeasured at fair value based on its market value. Market value of the Group's investment property is obtained from reports of independent appraisers, who hold a recognized and relevant professional qualification and who have experience in valuation of property of similar location and category.

Investment property that is being redeveloped for continuing use as investment property or for which the market has become less active continues to be measured at fair value. Earned rental income is recorded in the consolidated income statement. Gains and losses resulting from changes in the fair value of investment property are recorded in the consolidated income statement.

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

Premises and equipment

Premises and equipment are stated at revalued amounts and cost, respectively, less accumulated depreciation and provision for impairment where required. Land is stated at revalued amounts. Land has indefinite term of usage and, therefore, is not depreciable. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down to its recoverable amount and the difference is recognized in the consolidated income statement. The estimated recoverable amount is the higher of an asset's fair value less costs to sell and its value in use.

Land, premises and equipment of acquired subsidiaries are initially recorded in the consolidated statement of financial position at their estimated fair value at the date of acquisition. No accumulated depreciation on the premises and equipment acquired in the business combinations is presented in the financial statements on the date of acquisition.

Land and premises of the Group are subject to revaluation on a regular basis. The frequency of revaluation depends upon the change in the fair values. When the fair value of a revalued asset differs materially from its carrying value further revaluation is performed. The revaluation is applied simultaneously to the whole class of premises and equipment to avoid selective revaluation.

Revaluation surplus is recognized as an increase in other comprehensive income and increases land and premises revaluation reserve which is a separate equity section of the consolidated statement of financial position, except to the extent that it reverses an impairment of the asset previously recognized in the consolidated income statement, in which case the increase is recognized in the consolidated income statement.

A revaluation deficit is recognized in the consolidated income statement, except for the deficit directly offsetting a previous surplus on the same asset recognized in the land and premises revaluation reserve.

The land and premises revaluation reserve included in equity is transferred directly to retained earnings when the surplus is realized, i.e. either on the retirement or disposal of the asset or as the asset is used by the Group. In the latter case, the amount of the surplus realized is the difference between depreciation based on the revalued carrying value of the asset and depreciation based on the asset's initial cost.

7. Summary of significant accounting policies (continued)

Premises and equipment (continued)

As at 31 December 2011, the Group has not performed revaluation of land and premises as the fair value of these assets did not differ materially from their carrying values.

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

If impaired, land, premises and equipment are written down to the higher of their value in use and fair value less costs to sell. The decrease in carrying value is recorded in the consolidated income statement to the extent it exceeds the previous revaluation surplus previously recognized in equity. An impairment loss recognized for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Gains and losses on disposal of premises and equipment are determined by reference to their carrying value and are recorded in the consolidated income statement. Repairs and maintenance are recorded in the consolidated income statement when the expense is incurred.

Depreciation

Depreciation is recognized on a straight-line basis over the estimated useful lives of the assets using the following basic annual rates:

	Useful life
Premises	40 years
Equipment	4 to 20 years

The asset's residual values, useful lives and depreciation methods are reviewed and adjusted, as appropriate, at each financial year-end.

Goodwill

Goodwill acquired in a business combination represents the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized and is calculated as the excess of (a) over (b) below:

(a) the aggregate of:

- the consideration transferred, which generally requires acquisition-date fair value measurement;
- the amount of any non-controlling interest in the acquiree; and
- in a business combination achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree.

(b) the amounts of the identifiable assets net of the liabilities assumed at the acquisition date.

If the resulting amount is negative and the acquirer has made a gain from a bargain purchase, the gain is recognized in the consolidated income statement.

The revised IFRS 3 adopted by the Group allows the acquirer to measure non-controlling interests, which are present ownership interests in the acquiree either at fair value or proportionally to the interest in the acquiree's identifiable net assets. This results in a different amount of goodwill or gain from bargain purchase depending on the method of measuring non-controlling interest selected by of the acquirer.

Goodwill on an acquisition of a subsidiary is disclosed within premises and equipment and intangible assets. Goodwill on an acquisition of an associate or joint venture is included in the carrying value of investments in associates and joint ventures. Following initial recognition, goodwill is measured at cost less accumulated impairment losses, if any.

Goodwill is tested for impairment, annually or more frequently if events or changes in circumstances indicate its possible impairment. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each cash-generating unit, or groups of cash-generating units, that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each cash-generating unit or group of cash-generating units to which the goodwill is allocated:

- represents the lowest level within the Group, at which the goodwill is monitored for internal management purposes; and
- is not larger than the operating segment as defined in IFRS 8 *Operating Segments* before aggregation.

7. Summary of significant accounting policies (continued)

Goodwill (continued)

Impairment of goodwill is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying value, an impairment loss is recognized. Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying value of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Intangible assets

Intangible assets include computer software, licenses, trademarks and other identifiable intangible assets, including those acquired in business combinations.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortized over the useful lives of not more than 7 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortization periods and amortization methods for intangible assets with finite useful lives are reviewed at least at each financial year-end.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired either individually or at the cash-generating unit level. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable.

Assets (disposal groups) classified as held for sale

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

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

Premises and equipment held for sale, investment properties, intangible assets, or disposal groups as a whole are measured at the lower of their carrying value and fair value less costs to sell. Premises and equipment and intangible assets held for sale are not depreciated or amortized. The Group recognizes an impairment loss for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. Reclassified financial instruments, deferred taxes and investment property at fair value are not subject to write down to the lower of their carrying value and fair value less costs to sell.

Due to other banks

Amounts due to other banks are recorded when money or other financial assets are advanced to the Group by counterparty banks. The liability is carried at amortized cost using the effective interest method. If the Group repurchases its own debt, it is eliminated from the consolidated statement of financial position. The difference between the carrying value of the liability and the compensation is recorded in the consolidated income statement within gains less losses arising from extinguishment of liability.

7. Summary of significant accounting policies (continued)

Customer deposits

Customer deposits are liabilities to individuals, state or corporate customers and are carried at amortized cost using the effective interest method. Customer deposits include both demand and term deposits. Interest expense is recognized in the consolidated income statement over the period of deposits using the effective interest method.

Debt securities issued

Debt securities issued include promissory notes, certificates of deposit, eurobonds and debentures issued by the Group. Debt securities are stated at amortized cost using the effective interest method. If the Group purchases its own debt securities in issue, they are removed from the consolidated statement of financial position and the difference between the carrying value of the liability the consideration paid is recognized in the consolidated income statement in gains less losses arising from extinguishment of liability.

Deposits received from the State Corporation Deposits Insurance Agency

Deposits received from SC DIA include amounts received under financial stabilization activities. Deposits received from SC DIA are recorded at amortized cost using the effective interest method. Interest expense is recognized in the consolidated statement of income over the period of borrowed funds using the effective interest method.

Taxation

Income tax expense/refund is recorded in the consolidated financial statements in accordance with the applicable legislation of the Russian Federation and other countries where the Group’s subsidiaries are operating. Current tax is calculated on the basis of the taxable profit for the year, using the tax rates enacted during the reporting period. The income tax expense/refund comprises current tax and deferred tax and is recorded in the consolidated statement of income and in the consolidated statement of comprehensive income.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Tax amounts are based on estimates if consolidated financial statements are authorized prior to filing relevant tax returns.

Deferred income tax is provided using the balance sheet assets and liabilities method for all tax loss carryforwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for consolidated financial statements purposes.

Deferred tax liabilities are not recorded for temporary differences on initial recognition of goodwill and subsequently for goodwill, which is not deductible for tax purposes. Deferred income tax is recognized on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax balances are measured at tax rates enacted at the reporting date, which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilized. Deferred tax assets and liabilities are offset only within each individual company of the Group. Deferred tax assets for deductible temporary differences and tax loss carryforwards are recorded only to the extent that it is probable that future taxable profit will be available, against which the deductions can be utilized. Management's judgment is required to determine the amount of deferred tax assets that can be recognized in the consolidated financial statements based on probable periods and the amount of future taxable profit together with future tax planning strategies.

Russia and other countries where the Group's subsidiary banks and companies are operating also have various other taxes which are assessed on the Group's activities. These taxes are recorded within general and administrative expenses in the consolidated statement of income.

Provisions for liabilities and charges

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

7. Summary of significant accounting policies (continued)

Credit related commitments

In the normal course of business, the Group enters into credit related commitments, including letters of credit and guarantees. Financial guarantee contracts are recognized initially at fair value and remeasured at the higher of the amount determined in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognized less, when appropriate, cumulative amortization recognized in accordance with IAS 18 *Revenue*. Commitments to provide loans at a below-market interest rate are initially recognized at fair value, and subsequently measured at the higher of (i) the unamortized balance of the related fees received and deferred and (ii) amount determined in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. Specific provisions are recorded against other credit related commitments when losses are considered more likely than not.

Contingencies

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

Share capital

Ordinary shares and non-redeemable preference shares with discretionary dividends are both classified as equity. External costs directly attributable to the issue of new shares are shown as a deduction from the proceeds in equity. Any excess of the fair value of consideration received over the par value of shares issued is recognized as additional paid-in capital.

Treasury shares

Where the Bank or its subsidiaries purchases the Bank's shares, the consideration paid, including any attributable transaction costs, net of income taxes, is deducted from total equity as treasury shares until they are cancelled or reissued. Where such shares are subsequently sold or reissued, any consideration received is included in equity. Treasury shares are stated at weighted average cost.

Share premium

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

Dividends

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

Income and expense recognition

Interest income and expense are recognized on an accrual basis calculated using the effective interest method. Loan origination fees for loans issued to customers are not recorded in the consolidated statement of income (together with related incremental direct costs) and recognized as an adjustment to the effective yield of the loans. Commission fees and other incremental direct costs, related to the issuance of debt securities and other borrowed funds are recognized as an adjustment to the effective yield of the relevant liability.

Fees, commissions and other income and expense items are generally recorded on an accrual basis when the service has been provided. Fee and commission income are usually collected by debiting customers deposits upon provision of services. Portfolio and other management advisory and service fees are recorded based on the applicable service contracts. Asset management fees related to investment funds are recorded over the period the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continuously provided over an extended period of time.

Staff costs and related contributions

In Russia, the Bank makes contributions to social insurance funds. These contributions are also recognized on an accrual basis. Insurance contributions include contributions to the Pension Fund, Social Insurance Fund and Compulsory Medical Insurance Fund in respect of the Bank's employees. These contributions are expensed as incurred and included in staff costs. The Bank does not have its own pension plan. Wages, salaries, contributions to the state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the year in which the associated services are provided by the employees of the Bank.

7. Summary of significant accounting policies (continued)

Foreign currency translation

Transactions in foreign currencies are initially recorded in the functional currency, translated at the rate of exchange of the Bank of Russia ruling at the date of the transaction. Transactions in foreign currencies are initially recorded in the functional currency equivalent, translated at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange of the Bank of Russia ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognized in the consolidated statement of income as precious metals and foreign exchange translation (losses net of gains). Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate of the Bank of Russia as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

As at the date of these consolidated financial statements, the assets and liabilities of the companies whose functional currency is different from the presentation currency of the Group and is not a currency of a hyperinflationary economy are translated into RUR at the rate of exchange ruling at the reporting date and, their statements of income are translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are recognized in other comprehensive income in a separate component of equity.

If the entity's functional is a currency of hyperinflationary economy, all amounts (assets, liabilities, equity items, income and expenses) of these entities are translated into Russian Roubles at the closing rate of exchange at the reporting date; and, before applying this translation method, the entity restates its financial statements in accordance with IAS 29 (see "HyperInflation accounting" below), except for comparative amounts that are translated into Russian Roubles. Differences which arise each period between the closing equity items of the previous year and the opening equity items of the current year presented in Russian Roubles, are recognized as an "Effect of translation, net of tax" in other comprehensive income, as to the related equity items. Exchange differences arising on the consolidation are recognized in other comprehensive income in a separate component of equity ("Currency translation difference").

On disposal of a subsidiary or an associate whose functional currency is different from the presentation currency of the Group, the cumulative amount recognized in other comprehensive income relating to that particular entity is reclassified from other comprehensive income to gain or loss for the reporting period.

As at 31 December 2011, the principal closing rate of exchange used for translating balances in USD to Russian Roubles was USD 1 to RUR 32.1961 (at 31 December 2010: USD 1 to RUR 30.4769; at 31 December 2009: USD 1 to RUR 30.2442), and the principal closing rate of exchange used for translating balances in Euro to Russian was EUR 1 to RUR 41.6714 (at 31 December 2010: EUR 1 to RUR 40.3331; at 31 December 2009: EUR 1 to RUR 43.3883).

Hyperinflation accounting

The Russian economy was considered hyperinflationary until 31 December 2002. As such, the Group applied IAS 29 *Financial Reporting in Hyperinflationary Economies*. The effect of applying IAS 29 is that non-monetary items, including components of equity, were restated to the measuring units current as of 31 December 2002 by applying the relevant inflation indices to the historical cost, and that these restated values were used as a basis for accounting in subsequent periods.

If an economy in which a Group's subsidiary operates is considered to be hyperinflationary as defined in IAS 29 *Financial Reporting in Hyperinflationary Economies,* than this subsidiary applies IAS 29. The effect of applying IAS 29 is that non-monetary assets, including components of equity, are restated due to changes in the total purchasing power of the functional currency of a hyperinflationary economy.

Fiduciary assets

Assets held by the Group in its own name, but on the account of third parties, are not reported in the consolidated statement of financial position. Commissions received from such operations are shown within fee and commission income in the consolidated statement of income.

Segment reporting

An operating segment is a distinguishable component of the Group that is engaged in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same Group), whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. Segments where revenue, financial performance or combined assets are ten percent or more of revenue, financial performance or combined assets of all segments of the Group are reported separately (reportable segments). The segments, that are below the above materiality thresholds, but can be aggregated on the basis of their activities, production processes, products or services, should be tested for the meeting the criteria of reportable segments on these aggregated amounts.

In accordance with IFRS 8 *Operating Segments*, the Group defined its major business lines as operating segments. The segment disclosure is presented on the basis of management data adjusted (where necessary) for intersegment reallocation and amendments to IFRS.

8. Significant accounting estimates and judgments

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

The preparation of financial statements requires management to make estimates and assumptions that affect reported amounts. These estimates and assumptions are based on the information available as at the date of the financial statements. Actual results can differ significantly from such estimates.

Judgments

Russian Federation bonds classification

As at 31 December 2011, the Group recognized a part of the purchased Russian Federation bonds (hereinafter, "OFZ") as loans and advances to customers, as the economic substance of the purchase was consistent with the definition of loans and advances to customers upon initial recognition. The Group is the sole holder of this bond issue. Due to the existing limitations they are not quoted in an active market. The Group has no intent to sell immediately or in the near term (Note 13).

Taxation

Russian tax, currency and customs legislation is subject to varying interpretations and changes, which can occur unexpectedly and with retroactive effect. Further, the provisions of Russian tax law applicable to financial instruments (including derivative transactions) are subject to significant uncertainty and lack interpretive guidance. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. Current trends within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation of the legislation and assessments and, as a result, it is possible that transactions and operations that have not been challenged in the past may be challenged. As such, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

Russian transfer pricing legislation entitles the tax authorities to make adjustments and accruals in respect of all the "controlled" transactions (except for those conducted at state regulated prices and tariffs) if the transaction price differs upwards or downwards from the market price by more than 20%. The transfer pricing rules as were in effect in 2010-2011 were vaguely drafted, which left the tax authorities and courts much room for their practical interpretation. The Russian transfer pricing legislation effective as at 1 January 2012 sets stricter transfer pricing rules. In 2010 and 2011, the Group determined its tax liabilities arising from transactions with related parties using actual transaction prices. There is a possibility that once the new transfer pricing rules in Russia take effect, or once the tax authorities change their practices in or approaches to interpreting and applying the transfer pricing rules effective until 2012, the tax authorities may challenge the prices applied by the Group under such transactions.

The Group also operates in various jurisdictions and includes companies incorporated outside of Russia that are taxed at different rates and under different legislation. Tax liabilities of the Group are determined on the basis that these companies do not have a permanent establishment in Russia and hence are not subject to Russian income tax. Russian tax laws do not provide detailed rules on taxation of foreign companies. It is possible that with the evolution of these rules and changes in the approach of the Russian tax authorities, the non-taxable status of some or all of the foreign companies of the Group may be challenged in Russia.

The interpretations of the relevant authorities could differ and if the authorities were successful in enforcing their interpretation, additional taxes and related fines and penalties may be assessed, the effect of which cannot be reliably estimated, but could be significant to the financial position of the Group. However, based upon management's understanding of the tax regulations, management believes that its interpretation of the relevant tax legislation is reasonable and will be sustainable. Moreover, management believes that the Group has accrued all applicable taxes.

Pursuant to the interpretation of the Ministry of Finance of the Russian Federation stated in the letter dated 30 December 2011, special purpose entities incorporated in Ireland for the purposes of issuing Eurobonds are not subject to benefits under the Double Taxation Treaty between Ireland and Russia. If Russian tax authorities were to follow this approach (and possibly, apply it to other bond-issuing structures in countries other than Ireland), a 20% fine of the tax not withheld on interest paid to such Eurobond-issuing companies in 2011 (the previous tax periods already reviewed by the tax authorities), a penalty and, possibly, a requirement to pay a 20% tax may be imposed on the Group. Subsequently, the Ministry of Finance declared its plans to introduce a bill clarifying applicable legal requirements. If the bill is passed, the tax risk for 2011 and the previous years will be eliminated. The Group's management believes that its interpretation of tax legislation on Eurobonds will be sustained and this contingency will have no significant impact on the Group's consolidated financial statements.

(in millions of Russian Roubles)

8. Significant accounting estimates and judgments (continued)

Estimates

Provision for impairment of loans, receivables and commitments to extend credit

The Group reviews its loans and receivables to assess impairment on a regular basis. The Group uses its experienced judgment to estimate the amount of any impairment loss in cases where a borrower is in financial difficulty and sufficient historical data relating to similar borrowers is not available. Similarly, the Group estimates changes in future cash flows based on observable data to obtain indication of any adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans and receivables. The Group uses its experienced judgment to adjust observable data for a group of loans or receivables to reflect current circumstances.

Fair value estimation of shares unquoted in an active market

Details of fair value estimation of unquoted shares, classified as financial assets held for trading, and of financial assets available for sale are provided in Note 38. The fair values determined on the basis of a three-level hierarchy, by class, for all financial instruments are disclosed in Note 38.

Taxation

Deferred tax balances are measured at tax rates substantively enacted at the reporting date, or expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilized. Deferred tax assets and liabilities are offset only within each individual company of the Group.

Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available, against which the deductions can be utilized. Management's judgment is required to determine the amount of deferred tax assets that can be recognized in consolidated financial statements based on the likely timing, the amounts of future taxable profits and future tax planning strategies.

9. Cash and cash equivalents

	2011	*2010 (restated)*	*2009 (restated)*
Cash on hand	21,808.9	23,835.6	19,803.0
Cash balances with central banks (other than mandatory reserve deposits)	20,605.8	23,677.9	38,680.1
Correspondent accounts with other banks of:			
- other countries	16,902.5	21,254.2	13,726.6
- the Russian Federation	3,534.1	2,763.0	2,955.0
Total cash and cash equivalents	**62,851.3**	**71,530.7**	**75,164.7**

(in millions of Russian Roubles)

10. Financial assets held for trading

Financial assets held for trading and recognized in the consolidated statement of financial position include trading securities and derivative financial instruments.

	2011	*2010 (restated)*	*2009 (restated)*
RUR-denominated securities			
Corporate bonds	15,456.4	45,175.4	37,087.1
Russian Federal bonds (OFZ)	5,165.7	13,226.5	20,024.5
Bonds of state and municipal authorities	2,661.0	13,424.4	10,908.1
Corporate promissory notes	2,135.5	4,105.5	225.5
Corporate Eurobonds	150.5	516.3	916.8
Equity securities	6.4	4,560.2	2,648.2
	25,575.5	**81,008.3**	**71,810.2**
USD-denominated securities			
Corporate Eurobonds	4,512.5	793.2	4,647.2
Eurobonds of the Russian Federation	632.8	885.5	8,975.8
Corporate bonds	–	21.9	–
Equity securities	–	1,522.2	567.7
	5,145.3	**3,222.8**	**14,190.7**
EUR-denominated securities			
Eurobonds of state and municipal authorities	530.7	–	1,352.2
Corporate Eurobonds	–	49.1	194.2
Bonds of foreign governments	–	1,009.1	1,016.4
	530.7	**1,058.2**	**2,562.8**
Securities denominated in other currencies			
Corporate Eurobonds	–	34.4	1,121.3
Equity securities	–	–	527.4
	–	**34.4**	**1,648.7**
Derivative financial instruments	**2,183.2**	**1,285.3**	**228.7**
Total financial assets held for trading	**33,434.7**	**86,609.0**	**90,441.1**

Corporate bonds are represented by RUR-denominated interest-bearing securities issued by major Russian companies and credit institutions and quoted on OJSC MICEX-RTC. As at 31 December 2011, these bonds in the Group's portfolio have maturities from 23 February 2012 to 26 October 2021, coupon rates ranging from 6.35% to 19.00% per annum and yield to maturity ranging from 4.85% to 18.36% per annum, depending on the issue.

As at 31 December 2011, corporate bonds include mortgage-backed bonds of Moscow Mortgage Agency Bank (OJSC) with the fair value of RUR 3,071 million, maturing from 23 February 2012 to 1 October 2015, with coupon rates ranging from 7.25% to 10.0% per annum and yield to maturity ranging from 7.67% to 13.57% per annum. Included in these are bonds secured by state guarantees of the City of Moscow, amounting to RUR 76 million and maturing on 20 September 2012, with coupon rate of 10.0% per annum and yield to maturity of 13.57% per annum.

OFZ are RUR-denominated government securities issued by the Ministry of Finance of the Russian Federation. As at 31 December 2011, OFZ in the Group's portfolio have maturities from 1 August 2012 to 20 January 2016, coupon rates ranging from 6.85% to 11.3% per annum and yield to maturity ranging from 6.15% to 7.93% per annum, depending on the issue.

Bonds of state and municipal authorities represent RUR-denominated and EUR-denominated interest-bearing securities quoted on OJSC MICEX-RTC. As at 31 December 2011, these bonds in the Group's portfolio have maturities from 27 June 2012 to 20 October 2016, coupon rates ranging from 5.06% to 14.00% per annum and yield to maturity ranging from 4.85% to 8.14% per annum, depending on the issue.

Equity securities are represented by shares of major Russian companies, quoted on OJSC MICEX-RTC.

Corporate Eurobonds are represented by RUR-denominated and USD-denominated interest-bearing securities issued by major Russian companies and credit institutions, quoted on international markets. As at 31 December 2011, these bonds in the Group's portfolio have maturities from 25 April 2012 to 5 November 2019, coupon rates ranging from 6.75% to 9.88% per annum and yield to maturity ranging from 6.02% to 14.29% per annum, depending on the issue.

Corporate promissory notes are represented by RUR-denominated promissory notes issued by major Russian credit institutions. As at 31 December 2011, promissory notes in the Group's portfolio have maturities on 24 January 2012 and yield to maturity of 6.30% per annum.

(in millions of Russian Roubles)

10. Financial assets held for trading (continued)

Eurobonds of the Russian Federation are USD-denominated securities issued by the Ministry of Finance of the Russian Federation and quoted on international markets. As at 31 December 2011, Eurobonds of the Russian Federation in the Group's portfolio have maturities on 24 June 2028 and 31 March 2030, coupon rates of 7.5% and 12.75% per annum, respectively, and yield to maturity of 4.58% and 5.91% per annum, respectively.

As at 31 December 2011, the Group has positions in the following types of derivative financial instruments:

Forwards

Forward contracts are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customized contracts transacted in the over-the-counter market.

Swaps

Swaps are contractual agreements between two parties to exchange movements in interest and foreign currency rates and equity indices, and (in the case of credit default swaps) to make payments with respect to defined credit events based on specified notional amounts.

Derivative financial instruments held for trading

Most of the Group's derivative trading activities relate to deals with customers which are normally laid off with counterparties. The Group may also take positions with the expectation of profiting from favorable movements in prices, rates or indices.

The table below includes the following derivative contracts:

			2011			*2010 (restated)*			*2009 (restated)*
	Notional amount	*Negative fair value*	*Positive fair value*	*Notional amount*	*Negative fair value*	*Positive fair value*	*Notional amount*	*Negative fair value*	*Positive fair value*
Foreign exchange and precious metals contracts									
Forward deals	47,784.8	(686.9)	–	57,810.0	(1,508.0)	575.2	52,228.2	(1,679.6)	201.0
Swap deals	40,760.6	(2,469.6)	2,183.2	24,653.6	(1,434.7)	707.7	18,785.0	(876.8)	27.7
Contracts with securities									
Forward deals	–	–	–	95.4	–	2.4	–	–	–
Total derivative financial instruments	**–**	**(3,156.5)**	**2,183.2**	**–**	**(2,942.7)**	**1,285.3**	**–**	**(2,556.4)**	**228.7**

11. Financial assets pledged under repurchase agreements

	2011	*2010 (restated)*	*2009 (restated)*
Financial assets held for trading			
Eurobonds of Russian companies and banks	–	5,226.6	–
Eurobonds of the Russian Federation	–	4,644.8	350.5
Bonds of foreign governments	–	4,271.9	2,922.6
Russian Federal bonds (OFZ)	–	3,293.0	–
Bonds of Russian companies and banks	–	3,055.7	–
Bonds of state and municipal authorities	–	1,265.9	1,662.9
Equity securities	–	225.9	–
Total financial assets held for trading	**–**	**21,983.8**	**4,936.0**
Financial assets available for sale			
Russian Federal bonds (OFZ)	381.0	–	–
Total financial assets available for sale	**381.0**	–	–
Loans and advances to customers	184,866.3	16,191.9	–
Total financial assets pledged under repurchase agreements	**185,247.3**	**38,175.7**	**4,936.0**

(in millions of Russian Roubles)

11. Financial assets pledged under repurchase agreements (continued)

As at 31 December 2011, loans and advances to customers are represented by debt securities issued by the Ministry of Finance of the Russian Federation in the amount of RUR 175,538.0 million, and loans issued to Russian companies operating in the energy sector in the amount of RUR 9,328.3 million (as at 31 December 2010: RUR 16,191.9 million; as at 31 December 2009: none).

As at 31 December 2011, financial assets available for sale are represented by debt securities issued by the Ministry of Finance of the Russian Federation in the amount of RUR 381.0 million (as at 31 December 2010: none; as at 31 December 2009: none).

As at 31 December 2010, financial assets held for trading are represented by debt and equity securities issued by the Ministry of Finance of the Russian Federation and Russian companies and banks, and by bonds of foreign governments in the amount of RUR 21,983.8 million (as at 31 December 2009: RUR 4,936.0 million).

12. Due from other banks

	2011	*2010 (restated)*	*2009 (restated)*
Current term placements with other banks	157,753.1	28,662.3	49,022.3
Reverse repurchase agreements with other banks	1,063.3	37,387.9	672.6
Deposits with central banks	9.5	13,435.5	1,012.1
Overdue deposits	0.7	0.7	1.0
Total gross due from other banks	**158,826.6**	**79,486.4**	**50,708.0**
Less: provision for impairment (Note 30)	(0.7)	(1.3)	(4.7)
Total due from other banks	**158,825.9**	**79,485.1**	**50,703.3**

As at 31 December 2011, the Group had deposits and account balances above 10% of the Group's capital with one bank (as at 31 December 2010: four banks; as at 31 December 2009: one bank). The aggregate amount of these funds was RUR 129,354.4 million (as at 31 December 2010: RUR 33,572.5 million; as at 31 December 2009: RUR 8,894.8 million) or 81.5% of amounts due from other banks (as at 31 December 2010: 42.3%; as at 31 December 2009: 17.6%).

Amounts due from other banks, except for reverse repurchase agreements, are not collateralized.

As at 31 December 2011, securities acquired from other banks under reverse repurchase agreements comprise bonds of foreign governments with the fair value of RUR 1,092.4 million (as at 31 December 2010: RUR 1,100.1 million; as at 31 December 2009: none). As at 31 December 2010, securities acquired from other banks under reverse repurchase agreements comprise Russian Federation bonds (OFZ) with the fair value of RUR 20,132.3 million (as at 31 December 2009: none), bonds of RF subjects and local authorities with the fair value of RUR 9,986.6 million (as at 31 December 2009: none), corporate bonds with the fair value of RUR 8,984.2 million (as at 31 December 2009: none), corporate Eurobonds with the fair value of RUR 1,476.1 million (as at 31 December 2009: RUR 236.9 million), Eurobonds of the Russian Federation with the fair value of RUR 655.2 million (as at 31 December 2009: RUR 515.4 million), equity securities with the fair value of RUR 255.1 million (as at 31 December 2009: none).

(in millions of Russian Roubles)

13. Loans and advances to customers

The table below shows loans and advances to customers by class.

	2011	*2010 (restated)*	*2009 (restated)*
Loans to legal entities			
Corporate loans	553,181.4	525,528.0	455,358.6
Loans to state and municipal authorities	116,595.5	4,606.7	18,578.0
Loans to small and medium business	44,568.6	33,472.9	38,340.4
Reverse repurchase agreements	129.1	10,907.2	899.4
Total loans to legal entities	**714,474.6**	**574,514.8**	**513,176.4**
Loans to individuals			
Consumer loans	43,872.2	40,119.3	43,194.7
Mortgage loans	21,461.6	26,288.0	27,477.2
Credit cards	4,352.0	5,756.2	5,864.1
Car loans	3,295.6	6,071.6	10,426.1
Scoring loans	1,260.2	1,291.9	1,230.4
Overdrafts	246.4	212.4	101.8
Reverse repurchase agreements	120.3	–	–
Total loans to individuals	**74,608.3**	**79,739.4**	**88,294.3**
Less: provision for impairment (Note 30)	(255,347.4)	(148,533.9)	(43,305.6)
Total loans and advances to customers	**533,735.5**	**505,720.3**	**558,165.1**

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

	2011		*2010 (restated)*		*2009 (restated)*	
	Amount	*%*	*Amount*	*%*	*Amount*	*%*
Financial services	249,600.6	31.6	281,461.7	43.0	214,174.0	35.6
State authorities	116,595.5	14.8	4,606.7	0.7	18,578.0	3.1
Construction	76,378.8	9.7	63,991.8	9.8	70,321.7	11.7
Individuals	74,608.3	9.5	79,739.4	12.2	88,294.3	14.7
Manufacturing	72,621.7	9.2	53,260.8	8.2	54,739.3	9.1
Trade	65,580.7	8.3	29,669.7	4.5	32,346.4	5.4
Metallurgy	41,997.0	5.3	38,633.1	5.9	20,504.2	3.4
Fuel and energy	29,366.2	3.7	28,184.5	4.3	54,413.8	9.0
Transport and communications	26,208.6	3.3	26,744.3	4.1	17,494.9	2.9
Food industry	7,447.6	1.0	13,030.0	2.0	9,382.5	1.6
Agriculture and fishing	3,342.8	0.4	3,306.8	0.5	1,523.3	0.2
Other	25,335.1	3.2	31,625.4	4.8	19,698.3	3.3
Total loans and advances to customers, gross	**789,082.9**	**100.0**	**654,254.2**	**100.0**	**601,470.7**	**100.0**

As at 31 December 2011, 2010 and 2009, loans issued under reverse repurchase agreements do not contain any significant concentrations by customer.

(in millions of Russian Roubles)

13. Loans and advances to customers (continued)

As at 31 December 2011, the Group had 5 borrowers (as at 31 December 2010: 32 borrowers; as at 31 December 2009: 8 borrowers) with the total amount of debt over 10% of the Group's capital. The aggregate amount of these loans was RUR 210,535.3 million (as at 31 December 2010: RUR 233,272.2 million; as at 31 December 2009: RUR 95,361.9 million), or 26.7% of loans to customers (as at 31 December 2010: 35.7%; as at 31 December 2009: 15.9%).

As at 31 December 2011, securities acquired from customers under reverse repurchase agreements comprise equity securities with the fair value of RUR 260.3 million (as at 31 December 2010: RUR 823.8 million; as at 31 December 2009: none). As at 31 December 2010, securities acquired from customers under reverse repurchase agreements comprise corporate bonds with the fair value of RUR 4,070.3 million (as at 31 December 2009: none), corporate Eurobonds with the fair value of RUR 3,047.1 million (as at 31 December 2009: RUR 994.6 million), Russian Federation bonds (OFZ) with the fair value of RUR 5,040.8 million (as at 31 December 2009: none), other securities with the fair value of RUR 272.3 million (as at 31 December 2009: none).

As at 31 December 2011, loans and advances to customers include loans of RUR 413,475.1 million (gross), or RUR 200,940.8 million (net) (as at 31 December 2010 and 2009: none) pledged against the funds received from the Deposit Insurance Agency. The corresponding liabilities were presented within borrowings from SC DIA (Note 25).

The "financial services" category includes loans to insurance, leasing and investment companies, as well as loans to the borrowers acting as financial agents and dealing in real estate and project management.

The "Other" category includes loans to woodworking, printing, housing and utilities companies and others.

14. Financial assets available for sale

	2011	***2010 (restated)***	***2009 (restated)***
Russian Federal bonds (OFZ)	10,205.7	–	–
Equity instruments	7,007.9	14,005.3	14,266.8
Promissory notes of Russian companies and banks	633.8	285.3	0.3
Bonds of Russian companies and banks	410.9	319.1	288.9
Bonds of foreign governments	–	114.2	428.9
Bonds of state and municipal authorities	–	–	47.4
Total financial assets available for sale	**18,258.3**	**14,723.9**	**15,032.3**

OFZ are RUR-denominated government securities issued by the Ministry of Finance of the Russian Federation. As at 31 December 2011, OFZ in the Group's portfolio have maturities on 23 July 2026, coupon rate of 8.16% per annum and yield to maturity of 8.33% per annum.

Equity securities mainly represent shares and equity holdings of Moscow enterprises: OJSC Serp & Molot, OJSC RTI. CJSC Insurance Group and CEMF Hotels and resorts.

As at 31 December 2011, the Group assessed the fair value of its equity instruments. As a result, an impairment loss of RUR 10,565.7 million was recognized for 2011 in the consolidated income statement within unrealized gains less losses from financial assets available for sale (2010: RUR 5,017.4 million).

Promissory notes of Russian companies and banks are represented by RUR-denominated promissory notes issued by major Russian credit institutions. As at 31 December 2011, the promissory notes in the Group's portfolio have maturities on 20 November 2012.

Bonds of Russian companies and banks are represented by RUR-denominated interest-bearing securities issued by major Russian companies and credit institutions, quoted on OJSC MICEX-RTC. As at 31 December 2011, corporate bonds in the Group's portfolio have maturities from 21 March 2012 to 15 September 2020 and yield to maturity from 7.40% to 14.13% per annum, depending on the issue.

(in millions of Russian Roubles)

15. Investment securities held to maturity

	2011	*2010*	*2009*
Bonds of Russian companies and banks	206.1	141.0	–
Russian Federal bonds (OFZ)	118.0	45.5	66.3
Bonds of foreign governments	–	52.7	34.9
Eurobonds of Russian companies and banks	–	184.2	169.4
Total investment securities held to maturity, gross	**324.1**	**423.4**	**270.6**
Less: provision for impairment (Note 30)	(0.1)	(5.2)	(5.4)
Total investment securities held to maturity	**324.0**	**418.2**	**265.2**

16. Investments in associates

			2011		*2010*	
	Country of registration	*Business activity*	*Carrying value*	*Percentage of ownership*	*Carrying value*	*Percentage of ownership*
OJSC Metropolitan Insurance Group	Russia	Insurance	2,415.7	24.9%	3,119.6	24.9%
OJSC Russian National Commercial Bank	Russia	Banking services	481.1	39.8%	–	–
AS Eesti Krediidipank	Estonia	Banking services	150.8	43.8%	–	76.6%
LLC Pension Reserve	Russia	Financial services	49.0	19.0%	46.3	19.0%
CJSC Automated Banking Technologies	Russia	Information technologies	25.3	25.9%	30.7	25.9%
OJSC Leasing company Leasing Business			–	23.9%	51.2	23.9%
Total investments in associates			**3,121.9**		**3,247.8**	

In 2011, the Group recorded disposal of AS Eesti Krediidipank (formerly a 76.6% subsidiary), decreasing its interest in the company to 43.8% (Note 41).

The following table illustrates summarized financial information of the associates:

	2011	*2010*
Assets	53,097.7	32,684.0
Liabilities	44,400.0	20,860.6
Net assets	8,697.7	11,823.3
Revenue	1,541.9	750.4
Net profit/(loss)	(3,458.8)	(10,966.9)

Changes in the carrying value of investments in associates in 2010-2011 are as follows:

	2011	*2010*
Carrying value as at 1 January	**3,247.8**	**3,820.8**
Share in net profit/(loss)	(757.8)	(3,091.1)
Increase in share capital of associates through additional issue	–	2,707.4
Acquisition of associate through acquisition of subsidiary	481.2	–
Acquisition/(Disposal) of associates	–	(198.5)
Transfer from subsidiaries	150.7	–
Translation difference	–	9.2
Carrying value as at 31 December	**3,121.9**	**3,247.8**

(in millions of Russian Roubles)

17. Premises and equipment and intangible assets

	Premises	*Office and computer equipment and other premises and equipment*	*Capital investments*	*Intangible assets*	*Total*
Net book value as at 31 December 2010 (restated)	**11,354.1**	**1,512.1**	**2,779.3**	**319.6**	**15,965.1**
Cost or revalued amount					
Balance as at 1 January 2011 (restated)	**11,630.2**	**3,776.7**	**2,779.3**	**651.5**	**18,837.7**
Additions	625.7	736.9	784.1	162.2	2,308.9
Acquired with the subsidiary (Note 41)	1,663.2	1,801.2	54.2	551.6	4,070.2
Transfers	4.3	–	(4.3)	–	–
Disposals	(710.8)	(462.1)	(24.5)	(43.6)	(1,241.0)
Transfer to assets of disposal group classified as held for sale	–	(83.5)	(0.9)	(2.1)	(86.5)
Effect of hyperinflation	333.5	138.1	3.2	16.1	490.9
Effect of translation	(346.8)	(128.2)	(8.3)	(16.5)	(499.8)
Balance as at 31 December 2011	**13,199.3**	**5,779.1**	**3,582.8**	**1,319.2**	**23,880.4**
Accumulated depreciation					
Balance as at 1 January 2011 (restated)	**276.1**	**2,264.6**	**–**	**331.9**	**2,872.6**
Depreciation charge	263.2	605.6	–	75.1	943.9
Disposals	(46.4)	(325.2)	–	(32.8)	(404.4)
Effect of hyperinflation	22.4	84.5	–	5.6	112.5
Effect of translation	(14.2)	(81.6)	–	(6.2)	(102.0)
Balance as at 31 December 2011	**501.1**	**2,547.9**	**–**	**373.6**	**3,422.6**
Net book value as at 31 December 2011	**12,698.2**	**3,231.2**	**3,582.8**	**945.6**	**20,457.8**

	Premises (restated)	*Office and computer equipment and other premises and equipment (restated)*	*Capital investments (restated)*	*Intangible assets (restated)*	*Total (restated)*
Net book value as at 31 December 2009	**13,536.0**	**1,646.4**	**1,599.7**	**501.9**	**17,284.0**
Cost or revalued amount					
Balance as at 1 January 2010	**13,757.0**	**3,468.3**	**1,599.7**	**975.2**	**19,800.2**
Acquisition of subsidiaries	16.9	1.2	0.0	0.0	18.1
Additions	1,476.6	383.9	1,591.7	63.3	3,515.5
Transfers	53.5	10.2	(63.7)	–	–
Disposals	(593.2)	(65.2)	(324.8)	(6.3)	(989.5)
Impairment	(3,019.9)	–	–	(371.5)	(3,391.4)
Effect of translation	(60.7)	(21.7)	(23.6)	(9.2)	(115.2)
Balance as at 31 December 2010	**11,630.2**	**3,776.7**	**2,779.3**	**651.5**	**18,837.7**
Accumulated depreciation					
Balance as at 1 January 2010	**221.0**	**1,821.9**	**–**	**473.3**	**2,516.2**
Depreciation charge	221.6	519.9	–	172.7	914.2
Disposals	(160.2)	(58.9)	–	(311.2)	(530.3)
Effect of translation	(6.3)	(18.3)	–	(2.9)	(27.5)
Balance as at 31 December 2010	**276.1**	**2,264.6**	**–**	**331.9**	**2,872.6**
Net book value as at 31 December 2010	**11,354.1**	**1,512.1**	**2,779.3**	**319.6**	**15,965.1**

The date of the latest revaluation was 31 December 2009. No revaluation has been performed as at 31 December 2010 and 2011 based on the Group's experts' conclusion or insignificant change in fair value of premises from the latest revaluation.

(in millions of Russian Roubles)

17. Premises and equipment and intangible assets (continued)

As at 31 December 2010, the Group tested its premises for impairment. As a result, the Group recognized impairment of a building in the amount of RUR 3,019.9 million within other impairment and provisions in the consolidated income statement. This impairment was reported within Corporate business and Retail business operating segments.

Capital investments mainly represent investments in construction and renovation of premises. Upon completion of the work, these assets are recorded in the corresponding category of premises and equipment.

Intangible assets, acquired with a subsidiary in 2011, mainly represent trademarks of wines and spirits of LLC International Winery Trading House in the amount of RUR 514.9 million (Note 41).

If the buildings were measured using the cost model, their carrying values would be as follows:

	2011	*2010 (restated)*
Cost	**11,864.3**	**10,128.9**
Less accumulated depreciation and impairment	(895.9)	(680.2)
Net book value	**10,968.4**	**9,448.7**

18. Investment property

	2011	*2010*
Investment property as at 1 January	**3,638.0**	–
Acquisition of subsidiaries (Note 41)	34.1	3,638.0
Additions	113.0	–
Investment property as at 31 December	**3,785.1**	**3,638.0**

During 2011 the Group's investment property increased due to the acquisition of Radicals Trests SIA (Note 41) and correspondent recognition of premises in the amount of RUR 34.1 million, and due to capital repair works of RUR 113.0 million relating to a building owned by LLC Baltech in Saint-Petersburg.

Investment property acquired in 2011 represents buildings owned by Radicals Trests SIA located in Riga (Latvia) and Tallinn (Estonia) and rented out to generate income. The fair value of the Group's investment property as at 31 December 2011 was determined on the basis of the independent appraiser's report.

In 2010, the Group recognized investment property of RUR 3,638.0 million as a result of acquisition of CEMF Tsentralny and LLC Baltech, representing buildings located in Moscow and Saint-Petersburg and rented out to generate income.

The Group entered into operating lease agreements relating to investment property owned by the Group. Future minimum lease payments under non-cancellable operating lease as at 31 December 2011 are RUR 162.1 million, of which RUR 153.3 million to be received in less than one year, RUR 5.4 million to be received later than one year and not later than five years, and RUR 3.4 million to be received later than 5 years (2010: RUR 169.6 million to be received in less than one year).

In 2011, the Group recognized income of RUR 154.5 million as rental income and direct operating expenses of RUR 48.0 million, related to investment property that generated rental income.

In 2010, the Group did not have any rental income or direct operating expenses related to its investment property to be recognized in the Group's consolidated financial statements, due to the acquisition of subsidiaries at the end of 2010.

(in millions of Russian Roubles)

19. Other assets

	2011	*2010 (restated)*	*2009 (restated)*
Receivables and advance payments	3,673.9	1,914.7	2,247.7
Precious metals	1,121.5	1,497.6	791.1
Prepaid expenses	516.3	318.5	286.2
Property intended for sale in the ordinary course of business	417.7	763.1	485.2
Accrued commission income	118.7	101.2	69.6
Taxes receivable	75.6	240.1	90.4
Inventories	60.0	0.9	114.4
Insurance claims	37.3	1,111.2	0.2
Other	383.5	180.2	515.1
Total other assets before provision for impairment	**6,404.5**	**6,127.5**	**4,599.9**
Less: provision for impairment	(1,327.7)	(285.3)	(777.1)
Total other assets	**5,076.8**	**5,842.2**	**3,822.8**

Insurance claims of the Group are claims filed to the Deposit Insurance Agency to compensate payments made to the individual depositors of banks with a recalled license. The insurance claims for 2010 were generated mostly from the compensations refunded to individual depositors of LLC Mezhprombank Plus.

20. Disposal group held for sale

In December 2011, the Bank's management decided to sell within 2012 a subsidiary bank LLC BM Bank (the Republic of Ukraine), established in 2005. As at 31 December 2011 and the reporting date, the negotiations for the sale had not been finished. The subsidiary bank was accounted for in the Group's financial statements as a disposal group held for sale, at the fair value of assets and liabilities, in accordance with IFRS 5. In the course of the segment analysis the assets and liabilities of the disposal group are recorded separately from the major business segments.

The major classes of assets and liabilities of LLC BM Bank classified as held for sale as at 31 December 2011 are as follows:

	2011
Assets	
Cash and short-term funds	1,334.9
Obligatory reserve deposits with central banks	127.7
Due from other banks	1.1
Loans and advances to customers	7,713.8
Financial assets available for sale	155.4
Premises and equipment and intangible assets	86.5
Deferred tax asset	528.9
Other assets	381.7
Assets held for sale	**10,330.0**
Liabilities	
Due to other banks	2,722.9
Customer deposits	5,273.4
Other liabilities	64.1
Subordinated debt	441.8
Liabilities directly related to assets held for sale	**8,502.2**
Net assets held for sale	**1,827.8**

(in millions of Russian Roubles)

21. Due to other banks

	2011	*2010 (restated)*	*2009 (restated)*
Term deposits and loans of other banks	32,133.9	83,299.0	91,660.1
Repurchase agreements with other banks	7,117.7	34,737.6	4,173.1
Correspondent accounts of other banks	4,749.9	11,438.5	4,984.8
Syndicated loans of foreign banks	–	15,723.1	36,942.1
Total due to other banks	**44,001.5**	**145,198.2**	**137,760.1**

As at 31 December 2011, the Group did not raise funds over 10% of the Group's capital from any banks (as at 31 December 2010: two banks; as at 31 December 2009: one bank). The aggregate amount of these funds as at 31 December 2010 was RUR 57,509.7 million (as at 31 December 2009: RUR 63,851.0 million), or 44.5% and 63.4%, respectively, of due to other banks.

Financial assets pledged under repurchase agreements represent financial assets included into loans and advances to customers with the amortized cost of RUR 9,328.3 million (as at 31 December 2010 and 2009: none); financial assets available for sale in the amount of RUR 381.0 million as at 31 December 2011 (as at 31 December 2010 and 2009: none); financial assets held for trading with the total fair value of RUR 21,754.7 million as at 31 December 2010 (as at 31 December 2009: RUR 4,585.5 million) (Note 11).

As at 31 December 2010, the Group raised syndicated loans from foreign banks:

Description	*Interest rate*	*Payment schedule*	*Date of origination*	*Maturity date*	*Nominal value (mln)*	*Carrying value*
I	LIBOR+1.5%	quarterly	20 January 2009	20 July 2011	USD 30	916.3
II	LIBOR+3.2%	quarterly	23 December 2009	23 December 2011	USD 350	10,559.1
Total syndicated loans in USD					**USD 380**	**11,475.4**
I	EURIBOR+1.5%	quarterly	20 January 2009	20 July 2011	EUR 105	4247.7
Total syndicated loans in EUR					**EUR 105**	**4,247.7**
Total syndicated loans						**15,723.1**

22. Customer deposits

	2011	*2010*	*2009*
Federal and regional budgets and funds	**61,486.9**	**141,753.3**	**66,287.9**
Current/settlement accounts	11,560.7	39,873.4	18,698.7
Term deposits	49,926.2	101,879.9	47,589.2
State-owned enterprises and organizations	**54,318.2**	**39,378.4**	**44,975.7**
Current/settlement accounts	48,487.5	24,264.9	24,523.5
Term deposits	5,830.7	15,113.5	20,452.2
Other legal entities	**139,905.6**	**180,389.2**	**139,294.3**
Current/settlement accounts	87,368.3	99,490.5	71,071.0
Term deposits	52,537.3	80,898.7	68,223.3
Individuals	**162,977.8**	**181,619.3**	**177,470.6**
Current/settlement accounts	41,555.7	38,096.0	33,345.7
Term deposits	121,422.1	143,523.3	144,124.9
Total customer deposits	**418,688.5**	**543,140.2**	**428,028.5**

According to the Russian Civil Code, the Bank is obliged to repay deposits of individuals at short notice. In case a term deposit is repaid upon demand of the depositor prior to maturity, interest is payable at the rate applied to demand deposits.

(in millions of Russian Roubles)

22. Customer deposits (continued)

As at 31 December 2011, the Group raised funds over 10% of the Group's capital from two customers (as at 31 December 2010: eleven customers; as at 31 December 2009: four customers). The aggregate amount of these funds was RUR 69,177.1 million (as at 31 December 2010: RUR 236,930.3 million; as at 31 December 2009: RUR 104,726.1 million) or 16.6% of customer deposits (as at 31 December 2010: 43.7%; as at 31 December 2009: 24.5%).

As at 31 December 2011, the Group raised funds from customers in the amount of RUR 1.3 million (as at 31 December 2010: RUR 244.2 million; as at 31 December 2009: RUR 383.7 million) collateralized by securities sold under repurchase agreements. The securities comprise equity securities with the fair value of RUR 1.3 million (as at 31 December 2010: RUR 289.3 million; as at 31 December 2009: none). As at 31 December 2010, the securities comprise bonds of RF subjects and local authorities with the fair value of RUR 3.4 million (as at 31 December 2009: none). As at 31 December 2009, the securities comprise Eurobonds of the Russian Federation with the fair value of RUR 350.5 million.

Economic sector risk concentrations within customer deposits are as follows:

	2011		*2010*		*2009*	
	Amount	***%***	***Amount***	***%***	***Amount***	***%***
Individuals	162,977.8	38.9	181,619.3	33.4	177,470.6	41.5
Government bodies	61,486.9	14.7	141,753.3	26.1	66,287.9	15.5
Transport and communications	43,189.3	10.3	26,070.0	4.8	30,881.9	7.2
Construction	33,559.1	8.0	33,622.8	6.2	19,849.8	4.6
Financial and other services	29,977.0	7.2	25,210.6	4.6	45,798.8	10.7
Manufacturing	26,239.0	6.3	25,085.9	4.6	12,174.2	2.8
Fuel and energy	23,059.5	5.5	53,305.3	9.8	39,320.9	9.2
Trade	14,890.6	3.6	15,531.8	2.9	13,455.3	3.1
Metallurgy	1,283.7	0.3	436.9	0.1	349.9	0.1
Food industry	503.5	0.1	430.0	0.1	641.6	0.1
Agriculture and fishing	305.8	0.1	1,385.7	0.3	1,657.8	0.4
Other	21,216.3	5.1	38,688.6	7.1	20139.8	4.7
Total customer deposits	**418,688.5**	**100.0**	**543,140.2**	**100.0**	**428,028.5**	**100.0**

23. Debt securities issued

	2011	***2010 (restated)***	***2009 (restated)***
Eurobonds	56,632.7	57,581.1	30,741.8
Bonds	11,036.0	18,483.1	17,818.2
Promissory notes	5,947.3	5,039.7	8,302.4
Total debt securities issued	**73,616.0**	**81,103.9**	**56,862.4**

As at 31 December 2011 the Eurobonds comprised:

Nominal value, '000	***Date of issue***	***Maturity date***	***Interest rate***	***Carrying value***	***Market price, %***
USD 500,000	13 May 2006	13 May 2013	7.3 35%, semi-annually	16,167.6	102.43
USD 750,000	11 March 2010	11 March 2015	6.699%, semi-annually	24,574.5	98.25
SGD 150,000	1 February 2011	1 February 2013	4.25%, semi-annually	3,771.4	98.30
CHF 350,000	10 September 2010	10 September 2013	4.50%, annually	12,119.2	99.13
Total Eurobonds				**56,632.7**	

(in millions of Russian Roubles)

23. Debt securities issued (continued)

As at 31 December 2010, the Eurobonds comprised:

Nominal value, '000	*Date of issue*	*Maturity date*	*Interest rate*	*Carrying value*	*Market price, %*
USD 500,000	13 May 2006	13 May 2013	7.335%, semi-annually	15,262.4	106.45
CHF 250,000	4 March 2008	4 March 2011	6.253%, annually	7,619.0	100.50
USD 750,000	11 March 2010	11 March 2015	6.699%, semi-annually	23,241.9	102.65
CHF 350,000	10 September 2010	10 September 2013	4.50%, annually	11,457.8	102.00
Total Eurobonds				**57,581.1**	

As at 31 December 2009, the Eurobonds comprised:

Nominal value, '000	*Date of issue*	*Maturity date*	*Interest rate*	*Carrying value*	*Market price, %*
USD 300,000	26 May 2005	26 November 2010	7.375%, semi-annually	8,707.3	104.37
USD 500,000	13 May 2006	13 May 2013	7.335%, semi-annually	15,166.1	104.49
CHF 250,000	4 March 2008	4 March 2011	6.253%, annually	6,868.4	100.75
Total Eurobonds				**30,741.8**	

As at 31 December 2011, the bonds comprised:

Series/code of state registration	*Interest rate*	*Date of issue*	*Maturity date*	*Nominal value (mln)*	*Carrying value*	*Market price, %*
ММД11	7.5%, quarterly	24 January 2011	24 January 2013	USD 0.1	244.5	–
Total bonds in USD					**244.5**	
MM12	5.3%, monthly	12 May 2011	31 May 2012	BYR 100	70.0	–
MM13	5.1%, quarterly	18 July 2011	31 July 2012	BYR 100	415.8	–
Total bonds in foreign currency					**485.8**	
40202748B	7.55%, semi-annually	8 February 2008	1 February 2013	RUR 10,000	10,305.7	99.50
Total bonds in RUR					**10,305.7**	
Total bonds					**11,036.0**	

As at 31 December 2010, the bonds comprised:

Series/code of state registration	*Interest rate*	*Date of issue*	*Maturity date*	*Nominal value (mln)*	*Carrying value*	*Market price, %*
ММД8	6%, monthly	7 June 2010	31 May 2011	USD 3	91.5	–
Total bonds in USD					**91.5**	
MM7	11.5%, monthly	7 June 2010	31 May 2011	BYR 20,000	203.1	–
MM6	16.0%, quarterly	17 May 2010	12 May 2011	BYR 20,000	207.9	–
MM9	15.5%, quarterly	2 August 2010	29 July 2011	BYR 50,000	520.9	–
MM10	11.5%, monthly	2 August 2010	29 July 2011	BYR 15,000	152.2	–
Total bonds in foreign currency					**1,084.1**	
40202748B	7.50%, semi-annually	8 February 2008	1 February 2013	RUR 10,000	10,301.3	100.2
40102748B*	6.45%, semi-annually	1 August 2008	29 July 2011	RUR 6,919	7,006.2	100
Total bonds in RUR					**17,307.5**	
Total bonds					**18,483.1**	

(in millions of Russian Roubles)

23. Debt securities issued (continued)

As at 31 December 2009, the bonds comprised:

Series/code of state registration	*Interest rate*	*Date of issue*	*Maturity date*	*Nominal value (mln)*	*Carrying value*	*Market price, %*
5-200-02-0359	20%, monthly	9 October 2009	9 April 2010	BYR 30,000	322.2	–
5-200-02-0363	20%, monthly	2 November 2009	3 May 2010	BYR 70,000	754.7	–
Total bonds in foreign currency					**1,076.9**	
40202748B	11.75%, semi-annually	8 February 2008	1 February 2013	RUR 10,000	10,468.8	101.7
40102748B*	10.64%, semi-annually	1 August 2008	29 July 2011	RUR 6,105	6,272.5	99.8
Total bonds in RUR					**16,741.3**	
Total bonds					**17,818.2**	

In 2009, bonds with the nominal value of RUR 3.894.0 million were presented for redemption under the terms of the offer. In 2010, part of the bonds with the nominal value of RUR 960.0 million that were previously presented for redemption under the terms of the offer were resold. Bonds with the nominal value of RUR 147.0 million were presented for redemption under the terms of the offer.

Promissory notes represent notes primarily issued by the Group in the local market, which primarily act as an alternative to customer/bank deposits. As at 31 December 2011, promissory notes issued included discount and interest bearing promissory notes denominated mainly in RUR with maturity ranging from on demand to January 2014 (as at 31 December 2010: from on demand to January 2014; as at 31 December 2009: from on demand to January 2014).

24. Subordinated debt

	2011	*2010 (restated)*	*2009 (restated)*
Eurobonds issued	22,455.5	21,068.3	21,236.7
Subordinated loans	13,366.0	13,105.2	14,109.4
Total subordinated debt	**35,821.5**	**34,173.5**	**35,346.1**

As at 31 December 2011, the Eurobonds issued comprised:

Nominal value, '000	*Date of issue*	*Maturity date*	*Interest rate*	*Carrying value*	*Market price, %*
USD 300,000	25 November 2005	25 November 2015	US Treasury plus 4.567%, semi-annually	9,473.5	91.93
USD 400,000	10 May 2007	10 May 2017	6.807% semi-annually during the first 5 years, then the rate equals US Treasury plus 5.25%	12,982.0	92.00
Total Eurobonds				**22,455.5**	

(in millions of Russian Roubles)

24. Subordinated debt (continued)

As at 31 December 2010, the Eurobonds comprised:

Nominal value, '000	*Date of issue*	*Maturity date*	*Interest rate*	*Carrying value*	*Market price, %*
USD 300,000	25 November 2005	25 November 2015	7.5% semi-annually during the first 5 years, then the rate equals US Treasury plus 4.567%	8,843.6	96.51
USD 400,000	10 May 2007	10 May 2017	6.807% semi-annually during the first 5 years, then the rate equals US Treasury plus 5.25%	12,224.7	99.28
Total Eurobonds				**21,068.3**	

As at 31 December 2009, the Eurobonds comprised:

Nominal value, '000	*Date of issue*	*Maturity date*	*Interest rate*	*Carrying value*	*Market price, %*
USD 300,000	25 November 2005	25 November 2015	7.5% semi-annually during the first 5 years, then the rate equals US Treasury plus 4.567%	9,095.4	97.9
USD 400,000	10 May 2007	10 May 2017	6.807% semi-annually during the first 5 years, then the rate equals US Treasury plus 5.25%	12,141.3	93.0
Total Eurobonds				**21,236.7**	

In 2009, the Group raised a subordinated loan from the state corporation "Bank for Development and Foreign Economic Affairs" (Vnesheconombank) in the amount of RUR 11,108 million, at the rate of 8.0% per annum, maturing on 18 December 2019. On 25 August 2010, the interest rate on the loan was reduced to 6.5%. Subsequent to the rate reduction, the Group recognized an income of RUR 1,109.5 million due to receiving the loan from the state corporation "Bank for Development and Foreign Economic Affairs" (Vnesheconombank) at a below-market rate. As at 31 December 2011, the carrying value amounted to RUR 10,156.2 million (as at 31 December 2010: RUR 10,071.7 million; as at 31 December 2009: RUR 11,101.4 million).

In 2006, the Group raised a subordinated loan from ABN Amro Bank in the amount of USD 100 million (equivalent of RUR 3,047 million), maturing on 21 December 2016. As at 31 December 2011, the carrying value amounted to RUR 3,209.8 million (as at 31 December 2010: RUR 3,033.5 million; as at 31 December 2009: RUR 3,008.0 million).

25. Deposit received from state corporation deposit insurance agency

On 29 September 2011, the Group received funds from SC DIA in the amount of RUR 294,811.0 million at the rate of 0.51% per annum for 10 years in the course of financial stabilization of Bank of Moscow (Note 2). The deposits are collateralized by loans and advances to customers (Note 13). In accordance with IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance,* the Group discounted these loans using the appropriate market rate. The Group initially recognized the loan at fair value in the amount of RUR 142,809.0 million. The gain from the initial recognition of the deposit from SC DIA amounted to RUR 152,002.0 million. As at 31 December 2011, the carrying value of the loan amounted to RUR 144,386.8 million and was recognized within deposit received from SC DIA. As at 31 December 2011, the Group also recognized losses in the amount of RUR 1,111.2 million from early repayment of deposit received from SC DIA.

(in millions of Russian Roubles)

26. Due to the Central Bank of the Russian Federation

	2011	*2010 (restated)*	*2009 (restated)*
Repurchase agreements with the Bank of Russia	157,841.1	–	–
Loans and deposits of the Bank of Russia	1,904.5	–	73,845.2
Total other borrowed funds	**159,745.6**	**–**	**73,845.2**

During the year ended 31 December 2011, the Group entered into repurchase agreements with the CBR on arm's length conditions. These agreements are collateralized by the bonds of the Russian Federation classified as loans and advances to customers with the carrying value of RUR 175,538.0 million. As at 31 December 2011, the amount due to the CBR under these agreements was RUR 157,841.1 million.

27. Other liabilities

	2011	*2010 (restated)*	*2009 (restated)*
Accounts payable and prepayments received	6,088.7	2,852.9	3,439.3
Derivative financial instruments held for trading (Note 10)	3,156.5	2,942.7	2,556.4
Payable to employees	1,210.6	2,446.8	505.5
Taxes payable	832.4	129.3	147.1
Amounts in course of settlement	112.0	60.0	59.4
Deferred income	71.2	72.2	31.4
Provisions for credit related commitments and legal claims (Note 35)	5.0	–	–
Other	57.1	234.2	178.9
Total other liabilities	**11,533.5**	**8,738.1**	**6,918.0**

As at 31 December 2011, payable to employees includes accrued bonuses to employees in the amount of RUR 800.0 million for the year 2011 (2010: RUR 2,188.3 million; 2009: RUR 223.9 million), which was paid in April 2012 (2010: in February and March 2011; 2009: in March and April 2010).

28. Share capital

Authorized, issued, and fully paid share capital of the Group comprises:

	2011		*2010*	
	Number of shares	***Nominal value***	***Number of shares***	***Nominal value***
Ordinary shares	271,745,594	27,174.6	180,000,000	18,000.0
Restatement of share capital prior to 31 December 2002 under IAS 29	–	2,476.7	–	2,476.7
Total share capital	**271,745,594**	**29,651.3**	**180,000,000**	**20,476.7**

The nominal value of each ordinary share is 100 roubles. Each share carries one vote.

On 27 October 2011, the Bank of Russia registered an additional issue of 100,000,000 ordinary registered shares of Bank of Moscow totaled RUR 10,000 million at nominal value. The shares were placed via private subscription in favor of one investor – LLC VTB Pension Administrator, which purchased 91,745,594 shares, or 91.75% of the issuing volume for RUR 1111.77 per share. On 29 December 2011, the Bank of Russia registered a report on the results of the additional issue of 91,745,594 ordinary registered shares, or totaled RUR 9,174.6 million at nominal value. Based on the report and pursuant to the issuer's instruction, on 13 January 2012 the unplaced securities in the amount of 8,254,406 shares were redeemed by the Bank's registrar – LLC Registrator KRC. As a result of the placement of the additional share issue, the funds raised totaled RUR 102,000 million, including the share premium of RUR 92,825.4 million.

(in millions of Russian Roubles)

28. Share capital (continued)

On 26 July 2010, the Bank of Russia registered the 14th issue of the Bank of Moscow shares. The Bank placed 21,632,017 ordinary voting shares with a nominal value of RUR 100. The shares were offered at the following prices: RUR 1,003 per share under the pre-emptive rights offer and RUR 1,003 per share under open subscription, totaled RUR 21,696.9 million, including the share premium of RUR 19,534 million.

The amount of dividends to be declared and paid is decided at the annual shareholders' meeting on the basis of net profit for the previous fiscal year determined in accordance with Russian Accounting Legislation on a stand-alone basis.

No dividends are declared for 2011, 2010 and 2009.

29. Interest income and expense

	2011	*2010*
Interest income		
Loans and advances to customers	49,776.2	65,799.2
Due from other banks	3,260.4	1,293.7
Financial assets available for sale	79.3	**112.6**
Investment securities held to maturity	24.8	27.4
	53,140.7	**67,232.9**
Financial assets held for trading	5,772.9	9,960.9
Total interest income	**58,913.6**	**77,193.8**
Interest expense		
Customer deposits	21,545.0	25,428.5
Debt securities issued	4,885.2	5,698.1
Deposit received from SC DIA	3,009.6	–
Subordinated debt	2,377.2	2,427.4
Due to other banks	2,314.7	3,203.8
Due to the Central Bank of Russia	963.5	812.1
Total interest expense	**35,095.2**	**37,569.9**
Net interest income	**23,818.4**	**39,623.9**

30. Provision for impairment and other provisions

The movements in provision charge for impairment of due from other banks for 2010-2011 are as follows:

	Russia	*OECD*	*Other*	*Total*
As at 31 December 2009 (restated)	**3.0**	**–**	**1.7**	**4.7**
Reversal of provision charge for impairment of due from other banks during the period	(2.3)	–	(1.1)	(3.4)
As at 31 December 2010 (restated)	**0.7**	**–**	**0.6**	**1.3**
Reversal of provision charge for impairment of due from other banks during the period	–	–	(0.6)	(0.6)
As at 31 December 2011	**0.7**	**–**	**–**	**0.7**

(in millions of Russian Roubles)

30. Provision for impairment and other provisions (continued)

The movements in provision for impairment of loans to legal entities by class for 2009-2011 are as follows:

	Corporate loans	*Loans to small and medium business*	*Loans to government and municipal authorities*	*Reverse repurchase agreements*	*Total*
As at 31 December 2009 (restated)	**21,895.2**	**7,815.2**	**9.5**	**–**	**29,719.9**
Provision/(Reversal of provision) for impairment during the year	105,291.2	(247.2)	(9.5)	–	105,034.5
Translation difference	(20.2)	(10.6)	–	–	(30.8)
Loans written off as uncollectible during the year	(69.9)	(19.1)	–	–	(89.0)
As at 31 December 2010 (restated)	**127,096.3**	**7,538.3**	**–**	**–**	**134,634.6**
Provision/(Reversal of provision) for impairment during the year	118,819.3	2,012.9	32.8	0.4	120,865.4
Reclassification of provisions associated with assets of the disposal group	(1,409.0)	(1,225.0)	–	–	(2,634.0)
Provision write-off in business combination	(9,679.9)	–	–	–	(9,679.9)
Reversal of provision on disposal of subsidiaries	(731.6)	–	–	–	(731.6)
Translation difference	5.6	–	–	–	5.6
Loans written off as uncollectible during the year	–	(0.2)	–	–	(0.2)
As at 31 December 2011	**234,100.7**	**8,326.0**	**32.8**	**0.4**	**242,459.9**

The movements in provision for impairment of loans to individuals by class for 2010-2011 were as follows:

	Consumer loans	*Mortgages*	*Car loans*	*Scoring loans*	*Credit cards*	*Overdrafts*	*Total*
As at 31 December 2009 (restated)	**8,352.5**	**1,345.6**	**1,660.5**	**839.0**	**1,368.2**	**19.9**	**13,585.7**
Provision/(Reversal of provision) for impairment during the year	340.1	300.6	(62.8)	(141.3)	38.8	6.5	481.9
Translation difference	(22.3)	5.0	0.7	6.5	(2.3)	0.2	(12.2)
Loans written off as uncollectible during the year	(65.4)	(31.2)	(2.8)	(8.1)	(48.5)	(0.1)	(156.1)
As at 31 December 2010 (restated)	**8,604.9**	**1,620.0**	**1,595.6**	**696.1**	**1,356.2**	**26.5**	**13,899.3**
Provision/(Reversal of provision) for impairment during the year	264.0	60.5	(280.0)	12.4	(203.0)	18.3	(127.8)
Reclassification of provisions associated with assets of the disposal group	(246.6)	(229.2)	(68.8)	–	–	–	(544.6)
Reversal of provision on disposal of subsidiaries	(35.3)	(151.6)	(1.2)	(29.7)	(2.2)	(1.2)	(221.2)
Translation difference	(51.2)	(3.9)	(3.8)	–	(20.9)	(0.6)	(80.4)
Loans written off as uncollectible during the year	–	(37.8)	–	–	–	–	(37.8)
As at 31 December 2011	**8,535.8**	**1,258.0**	**1,241.8**	**678.8**	**1,130.1**	**43.0**	**12,887.5**

(in millions of Russian Roubles)

30. Provision for impairment and other provisions (continued)

The movements in provision for impairment of other assets and in other provisions were as follows:

	Other assets	*Investment securities held to maturity*	*Total*
As at 31 December 2009 (restated)	**777.1**	**5.4**	**782.5**
Reversal of provision for impairment during the period	(401.9)	(0.4)	(402.3)
Effect of translation	(1.0)	0.2	(0.8)
Other assets written off against provision	(88.9)	–	(88.9)
As at 31 December 2010 (restated)	**285.3**	**5.2**	**290.5**
Reclassification of provisions associated with assets of the disposal group	(29.0)	–	(29.0)
Provision for impairment during the period	1,114.3	0.1	1,114.4
Write-offs	–	(5.2)	(5.2)
Reversal of provision on disposal of subsidiary	(1.2)	–	(1.2)
Effect of translation	(41.7)	–	(41.7)
As at 31 December 2011	**1,327.7**	**0.1**	**1,327.8**

31. Fee and commission income and expense

	2011	*2010 (restated)*
Fee and commission income		
Commission on settlement transactions	2,598.0	2,434.4
Commission on cash transactions	2,107.7	1,985.3
Commission on transactions with plastic cards	1,479.4	1,328.4
Commission on guarantees issued and trade finance	1,255.7	871.9
Commission on transactions with securities and capital markets	143.7	177.4
Other	246.1	337.8
Total fee and commission income	**7,830.6**	**7,135.2**
Fee and commission expense		
Commission on cash transactions	753.5	719.9
Commission on transactions with plastic cards	660.1	492.2
Commission on settlement transactions	268.7	248.9
Commission on transactions with securities	92.5	90.6
Commission on guarantees received and trade finance	24.8	6.0
Other	142.8	117.7
Total fee and commissions expense	**1,942.4**	**1,675.3**
Net fee and commission income	**5,888.2**	**5,459.9**

(in millions of Russian Roubles)

32. General and administrative expenses

	2011	*2010 (restated)*
Rent	2,417.1	2,050.2
Depreciation and other expenses related to premises and equipment	1,993.3	1,951.3
Taxes other than income tax	1,415.3	1,340.8
Professional sevices	1,198.7	1,120.7
Advertising	968.2	372.3
Deposit insurance expenses	662.4	731.5
Administrative expenses	471.9	619.1
Charity	43.4	61.9
Other	397.0	104.5
Total general and administrative expenses	**9,567.3**	**8,352.3**

33. Income tax

Income tax expense and income tax recovery comprise the following:

	2011	*2010 (restated)*
Current income tax expense	1,514.9	757.8
Deferred taxation movement due to origination and reversal of temporary differences	5,290.1	(16,282.1)
Income tax expense/(recovery) for the year	**6,805.0**	**(15,524.3)**

The current income tax rate applicable to the major part of Group's income in 2011 is 20% (2010: 20%). The income tax rate applicable to subsidiaries' income ranges from 10% to 26.3% in 2011 (2010: 10% to 26.3%).

	2011	*2010 (restated)*
Profit/(loss) before taxation	**31,421.5**	**(85,266.7)**
Theoretical tax expense/(recovery) at the applicable statutory rate of each company within the Group	6,284.3	(17,053.3)
Adjustments for non-taxable income and non-deductible expenses:		
- Change in unrecognized deferred taxes	140.0	1,030.3
- Income on government securities taxed at different rates	(394.5)	(173.3)
- Income taxed at different rates	192.7	13.5
- Others	582.5	658.5
Income tax expense/(recovery) for the year	**6,805.0**	**(15,524.3)**

Differences between IFRS and taxation regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for income tax purposes. The tax effect of the movement in these temporary differences is recorded at rates from 10% to 26.3% (2010: from 10% to 26.3%). The Bank and its subsidiaries have no right to set off current tax assets and tax liabilities between legal entities, so deferred tax assets and deferred tax liabilities are separately assessed for each entity.

The Bank's tax losses carried forward in the amount of RUR 18,005.4 million expire in 2021 if not utilized. As at 31 December 2011, temporary differences associated with investments in subsidiaries and associates for which deferred tax liability has not been recognized totaled RUR 1,004.1 million (2010: RUR 462.1 million).

(in millions of Russian Roubles)

33. Income tax (continued)

		Origination and reversal of temporary differences				Origination and reversal of temporary differences					
	2009 (restated)	*Credited (charged) to profit or loss (restated)*	*Credited/ (charged) to other comprehen-sive income (restated)*	*Effect of translation (restated)*	*2010 (restated)*	*Credited/ (charged) to profit or loss*	*Credited/ (charged) to other comprehen-sive income*	*Effect of translation*	*Business combination*	*Disposal group held for sale*	*2011*
Tax effect of deductible temporary differences:											
Provision for impairment of financial instruments	–	16,664.7	–	–	16,664.7	18,328.1	–	–	–	–	34,992.8
Tax losses carried forward	–	–	–	–	–	3,601.1	–	–	–	–	3,601.1
Assets of disposal group held for sale	–	18.5	–	–	18.5	932.7	–	–	–	(528.9)	422.3
Accrued expenses	84.0	27.5	–	–	111.5	171.4	–	–	–	–	282.9
Fair value of securities	2,643.2	(1,622.3)	(10.9)	14.1	1,024.1	2,084.2	(9.1)	86.5	–	–	3,185.7
Fair value of investment property	–	495.9	–	–	495.9	(29.4)	–	–	–	–	466.5
Other	816.8	(618.2)	–	–	198.6	12.2	–	–	–	–	210.8
Deferred tax assets	**3,544.0**	**14,966.1**	**(10.9)**	**14.1**	**18,513.3**	**25,100.3**	**(9.1)**	**86.5**	**–**	**(528.9)**	**43,162.1**
Unrecognized deferred tax assets	–	(1,030.3)	–	–	(1,030.3)	(140.0)	–	–	–	–	(1,170.3)
Deferred tax asset	**3,544.0**	**13,935.8**	**(10.9)**	**14.1**	**17,483.0**	**24,960.3**	**(9.1)**	**86.5**	**–**	**(528.9)**	**41,991.8**
Tax effect of taxable temporary differences:											
Fair value measurement of securities	–	(104.8)	–	–	(104.8)	(349.6)	–	–	–	–	(454.4)
Premises and equipment	(1,519.5)	(249.7)	–	–	(1,769.2)	258.3	–	–	–	–	(1,510.9)
Intangible assets	–	(95.6)	–	–	(95.6)	95.6	–	–	(103.0)	–	(103.0)
Deposit received from SC DIA	–	–	–	–	–	(29,874.8)	–	–	–	–	(29,874.8)
Subordinated debt	–	–	–	–	–	(275.2)	–	–	–	–	(275.2)
Provision for impairment of financial instruments	(3,399.9)	3,057.5	–	–	(342.4)	146.9	–	–	–	–	(195.5)
Other	(179.9)	(261.1)	–	–	(441.0)	(251.6)	–	–	(294.4)	–	(987.0)
Deferred tax liability	**(5,099.3)**	**2,346.3**	**–**	**–**	**(2,753.0)**	**(30,250.4)**	**–**	**–**	**(397.4)**	**–**	**(33,400.8)**
Net deferred tax asset	**76.1**	**14,774.8**	**–**	**14.1**	**14,865.0**	**(5,737.8)**	**(9.1)**	**86.50**	**–**	**–**	**9,204.6**
Net deferred tax liability	**(1,631.4)**	**1,507.3**	**(10.9)**	**–**	**(135.0)**	**447.7**	–	–	**(397.4)**	**(528.9)**	**(613.6)**
Total net deferred tax asset/(liability)	**(1,555.3)**	**16,282.1**	**(10.9)**	**14.1**	**14,730.0**	**(5,290.1)**	**(9.1)**	**86.50**	**(397.4)**	**(528.9)**	**8,591.0**

(in millions of Russian Roubles)

34. Basic and diluted earnings per share

Basic earnings/(loss) per share are calculated by dividing the profit/(loss) attributable to ordinary shareholders by the weighted average number of ordinary shares during the year less the average number of ordinary treasury shares.

The Bank has no potentially dilutive ordinary shares. Therefore, diluted earnings per share equal basic earnings per share.

	2011	*2010 (restated)*
Net profit/(loss) attributable to the shareholders of the parent Bank (RUR million)	24,612.8	(69,750.4)
Weighted average number of outstanding ordinary shares	180,710,719.5	169,543,996.1
Basic and diluted earnings per share (RUR per share)	**136.2**	**(411.4)**

35. Contingencies and commitments

Legal proceedings. In the ordinary course of business, the Group is subject to legal actions and complaints. As at the reporting date, the Group had several unresolved legal claims. The Group's Management is of the opinion that there would be no material outflow of resources in respect of these claims and accordingly no provision has been made in these consolidated financial statements.

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

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

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

Outstanding credit related commitments are as follows:

	2011	*2010 (restated)*	*2009 (restated)*
Guarantees issued	63,106.9	62,070.4	52,450.8
Undrawn credit lines	49,390.3	36,638.5	31,387.2
Import letters of credit	5,407.1	4,661.2	8,827.0
Less: provision for impairment on credit related commitments	(5.0)	–	–
Total credit related commitments	**117,899.3**	**103,370.1**	**92,665.0**

Commitments under import letters of credit and guarantees are collateralized by customer accounts of RUR 499 million (as at 31 December 2010: RUR 4,543 million; as at 31 December 2009: RUR 807 million), by the Bank's own debt securities of RUR 14 million (as at 31 December 2010: RUR 5 million; as at 31 December 2009: RUR 1 million).

(in millions of Russian Roubles)

35. Contingencies and commitments (continued)

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

Remaining contractual maturity	*2011*	*2010 (restated)*	*2009 (restated)*
Not later than 1 year	1,099.2	1,311.8	1,010.1
Later than 1 year but not later than 5 years	67.1	224.6	293.3
Later than 5 years	–	10.5	9.4
Total operating lease commitments	**1,166.3**	**1,546.9**	**1,312.8**

36. Analysis by segment

Segment information is presented to the management of the Group on a regular basis within management accounts. The Group's main operating segments are as follows:

Treasury business is the operating segment that includes trading in financial instruments, transactions with securities and derivatives, including REPO deals, foreign currency transactions, raising and origination of loans on interbank loan markets, interest rate arbitrage on SWAP transactions. Besides, the treasury function includes the Group's short-term asset management and the Group's position in foreign currencies, i.e. currency risk management.

Corporate business is the operating segment that includes services associated with servicing settlement and current accounts of legal entities, acceptance of deposits from corporate clients, extension of credit lines in the form of overdrafts, issuance of loans and other types of financing, rendering of investment banking services, trade financing of corporate clients, rendering of structured financing, consulting services on mergers and acquisitions.

Retail business is the operating segment that includes rendering of banking services to individuals - opening and maintaining accounts, acceptance of deposits from individuals, fiduciary services, accumulation of investments, servicing debit and credit cards, consumer and mortgage lending.

The Group's transactions not included in the above business segments are disclosed separately.

Transactions between operating segments are carried out on an arm's length basis. In the ordinary course of business, the Group's financial resources are reallocated between operating segments. As a result, intersegment allocations are reflected within assets/liabilities of a operating segment and the cost of reallocated financial resources is included in the operating segment income/expenses**.**

Over 90% of the Group's business is concentrated in the Russian Federation at the location of the Bank of Moscow, the head office of the Group. The rest part of the business is concentrated in Belarus, Ukraine and Serbia.

(in millions of Russian Roubles)

36. Analysis by segment (continued)

Segment information on main reporting business segments of the Group for the year ended 31 December 2011 is presented in the tables below:

	Treasury business	*Corporate business*	*Retail business*	*Non-banking organizations*	*Unallocated*	*Total*
Assets						
Assets on demand and maturing in less than 1 month						
Cash and cash equivalents	1,397.7	38,170.3	21,808.6	1,474.7	–	62,851.3
Financial assets held for trading	33,041.1	–	–	393.6	–	33,434.7
Due from other banks	40,796.9	–	–	–	–	40,796.9
Other assets	–	–	15.0	957.6	2,940.1	3,912.7
Total assets on demand and maturing in less than 1 month	**75,235.7**	**38,170.3**	**21,823.6**	**2,825.9**	**2,940.1**	**140,995.6**
Assets maturing in more than 1 month						
Obligatory reserve deposits with central banks	–	5,952.0	3,801.7	–	–	9,753.7
Financial assets pledged under repurchase agreements	175,919.3	9,328.0	–	–	–	185,247.3
Due from other banks	118,029.0	–	–	–	–	118,029.0
Loans and advances to customers	115,324.4	355,522.5	61,720.6	1,168.0	–	533,735.5
Financial assets available for sale	11,250.3	6,927.2	–	80.8	–	18,258.3
Investment securities held to maturity	–	324.0	–	–	–	324.0
Investments in associates	–	199.6	–	4,086.4	–	4,286.0
Premises and equipment and intangible assets	392.7	6,768.0	8,442.9	4,854.2	–	20,457.8
Investment property	–	–	–	3,785.1	–	3,785.1
Current income tax assets	–	–	–	–	5,602.4	5,602.4
Deferred income tax assets	–	–	–	–	9,204.6	9204.6
Assets of disposal group held for sale	–	–	–	–	10,330.0	10,330.0
Total assets maturing in more than 1 month and part of assets with no stated maturity	**420,915.7**	**385,021.3**	**73,965.2**	**13,974.5**	**25,137.0**	**919,013.7**
Total assets	**496,151.4**	**423,191.6**	**95,788.8**	**16,800.4**	**28,077.1**	**1,060,009.3**

(in millions of Russian Roubles)

36. Analysis by segment (continued)

	Treasury business	*Corporate business*	*Retail business*	*Non-banking organizations*	*Unallocated*	*Total*
Liabilities						
Liabilities on demand and maturing in less than 1 month						
Due to other banks	17,377.0	–	564.1	8.2	–	17,949.3
Customer deposits	–	147,409.0	41,524.3	–	–	188,933.2
Other liabilities	–	–	–	2,794.1	–	2,794.1
Total liabilities on demand and maturing in less than 1 month	**17,377.0**	**147,409.0**	**42,088.4**	**2,802.3**	**–**	**209,676.7**
Liabilities maturing in more than 1 month						
Due to other banks	–	11,230.2	14,822.0	–	–	26,052.2
Customer deposits	1.1	107,705.1	121,422.2	626.8	–	229,755.2
Deposit received from SC DIA	–	144,386.8	–	–	–	144,386.8
Due to the CBR	159,745.6	–	–	–	–	159,745.6
Debt securities issued	–	57,856.3	12,119.3	3,640.4	–	73,616.0
Current income tax liabilities	–	–	–	–	224.6	224.6
Deferred income tax liabilities	–	–	–	–	613.6	613.6
Other liabilities	143.7	2,476.3	3,089.0	3,030.4	–	8,739.4
Liabilities of disposal group held for sale	–	–	–	–	8,502.2	8,502.2
Subordinated debt	–	35,821.5	–	–	–	35,821.5
Total liabilities maturing in more than 1 month	**159,890.4**	**359,476.2**	**151,452.5**	**7,297.6**	**9,340.4**	**687,457.1**
Total liabilities	**177,267.4**	**506,885.2**	**193,540.9**	**10,099.9**	**9,340.4**	**897,133.8**
Surplus/(deficit) of funds on demand and maturing in less than 1 month	**(57,858.7)**	**109,238.7**	**20,264.8**	**(23.6)**	**(2,940.1)**	**68,681.1**
(Transferred)/received funds on demand and maturing in less than 1 month from other business segments	57,858.7	(15,770.3)	(42,088.4)	–	–	–
Surplus/(deficit) of funds maturing in more than 1 month	**(261,025.3)**	**(25,545.1)**	**77,487.3**	**(6,676.9)**	**(15,796.6)**	**231,556.6**
(Transferred)/received funds maturing in more than 1 month from other business segments	–	55,663.7	(55,663.7)	–	–	–
Equity financing	**261,025.3**	**(123,587.0)**	**–**	**6,700.5**	**18,736.7**	**162,875.5**
Total unallocated surplus/ (uncovered deficit) on financing	**–**	**–**	**–**	**–**	**–**	**–**

(in millions of Russian Roubles)

36. Analysis by segment (continued)

Segment information on main reporting business segments of the Group for the year ended 31 December 2010 (restated) is presented in the tables below:

	Treasury business	*Corporate business*	*Retail business*	*Non-banking organizations*	*Unallocated*	*Total*
Assets						
Assets on demand and maturing in less than 1 month						
Cash and cash equivalents	2,136.4	45,243.8	23,835.6	314.9	–	71,530.7
Financial assets held for trading	85,377.2	–	–	1,231.8	–	86,609.0
Financial assets pledged under repurchase agreements	21,983.8	16,191.9	–	–	–	38,175.7
Due from other banks	71,454.5	–	–	252.3	–	71,706.8
Other assets	128.2	2,215.1	2,808.6	690.3	–	5,842.2
Total assets on demand and maturing in less than 1 month	**181,080.1**	**63,650.8**	**26,644.2**	**2,489.3**	**–**	**273,864.4**
Assets maturing in more than 1 month						
Obligatory reserve deposits with central banks	–	3,719.4	1,869.4	–	–	5,588.8
Due from other banks	7,778.3	–	–	–	–	7,778.3
Loans and advances to customers	–	438,179.7	65,840.1	1,700.5	–	505,720.3
Financial assets available for sale	440.9	14,161.2	–	121.8	–	14,723.9
Investment securities held to maturity	–	418.2	–	–	–	418.2
Investments in associates	–	46.3	–	3,201.5	–	3,247.8
Premises and equipment and intangible assets	321.9	6,532.2	8,148.4	962.6	–	15,965.1
Investment property	–	–	–	3,638.0	–	3,638.0
Current income tax assets	–	–	–	–	3,671.6	3,671.6
Deferred income tax assets	–	–	–	–	14,865.8	14,865.8
Total assets maturing in more than 1 month and part of assets with no stated maturity	**8,541.1**	**463,057.0**	**75,857.9**	**9,624.4**	**18,537.4**	**575,617.8**
Total assets	**189,621.2**	**526,707.8**	**102,502.1**	**12,113.7**	**18,537.4**	**849,482.2**

(in millions of Russian Roubles)

36. Analysis by segment (continued)

	Treasury business	*Corporate business*	*Retail business*	*Non-banking organizations*	*Unallocated*	*Total*
Liabilities						
Liabilities on demand and maturing in less than 1 month						
Due to other banks	41,296.2	–	389.3	–	–	41,685.5
Customer deposits	–	163,628.5	38,056.7	–	–	201,685.2
Other liabilities	1,512.8	–	60.0	2,491.9	–	4,064.7
Total liabilities on demand and maturing in less than 1 month	**42,809.0**	**163,628.5**	**38,506.0**	**2,491.9**	**–**	**247,435.4**
Liabilities maturing in more than 1 month						
Due to other banks	–	91,526.7	11,986.0	–	–	103,512.7
Customer deposits	212.3	197,643.2	143,523.3	76.2	–	341,455.0
Debt securities issued	–	59,509.2	19,076.6	2,518.1	–	81,103.9
Subordinated debt	–	34,173.5	–	–	–	34,173.5
Other liabilities	81.4	1,407.0	3,185.0	–	–	4,673.4
Current income tax liabilities	–	–	–	–	39.4	39.4
Deferred income tax liabilities	–	–	–	–	135.0	135.0
Total liabilities maturing in more than 1 month	**293.7**	**384,259.6**	**177,770.9**	**2,594.3**	**174.4**	**565,092.9**
Total liabilities	**43,102.7**	**547,888.1**	**216,276.9**	**5,086.2**	**174.4**	**812,528.3**
Surplus/(deficit) of funds on demand and maturing in less than 1 month	**(138,271.1)**	**99,977.7**	**11,861.7**	**2.7**	**–**	**(26,429.0)**
(Transferred)/received funds on demand and maturing in less than 1 month from other business segments	138,271.1	(99,765.2)	(38,505.9)	–	–	–
Surplus/(deficit) of funds maturing in more than 1 month	**(8,247.4)**	**(78,797.4)**	**101,913.0**	**(7,030.1)**	**(18,363.0)**	**(10,524.9)**
(Transferred)/received funds maturing in more than 1 month from other business segments	–	75,268.8	(75,268.8)	–	–	–
Financing from equity	**8,247.4**	**3,316.1**	**–**	**7,027.4**	**18,363.0**	**36,953.9**
Total unallocated surplus/(uncovered deficit) on financing	**–**	**–**	**–**	**–**	**–**	**–**

(in millions of Russian Roubles)

36. Analysis by segment (continued)

Segment information by main operating segments of the Group against consolidated income statement for the year ended 31 December 2011 is presented in the table below:

	Treasury business	*Corporate business*	*Retail business*	*Non-banking organizations*	*Unallocated*	*Total*
Interest income	9,570.0	39,476.7	9,779.3	87.6	–	58,913.6
Interest expense	(2,506.3)	(24,033.2)	(8,355.5)	(200.2)	–	(35,095.2)
Gains less losses arising from financial instruments held for trading	(1,177.3)	–	–	1225.6	–	48.3
Unrealized gains less losses from financial assets available for sale	–	(10,524.7)	–	(41.0)	–	(10,565.7)
Gains less losses arising from dealing in foreign currency and precious metals and revaluation of foreign currency	2,847.5	–	382.8	18.5	–	3,248.8
Net operating result on resource products before intersegment re-allocations	**8,733.9**	**4,918.8**	**1,806.6**	**1,090.5**	**–**	**16,549.8**
Operating income/expense on short-term intersegment re-allocations	(747.7)	440.3	307.4	–	–	–
Operating income/expense on term intersegment re-allocations	–	(4,112.9)	4,112.9	–	–	–
Net operating result on resource products	**7,986.2**	**1,246.2**	**6,226.9**	**1,090.5**	**–**	**16,549.8**
Provisions for impairment of loans	0.6	(120,763.6)	127.8	(101.9)	–	(120,737.1)
Gain on initial recognition of funds received from SC DIA	–	152,002.0	–	–	–	152,002.0
Losses arising from early repayment of deposit received from SC DIA	–	(1,111.2)	–	–	–	(1,111.2)
Fee and commission income	453.9	6,085.9	1,181.7	109.1	–	7,830.6
Fee and commission expense	(291.4)	(978.7)	(660.6)	(11.7)	–	(1,942.4)
General and administrative expenses	(212.7)	(3,666.7)	(5,236.5)	(363.2)	(88.2)	(9,567.3)
Staff costs	(246.8)	(4,254.1)	(5,306.8)	(172.7)	–	(9,980.4)
Other income/(expenses)*	–	17.0	81.5	(1,062.0)	(659.0)	(1,622.5)
Profit before taxation and non-controlling interests	**7,689.8**	**28,576.8**	**(3,586.0)**	**(511.9)**	**(747.2)**	**31,421.5**
Income tax	–	–	–		(6,805.0)	(6,805.0)
Profit before non-controlling interests	**7,689.8**	**28,576.8**	**(3,586.0)**	**(511.9)**	**(7,552.2)**	**24,616.5**
Non-controlling interests	–	–	–	–	(3.7)	(3.7)
Net profit	**7,689.8**	**28,576.8**	**(3,586.0)**	**(511.9)**	**(7,555.9)**	**24,612.8**
Capital expenditure	**88.7**	**1,528.8**	**1,907.1**	**58.1**	**–**	**3,582.7**

* The item includes the following items of the consolidated income statement: Other impairment and provisions, Other operating income less expenses, Share in net profit/(loss) of associates, Net (loss)/gain on acquisition and sale of subsidiaries, Loss on net monetary position.

(in millions of Russian Roubles)

36. Analysis by segment (continued)

Segment information by main operating segments of the Group against consolidated income statement for the year ended 31 December 2010 (restated) is presented in the table below:

	Treasury business	*Corporate business*	*Retail business*	*Non-banking organizations*	*Unallocated*	*Total*
Interest income	6,060.6	60,766.3	10,177.3	189.6	–	77,193.8
Interest expense	(987.8)	(23,587.7)	(12,692.0)	(302.4)	–	(37,569.9)
Gain on initial recognition and restructuring of financial instruments	–	1,112.8	–	–	–	1,112.8
Gains less losses arising from financial instruments held for trading	3,150.4	–	–	643.1	–	3,793.5
Unrealized gains less losses from financial assets available for sale	(0.1)	(5,033.1)	–	15.8	–	(5,017.4)
Gains less losses arising from dealing in foreign currency and precious metals	(281.6)	–	428.1	(87.7)	–	58.8
Net operating result on resource products before intersegment re-allocations	**7,941.5**	**33,258.3**	**(2,086.6)**	**458.4**	**–**	**39,571.6**
Operating income/expense on short-term intersegment re-allocations	26.9	(19.6)	(7.3)	–	–	–
Operating income/expense on term intersegment re-allocations	–	(2,174.7)	2,174.7	–	–	–
Net operating result on resource products	**7,968.4**	**31,064.0**	**80.8**	**458.4**	**–**	**39,571.6**
Provisions for impairment of loans	3.4	(104,485.5)	(481.9)	(549.0)	–	(105,513.0)
Fee and commission income	236.6	4,256.6	2,489.5	152.5	–	7,135.2
Fee and commission expense	(86.1)	(1,281.7)	(302.1)	(5.4)	–	(1,675.3)
General and administrative expenses	(151.9)	(2,624.3)	(4,005.1)	(475.0)	(1,096.0)	(8,352.3)
Staff costs	(234.5)	(4,052.2)	(5,054.7)	(158.2)	–	(9,499.6)
Other income/(expenses)	–	(910.9)	(956.2)	(2,784.4)	(2,281.8)	(6,933.3)
Profit before taxation and non-controlling interests	**7,735.9**	**(78,034.0)**	**(8,229.7)**	**(3,361.1)**	**(3,377.8)**	**(85,266.7)**
Income tax	–	–	–	–	15,524.3	15,524.3
Profit before non-controlling interests	**7,735.9**	**(78,034.0)**	**(8,229.7)**	**(3,361.1)**	**12,146.5**	**(69,742.4)**
Non-controlling interests	–	–	–	–	(8.0)	(8.0)
Net profit	**7,735.9**	**(78,034.0)**	**(8,229.7)**	**(3,361.1)**	**12,138.5**	**(69,750.4)**
Capital expenditure	69.7	1,203.9	1,501.7	4.0	–	2,779.3

37. Financial risk management

The Group is exposed to financial risks, including credit, liquidity and market risks.

The Management Board of the Bank has overall responsibility for risk management at the Group.

A number of committees and structural subdivisions are established to coordinate day-to-day risk management activities. In addition, the Bank is a member of the banking group established by JSC VTB Bank and is guided by the standards and approaches to risk management recommended to be applied in VTB Group.

In 2011, the Bank of Moscow initiated the process of modernizing its risk management system. This was due to the identified deficiencies in mechanisms that resulted in financial problems for the Bank, and unified management processes after the Bank of Moscow became a member of VTB Group. The purpose of these changes is to develop an integrated management system for all types of risks, the level of which will be measured by requirements to economic capital coverage in accordance with Basel II principles.

The Bank's Credit Committee makes decisions in the area of the Group's risk management policies and procedures based on powers delegated to it, in particular, it approves Group-wide standards and approaches to the risk management.

The Assets and Liabilities Management Committee ("ALCO") plays the key role in managing market, operational, currency risks and liquidity risk. The ALCO also manages assets and liabilities of the Bank, internal and external pricing and capital allocation. The ALCO Chairman is appointed by the President of the Bank - Chairman of the Management Board.

The Bank's Risk Department (RD) exercises operative control over the level of risks accepted by the Group, performs the methodological function of organizing the risk management process within the Group. The RD reports to the Bank's Management Board, the Credit Committee and the Asset and Liability Management Committee.

The RD proposes risk limits with regard to various banking transactions and prepares recommendations regarding risk management for the Bank's Credit Committee and the Asset and Liability Management Committee ("ALCO"). The RD monitors compliance of risk indicators with the established limits, prepares proposals regarding risk management, including its hedging, and submits for consideration to the Bank's collegial bodies.

The Treasury has operative control over compliance with the established risk limits per subdivision.

The RD consists of the following subdivisions:

- Portfolio risk division
- Credit risk control division
- Credit expertise division
- Retail credit risk division
- Customer control center

Analysis of financial assets and liabilities by measurement basis

Financial assets and liabilities are measured on an ongoing basis either at fair value or at amortized cost. The summary of significant accounting policies in Note 6 describes how the classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognized.

Credit risk

The Group has applied the following credit risk management methods to manage credit risk and neutralize its possible negative impact.

Risk assessment, which includes the following elements:

- Procedure for selecting the most reliable borrowers and the least risky objects for allocating funds by using formalized valuation techniques and expert risk analysis providing the required rate of return.
- Stress testing of the Bank's asset portfolios being performed on a regular basis and allowing to assess the stability of the Bank in the context of incurring maximum financial losses on loan portfolios based on critical scenarios.

37. Financial risk management (continued)

Credit risk (continued)

Limits. Limits are set for the Bank's investments in various segments in order to avoid excessive concentration and comprise the following:

- scope limits that restrict credit risks by certain credit products and portfolios;
- time limits;
- interest rate limits;
- limits of authorities;
- limits of concentrations, which restrict the Bank's investments in certain industries and regions.

Monitoring. Monitoring of the credit risk includes the following procedures:

- Monitoring of the risk level for certain projects and portfolios of the Bank in general, which allows to take preventive measures in identifying negative trends;
- Monitoring of the country, region and industry concentrations of the Bank's credit exposure and major credit risks.

The Risk Department, a special subdivision within the Bank's structure, manages this risk exposure and implements measures aimed to mitigate it.

The Bank's strategy to enhance the process of making decisions on credit risk-bearing transactions assumes that this process is to be centralized within the Risk Department. Thus, the risks are mitigated in the credit process when the quality of the Bank's loan portfolio improves.

This system makes it possible to manage risks, exercise operating control over the loan portfolio structure and make preventive management decisions that allow reducing the concentration of all banking risks in aggregate.

In order to improve the quality of the loan analysis and consideration of the credit risk level in the process of establishing prices for credit products, the Bank of Moscow implemented the system of internal credit ratings and credit risk premiums related to methodological approaches used in VTB Group.

The use of the rating system and improvement of the internal analytical loan portfolio reporting quality will subsequently allow covering credit risks by applying the economic capital model corresponding to Basel II requirements.

In addition, the procedure of monitoring the quality of loans receivable and collateral is currently being changed. Functions of expressing professional judgments concerning loans are transferred from credit subdivisions to the Risk Department, thus, making these judgments more independent.

The decision-making process relating to retail credit risks has been improved. In particular, for the purpose of improving the quality of the borrower's creditworthiness assessment, the Bank enhanced the operation of its scoring systems, refined the credit limit calculation algorithm, automated the process of obtaining and analyzing information on the credit history of borrowers in other banks (according to data from credit history bureaus). The Bank is planning to develop and improve the principles and approaches to retail credit risk management in accordance with the best practices of VTB Group.

The organizational structure of the Bank also includes special subdivisions responsible for managing distressed debt of both legal entities and individuals. Thus, the Group constantly monitors the level of distressed debt in the loan portfolio and takes operative measures to repay it, if necessary.

For more detail on the maximum exposure to credit risk for each class of financial instrument, references shall be made to the specific notes.

(in millions of Russian Roubles)

37. Financial risk management (continued)

Credit quality by class of due from other banks

Credit quality is analyzed based on ratings (if any) assigned by Standard & Poor's, Fitch and Moody's agencies that are converted to the nearest equivalent using the Standard & Poor's rating scale.

Credit quality of due from other banks (gross), which are neither past due nor impaired as at 31 December 2011 is presented in the table below:

	Individually assessed
A+	21,043.0
A	980.0
BBB	131,000.0
BBB-	1,000.0
B	300.0
B-	3.0
Not rated	4,499.9
Total due from other banks (gross) neither past due nor impaired	**158,825.9**

Credit quality of due from other banks (gross), which are neither past due nor impaired as at 31 December 2010 (revised) is presented in the table below:

	Individually assessed
A+	8,532.0
A	4,685.6
BBB+	12,215.0
BBB-	1,000.0
BBB	7,500.0
BB+	2,260.7
BB	8,358.8
B+	2,474.0
B	1,210.3
B-	4,282.4
Not rated	26,966.3
Total due from other banks (gross) neither past due nor impaired	**79,485.1**

Due from other banks assessed individually and not found to be impaired are subsequently included in the pools of collectively assessed loans.

(in millions of Russian Roubles)

37. Financial risk management (continued)

Credit quality by class of loans and advances to customers

Below is the analysis of loans by credit quality as at 31 December 2011:

	Neither past due nor impaired							
	Loans with a minimum level of risk (provision rate from 0% to 2%)	*Standard loans (provision rate from 2% to 5%)*	*Non-standard loans (provision rate from 5% to 20%)*	*Neither past due nor impaired, total*	*Past due but not impaired*	*Individually assessed impaired loans*	*Collectively assessed impaired loans*	*Total*
Loans to legal entities								
Corporate loans	145,576.7	98,919.0	36,701.6	281,197.3	2,725.6	268,733.4	525.1	553,181.4
Loans to state and municipal authorities	115,674.5	896.0	25.0	116,595.5	–	–	–	116,595.5
Loans to small and medium business	15,490.1	10,746.5	10,221.7	36,458.3	971.9	1,947.8	5,190.6	44,568.6
Reverse repurchase agreements	129.1	–	–	129.1	–	–	–	129.1
Less: provision for impairment of loans to legal entities	(1,571.6)	(3,563.4)	(3,664.2)	(8,799.2)	(278.2)	(227,698.3)	(5,684.2)	(242,459.9)
Total loans to legal entities	**275,298.8**	**106,998.1**	**43,284.1**	**425,581.0**	**3,419.3**	**42,982.9**	**31.5**	**472,014.7**
Loans to individuals								
Car loans	1,823.5	–	7.4	1,830.9	64.9	–	1,399.8	3,295.6
Consumer loans	33,982.8	0.1	0.2	33,983.1	551.8	–	9,337.3	43,872.2
Mortgage loans	19,271.7	–	6.7	19,278.4	663.0	–	1,520.2	21,461.6
Other	3,467.0	–	–	3,467.0	562.9	–	1,949.0	5,978.9
Less: provision for impairment of loans to individuals	(96.6)	–	(2.4)	(99.0)	(143.0)	–	(12,645.5)	(12,887.5)
Total loans to individuals	**58,448.4**	**0.1**	**11.9**	**58,460.4**	**1,699.6**	**–**	**1,560.8**	**61,720.8**
Total	**333,747.2**	**106,998.2**	**43,296.0**	**484,041.4**	**5,118.9**	**42,982.9**	**1,592.3**	**533,735.5**

Below is the analysis of loans by credit quality of loans as at 31 December 2010 (revised):

	Neither past due nor impaired							
	Loans with a minimum level of risk (provision rate from 0% to 2%)	*Standard loans (provision rate from 2% to 5%)*	*Non-standard loans (provision rate from 5% to 20%)*	*Neither past due nor impaired, total*	*Past due but not impaired*	*Individually assessed impaired loans*	*Collectively assessed impaired loans*	*Total*
Loans to legal entities								
Corporate loans	137,550.0	50,984.6	32,078.6	220,613.2	1,734.7	261,722.1	41,458.0	525,528.0
Loans to state and municipal authorities	4,606.7	–	–	4,606.7	–	–	–	4,606.7
Loans to small and medium business	11.1	1,646.3	3,573.7	5,231.1	566.7	–	27,675.1	33,472.9
Reverse repurchase agreements	10,907.2	–	–	10,907.2	–	–	–	10,907.2
Less: provision for impairment of loans to legal entities	(517.2)	(2,223.1)	(3,403.8)	(6,144.1)	(138.1)	(118,456.8)	(9,895.6)	(134,634.6)
Total loans to legal entities	**152,557.8**	**50,407.8**	**32,248.5**	**235,214.1**	**2,163.3**	**143,265.3**	**59,237.5**	**439,880.2**
Loans to individuals								
Car loans	3,961.0	–	–	3,961.0	–	–	2,110.6	6,071.6
Consumer loans	24,324.3	–	–	24,324.3	–	–	15,795.0	40,119.3
Mortgage loans	20,470.9	–	–	20,470.9	–	–	5,817.1	26,288.0
Other	146.4	3,554.4	499.3	4,200.1	–	–	3,060.4	7,260.5
Less: provision for impairment of loans to individuals	(114.2)	(76.4)	(31.0)	(221.6)	–	–	(13,677.7)	(13,899.3)
Total loans to individuals	**48,788.4**	**3,478.0**	**468.3**	**52,734.7**	**–**	**–**	**13,105.4**	**65,840.1**
Total	**201,346.2**	**53,885.8**	**32,716.8**	**287,948.8**	**2,163.3**	**143,265.3**	**72,342.9**	**505,720.3**

(in millions of Russian Roubles)

37. Financial risk management (continued)

Credit quality by class of loans and advances to customers (continued)

The quality of loans, for which no evidence of impairment has been identified, is not homogenious due to a variety of industry risks and characteristics of the borrowers' financial status.

For the purposes of these consolidated financial statements a past due loan shall be deemed as the total amount due from the borrower (including the principal amounts and accrued interest income) if at least one of the regular loan-related payments is past due as at the reporting date.

Below is the analysis of individually impaired loans to customers and provisions for impairment as at 31 December 2011:

		Past due loans with overdue payments				
	Loans not past due	***Less than 1 month***	***From 1 to 3 months***	***From 3 to 6 months***	***More than 6 months***	***Total***
Corporate loans	100,166.6	12,244.3	26,227.0	77,934.8	52,160.7	268,733.4
Loans to small and medium business	–	–	–	–	1,947.8	1,947.8
Less: provision for impairment of loans to legal entities	(76,261.1)	(11,500.4)	(21,819.4)	(68,798.4)	(49,319.0)	(227,698.3)
Total individually impaired loans to legal entities	**23,905.5**	**743.9**	**4,407.6**	**9,136.4**	**4,789.5**	**42,982.9**

Below is the analysis of individually impaired loans to customers and provisions for impairment as at 31 December 2010 (revised):

	Loans not past due	***Past due loans with overdue payments less than 1 month***	***Total***
Corporate loans	256,923.0	4,799.1	261,722.1
Less: provision for impairment of loans to legal entities	(113,732.4)	(4,724.4)	(118,456.8)
Total individually impaired loans to legal entities	**143,190.6**	**74.7**	**143,265.3**

Ageing analysis (by days of delay in repayment) of past due, but not impaired loans and advances by class as at 31 December 2011 is presented in the table below.

	Past due but not impaired with overdue payments				
	Less than 1 month	***From 1 to 3 months***	***From 3 to 6 months***	***More than 6 months***	***Total***
Loans to legal entities					
Corporate loans	–	–	2,725.6	–	2,725.6
Loans to small and medium business	392.8	13.3	0.9	564.9	971.9
Less: provision for impairment of loans to legal entities	(18.5)	(1.0)	(258.7)	–	(278.2)
Total past due but not impaired loans to legal entities	**374.3**	**12.3**	**2,467.8**	**564.9**	**3,419.3**
Loans to individuals					
Car loans	64.9	–	–	–	64.9
Consumer loans	503.6	0.9	–	47.4	551.9
Mortgage loans	567.2	9.0	7.1	79.7	663.0
Other	562.9	–	–	–	562.9
Less: provision for impairment of loans to legal entities	(142.9)	–	–	(0.1)	(143.0)
Total past due but not impaired loans to individuals	**1,555.7**	**9.9**	**7.1**	**127.0**	**1,699.7**
Total past due but not impaired loans	**1,930.0**	**22.2**	**2,474.9**	**691.9**	**5,119.0**

(in millions of Russian Roubles)

37. Financial risk management (continued)

Credit quality by class of loans and advances to customers (continued)

Ageing analysis (by days of delay in repayment) of past due, but not impaired loans and advances by class as at 31 December 2010 (revised) is presented in the table below.

	Past due but not impaired with overdue payments				
	Less than 1 month	*From 1 to 3 months*	*From 3 to 6 months*	*More than 6 months*	*Total*
Corporate loans	27.9	–	28.4	1,678.4	1,734.7
Loans to small and medium business	5.4	–	19.7	541.6	566.7
Less: provision	(0.7)	–	(2.7)	(134.7)	(138.1)
Total past due but not impaired loans to legal entities	**32.6**	**–**	**45.4**	**2,085.3**	**2,163.3**

Collateral and other credit enhancements

The amount and type of collateral accepted by the Group depends on credit risk assessment of the counterparty. Guidelines are implemented regarding the acceptable types of collateral and valuation parameters.

The main types of collateral obtained for commercial lending are charges over real estate properties, inventory and trade receivables, for retail lending **–** mortgages over residential properties.

Securities and guarantees are also obtained from counterparties for all types of lending.

It is the Group's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or fully repay the outstanding claim.

Collateral is taken to enhance an acceptable credit proposal, rather than being used as the sole rationale for any credit approval. Where facilities are approved against collateral, full details, including the type, value, and the frequency of review of the collateral should be provided in the Application for Credit Facility Form. Where appropriate, the credit officer must review the documents confirming the existence of the collateral offered and, wherever possible, inspect the actual collateral.

The valuation and acceptance of each type and item of collateral may vary depending on individual circumstances. Generally, the Group takes collateral with a view to ensure, where applicable, that an adequate difference in amounts of collateral and credit risk is obtained and maintained throughout the term of the facility. The appropriate authority responsible for collateral assessment sets parameters for each individual credit facility.

Total proceeds from the sale of collateral may not exceed total collateralized loan debt.

The property received by the Group as collateral against loans includes real estate, equipment and goods in turnover.

(in millions of Russian Roubles)

37. Financial risk management (continued)

Geographical concentration

Geographical concentration information is based on geographical location of the Group's counterparties. As at 31 December 2011, the geographical concentration of the Group's financial assets and liabilities is presented below:

	Russia	*OECD*	*Other countries*	*Total*
Assets				
Cash and cash equivalents	48,264.3	14,381.0	206.0	**62,851.3**
Financial assets held for trading	32,416.1	–	1,018.6	**33,434.7**
Financial assets pledged under repurchase agreements and loaned financial assets	185,247.3	–	–	**185,247.3**
Due from other banks	138,225.5	18,523.2	2,077.2	**158,825.9**
Loans and advances to customers	516,739.7	594.0	16,401.8	**533,735.5**
Financial assets available for sale	18,258.3	–	–	**18,258.3**
Investment securities held to maturity	321.0	–	3.0	**324.0**
Investments in associates	2,970.9	–	151.0	**3,121.9**
Other assets	2,478.2	776.7	1,821.9	**5,076.8**
Total assets	**944,921.3**	**34,274.9**	**21,679.5**	**1,000,875.7**
Liabilities				
Due to other banks	28,430.5	11,974.0	3,597.0	**44,001.5**
Customer deposits	406,466.1	129.7	12,092.7	**418,688.5**
Deposit received from SC DIA	144,386.8	–	–	**144,386.8**
Due to the CBR	159,745.6	–	–	**159,745.6**
Debt securities issued	16,983.1	56,632.9	–	**73,616.0**
Other liabilities	8,462.8	2,553.4	517.3	**11,533.5**
Subordinated loans	10,156.2	25,665.3	–	**35,821.5**
Total liabilities	**774,631.1**	**96,955.3**	**16,207.0**	**887,793.4**
Net position	**170,290.2**	**(62,680.4)**	**5,472.5**	**113,082.3**

Geographical concentration information is based on geographical location of the Group's counterparties. As at 31 December 2010, the geographical concentration of the Group's financial assets and liabilities (restated) is presented below:

	Russia	*OECD*	*Other countries*	*Total*
Assets				
Cash and cash equivalents	45,923.7	20,941.0	4,666.0	**71,530.7**
Financial assets held for trading	85,,009.9	997.1	602.0	**86,609.0**
Financial assets pledged under repurchase agreements	38,175.7	–	–	**38,175.7**
Due from other banks	61,145.1	14,106.0	4,234.0	**79,485.1**
Loans and advances to customers	435,449.3	4,468.0	65,803.0	**505,720.3**
Financial assets available for sale	14,600.9	–	123.0	**14,723.9**
Investment securities held to maturity	203.2	–	215.0	**418.2**
Investments in associates	3,247.8	–	–	**3,247.8**
Other assets	4,678.2	6.0	1,158.0	**5,842.2**
Total assets	**688,433.8**	**40,518.1**	**76,801.0**	**805,752.9**
Liabilities				
Due to other banks	23,367.7	60,513.5	61,317.0	**145,198.2**
Customer deposits	510,539.2	153.0	32,448.0	**543,140.2**
Debt securities issued	22,347.3	57,580.6	1,176.0	**81,103.9**
Other liabilities	6,225.1	1,889.0	624.0	**8,738.1**
Subordinated debt	10,071.7	24,101.8	–	**34,173.5**
Total liabilities	**572,551.0**	**144,237.9**	**95,565.00**	**812,353.9**
Net position	**115,882.8**	**(103,719.8)**	**(18,764.0)**	**(6,601.1)**

(in millions of Russian Roubles)

37. Financial risk management (continued)

Currency risk

The Group is exposed to currency risk. Currency risk arises from open positions in foreign currencies and adverse movements of market exchange rates that may have a negative impact on financial performance of the Group.

The Group manages its currency risk by seeking to match the currency of its assets with that of its liabilities on a currency-by-currency basis within established limits. For the Bank, such limits include internal limits for open currency positions.

The ALCO approves the methodology for the currency risk analysis, management and control procedures and sets internal limits for open currency positions.

The Bank monitors its compliance with internal limits for the open currency position and limits set by the Bank of Russia on a daily basis. Analysis of the currency risk of the Group's monetary assets and liabilities as at 31 December 2011 and 2010 (restated as at 31 December 2010) is presented in the tables below:

	RUR	*USD*	*EUR*	*Other*	*Total*
Assets					
Cash and cash equivalents	39,969.5	12,226.0	6,324.1	4,331.7	62,851.3
Financial assets held for trading	25,575.5	6,568.1	530.7	760.4	33,434.7
Financial assets pledged under repurchase agreements	175,919.1	9,328.2	–	–	185,247.3
Due from other banks	138,066.6	18,827.8	588.1	1,343.4	158,825.9
Loans and advances to customers	391,483.4	110,489.7	16,505.6	15,256.8	533,735.5
Financial assets available for sale	11,250.4	–	–	–	11,250.4
Investment securities held to maturity	320.9	–	–	3.1	324.0
Investments in associates	2,971.1	–	150.8	–	3,121.9
Other assets	3,503.9	84.2	468.8	1,019.9	5,076.8
Total assets	**789,060.4**	**157,524.0**	**24,568.1**	**22,715.3**	**993,867.8**
Liabilities					
Due to other banks	17,676.3	7,218.3	14,558.8	4,548.1	44,001.5
Customer deposits	332,046.8	52,970.0	18,969.3	14,702.4	418,688.5
Deposit received from SC DIA	144,386.8	–	–	–	144,386.8
Due to the CBR	159,745.6	–	–	–	159,745.6
Debt securities issued	15,909.5	41,081.4	4.2	16,620.9	73,616.0
Other liabilities	7,665.2	1,971.4	19.8	1,877.1	11,533.5
Subordinated debt	10,156.1	25,665.4	–	–	35,821.5
Total liabilities	**687,586.3**	**128,906.5**	**33,552.1**	**37,748.5**	**887,793.4**
Net position as at the end of 31 December 2011	**101,474.1**	**28,617.5**	**(8,984.0)**	**(15,033.2)**	**106,074.4**

(in millions of Russian Roubles)

37. Financial risk management (continued)

Currency risk (continued)

	RUR	*USD*	*EUR*	*Other*	*Total*
Assets					
Cash and cash equivalents	37,851.9	16,950.0	8,408.3	8,320.5	71,530.7
Financial assets held for trading	81,611.0	3,228.5	1,058.0	711.5	86,609.0
Financial assets pledged under repurchase agreements	3,747.8	33,390.9	1,037.0	–	38,175.7
Due from other banks	61,274.9	6,193.9	9,747.8	2,268.5	79,485.1
Loans and advances to customers	303,954.6	149,462.3	28,370.7	23,932.7	505,720.3
Financial assets available for sale	597.4	–	–	121.2	718.6
Investment securities held to maturity	45.4	158.5	40.6	173.7	418.2
Investments in associates	3,247.8	–	–	–	3,247.8
Other assets	4,668.6	224.8	92.8	856.0	5,842.2
Total assets	**496,999.4**	**209,608.9**	**48,755.2**	**36,384.1**	**791,747.6**
Liabilities					
Due to other banks	47,317.1	44,794.1	45,867.3	7,219.7	145,198.2
Customer deposits	416,768.9	75,614.2	40,087.6	10,669.5	543,140.2
Debt liabilities issued	21,642.4	39,254.4	46.1	20,161.0	81,103.9
Other liabilities	5,199.8	91.4	1,669.4	1,777.5	8,738.1
Subordinated debt	10,071.7	24,101.8	–	–	34,173.5
Total liabilities	**500,999.9**	**183,855.9**	**87,670.4**	**39,827.7**	**812,353.9**
Net position as at the end of 31 December 2010 (restated)	**(4,000.5)**	**25,753.0**	**(38,915.2)**	**(3,443.6)**	**(20,606.3)**

The table below shows the movements in the financial result and equity caused by possible exchange rates fluctuations used as at the reporting date, whereas all other conditions remain the same:

		2011
	Effect on profit before taxation	***Effect on equity***
USD appreciation by 12.5%	4,004.1	3,203.3
USD depreciation by 12.5%	(4,004.1)	(3,203.3)
EUR appreciation by 11.77%	(1,307.5)	(1,046.0)
EUR depreciation by 11.77%	1,307.5	1,046.0
Appreciation of other currencies by 27.0%	(2,999.3)	(2,399.4)
Depreciation of other currencies by 27.0%	2,999.3	2,399.4

		2010 (restated)
	Effect on profit before taxation	***Effect on equity***
USD appreciation by 8.9%	2,292.1	1,833.7
USD depreciation by 8.9%	(2,292.1)	(1,833.7)
EUR appreciation by 11.05%	(4,290.4)	(3,432.3)
EUR depreciation by 11.05%	4,290.4	3,432.3
Appreciation of other currencies by 29.0%	(521.8)	(417.4)
Depreciation of other currencies by 29.0%	521.8	417.4

The risk was calculated only for cash balances in currencies other than the functional currency.

37. Financial risk management (continued)

Market risk

The financial result of the Bank's activities depends on changes in market factors, including securities prices, exchange rates and interest rates. According to the Bank, market risk is the aggregate of price (equity), currency and interest rate risks.

Equity risk is the risk of losses due to adverse changes in market prices for equity assets.

Interest rate risk is the risk of losses due to adverse changes in interest rates.

Currency risk is the risk of losses due to adverse changes in exchange rates.

The market risk management system developed at the Bank allows:

- identifying and assessing risks accepted by the Bank;
- limiting the level of market risks;
- optimizing the structure of the Bank's portfolios exposed to market risks.

Currently, balance sheet interest rate and currency risks are the main risks of the Bank due to the decrease in the number of its own trading transactions. The trading portfolio risks are significantly mitigated as a result of closing of all trading positions in shares and reducing the debt securities portfolio. Transactions with derivatives are entered into for the purpose of hedging balance sheet risks or providing customer services.

The Group applies the market risk management system based on the following elements:

Risk assessment on the basis of probabilistically statistical methods and stress testing. The applied assessment methods and procedures are in compliance with the requirements of the Basel Committee on Banking Supervision.

In the second and third quarters of 2012, in order to enhance the efficiency of managing the open currency position (OCP), Trading and Treasury OCPs have been separated and procedures for cooperation in managing these OCPs have been established. The functions for managing currency risk and controlling OCP limits have been fully separated. It is planned to finalize corresponding internal regulatory documents until 1 February 2012.

OCP is managed in accordance with the ALCO decisions and requirements specified in the documents of the Bank of Russia.

Limits. The system of limits for financial market transactions includes:

- scope limits that limit amounts of portfolios (open positions) by financial instruments and market sectors;
- stop-loss limits;
- maturity limits of portfolios/instruments;
- limits of authorities;
- concentration limits;
- discounts applied to pledges and repurchase transactions and assuming margin calls or partial repayment of debt in case of decrease in the market value of collateral.

Procedures of setting and controlling limits are regulated by the internal regulatory framework of the Bank of Moscow. Currently, the Bank exercises preliminary, current and subsequent control over compliance with limits for financial market transactions in accordance with the approved procedures. A list of issuers, whose securities may be subject to transactions within limits for the total amount of investments, and a stop-loss are approved by the decision of the Bank's Credit Committee. Following the decision of the ALCO, trading portfolio of debt securities is formed taking into account the need for maintaining an adequate cushion of the Bank's liquid assets and mainly comprises bonds included in the Lombard list of the Bank of Russia.

Limits for transactions with equity instruments are set in a similar way. However, own positions in these instruments are closed at the moment, and only repurchase transactions (daily, for the most part) are being entered into.

There is a list of financial instruments authorized for trading and a procedure for implementing an operation with new instruments, according to which all types of instruments are to be approved by the ALCO when agreed with the Risk Department and confirmed by the Bank's subdivisions.

37. Financial risk management (continued)

Market risk (continued)

Monitoring of risks assumes a procedure for calculating the amount of risk accepted by the Bank on a regular basis and controlling compliance with the established limits.

Hedging implies additional transactions intended to mitigate risks for open positions/portfolios of the Bank.

Diversification implies that the risks are mitigated by means of instruments included in the portfolio and not affected by general market factors.

This system enables the Bank of Moscow to manage its market risks effectively and, if necessary, take adequate measures to minimize possible losses and maintain the quality of the Bank's portfolio.

Interest rate risk exposure and sensitivity analysis

The Group is exposed to interest rate risk. Interest rate risk is defined as the risk of the decrease in interest income or increase in interest expense resulting from adverse changes in market interest rates.

The interest rate risk is managed through:

- setting interest rates for attraction and investment;
- implementing principles for transfer pricing system organization;
- setting transfer prices;
- establishing limits for the acceptance of interest rate risk and control over their compliance;
- transactions hedging interest rate risk.

The Risks Department reports about the interest rate risk exposures and presents a sensitivity analysis to the ALCO on a monthly basis.

(in millions of Russian Roubles)

37. Financial risk management (continued)

Interest rate risk exposure and sensitivity analysis (continued)

The table below summarizes the Group's exposure to interest rate risk for the year ended 31 December 2011. The Group's monetary assets and liabilities are included in the table at carrying amounts, categorized by the earlier of contractual repricing or maturity dates.

	On demand and up to 1 month	*From 1 to 6 months*	*From 6 months to 1 year*	*More than 1 year*	*No defined maturity/ non-interest*	*Total*
Assets						
Cash and cash equivalents	20,436.7	–	–	–	42,414.6	62,851.3
Financial assets held for trading	2,135.5	3,302.6	8,151.6	19,838.6	6.4	33,434.7
Financial assets pledged under repurchase agreements	9,328.2	–	–	175,919.1	–	185,247.3
Due from other banks	37,951.1	117,914.9	897.7	2,062.2	–	158,825.9
Loans and advances to customers	33,700.4	113,435.5	67,309.1	293,952.0	25,338.5	533,735.5
Financial assets available for sale	–	217.5	502.3	10,530.6	–	11,250.4
Investment securities held to maturity	–	–	3.2	320.8	–	324.0
Investments in associates	–	–	–	–	3,121.9	3,121.9
Other assets	1,121.5	–	–	–	3,955.3	5,076.8
Total assets	**104,673.4**	**234,870.5**	**76,863.9**	**502,623.3**	**74,836.7**	**993,867.8**
Liabilities						
Due to other banks	22,209.6	17,245.0	2,942.8	1,604.1	–	44,001.5
Customer deposits	84,836.3	93,052.3	81,233.2	129,044.5	30,522.2	418,688.5
Deposit received from SC DIA	–	–	–	144,386.8	–	144,386.8
Due to the CBR	–	159,745.6	–	–	–	159,745.6
Debt securities issued	479.8	4,764.9	1,201.9	67,169.4	–	73,616.0
Other liabilities	85.0	456.1	531.0	2,084.4	8,377.0	11,533.5
Subordinated debt	–	–	–	35,821.5	–	35,821.5
Total liabilities	**107,610.7**	**275,263.9**	**85,908.9**	**380,110.7**	**38,899.2**	**887,793.4**
Net interest rate gap as at 31 December 2011	**(2,937.3)**	**(40,393.4)**	**(9,045.0)**	**122,512.6**	**35,937.5**	**106,074.4**
Cumulative interest rate gap as at 31 December 2011	**(2,937.3)**	**(43,330.7)**	**(52,375.7)**	**70,136.9**	**106,074.4**	**–**

(in millions of Russian Roubles)

37. Financial risk management (continued)

Interest rate risk exposure and sensitivity analysis (continued)

The table below summarizes the Group's exposure to interest rate risk for the year ended 31 December 2010 (restated):

	On demand and up to 1 month	*From 1 to 6 months*	*From 6 months to 1 year*	*More than 1 year*	*No defined maturity/ non-interest*	*Total*
Assets						
Cash and cash equivalents	22,519.7	–	–	–	49,011.0	71,530.7
Financial assets held for trading	426.2	3,320.6	9,966.5	66,813.3	6,082.4	86,609.0
Financial assets pledged under repurchase agreements	11,642.8	3,281.6	–	23,025.4	225.9	38,175.7
Due from other banks	69,812.4	7,877.8	21.0	1,773.9	–	79,485.1
Loans to customers	103,416.1	108,927.7	113,577.6	172,242.5	7,556.4	505,720.3
Financial assets available for sale	597.2	0.6	5.0	115.8	–	718.6
Investment securities held to maturity	48.8	39.8	91.4	238.2	–	418.2
Investments in associates	–	–	–	–	3,247.8	3,247.8
Other assets	1,497.6	–	–	–	4,344.6	5,842.2
Total assets	**209,960.8**	**123,448.1**	**123,661.5**	**264,209.1**	**70,468.1**	**791,747.6**
Liabilities						
Due to other banks	86,595.7	42,646.0	2,947.6	13,008.9	–	145,198.2
Customer deposits	144,996.8	164,779.3	73,085.0	131,779.3	28,499.8	543,140.2
Debt securities issued	2,065.9	21,482.8	8,246.5	49,308.7	–	81,103.9
Other liabilities	805.7	1,672.4	2.2	462.4	5,795.4	8,738.1
Subordinated debt	–	3,033.5	–	31,140.0	–	34,173.5
Total liabilities	**234,464.1**	**233,614.0**	**84,281.3**	**225,699.3**	**34,295.2**	**812,353.9**
Net interest rate gap as at 31 December 2010	**(24,503.3)**	**(110,165.9)**	**39,380.2**	**38,509.8**	**36,172.9**	**(20,606.3)**
Cumulative interest rate gap as at 31 December 2010	**(24,503.3)**	**(134,669.2)**	**(95,289.0)**	**(56,779.2)**	**(20,606.3)**	**–**

(in millions of Russian Roubles)

37. Financial risk management (continued)

Interest rate sensitivity analysis

The interest rate sensitivities set out below represents an effect on profit before taxation for one-year period in case of a parallel shift in all yield curves. The calculations are based on the Group's actual interest rate risk exposures.

If at 31 December 2011 interest rates had been lower/higher by:

- 249 basis points for RUR-denominated assets and liabilities, and
- 15 basis points for foreign currency-denominated assets and liabilities,

provided all other conditions remained unchanged, the profit for the year would have been by RUR 4,141.0 million higher/lower. The change in the interest rates for financial assets available for sale would have resulted in increase/decrease in capital by RUR 195.0 million.

If at 31 December 2010 interest rates had been lower/higher by:

- 100 basis points for RUR-denominated assets and liabilities, and
- 100 basis points for foreign currency-denominated assets and liabilities,

provided all other conditions remained unchanged, the profit for the year would have been by RUR 1,596.6 million higher/lower. The change in the interest rates for financial assets available for sale would have resulted in increase/decrease in capital by RUR 3.1 million.

Price risk

The Group is exposed to market risk of its securities portfolio, which is the risk of loss resulting from changes in market quotes of securities. The RD reports on a weekly basis to the ALCO on price risk exposures. To mitigate price risk, the ALCO sets exposure limits and stop-loss limits for portfolios and particular instruments. The price risk is calculated based on the calculation of capital requirements with regard to price risk coverage, which is performed using the standardized method in accordance with recommendations of the Basel Committee on Banking Supervision. Standardized approach is based on weighted amount of investments in debt financial instruments with ratios assigned to an instrument depending on the credit rating determined by an international rating agency and terms to maturity. The amount of investments in equity instruments is weighted with fixed risk ratios. The Group's exposure to the price risk of its securities portfolio is presented in the tables below:

Financial assets held for trading

	31 December 2011	*31 December 2010*
Debt securities	1,793.5	4,410.6
Equity securities	–	754.6
Total	**1,793.5**	**5,165.2**

Financial assets available for sale

	31 December 2011	*31 December 2010*
Debt securities	703.8	32.5
Equity securities	24.7	–
Total	**728.5**	**32.5**

Liquidity risk and contractual maturity analysis

Liquidity risk is a risk resulting from inability of the Group to meet in full its obligations when they fall due and without borrowing funds at rates higher than those of market level. The Group's exposure to liquidity risk arises due to a mismatch of maturities of assets and liabilities.

The tools used for measurement, mitigation and management of liquidity risk include contractual maturity analysis, cash flow projection (gap analysis) and analysis of deposit base concentration. This information and forecasts in regard to mandatory liquidity ratios are reported to ALCO on a monthly basis. Depending on the current situation in the markets, ALCO makes decisions on raising additional funding sources and gives relevant instructions to Bank's subdivisions. Liquidity ratios are monitored on a daily basis.

(in millions of Russian Roubles)

37. Financial risk management (continued)

Liquidity risk and contractual maturity analysis (continued)

The Treasury manages short-term liquidity on an ongoing basis through its cash position and portfolio of highly liquid securities within the limits approved by the ALCO.

Banks of the Group are also subject to liquidity requirements set by regulatory authorities, including these by the CBR in the form of mandatory ratios.

The Bank calculates liquidity ratios on a daily basis in accordance with the requirement of the Central Bank of Russia. These ratios comprise:

- Instant liquidity ratio (H2), which is calculated as the ratio of highly-liquid assets to liabilities payable on demand. As at 31 December 2011 this ratio was 36.75% (as at 31 December 2010: 47.5%). Minimum ratio set by the Bank of Russia is 15%.

- Current liquidity ratio (H3), which is calculated as the ratio of liquid assets to liabilities maturing within 30 calendar days. As at 31 December 2011 this ratio was 76.44% (as at 31 December 2010: 78.4%). Minimum ratio set by the Bank of Russia is 50%.

- Long-term liquidity ratio (H4), which is calculated as the ratio of assets maturing after one year to equity (capital) and liabilities maturing after one year. As at 31 December 2011 this ratio was 42.95% (as at 31 December 2010: 99.0%). Maximum ratio set by the Bank of Russia is 120%.

The maturity analysis of non-discounted cash flows of financial liabilities as at 31 December 2011 is provided in the table below:

	On demand and less than 1 month	*1 to 6 months*	*6 to 12 months*	*More than 1 year*	*Total*
Due to other banks	15,441.8	10,491.9	5,492.0	14,628.0	46,053.7
Customer deposits	211,388.6	102,487.3	79,219.3	36,268.6	429,363.8
Deposits received from SC DIA	–	751.7	751.8	305,780.1	307,283.6
Due to the CBR	–	162,429.8	–	–	162,429.8
Debt securities issued	479.9	6,964.6	3,642.8	72,534.7	83,622.0
Other liabilities	84.9	468.1	549.4	2,092.0	3,194.4
Subordinated debt	–	985.7	1,106.4	46,858.7	48,950.8
Total potential future payments for financial obligations	**227,395.2**	**284,579.1**	**90,761.7**	**478,162.1**	**1,080,898.1**

The maturity analysis of non-discounted cash flows of financial liabilities as at 31 December 2010 is provided in the table below (restated):

	On demand and less than 1 month	*1 to 6 months*	*6 to 12 months*	*More than 1 year*	*Total*
Due to other banks	79,741.4	22,275.2	22,262.1	22,971.4	147,250.1
Customer deposits	139,034.0	179,854.4	101,599.2	127,768.7	548,256.3
Debt securities issued	2,129.2	12,482.7	10,529.1	68,053.7	93,194.7
Other liabilities	805.8	1,682.0	14.7	481.9	2,984.4
Subordinated debt	–	912.3	1,096.0	48,462.0	50,470.3
Total potential future payments for financial obligations	**221,710.4**	**217,206.6**	**135,501.1**	**267,737.7**	**842,155.8**

(in millions of Russian Roubles)

37. Financial risk management (continued)

Liquidity risk and contractual maturity analysis (continued)

The analysis of monetary assets and liabilities by the expected maturities as at 31 December 2011 is provided in the table below:

	On demand and less than 1 month	*1 to 6 months*	*6 to 12 months*	*More than 1 year*	*No stated maturity*	*Total*
Assets						
Cash and cash equivalents	62,851.3	–	–	–	–	62,851.3
Financial assets held for trading	33,434.7	–	–	–	–	33,434.7
Financial assets pledged under repurchase agreements	–	3,538.0	–	181,709.3	–	185,247.3
Due from other banks	37,487.2	118,378.8	897.7	2,062.2	–	158,825.9
Loans and advances to customers	35,604.8	64,188.3	68,649.3	365,293.1	–	533,735.5
Financial assets available for sale	–	217.5	502.3	10,530.6	–	11,250.4
Investment securities held to maturity	–	–	3.2	320.8	–	324.0
Investments in associates	–	–	–	–	3,121.9	3,121.9
Other assets	3,073.5	1,540.7	2.0	110.6	350.0	5,076.8
Total assets	**172,451.5**	**187,863.3**	**70,054.5**	**560,026.6**	**3,471.9**	**993,867.8**
Liabilities						
Due to other banks	15,390.6	10,259.3	5,229.7	13,121.9	–	44,001.5
Customer deposits	104,397.2	98,663.7	75,005.8	140,621.8	–	418,688.5
Deposits received from SC DIA	–	–	–	144,386.8	–	144,386.8
Due to the CBR	–	159,745.6	–	–	–	159,745.6
Debt securities issued	479.7	4,764.9	1,201.9	67,169.5	–	73,616.0
Other liabilities	3,938.1	2,971.2	531.0	2,084.4	2,008.8	11,533.5
Subordinated debt	–	–	–	35,821.5	–	35,821.5
Total liabilities	**124,205.6**	**276,404.7**	**81,968.4**	**403,205.9**	**2,008.8**	**887,793.4**
Net liquidity gap as at 31 December 2011	**48,245.9**	**(88,541.4)**	**(11,913.9)**	**156,820.7**	**1,463.1**	**106,074.4**
Cumulative liquidity gap as at 31 December 2011	**48,245.9**	**(40,295.5)**	**(52,209.4)**	**104,611.3**	**106,074.4**	**–**

Liquidity gaps with maturities of less than 1 year are fully covered with alternative sources of funding. In 2011, the following funding tools were available to the Group: intraday overdraft with the CBR, repurchase agreements with the Bank of Russia and with interbank market participants, unsecured interbank credit facilities and deposit limits of the Russian Ministry of Finance and Moscow Financial Department.

(in millions of Russian Roubles)

37. Financial risk management (continued)

Liquidity risk and contractual maturity analysis (continued)

The above analysis was performed based on expected maturities, therefore, the entire portfolio of "Financial assets held for trading" is included into "On demand and less than 1 month" category in accordance with the results of management's assessment of liquidity of this portfolio.

The analysis of monetary assets and liabilities by the expected maturities as at 31 December 2010 is provided in the table below (restated):

	On demand and less than 1 month	*1 to 6 months*	*6 to 12 months*	*More than 1 year*	*No stated maturity*	*Total*
Assets						
Cash and cash equivalents	71,530.7	–	–	–	–	71,530.7
Financial assets held for trading	86,609.0	–	–	–	–	86,609.0
Financial assets pledged under repurchase agreements	21,983.8	–	–	16,191.9		38,175.7
Due from other banks	69,661.7	8,030.1	21.0	1,772.3	–	79,485.1
Loans to customers	34,685.3	72,474.3	161,379.6	237,181.1	–	505,720.3
Financial assets available for sale	597.2	0.6	5.0	115.8	–	718.6
Investment securities held to maturity	48.7	39.8	91.4	238.3	–	418.2
Investments in associates	–	–	–	–	3,247.8	3,247.8
Other assets	5,677.3	45.7	71.2	46.0	2.0	5,842.2
Total assets	**290,793.7**	**80,590.5**	**161,568.2**	**255,545.4**	**3,249.8**	**791,747.6**
Liabilities						
Due to other banks	79,679.9	21,745.8	21,747.0	22,025.5	–	145,198.2
Customer deposits	138,780.3	179,025.9	100,498.6	124,835.4	–	543,140.2
Debt securities issued	2,068.0	11,483.6	8,244.5	59,307.8	–	81,103.9
Other liabilities	4,752.4	3,299.4	43.1	463.5	179.7	8,738.1
Subordinated debt	–	–	–	34,173.5	–	34,173.5
Total liabilities	**225,280.6**	**215,554.7**	**130,533.2**	**240,805.7**	**179.7**	**812,353.9**
Net liquidity gap as at 31 December 2010	**65,513.1**	**(134,964.2)**	**31,035.0**	**14,739.7**	**3,070.1**	**(20,606.3)**
Cumulative liquidity gap as at 31 December 2010	**65,513.1**	**(69,451.1)**	**(38,416.1)**	**(23,676.4)**	**(20,606.3)**	**–**

(in millions of Russian Roubles)

38. Fair value of financial instruments

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation. The price of quoted financial instruments provides the best evidence of fair value.

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgment is necessarily required to interpret market data to determine the estimated fair value. While management has used available market information in estimating the fair value of financial instruments, the market information may not always be fully reflective of the value that could be realized in the current circumstances.

Financial instruments carried at fair value. Financial assets held for trading and financial assets available for sale are carried in the consolidated statement of financial position at fair value. The Group uses the market activity testing model based on the statistics of existing trading volumes to assess market activity. This model is applied by the Group on a regular basis. The fair value of investments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business on the reporting date. In the absence of an active market, the fair value of investments is determined by using valuation techniques.

Due from other banks, cash and cash equivalents. Management has estimated that as at 31 December 2011 and 2010 the fair value of amounts due from other banks and cash and cash equivalents was not materially different from their respective carrying value. This is due to the fact that it is practice to renegotiate interest rates to reflect current market conditions. Therefore interest on most balances is accrued at rates approximating market interest rates.

Loans and advances to customers. Fair values of loans and advances to customers were calculated based on the respective market interest rates as at 31 December 2011 and 2010.

Borrowed funds. Management has estimated that as at 31 December 2011 and 2010 the fair value of borrowed funds was not materially different from their respective carrying value, except for deposit received from SC DIA. The differences in the fair value with regard to this item were due to fluctuations of market interest rates.

Debt securities issued. The fair value of debt securities is based on observable quotations in active markets.

	31 December 2011		*31 December 2010 (restated)*	
	Carrying value	***Fair value***	***Carrying value***	***Fair value***
Financial assets				
Cash and cash equivalents	62,851.3	62,851.3	71,530.7	71,530.7
Financial assets held for trading	33,434.7	33,434.7	86,609.0	86,609.0
Financial assets pledged under repurchase agreements	185,247.3	184,897.9	38,175.7	37,803.6
Due from other banks	158,825.9	158,915.9	79,485.1	77,537.0
Loans and advances to customers	533,735.5	531,764.4	505,720.3	489,113,9
Financial assets available for sale	18,258,3	18,258,3	14,723,9	14,723.9
Investment securities held to maturity	324.0	324.1	418.2	373.9
Financial liabilities				
Due to other banks	44,001.5	43,764.0	145,198.2	144,119.9
Customer deposits	418,688.5	418,799.5	543,140.2	541,985.5
Debt securities issued	73,616.0	73,480.0	81,103.9	79,020.7
Deposit received from SC DIA	144,386.8	143,594.0	–	–
Due to the CBR	159,745.6	159,745.0	–	–
Subordinated debt	35,821.5	34,066.0	34,173.5	30,991.6

The Group uses the following hierarchy based on the valuation techniques used for determining and disclosing the fair value of financial instruments:

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

(in millions of Russian Roubles)

38. Fair value of financial instruments (continued)

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy as at 31 December 2011:

	Level 1	*Level 2*	*Level 3*	*Total*
Financial assets				
Financial assets held for trading	25,109.0	6,142.5	–	31,251.5
Derivative financial instruments held for trading	–	2,183.2	–	2,183.2
Financial assets available for sale pledged under repurchase agreements	381.0	–	–	381.0
Financial assets available for sale	565.4	10,839	6,853.9	18,258.3
Financial liabilities				
Derivative financial instruments held for trading	–	3,156.5	–	3,156.5

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy as at 31 December 2010:

	Level 1	*Level 2*	*Level 3*	*Total*
Financial assets				
Financial assets held for trading	43,177.7	42,146.0	–	85,323.7
Derivative financial instruments held for trading	–	1,285.3	–	1,285.3
Financial assets held for trading pledged under repurchase agreements	21,983.8	–	–	21,983.8
Financial assets available for sale pledged under repurchase agreements	326.9	595.2	13,801.7	14,723.9
Financial liabilities				
Derivative financial instruments held for trading	–	2,942.7	–	2,942.7

Movement in Level 3 financial instruments measured at fair value

A reconciliation of movements in Level 3 of the fair value hierarchy for financial assets available for sale is presented in the table below:

	2011	*2010 (restated)*
Fair value as at 1 January	**13,801.7**	**13,737.1**
Impairment of financial assets recognized in the income statement	(10,565.7)	(5,017.4)
Acquisition	3,636.9	5,999.6
Sale	(19)	(919.3)
Currency translation difference	–	1.7
Fair value as at 31 December	**6,853.9**	**13,801.7**

Sensitivity analysis to changes of key assumptions for financial assets mesaured using Level 3 models

As at 31 December 2011 and 2010, financial assets available for sale measured using Level 3 models represented mainly equity investments in entities engaged in investment and development business. Such financial instruments were measured using valuation models whose main assumption is real estate prices. If the Group had used other reasonably possible alternative assumptions, the fair value of the said financial instruments calculated using valuation models as at 31 December 2011 would have ranged from RUR 6,550.9 million to RUR 7,156.9 million (as at 31 December 2010: from RUR 13,002.2 million to RUR 14,601.2 million).

(in millions of Russian Roubles)

39. Related party transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions as defined by IAS 24 *Related Party Disclosures*. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions, which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

Statements of financial position

2011	*Major shareholder*	*Key management personnel*	*Associates*
Assets			
Cash and cash equivalents	2,480.1	–	–
Financial assets held for trading	861.3	–	–
Due from other banks	127,502.2	–	541.7
Loans and advances to customers	3,820.4	–	2,789.9
Other assets	14.9	–	–
Liabilities			
Due to other banks	7,167.0	–	–
Customer deposits	91.9	323.4	7,463.0
Subordinated debt	129.1	–	–
Other liabilities	1.0	–	–
Credit related commitments			
Guarantees issued	–	–	66.0
Undrawn loan commitments	–	–	0.9

2010 (restated)	*Moscow*	*Key management personnel*	*Associates*
Assets			
Financial assets pledged under repurchase agreements and loaned financial assets	206.8	–	–
Loans and advances to customers	–	77.7	11,817.0
Provisions for impairment of loans	–	(1.0)	(222.0)
Other assets	–	–	0.4
Liabilities			
Customer deposits	99,000.0	905.3	2,387.9
Other liabilities	–	–	0.2
Credit related commitments			
Guarantees issued	–	–	1.0
Undrawn credit lines	–	–	2.6
Undrawn loan commitments	–	–	0.6

(in millions of Russian Roubles)

39. Related party transactions (continued)

Income statement for 2011

	Major shareholder	*Key management personnel*	*Associates*
Interest income			
Loans and advances to customers	36.6	–	1,117.2
Securities	163.2	–	–
Due from other banks	931.7	–	–
Interest expense			
Customer deposits	(449.0)	–	(102.7)
Due to other banks	(160.2)	–	–
Gains/losses from securities	1,448.2	–	–
Net (loss)/gain on sale of subsidiaries	66.0	–	–
Fee and commission income	**6.1**	**–**	**85.2**
Fees and commission expense	**(72.6)**	**–**	**–**
Other expenses	**–**	**–**	**(67.2)**
Reversal/(charge) of impairment provision	**(9.6)**	**–**	**–**

Income statement for 2010

	Moscow	*Key management personnel*	*Associates and joint ventures*
Interest income			
Loans and advances to customers	–	31.4	482.4
Interest expense			
Customer deposits	(4,361.2)	(76.8)	(69.5)
Fee and commission income	**–**	**–**	**12.9**
Reversal/(charge) of impairment provision	**–**	**(0.7)**	**(2,000.1)**

For the year ended 31 December 2011, the total remuneration of the members of the Management Board, including pension contributions, amounted to RUR 538.5 million (as at 31 December 2010: RUR 1,571.5 million), of which the amount of RUR 297.7 million was paid to management personnel that had acted before the new sole executive body was appointed in April 2011. Loans to directors and key management personnel as at 31 December 2011 amounted to RUR 0 million (as at 31 December 2010: RUR 76.9 million).

The new management of the Bank does not have the full list of companies which had acted as related parties of the Bank prior to the suspension of authority of the former President-Chairman of the Bank's Management Board on 12 April 2011. Therefore related party disclosures are provided only for those parties, information on which is available to the Bank's new management.

Transactions with government-related entities

In the normal course of business, the Group carries out transactions with state institutions of the Russian Federation and entities controlled or significantly influenced by the state. The Group provides a full range of banking services to state institutions and state-controlled entities, including deposits and loans, guarantees, sale/purchase of securities and cash and settlement services. This is not a full list of services provided. The Group carries out these transactions on an arm's length basis.

Significant transactions with government-related entities are disclosed below:

As at 31 December 2011, other borrowed funds included deposit received by the Group from SC DIA on 29 September 2011 in the amount of RUR 294,811 million at 0.51% per annum with a maturity of 10 years in accordance with the support plan for the Bank previously signed by the Central Bank of the Russian Federation and SC DIA (Note 2).

During the year ended 31 December 2011, the Group entered into repurchase agreements with the Central Bank of the Russian Federation, with the amount due to the CBR under such agreements being RUR 157,841.12 million (Note 26).

On 15 October 2009, the Group raised a subordinated loan from the state corporation Bank for Development and Foreign Economic Affairs in the amount of RUR 11,108 million, at the rate of 8% per annum, maturing on 18 December 2019 (Note 24).

In 2011 and 2010, the Group took deposits from the Finance Department of the city of Moscow and the Federal Treasury on market terms.

(in millions of Russian Roubles)

40. Subsidiary and associate companies and banks included in the consolidated financial statements

The principal subsidiary and associate companies and banks included in these consolidated financial statements are presented in the table below:

Name	*Activity*	*Country of registration*	*Ownership, %* 2011	2010	2009	*Year of acquisition*
Subsidiary banks and companies:						
CJSC Imagine	Finance	Russia	100.0	100.0	100.0	1996
CJSC Altruist	Finance	Russia	100.0	100.0	100.0	1996
CJSC Press Magnat	Publishing	Russia	100.0	100.0	100.0	1996
CJSC Vechernyaya Moskva	Publishing	Russia	100.0	100.0	100.0	1997
BM Holding AG	Finance	Switzerland	100.0	100.0	100.0	1998
JSC Bank Moscow-Minsk	Banking	Belarus	100.0	100.0	100.0	2000
LLC BM Bank	Banking	Ukraine	100.0	100.0	100.0	2005
CJSC Stroyportinvest	Finance	Russia	100.0	100.0	100.0	2006
BoM Finance Ltd.	Finance	British Virgin Islands	100.0	100.0	100.0	2007
BoM Asset Management Ltd.	Finance	Cyprus	100.0	100.0	100.0	2007
Crossplanet Ltd.	Finance	Cyprus	100.0	100.0	100.0	2007
BoM Project Financing Ltd.	Finance	Cyprus	100.0	–	–	2011
Radikals Trests SIA*	Finance	Latvia	100.0	76.6	–	2011
LBB Ipasumi SIA*	Finance	Latvia	100.0	49.0	92.6	2011
LBB Ipasumi 2 SIA*	Finance	Latvia	100.0	100.0	–	2011
LLC Mos-Broker	Finance	Russia	100.0	100.0	100.0	2008
CJSC Lespromprocessing	Finance	Russia	100.0	100.0	100.0	2008
CJSC Spetsstroy-2	Construction	Russia	100.0	100.0	100.0	2008
OJSC Bank of Moscow – Belgrade	Banking	Serbia	100.0	100.0	100.0	2008
OJSC "Bezhitsa-bank"	Banking	Russia	100.0	100.0	95.2	2008
LLC Baltech	Leasing	Russia	100.0	100.0	–	2010
CEMF Tsentralny	Leasing	Russia	100.0	100.0	–	2010
LLC Registrator KRC	Other services	Russia	100.0	58.8	–	2010
LLC BM Direktsiya	Other services	Russia	100.0	–	–	2011
LLC BM Project	Finance	Russia	100.0	–	–	2011
OJSC United Company	Leasing	Russia	100.0	–	–	2011
CJSC Finansovy Assistent	Finance	Russia	100.0	100.0	100.0	2006
CJSC DOSSOM	Other services	Russia	99.9	99.9	99.9	2001
LLC Selkhozstroy	Manufacturing	Russia	99.0	99.0	99.0	2006
LLC PO Montazh	Manufacturing	Russia	99.0	99.0	99.0	2006
OJSC International Winery Trading House	Commerce	Russia	95.6	–	–	2011
OJSC Kornet	Manufacturing	Russia	94.2	–	–	2011
OJSC Moscow Inter-Republic Winery	Manufacturing	Russia	94.1	–	–	2011
OJSC CB Mosvodokanalbank	Banking	Russia	65.9	65.9	65.9	1997
OJSC Concern Vechernyaya Moskva	Publishing	Russia	57.4	57.4	57.4	1997
OJSC International Management Company	Finance	Russia	50.0	50.0	50.0	2003
LLC INVESTPLAZA	Finance	Russia	50.0	50.0	–	2010
LLC Center City Information Technologies	Other services	Russia	50.0	–	–	2011
CJSC Management Company of Bank of Moscow	Financial services	Russia	–	100.0	100.0	2002
AS Eesti Krediidipank	Banking	Estonia	–	76.6	89.16	2005
AS Martinoza	Real estate	Estonia	–	76.6	89.16	2005
AS Krediidipanga Liising	Leasing	Estonia	–	76.6	89.16	2005
SIA Bako Kredits Alfa	Real estate	Latvia	–	100.0	–	2010
JSC Latvian Business Bank	Banking	Latvia	–	100.0	99.9	2002
Associate banks and companies:						
OJSC Russian National Commercial Bank	Banking	Russia	39.8	–	20.0	2011
CJSC Automated Banking Technologies	Other services	Russia	25.9	25.9	25.9	2006
OJSC Capital Insurance Group	Insurance	Russia	24.9	24.9	24.9	2007
OJSC Leasing company Leasingbusiness	Leasing	Russia	23.9	23.9	–	2010
LLC Pension Reserve	Finance	Russia	19.0	19.0	19.0	2008
AS Eesti Krediidipank	Banking	Estonia	43.8	–	–	2005

These consolidated financial statements also include Kuznetski Capital S.A. formed in 2004 and registered in Luxembourg and BOM Capital P.L.C. formed in 2009 and registered in Ireland. Both companies were formed for special purposes (SPV, special-purpose vehicle): issue of Eurobonds.

In 2011, the Group acquired 41.2% in the charter capital of its subsidiary LLC Registrator KRC to increase its interest to 100%.

(in millions of Russian Roubles)

41. Business combinations

In December 2011, the Group acquired an interest in OJSC Kornet (94.2%), OJSC Moscow Inter-Republic Winery (94.1%) and OJSC International Winery Trading House (95,6%) by purchasing a 100% interest in OJSC United Company for RUR 0.5 million through its subsidiary LLC BM Project.

The combined fair value of identifiable assets and liabilities of OJSC United Company, OJSC Kornet, OJSC Moscow Inter-Republic Winery and OJSC International Winery Trading House at the date of acquisition was as follows:

	Fair value
Assets	
Cash and cash equivalents	11.2
Investments in associates	481.1
Premises and equipment and intangible assets	4,024.3
Current tax assets	23.1
Other assets	1,164.8
Total assets	**5,704.5**
Liabilities	
Due to other banks	1,595.4
Customer deposits	547.3
Debt securities issued	27.3
Deferred tax liabilities	397.4
Other liabilities	3,031.8
Total liabilities	**5.599.2**
Fair value of the subsidiary's identifiable net assets	**105.3**
Financial result from acquisition:	
Consideration paid:	
Cash	0.5
Non-controlling interests (proportionate share of the acquiree's identifiable net assets)	104.8
Less fair value of the subsidiary's identifiable net assets	(105.3)
Financial result from acquisition:	**0.0**

Intangible assets which had not been recognized in the acquirees' separate financial statements were recognized as a result of business combinations: brands whose fair value amounted to RUR 514.9 million according to the valuation performed by an independent appraiser.

The non-controlling interest was recognized as a share in net assets acquired.

The gross contractual amount of accounts receivable at the date of acquisition amounted to RUR 1,144.7 million. The estimate of the contractual cash flows which are not expected to be received amounted to RUR 327.2 million.

(in millions of Russian Roubles)

41. Business combinations (continued)

In December 2011, the Group acquired a 100% interest in LLC Center City Information Technologies through its subsidiary OJSC International Management Company. The fair value of the identifiable assets and liabilities acquired and gain arising on acquisition were as follows:

	Fair value
Assets	
Cash and cash equivalents	9.6
Due from other banks	10.6
Premises and equipment and intangible assets	44.6
Other assets	264.8
Total assets	**329.6**
Liabilities	
Accounts payable	145.2
Current tax liabilities	8.1
Total liabilities	**153.3**
Fair value of the subsidiary's identifiable net assets	**176.3**
Gain arising on acquisition:	
Cash paid	111.0
Less fair value of the subsidiary's identifiable net assets	(176.3)
Gain arising on acquisition	**65.3**

In December 2011, the Group acquired a 100% interest in Radikals Trests SIA for RUR 0.1 million by purchasing a 100% interest in BoM Project Financing Ltd through its subsidiary Bom Finance Ltd. The fair value of Radikals Trests SIA's identifiable assets and liabilities at the date of acquisition is presented below:

	Fair value
Assets	
Cash and cash equivalents	2.5
Loans and advances to customers	1,016.0
Premises and equipment and intangible assets	1.3
Investment property	34.1
Property held for sale	350.0
Other assets	3.8
Total assets	**1,407.7**
Liabilities	
Due to other banks	824.6
Other liabilities	543.9
Total liabilities	**1,368.5**
Fair value of the subsidiary's identifiable net assets	**39.2**
Gain arising on acquisition:	
Consideration paid	
Cash	0.1
Less fair value of the subsidiary's identifiable net assets	(39.2)
Gain arising on acquisition	**39.1**

(in millions of Russian Roubles)

41. Business combinations (continued)

The Group's management believes that if OJSC United Company, OJSC Kornet, OJSC Moscow Inter-Republic Winery and OJSC International Winery Trading House, LLC Center City Information Technologies and Radikals Trests SIA had been acquired on 1 January 2011, their revenue, income and net profit would not have had any significant impact on the financial results in the consolidated financial statements for the year ended 31 December 2011.

In February 2011, the Group sold a 32.8% interest in the share capital of AS Eesti Krediidipank for RUR 333.1 million and recognized the gain on disposal in the amount of RUR 5.1 million within gain on sale of subsidiaries and associates in the income statement. In April 2011, the Group sold a stake in JSC Latvian Business Bank (99.97%) for RUR 420.2 million and recognized the gain on disposal in the amount of RUR 131.4 million within net (loss)/gain on acquisition and sale of subsidiaries in the consolidated income statement. In October 2011, the Group sold a stake in CJSC MANAGEMENT COMPANY OF BANK OF MOSCOW (100%) for RUR 850.0 million and recognized the gain on disposal in the amount of RUR 66.0 million within net (loss)/gain on acquisition and sale of subsidiaries in the consolidated income statement.

42. Capital management and capital adequacy

Capital management of the Group is conducted in order to comply with capital requirements established by the Central Bank of the Russian Federation; to ensure that the Group operates as a going concern; and to maintain a capital base at a level required to ensure the capital adequacy ratio of 8% in conformity with the Basel Accord.

The control over the Bank’s compliance with the capital adequacy ratio set by the Central Bank of the Russian Federation is exercised daily based on the calculation of the amount of its equity (capital) and risk-weighted assets. The calculation of the Bank’s mandatory ratios is submitted to the Central Bank of the Russian Federation every month.

According to current capital requirements established by the Central Bank of the Russian Federation, banks have to maintain a ratio of capital to risk-weighted assets ("capital adequacy ratio") at a level exceeding the statutory minimum ratio of 10%.

As at 31 December 2011, 2010 and 2009 the Bank’s capital adequacy ratio on this basis exceeded the statutory minimum and was as follows:

	2011	*2010*	*2009*
Capital	188,564.4	75,199.4	112,548.9
Risk-weighted assets	841,725.8	726,564.4	705,635.6
Capital adequacy ratio	22.40%	10.35%	15.95%

The Group and the Bank are also required to comply with the minimum capital requirements established by loan agreements, including capital adequacy ratio calculated in accordance with the Basel Capital Accord, as defined in the International Convergence of Capital Measurement and Capital Standards (updated in April 1998) and Amendment to the Capital Accord to incorporate market risks (updated in November 2005), commonly known as Basel I.

The Bank's capital structure computed in accordance with the Basel Capital Accord was as follows:

	2011	*2010*	*2009*
Core capital (Tier 1 capital)	159,126.2	32,513.8	80,576.5
Supplementary capital (Tier 2 capital)	39,318.0	20,258.9	39,150.8
Total capital	**198,444.2**	**52,772.7**	**119,727.3**
Risk-weighted assets	**589,879.9**	**654,418.0**	**657,687.6**
Capital adequacy ratio	**33.6%**	**8.1%**	**18.2%**
Core capital adequacy ratio	**27.0%**	**5.0%**	**12.3%**
Minimum capital adequacy ratio	8.0%	8.0%	8.0%
Minimum core capital adequacy ratio	4.0%	4.0%	4.0%

43. Subsequent events

In February through March 2012, the Group acquired control over OJSC Russian National Commercial Bank and increased its ownership share to 84.91% as at 20 March 2012.

On 5 March 2012, the Group's interest in the share capital of CJSC "Investlesprom" increased from 19.9% to 23.4%.

On 26 April 2012, the Bank's Board of Directors recommended that the annual general shareholders' meeting should make a resolution to pay RUR 5,000.1 million worth of dividends for 2011 (RUR 18.40 per share).