OJSC “Bank Saint Petersburg” Group

International Financial Reporting Standards Consolidated Financial Statements and Independent Auditors’ Report

31 December 2011

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Independent Auditors' Report

To the Supervisory Board of OJSC "Bank Saint Petersburg" Group

We have audited the accompanying consolidated financial statements of OJSC "Bank Saint Petersburg" and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2011, and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising 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 about 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 auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

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

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16 March 2012

In thousands of Russian Roubles	Note	2011	2010
ASSETS			
Cash and cash equivalents	7	32 775 307	13 180 184
Mandatory cash balances with the Central Bank of the Russian Federation		2 978 296	1 670 712
Trading securities	8	29 043 656	36 524 627
Trading securities pledged under sale and repurchase agreements	9	15 134 382	254 356
Amounts receivable under reverse repurchase agreements	10	7 849 012	8 423 538
Due from banks	11	2 998 653	12 397 925
Loans and advances to customers	12	209 907 068	182 818 339
Investment securities available-for-sale	13	6 875 174	280 491
Investment securities held-to-maturity	14	31 361	169 638
Other financial assets	15	1 194 021	305 785
Prepaid income tax		491 193	-
Deferred tax asset	31	52 262	219 616
Investment property	16	4 524 333	3 956 820
Premises, equipment and intangible assets	17	14 134 509	11 762 753
Other assets	18	2 044 231	643 915
TOTAL ASSETS		**330 033 458**	**272 608 699**
LIABILITIES			
Due to banks	19	27 198 895	11 326 393
Customer accounts	20	226 702 890	191 807 676
Bonds issued	21	11 555 524	16 281 994
Other debt securities in issue	22	9 356 444	10 365 230
Other borrowed funds	23	12 078 256	13 121 108
Other financial liabilities	24	1 157 902	474 229
Income tax liability		-	136 223
Deferred tax liability	31	1 132 896	-
Other liabilities	25	827 848	531 635
TOTAL LIABILITIES		**290 010 655**	**244 044 488**
EQUITY			
Share capital	26	3 648 110	3 629 541
Share premium	26	18 448 915	15 744 164
Revaluation reserve for premises		3 346 303	1 966 015
Revaluation reserve for investment securities available-for-sale		2 282 460	26 346
Retained earnings		12 297 015	7 198 145
TOTAL EQUITY		**40 022 803**	**28 564 211**
TOTAL LIABILITIES AND EQUITY		**330 033 458**	**272 608 699**

Approved for issue and signed on behalf of the Supervisory Board on 16 March 2012.

A.V. Saveliev
Chairman of the Board

N.G. Tomilina
Acting Chief Accountant

The notes on pages 6 to 86 are an integral part of these consolidated financial statements.

In thousands of Russian Roubles	Note	2011	2010
Interest income	28	25 777 105	24 259 767
Interest expense	28	(12 157 178)	(12 235 339)
Net interest income		**13 619 927**	**12 024 428**
Provision for loan impairment	11, 12	(3 502 899)	(4 485 256)
Net interest income after provision for loan impairment		**10 117 028**	**7 539 172**
Net (losses) gains from trading securities		(794 860)	302 455
Net gains from investment securities available-for-sale		879 291	256
Net gains (losses) from trading in foreign currencies		1 974 758	(517 818)
Net (losses) gains from foreign exchange translations		(1 263 378)	1 185 600
Fee and commission income	29	2 432 022	2 007 185
Fee and commission expense	29	(380 388)	(292 060)
Impairment of long-term assets held-for-sale		-	(213 799)
(Impairment) recovery of impairment for credit related commitments	24	(105 260)	60 718
(Impairment) recovery of impairment of investment securities	14	(1 881)	523
Net losses on redemption of reclassified securities		(7)	(67 344)
Net result on recognition/early redemption of assets granted at non-market rates		61 161	(525 061)
Other net operating income		495 960	107 296
Administrative and other operating expenses:	30		
- Staff costs		(2 944 456)	(2 154 180)
- Costs related to premises and equipment		(860 376)	(566 083)
- Other administrative and operating expenses		(2 322 488)	(1 729 889)
Profit before tax		**7 287 126**	**5 136 971**
Income tax expense	31	(1 401 644)	(1 022 272)
Profit for the year		**5 885 482**	**4 114 699**
Other comprehensive income			
Gain (loss) from revaluation of securities available-for-sale	27	2 739 633	(7 605)
Net changes in revaluation reserve for premises	27	1 734 105	-
Deferred income tax recognised in equity related to comprehensive income	27	(830 340)	1 521
Comprehensive income for the year		**9 528 880**	**4 108 615**
Basic earnings per ordinary share (in Russian Roubles per share)	32	**17.94**	**11.76**
Diluted earnings per ordinary share (in Russian Roubles per share)	32	**16.78**	**9.55**

In thousands of Russian Roubles	Note	Share capital	Share premium	Revaluation reserve for premises	Revaluation reserve for investment securities available-for-sale	Retained earnings	Total equity
Balance as at 1 January 2010		**3 629 541**	**15 744 164**	**1 966 015**	**32 430**	**3 912 401**	**25 284 551**
Other comprehensive expense recognised directly in equity	27	-	-	-	(6 084)	-	(6 084)
Profit for the year		-	-	-	-	4 114 699	4 114 699
Total comprehensive income (expense) for the year ended 31 December 2010		**-**	**-**	**-**	**(6 084)**	**4 114 699**	**4 108 615**
Dividends declared							
- ordinary shares	33	-	-	-	-	(31 037)	(31 037)
- preference shares	33	-	-	-	-	(797 918)	(797 918)
Balance as at 31 December 2010		**3 629 541**	**15 744 164**	**1 966 015**	**26 346**	**7 198 145**	**28 564 211**
Other comprehensive income recognised directly in equity	27	-	-	1 387 284	2 256 114	-	3 643 398
Profit for the year		-	-	-	-	5 885 482	5 885 482
Disposals of premises		-	-	(6 996)	-	6 996	-
Total comprehensive income for the year ended 31 December 2011		**-**	**-**	**1 380 288**	**2 256 114**	**5 892 478**	**9 528 880**
Issue of shares	26	18 569	2 704 751	-	-	-	2 723 320
Dividends declared							
- ordinary shares	33	-	-	-	-	(31 037)	(31 037)
- preference shares	33	-	-	-	-	(762 571)	(762 571)
Balance as at 31 December 2011		**3 648 110**	**18 448 915**	**3 346 303**	**2 282 460**	**12 297 015**	**40 022 803**

In thousands of Russian Roubles	Note	2011	2010
Cash flows from operating activities			
Interest received on loans and correspondent accounts		21 067 376	20 824 313
Interest received on securities		3 250 751	2 623 413
Interest received on securities pledged under sale and repurchase agreements		258 446	199 805
Interest paid on due to banks		(633 897)	(763 691)
Interest paid on customer deposits		(8 558 939)	(8 857 143)
Interest paid on other debt securities in issue		(601 699)	(560 090)
Net payments from securities trading		(726 551)	(310 048)
Net receipts (payments) from trading in foreign currencies		1 905 353	(515 153)
Fees and commissions received		2 424 278	2 011 185
Fees and commissions paid		(380 388)	(292 060)
Other operating income received		428 185	78 277
Staff costs paid		(2 832 788)	(2 140 883)
Premises and equipment costs paid		(453 009)	(206 364)
Administrative and operating expenses paid		(2 273 800)	(1 733 387)
Income tax paid		(1 559 150)	(814 089)
.			
Cash flows from operating activities before changes in operating assets and liabilities		**11 314 168**	**9 544 085**
Changes in operating assets and liabilities			
Net increase in mandatory cash balances with the Central Bank of the Russian Federation		(1 307 584)	(296 897)
Net decrease (increase) in trading securities		7 708 521	(6 595 534)
Net (increase) decrease in trading securities pledged under sale and repurchase agreements		(14 880 025)	386 184
Net decrease (increase) in amounts receivable under reverse repurchase agreements		575 768	(4 846 863)
Net decrease (increase) decrease in due from banks		9 334 719	(6 683 151)
Net increase in loans and advances to customers		(28 109 177)	(29 739 808)
Net increase in other financial assets		(201 802)	(41 623)
Net increase in other assets		(1 410 943)	(164 573)
Net increase (decrease) in due to banks		15 532 043	(4 554 487)
Net increase in customer accounts		32 301 979	17 503 013
Net (decrease) increase in other debt securities in issue		(1 202 790)	5 221 207
Net (decrease) increase in other financial liabilities		(5 172)	19 387
Net increase in other liabilities		184 212	89 024
Net cash received from (used in) operating activities		**29 833 917**	**(20 160 036)**
Cash flows from investing activities			
Acquisition of premises and equipment and intangible assets	17	(1 141 302)	(2 012 067)
Proceeds from disposal of premises and equipment and intangible assets		96 056	2 305
Net purchases of investment securities available-for-sale		(3 544 199)	(199 595)
Proceeds from disposal of investment securities available-for-sale		879 291	-
Proceeds from redemption of investment securities held-to-maturity		129 060	10 870
Proceeds from disposal of investment property		32 626	-
Dividend income received		44 084	14 198
Net cash used in investing activities		**(3 504 384)**	**(2 184 289)**

In thousands of Russian Roubles	Note	2011	2010
Cash flows from financing activities			
Issue of ordinary shares:			
- share capital	26	18 569	-
- share premium	26	2 704 751	-
Issue of bonds		-	13 000 000
Repurchase of bonds		(4 842 898)	-
Proceeds from other borrowed funds		1 685 298	4 516 059
Repayment of other borrowed funds		(3 401 150)	(502 068)
Interest paid on bonds issued		(1 340 030)	(583 603)
Interest paid on other borrowed funds		(956 544)	(1 158 307)
Dividends paid	33	(794 390)	(828 330)
Net cash (used in) received from financing activities		**(6 926 394)**	**14 443 751**
Effects of exchange rate changes on cash and cash equivalents		**191 984**	**(338 714)**
Net increase (decrease) in cash and cash equivalents		**19 595 123**	**(8 239 289)**
Cash and cash equivalents at the beginning of the year		13 180 184	21 419 473
Cash and cash equivalents at the end of the year	7	**32 775 307**	**13 180 184**

1 Introduction

These consolidated financial statements are prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2011 for OJSC “Bank Saint Petersburg” (the “Bank”) and BSPB Finance plc., a controlled special purpose entity (together referred to as the “Group” or OJSC “Bank Saint Petersburg” Group”).

The Bank was formed in 1990 as an open joint stock company under the Laws of the Russian Federation as the result of the corporatization process of the former Leningrad regional office of Zhilsotsbank.

As at 31 December 2011 28.1% of the ordinary shares of the Bank are controlled by Mr. A.V. Saveliev (2010: 29.9%). The rest of the management of the Bank controls a further 6.7% of the ordinary shares of the Bank (2010: 5.9%). As at 31 December 2011, “MALVENST INVESTMENTS LIMITED” owns 18.2% of the ordinary shares of the Bank (2010: “Systemnye Tekhnologii” company owned 19.4% of the ordinary shares of the Bank). Mr A.V.Saveliev has an option maturing at the end 2015 to purchase a 100.0% share in the company “WELLFAME PACIFIC LIMITED”, which owns 100.0% of shares in the share capital of “MALVENST INVESTMENTS LIMITED” (2010: Mr. A.V. Saveliev owned 19.0% of “Systemnye Tekhnologii” and an option to purchase 81.0% of “Systemnye Tehnologii”). There is no contractual agreement between any members of the management team and Mr. A. V. Saveliev on joint control of the Bank.

The remaining ordinary shares of the Bank are held as follows: 7.5% of the shares are owned by RUSSIAN DEALERSHIPS HOLDING (RDH) LIMITED, controlled by Mr. Yu. I. Pilipenko (2010: 8.0%), 6.2% of the shares are owned by the EUROPEAN BANK OF RECONSTRUCTION AND DEVELOPMENT (2010: the EBRD was not a shareholder of the Bank). The remaining 33.3% (2010 : 36.8%) of the shares are widely held.

Principal activity. The Bank’s principal business activity is commercial banking operations within the Russian Federation. The Bank has operated under a general banking license issued by the Central Bank of the Russian Federation (the “CBRF”) since 1997. The Bank takes part in the state deposit insurance system introduced by Federal Law No.177-FZ “On Retail Deposit Insurance in the Russian Federation” dated 23 December 2003. Indemnity of the deposits placed in respect of which an insured event happens, is paid to a depositor in the amount of 100% of total deposits, but limited to RR 700 thousand.

As at 31 December 2011, the Bank has five branches within the Russian Federation: three branches are located in the North-West region of Russia, one branch is in Moscow, one branch is in Nizhniy Novgorod and thirty three outlets (2010: five branches within the Russian Federation: three branches are located in the North-West region of Russia, one branch is in Moscow, one branch is in Niznniy Novgorod and thirty outlets).

BSPB Finance plc., a special purpose entity, is used by the Bank for its Eurobond issue (see note 21). Close-ended real estate mutual investment fund “Nevskiy - Second Real Estate Fund” and close-ended real estate mutual investment fund “Nevskiy - Fourth Real Estate Fund” are used by the Bank for activities with non-core assets (refer to note 16).

Registered address and place of business. The Bank’s registered address and place of business is: 191167, Russian Federation, Saint Petersburg, Nevskiy Prospect, 178, A.

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

2 Operating Environment of the Group

Russian Federation. The economy of the Russian Federation displays certain characteristics of developing markets including relatively high inflation and interest rates.

This year the financial crisis in Europe affected the Russian economy rather significantly. However, in 2011 the Russian economy started to experience a recovery in economic growth . The GDP real growth rate of the Russian Federation for 10 months of 2011 according to the estimates of the Russian Federal State Statistics Service was 4.3%. The growth of the Industrial Production Index in January – October 2011 amounted to 5.1% in comparison with the same period of the previous year. The relative high level of oil prices, increase in external trade, and increase in equity investments of enterprises contributed to the recovery of the economy. The economic growth was accompanied by a gradual increase in household income.

At the same time such negative factors as a decrease in liquidity, high levels of capital outflow, and fluctuation of exchange rates of the major foreign currencies were observed.

The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations, and changes, which can occur frequently (note 37). In addition, the need for further developments in the bankruptcy laws, the lack of formalised procedures for the registration and enforcement of collateral, and other legal and fiscal impediments still contribute to the difficulties experienced by banks operating in the Russian Federation.

The future economic development of the Russian Federation is largely dependent upon the effectiveness of the economic, financial and monetary measures undertaken by the Government, together with the tax, legal, regulatory, and political developments.

Management cannot foresee all factors that can affect the development of the banking sector and the economy as a whole as well as the impact (if any) they can have on the financial position of the Group in the future. Management believes that it takes all the necessary steps to sustain the stability and development of the Group’s business.

3 Basis of Preparation and Significant Accounting Policies

Basis of Preparation. These consolidated financial statements are prepared in accordance with International Financial Reporting Standards (“IFRS”) under the historical cost convention, as modified by initial recognition of financial instruments at fair value, measurement at fair value of trading securities and financial assets available-for-sale and the revaluation of premises. The principle accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies are consistently applied to all the periods presented in these consolidated financial statements.

Consolidation. Subsidiaries are companies and other entities (including special purpose entities) in which the Group, directly or indirectly, has an interest of more than one half of the voting shares or otherwise has power to govern the financial and operating policies so as to obtain benefits. The existence and effect of potential voting rights that are presently exercisable and convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are de-consolidated from the date when control ceases.

The Group holds zero interest in the share capital of a fully consolidated special purpose entity BSPB Finance plc. However, the Group obtains all the benefits and bears all the risks from the activities of this company. Refer to note 40.

3 Basis of Preparation and Significant Accounting Policies (continued)

The Group holds a 100% interest in a fully consolidated close-ended real estate mutual investment fund “Nevskiy - Second Real Estate Fund” and a 100% interest in a fully consolidated close-ended real estate mutual investment fund “Nevskiy - Fourth Real Estate Fund”. Refer to note 40.

Intercompany transactions, balances and unrealized gains arising from intercompany transactions are eliminated; unrealized losses are also eliminated unless the cost cannot be recovered. The Bank and all of its subsidiaries use uniform accounting policies consistent with the Group’s policies.

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

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition and includes transaction costs. *Transaction costs* are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and stock exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

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

Valuation techniques such as discounted cash flow models or models based on recent arm’s length transactions or the current value of investments are used for determination of the fair value of financial instruments for which external market pricing information is not available. Valuation techniques may require assumptions not supported by observable market data.

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

The effective interest method is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The discounted value calculation includes all fees and charges paid and received between the parties to the contract that form an integral part of the effective interest rate (refer to Income and Expense Recognition Policy).

3 Basis of Preparation and Significant Accounting Policies (continued)

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

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

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

Foreign currency translation. The functional currency of the Group's entities is the currency of the primary economic environment in which the Group operates. The Bank's and its subsidiaries' functional currency and the Group's presentation currency is the national currency of the Russian Federation, i.e. Russian Rouble.

Monetary assets and liabilities are translated into Russian Roubles at the official CBRF exchange rate at the respective reporting date. Foreign exchange gains and losses on monetary assets and liabilities translated at the CBRF official exchange rate as at the end of the year are included in the profit or loss for the year (as foreign exchange translation gains less losses). Non-monetary items are translated at historical rates. Effects of exchange rate differences on the fair value of equity securities are recorded as part of the fair value translation gain or loss.

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

Cash and cash equivalents. Cash and cash equivalents are items which can be converted into cash within a day and are subject to insignificant change in value. All short term interbank placements, including overnight deposits, are included in cash and cash equivalents, all other interbank placements are recognized in due from banks. Amounts that relate to funds that are of a restricted nature are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortised cost.

Mandatory cash balances with the CBRF. Mandatory cash balances with the CBRF are carried at amortized cost and represent non-interest bearing deposits in the CBRF that are not available to finance day to day operations and hence are not considered as part of cash and cash equivalents for the purposes of the statement of cash flows.

Trading securities. Trading securities include financial assets at fair value through profit or loss that are classified as held for trading, as they are acquired for generating a profit from short-term fluctuations in price or trader's margin, or are securities included in a portfolio in which a pattern of short-term trading exists. The Group classifies securities into trading securities if it has an intention to sell them within a short period after purchase, i.e. within the period from one to six months.

3 Basis of Preparation and Significant Accounting Policies (continued)

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

Due from banks. Amounts due from banks are recorded when the Group advances money to counterparty banks with no intention of trading the instrument. Amounts due from banks are carried at amortized cost.

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

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 that have an impact on the amount or timing of the estimated future cash flows that can be reliably estimated. If the Group determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. The primary factors that the Group considers when assessing whether a financial asset is impaired is its overdue status and realisability of related collateral, if any.

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

- any installment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems
- the borrower experiences significant financial difficulty as evidenced by financial information that the Group obtains
- the borrower considers bankruptcy or a financial reorganisation
- there is an adverse change in the payment status of the borrower as a result of changes in the national or local economic conditions that impact the borrower
- the value of collateral significantly decreases as a result of deteriorating market conditions
- implementation of the borrower's investment plans is delayed or
- the Group expects difficulties in servicing the borrower's debt due to volatility of the borrower's cash flows caused by its cyclic activity or irregularity of proceeds.

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

3 Basis of Preparation and Significant Accounting Policies (continued)

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

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

Uncollectible assets are written off against the related impairment allowance recorded in the statement of financial position after all the necessary procedures to recover the asset fully or partially have been completed and the amount of the loss has been determined.

Investment securities available-for-sale. This classification includes investment securities that the Group intends to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. The Group classifies investments as available for sale at the time of purchase.

Investment securities available-for-sale are carried at fair value. Certain types of investment securities available-for-sale are carried at cost when the Group cannot measure their fair value with sufficient level of reliability. Dividends on available-for-sale equity investments are recognised in profit or loss when the Group’s right to receive payment is established and it is probable that the dividends will be collected. All other components of changes in the fair value are recognised directly in equity until the investments are derecognised or impaired, when the cumulative gain or loss previously recognised in other comprehensive income is recognized in profit or loss for the year.

Impairment losses are recognised in profit or loss when incurred as a result of one or more events (loss events) that occurred after the initial recognition of investment securities available-for-sale. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. Accumulated impairment losses calculated as the difference between the acquisition cost and the current fair value less impairment loss for the asset that was initially recognized in profit or loss are transferred from other comprehensive income to profit or loss for the year. Impairment losses on equity instruments are not recovered and subsequent income is recognized in other comprehensive income. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss for the year.

Advances receivable. Advances receivable are recognised if the Group makes a prepayment under a contract for services that are not yet provided, and are recorded at amortised cost.

3 Basis of Preparation and Significant Accounting Policies (continued)

Sale and repurchase agreements. Sale and repurchase agreements (“repo agreements”), which effectively provide a lender’s return to the counterparty, are treated as secured financing transactions. Securities sold under such sale and repurchase agreements are not derecognised. The securities are not reclassified in the statement of financial position unless the transferee has the right by a contract or custom to sell or repledge the securities, in which case they are reclassified as trading securities pledged under sale and repurchase agreements. The corresponding liability is presented within amounts due to banks or customer accounts, as appropriate.

Securities purchased under agreements to resell (“reverse repo agreements”), which provide the Group with a creditor’s return, are recorded as amounts receivable under reverse repurchase agreements. The difference between the sale and repurchase price is treated as interest income and accrued over the life of the repo agreements using the effective interest method.

Investment securities held-to-maturity. This classification includes quoted non-derivative financial assets with fixed or determinable payments and fixed maturity, which management has the firm intention and ability to hold to maturity. Management determines the classification of investment securities held-to-maturity at their initial recognition and reassesses the appropriateness of that classification at each reporting date. Investment securities held-to-maturity are measured at amortised cost.

Promissory notes purchased. Promissory notes purchased are included in due from banks and loans and advances to customers, based on their economic substance and are recorded and subsequently remeasured and accounted in accordance with the accounting policies for this category of assets.

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

Premises are subject to revaluation on a regular basis. The frequency of revaluation depends upon the movements in the fair values of the premises being revalued. Any increase in the carrying value as a result of revaluation is recognized in other comprehensive income and in revaluation reserve in equity. Any decrease in value accounted against previous increases of the same asset is recognized in other comprehensive income and reduces the revaluation reserve previously recognized in equity. All other decreases in value are recognized in profit or loss for the year. The revaluation reserve for premises included in equity is transferred directly to retained earnings when the surplus is realised, i.e. either on the retirement or disposal of the asset.

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

All other items of premises and equipment are stated at cost less accumulated depreciation and impairment losses, if any.

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

If impaired, 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 amount is charged to profit or loss to the extent it exceeds the previous revaluation surplus in equity. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset’s value in use or fair value less costs to sell.

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

3 Basis of Preparation and Significant Accounting Policies (continued)

Depreciation. Land is not depreciated. Depreciation on other items of premises and equipment is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives:

Premises: 50 years

Office and computer equipment: 5 years

Leasehold improvements: over the term of the underlying lease.

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset was already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Group expects to use the asset to the end of its physical life. The assets’ residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

Intangible assets. All intangible assets have definite useful lives and primarily include capitalised computer software.

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Capitalised computer software is amortised on a straight line basis over expected useful lives of 3 to 4 years. All other costs associated with computer software, e.g. its maintenance, are recognised when incurred.

Investment property. Investment property is property not occupied by the Group and held either to earn rental income or for capital appreciation or for both.

Investment property is stated at acquisition cost less accumulated amortisation and impairment (if necessary). In case of indications of impairment of investment property the Group evaluates its recoverable amount, which is calculated as the higher of its value in use and fair value less disposal costs. A decrease in carrying value of investment property to its recoverable amount is recognised in profit or loss. Impairment loss recognised in previous years is recovered if there was a change in estimates used to evaluate the recoverable amount of the asset.

Subsequent expenditure is capitalised only when the Group receives the related future economic benefits and the cost can be reliably measured. All other repair and maintenance costs are recognised as an expense as incurred. If the owner occupies the investment property, it is transferred to the category “Premises and Equipment”.

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

Long term assets held-for-sale. Long term assets and disposal groups (which may include both long term and short term assets) are presented in the statement of financial position as long term assets held for sale if their carrying amount will be recovered principally through a sale transaction within twelve months after the reporting date. These assets are reclassified when all of the following conditions are met: (a) assets are available for immediate sale in their present condition; (b) management approved and initiated an active programme 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. Long term assets or disposal groups classified as held-for-sale in the current period’s statement of financial position are not reclassified or re-presented in the comparative statement of financial position to reflect the classification at the end of the current reporting period.

3 Basis of Preparation and Significant Accounting Policies (continued)

Long term assets and disposal groups held-for-sale are measured at the lower of carrying amount and fair value less costs to sell. Held-for-sale premises and equipment (included in the disposal group) are not depreciated or amortised.

Liabilities directly associated with the disposal groups that will be transferred in the disposal transaction are presented separately in the statement of financial position.

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

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

Other debt securities in issue. Other debt securities in issue include bonds, promissory notes and certificates of deposit issued by the Group. Debt securities are stated at amortised cost. 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 amount of the liability and the consideration paid is included in other income.

Other borrowed funds. Other borrowed funds include liabilities to credit and corporate entities and financial institutions attracted for target financing and are carried at amortised cost.

Derivative financial instruments. Derivative financial instruments are carried at their fair value.

All derivative instruments are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are recognised as gains less losses in accordance with the nature of transaction in profit or loss. The Group does not enter into derivative instruments for hedging purposes.

Income taxes. Tax expenses are provided for in the consolidated financial statements in accordance with the effective Russian legislation using tax rates and legislative regulations enacted or substantively enacted by the reporting date. The income tax charge comprises current tax charge and deferred tax and is recognised in profit or loss except if it is recognised directly in equity because it relates to transactions that are also recognised, in the same or a different period, directly in equity.

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 previous periods. Taxable profits or losses are based on estimates if financial statements are approved prior to filing relevant tax returns. Taxes, other than on income, are recorded in administrative and other operating expenses.

Deferred income tax is recognized for temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted or substantively enacted at the reporting date which are expected to apply in the period when the temporary differences or deferred tax losses will be realized. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Uncertain tax positions. Uncertain tax positions are reassessed by management at every reporting date. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the reporting date and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management’s best estimate of the expenditure required to settle the obligations at the reporting date.

3 Basis of Preparation and Significant Accounting Policies (continued)

Provisions for liabilities and future expenses. Provisions for liabilities and future expenses are non-financial liabilities of uncertain timing or amount. Related provisions are provided for in the financial statements where the Group has liabilities (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

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

Credit related commitments. The Group enters into credit related commitments, including commitments to provide loans, letters of credit and financial guarantees. Financial guarantees and letters of credit represent irrevocable commitments to make payments in the event that a customer cannot meet its obligations to third parties and carry the same credit risk as loans. Financial guarantees and letters of credit are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitment. In the case of commitments to provide loans, if there is a probability that the Group concludes certain loan agreements and is not planning to disburse the loan immediately, such commission income is recognised as future period profit and is included in the loan's carrying amount upon initial recognition. At each reporting date, the commitments are measured at the higher of (i) the unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at the reporting date.

Share premium. When shares are issued, the excess of contributions received, net of transaction costs, over the nominal value of the shares issued is recorded as share premium in equity.

Preference shares. Preference shares that are not mandatorily redeemable and with discretionary dividends, are classified as equity.

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

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

Fee and commission income/expenses attributable to the effective interest rate include fees received or paid in connection with the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents. Commitment fees received by the Group to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination.

When loans or other debt instruments become doubtful of timely collection, they are written off to recoverable value with subsequent recognition of interest income based on the effective interest rate that was used to discount future cash flows with the purpose of determination of recoverable value.

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

3 Basis of Preparation and Significant Accounting Policies (continued)

Fiduciary assets. Assets held by the Group in its own name, but on the account and at the expense of third parties, are not reported in the consolidated statement of financial position. The analysis of such balances and transactions is given in note 37. Commissions received from fiduciary activities are shown in fee and commission income.

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

Accounting for the effects of hyperinflation. The Russian Federation previously experienced relatively high levels of inflation and was considered to be hyperinflationary as defined by IAS 29 "Financial Reporting in Hyperinflationary Economies" (IAS 29). IAS 29 requires that the financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the reporting date. It states that reporting operating results and financial position in the local currency of a hyperinflationary economy without respective adjustment in the financial statements is not useful because money loses purchasing power at such a rate that the comparison of amounts from transactions and other events that have occurred at different times, even within the same accounting period, is misleading.

The characteristics of the economic environment of the Russian Federation indicate that hyperinflation ceased effective from 1 January 2003. Restatement procedures of IAS 29 are therefore only applied to assets acquired or revalued and liabilities incurred or assumed prior to that date. For these balances, the amounts expressed in the measuring unit current as at 31 December 2002 are the basis for the carrying amounts in these consolidated financial statements. The restatement was calculated using the conversion factors derived from the Russian Federation Consumer Price Index, published by the Russian Statistics Agency, and from indices obtained from other sources for years prior to 1992.

Staff costs and related contributions. Wages, salaries, contributions to insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the year in which the associated services are rendered by employees.

Segment reporting. Segment reporting is prepared based on the internal management reports regularly reviewed by the chief operating decision maker. Segments with a majority of revenue, financial result or assets equal to at least ten percent of those from all the segments are reported separately.

The Group's operations are neither seasonal nor cyclic by nature.

4 Critical Accounting Estimates and Judgments in Applying Accounting Policies

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

Investment securities held-to-maturity. Management determines whether to classify financial assets as held-to-maturity and in particular to demonstrate its intention and ability to hold these assets to maturity. If the Group fails to hold these investments to maturity (except for a particular circumstance – such as sale of insignificant amount of investments shortly before the date of maturity) the Group will have to reclassify all securities of this type into the category of assets available for sale. Such reclassified investments will be measured at fair value, not at amortised cost. If all investment securities held-to-maturity are to be reclassified, their carrying value would decrease by RR 46,006 thousand (2010: RR 41 050 thousand).

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

Impairment losses on loans and advances. The Group regularly reviews its loan portfolio to assess impairment. In determining whether an impairment loss should be recorded in the profit or loss for the year, the Group makes professional judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group.

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. To the extent that the assessed delay in repayment of principal and interest on 5% of the total loans and advances to customers differs by +/- one month, the allowance would be approximately RR 96,254 thousand higher or lower (2010: RR 84 236 thousand higher or lower).

Revaluation of premises. The fair values of premises are determined by using valuation methods and are based on their market value. Market values of premises are obtained from the report of an independent appraiser, who holds a recognised and relevant professional qualification and who has recent experience in valuation of premises of similar location and category. The market value is assessed using sales comparison approach, i.e. comparison with other premises that were sold or are offered for sale. For details please refer to note 17. To the extent that the assessed fair value of premises differs by 10%, the effect of the revaluation adjustment would be RR 1,306,392 thousand (before deferred tax) as at 31 December 2011 (2010: RR 520 352 thousand).

5 Adoption of New or Revised Standards and Interpretations

Certain new IFRSs and interpretations became effective for the Group from 1 January 2011.

Amendment to IAS 24, Related Party Disclosures (issued in November 2009, effective for annual periods beginning on or after 1 January 2011). IAS 24 was revised in 2009: (a) to simplify the definition of a related party, specify its meaning and eliminate contradictions; (b) introduces a partial exemption from the basic disclosure requirements for government-related entities. As a result, the revision the Group discloses contractual liabilities on purchase and sales of goods and services to the related parties, if any.

Disclosures – Transfer of financial assets – Amendments to IFRS 7 (issued in October 2010 and effective for annual periods beginning on or after 1 January 2011) requires additional disclosure of the risk that arises due to transfer of financial assets. The amendment includes the requirement to disclose the following information by classes of financial assets transferred to the counterparty that are listed on the statement of financial position: type, value, description of risks and benefits related to the asset. Disclosure allowing the user to understand the size of the financial liability related to the asset as well as the interrelation between the financial asset and the related financial liability is also required. In case the recognition of asset was ceased but the company is still prone to certain risks and can gain certain benefits related to the transferred asset, additional disclosures to understand the amount of such risk are needed.

Improvement to the International Financial Reporting Standards (issued in May 2010 and effective starting 1 January 2011). Various *Improvements to IFRSs* have been dealt with on a standard-by-standard basis.

With effect from 1 January 2011, the Group retrospectively applied limited amendments to IFRS 7 *Financial Instruments: Disclosures* issued as part of *Improvements to IFRSs 2010.* These amendments mainly relate to disclosures on collateral and other credit enhancements, as well as to renegotiated assets that would otherwise be past due or impaired.

6 New Accounting Pronouncements

Certain new standards and interpretations have been published that are mandatory for annual accounting periods beginning on or after 1 January 2012 and others that are mandatory for annual accounting periods beginning on or after 1 January 2013, and which the Group has not early adopted in preparation of these consolidated financial statements:

IFRS 9 Financial Instruments will be effective for annual periods beginning on or after 1 January 2015. The new standard is to be issued in phases and is intended ultimately to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement*. The first phase of IFRS 9 was issued in November 2009 and relates to the classification and measurement of financial assets. The second phase regarding classification and measurement of financial liabilities was published in October 2010. The remaining parts of the standard are expected to be issued during 2012. The Group recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on the consolidated financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued. The Group does not intend to adopt this standard early.

IFRS 10 Consolidated Financial Statements will be effective for annual periods beginning on or after 1 January 2013. The new standard supersedes IAS 27 *Consolidated and Separate Financial Statements* and SIC-12 *Consolidation – Special Purpose Entities*. IFRS 10 introduces a single control model which includes entities that are currently within the scope of SIC-12. Under the new three-step control model, an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with that investee, has the ability to affect those returns through its power over that investee and there is a link between power and returns. Consolidation procedures are carried forward from IAS 27 (2008). When the adoption of IFRS 10 does not result in a change in the previous consolidation or non-consolidation of an investee, no adjustments to accounting are required on initial application. When the adoption results in a change in the consolidation or non-consolidation of an investee, the new standard may be adopted with either full retrospective application from date that control was obtained or lost or, if not practicable, with limited retrospective application from the beginning of the earliest period for which the application is practicable, which may be the current period. Early adoption of IFRS 10 is permitted provided an entity also early-adopts IFRS 11, IFRS 12, IAS 27 (2011) and IAS 28 (2011).

IAS 27 (2011) Separate Financial Statements will become effective for annual periods beginning on or after 1 January 2013. The amended standard carries forward the existing accounting and disclosure requirements of IAS 27 (2008) for separate financial statements with some clarifications. The requirements of IAS 28 (2008) and IAS 31 for separate financial statements have been incorporated into IAS 27 (2011). Early adoption of IAS 27 (2011) is permitted provided the entity also early-adopts IFRS 10, IFRS 11, IFRS 12 and IAS 28 (2011).

IAS 28 (2011) Investments in Associates and Joint Ventures combines the requirements in IAS 28 (2008) and IAS 31 that were carried forward but not incorporated into IFRS 11 and IFRS 12. The amended standard will become effective for annual periods beginning on or after 1 January 2013 with retrospective application required. Early adoption of IAS 28 (2011) is permitted provided the entity also early-adopts IFRS 10, IFRS 11, IFRS 12 and IAS 27 (2011).

IFRS 11 Joint Arrangements will be effective for annual periods beginning on or after 1 January 2013 with retrospective application required. The new standard supersedes IAS 31 *Interests in Joint Ventures*. The main change introduced by IFRS 11 is that all joint arrangements are classified either as joint operations, which are consolidated on a proportionate basis, or as joint ventures, for which the equity method is applied. The type of arrangement is determined based on the rights and obligations of the parties to the arrangement arising from joint arrangement’s structure, legal form, contractual arrangement and other facts and circumstances. When the adoption of IFRS 11 results in a change in the accounting model, the change is accounted for retrospectively from the beginning of the earliest period presented. Under the new standard all parties to a joint arrangement are within the scope of IFRS 11 even if all parties do not participate in the joint control. Early adoption of IFRS 11 is permitted provided the entity also early-adopts IFRS 10, IFRS 12, IAS 27 (2011) and IAS 28 (2011).

6 New Accounting Pronouncements (continued)

IFRS 12 Disclosure of Interests in Other Entities will be effective for annual periods beginning on or after 1 January 2013. The new standard contains disclosure requirements for entities that have interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. Interests are widely defined as contractual and non-contractual involvement that exposes an entity to variability of returns from the performance of the other entity. The expanded and new disclosure requirements aim to provide information to enable the users to evaluate the nature of risks associated with an entity's interests in other entities and the effects of those interests on the entity's financial position, financial performance and cash flows. Entities may early present some of the IFRS 12 disclosures without a need to early-adopt the other new and amended standards. However, if IFRS 12 is early-adopted in full, then IFRS 10, IFRS 11, IAS 27 (2011) and IAS 28 (2011) must also be early-adopted.

IFRS 13 Fair Value Measurement will be effective for annual periods beginning on or after 1 January 2013. The new standard replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It provides a revised definition of fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. IFRS 13 does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurement that currently exist in certain standards. The standard is applied prospectively with early adoption permitted. Comparative disclosure information is not required for periods before the date of initial application.

Amendment to ***IAS 1 Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income****.* The amendment requires that an entity present separately items of other comprehensive income that may be reclassified to profit or loss in the future from those that will never be reclassified to profit or loss. Additionally, the amendment changes the title of the statement of comprehensive income to statement of profit or loss and other comprehensive income. However, the use of other titles is permitted. The amendment shall be applied retrospectively from 1 July 2012 and early adoption is permitted.

Amendment to ***IAS 12 Income Taxes – Deferred Tax: Recovery of Underlying Assets***. The amendment introduces an exception to the current measurement principles for deferred tax assets and liabilities arising from investment property measured using the fair value model in accordance with IAS 40 *Investment Property*. The exception also applies to investment property acquired in a business combination accounted for in accordance with IFRS 3 *Business Combinations* provided the acquirer subsequently measures the assets using the fair value model. In these specified circumstances the measurement of deferred tax liabilities and deferred tax assets should reflect a rebuttable presumption that the carrying amount of the underlying asset will be recovered entirely by sale unless the asset is depreciated or the business model is to consume substantially all the asset. The amendment is effective for periods beginning on or after 1 January 2012 and is applied retrospectively.

Except for cases described above, the new standards and interpretations are not expected to significantly affect the consolidated financial statements.

7 Cash and Cash Equivalents

In thousands of Russian Roubles	**2011**	**2010**
Cash on hand	4 847 432	4 171 412
Cash balances with the CBRF (other than mandatory reserve deposits)	5 015 243	3 118 266
Correspondent accounts and overnight placements with banks		
- Russian Federation	6 690 456	3 679 344
- other countries	13 272 636	1 003 035
Settlement accounts with trading systems	2 949 540	1 208 127
Total cash and cash equivalents	**32 775 307**	**13 180 184**

Currency and interest rate analyses of cash and cash equivalents are disclosed in note 35.

8 Trading Securities

In thousands of Russian Roubles	2011	2010
Corporate bonds	17 910 871	22 556 410
Federal loan bonds (OFZ bonds)	4 058 912	4 215 755
Corporate Eurobonds	3 956 403	3 037 964
Municipal bonds	2 489 408	5 081 650
Russian Federation Eurobonds	-	802 109
Total debt securities	**28 415 594**	**35 693 888**
Corporate shares	628 062	830 739
Total trading securities	**29 043 656**	**36 524 627**

Corporate bonds are interest bearing Russian Rouble denominated securities issued by Russian companies and traded in the Russian market. These bonds have maturity dates from 21 February 2012 to 16 January 2025 (2010: from 27 January 2011 to 13 October 2020); coupon rates of 6.5% - 19.0% p.a. (2010: 6.5% - 18.5% p.a.) and yields to maturity from 1.5% to 13.7% p.a. as at 31 December 2011 (2010: from 1.2% to 12.3% p.a.), depending on the type of bond issue.

Federal loan bonds (OFZ bonds) are Russian Rouble denominated government securities issued by the Ministry of Finance of the Russian Federation. These bonds have maturity dates from 18 January 2012 to 15 July 2015 (2010: from 6 July 2011 to 15 July 2015); coupon rates of 6.7% to 11.9% p.a. (2010: 6.2% to 11.9% p.a.) and yields to maturity from 4.2% to 7.8% p.a. as at 31 December 2011 (2010: from 4.5% to 7.5% p.a.), depending on the type of bond issue.

Corporate Eurobonds are interest bearing securities denominated in USD issued by Russian companies traded in the international and Russian over-the-counter markets. Corporate Eurobonds have maturity dates from 28 January 2012 to 25 October 2017 (2010: from 20 June 2011 to 25 October 2017); coupon rates of 5.1% to 10.3% p.a. (2010: 6.5% to 11.8% p.a.) and yields to maturity from 1.4% to 8.0% p.a. (2010: from 1.7% to 8.4% p.a.) as at 31 December 2011.

Municipal bonds are Russian Rouble denominated securities issued by the municipal administrations of Moscow, St. Petersburg, Samara Region and Krasnoyarsk Regions (2010: municipal administrations of Moscow, St. Petersburg, Moscow Region and Samara Region). These bonds are sold at a discount to nominal value, have maturity dates from 27 June 2012 to 19 November 2015 (2010: from 19 April 2011 to 19 November 2015); coupon rates of 7.8% to 15.0% p.a. (2010: 7.6% to 10.0% p.a.) and yields to maturity from 6.2% to 7.9% p.a. as at 31 December 2011 (2010: from 5.2% to 8.5% p.a.), depending on the type of bond issue.

As at 31 December 2010 Russian Federation Eurobonds are interest bearing securities denominated in USD, issued by the Ministry of Finance of the Russian Federation and traded internationally. These bonds had a coupon rate of 7.5% p.a.; and yield to maturity of 4.8% p.a. as at 31 December 2010.

Corporate shares are shares of Russian companies and global depositary receipts on shares of Russian companies.

8 Trading Securities (continued)

Trading securities are carried at fair value which also reflects the credit risk of these securities.

Analysis by credit quality of debt trading securities outstanding at 31 December 2011 is as follows:

In thousands of Russian Roubles	Corporate bonds	Federal loan bonds	Corporate Eurobonds	Municipal bonds	Total
Not overdue or impaired (at fair value)					
Group A	9 538 203	4 058 912	1 235 583	2 489 402	17 322 100
Group B	4 081 819	-	2 719 184	6	6 801 009
Group C	1 389 079	-	1 636	-	1 390 715
Group D	2 901 770	-	-	-	2 901 770
Total debt trading securities	**17 910 871**	**4 058 912**	**3 956 403**	**2 489 408**	**28 415 594**

Debt trading securities are divided by credit rating of the issuer defined by rating agencies Moody's, S&P and Fitch into the following groups:

Group A – debt financial securities with credit rating of the issuer at least BBB-, according to S&P rating agency or equivalent rating of other agencies.

Group B – debt financial securities with credit rating of the issuer between BB- and BB+, according to S&P rating agency or equivalent rating of other agencies.

Group C – debt financial securities with credit rating of the issuer between B- and B+, according to S&P rating agency or equivalent rating of other agencies.

Group D – debt financial securities with credit rating of the issuer below B-, according to S&P rating agency or equivalent rating of other agencies, and without credit rating.

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

In thousands of Russian Roubles	Corporate bonds	Municipal bonds	Federal loan bonds	Corporate Eurobonds	Russian Federation Eurobonds	Total
Not overdue or impaired (at fair value)						
Group A	13 876 771	5 081 630	4 215 755	475 006	802 109	24 451 271
Group B	5 438 750	6	-	2 360 085	-	7 798 841
Group C	1 426 066	14	-	202 873	-	1 628 953
Group D	1 814 817	-	-	-	-	1 814 817
Total debt trading securities not overdue or impaired	**22 556 404**	**5 081 650**	**4 215 755**	**3 037 964**	**802 109**	**35 693 882**
Overdue (at fair value) - overdue more than 365 calendar days	6	-	-	-	-	6
Total overdue debt trading securities	**6**	**-**	**-**	**-**	**-**	**6**
Total debt trading securities	**22 556 410**	**5 081 650**	**4 215 755**	**3 037 964**	**802 109**	**35 693 888**

8 Trading Securities (continued)

The Bank is licensed by the RF Federal Agency for Financial Markets for trading in securities.

Currency and maturity analyses of trading securities are disclosed in note 35.

In 2008 the Group reclassified certain financial assets from trading securities to investment securities held-to-maturity, loans and advances to customers and due from banks. Notes 11, 12, 14.

Management believes that the decrease in market prices that occurred in the third quarter of 2008 can be considered a rare event, as it does not reflect the overall volatility on the market that was observed in past periods. The Bank determined that the deterioration of the financial markets during the third quarter of 2008 constituted rare circumstances that permit reclassification out of the trading category as at 30 September 2008.

The carrying value and fair value of all financial assets reclassified from trading securities are as follows:

	31 December 2011		31 December 2010	
In thousands of Russian Roubles	**Carrying value***	**Fair value**	**Carrying value***	**Fair value**
Loans and advances to customers	832 433	776 338	2 138 699	2 154 186
Due from banks	667 858	658 418	824 361	834 585
Investment securities held-to-maturity	52 269	6 263	188 665	147 615
Total	**1 552 560**	**1 441 019**	**3 151 725**	**3 136 386**

** Carrying value is shown before allowance for impairment.*

Income and expense on financial assets through profit or loss related to the period prior to reclassification, to the period after reclassification and income and expense (after the date of reclassification) which would have been recognised through profit or loss if the reclassification had not been made are as follows:

In thousands of Russian Roubles	**2008**	**2008**	**2009**	**2010**	**2011**
Expense, recognized in 2008 prior to the date of reclassification	(266 365)	-	-	-	-
Income (expense), recognized after the date of reclassification	-	(53 987)	425 630	260 377	165 751
Income (expense), which would have been recognised, if the reclassification had not been made (after the date of reclassification)	-	(322 079)	509 003	340 948	127 457

9 Trading Securities Pledged Under Sale and Repurchase Agreements

In thousands of Russian Roubles	**2011**	**2010**
Corporate bonds	11 670 446	96 044
Municipal bonds	2 930 415	-
Federal loan bonds (OFZ bonds)	533 521	-
Corporate shares	-	158 312
Total trading securities pledged under sale and repurchase agreements	**15 134 382**	**254 356**

Trading securities pledged under sale and repurchase agreements include corporate bonds, municipal bonds and federal loan bonds (2010: corporate shares and corporate bonds).

9 Trading Securities Pledged Under Sale and Repurchase Agreements (continued)

Corporate bonds are interest bearing Russian Rouble denominated securities issued by Russian companies and traded in the Russian market. These bonds have their maturity dates from 6 August 2012 to 18 March 2021 (2010: on 6 March 2014); coupon rates from 6.6% to 15.0% p.a. (2010: 10.0% p.a.); and yields to maturity from 6.5% to 9.7% p.a. as at 31 December 2011 (2010: 12.3% p.a.). The term of the corresponding repurchase agreements is 12 calendar days (2010: 13 calendar days), with effective rates from 5.0% to 5.3% p.a. (2010: 3.1% p.a.).

Municipal bonds are Russian Rouble denominated securities issued by the municipal administrations of Moscow, Moscow Region and Krasnoyarsk Region. These bonds are sold at a discount to nominal value, have maturity dates from 5 September 2012 to 21 July 2014; coupon rates of 8.0% to 14.0% p.a. and yields to maturity from 6.2% to 8.9% p.a. as at 31 December 2011, depending on the type of bond issue. The term of the corresponding repurchase agreements is 12 calendar days with an effective rate of 5.3% p.a. (2010: no municipal bonds).

Federal loan bonds (OFZ bonds) are Russian Rouble denominated government securities issued by the Ministry of Finance of the Russian Federation. These bonds have a maturity date of 17 October 2012; a coupon rate of 11.3% p.a. and yield to maturity of 6.1% p.a. as at 31 December 2011. The term of the corresponding repurchase agreements is 12 calendar days with an effective rate of 5.3% p.a. (2010: no federal loan bonds).

As at 31 December 2010 corporate shares are shares of Russian companies. The terms of the corresponding repurchase agreements are from 12 to 13 calendar days with effective rates from 1.0% to 2.5% p.a.

Analysis of debt trading securities pledged under sale and repurchase agreements outstanding at 31 December 2011 by their credit quality is as follows:

In thousands of Russian Roubles	**Corporate bonds**	**Municipal bonds**	**Federal loan bonds (OFZ bonds)**	**Total**
Group A	9 385 679	2 867 212	533 521	**12 786 412**
Group B	2 011 819	63 203	-	**2 075 022**
Group C	142 314	-	-	**142 314**
Group D	130 634	-	-	**130 634**
Total debt trading securities pledged under sale and repurchase agreements	**11 670 446**	**2 930 415**	**533 521**	**15 134 382**

Analysis of debt trading securities pledged under sale and repurchase agreements outstanding at 31 December 2010 by their credit quality is as follows:

In thousands of Russian Roubles	**Corporate bonds**	**Total**
Group A	96 044	**96 044**
Total debt trading securities pledged under sale and repurchase agreements	**96 044**	**96 044**

For definition of Groups refer to note 8.

As at 31 December 2011 included in due to banks are sale and repurchase agreements with credit institutions in the amount of RR 13 490 520 thousand. (2010: no sale and repurchase agreements with credit institutions included in due to banks). Refer to note 19.

As at 31 December 2011 included in customer accounts are sale and repurchase agreements with legal entities in the amount of RR 8 499 thousand (2010: RR 222 708 thousand). Refer to note 20.

Currency and maturity analyses of trading securities pledged under sale and repurchase agreements are disclosed in note 35.

10 Amounts Receivable Under Reverse Repurchase Agreements

In thousands of Russian Roubles	2011	2010
Amounts receivable under reverse repurchase agreements with customers	2 889 357	4 355 475
Amounts receivable under reverse repurchase agreements with banks	4 959 655	4 068 063
Total amounts receivable under reverse repurchase agreements	**7 849 012**	**8 423 538**

As at 31 December 2011 amounts receivable under reverse repurchase agreements represent agreements with customers and banks that are secured by federal loan bonds (OFZ bonds), municipal bonds, corporate bonds and corporate shares (2010: municipal bonds, corporate bonds and corporate shares). As at 31 December 2011 the fair value of securities that serve as collateral under reverse repurchase agreements is RR 9 234 418 thousand (2010: RR 9 691 604 thousand).

Corporate bonds with a fair value of RR 6 898 thousand and federal loan bonds (OFZ bonds) with fair value of RR 504 289 thousand received as collateral under these agreements are pledged under reverse repurchase agreements (2010: corporate shares with a fair value of RR 146 686 thousand received as collateral under these agreements are pledged under reverse repurchase agreements).

Currency and maturity analyses of amounts receivable under reverse repurchase agreements is disclosed in note 35.

11 Due from Banks

In thousands of Russian Roubles	2011	2010
Term placements with banks	3 005 242	12 398 491
Allowance for impairment	(6 589)	(566)
Total due from banks	**2 998 653**	**12 397 925**

Movements in the allowance for impairment of due from banks are as follows:

In thousands of Russian Roubles	2011	2010
Allowance for impairment as at 1 January	**566**	**3 375**
Provision (recovery of provision) for impairment during the year	6 023	(2 809)
Allowance for impairment as at 31 December	**6 589**	**566**

As at 31 December 2011, the carrying value of securities reclassified in 2008 to due from banks amounts to RR 667 858 thousand before the allowance for impairment (2010: RR 824 361 thousand). Refer to note 8.

Reclassified securities with a carrying value of RR 451 436 thousand are securities pledged under repurchase agreements in due to banks. As at 31 December 2011 the fair value of these securities amounts to RR 442 251 thousand (2010: none). Refer to note 19.

The Bank uses a system of limits for granting loans to banks, as shown in note 35. The current interbank loan portfolio is used for short-term placement of temporarily available cash.

Analysis by credit quality of term placements with banks as at 31 December 2011 is as follows:

In thousands of Russian Roubles	Interbank loans and deposits	Securities reclassified in 2008 into due from banks	Total
Group A	1 159 248	501 592	1 660 840
Group B	578 136	85 862	663 998
Group C	-	80 404	80 404
Group D	600 000	-	600 000
Total term placements with banks	**2 337 384**	**667 858**	**3 005 242**

11 Due from Banks (continued)

Term placements with banks are divided by credit quality depending on the credit rating of the credit organization defined by rating agencies Moody's, S&P and Fitch into the following groups:

Group A – credit organizations with credit rating of the issuer at least BBB-, according to S&P rating agency or equivalent rating of other agencies,

Group B – credit organizations with credit rating of the issuer between BB- and BB+, according to S&P rating agency or equivalent rating of other agencies.

Group C – credit organizations with credit rating of the issuer between B- and B+, according to S&P rating agency or equivalent rating of other agencies.

Group D – credit organizations with credit rating of the issuer below B-, according to S&P rating agency or equivalent rating of other agencies, and without credit rating.

Analysis by credit quality of term placements with banks as at 31 December 2010 is as follows:

In thousands of Russian Roubles	**Interbank loans and deposits**	**Securities reclassified in 2008 into due from banks**	**Promissory notes of the banks**	**Total**
Group A	11 102 926	501 537	-	11 604 463
Group B	-	132 009	-	132 009
Group C	-	190 815	-	190 815
Group D	470 927	-	277	471 204
Total term placements with banks	**11 573 853**	**824 361**	**277**	**12 398 491**

Loans to banks are not secured.

Currency, maturity and interest rate analyses of due from banks are disclosed in note 35.

12 Loans and Advances to Customers

In thousands of Russian Roubles	**2011**	**2010**
Corporate loans		
- loans to finance working capital	149 259 268	122 694 810
- investment loans	56 124 976	55 872 254
- loans to entities financed by the government	9 838 219	9 626 801
Loans to individuals		
- mortgage loans	7 836 465	7 700 090
- car loans	1 248 144	687 179
- consumer loans to VIP clients	4 713 446	4 135 360
- other loans to individuals	2 236 824	1 537 787
Allowance for impairment	(21 350 274)	(19 435 942)
Total loans and advances to customers	**209 907 068**	**182 818 339**

As at 31 December 2011 the carrying value of securities reclassified to loans and advances to customers in 2008 amounts to RR 832 433 thousand before impairment (2010: RR 2 138 699 thousand).

Reclassified securities with a carrying value of RR 570 882 thousand are securities pledged under repurchase agreements in due to banks. As at 31 December 2011 the fair value of these securities amounts to RR 606 856 thousand (2010: none). Refer to note 19.

12 Loans and Advances to Customers (continued)

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

	Corporate loans			Loans to individuals				
In thousands of Russian Roubles	Loans to finance working capital	Investment loans	Loans to entities financed by the government	Mortgage loans	Car loans	Consumer loans to VIP clients	Other loans to individuals	**Total**
Allowance for impairment at 31 December 2010	**13 598 209**	**4 506 689**	**98 066**	**447 992**	**111 090**	**562 750**	**111 146**	**19 435 942**
Provision for impairment during the year	3 752 093	38 945	(2 800)	(69 069)	(27 397)	(172 574)	(22 322)	**3 496 876**
Loans sold	(777 836)	-	-	(11 221)	(75)	(14 727)	-	**(803 859)**
Amounts written off as non-recoverable	(752 783)	(24 159)	-	-	-	-	(1 743)	**(778 685)**
Allowance for impairment at 31 December 2011	**15 819 683**	**4 521 475**	**95 266**	**367 702**	**83 618**	**375 449**	**87 081**	**21 350 274**

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

	Corporate loans			Loans to individuals				
In thousands of Russian Roubles	Loans to finance working capital	Investment loans	Loans to entities financed by the government	Mortgage loans	Car loans	Consumer loans to VIP clients	Other loans to individuals	**Total**
Allowance for impairment at 31 December 2009	**11 222 146**	**3 662 879**	**26 113**	**396 820**	**111 295**	**447 655**	**42 840**	**15 909 748**
Provision for impairment during the year	3 305 432	874 838	71 953	51 172	(145)	115 095	69 720	**4 488 065**
Amounts written off as non-recoverable	(929 369)	(31 028)	-	-	(60)	-	(1 414)	**(961 871)**
Allowance for impairment at 31 December 2010	**13 598 209**	**4 506 689**	**98 066**	**447 992**	**111 090**	**562 750**	**111 146**	**19 435 942**

12 Loans and Advances to Customers (continued)

Economic sector risk concentrations within the customer loan portfolio as at 31 December are as follows:

	2011		2010	
In thousands of Russian Roubles	**Amount**	**%**	**Amount**	**%**
Heavy machinery and ship-building	30 574 200	13.2	28 780 469	14.2
Construction	30 114 469	13.0	24 501 570	12.1
Leasing and financial services	27 383 215	11.8	17 356 272	8.6
Trade	26 612 935	11.5	25 753 396	12.7
Real estate	21 568 270	9.3	21 576 798	10.7
Extraction and transportation of oil and gas	17 179 939	7.4	14 876 175	7.4
Individuals	16 034 879	6.9	14 060 416	7.0
Production and food industry	14 426 340	6.2	11 827 141	5.8
Organisations financed by the government	9 838 220	4.3	9 626 801	4.8
Transport	9 417 183	4.1	7 697 385	3.8
Sports and health and entertainment organisations	7 278 856	3.1	6 046 779	3.0
Energy	5 007 088	2.2	3 596 635	1.8
Telecommunications	3 673 659	1.6	2 793 273	1.4
Chemical industry	2 101 012	0.9	4 569 214	2.3
Other	10 047 077	4.5	9 191 957	4.4
Total loans and advances to customers (before allowance for impairment)	**231 257 342**	**100.0**	**202 254 281**	**100.0**

As at 31 December 2011, the 20 largest groups of borrowers have aggregated loan amounts of RR 74 573 078 thousand (2010: RR 73 038 830 thousand), or 32.2% (2010: 36.1%) of the loan portfolio before impairment.

12 Loans and Advances to Customers (continued)

Loans and advances to customers and the related allowance for impairment as well as their credit quality analysis as at 31 December 2011 are as follows:

In thousands of Russian Roubles	Gross loans and advances to customers	Allowance for impairment	Net loans and advances to customers	Allowance for impairment to current loans, %
Loans and advances to legal entities:				
Loans collectively assessed for impairment, but not individually impaired				
Standard loans not past due	178 301 417	(7 305 185)	170 996 232	4.10
Watch list loans not past due	9 406 468	(1 056 513)	8 349 955	11.23
Individually assessed loans, for which specific indications of impairment have been identified				
Not past due	15 299 756	(4 203 059)	11 096 697	27.47
Overdue:				
- less than 5 calendar days	18 631	(1 845)	16 786	9.90
- 6 to 30 calendar days	8 184	(1 637)	6 547	20.00
- 31 to 60 calendar days	3 326 030	(1 791 113)	1 534 917	53.85
- 61 to 90 calendar days	668 326	(129 964)	538 362	19.45
- 91 to 180 calendar days	440 525	(88 105)	352 420	20.00
- 181 to 365 calendar days	1 202 741	(883 845)	318 896	73.49
- more than 365 calendar days	4 200 203	(2 624 976)	1 575 227	62.50
Uncollectible loans	2 350 182	(2 350 182)	-	100.00
Total loans and advances to legal entities	**215 222 463**	**(20 436 424)**	**194 786 039**	**9.50**
Loans and advances to individuals:				
- mortgage loans	7 836 465	(367 702)	7 468 763	4.69
- car loans	1 248 144	(83 618)	1 164 526	6.70
- consumer loans to VIP clients	4 713 446	(375 449)	4 337 997	7.97
- other loans to individuals	2 236 824	(87 081)	2 149 743	3.89
Total loans and advances to individuals	**16 034 879**	**(913 850)**	**15 121 029**	**5.70**
Total loans and advances to customers	**231 257 342**	**(21 350 274)**	**209 907 068**	**9.23**

12 Loans and Advances to Customers (continued)

In thousands of Russian Roubles	**Mortgage loans**	**Car loans**	**Consumer loans to VIP clients**	**Other loans to individuals**	**Total loans and advances to individuals**
Loans to individuals					
Standard loans not past due	7 306 872	1 153 007	4 435 170	2 152 130	15 047 179
Overdue:					
- less than 5 calendar days overdue	2 725	5 099	-	5 968	13 792
- 6 to 30 calendar days	125 765	10 124	-	5 119	141 008
- 31 to 60 calendar days	35 588	3 799	-	597	39 984
- 61 to 90 calendar days	18 470	531	-	16 417	35 418
- 91 to 180 calendar days	53 612	3 284	-	18 964	75 860
- 181 to 365 calendar days	39 720	8 229	-	5 327	53 276
- more than 365 calendar days	253 713	64 071	278 276	32 302	628 362
Total loans and advances to individuals (before allowance for impairment)	**7 836 465**	**1 248 144**	**4 713 446**	**2 236 824**	**16 034 879**
Allowance for impairment	**(367 702)**	**(83 618)**	**(375 449)**	**(87 081)**	**(913 850)**
Total loans and advances to individuals (after allowance for impairment)	**7 468 763**	**1 164 526**	**4 337 997**	**2 149 743**	**15 121 029**

12 Loans and Advances to Customers (continued)

Loans and advances to customers and the related allowance for impairment as well as their credit quality analysis as at 31 December 2010 are as follows:

In thousands of Russian Roubles	Gross loans and advances to customers	Allowance for impairment	Net loans and advances to customers	Allowance for impairment to current loans, %
Loans and advances to legal entities:				
Loans collectively assessed for impairment, but not individually impaired				
Standard loans not past due	157 600 550	(8 534 653)	149 065 897	5.42
Watch list loans not past due	9 658 626	(744 660)	8 913 966	7.71
Individually assessed loans, for which specific indications of impairment have been identified				
Not past due	11 892 926	(3 147 115)	8 745 811	26.46
Overdue:				
- less than 5 calendar days	30 628	(1 847)	28 781	6.03
- 31 to 60 calendar days	154 685	(9 679)	145 006	6.26
- 91 to 180 calendar days	328 517	(65 305)	263 212	19.88
- 181 to 365 calendar days	1 608 734	(980 228)	628 506	60.93
- more than 365 calendar days	4 448 976	(2 249 254)	2 199 722	50.56
Uncollectible loans	2 470 223	(2 470 223)	-	100.00
Total loans and advances to legal entities	**188 193 865**	**(18 202 964)**	**169 990 901**	**9.67**
Loans and advances to individuals:				
- mortgage loans	7 700 090	(447 992)	7 252 098	5.82
- car loans	687 179	(111 090)	576 089	16.17
- consumer loans to VIP clients	4 135 360	(562 750)	3 572 610	13.61
- other loans to individuals	1 537 787	(111 146)	1 426 641	7.23
Total loans and advances to individuals	**14 060 416**	**(1 232 978)**	**12 827 438**	**8.77**
Total loans and advances to customers	**202 254 281**	**(19 435 942)**	**182 818 339**	**9.61**

12 Loans and Advances to Customers (continued)

In thousands of Russian Roubles	Mortgage loans	Car loans	Consumer loans to VIP clients	Other loans to individuals	Total loans and advances to individuals
Loans to individuals					
Standard loans not past due	7 222 934	605 482	3 540 740	1 458 746	12 827 902
Overdue:					
- less than 5 calendar days overdue	9 602	81	-	19 867	29 550
- 6 to 30 calendar days	29 949	2 252	-	1 442	33 643
- 31 to 60 calendar days	18 678	795	-	1 546	21 019
- 61 to 90 calendar days	65 517	2 046	-	919	68 482
- 91 to 180 calendar days	39 842	5 743	5 422	1 669	52 676
- 181 to 365 calendar days	72 494	8 929	94 983	15 882	192 288
- more than 365 calendar days	241 074	61 851	494 215	37 716	834 856
Total loans and advances to individuals (before allowance for impairment)	**7 700 090**	**687 179**	**4 135 360**	**1 537 787**	**14 060 416**
Allowance for impairment	**(447 992)**	**(111 090)**	**(562 750)**	**(111 146)**	**(1 232 978)**
Total loans and advances to individuals (after allowance for impairment)	**7 252 098**	**576 089**	**3 572 610**	**1 426 641**	**12 827 438**

Management estimates loan impairment for individually assessed loans to legal entities, for which specific indications of impairment have been identified based on an analysis of the expected future cash flows based primarily on collateral. The principal collateral taken into account in the estimation of future cash-flows comprises real estate. Valuations for real estate are discounted by 30-50 percent to reflect current market conditions.

For portfolios of loans for which no indications of impairment are identified, in determining the impairment allowance, the Group adjusts historic loss rates to factor in the deterioration/improvement of the loan portfolio, as evidenced by the rate of increase/decrease in the level of impaired and overdue loans arising from current market conditions. The impairment allowance reflects management’s estimate of the losses in the portfolio as at 31 December 2011 and 31 December 2010. The value of collateral is not taken into account when estimating impairment. The financial effect of the pledge on measuring credit risk is nil.

The Group estimates loan impairment for loans to individuals based on an analysis of the future cash flows for impaired loans and based on its past loss experience for loans for which no indications of impairment has been identified. In determining the impairment allowance for loans to individuals, for which no signs of impairment are identified, the management adjusts historic loss rates to factor in the current deteriorating/improvement of the loan portfolio. The principal collateral taken into account in the estimation of future cash-flows comprises mainly real estate and cars. Valuations for real estate and cars are discounted by 10-20 percent to reflect current market conditions.

Loans and advances to customers are classified as “Standard loans not past due” when they do not have any overdue payments as at the reporting date and management does not have any information indicating that the borrower is not able to repay the loan in full and in time.

Loans and advances to customers are classified as “Watch list loans not past due” when they have moderate credit risk. The comprehensive analysis of operating and financial position of the borrower and other information, including the external environment, indicates the stable position of the borrower, however there are some negative factors that may have an impact on the ability of the borrower to repay its loan in the future on a timely basis.

12 Loans and Advances to Customers (continued)

The primary factors that the Group considers when deciding whether a loan is individually impaired are its overdue/restructured status and/or occurrence of any factors that may make it doubtful whether the borrowers are able to repay the full amounts owed to the Group on a timely basis.

The following table provides information on collateral securing loans to corporate customers, net of impairment, by types of collateral as at 31 December 2011 and 2010:

In thousands of Russian Roubles	**2011**	**2010**
Cash	3 089 715	2 376 486
Real estate	76 288 714	61 919 358
Motor vehicles	39 827	32 231
Premises and equipment	16 821 534	12 452 888
Guarantees	45 552 753	46 570 120
Other collateral	35 720 827	35 876 218
No collateral	17 272 669	10 763 600
Total collateral for corporate loans	**194 786 039**	**169 990 901**

The financial effect of collateral is represented by the disclosure of its value separately for: (i) loans secured by collateral with a value that equals to or exceeds the gross current exposure ("over-collateralised loans") and (ii) loans secured by collateral with a value that is less than the gross current exposure ("under-collateralised loans"). The following table provides information on financial effect of collateral as at 31 December 2011:

	Over-collateralised loans		**Under-collateralised loans**	
In thousand of Russian Roubles	**Gross loans and advances to customers**	**Collateral value**	**Gross loans and advances to customers**	**Collateral value**
Corporate loans:				
- loans to finance working capital	118 836 802	214 778 988	30 422 466	10 368 234
- investment loans	52 544 186	108 136 704	3 580 790	2 820 650
- loans to entities financed by the government	9 819 186	14 624 118	19 033	-
Loans to individuals:				
- mortgage loans	7 425 157	13 729 635	411 308	264 523
- car loans	1 237 960	2 663 298	10 184	1 157
- consumer loans to VIP clients	4 083 336	10 397 857	630 110	308 707
- other loans to individuals	934 630	1 145 031	1 302 194	7 760
Total loans and advances to customers	**194 881 257**	**365 475 631**	**36 376 085**	**13 771 031**

12 Loans and Advances to Customers (continued)

The following table provides information on financial effect of collateral as at 31 December 2010:

In thousand of Russian Roubles	**Over-collateralised loans** Gross loans and advances to customers	Collateral value	**Under-collateralised loans** Gross loans and advances to customers	Collateral value
Corporate loans:				
- loans to finance working capital	99 568 014	169 769 999	23 126 796	10 092 860
- investment loans	53 053 728	87 578 486	2 818 526	2 396 592
- loans to entities financed by the government	9 227 906	18 409 440	398 895	-
Loans to individuals:				
- mortgage loans	7 355 456	12 662 024	344 634	251 890
- car loans	681 011	1 890 452	6 168	595
- consumer loans to VIP clients	3 542 940	8 627 001	592 420	308 802
- other loans to individuals	897 496	1 149 721	640 291	5 000
Total loans and advances to customers	**174 326 551**	**300 087 123**	**27 927 730**	**13 055 739**

There are highly reliable borrowers included in loans to finance working capital, for which the Group considers it appropriate to issue loans without collateral.

Interest income on overdue and impaired loans during 2011 amounts to RR 906 218 thousand (2010: RR 732 166 thousand).

Currency and maturity and interest rate analyses of loans and advances to customers are disclosed in note 35. The information on related party balances is disclosed in note 39.

13 Investment Securities Available-for-Sale

Investment securities available-for sale are represented by corporate shares of Russian and foreign companies.

Some of these investment securities do not have a quoted market price in an active market and their fair value cannot be reliably measured. As at 31 December 2011 the fair value of securities which can be reliably measured amounts to RR 3 774 109 thousand (2010: RR 32 932 thousand).

Management believes that the difference between the fair value and carrying values of investment securities available-for-sale that are not listed on the market or traded is not material.

Currency and maturity analyses of investment securities available-for-sale are disclosed in note 35.

14 Investment Securities Held-to-Maturity

In thousands of Russian Roubles	**2011**	**2010**
Corporate bonds	52 269	188 665
Allowance for impairment	(20 908)	(19 027)
Total investment securities held-to-maturity	**31 361**	**169 638**

Corporate bonds are interest bearing Russian Rouble denominated securities issued by a Russian company. These bonds are overdue (2010: maturity dates are from 29 September 2011 to 2 December 2011); with coupon rates of 0% p.a. (2010: 12.3% - 13.0% p.a.) and yields to maturity at 0% p.a. as at 31 December 2011 (2010: from 12.6% to 13.0% p.a. depending on the type of bond issue).

Movements in the investment securities held-to-maturity portfolio are as follows:

In thousands of Russian Roubles	**2011**	**2010**
Carrying value as of 1 January	**188 665**	**200 458**
Redemption of securities	(136 396)	(11 858)
Accrued interest income	-	16 337
Interest received	-	(16 272)
Carrying value as of 31 December	**52 269**	**188 665**

14 Investment Securities Held-to-Maturity (continued)

An analysis of movements in the allowance for impairment of investment securities held-to-maturity during 2011 and 2010 is as follows:

In thousands of Russian Roubles	2011	2010
Allowance for impairment at 1 January	**19 027**	**19 550**
Impairment (recovery of impairment)	1 881	(523)
Allowance for impairment at 31 December	**20 908**	**19 027**

The Group analyses and monitors impairment indicators in respect of these securities and where necessary an allowance for impairment is created.

Analysis by credit quality of investment securities held-to-maturity at 31 December 2011 is as follows:

In thousands of Russian Roubles	Corporate bonds
Debt securities individually impaired	
- Overdue more than 365 calendar days	52 269
Total debt investment securities held-to-maturity before allowance for impairment	**52 269**

Analysis by credit quality of investment securities held-to-maturity at 31 December 2010 is as follows:

In thousands of Russian Roubles	Corporate bonds
Not past due or impaired debt securities	
- Group B	126 301
- Group C	10 095
Debt securities individually impaired	
- Overdue more than 365 calendar days	52 269
Total debt investment securities held-to-maturity before allowance for impairment	**188 665**

For definitions of the Groups refer to note 8.

Currency and maturity analyses of investment securities held-to-maturity are disclosed in note 35. Interest rate analysis of investment securities held-to-maturity is disclosed in note 35.

15 Other Financial Assets

In thousands of Russian Roubles	2011	2010
Plastic cards receivables	370 364	144 608
Fair value of derivative financial instruments	823 657	142 978
Settlements on operations with securities	-	18 199
Total other financial assets	**1 194 021**	**305 785**

Other financial assets do not include individually impaired and overdue assets. In 2011 and 2010 the Group created no impairment allowance for other financial assets.

Currency and maturity analyses of other financial assets are disclosed in note 35.

16 Investment Property

In thousands of Russian Roubles	2011	2010
Land plots	2 638 631	2 000 008
Premises	1 924 186	1 956 812
Accumulated depreciation	(38 484)	-
Total investment property	**4 524 333**	**3 956 820**

Investment property includes land plots, production premises, construction and a property complex.

In 2011 the Group obtained control over collateral represented by land plots with subsequent registration of title due to a borrower’s failure to discharge its obligations.

The property complex is a terminal in the North-West region.

Changes in investment property during the year are as follows:

In thousands of Russian Roubles	2011	2010
Balance as at 1 January	3 956 820	**2 000 008**
Receipts	638 623	32 626
Transfers from other categories	-	1 924 186
Disposals	(32 626)	-
Balance as at 31 December	**4 562 817**	**3 956 820**

The fair value of investment property as at 31 December 2011 is RR 5 100 515 thousand (2010: RR 3 957 656 thousand).

Market values of investment property are obtained from the report of an independent appraiser, who has experience in valuation of investment property of similar location and category. The market value is assessed using the sales comparison approach, i.e. comparison with other premises that were sold or are offered for sale.

17 Premises, Equipment and Intangible Assets

In thousands of Russian Roubles	Note	Premises	Office and computer equipment	Construction in progress	Intangible assets	Total
Cost as at 1 January 2010		3 943 049	1 376 049	5 500 309	6 521	10 825 928
Accumulated depreciation and amortisation		-	(707 453)	-	(5 765)	(713 218)
Net book amount as at 1 January 2010		**3 943 049**	**668 596**	**5 500 309**	**756**	**10 112 710**
Additions		641 392	299 947	1 070 728	-	2 012 067
Transfers between categories		728 132	47 748	(775 880)	-	-
Disposals		-	(2 288)	-	-	(2 288)
Depreciation and amortisation charge	30	(109 049)	(250 413)	-	(274)	(359 736)
Net book amount as at 31 December 2010		**5 203 524**	**763 590**	**5 795 157**	**482**	**11 762 753**
Cost as at 31 December 2010		5 312 573	1 692 120	5 795 157	6 521	12 806 371
Accumulated depreciation and amortisation		(109 049)	(928 530)	-	(6 039)	(1 043 618)
Net book amount as at 31 December 2010		**5 203 524**	**763 590**	**5 795 157**	**482**	**11 762 753**
Additions		539 221	563 817	32 916	5 348	1 141 302
Transfers between categories		5 783 900	1 138	(5 785 038)	-	-
Disposals		(19 714)	(3 924)	-	-	(23 638)
Depreciation and amortisation charge	30	(176 892)	(301 834)	-	(1 059)	(479 785)
Revaluation		1 734 105	-	-	-	1 734 105
Impairment allowance		(228)	-	-	-	(228)
Net book amount as at 31 December 2011		**13 063 916**	**1 022 787**	**43 035**	**4 771**	**14 134 509**
Cost as at 31 December 2011		13 064 144	2 227 842	43 035	11 869	15 346 890
Accumulated depreciation and impairment loss		(228)	(1 205 055)	-	(7 098)	(1 212 381)

Construction in progress mainly consists of construction of head office and refurbishment of branch and outlet premises.

Premises were evaluated as at 31 December 2011 by an independent appraiser. The evaluation was based on the market value and calculations outcome based on discounted cash flow method.

As at 31 December 2011 the carrying value includes revaluation of premises in the total amount of RR 4 182 877 thousand (2010: RR 2 457 517 thousand). The Group has recorded a deferred tax liability of RR 836 574 thousand related to the amount of the revaluation reserve (2010: RR 491 502 thousand).

If premises were recorded at cost less accumulated depreciation, their carrying value as at 31 December 2011 would amount to RR 9 137 042 thousand (2010: RR 2 919 056 thousand).

18 Other Assets

In thousands of Russian Roubles	**2011**	**2010**
Advances on taxes	725 181	8 140
Deferred expenses	606 837	240 391
Receivables and advances	419 960	314 765
Prepaid rent	11 378	8 385
Receivables for fees from customers	21 184	26 338
Other	259 691	45 896
Total other assets	**2 044 231**	**643 915**

Advances and receivables relate to the purchase of new computer software and equipment, as well as prepayments for repair works on existing premises.

Currency and maturity analyses of other assets are disclosed in note 35.

19 Due to Banks

In thousands of Russian Roubles	**2011**	**2010**
Sale and repurchase agreements	14 919 153	868
Term placements of banks	12 178 945	10 045 393
Correspondent accounts of banks	100 797	1 280 132
Total due to banks	**27 198 895**	**11 326 393**

As at 31 December 2011 included in due to banks are sale and repurchase agreements with credit institutions in the amount of RR 13 490 520 thousand. Securities pledged under these sale and repurchase agreements are corporate bonds with fair value of RR 11 660 435 thousand, municipal bonds with fair value of RR 2 930 415 thousand and federal loan bonds (OFZ bond) with fair value of RR 533 521 thousand (2010: none). Refer to note 9.

As at 31 December 2011 included in due to banks are sale and repurchase agreements with credit institutions with securities reclassified in 2008 into loans to customers in the amount of RR 546 165 thousand. Securities pledged under these sale and repurchase agreements are municipal bonds with a carrying value of RR 570 882 thousand (2010: none). Refer to note 12.

As at 31 December 2011 included in due to banks are sale and repurchase agreements with credit institutions with securities reclassified in 2008 into due from banks in the amount of RR 383 388 thousand. Securities pledged under these sale and repurchase agreements are corporate bonds with a carrying value of RR 451 436 thousand (2010: none). Refer to note 11.

As at 31 December 2011 included in due to banks are sale and repurchase agreements with credit institutions collateralised by securities transferred to the Bank under reverse repurchase agreement (without initial recognition) in the amount of RR 499 080 thousand. Securities pledged under these sale and repurchase agreements are corporate bonds with fair value of RR 6 875 thousand and federal loan bonds (OFZ bonds) with fair value of RR 493 795 thousand (2010: none). Refer to note 9.

As at 31 December 2011 there are no sale and repurchase agreements with credit institutions with securities received under purchase and sale agreements included in due to banks (2010: included in due to banks are sale and repurchase agreements with credit institutions with securities received under purchase and sale agreements in the amount of RR 868 thousand).

Currency, maturity and interest rate analyses of due to banks are disclosed in note 35.

20 Customer Accounts

In thousands of Russian Roubles	2011	2010
State and public organisations		
- Current/settlement accounts	674 615	1 698 396
- Term deposits	5 092 584	-
Other legal entities		
- Current/settlement accounts	53 797 251	43 019 597
- Term deposits	81 179 317	74 237 328
- Sale and repurchase agreements	8 499	426 735
Individuals		
- Current/settlement accounts	16 476 921	14 086 230
- Term deposits	69 473 703	58 339 390
Total customer accounts	**226 702 890**	**191 807 676**

State and public organisations exclude government owned profit oriented businesses.

Economic sector concentrations within customer accounts are as follows:

	2011		2010	
In thousands of Russian Roubles	**Amount**	**%**	**Amount**	**%**
Individuals	85 950 624	37.9	72 425 620	37.8
Financial services	37 218 067	16.4	38 088 760	19.9
Construction	29 638 672	13.1	17 867 846	9.3
Production	19 070 446	8.4	15 063 676	7.9
Trade	13 323 867	5.9	14 679 943	7.7
Transport	8 253 627	3.6	6 782 193	3.5
Real estate	7 002 598	3.1	9 528 065	5.0
Art, science and education	6 639 815	2.9	6 911 062	3.6
Cities and municipalities	6 354 329	2.8	1 648 882	0.9
Public utilities	3 628 116	1.6	3 474 745	1.8
Communications	3 590 688	1.6	202 596	0.1
Energy	1 586 784	0.7	706 108	0.4
Medical institutions	494 135	0.2	812 839	0.4
Other	3 951 122	1.8	3 615 341	1.7
Total customer accounts	**226 702 890**	**100.0**	**191 807 676**	**100.0**

As at 31 December 2011, included in customer accounts are sale and repurchase agreements with legal entities in the amount of RR 8 499 thousand (2010: included in customer accounts are sale and repurchase agreements with legal entities in the amount of RR 222 708 thousand). Securities pledged under these sale and repurchase agreements are corporate bonds with the fair value of RR 10 011 thousand (2010: securities pledged under these sale and repurchase agreements are corporate bonds with the fair value of 96 044 thousand and corporate shares with the fair value of RR 158 312 thousand). Refer to note 9.

As at 31 December 2011, there are no sale and repurchase agreements with legal entities on securities received under sale and repurchase agreements with legal entities included in customer accounts (2010: included in customer accounts are sale and repurchase agreements with legal entities on securities received under sale and repurchase agreements with legal entities in the amount of RR 204 027 thousand).

As at 31 December 2011, included in customer accounts are deposits in the amount of RR 2 575 619 thousand held as collateral for irrevocable commitments under import letters of credit (2010: RR 2 842 721 thousand).

Currency and maturity and interest rate analyses of customer accounts are disclosed in note 35. The information on related party balances is disclosed in note 39.

21 Bonds Issued

In thousands of Russian Roubles	2011	2010
Bonds	8 232 277	13 140 130
Subordinated Eurobonds	3 323 247	3 141 864
Total bonds issued	**11 555 524**	**16 281 994**

On 27 September 2011 the Group issued Russian Rouble denominated interest-bearing bonds (one bond – RR 1 000, the bonds were placed at nominal value), in the amount of 5 000 000 items. These bonds have a maturity of 1 092 days, coupon period of 182 days, and the interest rate is set for three coupon periods. As at 31 December 2011, the carrying value of these bonds is RR 5 085 336 thousand with a coupon rate of 7.5% p.a. (2010: the carrying value of these bonds is RR 5 078 837 thousand with a coupon rate of 7.5% p.a.).

On 16 December 2010 the Group issued Russian Rouble denominated interest-bearing bonds (one bond – RR 1 000, the bonds were placed at nominal value), in the amount of 3 000 000 items. These bonds have a maturity of 1 092 days, coupon period of 182 days, and the interest rate is set for four coupon periods. As at 31 December 2011, the carrying value of these bonds is RR 3 004 909 thousand with a coupon rate of 8.5% p.a. (2010: carrying value of these bonds is RR 3 002 752 thousand with the coupon rate of 8.5% p.a.).

On 13 April 2010 the Group issued Russian Rouble denominated interest-bearing bonds (one bond – RR 1 000, the bonds were placed at nominal value), in the amount of 5 000 000 items. These bonds have a maturity of 1 092 days, coupon period of 182 days, and the interest rate is set for three coupon periods. On 13 October 2011 the Bank purchased 4 842 898 securities from a holder of active bonds. As at 31 December 2011, the carrying value of these bonds is RR 142 032 thousand with a coupon rate of 8.3% p.a. (2010: the carrying value of these bonds is RR 5 058 541 thousand with a coupon rate of 8.1% p.a.).

In July 2007 the Group placed 1 000 interest-bearing US Dollar-denominated subordinated Eurobonds (one bond – USD 100 000). The issue was arranged by J.P. Morgan and UBS. The issue was registered on the Irish Stock Exchange. As at 31 December 2011, the carrying value of these bonds is USD 103 219 thousand, the equivalent of RR 3 323 247 thousand (2010: USD 103 090 thousand, the equivalent of RR 3 141 864 thousand). These subordinated Eurobonds have a maturity of 25 July 2017 with an early redemption option at nominal value on 25 July 2012, nominal coupon rate of 10.5% p.a. and effective interest rate of 11.2% p.a.

In the event of liquidation of the Bank, the claims for repayment of subordinated Eurobonds are subordinated to the claims of other creditors and depositors.

Currency and maturity and interest rate analyses of bonds issued are disclosed in note 35.

22 Other Debt Securities in Issue

In thousands of Russian Roubles	2011	2010
Promissory notes	9 349 088	10 354 136
Deposit certificates	7 356	11 094
Total other debt securities in issue	**9 356 444**	**10 365 230**

Currency and maturity and interest rate analyses of other debt securities in issue are disclosed in note 35.

23 Other Borrowed Funds

In thousands of Russian Roubles	2011	2010
Subordinated loans	5 527 834	5 340 358
VTB Bank	3 254 344	1 260 327
EBRD	2 118 734	2 155 308
KFW IPEX-Bank GmbH	483 771	762 614
Nordic Investment Bank	435 275	581 540
Eurasian Development Bank	258 298	304 586
Syndicated loans	-	2 416 993
Amsterdam Trade Bank N.V.	-	299 382
Total other borrowed funds	**12 078 256**	**13 121 108**

In June 2009 the Group attracted a subordinated loan from the European Bank for Reconstruction and Development (“EBRD”) in the amount of USD 75 000 thousand. The loan is granted for the period of 10 years and 6 months, with the option of bullet repayment in 2020. As at 31 December 2011, the carrying value of this loan is USD 78 685 thousand, the equivalent of RR 2 533 349 thousand (2010: USD 78 585 thousand, the equivalent of RR 2 395 032 thousand). Interest rate during the first five years is 13.40%.

In December 2008 the Group attracted a subordinated loan in the amount of EUR 36 690 thousand maturing in December 2014. As at 31 December 2011, the carrying value of this subordinated loan is EUR 36 690 thousand, the equivalent of RR 1 528 924 thousand (2010: EUR 36 690 thousand, the equivalent of RR 1 479 822 thousand). The subordinated loan has a fixed interest rate of 14.50% p.a.

In August 2009 the Group attracted a subordinated loan from Vnesheconombank (VEB) in the amount of RR 1 466 000 thousand maturing in 2014. As at 31 December 2011, the carrying value of this subordinated loan is RR 1 465 561 thousand (2010: RR 1 465 504 thousand). The subordinated loan had an initial interest rate of 8.0% p.a. In August 2010 the interest rate was decreased to 6.50% p.a.

In the event of liquidation of the Bank, the claims for repayment of subordinated loans are subordinated to the claims of all other creditors and depositors.

On 22 February 2011 the Group attracted a loan from VTB Bank (France) to finance trade contracts of clients in the amount of USD 20 000 thousand. The loan with the interest rate of LIBOR + 4.25% p.a. matures on 20 February 2013. As at 31 December 2011, the carrying value of this loan is USD 20 349 thousand, the equivalent of RR 655 172 thousand. As at 31 December 2011 the interest rate is 4.710% p.a.

On 17 August 2011 the Group attracted a loan from VTB Bank (France) to finance trade contracts of clients in the amount of USD 20 000 thousand. The loan with the interest rate of LIBOR + 3.95% p.a. matures on 16 August 2013. As at 31 December 2011, the carrying value of this loan is USD 20 332 thousand, the equivalent of RR 654 618 thousand. As at 31 December 2011 the interest rate is 4.410% p.a.

On 15 December 2010 the Group attracted a loan from VTB Bank (Deutschland) AG to finance trade contracts of clients in the amount of USD 20 000 thousand. The loan with the interest rate of LIBOR + 4.25% p.a. matures on 16 January 2013. As at 31 December 2011, the carrying value of this loan is USD 20 188 thousand, the equivalent of RR 649 990 thousand (2010: USD 20 039 thousand, the equivalent of RR 610 717 thousand). As at 31 December 2011 the interest rate is 4.651% p.a.

23 Other Borrowed Funds (continued)

On 27 July 2011 the Group attracted a loan from VTB Bank (Deutschland) to finance trade contracts of clients in the amount of USD 20 000 thousand. The loan with the interest rate of LIBOR + 3.5% p.a. matures on 25 January 2013. As at 31 December 2011, the carrying value of this loan is USD 20 140 thousand, the equivalent of RR 648 416 thousand. As at 31 December 2011 the interest rate is 3.922% p.a.

On 29 August 2011 the Group attracted a loan from VTB Bank (Deutschland) to finance trade contracts of clients in the amount of USD 20 000 thousand. The loan with the interest rate of LIBOR + 3.5% p.a. matures on 27 February 2013. As at 31 December 2011, the carrying value of this loan is USD 20 069 thousand, the equivalent of RR 646 148 thousand. As at 31 December 2011 the interest rate is 4.018% p.a.

On 24 January 2011 the Group repaid a loan from VTB Bank (France) to finance trade contracts of clients in the amount of USD 20 000 thousand with the interest rate of LIBOR + 6.0% p.a. As at 31 December 2010, the carrying value of this loan was USD 21 135 thousand, the equivalent of RR 649 610 thousand. As at repayment date the interest rate was 6.880% p.a.

On 14 December 2010 the Group attracted a loan from the EBRD to finance small and medium enterprises in the amount of USD 65 000 thousand with contractual maturity till March 2014. As at 31 December 2011, the carrying value of this loan was USD 65 807 thousand, the equivalent of RR 2 118 734 thousand (2010: USD 64 687 thousand, the equivalent of RR 1 971 473 thousand). The fixed interest rate is 5.55% p.a.

In November 2011 the Group repaid in full a loan from the EBRD to finance small and medium enterprises. The loan was granted in three tranches in the amount of USD 10 000 thousand each with the interest rate of LIBOR + 2.8% p.a. The Group started the scheduled redemption in November 2008. As at 31 December 2010, the carrying value of this loan was USD 6 032 thousand, the equivalent of RR 183 835 thousand. As at repayment date the interest rate was 3.232% p.a.

On 16 July 2008 the Group attracted a loan from KFW IPEX-Bank GmbH in the amount of USD 35 000 thousand with maturity in June 2013. The Group started the scheduled redemption and as at 31 December 2011 USD 20 000 thousand of the principal debt was redeemed. As at 31 December 2011, the carrying value of this loan is USD 15 026 thousand, the equivalent of RR 483 771 thousand (2010: USD 25 023 thousand, the equivalent of RR 762 614 thousand). The initial interest rate on this loan was LIBOR + 6.12%, but later it was fixed at 9.987% p.a. for the whole loan period.

On 6 September 2007 and 20 November 2007 the Group attracted four tranches of a credit facility provided by Nordic Investment Bank. The Group used the amount to fund certain projects. The Group started the scheduled redemption of the loan. The loan maturity date is on 3 October 2015. As at 31 December 2011 USD 15 137 thousand of the principal debt was redeemed. As at 31 December 2011, the carrying value of this loan is USD 13 519 thousand, the equivalent of RR 435 275 thousand (2010: USD 19 081 thousand, the equivalent of RR 581 540 thousand). The interest rate on the loan ranges from LIBOR + 2.6% p.a. to LIBOR + 2.95% p.a., depending on maturity dates of the tranches. As at 31 December 2011 the interest rates on the loan ranged from 3.404% to 3.504% p.a.

On 9 December 2011 the Group attracted a loan from the Eurasian Development Bank (“EDB”) to finance trade contracts of clients in the amount of USD 8 000 thousand. The loan maturity date is on 7 December 2012. As at 31 December 2011, the carrying value of this loan was USD 8 023 thousand, the equivalent of RR 258 298 thousand. The interest rate on this loan is LIBOR + 4.0% p.a. and as at 31 December 2011 the interest rate is 4.760% p.a.

On 23 December 2011 the Group repaid a loan from the EDB to finance trade contracts of clients in the amount of USD 10 000 thousand with the interest rate of 4.75% p.a. As at 31 December 2010, the carrying value of this loan was USD 9 994 thousand, the equivalent of RR 304 586 thousand. As at repayment date the interest rate was 3.108% p.a.

23 Other Borrowed Funds (continued)

On 23 December 2011 the Group repaid in full the remaining part of a syndicated loan in the amount of USD 100 000 thousand arranged by the EBRD in 2 tranches. The participants of this syndicated loan were 14 non-resident banks. As at 31 December 2010, the carrying value of this loan was USD 24 896 thousand, the equivalent of RR 758 749 thousand. As at repayment date the interest rate was 3.845% p.a.

On 25 August 2011 the Group repaid a syndicated loan in the amount of USD 55 000 thousand from a group of banks to finance trade contracts of clients. This loan was arranged by Commerzbank Aktiengesellschaft and VTB Bank (Deutschland) AG. As at 31 December 2010 the carrying value of this loan was USD 54 410 thousand, the equivalent of RR 1 658 244 thousand. As at repayment date the interest rate was 3.060% p.a.

On 16 December 2011 the Group repaid a loan attracted from Amsterdam Trade Bank N.V. on 17 December 2010 to finance trade contracts of clients in the amount of USD 10 000 thousand and interest rate of LIBOR + 2.8% p.a. As at 31 December 2010, the carrying value of this loan was USD 9 823 thousand, the equivalent of RR 299 382 thousand. As at repayment date the interest rate was 3.158% p.a.

The Group shall observe certain covenants attached to syndicated loans, subordinated loans and funds from EBRD, KFW IPEX-Bank GmbH, Nordic Investment Bank, EDB, VTB Bank (Deutschland) AG, VTB Bank (France). Non-compliance with such covenants may result in negative consequences for the Group including an increase in the cost of borrowings and declaration of default (except for subordinated loans). As at 31 December 2011 and 31 December 2010, the Group fully meets all covenants of the loan agreements.

Currency and maturity analyses of other borrowed funds are disclosed in note 35. The information on related party balances is disclosed in note 39.

24 Other Financial Liabilities

Other financial liabilities comprise the following:

In thousands of Russian Roubles	Note	2011	2010
Fair value of derivative financial instruments		929 517	342 450
Allowance for credit related commitments	37	191 003	85 743
Plastic card payables		22 838	23 399
Fair value of guarantees and import letters of credit		14 289	22 637
Other		255	-
Total other financial liabilities		**1 157 902**	**474 229**

Analysis of movements in the allowance for credit related commitments during 2011 and 2010 is as follows:

In thousands of Russian Roubles	2011	2010
Allowance at 1 January	**85 743**	**146 461**
Impairment (recovery of impairment) of credit related commitments during the year	105 260	(60 718)
Allowance at 31 December	**191 003**	**85 743**

Currency and maturity analyses of other financial liabilities are disclosed in note 35.

25 Other Liabilities

In thousands of Russian Roubles	Note	2011	2010
Commitments to employees		371 507	259 270
Payables		147 081	3 124
Taxes payable		133 118	78 326
Dividends payable	33	3 367	4 149
Other		172 775	186 766
Total other liabilities		**827 848**	**531 635**

Currency and maturity analyses of other liabilities are disclosed in note 35.

26 Share Capital

In thousands of Russian Roubles	Number of outstanding ordinary shares (thousand)	Number of outstanding preference shares (thousand)	Ordinary shares	Preference shares	Share premium	Total
As at 1 January 2010	**282 150**	**85 311**	**3 386 879**	**242 662**	**15 744 164**	**19 373 705**
New shares issued	-	-	-	-	-	**-**
As at 31 December 2010	**282 150**	**85 311**	**3 386 879**	**242 662**	**15 744 164**	**19 373 705**
New shares issued	18 569	-	18 569	-	2 704 751	**2 723 320**
As at 31 December 2011	**300 719**	**85 311**	**3 405 448**	**242 662**	**18 448 915**	**22 097 025**

As at 31 December 2011 the nominal registered amount of issued share capital prior to restatement of capital contributions made before 1 January 2003 to the purchasing power of the Russian Rouble at 31 December 2002, is RR 386 030 thousand (2010: RR 367 461 thousand). As at 31 December 2011, all of the outstanding shares are authorised, issued and fully paid in.

All ordinary shares have a nominal value of RR 1 per share (2010: RR 1 per share). Each share carries one vote.

As at 31 December 2011, the Group has two types of preference shares:

- preference shares with a nominal value of RR 1 (one) in the amount of 20 100 000 (twenty million one hundred thousand)

- type A preference shares with a nominal value of RR 1 (one) in the amount of 65 211 000 (sixty five million two hundred eleven thousand).

All preference shares carry no voting rights and are non-redeemable.

Preference share dividends are set at 11.0% p.a. and rank above type A preference and ordinary shares.

Dividend per one type A preference share is Rouble denominated and is set at 13.5% of the placement price of one type A preference share fixed in US dollars. The Rouble equivalent is calculated using the exchange rate set by the CBRF as at the date the Supervisory Board accepts recommendations in respect of the amount of dividends on type A preference shares.

One type A preference share with a nominal value of RR 1 (one) is convertible into one ordinary share with a nominal value of RR 1 (one) on 15 May 2013.

If shareholders do not declare dividends on preference shares, the holders of preference shares are entitled to voting rights similar to ordinary shareholders until the dividends are paid. Preference shares of all types are not cumulative.

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

27 Other Comprehensive Income (Loss) Recognized in Equity

The analysis of other comprehensive income by separate items of each component of equity is as follows:

In thousands of Russian Roubles	Note	Revaluation reserve for premises	Revaluation reserve for investment securities available-for-sale	Total comprehensive income (loss)
Year ended 31 December 2010				
Loss from revaluation of investment securities available-for-sale		-	(7 605)	**(7 605)**
Deferred income tax recognised directly in other comprehensive income	31	-	1 521	**1 521**
Total other comprehensive loss		**-**	**(6 084)**	**(6 084)**
Year ended 31 December 2011				
Income from revaluation of premises and equipment		1 734 105	-	**1 734 105**
Income from revaluation of investment securities available-for-sale		-	2 739 633	**2 739 633**
Deferred income tax recognised directly in other comprehensive income	31	(346 821)	(483 519)	**(830 340)**
Total other comprehensive income		**1 387 284**	**2 256 114**	**3 643 398**

28 Interest Income and Expense

In thousands of Russian Roubles	2011	2010
Interest income		
Loans and advances to customers	21 954 530	21 189 034
Trading securities	3 311 357	2 636 753
Sale and repurchase agreements	259 688	200 181
Due from banks	190 321	162 970
Correspondent accounts with banks	48 795	49 796
Investment securities held-to-maturity	12 414	21 033
Total interest income	**25 777 105**	**24 259 767**
Interest expense		
Term deposits of legal entities	4 587 313	4 766 923
Term deposits of individuals	3 745 145	4 469 733
Bonds issued	1 284 808	729 430
Other borrowed funds	1 021 153	956 554
Due to banks	785 991	612 901
Other debt securities in issue	590 348	555 830
Current/settlement accounts	142 420	143 968
Total interest expense	**12 157 178**	**12 235 339**
Net interest income	**13 619 927**	**12 024 428**

29 Fee and Commission Income and Expense

In thousands of Russian Roubles	2011	2010
Fee and commission income		
Settlement transactions	822 282	793 874
Plastic cards and cheque settlements	597 094	489 897
Guarantees and letters of credit issued	645 350	371 405
Cash transactions	195 713	204 611
Cash collections	112 162	97 816
Foreign exchange transactions	30 141	22 704
Custody operations	20 453	19 033
Underwriting transactions	85	1 135
Other	8 742	6 710
Total fee and commission income	**2 432 022**	**2 007 185**
Fee and commission expense		
Plastic cards and cheque settlements	165 318	94 459
Guarantees and letters of credit	81 082	85 351
Settlement transactions	80 158	56 612
Securities	22 309	20 595
Foreign exchange transactions	9 873	6 548
Banknote transactions	4 229	4 914
Other	17 419	23 581
Total fee and commission expense	**380 388**	**292 060**
Net fee and commission income	**2 051 634**	**1 715 125**

Information on related party transactions is disclosed in note 39.

30 Administrative and Other Operating Expenses

In thousands of Russian Roubles	Note	2011	2010
Staff costs		2 944 456	2 154 180
Depreciation and amortisation of premises, equipment and intangible assets	17	479 785	359 736
Taxes other than on income		450 535	258 874
Other costs, related to premises and equipment		380 591	206 347
Contributions to deposits insurance system		297 363	255 068
Rent expenses		232 559	258 016
Transportation costs		209 329	154 110
Security expenses		171 405	160 194
Postal, cable and telecommunication expenses		91 807	88 879
Advertising and marketing services		79 392	43 441
Professional services		19 837	19 311
Charity expenses		13 022	10 392
Other administrative expenses		757 239	481 604
Total administrative and other operating expenses		**6 127 320**	**4 450 152**

31 Income Taxes

Income tax expense comprises the following:

In thousands of Russian Roubles	**2011**	**2010**
Current tax	931 734	934 769
Deferred tax	469 910	87 503
Income tax expense for the year	**1 401 644**	**1 022 272**

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

In thousands of Russian Roubles	**2011**	**2010**
Profit in accordance with IFRS before tax	**7 287 126**	**5 136 971**
Tax charge at statutory rate	1 457 425	1 027 394
- Non deductible expenses	142 286	62 389
- Income tax recovery in the current reporting period and related to the prior reporting period	(136 223)	(51 968)
- Income on government securities taxed at different rates	(61 844)	(15 543)
Income tax expense for the year	**1 401 644**	**1 022 272**

Differences between IFRS and Russian statutory taxation regulations give rise to temporary differences between the carrying amount of assets and liabilities for IFRS financial reporting purposes and their income tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 20% (2010: 20%), except for income on state securities which is taxed at 15% (2010: 15%).

31 Income Taxes (continued)

In thousands of Russian Roubles	31 December 2010	Charged to profit or loss	Charged directly to equity	31 December 2011
Tax effect of deductible temporary differences				
Provision for loan impairment	7 402	70 195	-	77 597
Accrued income/expense	384 620	(83 095)	-	301 525
Valuation of trading and other securities at fair value	140 319	44 532	-	184 851
Valuation of bonds issued at amortised cost	46 861	(11 099)	-	35 762
Valuation of other borrowed funds at amortised cost	15 592	21 085	-	36 677
Valuation of investment securities held-to-maturity at amortised cost	2 336	(1 395)	-	941
Valuation of due from banks at amortised cost	4 836	(4 193)	-	643
Other	267 733	(56 155)	-	211 578
Total deferred tax assets	**869 699**	**(20 125)**	**-**	**849 574**
Less offsetting with deferred tax liabilities	(650 083)	(147 229)	-	(797 312)
Recognised deferred tax asset	**219 616**	**(167 354)**	**-**	**52 262**
Tax effect of taxable temporary differences				
Premises and equipment	(642 923)	(303 853)	(346 821)	(1 293 597)
Valuation of trading and other securities at fair value	-	(6 586)	(483 519)	(490 105)
Other	(7 160)	(139 346)	-	(146 506)
Total deferred tax liabilities	**(650 083)**	**(449 785)**	**(830 340)**	**(1 930 208)**
Less offsetting with deferred tax assets	650 083	147 229	-	797 312
Recognised deferred tax liability	**-**	**(302 556)**	**(830 340)**	**(1 132 896)**

31 Income Taxes (continued)

In thousands of Russian Roubles	31 December 2009	Charged to profit or loss	Charged directly to equity	31 December 2010
Tax effect of deductible temporary differences				
Provision for loan impairment	458 737	(451 335)	-	7 402
Accrued income/expense	271 776	112 844	-	384 620
Valuation of trading and other securities at fair value	-	138 798	1 521	140 319
Valuation of bonds issued at amortised cost	17 832	29 029	-	46 861
Valuation of other borrowed funds at amortised cost	28 908	(13 316)	-	15 592
Valuation of investment securities held-to-maturity at amortised cost	2 403	(67)	-	2 336
Valuation of due from banks at amortised cost	12 638	(7 802)	-	4 836
Other	257 173	10 560	-	267 733
Total deferred tax assets	**1 049 467**	**(181 289)**	**1 521**	**869 699**
Less offsetting with deferred tax liabilities	(743 869)	95 307	(1 521)	(650 083)
Recognised deferred tax asset	**305 598**	**(85 982)**	**-**	**219 616**
Tax effect of taxable temporary differences				
Premises and equipment	(620 242)	(22 681)	-	(642 923)
Valuation of trading and other securities at fair value	(120 433)	120 433	-	-
Other	(3 194)	(3 966)	-	(7 160)
Total deferred tax liabilities	**(743 869)**	**93 786**	**-**	**(650 083)**
Less offsetting with deferred tax assets	743 869	(95 307)	1 521	650 083
Recognised deferred tax liability	**-**	**(1 521)**	**1 521**	**-**

32 Earnings per Share

Basic earnings per share are calculated by dividing the net profit attributable to the shareholders by the weighted average number of ordinary shares in issue during the year less treasury stock.

The Group has potentially dilutive type A preference shares. Refer to note 26.

Basic earnings per share are calculated as follows:

In thousands of Russian Roubles	2011	2010
Profit attributable to shareholders	5 885 482	4 114 699
Less preference dividends	(762 571)	(797 918)
Profit attributable to ordinary shareholders of the Bank	**5 122 911**	**3 316 781**
Weighted average number of ordinary shares in issue (thousands)	285 508	282 150
Basic earnings per share (expressed in RR per share)	**17.94**	**11.76**

32 Earnings per Share (continued)

Diluted earnings per share are calculated as follows:

In thousands of Russian Roubles	2011	2010
Profit attributable to shareholders	5 885 482	4 114 699
Less preference dividends	(2 211)	(797 918)
Profit attributable to ordinary shareholders of the Bank	**5 883 271**	**3 316 781**
Average weighted diluted number of shares (thousands)	350 719	282 150
Diluted earnings per share (expressed in RR per share)	**16.78**	**11.76**

Potential ordinary shares are treated as dilutive only when their conversion to ordinary shares would decrease earnings per share or increase loss per share.

33 Dividends

	2011			**2010**		
In thousands of Russian Roubles	**Ordinary**	**Preference, type A**	**Preference**	**Ordinary**	**Preference, type A**	**Preference**
Dividends payable as at 1 January	**4 149**	**-**	**-**	**3 524**	**-**	**-**
Dividends declared during the year	31 037	760 360	2 211	31 037	795 707	2 211
Dividends paid during the year	(31 819)	(760 360)	(2 211)	(30 412)	(795 707)	(2 211)
Dividends payable as at 31 December	**3 367**	**-**	**-**	**4 149**	**-**	**-**
Dividends per share declared during the year (RR per share)	**0.11**	**11.66**	**0.11**	**0.11**	**12.20**	**0.11**

All dividends are declared and paid in Russian Roubles.

34 Segment Analysis

An operating segment is a component of a Group that engages in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the 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. The Management Board performs the responsibilities of the chief operating decision maker.

34 Segment Analysis (continued)

Description of products and services that constitute sources of revenues of the reporting segments

The Group is organised on a basis of three main business segments:

- Corporate banking – settlement and current accounts, deposits, overdrafts, loans and other credit facilities, foreign currency transactions with commercial and state entities.
- Operations on financial markets – financial instruments trading, loans and deposits on the interbank market, dealing in foreign exchange and derivative financial instruments.
- Retail banking – private banking services, private customer current accounts, deposits, retail investment products, custody, credit and debit cards, consumer loans, mortgages and other loans to individuals and VIP clients.

Transactions between the business segments are on normal commercial terms and conditions. Funds are ordinarily reallocated between segments, resulting in funding cost transfers disclosed in operating income/expense. Interest charged for these funds is based on market interest rates. There are no other material items of income or expense between the business segments. Segment assets and liabilities comprise operating assets and liabilities, being the majority of assets and liabilities of the Group, but excluding some premises, equipment and intangible assets, long-term assets held-for-sale, investment property, other assets and liabilities and balances on taxation settlements. Internal charges and transfer pricing adjustments are reflected in the performance of each business segment.

Factors used by management to define reporting segments

The Group's segments are strategic business units that offer different products and services for different clients. They are managed separately because they require different technology and marketing strategies and level of service.

Evaluation of profit or loss, assets and liabilities of operating segments

The Management Board analyses the financial information prepared in accordance with the requirements of Russian accounting standards. This financial information differs in some aspects from the information prepared in accordance with IFRS:

(i) resources are usually redistributed among segments using internal interest rates set by the Treasury department. These interest rates are calculated based on the basic market interest rates, contractual maturity dates and observable actual maturity dates of customer accounts balances

(ii) differences in the classification of securities to portfolios

(iii) income tax is not distributed to segments

(iv) provision for loan impairment are recognized based on Russian legislation, and not on the basis of the model of "incurred losses" specified in IAS 39

(v) fee and commission income on lending operations is recognized immediately and not in the future periods using the effective interest rate method

(vi) liabilities on unutilized leaves are not taken into account.

The Management Board evaluates the business segment results based on the amount of profit before taxes paid.

34 Segment Analysis (continued)

Information on profit or loss, assets and liabilities of reporting segments

Segment information for the main reporting business segments for the years ended 31 December 2011 and 31 December 2010 is set out below (in accordance with the management information).

In thousands of Russian Roubles	Corporate banking	Operations on financial markets	Retail banking	Unallocated	Eliminations	Total
2011						
External revenues	20 668 455	3 854 502	2 556 992	-	-	**27 079 949**
Revenues from other segments	7 205 579	19 872 739	4 583 728	-	(31 662 046)	**-**
Total revenues	**27 874 034**	**23 727 241**	**7 140 720**	**-**	**(31 662 046)**	**27 079 949**
Total revenues comprise:						
- Interest income	26 119 477	23 642 308	6 315 183	-	(31 662 046)	24 414 922
- Fee and commission income	1 622 552	23 231	813 254	-	-	2 459 037
- Other operating income	132 006	61 702	12 283	-	-	205 991
Segment results	**(467 300)**	**8 666 407**	**678 643**	**-**	**-**	**8 877 750**
Unallocated costs	-	-	-	(3 270 320)	-	(3 270 320)
Profit before tax						**5 607 430**
Income tax expense	-	-	-	(1 294 522)	-	(1 294 522)
(Loss) profit	**(467 300)**	**8 666 407**	**678 643**	**(4 564 842)**	**-**	**4 312 908**
Segment assets	**190 545 597**	**86 898 548**	**21 805 251**	**46 237 381**	**-**	**345 486 777**
Other segment items						
Depreciation and amortization charge	(83 196)	(18 469)	(63 757)	(186 248)	-	(351 670)
(Provision for loan impairment) recovery of provision	(3 990 799)	(399)	160 747	-	-	(3 830 451)

34 Segment Analysis (continued)

In thousands of Russian Roubles	Corporate banking	Operations on financial markets	Retail banking	Unallocated	Eliminations	Total
2010						
External revenues	20 601 428	3 598 398	2 082 210	-	-	**26 282 036**
Revenues from other segments	7 910 140	20 656 013	5 236 284	-	(33 802 437)	**-**
Total revenues	**28 511 568**	**24 254 411**	**7 318 494**	**-**	**(33 802 437)**	**26 282 036**
Total revenues comprise:						
- Interest income	26 947 394	24 166 218	6 666 103	-	(33 802 437)	23 977 278
- Fee and commission income	1 513 180	20 032	647 711	-	-	2 180 923
- Other operating income	50 994	68 161	4 680	-	-	123 835
Segment results	**(3 586 788)**	**8 724 405**	**(288 620)**	**-**	**-**	**4 848 997**
Unallocated costs	-	-	-	(2 231 413)	-	(2 231 413)
Profit before tax						**2 617 584**
Income tax expense	-	-	-	(773 445)	-	(773 445)
(Loss) profit	**(3 586 788)**	**8 724 405**	**(288 620)**	**(3 004 858)**	**-**	**1 844 139**
Segment assets	**167 089 040**	**69 561 524**	**19 292 152**	**35 178 176**	**-**	**291 120 892**
Other segment items						
Depreciation and amortization charge	(67 302)	(18 291)	(53 434)	(137 527)	-	(276 554)
(Provision for loan impairment) Recovery of provision	(7 003 847)	13 391	(443 526)	-	-	(7 433 982)

A reconciliation of segment information with IFRS assets as at 31 December 2011 and 31 December 2010 is set out below:

In thousands of Russian Roubles	2011	2010
Total segment assets	**345 486 777**	**291 120 892**
Adjustment of allowance for impairment	(21 591 570)	(19 669 334)
Adjustments of income / expense accruals	1 355 928	211 391
Premises, equipment and intangible assets depreciation and fair value adjustment	1 548 024	(737 896)
Fair value and amortized cost adjustments	3 194 254	435 371
Income tax adjustments	543 455	219 616
Elimination of assets additionally recognized in management accounting	(1 762 722)	(192 310)
Other adjustments	1 259 312	1 220 969
Total assets under IFRS	**330 033 458**	**272 608 699**

34 Segment Analysis (continued)

A reconciliation of segment information with IFRS profit before tax for the years ended 31 December 2011 and 31 December 2010 is set out below:

In thousands of Russian Roubles	2011	2010
Total segment profit before tax	**5 607 430**	**2 617 584**
Adjustment of provision for loan impairment	1 007 998	3 016 069
Adjustments of income / expense accruals	(389 636)	(103 966)
Premises, equipment and intangible assets depreciation, amortisation and fair value adjustment	873 003	116 387
Fair value and amortized cost adjustments	111 850	(520 265)
Other adjustments	76 481	11 162
Total profit before tax under IFRS	**7 287 126**	**5 136 971**

Geographical information. The major part of the Group’s activity is concentrated in the North-West region of the Russian Federation. Activity is also carried out in Moscow and the Privolzhsky regions.

There are no customers (groups of related customers) with income from operations which exceed 10% of total income from operations with the external parties of the Group.

35 Financial Risk Management

The risk management function is carried out in respect of financial risks (credit, market, geographical, currency, liquidity and interest rate), operational risks and legal risks.

The primary objectives of the financial risk management function are to establish and ensure compliance with risk limits and other risk restrictions. Geographical risk management includes making decisions about opening new branches and outlets and setting limits for operations with counterparties – residents of countries with different levels of economic development with due consideration of geographical risk factors. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimise operational and legal risks.

Risk management includes establishment, implementation and monitoring of financial risk management policies and procedures to be further updated depending on changes in the macroeconomic situation, current conditions of the banking system in the Russian Federation, economic performance of clients (principally – depositors and borrowers) and regulatory changes.

According to the Development strategy for 2011-2014 adopted in 2010, significant attention is paid to the development of financial risk management system. The projects implemented by the Bank in 2011 in compliance with the strategy are as follows:

1. Implementation of internal rating system for corporate borrowers
2. Implementation of scoring evaluation system for non-collateralized consumer loans to individuals
3. Realization of the first stage of the project on evaluation of the credit risk of the borrower in pricing loan products
4. Preparation of methodological base for economic capital measurement in order to establish efficient management system based on economic added value.

35 Financial Risk Management (continued)

The main bodies performing the financial risk management functions are the Supervisory Board, Management Board, Asset and Liability Management Committee, Large Credit Committee, and the Corporate and Retail Credit Committee.

The Supervisory Board is responsible for consideration of risk at the strategic level, i.e. it determines the level of risk the Bank may accept to achieve the desired level of profit. Accordingly, the Supervisory Board establishes benchmarks which determine the Bank's risk limits. The Supervisory Board reviews on a regular basis the reports submitted by management on implementation of the development plan together with the report on implementation of business indicators of the corporate plan for the current year. The Audit Committee attached to the Supervisory Board evaluates the efficiency of actual internal control procedures and risk management procedures based on the analysis of reports submitted by Internal Control Department. The Supervisory Board approves the Risk Management Policy, the compliance with which is supervised by reviews and approvals of quarterly risk management reports. Quarterly reports of the Banking Risks Department describe the risk position, both at the consolidated level and exposure to specific risks, as well as suggestions concerning further development of the financial risk management system.

The Management Board is responsible for overall organization of the financial risk management system. The Management Board makes decisions on the risks that may be accepted by the Group.

The Asset and Liability Management Committee is responsible for day-to-day financial risk management (except for credit risk). The Asset and Liability Management Committee holds weekly meetings.

The Asset and Liability Management Committee adopts resolutions for management of the statement of financial position structure and the related liquidity risks, and on determining and changing market risk limits and interest rate risk limits. The Asset and Liability Management Committee coordinates the main principles and procedures of financial risk management (except for credit risk) and has the right to make decisions on financial risk management in case of emergency.

The Technical Policy Committee reviews management of operational risks, associated with information technologies and the IT infrastructure of the Bank.

The Banking Risks Department is responsible for the compliance with the Risk Management Policy, monitoring exposure levels, initiating the development of methods of assessment of current risk levels, management procedures for these risks, compliance by divisions with existing procedures and limits restricting the level of these risks. The Banking Risks Department coordinates the management of operational and legal risks and manages financial risks (except for interest risk).

The Management Board, Large Credit Committee, Corporate and Retail Credit Committee, and Small Credit Committees of the branch subdivisions are responsible for making decisions on management of credit risks. The Management Board approves the Credit Policy annually. The Large Credit Committee adopts resolutions on credit risk-related transactions of the largest corporate customers. Corporate and Retail Credit Committee and Small Credit Committees of the branches adopt resolutions on credit risk-related transactions of the corporate and retail customers.

Current management of credit risk is mostly performed by its specialized subdivision, the Credit Risk Division, exercising operational control over credit risk levels.

The management of the bad debts is separate from the business subdivision.

Credit risk. The Group is exposed to credit risk which is the risk that a borrower will be unable to pay principal debt and interest in full when due under the credit agreement.

The Group considers credit risk to include all financial assets recognized in the consolidated statement of financial position except for assets deposited in the CBRF.

35 Financial Risk Management (continued)

The approach of the Group to credit risk management is defined in the Credit Policy. The Credit Policy is aimed at formulation of the main principles of credit transactions and credit risk, providing for implementation of the aims and goals of the Group strategy concerning the structure, volume and quality of loan portfolio.

Risk management tools

To maintain credit risks at an appropriate level the Group uses the following *risk management tools.*

For separate borrowers:

- assessment of the borrowers' financial positions at the moment of the loan application and during ongoing loan monitoring
- assessment of credit risk and formation of loan impairment allowance in the amount of possible losses from the transaction
- structuring of credit transactions in compliance with the requirements of the Group
- evaluation of the market value of the collateral for a loan and evaluation of financial position and creditworthiness of guarantors
- control over availability and integrity of the collateral, both preliminary (before the collateral agreement is concluded) and subsequent control within the agreement term
- inquiry for credit reports from credit history bureau (CHB) and taking the information from CHB into consideration during the analysis of loan application
- for credit operation with individuals, implying scoring evaluation of creditworthiness of the borrower – consider scoring grade during the analysis of loan application
- for credit operation with legal entities – consider the internal credit rating of the borrower during the analysis of loan application
- for credit transactions with financial institutions – assessment of financial position and credit risk of the counterparty during estimation of limits for the counterparty
- when setting limits on operations with securities, which bear credit risk – assessment of financial position and credit risk of the issuer of securities
- control over meeting the requirements of the Credit Policy for setting the authorities on decision making in respect of credit operation, and control over the reflection of terms of credit operations in the loan agreement or other agreements, as approved by the collegial authorities or officials
- control over timely performance of the borrowers' obligations to the Bank stipulated by the credit agreements
- insurance of the collateral.

For the loan portfolio in general:

- establishment of authorities for collegial authorities and officials
- establishment and control over the limits of credit risk
- control over covenants established by the separate agreements with the lenders.

35 Financial Risk Management (continued)

Reporting forms

Management controls credit risks and the loan portfolio quality based on the following *reporting forms*:

Daily reports which form the basis for management decisions and are submitted to the Credit Risk Department Director and the Deputy Chairman of the Management Board responsible for banking risks:

- changes in the categories of loans in the loan portfolio
- calculation of actual debt per one borrower and group of related borrowers.

Weekly and monthly reports submitted for the purposes of meetings of the Corporate and Retail Committee, Large Credit Committee, Asset and Liability Management Committee, Management Board and Supervisory Board:

- calculation of covenants (established by the separate agreements with the borrowers)
- analysis of the loans issued by branches and outlets
- movement of loans (analysed by the loans issued, rolled-over, overdue or repaid)
- performance in terms of credit products issued to individuals and legal entities.

Decision to grant loans

For credit risk management purposes the Bank adopts a collegial decision-making system for granting loans (except for standard loans granted to individuals under the adopted programs). The branches and the head office have Small Credit Committees, which grant loans within the established limits. The limits of authority of the Small Credit Committees in branches and outlets are determined on the basis of their credit performance in the previous year, the structure and quality of their loan portfolios and qualifications of the employees by subdivision. The specific limits are determined in the Credit Policy.

Decisions on loans above the limits of authority of Small Credit Committees is taken by the Corporate and Retail Committee if the client is not related to the largest corporate clients or by the Large Credit Committee if the client relates to the largest corporate clients. Decisions on loans above the limits of authority of the Large Credit Committee are taken by the Management Board.

The loans to the borrowers related to the Group are granted with prior consent of the Supervisory Board.

Limits for credit risk management purposes

1. Limits for separate borrowers and a group of related borrowers.

When establishing limits for groups of borrowers, the Group takes into account both the requirements of Russian regulatory authorities and those of global financial institutions that are the Group’s creditors.

The Group establishes individual limits in respect of borrowers and groups of related borrowers. When establishing a limit the Group takes into account all information available. When establishing an individual limit, the Group performs comprehensive analysis of the financial statements, cash flows, available credit history of each borrower in a group of related borrowers, the needs of the group of related borrowers for credit resources, as well as availability of loan repayment sources. The Group also takes into account the property pledged as collateral for the loan.

35 Financial Risk Management (continued)

2. Overall loan portfolio limits.

- the cumulative credit risk exposure to a separate borrower or a group of related borrowers should not exceed 20% of capital, estimated in compliance with the recommendations provided by the Basel Committee on Banking Supervision (Basel I)

- the amount of loans and advances to borrowers related to the Bank should not exceed 15% of capital, estimated in compliance with the recommendations provided by the Basel Committee on Banking Supervision (Basel I)

- the ratio of the maximum aggregate risk in any economic sector (except for the real estate and construction sector) to the cumulative loan portfolio should be less than 20%

- the ratio of the maximum aggregate risk in the real estate and construction sector to the cumulative loan portfolio should be less than 23%

- loans overdue more than 60 days and restructured loans less provision for loan impairment should not exceed 25% of Bank’s Tier I capital estimated in compliance with the recommendations provided by the Basel Committee on Banking Supervision (Basel I).

The Credit Policy is consistent for unrecognised financial instruments and recognised financial instruments. The Credit Policy establishes unified procedures of transaction approvals, risk mitigating limits and monitoring procedures. The borrower is entitled to use any products supporting the use of unrecognised financial instruments for lending (guarantees, unsecured letters of credit, credit facilities, (etc.) within established limits.

The Bank uses the system of limits restricting the maximum debt of counterparty banks and financial companies when conducting transactions on the interbank lending market and performing purchase and sale of financial assets, including term currency operations when the counterparty bears the credit risk in settlements. The respective limits are established for each credit institution and financial company on the basis of a credit quality analysis performed by Large Credit Committee within its scope and the Management Board. The limits established for resident banks are subject to review at least each quarter. The limits established for non-resident banks are subject to review at least semi-annually.

Geographical risk. Geographical risk is almost fully defined by the country risk of the Russian Federation. The exposure to geographical risk of other countries is limited since substantially all assets and liabilities are concentrated in the Russian Federation.

Saint Petersburg is the largest center of North-Western part of the Russian Federation with a diversified economy. This is why the historic business concentration on providing services to individuals and legal entities in Saint Petersburg is an advantage for the Group.

Market risks. The Group is exposed to the market risks arising from open positions in interest rate, currency and equity instruments that are exposed to general and specific market movements. These are defined as.

- currency risk - risk of losses due to exchange rate fluctuations

- interest rate risk - risk of losses due to fluctuations of market interest rates

- other price (equity) risk - risk of losses due to movements in quotations of the equity instrument.

35 Financial Risk Management (continued)

The Banking Risks Department is responsible for developing methods of appraisal of the current level of market risks (with the exception of interest rate risk), management procedures for these risks, and for identification and analysis of the current risk level.

The Treasury Department is responsible for development of methods for evaluation and procedures of operational management of interest rate risk.

Market risk management is defined as a method of limitation of possible losses from open positions which can be incurred by the Group within a set period of time due to movements in exchange rates, securities quotations and interest rates by way of establishing a system of limits on transactions, as well as stop-loss limits (maximum loss limits, in case of violation of which the position is closed) and monitoring their further compliance.

As at 31 December 2011 Value at risk (“VaR”) limits (risk period – 1 day, level of probability – 99%) applied by the Bank are as follows.

In millions of Russian Roubles

Financial instruments	VaR limit	VaR value
Shares	150	45
Bonds	225	156
Eurobonds	60	22
Foreign currency	100	23
Goods market	40	6
Money market	10	-
Aggregated VaR	275	160

As at 31 December 2010 VaR rate was not calculated and VaR limits were not applied.

The Banking Risks Department prepares proposals on establishing market risk limits applied by the Bank (including VaR limits). The Operational Department (back-office) monitors compliance with market risk limits set on daily basis.

Currency risk. Currency risk is the risk of changes in income or carrying value of financial instruments due to exchange rate fluctuations.

The Department of Financial Markets Operations currently manages the open currency position within the limits set by the Asset and Liability Management Committee.

For currency management purposes the Group also uses the system of mandatory limits established by the CBRF, including limits on open positions in a foreign currency (up to 10% of the equity estimated in compliance with the CBRF) and the limit on the open position in all foreign currencies (up to 20% of the equity estimated in compliance with the CBRF).

The Group follows a conservative currency risk management policy and opens currency positions primarily in the currencies most frequently used in the Russian Federation (US Dollars and Euros).

The Group takes into account changes in foreign currency volatility levels by preparing and submitting for approval of the Asset and Liability Management Committee proposals concerning changes in internal limits of currency risks.

35 Financial Risk Management (continued)

The table below summarises the exposure to foreign currency exchange rate risk as at 31 December 2011. The Group does not use this currency risk analysis for management purposes.

In thousands of Russian Roubles	RR	US Dollars	Euro	Other	Total
ASSETS					
Cash and cash equivalents	11 117 464	6 747 603	14 891 677	18 563	32 775 307
Mandatory cash balances with the Central Bank of the Russian Federation	2 978 296	-	-	-	2 978 296
Trading securities	25 011 592	4 032 064	-	-	29 043 656
Trading securities pledged under sale and repurchase agreements	15 134 382	-	-	-	15 134 382
Amounts receivable under reverse repurchase agreements	6 492 546	1 356 466	-	-	7 849 012
Due from banks	1 261 349	1 320 238	417 066	-	2 998 653
Loans and advances to customers	170 255 214	29 645 398	10 006 456	-	209 907 068
Investment securities available-for-sale	3 927 333	2 947 841	-	-	6 875 174
Investment securities held-to-maturity	31 361	-	-	-	31 361
Other financial assets	966 979	99 220	127 822	-	1 194 021
Prepaid income tax	491 193	-	-	-	491 193
Deferred tax asset	52 262	-	-	-	52 262
Investment property	4 524 333	-	-	-	4 524 333
Premises, equipment and intangible assets	14 134 509	-	-	-	14 134 509
Other assets	2 034 449	2 769	7 013	-	2 044 231
TOTAL ASSETS	**258 413 262**	**46 151 599**	**25 450 034**	**18 563**	**330 033 458**
LIABILITIES					
Due to banks	25 858 749	1 141 915	198 231	-	27 198 895
Customer accounts	182 454 062	25 724 847	18 428 777	95 204	226 702 890
Bonds issued	8 232 277	3 323 247	-	-	11 555 524
Other debt securities in issue	5 691 902	2 607 133	1 057 409	-	9 356 444
Other borrowed funds	1 465 561	9 083 771	1 528 924	-	12 078 256
Other financial liabilities	975 701	1 993	180 208	-	1 157 902
Deferred tax liabilities	1 132 896	-	-	-	1 132 896
Other liabilities	822 025	5 728	95	-	827 848
TOTAL LIABILITIES	**226 633 173**	**41 888 634**	**21 393 644**	**95 204**	**290 010 655**
Add fair value of currency derivatives	105 860	-	-	-	105 860
Net recognised position, excluding currency derivative financial instruments	**31 885 949**	**4 262 965**	**4 056 390**	**(76 641)**	**40 128 663**
Currency derivatives	**11 091 944**	**(6 246 515)**	**(5 215 269)**	**263 980**	**(105 860)**
Net recognised position, including currency derivative financial instruments	**42 977 893**	**(1 983 550)**	**(1 158 879)**	**187 339**	**40 022 803**

35 Financial Risk Management (continued)

The table below summarises the exposure to foreign currency exchange rate risk as at 31 December 2010. The Group does not use this currency risk analysis for management purposes.

In thousands of Russian Roubles	RR	US Dollars	Euro	Other	Total
ASSETS					
Cash and cash equivalents	9 579 345	1 502 276	2 044 312	54 251	13 180 184
Mandatory cash balances with the Central Bank of the Russian Federation	1 670 712	-	-	-	1 670 712
Trading securities	32 682 802	3 841 825	-	-	36 524 627
Trading securities pledged under sale and repurchase agreements	254 356	-	-	-	254 356
Amounts receivable under reverse repurchase agreements	8 423 538	-	-	-	8 423 538
Due from banks	2 895 120	1 919 334	7 583 471	-	12 397 925
Loans and advances to customers	143 760 048	27 743 656	11 314 635	-	182 818 339
Investment securities available-for-sale	247 559	32 932	-	-	280 491
Investment securities held-to-maturity	169 638	-	-	-	169 638
Other financial assets	258 025	22 462	25 298	-	305 785
Deferred tax asset	219 616	-	-	-	219 616
Investment property	3 956 820	-	-	-	3 956 820
Premises, equipment and intangible assets	11 762 753	-	-	-	11 762 753
Other assets	627 621	1 146	15 025	123	643 915
TOTAL ASSETS	**216 507 953**	**35 063 631**	**20 982 741**	**54 374**	**272 608 699**
LIABILITIES					
Due to banks	5 834 469	5 474 179	17 745	-	11 326 393
Customer accounts	147 644 995	22 082 590	21 926 059	154 032	191 807 676
Bonds issued	13 140 130	3 141 864	-	-	16 281 994
Other debt securities in issue	9 138 153	966 548	260 529	-	10 365 230
Other borrowed funds	1 465 504	10 175 782	1 479 822	-	13 121 108
Other financial liabilities	382 779	34 636	56 814	-	474 229
Income tax liability	136 223	-	-	-	136 223
Other liabilities	497 569	33 976	90	-	531 635
TOTAL LIABILITIES	**178 239 822**	**41 909 575**	**23 741 059**	**154 032**	**244 044 488**
Add fair value of currency derivatives	199 472	-	-	-	199 472
Net recognised position, excluding currency derivative financial instruments	**38 467 603**	**(6 845 944)**	**(2 758 318)**	**(99 658)**	**28 763 683**
Currency derivatives	**(8 642 445)**	**6 105 635**	**1 954 937**	**382 401**	**(199 472)**
Net recognised position, including currency derivative financial instruments	**29 825 158**	**(740 309)**	**(803 381)**	**282 743**	**28 564 211**

35 Financial Risk Management (continued)

The table below summarises the foreign currency exchange rate risk for monetary financial instruments as at 31 December 2011:

In thousands of Russian Roubles	Monetary financial assets	Monetary financial liabilities	Derivative financial instruments	Net currency position
Russian Roubles	232 696 782	224 678 252	11 091 944	19 110 474
US Dollars	43 125 328	41 882 906	(6 246 515)	(5 004 093)
Euros	25 443 021	21 393 549	(5 215 269)	(1 165 797)
Other	18 563	95 204	263 980	187 339
Total	**301 283 694**	**288 049 911**	**(105 860)**	**13 127 923**

The table below summarises the foreign currency exchange rate risk for monetary financial instruments as at 31 December 2010:

In thousands of Russian Roubles	Monetary financial assets	Monetary financial liabilities	Derivative financial instruments	Net currency position
Russian Roubles	198 862 845	177 606 030	(8 642 445)	12 614 370
US Dollars	35 062 485	41 875 599	6 105 635	(707 479)
Euros	20 967 716	23 740 969	1 954 937	(818 316)
Other	54 251	154 032	382 401	282 620
Total	**254 947 297**	**243 376 630**	**(199 472)**	**11 371 195**

The currency derivatives position in each column represents the fair value at the reporting date of the respective currency that the Group agreed to buy (positive amount) or sell (negative amount). The net total represents fair value of the currency derivative financial instruments.

An analysis of sensitivity of profit after tax and equity to changes in the foreign currency exchange rates based on positions existing as at 31 December 2011 and 31 December 2010 and a simplified scenario of a 5% change in USD and Euro to Russian Rouble exchange rates, assuming that all other variables remain unchanged is as follows:

In thousands of Russian Roubles	As at 31 December 2011
5% appreciation of USD against RR	(200 164)
5% depreciation of USD against RR	200 164
5% appreciation of Euro against RR	(46 632)
5% depreciation of Euro against RR	46 632

In thousands of Russian Roubles	As at 31 December 2010
5% appreciation of USD against RR	(28 299)
5% depreciation of USD against RR	28 299
5% appreciation of Euro against RR	(32 733)
5% depreciation of Euro against RR	32 733

Movements in other currency exchange rates will have no material effect on the profit or loss of the Group.

35 Financial Risk Management (continued)

In 2011 management took a number of measures in order to improve the currency risk management system, including:

- revision of the internal document establishing the procedures for currency risk management (VaR limits, currency option sensitivity limits);
- the Asset and Liability Management Committee established VaR limits and currency option sensitivity limits enabling to limit the risk from currency derivative financial instruments for currency.

Interest rate risk. The Group is exposed to fluctuations in market interest rates which can affect its financial position and cash flows. As a result of such changes interest margins may reduce and profit may decrease.

The table below summarises the effective interest rates by currency for major financial instruments. The analysis is prepared based on year-end effective rates used for amortisation of the respective assets/liabilities.

	2011				2010			
In % p.a.	**RR**	**USD**	**Euro**	**Other**	**RR**	**USD**	**Euro**	**Other**
ASSETS								
Cash and cash equivalents	0.61	0.01	0.00	0.00	0.43	0.00	0.00	0.00
Debt trading securities	7.56	4.82	-	-	6.86	4.78	-	-
Trading securities pledged under sale and repurchase agreements	7.39	-	-	-	12.26	-	-	-
Due from banks	2.34	1.46	1.72	-	3.39	1.11	0.74	-
Loans and advances to customers	9.99	9.18	8.19	-	10.68	9.42	8.70	-
Investment securities held-to-maturity	0.00	-	-	-	12.70	-	-	-
LIABILITIES								
Due to banks	5.33	0.18	0.00	-	1.69	0.46	2.45	-
Customer accounts								
- current and settlement accounts	0.66	0.21	0.07	0.00	0.67	0.63	0.33	0.04
- term deposits								
- individuals	7.36	4.79	4.57	-	8.52	5.99	5.35	-
- legal entities	7.09	2.88	3.40	2.43	6.60	3.96	3.13	2.11
Bonds issued	8.37	11.16	-	-	8.32	11.15	-	-
Other debt securities in issue	6.52	4.41	4.22	-	6.53	5.62	4.11	-
Other borrowed funds	6.70	7.74	14.50	-	6.70	7.55	14.50	-

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

Interest rate risk management represents management of assets and liabilities to maximize profit and reduce losses from possible fluctuations in interest rates and the statement of financial position structure. Interest rate risk management is an important part of overall risk management and significantly affects the financial performance.

35 Financial Risk Management (continued)

Interest rate risk management is performed centrally by the following bodies:

- Management Board – definition of the basic financial activity parameters, principles of interest rate risk management, approval of structure of limits and restrictions for interest rate risk, monitoring the efficiency of interest rate risk management system

- Asset and Liability Management Committee – approval and control over the structure of the assets and liabilities, management of interest rates and portfolio of securities, approval of methods (procedures) of the interest rate risk evaluation

- Treasury Department – evaluation of the exposure to the interest rate risks; current management of the statement of financial position structure, short-term asset management, definition of interest rate risk levels acceptable for the Group and making interest rate risk management proposals to the Asset and Liability Management Committee.

In case the existing interest rate movement forecast predicts an unfavorable position for the Group, that is a significant reduction of net interest margin, the Asset and Liability Management Committee makes decisions to regulate the interest rate risk level including the following:

- changes in base interest rates to manage the structure of assets and liabilities

- operations on the financial market aimed to change the interest rate risk position, including:

    - alteration of the securities portfolio structure, including structure and duration of securities portfolio

    - borrowings in the financial markets

    - futures transactions with financial instruments

- other measures that allow for changes in the amount of instruments with floating rates in the structure of assets and liabilities.

Management uses a GAP report as the major analytical form for interest rate risk.

The analysis is carried out by major currencies – Russian roubles, US dollars, Euros. All the items are distributed according to the following revaluation intervals:

- less than 8 months (average period length is 6 months)

- from 8 to 16 months (average period length is 1 year)

- from 16 to 32 months (average period length is 2 years)

- from 32 to 64 months (average period length is 4 years)

- from 64 to 128 months (average period length is 8 years)

- more than 128 months (average period length is 16 years, conventionally).

For the purposes of interest rate risk evaluation the Group utilizes Interest Rate Risk Management Report that additionally takes into account items of floating capital and statistically stable liabilities that are resistant to interest rate risk with the average interest rate revaluation interval of two years.

35 Financial Risk Management (continued)

The analysis of the exposure to interest rate risk is carried out based on the forecast of unfavourable change in present value of assets and liabilities under the condition of changes in market yields by 5% (2010: 5%).

The Group considers the ratio of total capital used to cover the interest rate risk to capital, at a level not more than 30%.

It also measures the sensitivity of annual net interest income to changes in the general level of interest rates as an additional method for interest rate risk evaluation.

Apart from the indices mentioned above the Group calculates the potential effect of interest GAPs, that is a change in the present value of assets and liabilities in case of change in the interest rates in accordance with expectations (the forecasted yield curve).

The major trends that affected the measures of interest rate risk management in 2011 include a decrease in RR interest rates from January till August 2011. Starting from September 2011 due to capital outflow and liquidity shortage in the Russian market, there appeared active growth in RR interest rates reaching its peak in October-November 2011. In order to manage interest rate risk in RR from January till August 2011, the Group decreased liability and asset rates while at the same time maintaining market positioning against the competitors. However due to increase in interest rate curve, GAPs decreased for all the terms. From September till December 2011 GAP structure and expectations concerning the limited period of interest rates growth in the financial markets enabled the Bank to maintain stable lending rates.

The interest rates on US dollar-denominated and euro-denominated resources during 2011 fluctuated insignificantly with an increase in 4Q of 2011. The Group believes there is a possible growth of USD and EUR interest rates during 2012, and accordingly measures were taken to avoid positive GAPs with terms of more than 1 year on the foreign currency position in 2011. EUR GAPs were insignificant during 2011. These measures enable the Group to reach optimal volume of foreign currency loan portfolio and to reduce the risk of losses from foreign currency interest rate increases.

Analysis of sensitivity of the fair value of debt securities, which form part of the trading portfolio, and other securities at fair value through profit or loss based on a possible change in the interest rates during the next reporting year, assuming that all other variables remain unchanged is as follows.

As at 31 December 2011:

In thousands of Russian Roubles	
100 bp parallel rise	
Trading securities	(327 325)
Trading securities pledged under sale and repurchase agreements	(186 527)
Total	**(513 852)**
100 bp parallel fall	
Trading securities	327 325
Trading securities pledged under sale and repurchase agreements	186 527
Total	**513 852**

35 Financial Risk Management (continued)

As at 31 December 2010:

In thousands of Russian Roubles	
100 bp parallel rise	
Trading securities	(415 573)
Trading securities pledged under sale and repurchase agreements	(421)
Total	**(415 994)**
100 bp parallel fall	
Trading securities	415 573
Trading securities pledged under sale and repurchase agreements	421
Total	**415 994**

Other price (equity) risk. The Group is exposed to open position risk with regard to equity instruments due to movements in their quotations.

The Department of Financial Markets Operations manages the open equity positions and the corresponding derivative financial instruments within the limits.

The Asset and Liability Management Committee sets the following limits for restricting possible losses related to the effects of equity risk: cumulative limit for the amount of open equity positions, individual limits for the amount of open equity position for each issuer, “stop-loss” limit.

If the risk becomes material the mitigation arrangements are determined by the Management Board.

The limits are set based on analysis of the credit quality of the security issuer and evaluation of liquidity and volatility of financial instruments.

An analysis of sensitivity of profit after tax and equity to changes in securities prices based on positions existing as at 31 December 2011 and 31 December 2010 and a simplified scenario of a 5% change in securities prices is as follows.

In thousands of Russian Roubles	**As at 31 December 2011**
5% increase in securities prices (including pledged under sale and repurchase agreements)	25 122
5% decrease in securities prices (including pledged under sale and repurchase agreements)	(25 122)

In thousands of Russian Roubles	**As at 31 December 2010**
5% increase in securities prices (including pledged under sale and repurchase agreements)	39 562
5% decrease in securities prices (including pledged under sale and repurchase agreements)	(39 562)

35 Financial Risk Management (continued)

Liquidity risk. Liquidity risk is defined as the risk when the maturity of assets and liabilities does not match. The Group is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw downs, guarantees and from margin and other calls on cash settled derivative instruments. The Group does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty.

The purpose of liquidity management is to create and maintain the structure of assets and liabilities by categories and maturities which will enable the Group to ensure timely payments of its obligations and meeting demands of customers.

The Group seeks to maintain a diversified and stable structure of funding sources. The Group invests the funds in diversified portfolios of liquid assets in order to be able to respond quickly and smoothly to unforeseen liquidity requirements. In spite of a substantial portion of customer accounts being on demand, diversification of these deposits by number and type of depositors, and past experience indicates that these customer accounts provide a long-term and stable source of funding.

The Group has established a multi-level liquidity management system. On a daily basis the Treasury Department controls the liquidity position. The Asset and Liability Management Committee makes decisions taking into account a weekly liquidity forecast.

Liquidity management requires maintaining sufficient amount of liquid assets to be used in case of unforeseen circumstances. In accordance with the results of analysis of the macroeconomic conditions or the state of the banking market, as well as the general trends in activity, management may demand higher amounts of liquidity, if required.

The basis for managing short-term liquidity (less than 3 months) is making liquidity provisions sufficient not only for current standard activities but also to provide the Bank with the funds during a period of possible unplanned funds withdrawal caused by macroeconomic events or events directly associated with the Bank.

Management applies the following main instruments for liquidity management:

- In the short term the most effective way to manage liquidity is to manage the volume and structure of liquid assets. Management maintains a portfolio of liquid assets (including trading securities) which can be used for prompt and loss-free repayment of debt

- In certain cases management may impose restrictions on some transactions to regulate the statement of financial position structure. The limits are set when other instruments of liquidity management are insufficient to maintain liquidity

- Raising long-term funds. During 2011 and 2010, the Group raised significant amounts on the global long-term debt and equity markets. Refer to notes 21 and 23.

The liquidity management policy includes the following:

- daily forecasts of cash flows by currencies and calculation of the cash-flow related amount of current liquidity reserves

- management of concentration and structure of borrowed funds

- development of liquidity maintenance plans

- diversification of funding sources

35 Financial Risk Management (continued)

- control over compliance of the statement of financial position performance with statutory liquidity requirements

- setting interest rates for raising/granting funds by instruments and periods.

The Bank performs current liquidity management (for the period of up to seven days) on a daily basis. It is implemented based on statistical and chronological analysis of the balances on customers' current accounts, forecasted customer deposits, movement of funds on accounts and analysis of the information on obligations and requirements under term contracts in short-term periods. This analytical data serves as a basis for management of the liquidity position.

Short-term (for the period of up to 3 months) liquidity monitoring ensures creation of an asset portfolio which may cover all needs of the current liquidity management within the planning time horizon as well as provide the Bank with the funds in case of possible clients' funds withdrawal. The parameters of possible funds withdrawal are set and reviewed periodically by the Asset and Liability Management Committee and the Management Board.

Long-term (over 3 months) liquidity monitoring is based on analysis of liquidity gaps. The Group evaluates the liquidity gap through comparison of assets and liabilities by their terms. When attributing assets and liabilities to different term categories the Group takes into account both the contractual term and expected maturity and the statistical data on sustainability, and for securities it uses possible periods of selling portfolios without losses. The Group regards equity as a long-term funding source and, therefore, accounts for it by the longest remaining maturity period. Management analyses the net liquidity gap and cumulative liquidity gap.

The following tables are based on the above principles and show distribution of assets and liabilities as at 31 December 2011 and 31 December 2010 by expected maturity periods. This table is prepared for management purposes on the basis of accounting data prepared under Russian Accounting Standards.

As at 31 December 2011:

In thousands of Russian Roubles	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**Over 1 year**	**Total**
Assets	89 579 501	61 356 979	66 705 361	126 834 549	344 476 390
Liabilities and equity	101 732 462	92 807 290	44 301 970	105 634 668	344 476 390
Net liquidity gap	(12 152 961)	(31 450 311)	22 403 391	21 199 881	
Cumulative liquidity gap	(12 152 961)	(43 603 272)	(21 199 881)	-	

As at 31 December 2010:

In thousands of Russian Roubles	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**Over 1 year**	**Total**
Assets	71 698 722	40 344 148	56 039 713	123 143 307	291 225 890
Liabilities and equity	68 133 360	83 752 049	41 911 745	97 428 736	291 225 890
Net liquidity gap	3 565 362	(43 407 901)	14 127 968	25 714 571	
Cumulative liquidity gap	3 565 362	(39 842 539)	(25 714 571)	-	

35 Financial Risk Management (continued)

When performing its operating activity the Bank also focuses on compliance with the requirements of the CBRF on maintaining sufficient liquidity ratios. These ratios are:

- Instant liquidity ratio (N2), which is calculated as the ratio of highly-liquid assets to liabilities payable on demand
- Current liquidity ratio (N3), which is calculated as the ratio of liquid assets to liabilities maturing within 30 calendar days
- Long-term liquidity ratio (N4), which is calculated as the ratio of assets maturing after one year to regulatory equity and liabilities maturing after one year.

According to the daily calculations of the Planning and Financial Control Department, within 2011 and 2010 the Bank complied with the liquidity ratios established by the CBRF.

35 Financial Risk Management (continued)

Below is the IFRS liquidity position at 31 December 2011. The Group does not use the presented analysis by contractual maturity for liquidity management purposes. The following table shows assets and liabilities of the Group by their remaining contractual maturity, with the exception of financial instruments at fair value through profit or loss, which are shown in the category "Demand and less than 1 month".

In thousands of Russian Roubles	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 1 to 5 years	More than 5 years or no maturity	Total
ASSETS						
Cash and cash equivalents	32 775 307	-	-	-	-	32 775 307
Mandatory cash balances with the Central Bank of the Russian Federation	2 978 296	-	-	-	-	2 978 296
Trading securities	29 043 656	-	-	-	-	29 043 656
Trading securities pledged under sale and repurchase agreements	15 134 382	-	-	-	-	15 134 382
Amounts receivable under reverse repurchase agreements	7 847 742	1 270	-	-	-	7 849 012
Due from banks	1 737 383	702 092	57 584	501 594	-	2 998 653
Loans and advances to customers	3 519 293	51 449 060	59 086 453	86 315 692	9 536 570	209 907 068
Investment securities available-for-sale	-	-	-	-	6 875 174	6 875 174
Investment securities held-to-maturity	31 361	-	-	-	-	31 361
Other financial assets	455 654	201 811	536 556	-	-	1 194 021
Prepaid income tax	-	491 193	-	-	-	491 193
Deferred tax asset	-	-	-	52 262	-	52 262
Investment property	-	-	-	-	4 524 333	4 524 333
Premises, equipment and intangible assets	-	-	-	-	14 134 509	14 134 509
Other assets	1 067 907	149 481	64 379	675 579	86 885	2 044 231
TOTAL ASSETS	**94 590 981**	**52 994 907**	**59 744 972**	**87 545 127**	**35 157 471**	**330 033 458**
LIABILITIES						
Due to banks	20 757 359	5 029 764	1 411 772	-	-	27 198 895
Customer accounts	108 652 772	67 770 755	37 453 662	12 773 710	51 991	226 702 890
Bonds issued	-	-	-	8 232 277	3 323 247	11 555 524
Other debt securities in issue	2 545 817	3 531 934	2 847 209	431 484	-	9 356 444
Other borrowed funds	-	217 880	637 158	8 689 869	2 533 349	12 078 256
Other financial liabilities	390 863	349 017	205 456	209 866	2 700	1 157 902
Deferred tax liability	-	-	-	1 132 896	-	1 132 896
Other liabilities	275 077	507 186	6 779	38 806	-	827 848
TOTAL LIABILITIES	**132 621 888**	**77 406 536**	**42 562 036**	**31 508 908**	**5 911 287**	**290 010 655**
Net liquidity gap	**(38 030 907)**	**(24 411 629)**	**17 182 936**	**56 036 219**	**29 246 184**	**40 022 803**
Cumulative liquidity gap as at 31 December 2011	**(38 030 907)**	**(62 442 536)**	**(45 259 600)**	**10 776 619**	**40 022 803**	

35 Financial Risk Management (continued)

Below is the IFRS liquidity position at 31 December 2010.

In thousands of Russian Roubles	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**From 1 to 5 years**	**More than 5 years or no maturity**	**Total**
ASSETS						
Cash and cash equivalents	13 180 184	-	-	-	-	13 180 184
Mandatory cash balances with the Central Bank of the Russian Federation	1 670 712	-	-	-	-	1 670 712
Trading securities	36 524 627	-	-	-	-	36 524 627
Trading securities pledged under sale and repurchase agreements	254 356	-	-	-	-	254 356
Amounts receivable under reverse repurchase agreements	8 423 538	-	-	-	-	8 423 538
Due from banks	11 573 852	501 537	156 619	165 917	-	12 397 925
Loans and advances to customers	3 308 649	30 999 971	50 454 324	88 819 708	9 235 687	182 818 339
Investment securities available-for-sale	-	-	-	-	280 491	280 491
Investment securities held-to-maturity	33 974	-	135 664	-	-	169 638
Other financial assets	175 145	99 316	31 324	-	-	305 785
Deferred tax asset		-	-	219 616	-	219 616
Investment property	-	-	-	-	3 956 820	3 956 820
Premises, equipment and intangible assets	-	-	-	-	11 762 753	11 762 753
Other assets	194 236	180 968	30 137	111 192	127 382	643 915
TOTAL ASSETS	**75 339 273**	**31 781 792**	**50 808 068**	**89 316 433**	**25 363 133**	**272 608 699**
LIABILITIES						
Due to banks	10 986 238	275 023	65 132	-	-	11 326 393
Customer accounts	79 461 781	70 701 429	33 496 305	8 102 786	45 375	191 807 676
Bonds issued	-	-	-	13 140 130	3 141 864	16 281 994
Other debt securities in issue	1 023 371	6 126 244	2 781 533	434 082	-	10 365 230
Other borrowed funds	649 610	359 280	2 560 214	7 156 972	2 395 032	13 121 108
Other financial liabilities	176 968	112 800	121 016	58 638	4 807	474 229
Income tax liability	-	136 223	-	-	-	136 223
Other liabilities	264 574	265 648	1 413	-	-	531 635
TOTAL LIABILITIES	**92 562 542**	**77 976 647**	**39 025 613**	**28 892 608**	**5 587 078**	**244 044 488**
Net liquidity gap	**(17 223 269)**	**(46 194 855)**	**11 782 455**	**60 423 825**	**19 776 055**	**28 564 211**
Cumulative liquidity gap as at 31 December 2010	**(17 223 269)**	**(63 418 124)**	**(51 635 669)**	**8 788 156**	**28 564 211**	

Management believes that available undrawn credit lines and stability of customer accounts will fully cover the liquidity gap in the tables above.

35 Financial Risk Management (continued)

The main differences between liquidity tables prepared under IFRS by contractual maturity and the tables prepared for management purposes are as follows:

1. The total assets differ because the impairment allowance on loans and advances to customers recorded by the Group is presented on the liabilities side for management purposes, whereas for IFRS purposes loans and advances to customers is reduced by the allowance;
2. For management purposes the Group shows mandatory cash balances with the CBRF as an asset, with maturity dates proportional to maturity dates of resources that formed them since the Group may not use these resources to cover the creditors’ demands;
3. The Bank applies internal methods to determine the maturity of current accounts and deposits on demand since these deposits are considered to be a long-term source of funding. Therefore, current accounts of legal entities and individuals have longer maturity periods in calculating liquidity for Group management purposes;
4. The Bank also applies internal methods to account for trading securities portfolio that take into account market conditions and actual opportunities to sell and use assets as collateral.

The tables below show distribution of liabilities as at 31 December 2011 and 31 December 2010 by remaining contractual maturity. The amounts in the tables reflect contractual undiscounted cash flows and differ from the amounts in the statement of financial position which are based on discounted cash flows. The Bank does not use the presented analysis of undiscounted cash flows in its liquidity management.

As at 31 December 2011:

In thousands of Russian Roubles	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**From 1 to 5 years**	**More than 5 years**	**Total**
LIABILITIES						
Due to banks	20 770 859	5 105 040	1 501 710	-	-	27 377 609
Customer accounts	109 114 041	71 521 818	39 492 075	13 562 329	79 202	233 769 465
Bonds issued	169 030	320 603	489 633	10 144 081	3 557 669	14 681 016
Other debt securities in issue	2 712 172	3 618 592	3 006 918	475 018	-	9 812 700
Other borrowed funds	197 606	487 834	1 113 284	11 055 391	3 564 068	16 418 183
Other financial liabilities	952 610	-	-	-	-	952 610
Derivative financial instruments						
- inflow	92 101 113	-	-	-	-	92 101 113
- outflow	(92 105 769)	-	-	-	-	(92 105 769)
Total future undiscounted cash flows	**133 911 662**	**81 053 887**	**45 603 620**	**35 236 819**	**7 200 939**	**303 006 927**

35 Financial Risk Management (continued)

As at 31 December 2010:

In thousands of Russian Roubles	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**From 1 to 5 years**	**More than 5 years**	**Total**
LIABILITIES						
Due to banks	10 990 726	279 299	66 530	-	-	11 336 555
Customer accounts	79 805 561	73 874 576	36 129 709	8 616 999	74 973	198 501 818
Bonds issued	160 004	516 090	676 094	16 142 440	3 687 705	21 182 333
Other debt securities in issue	1 164 243	6 392 756	2 928 694	456 070	-	10 941 763
Other borrowed funds	824 664	592 638	3 042 906	9 682 979	3 685 095	17 828 282
Other financial liabilities	365 515	-	-	-	-	365 515
Derivative financial instruments						
- inflow	49 374 633	-	-	-	-	49 374 633
- outflow	(49 557 808)	-	-	-	-	(49 557 808)
Total future undiscounted cash flows	**93 127 538**	**81 655 359**	**42 843 933**	**34 898 488**	**7 447 773**	**259 973 091**

36 Management of Capital

The objectives when managing capital are (i) to comply with the capital requirements set by the CBRF, (ii) to safeguard the Group’s ability to continue as a going concern and (iii) to maintain a sufficient capital base to achieve a capital adequacy ratio of at least 8% based on the April 1998 Basel Prudential Requirements for Banks (Basel I), in accordance with financial covenants set in borrowing agreements.

(i) Under the current capital requirements set by the CBRF banks have to maintain a ratio of regulatory capital to risk weighted assets (“statutory capital adequacy ratio”) of at least 10%. Regulatory capital and capital adequacy is based on reports prepared under Russian statutory accounting standards and comprises:

In thousands of Russian Roubles	**31 December 2011**	**31 December 2010**
Total capital	40 009 078	34 459 224
Total regulatory capital adequacy ratio	11.96%	13.17%

The capital adequacy ratio set by the CBRF is managed by the Treasury Department through monitoring and forecasting its components.

Based on the calculations performed on the daily basis by the Planning and Financial Control Department, Management believes that during 2011 and 2010 the capital adequacy ratio was not below the minimum requirement.

(ii) Arrangements to safeguard the Group’s ability to continue as a going concern are performed under the Strategic Development Plan and divided into long-term and short-term capital management.

In the long-term the Bank plans its business scope under strategic and financial plans developed along with identification of the risks and corresponding capital requirements for three years and one year, respectively. When the required amount of capital is defined the Bank determines the sources of its increase: borrowings on capital markets, share issue and approximate scope thereof. The target scope of business and the amount of capital, as well as the sources of the capital increase are approved by the following collegial management bodies in order of the established priority: the Asset and Liability Management Committee, Management Board, Supervisory Board.

36 Management of Capital (continued)

In the short-term, with due account of the necessity to comply with the CBRF requirements, the Bank determines the capital surplus/deficit within the period from one to three months and develops the respective plan to increase assets. In some cases management uses administrative measures to influence the statement of financial position structure through interest rate policy, and in exceptional cases, through setting limits for certain active transactions. The limits are established when the economic instruments are insufficient in terms of timing and the extent of influence.

(iii) According to the loan agreement with the EBRD the Bank has a commitment to maintain the total capital adequacy ratio of 11%, which is calculated under the requirements of Basel I (refer to note 23).

This ratio is calculated on a quarterly basis; the forecasted amount of capital and capital adequacy ratio are defined in the Strategic Development Plan which takes into account compliance with the capital adequacy requirements.

Below is the capital and capital adequacy ratio calculated in accordance with Basel I:

In thousands of Russian Roubles	**31 December 2011**	**31 December 2010**
Capital	**47 077 193**	**35 868 303**
Tier 1	**34 394 040**	**26 571 850**
Paid-in share capital	3 648 110	3 629 541
Reserves and profit	**30 745 930**	**22 942 309**
Including:		
- Share premium	18 448 915	15 744 164
- Retained earnings	12 297 015	7 198 145
Tier 2	**12 683 153**	**9 296 453**
Revaluation reserve for premises	3 346 303	1 966 015
Revaluation reserve for investment securities available-for-sale	2 282 460	26 346
Subordinated loans	7 054 390	7 304 092
Risk weighted assets	**338 124 747**	**276 778 300**
Risk weighted banking assets	246 469 028	206 925 243
Risk weighted trading assets	52 269 900	42 980 688
Risk weighted unrecognized exposures	39 385 819	26 872 369
Total capital adequacy ratio	**13.92%**	**12.96%**
Total tier 1 capital	**10.17%**	**9.60%**

The Group was in compliance with the minimum capital adequacy ratio agreed with the creditors during 2011 and 2010.

In compliance with the Strategic development plan, in order to increase Tier 1 capital the Group decided to issue ordinary nominal shares at a value of RR 146.66 per share. A total of 18 568 935 shares were issued, of which 18 568 050 shares were acquired by the EBRD. As a result, the capital increased by RR 2 723 320 thousand. The report on the results of the issue was registered by the CBRF in St. Petersburg on 26 October 2011.

37 Contingencies, Commitments and Derivative Financial Instruments

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

Tax legislation. Russian tax legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities.

The Russian tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged. In October 2010, the Supreme Arbitration Court issued guidance to lower courts on reviewing tax cases providing a systemic roadmap for anti-avoidance claims, and it is possible that this will significantly increase the level and frequency of scrutiny by tax authorities.

As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover a longer period.

Management believes that its interpretation of the relevant legislation is appropriate and the tax, currency legislation and customs positions will be sustained. Accordingly, at 31 December 2011 and 31 December 2010 no provision for potential tax liabilities was recorded.

Capital expenditure commitments. At 31 December 2011 the Group had no contractual capital expenditure commitments in respect of reconstruction and purchase of premises (2010: RR 105 078 thousand). In 2011 the Group allocated the necessary resources in respect of these commitments.

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

In thousands of Russian Roubles	**2011**	**2010**
Less than 1 year	37 869	229 177
1 to 5 years	17 714	29 501
Total operating lease commitments	**55 583**	**258 678**

Compliance with covenants. The Group should observe certain covenants, primarily, relating to loan agreements with foreign and international financial institutions. Covenants include:

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

Restrictive covenants, including constraints (without lender's consent) in respect of dividend payments and other distributions, changes in the shareholder structure, limits on use of assets and some agreements;

37 Contingencies, Commitments and Derivative Financial Instruments (continued)

Financial covenants, such as meeting certain capital adequacy requirements, credit portfolio diversification, limitation of risks associated with related and unrelated parties, the share of overdue balances in the credit portfolio, meeting certain requirements to the level of risk provisions, monitoring the expenditure patterns;

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

Non-compliance with such covenants may result in negative consequences for the Group including growth in the cost of borrowings and declaration of default.

As at 31 December 2011 and 2010, and during the years then ended, management believes that the Group was in compliance with all covenants.

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

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

Outstanding credit related commitments are as follows:

In thousands of Russian Roubles	**Note**	**2011**	**2010**
Revocable undrawn credit lines		16 090 654	22 673 870
Guarantees issued		37 936 883	25 205 323
Import letters of credit		5 748 554	7 491 491
Irrevocable undrawn credit lines			-
Allowance for credit losses	24	(191 003)	(85 743)
Total credit related commitments		**59 585 088**	**55 284 941**

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

As at 31 December 2011, customer accounts include deposits amounting to RR 2 575 619 thousand representing security for irrevocable liabilities on import letters of credit (2010: RR 2 842 721 thousand). Refer to note 20.

37 Contingencies, Commitments and Derivative Financial Instruments (continued)

Fiduciary assets. These assets are not included in the consolidated statement of financial position as they are not the Group's assets. Nominal values disclosed below are normally different from the fair values of the respective securities. In accordance with the common business practices no insurance cover is provided for these fiduciary assets. The fiduciary assets fall into the following categories:

In thousands of Russian Roubles	2011 Nominal value	2010 Nominal value
Corporate shares held in custody of:		
- Depository Clearing Company	70	101
- National Depository Centre	1 810	1 289
- other registrars and depositories	369 905	1 049 786
- registers of share issuers	1 464 195	789 129
Municipal bonds held in custody of St. Petersburg Settlement and Depository Centre	58	58

Derivative financial instruments. Currency derivative financial instruments have potentially favourable (assets) or unfavourable (liabilities) conditions as a result of fluctuations in foreign exchange rates. The aggregate fair values of derivative financial instruments can fluctuate significantly from time to time.

The table below shows fair values, at the reporting date, of currencies receivable or payable under foreign exchange forwards and futures contracts, and interest rate forward contracts. The table reflects contracts with settlement dates after the relevant reporting period. The amounts under these contracts are shown before the netting of any counterparty positions (and payments). The contracts on foreign exchange derivatives are short term in nature. The contracts on interest rate derivatives are long term in nature.

	2011		2010	
In thousands of Russian Roubles	Net asset forwards	Net liability forwards	Net asset forwards	Net liability forwards
Foreign exchange forwards, options: fair values, at the reporting date, of				
- USD receivable on settlement (+)	13 432 725	29 056 983	8 986 742	18 702 276
- USD payable on settlement (-)	(8 576 346)	(39 600 176)	(9 790 930)	(12 965 894)
- Euros receivable on settlement (+)	4 517 180	6 689 821	1 206 864	4 858 016
- Euros payable on settlement (-)	(5 507 248)	(12 376 339)	(3 045 149)	(1 064 794)
- RR receivable on settlement (+)	6 068 520	34 129 187	8 736 364	8 021 834
- RR payable on settlement (-)	(7 576 377)	(20 627 129)	(4 916 583)	(19 285 868)
- Other currency receivable settlement (+)	200 897	165 215	382 401	-
- Other currency payable settlement (-)	(122 908)	-	-	-
Total on foreign exchange forwards, options	**2 436 443**	**(2 562 438)**	**1 559 709**	**(1 734 430)**

	2011		2010	
In thousands of Russian Roubles	Net asset futures	Net liability futures	Net asset futures	Net liability futures
Foreign exchange futures: fair values, at the reporting date, of				
- USD receivable on settlement (+)	5 661 675	2 898 123	1 706 706	21 287 674
- USD payable on settlement (-)	(3 541 895)	(5 576 963)	(19 205 651)	(2 590 537)
- Euros receivable on settlement (+)	-	1 461 317	1 411 659	-
- Euros payable on settlement (-)	-	-	-	(1 411 659)
- RR receivable on settlement (+)	3 541 895	5 576 963	19 205 651	4 002 196
- RR payable on settlement (-)	(5 661 675)	(4 359 440)	(3 118 365)	(21 287 674)
Total on foreign exchange futures	**-**	**-**	**-**	**-**

37 Contingencies, Commitments and Derivative Financial Instruments (continued)

	2011		2010	
In thousands of Russian Roubles	**Net asset forwards**	**Net liability forwards**	**Net asset forwards**	**Net liability forwards**
Interest rate forwards: fair values, at the reporting date, of				
- USD receivable on settlement (+)	-	351	-	10 949
- USD payable on settlement (-)	-	(895)	-	(35 700)
Total on interest rate forwards	**-**	**(544)**	**-**	**(24 751)**

	2011		2010	
In thousands of Russian Roubles	**Net asset forwards**	**Net liability forwards**	**Net asset forwards**	**Net liability forwards**
Unlisted options: fair values, at the reporting date, of:				
- USD transactions	2 059	(2 156)	-	-
- Other currency transactions	20 777	-	-	-
Total on unlisted options	**22 836**	**(2 156)**	**-**	**-**
Net fair value of derivative financial instruments	**2 459 279**	**(2 565 138)**	**1 559 709**	**(1 759 181)**

Currency and other derivative financial instruments are usually subject to trade on over-the-counter markets with professional participants based on standardized contracts. The total fair value of derivative financial instruments can vary significantly with time.

38 Fair Value of Financial Instruments

Methods and assumptions used in calculation of the fair value.

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 best evidence of fair value is price quotations in an active market.

The estimated fair values of financial instruments are determined 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. The Russian Federation continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management uses all available market information in estimating the fair value of financial instruments.

The fair value of instruments with floating interest rates usually equals their carrying value. The fair value of instruments with fixed interest rates and fixed maturity dates that do not have market prices is based on discounted cash flows using current interest rates for instruments with similar credit risk and maturity date. For effective interest rates by currency for major financial instruments refer to section “Interest rate risk” in note 35.

The Group measures fair values for financial instruments recorded on the statement of financial position at fair value using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.

38 Fair Value of Financial Instruments (continued)

- Level 2: Valuation techniques based on observable market inputs, either directly (i.e, as prices) or indirectly (i.e, derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: Valuation techniques using significant unobservable market inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument’s valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

As at 31 December 2011 and 31 December 2010 the Group has no financial instruments, the fair value of which was calculated based on non-market inputs except for financial instruments available-for-sale.

Management uses professional judgment for allocation of financial instruments between categories of the fair value evaluation hierarchy. If the observable data used for fair value evaluation require significant adjustments they are categorised as Level 3.

The following table provides an analysis of financial instruments recognized at fair value by evaluation categories as at 31 December 2011:

In thousands of Russian Roubles	**Quoted market prices**	**Valuation techniques based on market observable inputs**	**Valuation techniques based on non-market observable inputs**
FINANCIAL ASSETS			
Trading securities			
- Corporate bonds	17 910 871	-	-
- Federal loan bonds (OFZ bonds)	4 058 912	-	-
- Corporate Eurobonds	3 956 403	-	-
- Municipal bonds	2 489 408	-	-
- Corporate shares	628 062	-	-
Trading securities pledged under sale and repurchase agreements			
- Corporate bonds	11 670 446	-	-
- Municipal bonds	2 930 415	-	-
- Federal loan bonds (OFZ bonds)	533 521	-	-
Investment securities available-for-sale			
-Corporate shares	-	-	3 774 109
TOTAL FINANCIAL ASSETS RECOGNISED AT FAIR VALUE	**44 178 038**	**-**	**3 774 109**
FINANCIAL LIABILITIES			
Other financial liabilities			
- Net fair value of derivative financial instruments	-	105 860	-
- Financial guarantees and letters of credit	-	14 289	-
TOTAL FINANCIAL LIABILITIES RECOGNISED AT FAIR VALUE	**-**	**120 149**	**-**

As at 31 December 2011 the fair value of investment securities available-for-sale that are not listed on the market or traded was estimated based on the report of an independent appraiser, and non-market inputs. Refer to note 13.

Management believes that fair value measurements would not change significantly, if changing one or more of the inputs to reasonably possible alternative assumptions.

38 Fair Value of Financial Instruments (continued)

The following table provides an analysis of financial instruments recognized at fair value by evaluation categories as at 31 December 2010:

In thousands of Russian Roubles	Quoted market prices	Valuation techniques based on market observable inputs	Valuation techniques based on non-market observable inputs
FINANCIAL ASSETS			
Trading securities			
- Corporate bonds	22 556 410	-	-
- Federal loan bonds (OFZ bonds)	4 215 755	-	-
- Corporate Eurobonds	3 037 964	-	-
- Municipal bonds	5 081 650	-	-
- Corporate shares	830 739	-	-
- Russian Federation Eurobonds	802 109	-	-
Trading securities pledged under sale and repurchase agreements			
- Corporate bonds	96 044	-	-
- Corporate shares	158 312	-	-
Investment securities available-for-sale			
- Corporate shares	-	-	32 932
TOTAL FINANCIAL ASSETS RECOGNISED AT FAIR VALUE	**36 778 983**	**-**	**32 932**
FINANCIAL LIABILITIES			
Other financial liabilities			
- Net fair value of derivative financial instruments	-	199 472	-
- Financial guarantees and letters of credit	-	22 637	-
TOTAL FINANCIAL LIABILITIES RECOGNIZED AT FAIR VALUE	**-**	**222 109**	**-**

Changes in fair value of investment securities available-for-sale attributable to Level 3 in the fair value hierarchy during the year are as follows:

In thousand of Russian Roubles	Note	2011	2010
Fair value as at 1 January		**32 932**	**40 537**
Other comprehensive income (loss)	27	2 739 633	(7 605)
Restructure of an issuer		1 001 544	-
Fair value as at 31 December		**3 774 109**	**32 932**

Investment securities available-for sale which cannot be reliably estimated since they are neither listed on the market nor traded are represented by corporate shares of Russian and foreign companies. As at 31 December 2011 the carrying value of these securities amounts to RR 3 101 065 thousand (2010: 247 559).

Management believes that the difference between the fair value and carrying values of investment securities available-for-sale that are not listed on the market or traded is not material.

38 Fair Value of Financial Instruments (continued)

The following table provides fair values of financial instruments by classes and a reconciliation of classes of financial instruments as at 31 December 2011:

In thousands of Russian Roubles	Trading financial assets	Loans and receivables	Available-for-sale financial assets	Financial assets held-to-maturity	Total carrying value of financial assets	Fair value of financial assets
FINANCIAL ASSETS						
Cash and cash equivalents						
- Cash on hand	-	4 847 432	-	-	4 847 432	4 847 432
- Balances with the CBRF	-	5 015 243	-	-	5 015 243	5 015 243
- Correspondent accounts and overnight placements	-	19 963 092	-	-	19 963 092	19 963 092
- Settlement accounts with trading systems	-	2 949 540	-	-	2 949 540	2 949 540
Mandatory cash balances with the Central Bank of the Russian Federation	-	2 978 296	-	-	2 978 296	2 978 296
Trading securities				-		
- Corporate bonds	17 910 871	-	-	-	17 910 871	17 910 871
- Federal loan bonds (OFZ bonds)	4 058 912	-	-	-	4 058 912	4 058 912
- Corporate Eurobonds	3 956 403	-	-	-	3 956 403	3 956 403
- Municipal bonds	2 489 408	-	-	-	2 489 408	2 489 408
- Corporate shares	628 062	-	-	-	628 062	628 062
Trading securities pledged under sale and repurchase agreements	15 134 382	-	-	-	15 134 382	15 134 382
Amounts receivable under reverse repurchase agreements	-	7 849 012	-	-	7 849 012	7 005 442
Due from banks						
- Term placements with banks	-	2 998 653	-	-	2 998 653	2 989 502
Loans and advances to customers						
Corporate loans						
- loans to finance working capital	-	133 439 585	-	-	133 439 585	134 704 804
- investment loans	-	51 603 501	-	-	51 603 501	51 186 943
- loans to entities financed from budget	-	9 742 953	-	-	9 742 953	9 767 696
Loans to individuals						
- mortgage loans	-	7 468 763	-	-	7 468 763	7 894 089
- car loans	-	1 164 526	-	-	1 164 526	1 253 188
- consumer loans to VIP clients	-	4 337 997	-	-	4 337 997	4 422 521
- other consumer loans	-	2 149 743	-	-	2 149 743	2 311 331
Investment securities available-for-sale	-	-	6 875 174	-	6 875 174	6 875 174
Investment securities held-to-maturity	-	-	-	31 361	31 361	6 263
Other financial assets	823 657	370 364	-	-	1 194 021	1 194 021
TOTAL FINANCIAL ASSETS	**45 001 695**	**256 878 700**	**6 875 174**	**31 361**	**308 786 930**	**309 542 615**

38 Fair Value of Financial Instruments (continued)

In thousands of Russian Roubles	**Financial liabilities carried at amortised cost**	**Carrying value of financial liabilities**	**Fair value of financial liabilities**
FINANCIAL LIABILITIES			
Due to banks			
- Term placements of,other banks	12 178 945	12 178 945	12 178 945
- Sale and repurchase agreements	14 919 153	14 919 153	14 919 153
- Correspondent accounts of banks	100 797	100 797	100 797
Customer accounts			
State and public organisations			
- Current/settlement accounts	674 615	674 615	674 615
- Term deposits	5 092 584	5 092 584	5 097 819
Other legal entities			
- Current/settlement accounts	53 797 251	53 797 251	53 797 251
- Term deposits	81 179 317	81 179 317	81 635 396
- Amounts payable under sale and repurchase agreements	8 499	8 499	8 499
Individuals			
- Current/demand accounts	16 476 921	16 476 921	16 476 921
- Term deposits	69 473 703	69 473 703	69 834 552
Bonds issued			
- Bonds	8 232 277	8 232 277	8 136 531
- Subordinated Eurobonds	3 323 247	3 323 247	3 002 930
Other debt securities in issue			
- Promissory notes	9 349 088	9 349 088	9 589 424
- Deposit certificates	7 356	7 356	7 345
Other borrowed funds			
- Subordinated loans	5 527 834	5 527 834	5 527 834
- VTB Bank	3 254 344	3 254 344	3 148 949
- EBRD	2 118 734	2 118 734	2 016 204
- KFW IPEX-Bank GmbH	483 771	483 771	472 457
- Nordic Investment Bank	435 275	435 275	405 561
- Eurasian Development Bank	258 298	258 298	257 674
Other financial liabilities	1 157 902	1 157 902	1 157 902
TOTAL FINANCIAL LIABILITIES	**288 049 911**	**288 049 911**	**288 446 759**

38 Fair Value of Financial Instruments (continued)

The following table provides fair values of financial instruments by classes and a reconciliation of classes of financial instruments as at 31 December 2010:

In thousands of Russian Roubles	Trading financial assets	Loans and receivables	Available-for-sale financial assets	Financial assets held-to-maturity	Total carrying value of financial assets	Fair value of financial assets
FINANCIAL ASSETS						
Cash and cash equivalents						
- Cash on hand	-	4 171 412	-	-	4 171 412	4 171 412
- Balances with the CBRF	-	3 118 266	-	-	3 118 266	3 118 266
- Correspondent accounts and overnight placements	-	4 682 379	-	-	4 682 379	4 682 379
- Settlement accounts with trading systems	-	1 208 127	-	-	1 208 127	1 208 127
Mandatory cash balances with the Central Bank of the Russian Federation	-	1 670 712	-	-	1 670 712	1 670 712
Trading securities						
- Corporate bonds	22 556 410	-	-	-	22 556 410	22 556 410
- Municipal bonds	5 081 650	-	-	-	5 081 650	5 081 650
- Federal loan bonds (OFZ bonds)	4 215 755	-	-	-	4 215 755	4 215 755
- Corporate Eurobonds	3 037 964	-	-	-	3 037 964	3 037 964
- Russian Federation Eurobonds	802 109	-	-	-	802 109	802 109
- Corporate shares	830 739	-	-	-	830 739	830 739
Trading securities pledged under sale and repurchase agreements	254 356	-	-	-	254 356	254 356
Amounts receivable under reverse repurchase agreements	-	8 423 538	-	-	8 423 538	8 423 538
Due from banks						
- Term placements with banks	-	12 397 925	-	-	12 397 925	12 408 439
Loans and advances to customers						
Corporate loans						
- loans to finance working capital	-	109 096 601	-	-	109 096 601	109 674 778
- investment loans	-	51 365 565	-	-	51 365 565	51 075 141
- loans to entities financed from budget	-	9 528 735	-		9 528 735	9 329 623
Loans to individuals	-					
- mortgage loans	-	7 252 098	-	-	7 252 098	7 733 242
- car loans	-	576 089	-	-	576 089	662 605
- consumer loans to VIP clients	-	3 572 610	-	-	3 572 610	3 754 644
- other consumer loans	-	1 426 641	-	-	1 426 641	1 537 804
Investment securities available-for-sale	-	-	280 491	-	280 491	280 491
Investment securities held-to-maturity	-	-	-	169 638	169 638	147 615
Other financial assets	142 978	162 807	-	-	305 785	305 785
TOTAL FINANCIAL ASSETS	**36 921 961**	**218 653 505**	**280 491**	**169 638**	**256 025 595**	**256 963 584**

38 Fair Value of Financial Instruments (continued)

In thousands of Russian Roubles	Financial liabilities carried at amortised cost	Carrying value of financial liabilities	Fair value of financial liabilities
FINANCIAL LIABILITIES			
Due to banks			
- Term placements of other banks	10 045 393	10 045 393	10 045 393
- Sale and repurchase agreements	868	868	868
- Correspondent accounts of other banks	1 280 132	1 280 132	1 280 132
Customer accounts			
State and public organisations			
- Current/settlement accounts	1 698 396	1 698 396	1 698 396
Other legal entities			
- Current/settlement accounts	43 019 597	43 019 597	43 021 146
- Term deposits	74 237 328	74 237 328	74 782 088
- Amounts payable under sale and repurchase agreements	426 735	426 735	426 735
Individuals			
- Current/demand accounts	14 086 230	14 086 230	14 086 230
- Term deposits	58 339 390	58 339 390	59 429 943
Bonds issued			
- Bonds	13 140 130	13 140 130	13 024 800
- Subordinated Eurobonds	3 141 864	3 141 864	3 181 179
Other debt securities in issue			
- Promissory notes	10 354 136	10 354 136	10 141 528
- Deposit certificates	11 094	11 094	10 869
Other borrowed funds			
- Subordinated loans	5 340 358	5 340 358	5 340 358
- Syndicated loans	2 416 993	2 416 993	2 398 781
- EBRD	2 155 308	2 155 308	1 997 963
- VTB Bank	1 260 327	1 260 327	1 196 445
- KFW IPEX-Bank GmbH	762 614	762 614	740 182
- Nordic Investment Bank	581 540	581 540	561 104
- Eurasian Development Bank	304 586	304 586	290 817
- Amsterdam Trade Bank N.V.	299 382	299 382	299 358
Other financial liabilities	474 229	474 229	474 229
TOTAL FINANCIAL LIABILITIES	**243 376 630**	**243 376 630**	**244 428 544**

39 Related Party Transactions

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

Transactions are entered into in the normal course of business with shareholders, management and companies controlled by the Group's shareholders and management.

39 Related Party Transactions (continued)

As at 31 December 2011, the outstanding balances with related parties are as follows:

In thousands of Russian Roubles	**Shareholders**	**Management**	**Other related parties**
Loans and advances to customers (contractual interest rates: 5.2% – 22.5% p.a.)	18 000	120 844	369 896
Impairment allowance for loans and advances to customers	(345)	(2 317)	(27 245)
Customer accounts (contractual interest rates: 2.0% - 9.0% p.a.)	354 427	503 624	2 792 353
Other borrowed funds (contractual interest rate: 14.5% p.a.)	-	-	1 590 102

Other borrowed funds include subordinated debt. Refer to note 23.

The income and expense items with related parties, other than compensation to the members of the Supervisory Board and Management Board, for the year 2011 are as follows:

In thousands of Russian Roubles	**Shareholders**	**Management**	**Other related parties**
Interest income	2 333	12 307	53 871
Interest expense	(20 730)	(19 893)	(221 927)
(Provision) recovery of provision for loan impairment	(345)	611	993
Fee and commission income	1 102	635	35 926

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

In thousands of Russian Roubles	**Shareholders**	**Management**	**Other related parties**
Amounts lent to related parties during the period	278 564	97 534	178 922
Amounts repaid by related parties during the period	260 564	45 411	404 868

As at 31 December 2010, the outstanding balances with related parties are as follows:

In thousands of Russian Roubles	**Shareholders**	**Management**	**Other related parties**
Loans and advances to customers (contractual interest rates: 9.5% – 23.3% p.a.)	-	68 721	595 842
Impairment allowance for loans and advances to customers	-	(2 928)	(28 238)
Customer accounts (contractual interest rates: 1.8% - 13.3% p.a.)	191 289	317 994	2 569 230
Other borrowed funds (contractual interest rate: 14.5% p.a.)	-	-	1 544 754

39 Related Party Transactions (continued)

Other borrowed funds are represented by the subordinated loan. Note 23.

The income and expense items with related parties, other than compensation to the members of the Supervisory Board and management, for the year 2010 are as follows:

In thousands of Russian Roubles	**Shareholders**	**Management**	**Other related parties**
Interest income	8	12 329	137 897
Interest expense	(17 712)	(24 836)	(247 360)
(Provision) recovery of provision for loan impairment	-	(1 509)	10 540
Fee and commission income	206	517	29 867

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

In thousands of Russian Roubles	**Shareholders**	**Management**	**Other related parties**
Amounts lent to related parties during the period	4 049	89 041	262 703
Amounts repaid by related parties during the period	4 049	90 619	957 612

In 2011, total remuneration of members of the Supervisory Board and Management Board of the Bank, including pension contributions and discretionary bonuses, amounts to RR 374 336 thousand (2010: RR 267 012 thousand).

40 Consolidation of Special Purpose Entities

As at 31 December 2011 and 31 December 2010, the Group consolidated the special purpose entity BSPB Finance plc. This special purpose entity was established in 2006 to facilitate the Eurobonds issue.

As at 31 December 2011 and 31 December 2010, the Group exercised its control over the activity of the special purpose entity, as all financial and operational activities of this special purpose entity were conducted on behalf of the Group and according to the Group’s specific business needs. The Group has rights to obtain the majority of the benefits of the special purpose entity and therefore is exposed to risks incident to its activities.

As at 31 December 2011 and 31 December 2010, the Group consolidated the close-ended real estate mutual investment fund “Nevskiy - Second Real Estate Fund” and close-ended real estate mutual investment fund “Nevskiy - Fourth Real Estate Fund”. These entities are meant for management of investment property projects.