BANK PETROCOMMERCE GROUP

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

31 December 2011

BANK PETROCOMMERCE GROUP

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Independent Auditor's Report

To the Shareholders and Board of Directors of Petrocommerce Bank Group:

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

ZAO PricewaterhouseCoopers Audit

22 May 2012
Moscow, Russian Federation

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In thousands of Russian Roubles	Note	31 December 2011	31 December 2010
ASSETS			
Cash and cash equivalents	7	28 440 208	26 923 394
Mandatory cash balances with central banks		2 198 834	1 188 747
Trading securities	8	6 452 901	12 140 665
Other financial assets at fair value through profit or loss	35	4 000 000	4 000 000
Due from other banks	9	34 058	530 618
Loans and advances to customers	10	130 870 615	105 653 162
Investment securities available for sale	11	15 692 137	24 671 451
Repurchase receivables	12	3 130 080	-
Investment property	13	1 450 824	-
Current income tax prepayment		231 599	190 249
Deferred tax asset	27	1 535 451	1 072 732
Premises and equipment	14	3 672 895	3 736 761
Other assets	15	1 967 541	1 015 239
TOTAL ASSETS		**199 677 143**	**181 123 018**
LIABILITIES			
Due to other banks	16	17 012 373	18 440 445
Customer accounts	17	140 615 775	118 085 686
Debt securities in issue	18	7 427 288	10 801 126
Other borrowed funds	19	-	129 263
Current income tax liability		124 872	33 178
Deferred tax liability	27	-	15 428
Other liabilities	20	1 675 879	1 527 505
Subordinated debt	21	4 674 695	4 304 048
TOTAL LIABILITIES		**171 530 882**	**153 336 679**
EQUITY			
Share capital	22	8 454 312	8 454 312
Share premium		5 298 246	5 298 246
Fair value reserve for investment securities available for sale		(221 108)	(6 651)
Cumulative translation reserve		(39 635)	(167 684)
Retained earnings	23	14 585 747	14 162 987
Net assets attributable to the Bank's owners		**28 077 562**	**27 741 210**
Non-controlling interest		**68 699**	**45 129**
TOTAL EQUITY		**28 146 261**	**27 786 339**
TOTAL LIABILITIES AND EQUITY		**199 677 143**	**181 123 018**

Approved for issue and signed on behalf of the Executive Board on 22 May 2012:

Nikitenko V.N.
President

Funtova E.V.
Chief Accountant

In thousands of Russian Roubles	Note	2011	2010
Interest income	24	13 627 020	13 876 941
Interest expense	24	(7 297 619)	(8 177 052)
Net interest income		**6 329 401**	**5 699 889**
Provision for loan impairment	10	(1 961 132)	(3 399 732)
Net interest income after provision for loan impairment		**4 368 269**	**2 300 157**
Fee and commission income	25	2 508 961	2 311 792
Fee and commission expense	25	(623 383)	(562 635)
(Losses net of gains) / gains less losses from trading securities		(137 100)	4 135
(Losses net of gains) / gains less losses from trading in foreign currencies		(607 502)	854 325
Gains less losses / (losses net of gains) from financial derivatives		486 055	(265 295)
Foreign exchange translation gains less losses		1 209 139	498 636
(Losses net of gains)/gains less losses from disposal of investment securities available for sale	11	(103 662)	309 985
Impairment of investment securities available for sale recorded directly in the income statement	11	-	(254)
Impairment of investment securities available for sale recycled from the statement of comprehensive income	11	(5 235)	(1 365)
Impairment of other non-financial assets	15	(261 506)	(172 563)
Gains less losses from disposals of loans		308 594	335 784
Losses net of gains arising from early retirement of debt		(10 842)	(44 169)
Dividend income received		42 791	37 050
Provision for impairment of other assets	15	7 895	(44 395)
Provision for credit related commitments	20	(48 753)	(133 828)
Other operating income		84 052	210 012
Administrative and other operating expenses	26	(6 591 098)	(5 366 130)
Profit before tax		**626 675**	**271 242**
Income tax expense	27	(180 133)	(55 382)
Profit for the year		**446 542**	**215 860**
Profit/(loss) is attributable to:			
- Owners of the Bank		428 848	224 107
- Non-controlling interest		17 694	(8 247)
Profit for the year		**446 542**	**215 860**

In thousands of Russian Roubles	**Note**	**2011**	**2010**
Profit for the year		**446 542**	**215 860**
Other comprehensive (loss) /income:			
Investment securities available for sale:			
-Fair value (losses net of gains)/gains less losses		(377 118)	333 966
- Disposal of investment securities available for sale	11	103 662	(309 985)
- Recycling revaluation of impaired investment securities available for sale	11	5 235	1 365
Gains less losses from foreign exchange translation		127 911	12 891
Income tax relating to other comprehensive income components	27	53 690	(7 610)
Other comprehensive (loss)/income for the year, net of tax		**(86 620)**	**30 627**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**359 922**	**246 487**
Total comprehensive income/(loss) for the year attributable to:			
- Owners of the Bank		342 440	252 582
- Non-controlling interest		17 482	(6 095)

In thousands of Russian Roubles	Attributable to owners of the Bank: Share capital	Share premium	Fair value reserve for investment securities available for sale	Cumulative currency translation reserve	Retained earnings	Total	Non-controlling interest	Total equity
Balance at 1 January 2010	**8 454 312**	**5 298 246**	**(21 315)**	**(181 495)**	**13 938 757**	**27 488 505**	**51 948**	**27 540 453**
Changes in equity								
- Acquisition of non-controlling interest in subsidiaries	-	-			123	123	(724)	(601)
- Profit/(loss) for the year 2010	-	-	-	-	224 107	224 107	(8 247)	215 860
- Other comprehensive income/(loss) for the year 2010	-	-	14 664	13 811	-	28 475	2 152	30 627
Total comprehensive (loss)/income for the year 2010	**-**	**-**	**14 664**	**13 811**	**224 107**	**252 582**	**(6 095)**	**246 487**
Balance as at 31 December 2010	**8 454 312**	**5 298 246**	**(6 651)**	**(167 684)**	**14 162 987**	**27 741 210**	**45 129**	**27 786 339**
Changes in equity								
- Acquisition of non-controlling interest in subsidiaries	-	-	-	-	(6 088)	(6 088)	6 088	-
- Profit/(loss) for the year 2011	-	-	-	-	428 848	428 848	17 694	446 542
- Other comprehensive (loss)/income for the year 2011	-	-	(214 457)	128 049	-	(86 408)	(212)	(86 620)
Total comprehensive (loss)/income for the year 2011	**-**	**-**	**(214 457)**	**128 049**	**428 848**	**342 440**	**17 482**	**359 922**
Balance at 31 December 2011	**8 454 312**	**5 298 246**	**(221 108)**	**(39 635)**	**14 585 747**	**28 077 562**	**68 699**	**28 146 261**

In thousands of Russian Roubles	**Note**	**2011**	**2010**
Cash flows from operating activities			
Interest received		13 018 183	10 414 297
Interest paid		(7 210 764)	(9 324 981)
Expenses paid on operations with trading securities		(60 985)	(83 216)
(Expenses paid)/income received from trading in foreign currencies		(607 502)	854 325
Income received/(Expenses paid) from financial derivatives		27 875	(285 126)
Fees and commissions received		2 467 114	2 298 554
Fees and commissions paid		(626 003)	(565 294)
Other operating income received		72 151	213 775
Administrative and other operating expenses paid		(5 764 572)	(4 661 855)
Income tax paid		(555 520)	(806 121)
Cash flows from/(used in) operating activities before changes in operating assets and liabilities		**759 977**	**(1 945 642)**
Changes in operating assets and liabilities			
Net increase in mandatory cash balances with central banks		(1 008 323)	(42 800)
Net decrease /(increase) in trading securities		5 487 384	(6 805 475)
Net increase in other financial assets at fair value through profit or loss		-	(4 000 000)
Net decrease in due from other banks		506 635	53 153
Net increase in loans and advances to customers		(23 985 075)	(5 642 733)
Net (increase)/decrease in other assets		(535 596)	24 304
Net (decrease)/increase in due to other banks		(1 636 850)	10 200 671
Net increase in customer accounts		21 579 654	6 614 775
Net decrease in debt securities in issue		(3 391 907)	(6 102 000)
Net increase/(decrease) in other liabilities		208 014	(112 296)
Net cash used in operating activities		**(2 016 087)**	**(7 758 043)**
Cash flows from investing activities			
Acquisition of investment securities available for sale	11	(32 306 409)	(60 437 099)
Proceeds from disposal of investment securities available for sale	11	37 863 564	48 060 678
Acquisition of premises and equipment		(448 616)	(480 760)
Proceeds from disposal of premises and equipment		6 814	9 562
Dividend received		47 541	37 953
Acquisition of investment property		(1 797 458)	-
Net cash from/(used in) investing activities		**3 365 436**	**(12 809 666)**
Cash flows from financing activities			
Repayment of other borrowed funds		(124 943)	(258 805)
Acquisition of non-controlling interest in subsidiaries		-	(601)
Dividends paid		(1 343)	-
Net cash used in financing activities		**(126 286)**	**(259 406)**
Effect of exchange rate changes on cash and cash equivalents		**302 271**	**(532 765)**
Change in accrued interest income on cash and cash equivalents		**(8 520)**	**(1 184)**
Net increase/(decrease) in cash and cash equivalents		1 516 814	(21 361 064)
Cash and cash equivalents at the beginning of the year	7	26 923 394	48 284 458
Cash and cash equivalents at the end of the year	**7**	**28 440 208**	**26 923 394**

1 Introduction

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") for the year ended 31 December 2011 for OAO Bank Petrocommerce (the "Bank") and its subsidiaries (together referred to as the "Group" or "Bank Petrocommerce Group").

The activities of the Group are regulated by the Central Bank of the Russian Federation (the "CBRF"), legislation of the Russian Federation and that of countries in which the Group subsidiaries are registered.

OAO Bank Petrocommerce is an open joint-stock commercial bank. The Bank was established in the Russian Federation as a limited liability partnership in 1992 and was granted its general banking licence on 6 September 1993. In March 2000, the Bank changed its legal status from a limited liability partnership to an open joint stock company. The principal activities of the Bank include deposit taking and commercial lending, support of clients' export/import transactions, foreign exchange, securities trading and trading in derivative financial instruments. The Bank's operations are conducted in both Russian and international markets. The Bank's activities are regulated by the Central Bank of the Russian Federation ("the CBRF").

The Bank participates in the state deposit insurance scheme, which was introduced by Federal Law № 177-FZ "Deposits of individuals insurance in Russian Federation" dated 23 December 2003. The State Deposit Insurance Agency guarantees repayment of individual deposits up to RR 700 thousand per individual in case of the withdrawal of a licence of a bank or a CBRF imposed moratorium on payments.

The Bank's office is registered at the following address: Petrovka 24, bldg.1, Moscow, 127051, Russia. At 31 December 2011 the Bank had 16 branches (2010: 16 branches) in the Russian Federation. The average number of the Bank's employees during the year was 3 088 (2010: 2 851).

The main shareholder of the Bank is Reserve Invest Holding (Cyprus) Limited which is part of IFD Kapital and which owns 79.39% of voting shares (532 054 303 ordinary shares) (2010: 79.39%, 532 054 303 ordinary shares). Finance Group IFD Kapital is primarily focused on operations in the Russian Federation and participates in the following businesses: trading and brokerage activities, trust management, investment advisory services and administration of pension funds.

The main subsidiaries of Bank Petrocommerce Group are the following subsidiaries: OAO Komi Regional Bank Ukhtabank, PAO Bank Petrocommerce-Ukraine, OAO Joint Stock Investment and Commercial Industrial and Construction Bank Stavropolie, CB UNIBANK S.A. and company OOO Petrocommerce Invest. Also refer to Note 36.

Below is the description of the main activities of the principal subsidiaries.

Open Joined-Stock Company Komi Regional Bank Ukhtabank ("Ukhtabank") is a commercial bank established as an open joint stock company. The Bank's principal business activity is commercial and retail banking operations, operations with securities and foreign exchange within the Russian Federation. The Bank has operated under a general banking license issued by the CBRF since 1991. The head office of Ukhtabank is located at the following address: Oktyabrskaya str. 14, Komi Republic, Ukhta, 169300, Russia. As at 31 December 2011, Ukhtabank had two branches within the Russian Federation (2010: five branches). The average number of Ukhtabank's employees during the reporting period was 313 (2010: 470). The controlling block of shares of Ukhtabank was acquired by the Group in 2002.

1 Introduction (Continued)

PAO *Bank Petrocommerce-Ukraine* ("Petrocommerce-Ukraine") was registered on 26 September 1996 by the National Bank of Ukraine as a joint-stock company under the name Joint-Stock Bank Aviatekbank. In January 2002, Aviatekbank was acquired by the Group and in February 2002 it was renamed as ZAO Petrocommerce-Ukraine. On 13 August 2009 ZAO Bank Petrocommerce-Ukraine was renamed as Public Joint-Stock Company Bank Petrocommerce-Ukraine (PAO Bank Petrocommerce-Ukraine) in accordance with the decision of the General Shareholders' Meeting on changing the type of the joint-stock company. The current banking licence № 108-1 was received by Petrocommerce-Ukraine on 9 April 2002. Petrocommerce-Ukraine's main activities include provision of banking services to companies representing various economic sectors, state bodies and individuals. These services include deposit taking, lending, investments in securities and execution of payments in Ukraine and abroad. Petrocommerce-Ukraine's head office is located in Kiev. As at 31 December 2011, Petrocommerce-Ukraine had no branches in the Ukraine (2010: no branches). The average number of Petrocommerce-Ukraine's employees during the reporting period was 332 (2010: 365).

Joint-Stock Investment Commercial Industrial and Construction Bank Stavropolie, an open joint-stock company (hereinafter, "Stavropolpromstroybank"), was created in December 1991 as a result of restructuring of commercial bank "Stavropolie" previously founded on 26 December 1990. In March 1996, the Bank changed its legal status to an open joint stock company. In May 2002, Stavropolpromstroybank was acquired by the Group. Stavropolpromstroybank has banking licence № 1288. Stavropolpromstroybank's main activities include deposit taking, lending, cash and settlement services to clients and transactions with securities and foreign currencies. Stavropolpromstroybank head office is located in Stavropol. As at 31 December 2011, Stavropolpromstroybank had five branches within the Russian Federation (2010: five branches). The average number of the Bank's employees during the reporting period was 581 (2010: 604).

Commercial Bank UNIBANK S.A. ("Unibank") was created in the Republic of Moldova in August 1992. In December 2002, it was purchased by the Group. Unibank has a "B" type licence for all types of banking activities excluding trust activities. Unibank's main activities include deposit taking, lending, cash and settlement services to clients and transactions with securities. The head office of Unibank is located in Kishinev. As at 31 December 2011, Unibank had five branches in the Republic of Moldova (2010: five branches). The average number of the Unibank's employees during the reporting period was 283 (2010: 261).

OOO PK-Invest. The Company was founded in February 2010. The country of incorporation is Russia. The main activity of the company is operations with securities and other financial assets in the Russian market.

In the normal course of business the Group enters into transactions with its related parties. These transactions include, but are not limited to, settlements, loans, deposit taking, guarantees, trade finance, securities and foreign currency transactions. At 31 December 2011, a substantial portion of the Group's liabilities (28% of total liabilities) (2010: 23% of total liabilities) are due to related parties. Refer to Note 35.

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

2 Operating Environment of the Group

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

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

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

3 Summary of Significant Accounting Policies

Basis of preparation. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) under the historical cost convention, as modified by the revaluation of trading securities, investment securities available-for-sale, other financial assets at fair value through profit or loss and financial derivatives. The Bank maintains its accounting records in accordance with Russian banking regulations. Subsidiaries maintain their accounting records in accordance with Russian accounting regulations or applicable companies’ law in respective jurisdictions. These consolidated financial statements have been prepared from the accounting records of the constituent entities of the Group and adjusted as necessary in order to be in accordance with IFRS. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented.

Consolidated financial statements. Subsidiaries are those 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 rights, or otherwise has power to govern the financial and operating policies so as to obtain benefits. The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Group, and are deconsolidated from the date on which control ceases.

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

The Group measures non-controlling interest that represents present ownership interest and entitles the holder to a proportionate share of net assets in the event of liquidation on a transaction by transaction basis, either at: (a) fair value, or (b) the non-controlling interest's proportionate share of net assets of the acquiree. Non-controlling interests that are not present ownership interests are measured at fair value.

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

3 Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair value is the current bid price for financial assets and current asking price for financial liabilities which 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 flows models or models based on recent arm's length transactions or consideration of financial data of the investees are used to measure at fair value certain financial instruments for which external market pricing information is not available. Valuation techniques may require assumptions not supported by observable market data. Disclosures are made in these consolidated financial statements if changing any such assumptions to a reasonably possible alternative would result in significantly different net profit, income, total assets or total liabilities.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. Transaction 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 securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

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

3 Summary of Significant Accounting Policies (Continued)

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

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

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

Derecognition of financial assets. The Group derecognises 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 qualifying pass-through arrangement while

   (i) also transferring substantially all the risks and rewards of ownership of the assets, or

   (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control.

Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Cash and cash equivalents. Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents include all interbank placements and reverse sale and repurchase agreements with other banks with original maturities of less than three months. Restricted funds are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortised cost.

Mandatory cash balances with central banks Mandatory cash balances with the CBRF and other central banks are carried at amortised cost and represent non-interest bearing mandatory reserve deposits in central banks which are not available to finance the Group’s day to day operations and hence are not considered as part of cash and cash equivalents for the purposes of the consolidated statement of cash flow.

Trading securities. Trading securities are securities which are either acquired for generating a profit from short-term fluctuations in price or trader’s margin, or are securities included in a portfolio in which a pattern of short-term trading exists. The Group classifies securities into trading securities if it has an intention to sell them within a short period after purchase, i.e. normally within twelve months.

3 Summary of Significant Accounting Policies (Continued)

The Group may choose to reclassify a non-derivative trading financial asset out of the fair value through profit or loss category if the asset is no longer held for the purpose of selling it in the near term. Financial assets other than loans and receivables are permitted to be reclassified out of fair value through the profit or loss category only in rare circumstances arising from a single event that is unusual and highly unlikely to reoccur in the near term. Financial assets that would meet the definition of loans and receivables may be reclassified if the Group has the intention and ability to hold these financial assets for the foreseeable future or until maturity.

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

Other financial assets at fair value through profit or loss Financial assets at fair value through profit or loss are financial assets designated irrevocably, at initial recognition, into this category. Management designates securities into this category only if (a) such classification eliminates or significantly reduces an accounting mismatch that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or (b) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information on that basis is regularly provided to and reviewed by the Group. Recognition and measurement of this category of financial assets is consistent with the accounting policy for trading securities.

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

Loans and advances to customers. Loans and advances to customers, including loans provided under factoring agreements, 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 amortised cost.

Impairment of financial assets carried at amortised cost. 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 the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Group determines that no objective evidence exists that impairment 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 in determining whether a financial asset is impaired are its overdue status and realisability of related collateral, if any. The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred:

- any instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the borrower experiences a significant financial difficulty as evidenced by the borrower's 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.

3 Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

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

Repossessed collateral Repossessed collateral represents financial and non-financial assets acquired by the Group in settlement of overdue loans. The assets are initially recognised at fair value when acquired and included in other non-financial assets and are subsequently remeasured and accounted for in accordance with the accounting policies for these categories of assets.

Credit related commitments. The Group enters into credit related commitments, including letters of credit and financial guarantees. Financial guarantees represent irrevocable assurances to make payments in the event that a customer cannot meet its obligations to third parties, and carry the same credit risk as loans. Financial guarantees and commitments to provide a loan are initially recognised at their fair value, 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, except for commitments to originate loans 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; such loan commitment fees are deferred and included in the carrying value of the loan on 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 balance sheet date.

Investment securities available for sale. This classification includes investment securities which 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.

3 Summary of Significant Accounting Policies (Continued)

Investment securities available for sale are carried at fair value. Interest income on available-for-sale debt securities is calculated using the effective interest method and recognised in profit or loss. Dividends on available-for-sale equity instruments 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 elements of changes in the fair value are recognised directly in other comprehensive income until the investment is derecognised or impaired, at which time the cumulative gain or loss is reclassified from other comprehensive income to profit or loss for the reporting period.

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. The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss – is removed from other comprehensive income and recognised in profit or loss. Impairment losses on equity instruments are not reversed through profit or loss. 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 current period's profit or loss.

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 contract or custom to sell or repledge the securities, in which case they are reclassified as repurchase receivables. The corresponding liability is presented within amounts due to other banks or customer accounts.

Securities purchased under agreements to resell ("reverse repo agreements") which effectively provide a lender's return to the Group are recorded as cash and cash equivalents, due from other banks or loans and advances to customers, as appropriate. The difference between the sale and repurchase price is treated as interest income and accrued over the life of repo agreements using the effective interest method.

Promissory notes purchased. Promissory notes purchased are included in trading securities, or in due from other banks or in loans and advances to customers, depending on their substance and are recorded, subsequently remeasured and accounted for in accordance with the accounting policies for these categories of assets.

Investment property. Investment property is property held by the Group to earn rental income or for capital appreciation, or both, and is not occupied by the Group. Investment property includes assets under construction for future use as investment property.

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

Subsequent expenditure is capitalised only when it is probable that future economic benefits associated with it will flow to the Group, and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred. If an investment property becomes owner-occupied, it is reclassified to premises and equipment.

Investment property depreciation is calculated by straight-line method, i.e. asset value equally decreasing during useful life of asset to residual value. Landed property and construction in progress are not depreciated. Annual depreciation rate for premises is 3,4%.

Earned rental income is recorded in profit or loss for the year within other operating income.

3 Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

Premises	2% per annum; and
Office and computer equipment	20%– 33% per annum.

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 were 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 until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

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

Leases embedded in other agreements are separated if (a) fulfilment of the arrangement is dependent on the use of a specific asset or assets and (b) the arrangement conveys a right to use the asset.

Due to other banks. Amounts due to other banks are recorded when money or other financial instruments are advanced to the Group by counterparty banks. Amounts due to other banks are carried at amortised cost.

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

Debt securities in issue. Debt securities in issue include bonds, promissory notes, deposit and saving certificates 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 gains or losses arising from early retirement of debt.

Other borrowed funds. Other borrowed funds include medium and long-term funds attracted by the Group on the international financial markets. Other borrowed funds are carried at amortised cost. If the Group purchases its own other borrowed funds, 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 gains or losses arising from early retirement of debt.

3 Summary of Significant Accounting Policies (Continued)

Subordinated debt. Subordinated debt is a non-derivative liability carried at amortised cost. The subordinated debt ranks after all other creditors in case of liquidation.

Derivative financial instruments. Derivative financial instruments are carried at 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 included in profit or loss as gains/losses arising from operations with derivatives. The Group does not apply hedge accounting.

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

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if financial statements are authorised prior to filing relevant tax returns. Taxes other than on income are recorded within administrative and other operating expenses.

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

Deferred tax is provided on post acquisition retained earnings of subsidiaries, except where the Group controls the subsidiary's dividend policy and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable future.

Uncertain tax positions. The Group's uncertain tax positions are reassessed by management at every reporting date. Liabilities are not recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the 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.

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

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

Share capital. Non-redeemable ordinary shares with discretionary dividends are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Share premium. In case of issue, any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

3 Summary of Significant Accounting Policies (Continued)

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 authorised for issue are disclosed in the subsequent events note. The statutory accounting reports of the Bank are the basis for profit distribution and other appropriations. Profit distribution is made on the basis of the current year net profit in the statutory reports prepared under applicable legislation.

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

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents. Commitment fees received by the 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. The Group does not designate loan commitments as financial liabilities at fair value through profit or loss.

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

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

Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, and which are earned on execution of the underlying transaction, are recorded on its completion. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-proportion basis. Asset management fees related to investment funds are recorded rateably over the period the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continually provided over an extended period of time.

Foreign currency translation. The functional currency of each of the Group’s consolidated entities is the currency of the primary economic environment in which the entity operates. The functional currency of the Bank and the Group’s presentation currency is the national currency of the Russian Federation, Russian Roubles (“RR”).

Monetary assets and liabilities are translated into each entity’s functional currency at the official exchange rate of the CBRF at the respective reporting dates. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities into each entity’s functional currency at period-end official exchange rates of the CBRF are recognised in profit or loss. Translation at period-end rates does not apply to non-monetary items, including equity investments. Effects of exchange rate changes on the fair value of equity securities are recorded as part of the fair value gain or loss.

The results and financial position of each group entity (the functional currency of none of which is a currency of a hyperinflationary economy) are translated into the presentation currency as follows:

(i) assets and liabilities for each statement of financial position presented are translated at the closing rate at the end of the reporting date;

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions);

3 Summary of Significant Accounting Policies (Continued)

(iii) components of equity are translated at the historic rate; and

(iv) all resulting exchange differences are recognised in other comprehensive income.

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

Fiduciary assets and trust activities. Assets held by the Group in its own name, but on the account of third parties, are not reported in the consolidated statement of financial position. Commissions received from such 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 has 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 currency of a country with hyperinflationary economy without restatement 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 has 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 of such assets or liabilities (premises and equipment and share capital) in these consolidated financial statements. The restatement was calculated using the conversion factors derived from the Russian Federation Consumer Price Index ("CPI"), 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 the Russian Federation state pension and social insurance funds, paid annual leave and sick leave and bonuses are accrued in the year in which the associated services are rendered by the employees of the Group.

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies

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

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies (Continued)

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

If 30% of watch list loans transfer to impaired past due loans and 50% of impaired not past due transfer to impaired past due loans and if current trends of other watch list loan default level increase persists, the increase of provision for loan impairment will be RR 5 477 160 thousand (2010: RR 5 150 153 thousand), the increase of provision rate will be 2.3% p.a. (2010: 2.7% p.a.).

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

Initial recognition of related party transactions. In the normal course of business the Group enters into transactions with its related parties. IAS 39, *Financial Instruments: Recognition and Measurement*, requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis.

Segment reporting. Segments are reported in a manner consistent with the internal reporting provided to the Group's chief operating decision maker (CODM). The functions of CODM are performed by the Board of Directors. Segments whose revenue, financial result or assets are ten percent or more of all the segments are reported separately.

Subsidiaries. The Group does not have direct ownership in Unibank, but exercises control via the Supervisory Council that consists of vice-presidents of the Bank.

Special Purpose Entities (SPEs). Judgement is also required to determine whether the substance of the relationship between the Group and a special purpose entity indicates that the special purpose entity is controlled by the Group. The Group does not consolidate SPEs that it does not control. As it can sometimes be difficult to determine whether the Group does control an SPE, management makes judgements about its exposure to the risks and rewards, as well as about its ability to make operational decisions for the SPE in question. In many instances, elements are present that, considered in isolation, indicate control or lack of control over an SPE, but when considered together make it difficult to reach a clear conclusion. In cases where more arguments are in place towards existence of control, the SPE is consolidated. Refer to Note 36.

Deferred tax asset recognition. The recognised deferred tax asset represents income taxes recoverable through future deductions from taxable profits, and is recorded in the statement of financial position. Deferred tax assets are recorded to the extent that realisation of the related tax benefit is probable. The future taxable profits and the amount of tax benefits that are probable in the future are based on a medium- and long-term forecast of taxable profits of the Group prepared by management. Key assumptions used in the five-year forecast: realistic scenario of the Group's future operations based on the assumptions of loan portfolio growth, formation of interest, fee and commission income allows the Group's management to believe that the deferred tax asset recognised in the statement of financial position will be offset against the Group's taxable profit in future.

5 Adoption of New or Revised Standards and Interpretations

Standards effective for annual periods beginning on 1 January 2011 or after this date

Certain new IFRSs became mandatory for the Group from 1 January 2011:

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

Improvements to International Financial Reporting Standards (issued in May 2010 and effective from 1 January 2011). The improvements consist of a mixture of changes and clarifications in the following standards and interpretations:

IFRS 1, First-time Adoption of International Financial Reporting Standards. IFRS 1 was amended (i) to allow previous GAAP carrying value to be used as deemed cost of an item of property, plant and equipment or an intangible asset if that item was used in operations subject to rate regulation, (ii) to allow an event driven revaluation to be used as deemed cost of property, plant and equipment even if the revaluation occurs during a period covered by the first IFRS financial statements and (iii) to require a first-time adopter to explain changes in accounting policies or in the IFRS 1 exemptions between its first IFRS interim report and its first IFRS financial statements;

IFRS 3, Business Combinations. IFRS 3 was amended (i) to require measurement at fair value (unless another measurement basis is required by other IFRS standards) of non-controlling interests that are not present ownership interest or do not entitle the holder to a proportionate share of net assets in the event of liquidation, (ii) to provide guidance on acquiree's share-based payment arrangements that were not replaced or were voluntarily replaced as a result of a business combination and (iii) to clarify that the contingent considerations from business combinations that occurred before the effective date of revised IFRS 3 (issued in January 2008) will be accounted for in accordance with the guidance in the previous version of IFRS 3;

IFRS 7, Financial Instruments: Disclosures. IFRS 7 was amended to clarify certain disclosure requirements, in particular (i) by adding an explicit emphasis on the interaction between qualitative and quantitative disclosures about the nature and extent of financial risks, (ii) by removing the requirement to disclose carrying amount of renegotiated financial assets that would otherwise be past due or impaired, (iii) by replacing the requirement to disclose fair value of collateral by a more general requirement to disclose its financial effect, and (iv) by clarifying that an entity should disclose the amount of foreclosed collateral held at the reporting date and not the amount obtained during the reporting period;
IAS 1, Presentation of Financial Statements. IAS 1 was amended to clarify the requirements for the presentation and content of the statement of changes in equity;

IAS 27, Consolidated and Separate Financial Statements. IAS 27 was amended by clarifying the transition rules for amendments to IAS 21, 28 and 31 made by the revised IAS 27 (as amended in January 2008).

IAS 34, Interim Financial Statements. IAS 34 was amended to add additional examples of significant events and transactions requiring disclosure in a condensed interim financial report, including transfers between the levels of fair value hierarchy, changes in classification of financial assets or changes in business or economic environment that affect the fair values of the entity's financial instruments.

IFRIS 13, Customer Loyalty Programmes was amended to clarify the method of measuring the fair value of award credits. The above amendments resulted in additional or revised disclosures, but had no material impact on measurement or recognition of transactions and balances reported in these financial statements.

5 Adoption of New or Revised Standards and Interpretations (Continued)

IFRIC 19, Extinguishing financial liabilities with equity instruments, amendments to IAS 32 on classification of rights issues, clarifications in IFRIC 14, *IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction,* relating to prepayments of minimum funding requirements and amendments to IFRS 1, *First-time adoption of IFRS*, did not have any impact on these financial statements.

Unless otherwise stated above, the amendments and interpretations did not have any significant effect on the Group's consolidated financial statements.

6 New Accounting Pronouncements

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

IFRS 9, Financial Instruments. Part 1: Classification and Measurement. IFRS 9 issued in November 2009 replaces those parts of IAS 39 relating to the classification and measurement of financial assets. IFRS 9 was further amended in October 2010 to address the classification and measurement of financial liabilities and in December 2011 in relation to (i) change of entry into legal force date, which is settled as year periods, beginning on or after 1 January 2015, (ii) adding of requirement about disclosure about adoption of this standart. Key features of the standard are as follows:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent only payments of principal and interest (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.

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

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

While adoption of IFRS 9 is mandatory from 1 January 2015, earlier adoption is permitted. The Group does not expect the amendments to have any material effect on its consolidated financial statements.

IFRS 10, Consolidated Financial Statements (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), replaces all of the guidance on control and consolidation in IAS 27, *Consolidated and Separate Financial Statements*, and SIC-12, *Consolidation – Special Purpose Entities*. IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control. This definition is supported by extensive application guidance. The amendment is not expected to have any impact on the Group's consolidated financial statements.

6 New Accounting Pronouncements (Continued)

IFRS 11, Joint Arrangements, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), replaces IAS 31, *Interests in Joint Ventures*, and SIC-13, *Jointly Controlled Entities – Non-Monetary Contributions by Ventures*. Changes in the definitions have reduced the number of types of joint arrangements to two: joint operations and joint ventures. The existing policy choice of proportionate consolidation for jointly controlled entities has been eliminated. Equity accounting is mandatory for participants in joint ventures. The Group does not expect the amendments to have any material effect on its consolidated financial statements.

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

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

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

IAS 28, Investments in Associates and Joint Ventures, (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013). The amendment of IAS 28 resulted from the Board's project on joint ventures. When discussing that project, the Board decided to incorporate the accounting for joint ventures using the equity method into IAS 28 because this method is applicable to both joint ventures and associates. With this exception, other guidance remained unchanged. The amendment is not expected to have any impact on the Group's consolidated financial statements.

Disclosures – Transfers of Financial Assets – Amendments to IFRS 7 (issued in October 2010 and effective for annual periods beginning on or after 1 July 2011). The amendment requires additional disclosures in respect of risk exposures arising from transferred financial assets. The amendment includes a requirement to disclose by class of asset the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party, yet remain on the entity's balance sheet. Disclosures are also required to enable a user to understand the amount of any associated liabilities, and the relationship between the financial assets and associated liabilities. Where financial assets have been derecognised, but the entity is still exposed to certain risks and rewards associated with the transferred asset, additional disclosure is required to enable the effects of those risks to be understood. The Group does not expect the amendments to have any material effect on its consolidated financial statements.

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

6 New Accounting Pronouncements (Continued)

Amended IAS 19, Employee Benefits (issued in June 2011, effective for periods beginning on or after 1 January 2013), makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. The standard requires recognition of all changes in the net defined benefit liability (asset) when they occur, as follows: (i) service cost and net interest in profit or loss; and (ii) remeasurements in other comprehensive income. The Group expects the amended standard to change presentation of its financial statements, but have no impact on measurement of transactions and balances.

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

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

7 Cash and Cash Equivalents

In thousands of Russian Roubles	**2011**	**2010**
Cash on hand	7 961 402	7 700 864
Cash balances with central banks (other than mandatory reserve deposits)	7 103 633	5 835 658
Correspondent accounts and overnight placements with other banks		
- Russian Federation	4 197 502	507 847
- other countries	8 585 330	2 769 757
Placements with other banks with original maturities of less than three months	12 446	4 019 624
Reverse sale and repurchase agreements with other banks with original maturities of less than three months	-	5 272 863
Settlement accounts with trading systems	579 895	816 781
Total cash and cash equivalents	**28 440 208**	**26 923 394**

At 31 December 2010, cash equivalents of RR 5 272 863 thousand are effectively collateralised by securities purchased under reverse sale and repurchase agreements at a fair value of RR 5 928 755 thousand, of which the Group had a right to sell or repledge securities with a fair value of RR 5 928 755 thousand.

Geographical, currency, maturity and interest rate analyses of cash and cash equivalents are disclosed in Note 30. Information on related party balances and transactions is disclosed in Note 35.

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

In thousands of Russian Roubles	**2011**	**2010**
Non-cash operating activities		
Other assets acquired by the Group in settlement of overdue loans	(267 957)	(312 194)
Proceeds from disposal of other assets	25 423	2 611
Total non-cash operating activities	**(242 534)**	**(309 583)**
Non-cash investing activities		
Premises and equipment acquired by the Group in settlement of overdue loans	(1 634)	-
Total non-cash investing activities	**(1 634)**	**-**
Total non-cash activities	**(244 168)**	**(309 583)**

8 Trading Securities

In thousands of Russian Roubles	**2011**	**2010**
Corporate bonds	2 974 993	3 334 577
Promissory notes	2 676 644	5 368 879
Federal loan bonds (OFZ bonds)	558 530	1 404 762
Russian Federation Eurobonds	-	762 981
Corporate Eurobonds	-	437 178
Municipal bonds and bonds of the Russian Federation's regions	20 089	20 350
Total debt securities	**6 230 256**	**11 328 727**
Quoted corporate shares	222 645	811 938
Total equity securities	**222 645**	**811 938**
Total trading securities	**6 452 901**	**12 140 665**

Corporate bonds are debt securities denominated in Russian roubles, issued by large Russian companies in financial, banking, metallurgical, agricultural and other sectors.

Promissory notes represent promissory notes issued by large Russian banks.

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

Russian Federation Eurobonds are US dollar denominated government securities issued by the Ministry of Finance of the Russian Federation.

Corporate Eurobonds are interest bearing securities denominated in US dollars, issued by large Russian companies and are freely tradable internationally on the over-the-counter market.

Municipal bonds and bonds of Russian Federation's regions represent debt securities denominated in Russian roubles.

Corporate shares mainly include shares of major Russian oil and gas companies. These shares are freely tradable in Russian market.

8 Trading Securities (Continued)

Analysis by issuers' credit quality of debt trading securities at 31 December 2011 and 31 December 2010 is as follows:

In thousands of Russian Roubles	2011	2010
Corporate bonds		
- BB- to BBB+ rated	1 073 077	2 686 472
- B+ and below rated	133 266	156 930
- Unrated	1 768 650	491 175
Promissory notes		
- BB- to BBB+ rated	2 046 710	5 167 390
- B+ and below rated	480 860	-
- Unrated	149 074	201 489
Federal loan bonds (OFZ bonds)		
- BB- to BBB+ rated	558 530	1 404 762
Russian Federation Eurobonds		
- BB- to BBB+ rated	-	762 981
Corporate Eurobonds		
- BB- to BBB+ rated	-	437 178
Municipal bonds and bonds of the Russian Federation's regions		
- BB- to BBB+ rated	20 089	20 350
Total debt trading securities	**6 230 256**	**11 328 727**

The analysis of the Group's trading debt securities at 31 December 2011 is set out below:

In % p.a.	Maturity		Annual coupon rate		Annual yield to maturity	
	from	to	from	to	from	to
Municipal bonds and bonds of the Russian Federation's regions	November 2013	December 2015	7.0	8.0	8.4	9.2
Corporate bonds	October 2012	October 2020	6.6	12.0	5.8	12.3
Promissory notes	January 2012	July 2012	0.0	0.0	5.6	9.5
Federal loan bonds (OFZ bonds)	August 2014	August 2016	6.9	12.0	7.4	8.1

8 Trading Securities (Continued)

The analysis of the Group's trading debt securities at 31 December 2010 is set out below:

In % p.a.	Maturity		Annual coupon rate		Annual yield to maturity	
	from	**to**	**from**	**to**	**from**	**to**
Municipal bonds and bonds of the Russian Federation's regions	November 2013	December 2015	7.5	8.0	7.8	8.1
Corporate bonds	October 2011	October 2015	6.6	15.0	6.7	14.2
Promissory notes	January 2011	January 2012	0.0	0.0	4.5	14.8
Federal loan bonds (OFZ bonds)	January 2012	August 2016	6.9	12.0	5.6	7.5
Corporate Eurobonds	July 2020	October 2020	6.6	6.9	6.2	6.8
Russian Federation Eurobonds	April 2015	March 2030	3.6	7.5	3.6	4.9

Trading securities are carried at fair value which also reflects credit risk. As at 31 December 2011 and 31 December 2010, the Group did not have any past due or impaired trading securities with exception of securities with the zero fair value. Issuer's credit quality analysis is carried out by the Group at the stage of setting limits and is described in Note 30.

The Bank and main members of the Group have licenses of the Federal Commission on Securities Markets of Russian Federation.

In 2008, the Group reclassified certain financial assets held for trading into 'available for sale' and 'loans and advances to customers' categorised due to implementation of the amendments to IAS 39 and IFRS 7, Reclassification of Financial Assets.

The table below provides information on the reclassification amounts, estimated value of cash flows the Group planned to receive as at the date of the reclassification and the effective interest rates on financial assets:

In thousands of Russian Roubles	**Amount reclassified**	**Cash flows expected to be recovered (at the date of reclassifi-cation)**	**Effective interest rate**
Reclassified into loans, including those classified as repurchase receivable as at the date of reclassification			
Corporate bonds	755 775	838 854	13.8
Reclassified into investment securities available for sale, including those classified as repurchase receivable as at the date of reclassification			
Federal loan bonds (OFZ bonds)	5 968 575	5 968 575	6.7
Corporate bonds	1 431 642	1 431 642	8.8
Municipal bonds and bonds of the Russian Federation's regions	518 818	518 818	8.5
Corporate Eurobonds	151 962	151 962	7.6
Total	**8 826 772**	**8 909 851**	**-**

8 Trading Securities (Continued)

The reclassification was made effective from 1 July 2008 when, in management's opinion, the third quarter 2008 collapse in financial markets liquidity and stability commenced, which has also led to the International Accounting Standards Board issuing the amendment allowing reclassifications from that date.

Management believes that the decline in market prices that occurred in the third quarter of 2008 represented a rare event as it was significantly out of line with historical volatilities observed in financial markets.

At 31 December 2011 and 31 December 2010, the carrying amounts and fair values of debt securities that have been reclassified and which were not yet sold or otherwise derecognised, were as follows:

	2011		**2010**	
In thousands of Russian Roubles	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
Reclassified into investment securities available for sale				
Federal loan bonds (OFZ bonds)	191 927	191 927	529 527	529 527
Municipal bonds and bonds of the Russian Federation's regions	37 506	37 506	72 591	72 591
Total	**229 433**	**229 433**	**602 118**	**602 118**

The fair value gain or loss on these debt securities up to the date of reclassification, income or loss recognised after reclassification, and fair valuation gain or loss as at 31 December 2011 and 31 December 2010 that would have been recognised if the assets had not been reclassified, were as follows:

8 Trading Securities (Continued)

In thousands of Russian Roubles	The fair value gain/(loss) recognised in profit or loss up to the date of reclassification (in 2008)	Income recognised in profit or loss after reclassification*				Gain/(loss) from revaluation that would have been recognised in profit or loss if the assets had not been reclassified			
		2011	**2010**	**2009**	**2008**	**2011**	**2010**	**2009**	**2008**
Reclassified into loans and advances to customers									
Corporate bonds	240	-	-	37 898	35 251	-	-	-	(75 727)
Reclassified into investment securities available for sale									
Federal loan bonds (OFZ bonds)	(7 302)	15 585	75 370	211 397	239 440	(21 140)	(17 146)	(94 580)	(315 954)
Municipal bonds and bonds of the Russian Federation's regions	(3 581)	5 402	8 591	21 118	27 852	238	646	(4 441)	(39 042)
Corporate bonds	(29 497)	-	-	22 633	62 831	-	-	-	(192 300)
Corporate Eurobonds	3 079	-	-	9 533	6 663	-	-	-	(64 975)
Total	**(37 061)**	**20 987**	**83 961**	**302 579**	**372 037**	**(20 902)**	**(16 500)**	**(99 021)**	**(687 998)**

* Income or loss recognised after reclassification comprises interest income, foreign exchange gains less losses.

Geographical, currency, maturity and interest rate analyses of trading securities are disclosed in Note 30. Information on trading securities issued by related parties is disclosed in Note 35.

9 Due from Other Banks

In thousands of Russian Roubles	2011	2010
Term placements with other banks with original maturities of more than three months	34 402	531 128
Less: Provision for impairment of due from other banks	(344)	(510)
Total due from other banks	**34 058**	**530 618**

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

	2011		2010	
In thousands of Russian Roubles	**Term placements with other banks with original maturities of more than three months**	**Overdue term placements with other banks**	**Term placements with other banks with original maturities of more than three months**	**Overdue term placements with other banks**
Provision for impairment of due from other banks at 1 January	**510**	**-**	**487**	**9 709**
Provision for impairment of due from other banks during the year	573	-	12	-
Due from other banks written off during the year as uncollectible	(762)	-	-	(9 881)
Effect of translation to presentation currency	23	-	11	172
Provision for impairment of due from other banks at 31 December	**344**	**-**	**510**	**-**

As at 31 December 2011, there are no term placements with other banks past due and/or impaired on individually basis in the Group's statement of financial position.

At 31 December 2011, term placements with other banks of RR 34 402 thousand (2010: RR 531 128 thousand) with original maturity of more than three months included deposits of non-OECD countries' banks. The provision for impairment was RR 344 thousand (2010: RR 510 thousand).

The Group analysing term placement with other banks in terms of location of counterparties due to the fact of Banks-members of the OECD mean higher credit quality.

At 31 December 2010, term placements with other banks (non-OECD countries) of RR 401 442 thousand were pledged to third parties as collateral with respect to term placements of other banks and simultaneously secured by term placements of other banks of RR 400 195 thousand. Refer to Notes 16 and 31.

The fair value of each category of due from other banks is provided in Note 33. Geographical, currency, maturity and interest rate analyses of due from other banks are disclosed in Note 30.

10 Loans and Advances to Customers

In thousands of Russian Roubles	2011	2010
Corporate entities		
Commercial loans	114 206 296	98 830 322
Factoring	14 184 503	7 549 075
Reverse sale and repurchase agreements	6 413 736	7 446 088
Individuals		
Loans to individuals	13 817 474	9 302 810
Reverse sale and repurchase agreements	178 186	207 831
Less: Provision for loan impairment	(17 929 580)	(17 682 964)
Total loans and advances to customers	**130 870 615**	**105 653 162**

At 31 December 2011, loans and advances to customers of RR 6 591 922 thousand (2010: RR 7 653 919 thousand) were effectively collateralised by securities purchased under reverse sale and repurchase agreements at a fair value of RR 7 863 276 thousand (2010: RR 8 892 579 thousand), of which the Group has the right to sell or repledge securities with a fair value of RR 7 863 276 thousand (2010: RR 8 892 579 thousand). Movements in provisions for loan impairment are as follows:

	Corporate entities		Individuals	Total
In thousands of Russian Roubles	**Commercial loans**	**Factoring**	**Loans to individuals**	
Provision for loan impairment at 1 January 2011	**15 501 615**	**550 435**	**1 630 914**	**17 682 964**
Provision for loan impairment during the year	1 552 711	207 429	200 419	1 960 559
Provision in respect of sold loans	(1 516 042)	-	(5 420)	(1 521 462)
Loans and advances to customers written off during the year as uncollectible	(206 014)	-	(30 589)	(236 603)
Effect of translation to presentation currency	37 451	802	5 869	44 122
Provision for loan impairment at 31 December 2011	**15 369 721**	**758 666**	**1 801 193**	**17 929 580**

10 Loans and Advances to Customers (Continued)

	Corporate entities		Individuals	Total
In thousands of Russian Roubles	**Commercial loans**	**Factoring**	**Loans to individuals**	
Provision for loan impairment at 1 January 2010	**13 043 889**	**516 261**	**1 167 970**	**14 728 120**
Provision for loan impairment during the year	2 901 098	33 463	465 159	3 399 720
Provision in respect of sold loans	(407 655)	-	-	(407 655)
Loans and advances to customers written off during the year as uncollectible	(46 007)	-	(3 880)	(49 887)
Effect of translation to presentation currency	10 290	711	1 665	12 666
Provision for loan impairment at 31 December 2010	**15 501 615**	**550 435**	**1 630 914**	**17 682 964**

10 Loans and Advances to Customers (Continued)

The analysis of the Group's loan portfolio by credit quality at 31 December 2011 is set out below:

	Corporate entities			Individuals		Total
In thousands of Russian Roubles	**Commercial loans**	**Reverse sale and repurchase agreements**	**Factoring**	**Loans to individuals**	**Reverse sale and repurchase agreements**	
Current and not impaired loans						
- Standard loans:	73 645 596	6 413 736	13 225 426	11 339 468	178 186	**104 802 412**
- customers with credit history over one year	36 088 329	-	7 789 682	4 987 831	-	**48 865 842**
- customers with credit history less than one year	37 557 267	6 413 736	5 435 744	6 351 637	178 186	**55 936 570**
- watch list	8 153 463	-	-	203 580	-	**8 357 043**
Total current and not impaired loans	**81 799 059**	**6 413 736**	**13 225 426**	**11 543 048**	**178 186**	**113 159 455**
Past due but not impaired loans						
- less than 1 month overdue	630 428	-	-	195 695	-	**826 123**
Total past due but not impaired loans	**630 428**	**-**	**-**	**195 695**	**-**	**826 123**
Individually impaired loans (gross)						
- current	19 289 886	-	-	37 849	-	**19 327 735**
- less than 1 month overdue	6 437	-	-	74 257	-	**80 694**
- 1 to 3 months overdue	747 861	-	-	43 247	-	**791 108**
- 3 to 6 months overdue	1 409 078	-	-	41 643	-	**1 450 721**
- 6 to 12 months overdue	231 582	-	6 250	73 894	-	**311 726**
- over 1 year overdue	10 091 965	-	952 827	1 807 841	-	**12 852 633**
Total individually impaired loans	**31 776 809**	**-**	**959 077**	**2 078 731**	**-**	**34 814 617**
Total loans and advances to customers (before provision for impairment)	**114 206 296**	**6 413 736**	**14 184 503**	**13 817 474**	**178 186**	**148 800 195**
Less: Provision for loan impairment	**(15 369 721)**	**-**	**(758 666)**	**(1 801 193)**	**-**	**(17 929 580)**
Total loans and advances to customers	**98 836 575**	**6 413 736**	**13 425 837**	**12 016 281**	**178 186**	**130 870 615**

10 Loans and Advances to Customers (Continued)

The analysis of the Group's loan portfolio by credit quality at 31 December 2010 is set out below:

	Corporate entities			Individuals		Total
In thousands of Russian Roubles	**Commercial loans**	**Reverse sale and repurchase agreements**	**Factoring**	**Loans to individuals**	**Reverse sale and repurchase agreements**	
Current and not impaired loans						
- Standard loans:	52 229 716	7 446 088	6 481 033	6 818 685	207 831	73 183 353
- *customers with credit history over one year*	32 423 076	2 897 630	3 930 796	4 545 643	-	43 797 145
- *customers with credit history less than one year*	19 806 640	4 548 458	2 550 237	2 273 042	207 831	29 386 208
- watch list	11 501 028	-	136 389	196 361	-	11 833 778
Total current and not impaired loans	**63 730 744**	**7 446 088**	**6 617 422**	**7 015 046**	**207 831**	**85 017 131**
Past due but not impaired loans						
- less than 1 month overdue	28 581	-	-	127 919	-	156 500
Total past due but not impaired loans	**28 581**	**-**	**-**	**127 919**	**-**	**156 500**
Individually impaired loans (gross)						
- current	20 841 177	-	-	60 850	-	20 902 027
- less than 1 month overdue	22 995	-	-	78 004	-	100 999
- 1 to 3 months overdue	383 206	-	-	63 617	-	446 823
- 3 to 6 months overdue	340 864	-	-	211 061	-	551 925
- 6 to 12 months overdue	5 326 262	-	-	114 972	-	5 441 234
- over 1 year overdue	8 156 493	-	931 653	1 631 341	-	10 719 487
Total individually impaired loans	**35 070 997**	**-**	**931 653**	**2 159 845**	**-**	**38 162 495**
Total loans and advances to customers (before provision for impairment)	**98 830 322**	**7 446 088**	**7 549 075**	**9 302 810**	**207 831**	**123 336 126**
Less: Provision for loan impairment	**(15 501 615)**	**-**	**(550 435)**	**(1 630 914)**	**-**	**(17 682 964)**
Total loans and advances to customers	**83 328 707**	**7 446 088**	**6 998 640**	**7 671 896**	**207 831**	**105 653 162**

10 Loans and Advances to Customers (Continued)

Current and not impaired loans represent the carrying amount of: a) standard loans whose terms have not been renegotiated; b) the watch list loans represent loans with credit risk higher than remote and/or that would otherwise be past due or impaired and whose terms have been renegotiated. Overdue, but not impaired loans mainly include loans whose delay is assessed by the Bank as technical. The amount reported as past due but not impaired is the whole balance of such loans, not only the individual instalments that are past due.

The watch list loans represent loans with credit risk higher than remote. The primary factors that the Group considers in determining whether a loan is impaired are its overdue status, individual signs of impairment, such as changes in the payment schedule, deterioration in the financial health and other and realisability of related collateral, if any. As a result, the Group presents above an ageing analysis of loans that are individually determined to be impaired.

Individually impaired and not past due loans are mostly represented by restructured loans.

Fair value of collateral in respect of loans past due but not impaired and in respect of loans individually determined to be impaired at 31 December 2011 and 31 December 2010 was as follows:

In thousands of Russian Roubles	**Commercial loans**	**Loans to individuals**	**Total**
31 December 2011			
Fair value of collateral – loans past due but not impaired			
- real estate	339 330	3 894 247	4 233 577
- equipment and motor vehicles	58 719	226 416	285 135
- other assets	70 139	846 162	916 301
Fair value of collateral - loans individually determined to be impaired			
- claims to the Group and cash	60 000	181 482	241 482
- tradable securities	8 513	329 614	338 127
- real estate	24 306 417	7 435 852	31 742 269
- equipment and motor vehicles	4 866 164	2 221 602	7 087 766
- other assets	6 323 245	3 719 194	10 042 439
Total	**36 032 527**	**18 854 569**	**54 887 096**

In thousands of Russian Roubles	**Commercial loans**	**Loans to individuals**	**Total**
31 December 2010			
Fair value of collateral - loans past due but not impaired			
- financial claims to the Group and cash	134	-	134
- real estate	10 788	132 139	142 927
- equipment and motor vehicles	12 881	5 032	17 913
- other assets	11 326	26 915	38 241
Fair value of collateral - loans individually determined to be impaired			
- claims to the Group and cash	77 197	11 137	88 334
- tradable securities	183 724	22 174	205 898
- real estate	29 293 337	1 582 527	30 875 864
- equipment and motor vehicles	7 493 954	133 126	7 627 080
- other assets	8 014 416	42 907	8 057 323
Total	**45 097 757**	**1 955 957**	**47 053 714**

10 Loans and Advances to Customers (Continued)

In this classification, the financial claims to the Group and cash represent the most reliable security.

Fair value of collateral on loans individually determined to be impaired exceeds the amount of carrying value of these loans at 31 December 2011 and 31 December 2010, as in the event of default the collateral is likely to be sold with a discount to its fair value upon completion of all legally required procedures and in case of bankruptcy of the borrower the Group has no preferences in respect of other creditors. Due to the crisis phenomena in the economy, in case of urgent realisation of the collateral, there are risks that the Group will have to give an addition discount to the fair value of collateral for the buyer. Refer also to Note 30 for the risk management policies applied by the Group in relation to fair value of collateral' calculation.

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

	2011		2010	
In thousands of Russian Roubles	**Amount**	**%**	**Amount**	**%**
Production	25 155 388	17	27 582 254	22
Trade	21 724 040	15	17 185 906	14
Construction	21 540 782	14	18 321 379	15
Finance	21 167 755	14	14 636 725	12
Individuals	13 995 660	9	9 510 641	8
Transport	11 658 886	8	6 514 344	5
Oil and energy	9 848 616	7	7 504 101	6
Agriculture	6 342 628	5	7 744 849	6
Food industry	6 211 042	4	5 627 583	5
Other	11 155 398	7	8 708 344	7
Total loans and advances to customers (before provision for impairment)	**148 800 195**	**100**	**123 336 126**	**100**

The analysis of the Group's loan portfolio (gross) by types of collateral at 31 December 2011 is set out below:

	Corporate entities			Individuals		Total
In thousands of Russian Roubles	**Commer-cial loans**	**Reverse sale and repurchase agreements**	**Factoring**	**Loans to indi-viduals**	**Reverse sale and repurchase agreements**	
Unsecured loans	20 227 670	-	678 685	4 451 724	-	25 358 079
Loans collateralised by:						
- financial claims to the Group and cash	637 056	-	-	281 800	-	918 856
- tradable securities	2 778 898	6 413 736	-	79 196	178 186	9 450 016
- real estate	46 015 209	-	-	5 940 146	-	51 955 355
- equipment and motor vehicles	12 078 252	-	-	115 572	-	12 193 824
- warranties and banking guarantees	23 257 951	-	-	2 801 341	-	26 059 292
- recourse claims under factoring agreements	-	-	13 505 818	-	-	13 505 818
- other assets	9 211 260	-	-	147 695	-	9 358 955
Total loans and advances to customers	**114 206 296**	**6 413 736**	**14 184 503**	**13 817 474**	**178 186**	**148 800 195**

10 Loans and Advances to Customers (Continued)

The analysis of the Group's loan portfolio (gross) by types of collateral at 31 December 2010 is set out below:

	Corporate entities			Individuals		Total
In thousands of Russian Roubles	**Commercial loans**	**Reverse sale and repurchase agreements**	**Factoring**	**Loans to individuals**	**Reverse sale and repurchase agreements**	
Unsecured loans	21 779 605	-	-	1 840 339	-	23 619 944
Loans collateralised by:						
- financial claims to the Group and cash	1 568 574	-	-	301 953	-	1 870 527
- tradable securities	3 218 174	7 446 088	-	29 658	207 831	10 901 751
- real estate	37 975 170	-	-	3 656 562	-	41 631 732
- equipment and motor vehicles	8 514 172	-	-	139 592	-	8 653 764
- warranties and banking guarantees	19 065 623	-	15 839	3 256 750	-	22 338 212
- recourse claims under factoring agreements	-	-	7 533 236	-	-	7 533 236
- other assets	6 709 004	-	-	77 956	-	6 786 960
Total loans and advances to customers	**98 830 322**	**7 446 088**	**7 549 075**	**9 302 810**	**207 831**	**123 336 126**

Other assets mainly include equipment and receivables.

On loans issued within factoring agreements the Group has the possibility of claims recourse from the debtor to the seller. Refer to Note 30. If there are several types of collateral, with the aggregate collateral value exceeding the amount of the respective loan, the amount of outstanding loans was presented in the following way: it was allocated to different types of collateral in the order of decreasing liquidity and reliability of collateral.

The financial impact of collateral on provision for loan impairment was as follows. Without taking into account collateral, provisions for loan impairment would have been higher by the following amounts:

In thousands of Russian Roubles	2011	2010
Corporate entities		
Commercial loans	6 499 252	4 728 233
Loans to individuals	57 336	54 607

In 2011, the Group sold the portfolio of impaired loans to its related parties and third persons parties. The nominal amount of these loans including accrued interest and gross of provision was RR 4 355 213 thousand. (2010: RR 2 173 454 thousand).The excess of sale price over the book value of the loans sold is RR 308 594 thousand (2010: RR 335 784 thousand) and is recorded in the consolidated income statement. The Group has transferred to its related parties and third person parties all rights on cash flows from financial assets, and risks and rewards related to the sold loans and has no intention, rights and obligations to repurchase them.

Outstanding payment for the sold portfolio of impaired loans is recorded within other assets. Refer to Note 15.

The fair value of each category of loans and advances to customers is provided in Note 33. Geographical, currency, maturity and interest rate analyses of loans and advances to customers are disclosed in Note 30. Information on related party balances is disclosed in Note 35.

11 Investment Securities Available for Sale

In thousands of Russian Roubles	2011	2010
Federal loan bonds (OFZ bonds)	7 436 235	10 778 948
Corporate bonds	3 515 442	7 073 754
Municipal bonds and bonds of the Russian Federation's regions	78 696	1 416 135
CBRF bonds	-	446 670
Corporate Eurobonds	-	425 065
Debt securities of central banks of non-OECD countries	-	225 446
State debt securities of non-OECD countries	361 962	77 667
Total debt securities	**11 392 335**	**20 443 685**
Investments in mutual funds	2 276 632	2 278 798
Quoted corporate shares	1 369 284	1 465 206
Private equity fund investments	653 886	483 762
Total equity securities	**4 299 802**	**4 227 766**
Total investment securities available for sale	**15 692 137**	**24 671 451**

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

Corporate bonds are primarily debt securities denominated in Russian roubles, issued by large Russian companies in banking, financial and other sectors. Corporate bonds are interest bearing securities. Corporate bonds are freely tradable in Russia.

Municipal bonds and bonds of Russian Federation's regions represent interest bearing securities denominated in Russian Roubles. These bonds are tradable on the MICEX-RTS and other Russian stock exchanges.

CBRF bonds are Russian Rouble denominated zero-coupon securities issued at discount.

Corporate Eurobonds are interest bearing securities denominated in Euros, issued by large Russian companies and are freely tradable internationally on the over-the-counter market.

Debt securities of central banks of non-OECD countries represent zero-coupon bonds issued by the National Bank of Moldova at a discount.

State debt securities of non-OECD countries represent interest-bearing and zero-coupon bonds issued by the Ministry of Finance of Moldova and the Ministry of Finance of the Ukraine.

Corporate shares mainly include shares of major Russian oil and gas companies. These shares are freely tradable in Russian market.

11 Investment Securities Available for Sale (Continued)

Investments in mutual funds mainly represent investments in a fund engaged in operations with securities of major Russia issuers, whose shares and bonds are freely tradable in the Russian market, and companies engaged in construction and maintenance of fitness centres, sports and recreation facilities and sports and technical constructions.

Private equity fund investments represent investments in a private equity fund which invests mainly in unlisted equity securities of companies from a wide range of industries in the Russian Federation. Private equity fund investments are carried at their fair value. Private equity fund investments were valued as at 31 December 2011 by the Group independently. Private equity fund investments were valued using the discounted cash flow model.

Analysis by issuers' credit quality of debt securities at 31 December 2011 and 31 December 2010 is as follows:

In thousands of Russian Roubles	**2011**	**2010**
Federal loan bonds (OFZ bonds)		
- BB- to BBB+ rated	7 436 235	10 778 948
Corporate bonds		
- BB- to BBB+ rated	3 515 442	7 073 754
Municipal bonds and bonds of the Russian Federation's regions		
- BB- to BBB+ rated	58 653	1 337 358
- B+ and below rated	-	41 831
- Unrated	20 043	36 946
CBRF bonds		
- BB- to BBB+ rated	-	446 670
Corporate Eurobonds		
- BB- to BBB+ rated	-	425 065
Debt securities of central banks of non-OECD countries		
- B+ and below rated	-	225 446
State debt securities of non-OECD countries		
- B+ and below rated	361 962	77 667
Total debt investment securities available for sale	**11 392 335**	**20 443 685**

11 Investment Securities Available for Sale (Continued)

The analysis of the Group's debt investment securities available for sale at 31 December 2011 is set out below:

In % p.a.	Maturity from	Maturity to	Annual coupon rate from	Annual coupon rate to	Annual yield to maturity from	Annual yield to maturity to
Federal loan bonds (OFZ bonds)	August 2012	August 2018	6.0	11.3	6.0	8.2
Corporate bonds	April 2012	March 2016	6.5	10.0	6.1	12.0
Municipal bonds and bonds of the Russian Federation's regions	July 2012	April 2014	7.8	8.4	7.0	7.4
State debt securities of non-OECD countries	January 2012	August 2015	0.0	12.5	5.0	16.5

The analysis of the Group's debt investment securities available for sale at 31 December 2010 is set out below:

In % p.a.	Maturity from	Maturity to	Annual coupon rate from	Annual coupon rate to	Annual yield to maturity from	Annual yield to maturity to
Federal loan bonds (OFZ bonds)	January 2011	August 2018	4.6	12.0	2,0	7,4
Corporate bonds	October 2011	November 2019	6.5	16.8	5,3	14,2
CBRF bonds	March 2011	March 2011	-	-	3,5	3,5
Municipal bonds and bonds of the Russian Federation's regions	May 2011	September 2014	7.7	10.3	4,9	7,9
Corporate Eurobonds	June 2011	February 2016	4.3	8,3	2,4	2,8
Debt securities of central banks of non-OECD countries	January 2011	January 2011	-	-	7,2	7,2
State debt securities of non-OECD countries	January 2011	March 2012	0,0	13,0	7,2	8,6

11 Investment Securities Available for Sale (Continued)

The movements in investment securities available for sale are as follows:

In thousands of Russian Roubles	2011	2010
Carrying amount at 1 January	**24 671 451**	**11 741 092**
Fair value (losses less gains)/gains less losses	(209 146)	25 346
Interest income accrual	1 534 482	1 614 237
Interest received	(1 647 121)	(1 392 903)
Acquisition	32 306 409	60 437 099
Proceeds from disposal of investment securities available for sale	(37 863 564)	(48 060 678)
Sales under direct repo	(3 022 686)	-
(Losses net of gains)/gains less losses from disposal of investment securities available for sale	(103 662)	309 985
Impairment of investment securities available for sale recorded directly in the income statement	-	(254)
Impairment of investment securities available for sale transferred from the statement of comprehensive income	(5 235)	(1 365)
Exchange differences relating to debt securities	(4 035)	(4 612)
Effect of translation to presentation currency	35 244	3 504
Carrying amount at 31 December	**15 692 137**	**24 671 451**

At 31 December 2011, investment securities available for sale with a fair value of RR 5 916 125 thousand (2010: RR 5 040 387) were pledged as collateral with respect to a credit line opened with the CBRF. At 31 December 2011, the Group did not utilise this credit facility (2010: did not utilise this credit facility). Refer to Note 31.

At 31 December 2011, there are no restricted securities included in investment securities available for sale (2010: the fair value of restricted investment securities available for sale was RR 209 465 thousand). Refer to Note 31.

Had all the declines in fair value below cost of available for sale equity investments been considered significant or prolonged on the basis of the Group's judgement that takes into account volatility in share price, evidence of deterioration in the financial health of the investee, industry and sector performance, or changes in technology or operational or financing cash flows, the Group would suffer an additional loss of RR 238 187 thousand (2010: RR 53 089 thousand), being a reclassification from other comprehensive income to profit or loss for the year.

Credit quality analysis is carried out by the Group at the stage of setting limits and is described in Note 30. Geographical, currency, interest rate and maturity analyses of investment securities available for sale are disclosed in Note 30. The information on related party investment securities available for sale is disclosed in Note 35.

12 Repurchase Receivables

Repurchase receivables represents securities sold under sale and repurchase agreements which the counterparty has the right, by contract or custom, to sell or repledge. Sale and repurchase agreements are short term in nature.

In thousands of Russian Roubles	2011	2010
Federal loan bonds (OFZ bonds)	3 130 080	-
Total repurchase receivables	**3 130 080**	**-**

12 Repurchase Receivables (Continued)

Analysis by credit quality of the Group's debt securities classified as repurchase receivables outstanding at 31 December 2011 is as follows:

In thousands of Russian Roubles	2011	2010
Federal loan bonds (OFZ bonds)		
- BB- to BBB+ rated	3 130 080	-
Total repurchase receivables	**3 130 080**	**-**

Analysis of debt securities classified as repurchase receivables outstanding at 31 December 2011 is as follows:

	Maturity		**Annual coupon rate**		**Annual yield to maturity**	
In % p.a.	from	to	from	to	from	to
Federal loan bonds (OFZ bonds)	February 2013	March 2014	6.7	7.1	6.7	7.3

13 Investment Property

In thousands of Russian Roubles	2011	2010
Investment property at carrying value at 1 January		
Proceedings	1 797 458	-
Accumulated depreciation	(14 886)	
Impairment loss	(331 748)	-
Investment property at carrying value at 31 December	**1 450 824**	-

Investment property as at 31 December 2011 are presented by premises and land owned by the Group for rental income getting.

The Group valuated fair value of investment property as at 31 December 2011 independently with applying comparative and income approaches. Within comparative approach comparative sales method was used where market prices of similar assets are adjusted for identified differences in individual components. Within income approach discounted cash flow technique was used where the value of the asset under valuation is determined by adjusting future cash flows for ex-post forecast value.

Investment property were initially recognised at cost which equalled to RR 1 797 458 thousand. At 31 December 2011, the impairment of investment property of RR 331 748 thousand was recognised in the consolidated income statement.

Where the Group is the lessor, the future minimum lease payments receivable related to the Investment property under non-cancellable operating leases were RR 44 397 thousand and the Group expects to receive these payments within a year.

Total contingent payments receivable related to the Investment Property under the Group's non-cancellable operating leases recognised as income in 2011 within other operating income in the consolidated income statement were RR 13 498 thousand.

14 Premises and Equipment

In thousands of Russian Roubles	**Land and premises**	**Office and computer equipment**	**Construction in progress**	**Total**
Carrying amount at 1 January 2010	**2 510 439**	**1 149 050**	**120 048**	**3 779 537**
Book amount at cost				
Balance at the beginning of the year	2 789 997	3 034 891	120 048	5 944 936
Additions	40 109	292 318	148 333	480 760
Transfers	25	72 024	(72 049)	-
Disposals	(368)	(69 759)	(19)	(70 146)
Effect of translation to presentation currency	4 103	4 424	53	8 580
Balance at the end of the year	**2 833 866**	**3 333 898**	**196 366**	**6 364 130**
Accumulated depreciation				
Balance at the beginning of the year	279 558	1 885 841	-	2 165 399
Depreciation charge (Note 26)	60 690	458 883	-	519 573
Disposals	(186)	(61 490)	-	(61 676)
Effect of translation to presentation currency	721	3 352	-	4 073
Balance at the end of the year	**340 783**	**2 286 586**	**-**	**2 627 369**
Carrying amount at 31 December 2010	**2 493 083**	**1 047 312**	**196 366**	**3 736 761**
Book amount at cost				
Balance at the beginning of the year	2 833 866	3 333 898	196 366	6 364 130
Additions	22 095	294 640	133 515	450 250
Transfers	834	163 385	(164 219)	-
Disposals	(11 554)	(90 009)	(1 420)	(102 983)
Effect of translation to presentation currency	13 103	12 094	137	25 334
Balance at the end of the year	**2 858 344**	**3 714 008**	**164 379**	**6 736 731**
Accumulated depreciation				
Balance at the beginning of the year	340 783	2 286 586	-	2 627 369
Depreciation charge (Note 26)	63 524	460 001	-	523 525
Disposals	(12 568)	(86 329)	-	(98 897)
Effect of translation to presentation currency	2 349	9 490	-	11 839
Balance at the end of the year	**394 088**	**2 669 748**	**-**	**3 063 836**
Carrying amount at 31 December 2011	**2 464 256**	**1 044 260**	**164 379**	**3 672 895**

14 Premises and Equipment (Continued)

As at 31 December 2011, premises and equipment whose carrying amount totalled RR 85 442 thousand (2010: RR 113 552 thousand) were pledged as collateral on a term deposit of a corporate entity. Refer to Notes 17 and 31.

Construction in progress consists of construction and refurbishment of premises and equipment not yet in operation. Upon completion, the assets are transferred to the appropriate category of premises and equipment.

15 Other Assets

In thousands of Russian Roubles	Note	2011	2010
Other financial assets			
Derivative financial instruments	32,33	411 781	20 943
Receivables on commissions		210 225	183 777
Settlements on plastic cards operations		156 065	67 866
Settlements of the assets sold		22 000	-
Cash transfers		12 213	12 235
Dividends receivable		14	4 757
Other financial assets		14 258	5 691
Provision for impairment of other financial assets		(86 939)	(92 702)
Total other financial assets		**739 617**	**202 567**
Other non-financial assets			
Repossessed collateral		515 011	606 908
Prepaid other taxes		335 616	20 975
Settlements on other operations		159 474	65 920
Receivables and other advance payments		156 410	80 215
Settlements on non-banking operations		91 555	85 835
Precious metals		6 291	4 841
Provision for impairment of other non-financial assets		(36 433)	(52 022)
Total other non-financial assets		**1 227 924**	**812 672**
Total other assets		**1 967 541**	**1 015 239**

15 Other Assets (Continued)

Movements in the provision for impairment of other financial assets during 2011 and 2010 are as follows:

In thousands of Russian Roubles	2011 Receivables on commissions	2011 Settlements on assets sold	2011 Other financial assets	2011 Total	2010 Receivables on commissions	2010 Other financial assets	2010 Total
Provision for impairment at 1 January	**89 206**	**-**	**3 496**	**92 702**	**96 736**	**3 478**	**100 214**
Provision/(recovery of provision) for impairment during the year	(4 887)	1 639	58	**(3 190)**	(7 645)	18	**(7 627)**
Amounts written off during the year as uncollectible	(2 574)	-	-	**(2 574)**	-	-	**-**
Effect of translation to presentation currency	1	-	-	**1**	115	-	**115**
Provision for impairment at 31 December	**81 746**	**1 639**	**3 554**	**86 939**	**89 206**	**3 496**	**92 702**

Movements in the provision for impairment of other non-financial assets during 2011 are as follows:

In thousands of Russian Roubles	Settlements on non-banking operations	Receivables and other advance payments	Settlements on other operations	Total
Provision/(recovery of provision) for impairment at 1 January	**10 405**	**3 031**	**38 586**	**52 022**
Provision for impairment during the year	5	234	(4 944)	**(4 705)**
Amounts written off during the year as uncollectible	(10 867)	(49)	(475)	**(11 391)**
Effect of translation to presentation currency	476	1	30	**507**
Provision for impairment at 31 December	**19**	**3 217**	**33 197**	**36 433**

15 Other Assets (Continued)

Movements in the provision for impairment of other non-financial assets during 2010 are as follows:

In thousands of Russian Roubles	Settlements on non-banking operations	Receivables and other advance payments	Settlements on other operations	Total
Provision for impairment at 1 January 2010	-	-	-	**-**
Provision for impairment during the year	10 405	3 031	38 586	**52 022**
Provision for impairment at 31 December 2010	**10 405**	**3 031**	**38 586**	**52 022**

Geographical, currency and maturity analyses of other assets are disclosed in Note 30.

Repossessed collateral consists mainly of real estate. The Group expects to dispose of the assets in the foreseeable future. The assets do not meet the definition of non-current assets held for sale and are classified as inventories in accordance with IAS 2, *Inventories*. Property was initially recognised at fair value on acquisition, which is RR 950 800 thousand. (2010: RR 779 471 thousand). At 31 December 2011, the impairment of these assets of RR 435 789 thousand (2010: RR 172 563 thousand) was recognised in the consolidated income statement.

16 Due to Other Banks

In thousands of Russian Roubles	2011	2010
Correspondent accounts and overnight placements of other banks	332 118	271 069
Term placements of other banks	13 678 728	16 169 014
Sale and repurchase agreements with other banks	3 001 527	2 000 362
Total due to other banks	**17 012 373**	**18 440 445**

At 31 December 2011, the fair value of securities transferred to other banks under sale and repurchase agreements in the amount of RR 3 001 527 thousand, comprised RR 3 130 080 thousand. These securities are included in repurchase receivable. Refer to Note 12 and 31.

At 31 December 2010, the fair value of securities transferred to other banks under sale and repurchase agreements in the amount of RR 2 000 362 thousand, comprised RR 2 110 647 thousand. The Group purchased these securities under reverse sale and repurchase agreements ("reverse repo"). Refer to Note 31.

Fixed-term deposits as at 31 December 2010 in the amount equal to RR 400 195 thousand was guaranteed by a interbank deposits pledge in the amount equal to RR 401 442 thousand. Refer to Notes 9 and 31.

Information of the fair value of each class of amounts due to other banks is disclosed in Note 33. Geographical, currency, maturity and interest rate analyses of due to other banks are disclosed in Note 30. Information on related party balances is disclosed in Note 35.

17 Customer Accounts

In thousands of Russian Roubles	**2011**	**2010**
State organisations		
- Current/settlement accounts	99	86
Corporate entities		
- Current/settlement accounts	20 661 667	23 853 580
- Term deposits	47 061 975	26 597 803
Individuals		
- Current/demand accounts	16 141 965	13 663 506
- Term deposits	56 750 069	53 970 711
Total customer accounts	**140 615 775**	**118 085 686**

Economic sector concentrations within customer accounts are as follows:

	2011		**2010**	
In thousands of Russian Roubles	**Amount**	**%**	**Amount**	**%**
Individuals	72 892 034	52	67 634 217	57
Oil production and refining	19 154 018	14	7 853 689	7
Finance	14 627 026	10	10 807 041	9
Services	10 054 887	7	9 428 159	9
Trade	5 983 000	4	8 487 227	7
Construction	5 332 226	4	3 403 141	3
Manufacturing	4 293 368	3	2 935 691	2
Energy	510 996	-	197 223	-
State organisations	99	-	86	-
Other	7 768 121	6	7 339 212	6
Total customer accounts	**140 615 775**	**100**	**118 085 686**	**100**

At 31 December 2011, included in customer accounts are deposits of RR 1 155 995 thousand (2010: RR 823 603 thousand) held as collateral for irrevocable commitments under import letters of credit for settlements in the Russian Federation. Refer to Note 31.

As at 31 December 2011, term deposits of corporate entities of RR 105 138 thousand (2010: RR 132 726 thousand) were collateralised by premises and equipment with the carrying amount of RR 85 442 thousand (2010: RR 113 552 thousand). Refer to Notes 14 and 31.

Refer to Note 33 for the disclosure of the fair value of each class of customer accounts. Geographical, currency, interest rate and maturity analyses of customer accounts are disclosed in Note 30. Information on related party balances is disclosed in Note 35.

18 Debt Securities in Issue

In thousands of Russian Roubles	2011	2010
Bonds	5 397 896	7 576 482
Promissory notes	1 892 515	3 033 637
Savings certificates	136 877	191 007
Total debt securities in issue	**7 427 288**	**10 801 126**

In August 2009, the Group placed the sixth and seventh issue of bonds with the nominal value of RR 3 000 000 thousand each. The bonds mature in August 2012. These bonds have a coupon rate of 7.8% p.a. and 7.0% p.a. (2010: 7.8% p.a. and 14.9% p.a.) and yield to maturity of 11.5% p.a. and 13.4% p.a. (2010: 11.5% p.a. and 11.7% p.a.), respectively. In August 2010, the Group met its offer obligations in respect of bonds of the sixth series with nominal value of RR 1 270 512 thousand. In February 2011, the Group met its offer obligations in respect of bonds of the seventh series with nominal value of RR 1 686 233 thousand.

In December 2009, the Group placed the fifth issue of bonds with the nominal value of RR 5 000 000 thousand. The bonds mature in December 2014, have a coupon rate of 12.8% p.a. (2010: 12.8% p.a.) and yield to maturity of 13.2% p.a. (2010: 13.2% p.a.).

Issued promissory notes represent debt securities denominated in Russian roubles and US dollars with maturities from ‘on demand’ to December 2028 (2010: from ‘on demand’ to December 2028). The effective interest rates on these promissory notes range from 0.0% p.a. to 12.8% p.a. (2010: from 0.0% p.a. to 12.8% p.a.).

Savings certificates are debt securities denominated in Russian roubles with maturities from January 2012 to August 2012 (2010: from March 2011 to November 2011) and effective interest rates from 7.5% p.a. to 7.7% p.a. (2010: from 5.7% p.a. to 11.3% p.a.).

In July 2010, the Group fulfilled its obligations under the offer with nominal value of RR 2 787 028 thousand. In July 2011, the Group on time repaid the fourth issue of bonds with a nominal value of RR 3 000 000 thousand placed by the Group in July 2008.. The bonds had a coupon rate of 5% (2010: 5% p.a.) and yield to maturity of 12.8% p.a. (2010: 12.8% p.a.).

Refer to Note 33 for the disclosure of the fair value of each class of debt securities in issue. Geographical, currency, maturity and interest rate analyses of debt securities in issue are disclosed in Note 30. The information on debt securities in issue purchased by related parties is disclosed in Note 35.

19 Other Borrowed Funds

In thousands of Russian Roubles	2011	2010
Syndicated loans	-	129 263
Total other borrowed funds	**-**	**129 263**

In June 2011, the Group on time repaid syndicated loan of USD 14 338 thousand obtained in June 2006 from two Croatian banks. This loan has an interest rate of 6 month LIBOR plus 1.25% p.a. At 30 December 2010, the amortised cost was RR 42 947 thousand and the effective interest rate was 6.1% p.a.

In October 2011, the Group on time repaid the syndicated loan of USD 14 398 thousand obtained in October 2006 from two Croatian banks. This loan has an interest rate of 6 month LIBOR plus 1.25% p.a. At 30 December 2010, the amortised cost was RR 86 316 thousand and the effective interest rate was 5.6% p.a.

Refer to Note 33 for disclosure of the fair value of each class of other borrowed funds. Geographical, currency, maturity and interest rate analyses of other borrowed funds are disclosed in Note 30.

20 Other Liabilities

In thousands of Russian Roubles	Note	2011	2010
Other financial liabilities			
Settlements on factoring operations		552 483	293 500
Provision for credit related commitments	31	192 761	143 986
Derivative financial instruments	32,33	102 691	170 033
Payables on plastic card operations		92 860	131 192
Accrued liabilities		14 003	23 354
Cash transfers		3 102	2 327
Other financial liabilities		10 184	10 401
Total other financial liabilities		**968 084**	**774 793**
Other non-financial liabilities			
Accrued staff costs		231 901	269 065
Other taxes payable		164 308	115 995
Settlement on banking operations		38 641	24 736
Other non-financial liabilities		272 945	342 916
Total other non-financial liabilities		**707 795**	**752 712**
Total other liabilities		**1 675 879**	**1 527 505**

20 Other Liabilities (Continued)

Movements in provisions for contingent credit related commitments are as follows:

In thousands of Russian Roubles	2011	2010
Provision for impairment at 1 January	**143 986**	**10 143**
Provision for impairment during the year	48 753	133 828
Effect of translation to presentation currency	22	15
Provision for impairment at 31 December	**192 761**	**143 986**

Geographical, currency and maturity analyses of other liabilities are disclosed in Note 30. Information on related party balances is disclosed in Note 35.

21 Subordinated Debt

In November 2006, the Group received a subordinated loan of USD 150 000 thousand from a related party with a floating interest rate of 3 month LIBOR plus 4.0% p.a. and maturity in May 2012. Under the contract, the loan ranks after all other creditors in case of liquidation of the Bank. As at 31 December 2011, the effective interest rate on this subordinated loan was 5.7% p.a. (2010: 5.6% p.a.).

In October 2007, the Group renegotiated the maturity terms of the subordinated debt till November 2016.

Refer to Note 33 for the disclosure of the fair value of subordinated debt. Geographical, currency, maturity and interest rate analyses of subordinated debt are disclosed in Note 30. Information on related party balances is disclosed in Note 35.

22 Share Capital

	2011			2010		
In thousands of Russian Roubles	**Number of shares in thousand units**	**Nominal amount**	**Inflation adjusted amount**	**Number of shares in thousand units**	**Nominal amount**	**Inflation adjusted amount**
Ordinary shares	670 175	6 701 754	8 454 312	670 175	6 701 754	8 454 312
Total share capital	**670 175**	**6 701 754**	**8 454 312**	**670 175**	**6 701 754**	**8 454 312**

All ordinary shares have a nominal value of RR 10 per share and each share carries one vote. The amount of dividend is determined and approved at the annual general meeting of shareholders of the Bank.

All issued ordinary shares are fully paid.

23 Retained Earnings

In accordance with Russian legislation, the Group distributes profits as dividends or transfers them to reserves (fund accounts) on the basis of financial statements prepared in accordance with Russian Accounting Rules. The Group's reserves under Russian Accounting Rules at 31 December 2011 amount to RR 12 982 347 thousand (2010: RR 12 356 667 thousand).

24 Interest Income and Expense

In thousands of Russian Roubles	**2011**	**2010**
Interest Income		
Loans and advances to customers	10 150 115	10 247 816
Debt investment securities available for sale	1 598 935	1 614 237
Correspondent accounts and due from other banks	762 928	875 368
Debt trading securities	703 067	567 214
Reverse sale and repurchase agreements (“reverse repo agreements”)	411 975	572 306
Total interest income	**13 627 020**	**13 876 941**
Interest expense		
Deposits of individuals	3 267 810	4 292 153
Term deposits of legal entities	2 566 358	2 034 323
Debt securities in issue	1 008 583	1 341 345
Subordinated debt	266 125	239 280
Due to other banks	120 079	210 309
Current accounts of legal entities	39 278	41 027
Reverse sale and repurchase agreements (“repo agreements”)	25 809	1 758
Other borrowed funds	3 577	16 536
Other	-	321
Total interest expense	**7 297 619**	**8 177 052**
Net interest income	**6 329 401**	**5 699 889**

25 Fee and Commission Income and Expense

In thousands of Russian Roubles	2011	2010
Fee and commission income		
Commission on settlement transactions	1 394 694	1 268 403
Commission on cash transactions	673 365	648 749
Commission on cash collection	56 185	96 387
Commission for currency exchange regulation	106 967	76 699
Commission on guarantees issued	169 720	60 658
Commission for trust management	12 476	25 818
Fiduciary commission	716	886
Other	94 838	134 192
Total fee and commission income	**2 508 961**	**2 311 792**
Fee and commission expense		
Commission on settlement transactions	460 096	392 285
Commission on cash collection	57 420	92 509
Commission on cash transactions	13 215	12 968
Other	92 652	64 873
Total fee and commission expense	**623 383**	**562 635**
Net fee and commission income	**1 885 578**	**1 749 157**

26 Administrative and Other Operating Expenses

In thousands of Russian Roubles	2011	2010
Staff costs	3 585 075	2 941 687
Office maintenance	616 765	560 864
Depreciation of premises and equipment	523 525	519 573
Rent	367 949	351 976
State deposit insurance system membership fee	265 875	241 358
Other expenses related to premises and equipment	180 067	138 365
Taxes other than on income	125 900	117 467
Advertising and marketing	117 243	68 582
Investment property expenses	346 634	-
Other	462 065	426 258
Total administrative and other operating expenses	**6 591 098**	**5 366 130**

Included in staff costs are statutory taxes and payroll fund contributions of RR 577 302 thousand (2010: RR 397 001 thousand).

27 Income Taxes

Income tax expense comprises the following:

In thousands of Russian Roubles	2011	2010
Current tax	604 590	832 024
Deferred tax	(424 457)	(776 642)
Income tax expense for the year	**180 133**	**55 382**

The income tax rate applicable to the majority of the Group's income is 20% (2010: 20%). The income tax rate applicable to the majority of income of subsidiaries ranges from 0% to 23% (2010: from 0% to 25%). Reconciliation between the expected and the actual taxation charge is provided below.

In thousands of Russian Roubles	2011	2010
IFRS profit before tax	**626 675**	**271 242**
Theoretical tax charge at statutory rate (2011: 20%; 2010: 20 %)	125 335	54 248
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Non-deductible expenses	33 877	34 992
- Income on government securities taxed at different rates	(53 040)	(48 939)
- Unrecognised tax losses	5 553	5 553
- Losses less gains of prior period recognised in current year	(1 074)	-
- Other permanent differences	69 482	9 528
Income tax expense for the year	**180 133**	**55 382**

Differences between IFRS and statutory taxation regulations in Russia and national regulations of subsidiary banks non-residents being members of the Group give rise to temporary differences between the carrying amount of some assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movement on these temporary differences is recorded at the rate of 20% for major part of the Group (2010: major part of the Group 20%), except for income on state securities of the Russian Federation that is taxed at 15% (2010: 15%).

27 Income Taxes (Continued)

In thousands of Russian Roubles	1 January 2011	Charged to profit or loss	Credited directly to other comprehensive income	31 December 2011
Tax effect of deductible/(taxable) temporary differences				
Premises and equipment	(94 705)	1 170	-	(93 535)
Provision for loan impairment	294 218	(109 492)	-	184 726
Fair valuation of investment securities available for sale	46 417	(16 723)	53 690	83 384
Debt securities in issue	(44 005)	32 630	-	(11 375)
Fair valuation of trading securities	53 588	(34 760)	-	18 828
Accruals	740 288	434 223	-	1 174 511
Other	61 503	117 409	-	178 912
Net deferred tax asset	**1 057 304**	**424 457**	**53 690**	**1 535 451**
Recognised deferred tax asset	1 072 732	462 719	-	1 535 451
Recognised deferred tax liability	(15 428)	(38 262)	53 690	-
Net deferred tax asset	**1 057 304**	**424 457**	**53 690**	**1 535 451**

In thousands of Russian Roubles	1 January 2010	Charged to profit or loss	Charged directly to other comprehensive income	31 December 2010
Tax effect of deductible/(taxable) temporary differences				
Premises and equipment	(135 367)	40 662	-	(94 705)
Provision for loan impairment	(14 823)	309 041	-	294 218
Fair valuation of investment securities available for sale	26 273	27 754	(7 610)	46 417
Debt securities in issue	31 247	(75 252)	-	(44 005)
Fair valuation of trading securities	61 712	(8 124)	-	53 588
Accruals	308 763	431 525	-	740 288
Other	10 467	51 036	-	61 503
Net deferred tax asset/(liability)	**288 272**	**776 642**	**(7 610)**	**1 057 304**
Recognised deferred tax asset	318 941	753 791	-	1 072 732
Recognised deferred tax liability	(30 669)	22 851	(7 610)	(15 428)
Net deferred tax asset	**288 272**	**776 642**	**(7 610)**	**1 057 304**

In the context of the Group's current structure and Russian tax legislation, tax losses and current tax assets of different group companies may not be offset against current tax liabilities and taxable profits of other group companies and, accordingly, taxes may accrue even where there is a consolidated tax loss. Therefore, deferred tax assets and liabilities are offset only when they relate to the same taxable entity and the same taxation authority.

A deferred tax asset in the amount of RR 1 535 451 thousand (2010: RR 1 072 732 thousand) and a deferred tax liability (2010: RR 15 428 thousand) have been recorded in the consolidated statement of financial position after offsetting of the gross amounts presented above.

28 Dividends

As at 31 December 2010 dividends payable were RR 692 thousand**.** In the year 2011, due to expiration of the period for claims by the Bank's shareholders these dividends were transferred to retained earnings in accordance with Russian legislation and Russian Accounting Rules.

In May 2011, the Annual general shareholders' meeting resolved not to pay dividends based on the results for the 2010 financial year.

In May 2010, the Annual general shareholders' meeting resolved not to pay dividends based on the results for the 2009 financial year.

29 Segment Analysis

Chief Operating Decision Maker (the Board of Directors) assesses performance and allocates resources based on the Group's internal reporting. Operating segments are determined based on the risk concentration in the Group's organisational structure in compliance with the lines of business.

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

- Retail banking – representing private banking services, private customer current accounts, savings, deposits, trust management, custody, plastic cards, consumer loans and mortgages.

- Commercial banking – representing current accounts, deposits, overdrafts, loan and other credit facilities, factoring and foreign currency products.

- Financial market transactions – representing stock and money market transactions, brokerage and depositary services, securities, foreign exchange trading and trading in derivative financial instruments, sale and repurchase (repo) agreements, attraction of long-term funds on international financial markets.

- Other transactions – this business-segment represents other operations, not included in the segments above, particularly part of administrative expenses on business performance of the Group.

Factors that management used to identify the reportable segments

The Group's segments are strategic business units that focus on different customers. They are managed separately because each business unit requires different marketing strategies and service level.

Segment financial information reviewed by the CODM includes carrying amounts and results of the Group's subsidiaries. Regular review of these subsidiary banks is delegated to the local management teams. The CODM obtains financial statements of the Group's subsidiaries on a quarterly basis.

The management applied the core principle of IFRS 8, Operating Segments, in determining which of the overlapping financial information sets should form the basis of operating segments.

Measurement of operating segment profit or loss, assets and liabilities

The Board of Directors reviews IFRS financial information for the Group semi-annually.

The Board of Directors assesses performance of operating segments of the Group based on profit before tax. Other information provided to the Board of Directors is determined in compliance with this financial information.

29 Segment Analysis (Continued)

Segment information for the main reportable business segments of the Group for 2011 and 2010 is set out below:

In thousands of Russian Roubles	**Retail banking**	**Commercial banking**	**Financial markets transactions**	**Other transactions**	**Eliminations**	**Total**
2011						
External revenues	2 578 478	10 076 791	3 560 637	46 918	-	16 262 824
Intersegment revenues	5 370 253	4 710 550	4 450 235	127 361	(14 658 399)	-
Total revenues	**7 948 731**	**14 787 341**	**8 010 872**	**174 279**	**(14 658 399)**	**16 262 824**
Total revenues from external counterparties comprise:						
Interest income	1 393 953	8 770 276	3 462 791	-	-	13 627 020
Fee and commission income	1 161 474	1 286 344	54 869	6 274	-	2 508 961
Dividends received	-	-	42 791	-		42 791
Other operating income	23 051	20 171	186	40 644	-	84 052
Total revenues from external counterparties	**2 578 478**	**10 076 791**	**3 560 637**	**46 918**	**-**	**16 262 824**
Segment result	**526 469**	**508 213**	**2 501 573**	**(2 909 580)**	**-**	**626 675**
Profit before tax						**626 675**
Income tax expense						(180 133)
Profit for the year						**446 542**
Other segment items						
Capital expenditure	205 433	167 778	6 096	70 943	-	450 250
Depreciation and amortisation	(286 854)	(148 904)	(5 158)	(82 609)	-	(523 525)
Provision for loan impairment	(200 419)	(1 757 256)	(3 457)	-	-	(1 961 132)
Segment assets	**19 567 192**	**125 139 801**	**49 801 533**	**-**	**-**	**194 508 526**
Deferred tax asset						1 535 451
Other unallocated assets						3 633 166
Total assets						**199 677 143**
Segment liabilities	**73 439 758**	**68 543 682**	**24 334 336**	**-**	**-**	**166 317 776**
Subordinated debt						4 674 695
Other unallocated liabilities						538 411
Total liabilities						**171 530 882**

29 Segment Analysis (Continued)

In thousands of Russian Roubles	Retail banking	Commercial banking	Financial markets transactions	Other transactions	Eliminations	Total
2010						
External revenues	2 498 746	10 080 088	3 753 416	103 545	-	16 435 795
Intersegment revenues	5 457 104	4 711 961	5 827 618	121 936	(16 118 619)	-
Total revenues	**7 955 850**	**14 792 049**	**9 581 034**	**225 481**	**(16 118 619)**	**16 435 795**
Total revenues from external counterparties comprise:						
Interest income	1 361 864	8 905 279	3 609 798	-	-	13 876 941
Fee and commission income	1 123 090	1 077 589	106 231	4 882	-	2 311 792
Dividends received	-	-	37 050	-		37 050
Other operating income	13 792	97 220	337	98 663	-	210 012
Total revenues from external counterparties	**2 498 746**	**10 080 088**	**3 753 416**	**103 545**	**-**	**16 435 795**
Segment result	**(326 738)**	**(516 656)**	**3 464 226**	**(2 349 590)**	**-**	**271 242**
Profit before tax						**271 242**
Income tax expense						(55 382)
Profit for the year						**215 860**
Other segment items						
Capital expenditure	189 149	194 270	8 589	88 752	-	480 760
Depreciation and amortisation	(256 475)	(170 701)	(7 786)	(84 611)	-	(519 573)
Provision for loan impairment	(465 159)	(2 929 464)	(5 109)	-	-	(3 399 732)
Segment assets	**14 171 834**	**101 792 978**	**62 400 066**	**-**	**-**	**178 364 878**
Deferred tax asset						1 072 732
Other unallocated assets						1 685 408
Total assets						**181 123 018**
Segment liabilities	**68 369 030**	**51 014 368**	**29 312 786**	**-**	**-**	**148 696 184**
Deferred tax liabilities						15 428
Subordinated debt						4 304 048
Other unallocated liabilities						321 019
Total liabilities						**153 336 679**

29 Segment Analysis (Continued)

Intersegment revenues in the amount of RR 14 658 399 thousand (2010: RR 16 118 619 thousand) represent interest income.

Geographical information. The majority of the Group's revenues, non-current assets other than financial instruments and deferred tax assets from external customers are attributed to customers domiciled in the Russian Federation. Revenues, non-current assets other than financial instruments and deferred tax assets from external customers domiciled in other countries are below the threshold for separate disclosure in these consolidated financial statements. The Group does not have post-employment benefit assets and assets arising under insurance contracts.

30 Financial Risk Management

The risk management function within the Group is carried out in respect of financial risks (credit, market, geographical, currency, liquidity and interest rate), operational risks and legal risks. The Group’s risk management policy is intended to ensure an optimal balance between the acceptable level of risk undertaken by the Group and the return from banking activities to restrict potential adverse effects on the Group’s financial performance, to ensure sustainability of the business of the Group and as well as to protect the rights and interests of the Group’s stakeholders - shareholders, clients, counterparties and others. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures, in order to minimise operational and legal risks. The risk management objectives, policies and procedures are similar for the Bank and its subsidiaries.

Risk management structure. The risk management system of the Group includes setting, implementing and controlling risk management policies and procedures and subsequent updating of policies and procedures based on current economic, business and regulatory environment.

The Board of Directors is responsible for the overall supervision of the risk management system.

The Executive Board has overall responsibility over asset and liability management including approval of key risk management policies and procedures and large risk exposures, assessment of risk management system bodies and approval of contingency plans in crisis situations.

The Risk Control Department (RCD) is directly responsible for the development of policies on assessment of the current level of risks, risk management procedures, identification and analysis of the current risk level and monitoring of compliance with the procedures and set limits limiting the risk level. The RCD is an independent unit, its representatives have the right to vote in the Bank's Committee for Finance and Economy (CFE) and credit committees. The RCD reports to the Group’s management on a regular basis. The review of major risks is communicated to the Board of Directors on a semi-annual basis in the report on risk management, which includes credit, market, liquidity, operating and reputation risks.

Credit risk. The Group takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss for the Group by falling to discharge of obligation. Exposure to credit risk arises as a result of the Group’s lending and other transactions with counterparties giving rise to financial assets. Credit risk is the most important risk for the Group’s business; management therefore carefully manages its exposure to credit risk. Credit exposures arise principally in lending activities that lead to loans and advances, and investment activities that bring debt securities into the Group’s asset portfolio. There is also credit risk in off-balance sheet items, such as guarantees and loan commitments.

30 Financial Risk Management (Continued)

The Group's maximum exposure to credit risk is reflected in the carrying amounts of financial assets on the consolidated statement of financial position. For guarantees and commitments to extend credit, the maximum exposure to credit risk is the amount of the commitment. Refer to Note 31. The credit risk is mitigated by collateral and other credit enhancements as disclosed in Note 10.

During 2011, the following committees were responsible for approval of corporate and retail transactions which might create credit risk exposure:

- The Bank's Credit Committee performs the functions of the supreme committee in charge of implementing the Bank's credit policies with regard to the target profitability of the Bank's loan portfolio while preserving its optimal structure, and also establishes basic conditions and parameters for credit transactions, decisions on which do not fall under the authority of the Project Finance Committee, the Small Credit Committee, the Retail Credit Committee;

- The CFE establishes credit risk management procedures for repo transactions, the procedure for use of credit risk limits by counterparty on repo transactions and settlements, and also determines credit risk limits for banks, including for transactions with securities issued by banks, for transactions with government securities and by security type (for investments and reverse repo transactions);

- The Project Finance Committee is in charge of development of the Bank's strategy with regard to investment projects, non-performing loans and assets not related to the Bank's core activities, including realisation of property and property rights received by the Bank as a result of work with non-performing loans;

- The Small Credit Committee approves decisions on credit risk management for transactions within the established limit of RR 200 million as at the end of 2011 (2010: RR 100 million);

- The Retail Credit Committee of the Bank carries out functions associated with implementing the Bank's credit policies within the established limits, including determining basic conditions and parameters for lending transactions with individuals performed by the Bank's Head Office and branches.

The Branches Credit Committees review lending applications from customers and take lending decisions based on the established credit limits.

The credit risk management system implies setting of limits including individual counterparty limits, industry limits, as well as limits restricting credit product type, currency, period, type of collateral and other.

The Group has developed a methodology that enables evaluation of creditworthiness and credit quality of all types of counterparties: corporate clients, small and medium businesses, security issuers, banks, individuals, counterparties within the scope of financing on terms of claim assignment (factoring), insurance companies, etc.

30 Financial Risk Management (Continued)

The Group's credit risk management system includes a model, which allows to assess expected losses on the credit portfolio (the 'expected loss model') by using (i) the 'probability of default' by the client or counterparty on its contractual obligations; (ii) current exposures to the counterparty and its likely future development, from which the Group derives the 'exposure at default'; and (iii) the likely economic loss ratio on the defaulted obligations (the 'loss given default'). By calculating these measurements the Group determines a risk premium for covering expected losses on the credit portfolio. This model takes into consideration such parameters as financial position of a counterparty, credit risk exposure, lending period, offered collateral and other factors that adjust the final risk premium. The Group continuously improves its credit risk measurement model. However, these measurements can be contrasted with impairment allowances recorded by the Group in these consolidated financial statements as required under IAS 39, which are based on losses that have been incurred at the balance sheet date (the 'incurred loss model') rather than expected losses. Refer to Note 3.

The Group actively continues to develop its risk management system for lending to individuals. The scoring models that are used in lending to individuals enable the Group to reduce its risks at credit issue, however, the Group continues to enhance the efficiency of its systems.

Fair value of collateral is determined by the Group's experts in respect of the group of related borrowers. Fair value normally exceeds the amount of established limit by 30%-80%, depending on the borrower's financial position, the type of collateral, the borrower's credit history and information on the borrower. Credit risk for off-balance sheet financial instruments is defined as the possibility of sustaining a loss as the result of another party to a financial instrument failing to perform in accordance with the terms of the contract. The Group uses the same credit policies in assuming conditional obligations as it does for on-balance sheet financial instruments, through established credit approvals, risk control limits and monitoring procedures.

The major part of factoring finance provided by the Group implies the possibility of claim recourse from the debtor to the seller. The Group treats this as a security to mitigate its risks.

The Group's transactions may lead to settlement risk exposure at the moment of settlement. Settlement risk is the risk of financial losses resulting from the counterparty's inability to meet its obligations to provide cash, securities or other assets stipulated by the contract.

For certain types of transactions the Group reduces this risk by making settlements in the form of "delivery versus payment" or by clearing agents in order to be sure that final settlements will be completed only after both parties fulfil their contractual obligations in full. Undertaking an exposure to the settlement risk on unconditional settlement transactions requires availability of credit risk limits and (or) special limits of settlement risk by counterparty. Such limits constitute part of the above process of approval/monitoring of limits per counterparty.

A system of limits on types of collateral, limits on counterparties, the level of minimal discounts as well as a mandatory requirement to a counterparty to sign a general agreement based on the Bank's form with the description of procedures for settling disputes are in place to limit risks related to repo transactions.

Market risk. The Group takes on exposure to market risks. Market risks arise from open positions in (a) currency, (b) interest rate and (c) equity products, all of which are exposed to general and specific market movements. Management sets limits on the value of risk that may be accepted, which is monitored on a daily basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

30 Financial Risk Management (Continued)

Management of market risks includes limitation of possible losses on own positions that may be incurred by the Group over a specified time horizon with given level of confidence as a result of movements in exchange rates, market prices and interest rates by establishing limits for each type of transactions, and control over compliance with the set limits.

The CFE is responsible for setting limits to restrict possible losses arising from market risks. The Risk Control Department is responsible for developing recommendations on setting and revising limits and risk minimisation procedures.

Market risks are managed on the basis of the following methods:

- diversification of the active transactions portfolio in the money and stock market, using, inter alia, a multilevel system of limits;
- daily revaluations of positions based on market prices;
- setting of and monitoring compliance over aggregate and private limits on all money/stock market instruments;
- setting of and monitoring compliance with stop-out limits to restrict the Group's losses on instruments;
- limits on investments in securities are revised subject to their liquidity (possibility of immediate disposal of portfolio without significant effect on the market price).

Before opening of the limits for debt securities, including repurchase receivables and investment securities available for sale, the Group assesses both the credit quality of the issuer and the liquidity of the securities. The credit quality requirements applied to the issuers are higher than the criteria applied to the borrowers. These criteria additionally include higher requirements to some financial performance indicators (i.e. gearing, financial efficiency etc.), the total assets and net assets of the issuer should not be less than total assets and net assets of the largest borrowers of the Group, the terms of issue stipulate the ability for early redemption in case of the change of the owner, the quality of the issuer assessed in accordance with internal rating methodology should not be worse than the quality of the borrower entitled to receive the unsecured loan for the term similar to the term to maturity of the security, and the holding companies are also obliged to present audited consolidated financial statements.

Additional criteria taken into account in the course of liquidity analysis of securities are the volume of transactions on the organised exchange markets, spread between sale and purchase prices and level of spread to risk-free assets of the same currency and maturity.

The limits for trading securities are opened only in case if the investment plan stipulates the sale of this security within 12 months and the liquidity of the security allows to sell it within 1-3 months without decrease in value.

The Group uses the VaR (value-at-risk) method for the majority of the trading positions and stress tests for non-liquid financial instruments. The VaR method is a method of evaluating potential losses that may occur on risk positions as a result of a change in market rates and prices within a certain period of time based on the assumed confidence interval. The VaR model used by the Group is based on a 99% confidence level and stipulates a 1 to 10 day holding period depending on the item category. The VaR model represents forecasting based on historical data. The model builds probability future development scenarios based on historical data of market quotations with consideration of interdependence between different markets and instruments. Potential changes in market prices are calculated with reference to market data for the last twelve months.

30 Financial Risk Management (Continued)

Although the VaR methodology is an important instrument for evaluation of the probable market risk value, it has several constraints, especially in respect of low liquid markets:

- Using historical data as the basis for determining future events may not reflect all possible scenarios;
- Using a 1 to 10 day holding period stipulates that the Group considers to sell or hedge the positions within 1 to 10 days. In practice, this is always the case. However, in case of exceptionally low market liquidity even a 10 day period may not be sufficient;
- A confidence interval of 99% does not consider losses that may occur beyond this level. Probability distribution of losses that may occur beyond the 99% level is not evaluated;
- Since the VaR amount is calculated based on the closing trading sessions data, it does not always reflect intraday fluctuations.

The Group does not confine market risk evaluation to VaR calculation only, as this method is associated with certain constraints described above. Constraints inherent in the VaR method are recognised by introduction additional limits on open positions set with consideration of instruments' liquidity, limits on volumes of transactions in respect of each trading portfolio. In addition, the Group also uses stress tests for modelling possible financial effect of certain exceptional market scenarios for certain types of the Group's capital position.

Information on the level of VaR associated with the Group's currency risk and securities price risk at 31 December 2011 and 31 December 2010 is provided below:

- value at risk of changes in the securities' value

	2011			**2010**		
In thousands of Russian Roubles	**Value of position**	**Risk***	**Percentage of risk to value of position**	**Value of position**	**Risk***	**Percentage of risk to value of position**
Fixed income securities price risk	18 076 027	224 776	1.2%	26 403 533	400 663	1.5%
Equity securities price risk	4 522 447	803 502	17.8%	5 039 704	651 914	12.9%

- value at risk of changes in currency rates

	2011			**2010**		
In thousands of Russian Roubles	**Value of position**	**Risk***	**Percentage of risk to value of position**	**Value of position**	**Risk***	**Percentage of risk to value of position**
Currency rate risk exposure	(3 637 321)	68 843	1.9%	(3 061 998)	51 401	1.7%

*Risk level specified in the column risk represents the potential impact of changes in risk factors on profit/(loss) and on the equity of the Group.

30 Financial Risk Management (Continued)

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

In thousands of Russian Roubles	**Russia**	**OECD countries**	**Other countries**	**Total**
Financial assets				
Cash and cash equivalents	19 042 575	8 563 266	834 367	28 440 208
Mandatory cash balances with central banks	2 148 673	-	50 161	2 198 834
Trading securities	6 452 901	-	-	6 452 901
Other financial assets at fair value through profit or loss	4 000 000	-	-	4 000 000
Due from other banks	-	-	34 058	34 058
Loans and advances to customers	124 062 308	145	6 808 162	130 870 615
Investment securities available for sale	15 180 636	-	511 501	15 692 137
Repurchase receivables	3 130 080	-	-	3 130 080
Other financial assets	491 162	150 285	98 170	739 617
Total financial assets	**174 508 335**	**8 713 696**	**8 336 419**	**191 558 450**
Non-financial assets				
Investment property	1 450 824	-	-	1 450 824
Current income tax prepayment	227 882	-	3 717	231 599
Deferred tax asset	1 465 215	-	70 236	1 535 451
Premises and equipment	3 559 763	-	113 132	3 672 895
Other non-financial assets	1 105 564	7 942	114 418	1 227 924
Total assets	**182 317 583**	**8 721 638**	**8 637 922**	**199 677 143**
Financial liabilities				
Due to other banks	15 433 955	1 565 711	12 707	17 012 373
Customer accounts	133 353 844	3 243 287	4 018 644	140 615 775
Debt securities in issue	7 209 939	-	217 349	7 427 288
Other financial liabilities	838 528	22 263	107 293	968 084
Subordinated debt	4 674 695	-	-	4 674 695
Total financial liabilities	**161 510 961**	**4 831 261**	**4 355 993**	**170 698 215**
Non-financial liabilities				
Current income tax liability	124 872	-	-	124 872
Other non-financial liabilities	649 500	11 105	47 190	707 795
Total liabilities	**162 285 333**	**4 842 366**	**4 403 183**	**171 530 882**
Net balance sheet position	**20 032 250**	**3 879 272**	**4 234 739**	**28 146 261**
Credit related commitments (Note 31)	**11 307 659**	**-**	**83 160**	**11 390 819**

30 Financial Risk Management (Continued)

Assets, liabilities and credit related commitments have been based on the country in which the counterparty is located. The column “OECD countries” in the table above includes mainly balances with counterparties from the USA, Germany and Great Britain. Balances with Russian counterparties actually outstanding to/from off-shore companies of these Russian counterparties are allocated to the caption “Russia”. Cash on hand and premises and equipment have been allocated based on the country in which they are physically held.

The geographical concentration of the Group’s assets and liabilities at 31 December 2010 is set out below:

In thousands of Russian Roubles	**Russia**	**OECD countries**	**Other countries**	**Total**
Financial assets				
Cash and cash equivalents	22 944 286	2 742 307	1 236 801	26 923 394
Mandatory cash balances with central banks	1 109 859	-	78 888	1 188 747
Trading securities	12 140 665	-	-	12 140 665
Other financial assets at fair value through profit or loss	4 000 000	-	-	4 000 000
Due from other banks	-	-	530 618	530 618
Loans and advances to customers	98 963 814	898	6 688 450	105 653 162
Investment securities available for sale	24 227 534	-	443 917	24 671 451
Other financial assets	123 732	76 453	2 382	202 567
Total financial assets	**163 509 890**	**2 819 658**	**8 981 056**	**175 310 604**
Non-financial assets				
Current income tax prepayment	183 075	-	7 174	190 249
Deferred tax asset	949 182	-	123 550	1 072 732
Premises and equipment	3 630 920	-	105 841	3 736 761
Other non-financial assets	747 170	5 235	60 267	812 672
Total assets	**169 020 237**	**2 824 893**	**9 277 888**	**181 123 018**
Financial liabilities				
Due to other banks	16 541 427	1 459 718	439 300	18 440 445
Customer accounts	112 581 563	1 788 543	3 715 580	118 085 686
Debt securities in issue	10 801 126	-	-	10 801 126
Other borrowed funds	-	-	129 263	129 263
Other financial liabilities	728 115	35 201	11 477	774 793
Subordinated debt	4 304 048	-	-	4 304 048
Total financial liabilities	**144 956 279**	**3 283 462**	**4 295 620**	**152 535 361**
Non-financial liabilities				
Current income tax liability	33 175	-	3	33 178
Deferred tax liability	15 428	-	-	15 428
Other non-financial liabilities	715 148	5 787	31 777	752 712
Total liabilities	**145 720 030**	**3 289 249**	**4 327 400**	**153 336 679**
Net balance sheet position	**23 300 207**	**(464 356)**	**4 950 488**	**27 786 339**
Credit related commitments (Note 31)	**7 331 162**	**907 090**	**786 974**	**9 025 226**

30 Financial Risk Management (Continued)

Currency risk. Currency risk is the risk that the Group's income or value of financial instruments portfolio may change due to exchange rate fluctuations.

The Financial and Economic Committee manages the volume of currency risk by setting a limit on the level of open currency positions. The Department for Financial Market Operations manages the level of open currency positions within the set limits. The Treasury transfers open currency position to the Department for Financial Market Operations through concluding intra-group transactions. The Risk Control Department monitors the aggregate currency risk level.

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

In thousands of Russian Roubles	**RR**	**USD**	**EUR**	**Other currency**	**Total**
Financial assets					
Cash and cash equivalents	17 546 861	3 073 132	6 634 117	1 186 098	28 440 208
Mandatory cash balances with central banks	2 148 672	21 602	21 566	6 994	2 198 834
Trading securities	6 452 901	-	-	-	6 452 901
Other financial assets at fair value through profit or loss	4 000 000	-	-	-	4 000 000
Due from other banks	-	34 058	-	-	34 058
Loans and advances to customers	96 106 833	28 627 308	4 253 557	1 882 917	130 870 615
Investment securities available for sale	14 526 750	653 886	-	511 501	15 692 137
Repurchase receivables	3 130 080	-	-	-	3 130 080
Other financial assets	612 193	27 183	3 626	96 615	739 617
Total financial assets	**144 524 290**	**32 437 169**	**10 912 866**	**3 684 125**	**191 558 450**
Non-financial assets					
Investment property	1 450 824	-	-	-	1 450 824
Current income tax prepayment	227 882	-	-	3 717	231 599
Deferred tax asset	1 465 215	-	-	70 236	1 535 451
Premises and equipment	3 559 763	-	-	113 132	3 672 895
Other non-financial assets	1 084 387	12 181	800	130 556	1 227 924
Total assets	**152 312 361**	**32 449 350**	**10 913 666**	**4 001 766**	**199 677 143**
Financial liabilities					
Due to other banks	10 708 224	5 323 957	979 560	632	17 012 373
Customer accounts	102 528 674	24 822 994	10 914 548	2 349 559	140 615 775
Debt securities in issue	6 816 223	611 065	-	-	7 427 288
Other financial liabilities	847 442	5 469	8 895	106 278	968 084
Subordinated debt	-	4 674 695	-	-	4 674 695
Total financial liabilities	**120 900 563**	**35 438 180**	**11 903 003**	**2 456 469**	**170 698 215**
Non-financial liabilities					
Current income tax liability	124 872	-	-	-	124 872
Other non-financial liabilities	649 242	12 531	687	45 335	707 795
Total liabilities	**121 674 677**	**35 450 711**	**11 903 690**	**2 501 804**	**171 530 882**
Net balance sheet position	**30 637 684**	**(3 001 361)**	**(990 024)**	**1 499 962**	**28 146 261**
Derivative financial instruments (Note 32)	**(140 524)**	**222 090**	**131 974**	**95 550**	**309 090**
Net balance sheet and derivatives position	**30 497 160**	**(2 779 271)**	**(858 050)**	**1 595 512**	**28 455 351**

30 Financial Risk Management (Continued)

At 31 December 2010, the Group had the following positions in currencies:

In thousands of Russian Roubles	**RR**	**USD**	**EUR**	**Other currency**	**Total**
Financial assets					
Cash and cash equivalents	21 057 488	2 487 779	2 623 467	754 660	26 923 394
Mandatory cash balances with central banks	1 109 859	8 903	9 031	60 954	1 188 747
Trading securities	10 940 506	1 200 159	-	-	12 140 665
Other financial assets at fair value through profit or loss	4 000 000	-	-	-	4 000 000
Due from other banks	-	128 606	210 906	191 106	530 618
Loans and advances to customers	69 817 379	29 689 030	5 096 473	1 050 280	105 653 162
Investment securities available for sale	23 318 707	483 762	425 065	443 917	24 671 451
Other financial assets	174 695	5 567	19 978	2 327	202 567
Total financial assets	**130 418 634**	**34 003 806**	**8 384 920**	**2 503 244**	**175 310 604**
Non-financial assets					
Current income tax prepayment	183 075	-	-	7 174	190 249
Deferred tax asset	949 182	-	-	123 550	1 072 732
Premises and equipment	3 630 921	-	-	105 840	3 736 761
Other non-financial assets	730 104	802	774	80 992	812 672
Total assets	**135 911 916**	**34 004 608**	**8 385 694**	**2 820 800**	**181 123 018**
Financial liabilities					
Due to other banks	12 077 930	5 006 014	1 345 849	10 652	18 440 445
Customer accounts	86 366 474	18 842 098	11 159 697	1 717 417	118 085 686
Debt securities in issue	9 542 531	1 258 595	-	-	10 801 126
Other borrowed funds	-	129 263	-	-	129 263
Other financial liabilities	748 360	13 757	5 464	7 212	774 793
Subordinated debt	-	4 304 048	-	-	4 304 048
Total financial liabilities	**108 735 295**	**29 553 775**	**12 511 010**	**1 735 281**	**152 535 361**
Non-financial liabilities					
Current income tax liability	33 175	-	-	3	33 178
Deferred tax liability	15 428	-	-	-	15 428
Other non-financial liabilities	717 267	1 747	151	33 547	752 712
Total liabilities	**109 501 165**	**29 555 522**	**12 511 161**	**1 768 831**	**153 336 679**
Net balance sheet position	**26 410 751**	**4 449 086**	**(4 125 467)**	**1 051 969**	**27 786 339**
Derivative financial instruments (Note 32)	**3 236 528**	**(7 195 886)**	**3 810 268**	**-**	**(149 090)**
Net balance sheet and derivatives position	**29 647 279**	**(2 746 800)**	**(315 199)**	**1 051 969**	**27 637 249**

30 Financial Risk Management (Continued)

Movements in foreign exchange rates may affect negatively the borrowers' repayment ability and incurrence of loan losses. At the same time, the Group seeks to provide to corporate clients loans in the currency which meets the requirements of the borrower's business structure in order to minimise the incurrence of loan losses due to realisation of potential currency risk for the borrower.

Liquidity risk. Liquidity risk is the risk of difficulties arising with repayment of the Group's financial liabilities. 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. Liquidity risk is managed by the CFE.

Liquidity risk arises when the maturity of assets and liabilities does not match. Given the diversity of the Group's transactions and associated uncertainty, the full matching of maturities of assets and liabilities is not a standard practice for financial institutions, which enables them to increase profitability of operations, but, at the same time, increases the risk of losses or the risk that the Group will be unable to meet its obligations.

The objective of liquidity management is to establish and maintain such condition of the Group's asset and liability structure by type and basic maturity that would enable the Group to timely fulfil its obligations to creditors, to satisfy the demand of Group's clients and counterparties for cash borrowings and to maintain the Group's reputation as a reliable financial institution that is paying special attention to liquidity risk regulation.

The Group seeks to maintain a diversified and stable structure of sources of financing consisting of issued debt securities, long-term and short-term deposits of banks, deposits of major corporate and retail clients as well as a diversified portfolio of highly liquid assets so that the Group could be able to promptly react to unforeseen liquidity requirements.

The CFE is responsible for liquidity management organisation. In order to streamline the liquidity management procedures the Group separately conducts short-term liquidity management, day-to-day management of which is performed by the Treasury and structured liquidity management, where decisions are taken by the Committee for Finance and Economy and information is prepared by the Risk Control Department.

Liquidity risk management is centralised in the Treasury by entering into transfer deals for all term transactions among the Treasury and business units. The deals are concluded for the period corresponding to the period of transactions at transfer rates.

The Group's liquidity management policy comprises:

- daily projecting of cash flows by major currencies and calculation of the required level of current liquidity which complies these cash flows;
- maintaining current liquidity in the amount sufficient for full coverage of the liabilities with maturity within 30 days;
- maintaining diversified structure of the sources and structure of financing;
- managing the concentration and structure of borrowed funds;
- development and implementation of debt financing plans;
- developing backup plans for liquidity and specified financing level maintenance;
- control over the compliance of the Group's balance sheet liquidity ratios with statutory ratios;
- establishing of limits and rates for attraction/placement of funds by instruments and of transfer rates.

30 Financial Risk Management (Continued)

he Treasury receives information on planned transactions from the business units. If the dates for notification about the planned transactions are not observed and also if the transaction exceeds the established limits on amount the Treasury has the right to ban this transaction of the business unit.

Monitoring of current and projected current liquidity position is done daily on the basis of preparation of payment schedule and forecast of short-term resources requirements. Monitoring of structural liquidity position is done by means of regular preparation of current and projected reports on assets and liabilities gaps (GAP-report).

The Bank Petrocommerce and its Russian subsidiaries calculate liquidity ratios on a daily basis in accordance with the requirement of the CBRF. These ratios include:

- 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 capital and liabilities maturing after one year.

At 31 December 2011 and at 31 December 2010, the Bank’s liquidity ratios complied with the statutory level.

Subsidiary banks in the Ukraine and Moldova calculate liquidity ratios in accordance with the requirements of national banks of these countries accordingly.

The table below shows liabilities at 31 December 2011 by their remaining contractual maturity. The amounts disclosed in the table below are the contractual undiscounted cash flows, including prices specified in deliverable forward agreements to purchase financial assets for cash. Such undiscounted cash flows differ from the amount included in the consolidated statement of financial position because the amount in the statement of financial position is based on discounted cash flows.

When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the reporting date. Foreign currency payments are restated applying the official exchange rate of CBRF at the reporting date.

The maturity analysis of financial liabilities based on the contractual undiscounted cash flows at 31 December 2011 is as follows:

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**	**Later than 5 years**	**Total**
Liabilities						
Due to other banks	15 519 576	727 690	108 577	769 257	226 757	17 351 857
Customer accounts	73 124 947	30 178 972	28 212 121	12 484 258	15 522	144 015 820
Debt securities in issue	14 519	1 831 845	3 374 248	4 528 675	223 476	9 972 763
Other financial liabilities	30 119	642 513	-	-	-	672 632
Subordinated debt	59 265	48 962	110 618	5 738 536	-	5 957 381
Derivative financial instruments						
- Inflows	(271 109)	(32 462)	-	-	-	(303 571)
- Ouflows	373 434	32 828	-	-	-	406 262
Credit related commitments	11 583 580	-	-	-	-	11 583 580
Total potential future payments for financial obligations	**100 434 331**	**33 430 348**	**31 805 564**	**23 520 726**	**465 755**	**189 656 724**

30 Financial Risk Management (Continued)

The maturity analysis of financial liabilities based on the contractual undiscounted cash flows at 31 December 2010 is as follows:

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**	**Later than 5 years**	**Total**
Liabilities						
Due to other banks	17 040 420	56 030	219 306	970 731	260 463	18 546 950
Customer accounts	58 099 927	30 161 318	22 510 244	10 450 284	13 962	121 235 735
Debt securities in issue	384 730	1 495 514	1 492 050	9 713 518	252 693	13 338 505
Other borrowed funds	-	88 709	44 259	-	-	132 968
Other financial liabilities	18 990	420 340	21 444	-	-	460 774
Subordinated debt	-	48 502	98 622	786 818	4 789 873	5 723 815
Derivative financial instruments						
- Inflows	(201 666)	(3 685 610)	-	-	-	(3 887 276)
- Ouflows	203 374	3 853 935	-	-	-	4 057 309
Credit related commitments	9 169 212	-	-	-	-	9 169 212
Total potential future payments for financial obligations	**84 714 987**	**32 438 738**	**24 385 925**	**21 921 351**	**5 316 991**	**168 777 992**

The tables below show assets and liabilities by their remaining contractual maturity unless there is evidence that any of these assets are impaired and will be settled after their contractual maturity dates in which case the expected date of settlement is used. Some of the assets and liabilities, however, may be of a longer term nature; for example, loans are frequently renewed and accordingly short term loans can have a longer term duration.

The entire portfolio of trading securities and repurchase receivable is classified within demand and less than one month as these portfolios are of trading nature and management believes this is a fairer portrayal of its liquidity position.

30 Financial Risk Management (Continued)

The liquidity position of the Group at 31 December 2011 is set out below:

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	Later than 5 years	No defined maturity	Total
Financial assets							
Cash and cash equivalents	28 440 208	-	-	-	-	-	28 440 208
Mandatory cash balances with central banks	2 198 834	-	-	-	-	-	2 198 834
Trading securities	6 452 901	-	-	-	-	-	6 452 901
Other financial assets at fair value through profit or loss	4 000 000	-	-	-	-	-	4 000 000
Due from other banks	-	792	33 266	-	-	-	34 058
Loans and advances to customers	6 060 195	37 897 663	18 943 184	56 135 009	11 834 564	-	130 870 615
Investment securities available for sale	11 260	249 424	3 147 585	8 022 301	111 305	4 150 262	15 692 137
Repurchase receivables	3 130 080	-	-	-	-	-	3 130 080
Other financial assets	244 538	466 982	20 361	7 736	-	-	739 617
Total financial assets	**50 538 016**	**38 614 861**	**22 144 396**	**64 165 046**	**11 945 869**	**4 150 262**	**191 558 450**
Non-financial assets							
Investment property	-	-	-	-	-	1 450 824	1 450 824
Current income tax prepayment	227 882	-	3 717	-	-	-	231 599
Deferred tax asset	75 911	-	-	1 459 540	-	-	1 535 451
Premises and equipment	-	-	-	-	-	3 672 895	3 672 895
Other non-financial assets	380 423	324 967	2 259	5 264	-	515 011	1 227 924
Total assets	**51 222 232**	**38 939 828**	**22 150 372**	**65 629 850**	**11 945 869**	**9 788 992**	**199 677 143**
Financial liabilities							
Due to other banks	15 447 127	653 356	-	689 816	222 074	-	17 012 373
Customer accounts	72 876 208	29 210 117	27 346 341	11 171 335	11 774	-	140 615 775
Debt securities in issue	14 497	1 530 497	2 430 792	3 228 026	223 476	-	7 427 288
Other financial liabilities	141 968	742 895	33 877	49 344	-	-	968 084
Subordinated debt	-	-	-	4 674 695	-	-	4 674 695
Total financial liabilities	**88 479 800**	**32 136 865**	**29 811 010**	**19 813 216**	**457 324**	**-**	**170 698 215**
Non-financial liabilities							
Current income tax liability	24 750	100 122	-	-	-	-	124 872
Other non-financial liabilities	655 186	29 441	20 640	2 528	-	-	707 795
Total liabilities	**89 159 736**	**32 266 428**	**29 831 650**	**19 815 744**	**457 324**	**-**	**171 530 882**
Net liquidity gap	**(37 937 504)**	**6 673 400**	**(7 681 278)**	**45 814 106**	**11 488 545**	**9 788 992**	**28 146 261**
Cumulative liquidity gap	**(37 937 504)**	**(31 264 104)**	**(38 945 382)**	**6 868 724**	**18 357 269**	**28 146 261**	**-**

30 Financial Risk Management (Continued)

Customer accounts are classified in the above analysis based on contractual maturities. The management believes that in spite of a substantial portion of customer accounts being up to 12 months, diversification of these deposits by number and type of depositors, and the past experience of the Group would indicate that these customer accounts provide a long-term and stable source of funding for the Group. The management is also taking a number of actions to ensure the Group controls liquidity gap, in particular:

- At the end of the reporting period the Bank had available for sale securities which are included in the CBRF's Lombard list. These securities can be pledged under direct Repo deals with the CBRF;

- The Bank performs regular stress testing of financial indicators of the Group and the Bank, including estimation and analysis of statistics over permanent balance on customers' current accounts, to ensure they will be in compliance with external covenants and all regulatory requirements in relation to capital adequacy, liquidity and financial risk management procedures in case of negative events on the market.

The management is of the opinion that the above mentioned actions ensure the Group's ability to control liquidity gap.

30 Financial Risk Management (Continued)

The liquidity position of the Group at 31 December 2010 is set out below:

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	Later than 5 years	No defined maturity	Total
Financial assets							
Cash and cash equivalents	26 109 893	813 501	-	-	-	-	26 923 394
Mandatory cash balances with central banks	1 188 747	-	-	-	-	-	1 188 747
Trading securities	12 140 665	-	-	-	-	-	12 140 665
Other financial assets at fair value through profit or loss	4 000 000	-	-	-	-	-	4 000 000
Due from other banks	441 139	51 006	37 719	754	-	-	530 618
Loans and advances to customers	8 126 356	29 628 866	13 095 328	51 170 920	3 631 692	-	105 653 162
Investment securities available for sale	1 028 105	2 125 584	4 188 958	10 883 345	2 358 496	4 086 963	24 671 451
Other financial assets	109 587	87 746	4 373	861	-	-	202 567
Total financial assets	**53 144 492**	**32 706 703**	**17 326 378**	**62 055 880**	**5 990 188**	**4 086 963**	**175 310 604**
Non-financial assets							
Current income tax prepayment	114 523	68 552	7 174	-	-	-	190 249
Deferred tax asset	-	-	-	1 072 732	-	-	1 072 732
Premises and equipment	-	-	-	-	-	3 736 761	3 736 761
Other non-financial assets	187 049	11 277	3 905	3 533	-	606 908	812 672
Total assets	**53 446 064**	**32 786 532**	**17 337 457**	**63 132 145**	**5 990 188**	**8 430 632**	**181 123 018**
Financial liabilities							
Due to other banks	16 971 152	54 814	209 107	951 371	254 001	-	18 440 445
Customer accounts	57 932 163	29 065 748	21 402 461	9 674 377	10 937	-	118 085 686
Debt securities in issue	378 969	1 024 086	1 074 864	8 070 514	252 693	-	10 801 126
Other borrowed funds	-	86 287	42 976	-	-	-	129 263
Other financial liabilities	30 987	643 895	42 949	56 962	-	-	774 793
Subordinated debt	-	-	-	-	4 304 048	-	4 304 048
Total financial liabilities	**75 313 271**	**30 874 830**	**22 772 357**	**18 753 224**	**4 821 679**	**-**	**152 535 361**

30 Financial Risk Management (Continued)

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**	**Later than 5 years**	**No defined maturity**	**Total**
Non-financial liabilities							
Current income tax liability	28 704	4 474	-	-	-	-	33 178
Deferred tax liability	15 428	-	-	-	-	-	15 428
Other non-financial liabilities	714 645	29 697	2 985	5 385	-	-	752 712
Total liabilities	**76 072 048**	**30 909 001**	**22 775 342**	**18 758 609**	**4 821 679**	**-**	**153 336 679**
Net liquidity gap	**(22 625 984)**	**1 877 531**	**(5 437 885)**	**44 373 536**	**1 168 509**	**8 430 632**	**27 786 339**
Cumulative liquidity gap	**(22 625 984)**	**(20 748 453)**	**(26 186 338)**	**18 187 198**	**19 355 707**	**27 786 339**	**-**

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

The management of the Group believes that in spite of a substantial portion of customer accounts being on demand, diversification of these deposits by number and type of depositors, and the past experience of the Group would indicate that these customer accounts provide a long-term and stable source of funding for the Group. Apart from the above stated, the Group also monitors the level of mismatch in maturity of assets and liabilities within the major time intervals.

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

Management of capital. The Group's objectives when managing capital are to comply with the capital requirements set by the Central Bank of the Russian Federation, to safeguard the Group's ability to continue as a going concern and to maintain a sufficient capital base to achieve a capital adequacy ratio based on Basel Accord of at least 8%. Under the current capital requirements set by the Central Bank of Russian Federation banks have to maintain a ratio of regulatory capital to risk weighted assets ("statutory capital ratio") above a prescribed minimum level. Refer to Note 31.

The Group's policy is aimed to maintain the level of capital sufficient to keep trust of investors, creditors and the market in general, as well as for the future development of the Group's operations.

The Central Bank of the Russian Federation sets and monitors compliance with regulatory capital ratios on the part of the Group's Russian banks and the Group in general. National banks of the Ukraine and Moldova Republic set and monitor compliance with regulatory capital ratios mandatory for Petrocommerce-Ukraine and Unibank respectively.

The Group manages capital adequacy using capital ratio projections based on the Basel Agreement and the CBRF requirements with the quarter to year horizon. Growth rates for asset-side transactions in the medium- and long term are planned with consideration of capital requirements. The Group develops and implements capital growth measures when appropriate.

30 Financial Risk Management (Continued)

To ensure compliance with the capital adequacy ratio in the short run (up to one month), the Group uses a system of limits on the use of capital. Limits on the use of capital are revised on a monthly basis and are generally set for business units with consideration of loan portfolio growth planning for the nearest month, projected expenses and possible losses resulting from crystallisation of credit and/or market risks in the short run. The collegial body in charge of approval of capital management procedures and setting limits on the use of capital is the CFE. The body in charge of development of capital management procedures and compliance with the set limits on the use of capital is the Risk Control Department. Business units should comply with set limits on the use of capital. Compliance with limits is monitored on a daily basis.

Currently, under requirements of the Central Bank of the Russian Federation, the Bank and the Group have to maintain a ratio of regulatory capital to risk weighted assets (“statutory capital ratio”) above the prescribed minimal level. As at 31 December 2011, the minimal level was set at 10% p.a. (2010: 10%).

At 31 December 2011 and at 31 December 2010, the Bank’s and the Group’s capital adequacy ratio complied with the statutory level. Apart from this, the Group and the Bank complied with the minimum capital level stipulated by the terms of the Bank’s and the Group’s obligations, including requirements to the capital adequacy level calculated on the basis of the Basel Agreement (generally known as Basel I). Refer to Note 31.

Interest rate risk. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may also increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The table below summarises the Group’s exposure to interest rate risks at 31 December 2011. The table also presents the Group’s assets and liabilities at carrying amounts, categorised by the earlier of contractual interest repricing or maturity dates.

30 Financial Risk Management (Continued)

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	Later than 5 years	Non-interest bearing	Total
Financial assets							
Cash and cash equivalents	28 440 208	-	-	-	-	-	28 440 208
Mandatory cash balances with central banks	2 198 834	-	-	-	-	-	2 198 834
Trading securities	837 041	1 059 987	1 893 673	2 439 555	-	222 645	6 452 901
Other financial assets at fair value through profit or loss	-	-	-	-	-	4 000 000	4 000 000
Due from other banks	-	792	33 266	-	-	-	34 058
Loans and advances to customers	6 060 199	37 897 662	18 943 183	56 135 008	11 834 563	-	130 870 615
Investment securities available for sale	316 590	1 767 237	3 641 959	5 760 876	55 214	4 150 261	15 692 137
Repurchase receivables	3 130 080	-	-	-	-	-	3 130 080
Other financial assets	-	-	-	-	-	739 617	739 617
Total financial assets	**40 982 952**	**40 725 678**	**24 512 081**	**64 335 439**	**11 889 777**	**9 112 523**	**191 558 450**
Non-financial assets							
Investment property	-	-	-	-	-	1 450 824	1 450 824
Current income tax prepayment	-	-	-	-	-	231 599	231 599
Deferred tax asset	-	-	-	-	-	1 535 451	1 535 451
Premises and equipment	-	-	-	-	-	3 672 895	3 672 895
Other non-financial assets	-	-	-	-	-	1 227 924	1 227 924
Total assets	**40 982 952**	**40 725 678**	**24 512 081**	**64 335 439**	**11 889 777**	**17 231 216**	**199 677 143**
Financial liabilities							
Due to other banks	15 472 929	1 298 934	240 510	-	-	-	17 012 373
Customer accounts	72 876 208	29 357 347	27 335 688	11 034 758	11 774	-	140 615 775
Debt securities in issue	14 497	1 530 497	2 430 792	3 228 026	223 476	-	7 427 288
Other financial liabilities	-	-	-	-	-	968 084	968 084
Subordinated debt	4 674 695	-	-	-	-	-	4 674 695
Total financial liabilities	**93 038 329**	**32 186 778**	**30 006 990**	**14 262 784**	**235 250**	**968 084**	**170 698 215**
Non-financial liabilities							
Current income tax liability	-	-	-	-	-	124 872	124 872
Other non-financial liabilities	-	-	-	-	-	707 795	707 795
Total liabilities	**93 038 329**	**32 186 778**	**30 006 990**	**14 262 784**	**235 250**	**1 800 751**	**171 530 882**
Net gap	**(52 055 377)**	**8 538 900**	**(5 494 909)**	**50 072 655**	**11 654 527**	**15 430 465**	**28 146 261**

30 Financial Risk Management (Continued)

The table below summarises the Group's exposure to interest rate risk 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**	**Later than 5 years**	**Non-interest bearing**	**Total**
Financial assets							
Cash and cash equivalents	26 109 893	813 501	-	-	-	-	26 923 394
Mandatory cash balances with central banks	1 188 747	-	-	-	-	-	1 188 747
Trading securities	19 918	3 592 537	2 123 885	4 414 768	1 177 619	811 938	12 140 665
Other financial assets at fair value through profit or loss	-	-	-	-	-	4 000 000	4 000 000
Due from other banks	441 138	51 007	37 719	754	-	-	530 618
Loans and advances to customers	8 126 360	29 659 056	13 095 327	51 140 728	3 631 691	-	105 653 162
Investment securities available for sale	1 028 105	3 769 120	4 716 253	10 804 498	266 514	4 086 961	24 671 451
Other financial assets	-	-	-	-	-	202 567	202 567
Total financial assets	**36 914 161**	**37 885 221**	**19 973 184**	**66 360 748**	**5 075 824**	**9 101 466**	**175 310 604**
Non-financial assets							
Current income tax prepayment	-	-	-	-	-	190 249	190 249
Deferred tax asset	-	-	-	-	-	1 072 732	1 072 732
Premises and equipment	-	-	-	-	-	3 736 761	3 736 761
Other non-financial assets	-	-	-	-	-	812 672	812 672
Total assets	**36 914 161**	**37 885 221**	**19 973 184**	**66 360 748**	**5 075 824**	**14 913 880**	**181 123 018**
Financial liabilities							
Due to other banks	17 012 642	1 144 063	283 740	-	-	-	18 440 445
Customer accounts	57 932 159	29 278 770	21 391 936	9 471 884	10 937	-	118 085 686
Debt securities in issue	378 969	1 024 086	1 074 864	8 070 514	252 693	-	10 801 126
Other borrowed funds	-	129 263	-	-	-	-	129 263
Other financial liabilities	-	-	-	-	-	774 793	774 793
Subordinated debt	4 304 048	-	-	-	-	-	4 304 048
Total financial liabilities	**79 627 818**	**31 576 182**	**22 750 540**	**17 542 398**	**263 630**	**774 793**	**152 535 361**
Non-financial liabilities							
Current income tax liability	-	-	-	-	-	33 178	33 178
Deferred tax liability	-	-	-	-	-	15 428	15 428
Other non-financial liabilities	-	-	-	-	-	752 712	752 712
Total liabilities	**79 627 818**	**31 576 182**	**22 750 540**	**17 542 398**	**263 630**	**1 576 111**	**153 336 679**
Net gap	**(42 713 657)**	**6 309 039**	**(2 777 356)**	**48 818 350**	**4 812 194**	**13 337 769**	**27 786 339**

30 Financial Risk Management (Continued)

The Group is exposed to cash flow interest rate risk, principally through assets and liabilities for which interest rates are reset as market rates change. These assets and liabilities are presented in the above table as being repriced in the short-term. The Group is exposed to fair value interest rate risk as a result of assets and liabilities at fixed interest rates. This information is presented in the above table by group of instruments that mature or are repriced in the long-term. In practice, interest rates that are contractually fixed on both assets and liabilities are usually renegotiated to reflect current market conditions.

The Group monitors the level of mismatch of interest rate repricing terms and dates and manages interest rate risk by regulating the level of the mismatch. In the absence of any available hedging instruments, the Group normally seeks to match its interest rate positions in respect of dates and repricing terms.

The table below summarises the interest rate, by major currencies, for major debt instruments. The analysis has been prepared based on period-end effective rates.

	2011				2010			
In % p.a.	**Russian Roubles**	**US dollars**	**EUR**	**Other**	**Russian Roubles**	**US dollars**	**EUR**	**Other**
Assets								
Correspondent accounts and overnight placements with other banks	3.6	0.0	0.2	0.0	1.1	0.0	0.3	0.2
Placements with other banks with original maturities of less than three months	-	-	2.5	-	3.4	5.6	2.0	7.3
Reverse sale and repurchase agreements with other banks with original maturities of less than three months	-	-	-	-	4.7	-	-	-
Debt trading securities	7.8	-	-	-	7.0	5.4	-	-
Due from other banks	-	0.5	-	-	-	5.9	1.0	12.4
Loans and advances to customers	12.6	10.7	7.8	14.1	13.6	11.3	6.9	13.8
Debt investment securities available for sale	7.1	-	-	11.2	5.9	-	2.6	7.5
Repurchase receivables	7.2	-	-	-	-	-	-	-
Liabilities								
Due to other banks	5.0	0.8	2.4	0.0	1.8	0.6	2.0	7.0
Customer accounts								
- current and settlement accounts	0.1	0.2	0.0	0.5	0.2	0.1	0.2	0.8
- term deposits	6.4	4.1	4.5	8.6	6.6	4.8	4.7	11.5
Debt securities in issue	11.3	5.2	-	-	10.9	2.4	-	-
Other borrowed funds	-	-	-	-	-	5.8	-	-
Subordinated debt	-	5.7	-	-	-	5.6	-	-

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

30 Financial Risk Management (Continued)

Interest risk management by means of monitoring of the mismatching of the maturities of interest bearing assets and liabilities is supplemented by the procedure of monitoring of the Group's net interest income sensitivity to various standard and non-standard interest rate change scenario. Also, for the purpose of balance sheet interest rate risk management the Group regulates conditions of early repayment of assets and liabilities. In order to limit mismatch in the conditions of early repayment of the Group's assets and liabilities, certain clauses are introduced into standard forms of contracts on term transactions that protect from the risk of early repayment and from failure to meet deadlines for fulfilment of commitments. In particular, for uncoordinated (not approved by the Group) early repayment of loans in order to limit the interest risk related with possible early repayment of loans the Group uses the mechanism of penalties in the amount of not received interest and the mechanism of charging commission for issuing a loan, credit tranche or undrawn credit line. In case of early demand of a deposit for deposits envisaging a possibility of uncoordinated (not approved by the Group) early repayment the Group uses such penalties as the mechanism of reducing rates used for calculation of interest paid to depositors.

The analysis of the sensitivity of net interest income on the Group's non-trading book for one year based on the increase or decrease in market interest rates, prepared on the basis of the following simplified scenario:

- parallel decrease or increase of yield curves by 200 basis points in different hard currencies (USD, EUR, etc.);
- parallel decrease or increase of yield curves by 500 basis points in different soft currencies (RR, UAH, etc.);
- In case of completion of deals during the following year, the prolongation will be made for the same period and at a rate increased by 200 or 500 basis points depending on the currency.

Parameters of the scenario take into account different capacity of interest rate changes of hard and soft currencies under the financial crisis.

The analysis of the sensitivity of net interest income on the Group's non-trading book based on the above scenario is set out below:

In thousands of Russian Roubles	**2011**	**2010**
Parallel increase by 200 and 500 basis points (depending on currency)	(1 635 249)	(1 027 302)
Parallel decrease by 200 and 500 basis points (depending on currency)	1 635 249	1 027 302

Other price risk. The Group is exposed to prepayment risk through providing fixed or variable rate loans, which give the borrower the right to early repay the loans. The Group's current year profit (loss) and equity at the current balance sheet date would not have been significantly impacted by changes in prepayment rates because such loans are carried at amortised cost and the prepayment right is at, or close to, the amortised cost of the loans and advances to customers (2010: no material impact).

31 Contingencies and Commitments

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

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

Russian transfer pricing legislation enacted from 1 January 2012 strengthens control over transfer pricing from the part of tax authorities, including the fact that it introduces significant requirements to taxpayers' reporting and documentation. Previous transfer pricing legislation that is applicable to transactions on or prior to 31 December 2011, also provides the possibility for tax authorities to review appropriateness of prices and to impose additional tax liabilities in respect of all controllable transactions, provided that prices applied by the parties to the transaction are higher or lower than the market price by more than 20%. Controllable transactions include transactions with interdependent parties, as determined under the Russian Tax Code, all cross-border transactions (irrespective whether performed between related or unrelated parties), barter transactions as well as transactions where prices are higher or lower by more than 20% than the prices applied by the taxpayer to similar (homogeneous) goods (work, services) within a short period of time. Special transfer pricing rules are provided for securities transactions and financial instruments used in term deals. Transfer pricing legislation effective during the period under review contained a lot of ambiguities thus creating possibility of various interpretations for Russian tax authorities and courts.

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

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

As Russian tax legislation does not provide definitive guidance in certain areas. From time to time, the Group adopts interpretations of such uncertain areas that reduce the overall tax rate of the Group. The management consider that there is a possibility of tax positions and interpretations confirmation but there is a risk of resources outflow in case these tax positions and interpretations are challenged by certain authorities. The impact of any challenge by the tax authorities cannot be reliably estimated; however, it may be significant to the financial condition and/or the overall operations of the Group.

In addition to the above, the management estimates that the Group has other possible obligations from exposure to other than remote tax risks, in the amount from nil to RR 168 192 thousand (2010: from nil to RR 134 819 thousand). These risks are estimations occur due to uncertainty in interpretation of applicable legislation and relevant requirement to documentation. The management intends to vigorously protect positions and interpretations of the Company used in the determination of taxes, reflected in the financial statements, if they are challenged by tax authorities.

Capital expenditure commitments. At 31 December 2011, the Group did not have any significant contractual capital expenditure commitments in respect of buildings reconstruction and purchasing of an equipment (2010: nil).

31 Contingencies and Commitments (Continued)

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**
Not later than 1 year	298 904	250 577
Later than 1 year and not later than 5 years	289 172	306 804
Later than 5 years	156 160	138 199
Total operating lease commitments	**744 236**	**695 580**

Compliance with covenants. During 2011 the Group complied with certain covenants, primarily related to other borrowed funds. Non-compliance with such covenants could result in claims from creditors for early repayment of debt by the Group.

One of these covenants is fulfilment by the Group of minimum capital adequacy requirements calculated in accordance with the requirements of the Basel Accord, as defined in the International Convergence of Capital Measurement and Capital Standards (updated April 1998) and Amendment to the Capital Accord to incorporate market risks (updated November 2005), commonly known as Basel I.

The composition of the Group's capital calculated in accordance with Basel Accord at 31 December 2011 and at 31 December 2010 is as follows:

In thousands of Russian Roubles	**2011**	**2010**
Tier 1 capital	28 367 369	27 792 990
Tier 2 capital	4 575 196	4 301 055
Total equity	**32 942 565**	**32 094 045**
Total risk weighted assets	**175 026 967**	**151 623 171**
Total capital-to-risk-weighted-assets ratio (%) (total capital adequacy ratio)	18.8%	21.2%
Total Tier 1 capital-to-risk-weighted-assets ratio (%) (Tier 1 capital adequacy ratio)	16.2%	18.3%

31 Contingencies and Commitments (Continued)

Also the Group's main objective of capital management is to comply with the capital requirements set by the Central Bank of the Russian Federation.

The management believes that the Group was in compliance with covenants at 31 December 2011 and 31 December 2010.

Credit related commitments. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer 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, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments, if the unused amounts were to be drawn down. 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**
Guarantees issued		11 571 466	7 287 759
Import letters of credit		12 114	1 105 997
Export letters of credit		-	767 956
Letters of credit for payments in the Russian Federation		-	7 500
Less provision for credit related commitments	20	(192 761)	(143 986)
Total credit related commitments		**11 390 819**	**9 025 226**

Deposits of RR 1 155 995 thousand (2010: RR 823 603 thousand) held as collateral for irrevocable commitments under import letters of credit and letters of credit with settlement in the Russian Federation are recorded in customer accounts (Refer to Note 17). These letters of credit are not included in the table above.

As at 31 December 2011, the Group had commitments in relation to unused credit lines totalling RR 21 232 121 thousand (2009: RR 16 439 515 thousand).

The total outstanding contractual amount of undrawn credit lines, letters of credit, and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded. The fair value of credit related commitments was RR 192 761 thousand at 31 December 2011 (2010: RR 143 986 thousand).

31 Contingencies and Commitments (Continued)

Credit related commitments are denominated in currencies as follows:

In thousands of Russian Roubles	2011	2010
Russian Roubles	11 090 686	6 801 072
USD	168 450	2 156 153
EUR	125 635	48 895
Other	6 048	19 106
Total	**11 390 819**	**9 025 226**

Trust activities. The Group provides asset management services to its customers in its own name but on their account. These assets are not included in the Group's consolidated statement of financial position as they are not assets of the Group. The assets managed by the Group are disclosed at their fair value and fall into the following categories:

In thousands of Russian Roubles	2011	2010
Corporate shares	223 938	104 096
Corporate bonds	75 103	838 763
Cash funds	13 382	56 881
Russian Federation Eurobonds	-	819 629
Total assets in trust management	**312 423**	**1 819 369**

Fiduciary assets. These assets are not included in the Group's consolidated statement of financial position as they are not assets of the Group. Other securities are disclosed at nominal value. Nominal values disclosed below are normally different from the fair values of respective securities. The fiduciary assets fall into the following categories:

In thousands of Russian Roubles	2011	2010
Corporate bonds	3 687 023	4 187 869
Corporate shares	1 851 436	1 762 750
Corporate Eurobonds	289 775	274 292
Municipal bonds and bonds of the Russian Federation's regions	53 266	20 687
Promissory notes	11 215	10 719

31 Contingencies and Commitments (Continued)

Assets pledged and restricted. At 31 December 2011 and 31 December 2010, the Group has the following assets pledged as collateral:

In thousands of Russian Roubles	Note	2011 Asset pledged	2011 Related liability	2010 Asset pledged	2010 Related liability
Investment securities available for sale pledged for the credit line of the CBRF	11	5 916 125	-	5 040 387	-
Investment securities available for sale and restricted	11	-	-	209 465	-
Trading securities pledged under sale and repurchase agreements	12,16	102 016	97 790	-	-
Investment securities available for sale pledged under sale and repurchase agreements	12,16	3 028 064	2 903 737	-	-
Securities purchased under reverse sale and repurchase agreements and pledged under sale and repurchase agreements	16	-	-	2 110 647	2 000 362
Premises and equipment pledged against attracted customer deposits	14,17	85 442	105 138	113 552	132 726
Term placement of other Banks	9,16	-	-	401 442	400 195

32 Derivative Financial Instruments

Foreign exchange and other derivative financial instruments entered into by the Group are generally traded in an over-the-counter market with professional market counterparties on standardised contractual terms and conditions. Derivatives have potentially favourable (assets) or unfavourable (liabilities) conditions as a result of fluctuations in market interest rates, foreign exchange rates or other variables relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

The principal or agreed amounts and fair values of derivative financial instruments held are set out in the following table. The table reflects gross positions before the netting of any counterparty positions (and payments) and covers the contracts with settlement dates after the respective end of the reporting period. The contracts are short term in nature.

	2011			2010		
In thousands of Russian Roubles	**Principal or agreed amount**	**Positive fair value**	**Negative fair value**	**Principal or agreed amount**	**Positive fair value**	**Negative fair value**
Forwards						
Foreign currency						
- purchase of USD for RR	812 335	65 874	(49 045)	-	-	-
- purchase of USD for EUR	161 893	69	(52 495)	-	-	-
- purchase of USD for UAH	160 078	633	-	-	-	-
- purchase of MDL for USD	65 190	-	(435)	-	-	-
- purchase of UAH for EUR	55 044	46 764	(716)	-	-	-
- purchase of EUR for UAH	53 627	1 445	-	-	-	-
- purchase of EUR for USD	-	-	-	3 831 645	17 355	(1 708)
- purchase of RR for USD	-	-	-	3 383 270	3 382	-
- purchase of RR for EUR	-	-	-	21 515	138	-
- other	-	-	-	6 183	68	-
Securities						
-sale of securities	4 015 287	296 996	-	3 685 610	-	(168 325)
Total derivative financial instruments		**411 781**	**(102 691)**		**20 943**	**(170 033)**

33 Fair Value of Financial Instruments

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

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. The economy of 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. The management has used all available market information in estimating the fair value of financial instruments.

Financial instruments carried at fair value. Trading securities, investment securities available for sale, derivative financial instruments and repurchase receivable are carried on the consolidated statement on financial position at their fair value.

The best evidence of fair value is price quotations in an active market. Where quoted market prices are not available, the Group used valuation techniques. Certain valuation techniques required assumptions that were not supported by observable market data. Changing any such used assumptions to a reasonably possible alternative can result in a different profit, income, total assets or total liabilities.

Fair value of financial derivatives with floating interest rates with no price quotation on active market was disclosed at their balance value.

Loans and receivables carried at amortised cost. The fair value of floating rate instruments that are not quoted in an active market was estimated to be equal to their carrying amount. Due from other banks and other financial assets are carried at amortised cost which approximates their current fair value. The fair value of loans and advances to customers were estimated as follows:

- Non-risk rate was determined (for rouble-denominated loans – yield curve rates of OFZ with corresponding maturities);
- This non-risk rate, depending on the degree of impairment of the loan, was increased by the fair cost of the risk estimated by the Group;
- Future cash flows of the loan were discounted using the above calculated adjusted non-risk rate.

Cash and cash equivalents are carried at amortised cost which approximates current fair value.

These rates are analysed below:

	2011		**2010**	
In % p.a.	from	to	from	to
ASSETS				
Due from other banks				
Term placements with other banks with original maturities of more than three months	0.0	8.5	0.0	14.0
Loans and advances to customers				
Corporate entities				
Commercial loans	4.1	31.9	2.3	36.0
Factoring	7.9	8.4	6.4	18.6
Reverse repurchase agreements	1.6	6.0	1.8	6.4
Individuals				
Loans to individuals	9.9	28.0	6.3	28.0
Reverse repurchase agreements	5.8	5.8	4.1	4.1

33 Fair Value of Financial Instruments (Continued)

Liabilities carried at amortised cost. The fair value of bonds and Eurobonds in issue is based on quoted market prices, if available. The estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Due from other banks and other financial liabilities are carried at amortised cost which approximates their current fair value. The fair value of customer deposits was determined as follows:

- Transfer rate which was determined in the Group at the moment of fair value calculation was defined based on maturity and currency of deposit;
- Future cash flows of the deposit were discounted using a transfer rate which matches the maturity at the date of calculation and currency of the deposit;
- Transfer rates used for calculation of fair value are determined by the Group Treasury based on market interest rate lines.

These rates are analysed below:

	2011		2010	
In % p.a.	from	to	from	to
LIABILITIES				
Due to other banks				
Correspondent accounts and overnight placements of other banks	0.0	0.1	0.0	0.5
Term placements of other banks	0.0	7.5	0.0	7.5
Sale and repurchase agreements with other banks	6.0	6.3	3.3	3.3
Customer accounts				
- current and settlement accounts	0.0	3.0	0.0	6.5
- term deposits	0.5	18.0	0.2	22.5
Debt securities in issue				
Promissory notes	0.0	12.8	0.0	12.8
Savings certificates	7.5	7.7	5.7	11.3
Other borrowed funds				
Syndicated loans	-	-	1.7	1.7
Subordinated debt	5.7	5.7	5.6	5.6

33 Fair Value of Financial Instruments (Continued)

Fair values of financial instruments carried at amortised cost.

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

	2011		2010	
In thousands of Russian Roubles	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
Financial assets carried at amortised cost				
Cash and cash equivalents				
Cash on hand	7 961 402	7 961 402	7 700 864	7 700 864
Cash balances with central banks (other than mandatory reserve deposits)	7 103 633	7 103 633	5 835 658	5 835 658
Correspondent accounts and overnight placements with other banks				
- Russian Federation	4 197 502	4 197 502	507 847	507 847
- other countries	8 585 330	8 585 330	2 769 757	2 769 757
Placements with other banks with original maturities of less than three months	12 446	12 446	4 019 624	4 019 624
Reverse sale and repurchase agreements with other banks with original maturities of less than three months	-	-	5 272 863	5 272 863
Settlement accounts with trading systems	579 895	579 895	816 781	816 781
Mandatory cash balances with central banks	**2 198 834**	**2 198 834**	**1 188 747**	**1 188 747**
Due from other banks				
Term placements with other banks with original maturities of more than three months	34 058	34 058	530 618	530 618
Loans and advances to customers				
Corporate entities				
Commercial loans	98 836 575	100 285 105	83 328 707	82 396 281
Factoring	13 425 837	13 425 837	6 998 640	6 998 640
Reverse sale and repurchase agreements	6 413 736	6 445 082	7 446 088	7 272 672
Individuals				
Loans to individuals	12 016 281	12 367 470	7 671 896	7 671 324
Reverse sale and repurchase agreements	178 186	178 186	207 831	207 831
Other financial assets				
Receivables on commissions	128 479	128 479	91 075	91 075
Receivables on plastic card operations	156 065	156 065	67 866	67 866
Cash transfers	12 213	12 213	12 235	12 235
Dividends receivable	14	14	4 757	4 757
Settlements on assets sold	20 361	20 361	-	-
Other financial assets	10 704	10 704	5 691	5 691
Total financial assets carried at amortised cost	**161 871 551**	**163 702 616**	**134 477 545**	**133 371 131**

33 Fair Value of Financial Instruments (Continued)

	2011		2010	
In thousands of Russian Roubles	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
Financial liabilities carried at amortised cost				
Due to other banks				
Correspondent accounts and overnight placements of other banks	332 118	332 118	271 069	271 069
Term placements of other banks	13 678 728	13 678 728	16 169 014	16 169 014
Sale and repurchase agreements with other banks	3 001 527	3 001 527	2 000 362	2 000 362
Customer accounts				
State organisations				
- Current/settlement accounts	99	99	86	86
Corporate entities				
- Current/settlement accounts	20 661 667	20 661 667	23 853 580	23 853 580
- Term deposits	47 061 975	47 162 350	26 597 803	27 012 307
Individuals				
- Current/demand accounts	16 141 965	16 141 965	13 663 506	13 663 506
- Term deposits	56 750 069	56 086 425	53 970 711	53 754 529
Debt securities in issue				
Bonds	5 397 896	5 592 383	7 576 482	8 181 853
Promissory notes	1 892 515	1 916 360	3 033 637	3 137 061
Savings certificates	136 877	136 877	191 007	191 007
Other borrowed funds				
Syndicated loans	-	-	129 263	131 831
Other financial liabilities				
Settlements on factoring operations	552 483	552 483	293 500	293 500
Payables on plastic card operations	92 860	92 860	131 192	131 192
Accrued liabilities	14 003	14 003	23 354	23 354
Cash transfers	3 102	3 102	2 327	2 327
Other financial liabilities	10 184	10 184	10 401	10 401
Provision for credit related commitments	192 761	192 761	143 986	143 986
Subordinated debt	**4 674 695**	**4 674 695**	**4 304 048**	**4 304 048**
Total financial liabilities carried at amortised cost	**170 595 524**	**170 250 587**	**152 365 328**	**153 275 013**

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

33 Fair Value of Financial Instruments (Continued)

	2011			2010		
In thousands of Russian Roubles	**Quoted price in an active market (Level 1)**	**Valuation technique with inputs observable in markets (Level 2)**	**Valuation technique with significant non-observable inputs (Level 3)**	**Quoted price in an active market (Level 1)**	**Valuation technique with inputs observable in markets (Level 2)**	**Valuation technique with significant non-observable inputs (Level 3)**
Financial assets						
Trading securities						
Promissory notes	2 676 644	-	-	5 368 879	-	-
Corporate bonds	2 974 993	-	-	3 334 577	-	-
Federal loan bonds (OFZ bonds)	558 530	-	-	1 404 762	-	-
Russian Federation Eurobonds	-	-	-	762 981	-	-
Corporate Eurobonds	-	-	-	437 178	-	-
Municipal bonds and bonds of the Russian Federation's regions	20 089	-	-	20 350	-	-
Quoted corporate shares	222 645	-	-	811 938	-	-
Repurchase receivables						
Federal loan bonds (OFZ bonds)	3 130 080	-	-	-	-	-
Other financial assets at fair value through profit or loss	-	-	4 000 000	-	-	4 000 000
Investment securities available for sale						
Federal loan bonds (OFZ bonds)	7 436 235	-	-	10 778 948	-	-
Corporate bonds	3 515 442	-	-	7 073 754	-	-
Municipal bonds and bonds of the Russian Federation's regions	78 696	-	-	1 416 135	-	-
CBRF bonds	-	-	-	446 670	-	-
Corporate Eurobonds	-	-	-	425 065	-	-
Debt securities of central banks of non-OECD countries	-	-	-	-	225 446	-
State debt securities of non-OECD countries	-	361 962	-	-	77 667	-
Investments in mutual funds	-	-	2 276 632	-	-	2 278 798
Private equity fund investments	-	-	653 886	-	-	483 762
Quoted corporate shares	1 369 284	-	-	1 465 206	-	-
Other financial assets						
Derivative financial instruments (foreign exchange forward contracts)	-	114 785	-	-	20 943	-
Derivative financial instruments (forward contracts on securities' sale)	-	245 004	51 992	-	-	-
Total financial assets carried at fair value	**21 982 638**	**721 751**	**6 982 510**	**33 746 443**	**324 056**	**6 762 560**

33 Fair Value of Financial Instruments (Continued)

The management applies judgement in categorising financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement. Significance of a valuation input is assessed against the fair value measurement in its entirety.

Methods and assumptions for valuation of financial instruments included in the fair valuation hierarchy.

Level 2. The fair value of financial derivatives allocated to Level 2 the fair valuation hierarchy was determined based on the discounted cash flows (DCF) models with all significant inputs observable in the market. The fair value of securities with insignificant trading volumes is based on adjusted market quotes.

Level 3. As at 31 December 2011 investments in mutual funds in the amount of RR 2 276 632 thousand (2010: RR 2 278 798 thousand) represent investments which have been valued using the values of net assets reported to the Group by the respective fund managers. Private equity fund investments in the amount of RR 635 886 thousand (2010: 483 762 thousand) and other financial assets at fair value through profit or loss in the amount of RR 4 000 000 thousand (2010: RR 4 000 000 thousand) have been valued using discounted cash flows with all significant inputs non-observable in the market.

In thousands of Russian Roubles	**2011** **Valuation technique with inputs observable in markets (Level 2)**	**2010** **Valuation technique with inputs observable in markets (Level 2)**
Other financial liabilities		
Derivative financial instruments (foreign exchange forward contracts)	102 691	1 708
Derivative financial instruments (forward contracts on securities' sale)	-	168 325
Total financial liabilities carried at fair value	**102 691**	**170 033**

A reconciliation of movements in Level 3 of the fair value hierarchy by class of financial instruments for the year ended 31 December 2011 is as follows:

In thousands of Russian Roubles	**Other financial assets at fair value through profit or loss**	**Investment securities available for sale**	**Other financial assets (Derivatives financial instruments)**
Fair value at 1 January 2011	**4 000 000**	**2 762 560**	**-**
Gains recognised in profit or loss for the year	-	-	51 992
Gains recognised in other comprehensive income	-	160 000	-
Acquisition	-	1 440	-
Effect of translation to presentation currency	-	6 518	-
Fair value at 31 December 2011	**4 000 000**	**2 930 518**	**51 992**

Gains and losses on derivatives are presented separately in profit or loss for the year.

33 Fair Value of Financial Instruments (Continued)

A reconciliation of movements in Level 3 of the fair value hierarchy by class of financial instruments for the year ended 31 December 2010 is as follows:

In thousands of Russian Roubles	**Trading securities**	**Other financial assets at fair value through profit or loss**	**Investment securities available for sale**
Fair value at 1 January 2010	**145 663**	**-**	425 628
Losses recognised in profit or loss for the year	(145 663)	-	-
Gains recognised in other comprehensive income	-	-	89 151
Acquisition	-	4 000 000	2 278 798
Disposals	-	-	(31 017)
Fair value at 31 December 2010	**-**	**4 000 000**	**2 762 560**

Cumulative revaluation losses recognised in profit or loss for the current or prior years for trading securities held at 31 December 2011 for which fair value was measured using methods and assumptions corresponding to Level 3 of the fair value hierarchy amounted to RR 642 262 thousand (2010: RR 626 789 thousand).

34 Presentation of Financial Instruments by Measurement Category

Under the IAS 39, Financial Instruments: Recognition and Measurement, the Group assigns it's financial assets into the following categories: (a) loans and receivables; (b) financial assets available for sale; (c) financial assets at fair value through profit or loss. Financial assets at fair value through profit or loss have two subcategories: (i) assets designated as such upon initial recognition, and (ii) financial assets held for trading. The following table provides a reconciliation of classes of financial assets with these measurement categories as of 31 December 2011:

In thousands of Russian Roubles	**Loans and receivables**	**Assets available for sale**	**Trading assets**	**Other financial assets designated at fair value through profit or loss**	**Total**
Assets					
Cash and cash equivalents	28 440 208	-	-	-	28 440 208
Mandatory cash balances with central banks	2 198 834	-	-	-	2 198 834
Trading securities	-	-	6 452 901	-	6 452 901
Other financial assets at fair value through profit or loss	-	-	-	4 000 000	4 000 000
Due from other banks	34 058	-	-	-	34 058
Loans and advances to customers	130 870 615	-	-	-	130 870 615
Investment securities available for sale	-	15 692 137	-	-	15 692 137
Repurchase receivables		3 028 064	102 016	-	3 130 080
Other financial assets	327 836	-	411 781	-	739 617
Total financial assets	**161 871 551**	**18 720 201**	**6 966 698**	**4 000 000**	**191 558 450**

34 Presentation of Financial Instruments by Measurement Category (Continued)

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

In thousands of Russian Roubles	Loans and receivables	Assets available for sale	Trading assets	Other financial assets designated at fair value through profit or loss	Total
Assets					
Cash and cash equivalents	26 923 394	-	-	-	26 923 394
Mandatory cash balances with central banks	1 188 747	-	-	-	1 188 747
Trading securities	-	-	12 140 665	-	12 140 665
Other financial assets at fair value through profit or loss	-	-	-	4 000 000	4 000 000
Due from other banks	530 618	-	-	-	530 618
Loans and advances to customers	105 653 162	-	-	-	105 653 162
Investment securities available for sale	-	24 671 451	-	-	24 671 451
Other financial assets	181 624	-	20 943	-	202 567
Total financial assets	**134 477 545**	**24 671 451**	**12 161 608**	**4 000 000**	**175 310 604**

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

35 Related Party Transactions

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

As set out in Note 1, the main shareholder of the Group is the financial group IFD Kapital. A majority stake in IFD Kapital Group is beneficially owned by Mr. Alekperov and Mr. Fedun (the "ultimate beneficiaries") and is managed by a professional asset management company, which is not owned by the ultimate beneficiaries. Transactions with related parties are entered into in the normal course of business with the Bank's significant shareholders, ultimate beneficiaries, directors and companies with which the Bank has significant shareholders in common. These transactions include settlements, loans, deposit taking, trade finance and foreign currency transactions and other transactions. These transactions are priced at market rates.

35 Related Party Transactions (Continued)

At 31 December 2011 and at 31 December 2010, the outstanding balances with related parties were as follows:

In thousands of Russian Roubles	**2011** Sharehol-ders	**2011** Key manage-ment personnel	**2011** Other	**2010** Sharehol-ders	**2010** Key manage-ment personnel	**2010** Other
Correspondent accounts and overnight deposits with other banks (contractual interest rate: 2011: 0.0% p.a.; 2010: 0.0% p.a.)	-	-	16 513	-	-	17 340
Trading securities	-	-	-	-	-	158 396
Other financial assets at fair value through profit or loss	-	-	4 000 000	-	-	4 000 000
Loans and advances to customers						
Loans and advances (contractual interest rate: 2011: 5.0% p.a.-22.0% p.a.; 2010: 5.0% p.a.-26.0%p.a.)	-	78 419	4 366 676	-	74 521	7 684 595
Provision for impairment of loans and advances to customers	-	(3 184)	(43 365)	-	(2 891)	(84 834)
Equity investment securities available for sale	-	-	2 127 092	-	-	2 137 995
Other assets						
Derivative financial instruments	-	-	296 996	-	-	-
Due to other banks						
Correspondent accounts and overnight placements with other banks (contractual interest rate: 2011: 0.0% p.a.; 2010: 0.0% p.a.)	-	-	464	-	-	404
Customer accounts						
Current/settlement accounts (contractual interest rate: 2011: 0% p.a. - 2.0% p.a.; 2010: 0.0% p.a. - 1.0% p.a.)	20 672	74 291	5 384 864	36 936	76 150	7 121 753
Term deposits (contractual interest rate: 2011: 3.0% p.a. - 15.0% p.a.; 2010: 0.5% p.a. - 15.0% p.a.)	2 882 455	5 746 955	29 634 850	3 650 870	4 824 535	14 557 808
Debt securities in issue (contractual interest rate: 2011: 0.0% p.a.; 2010: 0.0% p.a.)	-	-	379 724	-	-	420 182
Other liabilities						
Derivative financial instruments	-	-	-	-	-	168 325
Subordinated debt (contractual interest rate: 2011: 5.7% p.a.; 2010: 5.6% p.a.)	-	-	4 674 695	-	-	4 304 048
Guarantees issued by the Group	-	-	381 555	-	-	324 300
Guarantees received by the Group	-	-	30 270	-	-	160 470
Import letters of credit	-	-	12 114	-	-	185 724
Assets in trust management	236 317	-	-	243 202	243 656	435 629

35 Related Party Transactions (Continued)

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

In thousands of Russian Roubles	2011 Sharehol-ders	2011 Key manage-ment personnel	2011 Other	2010 Sharehol-ders	2010 Key manage-ment personnel	2010 Other
Interest income:						
- Debt securities	-	-	4 618	-	-	2 363
- Loans to customers	1	8 926	13 371	-	7 074	229 280
- Debt investment securities available for sale	-	-	-	-	-	110 895
- Reverse repurchase agreements	-	-	203 095	-	-	257 660
Interest expense:						
- Due to other banks	-	-	(3)	-	-	(3)
- Customer accounts	(169 586)	(277 744)	(1 941 211)	(223 560)	(357 865)	(1 596 371)
- Debt securities in issue	-	-	(109 235)	-	(5 071)	-
- Subordinated debt	-	-	(266 125)	-	-	(239 280)
Losses net of gains from trading securities	-	-	(7 895)	-	-	(6 897)
Gains less losses from disposal of investment securities available for sale	-	-	-	-	-	109 976
Gains less losses / (losses net of gains) from financial derivatives	-	-	490 130	-	-	(85 701)
Gains less losses/(losses net of gains) from trading in foreign currencies	1 092	185	29 022	2 919	673	(81 747)
Gains less losses from disposals of loans	-	-	427 194	-	-	62 100
Fee and commission income	342	617	296 004	241	498	376 601
Fee and commission expense	-	-	(1)	-	-	(2)

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

In thousands of Russian Roubles	2011 Sharehol-ders	2011 Key manage-ment personnel	2011 Other	2010 Sharehol-ders	2010 Key manage-ment personnel	2010 Other
Amounts lent , to related parties during the year	6 190	106 632	21 057 368	7 033	35 944	24 925 781
Amounts repaid by related parties during the year	6 187	110 437	24 543 996	7 033	36 214	28 422 201

35 Related Party Transactions (Continued)

The “Shareholders” column in the table mainly represents IFD Kapital Group and its ultimate beneficiaries and companies which are controlled by IFD Kapital Group and have direct ownership in the Bank. The “Key management personnel” column represents the individuals assigned with authority and responsibility in the matters associated with planning, management and control over the Group's activities. The “Other” column in the table mainly represents companies that are not shareholders of the Bank, but are controlled by Lukoil Group or IFD Kapital Group.

The 2010 information was recalculated in accordance with the classification in these financial statements.

As at 31 December 2011, included in customer accounts is the amount of RR 2 901 289 thousand (2010: RR 3 667 931 thousand) belonging to ultimate beneficiaries of IFD Kapital Group. Interest expense on these customer accounts for the reporting period comprised RR 169 050 thousand (2010: RR 223 460 thousand).

At 31 December 2011, other financial assets at fair value through profit or loss included financial assets of RR 4 000 000 thousand (2010: RR 4 000 000 thousand) which together represent the fair value of investments in an IFD Kapital Group company, which is not the Group’s associate as it is under sole management of another IFD Kapital Group company, and the fair value of guarantees provided to the Group by IFD Kapital Group in case this investment is sold below RR 4 000 000 thousand. The Group's management manages these instruments and evaluates their financial performance collectively without analysing each instrument individually.

In 2011, the remuneration of members of the Management Board comprised salaries, discretionary bonuses and other payments of RR 100 071 thousand (2010: RR 71 113 thousand). Insurance contributions to the pension fund totalled RR 722 thousand (2010: RR 498 thousand).

36 Principal Subsidiaries

Name	Nature of business	Percentage of the Bank’s direct ownership	Percentage of the Group’s control	Country of registration
UKHTABANK	Banking	100.00	100.00	Russia
Petrocommerce-Ukraine	Banking	96.48	99.38	Ukraine
Stavropolpromstroybank	Banking	86.05	91.62	Russia
UNIBANK	Banking	-	100.00	Moldova
OOO PK-Invest	Financial activity	99.99	99.99	Russia

The Group does not have direct ownership in Unibank, but exercises control via the Supervisory Council that consists of vice-presidents of the Bank. In addition to the above subsidiaries, the Group controls a number of special purpose entities. The principal activity of these special purpose entities is operations with securities in the Russian market.

In November 2010 Group purchase 45 215 ordinary shares and increase their share in Stavropolpromstroybank on 0,12 %. till 91,62%.

In October 2011, the State Commission for Securities and Stock Market registered the report on the results of the closed (private) placement of additional shares of Petrocommerce-Ukraine Bank. Upon the closed (private) placement of the preference shares, the Group's percentage in Petrocommerce-Ukraine Bank amounted to 99.38%.

37 Events After the End of the Reporting Period

In March 2012 the Bank placed three year stock obligations issue BO-01 with nominal value RR 3 000 000 thousand.

In January 2012 the Bank placed seven series bonds which were purchased by an offer in February 2011 with nominal value RR 50 000 thousand.

In January and February 2012 the Bank placed six series bonds that were purchased by an offer in August 2010 with nominal value RR 825 000 thousand.

ZAO "PriceWaterHouseCoopersAudit"

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