JOINT-STOCK COMMERCIAL BANK “AGROPROMCREDIT” (Open Joint-Stock Company)

Financial Statements
as at and for the year ended
31 December 2011

Contents

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Independent Auditors' Report

To the Board of Directors

JOINT-STOCK COMMERCIAL BANK "AGROPROMCREDIT" (Open Joint-Stock Company)

We have audited the accompanying financial statements of JOINT-STOCK COMMERCIAL BANK "AGROPROMCREDIT" (Open Joint Stock Company) (the Bank), which comprise the statement of financial position as at 31 December 2011, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the 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.

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

Opinion

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

ЗАО КПМГ

ZAO KPMG

28 May 2012

ZAO KPMG, a company incorporated under the Laws of the Russian Federation, a subsidiary of KPMG Europe LLP, and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

	Notes	2011 RUB'000	2010 RUB'000
Interest income	4	1,523,615	1,610,582
Interest expense	4	(1,036,977)	(1,122,303)
Net interest income		**486,638**	**488,279**
(Charge for) recovery of impairment on loans to customers	10	(75,416)	1,076
Net interest income after (charge for) recovery of impairment on loans to customers		**411,222**	**489,355**
Fee and commission income	5	283,195	344,881
Fee and commission expense	6	(36,560)	(35,518)
Net fee and commission income		**246,635**	**309,363**
Net loss on financial instruments at fair value through profit or loss	7	(53,265)	(4,180)
Net foreign exchange income	8	41,125	46,660
Net loss on available-for-sale financial assets		(23,661)	(2,843)
Other operating income	9	764,721	419,176
Operating income		**1,386,777**	**1,257,531**
General administrative expenses	11	(1,293,208)	(1,227,037)
Profit before income tax		**93,569**	**30,494**
Income tax expense	12	(36,796)	(6,274)
Net profit for the period		**56,773**	**24,220**
Other comprehensive (loss) income, net of income tax			
Revaluation reserve for available-for-sale financial assets:			
- net change in fair value, net of income tax		(21,029)	62,317
- net change in fair value transferred to profit or loss, net of income tax		18,929	2,274
Other comprehensive (loss) income, net of income tax		**(2,100)**	**64,591**
Total comprehensive income for the period		**54,673**	**88,811**

The financial statements were approved by management on 28 May 2012 and were signed on its behalf by:

Kornev Vasiliy Aleksandrovich
Chairman of the Management Board

Khmeleva Svetlana Aleksandrovna
Chief Accountant

The statement of comprehensive income is to be read in conjunction with the notes to, and forming part of, the financial statements.

	Notes	2011 RUB'000	2010 RUB'000
ASSETS			
Cash and cash equivalents	13	1,817,243	2,673,701
Mandatory reserve deposit in the Central Bank of the Russian Federation		195,828	111,515
Loans and advances to banks	14	1,316,763	2,957,104
Financial instruments at fair value through profit or loss	15	5,733,486	5,526,636
Loans to customers	16	9,700,764	5,476,342
Available-for-sale financial assets	17	932,079	1,348,902
Property, equipment and intangible assets	18	282,042	321,223
Assets held-for-sale	18	1,152,292	1,192,336
Current tax asset		42,173	83,619
Deferred tax asset	12	-	10,072
Other assets	19	94,045	536,134
Total assets		**21,266,715**	**20,237,584**
LIABILITIES			
Deposits and balances from banks	20	1,451	26,236
Current accounts and deposits from customers	21	16,953,831	15,601,845
Promissory notes	22	488,153	845,302
Other borrowed funds	23	773,066	773,066
Deferred tax liability	12	7,804	-
Other liabilities	24	26,160	29,558
Total liabilities		**18,250,465**	**17,276,007**
EQUITY			
Share capital	25	1,890,000	1,890,000
Revaluation reserve for available-for-sale financial assets		(27,467)	(25,367)
Retained earnings		1,153,717	1,096,944
Total equity		**3,016,250**	**2,961,577**
Total liabilities and equity		**21,266,715**	**20,237,584**

The statement of financial position is to be read in conjunction with the notes to, and forming part of, the financial statements.

	Notes	2011 RUB'000	2010 RUB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest receipts		1,427,497	1,524,620
Interest payments		(1,100,795)	(1,050,882)
Net (payments on) receipts from financial instruments at fair value through profit or loss		(18,018)	1,721
Net receipts from foreign exchange		59,059	49,431
Net payments on available-for-sale financial assets		(23,661)	(2,843)
Fee and commission receipts		281,992	343,295
Fee and commission payments		(33,731)	(32,736)
Other receipts		764,721	225,176
Other general administrative expenses payments		(1,269,810)	(1,150,611)
(Increase) decrease in operating assets			
Mandatory reserve deposit in the Central Bank of the Russian Federation		(84,313)	(16,905)
Loans and advances to banks		1,640,895	(2,253,933)
Financial instruments at fair value through profit or loss		(175,510)	(4,569,788)
Loans to customers		(3,838,390)	2,361,166
Available-for-sale financial assets		405,633	251,513
Other assets		443,279	(7,225)
Increase (decrease) in operating liabilities			
Deposits and balances from banks		(10,418)	(19,950)
Current accounts and deposits from customers		1,350,606	2,285,177
Promissory notes		(314,064)	(699,145)
Other liabilities		312	(20,310)
Cash used in operating activities before income tax paid		**(906,827)**	**(2,782,229)**
Income tax received (paid)		23,052	(58,943)
Cash flows used in operations		**(883,775)**	**(2,841,172)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of assets held-for-sale		-	(261,500)
Sales of assets held-for-sale		40,044	-
Net purchases of property and equipment		(9,945)	(23,444)
Cash flows provided from (used in) investing activities		**30,099**	**(284,944)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid		-	(284,400)
Cash flows used in financing activities		**-**	**(284,400)**
Net decrease in cash and cash equivalents		**(853,676)**	**(3,410,516)**
Effect of changes in exchange rates on cash and cash equivalents		(2,782)	94,895
Cash and cash equivalents as at the beginning of the period		2,673,701	5,989,322
Cash and cash equivalents as at the end of the period	13	**1,817,243**	**2,673,701**

The statement of cash flows is to be read in conjunction with the notes to, and forming part of, the financial statements.

	Share capital RUB’000	Revaluation reserve for available-for-sale financial assets RUB’000	Retained earnings RUB’000	Total equity RUB’000
Balance as at 1 January 2010	**1,000,000**	**(89,958)**	**2,247,124**	**3,157,166**
Total comprehensive income				
Net profit for the period	-	-	24,220	24,220
Other comprehensive income				
Net change in fair value of available-for-sale financial assets, net of income tax RUB 15,579 thousand (note 12)	-	62,317	-	62,317
Net change in fair value of available-for-sale financial assets transferred to profit or loss, net of income tax RUB 569 thousand (note 12)	-	2,274	-	2,274
Total other comprehensive income	**-**	**64,591**	**-**	**64,591**
Total comprehensive income	**-**	**64,591**	**24,220**	**88,811**
Transactions with owners, recorded directly in equity				
Increase in the nominal value of shares with the use of retained earnings	890,000	-	(890,000)	-
Dividends paid (RUB 0.2844 per share)	-	-	(284,400)	(284,400)
Total transactions with owners, recorded directly in equity	**890,000**	**-**	**(1,174,400)**	**(284,400)**
Balance as at 31 December 2010	**1,890,000**	**(25,367)**	**1,096,944**	**2,961,577**
Total comprehensive income				
Net profit for the period	-	-	56,773	56,773
Other comprehensive loss				
Net change in fair value of available-for-sale financial assets, net of income tax RUB 5,257 thousand (note 12)	-	(21,029)	-	(21,029)
Net change in fair value of available-for-sale financial assets transferred to profit or loss, net of income tax RUB 4,732 thousand (note 12)	-	18,929	-	18,929
Total other comprehensive loss	**-**	**(2,100)**	**-**	**(2,100)**
Total comprehensive income	**-**	**(2,100)**	**56,773**	**54,673**
Balance as at 31 December 2011	**1,890,000**	**(27,467)**	**1,153,717**	**3,016,250**

The statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the financial statements.

1 Background

Organisation and operations

Joint-Stock Commercial bank "Agropromcredit" (the Bank) was established by the decision of the participants on 7 July 1993 (Protocol No. 1 as of 7 July 1993) as a Limited Liability Partnership. In accordance with the decision of the general meeting of participants of the Bank dated 8 October 1998 (Protocol No. 23 as of 8 October 1998) the name and the legal structure of the Bank was changed from a Limited Liability Partnership into a Limited Liability Company. In accordance with the decision of the general meeting of participants of the Bank dated 14 August 2009, the legal structure was changed from a Limited Liability Company into an Open Joint Stock Company (note 25). The Bank conducts its business on the basis of general banking license № 2880 issued by the Central Bank of the Russian Federation (the CBR). The activities of the Bank are regulated by the CBR. The Bank became a member of the state deposit insurance system for individuals in the Russian Federation in September 2005.

The principal activities of the Bank are deposit taking and customer accounts maintenance, lending and issuing guarantees, cash and settlement operations and operations with securities and foreign exchange.

As at 31 December 2011 the Bank has 12 branches and 29 representative offices in the Russian Federation. The Bank's extensive branch network is located in the key regions of the Russian Federation, including the following cities: Tyumen, Surgut, Vladivostok, Orenburg, St. Petersburg, Barnaul and others.

The average number of the employees during 2011 is 299 - in the head office and 951 - in total (2010: 295 - in the head office and 940 - in total).

The majority of the Bank's assets and liabilities are located in the Russian Federation.

The Bank's registered office is: Building 13, Block 2, Housing complex 5, Lytkarino, Moscow region, 140061.

Shareholders

As at 31 December the shareholders of the Bank are:

Name	2011 %	2010 %
LLC "Blaucent"	20.0%	20.0%
LLC "Denciborg"	20.0%	20.0%
LLC "Kinlaut"	20.0%	20.0%
LLC "Avtotransbureau"	20.0%	20.0%
CJSC "Predpriyatie proektnogo finansirovaniya"	20.0%	20.0%
	100.0%	**100.0%**

The Bank does not have a single ultimate controlling party.

Russian business environment

The Bank's operations are primarily located in the Russian Federation. Consequently, the Bank is exposed to the economic and financial markets of the Russian Federation which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Russian Federation. In addition, the contraction in the capital and credit markets and its impact on the Russian economy have further increased the level of economic uncertainty in the environment. The financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Bank. The future business environment may differ from management's assessment.

2 Basis of preparation

Statement of compliance

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

Basis of measurement

The financial statements are prepared on the historical cost basis except that financial instruments at fair value through profit or loss and available-for-sale financial assets are stated at fair value.

Functional and presentation currency

The functional currency of the Bank is the Russian Rouble (RUB) as, being the national currency of the Russian Federation, it reflects the economic substance of the majority of underlying events and circumstances relevant to them.

The RUB is also the Bank's presentation currency for the purposes of these financial statements.

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

Use of estimates and judgments

Management has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with IFRS. Actual results could differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies related to loan impairment estimates is described in note 16.

Changes in accounting policies and presentation

With effect from 1 January 2011, the Bank retrospectively applied a revised version of IAS 24 (issued in 2009) *Related Party Disclosures*. This change has not had a significant impact on the related party disclosures.

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

3 Significant accounting policies

The accounting policies set out below are applied consistently by the Bank to all periods presented in these financial statements, except as explained in note 2, which addresses changes in accounting policies.

Foreign currency

Transactions in foreign currencies are translated to the functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments or qualifying cash flow hedges, which are recognised in other comprehensive income.

As at 31 December 2011, the official CBR foreign exchange rates used for translation of balances in foreign currencies were 32.1961 RUB/USD and 41.6714 RUB/EUR (31 December 2010: 30.4769 RUB/USD and 40.3331 RUB/EUR). Exchange restrictions and controls exist relating to converting Russian Rubles into other currencies. At present, the Russian Ruble is not a freely convertible currency outside of the Russian Federation.

Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances (nostro accounts) held with the CBR and other banks. The mandatory reserve deposit with the CBR is not considered to be a cash equivalent due to restrictions on its withdrawability. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

Financial instruments

Classification

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

- acquired or incurred principally for the purpose of selling or repurchasing in the near term

- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking

- derivative financial instruments (except for derivative financial instruments that are designated and effective hedging instruments) or,

- upon initial recognition, designated as at fair value through profit or loss.

The Bank may designate financial assets and liabilities at fair value through profit or loss where either:

- the assets or liabilities are managed, evaluated and reported internally on a fair value basis

- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise or,

- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

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

Management determines the appropriate classification of financial instruments in this category at the time of the initial recognition. Derivative financial instruments and financial instruments designated as at fair value through profit or loss upon initial recognition are not reclassified out of at fair value through profit or loss category. Financial assets that would have met the definition of loan and receivables may be reclassified out of the fair value through profit or loss or available-for-sale category if the entity has an intention and ability to hold it for the foreseeable future or until maturity. Other financial instruments may be reclassified out of at fair value through profit or loss category only in rare circumstances. Rare circumstances arise from a single event that is unusual and highly unlikely to recur in the near term.

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

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

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

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

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

Recognition

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

Measurement

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

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

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

All financial liabilities, other than those designated at fair value through profit or loss and financial liabilities that arise when a transfer of a financial asset carried at fair value does not qualify for derecognition, are measured at amortized cost.

Amortised cost

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortized based on the effective interest rate of the instrument.

Fair value measurement principles

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 on the measurement date.

When available, the Bank measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, the Bank establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Bank, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e., the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognised in profit or loss on an appropriate basis over the life of the instrument but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

Assets and long positions are measured at a bid price; liabilities and short positions are measured at an asking price. Where the Bank has positions with offsetting risks, mid-market prices are used to measure the offsetting risk positions and a bid or asking price adjustment is applied only to the net open position as appropriate. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Bank and the counterparty where appropriate. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that the Bank believes a third-party market participant would take them into account in pricing a transaction.

Gains and losses on subsequent measurement

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

- a gain or loss on a financial instrument classified as at fair value through profit or loss is recognized in profit or loss

- a gain or loss on an available-for-sale financial asset is recognized as other comprehensive income in equity (except for impairment losses and foreign exchange gains and losses on debt financial instruments available-for-sale) until the asset is derecognized, at which time the cumulative gain or loss previously recognised in equity is recognized in profit or loss. Interest in relation to an available-for-sale financial asset is recognized in profit or loss using the effective interest method. For financial assets and liabilities carried at amortized cost, a gain or loss is recognized in profit or loss when the financial asset or liability is derecognized or impaired, and through the amortization process.

For financial assets and liabilities carried at amortized cost, a gain or loss is recognized in profit or loss when the financial asset or liability is derecognized or impaired, and through the amortization process.

Derecognition

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognised as a separate asset or liability in the statement of financial position. The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

The Bank enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised.

In transactions where the Bank neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, it derecognises the asset if control over the asset is lost.

In transfers where control over the asset is retained, the Bank continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in its value.

If the Bank purchases its own debt, it is removed from the statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from early retirement of debt.

The Bank writes off assets deemed to be uncollectible.

Repurchase and reverse repurchase agreements

Securities sold under sale and repurchase (repo) agreements are accounted for as secured financing transactions, with the securities retained in the statement of financial position and the counterparty liability included in amounts payable under repo transactions within deposits and balances from banks or current accounts and deposits from customers, as appropriate. The difference between the sale and repurchase prices represents interest expense and is recognized in profit or loss over the term of the repo agreement using the effective interest method.

Securities purchased under agreements to resell (reverse repo) are recorded as amounts receivable under reverse repo transactions within loans and advances to banks or loans to customers, as appropriate. The difference between the sale and repurchase prices represents interest expense and is recognized in profit or loss over the term of the reverse repo agreement using the effective interest method.

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

Offsetting

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

Property and equipment

Owned assets

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses.

Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

Property and equipment and intangible assets acquired prior to 1 January 2003 were stated at cost adjusted for inflation less accumulated depreciation and impairment losses, where required.

Leased assets

Where the Bank is the lessee, the total lease payments are charged to profit or loss on a straight-line basis over the period of the lease.

Where a lease is cancelled prior to its maturity, any payment due to the lessor as a penalty is carried through profit or loss of the period in which the operating lease is cancelled.

Depreciation

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

Depreciation is calculated using the following rates.

	Depreciation rate
buildings	2%
motor vehicles	25%
computers	20%-25%
office equipment	10%-20%
other equipment	20%
intangible assets	25%-55%
leasehold improvements	10%-25%

Expenses related to repairs and renewals are charged to profit or loss when incurred and included in profit or loss as other administrative and operating expenses unless they qualify for capitalization.

Assets held-for-sale

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

Impairment

Financial assets carried at amortized cost

Financial assets carried at amortized cost consist principally of loans and other receivables (loans and receivables). The Bank regularly reviews its loans and receivables to assess impairment. A loan or receivable is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the loan or receivable and that event (or events) has had an impact on the estimated future cash flows of the loan that can be reliably estimated.

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

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

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

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

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

When a loan is uncollectable, it is written off against the related allowance for loan impairment. The Bank writes off a loan balance (and any related allowances for loan impairment) when management determines that the loans are uncollectible and when all necessary steps to collect the loan are completed.

Financial assets carried at cost

Financial assets carried at cost include unquoted equity instruments included in available-for-sale financial assets that are not carried at fair value because their fair value can not be reliably measured. If there is objective evidence that such investments are impaired, the impairment loss is calculated as the difference between the carrying amount of the investment and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset.

All impairment losses in respect of these investments are recognized in profit or loss and can not be reversed.

Available-for-sale financial assets

Impairment losses on available-for-sale financial assets are recognised by transferring the cumulative loss that is recognised in other comprehensive income to profit or loss as a reclassification adjustment. The cumulative loss that is reclassified from other comprehensive income to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in the impairment allowance attributable to time value are reflected as a component of interest income.

For an investment in an equity security available-for-sale, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security 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, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

Non financial assets

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

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

Provisions

A provision is recognised in the statement of financial position when the Bank has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for restructuring is recognised when the Bank has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

Credit related commitments

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

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

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

Financial guarantee liabilities and provisions for other credit related commitment are included in other liabilities.

Loan commitments are not recognised, except for the followings:

- the Bank upon initial recognition designates as at fair value through profit or loss

- if the Bank has a past practice of selling the assets resulting from its loan commitments shortly after origination, then the loan commitments in the same class are treated as derivative instruments

- loan commitments that can be settled net in cash or by delivering or issuing another financial instrument

- commitments to provide a loan at a below-market interest rate.

Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

Repurchase of share capital

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

Dividends

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

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

Taxation

Income tax comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items of other comprehensive income or transactions with shareholders recognised directly in equity, in which case it is recognised within other comprehensive income or directly within equity.

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

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and temporary differences related to investments in subsidiaries where the parent is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax is measured at the income tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

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

Income and expense recognition

Interest income and expense are recognised in profit or loss using the effective interest method.

Net gain on financial instruments at fair value through profit or loss includes gains and losses arising from disposals and changes in the fair value of financial assets and liabilities at fair value through profit or loss.

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

Other fees, commissions and other income and expense items are recognised in profit or loss when the corresponding service is provided.

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

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Fiduciary assets

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

Hyperinflation accounting

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

New standards and interpretations not yet adopted

The following new standards, amendments to standards and interpretations are not yet effective as at 31 December 2011, and are not applied in preparing these financial statements. Of these pronouncements, potentially the following will have an impact on the financial position and performance. The Bank has not analysed the likely impact of these pronouncements on its financial statements. The Bank plans to adopt these pronouncements when they become effective.

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

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

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

- Amendment to IAS 1 *Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income*. The amendment requires that an entity present separately items of other comprehensive income that may be reclassified to profit or loss in the future from those that will never be reclassified to profit or loss. Additionally, the amendment changes the title of the statement of comprehensive income to statement of profit or loss and other comprehensive income. However, the use of other titles is permitted. The amendment shall be applied retrospectively for periods beginning on or after 1 July 2012 and early adoption is permitted.
- Amendment to IFRS 7 *Disclosures – Transfers of Financial Assets* introduces additional disclosure requirements for transfers of financial assets in situations where assets are not derecognised in their entirety or where the assets are derecognised in their entirety but a continuing involvement in the transferred assets is retained. The new disclosure requirements are designated to enable the users of financial statements to better understand the nature of the risks and rewards associated with these assets. The amendment is effective for annual periods beginning on or after 1 July 2011.
- Various *Improvements to IFRSs* have been dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect not earlier than 1 January 2012. The Bank has not yet analysed the likely impact of the improvements on its financial position or performance.

4 Interest income and interest expense

	2011 RUB'000	**2010 RUB'000**
Interest income		
Loans to customers	981,244	1,247,559
Financial instruments at fair value through profit or loss	442,750	188,708
Available-for-sale financial assets	78,762	111,267
Loans and advances to banks	20,859	63,048
	1,523,615	**1,610,582**
Interest expense		
Current accounts and deposits from customers	928,136	955,173
Other borrowed funds	68,386	68,386
Promissory notes	34,579	96,912
Deposits and balances from banks	5,876	1,832
	1,036,977	**1,122,303**

5 Fee and commission income

	2011 RUB'000	**2010 RUB'000**
Settlement operations	136,285	121,372
Cash operations	83,542	88,952
Guarantees issuance	44,924	122,107
Cash transportation fees	1,024	878
Other	17,420	11,572
	283,195	**344,881**

6 Fee and commission expense

	2011 RUB'000	2010 RUB'000
Settlement operations	16,364	16,746
Cash operations	8,857	5,759
Cash transportation fees	8,383	10,066
Other	2,956	2,947
	36,560	**35,518**

7 Net loss on financial instruments at fair value through profit or loss

	2011 RUB'000	2010 RUB'000
Debt instruments	(53,265)	(4,226)
Other	-	46
	(53,265)	**(4,180)**

8 Net foreign exchange income

	2011 RUB'000	2010 RUB'000
Gain on spot transactions and derivatives	59,059	49,431
Loss from revaluation of financial assets and liabilities	(17,934)	(2,771)
	41,125	**46,660**

9 Other operating income

	2011 RUB'000	2010 RUB'000
Income from recovery of previously written-off loans	620,279	-
Penalties and charges received	112,209	395,508
Income from rent	11,477	7,342
Other	20,756	16,326
	764,721	**419,176**

The most significant part of income received from recovery of previously written-off loans in 2011 represents the recovery of RUB 615,000 thousand, including accrued penalties and charges, of a corporate loan as a result of legal proceedings.

10 (Charge for) recovery of impairment allowance for loans to customers

	2011 RUB'000	2010 RUB'000
(Charge for) recovery of impairment allowance		
Loans to customers (note 16)	(75,416)	1,076
	(75,416)	**1,076**

11 General administrative expenses

	2011 RUB'000	2010 RUB'000
Employee compensation	817,536	793,687
Operating lease expenses	131,190	124,082
Taxes other than on income	49,562	53,322
Depreciation and amortization	49,125	61,702
Communications and information services	46,553	45,225
Insurance	41,349	24,975
Repairs and maintenance	35,641	32,620
Advertising and marketing	32,312	24,203
Security	29,775	28,089
Materials and supplies	12,464	7,979
Professional services	4,764	4,050
Stationary expenses	4,654	4,446
Representation expenses	3,898	3,638
Travel expenses	3,622	3,727
Disposal of assets	1,377	1,355
Other	29,386	13,937
	1,293,208	**1,227,037**

12 Income tax expense

	2011 RUB'000	2010 RUB'000
Current year tax expense	18,395	15,281
Deferred taxation movement due to origination and reversal of temporary differences	18,401	(9,007)
Income tax expense for the year	**36,796**	**6,274**

The applicable tax rate for current and deferred tax in 2011 is 20% (2010: 20%), except for coupon income from government securities which is taxed at 15% (2010: 15%).

Reconciliation of effective tax rate

	2011 RUB'000	%	2010 RUB'000	%
Profit before tax	93,569		30,494	
Income tax at the applicable tax rate	18,714	20%	6,099	20%
Non-deductible costs and other permanent differences	24,191	26%	1,532	5%
Income on government securities taxed at different rates	(6,109)	(7%)	(1,357)	(4%)
	36,796	**39%**	**6,274**	**21%**

Deferred tax asset and liability

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

The above deductible temporary differences do not expire under current tax legislation. As at 31 December 2011 and 31 December 2010 the deferred tax is calculated at the tax rate of 20%.

Movements in temporary differences during the years ended 31 December 2011 and 2010 are presented as follows.

RUB'000	**Balance 1 January 2011**	**Recognised in profit or loss**	**Recognised in other comprehensive income**	**Balance 31 December 2011**
Loans and advances to banks	(85)	85	-	-
Financial instruments at fair value through profit or loss	1,890	3,282	-	5,172
Loans to customers	7,183	(25,980)	-	(18,797)
Available-for-sale financial assets	6,343	-	525	6,868
Property, equipment and intangible assets	(2,388)	(2,701)	-	(5,089)
Other assets	(15,147)	15,175	-	28
Promissory notes	8,465	(6,898)	-	1,567
Other liabilities	3,811	(1,364)	-	2,447
Net deferred tax asset (liability)	**10,072**	**(18,401)**	**525**	**(7,804)**

RUB'000	**Balance 1 January 2010**	**Recognised in profit or loss**	**Recognised in other comprehensive income**	**Balance 31 December 2010**
Loans and advances to banks	-	(85)	-	(85)
Financial instruments at fair value through profit or loss	29,365	(27,475)	-	1,890
Loans to customers	1,759	5,424	-	7,183
Available-for-sale financial assets	22,490	-	(16,148)	6,342
Property, equipment and intangible assets	(12,059)	9,671	-	(2,388)
Other assets	(26,369)	11,222	-	(15,147)
Current accounts and deposits from customers	2	(2)	-	-
Promissory notes	8,363	102	-	8,465
Other liabilities	(6,338)	10,150	-	3,812
Net deferred tax asset	**17,213**	**9,007**	**(16,148)**	**10,072**

Income tax recognised in other comprehensive income

The tax effects relating to components of other comprehensive income for the year ended 31 December comprise:

	2011		
RUB'000	**Amount before tax**	**Income tax benefit**	**Amount net-of-tax**
Net change in fair value of available-for-sale financial assets	(26,286)	5,257	(21,029)
Net change in fair value of available-for-sale financial assets transferred to profit or loss	23,661	(4,732)	18,929
Other comprehensive loss	**(2,625)**	**525**	**(2,100)**

	2010		
RUB'000	**Amount before tax**	**Income tax expense**	**Amount net-of-tax**
Net change in fair value of available-for-sale financial assets	77,896	(15,579)	62,317
Net change in fair value of available-for-sale financial assets transferred to profit or loss	2,843	(569)	2,274
Other comprehensive income	**80,739**	**(16,148)**	**64,591**

13 Cash and cash equivalents

	2011 RUB'000	**2010 RUB'000**
Cash on hand	**857,019**	**716,196**
Due from the CBR – nostro accounts	**416,499**	**583,858**
Cash in Visa International	**56,298**	**53,190**
Nostro accounts with other banks:		
- rated from A- to A+	223,784	810,574
- rated from BBB- to BBB+	55,253	340,608
- rated from BB- to BB+	-	9,265
- rated B+ and below B+	29,548	26,419
- not rated	178,842	133,591
Total nostro accounts with other banks	**487,427**	**1,320,457**
Total cash and cash equivalents	**1,817,243**	**2,673,701**

Ratings of banks are defined in accordance with standards of international rating agency Standard & Poor's. None of cash and cash equivalents are impaired or past due.

Concentration of cash and cash equivalents

As at 31 December 2011, the Bank has 2 banks (31 December 2010: 3 banks), whose balances individually exceed 10% of total cash and cash equivalents. The gross value of these balances as at 31 December 2011 is RUB 640,283 thousand (31 December 2010: RUB 1,695,782 thousand).

14 Loans and advances to banks

	2011 RUB'000	2010 RUB'000
Nostro accounts with banks (restricted balances)		
- rated B+ and below B+	2,769	807
- not rated	-	1,829
Total nostro accounts with banks	**2,769**	**2,636**
Loans to banks		
- the CBR	470,052	1,400,116
- rated from BBB- to BBB+	650,313	-
Total loans to banks	**1,120,365**	**1,400,116**
Amounts receivable under reverse repurchase agreements	**193,629**	**1,554,352**
Total loans and advances to banks	**1,316,763**	**2,957,104**

Ratings of banks are defined in accordance with standards of international rating agency Standard & Poor's. None of loans and advances to banks are impaired or past due.

Collateral accepted as security for assets

At 31 December 2011, the fair value of financial assets collateralizing reverse repurchase agreements that the Bank is permitted to sell or repledge in the absence of default is RUB 204,038 thousand (31 December 2010: RUB 1,749,247 thousand). Collateral accepted includes bonds of the Ministry of Finance of the Russian Federation, Rosselkhozbank bonds, Zenit Bank bonds, FSK EES bonds.

Concentration of loans and advances to banks

As at 31 December 2011, the Bank has 5 banks (31 December 2010: 4 banks), whose balances individually exceed 10% of total loans and advances to banks. The gross value of these balances as at 31 December 2011 is RUB 1,187,612 thousand (31 December 2010: RUB 2,349,007 thousand).

15 Financial instruments at fair value through profit or loss

	2011 RUB’000	2010 RUB’000
Debt and other fixed-income instruments		
- Government and municipal bonds		
- Russian Government Federal bonds (OFZ)	921,680	375,367
Total government and municipal bonds	**921,680**	**375,367**
- Corporate bonds		
- rated from BBB- to BBB+	281,270	379,459
- rated from BB- to BB+	1,281,098	880,792
- rated from B- to B+	770,407	803,225
- not rated	928,880	-
Total corporate bonds	**3,261,655**	**2,063,476**
- Banks’ promissory notes		
- rated from BBB- to BBB+	745,739	1,125,644
- rated from BB- to BB+	455,747	1,376,513
- rated from B- to B+	249,440	402,623
- not rated	99,225	183,013
Total banks’ promissory notes	**1,550,151**	**3,087,793**
Total financial assets at fair value through profit or loss	**5,733,486**	**5,526,636**

Financial instruments at fair value through profit or loss comprise financial instruments held for trading.

Ratings of issuers are defined in accordance with standards of international rating agency Standard & Poor’s.

None of financial assets at fair value through profit or loss are past due or impaired.

Reclassifications out of securities held for trading

Pursuant to the amendments to IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7 *Financial Instruments: Disclosures*, the Bank reclassified certain quoted securities out of the financial instruments at fair value through profit or loss to held-to-maturity investments. The Bank identified securities eligible under the amendments for which it had changed its intent such that it no longer held these securities for the purpose of selling in the short term. For those quoted securities identified for reclassification, the Bank determined that the deterioration of the financial markets during the third quarter of 2008 constituted rare circumstances that permit reclassification out of the financial instruments at fair value through profit or loss.

Under IAS 39 *Financial Instruments: Recognition and Measurement* as amended, the reclassifications were made with effect from 1 August 2008 at fair value at that date of reclassification. Securities reclassified to held-to-maturity investments as at 1 August 2008, were subsequently reclassified into available-for-sale financial assets due to sale of certain securities prior to their contractual maturity dates (note 17).

	2011 RUB’000		2010 RUB’000	
RUB’000	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
Held-to-maturity financial instruments reclassified to available-for-sale financial assets due to breach of requirements	932,079	932,079	1,348,902	1,348,902
	932,079	**932,079**	**1,348,902**	**1,348,902**

The table below sets out the amounts that would have been recognised in the periods following reclassification during 2008, if the reclassifications had not been made, as well as the actual amounts of gain, loss, income and expense recognised in profit or loss with respect to financial assets reclassified out of securities held for trading:

	2011 RUB'000		**2010 RUB'000**		**2009 RUB'000**		**2008 RUB'000**	
	Recognized for reclassified assets	**Would have been recognized if the reclassifications were not made**	**Recognized for reclassified assets**	**Would have been recognized if the reclassifications were not made**	**Recognized for reclassified assets**	**Would have been recognized if the reclassifications were not made**	**Recognized for reclassified assets**	**Would have been recognized if the reclassifications were not made**
Interest income	78,762	78,762	111,267	111,267	125,937	125,937	129,845	129,845
Net (loss) gain on financial instruments at fair value through profit or loss	-	(26,286)	-	77,896	-	(95,899)	(62,657)	(213,964)
Net (loss) gain on available-for-sale financial assets	(23,661)	-	(2,843)	-	16,549	-	-	-
Total recognised in profit or loss for the period (before tax)	**55,101**	**52,476**	**108,424**	**189,163**	**142,486**	**30,038**	**67,188**	**(84,119)**
Net change in fair value of available-for-sale financial assets	(2,625)	-	80,739	-	(112,448)	-	-	-
Total amount recognized in the statement of comprehensive income for the period (before tax)	**52,476**	**52,476**	**189,163**	**189,163**	**30,038**	**30,038**	**67,188**	**(84,119)**

At 1 August 2008 the effective interest rate on trading assets reclassified to held-to-maturity investments was 7.1% with expected recoverable cash flows of RUB 1,759,824 thousand.

16 Loans to customers

	2011 RUB’000	2010 RUB’000
Loans to corporate customers		
Loans to large corporates	4,283,440	1,954,781
Loans to small and medium size companies	3,115,222	1,513,852
Total loans to corporate customers	**7,398,662**	**3,468,633**
Loans to retail customers		
Consumer loans without collateral	1,227,440	261,444
Consumer loans with collateral	689,493	701,833
Auto loans	491,425	917,076
Mortgage loans	309,583	342,462
Loans to individual entrepreneurs	155,612	261,715
Overdrafts	60,055	32,899
Other loans to individuals	183,608	256,939
Total loans to retail customers	**3,117,216**	**2,774,368**
Gross loans to customers	**10,515,878**	**6,243,001**
Impairment allowance	(815,114)	(766,659)
Net loans to customers	**9,700,764**	**5,476,342**

As at 31 December 2011, included in the loan portfolio are loans to corporate customers under reverse repurchase agreements in the amount of RUB 412,111 thousand (31 December 2010: nil).

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

	Loans to corporate customers RUB’000	Loans to retail customers RUB’000	Total RUB’000
Balance as at 1 January	(153,361)	(613,298)	(766,659)
Net (charge) recovery	(89,270)	13,854	(75,416)
Sold loans	19,109	-	19,109
Write-offs	6,398	1,454	7,852
Balance as at 31 December	**(217,124)**	**(597,990)**	**(815,114)**

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

	Loans to corporate customers RUB’000	Loans to retail customers RUB’000	Total RUB’000
Balance as at 1 January	(204,146)	(1,181,566)	(1,385,712)
Net (charge) recovery	(24,940)	26,016	1,076
Sold loans	68,235	542,252	610,487
Write-offs	7,490	-	7,490
Balance as at 31 December	**(153,361)**	**(613,298)**	**(766,659)**

As at 31 December 2011, gross interest accrued on impaired loans amounted to RUB 256,014 thousand (31 December 2010: RUB 218,895 thousand).

Credit quality of loans to customers

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

	Gross loans RUB'000	Impairment allowance RUB'000	Net loans RUB'000	Impairment allowance to gross loans, %
Loans to corporate customers				
Loans to large corporates				
Loans for which no impairment has been identified:				
- standard loans	3,207,705	(43,082)	3,164,623	1.34%
- watch list loans	1,038,236	(15,353)	1,022,883	1.48%
Total loans for which no impairment has been identified	4,245,941	(58,435)	4,187,506	1.38%
Impaired loans:				
- not overdue	37,499	(27,900)	9,599	74.40%
Total impaired loans	37,499	(27,900)	9,599	74.40%
Total loans to large corporates	**4,283,440**	**(86,335)**	**4,197,105**	**2.02%**
Loans to small and medium size companies				
Loans for which no impairment has been identified:				
- standard loans	2,317,995	(35,212)	2,282,783	1.52%
- watch list loans	712,362	(10,712)	701,650	1.50%
Total loans for which no impairment has been identified	3,030,357	(45,924)	2,984,433	1.52%
Impaired loans:				
- overdue less than 90 days	1,364	(1,364)	-	100.00%
- overdue more than 90 days and less than 1 year	37,911	(37,911)	-	100.00%
- overdue more than 1 year	45,590	(45,590)	-	100.00%
Total impaired loans	84,865	(84,865)	-	100.00%
Total loans to small and medium size companies	**3,115,222**	**(130,789)**	**2,984,433**	**4.20%**
Total loans to corporate customers	**7,398,662**	**(217,124)**	**7,181,538**	**2.93%**

	Gross loans RUB'000	Impairment allowance RUB'000	Net loans RUB'000	Impairment allowance to gross loans, %
Loans to retail customers				
Consumer loans without collateral				
- not overdue	1,083,101	-	1,083,101	0.00%
- overdue less than 30 days	3,265	(2)	3,263	0.06%
- overdue 31-60 days	628	(66)	562	10.51%
- overdue 61-90 days	744	(201)	543	27.02%
- overdue more than 90 days	139,702	(139,238)	464	99.67%
Total consumer loans without collateral	**1,227,440**	**(139,507)**	**1,087,933**	**11.37%**
Consumer loans with collateral				
- not overdue	606,341	-	606,341	0.00%
- overdue less than 30 days	6,230	(17)	6,213	0.27%
- overdue 31-60 days	3,780	(224)	3,556	5.93%
- overdue 61-90 days	2,605	(492)	2,113	18.90%
- overdue more than 90 days	70,537	(70,138)	399	99.43%
Total consumer loans with collateral	**689,493**	**(70,871)**	**618,622**	**10.28%**
Auto loans				
- not overdue	311,131	-	311,131	0.00%
- overdue less than 30 days	6,533	(24)	6,509	0.37%
- overdue 31-60 days	4,161	(275)	3,886	6.61%
- overdue 61-90 days	4,621	(673)	3,948	14.56%
- overdue more than 90 days	164,979	(163,778)	1,201	99.27%
Total auto loans	**491,425**	**(164,750)**	**326,675**	**33.52%**
Mortgage loans				
- not overdue	263,582	-	263,582	0.00%
- overdue less than 30 days	1,180	(2)	1,178	0.17%
- overdue 31-60 days	2,835	(26)	2,809	0.92%
- overdue more than 90 days	41,986	(40,398)	1,588	96.22%
Total mortgage loans	**309,583**	**(40,426)**	**269,157**	**13.06%**
Loans to individual entrepreneurs				
- not overdue	37,635	-	37,635	0.00%
- overdue 61-90 days	61	(14)	47	22.95%
- overdue more than 90 days	117,916	(117,916)	-	100.00%
Total loans to individual entrepreneurs	**155,612**	**(117,930)**	**37,682**	**75.78%**
Overdrafts				
- not overdue	30,932	-	30,932	0.00%
- overdue less than 30 days	138	-	138	0.00%
- overdue 31-60 days	39	(32)	7	82.05%
- overdue 61-90 days	74	(66)	8	89.19%
- overdue more than 90 days	28,872	(28,872)	-	100.00%
Total overdrafts	**60,055**	**(28,970)**	**31,085**	**48.24%**
Other loans to individuals				
- not overdue	130,684	-	130,684	0.00%
- overdue more than 90 days	52,924	(35,536)	17,388	67.15%
Total other loans to individuals	**183,608**	**(35,536)**	**148,072**	**19.35%**
Total loans to retail customers	**3,117,216**	**(597,990)**	**2,519,226**	**19.18%**
Total loans to customers	**10,515,878**	**(815,114)**	**9,700,764**	**7.75%**

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

	Gross loans RUB'000	Impairment allowance RUB'000	Net loans RUB'000	Impairment allowance to gross loans, %
Loans to corporate customers				
Loans to large corporates				
Loans for which no impairment has been identified:				
- standard loans	1,852,917	(33,535)	1,819,382	1.81%
- watch list loans	65,227	(1,122)	64,105	1.72%
Total loans for which no impairment has been identified	1,918,144	(34,657)	1,883,487	1.81%
Impaired loans:				
- overdue more than 1 year	36,637	(1,066)	35,571	2.91%
Total impaired loans	36,637	(1,066)	35,571	2.91%
Total loans to large corporates	**1,954,781**	**(35,723)**	**1,919,058**	**1.83%**
Loans to small and medium size companies				
Loans for which no impairment has been identified:				
- standard loans	773,861	(13,045)	760,816	1.69%
- watch list loans	511,086	(3,336)	507,750	0.65%
Total loans for which no impairment has been identified	1,284,947	(16,381)	1,268,566	1.27%
Impaired loans:				
- overdue less than 90 days	38,535	(8,429)	30,106	21.87%
- overdue more than 90 days and less than 1 year	27,490	(19,373)	8,117	70.47%
- overdue more than 1 year	162,880	(73,455)	89,425	45.10%
Total impaired loans	228,905	(101,257)	127,648	44.24%
Total loans to small and medium size companies	**1,513,852**	**(117,638)**	**1,396,214**	**7.77%**
Total loans to corporate customers	**3,468,633**	**(153,361)**	**3,315,272**	**4.42%**

	Gross loans RUB'000	Impairment allowance RUB'000	Net loans RUB'000	Impairment allowance to gross loans, %
Loans to retail customers				
Consumer loans without collateral				
- not overdue	195,727	-	195,727	0.00%
- overdue less than 30 days	1,142	(3)	1,139	0.26%
- overdue 31-60 days	726	(70)	656	9.64%
- overdue 61-90 days	1,149	(239)	910	20.80%
- overdue more than 90 days	62,700	(61,224)	1,476	97.65%
Total consumer loans without collateral	**261,444**	**(61,536)**	**199,908**	**23.54%**
Consumer loans with collateral				
- not overdue	581,772	-	581,772	0.00%
- overdue less than 30 days	23,179	(81)	23,098	0.35%
- overdue 31-60 days	5,291	(298)	4,993	5.63%
- overdue 61-90 days	96	(21)	75	21.88%
- overdue more than 90 days	91,495	(89,100)	2,395	97.38%
Total consumer loans with collateral	**701,833**	**(89,500)**	**612,333**	**12.75%**
Auto loans				
- not overdue	687,696	-	687,696	0.00%
- overdue less than 30 days	23,967	(93)	23,874	0.39%
- overdue 31-60 days	26,253	(1,754)	24,499	6.68%
- overdue 61-90 days	4,914	(708)	4,206	14.41%
- overdue more than 90 days	174,246	(168,011)	6,235	96.42%
Total auto loans	**917,076**	**(170,566)**	**746,510**	**18.60%**
Mortgage loans				
- not overdue	285,810	-	285,810	0.00%
- overdue less than 30 days	20,738	(21)	20,717	0.10%
- overdue 31-60 days	535	(5)	530	0.93%
- overdue more than 90 days	35,379	(34,874)	505	98.57%
Total mortgage loans	**342,462**	**(34,900)**	**307,562**	**10.19%**
Loans to individual entrepreneurs				
- not overdue	121,206	-	121,206	0.00%
- overdue less than 30 days	15,708	(101)	15,607	0.64%
- overdue 31-60 days	3,414	(280)	3,134	8.20%
- overdue 61-90 days	864	(152)	712	17.59%
- overdue more than 90 days	120,523	(115,744)	4,779	96.03%
Total loans to individual entrepreneurs	**261,715**	**(116,277)**	**145,438**	**44.43%**
Overdrafts				
- not overdue	19,514	-	19,514	0.00%
- overdue less than 30 days	33	-	33	0.00%
- overdue 61-90 days	285	(179)	106	62.81%
- overdue more than 90 days	13,067	(13,067)	-	100.00%
Total overdrafts	**32,899**	**(13,246)**	**19,653**	**40.26%**
Other loans to individuals				
- not overdue	112,286	-	112,286	0.00%
- overdue less than 30 days	17,875	(506)	17,369	2.83%
- overdue 31-60 days	10	(1)	9	10.00%
- overdue more than 90 days	126,768	(126,766)	2	99.99%
Total other loans to individuals	**256,939**	**(127,273)**	**129,666**	**49.53%**
Total loans to retail customers	**2,774,368**	**(613,298)**	**2,161,070**	**22.11%**
Total loans to customers	**6,243,001**	**(766,659)**	**5,476,342**	**12.28%**

During the years ended 31 December 2011 and 2010 the Bank did not renegotiate loans to customers that would otherwise be impaired.

Key assumptions and judgments for estimating the loan impairment

Loans to corporate customers

Loan impairment results from one or more events that occurred after the initial recognition of the loan and that have an impact on the estimated future cash flows associated with the loan, and that can be reliably estimated. Loans without individual signs of impairment do not have objective evidence of impairment that can be directly attributed to them.

The objective indicators of loan impairment for loans to corporate customers include the following:

- overdue payments under the loan agreement
- significant difficulties in the financial conditions of the borrower
- deterioration in business environment, or negative changes in the borrower's markets.

The Bank estimates the impairment allowance for loans to corporate customers based on an analysis of the future cash flows for impaired loans and based on its past loss experience for portfolios of loans for which no indications of impairment have been identified.

In determining the impairment allowance for loans to corporate customers, management makes the following key assumptions:

- historic annual loss rate of approximately 2%, adjusted for current economic environment and industry of a borrower
- a discount of between 25%-50% to the originally appraised value if the property pledged is sold
- a delay of 24 to 36 months in obtaining proceeds from the foreclosure of collateral.

Changes in these estimates could effect the loan impairment allowance. For example, to the extent that the net present value of the estimated cash flows differs by one percent, the impairment allowance for loans to corporate customers as at 31 December 2011 would be RUB 71,815 thousand lower/higher (2010: RUB 33,153 thousand lower/higher).

Loans to retail customers

The Bank estimates the impairment allowance for loans to retail customers based on the statistical data on overdue loans for the past 24 months adjusted for current market conditions. In determining the impairment losses for the portfolio of loans to retail customers for which no impairment has been identified, management assumes loss rates derived from historic losses, adjusted for the current economic environment.

Other significant assumptions used by management in determining the impairment losses for loans to retail customers include, in respect of mortgage loans, a delay of 12 months in obtaining proceeds from the foreclosure of collateral and a discount of 25% to the originally appraised value if the property pledged is sold through court procedures.

Changes in these estimates could effect the loan impairment allowance. For example, to the extent that the net present value of the estimated cash flows differs by three percent, the impairment allowance for loans to retail customers as at 31 December 2011 would be RUB 75,577 thousand lower/higher (2010: RUB 64,832 thousand lower/higher).

Analysis of collateral

Loans to corporate customers

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

	Gross loans RUB'000	Impairment allowance RUB'000	Net loans RUB'000	Fair value of collateral RUB'000
Securities	497,552	(1,267)	496,285	475,832
Real estate	1,416,908	(115,008)	1,301,900	1,127,390
Motor vehicles	273,240	(8,767)	264,473	263,909
Guarantees	2,113,542	(31,888)	2,081,654	-
Other collateral	1,726,552	(38,272)	1,688,280	1,724,952
No collateral	1,370,868	(21,922)	1,348,946	-
Total	**7,398,662**	**(217,124)**	**7,181,538**	**3,592,083**

The following table provides information on loans to corporate customers, net of impairment, by types of collateral, excluding the effect of overcollateralisation as at 31 December 2010:

	Gross loans RUB'000	Impairment allowance RUB'000	Net loans RUB'000	Fair value of collateral RUB'000
Securities	230,749	(3,673)	227,076	110,598
Cash	1,500	(33)	1,467	1,500
Real estate	513,489	(57,112)	456,377	480,404
Motor vehicles	96,331	(2,106)	94,225	55,043
Guarantees	1,123,381	(59,468)	1,063,913	-
Other collateral	1,233,274	(26,139)	1,207,135	1,225,172
No collateral	269,909	(4,830)	265,079	-
Total	**3,468,633**	**(153,361)**	**3,315,272**	**1,872,717**

Loans to corporate customers that are overdue or impaired

As at 31 December 2011, loans to corporate customers that are overdue or impaired with a net carrying value of RUB 9,599 thousand (31 December 2010: RUB 153,864 thousand) are secured by collateral with carrying value of RUB 9,599 thousand (31 December 2010: RUB 153,864 thousand), excluding effect of overcollateralisation.

Loans to corporate customers that are neither overdue nor impaired

As at 31 December 2011, loans to corporate customers that are neither overdue or impaired with a net carrying value of RUB 3,751,339 thousand (31 December 2010: RUB 1,827,146 thousand) are secured by collateral with fair value of RUB 3,491,582 thousand (31 December 2010: RUB 1,596,589 thousand) that is estimated as at inception date and is not subject to further adjustments as at the reporting date. The Bank does not take into account guarantees when assessing the impairment allowance for loans to customers. The recoverability of these loans is primarily dependent on the creditworthiness of the borrowers rather than the value of collateral, and the current value of the collateral does not impact the impairment assessment.

Collateral obtained

During the years ended 31 December 2010 and 31 December 2011 the Bank did not obtain any assets by taking possession of collateral securing loans to corporate customers.

Loans to retail customers

Mortgage loans are secured by the underlying housing real estate. Auto loans are secured by the underlying cars, consumer loans with collateral are secured by sureties. Credit card overdrafts and other loans to retail customers are not secured.

Mortgage loans

Included in mortgage loans are loans with a net carrying amount of RUB 14,050 thousand (31 December 2010: RUB 16,263 thousand), which are secured by collateral with a fair value of less than the net carrying amount of the individual loans. The fair value of collateral for these loans amounts to RUB 3,360 thousand (31 December 2010: nil).

For mortgage loans with a net carrying amount of RUB 255,107 thousand (31 December 2010: RUB 291,299 thousand) management believes that the fair value of collateral is at least equal to the carrying amount of individual loans at the reporting date.

The Bank updates the appraised values of collateral obtained at inception of the loans to the current values considering the approximate changes in property values. The Bank obtains specific individual valuation of collateral in case there are indications of impairment.

Auto loans

Included in auto loans are loans with a net carrying amount of RUB 321,891 thousand (31 December 2010: RUB 742,273 thousand) which are secured by collateral with a fair value of less than the net carrying amount of the individual loans. The fair value of collateral for these loans amounts to RUB 1,750 thousand (31 December 2010: RUB 300 thousand).

For auto loans with a net carrying amount of RUB 4,784 thousand (31 December 2010: RUB 4,237 thousand) management believes that the fair value of collateral is at least equal to the carrying amount of individual loans at the reporting date.

The Bank updates the appraised values of collateral obtained at inception of the loans to the current values considering the approximate changes in prices and aging of cars. The Bank obtains specific individual valuation of collateral in case there are indications of impairment.

Collateral obtained

During the year ended 31 December 2011, the Bank obtained certain assets by taking possession of collateral for loans to retail customers. As at 31 December 2011, the carrying amount of such assets was RUB 34,295 thousand (31 December 2010: RUB 54,692 thousand), which consisted of property of RUB 31,628 thousand (31 December 2010: RUB 51,495 thousand) and other assets of RUB 2,667 thousand (31 December 2010: RUB 3,197 thousand). The Bank's policy is to sell these assets as soon as it is practicable.

Analysis of movements in the impairment allowance

Loans to corporate customers

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

	Loans to large corporate RUB'000	Loans to small and medium size companies RUB'000	Total RUB'000
Balance as at 1 January	(35,723)	(117,638)	(153,361)
Net charge	(76,119)	(13,151)	(89,270)
Sold loans	19,109	-	19,109
Write-offs	6,398	-	6,398
Balance as at 31 December	**(86,335)**	**(130,789)**	**(217,124)**

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

	Loans to large corporate RUB'000	Loans to small and medium size companies RUB'000	Total RUB'000
Balance as at 1 January	(63,575)	(140,571)	(204,146)
Net recovery (charge)	27,852	(52,792)	(24,940)
Sold loans	-	68,235	68,235
Write-offs	-	7,490	7,490
Balance as at 31 December	**(35,723)**	**(117,638)**	**(153,361)**

Loans to retail customers

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

RUB'000	Consumer loans without collateral	Consumer loans with collateral	Auto loans	Mortgage loans	Loans to individual entrepreneurs	Overdrafts	Other loans to individuals	Total
Balance as at 1 January	(61,536)	(89,500)	(170,566)	(34,900)	(116,277)	(13,246)	(127,273)	(613,298)
Net (charge) recovery	(79,425)	18,629	5,816	(5,526)	(1,653)	(15,724)	91,737	13,854
Write-offs	1,454	-	-	-	-	-	-	1,454
Balance as at 31 December	**(139,507)**	**(70,871)**	**(164,750)**	**(40,426)**	**(117,930)**	**(28,970)**	**(35,536)**	**(597,990)**

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

RUB'000	Consumer loans without collateral	Consumer loans with collateral	Auto loans	Mortgage loans	Loans to individual entrepreneurs	Overdrafts	Other loans to individuals	Total
Balance as at 1 January	(289,567)	(229,807)	(411,745)	(52,294)	(129,988)	(9,035)	(59,130)	(1,181,566)
Net (charge) recovery	(4,650)	5,503	73,949	17,394	6,174	(4,211)	(68,143)	26,016
Sold loans	232,681	134,804	167,230	-	7,537	-	-	542,252
Balance as at 31 December	**(61,536)**	**(89,500)**	**(170,566)**	**(34,900)**	**(116,277)**	**(13,246)**	**(127,273)**	**(613,298)**

Industry and geographical analysis of the loan portfolio

Loans to customers as at 31 December 2011 and 2010 were issued primarily to customers located within the Russian Federation who operate in the following economic sectors (net of impairment allowance):

	2011 RUB'000	2010 RUB'000
Energy, mining and metallurgy	1,991,521	825,196
Retail customers	2,519,226	2,161,070
Trade	1,652,391	1,288,350
Repair and installation work	822,576	797,487
Finance and investment companies	748,889	134,638
Construction	633,679	-
Restaurants	590,088	-
Rent	513,952	27,244
Food industry	70,063	67,499
Manufacturing	42,341	97,209
Transport	26,622	-
Other	89,416	61,920
	9,700,764	**5,476,342**

Significant credit exposures

As at 31 December 2011 and 2010, the Bank had no borrowers or groups of related borrowers whose loan balances individually exceeded 10% of total loans to customers.

Loan maturities

The maturity of the loan portfolio is presented in note 26, which shows the remaining periods from the reporting date to the contractual maturities of the loans. Due to the short-term nature of the majority of loans to corporate customers issued by the Bank, it is likely that many of the loans will be prolonged at maturity. Accordingly, the effective maturity of the loan portfolio may be significantly longer than the classification based on contractual terms.

Sale of loans

In 2011 the Bank sold loans to corporate customers for RUB 53,880 thousand. The gross value of the loans sold, including principal amounts, accrued interest and penalties equaled to RUB 72,989 thousand. In 2010 the Bank did not sell overdue loans to corporate customers.

In 2010 the Bank sold overdue loans to retail customers for RUB 298,000 thousand. The gross value of the loans sold, including principal amounts, accrued interest and penalties equaled to RUB 840,252 thousand.

17 Available-for-sale financial assets

	2011 RUB’000	2010 RUB’000
Debt and other fixed-income instruments		
- Government and municipal bonds		
- Russian Government Federal bonds (OFZ)	730,190	1,040,200
- Regional authorities and municipal bonds	94,758	94,955
Total government and municipal bonds	**824,948**	**1,135,155**
- Corporate bonds		
- rated from BBB- to BBB+	-	94,520
- rated from B- to B+	107,131	119,227
Total corporate bonds	**107,131**	**213,747**
Equity instruments		
- Corporate shares		
- CJSC Bureau of Credit History “National Credit Bureau”	4,410	4,410
- Impairment allowance	(4,410)	(4,410)
Total corporate shares	-	-
	932,079	**1,348,902**

Ratings of issuers are defined in accordance with standards of international rating agency Standard & Poor’s.

18 Property and equipment, intangible assets and assets held-for-sale

RUB'000	Land and buildings	Motor vehicles	Computers	Office equipment	Intangible assets	Other equipment	Construction in progress	Leasehold improvements	Total
Cost									
Balance at 1 January 2011	206,795	33,915	45,606	136,757	48,167	90,536	3,701	75,848	641,325
Additions	-	1,482	60	5,489	6,071	2,360	-	-	15,462
Disposals	-	(4,303)	-	(8,293)	(11,328)	(2,492)	(2,154)	-	(28,570)
Balance at 31 December 2011	**206,795**	**31,094**	**45,666**	**133,953**	**42,910**	**90,404**	**1,547**	**75,848**	**628,217**
Depreciation									
Balance at 1 January 2011	(25,256)	(25,092)	(36,189)	(70,525)	(35,049)	(85,594)	-	(42,397)	(320,102)
Depreciation for the year	(4,170)	(4,633)	(2,663)	(15,850)	(11,330)	(189)	-	(10,290)	(49,125)
Disposals	-	3,551	-	5,681	11,328	2,492	-	-	23,052
Balance at 31 December 2011	**(29,426)**	**(26,174)**	**(38,852)**	**(80,694)**	**(35,051)**	**(83,291)**	**-**	**(52,687)**	**(346,175)**
Carrying amount									
Balance at 31 December 2011	**177,369**	**4,920**	**6,814**	**53,259**	**7,859**	**7,113**	**1,547**	**23,161**	**282,042**

RUB'000	Land and buildings	Motor vehicles	Computers	Office equipment	Intangible assets	Other equipment	Construction in progress	Leasehold improvements	Total
Cost									
Balance at 1 January 2010	206,795	36,245	43,625	136,264	39,007	91,521	2,993	74,517	630,967
Additions	-	1,583	4,730	2,031	9,160	1,005	7,148	-	25,657
Disposals	-	(3,913)	(2,749)	(6,647)	-	(1,990)	-	-	(15,299)
Transfers	-	-	-	5,109	-	-	(6,440)	1,331	-
Balance at 31 December 2010	**206,795**	**33,915**	**45,606**	**136,757**	**48,167**	**90,536**	**3,701**	**75,848**	**641,325**
Depreciation									
Balance at 1 January 2010	(21,051)	(23,620)	(36,365)	(61,203)	(10,979)	(86,160)	-	(32,107)	(271,485)
Depreciation for the year	(4,205)	(5,385)	(2,536)	(13,792)	(24,070)	(1,424)	-	(10,290)	(61,702)
Disposals	-	3,913	2,712	4,470		1,990	-	-	13,085
Balance at 31 December 2010	**(25,256)**	**(25,092)**	**(36,189)**	**(70,525)**	**(35,049)**	**(85,594)**	**-**	**(42,397)**	**(320,102)**
Carrying amount									
Balance at 31 December 2010	**181,539**	**8,823**	**9,417**	**66,232**	**13,118**	**4,942**	**3,701**	**33,451**	**321,223**

As at 31 December 2011 and 2010, the Bank had fully depreciated fixed assets which were still in use. The gross values of these balances as at 31 December 2011 and 2010 are RUB 135,112 thousand and RUB 139,647 thousand, respectively.

Assets held-for-sale

During 2010 the Bank completed the purchase and registration of land plots and recognized them as assets held-for-sale carried at the lower of cost or fair value less cost to sell. Management intentions are to sell land plots in the nearest future. Also assets held-for-sale include assets obtained by taking possession of collateral for loans (refer to note 16).

19 Other assets

	2011 RUB'000	2010 RUB'000
Settlements on brokerage operations	6,646	466,066
Total other financial assets	**6,646**	**466,066**
Trade debtors and prepayments	34,605	29,883
Materials and supplies	25,025	20,883
Other	27,769	19,302
Total other non-financial assets	**87,399**	**70,068**
Total other assets	**94,045**	**536,134**

20 Deposits and balances from banks

	2011 RUB'000	2010 RUB'000
Vostro accounts	11	11
Term deposits	1,440	26,225
	1,451	**26,236**

Concentration of deposits and balances from banks

As at 31 December 2011, the Bank has 1 bank (31 December 2010: 1 bank), whose balances exceed 10% of total deposits and balances from banks. The gross value of these balances as of 31 December 2011 is RUR 1,440 thousand (31 December 2010: RUR 23,525 thousand).

21 Current accounts and deposits from customers

	2011 RUB'000	2010 RUB'000
Current accounts and demand deposits		
- Individuals	885,555	832,279
- Legal entities	4,714,059	3,677,797
Term deposits		
- Individuals	9,219,407	9,451,715
- Legal entities	2,134,810	1,640,054
	16,953,831	**15,601,845**

As at 31 December 2011 and 2010, the Bank has no customers whose balances individually exceed 10% of total current accounts and deposits from customers.

22 Promissory notes

	2011 RUB'000	2010 RUB'000
Promissory notes	488,153	845,302
	488,153	**845,302**

23 Other borrowed funds

	2011 RUB'000	2010 RUB'000
Subordinated borrowings	773,066	773,066
	773,066	**773,066**

As at 31 December 2011 and 2010, subordinated borrowings comprise loans received from a third party maturing in 2020 and carry an annual interest rate of 8.9%. In case of bankruptcy, the repayment of the subordinated borrowings will be made after repayment in full of all other liabilities of the Bank.

24 Other liabilities

	2011 RUB'000	2010 RUB'000
Prepayments	8,849	13,556
Taxes other than on income	6,272	5,592
Consulting expenses	4,778	4,780
Unused vacations	4,604	3,457
Other	1,657	2,173
Total other liabilities	**26,160**	**29,558**

25 Share capital

Issued capital

In accordance with the decision of the general meeting of participants of the Bank dated 14 August 2009, the legal structure was changed from a Limited Liability Company into an Open Joint Stock Company. As a result 1,000,000,000 ordinary shares were issued. All shares have a nominal value of RUB 1. The units in the charter capital were exchanged into the equal number of ordinary shares.

On 29 January 2010 share capital was increased from RUB 1,000,000 thousand to RUB 1,890,000 thousand by an increase of each share's nominal value from RUB 1 to RUB 1.89. The share capital was increased with the use of retained earnings which amounts to RUB 890,000 thousand.

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

Dividends

Dividends payable are restricted to the maximum retained earnings of the Bank, which are determined according to legislation of the Russian Federation. In accordance with the requirements of the legislation of the Russian Federation as of the reporting date the amount available for distribution to shareholders constituted RUR 193,748 thousand (31 December 2010: RUR 180,503 thousand).

26 Risk management

Management of risk is fundamental to the business of banking and is an essential element of the Bank's operations. The major risks faced by the Bank are those related to market risk, credit risk and liquidity risk.

Risk management policies and procedures

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

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

The Management Board is responsible for monitoring and implementation of risk mitigation measures and making sure that the Bank operates within the established risk parameters. The Head of the Risk Department is responsible for the overall risk management and compliance functions, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting both financial and non-financial risks. He reports directly to the Chairman of the Management Board and indirectly to the Board of Directors.

Credit, market and liquidity risks both at the portfolio and transactional levels are managed and controlled through a system of Credit Committees and an Asset and Liability Management Committee (the ALCO). In order to facilitate efficient decision-making, the Bank has established a hierarchy of credit committees depending on the type and amount of the exposure.

Both external and internal risk factors are identified and managed throughout the Bank. Particular attention is given to identifying the full range of risk factors and determination of the level of assurance over the current risk mitigation procedures. Apart from the standard credit and market risk analysis, the Risk Department monitors financial and non-financial risks by holding regular meetings with operational units in order to obtain expert judgments in their areas of expertise.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises currency risk, interest rate risk and other price risks. Market risk arises from open positions in interest rate, currency and equity financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices.

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

Overall authority for market risk is vested in the ALCO, which is chaired by the Chairman of the Management Board. Market risk limits are approved by the ALCO based on recommendations of the Risk Department.

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

In addition, the Bank uses a wide range of stress tests to model the financial impact of a variety of exceptional market scenarios on individual trading portfolios and overall position. Stress tests provide an indication of the potential size of losses that could arise in extreme conditions. The stress tests carried out by the Bank include: risk factor stress testing, where stress movements are applied to each risk category and ad hoc stress testing, which includes applying possible stress events to specific positions.

The management of interest rates risk by monitoring interest rate gap is supplemented by monitoring the sensitivity of the net interest margin to various standard and non-standard interest rate scenarios.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Bank is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may also reduce or create losses in the event that unexpected movements arise.

Interest rate risk arises when the actual or forecasted assets of a given maturity period are either greater or less than the actual or forecasted liabilities in that maturity period.

Average interest rates

The table below displays average effective interest rates for interest bearing assets and liabilities as at 31 December 2011 and 2010. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	2011 Average effective interest rate, %			2010 Average effective interest rate, %		
	RUB	**USD**	**Other currencies**	**RUB**	**USD**	**Other currencies**
Interest bearing assets						
Loans and advances to bank						
- Loans to banks	5.4%	-	-	3.8%	-	-
Financial instruments at fair value through profit or loss	8.6%	8.1%	0.0%	7.8%	4.0%	3.5%
Loans to customers	12.1%	8.9%	10.2%	15.8%	14.2%	-
Available-for-sale financial assets	6.6%	-	-	6.7%	-	-
Interest bearing liabilities						
Deposits and balances from banks						
- Term deposits	-	-	-	19.0%	-	-
Current accounts and deposits from customers						
- Term deposits	8.4%	5.6%	5.3%	10.6%	8.2%	7.2%
Promissory notes	8.1%	6.0%	-	9.5%	-	8.7%
Other borrowed funds	8.9%	-	-	8.9%	-	-

Interest rate sensitivity analysis

The management of interest rate risk based on interest rate gap analysis is suplemented by monitoring the sensitivity of financial assets and liabilities. An analysis of sensitivity of profit or loss and equity (net of taxes) to changes in interest rates (repricing risk) based on a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves and positions of interest-bearing assets and liabilities existing as at 31 December 2011 and 2010 is as follows:

	2011		2010	
	Profit or loss RUB'000	**Equity RUB'000**	**Profit or loss RUB'000**	**Equity RUB'000**
100bp parallel fall	(15,551)	(15,551)	6,532	6,532
100 bp parallel rise	15,551	15,551	(6,532)	(6,532)

An analysis of sensitivity of profit or loss and equity (net of taxes) as a result of changes in the fair value of financial instruments at fair value though profit or loss and financial assets available-for-sale due to changes in the interest rates based on positions existing as at 31 December 2011 and 2010 and a simplified scenario of a 100 bp symmetrical fall or rise in all yield curves is as follows:

	2011		2010	
	Profit or loss RUB'000	**Equity RUB'000**	**Profit or loss RUB'000**	**Equity RUB'000**
100bp parallel fall	45,609	53,809	48,523	57,714
100 bp parallel rise	(47,438)	(55,885)	(49,859)	(59,594)

Currency risk

The Bank has assets and liabilities denominated in several foreign currencies.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign currency exchange rates.

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

RUB'000	RUB	USD	EUR	Other currencies	Total
ASSETS					
Cash and cash equivalents	1,270,714	184,589	358,360	3,580	1,817,243
Mandatory reserve deposit in the Central Bank of the Russian Federation	195,828	-	-	-	195,828
Loans and advances to banks	1,314,094	2,254	415	-	1,316,763
Financial instruments at fair value through profit or loss	5,189,887	296,734	246,865	-	5,733,486
Loans to customers	8,432,590	986,036	282,138	-	9,700,764
Available-for-sale financial assets	932,079	-	-	-	932,079
Property, equipment and intangible assets	282,042	-	-	-	282,042
Assets held-for-sale	1,152,292	-	-	-	1,152,292
Current tax asset	42,173	-	-	-	42,173
Other assets	94,045	-	-	-	94,045
Total assets	**18,905,744**	**1,469,613**	**887,778**	**3,580**	**21,266,715**
LIABILITIES					
Deposits and balances from banks	1,451	-	-	-	1,451
Current accounts and deposits from customers	14,938,878	1,111,977	886,706	16,270	16,953,831
Promissory notes	360,937	127,216	-	-	488,153
Other borrowed funds	773,066	-	-	-	773,066
Deferred tax liability	7,804	-	-	-	7,804
Other liabilities	25,040	1,118	2	-	26,160
Total liabilities	**16,107,176**	**1,240,311**	**886,708**	**16,270**	**18,250,465**
Net position	**2,798,568**	**229,302**	**1,070**	**(12,690)**	**3,016,250**
The effect of spot transactions held for risk management	**139,519**	**(139,519)**	**-**	**-**	**-**
Net position after spot transactions held for risk management purposes	**2,938,087**	**89,783**	**1,070**	**(12,690)**	**3,016,250**

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

RUB'000	RUB	USD	EUR	Other currencies	Total
ASSETS					
Cash and cash equivalents	1,256,401	516,898	891,648	8,754	2,673,701
Mandatory reserve deposit in the Central Bank of the Russian Federation	111,515	-	-	-	111,515
Loans and advances to banks	2,954,567	2,133	404	-	2,957,104
Financial instruments at fair value through profit or loss	5,052,260	60,686	413,690	-	5,526,636
Loans to customers	5,410,593	65,749	-	-	5,476,342
Available-for-sale financial assets	1,348,902	-	-	-	1,348,902
Property, equipment and intangible assets	321,223	-	-	-	321,223
Assets held-for-sale	1,192,336	-	-	-	1,192,336
Current tax asset	83,619	-	-	-	83,619
Deferred tax asset	10,072	-	-	-	10,072
Other assets	535,031	749	354	-	536,134
Total assets	**18,276,519**	**646,215**	**1,306,096**	**8,754**	**20,237,584**
LIABILITIES					
Deposits and balances from banks	26,236	-	-	-	26,236
Current accounts and deposits from customers	13,276,403	1,267,322	1,042,535	15,585	15,601,845
Promissory notes	555,657	-	289,645	-	845,302
Other borrowed funds	773,066	-	-	-	773,066
Other liabilities	29,441	117	-	-	29,558
Total liabilities	**14,660,803**	**1,267,439**	**1,332,180**	**15,585**	**17,276,007**
Net position	**3,615,716**	**(621,224)**	**(26,084)**	**(6,831)**	**2,961,577**
The effect of spot transactions held for risk management	**(609,538)**	**609,538**	**-**	**-**	**-**
Net position after spot transactions held for risk management purposes	**3,006,178**	**(11,686)**	**(26,084)**	**(6,831)**	**2,961,577**

Strengthening of the RUB, as indicated below, against the following currencies at 31 December 2011 and 2010 would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis is on net of tax basis and is based on foreign currency exchange rate variances that the Bank considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

	2011		**2010**	
	Profit or loss RUB'000	**Equity RUB'000**	**Profit or loss RUB'000**	**Equity RUB'000**
10% appreciation of RUB against USD	(7,182)	(7,182)	935	935
10% appreciation of RUB against EUR	(86)	(86)	2,087	2,087

Weakening of the RUB against the above currencies at 31 December 2011 and 31 December 2010 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

Credit risk

Credit risk is the risk of financial loss occurring as a result of default by a borrower or counterparty on their obligation to the Bank. The Bank has policies and procedures for the management of credit exposures (both for recognised financial assets and unrecognised contractual commitments), including guidelines to limit portfolio concentration and the establishment of Credit Committees, which actively monitor credit risk. The credit policy is reviewed and approved by the Management Board.

The credit policy establishes:

- procedures for review and approval of loan credit applications
- methodology for the credit assessment of borrowers (corporate and retail)
- methodology for the credit assessment of counterparties, issuers and insurance companies
- methodology for the evaluation of collateral
- credit documentation requirements
- procedures for the ongoing monitoring of loans and other credit exposures.

Corporate loan/credit applications are originated by the relevant client managers and are then passed on to the Loan Department, which is responsible for the corporate loan portfolio. Analysts reports are based on a structured analysis focusing on the borrower's business and financial performance. The loan/credit application and the report are then independently reviewed by the Credit Risk Department and a second opinion is given accompanied by a check that credit policy requirements have been met. The Credit Committee reviews the loan/credit application on the basis of submissions by the Loan Department. Individual transactions are also reviewed by the Legal, Tax and Accounting departments depending on the specific risks and pending final approval of the Credit Committee.

The Bank continuously monitors the performance of individual credit exposures and regularly reassesses the creditworthiness of its borrowers. The review is based on the borrower's most recent financial statements and other information submitted by the borrower, or otherwise obtained by the Bank.

Retail loan/credit applications are reviewed by the Retail Lending Department through the use of scoring models and application data verification procedures developed together with the Risk Department. Apart from individual borrower analysis, the credit portfolio is assessed by the Risk Department with regard to credit concentration and market risks.

Apart from individual borrower analysis, the credit portfolio is assessed by the Loan Department with regard to credit concentration and market risks.

The maximum exposure to credit risk, reflected in the statement of financial position, is generally reflected in the carrying amounts of financial assets in the statement of financial position and unrecognised contractual commitment amounts. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

The maximum exposure to credit risk from financial assets at the reporting date is as follows:

	2011 RUB'000	2010 RUB'000
ASSETS		
Cash and cash equivalents	960,224	1,957,505
Mandatory reserve deposit in the Central Bank of the Russian Federation	195,828	111,515
Loans and advances to banks	1,316,763	2,957,104
Financial instruments at fair value through profit or loss	5,733,486	5,526,636
Loans to customers	9,700,764	5,476,342
Available-for-sale financial assets	932,079	1,348,902
Other financial assets	6,646	466,066
Total maximum exposure	**18,845,790**	**17,844,070**

The Bank holds collateral against loans and advances to customers in the form of real estate, other assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired.

Collateral generally is not held against claims under derivative financial instruments, investments in securities, and loans and advances to banks, except when securities are held as part of reverse repurchase agreements.

The maximum exposure to credit risk from financial instruments, not reflected in the statement of financial position, at the reporting date is presented in note 28.

The Bank monitors concentrations of credit risk by industry/sector and by geographic location. For the analysis of concentration of credit risk in respect of loans and advances to customers refer to note 16.

As at 31 December 2011, the Bank has no debtors or groups of connected debtors (2010: no debtors), credit risk exposure to whom individually exceeds 10% of maximum credit risk exposure.

Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in raising funds to meet its commitments. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to liquidity management. It is unusual for financial institutions ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

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

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

The liquidity management policy requires:

- projecting cash flows by major currencies and considering the level of liquid assets necessary in relation thereto
- maintaining a diverse range of funding sources
- managing the concentration and profile of debts

- maintaining debt financing plans
- maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any interruption to cash flow
- maintaining liquidity and funding contingency plans
- monitoring liquidity ratios against regulatory requirements.

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

The daily liquidity position is monitored and regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions is performed by the Financial Department. Under the normal market conditions, liquidity reports covering the liquidity position are presented to senior management on a weekly basis. Decisions on the liquidity management are made by the ALCO and implemented by the Financial Department.

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

The following tables show the undiscounted cash flows on financial liabilities and credit-related commitments on the basis of their earliest possible contractual maturity. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee can be called. The total gross amount outflow disclosed in the table is the contractual, undiscounted cash flow on the financial liability or commitment.

In accordance with Russian legislation, individuals can withdraw their term deposits at any time, forfeiting in most of the cases the accrued interest. Accordingly, these deposits, excluding accrued interest, are shown in the following tables, presenting undiscounted cash flows of financial liabilities, in the category of "Demand and less than 1 month". The amount of such deposits, by each time band, is as follows:

	2011 RUB'000	**2010 RUB'000**
Less than 1 month	1,065,998	594,033
From 1 to 3 months	1,823,441	2,803,661
From 3 to 6 months	588,598	1,284,447
From 6 to 12 months	1,706,212	2,958,714
More than 1 year	4,035,158	1,810,860
	9,219,407	**9,451,715**

The maturity analysis for financial liabilities as at 31 December 2011 is as follows:

RUB'000	Demand and less than1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Total gross amount outflow	Carrying amount
Financial liabilities						
Deposits and balances from banks	11	1,440	-	-	1,451	1,451
Current accounts and deposits from customers	15,243,087	614,179	1,061,174	432,990	17,351,430	16,953,831
Promissory notes	130,625	14,538	44,312	356,661	546,136	488,153
Other borrowed funds	5,699	28,495	34,192	1,320,155	1,388,541	773,066
Total financial liabilities	**15,379,422**	**658,652**	**1 139,678**	**2,109,806**	**19,287,558**	**18,216,501**
Credit related commitments	**2,314,639**	**-**	**-**	**-**	**2,314,639**	**2,314,639**

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

RUB'000	Demand and less than1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Total gross amount outflow	Carrying amount
Financial liabilities						
Deposits and balances from banks	35	23,641	140	2,953	26,769	26,236
Current accounts and deposits from customers	14,270,554	834,321	536,520	213,945	15,855,340	15,601,845
Promissory notes	297,810	310,629	66,598	234,234	909,271	845,302
Other borrowed funds	5,699	28,495	34,194	1,388,540	1,456,928	773,066
Total financial liabilities	**14,574,098**	**1,197,086**	**637,452**	**1,839,672**	**18,248,308**	**17,246,449**
Credit related commitments	**3,472,710**	**-**	**-**	**-**	**3,472,710**	**3,472,710**

The table below shows an analysis, by expected maturities, of the amounts recognised in the statement of financial position as at 31 December 2011:

RUB'000	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	No maturity/ Overdue	Total
ASSETS						
Cash and cash equivalents	1,817,243	-	-	-	-	1,817,243
Mandatory reserve deposit in the Central Bank of the Russian Federation	-	-	-	-	195,828	195,828
Loans and advances to banks	1,316,763	-	-	-	-	1,316,763
Financial instruments at fair value through profit or loss	5,733,486	-	-	-	-	5,733,486
Loans to customers	637,874	3,499,880	1,641,971	3,865,219	55,820	9,700,764
Available-for-sale financial assets	-	-	539,501	392,578	-	932,079
Property, equipment and intangible assets	-	-	-	-	282,042	282,042
Assets held-for-sale	-	-	1,152,292	-	-	1,152,292
Current tax asset	42,173	-	-	-	-	42,173
Other assets	12,893	75,576	2,763	2,813	-	94,045
Total assets	**9,560,432**	**3,575,456**	**3,336,527**	**4,260,610**	**533,690**	**21,266,715**
LIABILITIES						
Deposits and balances from banks	11	1,440	-	-	-	1,451
Current accounts and deposits from customers	7,086,003	2,976,361	2,470,366	4,421,101	-	16,953,831
Promissory notes	128,241	6,920	20,561	332,431	-	488,153
Other borrowed funds	-	-	-	773,066	-	773,066
Deferred tax liability	-	-	-	-	7,804	7,804
Other liabilities	13,363	12,362	376	59	-	26,160
Total liabilities	**7,227,618**	**2,997,083**	**2,491,303**	**5,526,657**	**7,804**	**18,250,465**
Net position	**2,332,814**	**578,373**	**845,224**	**(1,266,047)**	**525,886**	**3,016,250**

The table below shows an analysis, by expected maturities, of the amounts recognised in the statement of financial position as at 31 December 2010:

RUB'000	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	No maturity/ Overdue	Total
ASSETS						
Cash and cash equivalents	2,673,701	-	-	-	-	2,673,701
Mandatory reserve deposit in the Central Bank of the Russian Federation	-	-	-	-	111,515	111,515
Loans and advances to banks	2,957,104	-	-	-	-	2,957,104
Financial instruments at fair value through profit or loss	5,526,636	-	-	-	-	5,526,636
Loans to customers	159,234	2,033,791	619,418	2,343,759	320,140	5,476,342
Available-for-sale financial assets	-	-	94,520	1,254,382	-	1,348,902
Property, equipment and intangible assets	-	-	-	-	321,223	321,223
Assets held-for-sale	-	-	1,192,336	-	-	1,192,336
Current tax asset	-	83,619	-	-	-	83,619
Deferred tax asset	-	-	-	-	10,072	10,072
Other assets	501,131	17,292	5,371	12,340	-	536,134
Total assets	**11,817,806**	**2,134,702**	**1,911,645**	**3,610,481**	**762,950**	**20,237,584**
LIABILITIES						
Deposits and balances from banks	11	-	23,525	2,700	-	26,236
Current accounts and deposits from customers	5,445,969	4,803,910	3,354,822	1,997,144	-	15,601,845
Promissory notes	291,360	288,945	47,849	217,148	-	845,302
Other borrowed funds	-	-	-	773,066	-	773,066
Other liabilities	15,410	12,219	1,918	11	-	29,558
Total liabilities	**5,752,750**	**5,105,074**	**3,428,114**	**2,990,069**	**-**	**17,276,007**
Net position	**6,065,056**	**(2,970,372)**	**(1,516,469)**	**620,412**	**762,950**	**2,961,577**

Financial instruments at fair value through profit or loss are classified into the category "Demand and less than 1 month", as these financial instruments are trading in nature and in management's opinion this approach best reflects the position of the Bank on liquidity.

As at 31 December 2011, the contractual maturities of financial instruments at fair value through profit or loss are as follows: RUB 1,093,889 thousand in "Demand and less than 1 month", RUB 463,202 thousand in "From 1 to 6 months"; RUB 297,412 thousand in "From 6 to 12 months"; and RUB 3,878,983 thousand in "More than 1 year".

As at 31 December 2010, the contractual maturities of financial instruments at fair value through profit or loss are as follows: RUB 678,316 thousand in "Demand and less than 1 month", RUB 1,526,578 thousand in "From 1 to 6 months"; RUB 909,072 thousand in "From 6 to 12 months"; and RUB 2,412,670 thousand in "More than 1 year".

As basic liquidity risk management tool, the Bank calculates mandatory liquidity ratios in accordance with the requirements of the CBR. 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 1 year to the shareholders' equity and liabilities maturing after 1 year.

As at 31 December 2011 and 31 December 2010, these ratios are as follows.

	2011	**2010**
Instant liquidity ratio (N2) (not less than 15%)	67.05%	83.71%
Current liquidity ratio (N3) (not less than 50%)	121.60%	155.30%
Long-term liquidity ratio (N4) (not more than 120%)	38.57%	33.88%

27 Capital management

The CBR sets and monitors capital requirements for the Bank.

The Bank defines as capital those items defined by statutory regulation as capital for credit institutions. Under the current capital requirements set by the CBR, banks have to maintain a ratio of capital to risk weighted assets (statutory capital ratio) above the prescribed minimum level. As at 31 December 2011, this minimum level is 10%.

The Bank is in compliance with the statutory capital ratio during the years ended 31 December 2011 and 2010.

	2011 RUB'000	**2010 RUB'000**
Primary capital	2,295,219	2,275,960
Additional capital	773,066	773,066
Total capital	**3,068,285**	**3,049,026**
Capital adequacy ratio (%)	**16.3%**	**18.9%**

28 Commitments

The Bank has outstanding commitments to extend loans. These commitments take the form of approved loans and credit card limits and overdraft facilities.

The Bank provides financial guarantees to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to three years.

The Bank applies the same credit risk management policies and procedures when granting credit commitments and financial guarantees as it does for granting loans to customers.

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

	2011 RUB'000	2010 RUB'000
Contracted amount		
Unused loans and overdrafts	590,616	909,521
Guarantees issued	1,724,023	2,563,189
Total credit related commitments	**2,314,639**	**3,472,710**

The total outstanding contractual commitments above do not necessarily represent future cash requirements, as these commitments may expire or terminate without being funded. The majority of loan and credit line commitments do not represent an unconditional commitment by the Bank.

29 Operating leases

Leases as lessee

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

	2011 RUB'000	2010 RUB'000
Less than 1 year	139,666	91,387
Between 1 and 5 years	369,763	134,543
	509,429	**225,930**

The Bank leases a number of premises and equipment under operating leases. The leases typically run for an initial period of five to ten years, with an option to renew the lease after that date. Lease payments are usually increased annually to reflect market rentals. None of the leases includes contingent rentals.

During 2011 RUB 131,190 thousand is recognised as an expense in profit or loss in respect of operating leases (2010: RUB 124,082 thousand).

30 Contingencies

Insurance

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

Litigation

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

Taxation contingencies

The taxation system in the Russian Federation continues to evolve and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities who have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on the financial position, if the authorities were successful in enforcing their interpretations, could be significant.

31 Related party transactions

Control relationships

Banking transactions are entered into in the normal course of business with the shareholders of the Bank, members of the Board of Directors and the Management Board, entities that are under common control with the Bank, and other entities that are significantly influenced by the Bank's shareholders, members of the Board of Directors and the Management Board. These transactions include settlements, loans and deposits taking. The outstanding balances and average effective interest rates as of 31 December 2011 and 2010 as well as related income and expenses on transactions with the related parties are as follows:

	2011 RUB'000				2010 RUB'000			
	Members of the Board of Directors and the Management Board	**Average effective interest rate**	**Other entities**	**Average effective interest rate**	**Members of the Board of Directors and the Management Board**	**Average effective interest rate**	**Other entities**	**Average effective interest rate**
Statement of financial position								
ASSETS								
Loans to customers								
Gross loans to customers	705	18.5%	904,735	9.93%	102	0.0%	85,574	16.0%
Impairment allowance	(117)	-	(13,433)	-	-	-	(1,302)	-
LIABILITIES								
Current accounts and deposits from customers								
Current accounts	10,042	0.0%	53,682	0.0%	12,847	0.0%	113,384	0.0%
Term deposits	893,817	6.7%	53,222	5.9%	1,158,024	11.3%	262,700	5.9%
Statement of comprehensive income								
Interest income for the year	524	-	47,624	-	12	-	75,108	-
Interest expense for the year	(68,433)	-	(826)	-	(51,214)	-	(5,357)	-
Impairment losses	(117)	-	(12,131)	-	-	-	(570)	-

In 2011 and 2010 the total remuneration of the members of the Board of Directors and the Management Board of the Bank amounted to RUB 146,953 thousand and RUB 176,877 thousand, respectively.

Loans issued to related parties are in Russian Roubles and have the following maturities:

	2011 RUB'000	2010 RUB'000
Less than 1 month	10,169	-
From 1 to 6 months	825,324	61,835
From 6 to 12 months	-	16,594
More than 1 year	69,947	7,247
	905,440	**85,676**

Loans issued to related parties are collateralized by pledge of vehicles and real estate.

32 Financial assets and liabilities: fair values and accounting classifications

Accounting classifications and fair values

The Bank has performed an assessment of its financial instruments, as required by IFRS 7 *Financial Instruments: Disclosures.*

The estimated fair values of financial instruments at fair value through profit or loss and quoted available-for-sale financial assets, are based on quoted market prices at the reporting date without any deduction for transaction costs.

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

The estimates of fair value are intended to approximate the amount for which a financial instrument could be exchanged between knowledgeable, willing parties in an arm's length transaction. However given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realisable in an immediate sale of the assets or settlement of liabilities. The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2011 and 31 December 2010:

	2011		2010	
	Fair value RUB'000	**Carrying amount RUB'000**	**Fair value RUB'000**	**Carrying amount RUB'000**
ASSETS				
Cash and cash equivalents	1,817,243	1,817,243	2,673,701	2,673,701
Mandatory reserve deposit in the Central Bank of the Russian Federation	195,828	195,828	111,515	111,515
Loans and advances to banks	1,316,763	1,316,763	2,957,104	2,957,104
Financial instruments at fair value through profit or loss	5,733,486	5,733,486	5,526,636	5,526,636
Loans to customers	9,252,453	9,700,764	5,462,397	5,476,342
Available-for-sale financial assets	932,079	932,079	1,348,902	1,348,902
Other financial assets	6,646	6,646	466,066	466,066
LIABILITIES				
Deposits and balances from banks	1,451	1,451	26,236	26,236
Current accounts and deposits from customers	17,243,741	16,953,831	15,841,836	15,601,845
Promissory notes	488,153	488,153	845,302	845,302
Other borrowed funds	773,066	773,066	773,066	773,066

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

Significant assumptions in valuation of loans to customer and current accounts and deposits from customers relate to average effective discount rates. Average effective discount rates for loans to customers as at 31 December 2011 and 2010 comprised 12.05% and 15.8%, respectively. Average effective discount rates for current accounts and deposits from customers as at 31 December 2011 and 2010 comprised 8.42% and 10.6%, respectively.

For more complex instruments, the Bank uses own valuation models and/or estimation is based on models of independent appraisal companies.

Fair value hierarchy

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

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: Valuation techniques based on observable inputs, either directly (i.e, as prices) or indirectly (i.e, derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The table below analyses financial instruments measured at fair value at 31 December 2011, by the level in the fair value hierarchy into which the fair value measurement is categorised:

	Level 1	**Level 2**	**Total**
Financial instruments at fair value through profit or loss	4,183,335	1,550,151	5,733,486
Available-for-sale financial assets	932,079	-	932,079
Total financial instruments	**5,115,414**	**1,550,151**	**6,665,565**

The table below analyses financial instruments measured at fair value at 31 December 2010, by the level in the fair value hierarchy into which the fair value measurement is categorised:

	Level 1	**Level 2**	**Total**
Financial instruments at fair value through profit or loss	2,483,843	3,087,793	5,526,636
Available-for-sale financial assets	1,348,902	-	1,348,902
Total financial instruments	**3,787,745**	**3,087,793**	**6,875,538**