Commercial Bank ROSENERGOBANK
(Closed Joint Stock Company)

Financial Statements for the Year Ended 31 December 2011 and Independent Auditor's Report

Contents

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Independent Auditor's Report

To the Shareholders and the Board of Directors of Commercial Bank ROSENERGOBANK (Closed Joint Stock Company)

We have audited the accompanying financial statements of Commercial Bank ROSENERGOBANK (Closed Joint Stock Company), which comprise the statement of financial position as at 31 December 2011, and the statement of comprehensive income, statement of cash flows and statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory notes.

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.

Auditor's 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 Commercial Bank ROSENERGOBANK (Closed Joint Stock Company) 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.

Anton V. Efremov
Senior Partner

14 March 2012
ZAO BDO

Statement of Management's Responsibilities for the Preparation and Approval of the Financial Statements for the Year Ended 31 December 2011

The following statement, which should be read in conjunction with the independent auditor's responsibilities stated in the independent auditor's report is made with a view to distinguishing the respective responsibilities of management of Commercial Bank ROSENERGOBANK (Closed Joint Stock Company) (the Bank) and those of the independent auditor in relation to the Bank's financial statements.

Management is responsible for the preparation of the financial statements (the financial statements) that present fairly the financial position of the Bank as at 31 December 2011, the results of its operations, cash flows and changes in equity for the year then ended, in accordance with International Financial Reporting Standards (IFRS).

In preparing the financial statements, management is responsible for:

- Selecting suitable accounting principles and applying them consistently;
- Making judgments and estimates that are reasonable and prudent;
- Stating whether IFRS have been followed, subject to any material departures disclosed and explained in the financial statements;
- Preparing the financial statements on a going concern basis, unless it is inappropriate to presume that the Bank will continue in business for the foreseeable future.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls throughout the Bank;
- Maintaining proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Bank, and which enable them to ensure that the financial statements of the Bank comply with IFRS;
- Maintaining statutory accounting records in compliance with legislation and accounting standards of the Russian Federation;
- Taking such steps as are reasonably available to them to safeguard the assets of the Bank; and
- Detecting and preventing fraud and other irregularities.

On behalf of the Bank's management the financial statements for the year ended 31 December 2011 were authorised for issue on 14 March 2012 by:

K.V. Shvarts
Chairman of the Executive Board
14 March 2012

A.G. Volkova
Chief Accountant

Commercial Bank ROSENERGOBANK (Closed Joint Stock Company)

Moscow, Russian Federation

(in thousands of Russian Roubles)

	Note	2011	2010
Assets			
Cash and cash equivalents	5	1 738 899	3 012 999
Mandatory cash balances with the Central Bank of the Russian Federation		485 551	222 297
Financial assets at fair value through profit or loss	6	807 524	4 382 627
Due from other banks	7	4 720 679	-
Loans to customers	8	11 193 379	9 047 058
Premises and equipment	9	1 801 917	1 455 880
Other assets	10	374 130	158 880
Total assets		**21 122 079**	**18 279 741**
Liabilities			
Due to other banks	11	640 443	1 343 039
Customer accounts	12	16 976 420	12 683 139
Debt securities issued	13	308 816	1 394 232
Other borrowed funds	14	888 029	858 529
Other liabilities	15	69 991	56 148
Current tax liabilities		13 862	11 357
Deferred tax liabilities	21	128 699	94 986
Total liabilities		**19 026 260**	**16 441 430**
Equity			
Share capital	16	1 061 382	1 061 382
Share premium	16	392 000	392 000
Revaluation reserve for premises and equipment		686 230	448 409
Accumulated deficit		(43 793)	(63 480)
Total equity		**2 095 819**	**1 838 311**
Total liabilities and equity		**21 122 079**	**18 279 741**

K.V. Shvarts
Chairman of the Executive Board

A.G. Volkova
Chief Accountant

14 March 2012

The notes set out on pages 9 to 59 are an integral part of these financial statements.

(in thousands of Russian Roubles)

	Note	2011	2010
Interest income	18	2 219 254	1 498 214
Interest expense	18	(1 106 227)	(988 842)
Net interest income		**1 113 027**	**509 372**
Provision for impairment of loans to customers	8	(261 106)	(148 054)
Net interest income after provision for impairment of loans to customers		**851 921**	**361 318**
Gains less losses arising from financial assets at fair value through profit or loss		(365 139)	(25 117)
Gains less losses arising from financial assets available for sale		-	1 748
Gains less losses from dealing in foreign currency		23 804	32 906
Foreign exchange translation gains less losses		9 459	(1 549)
Gain on early redemption of securities issued		-	204 449
Fee and commission income	19	398 109	152 610
Fee and commission expense	19	(37 058)	(12 039)
Provision for impairment of other assets and credit related commitments	10, 25	5 371	(15 940)
Other operating income		46 204	40 138
Operating income		**932 671**	**738 524**
Operating expenses	20	(908 286)	(735 581)
Profit before taxation		**24 385**	**2 943**
Income tax expense	21	(4 698)	(606)
Net profit		**19 687**	**2 337**
Other comprehensive income			
Gains less losses from revaluation of financial assets available for sale		-	(505)
Effect from revaluation of premises and equipment	9	297 276	469 793
Income tax relating to components of comprehensive income		(59 455)	(93 858)
Other comprehensive income after taxation		**237 821**	**375 430**
Total comprehensive income		**257 508**	**377 767**

K.V. Shvarts
Chairman of the Executive Board

A.G. Volkova
Chief Accountant

14 March 2012

(in thousands of Russian Roubles)

	2011	2010
Cash flows from operating activities		
Interest received	2 207 713	1 485 155
Interest paid	(998 761)	(934 791)
Gains less losses arising from financial assets at fair value through profit or loss	(353 666)	24 775
Gains less losses from dealing in foreign currency	23 804	32 906
Fees and commissions received	398 109	152 610
Fees and commissions paid	(37 058)	(12 039)
Other operating income	46 204	244 589
Operating expenses	(807 994)	(690 199)
Income tax paid	(27 936)	(20 870)
Cash flows from operating activities before changes in operating assets and liabilities	**450 415**	**282 136**
Net (increase)/decrease in operating assets		
Mandatory cash balances with the Central Bank of the Russian Federation	(263 254)	(117 275)
Financial assets at fair value through profit or loss	3 576 156	(4 037 834)
Due from other banks	(4 720 000)	1 839 710
Loans to customers	(2 450 845)	(4 600 653)
Other assets	(223 025)	(133 302)
Net increase /(decrease) in operating liabilities		
Due to other banks	(704 312)	575 855
Customer accounts	4 188 321	6 755 475
Debt securities issued	(1 012 881)	465 693
Other liabilities	(33 089)	4 377
Net cash flows from operating activities	**(1 192 514)**	**1 034 182**
Cash flows from investing activities		
Proceeds from disposal of financial assets available for sale	-	683 006
Proceeds from disposal of subsidiaries	-	600
Purchase of premises and equipment (Note 9)	(93 402)	(801 236)
Proceeds from disposal of premises and equipment	245	792
Net cash flows from investing activities	**(93 157)**	**(116 838)**
Cash flows from financing activities		
Issue of shares	-	600 000
Other borrowings	-	327 145
Net cash flows from financing activities	**-**	**927 145**
Effect of exchange rate changes on cash and cash equivalents	11 571	(28 357)
Net change in cash and cash equivalents	**(1 274 100)**	**1 816 132**
Cash and cash equivalents at the beginning of the year	3 012 999	1 196 867
Cash and cash equivalents at the end of the year (Note 5)	**1 738 899**	**3 012 999**

K.V. Shvarts
Chairman of the Executive Board

A.G. Volkova
Chief Accountant

14 March 2012

The notes set out on pages 9 to 59 are an integral part of these financial statements.

(in thousands of Russian Roubles)

	Share capital	Share premium	Fair value reserve for financial assets available for sale	Revaluation reserve for premises and equipment	Accumulated deficit	Total equity
Balance as at 1 January 2010	**461 382**	**392 000**	**404**	**72 615**	**(65 867)**	**860 534**
Issue of shares	600 000	-	-	-	-	600 000
Comprehensive income for 2010	-	-	(404)	375 834	2 337	377 767
Revaluation on disposed premises and equipment	-	-	-	(40)	50	10
Balance as at 31 December 2010	**1 061 382**	**392 000**	**-**	**448 409**	**(63 480)**	**1 838 311**
Comprehensive income for 2011	-	-	-	237 821	19 687	257 508
Balance as at 31 December 2011	**1 061 382**	**392 000**	**-**	**686 230**	**(43 793)**	**2 095 819**

K.V. Shvarts
Chairman of the Executive Board

A.G. Volkova
Chief Accountant

14 March 2012

(in thousands of Russian Roubles)

1. Principal Activities of the Bank

Commercial Bank ROSENERGOBANK (Closed Joint Stock Company) (the Bank) was founded in 1992 as a closed joint stock company under the laws of the Russian Federation.

In 2011 and 2010 the Bank operated under the following licenses:

- License of the Central Bank of the Russian Federation (the CBR) No. 2211 of 17 October 2002 for banking operations with funds of individuals in Russian roubles and foreign currency;
- License of the Central Bank of the Russian Federation No. 2211 of 13 May 2004 for banking operations with funds of legal entities and individuals in Russian roubles and foreign currency;
- Licenses of the professional securities market participant with an unlimited validity period:
  - No. 177-11119-100000 of 1 April 2009 for brokerage transactions;
  - No. 177-11123-010000 of 1 April 2009 for dealing transactions;
  - No. 177-11127-001000 of 1 April 2009 for securities management;
  - No. 177-13238-000100 of 29 July 2010 for depository activities.

Principal activities of the Bank are corporate and retail banking services on the territory of the Russian Federation.

The Bank has 5 branches (2010: 6 branches) in the Russian Federation.

The Bank's head office is located at: 3/30, Podsosensky Per., Moscow, 105062.

Legal and mailing address of the Bank is: 3/30, Podsosensky Per., Moscow, 105062.

Since September 2005 the Bank has been a member of the obligatory Deposit Insurance System managed by the state corporation Deposit Insurance Agency.

The average annual number of the Bank's employees in 2011 was 699 (2010: 675 employees).

Below is the information about the Bank's main shareholders:

Shareholder	2011 Ownership (%)	2010 Ownership (%)
LLC LOGOS	20.00	20.00
LLC FINANSGARANT	20.00	20.00
LLC STROYPRIMA	20.00	20.00
LLC RUSINVEST	19.99	-
LLC Spetsenergocentre	11.80	18.05
LLC RETOR	-	10.97
LLC Alfa-Courier Service	7.13	6.69
Shareholders with shareholdings less than 5 % of the Bank's share capital	1.08	4.29
Total	**100.00**	**100.00**

Below is the information on the Bank's ultimate beneficiaries:

Name	2011 Ownership (%)	2010 Ownership (%)
Lidia A. Vasilyeva	20.00	19.98
Konstantin V. Shvarts	19.99	-
Maria G. Maklakova	19.98	19.98
Genady Gordon	19.90	19.90
Rafail R. Bashirov	11.81	2.78
Monhe Simons Mario Ignasio	7.09	6.65
Galina A. Shvidkaya	-	18.03
Natalya V. Sinitsyna	-	10.97
Ultimate beneficiaries with shareholdings less than 2% of the Bank's share capital	1.23	1.71
Total	**100.00**	**100.00**

(in thousands of Russian Roubles)

2. Operating Environment of the Bank

General

The economy of the Russian Federation continues to display certain characteristics of an emerging market. These characteristics include, in particular, inconvertibility of the national currency in most countries outside of Russia and relatively high inflation rates. The current Russian tax, currency and customs legislation is subject to varying interpretations and frequent changes. Russia continues development of the legal, tax and administrative infrastructure to comply with the market economy requirements. The economic reforms conducted by the Government are aimed at retooling the Russian economy, development of high-tech productions, enhancement of labour productivity and competitiveness of the Russian products on the world market.

The Russian economy is exposed to market fluctuations and processes taking place in the world economy. The global financial crisis, which started in 2008, led to GDP contraction, instability on the capital markets, growing unemployment and increasing number of bankruptcies among legal entities and individuals.

In 2011 the Russian economy continued its recovery started in 2010 and accompanied by GDP growth, declining unemployment and reduction in inflation rates. Despite certain signs of recovery, future economic growth remains uncertain. During 2011 key exchange indices slid down and most transactions on the stock exchanges were of speculative nature.

On 31 August 2011 Standard & Poor's confirmed the sovereign credit ratings of the Russian Federation: the long- and short-term foreign currency sovereign credit rating was reaffirmed at "BBB/A-3", and the long- and short-term local currency sovereign credit rating was reaffirmed at "BBB+/A-2", stable outlook.

On 2 September 2011 Fitch Ratings confirmed the Russian Federation long-term foreign and local currency ratings at "BBB", positive outlook. On 16 January 2012 Fitch Ratings confirmed the Russian Federation long-term foreign and local currency ratings and revised the outlook to stable.

There is an obligatory Deposit Insurance System established in the Russian Federation. According to the deposit insurance legislation, 100% is compensated to the depositor if the deposit amount does not exceed RUR 700 thousand. To calculate the compensation, foreign currency denominated deposits are restated at the exchange rate set by the Central Bank of the Russian Federation at the date of the insured event, and the amounts due to banks from depositors are deducted from the deposit amount.

In 2011 the situation in the banking sector was characterised by growth in assets, loans issued and profits, but the quality of assets continues to remain a critical issue. The banking liquidity is mainly influenced by measures undertaken by the CBR and the Government in the framework of the monetary policy. Capital adequacy requirements were raised after 1 January 2012. In 2011 the refinancing rate increased from 7.75% to 8.0% per annum and the required reserve ratios for credit institutions' obligations ranged from 4.0% to 5.5%.

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

Inflation

Year ended	Inflation for the period
31 December 2011	6.1%
31 December 2010	8.8%
31 December 2009	8.8%
31 December 2008	13.3%
31 December 2007	11.9%

(in thousands of Russian Roubles)

Currency transactions

Foreign currencies, in particular the US Dollar and EUR, play a significant role in the underlying economics of many business transactions in the Russian Federation. The table below shows the CBR exchange rates of RUR relative to USD and EUR:

Date	USD	EUR
31 December 2011	32.1961	41.6714
31 December 2010	30.4769	40.3331
31 December 2009	30.2442	43.3883
31 December 2008	29.3804	41.4411
31 December 2007	24.5462	35.9332

3. Basis of Presentation

General principles

These financial statements of the Bank are prepared in accordance with International Financial Reporting Standards (IFRS). The Bank maintains its accounting records in accordance with the applicable legislation of the Russian Federation. These financial statements have been prepared on the basis of those accounting records and adjusted as necessary in order to comply, in all material respects, with IFRS.

Functional and presentation currency

The functional currency is the currency that mainly influences sales prices for goods and services (this will often be the currency in which sales prices for the goods and services are denominated and settled), labour, material and other costs of providing goods or services (this will often be the currency in which such costs are denominated and settled).

The presentation currency is the currency in which financial statements are presented.

These financial statements are presented in Russian Roubles being the Bank's functional and presentation currency.

Estimates and assumptions

The preparation of the financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities as at the date of the financial statements preparation, and the reported amounts of revenues and expenses during the reporting period. Issues that require the management's estimates and are most significant for the financial statements are disclosed in Notes 4, 7, 8, 11 and 28.

Going concern

These financial statements reflect the Bank management's current assessment of the impact of the Russian business environment on the operations and the financial position of the Bank. The future economic direction of the Russian Federation is largely dependent upon the effectiveness of measures undertaken by the RF Government and other factors, including regulatory and political developments which are beyond the Bank's control. The Bank's management cannot predict what impact these factors can have on the Bank's financial position in future. These financial statements were prepared on a going concern assumption.

The Bank's liquidity position described in Note 23 shows that the Bank does not have sufficient funds to settle liabilities with certain maturities. For prompt management of liquidity risk the Bank regularly monitors external factors, which could influence the Bank's liquidity level, and forecasts cash flows. For the medium- and long-term liquidity risk management the Bank analyses maturity mismatches of assets and liabilities. To reduce its risk exposure the Bank sets liquidity gap limits. The set limits are periodically reviewed due to the changing external and internal environment.

To maintain the required liquidity level the Bank has a possibility to attract additional funds from the Central Bank of Russia and in the interbank lending market. Diversification of liquidity sources allows to minimise the Bank's dependence on any source and ensure full satisfaction of its liabilities. A sufficient current liquidity cushion accumulated by the Bank and the available sources of additional funding allow the Bank to continue its operation as a going concern in the long term. More detailed description of liquidity management is provided in Note 23.

Changes in Accounting Policies

The accounting policies adopted are generally consistent with those of the previous financial year. Listed below are those amended standards and interpretations which are or in the future could be relevant to the Bank's operations:

- IAS 1 "Presentation of Financial Statements" (effective for annual periods beginning on or after 1 January 2011). The amendments clarify disclosures in the statement of changes in equity.
- IAS 24 (as amended in 2009) "Related Party Disclosures" (effective for annual periods beginning on or after 1 January 2011). This standard is a revised version of IAS 24 (as amended in 2003). The main objectives of this Standard are as follows:
    - disclosure exemption for entities that are controlled, jointly controlled or significantly influenced by the state or government bodies (government-related entities);
    - clarification of definition of a related party and related party transaction to improve the understanding and remove contradictions.
- IFRS 7 "Financial Instruments: Disclosures" (effective for annual periods beginning on or after 1 January 2011). The changes refer to disclosure of qualitative and quantitative information about the nature and the extent of risks arising from the transfer of financial assets. The amendments comprise a requirement for an entity to disclose by class of a financial asset the following information in the Bank's statement of financial position about the financial assets transferred to a counterparty: the nature of an asset, its cost, risks and benefits related to the asset. Besides, disclosure is required enabling the user to understand the size of a financial liability related to the asset and the relationship between a financial asset and the related financial liability. In cases when an asset is ceased to be recognised, but the Bank remains to be exposed to certain risks and can receive certain benefits related to the transferred asset, additional disclosure is required to enable the user to understand the risk level.
- IFRIC 13 "Customer Loyalty Programs" (effective for annual periods beginning on or after 1 July 2010). This IFRIC addresses measurement of award credits to customers by reference to fair value.
- IFRIC 14 "The Limit on a Defined Benefit Asset(s), Minimum Funding Requirements and their Interaction" (effective for annual periods beginning on or after 1 January 2011). The main amendments address treatment of prepayments of minimum contributions.
- IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments" (effective for annual periods beginning on or after 1 July 2010). This IFRIC provides guidance on treating settlement of a financial liability through additional issue of an entity's own equity to the creditor.

IFRSs and IFRIC interpretations not yet effective

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

- IAS 27 "Separate Financial Statements" (effective for annual reporting periods beginning on or after 1 January 2013). This standard and IFRS 10 "Consolidated Financial Statements" supersede IAS 27 "Consolidated and Separate Financial Statements" (as amended in 2003). IAS 27 clarifies transition requirements regarding changes in IAS 21, 28 and 31 caused by revision of IAS 27 (as amended in January 2008). IAS 27 sets out requirements for accounting for and disclosure of information about an entity's investments in subsidiaries, joint ventures and associates when preparing separate financial statements.
- IAS 28 "Investments in Associates and Joint Ventures" (effective for annual reporting periods beginning on or after 1 January 2013). This standard is a revised version of IAS 28 "Investments in Associates" (as amended in 2003) and sets out requirements for the application of the equity method when accounting for investments in associates and joint ventures.
- IFRS 9 "Financial Instruments" (effective for annual periods beginning on or after 1 January 2013; however, the date can be postponed to 1 January 2015; early adoption is permitted). This standard was issued in November 2009 as the first phase of replacing IAS 39 and replaces those parts of IAS 39 that relate to classification and measurement of financial assets. The

second phase of replacing this standard regarding the classification and measurement of financial liabilities took place in October 2010. The main differences of the new standard are as follows:

- financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument;
- a financial instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent only payments of principal and interest (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss;
- all equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.

- IFRS 10 "Consolidated Financial Statements" (effective for annual reporting periods beginning on or after 1 January 2013). The new standard supersedes IAS 27 "Consolidated and Separate Financial Statements" and SIC 12 "Consolidation - Special Purpose Entities". IFRS 10 introduces a unified three-level control model: the investor can have control provided that the three criteria are met:
  - the investor has power over the investee;
  - the investor is exposed or has rights to variable returns from its involvement with that investee;
  - the investor has the ability to use its power over the investee to affect the amount of the investor's returns.
- IFRS 11 "Joint Arrangements" (applied retrospectively to annual reporting periods beginning on or after 1 January 2013). The new standard supersedes IAS 31 "Interests in Joint Ventures". The main change introduced by IFRS 11 relates to the classification of all types of joint arrangements into joint operations, which are accounted for on a proportionate consolidation basis, or joint ventures, for which the equity method is used. The type of joint arrangement is determined based on rights and obligations of the parties to the arrangement arising from joint arrangement's structure, legal form, contractual arrangement and other facts and circumstances. Early adoption of IFRS 11 is permitted provided an entity also early adopts IFRS 10, IFRS 12, IAS 27 and IAS 28 (as amended in 2011).
- IFRS 12 "Disclosure of Interests in Other Entities" (effective for annual reporting 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 in another entity are widely defined as contractual and non-contractual involvement that exposes an entity to variability of returns from the performance of the other entity. Amended and new requirements for disclosing information aim to provide the users of financial statements with information that would enable them to assess the nature of the risks related to the entity's interests in other entities and the effect of those interests on the entity's financial position, financial performance and cash flows. To comply with the new requirements the entity should disclose significant judgments and assumptions made in determining the nature of its interest in another entity or arrangement and in determining the type of joint arrangement in which it has an interest, as well as information on its involvement in subsidiaries, joint arrangements, associates and unconsolidated structured entities. In case of full early adoption of IFRS 12 it is also necessary to adopt IFRS 10, IFRS 11, IAS 27, and IAS 28 (as amended in 2011).

- IFRS 13 "Fair Value Measurement" (applied prospectively for annual periods beginning on or after 1 January 2013; early application is permitted). The new standard replaces 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 measurement. IFRS 13 does not introduce new requirements for measurement of assets and liabilities at fair value nor does it eliminate the exceptions to fair value measurement currently applicable to certain standards.
- Amendment to IAS 1 "Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income" (applied retrospectively for annual periods beginning from 1 July 2012; early application is permitted). 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' (the use of other wording in the title is permitted).
- Amendment to IAS 19 "Employee Benefits" (applied retrospectively for annual periods beginning on or after 1 January 2013; early application is permitted). The amendment makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits. The amendment also makes significant changes to disclosures for all employee benefits.
- Amendment to IFRS 7 "Financial Instruments: Disclosures" (effective for annual periods beginning on or after 1 July 2011). The amendment requires additional disclosure of risks arising from the transfer of financial assets. The amendment comprises a requirement for an entity to disclose by class of a financial asset the following information in the entity's statement of financial position about the financial assets transferred to a counterparty: the nature of an asset, its carrying amount, risks and benefits related to the asset. Besides, disclosure is required enabling the user to understand the size of a financial liability related to the asset and the relationship between a financial asset and the related financial liability. In cases when an asset is ceased to be recognised, but the Group remains exposed to certain risks and can receive certain benefits related to the transferred asset, additional disclosure is required to enable the user to understand the risk level.

The Bank is currently assessing the adoption of these IFRS and amendments, the impact of their application on the Bank and the timing of their adoption.

4. Summary of Significant Accounting Policies

Cash and cash equivalents

Cash and cash equivalents are assets, which can be converted into cash within a day and consist of cash on hand, correspondent and current account balances. All short-term interbank placements are included in due from other banks. Amounts, which relate to funds that are of a restricted nature, are excluded from cash and cash equivalents.

Cash and cash equivalents do not include mandatory cash balances with the Central Bank of the Russian Federation.

Mandatory cash balances with the Central Bank of the Russian Federation

Mandatory cash balances with the Central Bank of the Russian Federation represent mandatory reserve deposits with the CBR, which are not available to finance the Bank's day-to-day operations. The mandatory reserve balance is excluded from cash and cash equivalents for the purposes of the statement of cash flows.

Financial assets

The Bank classifies its financial assets in the following categories:

- financial assets at fair value through profit or loss;
- loans and receivables (this category includes due from other banks and loans to customers).

The Bank determines the classification of its financial assets at initial recognition. Classification of financial assets at initial recognition depends on the purpose for which they were acquired and their characteristics.

Initial recognition of financial instruments

The Bank recognises financial assets and financial liabilities in its statement of financial position when it becomes a party to the contractual obligation of the respective financial instrument. Regular way purchases and sales of the financial assets and financial liabilities are recognised using settlement date accounting.

All financial assets are initially recognised at fair value plus transaction costs that are directly attributable to acquisition or issue of the financial asset in the case of a financial asset not at fair value through profit or loss.

Fair value measurement

The fair value of financial instruments traded on the active market as at the reporting date is determined based on the market or dealers' quotations including transaction costs.

If a quoted market price is not available, the fair value of financial assets and financial liabilities recorded in the statement of financial position is estimated with reference to market prices for similar financial instruments or using various valuation techniques, including mathematical models. Where mathematical models are used, inputs are based on observable market data or judgement.

Judgement is based on such factors as time value of money, credit risk level, volatility of the instrument, market risk level and other applicable factors.

Amortised cost of financial instruments

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to estimate reliably the cash flows or the expected life of a financial instrument (or group of financial instruments), the Bank shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Derecognition of financial assets

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

- the rights to receive cash flows from the asset have expired;
- the Bank has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party; and
- the Bank either has transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset. If the transferee has no practical ability to sell the asset in its

entirety to an unrelated third party without needing to impose additional restrictions on the transfer, the entity has retained control.

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

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

Reclassification of financial assets

The Bank shall not reclassify out of the fair value through profit or loss category a derivative financial instrument while it is held or issued or any financial instrument classified at initial recognition as at fair value through profit or loss.

Non-derivative trading financial assets at fair value through profit or loss may be reclassified out of the fair value through profit or loss category only in rare circumstances arising from a single event that is unusual if these assets are no longer held for the purpose of selling or repurchasing them in the near term.

Non-derivative trading financial assets at fair value through profit or loss may be reclassified into loans and receivables or investments held to maturity depending on the purposes for which these financial instruments are held, if the Bank has intention and the ability to hold these financial assets for the foreseeable future or until maturity.

Financial assets available for sale may be reclassified into loans and receivables if the Bank has a positive intention and the ability to hold these financial assets for the foreseeable future or until maturity.

If financial assets are reclassified into loans and receivables or investments held to maturity, the fair value on the date of reclassification will become the new cost of these financial assets. Subsequently these assets are measured at amortised cost using the effective interest rate method.

If, as a result of a change in intention or ability, it is no longer appropriate to classify an investment as held to maturity, it shall be reclassified as financial assets available for sale and remeasured at fair value. Unrealised gains and losses arising from changes in the fair value of financial assets available for sale are recorded in the statement of comprehensive income as other comprehensive income.

The Bank shall not classify any financial assets as investments held to maturity if the Bank has, during the current financial year or during the two preceding financial years, sold or reclassified more than an insignificant amount of held-to-maturity investments before maturity (more than insignificant in relation to the total amount of held-to-maturity investments) other than sales or reclassifications that:

- are so close to maturity or the financial asset's call date (for example, less than three months before maturity) that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;
- occur after the Bank has collected substantially all of the financial asset's original principal through scheduled payments or prepayments; or
- are attributable to an isolated event that is beyond the Bank's control, is non-recurring and could not have been reasonably anticipated by the Bank.

Whenever sales or reclassifications of more than an insignificant amount of held-to-maturity investments do not meet any of the conditions of the classification, any remaining held-to-maturity investments shall be reclassified as available for sale.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include trading securities and other financial assets at fair value through profit or loss.

Trading securities represent securities acquired principally for the purpose of generating a profit from short-term fluctuations in price or trader's margin, or securities included in a portfolio where a pattern of short-term trading exists. The Bank classifies securities as trading securities when it intends to sell them within a short period of time after purchase. Trading securities are not reclassified out of this category except for rare circumstances arising from a single event that is unusual and highly unlikely to reoccur in the near term.

Trading securities are recognised at fair value. Interest earned on trading securities is reflected as interest income in the statement of comprehensive income. Dividends are recognised as dividend income within other operating income when the Bank's right to receive dividends is established and dividends are likely to be received. All other elements of the changes in the fair value and gains or losses on derecognition are recorded in the statement of comprehensive income as gains less losses arising from financial assets at fair value through profit or loss in the period in which they arise.

Due from other banks

In the normal course of business, the Bank places funds for various periods of time with other banks. Amounts due from other banks with a fixed maturity term are not intended for immediate or short-term trading and are measured at amortised cost using the effective interest method. Amounts due from other banks are carried net of any allowance for impairment.

Loans to customers

Loans to customers include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- those that the entity intends to sell immediately or in the near term, which shall be classified as held for trading, and those designated as at fair value through profit or loss;
- those that the entity upon initial recognition designates as available for sale;
- those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, which shall be classified as available for sale.

Loans to customers are initially recorded at cost, which is the fair value of the consideration given. Subsequently, they are carried at amortised cost using the effective interest method less provision for loan impairment.

Loans to customers are recorded when cash is advanced to borrowers.

Loans originated at interest rates different from market rates are remeasured at origination to their fair values, being future interest payments and principal repayment(s) discounted at market interest rates for similar loans. The difference between the fair value and the nominal value at origination is credited or charged to the statement of comprehensive income as gains/losses on origination of loans to customers at rates above/below market. Subsequently, the carrying amount of such loans is adjusted for amortisation and the related gains/losses are recorded within the statement of comprehensive income using the effective interest method.

The Bank does not acquire loans from third parties.

Financial assets available for sale

Financial assets available for sale are non-derivative financial assets not included in any of the above three categories.

Financial assets available for sale are initially recognised at fair value plus transaction costs that are directly attributable to acquisition or issue of the financial asset. Financial assets available for sale are subsequently remeasured to fair value based on quoted bid prices. Certain financial assets available for sale for which there is no available independent quotation have been fair valued by the Bank's management on the basis of results of recent sales of similar financial assets to unrelated third parties or determined on the basis of indicative quotations for purchase/sale of each type of securities published by information agencies or provided by professional securities market participants. If there is no active market and it is impossible to determine the fair value of equity securities using reliable methods, investments are allowed to be recognised at acquisition cost.

Unrealised gains and losses arising from changes in the fair value of financial assets available for sale are recognised in the statement of comprehensive income as other comprehensive income. When financial assets available for sale are disposed of, the related accumulated unrealised gains and losses previously recognised in the statement of comprehensive income are recycled to profit or loss as gains less losses arising from financial assets available for sale. Disposals of financial assets available fore sale are recorded on a FIFO basis.

Interest earned on debt securities available for sale is determined using the effective interest method and reflected in the statement of comprehensive income as interest income. Dividends received on equity investments available for sale are recorded in the statement of comprehensive income as other operating income when the Bank's right to receive dividends is established and dividends are likely to be received.

Impairment of financial assets

The Bank assesses on each closing date whether there is any objective evidence that the value of a financial asset item or group of items has been impaired. Impairment losses are recognised in the statement of comprehensive income as they are incurred as a result of one or more events that occurred after the initial recognition of the financial asset (a 'loss event') and that loss event (or events) has an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

(1) Impairment of due from other banks and loans to customers

For amounts due from other banks and loans to customers carried at amortised cost, the Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant or collectively for financial assets that are not individually significant.

Objective evidence that due from other banks and loans to customers are impaired includes the following observable data in respect of individually significant financial assets:

- default in any payments due;
- significant financial difficulty of the borrower supported by financial information at the Bank's disposal;
- it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- worsening national or local economic environment affecting the borrower;
- breach of contract, such as a default or delinquency in interest or principal payments;
- the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider.

Assets that are individually assessed for impairment and for which an impairment loss is recognised are not included in a collective assessment of impairment.

If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics such as asset type, industry, collateral type, payment status and other relevant factors. The characteristics chosen are relevant to the estimation of future cash flows for groups of such assets by being indicative of the borrowers' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

The main criterion used for determining objective evidence of loss from impairment of due from other banks and loans to customers representing collectively measured financial assets is availability of observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group. Such information may include adverse changes in the payment status of borrowers in the group (for example, an increased number of delayed payments or an increased number of credit card borrowers who have reached their credit limit and are paying the minimum monthly amount), national or local economic conditions that correlate with defaults on the assets in the group (for example, an increase in the unemployment rate in the geographical area of the borrowers, a decrease in property prices in respect of mortgages in the relevant area, a decrease in oil prices for loan assets to oil producers, or adverse changes in industry conditions that affect the borrowers in the group).

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced through the use of the provision account for impairment and the amount of the loss is recognised in the statement of comprehensive income.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral.

Future cash flows in a group of loans that are collectively evaluated for impairment are estimated on the basis of historical loss experience for loans with credit risk characteristics similar to those in the group or on the basis of historical information on collections of past due debts. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows reflect and are directionally consistent with changes in related observable data from period to period (such as changes in unemployment rates, prices for property and exchange-traded commodities, payment status or other factors that are indicative of incurred losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

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

Uncollectible assets are written off against the related allowance for impairment after all the necessary procedures to recover the asset in full or in part have been completed and the final amount of the loss has been determined. The carrying value of impaired financial assets is not reduced directly.

In accordance with the Russian legislation, in case of a write-off of the uncollectible loan and relating interest, the Bank shall take necessary and adequate steps, envisaged by law, standard business practice or agreement, to collect this outstanding loan.

(2) Impairment of financial assets available for sale

The Bank assesses at each reporting date whether there is objective evidence that a financial investment or a group of investments available for sale is impaired.

In case of equity investments classified as available for sale, the main criterion to determine objective evidence of impairment loss would include a significant or prolonged decline in the fair value of the equity security below its cost. This determination of what is significant and/or prolonged requires judgement. According to the Bank, a more than 20% decrease in the fair value of the financial asset below its cost is a significant decline and decrease in the financial asset's value for over 6 months is a prolonged decline. The Bank also assesses other factors such as volatility of price per share. Cumulative impairment loss measured as a difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised through profit or loss, is transferred from other comprehensive income to profit or loss.

Impairment losses on equity instruments are not reversed through the profit and loss account: increases in the fair value after impairment are recognised directly in other comprehensive income.

In case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as for financial assets carried at amortised cost. Interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount future cash flows for the purpose of measuring the impairment loss.

If in the subsequent period the fair value of a debt instrument increases, and such increase can be objectively related to the event occurring after the impairment loss was recognised in the statement of comprehensive income, the impairment loss is reversed and the related income is recognised in the statement of comprehensive income.

Financial liabilities

Financial liabilities are classified as financial liabilities carried at amortised cost.

Initially, a financial liability shall be measured by the Bank at its fair value plus, in the case of a financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial liability.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the statement of comprehensive income.

Financial liabilities measured at amortised cost

Financial liabilities carried at amortised cost include due to other banks, customer accounts, debt securities issued and other borrowed funds.

Due to other banks. Due to other banks are recorded when cash is advanced to the Bank by counterparty banks.

Customer accounts. Customer accounts are non-derivative financial liabilities to individuals, state or corporate customers in respect of settlement accounts and deposits.

Debt securities issued. Debt securities issued include promissory notes, bonds and deposit certificates issued by the Bank. If the Bank purchases its own debt securities issued, they are removed from the statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in other operating income as gain from retirement of debt in the statement of comprehensive income.

Other borrowed funds. Other borrowed funds include subordinated loans received by the Bank and are recorded as cash is advanced to the Bank.

Repurchase and reverse repurchase agreements and lending of securities

Sale and repurchase agreements ("repo" agreements) are treated as secured financing transactions. Securities sold under sale and repurchase agreements are not derecognized, and the securities are not reclassified. The corresponding liability is presented within due to other banks or customer accounts.

Securities purchased under agreements to resell ("reverse repo" agreements) are recorded as due from other banks or loans to customers, as appropriate. The difference between the sale and repurchase price is treated as interest income and accrued over the life of repo agreements using the effective interest rate method.

Securities lent to counterparties as a loan for fixed compensation are retained in the statement of financial position. Securities borrowed for fixed compensation are not recorded in the financial statements except when they are sold to third parties. In such cases, the financial result from sale and purchase of such securities is recognised in the statement of comprehensive income within gains less losses arising from financial assets at fair value through profit or loss. The obligation to return the securities is recorded as financial liabilities at fair value through profit or loss.

Offsetting of financial instruments

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

Premises and equipment

Premises and equipment are stated at cost or at revalued amount, as described below, less accumulated depreciation and impairment provision.

At each reporting date the Bank assesses whether there is any indication of impairment of premises and equipment. If any such indication exists, the Bank estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell or its value in use. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down to its recoverable amount and the difference is charged to the statement of comprehensive income as loss from revaluation.

Land and buildings are revalued on a regular basis. The frequency of revaluations depends on changes in the fair value of the assets subjected to revaluation. After initial recognition at cost, land and buildings are carried at a revalued amount, which is the fair value of the items at the date of the revaluation less any subsequent accumulated depreciation (except for land) and accumulated impairment losses. Revaluations are performed regularly to avoid significant differences between the fair value of the revalued asset and its carrying amount.

After revaluation of buildings, any accumulated depreciation at the date of the revaluation is eliminated against gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

Any revaluation surplus is recorded in the statement of comprehensive income as other comprehensive income, except to the extent that it reverses a revaluation decrease of the same asset previously recognised through profit or loss. A decrease arising as a result of a revaluation should be recognised through profit or loss in the statement of comprehensive income, except that revaluation deficit is directly offset against the previous surplus from revaluation of the same asset recorded directly within other comprehensive income as effect of revaluation of premises and equipment. The revaluation reserve for premises and equipment is transferred directly to retained earnings when the surplus is realised, i.e. either on the retirement or disposal of the asset. Each year the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost is transferred from revaluation reserve for premises and equipment to retained earnings.

Gains and losses on disposal of premises and equipment are determined by reference to their carrying amount and are recognised in the statement of comprehensive income as operating expenses.

Repairs and maintenance are charged to the statement of comprehensive income when the expense is incurred.

Construction in progress is carried at cost less impairment provision. As soon as construction is completed, assets are reclassified as premises and equipment at their carrying value at the date of reclassification. Construction in progress is not depreciated until the asset is available for use.

Depreciation

Depreciation of premises and equipment commences from the date the assets are ready for use. Depreciation is charged on a straight line basis over the estimated useful lives of the assets:

- Buildings - 40 years;
- Motor vehicles - 5 years;
- Office and computer equipment - 5 years;
- Leasehold improvements - over the lease term.

Land has an indefinite useful life and is not depreciated.

At the end of its service life, the residual value of an asset is the estimated amount that the Bank would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

Operating lease - the Bank as lessee

Leases of property under which the risks and rewards of ownership are effectively retained with the lessor are classified as operating leases. Lease payments under operating lease are recognised as expenses on a straight-line basis over the lease term and included into operating expenses in the statement of comprehensive income.

Operating lease - the Bank as lessor

The Bank presents assets subject to operating leases in the statement of financial position according to the nature of the asset. Lease income from operating leases is recognised in the statement of comprehensive income on a straight-line basis over the lease term as other operating income. The aggregate cost of incentives provided to lessees is recognised as a reduction of rental income over the lease term on a straight-line basis. Initial direct costs incurred specifically to earn revenues from an operating lease are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease income.

Share capital

The share capital contributed before 1 January 2003 was restated for the effects of inflation. The share capital contributed after the above date is stated at original cost. Non-cash contributions into the share capital are recorded at fair value of contributed assets at the date the contribution is made. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction in equity from the proceeds.

Share premium

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

Contingent assets and liabilities

Contingent assets are not recognised in the statement of financial position but disclosed in the financial statements when an inflow of economic benefits is probable.

Contingent liabilities are not recognised in the statement of financial position but disclosed in the financial statements unless the possibility of any outflow in settlement is remote.

Credit related commitments

The Bank enters into credit related commitments, including guarantees and commitments to extend credits. Guarantees represent irrevocable assurances of the Bank to make payments in the event that a customer cannot meet its obligations to third parties and carry the same credit risk as loans. Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans or guarantees. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards.

Credit related commitments are initially recognised at their fair value. Subsequently, they are analysed at each reporting date and adjusted to reflect the current best estimate. The best estimate of the expenditure required to settle the present obligation is the amount that the Bank would rationally pay to settle the obligation at the reporting date or to transfer it to a third party at that time.

Taxation

The income tax charge/recovery comprises current tax and deferred tax and is recorded in the statement of comprehensive income. Income tax expense is recorded in the financial statements in accordance with the applicable legislation of the Russian Federation. Current tax is calculated on the basis of the estimated taxable profit for the year, using the tax rates enacted during the reporting period.

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

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

Deferred tax balances are measured at tax rates enacted or substantively enacted at the reporting date which are expected to apply to the period when the temporary differences will reverse or the tax loss carryforwards will be utilised. Deferred tax assets and liabilities are offset if there is a legally enforceable right to set off current tax assets against current tax liabilities. Deferred tax assets for deductible temporary differences and tax loss carryforwards are recorded to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised. Judgement is required to determine the amount of deferred tax assets that may be recognised in financial statements based on probable periods and amounts of future taxable profits and future tax planning strategies.

Russia also has various other taxes, which are assessed on the Bank's activities. These taxes are recorded within operating expenses in the statement of comprehensive income.

Income and expense recognition

Interest income and expense are recorded in the statement of comprehensive income for all debt instruments on an accrual basis using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument, but does not consider future credit losses. The calculation includes all commissions and fees paid or received by the parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

Interest income includes coupons earned on fixed-income financial assets and accrued discount and premium on promissory notes and other discount instruments. When loans become doubtful of collection, they are written down to their recoverable amounts and interest income is thereafter recognised based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

Fees, commissions and other income and expense items are recorded on an accrual basis after the service is provided. Loan origination fees for loans that are not yet provided, but are probable of being drawn down, are recognised within other assets and are subsequently taken into account in calculation of effective yield on the loan. Fees and commissions arising from negotiating a transaction for a third party, such as the acquisition of loans, shares and other securities or the purchase or sale of businesses, are recorded on completion of the transaction in the statement of comprehensive income. Investment portfolio and other advisory service fees are recognised based on the applicable service contracts.

Employee benefits and social insurance contributions

The Bank pays statutory social insurance contributions on the territory of the Russian Federation. These contributions are recorded on an accrual basis. Social insurance contributions comprise contributions to the Russian Federation state pension, social insurance, and obligatory medical insurance funds in respect of the Bank's employees. The Bank does not have pension arrangements separate from the state pension system of the Russian Federation. Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid annual leaves and paid sick leaves, bonuses and non-monetary benefits are accrued as the Bank's employees render the related service.

Foreign currency

Foreign currency transactions are translated into the functional currency at the CBR exchange rate in effect at the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the Central Bank of the Russian Federation exchange rate ruling at the reporting date. Foreign exchange gains and losses resulting from translation of transactions in foreign currency are recorded in the statement of comprehensive income within foreign exchange translation gains less losses. Non-monetary items denominated in foreign currency and carried at cost are restated at the exchange rate of the Central Bank of the Russian Federation in effect at the transaction date. Non-monetary items denominated in foreign currency and carried at fair value are restated at the exchange rate in effect at the date the fair value is determined.

Gains and losses from purchase and sale of foreign currency are determined as a difference between the selling price and the carrying value at the date of the transaction.

(in thousands of Russian Roubles)

Fiduciary activities

Assets held by the Bank in its own name, but for the account of third parties under depository, agency, trust management and other similar agreements are not reported in the Bank's statement of financial position. Commissions received from such operations are shown within fee and commission income in the statement of comprehensive income.

5. Cash and Cash Equivalents

	2011	2010
Balances with the CBR (other than mandatory reserve deposits)	597 927	2 471 569
Cash on hand	552 590	434 051
Correspondent accounts and 'overnight' deposits with banks of:		
- the Russian Federation	92 956	92 105
- other countries	495 426	15 274
Total cash and cash equivalents	**1 738 899**	**3 012 999**

6. Financial Assets at Fair Value through Profit or Loss

Financial assets at fair value through profit or loss reflected in the statement of financial position as at 31 December 2011 and 31 December 2010 include trading securities.

	2011	2010
Corporate debt securities		
- Corporate bonds	622 871	3 321 580
- Corporate eurobonds	-	344 753
Government and municipal debt securities		
- Russian Federation bonds (OFZ)	172 738	-
- Municipal bonds	11 915	619 992
Corporate equity securities	-	96 302
Total financial assets at fair value through profit or loss	**807 524**	**4 382 627**

As at 31 December 2011, corporate bonds are represented by bonds of Russian issuers. These bonds in the Bank's portfolio have maturity dates from August 2012 to July 2016 (2010: from February 2011 to June 2020), coupon rates ranging from 13.35% to 19.00% per annum (2010: from 7.10% to 19.00% per annum) and yield to maturity ranging from 6.55% to 9.90% per annum (2010: from 5.28% to 9.70% per annum).

As at 31 December 2010, corporate eurobonds are represented by bonds of OECD issuers that are freely tradable on the international market. These bonds in the Bank's portfolio as at 31 December 2010 have maturity dates from May to June 2011, coupon rates ranging from 8.63% to 9.25%, depending on the issue and yield to maturity ranging from 3.18% to 4.64%.

Russian Federation bonds (OFZ) are represented by Rouble-denominated government securities issued by the Ministry of Finance of the Russian Federation. As at 31 December 2011, these bonds in the Bank's portfolio have maturity dates from August 2012 to October 2012, coupon rates ranging from 6.85% to 11.30%, depending on the issue, and yield to maturity ranging from 4.70 % to 6.00%.

Municipal bonds are represented by Rouble-denominated interest-bearing securities issued by subjects of the Russian Federation and local authorities that are freely tradable on the MICEX. As at 31 December 2011, municipal bonds in the Bank's portfolio have maturity date in September 2012 (2010: from April 2011 to June 2014), a coupon rate of 8.00% (2010: from 9.00% to 18.00%), and yield to maturity of 6.24% (2010: 5.57 % to 7.83 %).

As at 31 December 2010, corporate equity securities are represented by shares of Russian issuers.

Besides, financial assets at fair value through profit or loss in the amount of RUR 525 877 thousand as at 31 December 2011 (2010: RUR 1 501 170 thousand) were provided as collateral under agreements with third parties in respect of term deposits with banks and other borrowed funds. This collateral was provided without the right of further sale.

(in thousands of Russian Roubles)

	2011	2010
Corporate debt securities		
- Corporate bonds	513 962	1 383 560
Government and municipal debt securities		
- Municipal bonds	11 915	117 610
Total financial assets at fair value through profit or loss	**525 877**	**1 501 170**

Below is the credit quality analysis of trading debt securities as at 31 December 2011 in accordance with the ratings of international agencies:

	Fitch+	Moody's investor service	S&P	Amount	Total
Corporate debt securities					
Corporate bonds					
OJSC LUKOIL	-	-	BBB-	218 331	218 331
Joint-Stock Financial Corporation Sistema	BB-	-	BB	110 839	110 839
Mechel OJSC	-	B1		221 894	221 894
Mobile TeleSystems, OJSC	-	-	BB	71 807	71 807
Government and municipal debt securities					
Russian Federation bonds (OFZ)	BBB	Baa1	BBB+	172 738	172 738
Moscow government	-	-	BBB	11 915	11 915
Total debt securities at fair value through profit or loss				**807 524**	**807 524**

(in thousands of Russian Roubles)

Below is the credit quality analysis of trading debt securities as at 31 December 2010 in accordance with the ratings of international agencies:

	Fitch+	Moody's investor service	S&P	Amount	Total
Government and municipal debt securities					
- Municipal bonds					
Moscow region	-	B1	-	244 325	244 325
Moscow Mayor's Office	BBB	Baa1	BBB	119 375	119 375
Local authorities of Krasnoyarsk krai	BB+	Ba2	BB+	135 828	135 828
Government of Samara Region	-	Ba1	BB+	120 464	120 464
Corporate debt securities					
- Corporate eurobonds					
Russian Standard Finance	B+	Ba2	B+	62 540	62 540
Ak Bars Luxembourg	BB	Ba3	-	62 734	62 734
TransCredit Finance	-	Ba1	BB	219 479	219 479
- Corporate bonds					
Acron OJSC	B+	B1	-	165 606	165 606
Joint-Stock Financial Corporation Sistema	BB--	Ba3	BB	119 194	119 194
Bank Russky Standart, CJSC	B+	Ba3	B+	106 571	106 571
VimpelKom-Invest, Ltd	-	-	BB+	198 481	198 481
Gazprom OJSC	BBB	-	BBB	143 500	143 500
LSR Group OJSC	B	B2	-	184 069	184 069
Dalnevostochnaya Kompaniya Electrosvyazi OJSC	-	-	-	226 272	226 272
IKS 5 FINANCE, LLC	-	B1	B+	234 647	234 647
URALSIB Leasing Company, LLC	B+	-	-	218 257	218 257
OJSC Magnitogorsk Iron and Steel Works (MMK)	BB	-	-	5 228	5 228
Mechel OJSC	-	B1	-	243 274	243 274
Mobile TeleSystems, OJSC	BB+	Ba2	BB	87 255	87 255
Moscow Bank for Reconstruction and Development, OJSC	B+	B1	-	12 323	12 323
LUKOIL OJSC	BBB-	-	BBB-	230 059	230 059
Russian Railways, OJSC	BBB	Baa1	BBB	236 157	236 157
Russian Agricultural Bank, OJSC	BBB	Baa1	-	106 377	106 377
Severstal, OJSC	B+	-	BB-	249 331	249 331
SUEK-Finance, LLC	-	B1	-	211 766	211 766
OAO TMK	-	-	B-	38 525	38 525
Home Credit and Finance Bank, OJSC	-	Ba3	B+	161 588	161 588
South Telecom Company, OJSC	-	-	B+	106 313	106 313
Joint-Stock Financial Corporation Sistema OJSC	BB-	Ba3	BB	36 787	36 787
Total debt securities at fair value through profit or loss				**4 286 325**	**4 286 325**

Debt securities are not collateralised.

7. Due from Other Banks

	2011
Deposits with CBR	3 020 331
Loans and deposits with other banks	1 700 348
Total due from other banks	**4 720 679**

The credit quality analysis of due from other banks as at 31 December 2011 has shown that all the above classes of due from other banks in the total amount of RUR 4 720 679 thousand are current.

Due from other banks are not collateralised.

The Bank did not create provisions for impairment of due from other banks in 2011.

(in thousands of Russian Roubles)

As at 31 December 2011, the Bank had cash balances above 10% of the Bank's capital with 5 counterparty banks. The aggregate amount of these funds is RUR 4 720 679 thousand or 100% of total due from other banks.

8. Loans to Customers

	2011	2010
Corporate loans	6 433 366	7 110 644
Loans to individual entrepreneurs, small and medium business	4 781 659	2 028 608
Consumer loans to individuals	696 039	390 334
Mortgage loans to individuals	67 245	7 624
Loans to state and municipal authorities	1 328	35 000
Less: provision for impairment of loans to customers	(786 258)	(525 152)
Total loans to customers	**11 193 379**	**9 047 058**

As at 31 December 2011, accrued interest income on impaired loans to customers amounted to RUR 53 055 thousand (2010: RUR 33 999 thousand).

Movements in the provision for impairment of loans to customers for 2011 and 2010 are as follows:

	Corporate loans	Loans to individual entrepreneurs, small and medium business	Consumer loans to individuals	Mortgage loans to individuals	Total
Provision for impairment of loans to customers as at 1 January 2010	**116 191**	**228 583**	**37 972**	**139**	**382 885**
Provision/ (recovery of provision) for impairment during 2010	142 386	(23 051)	28 858	(139)	148 054
Loans written off during the year as uncollectible	-	(2 220)	(3 567)	-	(5 787)
Provision for impairment of loans to customers as at 31 December 2010	**258 577**	**203 312**	**63 263**	**-**	**525 152**
Provision/ (recovery of provision) for impairment during 2011	39 729	202 274	19 103	-	261 106
Provision for impairment of loans to customers as at 31 December 2011	**298 306**	**405 586**	**82 366**	**-**	**786 258**

(in thousands of Russian Roubles)

Economic sector concentrations within the Bank's loan portfolio are as follows:

	2011		2010	
	Amount	%	Amount	%
Trade	6 131 363	51.18	5 480 126	57.25
Services	1 705 864	14.24	661 213	6.91
Construction	1 089 484	9.10	1 156 506	12.08
Leasing	1 066 267	8.90	329 679	3.44
Individuals	763 284	6.37	397 958	4.16
Trade in construction materials	550 000	4.59	352 152	3.68
Trade in food products	133 259	1.11	566 844	5.92
Production	47 123	0.39	38 476	0.40
Transport services	33 472	0.28	9 734	0.10
Agriculture	8 327	0.07	51 612	0.54
State and municipal authorities	1 328	0.01	35 000	0.37
Other	449 866	3.76	492 910	5.15
Total loans to customers	**11 979 637**	**100**	**9 572 210**	**100**

As at 31 December 2011, the Bank issued loans to 13 borrowers (2010: 20 borrowers) with the total amount exceeding 10% of the Bank's capital. The aggregate amount of these loans was RUR 4 388 892 thousand or 36.6% of the total amount of loans to customers (2010: RUR 6 062 184 thousand or 63.3% of the total amount of loans to customers).

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

	Gross loans	Impairment provision	Loans net of impairment provision	Impairment provision to gross loans (%)
Corporate loans				
Individually assessed loans				
Current loans (not past due)	6 146 188	219 651	5 926 537	3.57
Collectively assessed loans				
Current loans (not past due)	287 178	78 655	208 523	27.39
Total corporate loans	**6 433 366**	**298 306**	**6 135 060**	**4.64**
Loans to individual entrepreneurs, small and medium business				
Collectively assessed loans				
Current loans (not past due)	4 314 876	128 521	4 186 355	2.98
Less than 1 month overdue	262 716	87 565	175 151	33.33
1 to 6 months overdue	53 357	39 805	13 552	74.60
6 to 12 months overdue	42 151	41 136	1015	97.59
More than 1 year overdue	108 559	108 559	-	100.00
Total loans to individual entrepreneurs, small and medium business	**4 781 659**	**405 586**	**4 376 073**	**8.48**
Consumer loans to individuals				
Collectively assessed loans				
Current loans (not past due)	648 971	42 854	606 117	6.60
Less than 1 month overdue	9 240	3 576	5 664	38.70
1 to 6 months overdue	2 949	1 057	1 892	35.84
6 to 12 months overdue	2 738	2 738	-	100.00
More than 1 year overdue	32 141	32 141	-	100.00
Total consumer loans to individuals	**696 039**	**82 366**	**613 673**	**11.83**

(in thousands of Russian Roubles)

	Gross loans	Impairment provision	Loans net of impairment provision	Impairment provision to gross loans (%)
Mortgage loans to individuals				
Collectively assessed loans				
Current loans (not past due)	67 245	-	67 245	-
Total mortgage loans to individuals	**67 245**	**-**	**67 245**	**-**
Loans to state and municipal authorities				
Collectively assessed loans				
Current loans (not past due)	1 328	-	1 328	-
Total loans to state and municipal authorities	**1 328**	**-**	**1 328**	**-**
Total loans to customers	**11 979 637**	**786 258**	**11 193 379**	**6.56**

Below is the credit quality analysis of loans as at 31 December 2010:

	Gross loans	Impairment provision	Loans net of impairment provision	Impairment provision to gross loans (%)
Corporate loans				
Individually assessed loans				
Current loans (not past due)	6 953 598	252 923	6 700 675	3.64
Less than 1 month overdue	157 046	5 654	151 392	3.60
Total corporate loans	**7 110 644**	**258 577**	**6 852 067**	**3.64**
Loans to individual entrepreneurs, small and medium business				
Collectively assessed loans				
Current loans (not past due)	1 893 537	89 434	1 804 103	4.72
Less than 1 month overdue	26 141	10 216	15 925	39.08
1 to 6 months overdue	16 268	11 000	5 268	67.62
6 to 12 months overdue	39250	39 250	-	100.00
More than 1 year overdue	53 412	53 412	-	100.00
Total loans to individual entrepreneurs, small and medium business	**2 028 608**	**203 312**	**1 825 296**	**10.02**
Consumer loans to individuals				
Collectively assessed loans				
Current loans (not past due)	361 813	39 012	322 801	10.78
Less than 1 month overdue	1 546	296	1 250	19.15
1 to 6 months overdue	6 174	3 154	3 020	51.09
6 to 12 months overdue	4 975	4 975	-	100.00
More than 1 year overdue	15 826	15 826	-	100.00
Total consumer loans to individuals	**390 334**	**63 263**	**327 071**	**16.21**

(in thousands of Russian Roubles)

	Gross loans	Impairment provision	Loans net of impairment provision	Impairment provision to gross loans (%)
Loans to state and municipal authorities				
Collectively assessed loans				
Current loans (not past due)	35 000	-	35 000	-
Total loans to state and municipal authorities	**35 000**	**-**	**35 000**	**-**
Mortgage loans to individuals				
Collectively assessed loans				
Current loans (not past due)	7 624	-	7 624	-
Total mortgage loans to individuals	**7 624**	**-**	**7 624**	**-**
Total loans to customers	**9 572 210**	**525 152**	**9 047 058**	**5.49**

Individually assessed loans are loans that are material in value, show certain signs of impairment and individually assessed by the Group. Unimpaired loans represent loans issued to borrowers with a high level of liquidity and profitability, in respect of which there is no evidence that they are individually impaired. Collectively assessed loans include loans grouped in homogeneous pools of claims sharing common characteristics in respect of risk exposure and/or signs of impairment.

The credit quality of loans for which no signs of impairment were identified is not homogeneous due to diversity of industry risks and financial position characteristics of borrowers.

As at 31 December 2011, current loans to customers include loans in the amount of RUR 1 363 360 thousand (2010: RUR 1 309 326 thousand) whose terms have been renegotiated, that would otherwise be past due.

The amounts recognised as "past due" represent the entire balance of such loans rather than the overdue amounts of individual payments.

Below is the information on the collateral structure as at 31 December 2011.

	Corporate loans	Loans to individual entrepreneurs, small and medium business	Consumer loans to individuals	Mortgage loans to individuals	Loans to state and municipal authorities	Total
Sureties	1 321 513	838 094	137 242	-	-	2 296 849
Immovable property	885 593	1 345 554	198 203	36 105	-	2 465 455
Motor vehicles	483 130	345 980	76 499	-	-	905 609
Goods for sale	650 000	106 455	12 619	-	-	769 074
Own securities	150 000	47 000	-	-	-	197 000
Equipment	62 158	72 062	9 583	-	-	143 803
Non-marketable securities	-	-	12 202	17 276	-	29 478
Deposits	-	-	5 000	-	-	5 000
Uncollateralized loans	2 880 973	2 026 513	244 691	13 864	1 328	5 167 369
Total collateral	**6 433 367**	**4 781 658**	**696 039**	**67 245**	**1 328**	**11 979 637**

(in thousands of Russian Roubles)

Below is the information on the collateral structure as at 31 December 2010:

	Corporate loans	Loans to individual entrepreneurs, small and medium business	Consumer loans to individuals	Mortgage loans to individuals	Total
Sureties	4 431 634	6 155 562	797 190	-	11 384 386
Immovable property	680 170	1 959 219	302 296	8 132	2 949 817
Own securities	911 525	76 963	17 893	-	1 006 381
Goods for sale	164 104	233 100	13 412	-	410 616
Motor vehicles	99 881	511 411	78 805	-	690 097
Equipment	89 998	197 414	12 148	-	299 560
Non-marketable securities	-	17 430	-	-	17 430
Deposits	-	-	7 500	-	7 500
Other assets	252 523	-	-	-	252 523
Total collateral	**6 629 835**	**9 151 099**	**1 229 244**	**8 132**	**17 018 310**

The information on the collateral structure as at 31 December 2010 was not adjusted in accordance with the changes in IFRS 7.

As at 31 December 2011, loans to customers in the amount of RUR 5 167 369 thousand or 43% of total loans to customers are not secured (2010: RUR 4 654 451 thousand or 49% of total loans to customers.

As at 31 December 2010, past due and unimpaired loans are not collateralized.

The collateral value of the security may differ from its fair value.

(in thousands of Russian Roubles)

9. Premises and Equipment

	Land	Buildings	Motor vehicles	Office and computer equipment	Furniture	Leasehold improve-ments	Construc-tion in progress	Total
Net book value as at 31 December 2010	**18 252**	**1 364 508**	**1 477**	**36 007**	**1 679**	**2 341**	**31 616**	**1 455 880**
Cost								
Balance as at 1 January 2011	18 252	1 364 508	6 258	71 001	4 780	3 285	31 616	1 499 700
Additions	34 461	10 233	1 928	15 941	262	-	30 577	93 402
Disposals	-	-	-	(1 228)	-	-	-	(1 228)
Accumulated depreciation eliminated on revaluation	-	(27 347)	-	-	-	-	-	(27 347)
Revaluation	218 311	78 965	-	-	-	-	-	297 276
Balance as at 31 December 2011	**271 024**	**1 426 359**	**8 186**	**85 714**	**5 042**	**3 285**	**62 193**	**1 861 803**
Accumulated depreciation								
Balance as at 1 January 2011	-	-	4 781	34 994	3 101	944	-	43 820
Depreciation charge	-	27 347	715	15 466	619	250	-	44 397
Disposals	-	-	-	(984)	-	-	-	(984)
Accumulated depreciation eliminated on revaluation	-	(27 347)	-	-	-	-	-	(27 347)
Balance as at 31 December 2011	**-**	**-**	**5 496**	**49 476**	**3 720**	**1 194**	**-**	**59 886**
Net book value as at 31 December 2011	**271 024**	**1 426 359**	**2 690**	**36 238**	**1 322**	**2 091**	**62 193**	**1 801 917**

(in thousands of Russian Roubles)

In 2011 the Bank acquired a land plot with the carrying amount of RUR 34 461 thousand from the Moscow Land Resources Department.

	Land	Buildings	Motor vehicles	Office and computer equipment	Furniture	Leasehold improvements	Construction in progress	Total
Net book value as at 31 December 2009	**31 400**	**150 530**	**1 284**	**17 218**	**1 519**	**2 615**	**4 992**	**209 558**
Cost								
Balance as at 1 January 2010	31 400	150 530	4 860	42 098	4 071	3 285	4 992	241 236
Additions	-	743 174	1 398	29 331	709	-	26 624	801 236
Disposals	-	(744)	-	(428)	-	-	-	(1 172)
Accumulated depreciation eliminated on revaluation	-	(11 393)	-	-	-	-	-	(11 393)
Revaluation	(13 148)	482 941	-	-	-	-	-	469 793
Balance as at 31 December 2010	**18 252**	**1 364 508**	**6 258**	**71 001**	**4 780**	**3 285**	**31 616**	**1 499 700**
Accumulated depreciation								
Balance as at 1 January 2010	-	-	3 576	24 880	2 552	670	-	31 678
Depreciation charge	-	11 405	1 205	10 254	549	274	-	23 687
Disposals	-	(12)		(140)			-	(152)
Accumulated depreciation eliminated on revaluation	-	(11 393)	-	-	-	-	-	(11 393)
Balance as at 31 December 2010	**-**	**-**	**4 781**	**34 994**	**3 101**	**944**	**-**	**43 820**
Net book value as at 31 December 2010	**18 252**	**1 364 508**	**1 477**	**36 007**	**1 679**	**2 341**	**31 616**	**1 455 880**

Construction in progress represents investments in construction and renovation of the premises. As soon as this work is completed these assets are recorded within the appropriate category of premises and equipment.

The Bank's land and buildings were appraised by the independent appraisers LLC Expert Centre Yug and LLC BSG-Consulting Group as at 31 December 2011 on the basis of the market value. The net book value of the land and buildings includes RUR 857 787 thousand (2010: RUR 560 511 thousand) representing surplus on revaluation of the Bank's buildings.

As at 31 December 2011, total deferred tax liability in the amount of RUR 171 558 thousand (2010: RUR 112 103 thousand) was calculated in respect of this revaluation of the land and buildings at fair value and charged to revaluation reserve for premises and equipment in accordance with IAS 16 (Note 21).

If the land and buildings were measured using the cost model, the net book value would include:

	2011	**2010**
Cost	767 470	722 776
Accumulated depreciation and impairment	(25 866)	(11 419)
Net book value	**741 604**	**711 357**

(in thousands of Russian Roubles)

10. Other Assets

	2011	2010
Property received under agreement on compensation for release from obligations	294 048	27 856
Settlements on conversion transactions	39 123	103 989
Advance payments	20 781	16 405
Accounts receivable	13 210	17 710
Fees for cash and settlement transactions	11 354	-
Plastic card settlements	5 200	1 475
Prepaid taxes	1 966	1 383
Intangible assets	1 170	-
Other	2 046	2 189
Less: provision for impairment of other assets	(14 768)	(12 127)
Total other assets	**374 130**	**158 880**

Property received for non-payments under the agreement on compensation for release from obligations comprises property items received by the Bank in settlement of past due loans. The Bank intends to sell these assets.

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

	Fees for cash and settlement transactions	Accounts receivable	Other	Total
Provision for impairment of other assets as at 1 January 2010	**-**	**5 844**	**1 558**	**7 402**
Provision/(recovery of provision) for impairment during 2010	-	5 572	1 950	7 522
Assets written off during 2010 as uncollectible	-	-	(2 797)	(2 797)
Provision for impairment of other assets as at 31 December 2010	**-**	**11 416**	**711**	**12 127**
Provision for impairment during 2011	8 199	(4 460)	(692)	3 047
Assets written off during 2011 as uncollectible	(406)	-	-	(406)
Provision for impairment of other assets as at 31 December 2011	**7 793**	**6 956**	**19**	**14 768**

The credit quality analysis of financial assets classified as other assets as at 31 December 2011 is as follows:

	Current and unimpaired	Collectively impaired	Total
Settlements on conversion transactions	39 123	-	39 123
Accounts receivable	6 214	6 956	13 170
Fees for cash and settlement transactions	3 561	7 793	11 354
Plastic card settlements	5 200	-	5 200
Less: provision for impairment of other assets	-	(14 749)	(14 749)
Total financial assets classified as other assets	**54 098**	**-**	**54 098**

(in thousands of Russian Roubles)

Ageing analysis of impaired financial assets classified as other assets as at 31 December 2011 is as follows:

	Current	Past due				Total
		Less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	
Fees for cash and settlement transactions	4 340	2 815	-	638	-	7 793
Accounts receivable	5 640	197	89	1 030	-	6 956
Less: provision for impairment of other assets	(9 980)	(3 012)	(89)	(1 668)	-	(14 749)
Total financial assets classified as other assets	-	-	-	-	-	-

The credit quality analysis of financial assets classified as other assets as at 31 December 2010 is as follows:

	Current and unimpaired	Collectively impaired	Total
Settlements on conversion transactions	103 989	-	103 989
Accounts receivable	6 217	11 416	17 633
Plastic card settlements	1 475	-	1 475
Less: provision for impairment of other assets	-	(11 416)	(11 416)
Total financial assets classified as other assets	**111 681**	-	**111 681**

Ageing analysis of impaired financial assets classified as other assets as at 31 December 2010 is as follows:

	Current	Past due				Total
		Less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	
Accounts receivable	-	331	86	5 903	5 096	11 416
Less: provision for impairment of other assets	-	(331)	(86)	(5 903)	(5 096)	(11 416)
Total financial assets classified as other assets	-	-	-	-	-	-

Current and unimpaired financial assets are amounts due with future settlement dates.

The Bank has no collateral for impaired assets classified as other assets.

11. Due to Other Banks

	2011	2010
Loans from the CBR	429 310	-
Loans and deposits of other banks	211 133	1 343 039
Total due to other banks	**640 443**	**1343 039**

As at 31 December 2011, the Bank had cash balances with 1 counterparty bank (2010: 4 counterparty banks) exceeding 10% of the Bank's capital. The aggregate amount of these funds was RUR 429 310 thousand or 67.0% (2010: RUR 1 331 795 thousand or 99.1%) of total due to other banks.

(in thousands of Russian Roubles)

12. Customer Accounts

	2011	2010
Legal entities		
– Current/settlement accounts	3 743 967	2 223 661
– Term deposits	3 322 284	1 621 947
Individuals		
– Current /demand accounts	340 162	273 850
– Term deposits	9 570 007	8 563 681
Total customer accounts	**16 976 420**	**12 683 139**

According to the Russian Civil Code, the Bank is obliged to repay deposits to individual depositors at short notice. If a fixed-term deposit is withdrawn by the depositor ahead of term, interest is payable at the rate paid by the Bank on demand deposits unless otherwise specified by the contract.

Economic sector concentrations within customer accounts are as follows:

	2011		2010	
	Amount	%	Amount	%
Individuals	9 910 169	58.38	8 837 531	69.68
Construction	2 027 455	11.94	742 649	5.86
Trade	1 493 256	8.80	624 395	4.92
Industry	1 479 369	8.71	1 409 250	11.11
Services	1 113 348	6.56	360 117	2.84
Financial services	601 309	3.54	538 995	4.25
Other	351 514	2.07	170 202	1.34
Total customer accounts	**16 976 420**	**100**	**12 683 139**	**100.00**

As at 31 December 2011, the Bank had 5 customers with cash balances above 10% of its capital (2010: 5 customers). The aggregate amount of these funds was RUR 2 597 028 thousand or 15.29% of total customer accounts (2010: RUR 2 077 809 thousand or 16.38% of total customer accounts).

13. Debt Securities Issued

As at 31 December 2011, debt securities issued by the Bank in the amount of RUR 308 816 thousand included discount promissory notes in the amount of RUR 293 398 thousand (2010: discount and interest-bearing promissory notes in the amount of RUR 1 394 232 thousand) and a deposit certificate in the amount of RUR 15 418 thousand (2010: none). Maturity dates of the above promissory notes are from January 2012 to December 2016 (2010: from January 2011 to March 2012). The maturity of the deposit certificate is September 2012.

As at 31 December 2011, the Bank had no debt securities issued over 10% of the Bank's capital (2010: 1 customer). As at 31 December 2010, the total amount of these securities was RUR 800 963 thousand or 57.45% of total debt securities issued.

14. Other Borrowed Funds

The Bank borrowed funds in the amount of RUR 888 029 thousand (2010: RUR 858 529 thousand) in the form of subordinated loans. Subordinated loans were raised from private commercial companies for the term of more than 5 years. According to the signed agreements, the loans cannot be claimed for early repayment, and interest on the subordinated loans is paid at the closing date of the agreements. The interest rate on the subordinated loans varies from 2% to 5% per annum.

Under these subordinated loan agreements, the claims of the creditor that issued a subordinated loan are satisfied after meeting the claims of all other creditors in case of the Bank's bankruptcy.

The Bank's creditors that extended subordinated loans to the Bank are its related parties.

(in thousands of Russian Roubles)

15. Other Liabilities

	Note	2011	2010
Payables to employees		34 427	21 468
Other taxes payable (other than income tax)		18 077	11 173
Payables		14 599	13 198
Provision for credit related commitments	25	-	8 418
Other		2 888	1 891
Total other liabilities		**69 991**	**56 148**

16. Share Capital and Share Premium

Authorised, issued and fully paid share capital comprises:

			2011			2010
	Number of shares	Nominal value	Inflation adjusted amount	Number of shares	Nominal value	Inflation adjusted amount
Ordinary shares	69 900 000	699 000	1 061 382	69 900 000	699 000	1 061 382
Total share capital	**69 900 000**	**699 000**	**1 061 382**	**69 900 000**	**699 000**	**1 061 382**

The nominal value of each ordinary share is RUR 10. Each share gives the right of one vote.

Share premium represents the excess of contributions over the nominal value of the shares issued. As at 31 December 2011, the share premium amounted to RUR 392 000 thousand (2010: RUR 392 000 thousand).

17. Retained Earnings according to Russian Legislation

According to the Russian legislation, only accumulated retained earnings reflected in the Bank's statutory financial statements may be distributed among the Bank's shareholders. As at 31 December 2011, the Bank's retained earnings amounted to RUR 184 541 thousand (2010: RUR 224 220 thousand), including the profit of the reporting year in the amount of RUR 20 192 thousand (2010: RUR 59 871 thousand).

Equity reflected in the Bank's statutory records includes a reserve fund in the amount of RUR 74 421 thousand (2010: RUR 14 850 thousand) that represents funds provided, as required by the regulations of the Russian Federation, in respect of the Bank's general risks, including future losses and other unforeseen risks or potential liabilities.

18. Interest Income and Expense

	2011	2010
Interest income		
Loans to customers	1 784 866	1 219 134
Due from other banks	17 064	58 624
Financial assets available for sale	-	6 952
Financial assets at fair value through profit or loss	416 287	212 414
Correspondent accounts with other banks	1 037	1 090
Total interest income	**2 219 254**	**1 498 214**
Interest expense		
Term deposits of individuals	839 531	834 780
Debt securities issued	49 892	35 861
Other borrowed funds	29 500	42 940
Term deposits of legal entities	131 985	40 446
Due to other banks	41 574	26 608
Current/settlement accounts	13 745	8 207
Total interest expense	**1 106 227**	**988 842**
Net interest income	**1 113 027**	**509 372**

(in thousands of Russian Roubles)

19. Fee and Commission Income and Expense

	2011	2010
Fee and commission income		
Commission on guarantees issued	173 206	42 288
Commission for cash and settlement transactions	103 175	75 771
Commission fee for credit operations	80 797	12 977
Commission for opening of accounts	20 256	4 097
Commission for foreign currency transactions	8 317	8 933
Commission for currency control agent's functions	5 780	6 961
Commission for plastic card transactions	934	125
Other	5 644	1 458
Total fee and commission income	**398 109**	**152 610**
Fee and commission expense		
Commission fee for intermediary services	10 442	-
Bonuses to participants of promo actions	9 993	224
Commission for cash and settlement transactions	5 024	3 661
Commission for foreign currency transactions	1 547	1 495
Commission for plastic cards transactions	5 144	2 946
Commission on cash collection	3 148	1 860
Commission paid to counterparty banks for transactions in securities	1 719	410
Other	41	1 443
Total fee and commission expense	**37 058**	**12 039**
Net fee and commission income	**361 051**	**140 571**

20. Operating Expenses

	Note	2011	2010
Staff costs		499 409	363 900
Administrative expenses		112 331	108 457
Rent expenses		90 374	78 777
Advertising and marketing		42 582	66 502
Taxes other than income tax		61 567	48 898
Professional services (security, communications and other)		32 083	35 832
Depreciation of premises and equipment	9	44 397	23 687
Other		25 543	9 528
Total operating expenses		**908 286**	**735 581**

21. Income Tax

Income tax expense comprises the following:

	2011	2010
Current income tax expense	30 440	29 262
Deferred taxation movement due to origination and reversal of temporary differences	33 713	65 192
Less deferred taxation charged directly to:		
- other comprehensive income	(59 455)	(93 858)
- equity	-	10
Income tax expense for the year	**4 698**	**606**

The current tax rate applicable to the majority of the Bank's profit is 20% (2010: 20%).

(in thousands of Russian Roubles)

Reconciliation between the theoretical and the actual taxation charge is provided below.

	2011	2010
IFRS profit before taxation	**24 385**	**2 337**
Theoretical tax charge at the applicable statutory rate (2011: 20%; 2010: 20%)	4 877	468
Income on government securities taxed at the rate of 15%	(1 565)	(1 010)
Non-deductible expenses less non-taxable income	1 386	1 148
Income tax expense for the year	**4 698**	**606**

Differences between IFRS and statutory taxation regulations of the Russian Federation give rise to certain temporary differences between the carrying amount of certain assets and liabilities for financial statement purposes and for the Bank profits tax purposes.

	2011	Movement	2010
Tax effect of deductible temporary differences			
Provision for impairment of loans to customers	44 120	25 221	18 899
Provision for impairment of guarantees and other assets	3 392	(717)	4 109
Other liabilities	6 885	2 591	4 294
Debt securities issued	490	(1 416)	1 906
Revaluation of financial assets at fair value through profit or loss	11 933	11 933	-
Premises and equipment	-	(2 004)	2 004
Other	-	(867)	867
Gross deferred tax assets	**66 820**	**34 741**	**32 079**
Tax effect of taxable temporary differences			
Revaluation of premises and equipment	171 558	59 455	112 103
Premises and equipment	20 363	20 363	-
Loans to customers	3 598	3 598	-
Revaluation of financial assets at fair value through profit or loss	-	(14 927)	14 927
Other	-	(35)	35
Gross deferred tax liabilities	**195 519**	**68 454**	**127 065**
Total net deferred tax liability	**(128 699)**	**(33 713)**	**(94 986)**

	2010	Movement	2009
Tax effect of deductible temporary differences			
Provision for impairment of loans to customers	18 899	18 899	-
Provision for impairment of guarantees and other assets	4 109	561	3 548
Other liabilities	4 294	1 992	2 302
Loans to customers	-	(2 332)	2 332
Financial assets available for sale	-	(794)	794
Debt securities issued	1 906	1 169	737
Revaluation of financial assets at fair value through profit or loss	-	(152)	152
Premises and equipment	2 004	2 004	-
Other	867	862	5
Gross deferred tax assets	**32 079**	**22 209**	**9 870**
Tax effect of taxable temporary differences			
Revaluation of premises and equipment	112 103	93 949	18 154
Revaluation of financial assets at fair value through profit or loss	14 927	14 927	-
Provision for impairment of loans to customers	-	(21 314)	21 314
Revaluation of financial assets available for sale		(101)	101
Other	35	(60)	95
Gross deferred tax liabilities	**127 065**	**87 401**	**39 664**
Total net deferred tax liability	**(94 986)**	**(65 192)**	**(29 794)**

(in thousands of Russian Roubles)

Net deferred tax liability is the amount of income taxes payable in future periods in respect of taxable temporary differences.

As at 31 December 2011, the total deferred tax liability of RUR 171 558 thousand (2010: RUR 112 103 thousand) was calculated in respect of positive revaluation of buildings at fair value and recorded within revaluation reserve for premises and equipment (Note 9).

22. Components of Comprehensive Income

	2011	2010
Financial assets available for sale		
Revaluation at fair value of financial assets available for sale	-	(505)
Gains less losses from revaluation of financial assets available for sale	**-**	**(505)**
Revaluation of premises and equipment		
Revaluation of premises and equipment (Note 9)	297 276	469 793
Effect from revaluation of premises and equipment	**297 276**	**469 793**
Financial assets available for sale	-	101
Revaluation of premises and equipment	(59 455)	(93 959)
Income tax relating to components of comprehensive income	**(59 455)**	**(93 858)**
Other comprehensive income after taxation	**237 821**	**375 430**

23. Risk Management

The risk management function within the Bank is carried out in respect of financial risks (credit, market, currency, liquidity and interest rate), operational and legal risks. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The assessment of exposure to risks also serves as a basis for optimal distribution of risk-adjusted capital, transaction pricing and business performance assessment. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimise operational and legal risks.

Credit risk. The Bank takes on exposure to credit risk which is the risk that a counterparty will be unable to pay amounts in full when due. The Bank controls the credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower or a group of related borrowers. Such risks are monitored on a regular basis and limits are reviewed at least annually. Limits on the level of credit risk by products, borrowers and groups of borrowers are approved by the Credit Committee and Executive Board of the Bank.

The exposure to any one borrower including banks and broker companies is further restricted by sub-limits covering on-and off-balance sheet exposures. Actual exposures are monitored against limits daily.

Exposure to credit risk is managed through regular analysis of the ability of the existing and potential borrowers to meet interest and principal repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also mitigated by the Bank by obtaining collateral in the form of property and securities, and corporate and personal guarantees.

The Bank's maximum exposure to credit risk is primarily reflected in the carrying value of financial assets in the statement of financial position. Possibility to offset assets and liabilities does not substantially reduce potential credit risk. For guarantees and commitments to extend credits, the maximum exposure to credit risk is equal to total liabilities (Note 25).

Credit risk for off-balance sheet financial instruments is defined as the possibility of sustaining a loss as a result of another party to a financial instrument failing to perform in accordance with the terms of the contract. The Bank uses the same credit policies in making conditional obligations as it does for on-balance sheet financial instruments through established transaction approvals, risk control limits and monitoring procedures.

The Bank performs the loan maturity analysis and subsequent monitoring of overdue balances. Therefore, the management provides information on overdue maturities and other information on credit risk, as described in Notes 7 and 8.

(in thousands of Russian Roubles)

The Bank is exposed to early redemption risk as a result of lending at fixed or variable interest rates. The financial result and the Bank's equity for the current year and at the reporting date would not greatly depend on the rate fluctuations in case of early redemption because such loans are carried at amortised cost, whereas the amount to be early redeemed corresponds or nearly corresponds to the amortised cost of loans to customers.

Market risk. The Bank takes on exposure to market risk arising from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The Board of Directors sets acceptable risk limits and monitors them on a permanent basis. However, the use of this approach does not prevent losses beyond these limits in the event of more significant market movements.

The objective of market risk management is to keep the exposure to market risk within the acceptable limits assuring optimal yields for the risk accepted.

The market risk is assessed by the Bank in accordance with the requirements of CBR Regulation No. 313-P of 14 November 2007 "On procedure of market risk calculation by credit institutions" (as amended by CBR Instructions No. 2321-U of 03.11.2009 and No. 2524-U of 17.11.2010).

Geographical risk.

The geographical concentration of the Bank's assets and liabilities as at 31 December 2011 is set out below:

	Russia	OECD*	Other countries	Total
Assets				
Cash and cash equivalents	1 243 473	495 426	-	1 738 899
Mandatory cash balances with the Central Bank of the Russian Federation	485 551	-	-	485 551
Financial assets at fair value through profit or loss	807 524	-	-	807 524
Due from other banks	4 720 679	-	-	4 720 679
Loans to customers	10 768 885	7 779	416 715	11 193 379
Premises and equipment	1 801 917	-	-	1 801 917
Other assets	373 737	393	-	374 130
Total assets	**20 201 766**	**503 598**	**416 715**	**21 122 079**
Liabilities				
Due to other banks	631 724	8 719	-	640 443
Customer accounts	16 931 547	8 859	36 014	16 976 420
Debt securities issued	308 816	-	-	308 816
Other borrowed funds	888 029	-	-	888 029
Other liabilities	69 977	14	-	69 991
Current tax liabilities	13 862	-	-	13 862
Deferred tax liabilities	128 699	-	-	128 699
Total liabilities	**18 972 654**	**17 592**	**36 014**	**19 026 260**
Net balance sheet position	**1 229 112**	**486 006**	**380 701**	**2 095 819**
Credit related commitments	**4 857 862**	**-**	**-**	**4 857 862**

* OECD - The Organisation for Economic Co-operation and Development

(in thousands of Russian Roubles)

The geographical concentration of the Bank's assets and liabilities as at 31 December 2010 is set out below:

	Russia	OECD	Other countries	Total
Assets				
Cash and cash equivalents	2 997 720	15 274	5	3 012 999
Mandatory cash balances with the Central Bank of the Russian Federation	222 297			222 297
Financial assets at fair value through profit or loss	4 037 877	344 750	-	4 382 627
Loans to customers	8 926 059	120 999	-	9 047 058
Premises and equipment	1 455 880	-	-	1 455 880
Other assets	158 880	-	-	158 880
Total assets	**17 798 713**	**481 023**	**5**	**18 279 741**
Liabilities				
Due to other banks	1 343 039			1 343 039
Customer accounts	12 627 189	8 093	47 857	12 683 139
Debt securities issued	1 394 232	-	-	1 394 232
Other borrowed funds	858 529	-	-	858 529
Other liabilities	50 841	5 307	-	56 148
Current tax liabilities	11 357	-	-	11 357
Deferred tax liabilities	94 986	-	-	94 986
Total liabilities	**16 380 173**	**13 400**	**47 857**	**16 441 430**
Net balance sheet position	**1 418 540**	**467 623**	**(47 852)**	**1 838 311**
Credit related commitments	**1 023 355**	**-**	**-**	**1 023 355**

(in thousands of Russian Roubles)

Currency risk. The Bank takes on exposure to effects of fluctuations in the foreign currency exchange rates on its financial position and cash flows. The Asset and Liability Management Committee sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, and monitors them on a daily basis. The table below summarises the Bank's exposure to foreign currency exchange rate risk as at 31 December 2011.

	RUR	USD	EUR	Other currencies	Total
Assets					
Cash and cash equivalents	1 001 965	559 439	175 475	2 020	1 738 899
Mandatory cash balances with the Central Bank of the Russian Federation	485 551	-	-	-	485 551
Financial assets at fair value through profit or loss	807 524	-	-	-	807 524
Due from other banks	4 720 679	-	-	-	4 720 679
Loans to customers	10 542 017	134 934	516 428	-	11 193 379
Premises and equipment	1 801 917	-	-	-	1 801 917
Other assets	371 379	2 334	417	-	374 130
Total assets	**19 731 032**	**696 707**	**692 320**	**2 020**	**21 122 079**
Liabilities					
Due to other banks	631 724	8 719	-	-	640 443
Customer accounts	15 522 004	752 101	700 357	1 958	16 976 420
Debt securities issued	308 816	-	-	-	308 816
Other borrowed funds	888 029	-	-	-	888 029
Other liabilities	69 972	5	14	-	69 991
Current tax liabilities	13 862	-	-	-	13 862
Deferred tax liabilities	128 699	-	-	-	128 699
Total liabilities	**17 563 106**	**760 825**	**700 371**	**1 958**	**19 026 260**
Net balance sheet position	**2 167 926**	**(64 118)**	**(8 051)**	**62**	**2 095 819**
Off-balance sheet position	**194 000**	**-**	**(195 856)**	**-**	**(1 856)**
Net balance sheet and off-balance sheet position	**2 361 926**	**(64 118)**	**(203 907)**	**62**	**2 093 963**
Credit related commitments	**4 688 085**	**169 517**	**260**	**-**	**4 857 862**

(in thousands of Russian Roubles)

As at 31 December 2010, the Bank had the following positions in currencies:

	RUR	USD	EUR	Other currencies	Total
Assets					
Cash and cash equivalents	2 847 938	90 528	73 769	764	3 012 999
Mandatory cash balances with the Central Bank of the Russian Federation	222 297	-	-	-	222 297
Financial assets at fair value through profit or loss	4 037 877	344 750	-	-	4 382 627
Loans to customers	6 986 978	1 374 710	685 370	-	9 047 058
Premises and equipment	1 455 880	-	-	-	1 455 880
Other assets	157 877	359	644	-	158 880
Total assets	**15 708 847**	**1 810 347**	**759 783**	**764**	**18 279 741**
Liabilities					
Due to other banks	1 343 039	-	-	-	1 343 039
Customer accounts	10 994 936	816 297	871 903	3	12 683 139
Debt securities issued	227 674	1 162 525	4 033	-	1 394 232
Other borrowed funds	858 529	-	-	-	858 529
Other liabilities	55 803	307	38	-	56 148
Current tax liabilities	11 357	-	-	-	11 357
Deferred tax liabilities	94 986	-	-	-	94 986
Total liabilities	**13 586 324**	**1 979 129**	**875 974**	**3**	**16 441 430**
Net balance sheet position	**2 122 523**	**(168 782)**	**(116 191)**	**761**	**1 838 311**
Off-balance sheet position	**(106 737)**	**64 611**	**44 366**	**-**	**2 240**
Net balance sheet and off-balance sheet position	**2 015 786**	**(104 171)**	**(71 825)**	**761**	**1 840 551**
Credit related commitments	**1 004 720**	**18 427**	**208**	**-**	**1 023 355**

The Bank extended loans denominated in foreign currencies. Depending on the revenue stream of the borrower, the appreciation of foreign currencies against the Russian Rouble may adversely affect the borrowers' repayment ability and therefore increases the likelihood of future loan losses.

The table below shows the change in the financial result and equity due to possible fluctuations of exchange rates used as at the reporting date if all other conditions remain unchanged. Reasonably expected exchange rate changes for each currency were projected on the basis of maximal exchange rate fluctuations for December 2011.

	2011	
	Effect on profit before taxation	**Effect on equity**
USD appreciation by 4%	(2 565)	(2 052)
USD depreciation by 4%	2 565	2 052
EUR appreciation by 3%	(242)	(194)
EUR depreciation by 3%	242	194

(in thousands of Russian Roubles)

The table below shows the change in the financial result and equity due to possible fluctuations of exchange rates used as at the reporting date if all other conditions remain unchanged. Reasonably expected exchange rate changes for each currency were projected on the basis of maximal exchange rate fluctuations for December 2010.

		2010
	Effect on profit before taxation	**Effect on equity**
USD appreciation by 4%	(6 751)	(5 401)
USD depreciation by 4%	6 751	5 401
EUR appreciation by 5%	(5 810)	(4 648)
EUR depreciation by 5%	5 810	4 648

The risk was calculated only for cash balances in currencies other than the Bank's functional currency. The impact of changes in other currencies on the Bank's profit and equity is not material.

Liquidity risk. Liquidity risk is defined as the risk when the maturity of assets and liabilities does not match. The Bank is exposed to risk via daily calls from customers on its available cash resources from customer accounts, maturing deposits, loan draw downs, guarantees and other calls on cash settled derivative financial instruments. The Bank does not accumulate cash resources to meet calls on all liabilities mentioned above, as based on the existing practice, it is possible to forecast with a sufficient degree of certainty the required level of cash funds necessary to meet the above obligations. The liquidity risk is managed by the Treasury Department of the Bank.

The Bank is keen on maintaining stable financing predominantly consisting of due to other banks, deposits of legal entities/deposits of individuals, debt securities and also on investing funds in diversified liquid asset portfolios to be able to meet unexpected liquidity needs quickly and unhampered.

To manage its liquidity, the Bank is required to analyse the level of liquid assets needed to settle the liabilities on their maturity by providing access to various sources of financing, drawing up plans to solve the problems with financing and exercising control over compliance of liquidity ratios with the laws and regulations. The Bank calculates the liquidity ratios on a daily basis in accordance with the requirements of the Central Bank of the Russian Federation. These ratios include:

- Quick ratio (H2) calculated as a ratio of highly liquid assets and liabilities on demand. The minimum admissible value of H2 is set at 15%. As at 31 December 2011, this ratio was 35.1% (2010: 90.3%) (unaudited as at 31 December 2011 and 31 December 2010).
- Current liquidity ratio (H3) calculated as a ratio of liquid assets and liabilities maturing within 30 calendar days. The minimum admissible value of H3 is set at 50%. As at 31 December 2011, this ratio was 102.6% (2010: 91.6%) (unaudited as at 31 December 2011 and 31 December 2010).
- Long-term liquidity ratio (H4) calculated as a ratio of assets maturing in more than 1 year to equity and liabilities maturing in more than 1 year. The maximum admissible value of H4 is set at 120%. As at 31 December 2011, this ratio was 72.0% (2010: 59.1%) (unaudited as at 31 December 2011 and 30 December 2010).

The Treasury Department receives information about financial assets and liabilities. The Treasury Department then provides for an adequate portfolio of short-term liquid assets to be maintained, largely made up of short-term liquid trading securities, bank deposits and other interbank 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 Treasury Department.

The table below shows the liabilities as at 31 December 2011 by their remaining contractual maturity. The amounts in the table represent contractual undiscounted cash flows. These undiscounted cash flows differ from the amounts recognized in the statement of financial position as they are based on discounted cash flows.

In those cases when the amount to be paid is not fixed, the amount in the table is determined on the basis of conditions prevailing at the reporting date. Foreign currency payments are translated using the spot exchange rate effective at the reporting date.

(in thousands of Russian Roubles)

The table below shows the maturity analysis of financial liabilities as at 31 December 2011:

	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Total
Liabilities					
Due to other banks	431 233	15 146	7 955	254 816	709 150
Customer accounts	5 789 563	4 045 755	6 649 350	1 240 578	17 725 246
Debt securities issued	107 449	157 323	20 269	43 084	328 125
Other borrowed funds	-	-	-	1 473 388	1 473 388
Total potential future payments under financial liabilities	**6 328 245**	**4 218 224**	**6 677 574**	**3 011 866**	**20 235 909**

The table below shows the maturity analysis of financial liabilities as at 31 December 2010:

	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Total
Liabilities					
Due to other banks	1 333 510	485	595	12 617	1 347 207
Customer accounts	3 979 092	4 617 528	4 348 741	262 003	13 207 364
Debt securities issued	1 048 869	144 064	211 613	6 607	1 411 153
Other borrowed funds	-	-	-	1 396 976	1 396 976
Total potential future payments under financial liabilities	**6 361 471**	**4 762 077**	**4 560 949**	**1 678 203**	**17 362 700**

Customer accounts are reflected in the above analysis by the term to maturity. However, in accordance with the Civil Code of the Russian Federation, the individuals have the right to withdraw funds from accounts before maturity in which case they lose the accrued interest.

(in thousands of Russian Roubles)

The Bank does not use the above undiscounted amounts in the maturity analysis to monitor the liquidity profile. Instead, the Bank monitors the expected maturity limits presented in the table below as at 31 December 2011:

	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	No stated maturity	Total
Assets						
Cash and cash equivalents	1 738 899	-	-	-	-	1 738 899
Mandatory cash balances with the Central Bank of the Russian Federation	-	-	-	-	485 551	485 551
Financial assets at fair value through profit or loss	807 524	-	-	-	-	807 524
Due from other banks	4 720 679					4 720 679
Loans to customers	197 620	2 242 125	5 243 792	3 509 842	-	11 193 379
Premises and equipment	-	-	-	-	1 801 917	1 801 917
Other assets	64 454	3 671	4 290	6 497	295 218	374 130
Total assets	**7 529 176**	**2 245 796**	**5 248 082**	**3 516 339**	**2 582 686**	**21 122 079**
Liabilities						
Due to other banks	429 311	8 719	-	202 413	-	640 443
Customer accounts	5 709 461	3 708 517	6 394 303	1 164 139	-	16 976 420
Debt securities issued	106 031	150 731	18 663	33 391	-	308 816
Other borrowed funds	-	-	-	888 029	-	888 029
Other liabilities	37 551	31 930	184	18	308	69 991
Current tax liabilities	-	13 862	-	-	-	13 862
Deferred tax liabilities	-	-	-	-	128 699	128 699
Total liabilities	**6 282 354**	**3 913 759**	**6 413 150**	**2 287 990**	**129 007**	**19 026 260**
Net liquidity gap as at 31 December 2011	**1 246 822**	**(1 667 963)**	**(1 165 068)**	**1 228 349**	**2 453 679**	**2 095 819**
Cumulative liquidity gap as at 31 December 2011	**1 246 822**	**(421 141)**	**(1 586 209)**	**(357 860)**	**2 095 819**	

(in thousands of Russian Roubles)

The table below shows the expected maturity analysis as at 31 December 2010:

	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	No stated maturity	Total
Assets						
Cash and cash equivalents	3 012 999	-	-	-	-	3 012 999
Mandatory cash balances with the Central Bank of the Russian Federation	-	-	-	-	222 297	222 297
Financial assets at fair value through profit or loss	4 382 627	-	-	-	-	4 382 627
Loans to customers	743 257	3 508 409	2 735 007	2 060 385	-	9 047 058
Premises and equipment	-	-	-	-	1 455 880	1 455 880
Other assets	158 880	-	-	-	-	158 880
Total assets	**8 297 763**	**3 508 409**	**2 735 007**	**2 060 385**	**1 678 177**	**18 279 741**
Liabilities						
Due to other banks	1 331 795	-	-	11 244	-	1 343 039
Customer accounts	3 900 274	4 320 277	4 206 615	255 973	-	12 683 139
Debt securities issued	1 047 857	140 200	200 502	5 673	-	1 394 232
Other borrowed funds	-	-	-	858 529	-	858 529
Other liabilities	34 616	12 530	302	14	8 686	56 148
Current tax liabilities	-	11 357	-	-	-	11 357
Deferred tax liabilities	-	-	-	-	94 986	94 986
Total liabilities	**6 314 542**	**4 484 364**	**4 407 419**	**1 131 433**	**103 672**	**16 441 430**
Net liquidity gap as at 31 December 2010	**1 983 221**	**(975 955)**	**(1 672 412)**	**928 952**	**1 574 505**	**1 838 311**
Cumulative liquidity gap as at 31 December 2010	**1 983 221**	**1 007 266**	**(665 146)**	**263 806**	**1 838 311**	

As the above analysis is based on expected maturity, the entire portfolio of financial assets at fair value through profit or loss is categorised as "on demand and less than 1 month" in accordance with the portfolio liquidity assessment by the management.

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

Management believes that in spite of a substantial portion of customer accounts being on demand, diversification of these deposits by number and type of depositors, and the past experience of the Bank would indicate that these customer accounts provide a long-term and stable source of funding for the Bank.

Liquidity requirements in respect of guarantees are considerably lower than the amount of the related commitment because the Bank does not generally expect a third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credits does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

Interest rate risk. The Bank takes on exposure to the effects of fluctuations of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise.

(in thousands of Russian Roubles)

The Bank is exposed to interest rate risk, principally as a result of lending at fixed interest rates, in amounts and for periods, which differ from those of borrowings at fixed interest rates. In practice, interest rates are generally fixed on a short-term basis. Also, interest rates fixed contractually on both assets and liabilities are usually renegotiated upon mutual consent to reflect current market conditions.

The Bank's Risk Department sets limits on the level of mismatch of interest rate re-pricing that may be undertaken, which is monitored on a permanent basis. In the absence of hedging instruments, the Bank normally seeks to match its interest rate positions.

The table below summarises the Bank's exposure to interest rate risks as at 31 December 2011. Included in the table are the Bank's financial assets and liabilities at carrying amounts, categorised by the earlier of contractual re-pricing or maturity dates.

	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Non-interest bearing	Total
Assets						
Cash and cash equivalents	-	-	-	-	1 738 899	1 738 899
Mandatory cash balances with the Central Bank of the Russian Federation	-	-	-	-	485 551	485 551
Financial assets at fair value through profit or loss	807 524	-	-	-	-	807 524
Due from other banks	4 720 679	-	-	-	-	4 720 679
Loans to customers	197 620	2 242 125	5 243 792	3 509 842	-	11 193 379
Premises and equipment	-	-	-	-	1 801 917	1 801 917
Other assets	-	-	-	-	374 130	374 130
Total assets	**5 725 823**	**2 242 125**	**5 243 792**	**3 509 842**	**4 400 497**	**21 122 079**
Liabilities						
Due to other banks	429 311	8 719	-	202 413	-	640 443
Customer accounts	1 625 332	3 708 517	6 394 303	1 164 138	4 084 130	16 976 420
Debt securities issued	106 031	150 731	18 663	33 391	-	308 816
Other borrowed funds	-	-	-	888 029	-	888 029
Other liabilities	-	-	-	-	69 991	69 991
Current tax liabilities	-	-	-	-	13 862	13 862
Deferred tax liabilities	-	-	-	-	128 699	128 699
Total liabilities	**2 160 674**	**3 867 967**	**6 412 966**	**2 287 971**	**4 296 682**	**19 026 260**
Net interest rate gap as at 31 December 2011	**3 565 149**	**(1 625 842)**	**(1 169 174)**	**1 221 871**	**103 815**	**2 095 819**
Cumulative interest rate gap as at 31 December 2011	**3 565 149**	**1 939 307**	**770 133**	**1 992 004**	**2 095 819**	

(in thousands of Russian Roubles)

The table below summarises the Bank's exposure to interest rate risks as at 31 December 2010:

	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Non-interest bearing	Total
Assets						
Cash and cash equivalents	900 000	-	-	-	2 112 999	3 012 999
Mandatory cash balances with the Central Bank of the Russian Federation	-	-	-	-	222 297	222 297
Financial assets at fair value through profit or loss	4 286 325	-	-	-	96 302	4 382 627
Loans to customers	743 257	3 508 409	2 735 007	2 060 385	-	9 047 058
Premises and equipment	-	-	-	-	1 455 880	1 455 880
Other assets	-	-	-	-	158 880	158 880
Total assets	**5 929 582**	**3 508 409**	**2 735 007**	**2 060 385**	**4 046 358**	**18 279 741**
Liabilities						
Due to other banks	1 331 794	-	-	11 245	-	1 343 039
Customer accounts	2 057 994	4 320 277	4 206 615	255 973	1 842 280	12 683 139
Debt securities issued	802 782	140 200	200 502	5 673	245 075	1 394 232
Other borrowed funds	-	-	-	858 529	-	858 529
Other liabilities	-	-	-	-	56 148	56 148
Current tax liabilities	-	-	-	-	11 357	11 357
Deferred tax liabilities	-	-	-	-	94 986	94 986
Total liabilities	**4 192 570**	**4 460 477**	**4 407 117**	**1 131 420**	**2 249 846**	**16 441 430**
Net interest rate gap as at 31 December 2010	**1 737 012**	**(952 068)**	**(1 672 110)**	**928 965**	**1 796 512**	**1 838 311**
Cumulative interest rate gap as at 31 December 2010	**1 737 012**	**784 944**	**(887 166)**	**41 799**	**1 838 311**	

As at 31 December 2011 and 31 December 2010, change in interest rate would not have had a material effect on the Bank's equity as all liabilities and financial assets presented above have fixed interest rates

(in thousands of Russian Roubles)

The Bank performs monitoring of financial instrument interest rates. The table below shows the interest rates on the basis of reports that were analysed by the Bank's top executives as at 31 December 2011 and 31 December 2010:

	2011			2010		
	RUR	USD	EUR	RUR	USD	EUR
Assets						
Cash and cash equivalents	-	-	-	2.75%	-	-
Financial assets at fair value through profit or loss	14.1%	-	-	13.2%	8.9%	-
Due from other banks	4.15%	-	-	-	-	-
Loans to customers	14.6%	12.0%	11.5%	18.5%	13.6%	15.6%
Liabilities						
Due to other banks	6.7%	6.2%	-	4.2%	-	-
Customer accounts						
- term deposits	8.1%	5.6%	5.4%	10.5%	7.4%	7.4%
Debt securities issued	5.5%	-	-	3.7%	8.1%	-
Other borrowed funds	3.8%	-	-	3.8%	-	-

Other price risks

The Bank takes on exposure to a limited risk of changes in share prices. The Bank's Treasury Department controls and authorises transactions with equity instruments.

The table below shows the movements in the financial result and equity resulting from possible changes in share prices as at 31 December 2010, provided all other variables remain unchanged.

	Effect on profit before taxation	Effect on equity
Financial assets at fair value through profit or loss		
Price decrease by 10%	(9 630)	(7 704)
Price increase by 10%	9 630	7 704

24. Capital Management

The Bank's capital management has the following objectives: to observe the capital requirements established by the Central Bank of the Russian Federation, including the requirements of the deposit insurance system, assurance of the Bank's ability to continue its operations as a going concern and maintenance of the capital base at the level required for sustaining the capital adequacy ratio at 10% as required by the CBR. The control over compliance with the capital adequacy ratio set by the Central Bank of the Russian Federation is exercised on the basis of forecast and actual data, as well as monthly reports containing corresponding calculations that are verified and signed by the Deputy Chairman of the Executive Board and Chief Accountant of the Bank. Other capital management objectives are assessed on a daily basis.

The table below shows the regulatory capital structure based on the Bank's reports prepared in accordance with the requirements of the Russian legislation:

	2011	2010
Core capital	1 546 257	1 460 146
Additional capital	1 159 854	1 223 959
Total regulatory capital	**2 706 111**	**2 684 105**

As at 31 December 2011, the Bank's capital adequacy ratio calculated based on capital requirements established by the Central Bank of the Russian Federation was 14.0% (2010: 18.1%) (unaudited as at 31 December 2011 and 31 December 2010). The minimum admissible value is set by the Central Bank of the Russian Federation at 10.0%.

(in thousands of Russian Roubles)

25. Contingent Liabilities

Legal issues. 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 of the Bank. Based on its own estimates and internal and external professional advice, the Bank's management is of the opinion that no material losses will be incurred from such actions and accordingly no provision has been made in these financial statements.

Tax legislation. Russian tax legislation is subject to varying interpretations and changes which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Bank may be challenged by the relevant regional or federal authorities. Recent events in the Russian Federation have shown that the tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments and it is possible that transactions and accounting methods that have not been challenged in the past may be challenged. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the tax authorities in respect of taxes for three calendar years preceding the year of the review. Under certain circumstances reviews may cover longer periods.

As at 31 December 2011, the Bank's management believes that its interpretation of the relevant legislation is appropriate and the Bank's tax, currency and customs positions will be sustained by controlling bodies.

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

	2011	2010
Less than 1 year	46 519	36 285
From 1 to 5 years	145 142	85 291
Later than 5 years	20 670	88 842
Total operating lease commitments	**212 331**	**210 418**

Operating lease includes lease of immovable property and motor vehicles.

In 2011 the Bank did not sublease the leased immovable property to third parties. Lease expenses recognised by the Bank amounted to RUR 90 374 thousand (2010: RUR 78 777 thousand).

Credit related commitments. The main objective of these instruments is to provide funds to customers when necessary. The total outstanding contractual amount of guarantees and undrawn credit lines does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded. However, as there is a potential risk, a provision for credit related commitments in respect of issued guarantees is made in the statement of financial position within other liabilities depending on the customer's financial position. With respect to commitments to extend credits and undrawn credit lines the Bank is less exposed to the risk of loss since in case of impairment of loans issued, the Bank will not repay the remaining amounts. Therefore, a provision for these credit related commitments is equal to zero.

Credit related commitments of the Bank are as follows:

	2011	2010
Guarantees issued	3 500 826	632 435
Undrawn credit lines	1 357 036	399 338
Less: provision for credit related commitments	-	(8 418)
Total credit related commitments	**4 857 862**	**1 023 355**

Movements in the provision for credit related commitments are as follows:

	2011	2010
Provision for credit related commitments as at 1 January	**8 418**	-
Provision/(recovery of provision) for credit related commitments during the year	(8 418)	8 418
Provision for credit related commitments as at 31 December	-	**8 418**

(in thousands of Russian Roubles)

26. Fair Value of Financial Instruments

The fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties on arm's length conditions, other than in a forced sale or liquidation. Quoted financial instruments in active markets provide the best evidence of fair value.

The major portion of the Bank's financial instruments is represented by liquid securities (bonds issued by regional and municipal authorities and Russia's major corporations, and shares of the Russian blue-chip companies) included in the Lombard list of the CBR and actively traded on the MICEX Stock Exchange. Therefore, the amounts which the Bank can obtain through sale of the available portfolio of financial instruments at fair value through profit or loss approximate the estimated values presented below.

At the same time, the estimates presented below may be below/above the amounts the Bank can obtain from the market sale of the available portfolio of a specific instrument, as determined by the market environment and specific risks associated with this specific instrument.

Below is the estimated fair value of the Bank's financial instruments as at 31 December 2011 and 31 December 2010:

		2011		2010
	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
Cash and cash equivalents	1 738 899	1 738 899	3 012 999	3 012 999
Financial assets at fair value through profit or loss	807 524	807 524	4 382 627	4 382 627
Due from other banks	4 720 679	4 720 679	-	-
Loans to customers	11 193 379	11 193 379	9 047 058	9 047 058
Financial liabilities				
Due to other banks	640 443	640 443	1 343 039	1 343 039
Customer accounts	16 976 420	16 976 420	12 683 139	12 683 139
Debt securities issued	308 816	308 816	1 394 232	1 394 232
Other borrowed funds	888 029	888 029	858 529	858 529

The Bank uses the following methods and assumptions to estimate the fair value of the following financial instruments:

Financial instruments carried at fair value. Cash and cash equivalents, financial assets and liabilities at fair value through profit or loss and financial assets available for sale are carried in the statement of financial position at their fair value. Certain financial assets available for sale for which there is no available independent quotation have been fair valued by the Bank on the basis of results of recent sales of equity holdings in investees to unrelated third parties, consideration of other relevant information such as discounted cash flows and financial data of the investees and application of other valuation techniques.

Due from other banks. The fair value of floating rate instruments is their carrying amount. The estimated fair value of fixed interest-bearing placements is based on discounted cash flows using prevailing money market interest rates for instruments with similar credit risk and maturity. The management believes that the fair values of due from other banks as at 31 December 2011 and 31 December 2010 do not materially differ from respective carrying amounts, due to their short-term nature.

Loans to customers. Loans to customers are reported net of impairment provisions. The estimated fair value of loans to customers represents the discounted amount of estimated future cash flows expected to be received. To determine fair value, expected cash flows are discounted at current market rates. The management believes that the fair values of loans to customers as at 31 December 2011 and 31 December 2011 do not materially differ from the respective carrying amounts. This is primarily due to the existing practice to renegotiate interest rates to reflect current market conditions. So, interest on most balances is accrued at rates approximating market interest rates.

(in thousands of Russian Roubles)

Due to other banks. The fair value of due to other banks maturing within 3 months approximates the carrying amount due to their relatively short-term maturity. The fair value of due to other banks maturing in more than 3 months is the present value of the estimated future cash flows discounted at the respective year-end market rates. The Bank's management believes that fair values of due to other banks as at 31 December 2011 and 31 December 2010 do not materially differ from their respective carrying amounts. This is due to the relatively short-term maturity of these liabilities.

Customer accounts. The estimated fair value of fixed interest bearing borrowings and other borrowed funds without a quoted market price is based on discounted cash flows using interest rates for debt instruments with similar maturity. The Bank believes that fair values of customer accounts as at 31 December 2011 and 31 December 2010 do not materially differ from respective carrying amounts. This is primarily due to the fact that it is practice to renegotiate interest rates to reflect current market conditions. So, interest on most balances is accrued at rates approximating market interest rates.

Debt securities issued. The estimated fair value of fixed interest bearing debt securities issued is based on discounted cash flows using money market interest rates for debt instruments with similar credit risk and remaining maturity. The fair value of debt securities actively traded on an exchange was based on their market quotations.

Other borrowed funds. The fair value of other fixed interest rate borrowings and other borrowed funds without quoted market prices is based on discounted cash flows using interest rates for debt instruments with similar maturity.

Below is the fair value hierarchy of financial assets as at 31 December 2011. Level 1 includes financial assets which are traded in an active market, whose fair values are measured based on market quotations. Level 2 includes financial assets whose fair value is measured using different valuation techniques. These models are based on observable data characterizing market conditions and factors which may affect the fair value of a financial asset. Level 3 includes financial assets whose fair value is determined based on judgment or fair value techniques for which any significant input is not based on observable market data.

	Level 1
Financial assets at fair value through profit or loss	807 524

Below is the fair value hierarchy of financial assets as at 31 December 2010:

	Level 1
Financial assets at fair value through profit or loss	4 382 627

27. Reconciliation of Classes of Financial Instruments with Measurement Categories

In accordance with IAS 39 "Financial Instruments: Recognition and Measurement" the Bank classifies its financial assets in the following categories: 1) financial assets at fair value through profit or loss; 2) loans and receivables.

At the same time, in accordance with IFRS 7 "Financial Instruments: Disclosure" the Bank discloses different classes of financial instruments.

(in thousands of Russian Roubles)

The table below shows reconciliation of classes of financial assets with the above measurement categories as at 31 December 2011:

	Financial assets at fair value through profit or loss	Loans and receivables	Total
Assets			
Cash and cash equivalents	1 738 899	-	1 738 899
Financial assets at fair value through profit or loss			
- Corporate debt securities	622 871	-	622 871
- Government and municipal debt securities	184 653	-	184 653
Due from other banks			
- Deposits with CBR		3 020 331	3 020 331
- Loans and deposits with other banks		1 700 348	1 700 348
Loans to customers			
- Corporate loans	-	6 135 060	6 135 060
- Loans to individual entrepreneurs, small and medium business	-	4 376 073	4 376 072
- Consumer loans to individuals	-	613 673	613 673
- Mortgage loans to individuals	-	67 245	67 245
- Loans to government and municipal authorities	-	1 328	1 328
Other financial assets			
- Settlements on conversion transactions	39 123	-	39 123
- Accounts receivable	13 170	-	13 170
- Commissions for cash and settlement transactions	11 354	-	11 354
- Plastic card settlements	5 200	-	5 200
Total financial assets	**2 615 270**	**15 914 058**	**18 529 328**
Non-financial assets			2 592 751
Total assets			**21 122 079**

The table below shows reconciliation of classes of financial assets with the above measurement categories as at 31 December 2010:

	Financial assets at fair value through profit or loss	Loans and receivables	Total
Assets			
Cash and cash equivalents	3 012 999	-	3 012 999
Financial assets at fair value through profit or loss			
- Corporate debt securities	3 666 333	-	3 666 333
- Government and municipal debt securities	619 992	-	619 992
- Corporate equity securities	96 302	-	96 302
Loans to customers			
- Corporate loans	-	6 852 067	6 852 067
- Loans to individual entrepreneurs, small and medium business	-	1 825 296	1 825 296
- Consumer loans to individuals	-	327 071	327 071
- Loans to government and municipal authorities	-	35 000	35 000
- Mortgage loans to individuals	-	7 624	7 624
Other financial assets			
- Settlements on conversion transactions	-	103 989	103 989
- Accounts receivable	-	17 633	17 633
- Plastic card settlements	-	1 475	1 475
Total financial assets	**7 395 626**	**9 170 155**	**16 565 781**
Non-financial assets			1 713 960
Total assets			**18 279 741**

All financial liabilities of the Bank are carried at amortised cost.

(in thousands of Russian Roubles)

28. Related Party Transactions

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

In the normal course of business the Bank enters into transactions with its major shareholders, directors, subsidiaries and other related parties. These transactions include settlements, issuance of loans, deposit taking, issuance of guarantees, trade finance and foreign currency transactions. According to the Bank's policy the terms of related party transactions are equivalent to those that prevail in arm's length transactions.

The outstanding balances at the year end for asset transactions with related parties in 2011 are as follows:

	Directors and key management personnel	Other	Total
Loans to customers			
Loans to customers as at 1 January (gross)	8 353	278 591	286 944
Loans to customers issued during the year	137 080	1 215 993	1 353 073
Loans to customers repaid during the year	(73 502)	(737 426)	(810 928)
Loans to customers as at 31 December (gross)	**71 931**	**757 158**	**829 089**
Provision for impairment of loans to customers			
Provision for impairment of loans to customers as at 1 January	860	17 363	18 223
Provision for impairment of loans to customers during the year	3 128	5 438	8 566
Provision for impairment of loans to customers as at 31 December	**3 988**	**22 801**	**26 789**
Loans to customers as at 1 January (less provision for impairment)	**7 493**	**261 228**	**268 721**
Loans to customers as at 31 December (less provision for impairment)	**67 943**	**734 357**	**802 300**

(in thousands of Russian Roubles)

The outstanding balances at the year end for asset transactions with related parties in 2010 are as follows:

	Directors and key management personnel	Subsidiaries	Other	Total
Loans to customers				
Loans to customers as at 1 January (gross)	14 215	90 161	174	104 550
Loans to customers issued during the year	19 561	350 671	282 984	653 216
Loans to customers repaid during the year	(25 423)	(440 832)	(4 567)	(470 822)
Loans to customers as at 31 December (gross)	**8 353**	**-**	**278 591**	**286 944**
Provision for impairment of loans to customers				
Provision for impairment of loans to customers as at 1 January	3 681	-	4	3 685
(Recovery of provision)/provision for impairment of loans to customers during the year	(2 821)	-	17 359	14 538
Provision for impairment of loans to customers as at 31 December	**860**	**-**	**17 363**	**18 223**
Loans to customers as at 1 January (less provision for impairment)	**10 534**	**90 161**	**170**	**100 865**
Loans to customers as at 31 December (less provision for impairment)	**7 493**	**-**	**261 228**	**268 721**

The outstanding balances at the year end for liability transactions with related parties in 2011 are as follows:

	Shareholders	Directors and key management personnel	Other	Total
Customer accounts				
Customer accounts as at 1 January	5 891	19 909	6 947	32 747
Customer accounts received during the year	265 075	960 311	1 574 734	2 800 120
Customer accounts repaid during the year	(270 495)	(958 550)	(1 553 589)	(2 782 634)
Customer accounts as at 31 December	**471**	**21 670**	**28 092**	**50 233**

	Shareholders	Companies controlled by shareholders	Total
Other borrowed funds			
Other borrowed funds as at 1 January	**413 554**	**221 119**	**634 673**
Other borrowed funds reassigned by unrelated parties to shareholders	223 856	-	223 856
Accrued interest	23 800	5 700	29 500
Other borrowed funds as at 31 December	**661 210**	**226 819**	**888 029**

(in thousands of Russian Roubles)

The outstanding balances at the year end for liability transactions with related parties in 2010 are as follows:

	Shareholders	Directors and key management personnel	Subsidiaries	Other	Total
Customer accounts					
Customer accounts as at 1 January	81 431	20 697	89	3 463	105 680
Customer accounts received during the year	899 240	389 405	863 923	399 019	2 551 587
Customer accounts repaid during the year	(974 780)	(390 193)	(864 012)	(395 535)	(2 624 520)
Customer accounts as at 31 December	**5 891**	**19 909**	**-**	**6 947**	**32 747**

	Shareholders	Companies controlled by shareholders	Total
Other borrowed funds			
Other borrowed funds as at 1 January	250 479	56 699	307 178
Other borrowed funds received during the year	150 000	160 000	310 000
Accrued interest	13 075	4 420	17 495
Other borrowed funds as at 31 December	**413 554**	**221 119**	**634 673**

Below are income and expense items arising from related party transactions for the year 2011:

	Shareholders	Directors and key management personnel	Other	Total
Interest income	-	6 233	60 457	66 690
Interest expense	-	(617)	(480)	(1 097)
Fee and commission income	70	233	1 047	1 350
Operating expenses	-	(2)	(5 879)	(5 881)

(in thousands of Russian Roubles)

Below are income and expense items arising from related party transactions for the year 2010:

	Shareholders	Directors and key management personnel	Subsidiaries	Other	Total
Interest income	-	2 858	34 967	9 701	47 526
Interest expense	(15 476)	(345)	-	(462)	(16 283)
Fee and commission income	71	-	73	12	156
Operating expenses	-	-	-	(9 654)	(9 654)

Remuneration to key management personnel in 2011 amounted to RUR 40 289 thousand (2010: RUR 16 512 thousand).

Short-term bonuses are paid in full amounts during the twelve months after the end of the period in which the respective services are provided by the management.

K.V. Shvarts
Chairman of the Executive Board
14 March 2012

A.G. Volkova
Chief Accountant