Joint Stock Company
“The Ural Bank for Reconstruction and Development”

Consolidated Financial Statements in accordance with International Financial Reporting Standards and Independent Auditors’ Report

31 December 2011

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Independent Auditors' Report

To the Board of Directors of Joint Stock Company "The Ural Bank for Reconstruction and Development"

We have audited the accompanying consolidated financial statements of Joint Stock Company "The Ural Bank for Reconstruction and Development" and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2011, the consolidated income statement and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

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24 May 2012

In thousands of Russian Roubles	Notes	31 December 2011	31 December 2010 Restated
ASSETS			
Cash and cash equivalents	6	13 372 036	8 434 707
Mandatory cash balances with the Central Bank of the Russian Federation		874 345	415 149
Trading securities	7	129 955	13 380
Other securities at fair value through profit or loss	8	23 847 034	20 636 595
Securities available-for-sale	9	303 706	990 725
Due from other banks	10	64 391	62 358
Loans and advances to customers	11	44 962 190	33 469 276
Finance lease receivables	12	689 440	281 000
Goodwill		162 122	162 122
Property and equipment	13	4 989 139	4 897 410
Intangible assets	14	147 029	130 504
Investment property	15	6 047 875	-
Advances to real estate developers	16	2 730 523	4 919 290
Current income tax asset		11 243	4 683
Deferred tax asset	29	446 099	313 394
Other assets	17	1 181 468	1 037 299
Assets held for sale	18	36 814	171 963
TOTAL ASSETS		**99 995 409**	**75 939 855**
LIABILITIES			
Due to other banks	19	15 798 922	13 900 041
Customer accounts	20	69 503 461	54 473 470
Debt securities in issue	21	5 052 182	735 576
Current income tax liability		172 820	17 393
Deferred tax liability	29	351 967	367 025
Other liabilities	22	416 250	167 882
Subordinated debt	23	1 646 691	1 556 425
TOTAL LIABILITIES		**92 942 293**	**71 217 812**
EQUITY			
Share capital	24	3 216 768	3 216 768
Additional capital	24	2 379 203	524 203
Revaluation reserve for land and premises		1 387 612	1 469 825
Revaluation reserve for securities available-for-sale		597	10 493
Cumulative translation reserve		(29 026)	(10 169)
Retained earnings /(Accumulated losses)		97 962	(489 077)
TOTAL EQUITY		**7 053 116**	**4 722 043**
TOTAL LIABILITIES AND EQUITY		**99 995 409**	**75 939 855**

These consolidated financial statements were approved for issue and signed on behalf of the Board of Directors on 24 May 2012.

Открытое акционерное общество «Уральский банк реконструкции и развития» Joint Stock Company «The Ural Bank for Reconstruction and Development» ОАО «УБРиР» рег. № 429 г. Екатеринбург

Solovjev A.U.
President

Sirazov M.R.
Chief Accountant

In thousands of Russian Roubles	**Notes**	**2011**	**2010 Restated**
Interest income	26	10 085 711	8 040 010
Interest expense	26	(5 335 177)	(5 703 525)
Net interest income		**4 750 534**	**2 336 485**
(Provision) for/ recovery of impairment:			
Loans and advances to customers	11	(1 524 801)	(349 546)
Finance lease receivables	12	32 764	(10 136)
Due from other banks	10	-	(4 753)
Net interest income after provision for impairment		**3 258 497**	**1 972 050**
Fee and commission income	27	1 102 770	740 278
Fee and commission expense	27	(179 394)	(118 202)
(Loss)/income from trading securities		(54 976)	152 905
(Loss)/income from other securities at fair value through profit or loss		(270 301)	138 448
Income from securities available-for-sale		2 478	129 592
Loss from trading in foreign currencies		(376 305)	(443 031)
Income/(loss) from trading in precious metals		40 329	(15 816)
Foreign exchange translation income		636 926	641 369
Rental income		61 896	51 232
Income from revaluation of land and premises	13	-	108 021
Loss from sale of loans		(220 467)	-
Other operating income		41 708	4 865
(Loss)/income from termination of lease agreements		(13 986)	5 698
Administrative and other operating expenses	28	(3 400 925)	(2 693 727)
Profit before tax		**628 250**	**673 682**
Income tax expense	29	(123 424)	(95 423)
Profit		**504 826**	**578 259**

In thousands of Russian Roubles	**Notes**	**2011**	**2010 Restated**
Profit		**504 826**	**578 259**
Other comprehensive (loss)/income for the year			
Revaluation of securities available-for-sale		(6 142)	415 843
Realised revaluation reserve for securities available-for-sale		(6 228)	(399 389)
Revaluation of land and premises	13	-	471 437
Foreign currency translation difference		(23 571)	(12 711)
Deferred income tax recorded in other comprehensive income	29	7 188	(95 036)
Other comprehensive (loss)/income		**(28 753)**	**380 144**
Comprehensive income		**476 073**	**958 403**

In thousands of Russian Roubles	Notes	Share capital	Additional capital	Revaluation reserve for land and premises	Revaluation reserve for securities available-for-sale	Cumulative translation reserve	Retained earnings/ (Accumulated losses)	Total equity
Balance as at 1 January 2010		**1 880 526**	**-**	**1 128 648**	**(2 670)**	**-**	**232 933**	**3 239 437**
Securities available-for-sale:								
- revaluation		-	-	-	415 843	-	-	415 843
- realised revaluation reserve		-	-	-	(399 389)	-	-	(399 389)
Land and premises:								
- revaluation	13	-	-	471 437	-	-	-	471 437
- realised revaluation reserve		-	-	(44 966)	-	-	44 966	-
Foreign currency translation difference		-	-	-	-	(12 711)	-	(12 711)
Deferred income tax recorded in other comprehensive income	29	-	-	(85 294)	(3 291)	2 542	(8 993)	(95 036)
Other comprehensive income/(loss)		**-**	**-**	**341 177**	**13 163**	**(10 169)**	**35 973**	**380 144**
Profit (restated)		-	-	-	-	-	578 259	578 259
Comprehensive income/(loss) (restated)		**-**	**-**	**341 177**	**13 163**	**(10 169)**	**614 232**	**958 403**
Transactions with owners recognized directly in equity								
Shares issued through capitalisation of reserves	24	1 336 242	-	-	-	-	(1 336 242)	-
Additional funding from the controlling shareholder	24	-	524 203	-	-	-	-	524 203
Balance as at 31 December 2010 (restated)		**3 216 768**	**524 203**	**1 469 825**	**10 493**	**(10 169)**	**(489 077)**	**4 722 043**

In thousands of Russian Roubles	Notes	Share capital	Additional capital	Revaluation reserve for land and premises	Revaluation reserve for securities available-for-sale	Cumulative translation reserve	Retained earnings/ (Accumulated losses)	Total equity
Securities available-for-sale:								
- revaluation		-	-	-	(6 142)	-	-	(6 142)
- realised revaluation reserve		-	-	-	(6 228)	-	-	(6 228)
Land and premises:								
- realised revaluation reserve		-	-	(102 766)	-	-	102 766	-
Foreign currency translation difference		-	-	-	-	(23 571)	-	(23 571)
Deferred income tax recorded in other comprehensive income	29	-	-	20 553	2 474	4 714	(20 553)	7 188
Other comprehensive (loss)/income		**-**	**-**	**(82 213)**	**(9 896)**	**(18 857)**	**82 213**	**(28 753)**
Profit		-	-	-	-	-	504 826	504 826
Comprehensive (loss)/income		**-**	**-**	**(82 213)**	**(9 896)**	**(18 857)**	**587 039**	**476 073**
Transactions with owners, recorded directly in equity								
Additional funding from the controlling shareholder	24	-	1 855 000	-	-	-	-	1 855 000
Balance as at 31 December 2011		**3 216 768**	**2 379 203**	**1 387 612**	**597**	**(29 026)**	**97 962**	**7 053 116**

In thousands of Russian Roubles	Notes	2011	2010
Cash flows from operating activities			
Interest received		10 029 545	7 793 382
Interest paid		(5 558 454)	(5 666 107)
Fees and commissions received		1 101 687	738 671
Fees and commissions paid		(174 264)	(115 004)
(Payments)/receipts from trading securities		(45 983)	146 149
(Payments)/receipts from other securities at fair value through profit or loss		(207 628)	518 287
Receipts from securities available-for-sale		2 478	129 592
Payments from foreign currencies		(425 471)	(400 683)
Receipts/(payments) from precious metals		187 184	(45 342)
Administrative and other operating expenses paid		(3 098 474)	(2 391 829)
Income tax paid		(115 127)	(53 767)
Other operating income received		102 480	56 940
Cash flows from operating activities before changes in operating assets and liabilities		**1 797 973**	**710 289**
(Increase)/decrease in operating assets			
Mandatory cash balances with the Central Bank of the Russian Federation		(459 196)	(38 429)
Trading securities		(125 568)	52
Other securities at fair value through profit or loss		(3 391 572)	(7 611 061)
Securities available-for-sale		663 452	5 195 936
Receivables under reverse repo agreements		-	1 073 782
Due from other banks		1 339	(26 498)
Loans and advances to customers		(12 425 770)	(10 108 450)
Finance lease receivables		(375 675)	223 204
Advances to real estate developers		(1 029 135)	(1 090 484)
Other assets		(126 743)	(10 316)
Assets held for sale		135 149	11 892
Increase/(decrease) in operating liabilities			
Due to other banks		1 799 345	845 502
Customer accounts		15 067 103	12 089 968
Promissory notes in issue (included in debt securities in issue)		2 853 466	357 957
Other liabilities		229 398	(10 779)
Subordinated debt		3 777	(387)
Net cash from operating activities		**4 617 343**	**1 612 178**
Cash flows from investing activities			
Acquisition of property and equipment		(370 797)	(336 845)
Proceeds from disposal of property and equipment		39 517	23 351
Acquisition of intangible assets	14	(36 354)	(44 782)
Acquisition of investment property	15	(3 132 946)	-
Net cash used in investing activities		**(3 500 580)**	**(358 276)**
Cash flows from financing activities			
Additional funding from the controlling shareholder		1 855 000	140 193
Proceeds from bonds issued on domestic market (included in debt securities in issue)		1 502 303	-
Net cash from financing activities		**3 357 303**	**140 193**
Effect of exchange rate changes on cash and cash equivalents		**463 263**	**(17 331)**
Net increase in cash and cash equivalents		**4 937 329**	**1 376 764**
Cash and cash equivalents at the beginning of the year		8 434 707	7 057 943
Cash and cash equivalents at the end of the year	**6**	**13 372 036**	**8 434 707**

1 Introduction

These consolidated financial statements of Joint Stock Company "The Ural Bank for Reconstruction and Development" (the Bank) and its subsidiaries, special purpose entities and mutual investment funds (together referred to as the Group) are prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2011.

The Bank was incorporated and is domiciled in the Russian Federation. The Bank is an open joint-stock company set up in accordance with regulations of the Russian Federation.

Principal activity. The Bank's principal business activity is commercial and retail banking operations within the Russian Federation. The Bank operates under a general banking license issued by the Central Bank of the Russian Federation (the CBRF) on 28 September 1990. The Bank is a member of the state deposit insurance system, which was introduced by the Federal Law #177-FZ "Deposits of individuals insurance in Russian Federation" dated 23 December 2003 (as in force on 3 December 2011). The State Deposit Insurance System guarantees repayment of 100% of individual deposits up to RUB 700 thousand per individual in case of the withdrawal of a license of a bank or the CBRF imposed moratorium on payments.

The Bank is licensed by the Federal Commission on Securities Markets for trading in securities.

As at 31 December 2011 and 2010 the Group has the following consolidated subsidiaries, special purpose entities and mutual investment funds:

Name	Country of incorporation	Nature of business	% of ownership	
			2011	2010
Subsidiaries				
OOO "UBRiR-Finance"	Russian Federation	securities management	100	100
OOO "UBRiR-leasing"	Russian Federation	leasing company	100	100
OOO "Fininvest K"	Russian Federation	ownership of property and equipment	100	100
OOO "Investleasing"	Russian Federation	leasing company	100	100
Special purpose entities				
Sebright Finance Limited	United Kingdom	ownership of property and equipment	-	-
OOO "Invest Techno"	Russian Federation	ownership of property and equipment	-	-
OOO "Uralstroyinvestservice"	Russian Federation	ownership of property and equipment	-	-
OOO UK "Invest-Ural"	Russian Federation	investment funds management	-	-
OOO "FinTrust"	Russian Federation	financial intermediation	-	-

1 Introduction (continued)

Name	Country of incorporation	Nature of business	% of ownership 2011	% of ownership 2010
Mutual investment funds				
Closed unit investment fund "UBRR -Nedvizhimost"	Russian Federation	ownership of property and equipment	100	100
Closed unit investment fund "Invest-Ural Kommercheskaya nedvizhimost"	Russian Federation	ownership of property and equipment	100	-
Closed unit investment fund "Antey"	Russian Federation	ownership of the Group investment property	100	-
Closed unit investment fund "NIKS"	Russian Federation	ownership of the Group investment property	100	-
Opened unit investment fund "Aktivnye investitsii"	Russian Federation	investments in securities	100	-
Opened unit investment fund "Alternativniy protsent"	Russian Federation	investments in securities	100	-
Opened unit investment fund "Bazovye otrasli"	Russian Federation	investments in securities	100	-
Opened unit investment fund "Lombardniy spisok"	Russian Federation	investments in securities	100	-

In 2011 the Group established Opened unit investment funds "Aktivnye investitsii", "Alternativniy protsent", "Bazovye otrasli" and "Lombardniy spisok" in the amount of RUB 10 thousand each. In return for shares the Group transferred cash. The purpose of these mutual investment funds is investments in securities.

Also in 2011 the Group established Closed unit investment funds "Invest-Ural Kommercheskaya nedvizhimost", "Antey" and "NIKS" in the amount of RUB 630 000 thousand, RUB 2 895 159 thousands and RUB 3 100 668 thousand, respectively. In return for shares the Group transferred property and equipment and cash. The purpose of these mutual investment funds is receiving income from operational leasing of investment property.

As at 31 December 2011 all mutual investments funds are managed by LCC UK "Invest-Ural" (in 2011 managing company LCC UK "Standart-Invest" was changed to managing company LCC UK "Invest-Ural").

As at 31 December 2011 the main shareholder of the Bank, Mr. I.A. Altushkin, affiliated with ZAO "Russian Copper Company", ultimately controls 77.99% (31 December 2010: 71.15%) of the share capital of the Bank.

The Bank has 10 (2010: 10) branches and 75 (2010: 68) additional offices in the Russian Federation.

The average number of employees during 2011 is 3 392 (2010: 3 334).

Registered address and place of business. The Bank's registered address and place of business is 620014, 67, Sakko and Vancetti st., Yekaterinburg, Russian Federation.

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

2 Operating environment

The Russian Federation has been experiencing political and economic change that has affected, and may continue to affect, the activities of enterprises operating in this environment. The Government continues economic reforms together with legal, tax and regulatory developments. Current measures undertaken by the Government are aimed to improve working efficiency and output quality as well as increase the share of science intensive industries. Consequently, operations in the Russian Federation involve risks that typically do not exist in other markets. The future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government.

In 2011 the Russian economy was developing against the background of an unstable economic situation in Europe and the USA. Global trends in the financial markets were primarily subject to low or negative growth rates in developed countries whose economies are characterized by a significant amount of external and internal debt. This resulted in a significant increase in volatility of the Russian stock exchange and currency markets. At the same time the Russian economy continued recovery growth based on internal consumer and investor demand. Global instability resulted in a deterioration in the export oriented industries of Russian economy. Real income of the population remained level with the year 2010. The excess of credit growth rates over deposit growth rates became the distinguishing feature in development of Russian economy in 2011, affecting the liquidity of the banking system in the second half of the year.

In spite of the recovery signs in the economy mentioned above, there is still uncertainty over future growth and over the ability of the Group and it's counterparties to attract new borrowings on acceptable terms, which in turn can affect the Group’s financial position, results of operations and further development. The economy of the Russian Federation is very susceptible to negative developments on the financial markets, and the risk of volatility in Russian financial markets still exists. In spite of this management believes it is taking all the necessary measures to support the sustainability and growth of business in the current circumstances. The negative factors mentioned above can have an adverse impact on business activity of the Group. These consolidated financial statements reflect management’s assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management’s assessment.

3 Summary of significant accounting policies

Basis of preparation. These consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) under the historical cost convention, except that premises, financial instruments at fair value through profit or loss and securities available-for-sale are stated at fair value. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies are consistently applied to all the periods presented, unless otherwise stated (refer to note 5).

Consolidated financial statements. Subsidiaries are those companies and other entities (including special purpose entities) in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies so as to obtain benefits. The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are de-consolidated from the date that control ceases.

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group.

For acquisitions on or after 1 January 2010, the Group measures goodwill as the fair value of the consideration transferred (including the fair value of any previously-held equity interest in the acquiree) and the recognised amount of any non-controlling interest in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as at the acquisition date. When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

3 Summary of significant accounting policies (continued)

The Group elects on transaction-by-transaction basis whether to measure non-controlling interests at fair value, or at their proportionate share of the recognsied amount of the identifiable net assets of the acquiree, at the acquisition date. Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

For acquisitions before 1 January 2010, goodwill represents the excess of the cost of the acquisition over the Group’s interest in the recognised amount (generally fair value) of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess was negative, a bargain purchase gain was recognised immediately in profit or loss. Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurred in connection with business combinations were capitalised as part of the cost of the acquisitions.

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

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

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

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

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

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

3 Summary of significant accounting policies (continued)

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

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date that the Group commits to deliver a financial asset. All other purchases and sales are recognised on the settlement date with the change in value between the commitment date and settlement date not recognised for assets carried at cost or amortised cost and recognised in profit or loss for trading securities, derivatives and other financial assets at fair value through profit or loss.

Cash and cash equivalents. Cash and cash equivalents comprise cash, correspondent accounts with CBRF and other banks as well as short-term highly liquid investments, which are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value such as interbank placements with initial maturities of less than three months. Funds restricted for a period of more than three months on origination are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortised cost.

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

Trading securities. Trading securities are securities, which are either acquired for generating a profit from short-term fluctuations in price or trader's margin, or are securities included in a portfolio used for short-term trading. The Group classifies securities into trading securities if it has an intention to sell them within a short period after purchase. Trading securities are carried at fair value.

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

Securities available-for-sale. This category comprises financial assets defined as available-for-sale and not classified as loans and receivables, investment securities held-to-maturity or other securities at fair value through profit or loss. Securities available-for-sale are carried at fair value.

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

Loans and advances to customers. Loans and advances to customers are recorded when the Group advances money to purchase or originate an unquoted non-derivative receivable from a customer due on fixed or determinable dates and has no intention of trading the receivable. Loans and advances to customers are carried at amortised cost. When financial assets are renegotiated and the renegotiated terms and conditions differ substantially from the previous terms, the new asset is initially recognised at its fair value.

3 Summary of significant accounting policies (continued)

Impairment of financial assets carried at amortised cost. Impairment losses are recognised in profit or loss when incurred as a result of one or more events (loss events) that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Group determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. The following principal criteria are also used to determine that there is objective evidence that an impairment loss has occurred:

- any instalment of principal or interest is overdue
- the borrower experiences a significant financial difficulty as evidenced by borrower's financial information that the Group obtains
- the borrower considers bankruptcy or a financial reorganisation
- there is adverse change in the payment status of the borrower as a result of changes in the national or local economic conditions that impact the borrower
- the value of collateral significantly decreases as a result of deteriorating market conditions.

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

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

Impairment losses are always recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss. Uncollectible assets are written off against the related impairment allowance after all the necessary procedures to recover the asset, partly or in full, have been completed and the amount of the loss has been determined.

Credit related commitments. The Group enters into credit related commitments, including letters of credit and financial guarantees. Financial guarantees represent irrevocable assurances to make payments in the event that a customer cannot meet its obligations to third parties and carry the same credit risk as loans. Financial guarantees and commitments to provide a loan are initially recognised at their fair value, which is normally evidenced by the amount of fees received.

Sale and repurchase agreements. Sale and repurchase agreements (repo agreements) which effectively provide a lender's return to the counterparty are treated as secured financing transactions. Securities sold under such sale and repurchase agreements are not derecognised. Securities acquired under repo agreements are classified as receivables under reverse repo agreements or due from other banks. The corresponding liabilities are presented within amounts due to other banks.

3 Summary of significant accounting policies (continued)

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

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

Goodwill. Goodwill represents the excess of the cost of an acquisition over the fair value of the acquirer's share of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiary or associate at the date of exchange. Goodwill from acquisitions of subsidiaries is presented separately in the consolidated statement of financial position. Goodwill is carried at cost less accumulated impairment losses, if any.

The Group tests goodwill for impairment at least annually and whenever there are indications that goodwill may be impaired. Goodwill is allocated to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the business combination.

Such units or group of units represent the lowest level at which the Group monitors goodwill and are not larger than a reporting segment. Gains or losses on disposal of an operation within a cash generating unit to which goodwill has been allocated include the carrying amount of goodwill associated with the operation disposed of, generally measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit which is retained.

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

Land and premises are subject to revaluation on a regular basis. The frequency of revaluation depends upon the movements in the fair values of the land and premises being revalued. A revaluation increase on premises is recognised as other comprehensive income except to the extent that it reverses a previous revaluation decrease recognised in profit or loss, in which case it is recognised in profit or loss. A revaluation decrease on premises is recognised in profit or loss except to the extent that it reverses a previous revaluation increase recognised as other comprehensive income directly in equity, in which case it is recognised in other comprehensive income.

Construction in progress is carried at cost. Cost includes borrowing costs incurred on specific or general funds borrowed to finance construction of qualifying assets. Upon completion, assets are transferred to property and equipment at their carrying amount. Construction in progress is not depreciated until the asset is available for use. All other items of property and equipment are stated at cost less accumulated depreciation and impairment losses, if any.

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

If impaired, property and equipment are written down to the higher of their value in use and fair value less costs to sell.

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

3 Summary of significant accounting policies (continued)

Depreciation. Land is not depreciated. Depreciation on other items of property and equipment is calculated using the straight-line method to allocate their cost or revalued amounts to their carrying amounts at the following annual rates:

Premises	2.5%
Equipment	11.8 – 33.3%

Intangible assets. All intangible assets (except for goodwill) have a definite useful life and primarily include capitalised computer software. Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Development costs that are directly associated with identifiable and unique software controlled by the Group are recorded as intangible assets if the inflow of incremental economic benefits exceeding costs is probable. Capitalised costs include staff costs of the software development team and an appropriate portion of relevant overheads. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred. Capitalised computer software is amortised on a straight line basis over its expected useful life of 4 years.

Investment property. Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in normal course of business, or for the use in production or supply of goods or services or for administrative purposes. Investment property is recognized in the financial statements at cost less accumulated depreciation and impairment losses, if any. Investment property is depreciated using the same method and rates as premises of property and equipment. When the use of a property changes such that it is reclassified as property and equipment, its carrying value at the date of reclassification becomes its cost for subsequent accounting.

Advances to real estate developers. Advances to real estate developers are prepayments advanced under construction contracts whereby the Group is entitled to receive real estate items upon completion of construction. Investments in the real estate property are carried at cost (being the amount of prepayments made under the terms of the contract) less provision for impairment where required. Upon completion the received real estate items are included in investment property or assets held for resale, depending on the Group's intentions in respect of these items.

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

Finance leases. Where the Group is a lessor in a lease which transfers substantially all the risks and rewards incidental to ownership to the lessee, the assets leased out are presented as a finance lease receivable and carried at the present value of the future lease payments. Finance lease receivables are initially recognised at commencement (when the lease term begins) using a discount rate determined at inception (the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease).

The difference between the gross receivable and the present value represents unearned finance income. This income is recognised over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return. Incremental costs directly attributable to negotiating and arranging the lease are included in the initial measurement of the finance lease receivable and reduce the amount of income recognised over the lease term.

Finance income from leases is recorded within interest income in profit or loss. Impairment losses are recognised in profit or loss when incurred as a result of one or more loss events that occurred after the initial recognition of finance lease receivables. The Group uses the same principal criteria to determine that there is objective evidence that an impairment loss has occurred as described above for loans carried at amortised costs.

Assets held for sale. Assets held for sale represent assets that are expected to be recovered primarily through sale within 12 months after the reporting date. These assets are measured at the lower of their residual value and fair value less cost to sell as at the reclassification date. Assets held for sale are not depreciated.

3 Summary of significant accounting policies (continued)

Due to other banks. Amounts due to other banks are recorded when money or other assets are advanced to the Group by counterparty banks. The non-derivative liability is carried at amortised cost. If the Group purchases its own debt, it is removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from early retirement of debt.

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

Debt securities in issue*.* Debt securities in issue include promissory notes and bonds issued by the Group. Debt securities are stated at amortised cost. If the Group purchases its own debt securities in issue, they are removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains arising from early retirement of debt.

Subordinated debt. Subordinated debt is carried on the statement of financial position at amortised cost. Obligations to repay interest are recorded through profit or loss. Subordinated debts rank after all other creditors in case of liquidation.

Derivative financial instruments. Derivative financial instruments are carried at their fair value. All derivative instruments are recognised as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss. The Group does not apply hedge accounting.

Term deals with precious metals. Term deals with precious metals include forward contracts for purchase/sale of precious metals settled in cash. Balances on these transactions are measured at fair value through profit or loss and the result is recorded in the gain less losses/ (losses less gains) arising from precious metals.

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

Income taxes are provided for in the consolidated financial statements in accordance with the legislation of the Russian Federation enacted or substantively enacted by the reporting date.

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

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

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

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

3 Summary of significant accounting policies (continued)

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

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

Other reserves. Other reserves of the Group comprise revaluation reserve for land and premises, revaluation reserve for securities available-for-sale and cumulative translation reserve. The revaluation reserve for land and premises included in other comprehensive income is transferred directly to retained earnings when the surplus is realised, i.e. either on the retirement or disposal of the asset, or as the asset is used by the Group; in the latter case, the amount of the surplus realised is the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost.

Revaluation reserve for securities available-for-sale is transferred to profit or loss in case it is disposed through sale or repayment of securities. In case of a subsidiary or SPE disposal, the functional currency of which differs from the presentation currency of these consolidated financial statements, foreign currency differences, previously recognised in cumulative translation reserve, are reclassified to profit or loss for the period.

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

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

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

The Group does not designate loan commitments as financial liabilities at fair value through profit or loss.

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

Foreign currency translation. The functional currency of each consolidated entity is the currency of the primary economic environment in which the entity operates. The Bank's functional currency and the Group's presentation currency is the national currency of the Russian Federation, the Russian Rouble. Transactions in foreign currencies are translated to the respective functional currencies of the Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date.

The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined.

3 Summary of significant accounting policies (continued)

Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments, which are recognised in other comprehensive income, and differences recognized in the cumulative translation reserve. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising on retranslation of balances in the statement of financial position and profit and loss accounts of a subsidiary or SPE from its functional currency to presentation currency of these consolidated financial statements are recognised in cumulative translation reserve in other comprehensive income.

At 31 December 2011 the principal rate of exchange used for translating monetary foreign currency balances is USD 1 = RUB 32.1961 (31 December 2010: USD 1 = RUB 30.4769).

Fiduciary assets. Assets held by the Group in its own name, but on the account of third parties, are not reported in the consolidated statement of financial position. Commissions received from fiduciary activities are shown as fee and commission income in profit or loss.

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

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

***Segment reporting*.** An operating segment is a component of a Group that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same Group); whose operating results are regularly reviewed by the chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Changes in accounting policies and presentation of comparative information. In preparing these financial statements as at 31 December 2011, management identified certain adjustments relating to the fair value of deals with precious metals in prior reporting period. In 2011 management adjusted comparative information as at 31 December 2010 in order to correctly recognise these deals as follows:

In thousands of Russian Roubles	**Balance as at 31 December 2010 Previously reported**	**Adjustment**	**Balance as at 31 December 2010 Restated**
Consolidated statement of financial position			
Other assets	1 057 691	(20 392)	1 037 299
Deferred tax liability	(371 103)	4 078	(367 025)
Accumulated losses	472 763	16 314	489 077

In thousands of Russian Roubles	**2010 Previously reported**	**Adjustment**	**2010 Restated**
Consolidated income statement			
Profit /(loss) from operations with precious metals	4 576	(20 392)	(15 816)
Income tax (expense)/benefit	(99 501)	4 078	(95 423)

3 Summary of significant accounting policies (continued)

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

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

4 Critical accounting estimates and judgements in applying accounting policies

Management makes a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these consolidated financial statements in conformity with IFRS. Actual results could differ from those estimates. Estimates and assumptions that affect significantly the amounts recognised in the consolidated financial statements include:

Revaluation of land and premises. Over 19% (31 December 2010: 31%) of equity is represented by revaluation reserve for land and premises. Based on report of independent professional appraiser there were no significant changes in fair value of land and premises during 2011, so no adjustments were made to the carrying amount of land and premises as at 31 December 2011 (refer to note 13).

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

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows.

The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience (refer to note 11).

Special purpose entities. Judgement is also required to determine whether the substance of the relationship between the Group and a special purpose entity (SPE) indicates that the SPE is controlled by the Group. The Group uses the following criteria: ability to control financial and operating policies of SPE, whether the activities of the SPE are being conducted on behalf of the Group according to its specific business needs so that the Group obtains benefits from the SPE's operation, whether the Group has the decision-making powers to obtain the majority of the benefits of the activities of the SPE or, by setting up an 'autopilot' mechanism, the Group has delegated these decision-making powers and extent of exposure to risks and rewards related to activities of the SPE.

5 New or revised standards and interpretations

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

IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2015. The new standard is to be issued in phases and is intended ultimately to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement*. The first phase of IFRS 9 was issued in November 2009 and relates to the classification and measurement of financial assets.

5 New or revised standards and interpretations (continued)

The second phase regarding classification and measurement of financial liabilities was published in October 2010. The remaining parts of the standard are expected to be issued during 2012. The Group recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on the consolidated financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued. The Group does not intend to adopt this standard early.

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

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

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

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

Amendment to IFRS 7 *Disclosures – Transfers of Financial Assets* introduces additional disclosure requirements for transfers of financial assets in situations where assets are not derecognised in their entirety or where the assets are derecognised in their entirety but a continuing involvement in the transferred assets is retained. The new disclosure requirements are designated to enable the users of financial statements to better understand the nature of the risks and rewards associated with these assets. The amendment is effective for annual periods beginning on or after 1 July 2011.

5 New or revised standards and interpretations (continued)

Various *Improvements to IFRSs* have been dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect not earlier than 1 January 2012. The Group has not yet analysed the likely impact of the improvements on its financial position or performance.

6 Cash and cash equivalents

In thousands of Russian Roubles	2011	2010
Placements with other banks with original maturities of less than three months	3 811 914	3 140 757
Cash on hand	2 910 323	2 560 667
Cash and balances with the CBRF (other than mandatory cash balances)	1 324 694	2 331 850
Correspondent accounts and overnight placements with banks:		
- Russian Federation	277 753	302 032
- other countries	4 908 839	76 116
Settlement accounts with trading systems	138 513	23 285
Total	**13 372 036**	**8 434 707**

Correspondent accounts, overnight placements and placements with other banks with original maturities of less than three months are placed with large Russian and OECD banks.

Geographical, currency, maturity and interest rate analyses of cash and cash equivalents are disclosed in note 31.

7 Trading securities

In thousands of Russian Roubles	2011	2010
Corporate shares	129 955	13 380
Total	**129 955**	**13 380**

As at 31 December 2011 corporate shares are represented by shares of Russian regional energy, mining and smelting and oil companies traded in the domestic market.

As at 31 December 2010 corporate shares are represented by shares of a Russian regional energy company traded in the domestic market.

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

In thousands of Russian Roubles	Corporate shares
- Rated BBB	125 731
- Rated from BB- to BB+	2 531
- Not rated	1 693
Total	**129 955**

Ratings presented in the tables above are defined in accordance with the definitions of the international rating agency Standard & Poor's.

As at 31 December 2010 the shares were not rated by any international rating agency.

Geographical, currency, maturity and interest rate analyses of trading securities are disclosed in note 31.

8 Other securities at fair value through profit or loss

In thousands of Russian Roubles	2011	2010
Corporate bonds	23 370 379	20 207 104
Municipal bonds	298 633	354 602
Russian government bonds	178 022	74 889
Total	**23 847 034**	**20 636 595**

The Group irrevocably classified these securities, which are not a part of the trading portfolio, as securities at fair value through profit or loss. These securities meet the requirements for classification as carried at fair value through profit or loss due to the fact that management evaluates results from these of investments based on their fair value in accordance with a documented strategy.

As at 31 December 2011 corporate bonds are represented by Russian Rouble denominated securities issued by Russian banks, a mortgage lending agency, industrial, construction and retail companies. These bonds have maturity dates ranging from January 2012 to September 2028, coupon rates ranging from 6.45% to 19.00% p.a. and yields to maturity as at 31 December 2011 ranging from 1.14% to 22.48 % p.a. depending on the type of bond issue.

As at 31 December 2011 municipal bonds are represented by Russian Rouble denominated securities issued by the governments of Sakha Republic, and the regional administrations of Samara, Krasnoyarsk, Udmurtia and Tver regions. These bonds mature from November 2012 to December 2013 with coupon rates ranging from 7.95% to 10.89% p.a. and yields to maturity as at 31 December 2011 ranging from 6.92% to 11.54% p.a. depending on the type of bond issue.

As at 31 December 2011 Russian government bonds are represented by Rouble denominated securities issued by the Ministry of Finance of the Russian Federation. These bonds mature in October 2018 with coupon rate 7% p.a. and yield to maturity as at 31 December 2011 6.31% p.a.

As at 31 December 2010 corporate bonds are represented by Russian Rouble denominated securities issued by Russian banks, a mortgage lending agency, industrial and retail companies. These bonds have maturity dates ranging from February 2011 to September 2028, coupon rates ranging from 7.00% to 18.00% p.a. and yields to maturity as at 31 December 2010 ranging from 4.51% to 14.87 % p.a. depending on the type of bond issue.

As at 31 December 2010 municipal bonds are represented by Russian Rouble denominated securities issued by the governments of Sakha Republic, and the regional administrations of Irkutsk, Samara, Krasnoyarsk, Udmurtia, Tver, Tomsk and Volgograd regions. These bonds mature from August 2011 to December 2013 with coupon rates ranging from 7.00% to 11.39% p.a. and yields to maturity as at 31 December 2010 ranging from 6.40% to 7.66% p.a. depending on the type of bond issue.

As at 31 December 2010 Russian government bonds are represented by Rouble denominated securities issued by the Ministry of Finance of the Russian Federation. These bonds mature in October 2018 with coupon rates 13% p.a. and yield to maturity as at 31 December 2010 6.94% p.a.

Analysis by credit quality of other securities at fair value through profit or loss outstanding at 31 December 2011 is as follows:

In thousands of Russian Roubles	Corporate bonds	Municipal bonds	Russian government bonds	Total
- Rated BBB	11 326 637	-	178 022	11 504 659
- Rated from BB- to BB+	8 379 813	293 704	-	8 673 517
- Rated from B- to B+	3 663 929	4 929	-	3 668 858
Total	**23 370 379**	**298 633**	**178 022**	**23 847 034**

8 Other securities at fair value through profit or loss (continued)

Analysis by credit quality of other securities at fair value through profit or loss outstanding at 31 December 2010 is as follows:

In thousands of Russian Roubles	Corporate bonds	Municipal bonds	Russian government bonds	Total
- Rated BBB	10 614 895	-	74 889	10 689 784
- Rated from BB- to BB+	3 201 793	309 358	-	3 511 151
- Rated from B- to B+	6 354 813	45 244	-	6 400 057
- Not rated	35 603	-	-	35 603
Total	**20 207 104**	**354 602**	**74 889**	**20 636 595**

Ratings presented in the tables above are defined in accordance with the definitions of the international rating agency Standard & Poor's.

Geographical, currency, maturity and interest rate and analyses of other securities at fair value through profit and loss are disclosed in note 31.

9 Securities available-for-sale

In thousands of Russian Roubles	2011	2010
Municipal bonds	303 706	989 648
Corporate bonds	-	1 077
Total	**303 706**	**990 725**

As at 31 December 2011 municipal bonds are represented by Russian Rouble denominated securities issued by the government of Sakha Republic, and the regional administrations of Samara and Nizhniy Nivgorod regions. These bonds mature from June 2012 to December 2013 with coupon rates ranging from 6.98% to 9.30% p.a. and yields to maturity as at 31 December 2011 ranging from 6.57% to 8.19% p.a. depending on the type of bond issue.

As at 31 December 2010 municipal bonds are represented by Russian Rouble denominated securities issued by the government of Sakha Republic, and the regional administrations of Irkutsk, Samara, Nizhniy Nivgorod and Lipetsk regions. These bonds mature from July 2011 to December 2013 with coupon rates ranging from 6.98% to 9.65% p.a. and yields to maturity as at 31 December 2010 ranging from 6.35% to 8.32% p.a. depending on the type of bond issue.

As at 31 December 2010 corporate bonds are represented by Russian Rouble denominated securities issued by a Russian bank. These bonds mature in October 2011, have a coupon rate of 11.50% p.a. and yield to maturity as at 31 December 2010 of 6.33 % p.a.

Analysis by credit quality of securities available-for-sale outstanding at 31 December 2011 is as follows:

In thousands of Russian Roubles	Municipal bonds
- Rated from BB- to BB+	296 852
- Rated from B- to B+	6 854
Total	**303 706**

9 Securities available-for-sale (continued)

Analysis by credit quality of securities available-for-sale outstanding at 31 December 2010 is as follows:

In thousands of Russian Roubles	Municipal bonds	Corporate bonds	Total
- Rated BBB	-	1 077	1 077
- Rated from BB- to BB+	915 532	-	915 532
- Rated from B- to B+	74 116	-	74 116
Total	**989 648**	**1 077**	**990 725**

Ratings presented in the tables above are defined in accordance with the definitions of the international rating agency Standard & Poor's.

Geographical, currency, maturity and interest rate analyses of securities available for sale are disclosed in note 31.

10 Due from other banks

In thousands of Russian Roubles	2011	2010
Short-term placements with other banks with original maturities of more than three months	69 144	67 111
Allowance for impairment	(4 753)	(4 753)
Total	**64 391**	**62 358**

At 31 December 2011 and 2010 due from other banks are represented by Russian Rouble denominated current term deposits and promissory notes of other banks placed in the Russian Federation.

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

In thousands of Russian Roubles	2011	2010
Allowance for impairment as at 1 January	**4 753**	**-**
Charge of provision	-	4 753
Allowance for impairment as at 31 December	**4 753**	**4 753**

An analysis by credit quality of due from other banks (before allowance for impairment) as at 31 December 2011 and 2010 is as follows:

In thousands of Russian Roubles	2011	2010
- Rated from A- to A+	-	1 399
- Rated BBB	64 390	60 954
- Rated CCC	-	4
- Not rated	4 754	4 754
Total	**69 144**	**67 111**

Ratings presented in the table above are defined in accordance with the definitions of the international rating agency Standard & Poor's.

Due from other banks are not collateralized. Geographical, currency, maturity and interest rate analyses of due from other banks are disclosed in note 31.

11 Loans and advances to customers

In thousands of Russian Roubles	**2011**	**2010**
Loans to legal entities		
- Related parties	9 607 269	7 615 306
- Corporate loans	16 108 569	12 279 120
- Small and medium size businesses	2 383 111	836 873
Total loans to legal entities	**28 098 949**	**20 731 299**
Loans to individuals		
- Express loans	7 339 811	7 451 677
- Loans to employees participating in payroll projects	2 744 326	2 131 863
- Unsecured consumer loans	8 260 788	5 513 913
- Collateralised consumer loans	1 189 063	959 645
Total loans to individuals	**19 533 988**	**16 057 098**
Total loans and advances to customers before allowance for impairment	**47 632 937**	**36 788 397**
Allowance for impairment	(2 670 747)	(3 319 121)
Total	**44 962 190**	**33 469 276**

Movements in the allowance for impairment for loans to legal entities during the year 2011 are as follows:

In thousands of Russian Roubles	**Related parties**	**Corporate loans**	**Small and medium size businesses**	**Total**
Allowance for impairment as at 1 January 2011	**23 910**	**350 763**	**119 504**	**494 177**
(Recovery)/Charge of provision	(6 426)	68 370	10 102	72 046
Write offs	-	(10 739)	(17 601)	(28 340)
Allowance for impairment as at 31 December 2011	**17 484**	**408 394**	**112 005**	**537 883**

Movements in the allowance for impairment for loans to individuals during the year 2011 are as follows:

In thousands of Russian Roubles	**Express loans**	**Loans to employees participating in payroll projects**	**Unsecured consumer loans**	**Collateralised consumer loans**	**Total**
Allowance for impairment as at 1 January 2011	**2 025 739**	**172 737**	**546 538**	**79 930**	**2 824 944**
Charge of provision	903 279	91 252	429 551	28 673	1 452 755
Write offs	(1 214 011)	(215 333)	(664 358)	(51 133)	(2 144 835)
Allowance for impairment as at 31 December 2011	**1 715 007**	**48 656**	**311 731**	**57 470**	**2 132 864**

11 Loans and advances to customers (continued)

Movements in the allowance for impairment for loans to legal entities during the year 2010 are as follows:

In thousands of Russian Roubles	Related parties	Corporate loans	Small and medium size businesses	Total
Allowance for impairment as at 1 January 2010	**23 305**	**362 774**	**151 630**	**537 709**
Charge/(recovery) of provision	605	1 525	(17 466)	(15 336)
Write offs	-	(13 536)	(14 660)	(28 196)
Allowance for impairment as at 31 December 2010	**23 910**	**350 763**	**119 504**	**494 177**

Movements in the allowance for impairment for loans to individuals during the year 2010 are as follows:

In thousands of Russian Roubles	Express loans	Loans to employees participating in payroll projects	Unsecured consumer loans	Collateralised consumer loans	Total
Allowance for impairment as at 1 January 2010	**1 566 210**	**224 188**	**598 292**	**72 844**	**2 461 534**
Charge/(recovery) of provision	459 529	(50 793)	(50 940)	7 086	364 882
Write offs	-	(658)	(814)	-	(1 472)
Allowance for impairment as at 31 December 2010	**2 025 739**	**172 737**	**546 538**	**79 930**	**2 824 944**

Key assumptions and judgments for estimating the loan impairment

Loans to legal entities

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

The objective indicators of loan impairment for loans to legal entities include the following:

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

The Group has estimated loan impairment for loans to legal entities based on an analysis of the future cash flows for impaired loans and based on its past loss experience for portfolios of loans for which no indications of impairment has been identified.

In determining the impairment allowance for loans to legal entities, management makes following key assumptions:

- the principal collateral taken into account in the estimation of future cash flows on loans to legal entities comprises mainly: real estate, equipment and vehicles. Valuations for collateral in respect of loans which are not assessed individually are estimated at market value with a discount rate from 0.2 to 0,4;

11 Loans and advances to customers (continued)

- the historic actual recovery rate loans overdue more than 90 days is taken into account when estimating future recoveries on overdue loans;

- the value of real estate, equipment and vehicles collateral used in discounted future cash flows for the calculation of the allowance on individually impaired loans is based on the valuation prepared by an independent appraiser or by the Risk management department of the Bank without any discount rate.

Changes in these estimates could affect the loan impairment allowance. For example, to the extent that the net present value of the estimated cash flows differs by plus/minus one percent, the loan impairment allowance on loans to legal entities as at 31 December 2011 would be RUB 275 611 thousand lower/higher (31 December 2010: RUB 202 371 thousand).

Loans to individuals

The Group estimates loan impairment for loans to individuals based on its past historical loss experience on each type of loan.

The significant assumptions used by management in determining the impairment losses for loans to individuals include:

- loss migration rates are constant and estimated based on historic loss migration pattern for the past 12 months;

- the historic actual recovery rate of overdue loans has been taken into account when estimating future recoveries on overdue loans.

Changes in these estimates could affect the loan impairment allowance. For example, to the extent that the net present value of the estimated cash flows differs by plus/minus one percent, the loan impairment allowance on loans to individuals as at 31 December 2011 would be RUB 174 011 thousand lower/higher (31 December 2010: RUB 132 322 thousand).

The loan portfolio structure as at 31 December by economic sectors is as follows:

	2011		2010	
In thousands of Russian Roubles	**Amount**	**%**	**Amount**	**%**
Individuals	19 533 988	41.0	16 057 098	43.6
Metallurgy and metals trade	10 503 808	22.1	7 809 060	21.2
Trade	6 354 129	13.3	5 135 319	14.0
Manufacturing	3 618 882	7.6	4 168 008	11.3
Construction	1 970 263	4.1	486 570	1.3
Services	740 839	1.6	380 364	1.0
Other	4 911 028	10.3	2 751 978	7.6
Total loans and advances to customers before allowance for impairment	**47 632 937**	**100.0**	**36 788 397**	**100.0**

As at 31 December 2011 the Group had a significant credit risk concentration in respect of one group of related borrowers, which are also considered as related parties. The aggregate amount of these loans is RUB 9 589 785 thousand, or 21% of the gross loan portfolio (31 December 2010: RUB 7 591 396 thousand, or 23% of the gross loan portfolio).

At 31 December 2011 the Group has 22 borrowers (31 December 2010: 17 borrowers) with aggregated loan amounts above RUB 250 000 thousand. The total aggregate amount of these loans is RUB 20 036 190 thousand (31 December 2010: RUB 14 738 179), or 42% (31 December 2010: 40%) of the gross loan portfolio.

11 Loans and advances to customers (continued)

Information in respect of collateral for loans and advances to customers as at 31 December 2011 is as follows:

In thousands of Russian Roubles	**Unsecured loans**	**Real estate**	**Motor vehicles**	**Guarantees**	**Goods in turnover**	**Other collateral**	**Total loans and advances to customers before allowance for impairment**
Loans to individuals							
Express loans	7 315 215	-	-	24 596	-	-	7 339 811
Loans to employees participating in payroll projects	2 586 422	-	-	157 904	-	-	2 744 326
Unsecured consumer loans	8 260 788	-	-	-	-	-	8 260 788
Collateralised consumer loans	-	308 762	75 739	798 061	-	6 501	1 189 063
Total loans to individuals	**18 162 425**	**308 762**	**75 739**	**980 561**	**-**	**6 501**	**19 533 988**
Loans to legal entities							
Related parties	1 187 223	-	-	1 497 458	-	6 922 588	9 607 269
Corporate loans	3 123 730	4 669 832	333 768	5 895 316	322 449	1 763 474	16 108 569
Small and medium size businesses	543 092	364 369	147 664	1 267 821	60 165	-	2 383 111
Total loans to legal entities	**4 854 045**	**5 034 201**	**481 432**	**8 660 595**	**382 614**	**8 686 062**	**28 098 949**
Total	**23 016 470**	**5 342 963**	**557 171**	**9 641 156**	**382 614**	**8 692 563**	**47 632 937**

11 Loans and advances to customers (continued)

Information in respect of collateral for loans and advances to customers as at 31 December 2010 is as follows:

In thousands of Russian Roubles	**Unsecured loans**	**Real estate**	**Motor vehicles**	**Guarantees**	**Goods in turnover**	**Other collateral**	**Total loans and advances to customers before allowance for impairment**
Loans to individuals							
Express loans	7 419 401	-	-	32 276	-	-	7 451 677
Loans to employees participating in payroll projects	1 847 242	-	-	284 621	-	-	2 131 863
Unsecured consumer loans	5 513 913	-	-	-	-	-	5 513 913
Collateralised consumer loans	-	257 787	83 081	573 432	44 495	850	959 645
Total loans to individuals	**14 780 556**	**257 787**	**83 081**	**890 329**	**44 495**	**850**	**16 057 098**
Loans to legal entities							
Related parties	670 170	-	-	-	98 180	6 846 956	7 615 306
Corporate loans	1 578 287	6 175 671	46 867	2 367 445	1 442 306	668 544	12 279 120
Small and medium size businesses	113 865	280 520	87 689	268 008	86 791	-	836 873
Total loans to legal entities	**2 362 322**	**6 456 191**	**134 556**	**2 635 453**	**1 627 277**	**7 515 500**	**20 731 299**
Total	**17 142 878**	**6 713 978**	**217 637**	**3 525 782**	**1 671 772**	**7 516 350**	**36 788 397**

Other collateral is represented by pledge of deposits, securities and other property.

Amounts in the tables above represent the carrying amount of the loans and not the fair value of the underlying collateral.

11 Loans and advances to customers (continued)

Analysis by credit quality of loans outstanding at 31 December 2011 is as follows:

In thousands of Russian Roubles	**Express loans**	**Loans to employees participating in payroll projects**	**Unsecured consumer loans**	**Collateralised consumer loans**	**Total loans to individuals**
Loans to individuals					
Current and not past due:	3 858 372	2 623 519	7 493 265	1 079 056	15 054 212
- with credit history of less than 90 days	705 302	566 968	2 314 975	276 747	3 863 992
- with credit history of more than 90 days	3 153 070	2 056 551	5 178 290	802 309	11 190 220
Past due:	3 481 439	120 807	767 523	110 007	4 479 776
- loans past due less than 30 days	507 471	54 752	270 337	6 022	838 582
- loans past due 31 to 90 days	371 665	16 766	122 368	300	511 099
- loans past due 91 to 210 days	621 983	19 694	138 836	1 722	782 235
- loans past due 211 to 360 days	968 620	16 564	102 293	101 963	1 189 440
- loans past due over 360 days	1 011 700	13 031	133 689	-	1 158 420
Total loans to individuals before allowance for impairment	**7 339 811**	**2 744 326**	**8 260 788**	**1 189 063**	**19 533 988**
Allowance for impairment	(1 715 007)	(48 656)	(311 731)	(57 470)	(2 132 864)
Total	**5 624 804**	**2 695 670**	**7 949 057**	**1 131 593**	**17 401 124**
Allowance for impairment to gross loans, %	23.37	1.77	3.77	4.83	10.92

In thousands of Russian Roubles	**Related parties**	**Corporate loans**	**Small and medium size businesses**	**Total loans to legal entities**
Loans to legal entities				
Current and individually not impaired	9 607 269	15 320 712	2 194 754	27 122 735
Past due:	-	787 857	188 357	976 214
- loans past due less than 30 days	-	23 612	26 290	49 902
- loans past due 31 to 90 days	-	13 190	25 895	39 085
- loans past due 91 to 180 days	-	-	12 016	12 016
- loans past due 181 to 360 days	-	11 668	13 568	25 236
- loans past due over 360 days	-	739 387	110 588	849 975
Total loans to legal entities before allowance for impairment	**9 607 269**	**16 108 569**	**2 383 111**	**28 098 949**
Allowance for impairment	(17 484)	(408 394)	(112 005)	(537 883)
Total	**9 589 785**	**15 700 175**	**2 271 106**	**27 561 066**
Allowance for impairment to gross loans, %	0.18	2.54	4.70	1.91

11 Loans and advances to customers (continued)

Analysis by credit quality of loans outstanding at 31 December 2010 is as follows:

In thousands of Russian Roubles	**Express loans**	**Loans to employees participating in payroll projects**	**Unsecured consumer loans**	**Collateralised consumer loans**	**Total loans to individuals**
Loans to individuals					
Current and not past due:	4 344 675	1 807 914	4 414 432	746 475	11 313 496
- with credit history of less than 90 days	1 778 513	427 352	1 090 107	352 625	3 648 597
- with credit history of more than 90 days	2 566 162	1 380 562	3 324 325	393 850	7 664 899
Past due:	3 107 002	323 949	1 099 481	213 170	4 743 602
- loans past due less than 30 days	468 247	43 982	188 324	35 318	735 871
- loans past due 31 to 90 days	332 052	17 056	65 218	17 921	432 247
- loans past due 91 to 210 days	357 668	16 961	77 928	73 305	525 862
- loans past due 211 to 360 days	419 839	25 108	86 131	24 013	555 091
- loans past due over 360 days	1 529 196	220 842	681 880	62 613	2 494 531
Total loans to individuals before allowance for impairment	**7 451 677**	**2 131 863**	**5 513 913**	**959 645**	**16 057 098**
Allowance for impairment	(2 025 739)	(172 737)	(546 538)	(79 930)	(2 824 944)
Total	**5 425 938**	**1 959 126**	**4 967 375**	**879 715**	**13 232 154**
Allowance for impairment to gross loans, %	27.19	8.10	9.91	8.33	17.59

In thousands of Russian Roubles	**Related parties**	**Corporate loans**	**Small and medium size businesses**	**Total loans to legal entities**
Loans to legal entities				
Current and individually not impaired	7 615 306	11 344 717	645 361	19 605 384
Past due:	-	934 403	191 512	1 125 915
- loans past due less than 30 days	-	291	11 498	11 789
- loans past due 31 to 90 days	-	10 148	6 406	16 554
- loans past due 91 to 180 days	-	-	10 809	10 809
- loans past due 181 to 360 days	-	16 089	12 295	28 384
- loans past due over 360 days	-	907 875	150 504	1 058 379
Total loans to legal entities before allowance for impairment	**7 615 306**	**12 279 120**	**836 873**	**20 731 299**
Allowance for impairment	(23 910)	(350 763)	(119 504)	(494 177)
Total	**7 591 396**	**11 928 357**	**717 369**	**20 237 122**
Allowance for impairment to gross loans, %	0.31	2.86	14.28	2.38

11 Loans and advances to customers (continued)

As at 31 December 2011 interest and commission accrued on impaired loans amount to RUB 423 038 thousand (31 December 2010: RUB 190 803 thousand).

The loans to individuals are mostly represented by express loans and unsecured consumer loans. Express loans are loans issued to individuals at points-of-sale with minimum credit requirements. Unsecured consumer loans are issued to individuals in banking offices after a scoring review. Management structures the credit analysis procedures with the aim to minimise the credit risk on unsecured consumer loans. Differences in credit quality of these products are reflected in higher interest rates on express loans.

The Group assesses the loans to individuals as current and not impaired if there were no overdue amount as at reporting date, and no evidence that individuals will not be able to meet their obligations on repayment of the loans in full and in time.

The Group assesses the credit quality of current and not impaired corporate loans by analyzing the following factors:

- there are no delays in repayment of principal and interest due to the financial insolvency of the borrower

- financial statements and other financial information of the borrowers are submitted to the Group timely and in accordance with the terms of the loan agreements, and that information is transparent and allows analysis of the financial position of the borrower

- the borrower is not sued for improper servicing of loans granted by other credit institutions

- the loan is secured by liquid collateral, the fair value of which covers the outstanding loan amount

Current and not impaired corporate loans are mostly represented by loans issued to large corporate entities which have a long credit history with the Group.

The amount reported as past due under loan agreements of legal entities and individuals is the outstanding balance of such loans, not only the individual instalments that are past due.

Analysis of collateral

The Group performs a valuation of fair value of real estate, vehicles and equipment pledged under loans to corporate customers every six months. Also the Group monitors the market value of properties on a regular basis and adjusts the fair value of collateral if significant changes in market prices are observed. Risk management department of the Bank determines the fair value of collateral based on market data and internal methodology of the Group and uses different approaches for valuation (comparative, income, expense). The fair value of pledged goods in turnover is estimated at inception date of the loan and is not adjusted for subsequent changes.

The fair value of collateral in respect of loans to legal entities past due more than 30 days as at 31 December 2011 is as follows:

In thousands of Russian Roubles	**Corporate loans**	**Small and medium size businesses**	**Total**
Real estate	200 428	46 914	247 342
Motor vehicles and equipment	270 298	29 528	299 826
Goods in turnover	106 688	802	107 490
Other collateral	16 084	-	16 084
Total	**593 498**	**77 244**	**670 742**

11 Loans and advances to customers (continued)

The fair value of collateral in respect of loans to legal entities past due more than 30 days as at 31 December 2010 is as follows:

In thousands of Russian Roubles	**Corporate loans**	**Small and medium size businesses**	**Total**
Real estate	400 274	54 752	455 026
Motor vehicles and equipment	168 062	31 724	199 786
Goods in turnover	110 092	-	110 092
Other collateral	69 742	10 856	80 598
Total	**748 170**	**97 332**	**845 502**

As at 31 December 2011, for loans to legal entities that are neither past due or overdue less than 30 days with a carrying amount of RUB 23 099 712 thousand (31 December 2010: RUB 17 794 470 thousand) management estimates that the fair value of collateral is at least equal to their carrying amounts. The recoverability of these loans is primarily dependent on the creditworthiness of the borrowers rather than the value of collateral, and the current value of the collateral does not impact the impairment assessment.

Loans to individuals are mainly pledged by real estate, vehicles, guarantees and sureties. The fair value of collateral is estimated at inception of the loans. Subsequently the Group monitors for the market prices every six months and adjusts the fair value of collateral if significant changes in market prices are observed. The Group performs a valuation of the fair value of collateral for impaired loans to individuals also every six months, using the same methods as for corporate loans. Loans to individuals secured by real estate are mainly represented by mortgage loans and loans with a pledge of property and included in "Collateralised consumer loans".

The analysis of the fair value of collateral in respect of loans to individuals past due more than 30 days as at 31 December 2011 is as follows:

In thousands of Russian Roubles	**Collateralised consumer loans**
Real estate	19 259
Motor vehicles	18 054
Total	**37 313**

The analysis of the fair value of collateral in respect of loans to individuals past due more than 30 days as at 31 December 2010 is as follows:

In thousands of Russian Roubles	**Collateralised consumer loans**
Real estate	29 842
Motor vehicles	22 705
Total	**52 547**

As at 31 December 2011, for loans to individuals that are neither past due or overdue less than 30 days with a carrying amount of RUB 1 252 113 thousand (31 December 2010: RUB 1 069 054 thousand) management estimates that the fair value of collateral is at least equal to their carrying amounts. The recoverability of these loans is primarily dependent on the creditworthiness of the borrowers rather than the value of collateral, and the current value of the collateral does not impact the impairment assessment.

11 Loans and advances to customers (continued)

In accordance with amendments to IFRS 7 *Financial Instruments: Disclosures* the tables above show fair value of collateral excluding the effect of overcollateralisation.

The actual net realizable value of the collateral on loans to legal entities and individuals can significantly differ from the shown above value due to possible unforeseeable difficulties in obtaining ownership rights over the borrower's property.

Geographical, currency, maturity and interest rate analyses of loans and advances to customers are disclosed in note 31. Information on related party transactions is disclosed in note 36.

12 Finance lease receivables

Finance lease receivables as at 31 December 2011 of RUB 540 187 thousand (2010: RUB 120 668 thousand), RUB 398 528 thousand (31 December 2010: RUB 268 188 thousand) and RUB 18 997 thousand (31 December 2010: RUB 36 696 thousand) are represented by leases of motor vehicles, equipment and premises, respectively.

Finance lease payments receivable (gross investment in the leases) and their present values at 31 December 2011 and 2010 are as follows:

In thousands of Russian Roubles	**Less than 1 year**	**From 2 to 5 years**	**More than 5 years**	**Total**
Finance lease payments receivable at 31 December 2011	**346 059**	**544 398**	**67 255**	**957 712**
Unearned finance income	(33 530)	(186 990)	(35 971)	(256 491)
Allowance for impairment	(3 895)	(6 910)	(976)	(11 781)
Present value as at 31 December 2011	**308 634**	**350 498**	**30 308**	**689 440**
Finance lease payments receivable at 31 December 2010	**241 894**	**174 921**	**8 737**	**425 552**
Unearned finance income	(26 334)	(64 453)	(5 384)	(96 171)
Allowance for impairment	(33 454)	(13 079)	(1 848)	(48 381)
Present value as at 31 December 2010	**182 106**	**97 389**	**1 505**	**281 000**

Analysis of changes in the allowance for impairment of finance lease receivables is as follows:

In thousands of Russian Roubles	**2011**	**2010**
Allowance for impairment as at 1 January	**48 381**	**41 359**
(Recovery)/charge of provision	(32 764)	10 136
Write-offs	(3 836)	(3 114)
Allowance for impairment as at 31 December	**11 781**	**48 381**

12 Finance lease receivables (continued)

Analysis by credit quality of finance lease receivables outstanding at 31 December 2011 is as follows:

In thousands of Russian Roubles	Before allowance for impairment	Allowance for impairment	Net amount
Not overdue	675 517	(7 312)	668 205
Overdue:	25 704	(4 469)	21 235
- overdue less than 30 days	7 425	(206)	7 219
- overdue 31-90 days	12 769	(3 239)	9 530
- overdue 91-210 days	5 189	(1 024)	4 165
- overdue 211-360 days	321	-	321
Total	**701 221**	**(11 781)**	**689 440**

Analysis by credit quality of finance lease receivables outstanding at 31 December 2010 is as follows:

In thousands of Russian Roubles	Before allowance for impairment	Allowance for impairment	Net amount
Not overdue	257 826	(15 810)	242 016
Overdue:	71 555	(32 571)	38 984
- overdue less than 30 days	15 975	(5 281)	10 694
- overdue 31-90 days	13 043	-	13 043
- overdue 91-210 days	9 306	(243)	9 063
- overdue 211-360 days	4 282	(645)	3 637
- overdue more than 360 days	28 949	(26 402)	2 547
Total	**329 381**	**(48 381)**	**281 000**

Information about the fair value of collateral is as follows:

In thousands of Russian Roubles	31 December 2011	31 December 2010
Motor vehicles	376 497	85 589
Equipment	305 264	166 756
Premises	14 240	29 584
Total	**696 001**	**281 929**

In accordance with amendments to IFRS 7 *Financial Instruments: Disclosures* the tables above show fair value of collateral excluding the effect of overcollateralisation.

The fair value of collateral as at 31 December 2011 and 2010 is estimated by the Bank's Risk department based on current market prices.

Geographical, currency, maturity and interest rate analyses of finance lease receivables are disclosed in note 31. The information on related party transactions is disclosed in note 36.

13 Property and equipment

In thousands of Russian Roubles	Notes	Land and premises	Office and computer equipment	Construction in progress	Total
Cost or valuation as at 1 January 2010		4 270 199	1 043 808	49 287	5 363 294
Accumulated depreciation		(558 728)	(511 075)	-	(1 069 803)
Carrying amount as at 1 January 2010		**3 711 471**	**532 733**	**49 287**	**4 293 491**
Additions		47 431	200 059	52 533	300 023
Transfers		6 836	585	(7 421)	-
Disposals – cost		(11 101)	(37 377)	(113)	(48 591)
Disposals - accumulated depreciation		2 119	17 497	-	19 616
Depreciation charge	28	(100 153)	(146 434)	-	(246 587)
Revaluation recognised in profit or loss		108 021	-	-	108 021
Revaluation recognised in other comprehensive loss		471 437	-	-	471 437
Carrying amount as at 31 December 2010		**4 236 061**	**567 063**	**94 286**	**4 897 410**
Cost or valuation as at 31 December 2010		4 902 443	1 207 075	94 286	6 203 804
Accumulated depreciation		(666 382)	(640 012)	-	(1 306 394)
Carrying amount as at 31 December 2010		**4 236 061**	**567 063**	**94 286**	**4 897 410**
Additions		41 512	245 485	113 411	400 408
Transfers		12 747	27 302	(40 049)	-
Disposals – cost		(50 719)	(44 131)	-	(94 850)
Disposals - accumulated depreciation		4 147	29 351	-	33 498
Depreciation charge	28	(120 458)	(126 869)	-	(247 327)
Carrying amount as at 31 December 2011		**4 123 290**	**698 201**	**167 648**	**4 989 139**
Cost or valuation as at 31 December 2011		4 905 983	1 435 731	167 648	6 509 362
Accumulated depreciation		(782 693)	(737 530)	-	(1 520 223)
Carrying amount as at 31 December 2011		**4 123 290**	**698 201**	**167 648**	**4 989 139**

Construction in progress consists of construction and refurbishment of branch premises. Upon completion, assets are transferred to premises and office and computer equipment.

The carrying value of land and premises was not changed as at 31 December 2011 due to insignificant changes of fair value of real estate in 2011.

13 Property and equipment (continued)

Land and premises were valued at 31 December 2010 based on valuation techniques used for an active market. Based on valuation results the carrying amount of property and equipment was increased by RUB 471 437 thousand recognized in revaluation reserve for land and premises. As at 31 December 2010 an increase in deferred tax liability of RUB 94 287 thousand is recognised in other comprehensive income in respect of the revaluation.

At 31 December 2011, the carrying amount of land and premises would have been RUB 3 101 096 thousand (31 December 2010: RUB 3 111 100 thousand) had the assets been carried at cost less depreciation and impairment losses.

14 Intangible assets

In thousands of Russian Roubles	**Notes**	**Software licenses**
Cost as at 1 January 2010		125 070
Accumulated amortisation		(29 568)
Carrying amount as at 1 January 2010		**95 502**
Additions		44 782
Disposals - cost		(4)
Disposals - accumulated amortisation		4
Amortisation charge	28	(9 780)
Carrying amount as at 31 December 2010		**130 504**
Cost as at 31 December 2010		169 848
Accumulated amortisation		(39 344)
Carrying amount as at 31 December 2010		**130 504**
Additions		36 354
Disposals – cost		(5 202)
Disposals - accumulated amortisation		4 889
Amortisation charge	28	(19 516)
Carrying amount as at 31 December 2011		**147 029**
Cost or valuation as at 31 December 2011		201 000
Accumulated amortisation		(53 971)
Carrying amount as at 31 December 2011		**147 029**

Additions to intangible assets represent capitalised software and license costs related to a centralised operational banking system which is used as a basis for decision making and control of financial and operating activities at all management levels of the Group.

15 Investment property

In thousands of Russian Roubles	**Notes**	**Buildings and land**
Cost as at 1 January 2010		-
Accumulated amortisation		-
Carrying amount as at 1 January 2010		**-**
Transfer from «Advances to real estate developers»		2 924 386
Additions		3 132 946
Amortisation charge	28	(9 457)
Carrying amount as at 1 January 2011		**6 047 875**
Cost or valuation as at 31 December 2011		6 057 332
Accumulated amortisation		(9 457)
Carrying amount as at 31 December 2011		**6 047 875**

The fair value of investment property as of 31 December 2011 is RUR 6 109 899 thousand. Fair values are estimated based on actual market data by independent appraiser with appropriate professional qualification background and recent experience in appraisal of similar objects of investment property.

Because investment property was put into operation at the end of reporting period, the Group did not receive rental income in 2011 (2010: nil). Operating expenses for the year ended 31 December 2011 for maintenance of investment property is nil (2010: nil).

16 Advances to real estate developers

Advances to real estate developers represent investments under investment contracts for construction of apartment buildings, business centres, hotels and other properties in Moscow, Ekaterinburg and Sochi. Upon completion of construction the Group is contractually entitled to receive the real estate property. The Group intends to sell the majority of these investments close to completion stage. In 2011 the Group has changed this intention in respect of certain contracts and upon completion of construction real estate objects were received by the Group and transferred to investment property. The Group receives income from the amounts advanced to developers at imputed rates of interest. The income is received in the legal form of penalties payable by the developers for breaches of various terms of the contracts and recognised as interest income. The consolidated income statement for the year ended 31 December 2011 includes interest income of RUB 232 198 thousand (31 December 2010: RUB 500 437 thousand) relative to the above mentioned investments.

Advances to real estate developers are neither past due or impaired as of 31 December 2011 and 2010. These investments are secured by the underlying real estate. Management of the Group believes that the fair value of collateral is at least equal to the carrying amount of each investment contract at the reporting date.

Geographical, currency, maturity and interest rate analyses of advances to real estate developers are disclosed in note 31.

17 Other assets

In thousands of Russian Roubles	Notes	2011	2010 Restated
Settlements on transactions with securities and precious metals		167 905	171 730
Settlements on cash and other operations		83 844	68 573
Credit and debit cards receivables		80 837	20 356
Precious metals forward contracts	34	28 720	131 172
Foreign exchange forward contracts	34	22 588	11 971
Other		8 489	8 487
Total other financial assets		**392 383**	**412 289**
Prepayments for administrative services		585 358	374 072
Prepaid taxes other than income tax		53 199	40 711
Prepayments for construction in progress		38 356	64 407
Precious metals		30 943	26 437
Equipment purchased for finance leases		7 251	84 604
Deferred expenses		6 357	6 239
Other non-financial receivables		67 621	28 540
Total other non-financial assets		**789 085**	**625 010**
Total		**1 181 468**	**1 037 299**

Geographical, currency and maturity analyses of other assets are disclosed in note 31. The information on related party transactions is disclosed in note 36.

18 Assets held for sale

In thousands of Russian Roubles	2011	2010
Premises	33 159	162 889
Motor vehicles	3 156	4 724
Other property	499	4 350
Total	**36 814**	**171 963**

Included in assets held for sale is property obtained from borrowers as settlement for loans.

Management estimates that the fair value of assets held for sale as at 31 December 2011 and 2010 exceeds their carrying value.

In accordance with the requirements of IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* these assets are accounted for in these consolidated financial statements at the lower of their carrying amount and fair value less costs to sale as at 31 December 2011 and 2010. These assets are expected to be sold within 1 year.

19 Due to other banks

In thousands of Russian Roubles	2011	2010
Sale and repurchase agreements on securities	13 731 226	11 948 608
Short-term deposits	1 556 551	1 437 821
Correspondent accounts and overnight placements	511 145	513 612
Total	**15 798 922**	**13 900 041**

As at 31 December 2011 included in due to other banks are obligations under direct repurchase agreements with the CBRF of RUB 9 572 592 thousand. As at 31 December 2010 there were no obligations under direct repurchase agreements with the CBRF.

Geographical, currency, maturity and interest rate of due to other banks are disclosed in note 31.

20 Customer accounts

In thousands of Russian Roubles	2011	2010
State and public organisations		
- Current/settlement accounts	8	4 874
Other legal entities		
- Current/settlement accounts	7 909 099	6 492 794
- Term deposits	11 935 496	3 785 362
Individuals		
- Current/demand accounts	4 694 027	3 560 333
- Term deposits	44 964 831	40 630 107
Total	**69 503 461**	**54 473 470**

State and public organisations exclude government owned profit oriented businesses.

At 31 December 2011 the Group has 15 customers (31 December 2010: 3 customers) with balances above RUB 150 000 thousand. The aggregate balances from these customers are RUB 7 871 337 thousand (31 December 2010: RUB 630 704 thousand), or 11% (31 December 2010: 1%) of total customer accounts.

At 31 December 2011 included in customer accounts are deposits of RUB 322 985 thousand (31 December 2010: RUB 3 044 thousand) held as collateral for irrevocable commitments under import letters of credit.

The economic sector concentrations as at 31 December within customer accounts are as follows:

	2011		2010	
In thousands of Russian Roubles	Amount	%	Amount	%
Individuals	49 658 858	71.4	44 190 440	81.1
Services	6 286 214	9.0	4 347 841	8.0
Trade	3 901 955	5.6	2 501 176	4.6
Manufacturing	2 613 480	3.8	1 426 285	2.6
Construction	1 800 460	2.6	1 338 719	2.5
Other	5 242 494	7.6	669 009	1.2
Total	**69 503 461**	**100.0**	**54 473 470**	**100.0**

Geographical, currency, maturity and interest rate analyses of customer accounts are disclosed in note 31. The information on related party transactions is disclosed in note 36.

21 Debt securities in issue

In thousands of Russian Roubles	2011	2010
Promissory notes	3 529 992	735 576
Bonds issued on the domestic market	1 522 190	-
Total	**5 052 182**	**735 576**

As at 31 December 2011 debt securities in issue are represented by Russian Rouble denominated bonds in amount of RUB 1 522 190 thousand (31 December 2010: nil) issued by the Group. These bonds were placed in April 2011 with maturity in May 2014; the bonds amounted to RUB 2 000 000 thousand; the par value of 1 bond is RUB 1 thousand. The interest rate of the first three coupons was set at 9.5% p.a., and the coupon period is 183 days. In 2011 the Group has bought back bonds issued with the carrying value of RUB 506 069 thousand as of 31 December 2011 to manage the debt.

At 31 December 2011 the Group has 2 customers (31 December 2010: nil) with balances above RUB 250 000 thousand. The aggregate balances of promissory notes issued to these customers are RUB 2 669 937 thousand (31 December 2010: nil), or 53% (31 December 2010: nil) of total debt securities in issue.

As at 31 December 2011 and 2010 the estimated fair values of debt securities in issue approximate their carrying values.

Geographical, currency, maturity and interest rate analyses of debt securities in issue are disclosed in note 31. The information on debt securities in issue held by related parties is disclosed in note 36.

22 Other liabilities

In thousands of Russian Roubles	Notes	2011	2010
Payables for construction of investment property		208 756	-
Payables on mandatory insurance of deposits		45 126	41 296
Precious metals forward contracts	34	43 067	5 051
Trade payables		42 893	27 576
Settlements on plastic cards		1 210	9 840
Foreign currency forward contracts	34	628	39 177
Other		8 402	5 239
Total other financial liabilities		**350 082**	**128 179**
Taxes other than income tax payable		53 454	33 561
Provision for financial guaranties contracts		11 214	4 269
Other		1 500	1 873
Total other non-financial liabilities		**66 168**	**39 703**
Total		**416 250**	**167 882**

Geographical, currency and maturity analyses of other financial liabilities are disclosed in note 31. The information on transactions with related parties is disclosed in note 36.

23 Subordinated debt

On 27 December 2007 the Group attracted a non-secured subordinated debt of USD 50 million for 10 years. The loan was granted by The Royal Bank of Scotland (previous name - ABN AMRO BANK N.V.) at a contractual interest rate of Libor plus 8.0% p.a. As at 31 December 2011 this subordinated debt was accounted for at amortised cost of RUB 1 646 691 thousand (31 December 2010: RUB 1 556 425 thousand). In the event of the Bank's liquidation the creditors under this subordinated debt would be the last ones entitled to receive repayment.

Geographical, currency, maturity and interest rate of subordinated debt are disclosed in note 31.

24 Share capital and additional capital

In thousands of Russian Roubles	**Number of outstanding shares (in thousands)**	**Ordinary shares**	**Share premium**	**Total**
At 1 January 2010	668 121	1 298 570	581 956	1 880 526
At 31 December 2010	668 121	2 634 812	581 956	3 216 768
At 31 December 2011	668 121	2 634 812	581 956	3 216 768

On 20 January 2010 the Department for the Licensing of the Activities and the Financial Rehabilitation of Credit Organizations of the CBRF registered the Bank's issue of shares in the amount of RUB 2 004 363 thousand. The issue comprises placements of 668 121 thousand ordinary uncertificated registered shares with the nominal value of RUB 3 by means of conversion of earlier placed 668 121 thousand ordinary uncertificated registered shares with the nominal value of RUB 1, and capitalization of statutory retained earnings and other reserves in the amount of RUB 1 336 242 thousand. The share capital after the issue amounts to RUB 2 004 363 thousand.

Share capital contributions made before 1 January 2003, are adjusted by RUB 630 449 thousand according to changes in general purchasing power of the Russian Rouble as defined by IAS 29 *Financial Reporting in Hyperinflationary Economies*.

As at 31 December 2011 and 2010 all outstanding shares were authorised, issued and fully paid in.

As at 31 December 2011 all ordinary shares have a nominal value of RUB 3 per share (31 December 2010: RUB 3 per share). Each share carries one vote.

Share premium is the amount by which the contributions to share capital exceeded the nominal value of the shares issued.

As at 31 December 2011 additional capital in amount of RUB 1 855 000 thousand, included in equity, is represented by cash contributions made by the controlling shareholder. As at 31 December 2011 additional capital amounts to RUB 2 379 203 thousand (31 December 2010: RUB 524 203 thousand).

25 Dividends

In accordance with the legislation of the Russian Federation, the Bank distributes profits as dividends or transfers them to reserves (fund accounts) on the basis of the statutory accounting reports. The reserves under Russian Accounting Rules at 31 December 2011 are RUB 2 096 320 thousand (31 December 2010: RUB 1 596 116 thousand).

26 Interest income and expense

In thousands of Russian Roubles	**2011**	**2010**
Interest income		
Loans and advances to customers	7 600 375	5 320 158
Other securities at fair value through profit or loss	2 051 394	1 738 918
Advances to real estate developers	232 198	500 437
Finance lease receivables	96 305	117 480
Securities available-for-sale	68 999	317 336
Correspondent accounts with other banks	23 074	1 864
Due from other banks	13 171	16 950
Receivables under reverse repo agreements	195	26 867
Total	**10 085 711**	**8 040 010**
Interest expense		
Term deposits of individuals	3 657 079	4 352 993
Sale and repurchase agreements	638 351	428 358
Term placements of legal entities	483 726	567 305
Debt securities in issue	253 726	88 212
Subordinated debt	127 575	132 480
Term placements of other banks	93 338	52 224
Current/settlement accounts	62 756	73 806
Correspondent accounts of other banks	5 941	6 723
Finance lease payables	12 685	1 424
Total	**5 335 177**	**5 703 525**
Net interest income	**4 750 534**	**2 336 485**

The information on transactions with related parties is disclosed in note 36.

27 Fee and commission income and expense

In thousands of Russian Roubles	2011	2010
Fee and commission income		
Transactions with plastic cards and cheques	538 615	271 876
Settlement transactions	352 936	301 950
Cash transactions	104 047	85 645
Guarantees issued	14 815	12 646
Cash collection	11 923	10 202
Transactions with securities	6 669	8 530
Fiduciary activities	2 096	2 733
Other	71 669	46 696
Total	**1 102 770**	**740 278**
Fee and commission expense		
Transactions with plastic cards and cheques	61 678	32 640
Settlement transactions	46 288	42 000
Cash collection	43 524	24 806
Trade finance transaction	12 574	10 881
Letters of credit	7 966	6
Transactions with securities	4 334	4 130
Transactions with precious metals	3 030	2 591
Other	-	1 148
Total	**179 394**	**118 202**
Net fee and commission income	**923 376**	**622 076**

28 Administrative and other operating expenses

In thousands of Russian Roubles	Notes	2011	2010
Staff costs		1 828 573	1 472 475
Advertising and marketing services		309 642	199 392
Depreciation of property and equipment	13	247 327	246 587
Contributions to State deposit insurance system		176 432	151 418
Operating lease expense for property and equipment		152 939	89 010
Other costs of property and equipment		133 245	90 596
Taxes other than income tax		131 549	103 688
Professional services		102 655	49 030
Acquisition of fittings and materials		70 528	43 373
Information and communication services		59 338	52 375
Security services		40 559	75 423
Computer software maintenance		24 433	23 987
Amortisation of intangible assets	14	19 516	9 780
Insurance of employees and business property		14 353	12 172
Depreciation of investment property	15	9 457	-
Other		80 379	74 421
Total		**3 400 925**	**2 693 727**

Included in staff costs are statutory social security and pension contributions of RUB 343 955 thousand (2010: RUB 199 766 thousand).

29 Income tax expense

Income tax expense comprises the following:

In thousands of Russian Roubles	2011	2010 Restated
Current tax	275 003	138 321
Income tax over provided in prior years	(11 004)	(56 207)
Deferred tax	(140 575)	13 309
Income tax expense for the year	**123 424**	**95 423**

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

In thousands of Russian Roubles	2011	2010 Restated
Profit before tax	**628 250**	**673 682**
Theoretical tax at applicable rate	125 650	134 736
Non-deductible costs	14 610	12 325
Income on state securities taxed at lower tax rates	(5 339)	(13 667)
Income tax overprovided in prior years	(11 004)	(56 207)
Other differences	(493)	18 236
Income tax expense	**123 424**	**95 423**

As at 31 December 2011 a decrease in deferred tax liability of RUB 7 188 thousand (31 December 2010: an increase of RUB 95 036 thousand) is recorded directly in other comprehensive income in respect of the revaluation of securities available-for-sale and cumulative translation reserve (refer to note 9).

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

29 Income tax expense (continued)

In thousands of Russian Roubles	Deferred tax asset 2011	Deferred tax asset 2010 Restated	Deferred tax liability 2011	Deferred tax liability 2010	Net position 2011	Net position 2010 Restated
Trading and other securities at fair value through profit or loss	3 831	48 769	(33 590)	(1 316)	(29 759)	47 453
Securities available-for-sale	-	-	(149)	(71 137)	(149)	(71 137)
Due from other banks	961	1 033	-	-	961	1 033
Loans and advances to customers	288 943	226 732	-	-	288 943	226 732
Finance lease receivables	2 641	10 872	(5 499)	-	(2 858)	10 872
Property and equipment	59 338	37 738	(230 468)	(329 895)	(171 130)	(292 157)
Intangible assets	-	-	(28 303)	(10 113)	(28 303)	(10 113)
Investment property	24 704	-	-	-	24 704	-
Advances to real estate developers	-	-	(41 384)	(100 087)	(41 384)	(100 087)
Customer accounts	1 833	1 499	-	(938)	1 833	561
Debt securities in issue	9 534	7 289	-	-	9 534	7 289
Subordinated debt	-	-	(2 538)	(2 901)	(2 538)	(2 901)
Tax losses carry-forward	84 650	100 350	-	-	84 650	100 350
Translation differences	7 256	2 542	-	-	7 256	2 542
Other	13 923	25 932	(61 551)	-	(47 628)	25 932
Total	**497 614**	**462 756**	**(403 482)**	**(516 387)**	**94 132**	**(53 631)**
Including:						
Deferred tax asset					**446 099**	**313 394**
Deferred tax liability					**(351 967)**	**(367 025)**

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

In thousands of Russian Roubles	31 December 2010 Restated	Recognised in profit or loss	Recognised in other comprehensive income	31 December 2011
Trading and other securities at fair value through profit or loss	47 453	(77 212)	-	(29 759)
Securities available-for-sale	(71 137)	68 514	2 474	(149)
Due from other banks	1 033	(72)	-	961
Loans and advances to customers	226 732	62 211	-	288 943
Finance lease receivables	10 872	(13 730)	-	(2 858)
Property and equipment	(292 157)	121 027	-	(171 130)
Intangible assets	(10 113)	(18 190)	-	(28 303)
Investment property	-	24 704	-	24 704
Advances to real estate developers	(100 087)	58 703	-	(41 384)
Customer accounts	561	1 272	-	1 833
Debt securities in issue	7 289	2 245	-	9 534
Subordinated debt	(2 901)	363	-	(2 538)
Tax losses carry-forward	100 350	(15 700)	-	84 650
Foreign currency translation difference	2 542	-	4 714	7 256
Other	25 932	(73 560)	-	(47 628)
Total	**(53 631)**	**140 575**	**7 188**	**94 132**

29 Income tax expense (continued)

In thousands of Russian Roubles	31 December 2009	Recognised in profit or loss Restated	Recognised in other comprehensive income	31 December 2010 Restated
Trading and other securities at fair value through profit or loss	(109 110)	156 563	-	47 453
Securities available-for-sale	12 032	(79 878)	(3 291)	(71 137)
Due from other banks	83	950	-	1 033
Loans and advances to customers	150 300	76 432	-	226 732
Finance lease receivables	2 885	7 987	-	10 872
Property and equipment	(173 675)	(24 195)	(94 287)	(292 157)
Intangible assets	(3 977)	(6 136)	-	(10 113)
Advances to real estate developers	-	(100 087)	-	(100 087)
Customer accounts	336	225	-	561
Debt securities in issue	7 602	(313)	-	7 289
Subordinated debt	(3 157)	256	-	(2 901)
Tax losses carry-forward	69 499	30 851	-	100 350
Foreign currency translation difference	-	-	2 542	2 542
Other	101 896	(75 964)	-	25 932
Total	**54 714**	**(13 309)**	**(95 036)**	**(53 631)**

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

30 Segment analysis

The Group has three reportable segments, which are represented by separate business units. The business units offer different products and services, and are managed separately because they require different technology and marketing strategies. The Assets and Liabilities Management Committee reviews internal management reports on each business unit on at least a twice a month basis, analyses and monitors the efficiency and quality of performance, and insures coordination of business units in liquidity and profit management. The following summary describes the operations in each of the reportable segments.

- Retail banking – representing private banking services, private customer current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages.

- Corporate banking – representing direct debit facilities, current accounts, deposits, overdrafts, loan and other credit facilities, foreign currency and derivative products.

- Financial markets – representing financial instruments trading, loans and deposits in the interbank market, dealing in foreign exchange, precious metals and derivative financial instruments.

Information regarding the results of each reportable segment is presented below. Performance is measured based on segment profit before income tax as included in the internal management reports based on the accounting data received in accordance with the Russian Accounting Rules (with adjustment of certain entries by economic substance) reviewed by the Assets and Liabilities Management Committee. Segment profit is used to measure its performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within this industry.

30 Segment analysis (continued)

Administrative and other operating expenses in the tables below are allocated on the basis of the percentage of staff employed by each segment. Property and equipment is not allocated to segments in managemment accounts. Gains/(losses) from transactions with other segments represent income and expense from lending and borrowing between segments and are determined by using a transfer rate defined by management. Inter-segment pricing is determined on an arm's length basis.

Segment information for the reportable segments as at and for the year ended 31 December 2011 is set out below.

In thousands of Russian Roubles	**Retail banking**	**Corporate banking**	**Financial markets**	**Total**
Interest income from external operations	4 165 081	3 217 290	2 127 495	9 509 866
Interest expense	(3 652 087)	(707 912)	(960 334)	(5 320 333)
Gains/(losses) from transactions with other segments	2 303 572	(719 113)	139 356	1 723 815
Fee and commission income	574 833	436 568	6 677	1 018 078
Net gain from transactions with securities	-	-	(382 085)	(382 085)
Net gain from transactions with foreign currencies and precious metals	41 018	67 326	192 330	300 674
Other operating income	142 436	435 487	-	577 923
Administrative and other operating expenses	(1 486 573)	(506 470)	(31 025)	(2 024 068)
Profit before tax	**2 088 280**	**2 223 176**	**1 092 414**	**5 403 870**
Segment assets	**20 275 951**	**39 540 863**	**27 753 339**	**87 570 153**
Segment liabilities	**49 298 828**	**24 864 010**	**19 605 956**	**93 768 794**

Segment information for the main reportable segments as at and for the year ended 31 December 2010 is set out below.

In thousands of Russian Roubles	**Retail banking**	**Corporate banking**	**Financial markets**	**Total**
Interest income from external operations	3 035 359	3 385 028	2 029 802	8 450 189
Interest expense	(4 356 342)	(748 384)	(616 031)	(5 720 757)
Gains/(losses) from transactions with other segments	3 139 811	(790 507)	-	2 349 304
Fee and commission income	326 701	372 140	9 109	707 950
Net gain from transactions with securities	-	-	538 771	538 771
Net gain/(loss) from transactions with foreign currencies and precious metals	43 113	73 607	94 847	211 567
Other operating income	76 526	22 391	-	98 917
Administrative and other operating expenses	(1 176 325)	(452 354)	(32 125)	(1 660 804)
Profit before tax	**1 088 843**	**1 861 921**	**2 024 373**	**4 975 137**
Segment assets	**15 374 648**	**27 776 996**	**23 062 276**	**66 213 920**
Segment liabilities	**43 922 729**	**11 410 031**	**15 614 910**	**70 947 670**

30 Segment analysis (continued)

Reconciliations of reportable segment profit or loss, assets and liabilities as at and for the years ended 31 December 2011 and 2010 are as follows:

In thousands of Russian Roubles	2011	2010 Restated
Segment profit before tax	**5 403 870**	**4 975 137**
Elimination of revenues on transactions with other segments	(1 723 815)	(2 349 304)
Other revenues	79 710	53 800
Allowance for impairment of loans and advances to customers per management accounts	(1 444 838)	(517 128)
Unallocated administrative and other operating expenses	(1 393 403)	(1 164 157)
IFRS accounting policy adjustments:		
- elimination of profit from transactions with subsidiaries, SPE and unit investment funds	(350 062)	(201 450)
- profit of subsidiaries, SPE and unit investment funds from transactions with third parties	80 944	65 698
- depreciation of property and equipment and intangible assets	(61 598)	(42 351)
- interest income on loans and advances to customers	59 337	(390 542)
- allowance for impairment of loans, advances to customers, finance lease receivables and due from other banks	(47 199)	152 693
- securities at fair value	39 244	(23 059)
- administrative and other operating expenses on accrual basis	4 708	(96 651)
- profit from revaluation of property and equipment	-	108 021
- derivatives at fair value	-	(44 538)
- other adjustments	(18 648)	147 513
Consolidated profit before tax	**628 250**	**673 682**
Segment assets	**87 570 153**	**66 213 920**
Unallocated assets	19 594 424	13 987 096
Allowance for impairment of loans and advances to customers per management accounts	(5 769 498)	(4 100 889)
IFRS accounting policy adjustments:		
- elimination of balances with subsidiaries, SPE and unit investment funds	(12 233 344)	(5 063 740)
- assets of subsidiaries, SPE and unit investment funds from transactions with third parties	11 322 396	5 289 193
- allowance for impairment of loans, advances to customers, finance lease receivables and due from other banks	3 082 217	728 634
- write-offs of loans and advances to customers at expense of allowance for impairment	(2 090 365)	-
- interest income on loans and advances to customers	(1 478 432)	(1 534 391)
- deferred income tax asset	446 099	313 394
- revaluation and depreciation of property and equipment	(405 422)	(396 916)
- administrative and other operating expenses on accrual basis	(195 282)	(253 891)
- securities at fair value	162 862	419 822
- goodwill	162 122	162 122
- derivatives at fair value	60 088	143 143
- other adjustments	(232 609)	32 358
Consolidated assets	**99 995 409**	**75 939 855**
Segment liabilities	**93 768 794**	**70 947 670**
Unallocated liabilities	6 648	28 691
IFRS accounting policy adjustments:		
- elimination of balances with subsidiaries, SPE and unit investment funds	(1 419 748)	(172 558)
- deferred tax liabilities	351 967	367 025
- liabilities of subsidiaries, SPE and unit investment funds from transactions with third parties	305 444	122 238
- administrative and other operating expenses on accrual basis	68 173	63 629
- derivatives at fair value	43 695	44 228
- other adjustments	(182 680)	(183 111)
Consolidated liabilities	**92 942 293**	**71 217 812**

30 Segment analysis (continued)

Geographical segments. The Group operates in the Russian Federation and foreign countires. Segment information for the main geographical segments is set out below for the years ended 31 December 2011 and 2010.

In thousands of Russian Roubles	Russia	Other countries	Total
2011			
Segment assets	75 147 267	12 422 886	87 570 153
External revenues	10 624 688	481 179	11 105 867
Credit related commitments	4 403 529	482 941	4 886 470
2010			
Segment assets	60 927 949	5 285 971	66 213 920
External revenues	8 681 646	575 410	9 257 056
Credit related commitments	2 402 052	366 967	2 769 019

In presenting geographical information the allocation of external revenues and assets and credit related commitments is based on the geographical location of counterparties. Cash on hand, precious metals, property and equipment and capital expenditure are allocated based on the country in which they are physically held.

31 Financial risk management

The risk management function is carried out in respect of financial risks (credit, market, geographical, currency, liquidity and interest rate), operational risks and legal risks. The primary objective of the financial risk management is to establish risk limits, and then ensure that exposure to risks stays within these limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimise operational and legal risks.

Credit risk. The Group takes on exposure to credit risk which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of lending and other transactions with counterparties giving rise to financial assets.

The maximum exposure to credit risk is reflected in the carrying amounts of financial assets in the consolidated statement of financial position. For guarantees and commitments to extend credit, the maximum exposure to credit risk is the amount of the commitment. Refer to note 33.

The Group controls credit risk by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Limits on the level of credit risk by product and type of customer are approved regularly by management as part of current and strategic planning. Such risks are monitored on a regular basis and are subject to an annual or more frequent review. The financial model is annually approved by the Budget Committee and has a target structure of the corporate customer portfolio (by type of customers) and the individual customer portfolio (by type of products).

Thereby, the Group sets limits that are monitored by the Credit Committee (as part of credit risk management) and the Assets and Liabilities Management Committee (as part of loan yield management).

Issuing loans to corporate customers

Credit limits for borrowers are approved at the following two decision-making levels:

- Board of Directors approves credit limits for customers related to the Russian Copper Company group;
- Credit Committee considers and approves credit limits for all other customers.

31 Financial risk management (continued)

Loan applications from client relationship managers are considered by the Legal Department and Security Service, and subsequently evaluated by the Risk Department and transferred to the Credit Committee for setting credit limits. Exposure to credit risk is also managed, in part, by obtaining collateral and corporate and personal guarantees.

In order to monitor credit risk exposures regular reports are produced by the Risk Department based on a structured analysis focusing on the customer's business and financial performance. Any significant exposures to customers with deteriorating creditworthiness are reported to and reviewed by the Credit Committee.

Work-out of problem corporate loans

The Group ensures the maximum possible repayment of corporate loans. The Group classifies loans as a problem loan on the basis of the following criteria:

- the borrower has one delay in principal payment (under the loan agreement) exceeding 15 calendar days;
- the borrower has one delay in interest payment exceeding 15 calendar days;
- the payment is more than 15 calendar days overdue upon maturity of the loan agreement;
- availability of reliable information that the pledge has been withdrawn or disposed of without the Group's consent;
- a failure to fulfil, within 15 calendar days, the requirement to make accelerated repayment of the loan and interest in cases provided for by the loan agreement;
- two consecutive delays in contractual lease payments;
- violation of contractual requirements on the use of leased property;
- facts confirming that the outstanding amount will not be duly repaid upon maturity (through a direct refusal to repay or impossibility to contact the borrower, or otherwise).

The Group applies two methods for collecting problem corporate loans: voluntary and compulsory.

Voluntary repayment of loan by problem borrowers stipulates the following actions on the part of the responsible staff in case of possibility to contact the borrower during a certain period of time. If the loan is classified as a problem loan the Group performs the following actions in respect of the borrower:

- contacting the problem borrower, negotiating;
- reviewing the reasons for overdue balances (default);
- discussing payment options (methods, terms), check different types of collateral, property of the problem borrower (third parties) that may be provided to the Group for repayment of the loan, issuing an act on review of collateral;
- collecting and reviewing information on third parties (in respect of which information was previously unavailable), including through inquiries to Security Service units
- in case of deteriorating repayment probability, the problem borrower is requested to voluntarily hand over collateral or other property to the Group for repayment of the overdue loan
- organising transportation and removal of the problem borrower's property (including unpledged property) to the Group
- reviewing and evaluating the likelihood of voluntary repayment, searching for interested parties (problem borrower's creditors and collateral providers) for selling the debt.

In case of absence of any contact with the problem borrower (guarantor) the Group initiates litigation against the problem borrower.

31 Financial risk management (continued)

Issuing loans to individuals

One of the main principles of managing consumer lending risks is management of the risk/reward ratio in respect of each credit product. The Group evaluates its credit products using the following two methods:

- on the basis of a review of the relationship of net operating income (interest, commission), received from gross loan placements, and forecasted losses (overdue amount without consideration of the recovery coefficient after the completion of all claims procedures) caused by overdue amount

- on the basis of a review of the relationship of net operating income, received from gross loan placements, and actual losses (past due amounts with consideration of the recovery coefficient).

The process of issuing loans to individuals is carried out via a system of consumer loan support.

The system includes the following three basic elements (software modules/automated work stations (AWS)): "Point of sales" (AWS "PS"), "Risk Manager" (AWS "RM") and "Claims Group" (AWS "CG").

- AWS "PS" is the place of input and storage of personal client data. Personal client data is entered by employees at points of sales on the basis of information provided by the client.

- AWS "RM" is a module of evaluation of individual loan applications on the basis of programme codes. The module comprises all information received as a result of application of client evaluation methods, evaluation results and limits.

- AWS "CG" is a working module of the services in charge of security and problem loan management. The module reflects the flow of loan applications considered by the Security Service staff who provides an opinion on these applications.

In case of a positive decision from the Security Service and a non-zero limit in AWS "RM" on the basis of evaluation of the loan application, loan issue is automatically confirmed in AWS "PS". Then the employee of the point of sale can generate all necessary documents for issuance of the loan from AWS "PS".

Individual clients are evaluated on the basis of scoring models developed with the help of special software on the basis of accumulated statistical data. These methods include procedures for calculation of scoring rates on the basis of personal data as a separate borrower evaluation factor.

The application is rejected or approved on the basis of automatic comparison of the borrower's scores and the established cut-off level.

The Group applies the system of monitoring of the individual loan portfolio. The Risk Department evaluates problem loan trends for the portfolio in general and for each product, evaluates the efficiency of various scoring models and changes in borrower profile by product, etc. The Credit Committee makes decisions relating to monitoring, modification of methodologies and terms of individual credit products on a monthly basis.

Problem loans recovery is based on two strategies depending on the type of the lending product: 1) the express loan strategy; and 2) the consumer loan strategy (above RUB 100 thousand).

Work with problem express loans recovery comprises the following three stages.

1. In case of overdue mandatory payments (commission, interest, principal) the borrower is contacted by phone in an automatic regime (auto dial) until he/she pays the overdue amount (the delay should not exceed 30 calendar days).

2. If the payment is overdue by more than 30 days all procedures are passed to the Department for Problem Individual Loans:

31 Financial risk management (continued)

- during 60 calendar days from the date of receipt of the problem loan agreement the issue is handled by the operative Response Unit of the Department. Responsible staff identifies problem borrowers, clarifies contact details and groups the borrowers for subsequent work on the basis of individual scenarios for each group, tries to settle the problem with the borrowers by means of primary negotiations. Management is provided monthly reports based on the results of this work.

- during subsequent 120 days problem loans are handled by the Department of Long-term Past Due Loans with participation of the Legal Department. Work with problem borrowers comprises the entire set of measures from telephone calls to visits and court proceedings.

3. Write-off of uncollectible loans.

Problem consumer loans recovery comprises the following three stages.

1. In case of overdue mandatory payments (commission, interest, principal) the borrower is contacted by phone in an automatic regime (auto dial) until he/she pays the overdue amount (the delay should not exceed 7 calendar days).

2. If the payment is overdue by more than 7 days all procedures are passed to the Group for Overdue Consumer Loans of the Department for Problem Individual Loans.

- during 60 calendar days from the date of transfer of the problem loan, responsible staff identifies problem borrowers, clarifies contact details and groups the borrowers for subsequent work on the basis of individual scenarios for each group, tries to settle the problem with the borrowers by means of primary negotiations. Management is provided monthly reports based on the results of this work.

- if the Group for Overdue Consumer Loans concludes that the loan cannot be collected on the basis of out-the-court procedures, all materials on the borrower are passed to the Legal Department for collecting the debt by judicial means.

3. Write-off of uncollectible loans.

The Risk Department performs an ageing analysis of outstanding loans and follows up past due balances. Management is provided with information on ageing analysis and other information relating to credit risk. The information on credit risk for loans is provided in note 11.

Credit risk for unrecognised 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 Group uses the same credit policies in assessment impairment as it does for recognised financial instruments through established credit approvals, risk control limits and monitoring procedures.

Market risk. The Group takes on exposure to market risks. Market risks arise from open positions in currency, interest rate and equity products, all of which are exposed to general and specific market movements. The Assets and Liabilities Management Committee sets capital drawdown limits and allocates funds for forming a portfolio of operations exposed to market risk. The Treasury chooses an optimal portfolio structure and develops portfolio management regulations on the basis of the set limits. The Investment Committee together with representatives of the Risk Department and the Treasury approve the structure of the portfolio by instrument and position entry/exit rules. The Risk Department and the Treasury monitor limits set by the committees and financial results on a daily basis. If the decrease in capital, allocated for operations exposed to market risks, is 50% of the threshold level, limits on positions are automatically decreased by three times and the Investment Committee convenes in order to change the current portfolio management procedures.

31 Financial risk management (continued)

Currency risk. Management sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. The table below summarises exposure to foreign currency exchange rate risk at 31 December 2011.

In thousands of Russian Roubles	**RUB**	**USD**	**Euro**	**Precious metals**	**Other**	**Total**
ASSETS						
Cash and cash equivalents	4 354 657	8 488 624	448 981	71 716	8 058	13 372 036
Mandatory cash balances with the CBRF	874 345	-	-	-	-	874 345
Trading securities	129 955	-	-	-	-	129 955
Other securities at fair value through profit or loss	23 847 034	-	-	-	-	23 847 034
Securities available-for-sale	303 706	-	-	-	-	303 706
Due from other banks	-	64 391	-	-	-	64 391
Loans and advances to customers	43 869 922	1 057 840	34 428	-	-	44 962 190
Finance lease receivables	689 440	-	-	-	-	689 440
Advances to real estate developers	2 093 126	637 397	-	-	-	2 730 523
Other financial assets	332 643	8 415	12	-	5	341 075
Total monetary assets	**76 494 828**	**10 256 667**	**483 421**	**71 716**	**8 063**	**87 314 695**
LIABILITIES						
Due to other banks	14 627 770	1 146 553	24 599	-	-	15 798 922
Customer accounts	60 964 573	5 742 138	2 403 958	328 707	64 085	69 503 461
Debt securities in issue	4 853 958	127 556	70 668	-	-	5 052 182
Subordinated debt	-	1 646 691	-	-	-	1 646 691
Other financial liabilities	306 387	-	-	-	-	306 387
Total monetary liabilities	**80 752 688**	**8 662 938**	**2 499 225**	**328 707**	**64 085**	**92 307 643**
Net position	**(4 257 860)**	**1 593 729**	**(2 015 804)**	**(256 991)**	**(56 022)**	**(4 992 948)**
Derivative financial instruments	**(1 672 791)**	**(617 544)**	**2 018 980**	**224 505**	**54 463**	**7 613**
Net position including derivative instruments	**(5 930 651)**	**976 185**	**3 176**	**(32 486)**	**(1 559)**	**(4 985 335)**

31 Financial risk management (continued)

The table below summarises the exposure to foreign currency exchange rate risk at 31 December 2010.

In thousands of Russian Roubles	**RUB**	**USD**	**Euro**	**Precious metals**	**Other**	**Total**
ASSETS						
Cash and cash equivalents	4 911 301	3 041 645	445 112	31 093	5 556	8 434 707
Mandatory cash balances with the CBRF	415 149	-	-	-	-	415 149
Trading securities	13 380	-	-	-	-	13 380
Other securities at fair value through profit or loss	20 636 595	-	-	-	-	20 636 595
Securities available-for-sale	990 725	-	-	-	-	990 725
Due from other banks	1 404	60 954	-	-	-	62 358
Loans and advances to customers	24 255 738	9 212 754	784	-	-	33 469 276
Finance lease receivables	281 000	-	-	-	-	281 000
Advances to real estate developers	3 998 028	921 262	-	-	-	4 919 290
Other financial assets	260 138	8 994	9	-	5	269 146
Total monetary assets	**55 763 458**	**13 245 609**	**445 905**	**31 093**	**5 561**	**69 491 626**
LIABILITIES						
Due to other banks	13 386 537	269 399	244 105	-	-	13 900 041
Customer accounts	49 864 915	2 075 486	2 314 262	162 793	56 014	54 473 470
Debt securities in issue	561 240	132 763	41 573	-	-	735 576
Subordinated debt	-	1 556 425	-	-	-	1 556 425
Other financial liabilities	83 951	-	-	-	-	83 951
Total monetary liabilities	**63 896 643**	**4 034 073**	**2 599 940**	**162 793**	**56 014**	**70 749 463**
Net position	**(8 133 185)**	**9 211 536**	**(2 154 035)**	**(131 700)**	**(50 453)**	**(1 257 837)**
Derivative financial instruments (restated)	**7 559 903**	**(9 768 055)**	**2 152 980**	**105 141**	**48 946**	**98 915**
Net position including derivative instruments (restated)	**(573 282)**	**(556 519)**	**(1 055)**	**(26 559)**	**(1 507)**	**(1 158 922)**

Derivatives in each column represent the fair value at the reporting date of the respective currency that the Group agreed to buy (positive amount) or sell (negative amount) with the counterparty. The net total represents the fair value of the currency derivatives. The above analysis includes only monetary assets and liabilities. Investments in equities and non-monetary assets are not considered to give rise to any material currency risk.

An analysis of sensitivity of profit or loss and equity to changes in the foreign currency exchange rates based on positions existing as at 31 December 2011 and 2010 and a simplified scenario of a 10% change in USD, euro and precious metals to Russian Rouble exchange rates is as follows.

31 Financial risk management (continued)

	2011		2010	
In thousands of Russian Roubles	**Profit or loss**	**Equity**	**Profit or loss Restated**	**Equity Restated**
10% appreciation of USD against RUB	78 095	78 095	(44 522)	(44 522)
10% depreciation of USD against RUB	(78 095)	(78 095)	44 522	44 522
10% appreciation of precious metals against RUB	(2 599)	(2 599)	(2 125)	(2 125)
10% depreciation of precious metals against RUB	2 599	2 599	2 125	2 125
10% appreciation of Euro against RUB	254	254	(84)	(84)
10% depreciation of Euro against RUB	(254)	(254)	84	84

Other price risk. The Group has limited exposure to equity price risk. Price risk inherent in trading operations with shares is managed through setting of a capital reduction threshold and also a threshold for possible deviations in the portfolio's value (30-day value at risk (VaR) with a 95% probability, given that the maximum period of holding the position does not exceed 30 days). In terms set by the Assets and Liabilities Management Committee for capital reduction thresholds, the Treasury develops and Investment Committee approves equity portfolio management rules. The Risk Department monitors the financial result from trading in shares on a daily basis and, if capital decreases by more than 50% of a maximum set level, reduces limits by three times, after which the Investment Committee holds a meeting for the purpose of changing the equity portfolio management rules.

The below table represents model limits and actual exposure for the year ended 31 December for the equity trading portfolio and potential exposure on profit or loss:

In thousands of Russian Roubles	**Exposure during 2011**	**Exposure during 2010**
Capital drawdown – limit	225 000	112 800
Capital drawdown – fact	113 957	63 139
30-day 95% VaR on portfolio (limits)	120 328	232 416

Interest rate risk. The Group is exposed to interest risk in case of change in the bond portfolio's value.The Group manages interest rate risk associated with changes in the bond portfolio's value as a result of changes in market rates (bond yield) by limiting the bond portfolio's duration. The Assets and Liabilities Management Committee sets portfolio duration limits at least annually on the basis of the overall possible change in the portfolio's value in case of a 100 b.p. increase in rates. The Investment Committee approves the portfolio structure by instrument and the portfolio management strategy. The Treasury is in charge of direct portfolio management, supports its target structure and ensures compliance with the strategy for transactions with instruments in the portfolio. The Risk Department is in charge of regular monitoring of the level of possible losses of the portfolio in case of a negative change of market rates.

The table below reflects the bond portfolio's sensitivity for the year ended 31 December 2011 due to changes in interest rates.

	Exposure during 2011	
In thousands of Russian Roubles	**Profit or loss**	**Equity**
Changes in portfolio's value in case of a 100 b.p. increase in rates at the year end	(122 474)	(123 918)

The table below reflects the bond portfolio's sensitivity for the year ended 31 December 2010 due to changes in interest rates.

31 Financial risk management (continued)

In thousands of Russian Roubles	Exposure during 2010 Profit or loss	Equity
Changes in portfolio’s value in case of a 100 b.p. increase in rates at the year end	(123 241)	(129 660)

The sensitivity of financial assets and liabilities to changes in interest rates for financial assets and liabilities outstanding as at 31 December is as follows.

	2011		2010	
In thousands of Russian Roubles	Profit or loss	Equity	Profit or loss	Equity
100 bp parallel rise	(49 278)	(49 278)	2 230	2 230
100 bp parallel fall	49 278	49 278	(2 230)	(2 230)

The Group manages interest rate risk associated with changes in the margin through medium and long term planning. The main source of this risk is the excess of the rate of change in the value of liabilities over the rate of change in the asset yield. The Group does not have any assets and liabilities with floating rates, except subordinated debt, which limits the function of interest rate risk management to managing and maximising the level of margin subject to complying with adequate liquidity requirements. Rates on short-term funds are considered in interest rate calculations as the cost of coverage of liquidity gaps. To manage the margin, management develops scenario-based models for a term of up to one year by month. Reviewing the planned figures on a monthly basis enables the Group to promptly respond to external and internal changes and implement additional scenario-based modelling in case of serious deviations.

The table below displays analysis of effective interest rates for major financial instruments. The analysis is performed based on effective interest rates as at the year end used for amortisation of the relevant assets and liabilities.

	2011				2010			
% p.a.	RUB	USD	Euro	Other currencies	RUB	USD	Euro	Other currencies
ASSETS								
Cash and cash equivalents	0.93	1.69	0.05	-	0.52	0.89	0.82	-
Other securities at fair value through profit or loss	9.43	-	-	-	9.66	-	-	-
Debt securities available-for-sale	9.43	-	-	-	9.66	-	-	-
Due from other banks	-	-	-	-	0.64	-	-	-
Loans and advances to customers	16.05	9.68	10.26	-	18.66	11.22	15.96	-
Finance lease receivables	22.00	-	-	-	31.97	-	-	-
Advances to real estate developers	16.00	-	-	-	16.00	-	-	
LIABILITIES								
Due to other banks	4.80	2.00	2.00	-	5.17	-	-	-
Customer accounts								
- current and settlement accounts	1.03	0.03	0.03	-	1.23	0.32	0.32	-
- term deposits	8.42	6.74	5.88	4.15	12.22	6.66	6.61	5.23
Debt securities in issue	9.50	0.68	-	-	7.02	4.10	4.55	-
Subordinated debt	-	8.46	-	-	-	8.56	-	-

31 Financial risk management (continued)

Geographical risk concentrations. The geographical concentration of assets and liabilities at 31 December 2011 is set out below.

In thousands of Russian Roubles	**Russia**	**Other countries**	**Total**
ASSETS			
Cash and cash equivalents	4 926 050	8 445 986	13 372 036
Mandatory cash balances with the CBRF	874 345	-	874 345
Trading securities	129 955	-	129 955
Other securities at fair value through profit or loss	23 847 034	-	23 847 034
Securities available-for-sale	303 706	-	303 706
Due from other banks	-	64 391	64 391
Loans and advances to customers	41 071 027	3 891 163	44 962 190
Finance lease receivables	689 440	-	689 440
Advances to real estate developers	2 730 523	-	2 730 523
Other financial assets	371 037	21 346	392 383
Total financial assets	**74 943 117**	**12 422 886**	**87 366 003**
Total non-financial assets	**12 629 406**	**-**	**12 629 406**
TOTAL	**87 572 523**	**12 422 886**	**99 995 409**
LIABILITIES			
Due to other banks	15 798 922	-	15 798 922
Customer accounts	68 997 577	505 884	69 503 461
Debt securities in issue	5 043 359	8 823	5 052 182
Subordinated debt	-	1 646 691	1 646 691
Other financial liabilities	331 573	18 509	350 082
Total financial liabilities	**90 171 431**	**2 179 907**	**92 351 338**
Total non-financial liabilities	**590 955**	**-**	**590 955**
TOTAL	**90 762 386**	**2 179 907**	**92 942 293**
Net position	**(3 189 863)**	**10 242 979**	**7 053 116**
Credit related commitments	**4 403 529**	**482 941**	**4 886 470**

31 Financial risk management (continued)

The geographical concentration of assets and liabilities at 31 December 2010 is set out below.

In thousands of Russian Roubles	**Russia Restated**	**Other countries**	**Total Restated**
ASSETS			
Cash and cash equivalents	6 468 709	1 965 998	8 434 707
Mandatory cash balances with the CBRF	415 149	-	415 149
Trading securities	13 380	-	13 380
Other securities at fair value through profit or loss	20 636 595	-	20 636 595
Securities available-for-sale	990 725	-	990 725
Due from other banks	1 404	60 954	62 358
Loans and advances to customers	30 232 887	3 236 389	33 469 276
Finance lease receivables	281 000	-	281 000
Advances to real estate developers	4 919 290	-	4 919 290
Other financial assets	389 659	22 630	412 289
Total financial assets	**64 348 798**	**5 285 971**	**69 634 769**
Total non-financial assets	**6 305 086**	**-**	**6 305 086**
TOTAL	**70 653 884**	**5 285 971**	**75 939 855**
LIABILITIES			
Due to other banks	13 900 041	-	13 900 041
Customer accounts	54 400 266	73 204	54 473 470
Debt securities in issue	727 224	8 352	735 576
Subordinated debt	-	1 556 425	1 556 425
Other financial liabilities	122 097	6 082	128 179
Total financial liabilities	**69 149 628**	**1 644 063**	**70 793 691**
Total non-financial liabilities	**424 121**	**-**	**424 121**
TOTAL	**69 573 749**	**1 644 063**	**71 217 812**
Net position	**1 080 135**	**3 641 908**	**4 722 043**
Credit related commitments	**2 402 052**	**366 967**	**2 769 019**

Assets, liabilities and credit related commitments are based mainly on the country in which the counterparty is located. Balances with Russian counterparties actually outstanding to/from off-shore companies of these Russian counterparties are allocated to the caption "Russia". Cash on hand, precious metals and property and equipment are allocated based on the country in which they are physically held.

Liquidity risk. Liquidity risk is defined as the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities. The Group is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw downs, guarantees and from margin and other calls on cash settled derivative instruments.

The Group does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The Group manages liquidity risk at two levels: the first level is the Assets and Liabilities Management Committee; the second level is the Treasury and the Asset and Liability Department.

31 Financial risk management (continued)

The Assets and Liabilities Management Committee determines the type of liquidity management strategy for up to one year with possible revision in response to certain events. The Treasury manages instant liquidity (up to three days) by forming liquid asset provisions in accordance with requirements of the Assets and Liabilities Management Committee. The Asset and Liability Department monitors 90-day transactions planned for execution, performs stress testing of liquidity and provides analytical support to the Assets and Liabilities Management Committee.

The Group seeks to maintain a stable funding base comprising primarily amounts due to other banks, corporate and retail customer deposits and debt securities and invest the funds in diversified portfolios of liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The liquidity management process includes: performing daily calculations of liquid assets necessary for covering resource base risks; reviewing the level and structure of liquid assets and available liquidity forming instruments; providing access to different finance sources; maintaining liquidity contingency plans; monitoring compliance with legal requirements to balance liquidity ratios.

Information on the required level and structure of liquid assets by age is provided to the Treasury. The Treasury provides for an adequate portfolio of liquid assets, largely made up of bonds available for sale and for sale and repurchase transactions, liquid trading securities, deposits with banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole.

The Treasury Department is responsible for monitoring of the daily liquidity position. The Asset and Liability Department regularly carries out stress tests on the level of liquidity on the basis of various scenarios that cover both standard and more unfavourable market conditions.

The Group maintains liquidity management when the bond portfolio, composed of liquid securities of issuers which have high credit quality, is used as an instrument for regulation of cash liquidity gaps and can be converted into cash in 1 month. Therefore other securities at fair value through profit or loss as well as securities available for sale as at 31 December 2011 and 2010 are classified as "Demand and less than 1 month". The fair value of securities which are classified to this category with maturity more than 12 months amounts to RUB 20 838 838 thousand (31 December 2010: RUB 16 681 122 thousand).

31 Financial risk management (continued)

The following table shows financial assets and liabilities by remaining contractual maturity dates as at 31 December 2011, except for term deposits from individuals, which are shown by expected maturity dates.

In thousands of Russian Roubles	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 to 12 months**	**From 1 to 3 years**	**Over 3 years**	**Total**
ASSETS						
Cash and cash equivalents	13 372 036	-	-	-	-	13 372 036
Mandatory cash balances with the CBRF	164 390	8 455	51 183	125 218	525 099	874 345
Trading securities	129 955	-	-	-	-	129 955
Other securities at fair value through profit or loss	23 847 034	-	-	-	-	23 847 034
Securities available-for-sale	303 706	-	-	-	-	303 706
Due from other banks	-	-	-	64 391	-	64 391
Loans and advances to customers	1 166 510	2 028 868	10 919 550	19 405 728	11 441 534	44 962 190
Finance lease receivables	35 921	60 717	211 996	262 430	118 376	689 440
Advances to real estate developers	-	-	418 149	2 312 374	-	2 730 523
Other financial assets	383 894	-	-	-	8 489	392 383
Total financial assets	**39 403 446**	**2 098 040**	**11 600 878**	**22 170 141**	**12 093 498**	**87 366 003**
LIABILITIES						
Due to other banks	14 504 822	711 100	45 723	63 707	473 570	15 798 922
Customer accounts	13 067 707	672 114	4 068 623	9 953 798	41 741 219	69 503 461
Debt securities in issue	408 537	1 627 278	477 017	2 539 350	-	5 052 182
Subordinated debt	-	68 831	65 380	237 159	1 275 321	1 646 691
Other financial liabilities	350 082	-	-	-	-	350 082
Total financial liabilities	**28 331 148**	**3 079 323**	**4 656 743**	**12 794 014**	**43 490 110**	**92 351 338**
Net liquidity gap as at 31 December 2011	**11 072 298**	**(981 283)**	**6 944 135**	**9 376 127**	**(31 396 612)**	**(4 985 335)**
Cumulative liquidity gap as at 31 December 2011	**11 072 298**	**10 091 015**	**17 035 150**	**26 411 277**	**(4 985 335)**	

31 Financial risk management (continued)

The following table shows financial assets and liabilities by remaining contractual maturity dates as at 31 December 2010, except for term deposits from individuals, which are shown by expected maturity dates.

In thousands of Russian Roubles	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 to 12 months**	**From 1 to 3 years**	**Over 3 years**	**Total**
ASSETS						
Cash and cash equivalents	8 434 707	-	-	-	-	8 434 707
Mandatory cash balances with the CBRF	84 396	11 156	49 163	24 926	245 508	415 149
Trading securities	13 380	-	-	-	-	13 380
Other securities at fair value through profit or loss	20 636 595	-	-	-	-	20 636 595
Securities available-for-sale	990 725	-	-	-	-	990 725
Due from other banks	1 404	-	-	60 954	-	62 358
Loans and advances to customers	846 577	1 416 368	9 614 416	13 489 293	8 102 622	33 469 276
Finance lease receivables	30 399	40 166	111 541	89 761	9 133	281 000
Advances to real estate developers	52 787	-	2 298 502	2 568 001	-	4 919 290
Other financial assets (restated)	403 802	-	-	-	8 487	412 289
Total financial assets	**31 494 772**	**1 467 690**	**12 073 622**	**16 232 935**	**8 365 750**	**69 634 769**
LIABILITIES						
Due to other banks	13 617 392	6 177	35 624	152 829	88 019	13 900 041
Customer accounts	11 073 877	1 463 866	6 450 888	3 270 698	32 214 141	54 473 470
Debt securities in issue	212 667	281 964	240 945	-	-	735 576
Subordinated debt	-	65 105	62 023	224 998	1 204 299	1 556 425
Other financial liabilities	128 179	-	-	-	-	128 179
Total financial liabilities	**25 032 115**	**1 817 112**	**6 789 480**	**3 648 525**	**33 506 459**	**70 793 691**
Net liquidity gap as at 31 December 2010 (restated)	**6 462 657**	**(349 422)**	**5 284 142**	**12 584 410**	**(25 140 709)**	**(1 158 922)**
Cumulative liquidity gap as at 31 December 2010 (restated)	**6 462 657**	**6 113 235**	**11 397 377**	**23 981 787**	**(1 158 922)**	

The amounts disclosed in the tables below, except for term deposits from individuals, represent contractual undiscounted cash flows, including assets and liabilities under finance lease, prices specified forward foreign currency contracts for purchase of assets, gross contractual cash flows under foreign currency swaps as well as gross amounts under existing loan commitments. Gross payments under delivery forward contracts will be accompanied with corresponding cash inflows.

31 Financial risk management (continued)

The analysis of financial liabilities and commitments taking into account undiscounted cash flows by maturity as at 31 December 2011 is as follows.

In thousands of Russian Roubles	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 3 years	Over 3 years	Total
LIABILITIES						
Due to other banks	14 526 318	717 450	46 717	72 030	616 605	15 979 120
Customer accounts,	13 072 259	698 572	4 104 710	11 824 905	44 351 069	74 051 515
including deposits from individuals	4 830 168	348 584	2 166 152	1 532 446	44 282 995	53 160 345
Debt securities in issue	408 538	1 627 278	486 730	2 977 676	-	5 500 222
Subordinated debt	-	69 632	68 875	276 258	2 070 740	2 485 505
Derivative financial instruments liabilities	4 932 239	-	-	-	-	4 932 239
Operating lease commitments	12 251	23 285	75 988	44 889	20 390	176 803
Guarantees issued	69 528	70 187	906 890	4 491	89 618	1 140 714
Import letters of credit issued	43 722	89 240	701 345	-	-	834 307
Unused commitments to extend credit	2 911 449	-	-	-	-	2 911 449
Other financial liabilities	350 082	-	-	-	-	350 082
Total financial and contingent liabilities	**36 326 386**	**3 295 644**	**6 391 255**	**15 200 249**	**47 148 422**	**108 361 956**

The analysis of financial liabilities and commitments taking into account undiscounted cash flows by maturity as at 31 December 2010 is as follows.

In thousands of Russian Roubles	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 3 years	Over 3 years	Total
LIABILITIES						
Due to other banks	13 632 967	6 241	37 274	181 553	118 387	13 976 422
Customer accounts,	11 084 464	1 555 845	8 503 695	4 556 962	32 216 167	57 917 133
including deposits from individuals	3 971 717	968 038	7 397 359	2 757 907	32 216 167	47 311 188
Debt securities in issue	213 107	284 478	246 446	-	-	744 031
Subordinated debt	-	65 914	65 552	264 742	2 097 152	2 493 360
Derivative financial instruments liabilities	16 159 379	-	-	-	-	16 159 379
Operating lease commitments	7 832	15 246	51 448	38 998	19 645	133 169
Guarantees issued	27 600	10 484	189 564	18 522	-	246 170
Import letters of credit issued	9 380	131 659	235 308	-	-	376 347
Unused commitments to extend credit	2 146 502	-	-	-	-	2 146 502
Other financial liabilities	128 179	-	-	-	-	128 179
Total financial and contingent liabilities	**43 409 410**	**2 069 867**	**9 329 287**	**5 060 777**	**34 451 351**	**94 320 692**

31 Financial risk management (continued)

Management expects that contractual maturity dates of term deposits from individuals are not representative for analysis of liquidity position, as based on analysis of internal statistics, 80% of agreements are prolonged and based on past experience this ratio has never gone lower than this limit. Accordingly, 80% of term deposits from individuals in categories "On demand and less than 1 month", "From 1 to 3 month", "From 3 to 12 months" and "From 1 to 3 years" are classified in the category "Over 3 years" to present more accurately expected cash flows. However in accordance with Russian legislation, individuals can withdraw their term deposits at any time, losing in most cases the accrued interest.

The following table shows these deposits in accordance with their stated maturity dates.

In thousands of Russian Roubles	**2011**	**2010**
Demand and less than 1 month	671 279	1 976 079
From 1 to 3 months	1 637 046	4 338 854
From 3 to 12 months	8 777 165	25 847 841
From 1 to 3 years	5 073 786	8 464 181
More than 3 years	28 805 555	3 152
Total	**44 964 831**	**40 630 107**

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

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

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Group does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

32 Capital management

The Group's objectives when managing capital are (i) to comply with capital requirements set by the CBRF, (ii) to safeguard the Group's ability to continue as a going concern, and (iii) to obtain return on capital on a long term basis. Compliance with capital adequacy ratios set by the CBRF is monitored monthly with reports outlining their calculation reviewed and signed by the President and Chief Accountant. Other objectives of capital management are evaluated quarterly.

Under the current capital requirements set by the CBRF, banks have to maintain a ratio of capital to risk weighted assets (statutory capital ratio) above the prescribed minimum level. As at 31 December 2011, this minimum level is 10.0% (31 December 2010: 10.0%). As at 31 December 2011 statutory capital ratio calculated based on requirements set by the CBR is 11.37% (31 December 2010: 11.35%).

The Group also monitors its capital adequacy levels calculated in accordance with the requirements of the Basle Accord, as defined in the International Convergence of Capital Measurement and Capital Standards (updated April 1998) and Amendment to the Capital Accord to incorporate market risks (updated November 2007), commonly known as Basel I.

32 Capital management (continued)

The following table shows the composition of the capital position calculated in accordance with the requirements of the Basle Accord as at 31 December 2011 and 2010:

In thousands of Russian Roubles	31 December 2011	31 December 2010 Restated
Tier 1 capital		
Share capital	3 216 768	3 216 768
Additional capital	2 379 203	524 203
Retained earnings/(accumulated losses)	97 962	(489 077)
Less goodwill	(162 122)	(162 122)
Total Tier 1 capital	**5 531 811**	**3 089 772**
Tier 2 capital		
Revaluation reserve for property and equipment	1 387 612	1 469 825
Revaluation reserve for securities available-for-sale	597	10 493
Cumulative translation reserve	(29 026)	(10 169)
Qualifying subordinated debt	1 646 691	1 544 886
Total Tier 2 capital	**3 005 874**	**3 015 035**
Total capital	**8 537 685**	**6 104 807**
Capital adequacy ratio		
Risk weighted average of assets	89 908 064	66 014 950
Total capital	8 537 685	6 104 807
Tier 1 capital ratio	6.2%	4.7%
Tier 2 capital ratio	9.5%	9.2%

Revaluation reserve for property and equipment and for securities available-for-sale, cumulative translation reserve and long-term subordinated debt are included in calculation of capital adequacy ratios within limits set for tier 2 capital.

The risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the nature of – and reflecting an estimate of credit, market and other risks associated with – each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for unrecognized exposures, with some adjustments to reflect the more contingent nature of the potential losses.

On 9 September 2011 the CBRF registered the Bank's decision on additional issue of shares in the amount of 333 333 thousand ordinary shares with the nominal value of RUB 3 to increase share capital of the Bank on RUB 1 000 000 thousand. Approval of issue of shares by the CBRF is planning before 1 July 2012.

33 Contingencies and commitments

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

33 Contingencies and commitments (continued)

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

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

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

In thousands of Russian Roubles	**2011**	**2010**
Less than 1 year	111 524	74 526
From 1 to 5 years	56 687	50 579
More than 5 years	8 592	8 064
Total	**176 803**	**133 169**

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

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

Outstanding credit related commitments as at 31 December are as follows:

In thousands of Russian Roubles	**2011**	**2010**
Unused limits on overdraft loans	1 570 296	923 837
Commitments to extend credit	1 341 153	1 222 665
Guarantees issued	1 140 714	246 170
Import letters of credit	834 307	376 347
Total	**4 886 470**	**2 769 019**

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

33 Contingencies and commitments (continued)

Credit related commitments as at 31 December are denominated in the following currencies:

In thousands of Russian Roubles	**2011**	**2010**
Russian Roubles	3 794 915	2 391 226
USD	1 025 400	364 510
Euro	66 155	13 283
Total	**4 886 470**	**2 769 019**

Funds management and trust activities. The Group provides trust services to individuals, trusts, retirement benefit plans and other institutions, whereby it holds and manages assets or invests funds received in various financial instruments at the direction of the customer. The Group receives fee income for providing these services. Trust assets are not assets of the Group and are not recognised in the consolidated statement of financial position. The Group is not exposed to any credit risk relating to such placements as it does not guarantee these investments.

Custody activities. The Group provides custody services to its customers, whereby it holds securities on behalf of customers and receives fee income for providing these services. These securities are not assets of the Group and are not recognised in the consolidated statement of financial position.

34 Derivative financial instruments and operations with precious metals

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

The table below sets out fair values of currencies receivable or payable under foreign exchange forward contracts entered into by the Group as at 31 December 2011 and 2010. The table reflects gross positions before the netting of any counterparty positions and covers the contracts with settlement dates after the respective reporting date. The contracts are short term in nature.

34 Derivative financial instruments and operations with precious metals (continued)

In thousands of Russian Roubles	**2011** Contracts with positive fair value	**2011** Contracts with negative fair value	**2010** Contracts with positive fair value Restated	**2010** Contracts with negative fair value
Foreign exchange forwards: fair values, at the reporting date, of				
- USD receivable on settlement	1 448 825	160 981	809 985	420 581
- USD payable on settlement	(1 949 724)	(38 774)	(2 038 641)	(8 980 960)
- Euro receivable on settlement	2 060 651	-	2 230 420	2 064 248
- Euro payable on settlement	-	(41 671)	(806 662)	(1 335 026)
- RUB receivable on settlement	-	41 280	39 653	8 188 763
- RUB payable on settlement	(1 552 913)	(161 158)	(239 593)	(428 920)
- Other currencies receivable on settlement	15 749	38 714	16 809	32 137
Net fair value of foreign exchange forwards	**22 588**	**(628)**	**11 971**	**(39 177)**
Forwards with precious metals: fair values, at the reporting date, of				
- USD receivable on settlement	488 907	-	984 288	193 293
- USD payable on settlement	(114 386)	(613 373)	(1 144 757)	(11 844)
- Precious metals receivable on settlement	114 439	570 306	1 266 364	11 753
- Precious metals payable on settlement	(460 240)	-	(974 723)	(198 253)
Net fair value of forwards with precious metals	**28 720**	**(43 067)**	**131 172**	**(5 051)**

Geographical, currency and maturity analyses of derivative financial instruments are disclosed in note 31. Information on related party transactions is disclosed in note 36.

35 Fair value of financial instruments

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price.

The estimated fair values of financial instruments are determined using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. The Russian Federation continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management uses all available market information in estimating the fair value of financial instruments.

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

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

35 Fair value of financial instruments (continued)

- Level 2: Valuation techniques based on observable inputs, either directly (i.e, as prices) or indirectly (i.e, derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

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

In thousands of Russian Roubles	**Level 1**	**Level 2**	**Total**
Financial instruments at fair value through profit or loss:			
- debt fixed income instruments	23 847 034	-	23 847 034
- equity investments	129 955	-	129 955
- derivative assets	-	4 939 852	4 939 852
- derivative liabilities	-	(4 932 239)	(4 932 239)
Available-for-sale financial assets:			
- debt fixed income instruments	303 706	-	303 706
Total	**24 280 695**	**7 613**	**24 288 308**

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

In thousands of Russian Roubles	**Level 1**	**Level 2 Restated**	**Total Restated**
Financial instruments at fair value through profit or loss:			
- debt fixed income instruments	20 636 595	-	20 636 595
- equity investments	13 380	-	13 380
- derivative assets	-	16 258 294	16 258 294
- derivative liabilities	-	(16 159 379)	(16 159 379)
Available-for-sale financial assets:			
- debt fixed income instruments	990 725	-	990 725
Total	**21 640 700**	**98 915**	**21 739 615**

For more detailed information by types of financial instruments measured at fair value, please, refer to notes 7, 8, 9 and 34.

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

Loans and receivables carried at amortised cost. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The estimated fair values of loans and receivables carried at amortised cost approximate their carrying values. Discount rates of 10.49% and 19.64% are used for discounting future cash flows from corporate loans and loans to small and medium size businesses respectively. Loans to individuals are mostly short-term and their fair value is equal to carrying value.

35 Fair value of financial instruments (continued)

Liabilities carried at amortised cost. The fair value is based on quoted market prices where available. The estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, is estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The fair value of liabilities repayable on demand or after a notice period is estimated as the amount payable on demand, discounted from the first date that the amount could be required to be paid. The estimated fair values of liabilities carried at amortised cost approximate their carrying values. Discount rate of 6.97% is used for discounting future cash flows from term deposits of legal entities. Term deposits of individuals are mostly short-term and their fair value is equal to carrying value.

Derivative financial instruments. All derivative financial instruments are carried at fair value as assets when the fair value is positive and as liabilities when the fair value is negative. Their fair values are based on observable market prices (refer to note 34).

The estimates of fair value are intended to approximate the amount for which a financial instrument can be exchanged between knowledgeable, willing parties in an arm's length transaction. However given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realisable in an immediate sale of the assets or settlement of liabilities.

36 Related party transactions

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

At 31 December 2011 the outstanding balances with related parties are as follows:

In thousands of Russian Roubles	**Shareholders**	**Companies under common control**	**Other related parties**
Gross amount of loans and advances to customers (contractual interest rates: 5.4%-13%)	201 038	9 607 269	9 510
Allowance for impairment of loans and advances to customers	(820)	(17 484)	(39)
Other assets	-	95	2 319
Customer accounts (contractual interest rates: 0%-8,5%)	350 641	2 595 116	102 790
Debt securities in issue (contractual interest rates: 10%)	-	8 823	-
Foreign exchange forward contracts	-	(17 003)	-
Other liabilities	-	17 158	-

The income and expense with related parties for the year ended 31 December 2011 are as follows:

In thousands of Russian Roubles	**Shareholders**	**Companies under common control**	**Other related parties**
Interest income	13 956	835 069	697
Interest expense	(9 076)	(98 812)	(10 053)
Fee and commission income	502	90 211	117
Income from trading in foreign currencies	-	178 696	32
Income from trading in precious metals	-	275 750	-
Other operating income	8	1 005	-

36 Related party transactions (continued)

At 31 December 2011 the other commitments with related parties are as follows:

In thousands of Russian Roubles	**Shareholders**	**Companies under common control**	**Other related parties**
Guarantees issued	-	260 039	-

At 31 December 2010 the outstanding balances with related parties were as follows:

In thousands of Russian Roubles	**Shareholders**	**Companies under common control**	**Other related parties**
Gross amount of loans and advances to customers (contractual interest rates: 9%-18%)	193 671	7 615 306	9 999
Allowance for impairment of loans and advances to customers	(594)	(23 910)	(31)
Receivables under reverse repo agreements (contractual interest rate: 23%)	-	7 267	-
Other assets	-	1 301	-
Customer accounts (contractual interest rates: 0%-17%)	38 863	22 965	97 470
Debt securities in issue (contractual interest rates: 10%)	-	8 352	-
Foreign exchange forward contracts	-	116 308	-

The income and expense with related parties for the year ended 31 December 2010 year were as follows:

In thousands of Russian Roubles	**Shareholders**	**Companies under common control**	**Other related parties**
Interest income	4 729	737 417	13 854
Interest expense	(2 593)	(104 421)	(12 609)
Fee and commission income	200	9 926	184
Loss from trading in foreign currencies	-	11 521	-
Income from trading in precious metals	-	166 038	-
Other operating income	6	891	647

At 31 December 2010 the other commitments with related parties are as follows:

In thousands of Russian Roubles	**Shareholders**	**Companies under common control**	**Other related parties**
Guarantees issued	-	151 496	-

Other related parties represent eight members of the Management Board and five members of the Board of Directors of the Bank. In 2011 the remuneration of management comprises salaries, discretionary bonuses and other short-term benefits amounting to RUB 121 987 thousand (2010: RUB 87 317 thousand). Social security costs amount to RUB 1 259 thousand (2010: RUB 971 thousand) of the total remuneration of management. Short term bonuses were fully paid during the year ended 31 December 2011.