ZAO Raiffeisenbank

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

31 December 2011

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Independent Auditor's Report

To the Shareholders and Supervisory Board of ZAO Raiffeisenbank:

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

4 An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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.

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

Opinion

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

ZAO PricewaterhouseCoopers Audit

1 February 2012
Moscow, Russia

In thousands of Russian Roubles	Note	31 December 2011	31 December 2010
ASSETS			
Cash and cash equivalents	7	139 519 817	84 278 857
Mandatory cash balances with the Central Bank of the Russian Federation		5 921 349	2 698 403
Trading securities	8	53 934 271	53 613 606
Other securities at fair value through profit or loss	9	4 976 131	18 405 098
Due from other banks	10	3 998 688	21 724 713
Loans and advances to customers	11	354 743 067	283 563 919
Investment securities available for sale	12	5 810 675	11 086 572
Premises and equipment	15	9 152 808	9 097 449
Intangible assets	16	11 862 200	11 777 347
Deferred income tax asset	30	2 749 879	2 248 290
Investment securities held to maturity	13	509 681	512 148
Derivatives and other financial assets	17	8 885 709	6 337 166
Investment in associates	14	1 349 943	1 058 323
Other assets	18	1 672 208	1 902 811
TOTAL ASSETS		**605 086 426**	**508 304 702**
LIABILITIES			
Due to other banks	19	29 935 428	20 535 226
Customer accounts	20	399 461 342	286 744 158
Term borrowings from the Parent Bank	22	46 987 518	81 169 487
Term borrowings from other financial institutions	22	3 859 816	5 658 905
Debt securities in issue	21	11 828 102	16 196 249
Current income tax liability		1 659 635	500 840
Derivatives and other financial liabilities	23	10 857 907	7 542 341
Other liabilities	24	4 732 938	4 049 178
TOTAL LIABILITIES		**509 322 686**	**422 396 384**
EQUITY			
Share capital	25	43 268 888	43 268 888
Share premium		591 083	591 083
Additional paid-in capital	26	1 520 016	1 520 016
Retained earnings and other reserves		50 383 753	40 528 331
TOTAL EQUITY		**95 763 740**	**85 908 318**
TOTAL LIABILITIES AND EQUITY		**605 086 426**	**508 304 702**

Approved for issue and signed on behalf of the Managing Board on 31 January 2012.

Sergei Monin
Chairman of the Board

Arndt Roechling
Chief Financial Officer

In thousands of Russian Roubles	Note	2011	2010
Interest income	27	37 660 581	32 108 360
Interest expense	27	(13 306 741)	(10 338 073)
Net interest income		**24 353 840**	**21 770 287**
Provision for loan impairment	11	1 194 452	(4 023 677)
Net interest income after provision for loan impairment		**25 548 292**	**17 746 610**
Fee and commission income	28	10 041 811	9 100 862
Fee and commission expense	28	(2 278 810)	(1 678 551)
(Losses less gains)/gains less losses from trading securities		(1 430 288)	343 308
Gains less losses from other securities at fair value through profit or loss		82 850	934 879
Losses, net of gains from redemption of investment securities available for sale		(264 250)	-
Gains less losses from trading in foreign currencies		3 280 943	3 179 292
Unrealized losses, net of gains from derivative financial instruments	36	(559 047)	(3 571 976)
Realized gains less losses from derivative financial instruments		2 199 489	2 429 994
Foreign exchange translation gains, net of losses/(losses, net of gains)		808 694	(195 860)
Ineffectiveness from hedge accounting	36	56 596	(86 788)
Provisions for credit related commitments	35	544 195	(896 743)
Provision for investment securities held to maturity	13	(4 991)	(1 362)
Gains from the sale of loans	11	231 038	-
Other operating income		296 470	179 858
Share of results of associates	14	207 716	6 682
Operating income		**38 760 708**	**27 490 205**
Administrative and other operating expenses	29	(20 474 605)	(18 078 945)
Profit before tax		**18 286 103**	**9 411 260**
Income tax expense	30	(4 430 655)	(2 123 588)
Profit for the year		**13 855 448**	**7 287 672**
Revaluation of investment securities available for sale		(217 096)	419 061
Redemption of investment securities available for sale		264 250	-
Income tax recorded directly in other comprehensive income	30	(76 873)	(178 220)
Valuation reserve due to cash flow hedge	36	337 210	472 038
Other comprehensive income for the year, net of tax		**307 491**	**712 879**
Total comprehensive income for the year, net of tax		**14 162 939**	**8 000 551**

In thousands of Russian Rouble	**Note**	**Share capital**	**Share premium**	**Additional paid-in capital**	**Retained earnings**	**Other reserves**	**Total**
Balance at 1 January 2010		**43 268 888**	**591 083**	**1 520 016**	**34 258 706**	**(532 685)**	**79 106 008**
Profit for the year		-	-	-	7 287 672	-	7 287 672
Other comprehensive income		-	-	-	-	712 879	712 879
Total comprehensive income for 2010		**-**	**-**	**-**	**7 287 672**	**712 879**	**8 000 551**
Dividends declared	31	-	-	-	(1 198 241)	-	(1 198 241)
Balance at 31 December 2010		**43 268 888**	**591 083**	**1 520 016**	**40 348 137**	**180 194**	**85 908 318**
Profit for the year		-	-	-	13 855 448	-	13 855 448
Other comprehensive income		-	-	-	-	307 491	307 491
Total comprehensive income for 2011		**-**	**-**	**-**	**13 855 448**	**307 491**	**14 162 939**
Dividends declared	31	-	-	-	(4 307 517)	-	(4 307 517)
Balance at 31 December 2011		**43 268 888**	**591 083**	**1 520 016**	**49 896 068**	**487 685**	**95 763 740**

In thousands of Russian Roubles	Note	2011	2010
Cash flows from operating activities			
Interest received		37 126 166	31 781 915
Interest paid		(10 657 529)	(7 967 061)
Fees and commissions received		9 744 745	8 529 137
Fees and commissions paid		(2 269 380)	(1 631 805)
Realized (losses, net of gains)/gains less losses from trading in trading securities		(725 946)	917 439
Realized gains less losses arising from other securities at fair value through profit or loss		73 796	995 672
Realized gains less losses from financial derivative instruments		2 811 510	2 479 532
Realized gains less losses arising from trading in foreign currencies		3 280 943	3 179 292
Cash proceeds from sale of loans	11	7 186 819	752 124
Other operating income received		296 470	179 858
Administrative and other operating expenses paid		(17 262 647)	(14 870 879)
Income tax paid		(3 850 322)	(2 923 048)
Cash flows from operating activities before changes in operating assets and liabilities		**25 754 625**	**21 422 176**
Net increase in mandatory cash balances with the Central Bank of the Russian Federation		(3 222 946)	(89 432)
Net increase in trading securities		(651 237)	(14 647 122)
Net decrease/(increase) in other securities at fair value through profit and loss		13 443 433	(16 218 491)
Net decrease in due from other banks		18 154 542	7 680 289
Net increase in loans and advances to customers		(70 326 540)	(42 410 202)
Net increase in securities held to maturity		-	(354 742)
Net increase in derivatives and other financial assets		(356 198)	(207 419)
Net decrease in other assets		283 765	257 904
Net increase/(decrease) in due to other banks		9 301 617	(224 227)
Net increase in customer accounts		108 003 426	31 826 916
Net (decrease)/increase in debt securities in issue		(4 342 354)	6 066 116
Net increase/(decrease) in derivatives and other financial liabilities		314 998	(162 165)
Net decrease in other liabilities		(116 695)	(57 722)
Net cash from/(used in) operating activities		**96 240 436**	**(7 118 121)**
Cash flows from investing activities			
Acquisition of premises and equipment	15	(1 981 917)	(1 693 024)
Acquisition of intangible assets	16	(799 202)	(801 370)
Investment in associate	14	(83 905)	(113 709)
Proceeds from disposal of investment securities available for sale		5 058 804	-
Net cash from/(used in) investing activities		**2 193 780**	**(2 608 103)**
Cash flows from financing activities			
Proceeds from term borrowings from the Parent Bank and other financial institutions		15 998 720	10 909 582
Repayment of term borrowings from the Parent Bank and other financial institutions		(53 693 780)	(53 684 632)
Interest paid on term borrowings from the Parent Bank and other financial institutions		(1 794 706)	(2 172 963)
Dividends paid	31	(4 307 517)	(1 198 241)
Net cash used in financing activities		**(43 797 283)**	**(46 146 254)**
Change in accrued interest on cash and cash equivalents		(9 551)	(23 097)
Effect of exchange rate changes on cash and cash equivalents		613 578	(5 059 537)
Net increase/(decrease) in cash and cash equivalents		**55 240 960**	**(60 955 112)**
Cash and cash equivalents at the beginning of the year		84 278 857	145 233 969
Cash and cash equivalents at the end of the year	**7**	**139 519 817**	**84 278 857**

1 Introduction

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

The Bank was incorporated and is domiciled in the Russian Federation. The Bank is a closed joint stock company limited by shares and was set up in accordance with Russian regulations. The Bank is owned by Raiffeisen Bank International AG and Raiffeisen-Invest-Gesellschaft m.b.h., subsidiaries of Raiffeisen Zentralbank Osterreich AG (the "Parent Bank"), which is the ultimate controlling parent of the Group.

Principal activity. The Bank has operated under a full banking license issued by the Central Bank of the Russian Federation ("CBRF") since 1996. The Bank operates in all banking sectors of the Russian financial markets, including money market, investments, corporate and retail banking, and provides a complete range of banking services to its clients. In addition, the Group, through operations of its subsidiaries and associates, is also involved in asset management, pension and leasing businesses. On 2 February 2005 the Bank was accepted to the State deposit insurance scheme, introduced by the Federal law #177-FZ "Deposits of individuals insurance in Russian Federation" dated 23 December 2003. The State Deposit Insurance Agency guarantees repayment of 100% of individual deposits up to RR 700 thousand per individual in case of the withdrawal of a licence of a bank or a CBRF imposed moratorium on payments.

As at 31 December 2011 the Group had 17 branches within the Russian Federation and 172 outlets (2010: 22 branches and 173 outlets).

The number of the Group's employees as at 31 December 2011 was 8 350 (2010: 8 508).

Registered address and place of business. The Bank's registered address is: 17/1 Troitskaya Str., 129090 Moscow, Russian Federation. The Bank's main place of business is: 15A Leninsky prospect, 119071 Moscow, Russian Federation.

Presentation currency. These consolidated financial statements are presented in Russian Roubles ("RR"), unless otherwise stated.

2 Operating Environment of the Group

Russian Federation. The Russian Federation displays certain characteristics of an emerging market. Tax, currency and customs legislation is subject to varying interpretations and contributes to the challenges faced by banks operating in the Russian Federation. Refer to Note 35.

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

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

3 Summary of Significant Accounting Policies

Basis of preparation. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value, and by the revaluation of available-for-sale financial assets, and financial instruments categorised as at fair value through profit or loss. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, 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, and are deconsolidated from the date on which control ceases.

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

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

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

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

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

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

Associates. Associates are entities over which the Bank has significant influence (directly or indirectly), but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The carrying amount of associates includes goodwill identified on acquisition less accumulated impairment losses, if any. Dividends received from associates reduce the carrying value of the investment in associates. Other post-acquisition changes in Group's share of net assets of an associate are recognised as follows: (i) the Group's share of profits or losses of associates is recorded in the consolidated profit or loss for the year as share of result of associates, (ii) the Group's share of other comprehensive income is recognised in other comprehensive income and presented separately, (iii); all other changes in the Group's share of the carrying value of net assets of associates are recognised in profit or loss within the share of result of associates.

3 Summary of Significant Accounting Policies (Continued)

However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Information on investment in associates is disclosed in Note 14.

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

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

Valuation techniques such as discounted cash flows models or models based on recent arm's length transactions or consideration of financial data of the investees are used to fair value certain financial instruments for which external market pricing information is not available. Valuation techniques may require assumptions not supported by observable market data. Disclosures are made in these consolidated financial statements if changing any such assumptions to a reasonably possible alternative would result in significantly different profit, income, total assets or total liabilities.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. 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 in the statement of financial position.

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

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 when the entity becomes a party to the contractual provisions of the instrument.

The Group uses discounted cash flow valuation techniques to determine the fair value of foreign exchange forwards, interest rate swaps and cross currency interest rate swaps that are not traded in an active market. Differences may arise between the fair value at initial recognition which is considered to be the transaction price and the amount determined at initial recognition using the valuation technique. Any such differences are amortised on a straight line basis over the term of foreign exchange forwards, the interest rate swaps and cross currency interest rate swaps. With respect to the other financial assets and liabilities, any valuation differences observed on the initial recognition are evaluated on an individual basis and recognised in accordance with their nature.

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

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

Mandatory cash balances with the Central Bank of the Russian Federation (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 the Group's day to day operations and hence are not considered as part of cash and cash equivalents for the purposes of the consolidated statement of cash flows.

***Trading securities*.** Trading securities are financial assets, which are either acquired for generating a profit from short-term fluctuations in price or trader's margin, or are securities included in a portfolio in which a pattern of short-term trading exists. The Group classifies securities into trading securities if it has an intention to sell them within a short period after purchase, i.e. within six months. The Group may choose in rare circumstances to reclassify a non-derivative trading financial asset of the fair value through profit or loss category if the asset is no longer held for the purpose of selling it in the near term. Financial assets other than loans and receivables are permitted to be reclassified out of fair value through profit or loss category only in rare circumstances arising from a single event that is unusual and highly unlikely to reoccur in the near term. Financial assets that would meet the definition of loans and receivables may be reclassified if the Group has the intention and ability to hold these financial assets for the foreseeable future or until maturity.

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

3 Summary of Significant Accounting Policies (Continued)

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

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

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

Impairment of financial assets carried at amortised cost. Impairment losses are recognised in profit or loss for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Group determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. The primary factors that the Group considers whether a financial asset is impaired is its overdue status and realisability of related collateral, if any.

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

- the Group as a lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the Group as a lender would not otherwise consider;
- the disappearance of an active market for that financial asset because of financial difficulties;
- 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 reorganization;
- there is an adverse change in the payment status of the borrower as a result of changes in internal factors (unprofitable activity, drop in production, significant increase in receivables/payables) and external factors (changes in national or local economic conditions that impact the borrower);
- the value of collateral significantly decreases as a result of deteriorating market conditions; or
- any installment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems.

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

3 Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

Repossessed collateral. Repossessed collateral represents financial and non-financial assets acquired by the Group in settlement of overdue loans. The assets are initially recognised at fair value when acquired and included in premises and equipment, other financial assets or inventories within other assets depending on their nature and the Group's intention in respect of recovery of these assets and are subsequently remeasured and accounted for in accordance with the accounting policies for these categories of assets.

Where repossessed collateral results in acquiring control over a business, the business combination is accounted for using the purchase method of accounting with fair value of the settled loan representing the cost of acquisition (refer to the accounting policy for consolidation).

Credit related commitments. In the normal course of business, the Group enters into credit related commitments, including letters of credit, financial guarantees, commitments to extend credit and undrawn credit lines. Financial guarantees represent irrevocable assurances to make payments in the event that a customer cannot meet its obligations to third parties and carry the same credit risk as loans. Financial guarantees and commitments to provide a loan are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitment, except for commitments to originate loans if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination; such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition. At the end of each reporting period, the commitments are measured at the higher of (i) the remaining unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at the end of each reporting period. The principal criteria used to determine that there is objective evidence that expenditure to settle the commitment is required are the same to those principal criteria used to determine that there is objective evidence that an impairment loss has occurred for financial assets carried at amortised cost.

In cases where the fees are charged periodically in respect of an outstanding commitment, they are recognised as revenue on a time proportion basis over the respective commitment period.

3 Summary of Significant Accounting Policies (Continued)

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

Investment securities available for sale are carried at fair value. Interest income on available-for-sale debt securities is calculated using the effective interest method and recognised in profit or loss for the year. Dividends on available-for-sale equity instruments are recognised in profit or loss for the year when the Group's right to receive payment is established and it is probable that the dividends will be collected. All other elements of changes in the fair value are recognised in other comprehensive income until the investment is derecognised or impaired, at which time the cumulative gain or loss is reclassified from other comprehensive income to profit or loss for the year.

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

Sale and repurchase agreements and lending of securities. Sale and repurchase agreements ("repo agreements") which effectively provide a lender's return to the counterparty are treated as secured financing transactions. Securities sold under such sale and repurchase agreements are not derecognised. The securities are not reclassified in the consolidated statement of financial position unless the transferee has the right by contract or custom to sell or repledge the securities, in which case they are reclassified as repurchase receivables. The corresponding liability is presented within amounts due to other banks or term borrowings from other financial institutions.

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

Securities lent to counterparties for a fixed fee are retained in the consolidated financial statements in their original category in the consolidated statement of financial position unless the counterparty has the right by contract or custom to sell or repledge the securities, in which case they are reclassified and presented separately. Securities borrowed for a fixed fee are not recorded in the consolidated financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded in profit or loss for the year within gains less losses arising from trading securities. The obligation to return the securities is recorded at fair value in due to other banks.

Investment securities held to maturity. This classification includes quoted non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has both the intention and ability to hold to maturity. Management determines the classification of investment securities held to maturity at their initial recognition and reassesses the appropriateness of that classification at the end of each reporting period. Investment securities held to maturity are carried at amortised cost.

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 on acquisitions of subsidiaries is presented separately in the consolidated statement of financial position. Goodwill on acquisitions of associates is included in the investment in associates. Goodwill is carried at cost less accumulated impairment losses, if any.

3 Summary of Significant Accounting Policies (Continued)

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 an operating 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.

Premises and equipment. Premises and equipment are stated at cost less accumulated depreciation and provision for impairment, where required. Cost of premises and equipment of acquired subsidiaries is the estimated fair value at the date of acquisition.

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

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

At the end of each reporting period management assesses whether there is any indication of impairment of premises and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset’s fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit or loss for the year to the extent it exceeds the previous revaluation surplus in equity. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset’s value in use or fair value less costs to sell.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss for the year (within other operating income or expenses).

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

	Useful lives in years
Premises	40-50
Office and computer equipment	5 - 7
Leasehold improvements	over the term of the underlying lease

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

Intangible assets. All of the Group’s intangible assets other than goodwill have definite useful life and primarily include capitalised computer software and licenses.

Software and licences are amortised over four years period.

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

The customer base is amortised over expected useful life of five years.

3 Summary of Significant Accounting Policies (Continued)

The recoverable value of goodwill represents the higher of its value in use and the fair value less cost to sell. Refer to Note 16.

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 for the year (rental expense) on a straight-line basis over the period of the lease.

When assets are leased out under an operating lease, the lease payments receivable are recognised as other operating income on a straight-line basis over the lease term.

Finance lease receivables. 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 within loans and advance to customers and are 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 for the year.

Impairment losses are recognised in profit or loss for the year when incurred as a result of one or more events (“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 for loans carried at amortised costs disclosed earlier in this note. Impairment losses are recognised through an allowance account to write down the receivables’ net carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the interest rates implicit in the finance leases. The estimated future cash flows reflect the cash flows that may result from obtaining and selling the assets subject to the lease.

Due to other banks, term borrowings from the Parent Bank and from other financial institutions. Amounts due to other banks, term borrowings from the Parent Bank and other financial institutions 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 in issue 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.

Derivative financial instruments and hedge accounting. Derivative financial instruments including foreign exchange contracts, currency and interest rate swaps, currency options and other derivative financial instruments are carried at their fair value. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative financial instruments are included in profit or loss for the year (unrealized gains less losses from derivative financial instruments), unless the derivatives qualify as hedging instruments.

3 Summary of Significant Accounting Policies (Continued)

The Group designates certain derivatives as fair value hedge or as cash flow hedge. Hedge accounting is used for derivatives designated in this way provided certain criteria are met. The Group documents, at the inception of the transaction, the relationship between the hedged items and hedging instruments, as well as its risk management objective and strategy for undertaking the hedge.

The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting the exposures to the hedged risks.

For the fair value hedge the hedged item is adjusted for the changes in its fair value attributable to the risk being hedged and those fair value changes are recognised in the consolidated statement of comprehensive income. The gain or loss relating to the hedging derivative is offset, in the profit or loss for the year, with the fair value gains and losses on the hedged item to the extent that the hedge is effective. The ineffective portion of the fair value changes is recognised immediately in the profit or loss for the year. If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to profit or loss over the period to maturity and recorded as net interest income. The adjustment to the carrying amount of a hedged equity security is included in the consolidated statement of comprehensive income when the equity security is disposed of as part of the gain or loss on the sale.

As a cash flow hedge, the Group hedges variable interest payments on its borrowings using interest rate swaps. The Group receives floating rate and pays a fixed rate on the interest rate swaps. Credit risk on the debt is not designated as part of the hedge relationship. Counterparty credit risk of interest rate swaps is insignificant as the counterparties are rated AA and higher, and management believes that this risk is already included in the Libor rates. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in other comprehensive income at that time remains in other comprehensive income and is recognised when the forecast transaction is ultimately recognised in the consolidated profit and loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately transferred to the consolidated statement of comprehensive income – “Ineffectiveness from hedge accounting”.

The interest of the hedging instrument is recognized in profit or loss for the year whereas the changes in clean present value of the derivative financial instruments – as far as they can be determined as being part of an effective hedge – are recognized directly in other comprehensive income. The effective part of the hedge is calculated as the lesser in absolute terms of the two amounts: (a) the cumulative gain or loss on the hedging instrument from the inception of the hedge (from 1 July 2008) and (b) the cumulative change in fair value (present value) of the expected future cash flows on the hedged item from the inception of the hedge (from 1 July 2008). The effective part of cash flow hedge is shown in other comprehensive income in “Valuation reserve due to cash flow hedge”.

The fair value gains or losses that represent the ineffective part of the hedging relation are shown in the consolidated statement of comprehensive income in “Ineffectiveness from the hedge accounting”.

In order to assess hedge effectiveness the Group regularly performs two kinds of effectiveness tests: prospective effectiveness test (a forward-looking test of whether a hedging relationship is expected to be highly effective in future periods); and retrospective effectiveness test (a backward-looking test of whether a hedging relationship has actually been highly effective in a past period). Both tests need to be met for hedge accounting to be available.

A hedge is regarded as highly effective only if both of the following conditions are met:

1 At the inception of the hedge and in subsequent periods, the hedge is expected to be highly effective in achieving offsetting changes in present values of cash flows attributable to the hedged risk during the period for which the hedge is designated – prospective effectiveness test, range of 80%-125% is used; and

2 The actual results of the hedge – retrospective effectiveness test; range of 80%-125% is used.

3 Summary of Significant Accounting Policies (Continued)

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

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

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit.

Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period 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 and other post acquisition movements in reserves of subsidiaries, except where the Group controls the subsidiary’s dividend policy and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable future.

Uncertain tax positions. The Group's uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management’s best estimate of the expenditure required to settle the obligations at the end of the reporting period.

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

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

Share capital. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

Additional paid–in capital. Any amounts contributed by shareholders in addition to share issues are recorded as additional paid–in capital in equity.

3 Summary of Significant Accounting Policies (Continued)

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

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

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

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

All other fees, commissions and other income and expense items are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided. Loan syndication fees are recognised as income when the syndication has been completed and the Group retains no part of the loan package for itself or retains a part at the same effective interest rate for the other participants.

Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, which are earned on execution of the underlying transaction are recorded on its completion.

Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-proportion basis. Asset management fees related to investment funds are recorded rateably over the period the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continuously provided over an extended period of time.

Realized and unrealized gains less losses from financial derivatives. The Group separates realized gains less losses from financial derivatives from total gains less losses from financial derivatives. Realized gains less losses from financial derivatives consist of profit and loss from closed financial derivatives, where profit and loss calculated as difference between cash received on settlement date and original cost of derivatives, received and accrued interest income, paid and accrued interest expense. Unrealized gains less losses from financial derivatives consist of change in clean present value of interest rate derivative instruments and foreign exchange derivative instruments, fair value of bought put option on corporate bonds, change in fair value of the hedged item (long-term deposit) which is subject to fair value hedge accounting.

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

Monetary assets and liabilities are translated into each entity's functional currency at the official exchange rate of the CBRF at the end of the respective reporting period. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities into each entity's functional currency at year-end official exchange rates of the CBRF are recognised in profit or loss for the year (as foreign exchange translation gains less losses).

3 Summary of Significant Accounting Policies (Continued)

Translation at year-end rates does not apply to non-monetary items that are measured at historical cost. Non-monetary items measured at fair value in a foreign currency, including equity investments, are translated using the exchange rates at the date when the fair value was determined. Effects of exchange rate changes on non-monetary items measured at fair value in a foreign currency are recorded as part of the fair value gain or loss.

The results and financial position of each group entity are translated into the presentation currency as follows:

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

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

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

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

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

At 31 December 2011 the principal rate of exchange used for translating foreign currency balances was USD 1 = RR 32.1961, EUR 1 = RR 41.6714 (2010: USD 1 = RR 30.4769, EUR 1 = RR 40.3331). The principle average rate of exchange used for translating income and expenses for USD in 2011 was USD 1 = RR 29.3834, EUR 1 = 40.8812 (2010: USD 1 = RR 30.3697, EUR 1 = RR 40.2980).

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 in fee and commission income.

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. The Group has no legal or constructive obligation to make pension or similar benefit payments beyond the payments to the statutory defined contribution scheme.

Segment reporting**.** Operating segments are reported in a manner consistent with the internal reporting provided to the Group's chief operating decision maker. Segments whose revenue, result or assets are ten percent or more of all the segments are reported separately.

Changes in presentation. During the year ended 31 December 2011, management of the Group performed a detailed review of the Group's consolidated financial statements for the year ended 31 December 2010 and respective accounting policies. This review identified the need for certain reclassifications that have been performed in this consolidated condensed interim financial information in accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors".

These reclassifications had no impact on total comprehensive income and consolidated statement of financial position of the Group as of and for year ended 31 December 2010. Accordingly the Group does not present a third consolidated statement of financial position.

3 Summary of Significant Accounting Policies (Continued)

The effect of reclassifications on consolidated statement of comprehensive income for the year ended 31 December 2010 is detailed below:

In thousands of Russian Roubles	Note	As originally presented 31 December 2010	Reclassification	As reclassified 31 December 2010
Interest income	1,3	32 643 595	(535 235)	32 108 360
Fee and commission income	1,2	8 529 137	571 725	9 100 862
Fee and commission expense	2,3	(1 642 061)	(36 490)	(1 678 551)
Gains from the sale of loans	4	752 124	(752 124)	-
Provision for loan impairment	4	(4 775 801)	752 124	(4 023 677)

(1) During the year ended 31 December 2011, the Group made a reclassification of one-off commissions for providing credit lines from interest income to fee and commission income in the amount of RR 602 961 thousand in the consolidated statement of comprehensive income for the year ended 31 December 2010. This change in classification was made to reflect the nature of these fees.

(2) During the year ended 31 December 2011, the Group made a reclassification of insurance agency commissions from fee and commission expense to fee and commission income in the amount of RR 31 236 thousand in the consolidated statement of comprehensive income for the year ended 31 December 2010. This change in classification was made to reflect the nature of these fees.

(3) During the year ended 31 December 2011, the Group made a reclassification of agency services commissions from interest income to fee and commission expense in the amount of RR 67 726 thousand in the consolidated statement of comprehensive income for the year ended 31 December 2010. This change in classification was made to reflect the nature of these fees.

(4) During the year ended 31 December 2011, the Group made a reclassification of a gain from sale of loans in the amount of RR 752 124 to provision for loan impairment in the consolidated statement of comprehensive income for the year ended 31 December 2010. This change in classification has better reflected an accounting effect from disposal of non-performing loans under cession agreements through reversal of previously recognised impairment provision.

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies

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

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

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

A 10% increase or decrease in actual loss experience compared to the loss estimates used would result in an increase or decrease in loan impairment losses of RR 604 722 thousand (2010: RR 845 608 thousand), respectively. Impairment losses for individually significant loans are based on estimates of discounted future cash flows of the individual loans, taking into account repayments and realisation of any assets held as collateral against the loans. A 10% increase or decrease in the actual compared to the estimated future discounted cash flows from individually significant loans, which could arise from differences in amounts and timing of the cash flows, would result in an increase or decrease in loan impairment losses of RR 290 859 thousand (2010: RR 452 205 thousand), respectively.

Fair value of derivatives. The fair values of financial derivatives that are not quoted in active markets are determined by using valuation techniques. Valuation of financial derivatives is applied to single currency interest rate swap transactions, cross currency interest swap transactions and foreign exchange forward contracts. The fair value of these transactions is determined as the difference between the present value of fixed receivable and the present value of floating obligation or vice versa. The present value of floating obligation is determined using discount factors derived from the zero coupon curve. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. Models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require Management to make estimates. Changes in assumptions about these factors could affect reported fair values. Any over or under estimation of these future cash flows could require a material adjustment to the carrying value of these derivatives. Refer to Note 36.

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 special purpose entity is controlled by the Group. In assessing ability of the Group to control the special purpose entities, Management takes into consideration the following factors presented in SIC 12 "Consolidation - special purpose entities":

(i) SPE activities are being conducted on behalf of the Bank as it was set up to satisfy specific business needs of the Group (issue of asset-backed securities);

(ii) Rewards taken by SPE are transferred to the Bank in the form of dividends on a preference share held by the Bank; and

(iii) Risks including credit risk are assumed by the Bank through the purchase of Subordinated notes.

The Group does not hold the voting rights in Roof Russia S.A., a special purpose entity set up in Luxembourg to effect a securitization of car loans (Refer to Note 11). The entity is consolidated into the Group based on SIC 12 "Consolidation of special purpose entities".

Non-consolidation of the special purpose entity would decrease the Group's total assets by RR 1 405 649 thousand (2010: RR 2 948 261 thousand). The impact on the consolidated profit after tax would be an increase by RR 71 581 thousand (2010: decrease by RR 304 831 thousand).

5 Adoption of New or Revised Standards and Interpretations

(a) Standards effective for annual periods beginning on or after 1 January 2011

The following new standards and interpretations became effective for the Group from 1 January 2011:

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

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

Improvements to International Financial Reporting Standards (issued in May 2010 and effective from 1 January 2011). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: IFRS 1 was amended (i) to allow previous GAAP carrying value to be used as deemed cost of an item of property, plant and equipment or an intangible asset if that item was used in operations subject to rate regulation, (ii) to allow an event driven revaluation to be used as deemed cost of property, plant and equipment even if the revaluation occurs during a period covered by the first IFRS financial statements and (iii) to require a first-time adopter to explain changes in accounting policies or in the IFRS 1 exemptions between its first IFRS interim report and its first IFRS financial statements; IFRS 3 was amended (i) to require measurement at fair value (unless another measurement basis is required by other IFRS standards) of non-controlling interests that are not present ownership interest or do not entitle the holder to a proportionate share of net assets in the event of liquidation, (ii) to provide guidance on the acquiree's share-based payment arrangements that were not replaced, or were voluntarily replaced as a result of a business combination and (iii) to clarify that the contingent considerations from business combinations that occurred before the effective date of revised IFRS 3 (issued in January 2008) will be accounted for in accordance with the guidance in the previous version of IFRS 3; IFRS 7 was amended to clarify certain disclosure requirements, in particular (i) by adding an explicit emphasis on the interaction between qualitative and quantitative disclosures about the nature and extent of financial risks, (ii) by removing the requirement to disclose carrying amount of renegotiated financial assets that would otherwise be past due or impaired, (iii) by replacing the requirement to disclose fair value of collateral by a more general requirement to disclose its financial effect, and (iv) by clarifying that an entity should disclose the amount of foreclosed collateral held at the reporting date, and not the amount obtained during the reporting period; IAS 1 was amended to clarify the requirements for the presentation and content of the consolidated statement of changes in equity (this amendment was adopted previously by the Group in its prior year's consolidated financial statements); IAS 27 was amended by clarifying the transition rules for amendments to IAS 21, 28 and 31 made by the revised IAS 27 (as amended in January 2008). IAS 34 was amended to add additional examples of significant events and transactions requiring disclosure in a condensed interim financial report, including transfers between the levels of fair value hierarchy, changes in classification of financial assets or changes in business or economic environment that affect the fair values of the entity's financial instruments; and IFRIC 13 was amended to clarify measurement of fair value of award credits. The above amendments resulted in additional or revised disclosures, but had no material impact on measurement or recognition of transactions and balances reported in these consolidated financial statements. The financial effect of collateral required to be disclosed by the amendments to IFRS 7 is presented in these consolidated financial statements by disclosing collateral values separately for (i) those financial assets where collateral and other credit enhancements are equal to, or exceed, carrying value of the asset ("over-collateralised assets") and (ii) those financial assets where collateral and other credit enhancements are less than the carrying value of the asset ("under-collateralised assets").

Other revised standards and interpretations effective for the current period. IFRIC 19 "Extinguishing financial liabilities with equity instruments", amendments to IAS 32 on classification of rights issues, clarifications in IFRIC 14 "IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction" relating to prepayments of minimum funding requirements and amendments to IFRS 1 "First-time adoption of IFRS", did not have any impact on these consolidated financial statements.

6 New Accounting Pronouncements

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

IFRS 9, Financial Instruments Part 1: Classification and Measurement. IFRS 9, issued in November 2009, replaces those parts of IAS 39 relating to the classification and measurement of financial assets. IFRS 9 was further amended in October 2010 to address the classification and measurement of financial liabilities. Key features of the standard are as follows:

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

6 New Accounting Pronouncements (Continued)

- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent payments of principal and interest only (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss;
- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment;
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

While adoption of IFRS 9 is mandatory from 1 January 2015, earlier adoption is permitted. The Group is considering the implications of the standard, the impact on the Group and the timing of its adoption by the Group.

IFRS 10, Consolidated Financial Statements (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), replaces all of the guidance on control and consolidation in IAS 27 "Consolidated and separate financial statements" and SIC-12 "Consolidation – special purpose entities". IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control. This definition is supported by extensive application guidance. The Group is currently assessing the impact of the amended standard on its consolidated financial statements.

IFRS 11, Joint Arrangements, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), replaces IAS 31 "Interests in Joint Ventures" and SIC-13 "Jointly Controlled Entities – Non-Monetary Contributions by Ventures". Changes in the definitions have reduced the number of types of joint arrangements to two: joint operations and joint ventures. The existing policy choice of proportionate consolidation for jointly controlled entities has been eliminated. Equity accounting is mandatory for participants in joint ventures. The Group is currently assessing the impact of the amended standard on its consolidated financial statements.

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

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

6 New Accounting Pronouncements (Continued)

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

IAS 28, Investments in Associates and Joint Ventures, (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013). The amendment of IAS 28 resulted from the Board's project on joint ventures. When discussing that project, the Board decided to incorporate the accounting for joint ventures using the equity method into IAS 28 because this method is applicable to both joint ventures and associates. With this exception, other guidance remained unchanged. The Group is currently assessing the impact of the amended standard on its consolidated financial statements.

Disclosures – Transfers of Financial Assets – Amendments to IFRS 7 (issued in October 2010 and effective for annual periods beginning on or after 1 July 2011.). The amendment requires additional disclosures in respect of risk exposures arising from transferred financial assets. The amendment includes a requirement to disclose by class of asset the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party, yet remain on the entity's balance sheet. Disclosures are also required to enable a user to understand the amount of any associated liabilities, and the relationship between the financial assets and associated liabilities. Where financial assets have been derecognized, but the entity is still exposed to certain risks and rewards associated with the transferred asset, additional disclosure is required to enable the effects of those risks to be understood. The Group is currently assessing the impact of the amended standard on its consolidated financial statements.

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

Amended IAS 19, Employee Benefits (issued in June 2011, effective for periods beginning on or after 1 January 2013), makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. The standard requires recognition of all changes in the net defined benefit liability (asset) when they occur, as follows: (i) service cost and net interest in profit or loss; and (ii) remeasurements in other comprehensive income. The Group is currently assessing the impact of the amended standard on its consolidated financial statements.

Disclosures – Offsetting Financial Assets and Financial Liabilities – Amendments to IFRS 7 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2013). The amendment requires disclosures that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off. The amendment will have an impact on disclosures but will have no effect on measurement and recognition of financial instruments.

Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2014). The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to net settlement. The Group is considering the implications of the amendment, the impact on the Group and the timing of its adoption by the Group.

6 New Accounting Pronouncements (Continued)

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

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

7 Cash and Cash Equivalents

In thousands of Russian Roubles	**2011**	**2010**
Cash on hand	23 618 675	19 639 061
Cash balances with the CBRF (other than mandatory reserve deposits)	11 626 558	24 349 214
Correspondent accounts and overnight placements with other banks:		
- Russian Federation	2 844 363	5 743 136
- Other countries	45 304 156	23 681 028
Placements with other banks with original maturities of less than three months	52 302 986	1 308 642
Reverse securities sale and repurchase agreements with other banks with original maturities of less than three months	3 823 079	9 557 776
Total cash and cash equivalents	**139 519 817**	**84 278 857**

At 31 December 2011 cash equivalents in the amount of RR 3 823 079 thousand (31 December 2010: RR 9 557 776 thousand) are effectively collateralised by securities purchased under reverse securities sale and repurchase agreements with a fair value of RR 4 486 841 thousand (31 December 2010: RR 10 971 360 thousand). At 31 December 2011 included within correspondent accounts and overnight placements with other banks is a cash reserve facility placed under the terms of an asset backed securities program in the amount of RR 936 442 thousand (31 December 2010: RR 989 994 thousand).

Correspondent accounts, overnight placements and placements with other banks with original maturities of less than three months and deals with securities purchased under “reverse-repo agreements” with original maturities of less than three months represent balances with the largest and well-known foreign banks and top-rated Russian banks.

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

In thousands of Russian Roubles	**2011**	**2010**
Non-cash investing activities		
Acquisition of repossessed collateral in exchange for loans and advances to customers	578 608	243 899

The repossessed collateral is recongnised as other assets. Refer to Note 18.

7 Cash and Cash Equivalents (Continued)

The credit quality analysis of cash equivalents balances is summarised as follows at 31 December 2011:

In thousands of Russian Roubles	**Cash balances with the CBRF (other than mandatory reserve deposits)**	**Correspondent accounts and overnight placements with other banks**		**Placements with other banks with original maturities of less than three months**	**Reverse securities sale and repurchase agreements with other banks with original maturities of less than three months**	**Total**
		Russian Federation	**Other countries**			
Neither past due nor impaired						
Minimal risk	11 626 558	-	973 231	-	-	12 599 789
Excellent credit standing	-	-	43 154 226	52 302 986	360 955	95 818 167
Very good credit standing	-	1 343	1 158 007	-	572 072	1 731 422
Good credit standing	-	2 803 962	-	-	1 632 991	4 436 953
Average credit standing	-	5 263	-	-	684 237	689 500
Mediocre credit standing	-	18 510	2 436	-	395 035	415 981
Weak credit standing	-	-	1 833	-	-	1 833
Very weak credit standing	-	-	13 176	-	-	13 176
Loss/bankruptcy	-	15 285	-	-	-	15 285
Unrated	-	-	1 247	-	177 789	179 036
Total cash equivalents	**11 626 558**	**2 844 363**	**45 304 156**	**52 302 986**	**3 823 079**	**115 901 142**

7 Cash and Cash Equivalents (Continued)

The credit quality analysis of cash equivalents balances is summarised as follows at 31 December 2010:

In thousands of Russian Roubles	Cash balances with the CBRF (other than mandatory reserve deposits)	Correspondent accounts and overnight placements with other banks		Placements with other banks with original maturities of less than three months	Reverse securities sale and repurchase agreements with other banks with original maturities of less than three months	Total
		Russian Federation	Other countries			
Neither past due nor impaired						
Minimal risk	24 349 214	-	1 508 417	-	-	25 857 631
Excellent credit standing	-	-	20 078 071	1 308 642	93 209	21 479 922
Very good credit standing	-	-	2 077 332	-	971 140	3 048 472
Good credit standing	-	5 593 232	-	-	5 832 532	11 425 764
Average credit standing	-	45 647	-	-	2 160 749	2 206 396
Mediocre credit standing	-	13 038	17	-	500 146	513 201
Weak credit standing	-	18 043	16 015	-	-	34 058
Loss/bankruptcy	-	15 100	-	-	-	15 100
Unrated	-	58 076	1 176	-	-	59 252
Total cash equivalents	**24 349 214**	**5 743 136**	**23 681 028**	**1 308 642**	**9 557 776**	**64 639 796**

Geographical, maturity and interest rate analysis of cash and cash equivalents are disclosed in Note 33. The information on related party balances is disclosed in Note 39.

8 Trading Securities

In thousands of Russian Roubles	2011	2010
Corporate bonds	40 340 217	31 233 102
Corporate eurobonds	5 320 126	11 537 792
Federal loan bonds (OFZ)	4 099 311	3 509 158
Municipal bonds	2 610 968	2 542 342
Bonds of the European Bank for Reconstruction and Development (EBRD bonds)	1 558 713	4 400 238
Bonds of Central Bank of Russia	-	386 155
Total debt trading securities	**53 929 335**	**53 608 787**
Corporate shares	4 936	4 819
Total trading securities	**53 934 271**	**53 613 606**

Corporate shares are shares of foreign companies freely tradable in the international market. Estimation of fair value of trading securities is based on their market quotations.

8 Trading Securities (Continued)

Trading securities are carried at fair value which also reflects any credit risk related write-downs. As trading securities are carried at fair value based on observable market data, the Group does not analyse or monitor impairment indicators separately on these securities. Analysis by credit quality of debt trading securities at 31 December 2011 is as follows:

In thousands of Russian Roubles	**Corporate bonds**	**Corporate eurobonds**	**Federal loan bonds**	**Municipal bonds**	**EBRD bonds**	**Total**
Neither past due nor impaired (at fair value)						
Minimal risk	-	-	4 099 311	2 610 968	1 558 713	8 268 992
Excellent credit standing	956 333	145 622	-	-	-	1 101 955
Very good credit standing	9 214 240	1 791 966	-	-	-	11 006 206
Good credit standing	24 870 290	1 775 385	-	-	-	26 645 675
Average credit standing	3 220 541	1 571 280	-	-	-	4 791 821
Mediocre credit standing	1 978 049	35 873	-	-	-	2 013 922
Weak credit standing	100 764	-	-	-	-	100 764
Total debt trading securities	**40 340 217**	**5 320 126**	**4 099 311**	**2 610 968**	**1 558 713**	**53 929 335**

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

In thousands of Russian Roubles	**Corporate bonds**	**Corporate eurobonds**	**EBRD bonds**	**Federal loan bonds**	**Municipal bonds**	**Bonds of Central Bank of Russia**	**Total**
Neither past due nor impaired (at fair value)							
Minimal risk	-	-	4 400 238	3 509 158	2 542 342	386 155	10 837 893
Excellent credit standing	678 038	-	-	-	-	-	678 038
Very good credit standing	6 373 716	1 790 621	-	-	-	-	8 164 337
Good credit standing	18 732 775	9 512 593	-	-	-	-	28 245 368
Average credit standing	2 531 260	74 419	-	-	-	-	2 605 679
Mediocre credit standing	2 500 121	160 159	-	-	-	-	2 660 280
Weak credit standing	344 078	-	-	-	-	-	344 078
Very weak credit standing	73 114	-	-	-	-	-	73 114
Total debt trading securities	**31 233 102**	**11 537 792**	**4 400 238**	**3 509 158**	**2 542 342**	**386 155**	**53 608 787**

For the disclosure of credit risk measurement refer to Note 33.

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

At 31 December 2011 there were no renegotiated balances that would otherwise be past due.

At 31 December 2010 there were also no renegotiated balances that would otherwise be past due. Trading debt securities are not collateralised.

Geographical, maturity and interest rate analysis of trading securities are disclosed in Note 33.

9 Other Securities at Fair Value Through Profit or Loss

In thousands of Russian Roubles	2011	2010
Corporate bonds	3 561 146	1 946 057
Federal loan bonds (OFZ)	529 428	237 044
Municipal bonds	489 159	418 374
Corporate eurobonds	8 416	4 286
Bonds of Central bank of Russia	-	15 053 197
Bonds of the European Bank for Reconstruction and Development (EBRD bonds)	-	48 816
Mutual funds	-	45 450
Total other debt securities at fair value through profit and loss	**4 588 149**	**17 753 224**
Corporate shares	387 982	651 874
Total other securities at fair value through profit or loss	**4 976 131**	**18 405 098**

The Group irrevocably designated the above securities, which are not part of its trading book, as at fair value through profit or loss. The securities meet the criteria for classification as at fair value through profit or loss because Asset and Liability Committee of the Group ("ALCO") assesses performance of the investments based on their fair values in accordance with a strategy documented in the business plan.

Corporate shares are shares of Russian companies freely tradable in the Russian market.

Securities designated at fair value through profit or loss are carried at fair value which also reflects any credit risk related write-downs. As the securities are carried at their fair values based on observable market data, the Group does not analyse or monitor impairment indicators. Analysis by credit quality of other debt securities designated at fair value through profit or loss outstanding at 31 December 2011 is as follows:

In thousands of Russian Roubles	Corporate bonds	Federal loan bonds (OFZ)	Municipal bonds	Corporate eurobonds	Total
Neither past due nor impaired (at fair value)					
Minimal risk	115 814	529 428	-	-	645 242
Excellent credit standing	85 685	-	-	-	85 685
Very good credit standing	1 489 071	-	61 501	-	1 550 572
Good credit standing	944 732	-	91 629	-	1 036 361
Average credit standing	666 366	-	290 824	-	957 190
Mediocre credit standing	178 885	-	45 205	-	224 090
Unrated	80 593	-	-	8 416	89 009
Total other debt securities at fair value through profit or loss	**3 561 146**	**529 428**	**489 159**	**8 416**	**4 588 149**

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

9 Other Securities at Fair Value Through Profit or Loss (Continued)

In thousands of Russian Roubles	**Bonds of Central bank of Russia**	**Corporate bonds**	**Municipal bonds**	**Federal loan bonds (OFZ)**	**Bonds of the European Bank for Reconstruction and Development (EBRD bonds)**	**Mutual funds**	**Corporate eurobonds**	**Total**
Neither past due nor impaired (at fair value)								
Minimal risk	15 053 197	-	-	237 044	48 816	-	-	15 339 057
Excellent credit standing	-	123 126	-	-	-	45 450	-	168 576
Very good credit standing	-	253 018	-	-	-	-	-	253 018
Good credit standing	-	937 009	241 536	-	-	-	-	1 178 545
Average credit standing	-	415 403	153 141	-	-	-	-	568 544
Mediocre credit standing	-	202 428	23 697	-	-	-	-	226 125
Weak credit standing	-	12 067	-	-	-	-	-	12 067
Unrated	-	3 006	-	-	-	-	4 286	7 292
Total other debt securities at fair value through profit or loss	**15 053 197**	**1 946 057**	**418 374**	**237 044**	**48 816**	**45 450**	**4 286**	**17 753 224**

For the disclosure of credit risk measurement refer to Note 33.

At 31 December 2011 there are no renegotiated balances that would otherwise be past due. At 31 December 2010 there are also no renegotiated balances that would otherwise be past due. Other debt securities at fair value through profit and loss are not collateralised.

Geographical, maturity and interest rate analyses of other securities at fair value through profit or loss are disclosed in Note 33.

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 and less than one year	2 245 844	15 104 374
Long-term placements with other banks with original maturities of more than one year	1 752 844	6 620 339
Total due from other banks	**3 998 688**	**21 724 713**

10 Due from Other Banks (Continued)

Analysis by credit quality of amounts due from other banks outstanding at 31 December 2011 is as follows:

In thousands of Russian Roubles	**Short-term placements with other banks with original maturities of more than three months and less than one year**	**Long-term placements with other banks with original maturities of more than one year**	**Total**
Neither past due nor impaired			
Excellent credit standing	-	13 581	13 581
Very good credit standing	80 973	-	80 973
Good credit standing	315 647	796 297	1 111 944
Average credit standing	106 521	470 168	576 689
Mediocre credit standing	1 315 100	68 302	1 383 402
Weak credit standing	427 603	404 496	832 099
Total due from other banks	**2 245 844**	**1 752 844**	**3 998 688**

Analysis by credit quality of amounts due from other banks outstanding at 31 December 2010 is as follows:

In thousands of Russian Roubles	**Short-term placements with other banks with original maturities of more than three months and less than one year**	**Long-term placements with other banks with original maturities of more than one year**	**Total**
Neither past due nor impaired			
Excellent credit standing	12 199 904	6 117 975	18 317 879
Good credit standing	-	32 760	32 760
Average credit standing	245 362	437 653	683 015
Mediocre credit standing	1 835 983	-	1 835 983
Weak credit standing	823 125	-	823 125
Unrated	-	31 951	31 951
Total due from other banks	**15 104 374**	**6 620 339**	**21 724 713**

For the disclosure of credit risk management refer to Note 33.

At 31 December 2011 the Group had balances with six counterparty bank (2010: six banks) with aggregated amounts above RR 200 000 thousand. The total aggregated amount of these deposits was RR 3 322 977 thousand (2010: RR 20 958 898 thousand) or 83.10% of the total amount due from other banks (2010: 96.47%).

In total, credit risk exposure to financial institutions is estimated to have amounted to RR 108 273 272 thousand (2010: RR 62 015 295 thousand) comprising cash and cash equivalents, deposits and other amounts due from banks and financial derivatives.

Disclosure of the fair value of due from other banks is presented in Note 37.

Geographical, maturity and interest rate analysis of due from other banks are disclosed in Note 33. The information on related party balances is disclosed in Note 39.

11 Loans and Advances to Customers

In thousands of Russian Roubles	**2011**	**2010**
Loans to corporate customers (Corporate loans)	265 241 359	225 007 721
Loans to individuals (Retail loans)	103 866 193	78 368 442
Loans to small and medium entities (SME loans)	7 984 490	5 159 529
Loans to state and municipal organisations (Public sector)	295 480	1 593 833
Finance lease receivables	-	324 406
Total gross loans and advances to customers	**377 387 522**	**310 453 931**
Less: Provision for loan impairment	(22 644 455)	(26 890 012)
Total loans and advances to customers	**354 743 067**	**283 563 919**

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

In thousands of Russian Roubles	**Corporate loans**	**Retail loans**	**SME loans**	**Public sector**	**Total**
Provision for loan impairment at 1 January 2011	**18 421 049**	**7 326 085**	**1 107 922**	**34 956**	**26 890 012**
Provision for impairment during the year	(1 955 767)	743 511	52 760	(34 956)	(1 194 452)
Provisions on disposed loans	(1 505 063)	(82 096)	(32 809)	-	(1 619 968)
Amounts written off during the year as uncollectible	(1 091 791)	(148 968)	(190 378)	-	(1 431 137)
Provision for loan impairment at 31 December 2011	**13 868 428**	**7 838 532**	**937 495**	**-**	**22 644 455**

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

In thousands of Russian Roubles	**Corporate loans**	**Retail loans**	**SME loans**	**Public sector**	**Total**
Provision for loan impairment at 1 January 2010	**16 547 947**	**8 015 311**	**1 183 742**	**40 673**	**25 787 673**
Provision for impairment during the year	2 976 378	977 338	62 460	7 501	4 023 677
Provisions on disposed loans	(434 532)	(1 666 564)	(45 382)	-	(2 146 478)
Amounts written off during the year as uncollectible	(668 744)	-	(92 898)	(13 218)	(774 860)
Provision for loan impairment at 31 December 2010	**18 421 049**	**7 326 085**	**1 107 922**	**34 956**	**26 890 012**

During 2011 year the Bank disposed loans to customers under cession agreements with the total amount of RR 8 575 749 thousand (2010: RR 2 898 602 thousand) with cash proceeds of RR 7 186 819 thousand (2010: RR 752 124 thousand). As of the date of disposal during the year ended 31 December 2011 these loans were provided for impairment in the total amount of RR 1 619 968 thousand (2010: RR 2 146 478 thousand). The net financial result of a loan disposal during 2011 year recognized in the statement of comprehensive income was RR 231 038 thousand (2010: nil).

11 Loans and Advances to Customers (Continued)

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

	2011		2010	
In thousands of Russian Roubles	**Amount**	**%**	**Amount**	**%**
Individuals	103 866 193	27.52%	78 368 442	25.24%
Manufacturing	79 625 643	21.10%	75 481 311	24.31%
Real estate	78 997 995	20.93%	66 999 038	21.58%
Trade	41 166 387	10.91%	37 659 210	12.13%
Mining	28 571 173	7.57%	17 042 596	5.49%
Transport, storage and communication	24 670 796	6.54%	12 143 098	3.91%
Financial Services	6 342 207	1.68%	5 569 703	1.79%
Hotels and restaurants	5 179 741	1.37%	2 954 047	0.95%
Electricity, gas and water supply	4 871 521	1.29%	7 278 952	2.34%
Agriculture, hunting and forestry	1 842 733	0.49%	3 327 594	1.07%
Cities and municipalities	247 093	0.07%	1 533 587	0.49%
Other	2 006 040	0.53%	2 096 353	0.70%
Total loans and advances to customers (before impairment provision)	**377 387 522**	**100.00%**	**310 453 931**	**100.00%**

At 31 December 2011 the Group had no borrowers (2010: no borrowers) with aggregated loan amount above RR 10 000 000 thousand.

The Group has transferred a pool of fixed interest rate auto loans to individuals to finance the purchase of cars to Roof Russia S.A., a Luxembourg-based special purpose entity. At 31 December 2011 the amount of loans securitised was RR 781 661 thousand (2010: RR 2 165 574 thousand). The subsidiary is consolidated due to the requirements stated in SIC-12: Consolidation: Special Purpose Entities, the activities of SPE are conducted on behalf of the Group, the Group has the decision making powers to control the SPE, the rewards of SPE are transferred to the Group in the form of dividends on the preference shares. For the carrying amount of the corresponding asset backed securities refer to Note 22.

The main principles used for the estimation of the fair value of collateral are summarized in the Policy of the Collateral valuation, approved for the Group.

The collateral coverage which is taken into account has the following characteristics:

- Valid legal title, which should be properly documented and legally enforceable under the applicable jurisdiction;
- Sustainable intrinsic value for at least the maximum tenor of the underlying credit contract, being regularly monitored and evaluated by the Group. In case of a decrease in value, appropriate measures to reflect this decrease are taken immediately by the Group;
- Realizable and willingness to realize. The collateral is realizable in cash within reasonable time, proven by a favourable track record of jurisdiction in the respective country; and
- Little *or no correlation* between the value of the collateral and the debtor's credit standing (the example of high correlation is a bond issued by the borrower used as a collateral) – the higher the level of correlation, the higher the discount to the collateral value.

The fair value of collateral is the estimated amount for which a tangible/intangible asset could be exchanged at the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably prudent and without compulsion. In accordance with the internal procedures, the Group's Risk Management Collateral Department regularly performs the assessment of the fair value of the collaterals using the Group's internal guidelines and in some cases evaluation of collateral by independent appraisal companies.

11 Loans and Advances to Customers (Continued)

The list of collateral that the Group requires from the customers includes residential real estate, other real estate, guarantees of the Parent Bank, cash deposits, other assets. Personal loans to individuals and credit cards are not secured. Mortgage loans and car loans to individuals are collateralized by the property and cars, correspondingly.

Information about collateralized loans at 31 December 2011 is as follows:

In thousands of Russian Roubles	Corporate loans	Retail loans	SME loans	Public sector	Total
Unsecured loans	63 066 728	50 759 546	1 186 928	295 480	115 308 682
Loans collateralised by:					-
- other real estate	77 788 412	-	3 683 099	-	81 471 511
- guarantees and surety ships	70 723 385	261 290	2 260 520	-	73 245 195
- equipment and vehicles	14 527 948	23 218 444	445 137	-	38 191 529
- residential real estate	1 747 766	27 749 926	408 806	-	29 906 498
- assignment of future receivables	16 625 508	-	-	-	16 625 508
- guarantees of the Parent Bank	818 990	-	-	-	818 990
- cash deposits	113 123	-	-	-	113 123
- other assets	19 829 499	1 876 987	-	-	21 706 486
Total loans and advances to customers (before impairment provision)	**265 241 359**	**103 866 193**	**7 984 490**	**295 480**	**377 387 522**

Information about collateralized loans at 31 December 2010 is as follows:

In thousands of Russian Roubles	Corporate loans	Retail loans	SME loans	Public sector	Finance lease receivables	Total
Unsecured loans	51 917 795	34 549 140	2 512 254	1 524 433	-	90 503 622
Loans collateralised by:						
- other real estate	67 224 906	-	331 980	-	-	67 556 886
- guarantees and surety ships	55 555 312	305 658	502 689	69 400	-	56 433 059
- equipment and vehicles	10 045 837	18 189 345	380 526	-	-	28 615 708
- residential real estate	2 821 990	23 621 754	142 434	-	-	26 586 178
- assignment of future receivables	10 253 529	-	-	-	-	10 253 529
- guarantees of the Parent Bank	705 390	-	-	-	-	705 390
- cash deposits	-	-	-	-	-	-
- other assets	26 482 962	1 702 545	1 289 646	-	324 406	29 799 559
Total loans and advances to customers (before impairment provision)	**225 007 721**	**78 368 442**	**5 159 529**	**1 593 833**	**324 406**	**310 453 931**

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	**Corporate loans**	**Retail loans**	**SME loans**	**Public sector**	**Total**
Neither past due nor impaired loans, assessed for impairment on a collective basis					
Excellent credit standing	16 838 824	-	20 375	-	16 859 199
Very good credit standing	46 835 850	49 088 122	180 236	-	96 104 208
Good credit standing	51 398 170	44 360 403	1 055 362	36 554	96 850 489
Average credit standing	70 781 572	-	421 112	135 891	71 338 575
Mediocre credit standing	28 665 295	-	3 415 337	114 736	32 195 368
Weak credit standing	33 471 571	-	1 569 193	8 299	35 049 063
Very weak credit standing	4 077 683	-	212 636	-	4 290 319
Total neither past due nor impaired loans, assessed for impairment on collective basis (gross)	**252 068 965**	**93 448 525**	**6 874 251**	**295 480**	**352 687 221**
Past due but not impaired loans, assessed for impairment on a collective basis					
- less than 30 days overdue	-	1 700 642	14 516	-	1 715 158
- 31 – 60 days overdue	-	379 981	7 670	-	387 651
- 61 – 90 days overdue	19 869	166 915	1 740	-	188 524
- 91 – 180 days overdue	-	215 961	291	-	216 252
Total past due but not impaired loans, assessed for impairment on collective basis (gross)	**19 869**	**2 463 499**	**24 217**	**-**	**2 507 585**
Loans individually determined to be impaired					
- less than 30 days overdue	2 996 909	1 034 172	26 233	-	4 057 314
- 31 – 60 days overdue	991 097	33 575	2 567	-	1 027 239
- 61 – 90 days overdue	-	61 641	-	-	61 641
- 91 – 180 days overdue	934 799	141 495	9 944	-	1 086 238
- 181 – 364 days overdue	1 100 503	1 564 710	37 644	-	2 702 857
- over 365 days overdue	7 129 217	5 118 576	1 009 634	-	13 257 427
Total loans individually determined to be impaired (gross)	**13 152 525**	**7 954 169**	**1 086 022**	**-**	**22 192 716**
Total gross loans and advances to customers	**265 241 359**	**103 866 193**	**7 984 490**	**295 480**	**377 387 522**
Less: Provision for loan impairment	(13 868 428)	(7 838 532)	(937 495)	-	(22 644 455)
Total loans and advances to customers	**251 372 931**	**96 027 661**	**7 046 995**	**295 480**	**354 743 067**

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	Corporate loans	Retail loans	SME loans	Public sector	Finance lease receivables	Total
Neither past due nor impaired loans, assessed for impairment on a collective basis						
Excellent credit standing	10 825 993	-	-	-	-	10 825 993
Very good credit standing	7 122 851	39 471 234	13 682	-	-	46 607 767
Good credit standing	29 750 826	28 849 696	2 302 016	38 255	-	60 940 793
Average credit standing	44 994 935	-	140 576	291 934	-	45 427 445
Mediocre credit standing	51 018 454	-	190 137	938 536	-	52 147 127
Weak credit standing	52 356 886	-	418 712	66 000	324 406	53 166 004
Very weak credit standing	8 370 385	-	63 997	-	-	8 434 382
Unrated	-	-	5 160	-	-	5 160
Total neither past due nor impaired loans, assessed for impairment on collective basis (gross)	**204 440 330**	**68 320 930**	**3 134 280**	**1 334 725**	**324 406**	**277 554 671**
Past due but not impaired loans, assessed for impairment on a collective basis						
- less than 30 days overdue	50 152	1 765 729	34 765	-	-	1 850 646
- 31 – 60 days overdue	175 100	421 205	43 651	-	-	639 956
- 61 – 90 days overdue	-	224 829	1 259	-	-	226 088
- 91 – 180 days overdue	-	413 070	8 933	-	-	422 003
Total past due but not impaired loans, assessed for impairment on collective basis (gross)	**225 252**	**2 824 833**	**88 608**	**-**	**-**	**3 138 693**
Loans individually determined to be impaired						
- less than 30 days overdue	5 359 642	761 964	144 723	224 685	-	6 491 014
- 31 – 60 days overdue	439 742	43 169	12 880	-	-	495 791
- 61 – 90 days overdue	18 687	125 956	13 785	-	-	158 428
- 91 – 180 days overdue	155 554	144 017	38 473	-	-	338 044
- 181 – 364 days overdue	1 931 357	1 966 351	180 305	-	-	4 078 013
- over 365 days overdue	12 437 157	4 181 222	1 546 475	34 423	-	18 199 277
Total loans individually determined to be impaired (gross)	**20 342 139**	**7 222 679**	**1 936 641**	**259 108**	**-**	**29 760 567**
Total gross loans and advances to customers	**225 007 721**	**78 368 442**	**5 159 529**	**1 593 833**	**324 406**	**310 453 931**
Less: Provision for loan impairment	(18 421 049)	(7 326 085)	(1 107 922)	(34 956)	-	(26 890 012)
Total loans and advances to customers	**206 586 672**	**71 042 357**	**4 051 607**	**1 558 877**	**324 406**	**283 563 919**

11 Loans and Advances to Customers (Continued)

For the disclosure of credit risk management and credit ratings description refer to Note 33.

The primary factors that the Group considers whether a loan is impaired are its overdue status, financial performance of the borrower and realisability of related collateral, if any. As a result, the Group presents above an ageing analysis of loans that are individually determined to be impaired. The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than 90 days for Retail loans or whether there are any other known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the respective contract for Corporate, SME and Public sector loans.

Current and not impaired, but renegotiated loans represent the carrying amount of loans that would otherwise be past due or impaired whose terms have been renegotiated. Past due but not impaired loans represent collateralised loans where the fair value of collateral covers the overdue interest and principal repayments. Past due but not impaired loans are assessed for impairment on collective basis. The amount reported as past due but not impaired is the whole balance of such loans, not only the individual instalments that are past due.

Fair value of the collateral was determined by the Group’s credit department using the Group’s internal guidelines on the basis of an internal expert evaluation and an independent appraiser’s evaluation.

The fair value of residential real estate at the end of the reporting period was estimated by indexing the values determined by the Group’s internal credit department staff at the time of loan inception for the average increases in residential real estate prices by city and region. The fair value of other real estate and other assets was determined by the Group’s credit department using the Group’s internal guidelines.

The financial effect of collateral is presented by disclosing collateral values separately for (i) those assets where collateral and other credit enhancements are equal to or exceed carrying value of the asset (“over-collateralised assets”) and (ii) those assets where collateral and other credit enhancements are less than the carrying value of the asset (“under-collateralised assets”).

The following disclosure is based on Weighted Collateral Value (WCV), which is equal to fair value discounted according to Internal Bank's policies. It reflects the lowest value which the Bank would be able to achieve under a forced sale scenario in case the collateral has to be liquidated, and the price volatility of the asset. For different types of collateral different discounts are applied according to inherent risk. The following considerations are taken into account:

- different levels of reliability of the originally assessed market value (difference between internal/external valuation, different sources of information regarding market values, etc.);
- unforeseeable market price fluctuations;
- different grade of maturity of secondary market (e.g. real estate);
- lower sales price expectations under forced sale scenarios (market is usually well informed about forced sales and prices drop immediately);
- different levels of fraud risk for different collateral types (mostly depending on the level of control applied by the bank);
- refinancing cost of the lending unit in case of longer realization process;

Main collateral types are discounted using the following ranges:

- Real estate - 35-100 %
- Equipment and vehicles - 45-100 %
- Guarantees – 0-100 %
- Other - 0-100 %

11 Loans and Advances to Customers (Continued)

The effect of collateral at 31 December 2011:

	Over-collateralised assets		**Under-collateralised assets**	
In thousands of Russian Roubles	Carrying value of the assets	Weighted Collateral Value	Carrying value of the assets	Weighted Collateral Value
Corporate loans	47 893 606	73 589 776	217 347 753	42 187 067
Retail loans	51 647 813	124 967 929	52 218 380	1 503 805
SME loans	2 221 654	4 222 812	5 762 836	2 106 447
Public sector	-	-	295 480	-
Total	**101 763 073**	**202 780 517**	**275 624 449**	**45 797 319**

The effect of collateral at 31 December 2010:

	Over-collateralised assets		**Under-collateralised assets**	
In thousands of Russian Roubles	Carrying value of the assets	Weighted Collateral Value	Carrying value of the assets	Weighted Collateral Value
Corporate loans	44 115 232	57 846 494	180 892 489	33 165 665
Retail loans	42 576 374	107 793 633	35 792 068	1 466 394
SME loans	1 304 860	2 094 545	3 854 669	1 147 412
Public sector	-	-	1 593 833	-
Finance lease receivables	185 290	217 120	139 116	121 540
Total	**88 181 756**	**167 951 792**	**222 272 175**	**35 901 011**

Disclosure of the fair value of the Group's loans and advances to customers at 31 December 2011 and 2010 is presented in Note 37. Geographical, maturity and interest rate analysis of loans and advances to customers are disclosed in Note 33. The information on related party balances is disclosed in Note 39.

12 Investment Securities Available for Sale

In thousands of Russian Roubles	**2011**	**2010**
Corporate bonds	5 095 466	10 617 267
Corporate shares	715 209	469 305
Total investment securities available for sale	**5 810 675**	**11 086 572**

Debt securities are neither past due nor impaired in 2010 or 2011. They have good credit standing in 2010 and 2011.

Due to the absence of an active market for the corporate bond included in the investment securities available for sale category and also due to the low level of trading activity with this particular bond, for the purposes of the estimation of the fair value of this instrument, Management implemented a valuation technique based on the yield-to-maturity of comparable benchmark instruments, currently actively quoted on the market.

For the disclosure of credit risk management refer to Note 33.

Geographical, maturity and interest rate analysis of investment securities available for sale are disclosed in Note 33.

13 Investment Securities Held to Maturity

In thousands of Russian Roubles	2011	2010
Corporate bonds	518 870	516 346
Total gross investment securities held to maturity	**518 870**	**516 346**
Less: Provision for impairment	(9 189)	(4 198)
Total investment securities held to maturity	**509 681**	**512 148**

Movements in the provision for impairment of investment securities held to maturity during 2011 are as follows:

In thousands of Russian Roubles	Corporate bonds
Provision for impairment at 1 January 2011	**4 198**
Provision for impairment during the year	4 991
Provision for impairment at 31 December 2011	**9 189**

Movements in the provision for impairment of investment securities held to maturity during 2010 are as follows:

In thousands of Russian Roubles	Corporate bonds	Corporate Eurobonds	Total
Provision for impairment at 1 January 2010	**2 383**	**453**	**2 836**
Provision for impairment during the year	1 815	(453)	1 362
Provision for impairment at 31 December 2010	**4 198**	**-**	**4 198**

For disclosure of credit risk management refer to Note 33.

Refer to Note 37 for the disclosure of the fair value of each class of investment securities held to maturity. Geographical, maturity and interest rate analysis of investment securities held to maturity are disclosed in Note 33.

14 Investment in Associates

In thousands of Russian Roubles	2011	2010
Raiffeisen Leasing	1 204 704	997 813
Raiffeisen Life	102 630	60 510
Raiffeisen Investment	42 609	-
Total investment in associates	**1 349 943**	**1 058 323**

Investment in associates is represented by 50% share of participation in Raiffeisen Leasing, 25% share of participation in Raiffeisen Life and 49.9% share of participation in Raiffeisen Investment.

14 Investment in Associates (Continued)

The table below summarises the movements in the carrying amount of the Group's investment in associates.

In thousands of Russian Roubles	2011	2010
Carrying amount at 1 January	**1 058 323**	**937 932**
Acquisition of share of participation in Raiffeisen Life	-	113 709
Acquisition of share of participation in Raiffeisen Investment	23 904	-
Contributions to the net assets attributable to the participants of Raiffeisen Life	60 000	-
Share of results and impairment of associates	207 716	6 682
Carrying amount at 31 December	**1 349 943**	**1 058 323**

The table below represents summarised financial information of the associates.

In thousands of Russian Roubles	Total assets	Total liabilities	Profit/(loss) for the year
2011			
Raiffeisen Leasing	15 645 294	13 156 449	413 781
Raiffeisen Life	1 349 207	972 705	(82 715)
Raiffeisen Investment	80 885	17 622	(961)
2010			
Raiffeisen Leasing	13 376 393	11 303 100	119 762
Raiffeisen Life	559 212	312 871	(46 091)

15 Premises and Equipment

In thousands of Russian Roubles	Note	Premises	Office and computer equipment	Leasehold improve-ments	Construc-tion in progress	Total
Cost at 1 January 2010		4 352 320	5 747 109	1 696 861	722 238	12 518 528
Accumulated depreciation		(368 184)	(2 274 745)	(539 504)	-	(3 182 433)
Carrying amount at 1 January 2010		**3 984 136**	**3 472 364**	**1 157 357**	**722 238**	**9 336 095**
Additions		305 398	990 404	287 135	110 087	1 693 024
Transfers		30 290	-	226 736	(257 026)	-
Reclassifications in financial year		186 940	(344 518)	157 578	-	-
Depreciation charge	29	(105 951)	(1 055 586)	(391 335)	-	(1 552 872)
Disposals (at cost)		(30 451)	(528 477)	(80 723)	-	(639 651)
Disposals (accumulated depreciation)		5 820	256 746	22 976	-	285 542
Impairment loss	29	(24 689)	-	-	-	(24 689)
Carrying amount at 31 December 2010		**4 351 493**	**2 790 933**	**1 379 724**	**575 299**	**9 097 449**
Cost at 31 December 2010		4 844 497	5 864 518	2 287 587	575 299	13 571 901
Accumulated depreciation		(493 004)	(3 073 585)	(907 863)	-	(4 474 452)
Carrying amount at 31 December 2010		**4 351 493**	**2 790 933**	**1 379 724**	**575 299**	**9 097 449**
Additions		352 459	1 221 650	52 587	355 221	1 981 917
Transfers		63 226	37 965	7 272	(108 463)	-
Depreciation charge	29	(105 352)	(1 069 258)	(451 136)	-	(1 625 746)
Disposals (at cost)		(30 305)	(643 126)	(231 127)	(25 818)	(930 376)
Disposals (accumulated depreciation)		14	530 292	99 258	-	629 564
Carrying amount at 31 December 2011		**4 631 535**	**2 868 456**	**856 578**	**796 239**	**9 152 808**
Cost at 31 December 2011		5 229 877	6 481 007	2 116 319	796 239	14 623 442
Accumulated depreciation		(598 342)	(3 612 551)	(1 259 741)	-	(5 470 634)
Carrying amount at 31 December 2011		**4 631 535**	**2 868 456**	**856 578**	**796 239**	**9 152 808**

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

16 Intangible Assets

In thousands of Russian Roubles	Note	Goodwill	Customer base	Software and licenses	Total
Cost at 1 January 2010		10 700 290	415 727	1 317 608	12 433 625
Accumulated amortisation		-	(304 862)	(511 190)	(816 052)
Carrying amount at 1 January 2010		**10 700 290**	**110 865**	**806 418**	**11 617 573**
Additions		-	-	801 370	801 370
Amortisation charge	29	-	(83 144)	(530 731)	(613 875)
Disposals (at cost)		-	-	(117)	(117)
Disposals (accumulated amortisation)		-	-	117	117
Impairment loss	29	-	(27 721)	-	(27 721)
Carrying amount at 31 December 2010		**10 700 290**	**-**	**1 077 057**	**11 777 347**
Cost at 31 December 2010		10 700 290	415 727	2 118 861	13 234 878
Accumulated amortisation		-	(415 727)	(1 041 804)	(1 457 531)
Carrying amount at 31 December 2010		**10 700 290**	**-**	**1 077 057**	**11 777 347**
Additions		-	-	799 202	799 202
Amortisation charge	29	-	-	(707 519)	(707 519)
Disposals (at cost)		-	-	(6 830)	(6 830)
Carrying amount at 31 December 2011		**10 700 290**	-	**1 161 910**	**11 862 200**
Cost at 31 December 2011		10 700 290	415 727	2 911 233	14 027 250
Accumulated amortisation and impairment		-	(415 727)	(1 749 323)	(2 165 050)
Carrying amount at 31 December 2011		**10 700 290**	-	**1 161 910**	**11 862 200**

The goodwill is tested annually for impairment.

On each balance-sheet date goodwill is examined with a view to its future economic utility on the basis of Cash Generating Unit. The Cash Generating Unit is defined by the Management. The carrying value of the Cash Generating Unit (including any allocated goodwill) is compared with its recoverable value. The recoverable value represents the higher of an item's value in use and the fair value less cost to sell which in this case was value in use. It is based on the expected cash flows in accordance with the business plan of the unit. It is discounted at an interest rate reflecting the risk involved. The estimation of future earnings requires judgment of the past and actual performance and the expected development in the respective markets and overall macro-economic environment.

16 Intangible Assets (Continued)

The estimation of the future development of the Cash Generating Unit starts with macro-economic facts (gross domestic product, inflation expectations) and considers specific market conditions and the business policy. In order to better reflect the mid-term development, a five-year budget was approved. The growth rate used in this plan accounts for the current economic situation.

The data is used to capture the terminal value on a going concern concept. The profit in compliance with the solvency regulations considering a security reserve serves as a basis for the calculation. Discounting is made on different country-specific equity capital cost rates which are based on the capital asset pricing model. The individual components (risk-free interest rate, inflation difference, market risk premium, country-specific risks and beta factors) are defined by using external information sources. The inflation-adjusted discount rates used in 2011 for the Cash Generating Unit was in the range from 14% to 20% (2010: from 16% to 23%).

The annual impairment test for goodwill for 2011 and 2010 did not result in an impairment loss as the recoverable amount for the entire Cash Generating Unit was higher than its respective carrying amount.

17 Derivatives and Other Financial Assets

In thousands of Russian Roubles	**Note**	**2011**	**2010**
Fair value of currency rate based financial derivatives	36	5 647 199	2 064 010
Fair value of interest rate based financial derivatives	36	2 235 763	3 626 608
Plastic card receivables		911 655	631 733
Trade receivables		91 092	14 815
Total derivatives and other financial assets		**8 885 709**	**6 337 166**

The primary factors that the Group considers whether a receivable is impaired are its overdue status and recoverability of related collateral, if any.

As at 31 December 2011 and as at 31 December 2010 derivatives and other financial assets of the Group are neither past due nor impaired. The Group has net settled derivative financial instruments with the counterparties with the credit rating of good and above (Refer to Note 33).

Refer to Note 37 for the disclosure of the fair value of each class of derivatives and other financial assets.

Geographical, maturity, and interest rate analysis of derivatives and other financial assets are disclosed in Note 33. The information on related party balances is disclosed in Note 39.

18 Other Assets

In thousands of Russian Roubles	**2011**	**2010**
Prepayments for services and equipment	838 545	1 413 514
Repossessed collateral	578 608	243 899
Prepaid taxes other than on income	35 874	42 775
Other	219 181	202 623
Total other assets	**1 672 208**	**1 902 811**

Repossessed collateral represents real estate assets and other assets acquired by the Group in settlement of overdue loans. The Group currently evaluates the possibilities of disposing of these assets. The assets do not meet the definition of non-current assets held for sale and are classified as inventories in accordance with IAS 2, Inventories. The assets were initially recognised at a fair value of RR 578 608 thousand when acquired (2010: RR 243 899 thousand).

19 Due to Other Banks

In thousands of Russian Roubles	2011	2010
Correspondent accounts and overnight placements of other banks	22 194 357	14 800 075
Short-term placements of other banks	6 676 041	4 910 050
Long-term placements of other banks	1 065 030	825 101
Total due to other banks	**29 935 428**	**20 535 226**

Carrying value of each class of due to other banks approximates fair value at 31 December 2011 and 31 December 2010. Refer to Note 37.

At 31 December 2011 included within correspondent accounts and overnight placements of other banks is a cash facility placed by the Parent Bank under the terms of cash reserve facility agreement and in relation to asset backed securities program in the amount of RR 1 009 947 thousand (31 December 2010: RR 956 018 thousand). The Group intends to hold the reserve until maturity of the respective securities in 2017 (Refer to Note 22).

At 31 December 2011 included in due to banks are deposits of RR 303 821 thousand (31 December 2010: RR 135 747 thousand) held as collateral for irrevocable commitments under guarantees.

Geographical, maturity and interest rate analysis of due to other banks are disclosed in Note 33. The information on related party balances is disclosed in Note 39.

20 Customer Accounts

In thousands of Russian Roubles	2011	2010
State and public organisations		
- Current/settlement accounts	612 423	266 022
- Term deposits	97 512	5 818
Legal entities		
- Current/settlement accounts	79 178 110	68 785 155
- Term deposits	107 189 995	57 022 981
Individuals		
- Current/demand accounts	87 209 756	66 147 355
- Term deposits	125 173 546	94 516 827
Total customer accounts	**399 461 342**	**286 744 158**

Economic sector concentrations within customer accounts are as follows:

	2011		2010	
In thousands of Russian Roubles	**Amount**	**%**	**Amount**	**%**
Individuals	212 383 302	53.17%	160 664 182	56.03%
Manufacturing	57 643 190	14.43%	31 069 885	10.84%
Real estate	39 475 274	9.88%	31 196 139	10.88%
Trade	32 720 400	8.19%	30 911 977	10.78%
Transport and communication	18 147 062	4.54%	5 876 751	2.05%
Financial services	15 080 227	3.78%	7 267 263	2.53%
Mining	9 022 701	2.26%	7 106 751	2.48%
Electricity, gas and water supply	6 363 038	1.59%	4 602 976	1.61%
Other	8 626 148	2.16%	8 048 234	2.80%
Total customer accounts	**399 461 342**	**100.00%**	**286 744 158**	**100.00%**

20 Customer Accounts (Continued)

At 31 December 2011 the Group had one customer (31 December 2010: no customers) with balances above 10% of consolidated equity of the Group as at this date. The aggregated balance of this customer was RR 10 359 595 thousand (31 December 2010: n/a) or 2.59% (31 December 2010: n/a) of total customer accounts.

At 31 December 2011 included in customer accounts are deposits of RR 652 783 thousand (31 December 2010: RR 92 838 thousand) held as collateral for irrevocable commitments under import letters of credit. Refer to Note 35.

At 30 December 2011 included in customer accounts are deposits of RR 1 838 011 thousand (31 December 2010: RR 2 073 969 thousand) held as collateral for irrevocable commitments under guarantees. Refer to Note 35.

Disclosure of the fair value of the Group's customer accounts at 31 December 2011 is presented in Note 37.

Geographical, maturity and interest rate analysis of customer accounts are disclosed in Note 33. The information on related party balances is disclosed in Note 39.

21 Debt Securities in Issue

In thousands of Russian Roubles	**2011**	**2010**
Bonds issued on domestic market	11 828 102	15 114 566
Promissory notes	-	1 081 683
Total debt securities in issue	**11 828 102**	**16 196 249**

As at 31 December 2011 the Group had bonds issued on the domestic market with a balance of RR 11 828 102 thousand (2010: RR 15 114 566 thousand). These bonds are denominated in Russian Roubles, comprise of two tranches of RR 6 749 509 and RR 5 000 000 (2010: two tranches of RR 10 000 000 and RR 5 000 000) and mature in 2013 (2010: in 2013) and have coupon rates of 8.75% and 7.5% respectively (2010: 13.5% and 7.5%). During 2011 year the Group has redeemed RR 5 508 947 thousand at nominal and issued RR 2 258 456 thousand of debt securities.

Disclosure of fair value of debt securities in issue is presented in Note 37.

Geographical, maturity and interest rate analyses of debt securities in issue is disclosed in Note 33.

22 Term Borrowings from the Parent Bank and from Other Financial Institutions

In thousands of Russian Roubles	**Note**	**2011**	**2010**
Loans from the Parent Bank maturing in 2011-2015	19	39 831 114	72 870 274
Subordinated loans from the Parent Bank maturing in 2011 – 2013		7 156 404	8 299 213
Total term borrowings from the Parent Bank		**46 987 518**	**81 169 487**

22 Term Borrowings from the Parent Bank and from Other Financial Institutions (Continued)

Carrying value of term loans from the Parent Bank approximates fair value at 31 December 2011 and 31 December 2010 as all these liabilities bear floating interest rate. Refer to Note 37.

In thousands of Russian Roubles	Note	2011	2010
Loans from commercial banks maturing in 2013		2 081 751	1 968 107
Loans from development banks maturing in 2011-2015		1 531 644	2 007 359
Asset backed securities maturing in 2017	11	246 421	1 683 439
Total term borrowings from other financial institutions		**3 859 816**	**5 658 905**

Refer to Note 33 for the amount of current term borrowings from the Parent Bank and from other financial institutions.

Term borrowings from other financial institutions are represented by long term obligations of the Group denominated in Russian Roubles and US Dollars and issued by large international banks and asset backed securities. These borrowings have maturity dates ranging from 2012 up to 2017 (2010: from 2012 up to 2017) and Libor dependent floating interest rates.

Carrying value of each class of term borrowings from the Parent Bank and from other financial institutions approximates fair value at 31 December 2011 and 31 December 2010 as all these liabilities bear floating interest rate. Refer to Note 37.

The Group is subject to certain covenants related to its term borrowings from other financial institutions. Refer to Note 35.

Geographical, maturity and interest rate analysis of term borrowings from the Parent Bank and from other financial institutions are disclosed in Note 33. Information on related party transactions is presented in Note 39.

23 Derivatives and Other Financial Liabilities

In thousands of Russian Roubles	Note	2011	2010
Fair value of currency rate based financial derivatives	36	4 833 585	724 141
Fair value of interest rate based financial derivatives	36	4 294 065	4 867 803
Provision for credit related commitments	35	1 098 816	1 643 011
Plastic cards payables		567 943	242 886
Trade payables		36 998	9 642
Settlements on conversion operations		16 559	48 810
Other		9 941	6 048
Total derivatives and other financial liabilities		**10 857 907**	**7 542 341**

Carrying value of each class of derivatives and other financial liabilities approximates fair value at 31 December 2011 and 31 December 2010. Refer to Note 37.

Geographical, maturity and interest rate analysis of derivatives and other financial liabilities is disclosed in Note 33. Information on related party transactions is presented in Note 39.

24 Other Liabilities

In thousands of Russian Roubles	2011	2010
Accrued staff bonuses	1 942 461	1 483 142
Other accrued expenses	1 330 362	1 036 535
Provisions for liabilities and charges	953 359	882 192
Deferred commission income from financial guarantees	58 375	49 405
Taxes other than on income	52 436	140 425
Commission on credit related commitments	3 160	602
Other	392 785	456 877
Total other liabilities	**4 732 938**	**4 049 178**

Movements in provisions for liabilities and charges are as follows:

In thousands of Russian Roubles	2011	2010
Carrying amount at 1 January	**882 192**	**283 134**
Provision charge during the year	264 754	778 980
Utilisation of provision	(158 804)	(136 534)
Release of provision	(34 783)	(43 388)
Carrying amount at 31 December	**953 359**	**882 192**

Information on related party balances is disclosed in Note 39.

25 Share Capital

In thousands of RR, except for number of shares	Number of outstanding shares, in thousands	Nominal amount	Inflation adjusted amount
At 1 January 2010	**36 565**	**36 711 260**	**43 268 888**
New shares issued	-	-	-
At 31 December 2010	**36 565**	**36 711 260**	**43 268 888**
New shares issued	-	-	-
At 31 December 2011	**36 565**	**36 711 260**	**43 268 888**

At 31 December 2011, all of the Bank’s outstanding shares were authorised, issued and fully paid in.

During 2011 the Group did not receive a capital contribution from its shareholders.

All ordinary shares have a nominal value of RR 1 004 thousand per share (2010: RR 1 004 thousand per share) and rank equally. Each share carries one vote.

26 Additional paid-in capital and other reserves

Additional paid-in capital comprises free of charge donations made by the shareholder to the Bank.

At 31 December 2011 additional paid-in capital in amount of RR 1 520 016 thousand represents amounts contributed by shareholders in addition to the share purchase (2010: RR 1 520 016 thousand).

Other reserves comprise fair value differences on investments available for sale and cash flow hedges net of deferred tax.

In accordance with Russian legislation, the Bank on a standalone basis distributes profits as dividends or transfers them to reserves (fund accounts) on the basis of financial statements prepared in accordance with Russian Accounting Rules. The Bank's unconsolidated reserves under Russian Accounting Rules at 31 December 2011 are RR 38 137 646 thousand (2010: RR 27 078 870 thousand).

27 Interest Income and Expense

In thousands of Russian Roubles	**2011**	**2010**
Interest income		
Loans and advances to customers	30 064 059	25 327 564
Trading securities	4 201 298	3 302 497
Due from other banks	1 715 759	1 267 286
Investment securities available for sale	1 292 966	1 357 255
Interest income on impaired financial assets	319 491	831 479
Debt securities held to maturity	54 885	10 976
Other securities at fair value through profit and loss	12 123	11 303
Total interest income	**37 660 581**	**32 108 360**
Interest expense		
Term deposits of individuals	4 438 641	4 065 551
Term deposits of legal entities	3 823 421	1 568 988
Term borrowings from the Parent Bank	1 695 995	2 388 691
Debt securities in issue	1 689 321	1 398 933
Current/settlement accounts	973 108	497 953
Term placements of other banks	462 148	311 411
Term borrowings from other financial institutions	207 832	100 263
Correspondent accounts of other banks	16 275	6 283
Total interest expense	**13 306 741**	**10 338 073**
Net interest income	**24 353 840**	**21 770 287**

28 Fee and Commission Income and Expense

In thousands of Russian Roubles	2011	2010
Fee and commission income		
Commissions on operations with plastic cards	3 505 917	2 777 323
Commissions on settlement transactions	1 244 929	1 235 635
Commissions on documentary business and guarantees	955 953	845 556
Commissions on cash operations	807 873	738 742
Insurance agency commission	644 151	354 767
Credit facility fee	608 555	634 438
Commissions on export operations	417 358	386 071
Early and late repayment fee	375 340	372 344
Fiduciary activities	351 907	359 315
Commissions from investment banking	329 046	438 202
Commissions on transfer payments	232 605	358 563
Commissions on transactions with securities	137 599	126 855
Commission income on foreign exchange operations	61 903	67 424
Other	368 675	405 627
Total fee and commission income	**10 041 811**	**9 100 862**
Fee and commission expense		
Commissions on operations with plastic cards	1 135 916	734 282
Commissions on settlement transactions	466 593	218 404
Commissions on transfer payments	264 217	199 123
Commissions on cash operations	227 829	234 533
Commissions on transactions with securities	68 957	62 336
Commissions on documentary business	18 026	17 221
Credit facility fee	5 851	99 223
Other	91 421	113 429
Total fee and commission expense	**2 278 810**	**1 678 551**
Net fee and commission income	**7 763 001**	**7 422 311**

29 Administrative and Other Operating Expenses

In thousands of Russian Roubles	Note	2011	2010
Staff costs		9 821 198	7 973 466
Rent expenses		2 093 970	2 161 716
Depreciation and impairment of premises and equipment	15	1 625 746	1 577 561
IT services		994 433	854 349
Premises and equipment maintenance expenses		882 567	808 227
Advertising and marketing		728 654	637 737
Amortisation of intangible assets	16	707 519	641 596
Deposit insurance fee		687 335	562 490
Communication expenses		603 401	504 821
Professional services		404 614	240 134
Security expenses		352 690	418 655
Taxes other than on income		225 456	176 389
Other		1 347 022	1 521 804
Total administrative and other operating expenses		**20 474 605**	**18 078 945**

Included in staff costs are statutory social security and pension contributions of RR 1 297 020 thousand (2010: RR 899 247 thousand). Staff costs also comprise employee bonuses in the amount of RR 1 617 662 thousand (2010: RR 1 171 850 thousand).

Included in staff costs are the contributions to the defined contribution pension plan, paid by the Group for its employees in the amount of RR 65 307 thousand (2010: RR 37 845 thousand).

30 Income Taxes

(a) Components of income tax expense

Income tax expense recorded in profit or loss for the year comprises the following:

In thousands of Russian Roubles	2011	2010
Current tax	5 009 117	4 525 852
Deferred tax	(578 462)	(2 402 264)
Income tax expense for the year	**4 430 655**	**2 123 588**

(b) Reconciliation between the tax expense and profit or loss multiplied by applicable tax rate

The income tax rate applicable to the majority of the Group's 2011 income is 20% (2010: 20%). The income tax rate applicable to the majority of income of subsidiaries ranges from 9% to 20% (2010: 9% - 20%). A reconciliation between the expected and the actual taxation charge is provided below.

In thousands of Russian Roubles	2011	2010
Profit before tax	**18 286 103**	**9 411 260**
Theoretical tax charge at statutory rate (2011: 20%; 2010: 20%)	3 657 221	1 882 252
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Non-deductible expenses	272 127	311 906
- Income on government securities taxed at different rates	(7 118)	(6 973)
- Income earned in tax free jurisdictions	(14 316)	(60 966)
- Profit on associates	(41 543)	(2 416)
- Under provision of current tax in prior years	20 286	-
- Unrecognized other potential deferred tax assets	500 920	-
- Other	43 078	(215)
Income tax expense for the year	**4 430 655**	**2 123 588**

(c) Tax loss carry forwards

During the year ended 31 December 2010, the Group realized deferred tax assets in the amount of RR 73 394 in respect of unused tax loss of RR 366 970 thousand on interest rate swap contracts.

30 Income Taxes (Continued)

(d) Deferred taxes analysed by type of temporary difference

Differences between IFRS and statutory taxation regulations in Russia 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%).

In thousands of Russian Roubles	**31 December 2010**	**Credited/ (charged) to profit or loss**	**Credited/ (charged) directly to equity**	**31 December 2011**
Tax effect of deductible/(taxable) temporary differences and tax loss carry forwards				
Premises and equipment	(786 330)	(24 171)	-	(810 501)
Loan impairment provision	(1 099 094)	614 661	-	(484 433)
Fair valuation of trading securities	515 619	123 228	-	638 847
Fair valuation of other securities at fair value through profit or loss	21 641	301	-	21 942
Debt securities in issue	-	1 263	-	1 263
Tax loss carry forwards on interest rate swap contracts	-			
Loans and advances to customers	1 396 590	(604 372)	-	792 218
Accruals	772 317	(53 033)	-	719 284
Fair value of derivative financial instruments	(32 711)	632 272	-	599 561
Provision for credit related commitments	328 602	(108 839)	-	219 763
Deferrals	1 196 043	(8 522)	-	1 187 521
Valuation reserve of investment securities available for sale	(199 561)	-	(9 431)	(208 992)
Valuation reserve due to cash flow hedge	132 623	-	(67 442)	65 181
Other	2 551	5 674	-	8 225
Net deferred tax asset	**2 248 290**	**578 462**	**(76 873)**	**2 749 879**

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

30 Income Taxes (Continued)

In thousands of Russian Roubles	31 December 2009	Credited/ (charged) to profit or loss	Credited/ (charged) directly to equity	31 December 2010
Tax effect of deductible/(taxable) temporary differences and tax loss carry forwards				
Premises and equipment	(1 140 791)	354 461	-	(786 330)
Loan impairment provision	(1 403 936)	304 842	-	(1 099 094)
Fair valuation of trading securities	449 747	65 872	-	515 619
Fair valuation of other securities at fair value through profit or loss	(29 381)	51 022	-	21 641
Tax loss carry forwards on interest rate swap contracts	73 394	(73 394)	-	-
Loans and advances to customers	1 067 323	329 267	-	1 396 590
Accruals	615 286	157 031	-	772 317
Fair value of derivative financial instruments	(688 953)	656 242	-	(32 711)
Provision for credit related commitments	149 254	179 348	-	328 602
Deferrals	689 407	506 636	-	1 196 043
Valuation reserve of investment securities available for sale	(115 749)	-	(83 812)	(199 561)
Valuation reserve due to cash flow hedge	227 031	-	(94 408)	132 623
Other	131 614	(129 063)	-	2 551
Net deferred tax asset	**24 246**	**2 402 264**	**(178 220)**	**2 248 290**

(e) Current and deferred tax effects relating to each component of other comprehensive income

Current and deferred tax effects relating to each component of other comprehensive income are as follows:

	2011			2010		
In thousands of Russian Roubles	Before-tax amount	Income tax expense	Net-of-tax amount	Before-tax amount	Income tax expense	Net-of-tax amount
Investment securities available-for-sale:						
- Gains arising during the year	47 154	(9 431)	37 723	419 061	(83 812)	335 249
Cash flow hedge:						
- Valuation reserve due to cash flow hedge arising during the year	337 210	(67 442)	269 768	472 038	(94 408)	377 630
Other comprehensive income/(expense)	**384 364**	**(76 873)**	**307 491**	**891 099**	**(178 220)**	**712 879**

31 Dividends

In thousands of Russian Roubles	2011	2010
Dividends payable at 1 January	-	-
Dividends declared during the year	4 307 517	1 198 241
Dividends paid during the year	(4 307 517)	(1 198 241)
Dividends payable at 31 December	**-**	**-**
Dividends per share declared during the year, in Russian Roubles	**118**	**33**

All dividends are declared and paid in Russian Roubles.

32 Segment Analysis

Operating Segments

Starting from 1 January 2009, the Group prepares its segment analysis in accordance with IFRS 8, *Operating segments*, which replaced IAS 14, *Segment reporting*.

The Supervisory Board monitors the results of the Group and is the chief operating decision maker (CODM). The Supervisory Board of the Bank consists of the Management Board members of the Parent Bank. The Parent Bank is a holding company that controls the strategic and operating decisions of the Group. The Parent Bank monitors its business by geographic segment where the Group represents a separate segment "Russia". Therefore, the Group’s format for reporting segment information is the geographical segment Russia. The Supervisory Board regularly meets at least on a quarterly basis. The Management Board of the Group informs the Supervisory Board in a timely and comprehensive manner about the issues relevant to the business development of the Group, including the Group’s risk situation, risk management and that of Group entities. The Supervisory Board discusses with the Management Board of the Group the strategic orientation, makes respective decisions and monitors regularly the status of the strategy’s implementation at regular intervals.

Measurement of operating segment profit or loss, assets and liabilities

The CODM reviews financial information prepared based on the Group reporting standards adjusted to meet the requirements of internal reporting. Such financial information differs in certain aspects from International Financial Reporting Standards:

(i) Information comprises consolidated result of the Bank and Roof Russia S.A. (SPE of the Bank);

(ii) Certain classification differences exist between the information presented to CODM and the Consolidated Financial Statements.

Segment revenues and segment result

Segment information for Russia (as a segment of the Parent Bank) is calculated as set out below:

In thousands of Russian Roubles	**2011** **Segment Russia**	**2010** **Segment Russia**
External revenues:		
Interest and similar income	41 150 437	34 162 470
Fee and commission Income	11 936 265	10 770 257
Total revenues	**53 086 702**	**44 932 727**
Interest and similar expense	(17 618 353)	(14 779 210)
Fee and commission expense	(2 271 809)	(1 674 717)
Provision for loan impairment	2 374 879	(4 042 754)
Trading result	1 642 378	2 980 093
Valuation result from hedge accounting and other derivative instruments	1 104 808	(509 850)
Net income from investments	1 764	62 071
Depreciation and amortization	(2 327 652)	(2 213 868)
Other administrative expenses	(16 861 217)	(14 296 179)
Other operating profit/loss	(683 946)	(1 177 795)
Income taxes	(4 499 781)	(2 101 406)
Segment result	**13 947 773**	**7 179 112**

Based on domicile of the customers substantially all of the revenues are from Russian customers.

32 Segment Analysis (Continued)

Major segment ratios

Major ratio calculations for the reportable segment of the Group for the year ended 31 December 2011 and 31 December 2010 are set out below:

In thousands of Russian Roubles	Year Ended 31 December 2011 Segment Russia	Year Ended 31 December 2010 Segment Russia
Total segment assets	**605 086 426**	**508 304 702**
Total segment liabilities	**509 322 686**	**422 396 384**
Capital expenditure	**2 781 119**	**2 494 394**
Cost/income ratio	55.30%	55.78%
Average equity	90 836 029	82 507 163
Return on equity before tax	20.13%	11.41%
Return on equity after tax	15.25%	8.83%

Reconciliation with IFRS

Capital expenditure represents additions to premises and equipment and intangible assets.

Reconciliation of segment revenues, segment result and other material items is presented below.

In thousands of Russian Roubles	2011	2010
Total revenue for segment	**53 086 702**	**44 932 727**
Reclassification of interest income to trading result	(3 893 956)	(2 973 248)
Reclassification of commission income to trading result	(2 112 427)	(1 960 922)
Reclassification provision for loan impairment to interest income	371 842	877 665
Effect of the consolidation of the subsidiaries and other adjustments	250 231	333 000
Total revenue	**47 702 392**	**41 209 222**

Reconciliation of reportable segment result is presented below.

In thousands of Russian Roubles	2011 Segment Russia	2010 Segment Russia
Total segment result	**13 947 773**	**7 179 112**
Consolidation of subsidiaries and associates	138 749	58 288
Losses of securities available for sale	(264 384)	-
Intercompany adjustments	33 310	50 272
Profit after tax	**13 855 448**	**7 287 672**

32 Segment Analysis (Continued)

Reconciliation of other material items of income or expenses for the year ended 31 December 2011 is as follows:

In thousands of Russian Roubles	Total amount for reportable segment	Reclassifi-cations	Consolidation of the subsidiaries and associates	As reported under IFRS
Material income or expenses for year ended 31 December 2011				
External revenues, including				
- Interest and similar income	41 150 437	(3 522 113)	32 257	37 660 581
- Fee and commission income	11 936 265	(2 112 427)	217 973	10 041 811
Interest and similar expense	(17 618 353)	4 291 405	20 207	(13 306 741)
Fee and commission expense	(2 271 809)	-	(7 001)	(2 278 810)
Provision for loan impairment	2 374 879	(371 842)	(33 352)	1 969 685
Trading result	1 642 378	1 659 236	(257 689)	3 043 925
Valuation result from hedge accounting and other derivative instruments	1 104 808	(56 596)	-	1 048 212
Net income from investments	1 764	112 337	(36 242)	77 859
Depreciation and amortization	(2 327 652)	-	(5 613)	(2 333 265)
Other administrative expenses and share of profit of associates	(16 861 217)	-	274 615	(16 586 602)
Other operating profit/loss	(683 946)	-	(366 606)	(1 050 552)
Income taxes	(4 499 781)	-	69 126	(4 430 655)

Reconciliation of other material items of income or expenses for the year ended 31 December 2010 is as follows:

In thousands of Russian Roubles	Total amount for reportable segment	Reclassifi-cations	Consolidation of the subsidiaries and associates	As reported under IFRS
Material income or expenses for year ended 31 December 2010				
External revenues, including				
- Interest and similar income	34 162 470	(2 095 583)	41 473	32 108 360
- Fee and commission income	10 770 257	(1 960 922)	291 527	9 100 862
Interest and similar expense	(14 779 210)	4 422 733	18 404	(10 338 073)
Fee and commission expense	(1 674 717)	-	(3 834)	(1 678 551)
Provision for loan impairment	(4 042 754)	(877 665)	(1)	(4 920 420)
Trading result	2 980 093	(430 074)	(28 987)	2 521 032
Valuation result from hedge accounting and other derivative instruments	(509 850)	86 788	-	(423 062)
Net income from investments	62 071	854 723	16 723	933 517
Depreciation and amortization	(2 213 868)	-	(5 289)	(2 219 157)
Other administrative expenses and share of profit of associates	(14 296 179)	-	(35 123)	(14 331 302)
Other operating profit/loss	(1 177 795)	-	(164 151)	(1 341 946)
Income taxes	(2 101 406)	-	(22 182)	(2 123 588)

Provision for loan impairment comprises of provision for impairment of loans and advances to customers, provision for credit related commitments and gains from the sale of loans.

32 Segment Analysis (Continued)

The reconciling items are attributable to the following:

Reclassification in interest and similar expense:

- reclassification of interest expenses from deposits which are the hedged items in Cash flow hedge from interest and similar expenses to trading result in the amount RR 119 805 (2010: RR 114 486 thousand);
- reclassification of computed refinancing cost of trading portfolio from trading result to interest and similar expenses in the amount RR 1 955 647 thousand (2010: 2 090 529 thousand); and
- reclassification of interest expenses from interest rate derivatives from interest and similar expenses to trading result in the amount of RR 6 127 247 thousand (2010: RR 6 398 776 thousand).

Reclassification in Provision for loan impairment the movement for the reporting period of the gross up of the loans acquired in the course of the business combination for interest and similar income and for provision for loan impairment and unwinding effect to interest and similar income in the amount of RR 52 351 thousand (2010: RR 46 186 thousand).

Reclassification in trading result:

- the total amount of reclassification from Trading result to Interest and similar expenses is equal to the amount of RR 1 843 309 thousand (2010: RR 2 090 529 thousand);
- the total amount of reclassification to Trading result from Interest and similar expenses is equal to the amount of RR 6 127 247 thousand (2010: RR 6 513 262 thousand);
- reclassification of interest income from interest rate derivatives from interest and similar income to trading result in the amount of RR 8 086 535 thousand (2010: RR 6 274 120 thousand);
- reclassification of ineffective part from hedge accounting from valuation result from hedge accounting and other derivative instruments to trading result in the amount of minus RR 56 596 thousand RUB (2010: RR 86 788 thousand);
- reclassification of coupon income for trading securities from trading result to interest income in the amount of RR 4 194 757 thousand (2010: RR 3 295 996 thousand);
- reclassification of the result on clients' foreign exchange transactions from commission income to trading result in the amount of RR 1 958 164 thousand (2010: 1 956 046 thousand).

Reclassification in Valuation result from hedge accounting and other derivative instruments: the total amount of reclassification of the termination fee for interest rate derivatives and ineffective part from hedge accounting from Valuation result from hedge accounting and other derivative instruments to Trading result is equal to the amount of minus RR 56 596 thousand (2010: RR 86 788 thousand).

Major customers

The Group does not have any customer, from which it earns revenue representing 10% of more of the total revenues.

33 Financial Risk Management

The Group's risk management function is conducted regarding financial risks (credit, market, geographical, currency, liquidity and interest rate), operational risks and credit risk concentrations. Its primary objectives are to identify and assess risks, establish risk limits, assume risk mitigation measures, ensure that all material risks are measured and limited, and that business in general is evaluated from a risk/return perspective. The operational and legal risk management functions are meant to ensure that internal policies and procedures work properly to minimize operational and legal risks.

Responsibility for the Group's risk management activities are divided among the following: Risk Management Directorate, Assets and Liabilities Committee (ALCO), Credit Committee, Problem Loan Committee, Operational Risk Committee and other authorized bodies of the Group within the scope of responsibilities delegated by the Group's Supervisory and Management Board and in accordance with the Group's Charter.

Risk Management Directorate

The Risk Management Directorate is responsible for:

- preparation of internal documents based on local regulatory requirements and the Bank's risk management standards;
- identification, evaluation and controlling all types of risks to which the Bank is exposed;
- independently analysis of all types of risks, including risks associated with Bank's credit activity;
- independently monitoring the Bank's clients' financial and business situation;
- preparation of credit analysis of the borrowers and assignment of ratings; monitoring of rating quality;
- acceptance, evaluation, monitoring and revaluation of the collaterals;
- support of credit transactions at all stages of credit life coming after credit decision;
- monitoring of the fulfillment of client's obligations in accordance with the loan documentation and credit decisions;
- problem assets management;
- analysis and monitoring of retail portfolios;
- management of credit, underwriting and fraud prevention processes within retail lending; scorecards development
- development and support of regular reporting on performance and collection of retail portfolios;
- centralized regulatory and internal credit risk reporting;
- qualitative and quantitative analysis of the credit risk;
- Risk Weighted Assets analysis and monitoring; Basel II/III implementation and maintenance;
- economic capital management;
- stress-testing conduction; stress Test results analysis and reporting;
- quality assurance of the risk management data and risk data quality performance monitoring and reporting;
- evaluation of potential and incurred losses and calculation of provisions;
- assurance of the effective market risk management, optimization of the risk / return ratio; analysis and control of the market risk for the Bank and subsidiaries;
- liquidity risk management;

33 Financial Risk Management (Continued)

- development and implementation of Bank operational risk management and anti-fraud prevention methodology and regulations; coordination of Bank anti-fraud prevention, detection and recovery processes;
- coordination and control of operational risk management activities for the Bank and the Bank subsidiaries.

Assets and Liabilities Committee (ALCO)

The Assets and Liabilities Committee (ALCO) is responsible for the development and implementation of the Bank's asset and liability management strategy. The following items are recognized as the ALCO's main areas of responsibility:

- Managing the assets and liabilities structure;
- Approving the interest rate policy and setting the Bank's internal and external interest rates;
- Developing and implementing market risk evaluation and control models;
- Setting market risk limits;
- Interest rate risk, foreign currency risk management and credit risk concentration issues;
- Approving internal documents on risk identification, evaluation and management related to liquidity and market risks;
- Approving the Bank's policy on the management of medium-term and long-term liquidity.

ALCO is presided over by the Chairman of the Bank's Management Board.

Credit Committee

The Credit Committee is responsible for managing the Group's credit risks, including:

- considering and approving the Group's credit policy;
- approving loans and other credit products;
- approving and amending the terms and conditions of credit products;
- establishing limits for transactions with certain counterparties and groups of connected parties;
- implementing policies and procedures for collateral assessment and evaluation;
- regular reviewing loan applications, product strategies, industry reviews, etc.

The composition of the Credit Committee is approved by the Supervisory Board and includes senior managers whose activities involve risk assessment (e.g. specialists in the Risk Management Directorate) and client relations. The Credit Committee is usually chaired by the Director of the Risk Management Directorate, who is responsible for overseeing the Bank's overall risk management policies.

The following table shows the approval authority of the Credit Committee regarding corporate clients, which depends on the loan volume and tenor:

Amount (in EUR)	Term
20 million	Up to 3 years
10 million	Up to 5 years
5 million	Up to 10 years
1 million	Unlimited

33 Financial Risk Management (Continued)

The Credit Committee has the right to delegate approval authority to lower approval bodies.

- Small Credit Committee: Members of the Small Credit Committee are appointed by the Credit Committee. The Small Credit Committee is empowered to approve applications for up to EUR 7 million.
- Approvals requiring two signatures are generally authorized by the Credit Committee to approve a limit of up to EUR 3 million (up to 2010, the limit was EUR 2 million).

None lending transactions in the Corporate, Public or SME divisions are made without approval through the limit application process first. This process is also consistently applied to overdrafts, increases in existing limits, extensions, and in cases where a borrower's risk profile changes after the original lending decision was made (e.g. regarding his/her financial situation, the terms and conditions, or collateral).

Limits are granted within the context of a hierarchical decision making process depending on the type, size and term of a loan. Approval from the business and the credit risk management divisions is always required when granting new loans or when performing limit re-evaluations during the regular reassessment of counterparty risks. In this case, limit applications are approved by the Credit Committee.

Applications in excess of CC Approval Authority need approval of the Group Supervisory Board which might depend on further approvals by the respective approval bodies in the Parent Bank.

The Group's Supervisory Board/Executive Credit Committee and the Parent Bank Managing Board

The Group's Supervisory Board and the Parent Bank Managing Board are responsible for approving limit applications when the total credit limit or tenor exceeds the approval powers of the Credit Committee. The Executive Credit Committee is a standing advisory body of the Supervisory Board, where the credit decisions in the approval power of the Group's Supervisory Board are delegated and which meets on a regular basis.

The Group's Supervisory Board is authorized to approve loan applications from a group of connected customers (GCC) with a total credit limit of less than EUR 100 million. Loan applications from a GCC with a total credit limit exceeding EUR 100 million must be approved by the Parent Bank Managing Board. Loan applications that exceed certain reporting limits set by the Parent Bank must be approved by both the Parent Bank Supervisory Board and the Parent Bank Managing Board.

Problem Loan Committee

All problem loans are reviewed by the Problem Loan Committee or the Small Problem Loan Committee. The Problem Loan Committee has the authority to recommend courses of action and approve applications for restructuring, credit reviews, and write-offs, establish provisions and release provisions. Members of the Problem Loan Committee and the Small Problem Loan Committee are appointed by the Group's Supervisory Board and meet on a weekly basis.

The Small Problem Loan Committee has the authority to approve applications to restructure problem loans with a value of up to EUR 1 million.

The Problem Loan Committee is authorized to:

- approve applications for restructuring problem loans to a GCC of up to EUR 7 million;
- recommend courses of action to take if a customer deteriorates or if its credit rating is downgraded;
- approve the level of provisioning or the release of provisions for a GCC up to EUR 2 million;

33 Financial Risk Management (Continued)

- approve direct write-offs of up to EUR 500,000 and write-offs against provisions of up to EUR 1 million;
- approve external legal and consulting costs related to the recovery of problem loans of up to EUR 200,000.

Decisions beyond the approval powers of the Problem Loan Committee must be approved by the Group's Supervisory Board.

Credit risk. The Group's credit risk mainly relates to the possibility of a financial loss due to a borrower's creditworthiness and/or inability to meet its obligations. The Group manages its credit risk in close cooperation with the credit risk management team at the Parent Bank level. The Group's risk management system is integrated into risk management system of the Parent bank. The main risk policies and principals are laid out by the Parent Bank.

Credit risk management and lending decisions are based on the respective credit risk manuals and policies and the corresponding tools and processes that have been developed for this purpose.

The Group manages its credit portfolio on the basis of return on risk adjusted capital. The Group analyzes credit transactions and retail portfolios by calculating the expected loss and determining the unexpected loss on its loan portfolio. "Expected loss" is the loss that the Group expects over a one-year period in its credit portfolio for corporate customers and the loss the Group expects over a seven-month period for its credit portfolio for retail customers, based on its historical loss experience. In calculating expected loss, the Group takes into account a number of factors, including default probability and expected exposure at default, which the Group estimates based on client- and product-specific factors that reflect the risk characteristics of different types of credit exposures and facilities. Expected loss is a useful measure for planning purposes. "Unexpected loss" is the Group's estimate of the maximum negative deviation of the possible loss from the expected loss that it is likely to face within a one-year period. In the Group's risk management system, the expected loss in lending business is factored into the pricing of products in the form of standard risk costs. Unexpected loss is taken into account through the allocation of capital and is part of individual pricing decisions as well. The Group adjusts the expected loss model in order to calculate the incurred losses of its loan portfolio.

The Group analyzes credit risk associated with traditional banking products, such as loans, as well as credit risk for derivative financial instruments. The Group particularly attempts to limit its potential default risk from over the counter ("OTC") derivative transactions. The Group measures its credit exposure from OTC derivative transactions as the cost of replacing the contract if its counterparty were to default on its obligations.

The Group's Corporate & Financial Institutions credit risk management and Retail risk management divisions are responsible for implementing its credit risk management policies and procedures as approved by the Parent Bank's management board.

The Group structures the levels of credit risk it undertakes by placing the relevant type of credit risk limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and are subject to a quarterly review in accordance with the requirements of the Central Bank of Russian Federation. Limits on the level of credit risk by product, borrower and industry sector are approved regularly by the Credit Committee and the Group Supervisory Board.

The exposure to any borrower, including financial institutions, is at the same time restricted by sub-limits covering on- and off-balance sheet exposures and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily. Exposure to credit risk is managed through regular analysis of borrowers' and potential borrowers' ability to meet interest and principal repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed, in part, by obtaining collateral and corporate and personal guarantees.

33 Financial Risk Management (Continued)

The Bank's maximum exposure to credit risk is reflected in the carrying amounts of financial assets on the consolidated statement of financial position. For guarantees and commitments to extend credit, the maximum exposure to credit risk is the amount of the commitment. Refer to Note 35.

Approval of a loan requires an evaluation and recommendation from the Group's Risk Management directorate and unanimous approval from the proper authority.

Those best practices that have proved themselves in the last few years stayed in place:

- Special research regarding the real estate portfolio;
- Portfolio research – SWOT analysis of industries and majors; and
- Tight monitoring (including external and internal sources of information) of clients.

The Group implemented a second phase of early warning system, which is a specialized tool meant to indentify problem corporate customers early on and allow defaults to be prevented by taking appropriate action. The system is based on 30 warning signals and consolidates information from internal and external sources. Within the system, the corporate portfolio and each individual borrower is screened regularly to detect these warning signals, which would indicate an upcoming problem loan. Based on its findings, every customer is assigned a so-called "client risk status" and an action plan is developed in case of the status deterioration.

The Group's financial institutions risk management (i.e. banks and securities houses, insurance, finance and factoring companies, brokers, asset management houses, leasing companies, subsidiaries of the above mentioned financial institutions and similar entities, sovereign and sub-sovereign borrowers) is implemented through research, analysis, and ensuring that the risk management standards, policies, practices and tools of the Parent Bank are adhered to by all business units in the credit process, the daily control of limits observance (including real-time control for treasury and securities types of credit risk limits), and reporting.

Limits are subject to constant monitoring. This controlling function includes daily real-time monitoring of Treasury and Capital markets operations within the existing treasury & securities types of credit risk limits, operations with securities, REPO transactions (counterparty, issuer), and commercial limits. Monthly monitoring covers exposure, disbursed cash and the commitment OBS-exposure-sheet.

Country risk management is fully managed by the Parent Bank through system of country limits. All country limits of the Group are approved, monitored and administrated by the Parent Bank.

Asset class segmentation as an initial stage of the rating process

Asset class segmentation is one of the first steps in determining a client's risk segment and rating model.

The basic standards for asset class segmentation are determined by Parent Bank directives and establish common rules across the whole Parent Bank Group.

The asset class segmentation and rating process are used for the Risk Weighted Assets calculation in order to meet the Basel II Accord requirements.

Rating models

The rating process determines a counterparty's creditworthiness. The Group uses internal ratings for assessing credit risk, employing different risk classification procedures (rating and scoring models) for different asset classes.

33 Financial Risk Management (Continued)

All non-retail rating models are developed by the Parent Bank. The models are used throughout the whole Group. The Group uses special software tools for rating calculation. Ratings under models Corporate, SMB, Local and Regional Governments and Project Finance are assigned by the Groups' head office; ratings under models for Financial Institutions (FI), Insurance, Collective Investment Undertakings (CIU) and Sovereigns are assigned by the Parent Bank, the analysis is done locally.

Retail models (scorecards) are developed locally and approved by the Parent Bank.

Rating models are determined depending on the asset class of the borrower/counterparty/issuer. The rating models in the main non-retail asset classes – Corporate customers, SMB, FI, CIU, Insurance, Local and Regional Governments and Sovereigns – rank creditworthiness in ten rating grades; Project Finance rating model ranks creditworthiness in five grades. Judgment on a counterparty is based on statistical data, and the analyst's expert judgment and is validated with statistical methods or, where appropriate, through a comparison with externally available data.

The Retail rating scale contains 10 categories (and one "Not rated" category).

The following separate non-retail rating models are used by the Group:

1 *Corporate* – for large corporate counterparts;

2 *SMB* – for corporate customers belonging to small and medium business;

3 *Insurance* – for insurance companies (both life & non-life);

4 *FI* – for all types of financial institutions, except insurance companies;

5 *Sovereigns* – for countries' central governments and relates to countries' non-commercial public sector entities (PSEs);

6 *LRG* – for local administrations and regional governments, and is related to non-commercial PSEs;

7 *CIUs* – for Collective Investment Undertakings;

8 *Project Finance* – for separate projects.

Rating process

The non-retail rating process (except for FI, Insurance, CIUs and Sovereigns) is headed by the Rating Unit of the Group's head office. The Rating Unit consists of analysts of Group's head office and regional branches. Ratings and credit analyses are done by both head office and regional analysts. The application of rating methodology and quality and approval of ratings are under centralized control.

The main tasks within FI, Insurance, CIUs and Sovereigns rating process are responsibility of central analysts of the Parent Bank, but local risk managers are also participating in rating process of the local counterparties providing their analysis and rating spreadsheets. For Sovereign customers responsibility of rating process is fully laid on risk respective divisions of the Parent Bank.

For retail customers scorecards are applied automatically in application processing systems.

The Group's rating scales, which are shown below, are unified amongst all the subsidiaries of the Parent Bank and reflect the range of default probabilities defined for each rating class. This means that, in principle, exposures migrate between classes as the assessment of their probability of default changes.

The rating tools are kept under regular review by the Parent Bank and updated if necessary. The Group regularly validates the performance of the rating and their predictive power with regards to default events.

33 Financial Risk Management (Continued)

The Group's internal ratings scales and mapping of external ratings are presented in the table below.

Rating description	Group's corporate, SMB and retail rating	Group's FI, Sovereign, LRG rating	Group's sovereign rating	Group's CIU rating	Group's Project Finance rating
Minimal risk	0.5,1.0	A1,A2	A1,A2	C1,C2	6.1
Excellent credit standing	1.5	A3	A3	C3	
Very good credit standing	2.0	B1	B1	C4	6.2
Good credit standing	2.5	B2	B2	C5	
Average credit standing	3.0	B3	B3	C6	6.3
Mediocre credit standing	3.5	B4	B4	C7	
Weak credit standing	4.0	B5	B5	C8	6.4
Very weak credit standing	4.5	C	C	C9	
Loss/bankruptcy	5.0	D	D	CD	6.5

Exposure at default is based on the amount the Group expects to be owed at the time of a default. For a loan, this is represented by the total exposure amount at the date of default. For a credit-related commitment, the Group includes any other amount that may have been taken out by the time of the default, should it occur.

In 2011 the Group updated default statistics based on a five year time horizon instead of a four year period used in 2010. The management believes that this change enhances the accuracy of estimates with respect to probabilities of default applied under the portfolio loan loss provision methodology. The management believes that it is impractical to calculate the effect of the change in estimate as of 31 December 2011.

Loss Given Default is the Group's measure of the economic loss on an exposure due to the default of the counterparty.

Private Individuals

Private individual credit risk appears when performing risk-bearing transactions for private individual customers. A borrower could be defined as a private individual customer in case of lending for his own personal use. Basic types of private individual loans are mortgages, auto loans, personal loans and credit cards. For each type of private individual loan, the Group has established a product approval process, which is approved by the Parent Bank.

When establishing private individual credit risk limits, the Group usually follows the general guidelines set for the entire Parent Bank group and the specific guidelines for the Group. The decision on whether or not to provide a loan to a private individual customer depends on the customer's conformity with the basic conditions, which are documented separately for each type of credit product; the customer's scoring data; the customer's financial status, meaning his/her ability to pay; the results of a security check; credit history data, if it exists; and collateral (for pledge credit).

The Group uses certain reports for credit risk analyses on a monthly basis, such as consumer portfolio reports, branch monitoring reports, product reports, risk cost reports, vintage reports, collection bucket reports, collection target tracking and velocity reports.

For debt securities, the Group uses internal ratings to manage credit risk exposure. The Bank extrapolates the ratings model on its subsidiaries as well.

33 Financial Risk Management (Continued)

Credit limits The Group monitors direct credit exposure to FI, Sovereign and LRG using a system of limits developed by the Parent Bank. The limits include finance type of credit risk limits (Lending, Letter of credits & Letter of guarantees, Contingencies, Finance underwriting, credit risk insurance, overdraft on Loro-accounts and positive balance on Nostro-accounts), securities type of credit risk limits (Issuer investment/trading/underwriting, Issuer equities trading, Securities settlement, Securities options/futures) and treasury type of credit risk limits (Treasury settlement, Global facility (MM & FX/Derivatives), Repo style). For limit application a counterparty should have the assigned internal rating, which is the base for limit value in its favor. Limits and ratings are reviewed at least once a year. Financial standing of FI, Sovereign & Sub-Sovereign counterparties is monitored on a regular basis according to the Parent Bank and Central Bank of Russia requirements. Exposures in the frame of the established limits on FIs, Sovereign & Sub-Sovereign are monitored on a daily basis.

Exposure to other groups of borrowers (other than FIs, Sovereign & Sub-Sovereign) is also monitored by setting limits on different types and terms of transactions for each individual counterparty and industry segment (economic entity), including regular monitoring of borrowers' creditworthiness based on evaluations and rating systems.

The Bank sets credit limits on the following:

- Assets exposed to credit risk;
- Short-term interbank transactions with counterparty banks;
- Investments in issuers' debt securities;
- Investments in groups of interrelated counterparties;
- An economic entity's liabilities to the Group.

The Bank structures the levels of credit risk it undertakes 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 industry sector are approved regularly by the Credit Committee. Such risks are monitored on a revolving basis and are subject to an annual or more frequent review.

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

Credit risk concentrations. Management monitors and discloses concentrations of credit risk by obtaining reports listing exposures to borrowers with aggregated loan balances in excess of 10% of net assets. Refer to Notes 10 and 11.

Market risk. Market risk is the risk of loss due to adverse changes in interest rates, exchange rates, equity prices, commodity prices and credit spreads, which may affect the Group's equity, profit or the market value of its assets and liabilities. Market risk derives from on- and off-balance sheet positions in the Bank's treasury, investment banking and lending operations.

The Group's market risk management approach encompasses the recognition, measurement, monitoring and management of market risk that results from the Group's banking business on a group basis. The Group encounters market risk in both trading and non-trading activities (including interest rate positions, balance sheet structures and hedging positions).

The Group's market risk management unit is in charge of identifying and assessing market risks and establishing procedures to control market risks, including monitoring position limits and exposures. The Bank's market risk management unit also assesses market risk for new businesses and products, including structured products. The Treasury Directorate, which trades within the trading limits recommended by the market risk management unit and approved by the ALCO/CC, performs trading and market positioning for the Bank. The Bank is subject to the policies and limits set by the Parent Bank and approved by the Parent Bank's market risk committee.

33 Financial Risk Management (Continued)

The Bank's market risk management unit is in charge of daily limit monitoring and weekly reporting to the Parent Bank, and is responsible for reporting any limited breach to the Parent Bank. In the case of a limit breach, the Parent Bank board member responsible for global treasury has the right to intervene in the Bank's risk management activities and practices.

Risk management tools

The Bank manages market risks by controlling the market risk limits for all trading portfolios (domestic and foreign fixed income securities, foreign exchange and equity positions) by using risk management tools such as position limits, value at risk, stress tests, back-testing, interest rate gap and sensitivity analysis and stop-loss limits.

Value at Risk (VaR)

VaR is a statistically-based estimate of a potential loss in the Bank's trading portfolio, including fixed income, equity and foreign exchange positions, as well as a decrease in the economic value of the Banking Book, from adverse changes in market parameters. As is standard for the Parent Bank and the Group, VaR measures are calculated at a 99% confidence level, and there is a specified statistical probability of 1% that actual loss could be greater than the VaR estimate. Limits on VaR are applied for by the Bank's Treasury Directorate, recommended by the Bank's market risk management unit, approved by the ALCO internally and then approved by the Parent Bank's Market Risk Committee.

In 2010, the Group started to use a new model of measuring VaR that was developed and put into force by the Parent Bank. This model is now standard for all network units of the Parent Bank.

The main parameters of the new model are:

- hybrid simulation (combined Monte Carlo-Historical scenarios);
- currency risk and interest rate risk covered and simulated together (including diversification effect);
- based on a two-year time series with Volatility De-clustering (approx. 80% short-term and 20% long-term volatility).

Although VaR is a valuable tool in measuring market risk exposures, it has a number of limitations, especially in less liquid markets:

- The use of historical data as a basis for determining future events may not encompass all possible scenarios, particularly those of an extreme nature;
- The use of a 99% confidence level does not take into account losses that may occur beyond this level. VaR is only an estimate, which is subject to stochastic uncertainty. There is a 1% chance that the loss could exceed VaR;
- As VaR is only calculated at the end of the day, it does not necessarily reflect exposures that may arise on positions during the trading day.

VaR is dependent upon the Bank's position and the volatility of market prices. VaR of an unchanged position reduces if market volatility declines, and vice versa.

The Parent Bank calculates VaR for the Bank based on reported risk positions in the Trading Book and the Banking Book. The Parent Bank performs VaR calculations on a regular basis in EUR and compares the results to the VaR limits approved for the Bank. When a limit is exceeded, it is reported to the local Management and the Parent Bank's Market Risk Committee.

33 Financial Risk Management (Continued)

VaR summary for currency and interest rate risks for the year ending 31 December 2011 and 2010:

In thousands of Russian rubles		**31 December 2011** *1-day VaR*
	Currency risk	13 769
	Interest rate risk	146 204
Trading Book	Currency risk and interest rate risk (including diversification effect)	138 594
Banking Book	Interest rate risk	139 861
	Currency risk	**13 769**
Total for the Bank	**Interest rate risk**	**146 224**
	Currency risk and interest rate risk (including diversification effect)	**146 555**

In thousands of Russian rubles		**31 December 2010** *1-day VaR*
	Currency risk	12 701
	Interest rate risk	156 832
Trading Book	Currency risk and interest rate risk (including diversification effect)	157 168
Banking Book	Interest rate risk	90 702
	Currency risk	**12 701**
Total for the Bank	**Interest rate risk**	**134 834**
	Currency risk and interest rate risk (including diversification effect)	**141 177**

To calculate VaR, the Parent Bank uses the open risk positions of the Bank (without subsidiaries).

The Bank's market risk management unit monitors VaR limits and exposures. The distribution of potential profits and losses from the VaR model provides an indication of potential trading revenue volatility, and a change in the general level of VaR would normally be expected to lead to a corresponding change in the volatility of daily trading revenues. VaR is based on a one-day calculation and provides an estimate of the range of daily mark-to-market profit and loss that the Bank may incur on its current portfolio under normal market conditions.

Stress tests

The main advantage of VaR risk assessment – its reliance on the empirical data – is at the same time its biggest drawback. Extreme market moves that may cause substantial deterioration of the Bank's position have to be assessed by putting stress on a number of standard deviations of market returns. The resulting figures serve as a rough indicator of the magnitude of a likely loss under the corresponding scenario. The Bank uses stress tests to model the financial impact of a variety of exceptional market scenarios on individual trading portfolios and the Bank's overall position. Stress tests indicate the potential size of losses that could arise in extreme conditions.

33 Financial Risk Management (Continued)

Stress testing helps measure the Bank's exposure to extreme market movements and provides an indication of the potential loss that could arise as a result of such movements. Stress testing is designed to ensure that a wide range of possible outcomes is explored in order to understand the Bank's vulnerability, and to ensure that the governance and control framework is comprehensive, transparent and responsive to market conditions and developments, both globally and in the Russian economy.

Back-testing

The effectiveness of the VaR model is subject to a back-testing assessment. Back-testing detects cases of above-VaR loss and compares the frequency of VaR breaches to the given confidence level.

In back-testing, the Bank compares the 1-day VaR calculated on positions at the close of each business day with the actual revenues arising on the same positions on the next business day. These revenues ("back-testing revenues") exclude non-trading components, such as commissions and fees, but include revenues from intra-day trading (so called, "dirty back-testing"). If the result is negative and exceeds the 1-day VaR, a "back-testing exception" is considered to have occurred. When VaR is measured at a 99% confidence level, a back-testing exception is expected, on average, one day out of a hundred, i.e. approximately three times a year.

The Bank uses an interest rate sensitivity analysis to assess interest rate risk for its banking portfolio, which consists of loans, deposits, interbank money market transactions, fixed-income held-to-maturity securities and interest rate derivatives and for its trading portfolio, which consists of fixed income trading securities and interest rate derivatives that hedge the exposure of fixed income trading securities. The Group creates an interest rate re-pricing gap for each portfolio by comparing the present market value of all future cash flows, calculated taking the current market interest rate that the Bank uses for internal pricing, to the value of all future cash flows in the current market increased by one basis point.

Limitation of trading positions

The Bank uses a set of position limits to prevent the concentration of certain financial instruments, including trading securities and open foreign exchange positions, as well as in the Bank's overall portfolio, in order to maintain the market value of the overall portfolio. The position limits are set for individual positions and for the overall portfolio and account for certain market conditions, including liquidity.

Currency risk. Currency risk results from fluctuations in the prevailing foreign currency exchange rates. The Group is exposed to foreign currency exchange risk on open positions (mainly USD/RR and EUR/RR exchange rate fluctuations).

As part of managing currency risk, the Bank sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored on a daily basis. The control system also includes limits on Value at Risk (see the description of Value at Risk measure for details), and stop-loss limits, each monitored on a daily basis.

Foreign exchange risk management is done centrally by the Treasury Directorate for the Bank's Head Office and all regional and Moscow branches.

The Bank's Treasury Directorate undertakes daily aggregation of the currency position of the Bank and takes measures for maintaining of the Bank's currency position on a minimum level. The Bank uses swaps, forwards and USD futures contracts tradable on MICEX and RTS as the main instruments for hedging risk.

33 Financial Risk Management (Continued)

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

In thousands of Russian Roubles	**Monetary financial assets**	**Monetary financial liabilities**	**Less fair value of currency derivatives**	**Currency derivatives**	**Net position including currency derivatives**
Russian Roubles	285 382 826	312 456 417	1 087 672	109 660 108	81 498 845
US Dollars	203 292 171	116 722 703	165 697	(93 187 132)	(6 783 361)
Euros	83 259 375	71 492 694	(428 988)	(12 777 051)	(581 382)
Other	5 256 889	2 258 299	(10 767)	(2 882 311)	127 046
Total	**577 191 261**	**502 930 113**	**813 614**	**813 614**	**74 261 148**

The Group's exposure to foreign currency exchange rate risk at 31 December 2010 is presented below:

In thousands of Russian Roubles	**Monetary financial assets**	**Monetary financial liabilities**	**Less fair value of currency derivatives**	**Currency derivatives**	**Net position including currency derivatives**
Russian Roubles	277 551 857	213 569 741	1 186 828	9 589 839	72 385 127
US Dollars	168 865 651	124 098 054	22 567	(52 969 469)	(8 224 439)
Euros	28 351 541	79 187 679	127 941	50 419 999	(544 080)
Other	6 641 992	990 892	2 533	(5 700 500)	(51 933)
Total	**481 411 041**	**417 846 366**	**1 339 869**	**1 339 869**	**63 564 675**

Derivatives presented above are monetary financial assets or monetary financial liabilities, but are presented separately in order to show the Group's gross exposure.

Amounts disclosed in respect of derivatives represent the fair value, at the end of the reporting period, of the respective currency that the Group agreed to buy (positive amount) or sell (negative amount) before netting of positions and payments with the counterparty. The amounts by currency are presented gross as stated in Note 36.

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.

The Bank calculates VaR for the Parent Bank monitoring, using EUR as the basis currency, and for local purposes the Bank performs the sensitivity analysis.

The following table presents sensitivities of profit and loss and equity to reasonably possible changes in exchange rates applied at the balance sheet date, with all other variables held constant:

In thousands of Russian Roubles	**At 31 December 2011** **Impact on profit or loss/equity**
US Dollars strengthening by 10%	(678 336)
US Dollars weakening by 10%	678 336
Euro strengthening by 10%	(58 138)
Euro weakening by 10%	58 138
US strengthening/Euro weakening by 10%	(736 474)
US weakening/Euro strengthening by 10%	736 474

33 Financial Risk Management (Continued)

In thousands of Russian Roubles	**At 31 December 2010** **Impact on profit or loss/equity**
US Dollars strengthening by 10%	(822 444)
US Dollars weakening by 10%	822 444
Euro strengthening by 10%	(54 408)
Euro weakening by 10%	54 408
US strengthening/Euro weakening by 10%	(876 852)
US weakening/Euro strengthening by 10%	876 852

The exposure was calculated only for monetary balances denominated in currencies other than the functional currency of the respective entity of the group.

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

The Group is exposed to interest rate risk, principally through fixed rate loans, the amounts and terms of which differ from the amounts and terms of fixed rate or floating rate borrowings. In practice, interest rates are set for a short period of time. In practice, interest rates that are contractually fixed on both assets and liabilities are usually to reflect current market conditions.

The Market Risk Management monitors on a daily basis and sets limits on the level of mismatch of interest rate repricing that may be undertaken. The table below summarises the Group's exposure to interest rate risks. The table presents the aggregated amounts of the Group's financial assets and liabilities at carrying amounts, categorised by the earlier of contractual interest repricing or maturity dates.

In thousands of Russian Roubles	**Demand and less than 3 months**	**From 3 to 12 months**	**From 1 to 5 years**	**Over 5 years**	**Total**
31 December 2011					
Total financial assets	425 042 988	24 520 340	100 505 996	28 230 064	578 299 388
Total financial liabilities	366 444 867	68 165 761	66 876 777	1 442 708	502 930 113
Net interest sensitivity gap at 31 December 2011	**58 598 121**	**(43 645 421)**	**33 629 219**	**26 787 356**	**75 369 275**
31 December 2010					
Total financial assets	357 185 744	34 234 469	64 663 990	26 136 279	482 220 482
Total financial liabilities	296 520 834	75 697 512	44 824 326	803 694	417 846 366
Net interest sensitivity gap at 31 December 2010	**60 664 910**	**(41 463 043)**	**19 839 664**	**25 332 585**	**64 374 116**

The management of interest rate risk by monitoring interest rate gap is supplemented by monitoring the sensitivity in terms of "present value to 1 basis point interest rate shift" which measures the impact of a 1 basis point rise of interest rates along the various maturities on the yield curve on the present value of the Bank's assets, liabilities and off-balance sheet instruments. The Parent Bank's market risk committee sets such limits for the Bank and Raiffeisen Leasing Russian Rouble, US Dollar and Euro positions and for the Bank and Raiffeisen Leasing overall exposure.

33 Financial Risk Management (Continued)

The table below summarizes sensitivities of fair value of the Bank's derivative portfolios to reasonably possible changes in interest rates applied as at 31 December 2011, with all other variables held constant:

In thousands of Russian Roubles	200 bp +	200 bp -
Foreign exchange forward contracts	(28 605)	34 500
Interest rate swap contracts	2 069 146	(2 349 509)
Cross-currency swap contracts	(36 470)	40 110

The table below summarizes sensitivities of fair value of the Bank's derivative portfolios to reasonably possible changes in interest rates applied as at 31 December 2010, with all other variables held constant:

In thousands of Russian Roubles	200 bp +	200 bp -
Foreign exchange forward contracts	(6 179)	6 368
Interest rate swap contracts	118 647	(158 535)
Cross-currency swap contracts	99 663	(107 196)

The Group monitors interest rates for its financial instruments. The table below summarises the effective interest rates by major currencies for major debt instruments. The analysis has been prepared based on period-end effective rates used for amortisation of the respective assets/liabilities. The table below summarizes the data as of 31 December 2011:

	RUR	USD	EUR	Other
Assets				
Cash and cash equivalents	2.96%	0.43%	0.72%	-
Trading securities	8.61%	7.05%	4.46%	-
Other securities at fair value through profit and loss	8.75%	0%	-	-
Investment securities held-to-maturity	11.46%	-	-	-
Due from other banks	8.79%	3.94%	-	-
Loans and advances to customers				
- Corporate loans	11.29%	6.40%	7.27%	4.4%
- Retail loans	16.78%	12.58%	13.83%	-
- SME loans	17.99%	17.73%	-	-
- Public sector	11.00%	-	-	-
Investment securities available for sale	8.94%	-	-	-
Liabilities				
Due to other banks	4.61%	3.61%	4.52%	1.25%
Customer accounts				
- Current/settlement accounts – Corporate	0.00%	0.00%	0.00%	0.00%
- Current/settlement accounts - Retail	0.01%	0.01%	0.01%	0.01%
- Current/settlement accounts - Public	0.00%	0.00%	0.00%	0.00%
- Term deposits - Corporate	6.56%	1.82%	2.28%	-
- Term deposits - Retail	6.51%	2.64%	3.40%	1.48%
Term borrowings from the Parent Bank	-	2.79%	4.09%	-
Term borrowings from other financial institutions	-	2.29%	-	-
Debt securities in issue	8.22%	-	-	-

33 Financial Risk Management (Continued)

The table below summarizes the data as of 31 December 2010:

	RUR	USD	EUR	Other
Assets				
Cash and cash equivalents	2.12%	0.09%	0.81%	-
Trading securities	8.19%	2.21%	3.42%	-
Other securities at fair value through profit and loss	1.85%	0.15%	-	-
Investment securities held-to-maturity	11.46%	-	-	-
Due from other banks	7.48%	0.91%	-	-
Loans and advances to customers				
- Corporate loans	10.16%	7.05%	7.88%	4.55%
- Retail loans	16.21%	11.04%	10.66%	-
- SME loans	15.92%	8.96%	-	-
- Finance lease receivables	20.02%	24.04%	-	-
- Public sector	9.17%	4.58%	-	-
Investment securities available for sale	13.96%	-	-	-
Liabilities				
Due to other banks	1.04%	0.67%	0.80%	1.25%
Customer accounts				
- Current/settlement accounts – Corporate	0.00%	0.00%	0.00%	0.00%
- Current/settlement accounts - Retail	0.01%	0.01%	0.01%	0.01%
- Current/settlement accounts - Public	0.00%	0.00%	0.00%	0.00%
- Term deposits - Corporate	2.86%	1.18%	1.44%	-
- Term deposits - Retail	6.15%	2.84%	3.51%	1.93%
Term borrowings from the Parent Bank	-	1.70%	5.48%	-
Term borrowings from other financial institutions	-	2.23%	-	-
Debt securities in issue	11.50%	-	-	-

Normally the Bank does not pay any interest on current accounts maintained by corporate customers. However in certain cases the Bank may decide to serve interest on current account balances of a specific corporate customer in view of special agreements with this customer.

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

33 Financial Risk Management (Continued)

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

In thousands of Russian Roubles	**Russia**	**Austria**	**Other European Union**	**Other countries**	**Total**
Assets					
Cash and cash equivalents	41 911 456	92 524 080	2 817 229	2 267 052	139 519 817
Mandatory cash balances with the Central bank of the Russian Federation	5 921 349	-	-	-	5 921 349
Trading securities	52 370 622	-	1 558 713	4 936	53 934 271
Repurchase receivables as trading securities	-	-	-	-	-
Other securities at fair value through profit or loss	4 976 131	-	-	-	4 976 131
Due from other banks	3 441 272	13 581	80 973	462 862	3 998 688
Loans and advances to customers	314 322 785	1 612 297	31 158 007	7 649 978	354 743 067
Securities held-to-maturity	509 681	-	-	-	509 681
Repurchase receivables as securities held-to-maturity	-	-	-	-	-
Derivatives and other financial assets	3 251 561	3 174 999	2 204 060	255 089	8 885 709
Investment securities available for sale	5 095 466	-	-	715 209	5 810 675
Total financial assets	**431 800 323**	**97 324 957**	**37 818 982**	**11 355 126**	**578 299 388**
Liabilities					
Due to other banks	26 117 288	1 566 654	1 783 406	468 080	29 935 428
Customer accounts	388 376 634	2 336 516	7 472 160	1 276 032	399 461 342
Term borrowings from the Parent Bank	-	46 987 518	-	-	46 987 518
Term borrowings from other financial institutions	-	2 081 751	246 421	1 531 644	3 859 816
Debt securities in issue	11 828 102	-	-	-	11 828 102
Other financial liabilities	3 135 622	4 103 703	2 985 460	633 122	10 857 907
Total financial liabilities	**429 457 646**	**57 076 142**	**12 487 447**	**3 908 878**	**502 930 113**
Net balance sheet position	**2 342 677**	**40 248 815**	**25 331 535**	**7 446 248**	**75 369 275**
Credit related commitments (Note 35)	**217 771 077**	**1 970 034**	**2 444 414**	**3 251 733**	**225 437 258**

Assets, liabilities and credit related commitments have generally been based 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 and premises and equipment have been allocated based on the country in which they are physically held.

33 Financial Risk Management (Continued)

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

In thousands of Russian Roubles	**Russia**	**Austria**	**Other European Union**	**Other countries**	**Total**
Assets					
Cash and cash equivalents	60 594 432	16 489 458	3 006 510	4 188 457	84 278 857
Mandatory cash balances with the Central bank of the Russian Federation	2 698 403	-	-	-	2 698 403
Trading securities	49 208 549	-	4 405 057	-	53 613 606
Other securities at fair value through profit or loss	18 277 613	-	49 072	78 413	18 405 098
Due from other banks	3 132 553	18 317 877	-	274 283	21 724 713
Loans and advances to customers	258 791 201	1 649 029	12 302 821	10 820 868	283 563 919
Investment securities available for sale	10 617 267	-	-	469 305	11 086 572
Investment securities held-to-maturity	512 148	-	-	-	512 148
Derivatives and other financial assets	984 014	3 922 800	1 291 383	138 969	6 337 166
Total financial assets	**404 816 180**	**40 379 164**	**21 054 843**	**15 970 295**	**482 220 482**
Liabilities					
Due to other banks	15 579 330	1 923 389	1 842 874	1 189 633	20 535 226
Customer accounts	277 296 510	761 130	7 049 185	1 637 333	286 744 158
Term borrowings from the Parent Bank	-	81 169 487	-	-	81 169 487
Term borrowings from other financial institutions	827 623	1 140 484	1 683 439	2 007 359	5 658 905
Debt securities in issue	16 196 249	-	-	-	16 196 249
Derivatives and other financial liabilities	2 308 755	3 537 798	1 624 830	70 958	7 542 341
Total financial liabilities	**312 208 467**	**88 532 288**	**12 200 328**	**4 905 283**	**417 846 366**
Net balance sheet position	**92 607 713**	**(48 153 124)**	**8 854 515**	**11 065 012**	**64 374 116**
Credit related commitments (Note 35)	**135 949 847**	**6 297 829**	**4 171 963**	**4 434 053**	**150 853 692**

Liquidity risk. Liquidity risk is defined as the risk that an entity 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, deposits maturities or early withdrawals, loan draw downs, guarantees and from margin and other calls on cash settled derivative instruments. The Group does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. Liquidity risk is managed by the Asset and Liability Committee of the Group.

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

33 Financial Risk Management (Continued)

The liquidity management of the Group requires considering the level of liquid assets necessary to settle obligations as they fall due both in normal and in stressed conditions; maintaining access to a range of funding sources; maintaining funding contingency plans and monitoring balance sheet liquidity ratios against internal and regulatory requirements. The Group calculates liquidity ratios on a daily basis in accordance with the requirements of the CBRF. These ratios are:

- Instant liquidity ratio (N2 must be not less than 15% as required by the CBRF), which is calculated as the ratio of highly-liquid assets to liabilities payable on demand. The ratio was 60.26% at 31 December 2011 (at 31 December 2010 N2 of the Bank was 91.5%).
- Current liquidity ratio (N3 must be not less than 50% as required by the CBRF), which is calculated as the ratio of liquid assets to liabilities maturing within 30 calendar days. The ratio was 82.54% at 31 December 2011 (at 31 December 2010 N3 of the Bank was 94.5%).
- Long-term liquidity ratio (N4 must be not more than 120% as required by the CBRF), which is calculated as the ratio of assets maturing after one year to regulatory capital and liabilities maturing after one year. The ratio was 91.72% at 31 December 2011 (at 31 December 2010 N4 of the Bank was 78.26%).

The Treasury division prepares the liquidity profile of the financial assets and liabilities. The Treasury division then provides for an adequate portfolio of short-term liquid assets, largely made up of short-term liquid trading securities eligible for Central Bank refinancing, deposits with banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole.

The daily liquidity position (aggregate and for major currencies) is monitored and regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions including financial market crisis, bank name crisis and combined crisis is performed by the Treasury division.

The table below shows liabilities at 31 December 2011 by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows, including gross finance lease obligations (before deducting future finance charges), prices specified in deliverable forward agreements to purchase financial assets for cash, contractual amounts to be exchanged under a gross settled currency swaps, and gross loan commitments. Such undiscounted cash flows differ from the amounts included in the balance sheet because the balance sheet amounts are based on discounted cash flows. Financial derivatives are included at the contractual amounts to be paid or received, unless the Bank expects to close the derivative position before its maturity date in which case the derivatives are included based on the expected cash flows.

The table below shows maturity analysis of non-derivative financial assets at their undiscounted amounts and based on their contractual maturities except for assets that are readily saleable in case it would be necessary to meet cash outflows on financial liabilities. Such financial assets are included in the maturity analysis based on their expected date of disposal. Impaired loans are included at their carrying amounts net of impairment provisions and based on the expected timing of cash inflows. Derivatives are presented based on their contractual maturities.

33 Financial Risk Management (Continued)

When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the reporting date. Foreign currency payments are translated using the spot exchange rate at the balance sheet date.

The undiscounted maturity analysis of financial assets and liabilities at 31 December 2011 is as follows:

In thousands of Russian Roubles	**Demand and less than 3 months**	**From 3 to 12 months**	**From 1 to 5 years**	**Over 5 years**	**Total**
Assets					
Cash and cash equivalents	139 519 817	-	-	-	139 519 817
Mandatory cash balances with the Central Bank of the Russian Federation	5 921 349	-	-	-	5 921 349
Trading securities	53 934 271	-	-	-	53 934 271
Other securities at fair value through profit or loss	4 976 131	-	-	-	4 976 131
Due from other banks	499 539	3 222 382	529 081	-	4 251 002
Loans and advances to customers	51 874 548	106 604 518	234 462 007	76 618 399	469 559 472
Investment securities available for sale	715 209	433 904	5 438 699	-	6 587 812
Investment securities held to maturity	26 178	26 178	553 075	-	605 431
Gross settled swaps and forwards:					
- inflows	56 938 622	13 420 223	59 793 491	-	130 152 336
- outflows	(56 113 352)	(13 870 099)	(58 303 464)	-	(128 286 915)
Net settled derivatives	(18 144)	838 782	858 400	82 369	1 761 407
Other financial assets	1 002 747	-	-	-	1 002 747
Total financial assets	**259 276 915**	**110 675 888**	**243 331 289**	**76 700 768**	**689 984 860**
Liabilities					
Due to other banks	28 036 262	1 709 771	471 633	-	30 217 666
Customer accounts	291 310 735	65 903 854	49 665 857	-	406 880 446
Debt securities in issue	-	962 962	13 086 471	-	14 049 433
Term borrowings from Parent Bank and from other financial institutions	530 961	11 843 662	41 605 928	246 421	54 226 972
Gross settled swaps and forwards:					
- inflows	(147 642 828)	(17 889 127)	(13 042 500)	-	(178 574 455)
- outflows	149 434 943	18 379 189	13 184 032	-	180 998 164
Net settled derivatives	584 909	1 497 330	3 068 085	515 007	5 665 331
Credit related commitments before provision	93 287 691	59 030 443	55 370 285	17 748 840	225 437 259
Other financial liabilities	1 730 257	-	-	-	1 730 257
Total potential future payments for financial obligations	**417 272 930**	**141 438 084**	**163 409 791**	**18 510 268**	**740 631 073**
Liquidity gap arising from financial instruments	**(157 996 015)**	**(30 762 196)**	**79 921 498**	**58 190 500**	**(50 646 213)**

33 Financial Risk Management (Continued)

The undiscounted maturity analysis of financial assets and liabilities at 31 December 2010 is as follows:

In thousands of Russian Roubles	Demand and less than 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
Assets					
Cash and cash equivalents	84 278 857	-	-	-	84 278 857
Mandatory cash balances with the Central Bank of the Russian Federation	2 698 403	-	-	-	2 698 403
Trading securities	53 613 606	-	-	-	53 613 606
Other securities at fair value through profit or loss	18 405 098	-	-	-	18 405 098
Due from other banks	12 549 148	8 718 553	621 274	-	21 888 975
Loans and advances to customers	57 284 594	89 663 988	174 897 561	73 745 452	395 591 595
Investment securities available for sale	469 305	11 353 699	-	-	11 823 004
Investment securities held to maturity	26 322	26 178	605 432	-	657 932
Gross settled swaps and forwards:					
- inflows	63 743 988	28 962 048	5 392 548	-	98 098 584
- outflows	(63 310 077)	(28 764 365)	(5 014 288)	-	(97 088 730)
Net settled derivatives	155 053	2 853 989	2 233 158	290 284	5 532 484
Other financial assets	646 548	-	-	-	646 548
Total financial assets	**230 560 845**	**112 814 090**	**178 735 685**	**74 035 736**	**596 146 356**
Liabilities					
Due to other banks	19 400 240	574 581	622 410	-	20 597 231
Customer accounts	206 319 910	46 734 161	37 020 853	-	290 074 924
Debt securities in issue	-	12 821 168	5 748 000	-	18 569 168
Term borrowings from Parent Bank and from other financial institutions	677 593	58 266 554	29 222 535	1 683 439	89 850 121
Gross settled swaps and forwards:					
- inflows	(30 820 836)	(7 663 886)	(3 916 640)	-	(42 401 362)
- outflows	31 156 859	7 967 458	4 025 500	-	43 149 817
Net settled derivatives	506 817	2 081 607	2 996 587	758 855	6 343 866
Credit related commitments before provision	50 310 407	37 501 277	25 711 295	9 662 097	123 185 076
Other financial liabilities	1 999 802	-	-	-	1 999 802
Total potential future payments for financial obligations	**279 550 792**	**158 282 920**	**101 430 540**	**12 104 391**	**551 368 643**
Liquidity gap arising from financial instruments	**(48 989 947)**	**(45 468 830)**	**77 305 145**	**61 931 345**	**44 777 713**

The above analysis is based on contractual maturities; therefore the entire portfolio of trading securities is classified within demand and less than three months based on Management's assessment of portfolio's reliability.

33 Financial Risk Management (Continued)

Payments in respect of gross settled forwards will be accompanied by related cash inflows which are disclosed at their present values in Note 36. Customer accounts are classified in the above analysis based on contractual maturities. However, in accordance with Russian Civil Code, individuals have a right to withdraw their deposits prior to maturity if they forfeit their right to accrued interest.

The Bank does not use the above undiscounted maturity analysis to manage liquidity. Instead, the Bank monitors contractual maturities, which may be summarised as follows at 31 December 2011 and 31 December 2010:

In thousands of Russian Roubles	**Demand and less than 3 months**	**From 3 to 12 months**	**From 1 to 5 years**	**Over 5 years**	**Total**
At 31 December 2011					
Financial assets	257 260 061	85 863 191	192 445 101	42 731 035	578 299 388
Financial liabilities	323 113 312	74 101 392	104 454 045	1 261 364	502 930 113
Net liquidity gap based on contractual maturities	**(65 853 251)**	**11 761 799**	**87 991 056**	**41 469 671**	**75 369 275**
At 31 December 2010					
Financial assets	223 405 842	88 683 854	136 168 782	33 962 004	482 220 482
Financial liabilities	229 397 873	112 004 171	73 957 189	2 487 133	417 846 366
Net liquidity gap based on contractual maturities	**(5 992 031)**	**(23 320 317)**	**62 211 593**	**31 474 871**	**64 374 116**

The entire portfolio of trading securities is classified within demand and less than one month based on management's assessment of the portfolio's realisability.

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

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 Bank would indicate that these customers' accounts provide a long-term and stable source of funding for the Group.

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.

Operational Risk. In line with the proposed Basel II banking regulatory reforms, the Bank defines operational risk as the risk of loss resulting from inadequate or ineffective internal processes, persons and/or systems or from external events. This definition includes legal risk, but excludes strategic and reputational risk. The Group considers operational risk as a distinct class of risks and views operational risk management as a comprehensive practice comparable to the management of credit and market risk.

33 Financial Risk Management (Continued)

Operational risk mission is to arrange effective controls over incidents by risk category human error, fraud, technical failures and other operational risk issues for the Bank.

Operational risks are managed according to “Operational Risk Management Policy and Guidelines” based on the Parent Bank Directives and local law and regulatory requirements. The local regulations for operational risk management should be reviewed on a regular basis. The focus of Operational Risk Management is the compliance with local and internal rules and regulations supported by the sound and active management of operational risks.

According to Basel’s definition management of operational risk means identification, assessment, monitoring and control/mitigation of identified risks.

Operational risk management is based upon the following principles and instruments:

- risk assessment (self-assessment);
- loss data/risk events collection;
- key risk indicators (KRI);
- prevention/mitigation actions;
- regulatory capital calculation;
- scenario analysis.

Risk Assessment, Loss Data/Risk Events Collection and Scenario Analysis are intended for risk identification and assessment.

After the risks are identified and assessed following actions should be elaborated and implemented to name a few:

- high risk points might be analysed in more details;
- KRIs might be set up;
- risks might be mitigated by various actions;
- risk might be insured;
- other applicable mitigation actions.

Operational Risk management functions are organized as follows:

First line of defense consists of Business line managers with their operational risk management function who are responsible for sound and comprehensive operational risk management.

Business Line Manager-Operational Risk Manager (ORM) is responsible for:

- Assessing risks;
- Track losses;
- Business process re-engineering;
- Defining and reacting actively of thresholds of Key Risk Indicators;
- Implementation of procedures and risk mitigation actions;
- Appointment of Decentralised Operational Risk Manager – DORM;
- Scenario Analysis.

Second line of defense is an independent operational risk control function, supported by special control departments (Security Division, Compliance, Legal Division etc.).

Operational Risk Management Division is responsible for overall operational risk control functions.

33 Financial Risk Management (Continued)

The main Operational Risk functions and responsibilities include are as follows:

- review and approval of the Bank internal documents and procedures;
- new product, processes and projects risk assessment;
- annual operational risk assessment for business areas;
- identification and control of operational losses;
- definition and set up of Key Risk Indicators for business areas (KRIs);
- operational risk incidents collection and control;
- scenario analysis;
- recommendations on risk mitigation measures;
- escalation of key risk issues to the Management Board/Operational Risk Committee;
- coordination of Bank anti-fraud prevention, detection and recovery processes;
- collection, response and monitoring of electronic fraud incidents;
- review and approval reimbursements for fraudulent operations with plastic cards and remote banking systems;
- initiate and conduct the meetings of Operational Risk Committee.

34 Management of Capital

The Group's objectives when managing capital are (i) to comply with the capital requirements set by the CBRF, (ii) to safeguard the Group's ability to continue as a going concern and (iii) to maintain a sufficient capital base to achieve a capital adequacy ratio based on the Austrian Banking Act which assumes major principles of the Basel Accord of at least 8%. Compliance with capital adequacy ratios set by the CBRF is monitored monthly with reports outlining the calculation.

Under the current capital requirements set by the CBRF banks have to maintain a ratio of regulatory capital to risk weighted assets ("statutory capital ratio") above a prescribed minimum level. According to requirements set by the CBRF statutory capital ratio has to be maintained above minimum level of 10%. Compliance with capital adequacy ratios set by the CBRF is monitored monthly with reports outlining their calculation reviewed and signed by the Bank's Chief Executive Officer and Chief Accountant. Management believes the Bank meets all the requirements in relation to the minimum amount of regulatory capital set by the CBRF.

Regulatory capital is based on the Bank's reports prepared under Russian accounting standards and comprises:

In thousands of Russian Roubles	**2011**	**2010**
Net assets under Russian GAAP	61 380 360	56 476 630
Less: intangible assets and equity investments	(1 464 200)	(1 342 188)
Plus: subordinated debt	2 401 829	3 931 520
Plus: other	15 995 586	10 054 671
Total regulatory capital	**78 313 575**	**69 120 633**

34 Management of Capital (Continued)

The Group is also subject to minimum capital requirements established by covenants stated in loan agreements, including capital adequacy levels calculated in accordance with the requirements of the Basel Accord, as defined in the International Convergence of Capital Measurement and Capital Standards (updated April 1998) and Amendment to the Capital Accord to incorporate market risks (updated November 2005), commonly known as Basel I. The composition of the Group's capital calculated in accordance with the Austrian Banking Act which assumes major principles and requirements of Basel Accord is as follows:

In thousands of Russian Roubles	2011	2010
Tier 1 capital		
Share capital	43 268 888	43 268 888
Share premium	591 083	591 083
Additional paid-in capital	1 520 016	1 520 016
Retained earnings	50 383 753	40 528 331
Less: equity instruments	(715 209)	(469 305)
Less: deferred tax	(2 749 879)	(2 248 290)
Total tier 1 capital before deductions	**92 298 652**	**83 190 723**
Less: intangible assets	(11 862 200)	(11 777 347)
Total tier 1 capital	**80 436 452**	**71 413 376**
Tier 2 capital		
Revaluation reserve for equity instruments	321 844	211 187
Subordinated debt	1 429 507	2 706 349
Less: insurance holding companies	(173 709)	(113 709)
Total tier 2 capital	**1 577 642**	**2 803 827**
Total capital	**82 014 094**	**74 217 203**

The composition of the Group's capital calculated in accordance with Basel Accord is as follows:

In thousands of Russian Roubles	2011	2010
Tier 1 capital		
Share capital	43 268 888	43 268 888
Share premium	591 083	591 083
Additional paid-in capital	1 520 016	1 520 016
Retained earnings	50 383 753	40 528 331
Less: equity instruments	(715 209)	(469 305)
Total tier 1 capital before deductions	**95 048 531**	**85 439 013**
Less: goodwill	(10 700 290)	(10 700 290)
Total tier 1 capital	**84 348 241**	**74 738 723**
Tier 2 capital		
Revaluation reserve for equity instruments	321 844	211 187
Subordinated debt	1 429 507	2 706 349
Less: insurance holding companies	(173 709)	(113 709)
Total tier 2 capital	**1 577 642**	**2 803 827**
Total capital	**85 925 883**	**77 542 550**

The Group and the Bank have complied with all externally imposed capital requirements throughout 2011 and 2010.

The Bank manages capital ratios using different capital amounts, calculated in accordance with the above mentioned Capital Adequacy regulations.

35 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 certain losses could be incurred in respect of claims and accordingly has made provisions for the legal cases in these consolidated financial statements. Refer to Note 24.

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

The Russian tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged. In October 2006, the Supreme Arbitration Court issued guidance to lower courts on reviewing tax cases providing a systemic roadmap for anti-avoidance claims, and it is possible that this will significantly increase the level and frequency of tax authorities' scrutiny.

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

Russian transfer pricing legislation enacted during the current period is effective prospectively to new transactions from 1 January 2012. It introduces significant reporting and documentation requirements. The transfer pricing legislation that is applicable to transactions on or prior to 31 December 2011, also provides the possibility for tax authorities to make transfer pricing adjustments and to impose additional tax liabilities in respect of all controllable transactions, provided that the transaction price differs from the market price by more than 20%. Controllable transactions include transactions with interdependent parties, as determined under the Russian Tax Code, all cross-border transactions (irrespective of whether performed between related or unrelated parties), transactions where the price applied by a taxpayer differs by more than 20% from the price applied in similar transactions by the same taxpayer within a short period of time, and barter transactions. Significant difficulties exist in interpreting and applying transfer pricing legislation in practice. Any prior existing court decisions may provide guidance, but are not legally binding for decisions by other, or higher level, courts in the future.

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

The Group includes companies incorporated outside of Russia. Tax liabilities of the Group are determined on the assumptions that these companies are not subject to Russian profits tax because they do not have a permanent establishment in Russia. Russian tax laws do not provide detailed rules on taxation of foreign companies. It is possible that with the evolution of the interpretation of these rules and the changes in the approach of the Russian tax authorities, the non-taxable status of some or all of the foreign companies of the Group in Russia may be challenged. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial condition and/or the overall operations of the entity.

Russian tax legislation does not provide definitive guidance in certain areas. From time to time, the Group adopts interpretations of such uncertain areas that reduce the overall tax rate of the Group. As noted above, such tax positions may come under heightened scrutiny as a result of recent developments in administrative and court practices; the impact of any challenge by the tax authorities cannot be reliably estimated; however, it may be significant to the financial condition and/or the overall operations of the entity.

Capital expenditure commitments. At 31 December 2011 the Group has contractual capital expenditure commitments in respect of premises and equipment totalling RR 37 888 thousand

(2010: RR 19 832 thousand). The Group has already allocated the necessary resources in respect of these commitments. The Group believes that future net income and funding will be sufficient to cover this and any similar such commitments.

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

In thousands of Russian Roubles	2011	2010
Not later than 1 year	700 267	820 670
Later than 1 year and not later than 5 years	13 471	13 054
Total operating lease commitments	**713 738**	**833 724**

Compliance with covenants. The Group is subject to certain covenants related primarily to its other borrowed funds (Notes 22). Non-compliance with such covenants may result in negative consequences for the Group including growth in the cost of borrowings and declaration of default. The Group's Management believes that the Group is in compliance with its covenants as at 31 December 2011 as well as at 31 December 2010.

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

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. 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.

Outstanding credit related commitments are as follows:

In thousands of Russian Roubles	2011	2010
Guarantees issued (irrevocable)	63 142 639	32 203 710
Undrawn credit lines and Overdraft facilities (irrevocable)	51 460 820	39 400 531
Undrawn credit lines and Overdraft facilities (revocable)	50 244 401	42 279 791
Undrawn commitments to issue documentary instruments (irrevocable)	32 356 542	27 668 616
Import letters of credit (irrevocable)	10 824 479	6 946 223
Undrawn commitments to issue documentary instruments (revocable)	10 662 488	-
Export letters of credit (irrevocable)	6 745 889	2 354 821
Credit related commitments before provision	**225 437 258**	**150 853 692**
Less: Provision for credit related commitments (Note 23)	(1 098 816)	(1 643 011)
Total credit related commitments	**224 338 442**	**149 210 681**

The net change of provision for credit related commitments during the year ended 31 December 2011 comprised a provision release of RR 544 195 thousand (2010: provision charge of RR 896 743 thousand).

35 Contingencies and Commitments (Continued)

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. Fair value of guarantee contracts was RR 58 375 thousand at 31 December 2011 (2010: RR 49 905 thousand).

In thousands of Russian Roubles	2011	2010
Russian Roubles	150 311 137	85 559 685
US Dollars	59 253 043	49 299 040
Euro	15 857 759	15 977 514
Other	15 319	17 453
Total credit related commitments before provision	**225 437 258**	**150 853 692**

Assets pledged and restricted. Mandatory cash balances with the Bank of Russia in the amount of RR 5 921 349 thousand (2010: RR 2 698 403 thousand) represent mandatory reserve deposits, which are not available to finance the Group's day-to-day operations.

As at 31 December 2011 restricted cash represents monetary funds in the amount of RR 652 783 thousand which collateralise settlements on irrevocable letters of credit (2010: RR 92 838 thousand).

As at 31 December 2011 restricted cash represents monetary funds in the amount of RR 1 838 011 thousand which collateralise settlements on irrevocable commitments under guarantees (2010: RR 2 073 969 thousand).

As at 31 December 2011 the estimated fair value of securities purchased under reverse sale and repurchase agreements (Note 7), which the Group has the right to sell or repledge in the absence of default of the counterparty was RR 4 486 841 thousand (2010: RR 10 971 360 thousand).

36 Derivative Financial Instruments

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

The table below sets out fair values, at the balance sheet date, of currencies receivable or payable under foreign exchange forwards contracts entered into by the Group. The table reflects gross positions before the netting of any counterparty positions (and payments) and covers the contracts with settlement dates after the respective balance sheet date. The contracts are short term in nature.

36 Derivative Financial Instruments (Continued)

		2011		2010	
In thousands of Russian Roubles	**Note**	**Contracts with positive fair value**	**Contracts with negative fair value**	**Contracts with positive fair value**	**Contracts with negative fair value**
Foreign exchange spot contracts: fair values, at the balance sheet date, of					
- USD receivable on settlement (+)		488 327	2 119 894	596 771	1 938 201
- USD payable on settlement (-)		(1 691 823)	(1 563 601)	(2 416 862)	(800 440)
- Euros receivable on settlement (+)		1 159 255	1 955 856	322 644	726 148
- Euros payable on settlement (-)		(1 108 666)	(1 035 049)	(743 813)	-
- RR receivable on settlement (+)		190 977	-	2 061 775	-
- RR payable on settlement (-)		-	(1 126 474)	-	(1 869 717)
- Other currencies receivable on settlement (+)		1 300 892	443 775	542 124	152 181
- Other currencies payable on settlement (-)		(329 643)	(803 377)	(353 546)	(153 503)
Net fair value of foreign exchange spot contracts	17, 23	**9 319**	**(8 976)**	**9 093**	**(7 130)**
Foreign exchange forward and swap contracts: fair values, at the balance sheet date, of					
- USD receivable on settlement (+)		35 956 494	20 196 343	12 035 259	20 858 351
- USD payable on settlement (-)		(10 596 910)	(157 900 674)	(77 580 788)	(12 138 381)
- Euros receivable on settlement (+)		-	384 034	40 330 467	12 661 888
- Euros payable on settlement (-)		(13 757 584)	(375 970)	(2 816 923)	(60 412)
- RR receivable on settlement (+)		10 460 489	149 361 637	40 911 803	5 213 034
- RR payable on settlement (-)		(16 611 653)	(15 828 830)	(11 412 612)	(21 359 673)
- Other currencies receivable on settlement (+)		2 123 439	7 049 056	-	-
- Other currencies payable on settlement (-)		(6 538 445)	(6 128 011)	-	(5 887 756)
Net fair value of foreign exchange forward and swap contracts	17, 23	**1 035 830**	**(3 242 415)**	**1 467 206**	**(712 949)**
Interest rate swap contracts: fair values, at the balance sheet date, of					
- USD receivable on settlement (+)		2 595 956	1 874 064	3 798 292	2 297 816
- USD payable on settlement (-)		(643 828)	(5 710 167)	(1 131 991)	(6 513 179)
- Euros receivable on settlement (+)		676 749	68 035	924 814	271 847
- Euros payable on settlement (-)		(510 040)	(90 851)	(332 717)	(314 331)
- RR receivable on settlement (+)		3 006 229	1 677 339	1 326 578	980 330
- RR payable on settlement (-)		(2 894 977)	(2 106 810)	(958 368)	(1 590 286)
Net fair value of interest rate swap contracts	17, 23	**2 230 089**	**(4 288 390)**	**3 626 608**	**(4 867 803)**
Cross-currency interest rate swap contracts: fair values, at the balance sheet date, of					
- USD receivable on settlement (+)		43 910 645	1	4 789 338	305 642
- USD payable on settlement (-)		(11 217 009)	(12 912 725)	(556 560)	-
- Euros receivable on settlement (+)		-	2 831 367	-	-
- Euros payable on settlement (-)		(2 831 367)	-	-	-
- RR receivable on settlement (+)		11 440 319	8 524 585	560 858	-
- RR payable on settlement (-)		(36 728 465)	-	(4 205 925)	(309 704)
Net fair value of cross-currency interest rate swap contracts	17, 23	**4 574 123**	**(1 556 772)**	**587 711**	**(4 062)**
Total net fair value of derivative financial instruments		**7 849 361**	**(9 096 553)**	**5 690 618**	**(5 591 944)**

36 Derivative Financial Instruments (Continued)

Positive fair value of foreign exchange options made up RR 27 927 thousand (31 December 2010: RR nil thousand) with the negative fair value amounted to RR 25 422 thousand as of 31 December 2011 (31 December 2010: RR nil thousand).

Positive fair value of interest rate options made up RR 5 674 thousand (31 December 2010: RR nil thousand) with the negative fair value amounted to RR 5 675 thousand as of 31 December 2011 (31 December 2010: RR nil thousand).

Total of net positive fair values of the derivative financial instruments in the amount of RR 7 882 962 thousand (31 December 2010: RR 5 690 618 thousand) was recorded within derivatives and other financial assets (Note 17). Total of net negative fair values of the derivative financial instruments in the amount of RR 9 127 650 thousand (31 December 2010: RR 5 591 944 thousand) was recorded within derivatives and other financial liabilities (Note 23).

As at 31 December 2011 derivative financial instruments included interest rate swaps with the contractual amount of RR nil thousand (31 December 2010: RR 3 261 028 thousand) which were designated and qualified as hedging instruments in a cash flow hedge of the variable interest payment of one of the Group's borrowings. The Group has RR nil thousand of floating rate deposits from the Parent Bank (31 December 2010: RR 3 261 028 thousand). The total amount of the effective portion of the hedge was deferred in cash flow reserve in equity in the amountof RR 337 210 thousand (2010: profit of RR 472 038 thousand) and the amount deferred in the cash flow reserve in equity is equal to RR 325 909 thousand (31 December 2010: RR 663 119 thousand) before tax.

The ineffectiveness was recorded in the consolidated statement of comprehensive income in respect of cash flow hedge in the negative amount of RR 337 210 thousand (2010: negative amount of RR 529 542 thousand). As at 31 December the negative value of these hedging instruments amounted to RR 537 889 thousand (31 December 2010: RR 1 299 494 thousand). During 2011 and 2010 some of cash flow hedge transactions were discontinued due to failing the hedge effectiveness test. However, forecast transaction for which hedge accounting had been used is still expected to occur, as at 31 December 2011 the Group has the negative amount of RR 337 210 thousand (31 December 2010: RR 403 367 thousand) kept in other comprehensive income in respect of these transactions. In 2011 the negative amount of RR 314 147 thousand (2010: RR 538 541 thousand) was recycled from equity during the year from discontinued hedge transactions.

The cash flows on the borrowings which are being hedged in this cash flow hedge are expected to occur and affect the consolidated income statement in the period from 2011 up to 2013 year. Accordingly, the fair value changes on the hedging derivatives will be recycled to the consolidated income statement during the same period.

As at 31 December 2011 derivative financial instruments included interest rate swaps with the contractual amount of RR 7 083 142 thousand (31 December 2010: RR 13 713 254 thousand) which were designated and qualified as hedging instruments in a fair value hedge of interest rate risk attributable to the term borrowings from the Parent Bank. The total portion of the fair value gains/losses attributable to the change of interest rates, which was determined as the effective portion of the hedge during 2011, amounted to RR 190 287 thousand (2010: RR nil thousand), while the ineffectiveness amounted to positive RR 393 806 thousand (2010: RR 442 754 thousand). Both these amounts were recognized in the consolidated income statement. As at 31 December 2011 the positive fair value of these hedging instruments amounted to RR nil thousand (31 December 2010: RR 511 976 thousand), the negative fair value of these hedging instruments amounted to RR 210 594thousand (31 December 2010: nil).

The amount of the positive fair value adjustment attributable to the hedged risk and recorded in the balance of the loans to customers, which are being hedged, amounted to RR 190 287 thousand (31 December 2010: the term borrowings from the Parent Bank amounted to RR 442 754 thousand).

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

Financial instruments carried at fair value. Trading securities, other securities at fair value through profit or loss, and financial derivatives are carried on the consolidated balance sheet at their fair value which is determined based on market quotations.

Loans and receivables carried at amortised cost. The fair value of floating rate instruments is normally their carrying amount. Due to significant changes in market situation interest rates for loans and advances to customers and due from other banks issued at fixed interest rates can be revised. Therefore interest rates for loans issued before reporting date do not differ significantly from interest rates for new credit instruments with similar credit risk and remaining maturity. Discount rates used depend on currency, maturity of the instrument and credit risk of the counterparty.

Discount rates used depend on currency, maturity of the instrument and credit risk of the counterparty and were as follows:

	2011	2010
Loans and advances to customers – Note 11		
Loans to corporate customers	5.88% to 11.68% p.a.	0.89% to 8.18% p.a.
Loans to individuals	9.50% to 22.5% p.a.	7.5% to 20.4% p.a.
Loans to small and medium entities	6.40% to 13.96% p.a.	7.25% to 14.09% p.a.
State and municipal organisations	3.00% p.a.	3.21% to 7.85% p.a.

Held to maturity financial assets. The fair value for investment securities held to maturity is based on quoted market prices.

Liabilities carried at amortised cost. The fair value is based on quoted market prices, if available. The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The fair value of liabilities repayable on demand or after a notice period ("demandable liabilities") is estimated as the amount payable on demand, discounted from the first date that the amount could be required to be paid. Discount rates used depend on currency, maturity of the instrument and credit risk of the counterparty and were as follows:

	2011	2010
Customer accounts		
Term deposits of legal entities	0.20% to 8.07%p.a.	0.16% to 2.55%p.a.
Term deposits of individuals	0.2% to 8.0% p.a.	0.8% to 7.8% p.a.

37 Fair Value of Financial Instruments (Continued)

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.

The Group uses a discounted cash flow valuation technique to measure the fair value of the interest rate swaps, which are not traded in an active market. However, in accordance with IAS 39, the fair value of an instrument at inception is generally the transaction price. If the transaction price differs from the amount determined at inception using the valuation technique, that difference is amortised on a straight line basis over the term of the interest rate swaps.

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

	2011		2010	
In thousands of Russian Roubles	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
FINANCIAL ASSETS CARRIED AT AMORTISED COST				
Cash and cash equivalents				
- Cash on hand	23 618 675	23 618 675	19 639 061	19 639 061
- Cash balances with the CBRF (other than mandatory reserve deposits)	11 626 558	11 626 558	24 349 214	24 349 214
- Correspondent accounts and overnight placements with other banks	48 148 519	48 148 519	29 424 164	29 424 164
- Placements with other banks with original maturities of less than three months	52 302 986	52 302 986	1 308 642	1 308 642
- Reverse sale and repurchase agreements with other banks with original maturities of less than three months	3 823 079	3 823 079	9 557 776	9 557 776
Mandatory cash balances with the Central Bank of the Russian Federation	5 921 349	5 921 349	2 698 403	2 698 403
Due from other banks				
- Short-term placements with other banks with original maturities of more than three months	2 245 844	2 245 844	15 104 374	15 104 374
- Long-term placements with other banks with original maturities of more than three months	1 752 844	1 752 810	6 620 339	6 620 305
Loans and advances to customers				
- Corporate loans	251 372 931	249 941 341	206 586 672	208 054 270
- Retail loans	96 027 661	91 566 064	71 042 357	70 927 812
- Small and medium entities loans	7 046 995	7 367 359	4 051 607	3 709 709
- Public sector loans	295 480	295 480	1 558 877	1 560 380
- Finance lease receivables	-	-	324 406	324 406
Investment securities held to maturity				
- Corporate bonds	509 681	518 445	512 148	523 101
TOTAL FINANCIAL ASSETS CARRIED AT AMORTISED COST	**504 692 602**	**499 128 509**	**392 778 040**	**393 801 617**

37 Fair Value of Financial Instruments (Continued)

	2011		2010	
In thousands of Russian Roubles	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
FINANCIAL LIABILITIES CARRIED AT AMORTISED COST				
Due to other banks				
- Correspondent accounts and overnight placements of other banks	22 194 357	22 194 357	14 800 075	14 800 075
- Short- term placements of other banks	6 676 041	6 676 041	4 910 050	4 910 050
- Long- term placements of other banks	1 065 030	1 064 525	825 101	824 706
Customer accounts				
- Current/settlement accounts of legal entities	79 178 110	79 178 110	68 785 155	68 785 155
- Term deposits of legal entities	107 189 995	107 270 718	57 022 981	57 120 507
- Current/demand accounts of individuals	87 209 756	87 209 756	66 147 355	66 147 355
- Term deposits of individuals	125 173 546	131 047 189	94 516 827	98 555 669
- Current/settlement accounts of state and public organisations	612 423	612 423	266 022	266 022
- Term deposits of state and public organisations	97 512	97 512	5 818	5 818
Debt securities in issue				
- Bonds issued on domestic market	11 828 102	11 852 560	15 114 566	15 774 589
- Promissory notes	-	-	1 081 683	1 081 683
Term borrowings from the Parent Bank	46 987 518	46 409 276	81 169 487	81 177 016
Term borrowings from other financial institutions				
- Asset backed securities	246 421	246 421	1 683 439	1 683 439
- Term borrowings from other financial institutions	3 613 395	3 613 403	3 975 466	3 975 454
Other financial liabilities				
- Provision for other credit related commitments	1 098 816	1 098 816	1 643 011	1 643 011
- Debit or credit cards payables	567 943	567 943	242 886	242 886
- Trade payables	36 998	36 998	9 642	9 642
- Settlements on conversion operations	16 559	16 559	48 810	48 810
- Other	9 941	9 941	6 048	6 048
TOTAL FINANCIAL LIABILITIES CARRIED AT AMORTISED COST	**493 802 463**	**499 202 548**	**412 254 422**	**417 057 935**

37 Fair Value of Financial Instruments (Continued)

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

	2011		2010	
In thousands of Russian Roubles	**Quoted price in an active market (Level 1)**	**Valuation technique with inputs observable in markets (Level 2)**	**Quoted price in an active market (Level 1)**	**Valuation technique with inputs observable in markets (Level 2)**
FINANCIAL ASSETS CARRIED AT FAIR VALUE				
Trading securities				
- Corporate bonds	40 340 217	-	31 233 102	-
- Corporate eurobonds	5 320 126	-	11 537 792	-
- Federal loan bonds (OFZ)	4 099 311	-	3 509 158	-
- EBRD bonds	1 558 713	-	4 400 238	-
- Municipal bonds	2 610 968	-	2 542 342	-
- Bonds of Central bank of Russia	-	-	386 155	-
- Corporate shares	4 936	-	4 819	-
Other securities at fair value through profit and loss				
- Corporate eurobonds	8 416	-	4 286	-
- Bonds of Central bank of Russia	-	-	15 053 197	-
- Corporate bonds	3 561 146	-	1 946 057	-
- Corporate shares	387 982	-	651 874	-
- Municipal bonds	489 159	-	418 374	-
- Federal loan bonds (OFZ)	529 428	-	237 044	-
- Bonds of EBRD	-	-	48 816	-
- Mutual funds	-	-	45 450	-
Investment securities available for sale	715 209	5 095 466	469 305	10 617 267
Derivatives and other financial assets carried at fair value				
- Fair value of currency rate based financial derivatives	-	5 647 199	-	2 064 010
- Fair value of interest rate based financial derivatives	-	2 235 763	-	3 626 608
- Other	-	1 002 747	-	646 548
TOTAL FINANCIAL ASSETS CARRIED AT FAIR VALUE	**59 625 611**	**13 981 175**	**72 488 009**	**16 954 433**

In thousands of Russian Roubles	**2011 Valuation technique with inputs observable in markets (Level 2)**	**2010 Valuation technique with inputs observable in markets (Level 2)**
FINANCIAL LIABILITIES CARRIED AT FAIR VALUE		
Derivatives and other financial liabilities		
- Fair value of interest rate based financial derivatives	4 294 065	4 867 803
- Fair value of currency rate based financial derivatives	4 833 585	724 141
TOTAL FINANCIAL LIABILITIES CARRIED AT FAIR VALUE	**9 127 650**	**5 591 944**

38 Reconciliation of Classes of Financial Instruments with Measurement Categories

For the purposes of measurement, IAS 39, *Financial Instruments: Recognition of Measurement*, classifies financial assets into the following categories: (a) loans and receivables; (b) available for sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit or loss ("FVTPL"). Financial assets at fair value through profit or loss have two subcategories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading.

The following table provides a reconciliation of classes of financial assets with these measurement categories as of 31 December 2011:

In thousands of Russian Roubles	**Loans and receiva-bles**	**Trading assets**	**Assets designated at FVTPL**	**Available for sale financial assets**	**Held to maturity financial assets**	**Total**
ASSETS						
Cash and cash equivalents	139 519 817	-	-	-	-	139 519 817
Mandatory cash balances with the Central Bank of the Russian Federation	5 921 349	-	-	-	-	5 921 349
Trading securities	-	53 934 271	-	-	-	53 934 271
Other securities at fair value through profit or loss	-	-	4 976 131	-	-	4 976 131
Due from other banks						
- Short-term placements with other banks with original maturities of more than three months	2 245 844	-	-	-	-	2 245 844
- Long-term placements with other banks with original maturities of more than three months	1 752 844	-	-	-	-	1 752 844
Loans and advances to customers						
- Loans to corporate customers	251 428 247	-	-	-	-	251 428 247
- Loans to individuals	96 027 661	-	-	-	-	96 027 661
- Loans to small and medium entities	7 046 995	-	-	-	-	7 046 995
- Loans state and municipal organisations	240 164	-	-	-	-	240 164
Investment securities available for sale	-	-	-	5 810 675	-	5 810 675
Investment securities held to maturity	-	-	-	-	509 681	509 681
Derivatives and other financial assets						
- Fair value of currency rate based financial derivatives	-	5 647 199	-	-	-	5 647 199
- Fair value of interest based financial derivatives	-	2 235 763	-	-	-	2 235 763
- Plastic cards receivables	911 655	-	-	-	-	911 655
- Trade receivables	91 092	-	-	-	-	91 092
TOTAL FINANCIAL ASSETS	**505 185 668**	**61 817 233**	**4 976 131**	**5 810 675**	**509 681**	**578 299 388**

As of 31 December 2011 and 31 December 2010 trading assets of the Group include derivatives designated as hedging instruments.

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

As of 31 December 2011 and 31 December 2010 financial guarantees of the Group were carried at amortized cost.

38 Reconciliation of Classes of Financial Instruments with Measurement Categories (Continued)

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

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

In thousands of Russian Roubles	**Loans and receivables**	**Trading assets**	**Assets designated at FVTPL**	**Available for sale financial assets**	**Held to maturity financial assets**	**Finance lease receiva-bles**	**Total**
ASSETS							
Cash and cash equivalents	84 278 857	-	-	-	-	-	84 278 857
Mandatory cash balances with the Central Bank of the Russian Federation	2 698 403	-	-	-	-	-	2 698 403
Trading securities	-	53 613 606	-	-	-	-	53 613 606
Other securities at fair value through profit or loss	-	-	18 405 098	-	-	-	18 405 098
Due from other banks							
- Short-term placements with other banks with original maturities of more than three months	15 104 374	-	-	-	-	-	15 104 374
- Long-term placements with other banks with original maturities of more than three months	6 620 339	-	-	-	-	-	6 620 339
Loans and advances to customers							
- Loans to corporate customers	206 586 672	-	-	-	-	-	206 586 672
- Loans to individuals	71 042 357	-	-	-	-	-	71 042 357
- Loans to small and medium entities	4 051 607	-	-	-	-	-	4 051 607
- Loans state and municipal organisations	1 558 877	-	-	-	-	-	1 558 877
- Finance lease receivables	-	-	-	-	-	324 406	324 406
Investment securities available for sale	-	-	-	11 086 572	-	-	11 086 572
Investment securities held to maturity	-	-	-	-	512 148	-	512 148
Derivatives and other financial assets							
- Fair value of currency rate based financial derivatives	-	2 064 010	-	-	-	-	2 064 010
- Fair value of interest based financial derivatives	-	3 626 608	-	-	-	-	3 626 608
- Plastic cards receivables	631 733	-	-	-	-	-	631 733
- Trade receivables	14 815	-	-	-	-	-	14 815
TOTAL FINANCIAL ASSETS	**392 588 034**	**59 304 224**	**18 405 098**	**11 086 572**	**512 148**	**324 406**	**482 220 482**

39 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 were as follows:

In thousands of Russian Roubles	Parent bank	Subsidia-ries of the Parent Bank	Associates	Members of the Managing Board	Other related parties
Corresponding accounts and overnight placements with other banks (contractual interest rate: 0.16 % - 0.25 % p.a.)	40 221 094	15 010	-	-	-
Placements with other banks with original maturities of less than three months (contractual interest rate: 0.85 % - 1.43 % p.a.)	52 302 986	-	-	-	-
Due from other banks (contractual interest rate: 0.00 % – 12.03 % p.a.)	13 581	427 252	-	-	-
Gross amount of loans and advances to customers (contractual interest rate: 0.81 % – 11.64 % p.a.)	-	1 609 986	4 392 477	2 878	-
Purchased intangible assets less accumulated depreciation	195 338	-	-	-	-
Derivatives and other financial assets	3 224 569	135	-	-	-
Investments in associates	-	-	1 349 943	-	-
Due to other banks (contractual interest rate: 1.25 % – 9.88% p.a.)	25 238	754 690	-	-	34 614
Customer accounts (contractual interest rate: 0.23 % – 4.70 % p.a.)	-	-	4 660 403	-	-
Term borrowings from the Parent Bank (contractual interest rate: 0.49 % – 4.31% p.a.)	46 987 518	-	-	-	-
Term borrowings from other financial institutions (contractual interest rate: 2.32% p.a.)	-	-	-	-	2 081 751
Other liabilities	325 841	-	-	164 339	-
Derivatives and other financial liabilities	4 098 029	3 589	-	-	-

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

In thousands of Russian Roubles	Parent bank	Subsidiaries of the Parent Bank	Associ-ates	Members of the Managing Board	Other related parties
Interest income	393 114	36 609	192 847	3 685	-
Interest expense	(1 758 615)	(9 172)	(135 776)	-	(44 999)
Fee and commission income	42 633	7 539	7 076	-	-
Fee and commission expense	(49 691)	-	-	-	-
Gains less losses/(losses, net of gains) from trading in foreign currencies	287 004	34 288	6 752	-	-
Realized gains less losses from financial derivatives	(499 849)	(19 785)	-	-	-
Unrealized gains less losses from financial derivatives	(1 174 004)	(1 772)	-	-	-
Ineffectiveness from the hedge accounting	47 659	-	-	-	-
Administrative and other operating expenses	(307 513)	(10 142)	-	(246 992)	-
Other operating income	90		3 212	-	-
Share of profit of associates	-	-	207 716	-	-

39 Related Party Transactions (Continued)

At 31 December 2011, other rights and obligations with related parties were as follows:

In thousands of Russian Roubles	**Parent bank**	**Subsidiaries of the Parent Bank**	**Associates**
Guarantees issued by the Group at the year end	313 952	411 719	-
Guarantees received by the Group at the year end	649 521	-	-
Letters of credit issued by the Group at the year end	-	1 497 186	-
Undrawn credit lines	650 000	551 575	4 131 352
Interest rate swap agreements – notional amount as at the year end	135 583 749	-	-
Interest rate swap agreements - fair values as at the year end	(1 271 551)	-	-
Cross currency interest rate swap agreements - notional amount receivable as at the year end	16 615 641	-	-
Cross currency interest rate swap agreements – notional amount payable as at the year end	15 959 961	-	-
Cross currency interest rate swap agreements - fair values as at the year end	436 186	-	-
Foreign currency derivative financial instruments – principal amount purchased	55 201 629	665 438	-
Foreign currency derivative financial instruments – principal amount sold	55 181 589	668 420	
Foreign currency derivative financial instruments –fair value	(87 800)	(3 454)	-
Interest rate options purchased – notional amount	1 000 000	-	-
Interest rate options purchased – fair value	5 674	-	-

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

In thousands of Russian Roubles	**Parent bank**	**Subsidia-ries of the Parent Bank**	**Associates**	**Members of the Managing Board**	**Other related parties**
Corresponding accounts and overnight placements with other banks (contractual interest rate: 0.00 % p.a.)	2 372 873	16 017	-	-	-
Due from other banks (contractual interest rate: 0.00 % – 8.25 % p.a.)	19 273 895	311 881	-	-	-
Gross amount of loans and advances to customers (contractual interest rate: 0.76 % – 17.13 % p.a.)	-	1 648 270	1 449 328	52 854	-
Purchased intangible assets less accumulated depreciation	86 425	-	-	-	-
Derivatives and other financial assets	3 922 800	360	2 450	-	-
Investments in associates	-	-	1 058 323	-	-
Due to other banks (contractual interest rate: 0.00 % – 8.73% p.a.)	153 700	1 036 834	-	-	54
Customer accounts (contractual interest rate: 0.00 % – 3.60 % p.a.)	4 399	186 768	7 246 293	-	-
Term borrowings from the Parent Bank (contractual interest rate: 0.22 % – 6.25% p.a.)	81 169 487	-	-	-	-
Term borrowings from other financial institutions (contractual interest rate: 2.05% p.a.)	-	-	-	-	1 968 107
Other liabilities	314 266	7	893	118 286	1 851
Derivatives and other financial liabilities	3 537 791	2 042	-	-	-

39 Related Party Transactions (Continued)

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

In thousands of Russian Roubles	**Parent bank**	**Subsidiaries of the Parent Bank**	**Associates**	**Members of the Managing Board**	**Other related parties**
Interest income	528 899	25 752	81 826	7 327	9
Interest expense	(1 907 556)	(6 208)	(147 695)	-	(236)
Fee and commission income	28 561	13 672	4 624	-	30
Fee and commission expense	(124 412)	-	-	-	(196)
Gains less losses/(losses, net of gains) from trading in foreign currencies	9	22	1 304	-	-
Realized gains less losses from financial derivatives	1 354 258	(8 791)	2 528	-	-
Unrealized gains less losses from financial derivatives	(1 759 363)	(1 787)	(2 399)	-	-
Ineffectiveness from the hedge accounting	(86 788)	-	-	-	-
Administrative and other operating expenses	(254 879)	(7 813)	-	(242 123)	-
Other operating income	1 324	-	3 043	-	-
Share of profit of associates	-	-	6 682	-	-

At 31 December 2010, other rights and obligations with related parties were as follows:

In thousands of Russian Roubles	**Parent bank**	**Subsidiaries of the Parent Bank**	**Associates**	**Other related parties**
Guarantees issued by the Group at the year end	355 087	264 920	-	-
Guarantees received by the Group at the year end	1 271 853	418 828	-	61 162
Stand-by facilities issued by Parent Bank	4 456 808	-	-	-
Undrawn credit lines	-	146 457	4 802 365	-
Overdraft facilities	650 000	-	-	185 000
Undrawn commitments to issue documentary instruments	-	2 242 667	3 346	-
Interest rate swap agreements – notional amount as at the year end	99 936 700	-	-	-
Interest rate swap agreements - fair values as at the year end	(901 945)	-	-	-
Cross currency interest rate swap agreements - notional amount receivable as at the year end	4 157 228	-	-	-
Cross currency interest rate swap agreements – notional amount payable as at the year end	3 299 443	-	-	-
Cross currency interest rate swap agreements - fair values as at the year end	579 112	-	-	-
Foreign currency derivative financial instruments – principal amount purchased	62 078 288	69 056	-	-
Foreign currency derivative financial instruments – principal amount sold	61 520 271	69 176	-	-
Foreign currency derivative financial instruments –fair value	707 842	(124)	-	-

The Bank's immediate parent is Raiffeisen Bank International AG (2010: Raiffeisen International Bank-Holding AG). The Bank is ultimately controlled by Raiffeisen Zentralbank Osterreich AG (2010: Raiffeisen Zentralbank Osterreich AG).

39 Related Party Transactions (Continued)

Key management compensation is presented below:

	2011		2010	
In thousands of Russian Roubles	**Expense**	**Accrued liability**	**Expense**	**Accrued liability**
Short-term benefits:				
- Salaries	131 323	-	112 860	-
- Short-term bonuses	114 934	155 039	128 017	109 721
Share-based compensation:				
- Cash-settled share-based compensation	735	9 300	1 246	8 565
Total	**246 992**	**164 339**	**242 123**	**118 286**

Short-term bonuses fall due within twelve months after the end of the period in which Management rendered the related services.