Absolut Bank Group
Consolidated financial statements

Year ended 31 December 2011
Together with independent auditors' report

Contents

Ernst & Young

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Independent auditors' report

To the Shareholders and Board of Directors of Absolut Bank –

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

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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

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

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

Opinion

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

Emphasis of matter

Without qualifying our opinion, we draw attention to Notes 1 and 32 to the consolidated financial statements which describe the significance of Group's financing provided by its parent.

Ernst & Young LLC

1 March 2012

Consolidated statement of financial position

As of 31 December 2011

(Millions of Russian Rubles)

	Notes	*31 December 2011*	*31 December 2010*
Assets			
Cash and cash equivalents	7	18 659	14 883
Mandatory cash balances with the Central Bank of the Russian Federation		549	1 773
Trading securities	8	1 973	1 625
Due from other banks	9	12 147	10 656
Derivative financial assets	10	39	109
Loans to customers	11	68 866	70 656
Investment securities available for sale	12	5 054	3 951
Property and equipment	13	2 902	3 814
Other assets	14	2 648	1 979
Total assets		**112 837**	**109 446**
Liabilities			
Due to other banks	15	44 340	48 777
Derivative financial liabilities	10	125	129
Customer accounts	16	40 839	37 936
Debt securities issued	17	2 551	1 621
Subordinated debt	18	7 410	7 006
Other liabilities	19	1 013	946
Total liabilities		**96 278**	**96 415**
Equity			
Share capital	20	2 455	2 455
Share premium	20	14 341	13 340
Accumulated deficit		(232)	(2 729)
Revaluation surplus/(deficit) of investment securities available for sale		(5)	(35)
Total equity		**16 559**	**13 031**
Total equity and liabilities		**112 837**	**109 446**

Approved for issue and signed on behalf of the Management Board on 1 March 2012

Nikolay Sidorov
Chairman of the Board, CEO

Andrey Larkin
Deputy Chairman of the Board, CFO

The accompanying notes from 1 to 33 are an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income

For the year ended 31 December 2011

(Millions of Russian Rubles)

	Notes	2011	2010
Interest income	22	9 348	11 937
Interest expense	22	(4 438)	(7 159)
Net interest income		**4 910**	**4 778**
Reversal of allowance/(Allowance) for loan impairment	11	1 685	(872)
Net interest income after allowance for loan impairment		**6 595**	**3 906**
Fee and commission income	23	903	746
Fee and commission expense	23	(129)	(129)
Net (losses)/gains from operations with securities	24	(52)	25
Net gains from operations with derivatives	25	451	132
Net gains from trading in foreign currencies		293	109
Net foreign exchange translation differences		(678)	(84)
Other income	26	122	92
Non-interest income		**910**	**891**
Personnel expenses	27	(3 085)	(2 994)
Administrative and other operating expenses	27	(1 881)	(1 972)
Reversal of provision for losses from credit related commitments	19, 21	7	20
Non-interest expense		**(4 959)**	**(4 946)**
Profit/(Loss) before income tax expense		**2 546**	**(149)**
Income tax expense	28	(49)	(45)
Profit/(Loss) for the year		**2 497**	**(194)**
Other comprehensive income			
Losses on investment securities available for sale arising during the year		(8)	(37)
Less: Reclassification adjustments for (gains)/losses included in profit or loss		38	(25)
Other comprehensive income/(loss) for the year		**30**	**(62)**
Total comprehensive income/(loss) for the year		**2 527**	**(256)**

The accompanying notes from 1 to 33 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

For the year ended 31 December 2011

(Millions of Russian Rubles)

	Share capital	*Share premium*	*Accumulated deficit*	*Revaluation surplus/ (deficit) of investment securities available for sale*	*Total shareholders' equity*
31 December 2009	**2 455**	**13 340**	**(2 535)**	**27**	**13 287**
Total comprehensive loss for the year	–	–	(194)	(62)	(256)
31 December 2010	**2 455**	**13 340**	**(2 729)**	**(35)**	**13 031**
Additional paid in capital (Note 20)	–	1 001	–	–	1 001
Total comprehensive income for the year	–	–	2 497	30	2 527
31 December 2011	**2 455**	**14 341**	**(232)**	**(5)**	**16 559**

The accompanying notes from 1 to 33 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows

For the year ended 31 December 2011

(Millions of Russian Rubles)

	Notes	*2011*	*2010*
Cash flows from operating activities			
Interest received		9 455	12 597
Interest paid		(5 183)	(7 483)
Fees and commissions received		882	749
Fees and commissions paid		(129)	(129)
Losses incurred on operations with securities		(20)	(13)
Income received on operations with derivatives		517	17
Income received from operations in foreign currencies		36	210
Other operating income received		122	92
Personnel expenses paid		(3 088)	(2 717)
Other operating expenses paid		(1 369)	(1 456)
Income tax refunded/(paid)		(27)	162
Cash flows from operating activities before changes in operating assets and liabilities		**1 196**	**2 029**
Net (increase)/decrease in operating assets			
Mandatory cash balances with the Central Bank of the Russian Federation		1 224	(1 135)
Trading securities		(340)	(1 616)
Due from other banks		(1 269)	6 782
Loans to customers		4 596	18 869
Other assets		23	(446)
Net increase/(decrease) in operating liabilities			
Due to other banks		(6 030)	(6 519)
Customer accounts		3 468	(9 499)
Promissory notes issued		(712)	(1 667)
Other liabilities		78	128
Net cash from operating activities		**2 234**	**6 926**
Cash flows from investing activities			
Purchase of investment securities available for sale		(4 844)	(3 728)
Proceeds from sale and redemption of investment securities available for sale		3 785	4 351
Purchase of property and equipment		(65)	(121)
Purchase (subsequent expenditures) of investment properties		(78)	–
Acquisition of software		(157)	(229)
Proceeds from sale of property and equipment		7	2
Net cash (used in)/from investing activities		**(1 352)**	**275**
Cash flows from financing activities			
Issue of bonds		1 800	–
Additional paid in capital		1 001	–
Redemption of Eurobonds		–	(2 781)
Net cash from/(used in) financing activities		**2 801**	**(2 781)**
Effect of exchange rates changes on cash and cash equivalents		93	(55)
Net increase in cash and cash equivalents		**3 776**	**4 365**
Cash and cash equivalents, beginning	7	**14 883**	**10 518**
Cash and cash equivalents, ending	7	**18 659**	**14 883**

The accompanying notes from 1 to 33 are an integral part of these consolidated financial statements.

(Millions of Russian Rubles)

1. Principal activities

The accompanying consolidated financial statements comprise the accounts of Absolut Bank (the "Bank") and its subsidiaries (together the "Group"). The Bank is the parent company in the Group. The Bank was incorporated and is domiciled in the Russian Federation. The Bank is a joint stock company limited by shares and was set up in accordance with Russian regulations.

The Bank's principal business activity is commercial and retail banking operations within the Russian Federation. The Bank is operating under a full banking license issued by the Central Bank of the Russian Federation ("CBRF") since 1993. The Bank participates in the state deposit insurance scheme, which was introduced by the Federal Law #177-FZ "Deposits of individuals insurance in Russian Federation" dated 23 December 2003.

The Bank has 13 (31 December 2010: 20) branches within the Russian Federation. During 2011 the Bank closed 7 branches.

The Bank's registered address is: Tsvetnoy boulevard 18, Moscow, 127051, Russian Federation.

As of 31 December, there were the following shareholders of the Bank.

Shareholder	***2011 %***	***2010 %***
KBC Bank NV	99	95
International Finance Corporation (IFC)	1	5
Total	**100**	**100**

KBC Bank NV as a member of KBC Group (hereinafter - "KBC") which owns 99% shares of the Bank.

KBC has developed the strategic plan which was the basis for a restructuring plan as requested by the European Commission. This plan considers subsidiaries in some countries, including Russia, as "non-core", which means that the Bank is subject to divestment. According to the plan the divestment is not planned in the near future. As of 31 December 2011 KBC provided the Bank with the financial support by placing its funds on the Bank's deposit accounts (Refer to Note 15) and providing subordinated loans (Refer to Note 18). The financial support from KBC is critical for continuity of the Bank's operations.

Subsidiaries

The consolidated financial statements include the following major subsidiaries:

2011:

Subsidiary	***Ownership, %***	***Country of operation***	***Type of operation***
LLC "Absolut Leasing"	100	Russian Federation	Finance lease
LLC Leasing company "Absolut"	100	Russian Federation	Finance lease

2010:

Subsidiary	***Ownership, %***	***Country of operation***	***Type of operation***
LLC "Absolut Leasing"	100	Russian Federation	Finance lease
Absolut Capital Trust Limited	100	Cyprus	Capital borrowings
LLC "Absolut Capital"	100	Russian Federation	Financial services
LLC Leasing company "Absolut"	100	Russian Federation	Finance lease

During 2011 Absolut Capital Trust Limited and LLC "Absolut Capital" have been legally closed.

Special purpose entities

The Bank consolidates special purpose entities it controls. In assessing and determining if the Bank controls such special purpose entities, judgement is made about the Bank's exposure to the risks, rewards and its ability to make operational decisions.

Included in the consolidated financial statements of the Group as at 31 December 2010 is one SPE located in Luxemburg and established for the purpose of raising finance in international capital markets.

(Millions of Russian Rubles)

2. Basis of preparation

General

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The Group is required to maintain its records and prepare its financial statements for regulatory purposes in Russian Rubles in accordance with Russian accounting and banking legislation and related instructions ("RAL"). These consolidated financial statements are based on the Group's RAL books and records, as adjusted and reclassified in order to comply with IFRS.

The consolidated financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below. For example, trading and available-for-sale securities, derivative financial instruments have been measured at fair value.

These consolidated financial statements are presented in millions of Russian Rubles ("RUB"), unless otherwise indicated.

Inflation accounting

The Russian economy was considered hyperinflationary until 31 December 2002. As such, the Group applied IAS 29 *Financial Reporting in Hyperinflationary Economies*. The effect of applying IAS 29 is that non-monetary items, including components of equity, were restated to the measuring units current at 31 December 2002 by applying the relevant inflation indices to the historical cost, and that these restated values were used as a basis for accounting in subsequent periods.

3. Summary of accounting policies

Changes in accounting policies

The Group has adopted the following amended IFRS during the year. The principal effects of these changes are as follows:

IAS 24 Related party disclosures (Revised)
The revised IAS 24, issued in November 2009 and effective for annual periods beginning on or after 1 January 2011, simplifies the disclosure requirements for government-related entities and clarifies the definition of a related party. Previously, an entity controlled or significantly influenced by a government was required to disclose information about all transactions with other entities controlled or significantly influenced by the same government. The revised standard requires disclosure about these transactions only if they are individually or collectively significant. The disclosure of the transactions with related parties in accordance with the revised Standard is presented in the Note 32.

Amendments to IAS 32 Financial instruments: Presentation: Classification of Rights Issues
In October 2009, the IASB issued amendment to IAS 32. Entities shall apply that amendment for annual periods beginning on or after 1 February 2010. The amendment alters the definition of a financial liability in IAS 32 to classify rights issues and certain options or warrants as equity instruments. This is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, in order to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The amendment had no impact on the Group's consolidated financial statements.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments
IFRIC Interpretation 19 was issued in November 2009 and is effective for annual periods beginning on or after 1 July 2010. The interpretation clarifies the accounting when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor to extinguish all or part of the financial liability. This Interpretation had no impact on the Group's consolidated financial statements.

(Millions of Russian Rubles)

3. Summary of accounting policies (continued)

Changes in accounting policies (continued)

Improvements to IFRSs
In May 2010 the IASB issued the third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. Most of the amendments are effective for annual periods beginning on or after 1 January 2011. There are separate transitional provisions for each standard. Amendments included in May 2010 "Improvements to IFRS" had impact on the accounting policies, financial position or performance of the Group, as described below.

- IFRS 3 *Business Combinations*: limits the scope of the measurement choices that only the components of NCI that are present ownership interests that entitle their holders to a proportionate share of the entity's net assets, in the event of liquidation, shall be measured either at fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets.
- IFRS 7 *Financial Instruments: Disclosures*; introduces the amendments to quantitative and credit risk disclosures. The additional requirements had minor impact as information is readily available.
- Other amendments to IFRS 1, IFRS 3, IAS 1, IAS 27, IAS 34 and IFRIC 13 will have no impact on the accounting policies, financial position or performance of the Group.

Subsidiaries

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.

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.

Initial recognition of financial instruments

Trading securities and derivatives are initially recorded at fair value. All other financial instruments are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. 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.

Date of recognition

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 settlement date, which is the date that the Group delivers a financial asset. All other purchases and sales are recognised on the settlement date with the change in value between the commitment date and settlement date not recognised for assets carried at cost or amortised cost; recognised in profit or loss for trading securities, derivatives and other financial assets at fair value through profit or loss.

Cash and cash equivalents

Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. All short-term placements beyond overnight placements are included in due from other banks. Amounts which relate to funds that are of a restricted nature are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortised cost.

Mandatory cash balances with the Central Bank of the Russian Federation

Mandatory cash balances with the CBRF are carried at amortised cost and represent non-interest bearing mandatory reserve deposits amount of which depends on the level of funds attracted by the credit institution 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.

Trading securities

Trading securities are securities, which are either acquired for generating a profit from short-term fluctuations in price or trader's margin, or are securities included in a portfolio in which a pattern of short-term trading exists. The Group classifies securities into trading securities if it has an intention to sell them within a short period after purchase, i.e. within one to three months. Trading securities are not reclassified out of this category even when the Group's intentions subsequently change, except for rare circumstances (Refer to Note 8).

(Millions of Russian Rubles)

3. Summary of accounting policies (continued)

Trading securities (continued)

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

Financial assets held to maturity

A financial asset is classified as being held to maturity if the Group intends and is able to hold the investment to maturity. Only investments with a fixed maturity and fixed or determinable payments will be classified as held to maturity.

The held to maturity category is a typical category for bonds and other interest-bearing securities that fulfil the general requirements to be classified as held to maturity.

At the time of purchase, bonds and other interest-bearing securities are recorded at acquisition cost, including transaction costs and less subscription fees. The acquisition cost of securities purchased within the context of a public or private issue is equal to the issue price less any issue, placing and acquisition fees.

Subsequently, bonds and other interest-bearing securities are measured at amortized cost. The difference between the acquisition value and the redemption value is regarded as interest and is recorded on an accruals basis in the statement of comprehensive income over the remaining term to maturity. This incorporation into the result occurs on the basis of actuarial yield, the starting-point being the effective rate of return on acquisition. Calculation of the actuarial return is based on the acquisition price, the redemption price, accrued interest and the coupons to final maturity.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as trading securities or designated as investment securities available-for-sale. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the consolidated statement of comprehensive income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Securities classified as loans and receivables are initially measured at fair value, including transaction costs. They are subsequently measured at amortised cost. The difference between the acquisition cost and the redemption value is recognised as interest and recorded in the consolidated statement of comprehensive income on an accruals basis over the remaining term to maturity. It is recognised in the consolidated statement of comprehensive income, based on the effective rate of interest. Individual impairment losses for securities classified as loans and receivables are recognized – according to the same method as is used for amounts receivable as described below in this note – if there is evidence of impairment at reporting date.

Derivative financial instruments

In the normal course of business, the Group enters into various derivative financial instruments including futures, forwards, swaps and options in the foreign exchange and capital markets. Such financial instruments are held for trading and are recorded at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in the consolidated statement of comprehensive income.

Available for sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition available-for sale financial assets are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously recognised in other comprehensive income is reclassified to profit or loss. However, interest calculated using the effective interest method is recognised in the consolidated statement of comprehensive income.

(Millions of Russian Rubles)

3. Summary of accounting policies (continued)

Investment property

Real estate held to earn rentals or for capital appreciation is classified as investment property. Certain properties include a portion that is held to earn rentals or for capital appreciation or operational leasing purposes and another portion that is held for use in the supply of services or for administrative purposes. If the portions cannot be sold separately, the property is investment property only if an insignificant portion is held to be used in the supply of services or for administrative purposes.

Investment property is recognized only when it is probable that future economic benefits associated with the investment property will flow to the enterprise and the cost of the investment property can be measured reliably.

The investment property is measured initially at cost, including transaction costs. Investment property is subsequently measured at cost less any accumulated depreciation and any accumulated impairment losses. It is depreciated according to the straight-line method over the economic life of the investment property concerned (i.e. 3% on a yearly basis for real estate). Depreciable leased assets are depreciated according to the normal depreciation policy for similar assets. Subsequent expenditure relating to investment property that has already been recognized is added to the carrying amount of the investment property when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing investment property, will flow to the enterprise. All other subsequent expenditure should be recognized as an expense in the period in which it is incurred.

Assets classified as held for sale

The Group classifies a non-current asset as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the non-current asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets and its sale must be highly probable.

The sale qualifies as highly probable if the Bank's management is committed to a plan to sell the non-current asset and an active program to locate a buyer and complete the plan must have been initiated. Further, the non-current asset must have been actively marketed for a sale at price that is reasonable in relation to its current fair value and in addition the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification of the non-current asset as held for sale.

The Group measures an asset classified as held for sale at the lower of its carrying amount and fair value less costs to sell. The Group recognises an impairment loss for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell if events or changes in circumstance indicate that their carrying amount may be impaired.

Impairment of financial assets

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

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

- any instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems or any other reasonable factors preventing the borrower from effecting a regular payment;
- the borrower experiences a significant financial difficulty as evidenced by borrower's financial information that the Group obtains (overdue interest/principal payments on loans to other banks, unreasonable loan renegotiation requests on the part of the borrower);
- the borrower considers bankruptcy or a financial reorganisation or the Group has information on existence of the facts which may result in the borrower's bankruptcy (effective court rulings, considerable losses, negative cash inflows, force majeure events);
- there is an adverse change in the payment status of the borrower as a result of changes in the national or local economic conditions that impact the borrower (changes in effective legislation that may result in shrinking of the borrower's market or increase tax burden, imposition of discriminating measures in respect of the borrower, or regulatory restriction on margin level);
- the value of collateral significantly decreases as a result of deteriorating market conditions or the borrower has partially/completely lost the collateral uncovered by insurance or insurance company refuses to pay.

(Millions of Russian Rubles)

3. Summary of accounting policies (continued)

Impairment of financial assets (continued)

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

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

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

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

Uncollectible assets are written off against the related impairment loss provision in the following cases:

- after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. The procedures include those prescribed by the law, arising out of normal course of business or agreements concluded;
- the recovery of the indebtedness is not economically feasible due to its insignificance.

Determination of fair value

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 arms 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 financial statements if changing any such assumptions to a reasonably possible alternative would result in significantly different profit, income, total assets or total liabilities.

Reclassification of financial assets

If a non-derivative financial asset classified as held for trading is no longer held for the purpose of selling in the near term, it may be reclassified out of the fair value through profit or loss category in one of the following cases:

- a financial asset that would have met the definition of loans and receivables above may be reclassified to loans and receivables category if the Group has the intention and ability to hold it for the foreseeable future or until maturity;
- other financial assets may be reclassified to available for sale or held to maturity categories only in rare circumstances.

Financial assets are reclassified at their fair value on the date of reclassification. Any gain or loss already recognized in profit or loss is not reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortised cost, as applicable (Refer to Note 8).

(Millions of Russian Rubles)

3. Summary of accounting policies (continued)

Promissory notes

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

Property and equipment

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

Construction in progress is carried at cost less provision for impairment where required. Upon completion, assets are transferred to property 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 property and equipment items are capitalised and the replaced part is retired.

If impaired, property and equipment are written down to the higher of their value in use and fair value less costs to sell. The decrease in carrying amount is charged to profit or loss. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

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

Depreciation 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 as follows:

	% per year
Premises	2-3%
Equipment and vehicles	3-33%
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 each reporting date.

Intangible assets

All of the Group's intangible assets have definite useful life and primarily include capitalised computer software. Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Development costs that are directly associated with identifiable and unique software controlled by the Group are recorded as intangible assets if the inflow of incremental economic benefits exceeding costs is probable.

Capitalised costs include staff costs of the software development team and cost of services received which are incremental to the software development. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred. Capitalised computer software is amortised on a straight line basis over expected useful live.

Repurchase agreements

Sale and repurchase agreements ("repos") are treated as secured financing transactions. Securities sold under sale and repurchase agreements are retained in the consolidated statement of financial position and, in case the transferee has the right by contract or custom to sell or repledge them, reclassified as securities pledged under sale and repurchase agreements. The corresponding liability is presented within amounts due to credit institutions or customers. Securities purchased under agreements to resell ("reverse repo") are recorded as amounts due from credit institutions or loans to customers as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective yield method.

(Millions of Russian Rubles)

3. Summary of accounting policies (continued)

Due to other banks

Amounts due to other banks are recorded when money or other assets are advanced to the Group by counterparty banks. The non-derivative liability is carried at amortised cost.

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, loan participation or other notes, and bonds issued by the Group. Debt securities are stated at amortised cost. If the Group purchases its own debt securities in issue, they are removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is recorded in the consolidated statement of comprehensive income.

Subordinated debt

Subordinated debt ranks behind all other creditors in case of liquidation. Subordinated debt is carried at amortised cost.

Leases

i. Finance – Group as lessor

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

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

Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of 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.

ii. Operating – Group as lessee

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

iii. Operating – Group as lessor

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

(Millions of Russian Rubles)

3. Summary of accounting policies (continued)

Derecognition of financial assets and liabilities

Financial assets

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

Financial liabilities

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

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

Credit related commitments

The Group enters into credit related commitments, including letters of credit and financial guarantees. Financial guarantees represent irrevocable assurances to make payments in the event that a customer cannot meet its obligations to third parties and carry the same credit risk as loans. Financial guarantees 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. At each reporting date, the guarantees are measured at the higher of (i) the unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at the reporting date. Fees received are amortised to income on a straight line basis over the life of the guarantee. Management uses best estimates of the expenditures required to settle the obligations arising at the reporting date. The estimates of outcome and financial effect are determined based on experience of similar transactions, supplemented by the judgment of Management.

Taxation

Income taxes have been provided for in the consolidated financial statements in accordance with Russian legislation enacted or substantively enacted by the reporting date. The income tax charge comprises current tax and deferred tax and is recognised in the consolidated statement of comprehensive income except if it is recognised directly in equity because it relates to transactions that are also recognised, in the same or a different period, 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 statement of financial position liability method for temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax balances are measured at tax rates enacted or substantively enacted at the reporting date which are expected to apply to the period when the temporary differences will reverse. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Russia also has various operating taxes, that are assessed on the Group’s activities. These taxes are included as a component of other operating expenses.

Retirement and other employee benefit obligations

The Group does not have any pension arrangements separate from the State pension system of the Russian Federation, which requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged in the period the related salaries are earned. In addition, the Group has no significant post-retirement benefits.

(Millions of Russian Rubles)

3. Summary of accounting policies (continued)

Share capital and share premium

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. Any excess of the fair value of consideration received over the par value of shares issued is recognised as share premium in equity. Contributions paid by the shareholders as the additional paid in capital are recognized as share premium in equity.

Fiduciary assets

Assets held by the Group in its own name, but on the account of third parties, are not reported on the consolidated statement of financial position. For the purpose of disclosure fiduciary activities do not encompass safe custody functions. Commissions received from fiduciary activities are shown in fee and commission income.

Segment reporting

The Group's segmental reporting is based on the following operating segments: Retail banking, Corporate banking and Financial markets.

Recognition of income and expenses

Interest income and expense are recorded in the consolidated statement of comprehensive income 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 considering loan applications, opening and servicing loan account, valuation and processing transaction documents. 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.

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 over the period the service is provided. The same principle is applied for custody services that are continuously provided over an extended period of time.

Foreign currency translation

The functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. The Bank's and the subsidiaries' functional currency and the Group's presentation currency is the national currency of the Russian Federation, Russian Rubles.

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

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

(Millions of Russian Rubles)

3. Summary of accounting policies (continued)

Future changes in accounting policies

Standards and interpretations issued but not yet effective

IFRS 9 Financial Instruments
In November 2009 and 2010 the IASB issued the first phase of IFRS 9 *Financial Instruments*. This Standard will eventually replace IAS 39 *Financial Instrument: Recognition and Measurement*. IFRS 9 becomes effective for financial years beginning on or after 1 January 2013. The first phase of IFRS 9 introduces new requirements on classification and measurement of financial instruments. In particular, for subsequent measurement all financial assets are to be classified at amortised cost or at fair value through profit or loss with the irrevocable option for equity instruments not held for trading to be measured at fair value through other comprehensive income. For financial liabilities designated at fair value through profit or loss using fair value option IFRS 9 requires the amount of change in fair value attributable to changes in credit risk to be presented in other comprehensive income. The Group now evaluates the impact of the adoption of new Standard and considers the initial application date.

IFRS 10 Consolidated Financial Statements
IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27. In addition IFRS 10 introduces specific application guidance for agency relationships. IFRS 10 replaces the portion of IAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 *Consolidation – Special Purpose Entities*. It is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. Currently the Group evaluates possible effect of the adoption of IFRS 10 on its financial position and performance.

IFRS 12 Disclosure of Interests in Other Entities
IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. IFRS 12 is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. Adoption of the standard will require new disclosures to be made in the financial statements of the Group but will have no impact on its financial position or performance.

IFRS 13 Fair Value Measurement
IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. IFRS 13 is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. The adoption of the IFRS 13 may have effect on the measurement of the Group's assets and liabilities accounted for at fair value. Currently the Group evaluates possible effect of the adoption of IFRS 13 on its financial position and performance.

IAS 27 Separate Financial Statements (as revised in 2011)
As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

Amendments to IFRS 7 Financial Instruments: Disclosures
The Amendments were issued in October 2010 and are effective for annual periods beginning on or after 1 July 2011. The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the Group's financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognised assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognised assets.The amendment affects disclosure only and has no impact on the Group's financial position or performance.

Amendments to IAS 1 Changes to the Presentation of Other Comprehensive Income
The amendments to IAS 1 *Presentation of Financial Statements*, effective for annual periods beginning on or after 1 July 2012, change the grouping of items presented in other comprehensive income. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. These amendments will change presentation in the statement of comprehensive income but will have no effect on its financial position and performance.

(Millions of Russian Rubles)

4. Significant accounting judgements and estimates

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

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values.

Impairment losses on loans and advances

The Group regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in the statement of comprehensive income, the Group makes judgments 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 Group uses its experienced judgment to adjust observable data for a group of loans or receivables to reflect current circumstances.

Segment reporting

The Group does not allocate its premises, equipment and software balances as well as capital expenditure between the operating segments. The Group provides services for the retail and corporate customers within the same premises and the Group believes that currently there is no reasonable basis for allocation of premises, equipment, software as well as capital expenditure.

5. Changes in presentation

Certain reclassifications have been made to the financial statements as at 31 December 2010 and for the year then ended to conform to the presentation as at 31 December 2011 and for the year then ended as current year presentation leads to a more appropriate presentation of the underlying transactions in the consolidated statement of comprehensive income.

Nature of reclassification	*Amount*	*Line as per the previous report*	*Line as per current report*
Consolidated statement of comprehensive income			
Interest component on derivatives	(38)	Net gains from operations with derivatives	Interest expense
Reclassification adjustment on investment securities available for sale	13	Losses on investment securities available for sale arising during the year	Reclassification adjustments for (gains)/losses included in profit or loss

(Millions of Russian Rubles)

6. Segment information

For management purposes, the Group is organised into three operating segments based on products and services as follows:

- Corporate – comprises corporate lending including sales and repurchase agreements, corporate deposit services and placement of promissory notes among corporate clients, trade finance operations, leasing services, issuing of guarantees, foreign currency exchange transactions and other transactions with corporate customers.
- Financial markets – comprises securities trading, debt capital markets services (interbank and other borrowings, placement of promissory notes and bonds on money market, raising finance on loro accounts), foreign currency exchange and derivatives transactions on stock exchange and over the counter market.
- Retail – comprises retail services of opening and maintenance of settlement accounts, raising finance in the forms of promissory notes and retail deposits, debit and credit cards servicing, lending and foreign exchange transactions with individuals, individual entrepreneurs and small and medium size entities.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance, as explained in the table below, is measured differently from profit or loss in the consolidated financial statements.

The Group allocates revenues and expenses between segments depending on the contractual counterparty and type of transaction.

The Group allocates in its internal management accounting system major part of the Group's assets and liabilities as well as income and expenses between the segments. Certain types of assets and liabilities, income and expenses that were not allocated have been presented as "unallocated" in the table below.

"Interest income from other segments" and "Interest expense relating to transactions with other segments" are defined on the basis of transfer pricing policy. According to the existing transfer pricing system, approved by the Board, funds are transferred between segments at historical market rate. Choice of market rate for each interest asset or liability depends on the currency and contractual maturity of this asset or liability.

Segment results are based on the direct and allocated revenues ("Interest income from other segments") attributable to the assets of the segment as well as on the direct and allocated expenses ("Interest expense relating to transactions with other segments") attributable to the liabilities of the segment.

The Group allocates administrative and other operating expenses between segments using the following principles of allocation: the major part of administrative and other operating expenses represents direct expenses attributable to cost centres which activities correspond to segment activities. The remaining part is allocated between the segments in the same proportion as the direct operating expenses are allocated.

(Millions of Russian Rubles)

6. Segment information (continued)

The following table presents income and profit and certain asset and liability information regarding the Group's operating segments for the year ended 31 December 2011:

	Retail Banking	*Corporate Banking*	*Financial Markets*	*Total*
Revenues comprise				
External interest income	5 036	3 732	580	9 348
Interest income from other segments	980	385	4 767	6 132
Reversal of allowance for loan impairment	181	1 504	–	1 685
Dealing and other operating income	236	142	557	935
Fee and commission income	615	285	3	903
Total revenues	**7 048**	**6 048**	**5 907**	**19 003**
Expenses comprise				
Interest expense from other segments	(3 719)	(1 981)	(432)	(6 132)
External interest expense	(855)	(284)	(3 299)	(4 438)
Personnel expenses	(1 730)	(1 195)	(160)	(3 085)
Administrative and other operating expenses	(1 066)	(529)	(52)	(1 647)
Fee and commission expense	(91)	(15)	(23)	(129)
Dealing and other operating loss	–	(59)	(55)	(114)
Total expenses	**(7 461)**	**(4 063)**	**(4 021)**	**(15 545)**
Segment results	**(413)**	**1 985**	**1 886**	**3 458**
Unallocated revenues				1
Unallocated expenses				(913)
Profit before tax				**2 546**
Income tax expense				(49)
Profit for the year				**2 497**
Assets and liabilities				
Segment assets	41 039	28 699	29 100	98 838
Unallocated assets				13 999
Total assets				**112 837**
Segment liabilities	(26 772)	(12 312)	(56 279)	(95 363)
Unallocated liabilities				(915)
Total liabilities				**(96 278)**
Other segment information				
Depreciation and amortisation	(275)	(141)	(13)	(429)
Other provisions	22	(15)	–	7

The following table presents dealing and other operating income/(loss) information regarding the Group's operating segments for the year ended 31 December 2011:

	Retail Banking	*Corporate Banking*	*Financial Markets*	*Total*
Dealing and other operating income comprise				
Net gains from operations with derivatives	–	–	454	454
Net gains from trading in foreign currencies	139	97	57	293
Recovery of provision for losses on credit related commitments	22	–	–	22
Other income	75	45	46	166
Total dealing and other operating income	**236**	**142**	**557**	**935**
Dealing and other operating loss comprise				
Net losses from operations with securities	–	–	(52)	(52)
Provision for losses on credit related commitments	–	(15)	–	(15)
Net losses from operations with derivatives	–	–	(3)	(3)
Other expenses	–	(44)	–	(44)
Total dealing and other operating loss	**–**	**(59)**	**(55)**	**(114)**
Unallocated expenses comprise				
Net foreign exchange translation differences				(678)
Administrative and other operating expenses				(234)

(Millions of Russian Rubles)

6. Segment information (continued)

The following table presents income and profit and certain asset and liability information regarding the Group's operating segments for the year ended 31 December 2010:

	Retail Banking	Corporate Banking	Financial Markets	Total
Revenues comprise				
External interest income	5 437	5 694	806	11 937
Interest income from other segments	1 667	551	3 817	6 035
Dealing and other operating income	160	172	88	420
Fee and commission income	490	237	19	746
Total revenues	**7 754**	**6 654**	**4 730**	**19 138**
Expenses comprise				
External interest expense	(2 322)	(830)	(4 007)	(7 159)
Interest expense from other segments	(3 102)	(2 471)	(462)	(6 035)
Allowance for loan impairment	(67)	(805)	–	(872)
Personnel expenses	(1 648)	(1 167)	(179)	(2 994)
Administrative and other operating expenses	(1 052)	(595)	(68)	(1 715)
Dealing and other operating loss	(17)	(1)	(24)	(42)
Fee and commission expense	(56)	(13)	(60)	(129)
Total expenses	**(8 264)**	**(5 882)**	**(4 800)**	**(18 946)**
Segment results	**(510)**	**772**	**(70)**	**192**
Unallocated expenses				(341)
Loss before tax				**(149)**
Income tax expense				(45)
Loss for the year				**(194)**
Assets and liabilities				
Segment assets	42 745	28 985	18 790	90 520
Unallocated assets				18 926
Total assets				**109 446**
Segment liabilities	(26 315)	(11 080)	(58 165)	(95 560)
Unallocated liabilities				(855)
Total liabilities				**(96 415)**
Other segment information				
Depreciation and amortisation	(315)	(175)	(16)	(506)
Other provisions	(16)	36	–	20

The following table presents dealing and other operating income/(loss) information regarding the Group's operating segments for the year ended 31 December 2010:

	Retail Banking	Corporate Banking	Financial Markets	Total
Dealing and other operating income comprise				
Net gains from operations with derivatives	–	–	153	153
Net gains from trading in foreign currencies	87	105	(82)	110
Recovery of provision for losses on credit related commitments	–	37	–	37
Net gains from operations with securities	–	11	17	28
Other income	73	19	–	92
Total dealing and other operating income	**160**	**172**	**88**	**420**
Dealing and other operating loss comprise				
Net losses from operations with derivatives	–	–	(21)	(21)
Provision for losses on credit related commitments	(17)	–	–	(17)
Net losses from operations with securities	–	–	(3)	(3)
Net losses from trading in foreign currencies	–	(1)	–	(1)
Total dealing and other operating loss	**(17)**	**(1)**	**(24)**	**(42)**
Unallocated expenses comprise				
Net foreign exchange translation differences				(84)
Administrative and other operating expenses				(257)
Total unallocated expenses				**(341)**

(Millions of Russian Rubles)

6. Segment information (continued)

Geographical information

The Group operates only in the Russian Federation. Balances with Russian counterparties actually outstanding from off-shore companies of the counterparties are allocated to the Russian Federation segment. The capital expenditure of the Group relates to the operations of the Group in the Russian Federation.

The Russian Federation segment has certain balances with counterparties in other countries. A breakdown of assets and liabilities of the Group with non-Russian counterparties is presented in Note 29.

7. Cash and cash equivalents

	31 December 2011	***31 December 2010***
Overnight placements with other banks	8 602	280
Cash on hand	4 037	2 770
Current accounts with the CBRF	3 931	9 588
Settlement accounts with trading systems	1 128	1 494
Current accounts with other banks	961	751
Cash and cash equivalents	**18 659**	**14 883**

8. Trading securities

	31 December 2011	***31 December 2010***
Corporate bonds	815	1 212
Promissory notes	594	413
	1 409	**1 625**
Corporate bonds pledged under repurchase agreements	564	–
Trading securities	**1 973**	**1 625**

As of 31 December 2011 and 2010 corporate bonds were represented by Russian Rouble and US Dollars denominated securities issued by top Russian companies and banks.

As of 31 December 2011 and 2010 promissory notes represent Russian Rouble denominated securities issued by top Russian banks with a discount to face value. These securities are traded over-the-counter.

Following the amendments to IAS 39 and IFRS 7, *Reclassification of Financial Assets*, the Group reclassified certain financial assets out of held for trading category as they were no longer held for the purpose of selling or repurchasing them in the near term. The reclassification was made with effect from 30 September 2008 at fair value at that date. The impact of reclassification is as follows:

	Trading securities were reclassified to	
	Loans and receivables	***Available for sale financial assets***
Carrying amount as at 31 December 2011	107	160
Fair value as at 31 December 2011	115	160
Fair value gain that would have been recognized on the reclassified assets for the year ended 31 December 2011 if the reclassification had not been made	4	1
Gain, income recognized after reclassification in profit or loss for the year ended 31 December 2011:		
- Interest income	35	10
- Net gains from operations with debt securities classified as loans	2	
Carrying amount as at 31 December 2010	440	159
Fair value as at 31 December 2010	467	159
Fair value (loss)/gain that would have been recognized on the reclassified assets for the year ended 31 December 2010 if the reclassification had not been made	(10)	6
Gain, income recognized after reclassification in profit or loss for the year ended 31 December 2010:		
- Interest income	85	11
- Recovery of provision for loan impairment	89	–
- Net gains from operations with debt securities classified as loans	11	–

(Millions of Russian Rubles)

8. Trading securities (continued)

Financial assets were reclassified from financial assets held for trading to loans and receivables and available for sale financial assets due to the deterioration of Russian and international markets that has occurred during the third quarter of 2008.

The geographical concentration, analysis by credit quality, currency and interest rate risks analysis are disclosed in Note 29. Maturity analysis of trading securities is disclosed in Note 31.

9. Due from other banks

As of 31 December 2011 and 2010 due from other banks comprised time deposits with other bank in the amount of RUB 12 147 million and RUB 10 656 million respectively. As of 31 December 2011 time deposits with other banks included balances with the Parent with the total aggregate amount of RUB 7 081 million or 58% of the total amount due from other banks (31 December 2010: RUB 8 987 million or 84%). These loans mature from January till March 2012 and have effective interest rates from 0.5% till 7.7% per annum (31 December 2010: mature from January till March 2011 and have effective interest rates from 0.4% till 3.6% per annum).

The geographical concentration, analysis by credit quality, currency and interest rate risks analysis are disclosed in Note 29. Information about fair value of due from other banks is disclosed in Note 30. Maturity analysis of due from other banks is disclosed in Note 31. The information on related party balances is disclosed in Note 32.

10. Derivative financial instruments

The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are not indicative of the credit risk.

	31 December 2011			*31 December 2010*		
	Notional	*Fair values*		*Notional*	*Fair value*	
	principal	*Asset*	*Liability*	*principal*	*Asset*	*Liability*
Interest rate contracts						
Swaps – foreign counterparty	644	–	(47)	831	–	(69)
Equity contracts						
Equity warrants	56	1	–	53	–	–
Foreign exchange contracts						
Swaps – foreign counterparty	3 919	36	(22)	7 556	73	(24)
Swaps – domestic counterparty	3 029	–	(38)	7 401	29	(17)
Forwards – domestic counterparty	862	2	(18)	1 938	7	(19)
Total derivative assets/liabilities		**39**	**(125)**		**109**	**(129)**

Foreign and domestic counterparty in the table above stand for counterparties where foreign means non-Russian entities and domestic means Russian entities.

As of 31 December 2011 and 2010, the Group has positions in the following types of derivatives:

Forwards

Forwards contracts are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over-the-counter market.

Swaps

Swaps are contractual agreements between two parties to exchange movements in interest and foreign currency rates and equity indices, and (in the case of credit default swaps) to make payments with respect to defined credit events based on specified notional amounts.

During 2007 in order to hedge interest rate gap between fixed interest rate loans and advances to customers and floating interest rate interbank liabilities the Group entered into several interest rate swaps with a foreign bank. The derivatives mature in 2014.

(Millions of Russian Rubles)

11. Loans to customers

Loans to customers by class comprise:

	31 December 2011	*31 December 2010*
Loans to legal entities:		
Corporate loans	31 266	33 968
SME loans	2 082	2 367
Trade finance	1 498	2 157
Finance lease receivables	1 277	953
Corporate bonds	275	608
Loans to individuals:		
Mortgage loans	32 504	32 129
Car loans	5 397	7 303
SME loans	1 310	1 569
Credit cards	461	650
Gross loans to customers	**76 070**	**81 704**
Less – Allowance for impairment	(7 204)	(11 048)
Loans to customers	**68 866**	**70 656**

As of 31 December 2011 corporate bonds in the amount RUB 275 million represent debt securities reclassified in 2008 out from trading securities portfolio (31 December 2010: RUB 608 million). Refer to Note 8.

Allowance for impairment of loans to customers

A reconciliation of the allowance for impairment of loans to customers by class is as follows:

	At 1 January 2011	*Charge for the year/ (recovery)*	*Interest accrued on impaired loans*	*Allowance for disposed loans*	*Amounts written off*	*At 31 December 2011*
Loans to legal entities:						
Corporate loans	7 069	(1 190)	(602)	(1 018)	–	4 259
Trade finance	1 466	(321)	17	–	–	1 162
SME loans	500	(34)	–	(89)	(26)	350
Corporate bonds	168	–	–	–	–	168
Finance lease receivables	100	7	(8)	–	–	99
Loans to individuals:						
Mortgage loans	777	(38)	–	(88)	(10)	641
Car loans	568	(68)	–	(237)	(30)	233
Credit cards	191	(9)	–	(10)	(4)	168
SME loans	209	(32)	–	(44)	(9)	124
Total	**11 048**	**(1 685)**	**(593)**	**(1 486)**	**(79)**	**7 204**

	At 1 January 2010	*Charge for the year/ (recovery)*	*Interest accrued on impaired loans*	*Allowance for disposed loans*	*Amounts written off*	*At 31 December 2010*
Loans to legal entities:						
Corporate loans	8 857	82	(992)	(878)	–	7 069
Trade finance	648	849	(31)	–	–	1 466
SME loans	515	(10)	–	(2)	(3)	500
Corporate bonds	376	(79)	(8)	(121)	–	168
Finance lease receivables	165	(38)	(12)	–	(15)	100
Loans to local authorities:						
Municipal bonds	10	(10)	–	–	–	–
Loans to individuals:						
Mortgage loans	771	11	–	–	(5)	777
Car loans	536	42	–	–	(10)	568
Credit cards	278	9	–	(95)	(1)	191
SME loans	207	16	–	–	(14)	209
Total	**12 363**	**872**	**(1 043)**	**(1 096)**	**(48)**	**11 048**

(Millions of Russian Rubles)

11. Loans to customers (continued)

Allowance for impairment of loans to customers (continued)

The table below distinguishes between loans and advances to customers assessed for impairment individually and on portfolio basis:

	31 December 2011	*31 December 2010*
Loans assessed for impairment on portfolio basis	64 511	61 530
Individually determined to be impaired	10 861	19 448
Past due but not impaired	698	726
Gross loans to customers	**76 070**	**81 704**
Less – Allowance for impairment of loans assessed for impairment on portfolio basis (including past due but not impaired)	(644)	(1 035)
Less – Allowance for impairment of loans individually determined to be impaired	(6 560)	(10 013)
Loans to customers	**68 866**	**70 656**

Concentration of loans to customers

As of 31 December 2011 the Group had a concentration of loans represented by RUB 9 321 million due from the ten largest third party borrowers (12% of gross loan portfolio) (2010 – RUB 11 176 million or 14%). An allowance of RUB 1 142 million (2010 – RUB 3 253 million) was recognised against these loans.

Loans are made principally within Russia in the following industry sectors:

	31 December 2011	*31 December 2010*
Individuals	39 672	41 651
Trade	16 434	15 184
Manufacturing	9 908	8 392
Real estate	5 257	11 391
Services	2 085	2 254
Construction	1 078	1 259
Finance	352	465
Agriculture	24	67
Other	1 260	1 041
Gross loans to customers	**76 070**	**81 704**

During 2011 the Group sold corporate and retail loans carried at RUB 2 473 million and RUB 2 321 million net of allowance respectively (2010: RUB 1 356 million and RUB 13 million), to third parties for a payment of RUB 2 470 million and RUB 2 290 million respectively (2010: RUB 1 356 million and RUB 13 million). The Group has determined that substantially all risks and rewards of the respective loans have been transferred therefore these loans were derecognised. The respective financial result has been recognized in the consolidated statement of comprehensive income (Refer to Note 27).

Finance lease receivables

Included in corporate lending portfolio are finance lease receivables. The analysis of finance lease receivables at 31 December 2011 is as follows:

	Not later than 1 year	*Later than 1 year and not later than 5 years*	*Total*
Gross investments in finance lease	597	989	1 586
Unearned future finance income on finance lease	(106)	(203)	(309)
	491	**786**	**1 277**
Less – Allowance for impairment	(33)	(66)	(99)
Net investments in finance lease	**458**	**720**	**1 178**

(Millions of Russian Rubles)

11. Loans to customers (continued)

Finance lease receivables (continued)

Included in corporate lending portfolio are finance lease receivables. The analysis of finance lease receivables at 31 December 2010 is as follows:

	Not later than 1 year	*Later than 1 year and not later than 5 years*	*Total*
Gross investments in finance lease	556	676	1 232
Unearned future finance income on finance lease	(74)	(205)	(279)
	482	**471**	**953**
Less – Allowance for impairment	(88)	(12)	(100)
Net investments in finance lease	**394**	**459**	**853**

Net investments in finance lease generally comprise lease contracts on various types of equipment and vehicles.

The geographical concentration, analysis by credit quality, currency and interest rate risks analysis are disclosed in Note 29. Information about fair value of loans to customers is disclosed in Note 30. Maturity analysis of loans to customers is disclosed in Note 31. The information on related party balances is disclosed in Note 32.

12. Investment securities available for sale

	31 December 2011	*31 December 2010*
Federal loan bonds (OFZ)	3 544	1 773
Corporate bonds	1 510	1 375
Bonds of the CBRF	–	548
Municipal bonds	–	255
Investment securities available for sale	**5 054**	**3 951**

As of 31 December 2011 federal loan bonds (OFZ) in the amount RUB 160 million (2010 – RUB 159 million) represent securities reclassified out from trading securities portfolio in 2008 (Refer to Note 8).

As of 31 December 2011 and 2010 corporate bonds were represented by Russian Rouble denominated securities issued by top Russian companies and banks.

13. Property and equipment

The movements in property and equipment for the year ended 31 December 2011 were as follows:

	Premises	*Leasehold improvement*	*Computers and office equipment*	*Total*
Cost				
31 December 2010	**3 561**	**90**	**1 341**	**4 992**
Additions	3	–	62	65
Reclassifications to investment property	(673)	–	–	(673)
Disposals	–	(29)	(72)	(101)
31 December 2011	**2 891**	**61**	**1 331**	**4 283**
Accumulated depreciation				
31 December 2010	**303**	**68**	**807**	**1 178**
Depreciation charge	81	8	234	323
Disposals	–	(21)	(47)	(68)
Reclassifications to investment property	(52)	–	–	(52)
31 December 2011	**332**	**55**	**994**	**1 381**
Net book value				
31 December 2010	**3 258**	**22**	**534**	**3 814**
31 December 2011	**2 559**	**6**	**337**	**2 902**

(Millions of Russian Rubles)

13. Property and equipment (continued)

The movements in property and equipment for the year ended 31 December 2010 were as follows:

	Premises	*Leasehold improvement*	*Computers and office equipment*	*Assets under construction*	*Total*
Cost					
31 December 2009	**3 396**	**95**	**1 207**	**190**	**4 888**
Additions	5	–	108	8	121
Transfers	160	–	38	(198)	–
Disposals	–	(5)	(12)	–	(17)
31 December 2010	**3 561**	**90**	**1 341**	**–**	**4 992**
Accumulated depreciation					
31 December 2009	**214**	**57**	**524**	**–**	**795**
Depreciation charge	89	13	292	–	394
Disposals	–	(2)	(9)	–	(11)
31 December 2010	**303**	**68**	**807**	**–**	**1 178**
Net book value					
31 December 2009	**3 182**	**38**	**683**	**190**	**4 093**
31 December 2010	**3 258**	**22**	**534**	**–**	**3 814**

As of 31 December 2011 premises and equipment contain fully depreciated assets in the amount of RUB 618 million (31 December 2010: RUB 195 million).

During 2011 premises of closed branches in the carrying amount of RUB 496 million were rented out and reclassified into Investment property category.

14. Other assets

	31 December 2011	*31 December 2010*
Investment property	1 062	–
Software	456	433
Precious coins	282	33
Non-current assets held for sale	243	–
Prepayments	195	184
Foreclosed assets	120	765
VAT on leasing operations	81	23
Settlements	58	40
Current income tax asset	46	68
Property to transfer to leasing	26	43
Restricted cash	12	12
Accrued income	5	1
Prepayments to suppliers for equipment to be leased	1	3
Due from employees	1	1
Corporate bonds held to maturity	–	276
Other	60	97
Other assets	**2 648**	**1 979**

(Millions of Russian Rubles)

14. Other assets (continued)

The movements in investment property and software for the year ended 31 December 2011 were as follows:

	Investment property	*Software*
Cost		
31 December 2010	**–**	**584**
Additions (subsequent expenditure)	78	157
Reclassifications from fixed assets and foreclosed assets	1 048	–
Disposals	–	(96)
31 December 2011	**1 126**	**645**
Accumulated depreciation		
31 December 2010	**–**	**151**
Depreciation/Amortisation charge	12	106
Reclassifications from fixed assets	52	–
Disposals	–	(68)
31 December 2011	**64**	**189**
Net book value		
31 December 2010	**–**	**433**
31 December 2011	**1 062**	**456**

The movements in software for the year ended 31 December 2010 were as follows:

	Software
Cost	
31 December 2009	**436**
Additions	229
Disposals	(81)
31 December 2010	**584**
Accumulated depreciation	
31 December 2009	**120**
Amortisation charge	112
Disposals	(81)
31 December 2010	**151**
Net book value	
31 December 2009	**316**
31 December 2010	**433**

As of 31 December 2011 the fair value of investment property amounted to RUB 1 126 million, which has been determined based on valuations performed by accredited independent valuers. The valuers applied valuation models in accordance with Federal Valuation Standards. The main input used was the capitalisation rate which varies from 8-14% per anum.

15. Due to other banks

	31 December 2011	*31 December 2010*
Time deposits and loans	43 181	47 582
Trade finance	425	748
Repurchase agreements	478	–
Special purpose finance	253	385
Brokerage accounts	–	54
Current accounts and overnight placements of other banks	3	8
Due to other banks	**44 340**	**48 777**

As of 31 December 2011 and 2010 due to banks were to a considerable extent (88% and 95% respectively) funded by Group’s parent (Refer to Note 32).

(Millions of Russian Rubles)

15. Due to other banks (continued)

Trade finance represents funds received from foreign financial institutions either directly by the Group or by the beneficiaries under documentary operations if there is a lending arrangement between the Group and the financing bank, under which the Group is liable for the funds' repayment. Funds mature from 2012 to 2015 and have interest rates from 1.04% to 2.66% per annum (31 December 2010: from 1.02% to 6.67% per annum).

As of 31 December 2011 special purpose finance represents loans from 2 foreign banks (31 December 2010: 2), granted to the Group under credit line facility agreement for the special purposes, such as expansion of the consumer financing portfolio, mortgage lending programs and programs for development of small business in the private sector in the Russian Federation. Loans mature from 2012 to 2014 and have effective interest rates from 7.32% to 9.4% per annum (31 December 2010: from 7.32% to 9.4% per annum).

The Group is obliged to comply with financial covenants in relation to special purpose finance disclosed above. These covenants include capital adequacy ratios and various other financial performance ratios.

The geographical concentration, currency and interest rate risks analysis are disclosed in Note 29. Information about fair value of due to other banks is disclosed in Note 30. Maturity analysis of due to other banks is disclosed in Note 31. The information on related party balances is disclosed in Note 32.

16. Customer accounts

	31 December 2011	*31 December 2010*
State and public organisations		
Current accounts	46	442
Term deposits	2 583	–
Legal entities		
Current accounts	12 100	13 859
Term deposits	7 511	3 287
Individuals		
Current accounts	3 542	3 598
Term deposits	15 057	16 750
Customer accounts	**40 839**	**37 936**

As of 31 December 2011 customer accounts in the amount of RUB 9 million (31 December 2010: RUB 343 million) represent the balances on brokerage accounts of legal entities and individuals.

As of 31 December 2011 customer accounts of RUB 7 559 million or 19% (of total customer accounts) were due to the ten largest third party customers (31 December 2010: RUB 7 510 million or 20%).

An analysis of customer accounts by economic sector follows:

	31 December 2011	*31 December 2010*
Individuals	18 599	20 348
Trade	6 400	4 889
Services	4 200	1 321
Financial services	3 559	784
Construction / real estate	2 750	2 288
Manufacturing	2 552	990
Insurance	811	4 676
Transport	628	601
Telecom	228	78
Oil and gas	78	52
Agriculture	75	28
Other	959	1 881
Customer accounts	**40 839**	**37 936**

Included in time deposits are deposits of individuals in the amount of RUB 15 057 million (2010 – RUB 16 750 million). In accordance with the Russian Civil Code, the Group is obliged to repay such deposits upon demand of a depositor. In case a term deposit is repaid upon demand of the depositor prior to maturity, interest on it is paid based on the interest rate for demand deposits, unless a different interest rate is specified in the agreement.

The geographical concentration, currency and interest rate risks analysis are disclosed in Note 29. Information about fair value of customer accounts is disclosed in Note 30. Maturity analysis of customer accounts is disclosed in Note 31. The information on related party balances is disclosed in Note 32.

(Millions of Russian Rubles)

17. Debt securities issued

	31 December 2011	*31 December 2010*
Bonds	1 853	–
Promissory notes	698	1 621
Debt securities issued	**2 551**	**1 621**

In August 2011 the Group issued bonds on the Russian stock exchange with the nominal amount of RUB 1 800 million. Bonds mature in 2016 and have effective interest rate 8.25% per annum.

Promissory notes are represented by debt securities issued by the Group with a discount to face value in Russian Rubles and foreign currencies.

The geographical concentration, currency and interest rate risks analysis are disclosed in Note 29. Information about fair value of debt securities issued is disclosed in Note 30. Maturity analysis of debt securities issued is disclosed in Note 31. The information on related party balances is disclosed in Note 32.

18. Subordinated debt

	31 December 2011	*31 December 2010*
USD 100 million subordinated loan	3 340	3 168
USD 55 million subordinated loan	1 794	1 700
USD 50 million subordinated loan	1 611	1 521
USD 20 million subordinated loan	665	617
Subordinated debt	**7 410**	**7 006**

In August 2006 the Group entered into a subordinated loan agreement with a foreign financial institution for the amount of USD 20 million. The loan is repayable in 6 semi-annual installments starting from 15 February 2012 and has a floating interest rate of six-months LIBOR + 3.95% per annum (31 December 2010: six-months LIBOR + 3.95%). The interest rate at 31 December 2011 was 9.35% per annum (31 December 2010: 4.54% per annum).

In June, September and November 2007 the Group attracted three subordinated loans in the amount of USD 100 million, USD 55 million, USD 50 million for the period of 10 years from the Group's Parent. For the first five years the rates are fixed at 8.03, 6.34 and 5.81% per annum respectively, subsequently floating interest rate of six-month LIBOR + 3.75%, six-month LIBOR + 2.75%, six-month LIBOR + 2.75% per annum respectively are set. The effective interest rates at 31 December 2011 were 8.03%, 6.34%, 5.81% per annum respectively (31 December 2010: 8.03, 6.34 and 5.81% per annum respectively).

Interest rate analysis of subordinated debt is disclosed in Note 29. Information about fair value of subordinated debt is disclosed in Note 30. The information on related party balances is disclosed in Note 32.

19. Other liabilities

	31 December 2011	*31 December 2010*
Accrued bonuses and unused vacations including social security costs	460	463
Accounts payable	269	159
Provisions for guarantees and commitments	92	99
Taxes payable other than income	78	63
Finance lease payments received in advance	62	107
Other accrued expenses	42	29
Deferred income	6	23
Provision for legal claims	4	2
Spot deals	–	1
Other liabilities	**1 013**	**946**

(Millions of Russian Rubles)

19. Other liabilities (continued)

The movements in provisions were as follows:

	Legal claims	*Guarantees and commitments*
31 December 2009	**2**	**119**
Reversal	–	(20)
31 December 2010	**2**	**99**
Utilization	(2)	–
Charge/(Reversal)	4	(7)
31 December 2011	**4**	**92**

20. Equity

Movements in shares outstanding, issued and fully paid were as follows:

	Number of shares (in millions)	*Ordinary shares (nominal value)*	*Ordinary shares (inflation adjustment)*	*Total*
31 December 2009, 2010, 2011	**184**	**1 845**	**610**	**2 455**

All ordinary shares have a nominal value of RUB 10 per share and rank equally. Each share carries one vote. All shares have been fully paid in.

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

In March 2011 KBC Bank N.V. granted EUR 25 million (RUB 1 001 million) to the Group as additional paid in capital without issue of new shares.

In accordance with Russian legislation, dividends may only be declared to the shareholders of the Bank from accumulated undistributed and unreserved earnings as shown in the Bank's financial statements prepared in accordance with RAL. The Bank had no undistributed and unreserved earnings as at 31 December 2011 and 2010.

21. Commitments and contingencies

Operating environment

Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

The Russian economy has been affected by the global financial crisis. Despite some indications of recovery there continues to be uncertainty regarding further economic growth, access to capital and cost of capital, which could negatively affect the Group’s future financial position, results of operations and business prospects.

Also, factors including increased unemployment in Russia, reduced corporate liquidity and profitability, and increased corporate and personal insolvencies, have affected the Group’s borrowers’ ability to repay the amounts due to the Group. In addition, changes in economic conditions have resulted in deterioration in the value of collateral held against loans and other obligations. To the extent that information is available, the Group has reflected revised estimates of expected future cash flows in its impairment assessment.

While management believes it is taking appropriate measures to support the sustainability of the Group’s business in the current circumstances, unexpected further deterioration in the areas described above could negatively affect the Group’s results and financial position in a manner not currently determinable.

Legal

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

As of 31 December 2011, the Group was engaged in number of litigation proceedings. Provision of RUB 4 million has been made as it is likely that such an amount of loss will occur (Refer to Note 19).

(Millions of Russian Rubles)

21. Commitments and contingencies (continued)

Taxation

Russian tax, currency 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 regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in its interpretation of the legislation and assessments and, as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. As such, 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.

In accordance with tax legislation input VAT on leasing operations is subject to recovery either through offset against output VAT or cash refund (Refer to Note 14). The excess input VAT is to be offset automatically against output VAT within three months from the end of the tax period when the excess input VAT was declared, i.e. when the respective VAT declaration was submitted. Upon the expiration of the three month period the remainder of input VAT which was not offset by the tax authorities is to be refunded to the taxpayer in cash upon its written claim or the taxpayer is eligible to apply the alternative method of VAT recovery (offset against other taxes).

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

Capital expenditure commitments

As of 31 December 2011 the Group had contractual capital expenditure commitments in respect of premises and equipment totaling RUB 2 million (31 December 2010: RUB 1 million) and RUB 1 million in respect of investment property. 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:

	31 December 2011	*31 December 2010*
Not later than 1 year	70	100
Later than 1 year and not later than 5 years	124	171
Later than 5 years	82	101
Total operating lease commitments	**276**	**372**

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

Outstanding credit related commitments are as follows:

	31 December 2011	*31 December 2010*
Undrawn credit lines	16 149	10 320
Guarantees issued	6 480	2 629
Import letters of credit	1 373	682
	24 002	**13 631**
Less – Provisions	(92)	(99)
Total credit related commitments	**23 910**	**13 532**

(Millions of Russian Rubles)

21. Commitments and contingencies (continued)

Fiduciary assets

The Group provides depositary services to its customers. These assets are not included in the Group's consolidated statement of financial position as they are not assets of the Group.

Trust activities of the Group

The assets under management are not reported on the Group's consolidated statement of financial position as they are not assets of the Group. They represent assets transferred to the Group for the management under individual asset management agreements or under collective investment programmes. The assets managed by the Group are disclosed at their fair value and fall into the following categories:

	31 December 2011	*31 December 2010*
Corporate bonds	547	320
Corporate shares	192	152
Cash at brokers	65	40
Futures, long position	5	3
Total assets under management	**809**	**515**

22. Interest income and expense

	2011	*2010*
Interest income		
Loans to customers	8 768	11 144
Investment securities available for sale	262	256
Due from other banks	174	419
Investment securities held to maturity	13	16
Current accounts with other banks	2	2
	9 219	**11 837**
Debt trading securities	129	100
Interest income	**9 348**	**11 937**
Interest expense		
Term placements of other banks	2 711	3 314
Term deposits of individuals	841	2 299
Subordinated debt	459	353
Term deposits of legal entities	246	481
Debt securities issued	159	673
Interest component on derivatives	19	38
Current accounts of other banks	3	1
Interest expense	**4 438**	**7 159**

Interest income accrued on loans, for which individual impairment allowances have been recognized, for the year ended 31 December 2011, comprised RUB 593 million (2010 – RUB 1 043 million).

(Millions of Russian Rubles)

23. Fee and commission income and expense

	2011	*2010*
Settlement transactions	304	234
Cash transactions	185	169
Commission on plastic cards settlements	164	143
Acting as currency control agent	92	62
Guarantees issued	77	66
Letters of credit	39	36
Asset management	17	5
Commission on cash collection	10	10
Brokerage	2	11
Transactions with securities	1	2
Other	12	8
Fee and commission income	**903**	**746**
Plastic card	67	50
Settlement transactions	37	30
Cash transaction	13	17
Transactions with securities	3	6
Guarantees	2	7
Currency conversion operations	2	2
Letters of credit	1	10
Other	4	7
Fee and commission expense	**129**	**129**

24. Net (losses)/gains from operations with securities

	2011	*2010*
Investment securities available for sale:		
- Government bonds	1	4
- Corporate bonds	(39)	21
Debt securities classified as loans	2	11
Debt securities issued	–	(3)
Trading securities:		
- Promissory notes	(4)	6
- Corporate bonds	(12)	(14)
Net (losses)/gains from operations with securities	**(52)**	**25**

25. Net gains from operations with derivatives

	2011	*2010*
Net gains from operations with swaps and forwards on foreign currency	441	124
Net gains from operations with interest rate swaps	9	8
Net gains from operations with interest rate options	1	–
Net gains from operations with derivatives	**451**	**132**

26. Other income

	2011	*2010*
Rental income	86	42
Income from operations with precious coins	27	28
Penalties received	–	3
Other	9	19
Other income	**122**	**92**

Rental income received from investment property for the year ended 31 December 2011 amounted to RUB 16 million (2010: 0).

(Millions of Russian Rubles)

27. Personnel and other operating expenses

	2011	*2010*
Fixed wages and salaries, bonuses and unused vacations	2 533	2 605
Social security costs	471	348
Other employee benefits	41	3
Severance payments	40	38
Personnel expenses	**3 085**	**2 994**

	2011	*2010*
Depreciation of premises and equipment	323	394
Other expenses related to premises and equipment	255	228
Taxes other than on income	234	237
Advertising and marketing services	169	169
IT expenses	166	136
Rent	112	134
Amortisation of software	106	112
Professional services	105	124
Communication expenses	93	96
Contribution to state deposit insurance system	64	95
Security services	50	59
Personnel related expenses	42	39
Net loss from disposal of loans	34	–
Business trip expenses	26	21
Mailing and postal services	20	16
Depreciation of investment property	12	–
Net loss from operations with foreclosed assets	5	18
Provision for legal claims	4	–
Charity	1	1
Other	60	93
Administrative and other operating expenses	**1 881**	**1 972**

28. Taxation

The corporate income tax expense comprises:

	2011	*2010*
Current tax charge	49	45

Russian legal entities must file individual tax declarations. The tax rate for banks for profits other than on state securities was 20% for 2011 and 2010. The tax rate for companies other than banks was also 20% for 2011 and 2010. The tax rate for interest income on state securities was 15% for Federal taxes.

The effective income tax rate differs from the statutory income tax rates. A reconciliation of the income tax expense based on statutory rates with actual is as follows:

	2011	*2010*
Profit/(loss) before tax	**2 546**	**(149)**
Statutory tax rate	20%	20%
Theoretical income tax expense/(benefit) at the statutory rate	**509**	**(30)**
Change in unrecognised deferred tax assets	(486)	32
Income on state securities taxed at different rates	(11)	(7)
Non-deductible expenditures	18	22
Underpaid current tax for prior periods	9	12
Other non-temporary differences	10	16
Income tax expense	**49**	**45**

(Millions of Russian Rubles)

28. Taxation (continued)

Deferred tax assets and liabilities as of 31 December and their movements for the respective years comprise:

		Origination and reversal of temporary differences			*Origination and reversal of temporary differences*		
	31 December 2009	*In the profit or loss*	*In other comprehensive income*	*31 December 2010*	*In the profit or loss*	*In other comprehensive income*	*31 December 2011*
Tax effect of deductible temporary differences:							
Unutilised tax losses (begin to expire in 2018)	1 633	182	–	1 815	(1 114)	–	701
Deferred income/accrued expenses	97	243	–	340	–	–	340
Effective interest rate accrual	45	125	–	170	(9)	–	161
Derivatives	17	(15)	–	2	13	–	15
Securities	2	(2)	–	–	–	–	–
Deferred tax asset	**1 794**			**2 327**			**1 217**
Tax effect of taxable temporary differences:							
Allowance for loan impairment	(418)	(500)	–	(918)	641	–	(277)
Property and equipment	(93)	(3)	–	(96)	(7)	–	(103)
Securities	(6)	(6)	8	(4)	(6)	(4)	(14)
Deferred tax liability	**(517)**			**(1 018)**			**(394)**
Unrecognised deferred tax asset	**(1 277)**			**(1 309)**			**(823)**
Deferred tax asset, net	**–**			**–**			**–**

As of 31 December 2011 the Group has available RUB 701 million of tax losses carried forwards which begin to expire in 2018, if not utilized (31 December 2010: RUB 1 815 million).

29. Risk management

Introduction

Risk is inherent in the Group's activity but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing soundness and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities. The Group is exposed to credit risk, liquidity risk, market risk (both trading and non-trading) and operational risk.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Group's strategic planning process and so-called 'risk scans'.

Risk management structure

Board of Directors

The Board of Directors is responsible for the overall risk management approach and for approving the risk strategies and principles.

Management Board

The Management Board has the responsibility to monitor the overall risk process within the Group.

(Millions of Russian Rubles)

29. Risk management (continued)

Risk management structure (continued)

Risk Committees

The Risk Committees have the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits. They are responsible for the fundamental risk issues and manage and monitor relevant risk decisions. The Risk Committees of the Group include:

- Assets and Liabilities committee (combined ALCO / Trading risk committee);
- Credit risk committee;
- Credit committees;
- Operational risk committee.

Risk Management

The Value and Risk Management Department (VRM) is responsible for implementing and maintaining risk related procedures to ensure an independent control process.

Compliance

Compliance function in the Group is particularly dedicated to comprehensive control in the meaning of identification, assessment and analysis of the risks linked to the following domains:

- Anti-money laundering and counter - terrorism financing;
- Investor protection, i.e. market abuse (insider trading and market manipulation), transactions with financial instruments including personal transactions and incompatibility of mandates, conflicts of interests, interests of borrowers;
- Data protection, including personal data, banking secrecy, duty of confidentiality etc.;
- Ethics and anti-fraud fighting.

Credit Product Factory

Credit Product Factory is an independent (from business) unit, managing counterparty risk (legal entities and individuals) on a transactional level. At the same time this unit is responsible for:

- Management of the lending processes of the Bank end-to-end;
- Development of transactional counterparty risk assessment models;
- IFRS provisioning methodology, calculation and reporting.

Asset and Liability Management Department

Asset and Liability Management Department is responsible for managing the Group's assets and liabilities and the overall financial structure. It is also primarily responsible for the funding and liquidity risks of the Group.

Audit Committee

The Audit Committee assists the Board of Directors. It does this by supervising, on behalf of the Board, the integrity, efficiency and effectiveness of the internal control measures and the risk management in place, paying special attention to correct financial reporting. The Audit Committee also oversees the company's processes to comply with laws and regulations.

Internal Audit

Risk management processes throughout the Group are audited annually by the internal audit function that examines both the adequacy of the procedures and the Group's compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Audit Committee.

(Millions of Russian Rubles)

29. Risk management (continued)

Risk management structure (continued)

Risk Measurement

The Group's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models.

The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Group also runs worst case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

Monitoring and controlling risks is primarily performed based on limits established by the Group. These limits reflect the business strategy and market environment of the Group as well as the level of risk that the Group is willing to accept, with additional emphasis on selected industries. In addition the Group monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risks types and activities.

For the purposes of managing market risk (both trading and non-trading) the Group's statement of financial position was virtually split into two parts: the Banking Book and the Trading Book.

Trading book - includes the Group's proprietary positions in financial instruments which are intentionally held for short-term resale and/or which are taken on by the Group with the intention of benefiting in the short term from actual and/or expected differences between their buying and selling prices.

Banking book - includes everything, except for the assets and liabilities of the Trading book, both financial assets and liabilities and financial commitments and contingencies,

The split of the books reflects not only the split of the items in statement of financial position, but also the risks and the limits for them. Within the Banking book all the market risks are minimised.

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. On a monthly basis this information is presented to the Management Board and the Risk Committees. Audit Committee receives a comprehensive risk report once a quarter which is designed to provide all the necessary information to assess and conclude on on all relevant risks of the Group.

For all levels throughout the Group, specifically tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, necessary and up-to-date information.

Risk Mitigation

As part of its overall risk management, the Group uses derivatives and other instruments to manage exposures resulting from changes in interest rates and foreign currencies rates.

The Group actively uses collateral to reduce its credit risks (see below for more details).

Excessive Risk Concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry location.

In order to avoid excessive concentrations of risks, the Group's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

Credit risk

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

(Millions of Russian Rubles)

29. Risk management (continued)

Credit risk (continued)

The Group uses a two-level approach towards credit risk management: Credit departments are responsible for structuring the levels of credit risk by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers. Value and Risk management department is responsible for the oversight of the credit portfolio concentrations (on the level of credit risk by product and/or industry sector). General policies and decisions related to credit risk management are the responsibility of the Risk and Capital Oversight Committee. Meetings of the Risk and Capital Oversight Committee are held twice per month.

Individual credit limits (per borrower, or groups of borrowers) are set in the Group by the Credit committees (collegial bodies) in accordance with the approved powers.

In 2011 the Group had the following committees whose competence included setting individual credit risk limits:

- Main Credit Committee (regular meetings are held at least twice a week, areas of competence cover review and approval of any credit limits and approval of limits for transactions with banking counterparties)
- Operative Credit Committee (regular meetings are held at least once a week, major areas of competence cover review and approval of credit limits from 2.5 million EUR to 7.5 million EUR (depending on internal rating of the Client);
- SME Credit Committee (major areas of competence cover review and approval of credit limits up to 0.75 million EUR for SME clients);
- Credit Committee of Retail business (areas of competence cover review and approval of all credit limits within amounts of standard programs, up to 0.3 million EUR for non-secured non-standard transactions with Retail clients, up to 0.75 million EUR for secured non-standard transactions with Retail clients);
- Small Credit Committee of Retail business (areas of competence cover review and approval of standard credit limits up to 0.4 million EUR (plastic cards), up to 0.75 million EUR (Mortgage loans), up to 0.15 million EUR (Car loans) for transactions with Retail clients).

All the committees operate at the Head office of the Group except for sub-sections of the Small Credit Committee which are organised at branches and take decisions on granting retail loans and loans to SMEs.

A decision on credit risk limits is taken on the basis of analysing financial and non-financial information (both financial and management reporting information is used for the analysis) on the borrower's business. During the analysis special attention is paid to financial indicators of the business, including the analysis of assets and liabilities, equity, revenues and profit – both static and dynamic. When analysing financial position of individuals, the Group pays special attention to confirmation of the borrower’s claimed income and availability of assets owned by the borrower, which could serve as the evidence of the solid financial position. The main goal of the analysis is to determine opportunities and sources for repayment of loans. All information on material risks relating to the customers whose credit status is deteriorating is timely analysed by the management.

Credit risk monitoring includes control of all the terms and conditions identified when the limit was set, in particular, intended purpose, account turnovers, credit portfolio, financial position and performance, etc. Corporate borrowers are monitored on quarterly basis whereas individuals are reviewed annually.

The Group accepts the following assets for pledge as collateral: residential and non-residential properties, land, construction in progress assets, production and trading equipment, vehicles and production machinery, goods (finished products), raw materials, inventories, securities, other assets. Guarantees of the business owners or the Group's revenue generating or asset holding companies are accepted as additional collateral for loans. The Group usually uses a combination of different types of collateral and applies certain discounts to the value of collateral pledged. Mortgage pledge under a risk of loss or damage is insured by one of the insurance companies accredited by the Group.

Lending is performed in accordance with the provisions and principles of the Lending policy of the Group. Lending process implies a set of thoroughly regulated procedures, which establish the order of work with a borrower.

Credit risk for financial commitments and contingencies is defined as the possibility of sustaining a loss as a result of another party to a financial instrument failing to perform in accordance with the terms of the contract. The Group uses the same credit policies in making conditional obligations as it does for financial assets through established credit approvals, risk control limits and monitoring procedures.

As the Group is a member of KBC Group it implements on a revolving basis methodological principles and procedures focused on credit risk measurement, controlling and risk mitigation.

(Millions of Russian Rubles)

29. Risk management (continued)

Credit risk (continued)

Credit quality per class of financial assets

The Group analyses the credit quality of debt investment securities available for sale, debt trading securities and due from other banks on the basis of international ratings of the issuers. As Fitch and Standard & Poor's international rating scales are in general consistent in credit risk characteristics that they assign to particular ratings, the Group gathers and uses for the purpose of credit quality analysis ratings by either Fitch or Standard & Poor's as being complementary.

AAA - the highest credit rating assigned. The obligor's capacity to meet its financial commitment on the obligation is extremely strong.

AA - differs from the highest-rated obligations only to a small degree. The obligor's capacity to meet its financial commitment on the obligation is very strong.

A - more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher-rated categories. However, the obligor's capacity to meet its financial commitment on the obligation is still strong.

BBB - exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation.

Obligations rated 'BB', 'B', 'CCC', 'CC', and 'C' are regarded as having significant speculative characteristics. 'BB' indicates the least degree of speculation and 'C' the highest. While such obligations will likely have some quality and protective characteristics, these may be outweighed by large uncertainties or major exposures to adverse conditions.

BB - less vulnerable to nonpayment than other speculative issues. However, it faces major ongoing uncertainties or exposure to adverse business, financial, or economic conditions which could lead to the obligor's inadequate capacity to meet its financial commitment on the obligation.

B - more vulnerable to nonpayment than obligations rated 'BB', but the obligor currently has the capacity to meet its financial commitment on the obligation. Adverse business, financial, or economic conditions will likely impair the obligor's capacity or willingness to meet its financial commitment on the obligation.

Analysis by credit quality of debt investment securities available for sale, debt trading securities and due from other banks outstanding at 31 December 2011 and 2010 is as follows:

	31 December 2011			*31 December 2010*		
	Debt trading securities	***Debt investment securities available for sale***	***Due from other banks***	***Debt trading securities***	***Debt investment securities available for sale***	***Due from other banks***
A+ to A-	–	–	8 384	–	–	9 057
BBB+ to BBB-	1 129	5 054	3 763	967	3 951	1 295
BB+ to BB-	811	–	–	586	–	304
B+ to B-	–	–	–	72	–	–
Unrated	33	–	–	–	–	–
Total	**1 973**	**5 054**	**12 147**	**1 625**	**3 951**	**10 656**

Starting from 1 January 2009 the credit quality of corporate loans and trade finance is managed by the Group based on credit ratings set in accordance with internal PD model. PD model was applied by the Group in order to divide clients into the groups based on their creditworthiness using a statistical model of default probabilities for corporate clients.

Probability of Default (PD) - is the probability of insolvency of the counterparty for a specified period. In the practice of the Group the probability of default is estimated for the time horizon of one year. Rating of the probability of default (PD-rating) - is an indicator which takes values from 1 to 12 (where PDs 10, 11 and 12 – are determined to be impaired or default), which is set to each counterparty that has a calculated value of the probability of default on a special scale.

(Millions of Russian Rubles)

29. Risk management (continued)

Credit risk (continued)

The table below shows the master scale of PD ratings:

PD rating	*Probability of default (%)*
1	Up to 0.1
2	from 0.1 to 0.2
3	from 0.2 to 0.4
4	from 0.4 to 0.8
5	from 0.8 to 1.6
6	from 1.6 to 3.2
7	from 3.2 to 6.4
8	from 6.4 to 12.8
9	from 12.8 to 100
10	100
11	100
12	100

The PD-ratings 10, 11 and 12 are not calculated using the PD-model, and are assigned on the individual basis.

The table below shows the summarized credit quality of corporate loans and trade finance based on PD ratings as of 31 December 2011.

	Neither past due nor impaired loans									*Loans past due but not impaired*	*Individually Impaired loans (10–12)*	*Total*
	2	*3*	*4*	*5*	*6*	*7*	*8*	*9*	*Not rated*			
Corporate loans	1 170	121	1 935	5 231	11 041	3 540	204	273	26	221	7 504	31 266
Trade finance	–	–	–	–	234	106	–	–	–	–	1 158	1 498
Total	**1 170**	**121**	**1 935**	**5 231**	**11 275**	**3 646**	**204**	**273**	**26**	**221**	**8 662**	**32 764**

The table below shows the summarized credit quality of corporate loans and trade finance based on PD ratings as of 31 December 2010.

	Neither past due nor impaired loans									*Loans past due but not impaired*	*Individually Impaired loans (10–12)*	*Total*
	2	*3*	*4*	*5*	*6*	*7*	*8*	*9*	*Not rated*			
Corporate loans	1 214	6	2 635	3 095	6 949	2 707	503	2 165	68	1	14 625	33 968
Trade finance	–	–	2	82	125	257	4	–	–	–	1 687	2 157
Total	**1 214**	**6**	**2 637**	**3 177**	**7 074**	**2 964**	**507**	**2 165**	**68**	**1**	**16 312**	**36 125**

The credit quality of other part of the loan portfolio as of 31 December 2011 and 2010 was managed by the Group by assigning one out of three quality categories. This classification is effected based on CBRF guidelines and the Group's internal methodologies. Risk assessment and financial assets classification is effected based on two principal parameters: evaluation of the financial position and debt servicing quality. The counterparty's financial position is determined by analyzing its creditworthiness and financial stability, assessing the turnover on the accounts, reviewing its credit history, as well as other objective and subjective factors. Debt servicing is assessed by identifying the fact of debt servicing as such, existence of overdue payments, use of funds of the specified purpose and sources of repayment.

(Millions of Russian Rubles)

29. Risk management (continued)

Credit risk (continued)

The table below shows the credit quality by class (from 1 – 3 in the descending order of quality) of loans to customers. Loans to customers of high grade are those having a minimal level of credit risk or very well collateralized. Other borrowers with good financial position and good debt service are included in the standard grade. Sub-standard grade comprises loans below standard grade but not individually impaired.

	Neither past due nor impaired loans					
31 December 2011	***1 High grade***	***2 Standard grade***	***3 Sub-standard grade***	***Loans past due but not impaired***	***Individually impaired loans***	***Total***
Mortgage loans	928	29 538	904	371	763	32 504
Car loans	60	4 997	42	55	243	5 397
SME loans	2 093	578	275	8	438	3 392
Finance lease receivables	–	847	–	7	423	1 277
Credit cards	8	241	8	36	168	461
Corporate bonds	50	–	61	–	164	275
Total	**3 139**	**36 201**	**1 290**	**477**	**2 199**	**43 306**

	Neither past due nor impaired loans					
31 December 2010	***1 High grade***	***2 Standard grade***	***3 Sub-standard grade***	***Loans past due but not impaired***	***Individually impaired loans***	***Total***
Mortgage loans	915	28 470	1 313	504	927	32 129
Car loans	73	6 429	105	94	602	7 303
SME loans	2 255	534	367	30	750	3 936
Finance lease receivables	–	425	–	20	508	953
Credit cards	8	350	21	77	194	650
Corporate bonds	203	146	104	–	155	608
Total	**3 454**	**36 354**	**1 910**	**725**	**3 136**	**45 579**

It is the Group's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business and products. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Group's rating policy. The attributable risk ratings are assessed and updated regularly.

Aging analysis of past due but not impaired loans to customers

	Less than 30 days	***31 to 90 days***	***91 to 180 days***	***181 to 365 days***	***Total 2011***
Mortgage loans	363	6	1	1	371
Corporate loans	221	–	–	–	221
Car loans	51	4	–	–	55
Credit cards	36	–	–	–	36
SME loans	8	–	–	–	8
Finance lease receivables	–	–	–	7	7
Total	**679**	**10**	**1**	**8**	**698**

	Less than 30 days	***31 to 90 days***	***91 to 180 days***	***181 to 365 days***	***Total 2010***
Mortgage loans	493	6	5	–	504
Car loans	89	3	1	1	94
Credit cards	77	–	–	–	77
SME loans	30	–	–	–	30
Finance lease receivables	9	–	11	–	20
Corporate loans	1	–	–	–	1
Total	**699**	**9**	**17**	**1**	**726**

(Millions of Russian Rubles)

29. Risk management (continued)

Collateral and other credit enhancements

The required level of collateral cover is set by the Group's specialists for the groups of related borrowers with specified description of collateral types and taking into account lending limits set for these groups of related borrowers. The value of collateral is determined by application of a discount to market price of collateral. For inventory pledged, for which sales prices are readily available (cars, metals, raw materials, etc.), the evaluation basis is pricelist (adequacy review of prices is performed in accordance with internal procedures). The discount applied to these prices is from 20 to 30%. Prices on goods considerably dependent upon specific qualities of a particular product (footwear, household appliances, foods, etc.) are evaluated on the basis of carrying amounts, warehouse accounting prices, etc. with more substantial discounts (50% and more). For real estate, collateral is assessed on the basis of market value as reported by the professional valuer with a discount individually determined depending on the type of the asset, except for typical corporate business products. The amount of the required collateral cover is dependent upon lending exposure. The amount of this lending exposure is in all cases less than the discounted value of collateral. Credit cards loans and the majority of consumer loans are not collateralised.

Impairment assessment

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Group addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

Individually assessed allowances

The Group determines the allowances appropriate for each individually significant loan on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of other financial support and the realizable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Collectively assessed allowances

Allowances are assessed collectively for losses on loans to customers that are not individually significant (including credit cards, residential mortgages and unsecured consumer lending) and for individually significant loans where there is not yet objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is no yet objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration the following information: historical losses on the portfolio, current economic conditions, the appropriate delay between the time a loss is likely to have been uncured and the time it will be identified as requiring an individually assessed impairment allowance. The impairment allowance is then reviewed by credit management to ensure alignment with the Group's overall policy.

(Millions of Russian Rubles)

29. Risk management (continued)

Collateral and other credit enhancements (continued)

The geographical concentration of Group's financial assets and liabilities is set out below:

	31 December 2011				*31 December 2010*			
	Russia	***OECD***	***Other***	***Total***	***Russia***	***OECD***	***Other***	***Total***
Assets:								
Cash and cash equivalents	14 009	4 648	2	**18 659**	14 403	479	1	**14 883**
Mandatory cash balances with the Central Bank of the Russian Federation	549	–	–	**549**	1 773	–	–	**1 773**
Trading securities	1 879	33	61	**1 973**	1 625	–	–	**1 625**
Due from other banks	4 963	7 184	–	**12 147**	1 295	9 361	–	**10 656**
Derivative financial assets	3	36	–	**39**	36	73	–	**109**
Loans to customers	68 866	–	–	**68 866**	70 656	–	–	**70 656**
Investment securities available for sale	5 054	–	–	**5 054**	3 951	–	–	**3 951**
Other assets	352	–	–	**352**	361	–	–	**361**
	95 675	**11 901**	**63**	**107 639**	**94 100**	**9 913**	**1**	**104 014**
Liabilities:								
Due to other banks	7 145	37 195	–	**44 340**	1 781	46 994	2	**48 777**
Derivative financial liabilities	55	70	–	**125**	35	94	–	**129**
Customer accounts	40 555	62	222	**40 839**	37 773	46	117	**37 936**
Debt securities issued	2 551	–	–	**2 551**	1 621	–	–	**1 621**
Other liabilities	361	–	–	**361**	231	28	–	**259**
Subordinated debt	–	7 410	–	**7 410**	–	7 006	–	**7 006**
	50 667	**44 737**	**222**	**95 626**	**41 441**	**54 168**	**119**	**95 728**
Net position	**45 008**	**(32 836)**	**(159)**	**12 013**	**52 659**	**(44 255)**	**(118)**	**8 286**
Financial commitments and contingencies	**22 821**	**381**	**708**	**23 910**	**12 086**	**797**	**649**	**13 532**

Liquidity risk and funding management

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, manages with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The Group has committed lines of credit that it can access to meet liquidity needs. In addition, the Group maintains a cash deposit (obligatory reserve) with the CBRF, the amount of which depends on the level of customer funds attracted.

The liquidity position is assessed and managed by the Group primarily on a standalone basis, based on certain liquidity ratios established by the CBRF and on stress testing.

Due to the operational liquidity needs liquidity target consists of two parts: cash and equivalents and bonds available for sale.

- The cash part serves as a liquidity buffer. The main reason for holding this buffer is to prevent the liquidity deficit in case of early repayment of large term deposits of clients.
- The available for sale bond portfolio serves as collateral with the CBRF. The minimum volume of the bond portfolio is determined by the volume of the necessary collateral in CBRF. The actual volume is determined according to the liquidity requirements to the liquid assets in part of bonds additionally to cash liquid assets.

(Millions of Russian Rubles)

29. Risk management (continued)

Liquidity risk and funding management (continued)

Analysis of financial liabilities by remaining contractual maturities

The table below summarizes the maturity profile of the Group's financial liabilities at 31 December 2011 and 2010 based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Group expects that many customers will not request repayment on the earliest date the Group could be required to pay and the table does not reflect the expected cash flows indicated by the Group's deposit retention history.

Financial liabilities As at 31 December 2011	***Less than 3 months***	***3 to 12 months***	***1 to 5 years***	***Over 5 years***	***Total***
Due to other banks	4 142	12 805	25 268	8 507	50 722
Foreign exchange derivative contracts					
- Contractual amounts payable	6 077	31	–	–	6 108
- Contractual amounts receivable	(6 001)	(29)	–	–	(6 030)
Customer accounts	27 177	9 361	5 167	–	41 705
Debt securities issued	215	533	1 810	–	2 558
Subordinated debt	269	471	2 359	7 040	10 139
Total undiscounted financial liabilities	**31 879**	**23 172**	**34 604**	**15 547**	**105 202**

Financial liabilities As at 31 December 2010	***Less than 3 months***	***3 to 12 months***	***1 to 5 years***	***Over 5 years***	***Total***
Due to other banks	4 288	10 683	31 863	10 723	57 557
Foreign exchange derivative contracts					
- Contractual amounts payable	5 212	103	–	–	5 315
- Contractual amounts receivable	(5 154)	(102)	–	–	(5 256)
Customer accounts	27 445	8 880	2 301	–	38 626
Debt securities issued	123	1 562	23	–	1 708
Subordinated debt	139	333	2 437	7 109	10 018
Total undiscounted financial liabilities	**32 053**	**21 459**	**36 624**	**17 832**	**107 968**

The table below shows the contractual expiry by maturity of the Group's financial commitments and contingencies.

	Less than 3 months	***3 to 12 months***	***1 to 5 years***	***Over 5 years***	***Total***
2011	5 305	14 181	4 516	–	24 002
2010	4 015	6 232	3 384	–	13 631

The Group expects that not all of the contingent liabilities or commitments will be drawn before expiry of the commitments.

The Group's capability to repay its liabilities relies on its ability to realize an equivalent amount of assets within the same period of time.

The maturity analysis does not reflect the historical stability of current accounts. Their liquidation has historically taken place over a longer period than indicated in the tables above. These balances are included in amounts due in less than three months in the tables above.

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchanges, and equity prices. The Group classifies exposures to market risk into either trading or non-trading portfolios. The market risk for the trading and non-trading positions are managed and monitored using sensitivity analysis. Except for the concentrations within foreign currency, the Group has no significant concentration of market risk.

The responsible committees have set limits on the level of risk that may be accepted. The Group applies a sensitivity analysis to assess the market risk positions held and to estimate the potential economic loss based upon a number of parameters and assumptions for various changes in market conditions.

(Millions of Russian Rubles)

29. Risk management (continued)

Market risk (continued)

For managing the price, interest rate and currency risk the sensitivity to the reasonable possible change (RPC) of market index, yield curve and exchange rates are applied.

Market risk – Trading

Price risk

There were no material equity positions in the Trading book in 2010 and 2011.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The following table demonstrates the sensitivity (calculation is based on durations of instruments) to a reasonable possible change in interest rates, with all other variables held constant, of the Trading book.

Currency	***Increase in basis points 2011***	***Sensitivity of profit/loss before tax 2011***
RUR	551	(126)
EUR	15	–
USD	55	3

Currency	***Decrease in basis points 2011***	***Sensitivity of profit/loss before tax 2011***
RUR	(200)	46
EUR	(15)	–
USD	(15)	1

Currency	***Increase in basis points 2010***	***Sensitivity of profit/loss before tax 2010***
RUR	400	(55)
EUR	100	1
USD	125	–

Currency	***Decrease in basis points 2010***	***Sensitivity of profit/loss before tax 2010***
RUR	(100)	14
EUR	(25)	–
USD	(25)	–

(Millions of Russian Rubles)

29. Risk management (continued)

Market risk (continued)

Market risk – Non - trading

Interest rate risk

The sensitivity of net interest income (NII) before tax is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities. The sensitivity of equity estimates revaluation of fixed rate available-for-sale financial assets at 31 December for the effects of the assumed changes in interest rates based on the assumption that there are parallel shifts in the yield curve.

Currency	*Increase in basis points 2011*	*Sensitivity of NII before tax 2011*	*Sensitivity of equity 2011*
RUR	551	(722)	(274)
EUR	15	–	–
USD	55	(177)	–

Currency	*Decrease in basis points 2011*	*Sensitivity of NII before tax 2011*	*Sensitivity of equity 2011*
RUR	200	262	99
EUR	15	–	–
USD	15	48	–

Currency	*Increase in basis points 2010*	*Sensitivity of NII before tax 2010*	*Sensitivity of equity 2010*
RUR	400	(32)	(81)
EUR	100	(3)	–
USD	125	(1)	–

Currency	*Decrease in basis points 2010*	*Sensitivity of NII before tax 2010*	*Sensitivity of equity 2010*
RUR	100	8	20
EUR	25	1	–
USD	25	–	–

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

According to the Group principles, all foreign exchange risk is transferred from the Banking book to the Trading book. The Management Board has set internal currency based limits on the Trading book positions and regulatory CBRF limits on consolidated currency position. Positions are monitored on a daily basis and calculated according to RAL.

The tables below indicate the currencies to which the Group had significant exposure at 31 December 2011 on its consolidated Banking and Trading books assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the RUR, with all other variables held constant on the statement of comprehensive income (due to the fair value of currency sensitive non-trading monetary assets and liabilities). The effect on equity does not differ from the effect on the statement of comprehensive income.. A negative amount in the table reflects a potential net reduction in statement of comprehensive income or equity, while a positive amount reflects a net potential increase.

Currency	*Increase in currency rate in % 2011*	*Effect on profit (loss) before tax 2011*	*Increase in currency rate in % 2010*	*Effect on profit (loss) before tax 2010*
USD	12%	(390)	9%	(372)
EUR	12%	(16)	11%	(16)

Currency	*Decrease in currency rate in % 2011*	*Effect on profit (loss) before tax 2011*	*Decrease in currency rate in % 2010*	*Effect on profit (loss) before tax 2010*
USD	-12%	390	-9%	372
EUR	-12%	16	-11%	16

(Millions of Russian Rubles)

29. Risk management (continued)

Operational risk

Operational risk is a risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk includes legal risk; risk of fraud, IT risk and other risks but it does not include business risk, strategic risk and reputation risk.

The Bank continues the implementation of an operational risk management framework. The main precept of operational risk management is that ultimate responsibility for managing operational risk lies with line management, which receives support from local operational risk managers ('LORM') and is supervised by the Risk and Capital Oversight Committee ('RCOC'). The RCOC takes concrete risk mitigating measures either directly or via line management. The LORMs are specifically trained employees who also keep business functions.

The framework consists of a number of building blocks for managing operational risks, which are gradually being implemented. These building blocks are described in the ORM Policy, which also includes the methodology applied to define the operational risk capital charge. The building blocks consist of:

- The Loss Events Database: since 2009 all operational losses of EUR 1 000 or more are recorded in a central database and reported to the RCOC quarterly;
- Standards of Best Practice: The Bank translated standards of best practices into internal procedures. These standards cover such risks as access rights management, dual controls, accounting controls, complaints handling, etc. The RCOC monitors the proper implementation of these standards and may allow exceptions to be made pursuant to a strict waiver procedure;
- Key Risk Indicators ('KRI'): A KRI implementation project has been launched. KRIs help monitor the exposure against certain operational risks. For a selected number of KRIs data are already being collected. The LORMs assume an essential role in determining the KRI in consultancy with the ORM Division.

30. Fair values 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 Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

At 31 December 2011	***Level 1***	***Level 2***	***Total***
Financial assets			
Trading securities	1 973	–	1 973
Derivative financial instruments	–	39	39
Investment securities available for sale	5 054	–	5 054
	7 027	**39**	**7 066**
Financial liabilities			
Derivative financial instruments	–	125	125
	–	**125**	**125**

There have been no transfers from level 2 to level 1 and vice versa in 2011.

At 31 December 2010	***Level 1***	***Level 2***	***Total***
Financial assets			
Trading securities	1 625	–	1 625
Derivative financial instruments	–	109	109
Investment securities available for sale	3 951	–	3 951
	5 576	**109**	**5 685**
Financial liabilities			
Derivative financial instruments	–	129	129
	–	**129**	**129**

(Millions of Russian Rubles)

30. Fair values of financial instruments (continued)

Financial instruments recorded at fair value

The following is a description of the determination of fair value for financial instruments which are recorded at fair value using valuation techniques. These incorporate the Group's estimate of assumptions that a market participant would make when valuing the instruments.
Derivatives

Derivatives valued using a valuation technique with market observable inputs are mainly interest rate swaps, currency swaps and forward foreign exchange contracts. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves.

Fair value of financial assets and liabilities not carried at fair value

Set out below is a comparison by class of the carrying amounts and fair values of the Group's financial instruments that are not carried at fair value in the consolidated statement of financial position. The table does not include the fair values of non-financial assets and non-financial liabilities.

	31 December 2011			*31 December 2010*		
	Carrying value	***Fair value***	***Unrecognised gain/(loss)***	***Carrying value***	***Fair value***	***Unrecognised gain/(loss)***
Financial assets						
Cash and cash equivalents	18 659	18 659	–	14 883	14 883	–
Mandatory cash balances with the Central Bank of the Russian Federation	549	549	–	1 773	1 773	–
Due from other banks	12 147	12 147	–	10 656	10 657	1
Loans to customers	68 866	69 333	467	70 656	71 108	452
Financial liabilities						
Due to other banks	44 340	44 341	(1)	48 777	48 821	(44)
Customer accounts	40 839	40 782	57	37 936	38 378	(442)
Debt securities issued	2 551	2 422	129	1 621	1 670	(49)
Subordinated debt	7 410	7 320	90	7 006	7 198	(192)
Total unrecognised change in unrealised fair value			**742**			**(274)**

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.

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

Loans and receivables carried at amortised cost

The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

The Group believes that the carrying amount of due from other banks balances closely approximates their fair value as all the loans granted to other banks are of a short term nature and expire shortly after the reporting date.

Liabilities carried at amortised cost

The fair value of debt securities in issue is based on quoted market prices. 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.

(Millions of Russian Rubles)

31. Maturity analysis of assets and liabilities

In its day-to-day liquidity management performed by the Treasury and liquidity reporting to ALCO the Group uses information from management accounts, which are based on statutory financial reporting figures. The liquidity analysis based on the international financial reporting figures as adjusted above is used as a subsequent control tool and in reporting to the international finance creditors.

The tables below shows an analysis of financial assets and liabilities as of 31 December 2011 and 2010 according to when they are contracted to be recovered or settled, except for mortgage loans, which are divided based on recursion model, which uses statistic data for period of 1 year for estimation of future payments. See Note 29 for the Group's contractual undiscounted repayment obligations.

31 December 2011	*Demand and less than 1 month*	*From 1 to 3 months*	*From 3 to 12 months*	*From 12 months to 5 years*	*Over 5 years*	*Overdue*	*Total*
Cash and cash equivalents	18 659	–	–	–	–	–	18 659
Mandatory cash balances with the Central Bank of the Russian Federation	549	–	–	–	–	–	549
Trading securities	1 973	–	–	–	–	–	1 973
Due from other banks	9 248	2 899	–	–	–	–	12 147
Derivative financial assets	–	38	–	1	–	–	39
Loans to customers	3 014	8 203	20 846	30 194	5 425	1 184	68 866
Investment securities available for sale	5 054	–	–	–	–	–	5 054
Other assets	328	24	–	–	–	–	352
Total financial assets	**38 825**	**11 164**	**20 846**	**30 195**	**5 425**	**1 184**	**107 639**
Due to other banks	4 712	139	10 460	20 980	8 049	–	44 340
Derivative financial liabilities	58	18	2	47	–	–	125
Customer accounts	23 415	3 760	8 853	4 811	–	–	40 839
Debt securities issued	126	101	601	1 723	–	–	2 551
Other liabilities	357	3	1	–	–	–	361
Subordinated debt	127	130	140	427	6 586	–	7 410
Total financial liabilities	**28 795**	**4 151**	**20 057**	**27 988**	**14 635**	**–**	**95 626**
Net liquidity gap	**10 030**	**7 013**	**789**	**2 207**	**(9 210)**	**1 184**	**12 013**
Cumulative liquidity gap	**10 030**	**17 043**	**17 832**	**20 039**	**10 829**	**12 013**	

The Group has received significant funds from the Parent (as of 31 December 2011 and 2010 – RUB 45 807 million and RUB 52 317 million respectively). Any significant withdrawal of these funds would have an adverse impact on the operations of the Group. Management believes that this level of funding will remain with the Group for the foreseeable future and that in the event of withdrawal of funds, the Group would be given sufficient notice so as to realize its liquid assets to enable repayment.

The Group held financing as of 31 December 2011 from an international banking organisation. This loan arrangement in amount RUB 181 million (31 December 2010: RUB 249 million) is subject to fulfillment of financial covenants, which were not fully complied by the Group as of 31 December 2011. As of the date of signing the financial statements the creditor has not claimed early repayment of this loan.

31 December 2010	*Demand and less than 1 month*	*From 1 to 3 months*	*From 3 to 12 months*	*From 12 months to 5 years*	*Over 5 years*	*Overdue*	*Total*
Cash and cash equivalents	14 883	–	–	–	–	–	14 883
Mandatory cash balances with the Central Bank of the Russian Federation	1 773	–	–	–	–	–	1 773
Trading securities	1 625	–	–	–	–	–	1 625
Due from other banks	6 389	4 267	–	–	–	–	10 656
Derivative financial assets	94	15	–	–	–	–	109
Loans to customers	3 502	7 099	17 723	32 537	5 194	4 601	70 656
Investment securities available for sale	3 951	–	–	–	–	–	3 951
Other assets	69	16	276	–	–	–	361
Total financial assets	**32 286**	**11 397**	**17 999**	**32 537**	**5 194**	**4 601**	**104 014**
Due to other banks	1 561	2 709	10 262	27 179	7 066	–	48 777
Derivative financial liabilities	36	23	6	64	–	–	129
Customer accounts	22 695	4 573	8 529	2 139	–	–	37 936
Debt securities issued	80	42	1 478	21	–	–	1 621
Other liabilities	230	2	7	20	–	–	259
Subordinated debt	125	14	321	2 041	4 505	–	7 006
Total financial liabilities	**24 727**	**7 363**	**20 603**	**31 464**	**11 571**	**–**	**95 728**
Net liquidity gap	**7 559**	**4 034**	**(2 604)**	**1 073**	**(6 377)**	**4 601**	**8 286**
Cumulative liquidity gap	**7 559**	**11 593**	**8 989**	**10 062**	**3 685**	**8 286**	

(Millions of Russian Rubles)

32. Related party disclosures

In accordance with IAS 24 *Related Party Disclosures*, parties are considered to be related if one party has the ability to control the other party or 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.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

The volumes of related party transactions, outstanding balances at the year end, and related expense and income for the year are as follows:

	2011				2010			
	Parent	Other related parties	Entities under common control	Key management personnel	Parent	Other related parties	Entities under common control	Key management personnel
Consolidated statement of financial position:								
Cash and cash equivalents (contractual interest rates: 2011: 0 – 4.6%; 2010: 0%)	2 377	–	–	–	332	–	–	–
Due from other banks (contractual interest rates: 2011: 0.5 – 7.4%; 2010: 0.4 – 3.5%)	7 081	–	–	–	8 987	–	–	–
Gross amount of loans and advances to customers (contractual interest rates: 2011: 7.88 – 11.25%; 2010: 8.39 – 18%)	–	2 502	–	8	–	1 690	–	28
Allowance for impairment of loans to customers	–	–	–	–	–	(66)	–	–
Other assets	–	–	–	–	73	–	1	–
Due to other banks (contractual interest rates: 2011: 1.19 – 8.4%; 2010: 0.96 – 8.6%)	39 062	–	2	–	45 927	–	3	–
Customer accounts (contractual interest rates: 2011: 0 – 8.9%; 2010: 0.6 – 7.0%)	–	83	160	37	–	–	120	38
Other liabilities	6	–	9	45	24	–	25	20
Subordinated debt (contractual interest rate: 2011: 5.81 – 8.03%; 2010: 5.81 – 8.03%)	6 745	–	–	–	6 390	–	–	–
Consolidated statement of comprehensive income:								
Interest income	51	193	–	1	352	161	76	77
Interest expense	(2 682)	(1)	(2)	(1)	(3 589)	–	(1)	(3)
Allowance for loan impairment	–	66	–	–	–	–	40	4
Fee and commission income	1	1	8	–	1	–	2	–
Fee and commission expense	(1)	–	–	–	(1)	–	–	–
Net (losses)/gains from trading in foreign currencies	6	–	1	–	6	–	–	–
Net losses from operations with derivatives	293	–	2	–	218	–	2	–
Administrative and other operating expenses	(14)	–	(25)	–	(15)	–	–	–
Credit related commitments:								
Undrawn credit lines	500	2 270	–	4	500	–	–	4
Guaranties issued	262	–	–	–	33	–	–	–

Other related parties are companies under control of one of the members of Board of Directors of the Bank.

Compensation of key management personnel was comprised of the following:

	2011	2010
Salaries and other short-term benefits	113	84
Social security costs	5	1
Total key management compensation	**118**	**85**

(Millions of Russian Rubles)

33. Capital adequacy

The Group maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Group's capital is monitored using, among other measures, the ratios established by the Basel II Capital Accord and the ratios established by the CBRF in supervising the Group.

During the past year, the Group had complied in full with all its externally imposed capital requirements.

The primary objectives of the Group's capital management are to ensure that the Group complies with externally imposed capital requirements and that the Group maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

Capital adequacy ratio under Basel II Capital Accord

The Group applies guidelines set out in June 2006 by the Basel Committee of Banking Regulation and Supervision in "International Convergence of Capital Measurement and Capital Standards: a Revised Framework" ("Basel II").

The Group uses following approaches stipulated by the Basel II:

- The minimum capital requirements for credit risk are calculated based on the standardized approach supported by an external rating assessment;
- The minimum capital requirements for market risk are calculated under standardized measurement method as combination of interest rate risk, equity position risk and foreign exchange risk according to predefined models. The basic structure of the 1996 Market Risk Amendment regarding the treatment of market risk remains unchangeable. Employable models were adjusted in accordance with methodology used under standardized approach for calculating the minimum capital requirements for credit risk;
- The minimum capital requirements for operational risk are calculated based on Basic Indicator Approach.

The Group's capital adequacy ratio, computed in accordance with the Basel II Capital Accord as at 31 December 2011 and 2010, comprised:

	31 December 2011	***31 December 2010***
Tier 1 capital	16 564	13 066
Tier 2 capital	6 954	6 498
Regulatory capital	**23 518**	**19 564**
Weighted risks		
Credit risk	75 824	74 645
Market risk	4 785	5 985
Operational risk	14 322	14 093
Total weighted risk volume	**94 931**	**94 723**
Tier 1 capital ratio	17.45%	13.79%
Total capital ratio	24.77%	20.65%