OJSC “ORIENT EXPRESS BANK”

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

31 December 2011

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Independent Auditor's Report

To the Board of Directors and shareholders of OJSC "Orient Express Bank":

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

ZAO PricewaterhouseCoopers Audit

16 April 2012

Moscow, Russia

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In thousands of Russian Roubles	**Note**	**31 December 2011**	**31 December 2010**
ASSETS			
Cash and cash equivalents	7	12 282 513	7 044 951
Mandatory balances with the CBRF		1 362 659	650 212
Securities	8	4 410 841	6 149 742
Repurchase receivables	8	3 878 669	-
Due from other banks	9	1 376 952	1 854 125
Loans and advances to customers	10	107 441 443	70 157 434
Deferred tax asset	25	-	54 810
Premises and equipment	11	3 506 852	3 162 014
Intangible assets		249 251	274 347
Other assets	12	2 610 458	1 150 299
TOTAL ASSETS		**137 119 638**	**90 497 934**
LIABILITIES			
Due to other banks	13	5 343 256	123 871
Customer accounts	14	106 035 274	73 374 957
Debt securities issued	15	5 089 314	3 080 791
Other borrowed funds	16	1 849 951	1 199 747
Other liabilities	17	1 309 702	799 585
Deferred tax liability	25	312 436	32 346
Subordinated debt	18	968 217	1 294 231
TOTAL LIABILITIES		**120 908 150**	**79 905 528**
EQUITY			
Share capital	19	814 413	773 546
Share premium		5 776 520	4 792 298
Retained earnings		9 605 083	5 029 342
Revaluation reserve		(63)	(1 911)
Translation reserve		3 035	(869)
Equity-settled employee benefits reserve		12 500	-
TOTAL EQUITY		**16 211 488**	**10 592 406**
TOTAL LIABILITIES AND EQUITY		**137 119 638**	**90 497 934**

Approved on behalf of the Management Board on 16 April 2012.

S.N.Vlasov, Chief Executive Officer

L.S.Proskurina, Chief Accountant

In thousands of Russian Roubles	Note	2011	2010
Interest income	20	25 140 169	15 224 988
Interest expense	20	(7 730 465)	(6 087 305)
Net interest income		**17 409 704**	**9 137 683**
Provision for loan impairment	10	(3 974 576)	(2 526 648)
Net interest income after provision for loan impairment		**13 435 128**	**6 611 035**
Fee and commission income	21	481 511	639 957
Fee and commission expense	21	(426 135)	(276 845)
Accelerated amortisation of service fee asset on repurchase of loans	10	-	(360 722)
Result on sale of loans	10	76 030	798 405
(Losses less gains)/gains less losses from securities		(150 890)	36 672
Result on disposal of subsidiary	24	164 364	-
Gains less losses arising from dealing in foreign currencies		748 045	344 395
Net foreign exchange translation losses net of gains		(543 062)	(82 729)
Other operating income		254 005	217 559
Operating expenses	22	(8 264 578)	(5 419 345)
Other provisions	12,17	(7 700)	(387 815)
Negative goodwill	23	-	674 917
Profit before tax		**5 766 718**	**2 795 484**
Income tax expense	25	(1 161 875)	(586 226)
PROFIT FOR THE YEAR		**4 604 843**	**2 209 258**
Other comprehensive income			
Revaluation of available for sale financial assets, net of tax		1 848	8 396
Change in translation reserve		3 904	(431)
Other comprehensive income for the year		**5 752**	**7 965**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**4 610 595**	**2 217 223**
Profit attributable to:			
The Bank's owners		4 604 843	2 213 094
Non-controlling interest		-	(3 836)
Profit for the year		**4 604 843**	**2 209 258**
Total comprehensive income attributable to:			
The Bank's owners		4 610 595	2 221 059
Non-controlling interest		-	(3 836)
Total comprehensive income for the year		**4 610 595**	**2 217 223**

In thousands of Russian Roubles	Share Capital	Share premium	Retained earnings	Revaluation reserve	Translation reserve	Equity-settled employee benefits reserve	Total	Non-Controlling interest	Total Equity
Balance at 1 January 2010	**676 428**	**3 538 461**	**2 816 248**	**(10 307)**	**(438)**	**-**	**7 020 392**	**210 436**	**7 230 828**
Profit for the year	-	-	2 213 094	-	-	-	2 213 094	(3 836)	2 209 258
Other comprehensive income for the year	-	-	-	8 396	(431)	-	7 965	-	7 965
Total comprehensive income for the year	-	-	2 213 094	8 396	(431)	-	2 221 059	(3 836)	2 217 223
Business combination (Note 23)	83 113	1 061 242	-	-	-	-	1 144 355	-	1 144 355
Transactions with owners recorded directly in equity:									
Purchase of non-controlling interest (Note 23)	14 005	192 595	-	-	-	-	206 600	(206 600)	-
Balance at 31 December 2010	**773 546**	**4 792 298**	**5 029 342**	**(1 911)**	**(869)**	**-**	**10 592 406**	**-**	**10 592 406**
Profit for the year	-	-	4 604 843	-	-	-	4 604 843	-	4 604 843
Other comprehensive income for the year	-	-	-	1 848	3 904	-	5 752	-	5 752
Total comprehensive income for the year	-	-	4 604 843	1 848	3 904	-	4 610 595	-	4 610 595
Issue of shares (Note 19)	85 975	1 977 424	-	-	-	-	2 063 399	-	2 063 399
Purchase of treasury shares (Note 19)	(45 108)	(993 202)	-	-	-	-	(1 038 310)	-	(1 038 310)
Recognition of share-based payments (Note 33)	-	-	-	-	-	12 500	12 500	-	12 500
Dividends	-	-	(29 102)	-	-		(29 102)	-	(29 102)
Balance at 31 December 2011	**814 413**	**5 776 520**	**9 605 083**	**(63)**	**3 035**	**12 500**	**16 211 488**	**-**	**16 211 488**

In thousands of Russian Roubles	**Note**	**2011**	**2010**
Cash flows from operating activities			
Interest received		23 047 560	12 635 289
Interest paid		(7 589 581)	(6 064 775)
Net losses arising from dealing in securities		(221 270)	(30 118)
Income received from dealing in foreign currencies		164 053	302 070
Fee and commission income		481 511	780 900
Fee and commission expense		(426 135)	(276 845)
Other operating income received		179 280	279 750
Operating expenses paid		(7 648 278)	(4 954 630)
Income tax paid		(1 199 932)	(373 555)
Cash flows from operating activities before changes in operating assets and liabilities		**6 787 208**	**2 298 086**
Net increase in mandatory cash balances with the CBRF		(712 530)	(39 865)
Net decrease/(increase) in due from other banks		471 667	(39 676)
Net increase in trading securities and repurchase receivables		(2 556 698)	(961 793)
Net increase in loans and advances to customers		(43 285 911)	(31 325 714)
Cash proceeds from sale of loans	10	4 018 729	4 621 650
Net increase/(decrease) in due to other banks		3 819 890	(1 715 005)
Net increase in customer accounts		32 172 821	27 897 996
Net decrease in promissory notes		-	(33 067)
Net (increase)/decrease in other assets		(643 237)	159 333
Net increase/(decrease) in other liabilities		496 238	(1 590 341)
Net cash from/(used in) operating activities		**568 177**	**(728 396)**
Acquisition of premises and equipment	11	(942 458)	(380 520)
Acquisition of intangible assets		(91 324)	(106 943)
Proceeds from sale of premises and equipment	11	297 649	26 194
Proceeds from redemption of securities available for sale		236 248	507 008
Proceeds from redemption of investment securities held to maturity		282 845	134 535
Proceeds from disposal of subsidiary net of cash disposed	24	1 571 342	-
Acquisition of subsidiaries net of cash acquired	23	-	(344 365)
Net cash used in investing activities		**1 354 302**	**(164 091)**
Cash flows from financing activities			
Share issue		2 063 399	-
Purchase of treasury shares		(1 038 310)	-
Dividends paid out		(29 102)	-
Proceeds from other borrowed funds		613 564	998 850
Repayment of other borrowed funds		-	(65 843)
Repurchase and redemption of debt securities issued		-	(1 062 224)
Proceeds from debt securities issued		1 994 408	3 000 000
Subordinated debt repurchase and redemption		(417 907)	-
Net cash from financing activities		**3 186 052**	**2 870 783**
Effect of exchange rate changes on cash and cash equivalents		129 031	(75 414)
Net increase in cash and cash equivalents		**5 237 562**	**1 902 882**
Cash and cash equivalents, beginning of the year		**7 044 951**	**5 142 069**
Cash and cash equivalents at the end of the year	7	**12 282 513**	**7 044 951**

1 Introduction

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2011 for Orient Express Bank (the "Bank") and its subsidiaries (the "Group").

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

The Bank does not have any immediate parent entity and due to the structure of shareholdings, as detailed in the table below, management is of the opinion that the Bank does not have a single ultimate controlling party.

As at 31 December 2011 and 31 December 2010 the shareholders of the Bank were:

	2011	2010
Shareholder		
Evizon Holdings Limited (on behalf of Baring Vostok Private Equity Fund IV and Baring Vostok Fund IV Supplemental Fund)	30.0	30.0
International Finance Corporation	13.9	2.5
Sergei Vlasov	12.4	13.7
Antof N.V. (controlled by I.Kim)	8.5	9.7
Andrey Bekarev	8.2	9.3
Alexander Taranov	7.3	8.2
Igor Kim	7.1	7.8
Orient Express Bank	6.1	-
Evgeniya Schouplova (on behalf of Sergei Vlasov)	1.8	2.0
REKHA Holdings Limited (controlled by Renaissance Capital)	-	6.6
RATTO Holdings Limited (controlled by Renaissance Capital)	-	3.5
Other shareholders – each less than 5%	4.7	6.7
Total	**100.0**	**100.0**

Principal activity. The Group's principal business activity is retail banking operations within the Russian Federation. The Bank has operated under a full banking licence issued by the Central Bank of the Russian Federation ("CBRF") since 12 May 1991. The Bank participates in the state deposit insurance scheme, which was introduced by Federal Law #177-FZ "Deposits of individuals insurance in Russian Federation" dated 23 December 2003. The State Deposit Insurance Agency guarantees repayment of 100% of individual deposits up to RR 700 thousand per individual in the case of the withdrawal of a licence of a bank or a CBRF imposed moratorium on payments.

At 31 December 2011 the Bank operated a registered head office in Blagoveschensk, 10 branches (31 December 2010: 12) and 1 198 (2010: 541) offices located across the Russian Federation. As at 31 December 2011 the Bank had 9 287 employees (31 December 2010: 7 203).

Registered address and place of business. The Bank's registered office is located at 1 Svyatitelya Innokentiya Pereulok, Blagoveschensk, Amursky Region, 675000, Russian Federation.

The Bank's principal place of business is 22, Frunze Street, Khabarovsk, 680000, Russian Federation.

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

2 Operating Environment of the Bank

The Russian Federation displays certain characteristics of an emerging market. Tax, currency and customs legislation is subject to varying interpretations and contributes to the challenges faced by banks operating in the Russian Federation (Note 30).

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

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

3 Summary of Significant Accounting Policies

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

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

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

The Group measures non-controlling interest that represents present ownership interest and entitles the holder to a proportionate share of net assets in the event of liquidation on a transaction by transaction basis, either at: (a) fair value, or (b) the non-controlling interest's proportionate share of net assets of the acquiree.

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

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

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

3 Summary of Significant Accounting Policies (Continued)

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

Purchases and sales of non-controlling interests. The Group applies the economic entity model to account for transactions with owners of non-controlling interest. Any difference between the purchase consideration and the carrying amount of non-controlling interest acquired is recorded as a capital transaction directly in equity. The Group recognises the difference between sales consideration and carrying amount of non-controlling interest sold as a capital transaction in the statement of changes in equity.

Disposals of subsidiaries. When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity, are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are recycled to profit or loss.

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

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair value is the current bid price for financial assets and the 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 flow models or models based on recent arm's length transactions or consideration of financial data of the investees, are used to measure at 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.

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

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

3 Summary of Significant Accounting Policies (Continued)

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

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

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date on which the Group commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

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

Cash and cash equivalents. Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. All short term interbank placements, beyond overnight deposits, 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 CBRF. Mandatory cash balances with the CBRF are carried at amortised cost and represent non-interest bearing mandatory reserve deposits which are not available to finance the Group's day to day operations, and hence are not considered as part of cash and cash equivalents for the purposes of the consolidated statement of cash flows.

Trading securities. Trading securities are financial assets which are either acquired for generating a profit from short-term fluctuations in price or trader's margin, or are securities included in a portfolio in which a pattern of short-term trading exists. The Group classifies securities into trading securities if it has an intention to sell them within a short period after purchase, i.e. within 6 months. The Group may choose to reclassify a non-derivative trading financial asset out of the fair value through the profit or loss category if the asset is no longer held for the purpose of selling it in the near term. Financial assets other than loans and receivables are permitted to be reclassified out of fair value through the profit or loss category only in rare circumstances arising from a single event that is unusual and highly unlikely to reoccur in the near term. Financial assets that would meet the definition of loans and receivables may be reclassified if the Group has the intention and ability to hold these financial assets for the foreseeable future, or until maturity.

3 Summary of Significant Accounting Policies (Continued)

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

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

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

Impairment of financial assets carried at amortised cost. Impairment losses are recognised in profit or loss for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Group determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics, and collectively assesses them for impairment. The primary factors that the Group considers in determining 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 whether 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;
- the borrower experiences a significant financial difficulty as evidenced by the borrower's financial information that the Group obtains;
- the borrower considers bankruptcy or a financial reorganisation;
- 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; or
- the value of collateral significantly decreases as a result of deteriorating market conditions.

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

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

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

3 Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

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

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

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

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

3 Summary of Significant Accounting Policies (Continued)

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

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

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

Investment securities held to maturity. This classification includes quoted non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has both the intention and ability to hold to maturity. An investment is not classified as a held-to-maturity investment if the Group has the right to require that the issuer repay or redeem the investment before its maturity, because paying for such a feature is inconsistent with expressing an intention to hold the asset until maturity. Management determines the classification of investment securities held to maturity at their initial recognition and reassesses the appropriateness of that classification at the end of each reporting period. Investment securities held to maturity are carried at amortised cost.

Goodwill. Goodwill is carried at cost less accumulated impairment losses, if any. The Group tests goodwill for impairment at least annually and whenever there are indications that goodwill may be impaired. Goodwill is allocated to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the business combination. Such units or group of units represent the lowest level at which the Group monitors goodwill, and are not larger than an operating segment. Gains or losses on disposal of an operation within a cash generating unit to which goodwill has been allocated include the carrying amount of goodwill associated with the disposed operation, generally measured on the basis of the relative values of the disposed operation and the portion of the cash-generating unit which is retained.

Premises and equipment. Premises and equipment are stated at cost less accumulated depreciation and provision for impairment, where required.

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

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

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

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

3 Summary of Significant Accounting Policies (Continued)

	Useful lives in years
Premises	50
Leasehold improvements	estimated leasehold agreement life
Equipment	4–5

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 assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Intangible assets. The Group's intangible assets have definite useful life and primarily include licenses for computer software.

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Other costs associated with computer software, e.g. its maintenance, are expensed when incurred. Capitalised computer software is amortised on straight line basis over expected useful lives of 1 to 10 years.

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

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

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

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

Impairment losses are recognised in profit or loss for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of finance lease receivables. The Group uses the same principal criteria to determine whether there is objective evidence that an impairment loss has occurred, as for loans carried at amortised cost. Impairment losses are recognised through an allowance account to write down the receivables' net carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred), discounted at the interest rates implicit in the finance leases. The estimated future cash flows reflect the cash flows that may result from obtaining and selling the assets subject to the lease.

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

3 Summary of Significant Accounting Policies (Continued)

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

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

***Other borrowed funds**.* Other borrowed funds include loans to the Group by the European Bank for Reconstruction and Development and are carried at amortised cost.

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

Derivative financial instruments. Derivative financial instruments, including foreign exchange contracts and swaps, are carried at their fair value.

All derivative instruments are carried as assets when fair value is positive, and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss for the year (gains less losses on derivatives). The Group does not apply hedge accounting.

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

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

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

Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

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

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

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

3 Summary of Significant Accounting Policies (Continued)

Treasury shares. Where the Bank or its subsidiaries purchase the Bank's equity instruments, the consideration paid, including any directly attributable incremental external costs, net of income taxes, is deducted from equity attributable to the owners of the Bank until the equity instruments are reissued, disposed of or cancelled. Where such shares are subsequently disposed of or reissued, any consideration received is included in equity.

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

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

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

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

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

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 functional currency of the Bank, and the Group's presentation currency, is the national currency of the Russian Federation, Russian Roubles ("RR").

Monetary assets and liabilities are translated into each entity's functional currency at the official exchange rate of the CBRF at the end of the respective reporting period. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities into each entity's functional currency at year-end official exchange rates of the CBRF, are recognised in profit or loss for the year (as foreign exchange translation gains less losses). Translation at year-end rates does not apply to non-monetary items that are measured at historical cost. Non-monetary items measured at fair value in a foreign currency, including equity investments, are translated using the exchange rates at the date when the fair value was determined.

Effects of exchange rate changes on non-monetary items measured at fair value in a foreign currency are recorded as part of the fair value gain or loss.

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

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

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

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

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

3 Summary of Significant Accounting Policies (Continued)

When control over a foreign operation is lost, the previously recognised exchange differences on translation to a different presentation currency are reclassified from other comprehensive income to profit or loss for the year as part of the gain or loss on disposal. On partial disposal of a subsidiary without loss of control, the related portion of accumulated currency translation differences is reclassified to non-controlling interest within equity.

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

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

Staff costs and related contributions. Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the Group. The Group has no legal or constructive obligation to make pension or similar benefit payments beyond the payments to the statutory defined contribution scheme.

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

Changes in presentation. Where necessary, corresponding figures have been adjusted to conform to the presentation of the current year amounts.

The effect of reclassifications for presentation purposes was as follows on amounts for the year ended 31 December 2010:

In thousands of Russian Roubles	**As originally presented 31 December 2010**	**Reclassification**	**As reclassified 31 December 2010**
Administrative and Other Operating Expenses	5 807 160	(387 815)	5 419 345
Other provisions	-	387 815	387 815
Fee and commission income	831 115	(191 158)	639 957
Result on sale of loans and debts	607 247	191 158	798 405
Net release of warranty	4 899	(4 899)	-
Other operating income	212 660	4 899	217 559

The reclassifications had an impact on information in Note 21 Fee and Commission Income and Expense, Note 22 Administrative and Other Operating Expenses, and had no impact on any other note disclosures.

The changes in presentation adopted in 2011 did not have any impact on the statement of financial position and the Group, therefore, does not present the statement of financial position as at 1 January 2010.

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies

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

Impairment losses on loans and advances. The Group regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in profit or loss for the year, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. A 10% increase or decrease in actual loss experience compared to the loss estimates used would result in an increase or decrease in loan impairment losses of RR 543 816 thousand (2010: RR 602 069 thousand), respectively.

5 Adoption of New or Revised Standards and Interpretations

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

***Amendment to IAS 24, Related Party Disclosures* (issued in November 2009 and effective for annual periods beginning on or after 1 January 2011).** IAS 24 was revised in 2009 by: (a) simplifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies; and by (b) providing a partial exemption from the disclosure requirements for government-related entities. The above amendments had no material impact on these consolidated financial statements.

Improvements to International Financial Reporting Standards (issued in May 2010 and effective from 1 January 2011). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: IFRS 1 was amended (i) to allow previous GAAP carrying value to be used as deemed cost of an item of property, plant and equipment or an intangible asset if that item was used in operations subject to rate regulation, (ii) to allow an event driven revaluation to be used as deemed cost of property, plant and equipment even if the revaluation occurs during a period covered by the first IFRS financial statements and (iii) to require a first-time adopter to explain changes in accounting policies or in the IFRS 1 exemptions between its first IFRS interim report and its first IFRS financial statements; IFRS 3 was amended (i) to require measurement at fair value (unless another measurement basis is required by other IFRS standards) of non-controlling interests that are not present ownership interest or do not entitle the holder to a proportionate share of net assets in the event of liquidation, (ii) to provide guidance on the acquiree's share-based payment arrangements that were not replaced, or were voluntarily replaced as a result of a business combination and (iii) to clarify that the contingent considerations from business combinations that occurred before the effective date of revised IFRS 3 (issued in January 2008) will be accounted for in accordance with the guidance in the previous version of IFRS 3; IFRS 7 was amended to clarify certain disclosure requirements, in particular (i) by adding an explicit emphasis on the interaction between qualitative and quantitative disclosures about the nature and extent of financial risks, (ii) by removing the requirement to disclose carrying amount of renegotiated financial assets that would otherwise be past due or impaired,

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

(iii) by replacing the requirement to disclose fair value of collateral by a more general requirement to disclose its financial effect, and (iv) by clarifying that an entity should disclose the amount of foreclosed collateral held at the reporting date, and not the amount obtained during the reporting period; IAS 1 was amended to clarify the requirements for the presentation and content of the statement of changes in equity; IAS 27 was amended by clarifying the transition rules for amendments to IAS 21, 28 and 31 made by the revised IAS 27 (as amended in January 2008); IAS 34 was amended to add additional examples of significant events and transactions requiring disclosure in a condensed interim financial report, including transfers between the levels of fair value hierarchy, changes in classification of financial assets or changes in business or economic environment that affect the fair values of the entity's financial instruments; and IFRIC 13 was amended to clarify measurement of fair value of award credits. The above amendments resulted in additional or revised disclosures, but had no material impact on measurement or recognition of transactions and balances reported in these consolidated financial statements. The financial effect of collateral required to be disclosed by the amendments to IFRS 7 is presented in these consolidated financial statements by disclosing collateral values separately for (i) those financial assets where collateral and other credit enhancements are equal to, or exceed, carrying value of the asset ("over-collateralised assets") and (ii) those financial assets where collateral and other credit enhancements are less than the carrying value of the asset ("under-collateralised assets").

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

6 New Accounting Pronouncements

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

IFRS 9, Financial Instruments Part 1: Classification and Measurement. IFRS 9, issued in November 2009, replaces those parts of IAS 39 relating to the classification and measurement of financial assets. IFRS 9 was further amended in October 2010 to address the classification and measurement of financial liabilities and in December 2011 to (i) change its effective date to annual periods beginning on or after 1 January 2015 and (ii) add transition disclosures. Key features of the standard are as follows:

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

- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent payments of principal and interest only (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.

- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.

- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

6 New Accounting Pronouncements (Continued)

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

IFRS 10, Consolidated Financial Statements (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), replaces all of the guidance on control and consolidation in IAS 27 "Consolidated and separate financial statements" and SIC-12 "Consolidation - special purpose entities". IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control. This definition is supported by extensive application guidance. The standard is not expected to have any impact on the Group's consolidated financial statements.

IFRS 11, Joint Arrangements, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), replaces IAS 31 "Interests in Joint Ventures" and SIC-13 "Jointly Controlled Entities—Non-Monetary Contributions by Venturers". Changes in the definitions have reduced the number of types of joint arrangements to two: joint operations and joint ventures. The existing policy choice of proportionate consolidation for jointly controlled entities has been eliminated. Equity accounting is mandatory for participants in joint ventures. The standard is not expected to have any impact on the Group's consolidated financial statements

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

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

IAS 27, Separate Financial Statements, (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013), was changed and its objective is now to prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The guidance on control and consolidated financial statements was replaced by IFRS 10, Consolidated Financial Statements. The amendment is not expected to have any impact on the Group's consolidated financial statements.

IAS 28, Investments in Associates and Joint Ventures, (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013). The amendment of IAS 28 resulted from the Board's project on joint ventures. When discussing that project, the Board decided to incorporate the accounting for joint ventures using the equity method into IAS 28 because this method is applicable to both joint ventures and associates. With this exception, other guidance remained unchanged. The amendment is not expected to have any impact on the Group's consolidated financial statements.

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

6 New Accounting Pronouncements (Continued)

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

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

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

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

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

Amendments to IFRS 1 (issued 13 March 2012 and effective for annual periods beginning on or after 1 January 2013): This amendment addresses accounting for a government loan with a below-market rate of interest when transitioning to IFRSs by a first-time adopter. Earlier application is permitted.

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

7 Cash and Cash Equivalents

In thousands of Russian Roubles	**2011**	**2010**
Cash on hand	4 647 423	2 353 341
Cash balances with the CBRF (other than mandatory reserves)	2 245 408	1 500 243
Correspondent accounts with other banks:		
- Russian Federation	797 032	323 691
- Other countries	3 779 569	2 403 899
Cash settlements in progress	813 081	463 777
Total cash and cash equivalents	**12 282 513**	**7 044 951**

Cash settlements in progress represent operations with plastic cards and non-bank financial institutions.

7 Cash and Cash Equivalents (Continued)

The credit quality of cash and cash equivalents balances may be summarised as follows at 31 December 2011:

In thousands of Russian Roubles	**Cash balances with the CBRF (other than mandatory reserves)**	**Correspondent accounts and overnight placements with other banks**		**Cash settlements in progress**	**Total**
		Russian Federation	**Other countries**		
Neither past due nor impaired					
- Central Bank of the Russian Federation	2 245 408	-	-	-	2 245 408
- OECD Banks affiliated with Top 10 State owned Russian Banks	-	-	3 627 535	-	3 627 535
- Top 20 Russian banks	-	629 795	-	398 439	1 028 234
- Russian clearing organisations	-	-	-	414 369	414 369
- Other Russian banks	-	167 237	-	273	167 510
- Large OECD banks	-	-	84 783	-	84 783
- Other banks	-	-	67 251	-	67 251
Total cash and cash equivalents, excluding cash on hand	**2 245 408**	**797 032**	**3 779 569**	**813 081**	**7 635 090**

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

In thousands of Russian Roubles	**Cash balances with the CBRF (other than mandatory reserves)**	**Correspondent accounts and overnight placements with other banks**		**Cash settlements in progress**	**Total**
		Russian Federation	**Other countries**		
Neither past due nor impaired					
- Central Bank of the Russian Federation	1 500 243	-	-	-	1 500 243
- OECD Banks affiliated with Top 10 State owned Russian Banks	-	-	2 342 479	-	2 342 479
- Top 20 Russian banks	-	315 820	-	243 148	558 968
- Russian clearing organisations	-	-	-	220 368	220 368
- Other Russian banks	-	7 871	-	261	8 132
- Large OECD banks	-	-	38 608	-	38 608
- Other banks	-	-	22 812	-	22 812
Total cash and cash equivalents, excluding cash on hand	**1 500 243**	**323 691**	**2 403 899**	**463 777**	**4 691 610**

The ranking is primarily based on statutory total assets as of 31 December 2011 and 31 December 2010 respectively.

At 31 December 2011 the Group had 1 counterparty bank (2010: 2 banks) with aggregated cash and cash equivalent balances above RR 500 000 thousand. The total aggregate amount of these balances was RR 3 198 890 thousand (2010: RR 2 317 157 thousand) or 26 % of the cash and cash equivalents (2010: 45%).

Refer to Note 32 for the estimated fair value of cash and cash equivalents. Geographical, currency, interest rate and maturity analyses of cash and cash equivalents are detailed in Note 28. Information on related party balances is disclosed in Note 33.

8 Securities and Repurchase receivables

In thousands of Russian Roubles	2011	2010
Trading securities	4 025 160	4 615 231
Repurchase receivables related to trading securities	3 245 933	-
Repurchase receivables related to securities held to maturity	632 736	-
Investment securities available for sale	240 847	474 096
Investment securities held to maturity	150 796	1 082 024
Less: Provision for impairment of securities held to maturity	(5 962)	(21 609)
Total securities and repurchase receivables	**8 289 510**	**6 149 742**

At the period end securities pledged with the CBRF in order to obtain overdraft loans if necessary were RR 325 968 thousand of trading securities and RR 447 409 thousand of investment securities held to maturity (2010: RR 323 373 thousand and RR 496 370 thousand, respectively). The Group did not use the overdraft facility as at 31 December 2011 and 31 December 2010.

Trading securities

In thousands of Russian Roubles	2011	2010
Trading securities		
Bonds of credit and finance organisations	2 171 044	2 613 870
Russian Federation bonds	1 403 920	559 240
Corporate bonds	365 935	877 100
Municipal bonds	84 261	565 021
Total trading securities	**4 025 160**	**4 615 231**
Repurchase receivables related to trading securities		
Bonds of credit and finance organisations	1 685 693	-
Corporate bonds	1 164 474	-
Municipal bonds	395 766	-
Total repurchase receivables related to trading securities	**3 245 933**	**-**
Total trading securities and repurchase receivables related to trading securities	**7 271 093**	**4 615 231**

Bonds of credit and finance organisations represent bonds of domestic banks and financial companies of large domestic corporations.

Corporate bonds represent bonds of large domestic corporations.

Trading securities are carried at fair value, which also reflects any credit risk related write-downs. As trading securities are carried at their fair values based on observable market data, the Group does not analyse or monitor impairment indicators.

8 Securities and Repurchase receivables (Continued)

Repurchase receivables represent securities sold under direct sale and repurchase agreements with CBRF, which the counterparty has the right, by contract, to sell or repledge (Note 13). The repurchase agreements were short-term in nature and matured in January 2012.

Analysis by credit quality of debt trading securities and repurchase receivables related to trading securities outstanding at 31 December 2011 is as follows:

In thousands of Russian Roubles	**Bonds of credit and finance organisations**	**Corporate bonds**	**Russian Federation bonds**	**Municipal bonds**	**Total**
Neither past due nor impaired (at fair value)					
BBB to BBB - rated	562 946	215 901	1 403 920	331 205	2 513 972
BB+ to BB - rated	1 970 853	543 493	-	32 102	2 546 448
B+ rated	810 257	306 307	-	116 721	1 233 285
B to B- rated	512 680	294 274	-	-	806 954
Unrated	-	170 434	-	-	170 434
Total debt trading securities and repurchase receivables related to trading securities	**3 856 736**	**1 530 409**	**1 403 920**	**480 028**	**7 271 093**

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

In thousands of Russian Roubles	**Bonds of credit and finance organisations**	**Corporate bonds**	**Russian Federation bonds**	**Municipal bonds**	**Total**
Neither past due nor impaired (at fair value)					
BBB to BBB - rated	936 048	275 859	559 240	494 379	2 265 526
BB+ to BB - rated	684 808	159 295	-	70 642	914 745
B+ rated	785 154	71 503	-	-	856 657
B to B- rated	207 860	275 108	-	-	482 968
Unrated	-	95 335	-	-	95 335
Total debt trading securities	**2 613 870**	**877 100**	**559 240**	**565 021**	**4 615 231**

The credit ratings are based on Standard & Poor's ratings where available, or Moody's rating converted to the nearest equivalent on the Standard & Poor's rating scale.

The debt trading securities and repurchase receivables related to trading securities are not collateralised.

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

Geographical, currency, interest rate and maturity analyses of trading securities are detailed in Note 28. Information on related party balances is disclosed in Note 33.

8 Securities and Repurchase receivables (Continued)

Investment Securities available for sale

In thousands of Russian Roubles	2011	2010
Investment securities available for sale		
Bonds of credit and finance organisations	208 399	439 872
Shares	32 448	34 224
Total investment securities available for sale	**240 847**	**474 096**

Analysis by credit quality of debt investment securities available for sale is as follows:

In thousands of Russian Roubles	2011	2010
Bonds of credit and finance organisations		
Neither past due nor impaired		
- AAA rated	-	50 440
- Unrated domestically listed bonds of a major Russian debt collection agency	208 399	389 432
Total debt investment securities available for sale	**208 399**	**439 872**

The credit ratings are based on Standard & Poor’s ratings where available, or Moody’s rating converted to the nearest equivalent on the Standard & Poor’s rating scale.

The debt securities available for sale are not collateralised.

Investment securities available for sale include equity securities with a carrying value of RR 32 448 thousand (2010: RR 34 224 thousand) which are not publicly traded. Due to the nature of the local financial markets, it is not possible to obtain current market value for these investments. For these investments, fair value is estimated by reference to the investee’s net asset value. For other investments traded in active markets, fair value is determined by reference to the current market value at the close of business on 31 December. Geographical, currency, interest rate and maturity analyses of investment securities available for sale are detailed in Note 28. Information on related party balances is disclosed in Note 33.

8 Securities and Repurchase receivables (Continued)

Investment Securities Held to Maturity and Repurchase Receivables

In thousands of Russian Roubles	**31 December 2011**	**31 December 2010**
Investment Securities Held to Maturity		
Bonds of credit and finance organisations	125 692	508 180
Corporate bonds	25 104	21 609
Municipal bonds	-	350 146
Russian Federation bonds	-	202 089
Less: Provision for impairment of securities held to maturity	(5 962)	(21 609)
Total investment securities held to maturity	**144 834**	**1 060 415**
Repurchase receivables related to investment securities held to maturity		
Bonds of credit and finance organisations	333 001	**-**
Municipal bonds	299 735	**-**
Total repurchase receivables related to investment securities held to maturity	**632 736**	**-**
Total investment securities held to maturity and repurchase receivables related to investment securities held to maturity	**777 570**	**1 060 415**

Repurchase receivables represents securities sold under sale and repurchase agreements which the counterparty has the right, by contract or custom, to sell or re-pledge. The repurchase agreements were short-term in nature and matured in January 2012. The debt securities classified as repurchase receivables were provided as collateral under direct sale and repurchase agreements with the CBRF.

Analysis by credit quality of investment securities classified as held to maturity at 31 December 2011 is as follows:

In thousands of Russian Roubles	**Bonds of credit and finance organi-sations**	**Municipal bonds**	**Corporate bonds**	**Russian Federation bonds**	**Total**
Neither past due nor impaired					
- A + to BBB - rated	250 193	-	-	-	250 193
- BB+ to BB - rated	208 500	299 735	-	-	508 235
Impaired					
- Unrated	-	-	19 142	-	19 142
Total debt investment securities held to maturity and repurchase receivables related to investment securities held to maturity	**458 693**	**299 735**	**19 142**	**-**	**777 570**

8 Securities and Repurchase receivables (Continued)

Analysis by credit quality of investment securities classified as held to maturity at 31 December 2010 is as follows:

In thousands of Russian Roubles	**Bonds of credit and finance organisations**	**Municipal bonds**	**Corporate bonds**	**Russian Federation bonds**	**Total**
Neither past due nor impaired					
- A + to BBB - rated	453 841	-	-	202 089	655 930
- BB+ to BB - rated	54 339	350 146	-	-	404 485
Total debt securities held to maturity	**508 180**	**350 146**	**-**	**202 089**	**1 060 415**

The credit ratings are based on Standard & Poor's ratings where available, or Moody's rating converted to the nearest equivalent on the Standard & Poor's rating scale.

The debt securities held to maturity and repurchase receivables related to investment securities held to maturity are not collateralised.

Refer to Note 32 for the fair value of investment securities held to maturity. Geographical, currency, interest rate and maturity analyses of investment securities held to maturity are detailed in Note 28. Information on related party balances is disclosed in Note 33.

9 Due from Other Banks

In thousands of Russian Roubles	**2011**	**2010**
Interbank loans	1 376 952	864 813
Promissory notes	-	702 852
Reverse sale and repurchase agreement	-	200 280
Deposits with banks	-	86 180
Total due from other banks	**1 376 952**	**1 854 125**

At 31 December 2011 the Group had balances with 6 counterparty banks (2010: 5 banks) with aggregated amounts above RR 100 000 thousand. The total aggregate amount of these placements was RR 1 303 176 thousand (2010: RR 1 607 568 thousand) or 94.4% of the total amount due from other banks (2010: 86.6%).

9 Due from Other Banks (Continued)

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

In thousands of Russian Roubles	**Interbank loans**	**Deposits with banks**	**Reverse sale and repurchase agreement**	**Promissory notes**	**Total**
Neither past due nor impaired					
- Top 20 Russian banks	150 973	-	-	-	150 973
- Top 21 - 50 Russian Banks	561 757	-	-	-	561 757
- Top 51 -100 Russian Banks	389 979	-		-	389 979
- Top 101 -150 Russian Banks	200 467	-	-	-	200 467
- Top 151 -200 Russian Banks	51 521	-	-	-	51 521
- Other Russian banks	19 007	-	-	-	19 007
- Other banks	3 248	-	-	-	3 248
Total neither past due nor impaired	**1 376 952**	**-**	**-**	**-**	**1 376 952**
Total due from other banks	**1 376 952**	**-**	**-**	**-**	**1 376 952**

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

In thousands of Russian Roubles	**Interbank loans**	**Deposits with banks**	**Reverse sale and repurchase agreement**	**Promissory notes**	**Total**
Neither past due nor impaired					
- Top 20 Russian banks	-	86 180	200 280	702 852	989 312
- Top 21 - 50 Russian Banks	403 792	-	-	-	403 792
- Top 51 - 100 Russian Banks	200 614	-	-	-	200 614
- Top 101 - 150 Russian Banks	190 191	-	-	-	190 191
- Other Russian banks	70 216	-	-	-	70 216
Total neither past due nor impaired	**864 813**	**86 180**	**200 280**	**702 852**	**1 854 125**
Total due from other banks	**864 813**	**86 180**	**200 280**	**702 852**	**1 854 125**

The ranking is primarily based on statutory total assets as of 31 December 2011 and 31 December 2010 respectively.

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

The effect of collateral at 31 December 2010:

	Over-collateralised assets		**Under-collateralised assets**	
In thousands of Russian Roubles	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Reverse sale and repurchase agreements with other banks	200 280	222 293	-	-

9 Due from Other Banks (Continued)

Except for reverse sale and repurchase agreements, amounts due from other banks are not collateralised.

Refer to Note 32 for the estimated fair value of due from other banks. Geographical, currency, interest rate and maturity analyses of the balances due from other banks are detailed in Note 28. Information on related party balances is disclosed in Note 33.

10 Loans and Advances to Customers

This note covers both loans originated and purchased by the Group.

In thousands of Russian Roubles	**31 December 2011**	**31 December 2010**
Loans and advances to individuals	109 943 236	71 583 096
Loans and advances to corporate customers	3 292 117	4 403 900
Total gross loans and advances to customers	**113 235 353**	**75 986 996**
Less: Provision for loan impairment	(5 793 910)	(5 829 562)
Total loans and advances to customers	**107 441 443**	**70 157 434**

As at 31 December 2011 and 2010 loans and advances to individuals comprise:

In thousands of Russian Roubles	**31 December 2011**	**31 December 2010**
Consumer loans	62 787 892	50 219 081
Credit cards	24 608 511	4 611 059
SME loans	5 963 813	2 731 676
Car loans	5 606 712	3 378 841
Mortgage loans	1 581 503	2 014 634
Other loans	9 394 805	8 627 805
Total gross loans and advances to individuals	**109 943 236**	**71 583 096**
Less: Provision for loan impairment	(5 438 161)	(5 410 551)
Total loans and advances to individuals	**104 505 075**	**66 172 545**

Other loans represent retail loans purchased from other banks.

10 Loans and Advances to Customers (Continued)

As at 31 December 2011 and 2010 loans and advances to corporate customers comprise:

In thousands of Russian Roubles	**31 December 2011**	**31 December 2010**
Corporate loans	2 516 893	3 700 579
Reverse sale and repurchase agreements	516 536	539 741
SME loans	258 688	148 747
Finance leasing	-	14 833
Total gross loans and advances to corporate customers	**3 292 117**	**4 403 900**
Less: Provision for loan impairment	(355 749)	(419 011)
Total loans and advances to corporate customers	**2 936 368**	**3 984 889**

The Group has a right to sell or repledge securities with a fair value of RR 604 303 thousand (2010: RR 588 126 thousand) received under reverse sale and repurchase agreements.

Movements in the provision for impairment of loans to individuals during 2011 are as follows:

In thousands of Russian Roubles	**Consumer loans**	**Credit cards**	**Mortgage loans**	**Car loans**	**SME loans**	**Other loans**	**Total**
Provision for impairment of loans to individuals at 1 January 2011	**2 800 807**	**238 299**	**278 185**	**451 180**	**84 582**	**1 557 498**	**5 410 551**
Provision for impairment during the year	2 406 936	723 612	53 575	77 387	83 330	656 286	4 001 126
Provision used on sale of loans	(1 953 232)	(198 163)	(21 635)	(114 329)	(55 834)	(1 630 323)	(3 973 516)
Provision for impairment of loans to individuals at 31 December 2011	**3 254 511**	**763 748**	**310 125**	**414 238**	**112 078**	**583 461**	**5 438 161**

Movements in the provision for impairment of loans to corporate customers during 2011 are as follows:

In thousands of Russian Roubles	**Corporate loans**	**SME loans**	**Finance leasing**	**Total**
Provision for impairment of loans to corporate customers at 1 January 2011	**379 880**	**36 699**	**2 432**	**419 011**
(Recovery of)/provision for impairment during the year	(57 813)	33 695	(2 432)	(26 550)
Provision used on sale of loans	-	(36 712)	-	(36 712)
Provision for impairment of loans to corporate customers at 31 December 2011	**322 067**	**33 682**	**-**	**355 749**

10 Loans and Advances to Customers (Continued)

Movements in the provision for impairment of loans to individuals during 2010 are as follows:

In thousands of Russian Roubles	Consumer loans	Credit cards	Mortgage loans	Car loans	SME loans	Other loans	Total
Provision for impairment of loans to individuals at 1 January 2010	**1 267 630**	**88 560**	**103 383**	**167 674**	**31 434**	**1 499 632**	**3 158 313**
Provision for impairment during the year	1 533 177	149 739	174 802	283 506	53 148	57 866	2 252 238
Provision for impairment of loans to individuals at 31 December 2010	**2 800 807**	**238 299**	**278 185**	**451 180**	**84 582**	**1 557 498**	**5 410 551**

Movements in the provision for impairment of loans to corporate customers during 2010 are as follows:

In thousands of Russian Roubles	Corporate loans	SME loans	Finance leasing	Total
Provision for impairment of loans to corporate customers at 1 January 2010	**254 611**	**67 081**	**9 189**	**330 881**
Provision/ (Recovery of provision) for impairment during the year	311 549	(30 382)	(6 757)	274 410
Provision used on sale of loans	(186 280)	-	-	(186 280)
Provision for impairment of loans to corporate customers at 31 December 2010	**379 880**	**36 699**	**2 432**	**419 011**

During the year 2011 the Bank disposed of loans and advances to customers under cession agreements with the total gross value of RR 8 475 744 thousand (2010: RR 4 584 592 thousand) with cash proceeds of RR 4 018 729 thousand (2010: RR 4 621 650 thousand), receivable cash proceeds of RR 501 176 thousand (2010: 383 909 thousand), and service fee asset of RR 21 641 thousand (2010: RR 191 158 thousand). As of the date of disposal these loans were provided for impairment in the total amount of RR 4 010 228 thousand (2010: RR 186 280 thousand). The net financial result of a loan disposal during 2011 year recognized in the statement of comprehensive income was RR 76 030 thousand (2010: 798 405 thousand). The loans were disposed of by transferring the contractual rights to receive the cash flows to other banks, collection agencies, other legal entities and related parties (Note 33).

10 Loans and Advances to Customers (Continued)

During the year ended 31 December 2010 the Bank repurchased the loans previously sold to MDM Bank in the financial year ended 31 December 2008. The loans repurchased were recognised initially at fair value plus transaction costs. Management considered whether the outstanding balance of the service fee asset should be treated as part of carrying value of the loans at initial recognition. If service asset was included in the carrying value of the repurchased loans, the average effective rate on the loans would be approximately 11% while the average effective interest rate on similar loans issued by the bank at that time was approximately 23%. Based on that the management concluded that the service fee asset should not be included in the carrying value of the loans and recorded an accelerated amortisation of the respective service fee asset in the amount of RR 360 722 thousand in the statement of comprehensive income for the year ended 31 December 2010. The loans were repurchased from a bank where a significant shareholder of the Group held a management position and was a significant shareholder.

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

	2011		2010	
In thousands of Russian Roubles	**Amount**	**%**	**Amount**	**%**
Individuals	109 943 236	97.1	71 583 096	94.2
Financial services	1 416 168	1.3	1 033 271	1.4
Manufacturing	524 970	0.5	984 156	1.3
Trade	398 168	0.4	1 029 153	1.4
Other	952 811	0.8	1 357 320	1.8
Total loans and advances to customers (before impairment provision)	**113 235 353**	**100.0**	**75 986 996**	**100.0**

Information about collateral on loans to individuals at 31 December 2011 is as follows:

In thousands of Russian Roubles	**Consumer loans**	**Credit cards**	**SME loans**	**Mortgage loans**	**Car loans**	**Other loans**	**Total**
Unsecured loans	57 963 483	24 599 344	5 488 348	121 988	4 333 885	1 420 095	93 927 143
Loans guaranteed by other parties, including credit insurance	4 393 554	2 287	411 037	42 533	86 359	341 847	5 277 617
Loans collateralised by:							
- residential real estate	-	-	-	1 416 982	-	5 483 081	6 900 063
- securities traded on active markets	143 500	-	-	-	-	-	143 500
- other assets	287 355	6 880	64 428	-	1 186 468	2 149 782	3 694 913
Total loans and advances to individuals (before impairment)	**62 787 892**	**24 608 511**	**5 963 813**	**1 581 503**	**5 606 712**	**9 394 805**	**109 943 236**

Other assets mainly include receivables and equipment. The disclosure above represents the lower of the carrying value of the loan or collateral taken; the remaining part is disclosed within the unsecured exposures. The carrying value of loans was allocated based on liquidity of the assets taken as collateral.

10 Loans and Advances to Customers (Continued)

Information about collateral on loans to corporate customers at 31 December 2011 is as follows:

In thousands of Russian Roubles	Corporate loans	SME loans	Reverse sale and repurchase agreements	Total
Unsecured loans	560 166	44 649	-	604 815
Loans guaranteed by other banks	170 683	-	-	170 683
Loans collateralised by:				
- residential real estate	57 410	22 511	-	79 921
- other real estate	663 365	107 195		770 560
- securities traded on active markets	-	-	516 536	516 536
- cash deposits	200 726	-	-	200 726
- loans to third parties	813 488	-	-	813 488
- other assets	51 055	84 333	-	135 388
Total loans and advances to legal entities (before impairment)	**2 516 893**	**258 688**	**516 536**	**3 292 117**

Information about collateral on loans to individuals at 31 December 2010 is as follows:

In thousands of Russian Roubles	Consumer loans	Credit cards	SME loans	Mortgage loans	Car loans	Other loans	Total
Unsecured loans	46 594 309	4 606 314	2 433 209	613 044	1 885 203	5 135 968	61 268 047
Loans guaranteed by other parties, including credit insurance	3 439 956	659	252 506	43 309	38 850	42 724	3 818 004
Loans collateralised by:							
- residential real estate	-	-	-	1 358 281	-	3 449 113	4 807 394
- other assets	184 816	4 086	45 961	-	1 454 788	-	1 689 651
Total loans and advances to individuals (before impairment)	**50 219 081**	**4 611 059**	**2 731 676**	**2 014 634**	**3 378 841**	**8 627 805**	**71 583 096**

Information about collateral on loans to corporate customers at 31 December 2010 is as follows:

In thousands of Russian Roubles	Corporate loans	SME loans	Reverse sale and repurchase agreements	Finance leasing	Total
Unsecured loans	860 071	16 132	-	-	876 203
Loans collateralised by:					
- residential real estate	98 062	598	-	-	98 660
- other real estate	1 771 125	70 077	-	-	1 841 202
- securities traded on active markets	-	-	539 741	-	539 741
- cash deposits	3	-	-	-	3
- loans to third parties	834 942				834 942
- other assets	136 376	61 940	-	14 833	213 149
Total loans and advances to legal entities (before impairment)	**3 700 579**	**148 747**	**539 741**	**14 833**	**4 403 900**

10 Loans and Advances to Customers (Continued)

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

In thousands of Russian Roubles	**Consumer loans**	**Credit cards**	**Mortgage loans**	**Car loans**	**SME loans**	**Other loans**	**Total**
Neither past due nor impaired							
Non classified loans	4 743 214	5 798 502	40 441	540 453	858 855	-	11 981 465
Good loans	11 935 728	1 551 282	436 484	784 618	740 732	-	15 448 844
Loans without overdue payments at reporting date							
- Loans with history of 1 to 6 on-time payments and no past due payments	18 945 005	5 870 493	128 517	2 109 192	2 470 133	3 960 799	33 484 139
- Loans with history of past due payments of up to 15 days	13 436 874	3 488 126	313 326	1 040 654	1 290 806	1 357 754	20 927 540
- Loans with history of past due payments of up to 30 days.	2 625 587	1 178 196	135 859	192 450	128 574	383 570	4 644 236
- Other loans	3 303 662	3 960 226	159 687	221 207	136 833	1 188 421	8 970 036
Total neither past due nor impaired (gross)	**54 990 070**	**21 846 825**	**1 214 314**	**4 888 574**	**5 625 933**	**6 890 544**	**95 456 260**
Overdue but not impaired loans							
- Loans with payments that are overdue by no more than 30 days at reporting date	2 905 557	1 264 830	10 927	202 210	165 950	511 225	5 060 699
Total overdue but not impaired loans	**2 905 557**	**1 264 830**	**10 927**	**202 210**	**165 950**	**511 225**	**5 060 699**
Loans individually determined to be impaired							
- Loans with payments that are overdue by 30 – 90 days	1 393 140	690 182	39 121	77 353	57 037	334 452	2 591 285
- Loans with payments that are overdue by 90 – 180 days	960 805	408 092	16 015	46 244	39 948	183 436	1 654 540
- Loans with payments that are overdue by 180 – 360 days	1 454 616	293 049	44 524	50 187	47 733	356 885	2 246 994
- Loans with payments that are overdue over 360 days	1 083 704	105 533	256 602	342 144	27 212	1 118 263	2 933 458
Total individually impaired loans (gross)	**4 892 265**	**1 496 856**	**356 262**	**515 928**	**171 930**	**1 993 036**	**9 426 277**
Total loans and advances to individuals (gross)	**62 787 892**	**24 608 511**	**1 581 503**	**5 606 712**	**5 963 813**	**9 394 805**	**109 943 236**
Less impairment provisions	**(3 254 511)**	**(763 748)**	**(310 125)**	**(414 238)**	**(112 078)**	**(583 461)**	**(5 438 161)**
Total loans and advances to individuals	**59 533 381**	**23 844 763**	**1 271 378**	**5 192 474**	**5 851 735**	**8 811 344**	**104 505 075**

10 Loans and Advances to Customers (Continued)

Analysis of credit quality of loans to corporate customers outstanding at 31 December 2011 is as follows:

In thousands of Russian Roubles	Corporate loans	SME loans	Reverse sale and repurchase agreements		Total
Neither past due nor impaired					
Non classified loans	220 771	163	-	-	220 934
Good loans	831 941	-	516 536	-	1 348 477
Other current loans	923 811	161 595	-	-	1 085 406
Rolled-over loans	51 240	8 071	-	-	59 311
Total neither past due nor impaired (gross)	**2 027 763**	**169 829**	**516 536**	**-**	**2 714 128**
Overdue but not impaired loans					
- Loans with payments that are overdue by no more than 30 days at reporting date	-	9 979	-		9 979
Total overdue but not impaired loans	**-**	**9 979**	**-**		**9 979**
Loans individually determined to be impaired					
- Loans with payments that are overdue by 30 – 60 days	24 321	14 016	-		38 337
- Loans with payments that are overdue by 60 – 90 days	116 075	16 122	-		132 197
- Loans with payments that are overdue by 90 – 180 days	67 443	14 457	-		81 900
- Loans with payments that are overdue by 180 – 360 days	117 226	27 108	-		144 334
- Loans with payments that are overdue over 360 days	164 065	7 177	-		171 242
Total individually impaired loans (gross)	**489 130**	**78 880**	**-**	**-**	**568 010**
Total loans and advances to legal entities (gross)	**2 516 893**	**258 688**	**516 536**	**-**	**3 292 117**
Less impairment provisions	**(322 067)**	**(33 682)**	**-**	**-**	**(355 749)**
Total loans and advances to legal entities	**2 194 826**	**225 006**	**516 536**	**-**	**2 936 368**

10 Loans and Advances to Customers (Continued)

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

In thousands of Russian Roubles	**Consumer loans**	**Credit cards**	**Mortgage loans**	**Car loans**	**SME loans**	**Other loans**	**Total**
Neither past due nor impaired							
Non classified loans	5 520 531	429 546	152 301	103 926	318 303	-	6 524 607
Good loans	7 582 245	488 895	502 134	763 835	441 669	-	9 778 778
Loans without overdue payments at reporting date							
- Loans with history of 1 to 6 on-time payments and no past due payments	19 380 880	857 457	173 884	679 358	1 119 799	4 450 019	26 661 397
- Loans with history of past due payments of up to 15 days	9 002 823	1 114 485	362 368	740 928	617 086	-	11 837 690
- Loans with history of past due payments of up to 30 days.	1 580 959	488 746	100 407	202 077	54 947	-	2 427 136
- Other loans	565 497	594 622	237 328	197 196	27 240	1 034 302	2 656 185
Total neither past due nor impaired (gross)	**43 632 935**	**3 973 751**	**1 528 422**	**2 687 320**	**2 579 044**	**5 484 321**	**59 885 793**
Overdue but not impaired loans							
- Loans with payments that are overdue by no more than 30 days at reporting date	1 851 835	248 989	110 518	113 960	62 075	418 238	2 805 615
Total overdue but not impaired loans	**1 851 835**	**248 989**	**110 518**	**113 960**	**62 075**	**418 238**	**2 805 615**
Loans individually determined to be impaired							
- Loans with payments that are overdue by 30 – 90 days	1 109 983	137 922	40 774	63 468	26 730	434 617	1 813 494
- Loans with payments that are overdue by 90 – 180 days	848 290	104 021	39 550	49 066	22 356	246 540	1 309 823
- Loans with payments that are overdue by 180 – 360 days	918 598	99 696	96 623	72 269	20 427	303 153	1 510 766
- Loans with payments that are overdue over 360 days	1 857 440	46 680	198 747	392 758	21 044	1 740 936	4 257 605
Total individually impaired loans (gross)	**4 734 311**	**388 319**	**375 694**	**577 561**	**90 557**	**2 725 246**	**8 891 688**
Total loans and advances to individuals (gross)	**50 219 081**	**4 611 059**	**2 014 634**	**3 378 841**	**2 731 676**	**8 627 805**	**71 583 096**
Less impairment provisions	**(2 800 807)**	**(238 299)**	**(278 185)**	**(451 180)**	**(84 582)**	**(1 557 498)**	**(5 410 551)**
Total loans and advances to individuals	**47 418 274**	**4 372 760**	**1 736 449**	**2 927 661**	**2 647 094**	**7 070 307**	**66 172 545**

10 Loans and Advances to Customers (Continued)

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

In thousands of Russian Roubles	Corporate loans	SME loans	Reverse sale and repurchase agreements	Finance leasing	Total
Neither past due nor impaired					
Good loans	1 534 811	5 604	539 741	-	2 080 156
Other current loans	1 720 728	100 083	-	8 151	1 828 962
Rolled-over loans	30 931	-	-	-	30 931
Total neither past due nor impaired (gross)	**3 286 470**	**105 687**	**539 741**	**8 151**	**3 940 049**
Overdue but not impaired loans					
- Loans with payments that are overdue by no more than 30 days at reporting date	55 307	647	-	1 283	57 237
Total overdue but not impaired loans	**55 307**	**647**	**-**	**1 283**	**57 237**
Loans individually determined to be impaired					
- Loans with payments that are overdue by 30 – 60 days	34 837	1 682	-	992	37 511
- Loans with payments that are overdue by 60 – 90 days	28 597	-	-	-	28 597
- Loans with payments that are overdue by 90 – 180 days	57 029	210	-	383	57 622
- Loans with payments that are overdue by 180 – 360 days	78 719	7 182	-	379	86 280
- Loans with payments that are overdue over 360 days	159 620	33 339	-	3 645	196 604
Total individually impaired loans (gross)	**358 802**	**42 413**	**-**	**5 399**	**406 614**
Total loans and advances to legal entities (gross)	**3 700 579**	**148 747**	**539 741**	**14 833**	**4 403 900**
Less impairment provisions	**(379 880)**	**(36 699)**	**-**	**(2 432)**	**(419 011)**
Total loans and advances to legal entities	**3 320 699**	**112 048**	**539 741**	**12 401**	**3 984 889**

10 Loans and Advances to Customers (Continued)

The Group applied the portfolio provisioning methodology prescribed by IAS 39, *Financial Instruments: Recognition and Measurement*, and created portfolio provisions for impairment losses that were incurred, but have not been specifically identified with any individual loan, by the end of the reporting period. The Group's policy is to classify each loan as 'neither past due nor impaired' until specific objective evidence of impairment of the loan is identified. The impairment provisions may exceed the total gross amount of individually impaired loans as a result of this policy and the portfolio impairment methodology.

The Group's internal ratings scale includes the following categories:

- Non classified loans – loans originated close to the reporting date. No payments were due on those loans from the date of origination to the reporting date, and there is no evidence of impairment at the reporting date.

- Good loans – loans with all payments (six payments or more), from origination date to reporting date, being done on time.

- Loans without overdue payments at reporting date – loans with no overdue payments at reporting date, but with at least one past due payment from origination date to reporting date which was paid by the reporting date.

- Other loans – include all other loans that do not fall into categories set out above.

Loans to entrepreneurs-individuals are classified as SME loans to individuals, loans to SME legal entities are classified as SME corporate loans.

The primary factors that the Group considers in determining whether a loan is impaired are its overdue status and realisability of related collateral, if any.

The financial effect of collateral is presented by disclosing collateral values separately for (i) those assets where collateral and other credit enhancements are equal to or exceed carrying value of the asset ("over-collateralised assets") and (ii) those assets where collateral and other credit enhancements are less than the carrying value of the asset ("under-collateralised assets"). The effect of collateral at 31 December 2011:

	Over-collateralised assets		**Under-collateralised assets**	
In thousands of Russian Roubles	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Consumer loans	221 865	655 253	59 311 516	196 245
Credit cards	6 492	388 687	23 838 271	-
SME loans	98 638	234 446	5 753 097	19 638
Mortgage loans	1 136 276	2 729 145	135 102	23 139
Car loans	839 260	2 066 682	4 353 214	52 804
Other loans	7 630 391	22 265 694	1 180 953	140 457
Total loans to individuals	**9 932 922**	**28 339 907**	**94 572 153**	**432 283**

	Over-collateralised assets		**Under-collateralised assets**	
In thousands of Russian Roubles	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Corporate loans	1 595 802	3 855 580	599 023	252 933
SME loans	156 729	481 863	68 278	52 613
Reverse sale and repurchase agreements	516 536	604 303	-	-
Total loans to corporate customers	**2 269 067**	**4 941 746**	**667 301**	**305 546**

10 Loans and Advances to Customers (Continued)

The effect of collateral at 31 December 2010:

In thousands of Russian Roubles	**Over-collateralised assets** Carrying value of the assets	**Over-collateralised assets** Fair value of collateral	**Under-collateralised assets** Carrying value of the assets	**Under-collateralised assets** Fair value of collateral
Consumer loans	164 668	420 430	47 253 606	67 903
Credit cards	2 891	213 686	4 369 869	900
Mortgage loans	1 067 974	2 172 131	668 475	3 609
Car loans	1 108 097	2 311 240	1 819 564	72 421
SME loans	65 711	129 448	2 581 383	7 070
Other loans	3 491 772	10 439 207	3 578 535	-
Total loans to individuals	**5 901 113**	**15 686 142**	**60 271 432**	**151 903**

In thousands of Russian Roubles	**Over-collateralised assets** Carrying value of the assets	**Over-collateralised assets** Fair value of collateral	**Under-collateralised assets** Carrying value of the assets	**Under-collateralised assets** Fair value of collateral
Corporate loans	2 864 775	5 649 814	455 924	230 746
Reverse sale and repurchase agreements	539 741	588 126	-	-
SME loans	108 884	358 637	3 164	515
Finance leasing	12 401	12 401	-	-
Total loans to corporate customers	**3 525 801**	**6 608 978**	**459 088**	**231 261**

Refer to Note 32 for the estimated fair value of each class of loans and advances to customers. Geographical, currency, interest rate and maturity analyses of loans and advances to customers are detailed in Note 28. Information on related party balances is disclosed in Note 33.

11 Premises and Equipment

In thousands of Russian Roubles	Land	Premises	Construction in progress	Equipment	Total
Cost					
1 January 2010	**3 861**	**2 350 990**	**147 537**	**1 059 381**	**3 561 769**
Business combination (Note 23)	121	58 364	-	243 173	301 658
Additions	-	147 022	156 828	77 675	381 525
Disposals	-	(47 278)	-	(119 164)	(166 442)
Transferred	-	67 634	(102 787)	35 153	-
31 December 2010	**3 982**	**2 576 732**	**201 578**	**1 296 218**	**4 078 510**
Additions	2 549	477 005	151 996	310 908	942 458
Disposals	-	(309 750)	-	(85 914)	(395 664)
Transferred	-	8 719	(171 702)	162 983	-
Subsidiary disposal (Note 24)	-	-	-	(56 212)	(56 212)
31 December 2011	**6 531**	**2 752 706**	**181 872**	**1 627 983**	**4 569 092**
Depreciation					
1 January 2010	**-**	**141 610**	**-**	**586 747**	**728 357**
Charge	-	32 866	-	213 910	246 776
Disposals	-	(8 837)	-	(49 800)	(58 637)
31 December 2010	**-**	**165 639**	**-**	**750 857**	**916 496**
Charge	-	36 030	-	258 512	294 542
Disposals	-	(42 537)	-	(55 478)	(98 015)
Subsidiary disposal	-	-	-	(50 783)	(50 783)
31 December 2011	**-**	**159 132**	**-**	**903 108**	**1 062 240**
Net book values					
1 January 2010	**3 861**	**2 209 380**	**147 537**	**472 634**	**2 833 412**
31 December 2010	**3 982**	**2 411 093**	**201 578**	**545 361**	**3 162 014**
31 December 2011	**6 531**	**2 593 574**	**181 872**	**724 875**	**3 506 852**

Construction in progress consists of premises that are under construction as well as equipment, which has not been put into operation yet.

As at 31 December 2011 premises and equipment of the Group were insured for RUB 1 672 964 thousand with Russian insurance companies (2010: RUB 1 621 810 thousand).

12 Other Assets

In thousands of Russian Roubles	Note	2011	2010
Other financial assets			
Settlements with exchanges		953 087	239 188
Debtors for sale of loans		501 176	383 909
Debtors and prepayments		440 893	34 810
Service fee asset		83 219	116 143
Foreign currency spots and forwards	31	53 698	12 768
Settlements with State Insurance Agency (ASV)		5 276	255 031
Other financial assets		41 608	41 652
Total gross other financial assets		**2 078 957**	**1 083 501**
Less: Provision for impairment of other financial assets		(350 379)	(337 983)
Total other financial assets		**1 728 578**	**745 518**
Other non-financial assets			
Prepayments for services and equipment		454 645	252 588
Prepayment for profit tax		272 859	11 914
Repossessed collateral		201 061	227 327
Other non-financial assets		-	3 413
Total gross other non-financial assets		**928 565**	**495 242**
Less: Provision for impairment of other non-financial assets		(46 685)	(90 461)
Total other non-financial assets		**881 880**	**404 781**
Total other assets		**2 610 458**	**1 150 299**

Settlements with exchanges represent a security deposit for trade in foreign currency and the balance depends on the size of the deals. The exchanges block the balances and the Bank’s access to money is thus restricted until the relevant deals are complete.

Debtors for sale of loans are balances due from counterparties for loans sold to them.

Debtors and prepayments represent settlements with suppliers, employees, and other debtors.

Settlements with the State Insurance Agency represent amounts compensated to customers of a bankrupt bank “SIR” and due to be received from State Insurance Agency under agency agreement between the Bank and State Insurance Agency.

Repossessed collateral is represented by real estate, cars, inventory and other items acquired by the Group in settlement of overdue loans. The Group expects to dispose of the assets in the foreseeable future.

12 Other Assets (Continued)

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

In thousands of Russian Roubles	Debtors and prepayments	Debtor for sale of loans	Other financial assets	Total
Provision for impairment at 1 January 2011	**102 559**	**315 216**	**10 669**	**428 444**
Provision for impairment during the year	(1 387)	(28 100)	(1 893)	(31 380)
Provision for impairment at 31 December 2011	**101 172**	**287 116**	**8 776**	**397 064**

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

In thousands of Russian Roubles	Debtors and prepayments	Debtor for sale of loans	Other financial assets	Total
Provision for impairment at 1 January 2010	**31 715**	**137 429**	**7 810**	**176 954**
Provision for impairment during the year	70 844	177 787	2 859	251 490
Provision for impairment at 31 December 2010	**102 559**	**315 216**	**10 669**	**428 444**

At 31 December 2011 the provision for impairment of other assets includes provision for impairment of RR 46 685 thousand (2010: RR 90 461 thousand) in respect of prepayments for services and equipment.

Analysis by credit quality of debtors for sale of loans is as follows:

In thousands of Russian Roubles	2011	2010
Debtors for sale of loans		
Receivables individually determined to be impaired (gross)		
- Not due at the reporting date	248 593	252 799
- Rolled-over receivables	248 000	-
- 31 to 90 days overdue	383	-
- 91 to 180 days overdue	4 200	-
- over 360 days overdue	-	131 110
Total debtors for sale of loans individually impaired (gross)	**501 176**	**383 909**
Less impairment provision for debtors for sale of loans	**(287 116)**	**(315 216)**
Total debtors for sale of loans	**214 060**	**68 693**

12 Other Assets (Continued)

Management of the Bank believes that provision for impairment of RR 109 948 thousand (2010: RR 113 228 thousand) that relates to other assets apart from those disclosed in the table above, is sufficient to cover losses incurred on those assets.

The primary factors that the Group considers in determining whether a receivable is impaired are its overdue status and realisability of related collateral, if any. As a result, the Group presents above an ageing analysis of receivables that are individually determined to be impaired.

Refer to Note 32 for the estimated fair value of each class of other financial assets. Geographical, currency, and maturity analyses of other financial assets are detailed in Note 28. Information on related party balances is disclosed in Note 33.

13 Due to Other Banks

In thousands of Russian Roubles	**Note**	**2011**	**2010**
Direct sale and repurchase agreements with CBRF	8,30	3 012 633	-
Unsecured short term loans from Russian commercial banks		2 249 098	60 014
Correspondent accounts and overnight placements of other banks		81 525	63 857
Total due to other banks		**5 343 256**	**123 871**

At 31 December 2011, included in amounts due to other banks are liabilities of RR 3 012 633 thousand (2010: none) from sale and repurchase agreements. Refer to Notes 8 and 30.

At 31 December 2011, an unsecured short term loans bear an interest rate of 5.6% (2010: 2.75%) and mature in January 2012 (2010: January 2011).

Refer to Note 32 for the disclosure of the fair value of each class of amounts due to other banks. Geographical, currency, interest rate and maturity analyses of the balances due to other banks are detailed in Note 28. Information on related party balances is disclosed in Note 33.

14 Customer Accounts

In thousands of Russian Roubles	**2011**	**2010**
State and public organisations		
- Current/settlement accounts	250 173	1 422 190
- Term deposits	1 635 860	1 385 142
Other legal entities		
- Current/settlement accounts	4 357 761	4 460 614
- Term deposits	5 283 303	3 297 567
Individuals		
- Current/demand accounts	18 404 937	14 802 298
- Term deposits	76 103 240	48 007 146
Total customer accounts	**106 035 274**	**73 374 957**

14 Customer Accounts (Continued)

Economic sector concentrations within customer accounts are as follows:

	2011		2010	
In thousands of Russian Roubles			Amount	%
Individuals	94 508 177	89.1%	62 809 444	85.6%
Financial intermediation	4 383 044	4.1%	3 159 275	4.3%
Construction	1 566 238	1.5%	1 229 160	1.7%
Manufacturing	1 188 949	1.1%	1 039 305	1.4%
Wholesale and retail trade	1 052 594	1.0%	978 061	1.3%
Education	648 717	0.6%	1 220 316	1.7%
Electricity, gas and water supply	471 703	0.4%	239 435	0.3%
Real estate, renting	429 827	0.4%	165 904	0.2%
Transport, storage and communications	292 237	0.3%	629 142	0.9%
Trade unions, non-for-profit organizations, individuals entrepreneurs	283 954	0.3%	243 770	0.3%
Agriculture, hunting and forestry	140 294	0.1%	174 127	0.2%
Hotels and restaurants	49 806	0.0%	34 817	0.0%
Shipping	42 669	0.0%	32 153	0.0%
Health and social work	36 155	0.0%	50 050	0.1%
Fishing	8 427	0.0%	2 138	0.0%
Other	932 483	0.9%	1 367 860	1.9%
Total customer accounts	**106 035 274**	**100%**	**73 374 957**	**100%**

At 31 December 2011 deposits and current accounts of the Group's ten largest depositors amounted to RUB 5 655 010 thousand or 5.59 % of total customer accounts (2010: RUB 5 783 139 thousand or 7.90%).

Refer to Note 32 for the disclosure of the fair value of each class of customer accounts. Geographical, currency, interest rate and maturity analyses of customer accounts are detailed in Note 28. Information on related party balances is disclosed in Note 33.

15 Debt Securities Issued

In thousands of Russian Roubles	2011	2010
Bonds issued on domestic market, 2nd tranche (RR 2 000 000 thousand), matures in September 2014, coupon 10.5%	2 053 500	-
Bonds issued on domestic market, 5th tranche (RR 2 000 000 thousand), matures in October 2013, coupon 9.0%	2 035 500	2 035 020
Bonds issued on domestic market, 1st tranche (RR 1 000 000 thousand), matures in March 2013, coupon 7.5%	1 000 193	1 038 700
Promissory notes	121	7 071
Total debt securities issued	**5 089 314**	**3 080 791**

In March 2010 the Bank issued on MICEX a tranche of RR denominated non-convertible bonds with a nominal amount of RR 1 000 000 thousand with a coupon rate of 12.5% per annum. The holders of these bonds have a right to require the Bank to repurchase these bonds at nominal amount on 10 March 2011 and on 7 March 2013. On 14 March 2011 at official offer the Bank redeemed bonds in the amount of RR 958 971 thousand of this tranche at par value. In April and August 2011 the Bank disposed of these repurchased bonds again with a coupon rate of 7.5% per annum.

15 Debt Securities Issued (Continued)

In October 2010 the Bank issued on MICEX a tranche of RR denominated non-convertible bonds with a nominal amount of RR thousand 2 000 000 thousand with a coupon rate of 9.0% per annum. The holders of these bonds have a right to require the Bank to repurchase these bonds at nominal amount on 19 April 2012 and on 17 October 2013.

In September 2011 the Bank issued on MICEX a tranche of RR denominated non-convertible bonds for RR 2 000 000 thousand with a coupon rate of 10.5% per annum. The holders of these bonds have a right to require the Bank to repurchase these bonds at nominal amount on 2 October 2012.

Refer to Note 32 for the disclosure of the fair value of debt securities issued. Geographical, currency, interest rate and maturity analyses of debt securities issued are detailed in Note 28.

16 Other Borrowed Funds

In thousands of Russian Roubles	2011	2010
Loans from European Bank for Reconstruction and Development ("EBRD"):		
1st credit facility of RR 2 345 000 Mosprime+4.7% 2nd tranche due Aug 2014	786 495	-
1st credit facility of RR 2 345 000 Mosprime+4.7% 1st tranche due Nov 2013	771 703	760 712
2nd credit facility of RR 450 000 Mosprime+5.00% 2nd tranche due Aug 2015	229 284	228 012
2nd credit facility of RR 450 000 Mosprime+4.00% 1st tranche due Dec 2012	62 469	211 023
Total other borrowed funds	**1 849 951**	**1 199 747**

Refer to Note 32 for the disclosure of the fair value of other borrowed funds. Geographical, currency, interest rate and maturity analyses of other borrowed funds are detailed in Note 28.

17 Other liabilities

In thousands of Russian Roubles	2011	2010
Other financial liabilities		
Accrued expenses	409 454	264 624
Warranty on loans sold	24 285	99 010
Other	401 081	105 894
Total other financial liabilities	**834 820**	**469 528**
Other non-financial liabilities		
Accrued short-term bonuses	206 620	76 450
Taxes other than on income	130 743	33 514
Provision for legal claims	123 590	93 835
Current tax liability	11 086	125 120
Other	2 843	1 138
Total other non-financial liabilities	**474 882**	**330 057**
Total other liabilities	**1 309 702**	**799 585**

17 Other liabilities (Continued)

The provision for legal claims represents the present value of the director's best estimate of the future outflows of economic benefits that will be required under the Group's obligation to reimburse some credit related commissions that the Group collected from its customers before such practice of Russian banks was questioned by the courts. The estimate has been made on the basis of historical trends for such claims and court practice and may vary as a result of new developments in the legislation and business practice.

The warranty on loans sold arose on the Bank's obligation to re-purchase qualifying loans sold to State Agency on Mortgage Lending. Movements on the warranty during the year were as follows:

In thousands of Russian Roubles	**2011**	**2010**
Opening balance	99 010	103 909
Fair value of warranty issued in the year at the date of issue	2 468	99 010
Movement in fair value of warranty in issue	(77 193)	(103 909)
Total warranty on loans sold	**24 285**	**99 010**

Refer to Note 32 for the disclosure of the fair value of each class of other financial liabilities. Geographical, currency, and maturity analyses of other financial liabilities are detailed in Note 28. Information on related party balances is disclosed in Note 33.

18 Subordinated debt

In thousands of Russian Roubles	**2011**	**2010**
Subordinated debt	968 217	1 294 231
Total Subordinated debt	**968 217**	**1 294 231**

On 21 June 2007 the Group issued USD denominated subordinated notes in the amount of USD 43 000 thousand. The notes bear a fixed interest rate of 11% per annum payable semi-annually from the issuance until 26 June 2012 and a floating interest rate thereafter set at a rate per annum representing the aggregate of the US Treasury Rate plus 7.45 per cent per annum payable semi-annualy until maturity on 26 June 2017. The Group has an option to repay this subordinated loan at par on 26 June 2012.

The debt ranks after all other creditors in the case of liquidation.

Refer to Note 32 for the disclosure of the fair value of subordinated debt. Geographical, currency, interest rate and maturity analyses of subordinated debt are detailed in Note 28.

19 Share Capital

Statutory capital authorised, issued and fully paid comprises:

In thousands of Russian Roubles except for number of shares	Number of Ordinary outstanding shares	Number of Preference outstanding shares	Ordinary shares	Preference shares	Inflation effect on share capital	Total
At 1 January 2010	54 853 884 436	805 170 000	548 539	8 052	119 837	676 428
New shares issued	9 711 820 695	-	97 118	-	-	97 118
At 31 December 2010	**64 565 705 131**	**805 170 000**	**645 657**	**8 052**	**119 837**	**773 546**
New shares issued	8 597 500 000	-	85 975	-	-	85 975
Treasury shares purchased	(3 705 660 960)	(805 150 000)	(37 056)	(8 052)	-	(45 108)
At 31 December 2011	**69 457 544 171**	**20 000**	**694 576**	**-**	**119 837**	**814 413**

All ordinary shares carry equal rights and have a nominal value of RR 0.01. Preference shares have a nominal value of RR 0.01 and are not redeemable, carry no voting rights but rank ahead of the ordinary shares in the event of liquidation of the Bank. Holders of 1 170 000 preference shares are entitled to receive annual dividends of RR 0.017 per share. Holders of 804 000 000 preference shares are entitled to receive 14.08% of the banking interest rate valid at 31 December each year from nominal value per share. Share premium represents the excess of contributions received over the nominal value of shares issued. If the dividends are not paid, preference shareholders carry the right to vote at annual and general meetings until the dividends are paid.

On 9 March 2011 the Bank issued 8 597 500 000 ordinary shares with nominal value of RR 0.01 per share. On 4 May 2011 the International Financial Corporation (“IFC”) purchased 8 597 500 000 ordinary shares of the Bank with respective increase in share capital of RR 85 975 thousand and increase in share premium of RR 1 977 424 thousand recorded in the consolidated statement of changes in equity for the reporting period.

Following the directors’ approval in June 2011, a purchase of treasury shares of the Bank took place during the period. Details of the purchase are stated below:

Type of shares	Number of treasury shares purchased	Price per share	Purchase amount
Ordinary	3 705 660 960	0.24	889 357
Preference	805 150 000	0.185	148 953
Total	**4 510 810 960**		**1 038 310**

The shares at their par value reduced the Bank's share capital by RR 45 108 thousand (2010: nil) and the remaining difference with the purchase price decreased the share premium account by RR 993 202 thousand (2010: nil) at 30 June 2011.In July 2010 the Bank issued 8 311 230 000 ordinary shares with nominal value of RR 0.01 each for conversion of Rostpromstroybank shares which were provided only to shareholders of Rostpromstroybank.

In May 2010 the Bank issued 1 400 590 695 ordinary shares with nominal value of RR 0.01 each for purchasing a non-controlling interest in Kamabank. The shares were provided only to shareholders of Kamabank.

19 Share Capital (Continued)

In accordance with Russian legislation, the Bank distributes profits as dividends or transfers them to reserves on the basis of financial statements prepared in accordance with Russian Accounting Rules. The Bank's reserves under Russian Accounting Rules at 31 December 2011 amount to RR 9 932 180 thousand (2010: RR 6 530 021 thousand).

20 Interest Income and Expense

In thousands of Russian Roubles	**2011**	**2011**
Interest income		
Loans and advances to individuals	23 836 835	14 006 703
Securities	581 471	531 191
Loans and advances to corporate customers	434 683	594 536
Due from other banks	249 390	54 143
Interest income on reverse repo	36 692	29 125
Finance lease	1 098	9 290
Total interest income	**25 140 169**	**15 224 988**
Interest expense		
Term deposits of individuals	6 257 340	5 275 577
Term deposits of legal entities	607 064	380 951
Debt securities issued	329 650	179 613
Term deposits of other banks	192 196	20 122
Other borrowed funds	167 607	45 280
Subordinated debt	120 145	143 845
Interest expense on direct repo transactions	37 776	4 899
Current/settlement accounts	17 092	23 257
Other	1 595	13 761
Total interest expense	**7 730 465**	**6 087 305**
Net interest income	**17 409 704**	**9 137 683**

Interest income includes RR 1 234 758 thousand (2010: RR 653 587 thousand) of interest income, recognised on impaired loans to customers.

21 Fee and Commission Income and Expense

In thousands of Russian Roubles	2011	2010
Fee and commission income		
Commission on settlement and foreign currency exchange	242 553	319 766
Commission on cash transactions	92 721	111 100
Commission on plastic cards	62 799	26 708
Commission for account maintenance	32 291	81 410
Agency fees	12 086	39 500
Other	39 061	61 473
Total fee and commission income	**481 511**	**639 957**
Fee and commission expense		
Commission on settlement and foreign currency exchange	174 908	109 757
Collection agency fees	139 136	78 589
Cash collection	68 823	50 480
Commission on cash transactions	15 545	14 289
Other	27 723	23 730
Total fee and commission expense	**426 135**	**276 845**
Net fee and commission income	**55 376**	**363 112**

22 Operating Expenses

In thousands of Russian Roubles	Note	2011	2010
Staff costs		3 381 161	2 206 468
Social security tax		825 121	452 814
Rent expense		529 182	299 958
Expenses related to premises and equipment		457 106	325 915
Taxes other than on income		403 433	276 232
Advertising and marketing		377 174	314 547
Depreciation of premises and equipment	11	294 542	246 776
Low value items write off		293 047	132 734
Deposit insurance fee		290 372	183 248
IT expenses		257 263	194 013
Security		222 773	189 160
Communication and postage		194 552	117 503
Insurance		176 230	22 871
Amortisation of intangible assets		81 725	60 275
Debtors write off		4 573	3 355
Termination of rent agreement		-	92 872
Other expenses		476 324	300 604
Total administrative and other operating expenses		**8 264 578**	**5 419 345**

Included in staff costs are statutory pension contributions of RR 557 476 thousand (2010: RR 320 516 thousand).

Included in staff costs is the amount of RR 12 500 thousand (2010: none), which represents share-based remuneration provided to key management of the Bank (Note 33).

23 Business combinations

In thousands of Russian Roubles	**2010**
Gorodskoy Ipotechny Bank LLC	426 985
CJSC Santander Consumer Bank	262 282
OJSC Rostpromstroybank	(14 350)
Total negative goodwill	**674 917**

On 9 December 2010 the Group acquired 100 % of the share capital of CJSC Santander Consumer Bank for cash consideration of RR 1 339 910 thousand and obtained control through its ability to cast a majority of votes in the general meeting of shareholders. Fair value of net assets acquired was RR 1 602 192 thousand. Negative goodwill of RR 262 282 thousand was recorded in the consolidated statement of comprehensive income for the year ended 31 December 2010. The acquired subsidiary will increase the Group's penetration of its chosen retail market and is expected to improve profitability through the economies of scale.

Details of the assets and liabilities acquired and goodwill arising on acquisition of CJSC Santander Consumer Bank are as follows:

In thousands of Russian Roubles	**Attributed fair value**
Cash and cash equivalents	527 493
Mandatory balances with the CBR	14 795
Due from other banks	11 040
Loans and advances to customers	2 554 056
Other assets	3 694
Deferred tax asset	31 791
Premises and equipment	28 043
Intangible assets	10 447
Due to other banks	(1 449 587)
Customer accounts	(122 527)
Other liabilities	(7 053)
Fair value of identifiable net assets of subsidiary	**1 602 192**
Negative goodwill arising from the acquisition	(262 282)
Cash consideration paid	**1 339 910**

On 1 July 2010 the Group acquired 100 % of share participation of LLC Gorodskoy Ipotechny Bank for cash consideration of RR 1 832 800 thousand and obtained control through its ability to cast a majority of votes in the general meeting of shareholders. Fair value of net assets acquired was RR 2 259 785 thousand. Negative goodwill of RR 426 985 thousand was recorded in the consolidated statement of comprehensive income for the year ended 31 December 2010. The acquired subsidiary will increase the Group's penetration of its chosen retail market and is expected to improve profitability through the economies of scale.

23 Business combinations (Continued)

Details of the assets and liabilities acquired and goodwill arising on acquisition of LLC Gorodskoy Ipotechny Bank are as follows:

In thousands of Russian Roubles	**Attributed fair value**
Cash and cash equivalents	2 257 505
Mandatory balances with the CBR	200 479
Service fee asset	1 528 202
Other assets	371 142
Premises and equipment	162 625
Intangible assets	32 804
Due to other banks	(1 213)
Customer accounts	(596 443)
Other borrowed funds	(94 101)
Deferred tax liability	(2 004)
Other liabilities	(1 599 211)
Fair value of identifiable net assets of subsidiary	**2 259 785**
Negative goodwill arising from the acquisition	(426 985)
Cash consideration paid	**1 832 800**

On 30 June 2010 the Group acquired 100 % of the share capital of OJSC Rostpromstroybank for the 8 311 230 000 new shares issued by the Bank with the fair value of RR 1 144 257 thousand and obtained control through its ability to cast a majority of votes in the general meeting of shareholders. Fair value of net assets acquired was RR 1 129 907 thousand. As at the date of acquisition the acquired subsidiary had a loss in the amount RUB 134 066 and interest income RUB 322 531. Management conducted an impairment review of goodwill as at 31 December 2010 and as a result fully impaired the goodwill. The acquired subsidiary will increase the Group's penetration of its chosen retail market and is expected to improve profitability through the economies of scale.

In thousands of Russian Roubles	**Attributed fair value**
Cash and cash equivalents	561 377
Mandatory balances with the CBR	60 249
Due from other banks	276 376
Loans and advances to customers	2 712 098
Securities	491 664
Other assets	325 041
Deferred tax asset	22 531
Premises and equipment	110 990
Intangible assets	22 061
Customer accounts	(3 382 714)
Debt securities issued	(20 663)
Other liabilities	(49 005)
Fair value of identifiable net assets of subsidiary	**1 130 005**
Negative goodwill arising from the acquisition	14 350
Fair value of entirely share-based consideration	**1 144 355**

At 1 July 2010, included in cash and cash equivalents of OJSC Rostpromstroybank are balances with OJSC Orient Express Bank of RR 516 208.

23 Business combinations (Continued)

In May 2010 the Group acquired all the remaining assets and liabilities of Kamabank and legally merged with the bank as allowed under Russian law. Consideration was in the form of 1 400 590 695 new shares with par value of RR 0.01 each issued by the Bank in exchange for shares of Kamabank. The acquisition was accounted as an equity transaction with owners:

In thousands of Russian Roubles	
Non-controlling interest as at 1 January	210 436
Share of non-controlling interest (20.06%) in loss for the period	(3 836)
Total non-controlling interest on the date of purchase	**206 000**
Consideration paid:	
Shares issued, par value	14 005
Surplus/(deficit) over par value of shares issued	192 595

24 Result on Disposal of Subsidiary

On 8 July 2011, the Bank disposed of 100% of the share capital of Vostochny Ipotechny Bank. The subsidiary was previously classified as a disposal group and its assets and liabilities were accordingly reclassified in the statement of financial position. The details of the disposed assets and liabilities and disposal consideration are as follows:

In thousands of Russian Roubles	**8 July 2011**
Cash and cash equivalents	1 400 074
Mandatory balances with Central Bank	83
Other assets	201
Premises and equipment	6 976
Intangible Assets	10 285
Customer accounts	(5 210)
Other liabilities	(3 375)
Deferred tax liability	(2 056)
Net assets of subsidiary	**1 406 978**
Carrying amount of disposed net assets	**1 406 978**
Total disposal consideration	**1 571 342**
Cash inflow on disposal	**1 571 342**

The gain on disposal of the subsidiary comprises:

In thousands of Russian Roubles	**Gain on disposal of subsidiary**
Consideration for disposal of the subsidiary	1 571 342
Carrying amount of disposed net assets, net of non-controlling interest	1 406 978
Gain on disposal of subsidiary	**164 364**

At 8 July 2011, included in cash and cash equivalents of Vostochny Ipotechny Bank are balances with OJSC Orient Express Bank of RR 1 400 074.

25 Income Taxes

(a) Components of income tax expense

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

In thousands of Russian Roubles	**2011**	**2010**
Current tax	824 953	705 159
Deferred tax	336 922	(118 933)
Income tax expense for the year	**1 161 875**	**586 226**

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

The income tax rate applicable to the majority of the Group's 2011 income is 20% (2010: 20%). The income tax rate applicable to the majority of income of subsidiaries domiciled in RF is 20% (2010: 20%). The income tax rate applicable to the income of Orient Express Finance Limited ("OEFL") is 25% (2010: 25%). A reconciliation between the expected and the actual taxation charge is provided below.

In thousands of Russian Roubles	**2011**	**2010**
Profit before tax	**5 766 718**	**2 795 484**
Theoretical tax charge at statutory rate (2011: 20%; 2010: 20%)	1 153 344	559 097
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Non-deductible expenses	16 858	34 425
- Income on government securities taxed at different rates	(8 327)	(7 296)
Income tax expense for the year	**1 161 875**	**586 226**

25 Income Taxes (Continued)

(c) Deferred taxes analysed by type of temporary difference

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

In thousands of Russian Roubles	**1 January 2011**	**Business combinations**	**Credited/ (charged) to profit or loss**	**Charged to other comprehensive income**	**31 December 2011**
Tax effect of deductible/(taxable) temporary differences					
Securities	66 854		14 076	(1 151)	79 779
Provision for losses on loans to banks	(8 611)	-	8 611	-	-
Loans to customers:					
- Principal	46 092	-	(46 092)	-	-
- Accrued interest	68 550		(63 628)		4 922
- Deferred commission income	240 179	-	(113 397)	-	126 782
- Provision for losses on loans to customers	(336 608)	3 173	(178 670)	-	(512 105)
Provision for losses on other assets	(41 465)	-	(147 967)	-	(189 432)
Service fee asset	(24 487)	-	(465)	-	(24 952)
Amortisation of service fee asset	1 258	-	7 050	-	8 308
Premises and equipment	(168 775)	-	26 031	-	(142 744)
Intangible assets	(52 139)	-	2 865	-	(49 274)
Customer accounts	(17 226)	-	(6 591)	-	(23 817)
Other accruals	66 831	-	80 459	-	147 290
Other assets and liabilities	182 011	-	80 796	-	262 807
Net deferred tax asset	**54 810**	**3 173**	**-**	**-**	**-**
Net deferred tax liability	**(32 346)**	**-**	**(336 922)**	**(1 151)**	**(312 436)**

25 Income Taxes (Continued)

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

In thousands of Russian Roubles	1 January 2010	Business combinations	Credited/ (charged) to profit or loss	Charged to other comprehensive income	31 December 2010
Tax effect of deductible/(taxable) temporary differences					
Securities	99 622	-	(30 777)	(1 991)	66 854
Provision for losses on loans to banks	(1 540)	-	(7 071)	-	(8 611)
Loans to customers:					
- Principal	233 062	-	(186 970)	-	46 092
- Accrued interest	(69 050)	-	137 600	-	68 550
- Deferred commission income	150 428	-	89 751	-	240 179
- Provision for losses on loans to customers	(261 171)	54 787	(130 224)	-	(336 608)
Provision for losses on other assets	(14 021)	-	(27 444)	-	(41 465)
Service fee asset	(963 975)	-	939 488	-	(24 487)
Amortisation of service fee asset	878 645	-	(877 387)	-	1 258
Premises and equipment	(153 094)	-	(15 681)	-	(168 775)
Intangible assets	(31 903)	-	(20 236)	-	(52 139)
Customer accounts	(2 279)	-	(14 947)	-	(17 226)
Other accruals	39 960	-	26 871	-	66 831
Other assets and liabilities	(53 949)	-	235 960	-	182 011
Net deferred tax asset	**(149 265)**	**54 787**	**118 933**	**(1 991)**	**54 810**
Net deferred tax liability	**-**	**-**	**-**	**-**	**(32 346)**

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

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

	2011			2010		
In thousands of Russian Roubles	Before-tax amount	Income tax (expense) / benefit	Net-of-tax amount	Before-tax amount	Income tax (expense) / benefit	Net-of-tax amount
Available-for-sale investments:						
- Gains arising during the year	(73)	12	(61)	(124)	25	(99)
- Reclassification adjustments for gains included in profit or loss	2 291	(382)	1 909	10 619	(2 124)	8 495
Exchange differences on translation to presentation currency	4 685	(781)	3 904	(539)	108	(431)
Other comprehensive income	**6 903**	**(1 151)**	**5 752**	**9 956**	**(1 991)**	**7 965**

26 Dividends

	2011		2010	
In thousands of Russian Roubles	**Ordinary**	**Preference**	**Ordinary**	**Preference**
Dividends payable at 1 January	-	-	-	-
Dividends declared during the year		8 793	-	-
Dividends paid during the year		(8 793)	-	-
Dividends payable at 31 December	**-**	**-**	**-**	**-**
Dividends per share declared during the year in roubles	**-**	**0.01**	**-**	**-**

A dividend of RR 8 793 thousand (2010: nil) that relates to the year to 31 December 2010 was declared by the Bank on 22 June 2011. The dividend was declared on preference shares only. In April 2011 a subsidiary of Bank declared a dividend of RR 205 356 thousand relating to its results for 2010 and interim profits for 2011. To the extent that the above dividends represented an intra-group transaction they have been completely eliminated on consolidation. Tax on dividends paid amounted to RR 20 309 thousand (2010: nil).

All dividends are declared and paid in Russian Roubles.

27 Segment Analysis

Operating segments are components that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision maker (CODM), and for which discrete financial information is available. The CODM is the person - or group of persons - who allocates resources and assesses the performance for the entity. The functions of the CODM are performed by Chief Executive Officer and executive directors from the Board of Directors of the Group.

(a) Description of products and services from which each reportable segment derives its revenue

The Group is organised on the basis of four main business segments:

- Corporate banking – includes deposit taking and lending to corporate clients, small and medium enterprises and individual entrepreneurs, leasing, settlements, cash management and cash collection. Retail banking – includes deposit taking and lending to individuals, money transfer and foreign exchange services, settlements and cash management.

- Mortgage banking – includes issuing loans to potential owners of certain types of residential properties and secured by the properties. The segment also includes purchase of portfolios of such loans from other banks and selling them both to banks and State Agency for Mortgage Lending.

- Treasury operations – includes trading in securities and currencies, subordinated and interbank loans taking and lending.

(b) Factors that management used to identify the reportable segments

The Group's segments are strategic business units that focus on different customers. They are managed separately because each business unit requires different marketing strategies and client services.

(c) Measurement of operating segment profit or loss, assets and liabilities

27 Segment Analysis (Continued)

The Group uses IFRS as a measurement basis for segment reporting and evaluates performance of its operating segments on the basis of profit or loss before tax. The accounting policies used for preparation of the segment information are the same as those described in the summary of significant accounting policies.

The CODM reviews financial information prepared based on IFRS accounting policies adjusted to meet the requirements of internal reporting. Income taxes are not allocated to segments.

The CODM evaluates performance of each segment based on profit before tax.

(d) Information about reportable segment profit or loss, assets and liabilities

Segment breakdown of assets and liabilities of the Group is set out below:

In thousands of Russian Roubles	**2011**	**2010**
Corporate banking	3 490 085	4 461 143
Retail banking	103 308 144	62 145 989
Treasury	24 318 866	15 775 664
Mortgage lending	5 299 352	7 649 027
Unallocated assets	703 191	466 111
Total reportable segment assets	**137 119 638**	**90 497 934**
Corporate banking	11 534 046	10 543 564
Retail banking	94 852 761	62 908 776
Treasury	13 260 257	5 700 961
Mortgage lending	24 285	208 969
Unallocated liabilities	1 236 801	543 258
Total reportable segment liabilities	**120 908 150**	**79 905 528**

27 Segment Analysis (Continued)

Segment information for the reportable segments for the year ended 31 December 2011 is set out below:

In thousands of Russian Roubles	Corporate banking	Retail banking	Treasury	Mortgage lending	Unallocated	Total
Interest income	488 000	22 719 447	785 739	1 146 983	-	25 140 169
Interest expense	(624 250)	(5 954 789)	(847 092)	(304 334)	-	(7 730 465)
Net interest income	**(136 250)**	**16 764 658**	**(61 353)**	**842 649**	**-**	**17 409 704**
Provision for loan impairment	26 550	(3 947 551)	-	(53 575)	-	(3 974 576)
Net interest income after provision for loan impairment	**(109 700)**	**12 817 107**	**(61 353)**	**789 074**	**-**	**13 435 128**
Fee and commission income	28 839	413 869	565	38 238	-	481 511
Fee and commission expense	(14 679)	(387 258)	(4 413)	(19 785)	-	(426 135)
Result on sale of loans and debts	-	58 742	(9 216)	26 504	-	76 030
Losses less gains from securities	-	-	(150 890)	-	-	(150 890)
Result on disposal of subsidiary	-	-	164 364	-	-	164 364
Gains less losses arising from dealing in foreign currencies	-	24 179	723 866	-	-	748 045
Net foreign exchange translation losses net of gains	-	(736)	(542 326)	-	-	(543 062)
Other operating income	-	20123	1357	74 725	157800	254005
Operating expenses	(512 787)	(6 702 828)	(149 478)	(236 771)	(662 714)	(8 264 578)
Other provisions	34 789	(45 001)	-	-	2 512	(7 700)
Profit before tax	**(573 538)**	**6 198 197**	**(27 524)**	**671 985**	**(502 402)**	**5 766 718**
Income tax expense	-	-	-	-	(1 161 875)	(1 161 875)
PROFIT FOR THE PERIOD	**(573 538)**	**6 198 197**	**(27 524)**	**671 985**	**(1 664 277)**	**4 604 843**
Other comprehensive income						
Revaluation of available for sale financial assets, net of tax	-	-	1 848	-	-	1 848
Translation reserve	-	-	3 904	-	-	3 904
Other comprehensive income for the year	**-**	**-**	**5 752**	**-**	**-**	**5 752**
Total comprehensive income for the year	**(573 538)**	**6 198 197**	**(21 772)**	**671 985**	**(1 664 277)**	**4 610 595**

27 Segment Analysis (Continued)

Segment information for the reportable segments for the year ended 31 December 2010 is set out below:

In thousands of Russian Roubles	**Corporate banking**	**Retail banking**	**Treasury**	**Mortgage lending**	**Unallocated**	**Total**
Interest income	627 689	12 552 289	531 101	1 513 909	-	15 224 988
Interest expense	(403 189)	(4 738 958)	(397 467)	(547 691)	-	(6 087 305)
Net interest income	**224 500**	**7 813 331**	**133 634**	**966 218**	**-**	**9 137 683**
Provision for loan impairment	(274 410)	(2 077 436)	-	(174 802)	-	(2 526 648)
Net interest income after provision for loan impairment	**(49 910)**	**5 735 895**	**133 634**	**791 416**	-	**6 611 035**
Fee and commission income	254 255	353 204	21 063	11 435	-	639 957
Fee and commission expense	-	(78 188)	(673)	(20 119)	(177 865)	(276 845)
Release of service fee asset on repurchase of loans	-	(360 722)	-	-	-	(360 722)
Result on sale of loans and debts	10	-	-	798 395	-	798 405
Gains less losses from securities	-	-	36 672	-	-	36 672
Gains less losses arising from dealing in foreign currencies	(12 921)	(9 584)	364 508	2 392	-	344 395
Net foreign exchange translation losses net of gains	(240)	(178)	(85 623)	3 312	-	(82 729)
Other operating income	-	103 909	4 626	(99 094)	208 118	217 559
Operating expenses	(241 989)	(4 529 205)	102 746	(386 432)	(364 465)	(5 419 345)
Other provisions	(158 996)	(203 660)			(25 159)	(387 815)
Goodwill	-	-	-	-	674 917	674 917
Profit before tax	**(209 791)**	**1 011 471**	**576 953**	**1 101 305**	**315 546**	**2 795 484**
Income tax expense					(586 226)	(586 226)
PROFIT FOR THE PERIOD	**(209 791)**	**1 011 471**	**576 953**	**1 101 305**	**(270 680)**	**2 209 258**
Other comprehensive income						
Revaluation of available for sale financial assets, net of tax	**-**	**-**	8 396	**-**	**-**	8 396
Translation reserve	**-**	**-**	(431)	-	**-**	(431)
Other comprehensive income for the year	**-**	**-**	**7 965**	**-**	**-**	**7 965**
Total comprehensive income for the year	**(209 791)**	**1 011 471**	**584 918**	**1 101 305**	**(270 680)**	**2 217 223**

27 Segment Analysis (Continued)

Capital expenditures and depreciation and amortisation charge for the operating segments for the year ended 31 December 2011 is set below:

In thousands of Russian Roubles	Corporate banking	Retail banking	Treasury	Mortgage lending	Unallo-cated	Total
Capital expenditures (Note 11)	23 782	710 449	167 006	36 392	4 829	942 458
Depreciation and amortisation	9 495	283 640	66 675	14 529	1 928	376 267

Capital expenditures and depreciation and amortisation charge for the operating segments for the year ended 31 December 2010 is set below:

In thousands of Russian Roubles	Corporate banking	Retail banking	Treasury	Mortgage lending	Unallo-cated	Total
Capital expenditures (Note 11)	18 807	261 998	66 508	32 247	1 965	381 525
Depreciation and amortisation	15 136	210 856	53 525	25 952	1 582	307 051

Capital expenditure represents additions to non-current assets other than financial instruments, deferred tax assets, post-employment benefit assets and rights arising under insurance contracts.

Outstanding credit related commitments (Note 30) for the operating segments are set out below:

In thousands of Russian Roubles	2011	2010
Retail banking	11 977 325	2 900 318
Corporate banking	350 672	323 548
Total credit related commitments	**12 327 997**	**3 223 866**

(e) Analysis of revenues by products and services

The Group's revenues are analysed by products and services in Notes 20 (interest income), Note 21 (fee and commission income).

(f) Geographical information

The vast majority of the Group's operations, its revenues and expenses, assets and liabilities are located in Russia. OEFL is registered and operates in Ireland as to facilitate trade in the Bank's bonds on the Irish Stock Exchange and establish the Bank's presence outside Russia. Through OEFL the Group earns no material revenues from external customers, and OEFL has no non-current assets other than financial assets.

28 Financial Risk Management

The Group has a pro-active approach to management of financial risks (credit, market including interest rate, exchange rate and liquidity risks), operational risk, legal and reputation risk. The primary objectives of the financial risk management function are to establish risk limits, and then, through the internal control process to ensure that objectives and policies are communicated and implemented, that compliance with limits is monitored, and that deviations are corrected in accordance with Management's policies. The operational and legal management functions are intended to ensure proper functioning of internal policies and procedures to minimise operational, legal and reputation risks.

The Group has a number of Credit Committees with decision making authority split between them by type of borrowers, type of loans, and the amount of the loans.

28 Financial Risk Management (Continued)

The Group has an Assets Liabilities Management Committee that is responsible for planning and monitoring the Group's cash flows, assessing overall economic environment, assessing assets and liabilities structure and effectiveness, approving purchases and sales of loan portfolios, setting limits on operations in foreign currencies, setting limits on credit risk exposure in respect of other banks, setting limits on exposure to debt issuers.

Credit Risk

The Group takes on exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or group of borrowers. Such risks are monitored on a revolving basis and are subject to an annual or more frequent review.

Since the Group specialises in retail lending market, the main risk for the Group is credit risk in respect of individual borrowers. The share of consumer loans in the Group's total assets comprises more than 50% in both years. In addition, of the Group's income no less than 50% depends on interest and non-interest income from lending to individuals. Another risk factor exists for the Group in that there is a concentration of unsecured loans in the retail loan portfolio.

The Bank has a credit policy which establishes:

- Procedures for review and approval of credit applications;
- Methodology for the credit assessment of borrowers;
- Methodology for the evaluation of proposed collateral;
- Credit documentation requirements; and
- Procedures for the ongoing monitoring of loans and contingent operations.

For the purpose of minimising credit risk concentration the Group diversifies the loan portfolio by lending a large number of loans to small borrowers.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate.

There is a department in the Group whose main task is the on-going refinement of the Group's credit scoring process and collection of credit data as well as other elements of lending.

There is a successful information and analytics system in the Group for supporting credit decisions. This system provides analysis of the Group's loan portfolio promptly and it helps to manage the key parameters of the credit scoring system depending on factors such as the current rate of overdue debt, specification of credit products, regional analysis and other factors.

An essential part of credit risk management is the regular estimation of the adequacy of the scoring system used to ensure its forecasting accuracy and timeliness of necessary changes. There is also a centralisation of the process for making credit decisions and reviewing the scoring system supported by an extensive data base. The Group also uses professional credit ratings companies.

Exposure to credit risk is also managed, in part, by obtaining collateral and corporate and personal guarantees.
The Group's maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets on the Statement of Financial Position unless otherwise stated in these financial statements. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

Credit risk for off-balance sheet financial instruments is defined as the possibility of sustaining a loss as a result of another party to a financial instrument failing to perform in accordance with the terms of the contract.

The Group uses the same credit policies in making conditional obligations as it does for on-balance sheet financial instruments through established credit approvals, risk control limits and monitoring procedures.

28 Financial Risk Management (Continued)

The Group measures credit risk by reference to its internal rating system which is shown in Note 10.

The Group assumes credit risk on sale of loans to AIZHK and other banks, however it deems the risk from AIZHK to be minimal as the counterparty represents a state agency and cash consideration is received at or very close to the time loans are transferred. The Bank carefully chooses banks-counterparties for such sales and ensures the fastest possible receipt of cash from such transactions.

The Bank's bad debt collection policy is as follows: the employees of the Bank are making every effort to communicate directly with the borrowers to collect past due loans before they become overdue for over 120 days. After that the Bank engages debt collection agencies to collect bad debts for a fee. If the debt is still not collected when it is overdue for over a year, it is sold to debt collection agencies.

Market risk The Group takes on exposure to market risks. Market risks arise from open positions in (a) currency, (b) interest rates and (c) equity products, all of which are exposed to general and specific market movements. Management sets limits on the value of risk that may be accepted, which is monitored on a daily basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

Currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. Currency classification of monetary assets and liabilities is based on the currency they are denominated in.

The Group manages currency risk via providing maximum possible matching of assets and liabilities. Assets & Liabilities Management Committee establishes limits as to the level of accepted risk by currencies and in total both at the end of every day and within one day.

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

	At 31 December 2011				
In thousands of Russian Roubles	**Monetary financial assets**	**Monetary financial liabilities**	**Less fair value of currency derivatives**	**Currency derivatives**	**Net position including currency derivatives**
Russian Roubles	121 695 799	(109 147 126)	-	-	12 548 673
US Dollars	6 670 395	(6 919 925)	-	-	(249 530)
Euros	4 029 223	(4 043 203)	-	-	(13 980)
Other	53 790	(10 578)	-	-	43 212
Total	**132 449 207**	**(120 120 832)**	**-**	**-**	**12 328 375**

The table below summarises the Group's exposure to foreign currency exchange rate risk at 31 December 2010:

	At 31 December 2010				
In thousands of Russian Roubles	**Monetary financial assets**	**Monetary financial liabilities**	**Less fair value of currency derivatives**	**Currency derivatives**	**Net position including currency derivatives**
Russian Roubles	77 672 549	(69 472 477)	-	(448 394)	7 751 678
US Dollars	5 434 128	(6 614 607)	(8 759)	457 153	(732 085)
Euros	3 417 792	(3 431 890)	-	-	(14 098)
Other	43 289	(24 151)	-	-	19 138
Total	**86 567 758**	**(79 543 125)**	**(8 759)**	**8 759**	**7 024 633**

28 Financial Risk Management (Continued)

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

Amounts disclosed in respect of derivatives represent the fair value, at the end of the reporting period, of the respective currency that the Group agreed to buy (positive amount) or sell (negative amount) before netting of positions and payments with the counterparty. The amounts by currency are presented gross as stated in Note 31. The net total represents the fair value of the currency derivatives. The above analysis includes only monetary assets and liabilities. Investments in equities and non-monetary assets are not considered to give rise to any material currency risk.

The following table presents sensitivities of profit or loss and equity to reasonably possible changes in exchange rates applied at the end of the reporting period relative to the functional currency of the respective Group entities, with all other variables held constant:

	At 31 December 2011		At 31 December 2010	
In thousands of Russian Roubles	**Impact on profit or loss after tax**	**Impact on equity (after tax)**	**Impact on profit or loss after tax**	**Impact on equity (after tax)**
US Dollar strengthening by 20% (2010: strengthening by 20%)	(39 925)	(39 925)	(117 134)	(117 134)
US Dollar weakening by 20% (2010: weakening by 20%)	39 925	39 925	117 134	117 134
Euro strengthening by 20% (2010: strengthening by 20%)	(2 237)	(2 237)	(2 256)	(2 256)
Euro weakening by 20% (2010: weakening by 20%)	2 237	2 237	2 256	2 256

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

Interest rate risk

The Group is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may also reduce or create losses in the event that unexpected movements take place.

The Group is exposed to this risk, principally as a result of lending and making advances to customers and other banks, at fixed interest rates, in amounts and for periods which differ from those of term deposits and other borrowed funds at fixed interest rates.

In practice, the Group has the ability to make immediate changes to rates on most interest bearing assets in response to changes in the interest rate environment. The estimation of interest rate risk in the Group is based on gap-analysis of sensitive (towards interest rate changes) financial instruments (SFI).

The majority of interest bearing liabilities are on fixed rate terms but the Group reserved its right to re-price in case of significant fluctuations of interest rates.

The table below summarises the Group's exposure to interest rate risks. The table presents the aggregated amounts of the Group's financial assets and liabilities at carrying amounts, categorised by the earlier of contractual interest repricing or maturity dates:

28 Financial Risk Management (Continued)

In thousands of Russian Roubles	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**More than 1 year**	**Overdue**	**Non-monetary**	**Total**
31 December 2011							
Total financial assets	25 546 472	21 133 998	24 905 581	57 391 653	3 471 503	32 448	132 481 655
Total financial liabilities	38 809 407	32 159 146	31 454 456	17 697 702	121	-	120 120 832
Net interest sensitivity gap at 31 December 2011	**(13 262 935)**	**(11 025 148)**	**(6 548 875)**	**39 693 951**	**3 471 382**	**32 448**	**12 360 823**
31 December 2010							
Total financial assets	14 519 706	11 188 521	11 359 473	41 687 353	7 812 705	34 224	86 601 982
Total financial liabilities	26 543 377	24 873 718	16 763 228	11 362 681	121	-	79 543 125
Net interest sensitivity gap at 31 December 2010	**(12 023 671)**	**(13 685 197)**	**(5 403 755)**	**30 324 672**	**7 812 584**	**34 224**	**7 058 857**

The following table demonstrates the sensitivity to reasonably possible changes in interest rates, in basis points ("bp") with all other variables held constant, of the Group's profit before tax and the Group's equity:

	2011		**2010**	
	Effect on		**Effect on**	
In thousands of Russian Roubles	**Profit (after tax)**	**Equity (after tax)**	**Profit (after tax)**	**Equity (after tax)**
RUB				
300 bp parallel increase	395 271	395 271	222 433	222 433
300 bp parallel decrease	(395 271)	(395 271)	(222 433)	(222 433)
USD				
50 bp parallel increase	(14 901)	(14 901)	(8 857)	(8 857)
50 bp parallel decrease	14 901	14 901	8 857	8 857

28 Financial Risk Management (Continued)

The table below summarises the effective average interest rates, by major currencies, for the main categories of interest bearing assets and liabilities as at 31 December 2011. For securities, the interest rates represent yields to maturity based on market quotations at the reporting date.

	RR	USD	EUR
Assets			
Corresponding accounts	0.50	0.25	0.25
Securities	8.50	-	-
Repurchase receivables	8.90	-	-
Due from banks	7.50	1.70	2.40
Loans and advances to customers:			
- loans to corporate customers	14.40	12.30	14.40
- loans to individuals	29.03	21.20	18.87
- Consumer loans	31.13	22.95	20.44
- Credit cards	30.08	-	-
- SME loans	27.97	14.83	15.37
- Car loans	29.51	20.51	18.97
- Mortgage loans	12.74	10.94	-
- Other loans	15.28	11.01	9.64
Liabilities			
Due to other banks	5.60	5.80	4.60
Customer accounts:			
- term deposits of legal entities	6.97	3.90	0.80
- term deposits of individuals	9.60	6.20	5.90
Debt securities issued	9.53	-	-
Subordinated loan	-	11.28	-
Other borrowed funds	11.50	-	-

The table below summarises the effective average interest rates as at 31 December 2010:

	RR	USD	EUR
Assets			
Corresponding accounts	0.50	0.25	0.25
Securities	7.30	-	-
Due from banks	4.90	3.20	2.00
Loans and advances to customers:			
- loans to corporate customers	15.70	17.10	17.20
- loans to individuals	33.40	21.50	18.50
- Consumer loans	34.16	21.92	15.67
- Credit cards	25.53	-	-
- SME loans	33.39	19.15	17.94
- Car loans	29.39	19.36	16.93
- Mortgage loans	12.23	-	-
- Other loans	15.18	11.10	-
Liabilities			
Due to other banks	9.40	-	-
Customer accounts:			
- term deposits of legal entities	9.40	5.20	5.80
- term deposits of individuals	10.30	7.00	6.40
Debt securities issued	8.38	-	-
Subordinated loan	-	11.28	-
Other borrowed funds	8.40	-	-

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

28 Financial Risk Management (Continued)

Other price risk. The Group has limited exposure to equity price risk. Transactions in equity products are monitored and authorised by the Group treasury. At 31 December 2011, if equity prices at that date had been 20% (2010: 20%) lower with all other variables held constant, other components of equity would have been RR 1,262 thousand (2010: RR 1,249 thousand) lower, mainly as a result of a decrease in the fair value of corporate shares classified as available for sale.

The Group is exposed to prepayment risk through providing loans, including mortgages, which give the borrower the right to repay the loans early. The Group's current year profit and equity at the end of the current reporting period would not have been significantly impacted by changes in prepayment rates because such loans are carried at amortised cost and the prepayment right is at, or close to, the amortised cost of the loans and advances to customers (2010: no material impact).

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

In thousands of Russian Roubles	**Russia**	**OECD**	**Non-OECD**	**Total**
Financial assets				
Cash and cash equivalents	8 502 671	3 712 720	67 122	12 282 513
Mandatory balances with the CBRF	1 362 659	-	-	1 362 659
Securities	4 410 841	-	-	4 410 841
Repurchase receivable	3 878 669	-	-	3 878 669
Due from other banks	1 370 819	-	6 133	1 376 952
Loans and advances to customers	107 441 124	-	319	107 441 443
Other financial assets	1 326 435	402 143	-	1 728 578
Total financial assets	**128 293 218**	**4 114 863**	**73 574**	**132 481 655**
Financial liabilities				
Due to other banks	5 095 432	233 541	14 283	5 343 256
Customer accounts	105 857 278	153 294	24 702	106 035 274
Debt securities issued	5 089 314	-	-	5 089 314
Other borrowed funds	-	1 849 951	-	1 849 951
Other financial liabilities	834 245	575	-	834 820
Subordinated debt	-	968 217	-	968 217
Total financial liabilities	**116 876 269**	**3 205 578**	**38 985**	**120 120 832**
Net position in on-balance sheet financial instruments	**11 416 949**	**909 285**	**34 589**	**12 360 823**
Credit related commitments	**12 327 997**	**-**	**-**	**12 327 997**

Assets, liabilities and credit related commitments have generally been based on the country in which the counterparty is located. Balances with Russian counterparties actually outstanding to/from offshore companies of these Russian counterparties, are allocated to the caption "Russia". Cash on hand have been allocated based on the country in which they are physically held.

28 Financial Risk Management (Continued)

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

In thousands of Russian Roubles	Russia	OECD	Non-OECD	Total
Financial assets				
Cash and cash equivalents	4 641 052	2 381 087	22 812	7 044 951
Mandatory balances with the CBRF	650 212	-	-	650 212
Securities	6 149 742	-	-	6 149 742
Due from other banks	1 843 085	11 040	-	1 854 125
Loans and advances to customers	70 157 268	-	166	70 157 434
Other financial assets	690 239	55 279	-	745 518
Total financial assets	**84 131 598**	**2 447 406**	**22 978**	**86 601 982**
Financial liabilities				
Due to other banks	122 690	1 181	-	123 871
Customer accounts	73 374 957	-	-	73 374 957
Debt securities issued	3 080 791	-	-	3 080 791
Other borrowed funds	-	1 199 747	-	1 199 747
Other financial liabilities	414 202	55 326		469 528
Subordinated debt	-	1 294 231	-	1 294 231
Total financial liabilities	**76 992 640**	**2 550 485**	**-**	**79 543 125**
Net position in on-balance sheet financial instruments	**7 138 958**	**(103 079)**	**22 978**	**7 058 857**
Credit related commitments	**3 223 866**	-	-	**3 223 866**

Other risk concentrations. Management monitors and discloses concentrations of credit risk by obtaining reports listing exposures to borrowers with aggregated loan balances in excess of 10% of net assets. The Group did not have any such significant risk concentrations at 31 December 2011 and 2010.

Liquidity risk. Liquidity risk is defined as the risk that arises from the fact that the maturity of assets and liabilities does not match. Management of the Group actively monitors liquidity risk. The table below shows assets and liabilities as at the year-end by their remaining contractual maturity.

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

Management believes that in spite of a substantial portion of customer accounts being on demand and less than one month, diversification of these deposits by number and type of clients and the past experience of the Group indicate that deposits provide a long-term and stable source of funding for the Group, at least under normal conditions.

28 Financial Risk Management (Continued)

The Group calculates mandatory liquidity ratios on a daily basis in accordance with the requirements of the CBRF.

These ratios include:

- Instant liquidity ratio (N2), which is calculated as the ratio of highly-liquid assets to liabilities payable on demand;
- Current liquidity ratio (N3), which is calculated as the ratio of liquid assets to liabilities maturing within 30 calendar days;
- Long-term liquidity ratio (N4), which is calculated as the ratio of assets maturing after one year to capital and liabilities maturing after one year.

The Group was in compliance with the above ratios during the years ended 31 December 2011 and 31 December 2010. The following table represents the mandatory liquidity ratios for the Bank calculated at the year-end.

	Requirement	**31 December 2011**	**31 December 2010**
Instant liquidity ratio (N2)	Minimum 15%	110%	90%
Current liquidity ratio (N3)	Minimum 50%	105%	105%
Long-term liquidity ratio (N4)	Maximum 120%	95%	104%

The Group's liquidity position is calculated on a daily basis for the three requirements above by Treasury, and any issues are highlighted and referred to senior Management immediately. The Group performs daily operations with its financial assets in order to ensure limits are complied with. Liquidity management is controlled by the Asset and Liability Committee.

The Group holds a diversified portfolio of cash, other financial instruments and contingent funding to support payment obligations. The Group's assets held to manage liquidity comprise:

- Cash and cash equivalents (accounts with CBRF and Nostro accounts with other banks);
- Listed corporate bonds;
- Bonds of major Russian banks;
- Loans to customers.

The table below shows liabilities at 31 December 2011 by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows, gross loan commitments and financial guarantees. Such undiscounted cash flows differ from the amount included in the statement of financial position because the amount in the statement of financial position is based on discounted cash flows. Financial derivatives are included at the contractual amounts to be paid or received, unless the Group expects to close the derivative position before its maturity date in which case the derivatives are included based on the expected cash flows.

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

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

28 Financial Risk Management (Continued)

The undiscounted maturity analysis of financial instruments at 31 December 2011 is as follows:

In thousands of Russian Roubles	On demand or less than 1 month	1 to 6 months	6 months to 1 year	Over 1 year	Overdue/ no stated maturity	Total
Liabilities						
Due to other banks	5 051 590	110 339	206 741	-	-	5 368 670
Customer accounts	33 808 134	32 313 619	32 354 597	12 635 914		111 112 264
Debt securities issued	40 393	172 225	239 755	5 947 291	121	6 399 785
Other borrowed funds	13 611	337 465	505 913	1 473 724	-	2 330 713
Other financial liabilities	8 999	399 031	727 194	-	-	1 135 224
Gross settled spot foreign currency transactions:						
- inflows	(4 087 069)	-	-	-	-	(4 087 069)
- outflows	4 033 371	-	-	-	-	4 033 371
Subordinated debt	34 355	166 235	203 915	1 817 508	-	2 222 013
Credit related commitments	12 327 997	-	-	-	-	12 327 997
Total potential future payments for financial obligations	**51 231 381**	**33 498 914**	**34 238 115**	**21 874 437**	**121**	**140 842 968**

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

The undiscounted contractual maturity analysis of financial instruments at 31 December 2010 is as follows:

In thousands of Russian Roubles	On demand or less than 1 month	1 to 6 months	6 months to 1 year	Over 1 year	Overdue/ no stated maturity	Total
Liabilities						
Due to other banks	122 666	13 150	16 131	15 869	-	167 816
Customer accounts	26 574 489	25 938 282	19 090 520	8 185 903	-	79 789 194
Debt securities issued	25 972	1 206 188	153 753	2 471 452	121	3 857 486
Other borrowed funds	-	99 014	93 899	1 259 375	-	1 452 288
Gross settled spot and forward foreign currency transactions:						
- inflows	(1 494 892)	-	-	-	-	(1 494 892)
- outflows	1 482 124	-	-	-	-	1 482 124
Subordinated debt	13 739	60 684	72 820	2 092 659	-	2 239 902
Other financial liabilities	341 809	7 485	4,945	92 729	-	446 968
Credit related commitments	3 223 866	-	-	-	-	3 223 866
Total potential future payments for financial obligations	**30 289 773**	**27 324 803**	**19 432 068**	**14 117 987**	**121**	**91 164 752**

28 Financial Risk Management (Continued)

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

The following table represents analysis of assets and liabilities as at 31 December 2011 by their expected maturities as determined by the Group. This analysis was prepared on the basis of contractual maturities except for adjustments in relation to (i) trading securities, (ii) loans and advances to customers and (ii) part of customer accounts. The entire portfolio of trading securities was classified within “demand and less than 1 month” based on the Management’s assessment of the portfolio’s realisability. The expected maturity of Loans and advance to customers is assessed based on past prepayment rates. Part of current/settlement/demand accounts was reallocated from “demand and less than 1 month” category to baskets with later maturities. On the basis of past experience management believes that (i) diversification of these accounts by number and type of customers and (ii) constant inflow of new deposits indicate that at least these current/demand/settlement accounts would provide a long-term and stable source of funding for the Group.

The maturity analysis of financial instruments at 31 December 2011 is as follows:

In thousands of Russian Roubles	**On demand or less than 1 month**	**1-6 months**	**6 months to 1 year**	**Over 1 year**	**Overdue/no stated maturity**	**Total**
Financial assets						
Cash and cash equivalents	12 282 513	-	-	-	-	12 282 513
Mandatory balances with the CBRF	301 364	105 707	100 347	855 241	-	1 362 659
Securities	4 017 768	-	125 692	-	267 381	4 410 841
Repurchase receivables	3 245 933	-	-	632 736	-	3 878 669
Due from other banks	1 371 330	5 622				1 376 952
Loans and advances to customers	7 102 994	31 194 882	37 433 859	22 438 653	9 271 055	107 441 443
Other financial assets	1 048 821	596 538	-	83 219	-	1 728 578
Total financial assets	**29 370 723**	**31 902 749**	**37 659 898**	**24 009 849**	**9 538 436**	**132 481 655**
Financial liabilities						
Due to other Banks	5 039 716	103 675	199 865	-	-	5 343 256
Customer accounts	23 450 655	8 225 575	7 808 538	66 550 506	-	106 035 274
Debt securities issued	-	35 693	53 500	5 000 000	121	5 089 314
Subordinated debt	-	76 144	76 144	815 929	-	968 217
Other borrowed funds	-	271 607	425 128	1 153 216	-	1 849 951
Other financial liabilities	8 999	98 627	727 194	-	-	834 820
Total financial liabilities	**28 499 370**	**8 811 321**	**9 290 369**	**73 519 651**	**121**	**120 120 832**
Liquidity gap arising from financial instruments	**871 353**	**23 091 428**	**28 369 529**	**(49 509 802)**	**9 538 315**	**12 360 823**
Cumulative liquidity gap arising from financial instruments	**871 353**	**23 962 781**	**52 332 310**	**2 822 508**	**12 360 823**	

28 Financial Risk Management (Continued)

The maturity analysis of financial instruments at 31 December 2010 is as follows:

In thousands of Russian Roubles	**On demand or less than 1 month**	**1-6 months**	**6 months to 1 year**	**Over 1 year**	**Overdue/no stated maturity**	**Total**
Financial assets						
Cash and cash equivalents	7 044 951	-	-	-	-	7 044 951
Mandatory balances with the CBRF	172 338	79 351	55 937	342 586	-	650 212
Securities	3 947 986	-	404 485	1 764 347	32 924	6 149 742
Due from other banks	1 144 278	709 847		-		1 854 125
Loans and advances to customers	5 603 951	22 120 771	24 173 900	11 927 220	6 331 592	70 157 434
Other financial assets	548 578	7 739	-	-	189 201	745 518
Total financial assets	**18 462 082**	**22 917 708**	**24 634 322**	**14 034 153**	**6 553 717**	**86 601 982**
Financial liabilities						
Due to other Banks	119 826	4 045	-	-	-	123 871
Customer accounts	19 447 899	8 954 612	6 312 351	38 660 095	-	73 374 957
Debt securities issued	-	1 080 670	-	2 000 000	121	3 080 791
Subordinated debt	1 602	-	-	1 292 629	-	1 294 231
Other borrowed funds	-	48 184	43 908	1 107 655	-	1 199 747
Other financial liabilities	341 809	30 045	4 945	92 729	-	469 528
Total financial liabilities	**19 911 136**	**10 117 556**	**6 361 204**	**43 153 108**	**121**	**79 543 125**
Liquidity gap arising from financial instruments	**(1 449 054)**	**12 800 152**	**18 273 118**	**(29 118 955)**	**6 553 596**	**7 058 857**
Cumulative liquidity gap arising from financial instruments	**(1 449 054)**	**11 351 098**	**29 624 216**	**505 261**	**7 058 857**	

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

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

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

29 Management of Capital

The Group's objectives when managing capital are (i) to comply with the capital requirements set by the Central Bank of the Russian Federation, (ii) to safeguard the Group's ability to continue as a going concern and (iii) to maintain a level of capital sufficient to keep the trust of investors, creditors and the market in general (iv) to maintain capital sufficient for further growth of the Group's operations.

Compliance with capital adequacy ratios set by the Central Bank of the Russian Federation is monitored monthly, with reports outlining their calculation reviewed and signed by the Bank's Chief Executive Officer and Chief Accountant. Other objectives of capital management are evaluated annually.

Under the current capital requirements set by the Central Bank of Russia, banks have to maintain a ratio of regulatory capital to risk weighted assets ("statutory capital ratio") above a prescribed minimum level. Regulatory capital is based on the Bank's reports prepared under Russian accounting standards and comprises:

In thousands of Russian Roubles	**2011**	**2010**
Net assets under Russian GAAP	14 758 710	11 159 114
Less intangible assets	(2 918)	(1 272)
Plus subordinated debt	980 486	1 310 506
Other	(601 655)	(405 595)
Total regulatory capital	**15 134 623**	**12 062 753**

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

The Bank's international risk based capital adequacy ratio, computed in accordance with the requirements of the Basel Accord, as defined in the International Convergence of Capital Measurement and Capital Standards (updated April 1998) and the Amendment to the Capital Accord to incorporate market risks (updated November 2005), commonly known as Basel I. The ratio exceeds the minimum ratio of 8% recommended by Basle Accord for the total capital and of 4% for Tier 1 capital.

The capital adequacy as at 31 December 2011 was computed as follows:

In thousands of Russian Roubles	**2011**	**2010**
Constituents of capital		
Core capital (Tier 1)		
Share capital, ordinary and fully paid up	814 919	765 494
Perpetual preference shares with non-cumulative dividends	-	8 052
Disclosed reserves	15 393 596	9 821 640
Total Tier 1	**16 208 515**	**10 595 186**
Supplementary capital (Tier 2)		
Subordinated term debt	968 217	1 294 231
Revaluation reserve	2 972	(1 051)
Total Tier 2	**971 189**	**1 293 180**
Total capital	**17 179 704**	**11 888 366**
Capital adequacy ratio	**14.20%**	**15.04%**

30 Contingencies and Commitments

Legal proceedings. From time to time and in the normal course of business, claims against the Group may be received. The Group was engaged in litigations in relation to loan servicing fees that were charged to borrowers in previous periods. A provision of RUB 123 590 thousand (at 31 December 2010: RUB 93 835 thousand) was created by Management for these litigations as professional advice has indicated that it is likely that a loss will eventuate (Note 17).

Tax contingencies. Russian tax and customs legislation which was enacted or substantively enacted at the end of the reporting period, is subject to varying interpretations when being applied to the transactions and activities of the Group. Consequently, tax positions taken by management and the formal documentation supporting the tax positions may be successfully challenged by relevant authorities. Russian tax administration is gradually strengthening, including the fact that there is a higher risk of review of tax transactions without a clear business purpose or with tax incompliant counterparties. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

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

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

The Group includes company incorporated outside of Russia. The tax liabilities of the Group are determined on the assumption that this company is not subject to Russian profits tax, because it does not have a permanent establishment in Russia. This interpretation of relevant legislation may be challenged but the impact of any such challenge cannot be reliably estimated currently; however, it may be significant to the financial position and/or the overall operations of the entity.

As Russian tax legislation does not provide definitive guidance in certain areas, the Group adopts, from time to time, interpretations of such uncertain areas that reduce the overall tax rate of the Group. While management currently estimates that the tax positions and interpretations that it has taken can probably be sustained, there is a possible risk that outflow of resources will be required should such tax positions and interpretations be challenged by the relevant authorities. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the Group.

Capital expenditure commitments. As at 31 December 2011 and 31 December 2010 the Group had no significant capital commitments.

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

In thousands of Russian Roubles	**2011**	**2010**
Not later than 1 year	393 665	295 001
Later than 1 year and not later than 5 years	574 954	390 358
Later than 5 years	27 565	46 262
Total operating lease commitments	**996 184**	**731 621**

30 Contingencies and Commitments (Continued)

Compliance with covenants. The Group is subject to certain covenants primarily relating to its borrowings. Non-compliance with such covenants may result in negative consequences for the Group including growth in the cost of borrowings and declaration of default. Management believes that the Group was in compliance with covenants at 31 December 2011 and 31 December 2010.

Credit related commitments. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby, 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.

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

In thousands of Russian Roubles	**2011**	**2010**
Undrawn credit lines and unused limits on credit cards	12 158 978	3 193 581
Guarantees issued to third parties	169 019	30 285
Total credit related commitments	**12 327 997**	**3 223 866**

The total outstanding contractual amount of undrawn credit lines, letters of credit, and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded. The fair value of credit related commitments is close to zero because these commitments are not unconditional and depend upon counterparties ability to meet certain credit quality requirements.

Credit related commitments are denominated in currencies as follows:

In thousands of Russian Roubles	**Note**	**2011**	**2010**
Russian Roubles		12 327 031	3 213 092
US Dollars		966	3 111
Euros		-	7 663
Total		**12 327 997**	**3 223 866**

Assets pledged and restricted. The Group had assets pledged as collateral with the following carrying value:

	Notes	**2011**		**2010**	
In thousands of Russian Roubles		**Asset pledged**	**Related liability**	**Asset pledged**	**Related liability**
Repurchase receivables related to trading securities	8,13	3 245 933	2 381 182	-	-
Repurchase receivables related to investment securities held to maturity	8,13	632 736	631 451	-	-
Total		**3 878 669**	**3 012 633**	**-**	**-**

30 Contingencies and Commitments (Continued)

At the period end securities pledged with the CBRF in order to obtain overdraft loans if necessary were RR 325 968 thousand of trading securities and RR 447 409 thousand of investment securities held to maturity (2010: RR 323 373 thousand and RR 496 370 thousand, respectively). The Group did not use the overdraft facility as at 31 December 2011 and 31 December 2010.

In addition, mandatory cash balances with the CBRF of RR 1 362 659 thousand (2010: RR 650 212 thousand) represent mandatory reserve deposits which are not available to finance the Bank's day to day operations as disclosed in Note 3.

31 Derivative Financial Instruments

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

	Notes	2011		2010	
In thousands of Russian Roubles		**Contracts with positive fair value**	**Contracts with negative fair value**	**Contracts with positive fair value**	**Contracts with negative fair value**
Foreign exchange forwards and swaps: fair values, at the end of the reporting period, of	28				
- USD receivable on settlement (+)		-	-	457 153	-
- Euros receivable on settlement (+)		-	-	-	-
- RR payable on settlement (-)		-	-	(448 394)	-
Net fair value of foreign exchange forwards and swaps	**12**	**-**	**-**	**8 759**	**-**

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

32 Fair Value of Financial Instruments

(a) Fair values of financial instruments carried at amortised cost.

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

In thousands of Russian Roubles	2011 Carrying amount	2011 Fair value	2010 Carrying amount	2010 Fair value
Financial assets				
Cash and cash equivalents	**12 282 513**	**12 282 513**	**7 044 951**	**7 044 951**
- Cash on hand	4 647 423	4 647 423	2 353 341	2 353 341
- Cash balances with the CBRF	2 245 408	2 245 408	1 500 243	1 500 243
- Correspondent accounts and overnight placements	4 576 601	4 576 601	2 727 590	2 727 590
- Other	813 081	813 081	463 777	463 777
Mandatory balances with the CBRF	**1 362 659**	**1 362 659**	**650 212**	**650 212**
Due from other banks	**1 376 952**	**1 376 952**	**1 854 125**	**1 854 125**
- Interbank loans	1 376 952	1 376 952	1 854 125	1 854 125
Loans and advances to customers	**107 441 443**	**106 641 918**	**70 157 434**	**71 169 434**
Loans to individuals	104 505 075	103 891 753	66 172 545	67 273 896
- Consumer loans	59 533 381	58 695 388	47 418 274	48 284 331
- Credit cards	23 844 763	23 976 025	4 372 760	4 094 816
- Mortgage loans	1 271 378	1 483 553	1 736 449	1 843 084
- Car loans	5 192 474	5 233 105	2 927 661	3 154 324
- Other loans	14 663 079	14 503 682	9 717 401	9 897 340
Loans to legal entities	2 936 368	3 266 701	3 984 889	3 895 539
- Corporate loans	2 194 826	2 496 671	3 320 699	3 203 016
- SME loans	225 006	253 494	112 048	140 381
- Reverse sale and repurchase agreements	516 536	516 536	539 741	539 741
- Finance leasing	-	-	12 401	12 401
Investment securities held to maturity	**144 834**	**146 053**	**1 060 415**	**1 127 036**
- Bonds of credit and finance organisations	125 692	126 910	508 180	528 155
- Corporate bonds	19 142	19 143	-	-
- Municipal bonds	-	-	350 146	396 792
- Russian Federation bonds	-	-	202 089	202 089
Repurchase receivables related to investment securities held to maturity	**632 736**	**821 313**	-	-
- Bonds of credit and finance organisations	333,001	329,679	-	-
- Municipal bonds	299,735	491,634	-	-
Other financial assets	**1 728 578**	**1 728 578**	**745 518**	**745 518**
- Settlements with exchanges	953 087	953 087	239 188	239 188
- Debtors and prepayments	386 406	386 406	22 712	22 712
- Debtors for sale of loans	214 060	214 060	68 693	68 693
- Service fee asset	83 219	83 219	116 143	116 143
- Foreign currency spots and forwards	53 698	53 698	12 768	12 768
- Settlements with State Insurance Agency (ASV)	5 276	5 276	255 031	255 031
- Other financial assets	32 832	32 832	31 613	30 983
TOTAL FINANCIAL ASSETS CARRIED AT AMORTISED COST	**124 969 715**	**124 359 986**	**81 512 655**	**82 591 276**

32 Fair Value of Financial Instruments (Continued)

In thousands of Russian Roubles	2011		2010	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Financial liabilities				
Due to other banks	**5 343 256**	**5 343 256**	**123 871**	**123 871**
Customer accounts	**106 035 274**	**105 960 513**	**73 374 957**	**73 837 462**
State and public organisations				
- Current/settlement accounts	250 173	250 173	1 422 190	1 422 190
- Term deposits	1 635 859	1 631 924	1 385 142	1 382 292
Other legal entities				
- Current/settlement accounts	4 357 761	4 357 761	4 460 614	4 460 614
- Term deposits	5 283 302	5 298 592	3 297 567	3 340 727
Individuals				
- Current/demand accounts	18 404 937	18 404 937	14 802 298	14 802 298
- Term deposits	76 103 242	76 017 126	48 007 146	48 429 341
Debt securities issued	**5 089 314**	**4 996 021**	**3 080 791**	**3 011 271**
- Bonds issued on domestic market	5 089 193	4 995 900	3 073 720	3 004 200
- Promissory notes	121	121	7 071	7 071
Other borrowed funds	**1 849 951**	**1 849 951**	**1 199 747**	**1 199 747**
Other financial liabilities	**834 820**	**834 820**	**469 528**	**469 528**
- Accrued expenses	409 454	409 454	264 624	264 624
- Warranty on loans sold	24 285	24 285	99 010	99 010
- Other	401 081	401 081	105 894	105 894
Subordinated debt	**968 217**	**1 087 167**	**1 294 231**	**1 354 593**
- Subordinated debt	968 217	1 087 167	1 294 231	1 354 593
TOTAL FINANCIAL LIABILITIES CARRIED AT AMORTISED COST	**120 120 832**	**120 071 728**	**79 543 125**	**79 996 472**

32 Fair Value of Financial Instruments (Continued)

(b) Analysis by fair value hierarchy of financial instruments carried at fair value.

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

In thousands of Russian Roubles	**2011** Quoted price in an active market (Level 1)	**2011** Valuation technique with inputs observable in markets (Level 2)	**2011** Valuation technique with significant non-observable inputs (Level 3)	**2010** Quoted price in an active market (Level 1)	**2010** Valuation technique with inputs observable in markets (Level 2)	**2010** Valuation technique with significant non-observable inputs (Level 3)
FINANCIAL ASSETS						
Trading securities						
- Russian Federation bonds	1 403 920	-	-	559 240	-	-
- Bonds of credit organisations	1 344 566	826 478	-	2 358 670	255 200	-
- Corporate bonds	268 963	96 972	-	823 988	53 112	-
- Local government bonds	84 261	-	-	565 021	-	-
Investment securities available for sale						
- Bonds of credit organisations	-	208 399	-	50 440	389 432	-
- Shares	-	-	32 448	-	-	34 224
Repurchase receivables related to trading securities						
- Bonds of credit organizations	1 685 693	-	-	-	-	-
- Corporate Bonds	1 164 474	-	-	-	-	-
- Local government Bonds	395 766	-	-	-	-	-
Other financial assets						
- Foreign currency spots and forwards	-	53 698	-	-	12 768	-
TOTAL FINANCIAL ASSETS CARRIED AT FAIR VALUE	**6 347 643**	**1 185 547**	**32 448**	**4 357 359**	**710 512**	**34 224**

Management applies judgement in categorising financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement. The significance of a valuation input is assessed against the fair value measurement in its entirety.

(c) The methods and assumptions applied in determining fair values.

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. Where quoted market prices were not available, the Group used valuation techniques. The fair value of floating rate instruments that are not quoted in an active market was estimated to be equal to their carrying amount. The fair value of unquoted fixed interest rate instruments was estimated 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.

32 Fair Value of Financial Instruments (Continued)

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

	2011	2010
Loans and advances to customers		
Loans to individuals		
- Consumer loans	19.20 % to 32.89 % p.a.	20.72 % to 31.41 % p.a.
- Credit cards	10.29 % to 22.17 % p.a.	25.16 % to 33.41 % p.a.
- Mortgage loans	13.02 % to 13.45% p.a.	10.82 % to 11.97 % p.a.
- Car loans	20.40 % to 20.40 % p.a.	21.08 % to 22.63 % p.a.
- Other loans	17.99 % to 19.26 % p.a.	22.14 % to 23.69 % p.a.
Loans to legal entities		
- Corporate loans	11.61 % to 14.95 % p.a.	15.11 % to 15.58 % p.a.
- SME loans	17.05 % to 19.18 % p.a.	18.55 % to 19.70 % p.a.
Customer accounts		
State and public organisations		
- Term deposits	7.62 % to 8.28 % p.a.	5.28 % to 10.42 % p.a.
Other legal entities		
- Term deposits	7.62 % to 9.28 % p.a.	5.28 % to 9.25 % p.a.
Individuals		
- Term deposits	8.72 % to 9.95 % p.a.	5.46 % to 9.44 % p.a.
Subordinated debt		
- Subordinated debt	8.39 % to 8.39 % p.a.	10.56 % to 10.56 % p.a.

The fair value of financial assets and liabilities other than those disclosed in the table above approximates their carrying amount due their short term nature.

For the purposes of measurement, IAS 39, *Financial Instruments: Recognition and Measurement*, classifies financial assets into the following categories: (a) loans and receivables; (b) available-for-sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit or loss (“FVTPL”). Financial assets at fair value through profit or loss have two sub-categories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading. In addition, finance lease receivables form a separate category. The following table provides a reconciliation of financial assets with these measurement categories as of 31 December 2011:

In thousands of Russian Roubles	Loans and receivables	Available for sale assets	Trading assets	Held to maturity	Total
Assets					
Cash and cash equivalents	12 282 513	-	-	-	12 282 513
Mandatory balances with CBRF	1 362 659	-	-	-	1 362 659
Securities	-	240 847	4 025 160	144 834	4 410 841
Repurchase receivables related to trading securities	-	-	3 245 933	-	3 245 933
Repurchase receivables related to investment securities held to maturity	-	-	-	632 736	632 736
Due from other banks	1 376 952	-	-	-	1 376 952
Loans and advances to customers		-	-	-	
- Corporate loans	2 936 368	-	-	-	2 936 368
- Consumer loans	59 533 381	-	-	-	59 533 381
- Credit cards	23 844 763	-	-	-	23 844 763
- SME loans	5 851 735	-	-	-	5 851 735
- Car loans	5 192 474	-	-	-	5 192 474
- Mortgage loans	1 271 378	-	-	-	1 271 378
- Other loans	8 811 344	-	-	-	8 811 344
Other financial assets:					
- Settlements with Exchanges	953 087	-	-	-	953 087
- Debtors for sale of loans	214 060	-	-	-	214 060
- Debtors and prepayments	386 406	-	-	-	386 406
- Service fee asset	83 219	-	-	-	83 219
- Settlements with State Insurance Agency (ASV)	5 276	-	-	-	5 276
- Foreign currency spots	-	-	53 698	-	53 698
- Other financial assets	32 832	-	-	-	32 832
Total financial assets	**124 138 447**	**240 847**	**7 324 791**	**777 570**	**132 481 655**

32 Fair Value of Financial Instruments (Continued)

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

In thousands of Russian Roubles	Loans and receivables	Available for sale assets	Trading assets	Held to maturity	Total
Assets					
Cash and cash equivalents	7 044 951	-	-	-	7 044 951
Mandatory balances with CBRF	650 212	-	-	-	650 212
Securities	-	474 096	4 615 231	1 060 415	6 149 742
Due from other banks	1 854 125	-	-	-	1 854 125
Loans and advances to customers		-	-	-	
- Corporate loans	3 984 889	-	-	-	3 984 889
- Consumer loans	47 418 274	-	-	-	47 418 274
- Credit cards	4 372 760	-	-	-	4 372 760
- Mortgage loans	1 736 449	-	-	-	1 736 449
- Car loans	2 927 661	-	-	-	2 927 661
- SME loans	2 647 094	-	-	-	2 647 094
- Other loans	7 070 307	-	-	-	7 070 307
Other financial assets:					
- Settlements with exchanges	239 188	-	-	-	239 188
- Debtors for sale of loans	68 693	-	-	-	68 693
- Debtors and prepayments	22 712	-	-	-	22 712
- Service fee asset	116 143	-	-	-	116 143
- Settlements with State Insurance Agency (ASV)	255 031	-	-	-	255 031
- Foreign currency spots and forwards	-	-	12 768	-	12 768
- Other financial assets	30 983	-	-	-	30 983
Total financial assets	**80 439 472**	**474 096**	**4 627 999**	**1 060 415**	**86 601 982**

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

33 Related Party Transactions

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

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

In thousands of Russian Roubles	Shareholders with significant influence	Members of BOD	Management (excluding BOD)	Other related parties
Balances as at 31 December 2011				
Securities (contractual interest rate: 11 % p.a.)	-	-	-	208 399
Loans issued (contractual interest rate: 10 % - 18 % p.a.)	126 663	143 782	5 862	1 155 090
Due to other banks (contractual interest rate: 0% - 0.5 % p.a.)	-	-	-	61 561
Customer accounts (contractual interest rate: 5.1 % - 13.5 % p.a.)	1 533 708	117 775	93 049	351 805
Credit related commitments	3 010	4 418	14 206	139 993

33 Related Party Transactions (Continued)

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

In thousands of Russian Roubles	**Shareholders with significant influence**	**Members of BOD**	**Key management (excluding BOD)**	**Other related parties**
Transactions during the year				
Interest income on loans issued	5 048	6 509	386	120 443
Interest income from securities	-	-	-	33 177
Interest expense	164 581	9 082	13 088	27 970
Fee and commission income	306	74	157	1 696
Fee and commission expense	-	-	-	111 739
Other income	1 591	-	21	8 715
Rent expense	-	-	413	4 086
Other expense	687	-		7 640

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

In thousands of Russian Roubles	**Shareholders with significant influence**	**Members of BOD**	**Key management (excluding BOD)**	**Other related parties**
Balances as at 31 December 2010				
Cash and cash equivalents (contractual interest rate: 0 % p.a.)	-	-	-	226 865
Securities (contractual interest rate: 10.05 % - 11.75 % p.a.)	-	-	-	660 979
Loans issued (contractual interest rate: 12.15 % - 17 % p.a.)	-	-	2 265	985 672
Provision for loan impairment	-	-	-	25 500
Other assets	-	-	-	616
Customer accounts (contractual interest rate: 2.5 % - 15.6 % p.a.)	2 000 765	172 798	105 618	401 312
Credit related commitments	66 000	1 700	5 100	50 780

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

In thousands of Russian Roubles	**Shareholders with significant influence**	**Members of BOD**	**Key management (excluding BOD)**	**Other related parties**
Transactions during the year				
Interest income on loans issued	282	298	358	95 394
Income on loans sold	-	-	-	19 442
Interest income from securities	-	-	-	56 645
Interest expense	71 689	11 132	14 440	49 252
Expense on loans sold	-	-	-	9 993
Commission received	370	50	121	7 699
Commission paid	-	2	-	130 775
Other income	-	-	-	19 900
Rent expense	-	-	450	1 113
Other expense	-	1 412	2 568	11 520

Included in the “other related parties” category above are balances and income and expenses from transactions with the companies controlled by shareholders with significant influence on the Group.

33 Related Party Transactions (Continued)

Key management compensation is presented below:

In thousands of Russian Roubles	2011 Expense	2011 Accrued liability	2010 Expense	2010 Accrued liability
Short-term benefits:				
- Salaries	230 279	-	85 451	-
- Short-term bonuses	206 620	206 620	76 450	76 450
Share-based compensation:				
- Equity-settled share-based compensation	12 500	-	-	-
Total	**449 399**	**206 620**	**161 901**	**76 450**

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

During the year ended 31 December 2011 the Bank introduced a short term bonus plan for the key management of the Bank. The key management is entitled to a cash payment equal to individual packages based on individual performance of a manager and up to a fixed percentage of a bonus pool eligible for distribution to management. A cash distribution under this short term bonus plan shall be made within 30 days period since a Board of Directors meeting on the results of the audited consolidated financial statements for the year ended 31 December 2011.

During the year ended 31 December 2011 the Bank also introduced an employee share option plan as a long-term incentive and retention tool for the key management of the Bank. The key management is entitled to cash payment or ordinary shares of the Bank at the individual choice of a manager equal to individual packages based on individual performance of a manager and up to a fixed percentage of a bonus pool eligible for distribution to management.

The share option plan vests in two-year period since the date when the Board of Directors of the Bank determines a bonus pool as a percentage from the profit for the year ended 31 December 2011 based on the audited consolidated financial statements or at early vesting conditions. These early vesting conditions include a change in the shareholders structure of the Bank as a result of a new shareholder entry controlling more than 50% of the shares or in case of early termination of a service agreement with employee.

The quantity of ordinary shares eligible for distribution to the share option plan participants is being determined by the Board of Directors of the Bank on the basis of their estimates with respect to the equity value of the Bank as of 31 December 2011.

The bonus pool eligible for the short term bonus plan and the share option plan is being determined by the Board of Directors of the Bank based on a percentage of the profit for the year ended 31 December 2011. The maximum amount of the bonus pool eligible for the short term bonus plan and share option plan as of 31 December 2011 is 7.8% and 1.7% of the profit for the year ended 31 December 2011.