Hlynov Commercial Bank
(Open Joint Stock Company)

Non-Consolidated Financial Statements
31 December 2011
and Independent Auditor's Report

Contents

STATEMENT OF MANAGEMENT RESPONSIBILITIES

Management of OJSC CB Hlynov ('the Bank') has prepared and is responsible for the contents of the accompanying financial statements of the Bank and its related notes. The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and necessarily include amounts based on judgements and estimates made by the Bank's management.

The Bank maintains internal accounting control systems and related policies and procedures designed to provide reasonable assurance that assets are safeguarded, that transactions are executed in accordance with management's authorisation and properly recorded, and that accounting records may be relied upon for the preparation of financial statements and other financial information. The system contains self-monitoring mechanisms that allow management to be reasonably confident that controls, as well as the Bank's administrative procedures and internal reporting requirements operate effectively. There are inherent limitations in the effectiveness of any system of internal control, including the possibility of human error or the circumvention or overriding of controls. Accordingly, even an effective internal control system can provide only reasonable assurance with respect to financial statement preparation.

I.P. Prozorov
Chairman of the Executive Board

S.V. Shamseeva
Chief accountant

15 June 2012

AUDITOR'S REPORT

To the Board of Directors of OJSC CB Hlynov

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

Management's Responsibility for the Financial Statements

The Bank's management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as of December 31, 2011, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

CJSC Mazars
15 June 2012

OJSC CB Hlynov
Non-Consolidated Statement of Financial Position as at 31 December 2011
(in thousands of Russian Roubles)

	Notes	2011	2010
Assets			
Cash and Cash Equivalents	**5**	947,617	908,362
Mandatory Balances with the CBRF	**6**	98,472	58,274
Due from Banks	**7**	569,681	1,075,000
Financial assets at fair value through profit or loss	**8**	1,665,726	1,522,478
Financial assets held to maturity	**9**	90,251	50,488
Loans and Advances to Customers	**10**	6,401,756	5,882,917
Investment in Subsidiaries	**11**	-	-
Other Assets	**12**	135,781	203,163
Property, Plant and Equipment	**13**	278,547	282,579
Investment properties	**13**	68,077	81,328
Total Assets		**10,255,908**	**10,064,589**
Liabilities			
Due to Banks	**14**	1	245
Customer Accounts	**15**	8,712,561	8,737,862
Debt Securities Issued	**16**	18,910	5,201
Taxation	**17**	38,240	34,894
Other Liabilities	**18**	44,741	31,076
Total Liabilities		**8,814,453**	**8,809,278**
Equity			
Share Capital	**19**	627,198	627,198
Retained Earnings		767,642	581,244
Revaluation Reserve		46,615	46,869
Total Equity		**1,441,455**	**1,255,311**
Total Liabilities and Equity		**10,255,908**	**10,064,589**
Credit Related Commitments	**20**	**601,675**	**706,683**

Signed and authorised for release on behalf of the Executive Board of the Bank on 15 June 2012

I.P. Prozorov
Chairman of the Executive Board

S.V. Shamseeva
Chief accountant

OJSC CB Hlynov
Non-Consolidated Statement of Comprehensive Income
for the year ended 31 December 2011
(in thousands of Russian Roubles)

	Notes	2011	2010
Interest income			
Loans and advances to legal entities		660,854	641,450
Loans and advances to individuals		156,143	188,982
Securities		123,231	64,555
Due from banks		9,286	30,119
		949,514	**925,106**
Interest expense			
Term deposits of individuals		(462,031)	(551,782)
Term deposits of legal entities		(13,283)	(15,308)
Current/settlement accounts		(8,907)	(12,705)
Due to banks		(178)	(951)
Debt securities issued		(25)	-
		(484,424)	**(580,746)**
Net interest income		**465,090**	**344,360**
Allowance for impairment	**21**	(148,932)	(122,352)
Net interest income less allowance for losses		**316,158**	**222,008**
Net fee and commission income	**23**	251,907	205,869
Gains less losses from trading with securities	**22**	(17,339)	17,047
Gains less losses from transactions with foreign currencies		(1,568)	54,554
Net gain / loss from revaluation of items in foreign currencies		19,633	(38,125)
Gains / losses from disposal of property, plant and equipment		1,229	(948)
Fair value adjustment of investment in subsidiary	**11**	-	(7,967)
Other operating income		15,247	11,622
Operating income		**585,267**	**464,060**
Staff costs	**24**	(216,320)	(169,819)
Administrative and other operating costs	**24**	(120,715)	(104,675)
Depreciation and amortisation	**13**	(15,288)	(12,948)
Operating expenses		**(352,323)**	**(287,442)**
Transfer value on loans issued at less than commercial rates		-	(33,510)
Profit before tax		**232,944**	**143,108**
Income tax charge	**17**	(46,546)	(30,973)
Profit for the period		**186,398**	**112,135**
Other comprehensive income			
(Losses) / gains on property revaluation		-	-
Write-off of revaluation on disposed fixed assets		(254)	-
Total comprehensive income for the year		**186,144**	**112,135**

(in thousands of Russian Roubles)

	Notes	2011	2010
Cash flows from operating activities			
Interest received		742,594	790,725
Interest paid		(484,424)	(559,286)
Income from securities trading		126,276	81,186
Income from trading in foreign currencies		753	53,697
Commissions received		292,035	229,560
Commissions paid		(28,962)	(23,314)
Income / (losses) from disposal of property, plant and equipment		1,229	(948)
Other operating incomes received		14,299	10,674
Other operating expenses paid		(319,485)	(272,378)
Income tax paid		(43,200)	(32,189)
Cash flows from operating activities received before changes in operating assets and liabilities		**301,115**	**277,727**
Net (increase)/decrease in operating assets			
Mandatory balance with CBRF		(40,198)	(14,072)
Securities at fair value through profit or loss		(163,540)	(1,296,771)
Due from banks		505,319	(337,702)
Loans and advances to customers		(584,086)	(1,099,950)
Other assets		67,594	109,430
Net increase /(decrease) in operating liabilities			
Due to banks		(244)	(25,555)
Customer accounts		(25,301)	2,443,173
Debt securities issued		13,710	1,189
Other liabilities		(16,636)	(13,552)
Net cash (paid)/received from operating activities		**57,733**	**43,917**
Cash flows from investing activities			
Acquisition of property, plant and equipment		(37,680)	(75,298)
Disposal of property, plant and equipment		39,424	-
Purchase of financial assets HTM		(39,855)	(50,072)
Net cash paid in investing activities		**(38,111)**	**(125,370)**
Cash flows from financing activities			
Dividends paid	**19**	-	(60,500)
Net cash received from financing activities		**-**	**(60,500)**
Effect of exchange rate on cash and cash equivalents		19,633	(38,125)
Net increase of cash and cash equivalents		**39,255**	**(180,078)**
Cash and cash equivalents at the beginning of the year	**5**	**908,362**	**1,088,440**
Cash and cash equivalents at the end of the year	**5**	**947,617**	**908,362**

(in thousands of Russian Roubles)

	Share capital	Revaluation reserve	Retained earnings	Total equity
01 January 2010	**627,198**	**47,370**	**529,108**	**1,203,676**
Dividends paid in the reporting period	-	-	(60,500)	**(60,500)**
Total comprehensive income for the year	-	(501)	112,636	**112,135**
01 January 2011	**627,198**	**46,869**	**581,244**	**1,255,311**
Total comprehensive income for the year	-	(254)	186,398	**186,144**
01 January 2012	**627,198**	**46,615**	**767,642**	**1,441,455**

In accordance with normative legal acts of the Russian Federation regulating the banking activity, the Bank must use financial statements prepared under Russian Accounting Standards ('RAS') as the basis for calculating distributable profit for the accounting year. The income may be used for paying dividends or for increasing the Bank's reserves.

As at 31 December 2011, retained earnings of the Bank calculated in accordance with RAS were 509,124 (2010: 334,655).

1. Principal Activities

On 6 March 1990, Bank "KirovCoopBank" was registered with the Central Bank of the Russian Federation ("CBRF"). In the year 1991 it was renamed as "Commercial Bank Hlynov" (Open Joint Stock Company).

The Bank conducts its business under general license № 254 issued by the CBRF on 24 February 2000 to conduct banking operations in Russian Roubles and foreign currency and to attract deposits from individuals in Roubles and foreign currency. Since 21 September 2004 the Bank has been a member of the State Deposit Insurance system The Bank has also been granted licenses as professional participant of the Securities Market allowing it to carry out depository functions, and to act as broker and dealer and provide services in managing securities.

The principal activity of the Bank is to provide banking services to the population and legal entities in the Kirov district.

The structure of the Bank comprised a central office, situated at 40 Yritskogo Street, Kirov, 610002, plus 27 supplementary offices and 5 'cash-in offices'. The Bank does not have any branches.
During 2011 the Bank has had an average of 511 members of staff (2010: 491).

In the opinion of the Bank's management, and considering the structure and nature of the shareholders, described in Note 19, the Bank does not have a single ultimate controlling party.

2. Operating Environment of the Bank

In 2011 the global economy was still unstable under the influence of international and local financial misbalances and inflation risks. While the Russian economy generally continued to grow a certain outflow of capital still occurred. Macroeconomic indicators in 2011 were variable with some showing positive tendencies, some – negative, but general growth of GDP reached 4.3%. Supported by growing oil prices the budget of Russia continued to grow. Inflation level comprised 6.1% (2010: 8.8%). Outflow of capital was estimated at about 49.4 billion USD caused by continuing global instability and some negative tendencies in the Russian investment climate.

In 2011 interbank lending and corporate lending continued to support the recovery of the Russian economy whilst banks' portfolios of loans issued increased by about 2 times to previous year. Portfolio of loans to individuals also grew compared to 2010 influenced by stable increase of consumer demand and softened terms of lending. Better payment discipline of borrowers and availability of various instruments decreased the share of overdue loans and therefore led to certain increase of quality of banks' loan portfolios. Overdue loans of corporate borrowers amounted to 5.1% of total loans, while share of overdue loans of individuals amounted to 6.1% of total loans issued.

Although, at the date of signing these financial statements Management, cannot fully determine the impact of the current economic situation on the Bank with any certainty it is clear that significant uncertainties are still present. The financial information reflects Management's assessment of the impact on the operations and the financial position of the Bank. The future business environment may differ from Management's assessment. They are unable to predict all developments that could have an impact on the banking sector and therefore the financial position of the Bank.

3. Basis of Presentation

a) General

The non-consolidated financial statements of the Bank have been prepared on the going concern basis in accordance with IFRS which comprise existing standards and their interpretations approved by the International Accounting Standards Board ("IASB"), and International Accounting Standards ("IAS") and Standing Interpretations Committee interpretations ("SIC") approved by the International Accounting Standards Committee that remain in effect. The Bank maintains its accounting records in accordance with Russian Accounting Standards ("RAS").

Basis of Presentation (continued)

These financial statements are based on the Bank’s RAS analytical books and records adjusted and reclassified in order to comply with IFRS.

These financial statements are presented and rounded to thousands of Roubles (RUR) unless otherwise indicated. The Rouble is utilised as the reporting currency as the majority of the Bank’s transactions are denominated, measured, or funded in RUR, hence it is both the functional and reporting currency. Transactions in other currencies other then RUR are treated as transactions in foreign currencies.

These financial statements have been prepared on the historical cost basis except for the revaluation of certain non-current assets and financial instruments.

b) Use of estimates

The preparation of financial statements in accordance with IFRS requires the use of estimations and assumptions that affect the reported data. These estimates are based on information available at the date of financial statements’ preparation, and although are based on Management’s best knowledge and understanding of current events, the actual results might differ from the estimated. The most significant are the estimates of level of allowances for possible losses.

(i) Impairment losses on loans to customers

The Bank reviews loans to customers on a quarterly basis for evidence of impairment. The reason for impairment could be late payments of loans and interest or negative financial information about the borrower. The credits exceeding the materiality level for financial statements are reviewed individually. Others are reviewed on a portfolio basis by counterparty industry type and geographical location. When impairment is required to be recognised it is done individually for loans, exceeding materiality level based on Managements estimate of the future cash flows arising from the loan. This is based on their knowledge and experience of the counterparty, its industry and location. For portfolio based impairment the estimate is based wherever possible on observable data such as CBRF statistics including industry areas statistics by industry and regions.

Impairment amount is calculated as the difference between the loan’s carrying amount and the present value of estimated future cash flows (less future credit losses that have not been incurred) discounted at the loan’s original effective interest rate. The aggregate of the allowances made during the year is charged against Statement of Comprehensive Income for the year.

(ii) Impairment losses on receivables other than loans

The Bank reviews all its assets for impairment on a quarterly basis. In determining whether an impairments loss should be recorded in the Statement of Comprehensive Income, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from an asset. Management uses estimates based on their knowledge and experience to determine both the amount and timing of future cash flows

(iii) Fair values

For assets and liabilities estimated at fair value the Bank applies the latest market bid prices where possible. In cases where this is not available it uses evaluation techniques or conventions. Further details are given in Note 8.

(iv) Related party transactions

In the normal course of business the Bank enters into transactions with related parties. These transactions are predominantly priced at market rates. Judgment is applied in determining if transactions are priced at market or non market rates where there is no active market for such transactions. The basis for judgment is the pricing of similar types of transactions with non related parties and effective interest rate analysis.

Basis of Presentation (continued)

(v) Depreciation
The Bank applies the norms of depreciation based on the estimated useful life of its fixed assets. These estimates are based on Managements knowledge of assets and the use to which they are put. Estimates of useful lives are reviewed on an annual basis.

The allowances for impairment of financial assets and provisions in the accompanying financial statements have been determined on the basis of existing economic and political conditions. The Bank is not in a position to predict what changes in conditions will take place in the Russian Federation and what effect such changes might have on the adequacy of the allowances for impairment of financial assets in the future.

c) Standards, interpretations and amendments that are not yet effective

New pronouncements applicable to 31 December 2011 year ends:

IFRS 1 First-time Adoption of International Financial reporting Standards – Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters
IAS 24 Related Party Disclosures (Revised)
IAS 32 Financial Instruments: Presentation – Classification of Rights Issue (Amendment)
IFRIC 14 Prepayments of a Minimum Funding Requirement (Amendment)
IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

Improvements to International Financial reporting Standards effective for December 2011 year-ends:

Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards
IFRS 3 Business Combinations
IFRS 7 Financial Instruments Disclosures
IAS 1 Presentation of the Financial Statements
IAS 27 Consolidated and Separate Financial Statements
IAS 34 Interim Financial Reporting
IFRIC 13 Customer Loyalty Programs

From the above only amendments to *IFRS 7 Financial Instruments Disclosures* have significant impact on the Bank's financial statements. The amendment emphasizes the interaction between quantitative and qualitative disclosures and the nature and extent of risks associated with financial instruments.

The amendments to quantitative and credit risk disclosures:
- Clarify that only financial assets with carrying amounts that do not reflect the maximum exposure to credit risk need to provide further disclosure of the amount that represents the maximum exposure to credit risk
- Require, for all financial assets, disclosure of the financial effect of collateral held as security and other credit enhancements, including the amount that best represents the maximum exposure to credit risk (e.g., a description of the extent to which collateral mitigates credit risk)
- Remove the disclosure requirements of the collateral held as security, other credit enhancements and an estimate of their fair value for financial assets that are past due but not impaired, and financial assets that are individually determined to be impaired
- Remove the requirement to specifically disclose financial assets renegotiated to avoid becoming past due or impaired
- Clarify that the additional disclosure required for financial assets obtained by taking possession of collateral or other credit enhancements are only applicable to assets held at the reporting date

The amendment is applicable to annual periods beginning on or after 1 January 2011. The amendment is applied retrospectively

(in thousands of Russian Roubles)

Basis of Presentation (continued)

Standards, interpretations and amendments that are not yet effective:

IFRS 1 First-time Adoption of International Financial reporting Standards (Amendment) – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters	Effective for annual periods beginning on or after 1 July 2011
IFRS 7 financial Instruments: Disclosures (Amendment)	Effective for annual periods beginning on or after 1 July 2011
IAS 12 Income Taxes (Amendment) – Deferred Taxes: Recovery of Underlying Assets	Effective for annual periods beginning on or after 1 January 2012
IFRS 9 Financial Instruments – Classification and Measurement	Effective for annual periods beginning on or after 1 January 2013
IFRS 10 Consolidated Financial Statements, IAS 27 Separate Financial Statements	Effective for annual periods beginning on or after 1 January 2013
IFRS 11 Joint Arrangements, IAS 28 Investments in Associates and Joint Venture	Effective for annual periods beginning on or after 1 January 2013
IFRS 12 Disclosure of Interests in Other Entities	Effective for annual periods beginning on or after 1 January 2013
IFRS 13 Fair value Measurement	Effective for annual periods beginning on or after 1 January 2013
IAS 1 Presentation of Items of Other Comprehensive Income – Amendments to IAS 1	Effective for annual periods beginning on or after 1 July 2012

Management has decided not to early adopt any of the Standards, Interpretations and Amendments. Of the above Management believes that only the following will have a significant impact on the Bank’s financial statements:

IFRS 9 Financial Instruments – Classification and Measurement

Amendments include some changes to the previously introduced IFRS 9 *Financial Instruments,* which changes requirements for the classification and measurement of financial assets. The four categories of financial asset set out in IAS 39 are reduced to two by IFRS 9: those that are carried at amortised cost and those that are not, and must be carried at fair value. In deciding into which category a financial asset falls, an entity must normally take account of:

- the entity’s business model for managing the financial assets; and
- the contractual cash flow characteristics of the financial asset.

Financial assets are measured at amortised cost if:

- the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All financial assets which do not fall into this category must be stated at fair value.

The Bank does not have a complex range of financial instruments and no financial instruments measured at fair value at present and the anticipated changes are expected largely to relate to disclosure requirements only.

The Bank will adopt these standards when they become effective.

(in thousands of Russian Roubles)

Basis of Presentation (continued)

d) Inflation accounting

In the opinion of Management, effective from 1 January 2003, the Russian Federation no longer met the criteria of IAS 29 *"Financial Reporting in Hyperinflationary Economies"*, and therefore, the Bank ceased applying IAS 29 to subsequent periods recognising only the cumulative impact of inflation indexing on non-monetary elements of the financial statements through 31 December 2002.

Consequently, monetary items and results of operations for 2010 and 2011 are reported in actual, nominal amounts. Non-monetary assets and liabilities acquired prior to 31 December 2002, and share capital transactions occurring before 31 December 2002 were restated by applying the relevant inflation factors to the historical cost ("restated cost") through 31 December 2002. Gains or losses on subsequent disposals are recognised based on the restated cost of the non-monetary assets and liabilities.

e) *Reconciliation of RAS and IFRS equity and net income*

	31 December 2011		31 December 2010	
	Equity	**Net profit**	**Equity**	**Net profit**
RAS	**1,203,028**	**174,469**	**1,034,881**	**118,318**
Transfer value of loans	(19,997)	8,117	(28,114)	(28,351)
Additional allowance for loans and correspondent accounts	271,020	38,002	233,018	40,266
Interest expense/income	(7,237)	(22,451)	15,214	(3,653)
Write off of low value assets	(341)	272	(613)	(585)
Additional depreciation	(4,327)	(2,935)	(3,558)	(2,189)
Investments in subsidiaries	-	-	-	(7,967)
Adjustments of fixed assets	15,363	4,777	12,751	3,585
Deferred tax	(38,240)	(3,346)	(34,894)	1,216
Deposit insurance system	(5,885)	(80)	(5,805)	(1,361)
Revaluation of fixed assets	10,114	-	10,382	-
Recognition of SWAP deals	(2,321)	(1,841)	-	-
Recognition of financial assets HTM at amortised cost	(92)	(508)	416	416
Staff expenses	(10,924)	(7,594)	(3,330)	(3,330)
Commission on guarantees issued	(3,934)	(469)	(3,465)	(3,465)
Other	35,228	(15)	28,428	(765)
IFRS	**1,441,455**	**186,398**	**1,255,311**	**112,135**

f) *Fair value of financial instruments*

Unless otherwise stated, the financial instruments of the Bank have been stated in these financial statements at their measured fair values in accordance with IAS 39 *"Financial Instruments: Recognition and Measurement"*. The estimated fair values are intended to approximate the amounts at which these instruments could be exchanged in an arm's length transaction between willing parties at the year end. Certain financial instruments lack an active trading market and therefore fair values are based on valuation techniques, which involve assumptions and judgement.

The specific valuation methodologies applied to these instruments are outlined in Note 3. In light of the foregoing, the fair values should not necessarily be interpreted as being realisable in an immediate settlement of the instruments.

4. Significant Accounting Policies

a) Consolidation

These financial statements present the Bank's activities and balances on a non-consolidated basis. The Bank has produced separate financial statements presenting the consolidated Statement of Comprehensive Income and Statement of Financial Position of the Bank and its subsidiaries.

b) Recognition of Financial Instruments

The Bank recognises financial assets and liabilities on its Statement of Financial Position when, and only when, it becomes a party to the contractual provisions of the instrument. Financial assets and liabilities are recognised using trade date accounting.

Financial assets and liabilities are offset and the net amount is reported in the Statement of Financial Position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Financial assets and liabilities are initially recognised at cost, which is the fair value of consideration given or received, respectively, including or net of any transaction costs incurred, respectively. Any gain or loss at initial recognition is recognised in the current period's Statement of Comprehensive Income. The accounting policies for subsequent re-measurement of these items are disclosed in the respective accounting policies set out below.

c) Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, amounts due from the CBRF, excluding mandatory reserves, and due from credit institutions that mature within one day of the date of origination and are free from contractual encumbrances.

d) Mandatory Balances with the CBRF

Mandatory balances represent mandatory reserve assets which are not available to finance the Bank's day to day operations and hence are not considered as part of cash and cash equivalents for the purposes of the statement of cash flows.

e) Due from Banks

In the normal course of business, the Bank maintains current accounts or deposits for various periods of time with other banks. Amounts due from banks with a fixed maturity term are subsequently measured at amortised cost using the effective interest method. Those that do not have fixed maturities are carried at cost. Amounts due from banks are carried net of any allowance for impairment.

f) Financial Assets at Fair Value through Profit or Loss ("FVPL")

Securities at FVPL are securities which were either acquired for generating a profit from short-term fluctuations in price or dealer's margin, or are securities included in a portfolio in which a pattern of short-term holding exists. Securities at FVPL are initially recognised at fair value and subsequently re-measured at fair value. The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the reporting date.

All related realised and unrealised gains or losses are recorded within net gains or losses from trading activities in the Statement of Comprehensive Income for the period in which the change occurs. Interest earned on trading securities is reflected in the Statement of Comprehensive Income as interest income on securities.

Significant Accounting Policies (continued)

All purchases and sales of securities at FVPL that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recognised at trade date, which is the date when the property is effectively transferred.

g) Investment in subsidiaries

Investments in subsidiaries are valued at fair value through profit or loss using the same basis as outlined in Note 3 (f) above.

h) Financial Assets Held to Maturity ("HTM")

This category includes non-derivative financial assets with fixed or determinable payments and fixed maturity which the Bank has both the intent and the ability to hold to maturity.

After initial recognition such securities are re-measured to amortised cost as at the date of the financial statements. At each reporting date the Bank also evaluates whether there are any objective signs of impairment of securities carried at amortised cost with the purpose of determining whether an impairment loss calculation is necessary.

Impairment losses are calculated as being equal to the difference between the statement of financial position value and anticipated future cash flows discounted at the effective interest rate that was applicable on initial recognition. Impairment loss is recognised in the statement of comprehensive income for the period.

i) Sale and Repurchase Agreements

Sale and repurchase ("repo") agreements are treated as secured financing transactions. Securities sold under sale and repurchase agreements are included in securities. The corresponding liability is presented under due to banks, amounts due to customers or other liabilities as appropriate. Securities purchased under agreements to resell ("reverse repo") are recorded as due from banks, loans to customers or other assets as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the repo agreement using the effective interest method.

j) Promissory Notes Purchased

Promissory notes purchased are included in securities, due from credit institutions or in loans and advances to customers, depending on their substance and are recorded and subsequently re-measured and accounted in accordance with the accounting policies for these categories of assets.

k) Loans and Advances to Customers

Loans are stated at amortised cost, net of allowances for impairment. Amortised cost is calculated as the amount outstanding after amortisation of the premium or discount over fair value arising at initial recognition using the effective interest method.

A loan or portfolio of loans is considered impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the loan or loans (a 'loss event'), that loss event (or events) has an impact on the estimated future cash flows that will be generated by the loan or portfolio of loans and that loss can be reliably estimated. Whether objective evidence of impairment exists is considered individually for loans that are individually significant, and individually or collectively for loans that are not individually significant. Should no objective evidence of impairment exist for an individually assessed loan, whether significant or not, the loan is included in a portfolio of loans with similar credit risk characteristics and is collectively assessed for impairment.

Significant Accounting Policies (continued)

The amount of impairment loss is calculated as the difference between the loan’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the loan’s original effective interest rate. The aggregate of the allowances made during the year is included in the Statement of Comprehensive Income.

Loans and advances which cannot be recovered are written off and charged against the allowance for impairment loss. Such loans are written off after all necessary legal procedures have been completed and the amount of the loss is finally determined.

Where loans are made at rates of interest below the normal commercial rate, loans are discounted to fair value based on market rates of interest. The financial impact of this write down is shown as a separate item on the face of the Statement of Comprehensive Income. Any subsequent upward revaluation passes through the Statement of Comprehensive Income as interest. Such transactions are largely entered into with related parties. They may also be undertaken for marketing or other purposes.

Mortgage loans for sale continue to be recognised as loans to customers because they contain the features of loans rather than securities.

l) Impairment of Financial Assets

(i) Assets carried at amortised cost

The Bank assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is considered impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a ‘loss event’) and that loss event (or events) has an impact on the estimated future cash flows that will be generated by the asset or group of assets that can be reliably estimated.

The criteria that the Bank uses to determine that there is objective evidence of an impairment loss include:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experience by the borrower (for example, equity ratio, net income, percentage of sales, etc.);
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrowers’ competitive position;
- Deterioration in the value of collateral; and
- Downgrading in the CBR credit rating below II category.

The estimated period between losses occurring and their identification is determined by management for each identified portfolio.

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

Significant Accounting Policies (continued)

The amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset’s original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the Statement of Comprehensive Income. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Bank may measure impairment on the basis of an instrument’s fair value using an observable market price.

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.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e., on the basis of the Bank’s grading process that considers asset type, industry, collateral type, past-due status and other relevant factors). 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 in the Bank and historical loss experience for assets with credit risk characteristics similar to those in the Bank. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the Bank and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

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. The amount of the reversal is recognised in the Statement of Comprehensive Income in impairment charge for credit losses.

(ii) Assets classified as available for sale

The Bank assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the Statement of Comprehensive Income – is removed from equity and recognised in the Statement of Comprehensive Income. Impairment losses recognised in the Statement of Comprehensive Income on equity instruments are not reversed through the Statement of Comprehensive Income.

Significant Accounting Policies (continued)

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 the Statement of Comprehensive Income, the impairment loss is reversed through the Statement of Comprehensive Income.

(iii) Renegotiated loans

Loans that are either subject to collective impairment assessment or individually significant and whose terms have been renegotiated are no longer considered to be past due but are treated as new loans. In subsequent years, the asset is considered to be past due and disclosed only if renegotiated.

m) Financial Guarantee Contracts

Potential liabilities arising under such contracts are initially recognised at fair value which is measured by reference to consideration received in respect of the contract unless it has been issued at non market rates.

The recognised amount is then amortised on a straight line basis by reference to time to maturity as this represents the reduction in potential liability remaining.

Assessments of counterparties are conducted on a regular basis on a similar basis to that used to assess whether loans are impaired as described in note 4l. When impairment equivalent events are noted the fair value of the guarantee contract is re-assessed by reference to the provisions of IAS 37.

n) Property, Plant and Equipment

Premises are stated in the Statement of Financial Position at their revalued amounts, being the fair value at the date of revaluation, as assessed by management based on appraisals of market value undertaken by professional valuers, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the reporting date.

Any revaluation increase arising on the revaluation of such premises is credited to the property revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense, in which case the increase is credited to the Statement of Comprehensive Income to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of such buildings is charged as an expense to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the properties revaluation reserve is transferred directly to accumulated profits.

Fixtures and equipment are carried at restated cost less accumulated depreciation and any accumulated impairment for diminution in value. Depreciation on other assets is calculated on a straight-line basis over the following estimated useful lives:

	Years
Premises	50 – 80
Computer Equipment	3 – 4
Office Equipment	3 – 10
Furniture	3 – 5
Motor Vehicles	3 – 7

Significant Accounting Policies (continued)

The assets’ residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset’s carrying amount is written down immediately to its recoverable amount if the asset’s carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset’s fair value less costs to sell and value in use.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and showed separately in the Statement of Comprehensive Income.

o) Investment Property

Investment property comprises freehold properties that are held to earn rentals or for capital appreciation or both. It is not depreciated but is stated at fair value based on valuations by independent registered valuers. Fair value is based on current prices for similar properties in the same location and condition. Any gain or loss arising from a change in fair value is recognised in the Statement of Comprehensive Income. Rental income from investment property is recognised on a straight-line basis over the term of the lease.

If an investment property becomes owner occupied, it is reclassified as property, plant and equipment and its fair value at the date of reclassification becomes its cost for accounting purposes.

p) Operating Leases

The leases entered into by the Bank are primarily operating leases. The total payments made under operating leases are charged to other operating expenses in the Statement of Comprehensive Income on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

q) Due to Banks and Customers Accounts

Amounts due to banks and customer accounts are initially recognised in accordance with the recognition of financial instruments provisions of IAS 39 (revised). Subsequently, amounts due are stated at amortised cost and any difference between net proceeds and the redemption value is recognised in the Statement of Comprehensive Income over the period of the borrowings using the effective interest method.

r) Debt Securities Issued

Debt securities issued represent promissory notes issued by the Bank. They are accounted for according to the same principles used for amounts due to credit institutions and to customers.

s) Provisions

Provisions for legal claims or other purposes are recognised when: the Bank has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Significant Accounting Policies (continued)

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

t) Retirement and Other Benefit Obligations

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

u) Share Capital

Share capital is recognised at restated cost. When the bank holds treasury shares the fair value of consideration paid is recognised as a deduction from equity as treasury shares until they are cancelled. When the shares are subsequently sold or reissued the fair value of consideration received is added to equity.

v) Dividends

Dividends are recognised as a reduction in equity in the period in which they are declared. Dividends declared after the reporting dates are disclosed in the subsequent events note. The RAS financial statements of the Bank are the basis for profit distribution and other appropriations.

w) Taxation

The income tax charge in the Statement of Comprehensive Income for the year comprises current tax and changes in deferred tax. The current income tax expense is calculated in accordance with the regulations of the Russian Federation. Taxes, other than on income, are recorded within operating expenses.

Deferred income tax is provided, using the balance sheet liability method, for all temporary differences arising between the tax basis of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax assets are recorded to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

x) Interest Income and Expense

Interest income and expense for all interest-bearing financial instruments, except for those classified as held for trading or designated at fair value through profit or loss, are recognised within 'interest income' and 'interest expense' in the Statement of Comprehensive Income using the effective interest method.

When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

(in thousands of Russian Roubles)

Significant Accounting Policies (continued)

y) Fee and Commission Income

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan.

Other service fees are recognised based on the applicable service contracts, usually on a time-proportionate basis.

z) Foreign Currency Translation

Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into Russian Roubles at the official CBRF exchange rates ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the Statement of Comprehensive Income as gains less losses from foreign currencies (translation differences). Differences between the contractual exchange rate of a certain transaction and the Central Bank exchange rate on the date of the transaction are included in gains less losses from foreign currencies.

The official CBRF exchange rates at 31 December 2011 and 31 December 2010 were RUR 32.1961 and 30.4769 RUR to 1 USD, respectively, and RUR 41.6714 and 40.3331 RUR to 1 EUR, respectively.

5. Cash and Cash Equivalents

	2011	**2010**
Cash on hand	465,436	456,258
Cash balances with the CBRF (other than mandatory reserve deposits)	111,164	201,264
Correspondent accounts with other banks		
Russian Federation	40,429	26,044
Other countries	291,879	194,174
	332,308	220,218
Other market placements	38,709	30,622
	947,617	**908,362**

As at 31 December 2011 the aggregate amount of nostro accounts with the biggest counterparty (VTB Deutschland AG) amounted to 291,879 or 87.83% of total nostro accounts (2010: 194,174 or 88.17%).

(in thousands of Russian Roubles)

Cash and Cash Equivalents (continued)

Information about the credit quality of nostro accounts (based on Fitch ratings) with banks included in cash and cash equivalents is as follows:

	2011	2010
Rated BBB+	1,763	4,529
Rated BBB	292,635	15,666
Rated BBB-	-	194,174
Rated B+	30,745	35
Other (including banks that do not have a credit rating)	7,165	5,814
	332,308	**220,218**

Geographical, currency and maturity analyses of cash and cash equivalents are disclosed in Note 25.

6. Mandatory Balances with the CBRF

The mandatory balance with the CBRF represents amounts deposited and not available for use in the Bank's day to day operations. Credit institutions are required to maintain a non-interest earning cash deposit (mandatory reserve) with the CBRF, the amount of which depends on the level of funds attracted by the credit institution. The Bank’s ability to withdraw such deposit is significantly restricted by legislation, and therefore such amounts are excluded from cash and cash equivalents.

7. Due from Banks

	2011	2010
Interbank loans	569,681	1,075,000
	569,681	**1,075,000**

As at 31 December 2011 49.16% of due from banks balances are represented by deposits in CBRF (2010: 97.7%).

Geographical, currency, interest rate and maturity analyses of the balances due from banks are detailed in Note 25.

8. Financial Assets at Fair Value through Profit or Loss

	2011	2010
Credit organisation bonds	640,530	538,704
Corporate bonds	583,723	494,876
Government and municipal bonds	229,041	166,574
Promissory notes	179,655	279,721
Eurobonds	24,558	37,551
Corporate equity securities	6,087	3,643
Shares in credit organisations	2,132	1,409
	1,665,726	**1,522,478**

Financial Assets at Fair Value through Profit or Loss (continued)

As at 31 December 2011 and as at 31 December 2010 credit organizations bonds FVPL comprise MICEX quoted bonds issued by credit institutions ranked in Top-20 among Russian banks by net assets value as at 31 December 2011 with coupon rates from 7% to 10%.

As at 31 December 2011 and as at 31 December 2010 corporate bonds FVPL comprise MICEX quoted bonds of Russian top 50 companies with coupon rates from 7% to 11%. As at 31 December 2011 the issuers have a Fitch rating from BBB (rus) (Stable under the National Scale Russia) to AAA (rus) (Stable under the National Scale Russia).

As at 31 December 2011 and as at 31 December 2010 government and municipal bonds FVPL comprise MICEX quoted bonds issued by Regional governments of Russian Federation with coupon rates from 7.75% to 9.3%. As at 31 December 2010 the issuers have a Fitch rating of AA- (rus) (Stable under the National Scale Russia).

As at 31 December 2011 promissory notes FVPL comprise promissory notes of leading Russian banks denominated in RUR with the interest rates varying from 6.14% to 10.5% and maturity periods from 15 January 2012 and 6 December 2012. As at 31 December 2010 promissory notes FVPL comprised promissory notes of leading Russian banks denominated in RUR with the interest rates varying from 5.5% to 10.5% and maturity periods from 1 January 2011 to 6 December 2011.

As at 31 December 2011 Eurobonds FVPL comprise actively quoted bonds issued by and NOMOS Capital PLC with coupon rates from 8% to 8.75%. NOMOS Capital PLC is a Special Purpose Entity (SPE) of leading Russian bank OJSC NOMOS-Bank, which is ranked in Top-20 among Russian banks by net assets value as at 31 December 2011.

As at 31 December 2010 Eurobonds FVPL comprised actively quoted bonds issued by Gaz Capital SA and NOMOS Capital PLC with a coupon rates varies from 6.6% to 8.75%. NOMOS Capital PLC is a Special Purpose Entity (SPE) of a leading Russian bank OJSC NOMOS-Bank, which is ranked in Top-20 among Russian banks by net assets value as at 31 December 2010. Gaz Capital SAR is an SPE of a leading Russian top 50 company.

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Bank's market assumptions. The hierarchy is as follows:

• Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges and exchanges traded derivatives like futures.

• Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).This level includes the majority of the OTC derivative contracts, traded loans and issued structured debt. The sources of input parameters like LIBOR yield curve or counterparty credit risk are Bloomberg and Reuters.

• Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

This hierarchy requires the use of observable market data when available. The Bank considers relevant and observable market prices in its valuations where possible.

(in thousands of Russian Roubles)

Financial Assets at Fair Value through Profit or Loss (continued)

The following table provides information on the classification of financial assets carried at fair value as at 31 December 2011 based on data obtained from the sources of information about their fair values:

	Level 1	Level 3	Total
Credit organisations bonds	640,530	-	640,530
Corporate Bonds	583,723	-	583,723
Government and municipal bonds	229,041	-	229,041
Promissory notes	-	179,655	179,655
Eurobonds	24,558	-	24,558
Corporate equity securities	6,087	-	6,087
Shares of credit organisations	2,132	-	2,132
	1,486,071	**179,655**	**1,665,726**

The following table provides information on the classification of financial assets carried at fair value as at 31 December 2010 based on data obtained from the sources of information about their fair values:

	Level 1	Level 3	Total
Credit organisations bonds	538,704	-	538,704
Corporate Bonds	494,876	-	494,876
Promissory notes	-	279,721	279,721
Government and municipal bonds	166,574	-	166,574
Eurobonds	37,551	-	37,551
Corporate equity securities	3,643	-	3,643
Shares of credit organisations	1,409	-	1,409
	1,242,757	**279,721**	**1,522,478**

Reconciliation of Level 3 items in 2011 is presented below:

	Promissory notes of banks	Total
At 1 January 2011	**279,721**	**279,721**
Total gains / (losses)		
Profit or loss (accrued income)	3,292	3,292
Purchases	556,609	556,609
Settlements	(659,967)	(659,967)
At 31 December 2011	**179,655**	**179,655**

(in thousands of Russian Roubles)

Financial Assets at Fair Value through Profit or Loss (continued)

Reconciliation of Level 3 items in 2010 is presented below:

	Promissory notes of banks	Total
At 1 January 2010	**-**	**-**
Total gains / (losses)		
Profit or loss (accrued income)	9,937	9,937
Purchases	962,808	962,808
Settlements	(683,087)	(683,087)
At 31 December 2010	**279,721**	**279,721**

Geographical, currency, maturity and interest rate analyses of the financial assets at fair value through profit or loss are disclosed in Note 25.

9. Financial Assets Held to Maturity

	2011	2010
Government and municipal bonds	90,251	39,796
Credit organisations bonds	-	10,692
	90,251	**50,488**

As at 31 December 2011 government and municipal bonds HTM comprise bonds issued by Regional governments of Russian Federation. These bonds mature between May 2013 and November 2016 and have a weighted average coupon rate of 9%. As at 31 December 2011 the issuers have a Fitch rating of AA- (rus) (Stable under the National Scale Russia).

As at 31 December 2010 government and municipal bonds HTM comprised bonds issued by Yaroslavsky Region government of Russian Federation. These bonds mature in May 2013 and have a coupon rate of 8.6%. As at 31 December 2010 the issuer has a Fitch rating of AA- (rus) (Stable under the National Scale Russia).

As at 31 December 2010 credit organisations bonds HTM comprised bonds issued by OJSC "Moskovsky Kreditny Bank". These bonds mature in April 2015 and have a coupon rate of 9.5%. As at 31 December 2010 the issuer is ranked 24th among Russian banks by net assets value. These bonds were redeemed in 2011 on instructions of the issuer.

Geographical, currency, maturity and interest rate analyses of the financial assets held to maturity are disclosed in Note 25.

(in thousands of Russian Roubles)

10. Loans and Advances to Customers

	2011	**2010**
Loans and advances to customers	6,774,635	6,180,280
Mortgage loans for sale	287,100	255,224
Factoring	15,292	7,586
	7,077,027	**6,443,090**
Less: Allowance for impairment	(675,271)	(560,173)
	6,401,756	**5,882,917**

The aggregate value of collateral received by the Bank in respect of its lending operations amounts to 9,896,113 (2010: 7,793,572).

In the normal course of business the Bank sells mortgage loans to LLC “Regional Investment Agency” (77.63% of total sales in 2011) and JSC “Kirov Regional Mortgage Corporation (22.37% of total sales in 2011). These loans are therefore held on the SOFP for a relatively short period of time and have been described as mortgage loans for sale in these notes.

(in thousands of Russian Roubles)

Loans and Advances to Customers (continued)

The loan portfolio has been assigned to finance the following economic sectors:

	2011		2010	
	Amount	**Allowance**	**Amount**	**Allowance**
Trade	2,601,859	160,905	2,497,878	144,614
Individuals	755,716	94,124	767,036	132,376
Transport and communication	702,990	141,455	274,706	22,387
Manufacturing industry	636,597	39,816	273,012	22,366
Construction	547,682	44,566	953,479	17,348
Research and certification	247,262	7,373	-	-
Operations with immovable property, lease	219,753	32,906	442,195	131,655
Agriculture	180,063	9,029	181,246	19,610
Light industry	175,521	34,745	18,054	1,706
Finance	155,152	4,582	-	-
Hotels	124,289	11,397	38,877	1,369
Timber	91,213	39,137	129,447	42,292
Gas and water	91,198	21,301	30,830	617
Car manufacturing	85,407	6,876	19,100	750
Audit, accounting and consulting	51,877	10,705	-	-
Architecture	43,647	1,300	-	-
Maintenance of residential properties	18,809	560	4,964	666
Medicine and tourism	18,260	456	1,578	47
Social and personal services, culture	15,974	1,984	17,319	9,378
Publishing	11,556	5,748	5,432	399
Personnel	6,550	-	-	-
Chemical	5,665	112	700	14
Education	1,486	44	904	27
Mining	932	839	932	932
IT consulting	469	14	-	-
Municipal operation organs	-	-	520,376	3,356
Fishing	-	-	5,000	150
Energy	-	-	909	18
Sport	-	-	550	138
Other	-	-	3,342	100
	6,789,927	**669,974**	**6,187,866**	**552,315**
Mortgage loans for sale	287,100	5,297	255,224	7,858
	7,077,027	**675,271**	**6,443,090**	**560,173**

As at 31 December 2011 the Bank had taken possession of collateral for the total amount of 28,964 (2010: 179,228). This is shown in other assets (Note 12). The Bank's policy for disposing of such collateral is usually to sell it to a third party for maximum possible consideration.

Loans classified as current that had been subject to re-negotiation and would otherwise had been categorised as overdue comprised 3 loans for a total amount of 2,462 (2010: 28 loans for a total amount of 28,371).

Movements in the allowance for impairment on loans to customer are disclosed in Note 21.

Geographical, currency, maturity and interest rate analyses of loans and advances to customers are disclosed in Note 25.

Loans granted to related parties are disclosed in Note 26.

(in thousands of Russian Roubles)

11. Investment in Subsidiaries

	2011	2010
Valuation at start of year (Original cost 100)	-	7,957
Fair value adjustment in the year, recognized in Statement of Comprehensive Income	-	(7,957)
	-	**-**

In 2004 the Bank acquired OOO “Leasing-Hlynov” a company specialising in leasing services. At 31 December 2010 and 2011 the Bank owned 100% of its share capital.

In 2010 the Bank acquired OOO “Hlynov-Dom” a company specialising in operations with property. At 31 December 2010 and 2011 the Bank owned 100% of its share capital.

With regard to the hierarchies described in Note 8 the Bank considers the valuation to have been conducted under level 3.

The Bank has produced separate consolidated financial statements with the financial statements of OOO “Leasing-Hlynov” OOO “Hlynov-Dom”.

12. Other Assets

	2011	2010
Repossessed collateral	106,843	97,900
Debtors and prepayments	27,512	38,041
Settlements with the budget	1,168	4,495
Other	258	62,727
	135,781	**203,163**

Debtors and prepayments include accounts receivable on credit card transactions.

Other assets include buildings and land plots repossessed by the Bank in respect of making recoveries for its lending operations for a total of 103,620 (2010: 96,290). As at the reporting date no decision has been made by Management as to how these assets will be utilised and accordingly they have not been shown in Property and Equipment or Investment Property.

Geographical, currency and maturity analyses of other assets are disclosed in Note 25.

(in thousands of Russian Roubles)

13. Property, Plant and Equipment

	Land	Buildings	Motor vehicles	Computer and other	Office equipment and furniture	Construction in progress	Total
Cost of Valuation							
31 December 2009	**3,652**	**201,291**	**2,397**	**29,694**	**38,292**	**2,649**	**277,975**
Additions	18	17,000	1,801	27,512	2,173	17,494	65,998
Transfer	-	-	-	-	-	-	-
Disposals	-	-	(220)	(649)	(96)	-	(965)
Revaluation	-	-	-	-	-	-	-
31 December 2010	**3,670**	**218,291**	**3,978**	**56,557**	**40,369**	**20,143**	**343,008**
Additions	-	23,657	-	14,567	3,685	18,282	60,191
Transfer	-	(16,660)	-	-	-	(27,611)	(44,271)
Disposals	(18)	(4,772)	(299)	(1,017)	(909)	-	(7,015)
Revaluation	-	-	-	-	-	-	-
31 December 2011	**3,652**	**220,516**	**3,679**	**70,107**	**43,145**	**10,814**	**351,913**
Depreciation							
31 December 2009	-	**-**	**(1,779)**	**(21,392)**	**(25,229)**	**-**	**(48,400)**
Charge for the year	-	(3,650)	(339)	(4,321)	(4,638)	-	(12,948)
Depreciation of revalued part	-	-	-	-	-	-	-
Disposals	-	-	220	603	96	-	919
31 December 2010	-	**(3,650)**	**(1,898)**	**(25,110)**	**(29,771)**	**-**	**(60,429)**
Charge for the year	-	(5,197)	(402)	(5,123)	(4,566)	-	(15,288)
Depreciation of revalued part	-	-	-	-	-	-	-
Disposals	-	826	280	985	260	-	2,351
31 December 2011	-	**(8,021)**	**(2,020)**	**(29,248)**	**(34,077)**	**-**	**(73,366)**
Net Book Values							
31 December 2011	**3,652**	**212,495**	**1,659**	**40,859**	**9,068**	**10,814**	**278,547**
31 December 2010	**3,670**	**214,641**	**2,080**	**31,447**	**10,598**	**20,143**	**282,579**
31 December 2009	**3,652**	**201,291**	**618**	**8,302**	**13,063**	**2,649**	**229,575**

As at 31 December 2011 property, plant and equipment was insured to a value of 387,944 (2010:1,220).

On 31 December 2009 the Bank revalued buildings held by and used by the Bank. The valuation was performed by independent appraisers "Viatskoe Property Agency" on the basis of open market value. As at 31 December 2010 and as at 31 December 2011 Management of the Bank have assessed the market value of its premises and concluded that the market value is not materially different from their carrying value.

If buildings had been carried at cost the carrying value would be 149,871 (2010: 151,974).

(in thousands of Russian Roubles)

Property, Plant and Equipment (continued)

	Investment properties
Cost of Valuation	
31 December 2009	**72,028**
Additions	9,300
Transfer	-
Disposals	-
Revaluation	-
31 December 2010	**81,328**
Additions	21,760
Transfer	-
Disposals	(35,011)
Revaluation	-
31 December 2011	**68,077**
Depreciation	
31 December 2009	-
Charge for the year	-
Depreciation of revalued part	-
Disposals	-
31 December 2010	-
Charge for the year	-
Depreciation of revalued part	-
Disposals	-
31 December 2011	-
Net Book Values	
31 December 2011	**68,077**
31 December 2010	**81,328**
31 December 2009	**72,028**

The Bank revalued investment property on 31 December 2011. The valuation was performed by independent appraisers "Viatskoe Property Agency" on the basis of open market value.

As at 31 December 2011 investment property includes six buildings (2010: four buildings) repossessed by the Bank in respect of making recoveries for its lending operations. As at the reporting date these buildings are leased to third parties.

Rental income from investment properties was 1,120 (2010: 2,085). There were no direct operating expenses related to investment properties (2010: 31).

(in thousands of Russian Roubles)

14. Due to Banks

	2011	2010
VOSTRO accounts	1	245
	1	**245**

Geographical, currency, maturity and interest rate analyses of amounts due to banks are detailed in Note 25.

15. Customer Accounts

	2011	2010
Individuals		
Current accounts	649,605	643,836
Term deposits	5,434,411	5,383,030
	6,084,016	6,026,866
Other legal entities		
Current accounts	2,268,139	2,337,944
Term deposits	268,206	255,190
	2,536,345	2,593,134
State and budgetary organisations		
Current accounts	48,927	57,611
Term deposits	43,273	60,251
	92,200	117,862
	8,712,561	**8,737,862**

The breakdown of customer accounts per sector is presented in the following table:

	2011		2010	
	Amount	**%**	**Amount**	**%**
Individuals	6,084,016	69.8	6,017,856	68.9
Trade	826,161	9.5	1,355,463	15.5
Services	577,275	6.6	656,251	7.5
Construction	535,390	6.1	349,468	4.0
Manufacturing	267,208	3.1	128,195	1.5
Other	144,615	1.7	32,925	0.4
Transport and telecommunication	89,860	1.0	52,006	0.6
Agriculture	71,093	0.8	20,311	0.2
Financial	67,070	0.8	57,474	0.7
Health facilities	24,137	0.3	19,180	0.2
Education	23,733	0.3	25,298	0.3
Insurance	1,861	0.0	5,428	0.1
Fuel and energy	142	0.0	18,007	0.2
Total customer accounts	**8,712,561**	**100.0**	**8,737,862**	**100.0**

Geographical, currency, maturity and interest rate analyses of customer accounts are detailed in Note 25.

Balances of term deposits and current accounts of related parties are disclosed in Note 26.

(in thousands of Russian Roubles)

16. Debt Securities Issued

	2011	2010
Promissory notes	18,910	5,201
	18,910	**5,201**

As at 31 December 2011, promissory notes issued by the Bank were held by seven investors, the maximum share of one investor in total amount of issued promissory notes was 52.96% (2010: 38.45% of issued promissory notes were purchased by 8 investors).

Geographical, currency, maturity and interest rate analyses of debt securities issued are detailed in Note 25.

17. Taxation

The corporate income tax expense comprises:

	2011	2010
Current tax charge	43,200	32,189
Deferred tax charge relating to the origination and reversal of temporary differences	3,346	(1,216)
Income tax expense	**46,546**	**30,973**

The corporation tax rate applicable to the majority of the Bank's income was 20% for 2011 (2010: 20%).

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

	2011	2010
Profit before tax	**221,172**	**143,108**
Statutory tax rate	20%	20%
Theoretical income tax expense at the statutory rate	44,234	28,622
Tax on state securities income taxable at different rates	(2,914)	(1,441)
Effect of non deductible/(taxable) items	1,880	5,008
Income tax expense	**43,200**	**32,189**

Differences between IFRS and Russian statutory taxation regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial purposes and for income tax purposes.

The tax effect of the movement on these temporary differences is recorded at the rate of 20% (2010: 20%).

(in thousands of Russian Roubles)

Taxation (continued)

Deferred tax assets and (liabilities) comprise as at 31 December 2011:

Tax effect of deductible temporary differences	31 Dec 11	Taken to equity	Taken to SOCI	31 Dec 10
Allowance for losses on loans and promissory notes	(38,449)	-	(546)	(37,903)
Debtors and prepayments	3,468	-	1,914	1,554
Premises and equipment	(6,070)	-	(11,348)	5,278
Investments in subsidiary	-	-	1,515	(1,515)
Other assets	2,881	-	5,119	(2,308)
	(38,240)	**-**	**(3,346)**	**(34,894)**

Deferred tax assets and (liabilities) comprise as at 31 December 2010:

Tax effect of deductible temporary differences	31 Dec 10	Taken to equity	Taken to SOCI	31 Dec 09
Allowance for losses on loans and promissory notes	(37,903)	-	969	(38,872)
Debtors and prepayments	1,554	-	135	1,419
Premises and equipment	5,278	-	1,881	3,397
Investments in subsidiary	(1,515)	-	56	(1,571)
Other assets	(2,308)	-	(1,825)	(483)
	(34,894)	**-**	**1,216**	**(36,110)**

No deferred tax is recognised on the revaluation of buildings as the revaluation is also recognised in RAS tax books therefore there are no material differences arising.

18. Other Liabilities

	2011	2010
Accounts payable	23,418	14,464
Deferred commission	11,327	12,936
Operating taxes payable	7,572	2,302
Dividends payable	34	42
Other	2,390	1,332
	44,741	**31,076**

Geographical, currency and maturity analyses of other liabilities are detailed in Note 25.

(in thousands of Russian Roubles)

19. Share Capital

Statutory share capital authorised, issued and fully paid comprised:

	2011			2010		
	Number of shares ('000)	Par value	Value	Number of shares ('000)	Par value	Value
Common shares	12,100	0.05	605,000	12,100	0.05	605,000
IAS 29 adjustments			22,198			22,198
			627,198			**627,198**

All ordinary shares have a nominal value of RUR 50 (not thousands) per share, rank equally and carry one vote. In 2011 no dividends were declared (2010: RUR 5 (not thousands) per common share of 60,500).

In 2011 and 2010 the Bank did not increase share capital.

	2011	2010
Dividends payable at 1 January	51	66
Dividends declared during the year	-	60,500
Dividends paid during the year	(17)	(60,515)
Dividends payable at 31 December	**34**	**51**

All dividends are paid and declared in Russian Roubles.

Shareholders of the Bank were as follows:

Shareholder	2011 %	2010 %
Rekha Holdings Limited	20.0	20.0
OOO «Monolit»	11.1	11.1
OOO «Norma»	10.0	10.0
Quest Advisory Restructing Ltd.	9.3	9.3
OOO «Konkurent»	8.8	8.8
OOO «Strike»	8.4	8.4
OOO «Standart»	7.8	7.8
OOO «Avangard»	7.3	7.3
Individuals with less than 5% each (149)	10.8	10.8
Legal entities with less than 5% each (16)	6.5	6.5
	100.0	**100.0**

20. Commitments and Contingencies

Legal actions

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

(in thousands of Russian Roubles)

Commitments and Contingencies (continued)

Operating lease commitments

The following are the minimal amounts payable under non cancellable operating leases over the relevant time periods where the Bank acts as a tenant:

	2011	2010
Not later than 1 year	9,655	2,234
Later than 1 year and not later than 5 years	44,077	31,901
Later than 5 years	4,491	5,451
	58,223	**39,586**

Capital commitments

As at 31 December 2011 and 31 December 2010 the Bank had not entered into any capital commitments which would require disclosure or recognition in the financial statements.

Credit related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required.

With respect to undrawn loan commitments the Bank is potentially exposed to loss in an amount equal to the total amount of such commitments. However, the likely amount of loss is less than that, since funding of most commitments are contingent upon certain conditions set out in the loan agreements.

Credit related commitments comprise:

	2011	2010
Undrawn loan commitments	215,008	405,514
Unused limits of overdrafts	109,296	71,343
Guaranties	277,371	229,826
	601,675	**706,683**

Derivatives

Foreign exchange and other derivative financial instruments are generally traded in an over-the-counter market with professional market counterparties on standardised contractual terms and conditions.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the Statement of Financial Position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Bank's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favourable or unfavourable and, thus, the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly over time.

(in thousands of Russian Roubles)

Commitments and Contingencies (continued)

As at 31 December 2011 the Bank had three financial instruments, foreign currency forward contracts (2010: four financial instruments, foreign currency forward contracts).

	Notional amount		CBRF rate	
	31 Dec 11	**31 Dec 10**	**31 Dec 11**	**31 Dec 10**
Buy RUR sell USD				
Less than one month	352,027	30,477	32.1961	30.4769
Buy RUR sell EUR				
Less than one month	20,645	161,332	41.6714	40.3331

The corresponding fair value loss and liability of 2,321 has been recorded in statement of comprehensive income and the relevant liabilities in other liabilities.

21. Allowance for Impairment

The movements in allowances for impairment of financial assets were as follows:

	Correspondent accounts	Loans and advances to customers	Total
31 December 2009	**3,649**	**487,290**	**490,939**
Charge	-	122,352	122,352
Assets written off	(3,649)	(49,469)	(53,118)
31 December 2010	**-**	**560,173**	**560,173**
Charge	-	148,932	148,932
Assets written off	-	(33,834)	(33,834)
31 December 2011	**-**	**675,271**	**675,271**

Allowances for losses and provisions of assets are deducted from the related assets. In accordance with Russian legislation, loans may only be written off with the approval of the Shareholders' Meeting and, in certain cases, with the respective Court decision.

22. Gains less Losses from Trading with Securities

	2011	2010
Fair value adjustments	(20,292)	9,873
Gains less losses realized from sales and redemptions	2,885	7,074
Other gain from trading with securities	68	100
	(17,339)	**17,047**

(in thousands of Russian Roubles)

23. Commission Income and Expenses

	2011	2010
Commission income		
Cash operations	141,529	123,257
Settlements and foreign currency exchange transactions	122,390	96,473
Commission on guarantees	6,598	3,824
Commission from insurance companies	5,747	1,030
Commission from transaction with plastic cards	2,761	2,021
Commission on other operations	1,191	1,070
Commission from loans to customers	648	1,885
	280,864	**229,560**
Commission expense		
Settlements and foreign currency exchange transactions	(16,534)	(12,359)
Commission from transaction with plastic cards	(6,155)	(5,379)
Commission on collection	(4,409)	(3,813)
Commission on mortgages sale	(860)	(1,430)
Cash operations	(636)	(377)
Other commissions	(363)	(333)
	(28,957)	**(23,691)**
	251,907	**205,869**

24. Staff, Administrative and Other Operating Costs

	2011	2010
Salaries	118,099	99,574
Bonuses	50,194	38,964
Social security costs	48,027	31,281
	216,320	**169,819**
Deposit insurance system payment	23,568	21,248
Rent	15,472	13,644
Taxes other than income tax	11,714	10,902
Advertising and marketing	11,348	8,167
Security	8,735	8,192
Maintenance of building	8,532	7,831
Software expenses	7,867	6,531
Stationery	7,776	4,056
Postage	5,419	4,677
Related to computers, vehicles and information service	3,924	1,776
Printing expenses, document processing	3,361	3,480
Repair of fixed assets	3,140	2,114
Personnel training, travel and representative expenses	1,782	1,352
Statutory duty	1,455	3,699
Personnel insurance	38	165
Other	6,584	6,841
	120,715	**104,675**

25. Financial Risk Management

Management of risk is fundamental to the banking business and is an essential element of the Bank’s operations. The risk management function within the Bank is carried out in respect of financial risks (credit, market, price, geographical, currency, liquidity and interest rate), operational risks and legal risks. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimise operational and legal risks.

Credit risk

The Bank is exposed to credit risk which is the risk that a counterparty will be unable to pay amounts in full when due. Credit risk is the most important risk for the Bank’s business and, therefore, management manages carefully its exposure to credit risk. Credit exposures arise principally in lending activities that lead to loans and advances, and investment activities that bring debt securities and other bills into the Bank’s asset portfolio. There is also credit risk in off-balance sheet financial instruments, such as loan commitments. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a continuous basis and subject to quarterly or more frequent reviews.

a) Credit Risk Measurement

(i) Loans and advances

In measuring credit risk of loans and advances to customers and to banks at a counterparty level, the Bank reflects three components:

- The “probability of default” by the client or the counterparty on its contractual obligations;
- The current exposures to the counterparty and its likely future development, from which the Bank derive the “exposure at default”; and
- The likely recovery ratio on the defaulted obligations (the “loss given default”)

These credit risk measurements, which reflect expected losses (the “expected loss model”), are applied following the normative and instructions issued by the CBRF and are embedded in the Bank’s daily operational management. The operational measurements can be contrasted with impairment allowances required under IAS 39, which are based on losses that have been incurred at the reporting date (the “incurred loss model”) rather than expected losses.

(ii) Debt securities

For debt securities and other equity instruments, external ratings or equivalents are used by the Bank for managing of the credit risk exposures. The investments in those securities and equity instruments are viewed as a way to gain a better credit quality mapping and maintain a readily available source to meet the funding requirement at the same time.

b) Risk limit control and mitigation policies

The bank manages limits and controls concentrations of credit risk wherever they are identified, in particular, to individual counterparties, groups and industries.

The Bank structures the level of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, groups of borrowers and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary.

Financial Risk Management (continued)

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

Some other specific control and mitigation measures are outlined below.

(i) Collateral

The Bank employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advances, which is common practice. The Bank implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances are:

- Mortgages over residential properties;
- Assets such as premises, equipment and inventory;
- Financial instruments such as debt securities and shares.

Finance and lending to corporate entities are generally secured; individual consumer credit facilities are generally unsecured. In addition, in order to minimise the credit loss the Bank will seek additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances.

Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument. Debt securities and other eligible bills are generally unsecured.

(ii) Credit related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit carry the same credit risk as loans. Documentary and commercial letters of credit – which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions – are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct loan.

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 Bank is potentially exposed to loss in an amount equal to the total unused commitments.

However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

c) Impairment policies

Impairment provisions are recognised for financial reporting purposes under IFRS only for losses that have been incurred at the reporting date based on objective evidence of impairment. Due to the different methodologies applied, the amount of incurred credit losses provided for in these financial statements are usually lower than the amount determined from the expected loss model that is used for internal operational management and statutory and tax regulation purposes.

The impairment allowance shown in the Statement of Financial Position under IFRS at year-end is derived from each of the five statutory risk categories.

(in thousands of Russian Roubles)

Financial Risk Management (continued)

The table below shows the percentage of the Bank's on-and off-balance sheet items relating to loans and advances and the associated impairment allowance for each of the Bank's CBRF rating categories:

	2011			2010		
Risk category	**Loans and advances (%)**	**Allowance for impairment (%)**	**Overall allowance rate (%)**	**Loans and advances (%)**	**Allowance for impairment (%)**	**Overall allowance rate (%)**
I	2.20	-	-	19.57	-	-
II	75.84	9.37	1.57	61.99	7.37	1.34
III	8.03	12.69	20.05	10.40	27.41	29.76
IV	5.80	14.56	31.88	0.91	4.05	50.05
V	8.13	63.38	98.90	7.13	61.17	96.81
	100.00	**100.00**	**12.69**	**100.00**	**100.00**	**11.29**

The internal rating tool assists management to determine whether objective evidence of impairment exists as defined under IAS 39, based on the following criteria set out by the Bank:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower
- Breach of loan covenants or conditions
- Initiation of bankruptcy proceedings
- Deterioration of the borrower's competitive position
- Deterioration in the value of collateral, and
- Downgrading below II category

The Bank's policy requires the review of individual financial assets that are above the materiality thresholds at least annually or more regularly when individual circumstances require. Impairment allowances on individually assessed items are determined by an evaluation of the incurred loss at reporting date on a case-by-case basis, and are applied to all individually significant accounts. The assessment usually encompasses collateral held (including review of its enforceability) and the anticipated receipts for that individual account.

Collectively assessed impairment allowances are provided for: (i) portfolios of homogenous assets that are individually below materiality thresholds; and (ii) losses that have been incurred but have not yet been identified, by using the available historical experience, experienced judgment and statistical techniques

The Bank's maximum exposure to credit risk is generally recorded in the carrying amounts of financial assets in the Statement of Financial Position. The impact of possible netting off assets and liabilities to reduce potential credit exposure is not significant. For guarantees and liabilities on granting loans maximum exposure to credit risk is equal to the sum of liabilities.

The Bank uses the same credit policies in respect of contingent liabilities as it does in respect to financial instruments in the Statement of Financial Position. These policies are based on minimising risks procedures of approval of deals, using limits and monitoring.

(in thousands of Russian Roubles)

Financial Risk Management (continued)

Loans and advances to customers include the following portfolios:

	2011	2010
Individuals (retail customers)		
Overdrafts	716	1,071
Term loans	755,000	765,966
Mortgage loans	287,100	255,224
	1,042,816	**1,022,261**
Legal entities		
Large corporate customers	1,697,563	1,377,196
SMEs	4,252,106	3,408,419
Federal and governmental organizations; local authorities	-	520,376
Factoring	15,292	7,585
Other	69,250	107,253
	6,034,211	**5,420,829**
	7,077,027	**6,443,090**
Less allowance for impairment	(675,271)	(560,173)
	6,401,756	**5,882,917**

The loan portfolio of the Bank is summarised as follows:

	2011		2010	
	Loans and advances to customers	**Due from banks**	**Loans and advances to customers**	**Due from banks**
Neither past due nor impaired	6,560,555	569,681	5,989,233	1,075,000
Past due but not impaired	373,194	-	399,643	-
Impaired	143,278	-	54,214	-
	7,077,027	**569,681**	**6,443,090**	**1,075,000**
Less allowance for impairment	(675,271)	**-**	(560,173)	-
	6,401,756	**569,681**	**5,882,917**	**1,075,000**

(in thousands of Russian Roubles)

Financial Risk Management (continued)

a) Loans and advances neither past due nor impaired

As at 31 December 2011 loans and advances neither past due nor impaired to individuals were composed of:

Risk category	Overdrafts	Term loans	Mortgage loans	Total
I	-	4,210	2,275	**6,485**
II	716	578,410	249,602	**828,728**
III	-	38,780	18,960	**57,740**
IV	-	6,357	714	**7,071**
V	-	9,409	6,635	**16,044**
	716	**637,166**	**278,186**	**916,068**

As at 31 December 2011 loans and advances neither past due nor impaired to legal entities were composed of:

Risk category	Large corporate clients	SMEs	Factoring	Other	Total
I	40,025	104,627	4,180	-	**148,832**
II	1,369,291	3,137,583	9,058	-	**4,515,932**
III	91,474	400,563	471	18,199	**510,707**
IV	156,000	216,265	-	18,346	**390,611**
V	-	78,405	-	-	**78,405**
	1,656,790	**3,937,443**	**13,709**	**36,545**	**5,644,487**

In summary:

Risk category	Individuals	Legal entities	Total
I	6,485	148,832	**155,317**
II	828,728	4,515,932	**5,344,660**
III	57,740	510,707	**568,447**
IV	7,071	390,611	**397,682**
V	16,044	78,405	**94,449**
	916,068	5,644,487	**6,560,555**

(in thousands of Russian Roubles)

Financial Risk Management (continued)

As at 31 December 2010 loans and advances neither past due not impaired to individuals were composed of:

Risk category	Overdrafts	Term loans	Mortgage loans	Total
I	-	369	4,235	**4,604**
II	1,071	602,071	229,029	**832,171**
III	-	13,784	-	**13,784**
IV	-	12,383	5,006	**17,389**
V	-	6,337	1,204	**7,541**
	1,071	**634,944**	**239,474**	**875,489**

As at 31 December 2010 loans and advances neither past due nor impaired to legal entities were composed of:

Risk category	Large corporate clients	SMEs	Municipal, federal and governmental organizations	Factoring	Other	Total
I	563,380	325,677	370,000	1,381	-	**1,260,438**
II	761,734	2,259,345	140,376	4,351	-	**3,165,806**
III	12,154	516,999	10,000	403	87,869	**624,425**
IV	-	26,261	-	-	-	**26,261**
V	-	18,827	-	-	17,987	**36,814**
	1,337,268	**3,144,109**	**520,376**	**6,135**	**105,856**	**5,113,744**

In summary:

Risk category	Individuals	Legal entities	Total
I	4,604	1,260,438	**1,265,042**
II	832,171	3,165,806	**3,997,977**
III	13,784	624,425	**638,209**
IV	17,389	26,261	**43,650**
V	7,541	36,814	**44,355**
	875,489	**5,113,744**	**5,989,233**

(in thousands of Russian Roubles)

Financial Risk Management (continued)

b) Loans and Advances Past due but Not Impaired:

As at 31 December 2011 past due but not impaired loans to individuals and legal entities were composed of:

	Past due up to 30 days	Past due 31-60 days	Past due 61-90 days	Past due over 90 days	Total	Fair value of collateral
Individuals (retail customers)						
Term loans	8,733	1,260	1,445	77,257	**88,695**	22,427
Mortgage loans	-	2,693	-	6,221	**8,914**	7,382
Legal entities						
Large corporate clients	-	-	-	25,493	**25,493**	28,730
SMEs	24,494	61,849	901	131,407	**218,651**	138,793
Factoring	-	133	-	-	**133**	-
Other	-	-	31,308	-	**31,308**	-
	33,227	**65,935**	**33,654**	**240,378**	**373,194**	**197,332**

As at 31 December 2010 past due but not impaired loans to individuals and legal entities were composed of:

	Past due up to 30 days	Past due 31-60 days	Past due 61-90 days	Past due over 90 days	Total	Fair value of collateral
Individuals (retail customers)						
Term loans	15,565	6,068	166	94,893	**116,692**	14,040
Mortgage loans	4,781	-	-	10,969	**15,750**	7,947
Legal entities						
Large corporate clients	-	-	-	30,000	**30,000**	3,000
SMEs	12,033	11,047	-	214,121	**237,201**	224,173
	32,379	**17,115**	**166**	**349,983**	**399,643**	**249,160**

c) Loans and Advances Individually Impaired

The breakdown of gross amount of individually impaired loans and advances by class, along with the fair value of related collateral held by the Bank as security, are as follows:

	2011		2010	
	Balance (gross)	Fair value of collateral	Balance (gross)	Fair value of collateral
Individuals (retail customers)				
Term loans	29,139	-	14,330	-
Legal entities				
Large corporate clients	15,280	15,124	9,928	-
SMEs	96,012	300	27,109	1,036
Factoring	1,450	-	1,450	-
Other	1,397	-	1,397	-
	143,278	**15,424**	**54,214**	**1,036**

(in thousands of Russian Roubles)

Financial Risk Management (continued)

In 2011 the movement of the allowance for impairment of loans and advances to individuals was as follows:

	Overdrafts	Term loans	Mortgage loans	Total
As at 1 January 2011	107	132,269	7,857	**140,233**
Charge / (Release) for the period	(100)	(34,055)	(2,560)	**(36,715)**
Loans written off	-	(4,097)	-	**(4,097)**
Amounts recovered	-	-	-	**-**
As at 31 December 2011	**7**	**94,117**	**5,297**	**99,421**

In 2011 the movement of the allowance for impairment of loans and advances to legal entities was as follows:

	Large corporate clients	SMEs	Municipal, federal and governmental organizations	Factoring	Other	Total
As at 1 January 2011	**53,595**	**313,456**	**3,356**	**1,534**	**47,999**	**419,940**
Charge / (Release) for the period	43,783	162,924	(3,356)	201	(17,905)	**185,647**
Loans written off	-	(29,649)	-	-	(88)	**(29,737)**
Amounts recovered	-	-	-	-	-	**-**
As at 31 December 2011	**97,378**	**446,731**	**-**	**1,735**	**30,006**	**575,850**

In summary:

	Individuals	Legal entities	Total
As at 1 January 2011	140,233	419,940	**560,173**
Charge / (Release) for the period	(36,715)	185,647	**148,932**
Loans written off	(4,097)	(29,737)	**(33,834)**
Amounts recovered	-	-	**-**
As at 31 December 2011	99,421	575,850	**675,271**

In 2010 the movement of the allowance for impairment of loans and advances to individuals was as follows:

	Overdrafts	Term loans	Mortgage loans	Total
As at 1 January 2010	93	78,267	3,244	**81,604**
Charge for the period	14	55,995	4,613	**60,622**
Loans written off	-	(1,993)	-	**(1,993)**
Amounts recovered	-	-	-	**-**
As at 31 December 2010	**107**	**132,269**	**7,857**	**140,233**

(in thousands of Russian Roubles)

Financial Risk Management (continued)

In 2010 the movement of the allowance for impairment of loans and advances to legal entities was as follows:

	Large corporate clients	SMEs	Municipal, federal and governmental organizations	Factoring	Other	Total
As at 1 January 2010	15,641	375,369	13,137	1,539	-	**405,686**
Charge for the period	37,954	-	-	-	47,999	**85,953**
Loans written off	-	(47,476)	-	-	-	**(47,476)**
Amounts recovered	-	(14,437)	(9,781)	(5)	-	**(24,223)**
As at 31 December 2010	**53,595**	**313,456**	**3,356**	**1,534**	**47,999**	**419,940**

In summary:

	Individuals	Legal entities	Total
As at 1 January 2010	81,604	405,686	**487,290**
Charge for the period	60,622	85,953	**146,575**
Loans written off	(1,993)	(47,476)	**(49,469)**
Amounts recovered	-	(24,223)	**(24,223)**
As at 31 December 2010	140,233	419,940	**560,173**

Fair value of collateral

Collateral taken depends on the type of exposure; for legal entities usually is represented by a charge over buildings or other assets or inventories, for mortgage loans by a charge over the property purchased and for other types of credit operations different types of collateral including cash and guarantees from third parties.

The table discloses the estimated fair value of collateral received by the Bank for its loan portfolio by type of collateral and its estimated fair value:

	2011	2010
Real estate	4,871,262	4,591,233
Goods in turnover	2,129,176	1,087,941
Vehicles	1,635,433	1,121,162
Fixed assets and equipment	766,294	647,694
Securities	493,948	345,542
Total amount of collateral	**9,896,113**	**7,793,572**

Geographical risk

Geographical risk is the risk that the Bank may suffer losses as the result of exposure of the political or economic environment of a country in which it operates or holds assets. The Bank operates in Russia predominantly for Russian customers, and therefore, as analysed in the table below it has a significant concentration of Russia exposure. Further comments on the operating environment of the Bank are set out in Note 2. Comments on the risk associated with the Russian tax are set out in Note 16. The Bank has no specific policy, objectives or processes for managing country risk, although in general it seeks to keep exposure to countries other than Russia as low as possible

(in thousands of Russian Roubles)

Financial Risk Management (continued)

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

	Russia	OECD	Non - OECD	Total
Assets				
Cash and cash equivalents	655,738	291,879	-	**947,617**
Mandatory balances with the CBRF	98,472	-	-	**98,472**
Due from banks	569,681	-	-	**569,681**
Securities at fair value through profit or loss	1,641,168	24,558	-	**1,665,726**
Securities held-to-maturity	90,251	-	-	**90,251**
Loans and advances to customers	6,401,756	-	-	**6,401,756**
Other assets	135,781	-	-	**135,781**
Fixed assets	278,547	-	-	**278,547**
Investment property	68,077	-	-	**68,077**
	9,939,471	**316,437**	**-**	**10,255,908**
Liabilities				
Due to banks	1	-	-	**1**
Customer accounts	8,710,733	132	1,696	**8,712,561**
Debt securities issued	18,910	-	-	**18,910**
Deferred tax liability	38,240	-	-	**38,240**
Other liabilities	44,741	-	-	**44,741**
	8,812,625	**132**	**1,696**	**8,814,453**
Net balance sheet position	**1,126,846**	**316,305**	**(1,696)**	**1,141,455**

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

	Russia	OECD	Non - OECD	Total
Net balance sheet position	**1,024,381**	**231,724**	**(794)**	**1,255,311**

Market Risk

The Bank takes on exposure to market risk. Market risk arises from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The Bank manages market risk through periodic estimation of potential losses that could arise from adverse changes in market conditions and establishing and maintaining appropriate stop-loss limits and margin and collateral requirements.

Price risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or factors affecting all instruments traded in the market. Price risk arises when there is a long or short position in a financial instrument.

An analysis of sensitivity of the Bank's net profit before tax and equity to changes in prices for quoted debt securities and gold based on positions existing as at 31 December 2011 and 31 December 2010 and a simplified scenario of a 10% change in prices of quoted securities is as follows:

(in thousands of Russian Roubles)

Financial Risk Management (continued)

	31 December 2010		31 December 2010	
	Profit before tax	**Equity**	**Profit before tax**	**Equity**
10% increase in quoted securities prices	166,573	133,258	152,248	121,798
10% decrease in quoted securities prices	(166,573)	(133,258)	(152,248)	(121,798)

Currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. There is also a risk that borrowers with a revenue stream in foreign currency will also be adversely affected and this could impact their ability to pay. Currency classification of monetary assets and liabilities is based on the currency they are denominated in.

The Bank's policy on foreign currency exposure is primarily to comply with the rules of the CBRF which sets a limit of 10% of the Bank's equity. However, its real target is more conservative, and that is to reach only 1%, or 2% for overnight exposure. Compliance is assessed and monitored via the daily foreign currency exposure report which is produced and reviewed by Head of Treasury. Any issues noted are escalated to senior management immediately. A review of the currency exposure is also conducted by the Asset and Liability Committee which meets regularly.

This committee has representatives from senior management, treasury, finance and other key departments. The Bank takes practical steps to keep exposure low, for example to keep open currency positions at or below an approved level the bank places forex transactions on the interbank market which currently comprises related parties.

The Bank is exposed to effects of fluctuation in the prevailing foreign currency exchange rates on its financial position and cash flows. The Bank's Financial Committee sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. These limits also comply with the requirements of the Central Bank of Russia.

As at 31 December 2011, the Bank had the following positions in currencies:

	RUR	**USD**	**EUR**	**Total**
Assets				
Cash and cash equivalents	538,158	337,603	71,856	**947,617**
Mandatory balances with the CBRF	98,472	-	-	**98,472**
Due from banks	545,050	24,631	-	**569,681**
Securities at fair value through profit or loss	1,641,168	24,558	-	**1,665,726**
Securities held-to-maturity	90,251	-	-	**90,251**
Loans and advances to customers	6,401,756	-	-	**6,401,756**
Other assets	134,971	810	-	**135,781**
Fixed assets	278,547	-	-	**278,547**
Investment property	68,077	-	-	**68,077**
	9,796,450	**387,602**	**71,856**	**10,255,908**
Liabilities				
Due to banks	-	-	1	**1**
Customer accounts	8,607,694	61,137	43,730	**8,712,561**
Debt securities issued	8,895	-	10,015	**18,910**
Taxation	38,240	-	-	**38,240**
Other liabilities	44,605	136	-	**44,741**
	8,699,434	**61,273**	**53,746**	**8,814,453**
Net on-balance sheet position	**1,097,016**	**326,329**	**18,110**	**1,441,455**

(in thousands of Russian Roubles)

Financial Risk Management (continued)

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

	RUR	USD	EUR	Total
Net on-balance sheet position	**1,068,934**	**29,016**	**157,361**	**1,255,311**

The table below analyses the risk of foreign currency rate as to Russian Federation Rouble:

	As at 31 December 2011		As at 31 December 2010	
	Effect on profit or loss	Effect on equity	Effect on profit or loss	Effect on equity
Strengthening of USD for 30%	78,319	78,319	6,964	6,964
Weakening of USD for 30%	(78,319)	(78,319)	(6,964)	(6,964)
Strengthening of Euro for 30%	4,346	4,346	37,767	37,767
Weakening of Euro for 30%	(4,346)	(4,346)	(37,767)	(37,767)

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 Bank actively monitors liquidity risk.

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to Management of the Bank. It is unusual for banks ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Bank and its exposure to changes in interest and exchange rates. Part of the portfolio of securities is classified as on demand and less than one month as the securities in question are of dealing nature and management believes this is a fairer portrayal of their liquidity position. The remaining securities represent strategic investments of the Bank or securities retained for short term capital appreciation and thus do not have a stated maturity date.

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 Bank would indicate that deposits provide a relatively long-term and stable source of funding for the Bank.

The Bank 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

(in thousands of Russian Roubles)

Financial Risk Management (continued)

The Bank was in compliance with the above ratios during the year ended 31 December 2011 and year ended 31 December 2010.

The following table represents the mandatory liquidity ratios for the Bank calculated at 31 December 2011 and 31 December 2010:

	Requirement	31 December 2011	31 December 2010
Instant liquidity ratio (N2)	Minimum 15%	29.6%	27.4%
Current liquidity ratio (N3)	Minimum 50%	84.1%	76.8%
Long-term liquidity ratio (N4)	Maximum 120%	44.3%	93.6%

The Bank'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 Bank 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 table below presents the cash flows payable by the Bank under non-derivative financial liabilities and assets held for managing liquidity at 31 December 2011. Amounts shown are contractual undiscounted cashflows, including future interest, as required by IFRS 7 revised, although in practice the Bank manages liquidity on a different basis, as described above. Some of the assets may be of a longer term nature than presented in the table. For example, loans are frequently renewed and accordingly short term loans can have longer term durations.

	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 banks	1	-	-	-	-	**1**
Customer accounts	3,528,893	1,096,975	2,162,481	2,368,528	-	**9,156,877**
Debt securities issued	8,955	174	9,781	-	-	**18,910**
Other liabilities	32,715	5,434	3,296	3,296	-	**44,741**
Taxation	-	-	-	-	38,240	**38,240**
Total liabilities	**3,570,564**	**1,102,583**	**2,175,558**	**2,371,824**	**38,240**	**9,258,769**
Assets held for managing liquidity risk	**3,389,306**	**2,622,239**	**2,498,878**	**2,256,111**	**814,255**	**11,580,789**
Credit Related Commitments	**331,503**	**26,217**	**114,093**	**107,186**	**22,676**	**601,675**

The tables below present the cash flows payable by the Bank under non-derivative financial liabilities and assets held for managing liquidity at 31 December 2010.

(in thousands of Russian Roubles)

Financial Risk Management (continued)

	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 banks	245	-	-	-	-	**245**
Customer accounts	4,145,186	1,247,534	2,892,648	757,030	-	**9,042,398**
Debt securities issued	4,701	500	-	-	-	**5,201**
Other liabilities	18,007	7,718	2,239	3,112	-	**31,076**
Taxation	-	-	-	-	34,894	**34,894**
Total liabilities	**4,168,139**	**1,255,752**	**2,894,887**	**760,142**	**34,894**	**9,113,814**
Assets held for managing liquidity risk	**3,811,679**	**1,965,369**	**2,453,161**	**2,486,634**	**703,929**	**11,420,772**
Credit Related Commitments	**13,992**	**199,962**	**296,140**	**196,589**	**-**	**706,683**

The data in the tables above does not reconcile to the discounted cash flows which form the basis of the statement of financial position at 31 December 2011 and at 31 December 2010, and IFRS 7 revised does not require such reconciliation. The Bank considers that loans should be included in assets held for managing liquidity risk.

The maturity gap analysis does not reflect the historical stability of current accounts. Their liquidation has historically taken place over a longer period than indicated in the table above. These balances are included in amounts due less than 1 month in the table above.

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

Interest Rate Risk

The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The Bank's Assets and Liabilities Management Committee sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored regularly. The majority of the Bank's assets and liabilities are priced on a fixed rate basis.

(in thousands of Russian Roubles)

Financial Risk Management (continued)

The analysis of the Bank's weighted average interest rates of interest bearing assets and liabilities by reference to the next interest rate re-fixing date as at 31 December 2011 is presented below.

	On demand or less than 1 month	1 to 6 months	6 months to 1 year	Over 1 year	Overdue
Assets					
Due from banks	4.52	2.25	-	-	-
Securities at a fair value through profit or loss	7.85	-	-	-	-
Securities held-to-maturity	-	-	-	9.04	-
Loans and advances to customers	12.01	9.89	10.62	13.45	18.53
Liabilities					
Due to banks	-	-	-	-	-
Customer accounts	0.61	4.73	5.18	8.05	-
Debt securities issued	-	-	4.25	-	-

The analysis of the Bank's weighted average interest rates of interest bearing assets and liabilities by reference to the next interest rate re-fixing date as at 31 December 2010 is presented below.

	On demand or less than 1 month	1 to 6 months	6 months to 1 year	Over 1 year	Overdue
Assets					
Due from banks	2.97	-	-	-	-
Securities at a fair value through profit or loss	7.93	-	-	-	-
Loans and advances to customers	-	-	9.50	8.62	-
	16.14	12.28	11.97	14.15	17.42
Liabilities					
Due to banks					
Customer accounts	-	-	-	-	-
Debt securities issued	3.41	9.81	10.72	7.03	-

Assuming the financial assets and liabilities as at 31 December 2011 were to remain until maturity or settlement without any action by the Bank to alter the resulting interest rate risk exposure, an immediate and sustained for one year reasonably possible positive change of 3% in market interest rates across all maturities and currencies would decrease profit for the current year by approximately 23,766 as a result of higher expenses on interest-bearing liabilities (2010: 3% change would increase profit by 11,495 as a result of higher interest income on interest-bearing assets).

(in thousands of Russian Roubles)

Financial Risk Management (continued)

In the table below given is the analysis of the interest rate fluctuation risk to which the Bank is exposed as at 31 December 2011. In the table shown are the amounts of interest assets and liabilities in their balance cost existing for the reporting date referred to different categories from the earliest of the following dates set in the agreement of interest rate fluctuation or maturity.

	On demand or less than 1 month	1 to 6 months	6 months to 1 year	Over 1 year	Overdue/ no stated maturity	Total
Assets						
Due from banks	545,000	24,147	-	-	-	**569,147**
Securities at a fair value through profit or loss	1,657,507	-	-	-	-	**1,657,507**
Securities held-to-maturity	-	-	-	90,251	-	**90,251**
Loans and advances to customers	92,228	1,791,079	1,875,216	2,434,771	93,490	**6,286,784**
Total assets	**2,294,735**	**1,815,226**	**1,875,216**	**2,525,022**	**93,490**	**8,603,689**
Liabilities						
Due to banks	-	-	-	-	-	**-**
Customer accounts	2,687,051	934,955	1,973,073	2,277,400	-	**7,872,479**
Debt securities issued	-	-	10,015	-	-	**10,015**
Total liabilities	**2,687,051**	**934,955**	**1,983,088**	**2,277,400**	**-**	**7,882,494**
Net liquidity	**(392,316)**	**880,271**	**(107,872)**	**247,622**	**93,490**	**721,195**
Accumulated gap as at 31 December 2011	**(392,316)**	**487,955**	**380,083**	**627,705**	**721,195**	
Accumulated gap as at 31 December 2010	**(740,913)**	**(534,692)**	**(1,398,113)**	**389,247**	**490,190**	

The table given below shows the average interest rates by currencies on major interest monetary financial instruments. The following analysis is prepared on the basis of average weighted interest rates in accordance with agreements in the effect on the end of the reporting year:

	2011			**2010**		
	RUR	**USD**	**Euro**	**RUR**	**USD**	**Euro**
Interest bearing assets						
Due from banks	4.52	2.25	-	2.97	-	-
Securities at a fair value through profit or loss	7.83	8.75	-	8.12	8.75	6.61
Securities held to maturity	9.04	-	-	8.81	-	-
Loans and advances to customers	11.64	-	-	12.30	15.77	-
Interest bearing liabilities						
Customer accounts	5.90	2.81	2.50	7.19	2.36	2.31
Debt securities issued	-	-	4.25	-	-	-

26. Related Party Transactions

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

During the reporting period the Bank entered into a number of banking transactions in the normal course of business with various related parties.

At 31 December 2011 entities considered related parties of the Bank included the following:

Related parties per category	Activity
Shareholders	
Rekha Holdings Ltd.	Finance
Quest Advisory Restructuring Ltd.	Finance
OOO «Strike»	Trade and intermediary
OOO «Konkurent»	Trade and intermediary
OOO «Monolit»	Trade and intermediary
OOO «Norma»	Trade and intermediary
OOO «Avangard»	Trade and intermediary
OOO «Standart»	Trade and intermediary
Under common control by virtue of having the same shareholders	
OOO Leasing-Hlynov	Financial leasing
OOO Hlynov-Dom	Leasing
OOO Firm «Globus»	Trade and intermediary
OOO «NTI»	Trade and intermediary
OOO «Dart»	Trade and intermediary
OOO «Vyatskiy privoz»	Trade and intermediary
OOO «Grand-Tandem»	Trade and intermediary
OOO «Sorm»	Construction
Other, including Management of the Bank	
Alexey Viktorovich Filipchenko	
Oleg Yuryevich Berezin	
Mikhail Vladimirovich Zhuravlev	
Sergey Petrovich Nazarov	
Ilya Pavlovich Prozorov	
Vladimir Anatolyevich Repnyakov	
Alexander Yuryevich Vtyurin	
Alexey Olegovich Musihin	
Vera Alexandrovna Pinaeva	
Olga Vladimirovna Komarovskikh	
Nikolay Vasilyevich Popov	

Related Party Transactions (continued)

At 31 December 2010 entities considered related parties of the Bank included the following:

Related parties per category	Activity
Shareholders	
Rekha Holdings Ltd.	Finance
Quest Advisory Restructuring Ltd.	Finance
OOO «Strike»	Trade and intermediary
OOO «Konkurent»	Trade and intermediary
OOO «Monolit»	Trade and intermediary
OOO «Norma»	Trade and intermediary
OOO «Avangard»	Trade and intermediary
OOO «Standart»	Trade and intermediary
Under common control by virtue of having the same shareholders	
OOO Leasing-Hlynov	Financial leasing
OOO Hlynov-Dom	Leasing
OOO Firm «Globus»	Trade and intermediary
OOO «NTI»	Trade and intermediary
OOO «Poseydon»	Trade and intermediary
OOO «Vyatskiy privoz»	Trade and intermediary
OOO «Grand-Tandem»	Trade and intermediary
OOO «Stromit»	Production
OOO «Rokset-S»	Trade and intermediary
Other, including Management of the Bank	
Oleg Yuryevich Berezin	
Nikolay Vasilyevich Popov	
Sergey Petrovich Nazarov	
Mikhail Vladimirovich Zhuravlev	
Alexey Viktorovich Filipchenko	
Vladimir Anatolyevich Repnyakov	
Alexander Yuryevich Vtyurin	
Irina Anatolyevna Skobeleva	
Alexey Olegovich Musihin	
Vera Alexandrovna Pinaeva	
Ilya Pavlovich Prozorov	

(in thousands of Russian Roubles)

Related Party Transactions (continued)

The total outstanding balances at 31 December 2011 and the related income and expense transactions during 2011 with related parties were as follows:

	Shareholders	Under common control by virtue of having the same shareholders	Other including management	Total Related party balance/result	Total per category in the financial statement
Statement of Financial Position					
Loans and advances to customers					
At beginning of year	-	181,507	1,784	**183,291**	**6,443,090**
Granted during year	-	208,986	1,290	**210,276**	**n/a**
Repaid during the year	-	(204,984)	(1,181)	**(206,165)**	**n/a**
At the end of the year	**-**	**185,509**	**1,893**	**187,402**	**7,077,027**
Allowance for losses	-	(6,316)	(19)	**(6,335)**	**(675,271)**
Current accounts					
At beginning of year	470	2,167	1,711	**4,348**	**3,039,391**
Opened during year	142,696	2,776,749	19,635	**2,939,080**	**-**
Repaid during the year	(142,631)	(2,767,318)	(19,848)	**(2,929,797)**	**-**
At the end of the year	**535**	**11,598**	**1,498**	**13,631**	**2,966,671**
Term deposits					
At beginning of year	-	-	4,218	**4,431**	**5,698,471**
Received during year	-	-	12,849	**12,849**	**-**
Repaid during the year	-	-	(14,526)	**(14,526)**	**-**
At the end of the year	**-**	**-**	**2,541**	**2,541**	**5,745,890**
Statement of Comprehensive Income					
Interest Income on loans	**-**	**28,465**	**221**	**28,687**	**816,997**
Interest expenses					
On term deposits	-	-	546	**546**	**475,320**
On current accounts	-	2	21	**23**	**8,907**
Commission income					
From settlement operations	31	117	-	**148**	**122,390**
Salary and bonuses	-	-	20,465	**20,465**	**215,576**

(in thousands of Russian Roubles)

Related Party Transactions (continued)

The total outstanding balances at 31 December 2010 and the related income and expense transactions during 2010 with related parties were as follows:

	Shareholders	Under common control by virtue of having the same shareholders	Other including management	Total Related party balance/result	Total per category in the financial statement
Statement of Financial Position					
Loans and advances to customers					
At beginning of year	-	556,301	3,243	**559,544**	**5,495,976**
Granted during year	-	737,293	719	**738,012**	**n/a**
Repaid during the year	-	(979,344)	(2,178)	**(981,522)**	**n/a**
At the end of the year	**-**	**314,250**	**1,784**	**316,034**	**6,443,090**
Allowance for losses	-	(11,243)	(95)	**(11,338)**	**(560,173)**
Other assets	**-**	**3,072**	**-**	**3,072**	**62,015**
Current accounts					
At beginning of year	127	505	1,714	**2,347**	**2,023,364**
Opened during year	357,187	5,267,920	19,355	**5,644,463**	**n/a**
Repaid during the year	(356,844)	(5,266,253)	(19,381)	**(5,642,478)**	**n/a**
At the end of the year	**470**	**2,173**	**1,689**	**4,332**	**3,039,391**
Term deposits					
At beginning of year	-	-	2,929	**2,929**	**4,271,325**
Received during year	-	-	12,413	**12,413**	**n/a**
Repaid during the year	-	-	(11,341)	**(11,341)**	**n/a**
At the end of the year	**-**	**-**	**4,001**	**4,001**	**5,698,471**
Statement of Comprehensive Income					
Interest Income on loans	**-**	**65,938**	**245**	**66,183**	**830,432**
Interest expenses					
On term deposits	-	-	421	**421**	**567,090**
On current accounts	-	4	55	**59**	**12,705**
Commission income					
From guarantees issued	-	610	-	**610**	**3,824**
From settlement operations	93	1,021	-	**1,113**	**96,473**
Salary and bonuses	-	-	18,021	**18,021**	**169,819**
Off-balance Sheet					
Guarantees issued	-	62,701	-	**62,701**	**229,826**

(in thousands of Russian Roubles)

Related Party Transactions (continued)

In 2011 salaries and other short term payment to the members of Board of Directors and members of the Executive Board amounted to 19,729 (2010: 17,363), including 8,503 (2010: 4,200) salaries, other short term payments 11,226 (2010: 13,163). Other short term payments to the members of the Executive Board, who are not employed with the Bank, amounted to 736 (2010: 658).

27. Capital Management

The Bank's policy is aimed to maintain the level of capital sufficient to keep trust of investors, creditors and the market in general, as well as for the future development of the Bank's operations.

The CBRF sets capital requirements to the Bank and monitors compliance with these requirements. Currently, under requirements of the CBRF, the Bank has to maintain a ratio of regulatory capital to risk weighted assets ("statutory capital ratio") above a certain minimum level. As at 31 December 2011, this minimum level was 10% (2010: 10%).

The regulatory capital on the basis of the Bank's reports prepared under Russian legislation as at 31 December 2011 and 31 December 2010 is presented in the following table:

	As at 31 December 2011	**As at 31 December 2010**
Capital		
Share capital	590,227	590,227
Funds	90,750	90,750
Previous years profit	330,901	212,762
Current year profit	142,990	92,981
Additional capital		
Additional capital formed by capitalisation of property revaluation	14,773	14,773
Property surplus due to revaluation	33,512	33,499
Investments in subsidiary	(110)	(110)
Intangible assets	(15)	(1)
Total regulatory capital	**1,203,028**	**1,034,881**
Capital adequacy ratio	**13.06%**	**13.70%**

The main reason explaining the difference between the amount of capital calculated under CBRF requirements and equity presented in these financial statements is an additional allowance performed for the purposes of IFRS for loans and deferred taxation recognised under IFRS.

During 2011 and 2010 the Bank's capital adequacy ratio was line with regulations.

The Bank can apply some measures in case of insufficiency of capital, such as: an additional share issue, asset sales and reduction in lending. Allocation of capital between individual operations and activities is mostly motivated by the desire to increase the level of profitability (profit margin) for the capital allocation. Despite the fact that the decisive factor in allocating capital to individual transactions or activities is to maximize the return on capital given the risk, this is not the only factor when deciding on the allocation of capital. Appropriate activities of the Bank's long-term management plans and prospects are taking into calculation. The Bank's capital management and its distribution is regularly analyzed by the Directors of the Bank during the review and approval of annual budget.