20 YEARS BANK CENTER-INVEST

CENTER-INVEST BANK GROUP

Consolidated Financial Statements
and Independent Auditor's Report

31 December 2011

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Independent Auditor's Report

To the Shareholders and Board of Directors of Center-invest Bank:

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

ZAO PricewaterhouseCoopers Audit

30 March 2012
Moscow, Russia

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Center-invest Bank Group
Consolidated Statement of Financial Position

In thousands of Russian Roubles	Note	31 December 2011	31 December 2010
ASSETS			
Cash and cash equivalents	7	4 650 962	5 945 891
Mandatory cash balances with the Central Bank of the Russian Federation		484 091	244 706
Trading securities	8	970 349	2 907 567
Other securities at fair value through profit or loss		5 997	6 005
Due from other banks	9	2 012 023	4 511 454
Loans and advances to customers	10	42 010 560	30 142 571
Finance lease receivables	11	538 667	482 097
Investment in associate	12	319 199	320 657
Intangible assets	13	329 674	354 747
Premises and equipment	14	2 710 632	2 623 759
Other financial assets	15	302 851	202 457
Other assets	16	201 958	537 426
TOTAL ASSETS		**54 536 963**	**48 279 337**
LIABILITIES			
Due to other banks	17	94 689	362 857
Customer accounts	18	39 000 759	33 813 688
Debt securities in issue	19	3 720 669	2 040 432
Borrowings from international financial institutions	20	2 655 299	4 007 518
Subordinated debt	21	1 942 715	1 876 061
Other financial liabilities	22	148 429	116 525
Deferred income tax liability	28	216 063	166 323
Other liabilities	23	72 281	121 845
TOTAL LIABILITIES		**47 850 904**	**42 505 249**
EQUITY			
Share capital	24	1 258 709	1 258 709
Share premium	24	1 646 428	1 646 428
Revaluation reserve for premises and equipment		1 377 608	1 270 280
Retained earnings		2 403 314	1 598 671
TOTAL EQUITY		**6 686 059**	**5 774 088**
TOTAL LIABILITIES AND EQUITY		**54 536 963**	**48 279 337**

Approved for issue and signed on behalf of the Board of Directors on 30 March 2012.

G.I. Zhukov
Chairman of the Board

Gushchina
Chief Accountant

In thousands of Russian Roubles	Note	2011	2010
Interest income	25	5 374 230	4 934 729
Interest expense	25	(2 339 864)	(2 671 373)
Net interest income		**3 034 366**	**2 263 356**
Provision for loan portfolio impairment and impairment of finance lease receivables	10, 11	(620 790)	(1 077 259)
Net interest income after impairment provisions		**2 413 576**	**1 186 097**
Fee and commission income	26	842 041	806 815
Fee and commission expense	26	(210 918)	(166 336)
Losses less gains from trading securities		(38 208)	(9 399)
Gains less losses from trading in foreign currencies		61 582	46 665
Foreign exchange translation gains less losses		138 374	(34 862)
Losses less gains from conversion operations on the interbank market		(125 049)	59 487
Gains less losses from assignment of the rights of claim	10	29 031	14 355
Provision for other assets	16	(158 444)	(80 412)
Other operating income		87 277	64 896
Contributions to the state deposit insurance scheme		(99 894)	(79 398)
Administrative and other operating expenses	27	(1 778 642)	(1 498 870)
Share of profit of associate	12	3 934	7 856
Profit before tax		**1 164 660**	**316 894**
Income tax expense	28	(252 484)	(97 080)
Profit for the year		**912 176**	**219 814**
Other comprehensive income			
Revaluation of premises and equipment	14	196 035	156 492
Revaluation of premises and equipment of the associate	12	(5 392)	4 879
Income tax recorded directly in other comprehensive income	28	(95 199)	(31 298)
Other comprehensive income for the year		**95 444**	**130 073**
Total comprehensive income for the year		**1 007 620**	**349 887**

In thousands of Russian Roubles	Note	2011	2010
Cash flows from operating activities			
Interest received		5 393 576	4 874 668
Finance income arising from leasing		93 810	132 334
Interest paid		(2 478 150)	(2 709 089)
Fees and commissions received		857 088	809 457
Fees and commissions paid		(206 154)	(160 675)
Realized gains less losses from trading securities		(19 111)	16 157
Net income received from trading in foreign currencies		61 582	46 665
Realized gains less losses from conversion operations on the interbank market		(120 046)	35 189
Income received from assignment of the rights of claim		185 274	67 161
Other operating income received		98 122	75 723
Contributions to the state deposit insurance scheme		(94 846)	(95 885)
Staff costs		(914 729)	(712 524)
Operating expenses paid		(580 524)	(494 124)
Income tax paid		(341 526)	(29 084)
Cash flows from operating activities before changes in operating assets and liabilities		**1 934 366**	**1 855 973**
Changes in operating assets and liabilities			
Net increase in mandatory cash balances with the CBRF		(239 385)	(44 384)
Net decrease /(increase) in trading securities		1 905 859	(249 413)
Net decrease/(increase) in due from other banks		2 515 904	(4 101 450)
Net increase in loans and advances to customers		(12 576 650)	(5 784 910)
Net (increase)/decrease in finance lease receivables		(64 594)	200 199
Net decrease in other financial and other assets		187 955	142 430
Net decrease in due to other banks		(278 881)	(318 149)
Net increase in customer accounts		5 238 690	6 123 090
Net (decrease)/increase in promissory notes issued		(68 602)	46 760
Net decrease in other financial and other liabilities		(26 455)	(92 162)
Net cash used in operating activities		**(1 471 793)**	**(2 222 016)**
Cash flows from investing activities			
Acquisition of premises and equipment	14	(103 447)	(21 491)
Proceeds from disposal of premises and equipment	14	19 983	2 383
Acquisition of intangible assets	13	(34 515)	(15 961)
Net cash used in investing activities		**(117 979)**	**(35 069)**
Cash flows from financing activities			
Issue of bonds	19	2 500 000	1 691 787
Repurchase of bonds	19	(754 156)	(2 035 685)
Borrowings from international financial institutions	20	70 000	650 000
Repayment of borrowings from international financial institutions	20	(1 452 305)	(863 549)
Repayment of subordinated debt		(37 567)	(111 894)
Dividends paid	29	(95 649)	(18 099)
Net cash from/(used in) financing activities		**230 323**	**(687 440)**
Effect of exchange rate changes on cash and cash equivalents		**64 520**	**(78 121)**
Net decrease in cash and cash equivalents		**(1 294 929)**	**(3 022 646)**
Cash and cash equivalents at the beginning of the year		5 945 891	8 968 537
Cash and cash equivalents at the end of the year	7	**4 650 962**	**5 945 891**

In thousands of Russian Roubles	Note	Share capital	Share premium	Revaluation reserve for premises and equipment	Retained earnings	Total equity
Balance at 1 January 2010		**1 258 709**	**1 646 428**	**1 166 911**	**1 370 252**	**5 442 300**
Profit for the year		-	-	-	219 814	219 814
Other comprehensive income		-	-	130 073	-	130 073
Total comprehensive income for 2010		**-**	**-**	**130 073**	**219 814**	**349 887**
Dividends declared and paid:						
- preference shares	29	-	-	-	(18 099)	(18 099)
Transfer of revaluation surplus on premises to retained earnings		-	-	(26 704)	26 704	-
Balance at 31 December 2010		**1 258 709**	**1 646 428**	**1 270 280**	**1 598 671**	**5 774 088**
Profit for the year		-	-	-	912 176	912 176
Other comprehensive income		-	-	155 297	(59 853)	95 444
Total comprehensive income for 2011		**-**	**-**	**155 297**	**852 323**	**1 007 620**
Dividends declared and paid						
- ordinary shares	29	-	-	-	(77 550)	(77 550)
- preference shares	29	-	-	-	(18 099)	(18 099)
Transfer of revaluation surplus on premises to retained earnings		-	-	(47 969)	47 969	-
Balance at 31 December 2011		**1 258 709**	**1 646 428**	**1 377 608**	**2 403 314**	**6 686 059**

1 Introduction

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2011 for Center-invest Bank (the "Bank") and its 100% subsidiary OOO Center-Leasing (the "Group").

The Bank was incorporated and is domiciled in the Russian Federation. The Bank is a joint stock company limited by shares.

Principal activity. The Group's principal business activity is corporate and retail banking and leasing operations within the Russian Federation. The Bank has operated under a full banking licence issued by the Central Bank of the Russian Federation ("CBRF") since 1992. The Bank participates in the state deposit insurance scheme, which was introduced by Federal Law #177-FZ "Deposits of individuals insurance in Russian Federation" dated 23 December 2003. The State Deposit Insurance Agency guarantees repayment of 100% of individual deposits up to RR 700 thousand per individual in the case of the withdrawal of a licence of a bank or a CBRF imposed moratorium on payments.

At 31 December 2011, the Bank has nine (31 December 2010: nine) branches within the Russian Federation. Additionally, the Bank has representative offices in Moscow, London and 108 (31 December 2010: 86) sub-branches in the Rostov, Volgograd, Stavropol and Krasnodar regions.

Registered address and place of business. The Bank's registered address is: 62 Sokolova street, Rostov-on-the Don, Russian Federation, 344000.

The average number of the Group's employees during 2011 was 1 382 (2010: 1 455).

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

2 Operating Environment of the Group

Russian Federation. The Russian Federation displays certain characteristics of an emerging market. Tax, currency and customs legislation is subject to varying interpretations and contributes to the challenges faced by banks operating in the Russian Federation (Note 33).

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

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

The Bank operates primarily in the South of Russia. Due to a diversified economic structure by industry the South of Russia demonstrates more dynamic and stable development trends than other Russian regions. The growth rate demonstrated by the main industry of the region - agriculture - significantly exceeds Russia's average level. Stable growth is attributable to natural and climatic factors, well developed infrastructure, the structure of economy diversified by activity and characterised by high share of small and medium enterprises.

3 Summary of Significant Accounting Policies

Basis of preparation. These consolidated financial statements have been prepared in accordance with IFRS under the historical cost convention, as modified by the revaluation of premises and equipment, and financial instruments at fair value through profit or loss. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

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

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

Associates. Associates are entities over which the Bank has significant influence (directly or indirectly), but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights. Investments in associates are accounted for using the equity method of accounting, and are initially recognised at cost. Post-acquisition changes in Group's share of net assets of an associate are recognised as follows: (i) the Group's share of profits or losses of associates is recorded in the consolidated profit or loss for the year as share of result of associates, (ii) the Group's share of other comprehensive income is recognised in other comprehensive income and presented separately, (iii); all other changes in the Group's share of the carrying value of net assets of associates are recognised in profit or loss within the share of result of associates. However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

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

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

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

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

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition and includes transaction costs. Measurement at cost is only applicable to investments in equity instruments that do not have a quoted market price and whose fair value cannot be reliably measured.

3 Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

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

Cash and cash equivalents. Cash and cash equivalents are items which can be converted into cash within one business day. All short term interbank placements, beyond overnight placements, are included in due from other banks. Amounts which relate to funds that are of a restricted nature are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortised cost.

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

3 Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

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

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

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

- any instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;

3 Summary of Significant Accounting Policies (Continued)

- the borrower experiences a significant financial difficulty as evidenced by the borrower's financial information that the Group obtains;
- the borrower considers bankruptcy or a financial reorganisation;
- there is an adverse change in the payment status of the borrower as a result of changes in the national or local economic conditions that impact the borrower; or
- the value of collateral significantly decreases as a result of deteriorating market conditions.
- the borrower considers or is implementing financial restructuring, which may result in a worsening of the borrower's financial position entailing bankruptcy or persistent insolvency (e.g., a decrease in the borrower's net assets by more than 25%);
- provision by the Bank of favourable terms due to economic or judicial reasons associated with the borrower's financial problems, which the Bank would not have otherwise undertaken (debt restructuring);
- available information on an identifiable decrease of the expected future cash flows for a group of loans, on condition that this decrease cannot be yet identified with certain loans within this group, including national or local economic conditions related to defaults on loans within the group (growth of unemployment in the borrowers' geographic regions, a fall in real estate prices in relation to the mortgage situation in a particular region, adverse changes in the sector affecting the borrowers within the group).

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

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

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

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

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

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

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

3 Summary of Significant Accounting Policies (Continued)

Credit related commitments. The Group issues financial guarantees, letters of credit and commitments to provide loans. Financial guarantees and letters of credit represent irrevocable assurances to make payments in the event that a customer cannot meet its obligations to third parties and carry the same credit risk as loans. Financial guarantees and letters of credit are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitment. At the end of each reporting period, the commitments are measured at the higher of (i) the remaining unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at the end of each reporting period. All commitments to extend credit are revocable and are automatically closed upon breach by the borrower of the loan agreement, they create no exposure to credit risk and therefore no provision is made.

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

Land and premises of the Group are subject to revaluation on a regular basis. The frequency of revaluation depends upon the movements in the fair values of the premises and equipment being revalued. Increases in the carrying amount arising on revaluation are credited to other comprehensive income and increase the revaluation surplus in equity. Decreases that offset previous increases of the same asset are recognised in other comprehensive income and decrease the previously recognised revaluation surplus in equity; all other decreases are charged to profit or loss for the year. The revaluation reserve for premises included in equity is transferred directly to retained earnings when the surplus is realised, i.e. either on the retirement or disposal of the asset, or as the asset is used by the Group. In the latter case, the amount of the surplus realised is the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost. If there is no market based evidence of fair value, fair value is estimated using an income approach.

Costs of minor repairs and maintenance are expensed when incurred.

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

Other premises and equipment include office and computer equipment and are stated at cost, less accumulated depreciation and provision for impairment, where required.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in the consolidated statement of comprehensive income.

Depreciation. Land is not depreciated. Depreciation on other items of premises and equipment is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives at the following annual rates:

Premises	2% - 2.5%
Other	20%

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

Intangible assets. All of the Group's intangible assets have a definite useful life and primarily include capitalised computer software and software licenses.

3 Summary of Significant Accounting Policies (Continued)

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Development costs that are directly associated with identifiable and unique software controlled by the Group are recorded as intangible assets if the inflow of incremental economic benefits exceeding costs is probable. Capitalised costs include staff costs of the software development team and an appropriate portion of relevant overheads. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred. Capitalised computer software is amortised on a straight line basis over expected useful lives of 3 to 10 years. Under certain circumstances the Group may decide to extend useful lives.

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

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

Finance lease receivables. Where the Group is a lessor in a lease which transfers substantially all the risks and rewards incidental to ownership to the lessee, the assets leased out are presented as a finance lease receivable and carried at the present value of the future lease payments. Finance lease receivables are initially recognised at commencement using a discount rate determined at inception.

Commencement of the lease term. The commencement of the lease term is the date from which the lessee is entitled to exercise its right to use the leased asset. It is the date of initial recognition of the lease.

Inception of the lease. The inception of the lease is considered to be the date of the lease contract, or the date of commitment, if earlier. For purposes of this definition, a commitment shall be in writing, signed by the parties involved in the transaction, and shall set forth the principal terms of the transaction.

Revenue recognition. The Group records finance lease receivables in the amount equal to the net investment in the lease. Net investment in the lease is calculated as the aggregate of the minimum lease payments, representing the amounts guaranteed by the lessee and any unguaranteed residual value (together gross investment in the lease), discounted at the interest rate implicit in the lease. The interest rate implicit in the lease is the discount rate that, at the inception of the lease, causes the present value of the gross investment in the lease to be equal to the fair value of the leased asset.

The difference between the gross investment in the lease and the net investment in the lease represents unearned financial income. The unearned finance income is amortised over the lease term using the discount rate implicit in the lease.

Initial direct costs incurred by lessors include amounts such as intermediary activities, legal fees and internal costs that are incremental and directly attributable to negotiating and arranging a lease. They exclude general overheads such as those incurred by a sales and marketing team. In case of a finance lease direct costs are included in the initial measurement of the finance lease receivable and reduce the amount of income recognised over the lease term.

Any advances made to the supplier after the date of the inception of the lease and before the date of commencement of the lease term, are recorded as prepayments within other financial assets. Payments received by the Group from the lessee before the commencement of the lease term are recorded as advances received within other financial liabilities. These amounts are adjusted against finance lease receivables on the date of commencement of the lease term.

Impairment losses are recognised in the statement of comprehensive income when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of finance lease receivables. Impairment losses are recognised through an allowance account to write down the receivables' net carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred), discounted at the interest rates implicit in the finance leases. The estimated future cash flows reflect the cash flows that may result from obtaining and selling the assets subject to the lease.

3 Summary of Significant Accounting Policies (Continued)

Non-current assets classified as held for sale. Non-current assets, which may include both non-current and current assets, are classified in the statement of financial position as 'non-current assets held for sale' if their carrying amount will be recovered principally through a sale transaction, including loss of control of a subsidiary holding the assets, within twelve months after the end of the reporting period. Assets are reclassified when all of the following conditions are met: (a) the assets are available for immediate sale in their present condition; (b) the Group's management approved and initiated an active programme to locate a buyer; (c) the assets are actively marketed for sale at a reasonable price; (d) the sale is expected within one year and (e) it is unlikely that significant changes to the plan to sell will be made or that the plan will be withdrawn. Non-current assets classified as held for sale in the current period's statement of financial position are not reclassified or re-presented in the comparative statement of financial position to reflect the classification at the end of the current period.

Non-current assets are assets that include amounts expected to be recovered or collected more than twelve months after the end of the reporting period. If reclassification is required, both the current and non-current portions of an asset are reclassified. Held for sale premises and equipment are not depreciated.

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

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

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

Borrowings from international financial institutions. Borrowings (including subordinated loans) are recorded from the moment of provision of cash funds to the Group. The non-derivative liability is carried at amortised cost.

Derivative financial instruments. Derivative financial instruments, including foreign exchange contracts are carried at their fair value. All derivative instruments are carried as assets when fair value is positive, and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in the consolidated statement of comprehensive income. The Group does not apply hedge accounting.

Certain derivative instruments embedded in other financial instruments are treated as separate derivative instruments when their risks and characteristics are not closely related to those of the host contract.

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

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

3 Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

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

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

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

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

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

3 Summary of Significant Accounting Policies (Continued)

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

Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, and which are earned on execution of the underlying transaction, are recorded on its completion. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-proportion basis. Asset management fees relating to investment funds are recorded rateably over the period that the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continually provided over an extended period of time.

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

Monetary assets and liabilities are translated into each entity’s functional currency at the official exchange rate of the CBRF at the respective balance sheet dates. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities into each company's functional currency at year-end official exchange rates of the CBRF are recognised in the consolidated statement of comprehensive income.

At 31 December 2011, the principal rate of exchange used for translating foreign currency balances was USD 1 = RR 32.1961 and EURO 1 = RR 41.6714 (31 December 2010: USD 1 = RR 30.4769, EURO 1 = RR 40.3331).

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

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

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

Segment reporting. Operating segments are reported in a manner consistent with the internal reporting provided to the Bank's Management Board responsible for making operating decisions. Segments whose revenue, result or assets are ten percent or more of all the segments are reported separately.

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies

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

Impairment losses on loans and advances. The Group regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in the consolidated statement of comprehensive income, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. Impairment losses for individually significant loans are based on estimates of discounted future cash flows of the individual loans, taking into account repayments and realisation of any assets held as collateral against the loans. A 10% increase or decrease in the actual loss experience compared to the estimated future discounted cash flows, which could arise from differences in amounts and timing of the cash flows, would result in an increase or decrease in loan impairment losses of RR 275 509 thousand (2010: RR 271 578 thousand).

Revaluation of premises and equipment. Given the absence of a highly liquid market for non-residential premises and land in Rostov, the Rostov Region and other regions of the South of Russia, the Bank and the independent appraiser have used professional judgements on comparability of existing real estate sale deals and available data on transactions with land and real estate between third parties. If the price per square meter of land had increased by 10%, the carrying value of land would have increased by RR 52 970 thousand (31 December 2010: RR 46 128 thousand). If the price per square meter of building had increased by 10%, the carrying value of buildings would have increased by RR 187 226 thousand (31 December 2010: RR 174 949 thousand).

Tax legislation. Russian tax, currency and customs legislation is subject to varying interpretations. Refer to Note 33.

5 Adoption of New or Revised Standards and Interpretations

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

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

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

The financial effect of collateral required to be disclosed by the amendments to IFRS 7 is presented in these financial statements by disclosing collateral values separately for (i) those financial assets where collateral and other credit enhancements are equal to, or exceed, carrying value of the asset ("over-collateralised assets") and (ii) those financial assets where collateral and other credit enhancements are less than the carrying value of the asset ("under-collateralised assets").

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

6 New Accounting Pronouncements

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

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

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

While adoption of IFRS 9 is mandatory from 1 January 2013, earlier adoption is permitted. The Group is considering the implications of the standard, the impact on the Group and the timing of its adoption by the Group.

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

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

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

6 New Accounting Pronouncements (Continued)

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

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

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

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

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

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

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

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

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

7 Cash and Cash Equivalents

In thousands of Russian Roubles	**2011**	**2010**
Cash on hand	2 120 028	2 247 173
Cash balances with the CBRF (other than mandatory reserve deposits)	1 427 974	2 232 118
Correspondent accounts and overnight placements with other banks		
- Russian Federation	349 568	388 623
- other countries	601 225	612 365
- Settlement accounts with trading systems	152 167	465 612
Total cash and cash equivalents	**4 650 962**	**5 945 891**

Analysis by credit quality of correspondent accounts and overnight placements at 31 December 2011 and 31 December 2010 is as follows:

In thousands of Russian Roubles	**Country**	**Rating of S&P/Moody's/Fitch**	**2011**	**2010**
Bank 1	Russia	BB+ /Baa2/BBB+	307 464	279 114
Bank 2	Russia	BBB/Baa1/BBB	3 120	21 539
Bank 3	Russia	-/Baa1/BBB	244	32 942
Other	Russia		38 740	55 028
Total for Russian Federation			**349 568**	**388 623**
Bank 4	Germany	A /A2/A+	300 246	78 493
Bank 5	USA, Great Britain	A /A1/A	174 526	272 588
Bank 6	USA	AA- /Aa3/-	54 956	65 731
Bank 7	Great Britain	A/A1/A	46 918	4 070
Bank 8	Italy	A/A2/A-	10 736	13 037
Bank 9	Austria	A/A1/A	5 542	3 772
Bank 10	USA		-	150 949
Others with a rating not lower than A			8 301	23 725
Total for other countries			**601 225**	**612 365**

Settlement accounts with trading systems represent balances on Moscow Interbank Stock Exchange and its subsidiary.

Balances on correspondent accounts and overnight placements are not collateralised.

Interest rate analysis of cash and cash equivalents is disclosed in Note 31. Information on related party balances is disclosed in Note 36.

8 Trading Securities

In thousands of Russian Roubles	**2011**	**2010**
Eurobonds	478 953	1 039 241
Corporate bonds	447 349	1 614 686
Municipal bonds	-	184 017
Total debt securities	**926 302**	**2 837 944**
Shares of closed mutual funds	44 047	69 623
Total equity securities	**44 047**	**69 623**
Total trading securities	**970 349**	**2 907 567**

8 Trading Securities (Continued)

Eurobonds are interest bearing securities denominated in Euros (2010: US dollars and Euros) and are freely tradable on the over-the-counter market. The actual borrowers with regards to these securities are large Russian companies, banks, and the Moscow Government.

Corporate bonds are interest bearing securities denominated in Russian Roubles and freely tradable on the Russian market. Corporate securities were mainly issued by large Russian companies and banks.

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

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

In thousands of Russian Roubles	**Municipal bonds**	**Corporate bonds**	**Eurobonds**	**Total**
Neither past due nor impaired				
Standard&Poor's BBB	-	101 638	478 953	580 591
Standard&Poor's BB	-	88 736	-	88 736
Fitch B	-	103 523	-	103 523
Moody's B	-	153 452	-	153 452
Total trading securities	**-**	**447 349**	**478 953**	**926 302**

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

In thousands of Russian Roubles	**Municipal bonds**	**Corporate bonds**	**Eurobonds**	**Total**
Neither past due nor impaired				
Standard&Poor's BBB	-	467 886	577 487	1 045 373
Standard&Poor's BB	122 009	307 146	381 828	810 983
Standard&Poor's B	-	82 728	-	82 728
Fitch BBB	-	73 829	-	73 829
Fitch BB	-	-	48 510	48 510
Fitch B	17 762	310 384	-	328 146
Moody's Baa	-	14 014	31 416	45 430
Moody's Ba	-	182 678	-	182 678
Moody's B	44 246	141 758	-	186 004
Russian rating agency Expert A	-	7 621	-	7 621
Russian rating agency Analysis, Consultations and Marketing B	-	21 995	-	21 995
Unrated issuers	-	4 647	-	4 647
Total trading securities	**184 017**	**1 614 686**	**1 039 241**	**2 837 944**

The debt securities are not collateralised. The Group's maximum exposure to credit risk is reflected in the carrying amounts of financial assets.

Interest rate analysis of trading securities is disclosed in Note 31.

The Bank is licensed by the Federal Service on Financial Markets of the Russian Federation for trading in securities.

9 Due from Other Banks

In thousands of Russian Roubles	**2011**	**2010**
Placements with the Bank of Russia	2 000 219	3 000 690
Short-term placements with other banks with original maturities of less than three months	-	982 212
Long-term placements with other banks	1 000	528 552
Issued letters of credit	10 804	-
Total due from other banks	**2 012 023**	**4 511 454**

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

In thousands of Russian Roubles	**Placements with the Bank of Russia**	**Short-term placements with other banks**	**Long-term placements with other banks**	**Issued letters of credit**	**Total**
Neither past due nor impaired					
Non-ratable	2 000 219	-	-	-	2 000 219
Standard&Poor's A	-	-	1 000	10 804	11 804
Total due from other banks	**2 000 219**	**-**	**1 000**	**10 804**	**2 012 023**

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

In thousands of Russian Roubles	**Placements with the Bank of Russia**	**Short-term placements with other banks**	**Long-term placements with other banks**	**Issued letters of credit**	**Total**
Neither past due nor impaired					
Non-ratable	3 000 690	-	-	-	3 000 690
Standard&Poor's B	-	252 410	150 818	-	403 228
Fitch BB	-	253 934	-	-	253 934
Fitch B	-	200 000	-	-	200 000
Moody's Ba	-	-	377 734	-	377 734
Moody's B	-	145 868	-	-	145 868
Unrated banks	-	130 000	-	-	130 000
Total due from other banks	**3 000 690**	**982 212**	**528 552**	**-**	**4 511 454**

At 31 December 2010 amounts due from other banks of RR 45 782 thousand are effectively collateralised by securities purchased under reverse sale and repurchase agreements at a fair value of RR 50 938 thousand, which the Group has a right to sell or repledge. Issued letters of credits are fully collateralised with customer deposits.

All amounts due from other banks as at 31 December 2011 and 2010 are neither overdue, nor impaired. The primary factor that the Group considers in determining whether amounts due from other banks are impaired is their overdue status.

Carrying value of each class of amounts due from other banks approximates their fair value at 31 December 2011 and 2010.

Interest rate analysis of due from other banks is disclosed in Note 31.

10 Loans and Advances to Customers

In thousands of Russian Roubles	2011	2010
Loans to small and medium size enterprises (SME loans)	19 958 072	15 349 038
Corporate loans	10 305 545	7 992 013
Loans to individuals - consumer loans and car loans	8 546 508	5 726 754
Mortgage loans	5 955 523	3 790 545
Total loans and advances to customers (before impairment)	**44 765 648**	**32 858 350**
Less: Provision for loan impairment	(2 755 088)	(2 715 779)
Total loans and advances to customers	**42 010 560**	**30 142 571**

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

In thousands of Russian Roubles	Loans to small and medium enterpri-ses (SME)	Corporate loans	Consumer loans and car loans	Mortgage loans	Total
Provision for loan impairment at 1 January 2011	**1 085 838**	**893 395**	**545 072**	**191 474**	**2 715 779**
Provision for loan impairment during the year	317 731	180 310	75 175	63 995	637 211
Write-off of provision on assigned rights of claim	(342 330)	-	(3 774)	-	(346 104)
Amounts written off during the year as uncollectible	(68 681)	(105 287)	(72 624)	(5 206)	(251 798)
Provision for loan impairment at 31 December 2011	**992 558**	**968 418**	**543 849**	**250 263**	**2 755 088**

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

In thousands of Russian Roubles	Loans to small and medium enterpri-ses (SME)	Corporate loans	Consumer loans and car loans	Mortgage loans	Total
Provision for loan impairment at 1 January 2010	**683 987**	**741 522**	**489 838**	**101 399**	**2 016 746**
Provision for loan impairment during the year	584 459	164 079	190 590	105 356	1 044 484
Write-off of provision on assigned rights of claim	(88 257)	(12 206)	(13 527)	(12 073)	(126 063)
Amounts written off during the year as uncollectible	(94 351)	-	(121 829)	(3 208)	(219 388)
Provision for loan impairment at 31 December 2010	**1 085 838**	**893 395**	**545 072**	**191 474**	**2 715 779**

In 2011, the Group assigned the rights of claim on the past due and impaired loans in the total amount of RR 454 967 thousand (2010: RR 219 483 thousand) for the total consideration of RR 137 454 thousand (2010: RR 99 534 thousand). The Group's gain on assignment of the rights of claim on these loans in the amount of RR 29 142 thousand (2010: RR 14 355 thousand) was recorded in the consolidated statement of comprehensive income.

10 Loans and Advances to Customers (Continued)

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

In thousands of Russian Roubles	2011 Amount	2011 %	2010 Amount	2010 %
Individuals (total), incl.	14 502 031	32.4	9 517 299	29.0
- consumer loans	*7 219 181*	*16.1*	*4 255 367*	*13.0*
- mortgage loans	*5 955 523*	*13.3*	*3 790 545*	*11.5*
- car loans	*1 327 327*	*3.0*	*1 471 387*	*4.5*
Trade	8 460 211	18.9	7 293 082	22.2
Agriculture	6 973 800	15.6	5 218 638	15.9
Manufacturing	4 512 437	10.1	3 465 218	10.5
Construction	3 277 007	7.3	2 569 900	7.8
Transport	3 061 743	6.8	667 908	2.0
Energy	1 007 782	2.3	630 328	1.9
Financial companies	532 855	1.2	393 644	1.2
Real estate	177 420	0.4	451 781	1.4
Other	2 260 362	5.0	2 650 552	8.1
Total loans and advances to customers (before impairment)	**44 765 648**	**100.0**	**32 858 350**	**100.0**

As at 31 December 2011, the Group had 10 major borrowers with aggregate loan amounts (including finance lease investments) of RR 7 845 715 thousand, or 17.3% of the loan portfolio and finance lease receivables before impairment (31 December 2010: the Group had 10 borrowers with aggregate loan amounts of RR 5 582 767 thousand, or 16.7% of the loan portfolio and finance lease receivables before impairment).

Information about collateral at 31 December 2011 is as follows:

In thousands of Russian Roubles	Loans to small and medium enterprises (SME)	Corporate loans	Consumer loans and car loans	Mortgage loans	Total
Loans collateralised by:	19 851 010	8 356 465	7 221 380	5 934 983	41 363 838
- real estate	*11 608 939*	*6 303 622*	*1 398 117*	*4 939 698*	*24 250 376*
- tradable securities	*-*	*-*	*4 052*	*-*	*4 052*
- motor vehicles	*4 008 273*	*587 336*	*3 380 199*	*59 079*	*8 034 887*
- agricultural equipment	*1 116 832*	*104 185*	*20 168*	*-*	*1 241 185*
- property	*1 299 170*	*836 665*	*234 904*	*355 496*	*2 726 235*
- pledge of rights	*37 201*	*-*	*799*	*41 930*	*79 930*
- goods in turnover	*535 634*	*237 655*	*2 117*	*-*	*775 406*
- guarantees of third parties	*1 244 961*	*287 002*	*2 181 024*	*538 780*	*4 251 767*
Unsecured loans	107 062	1 949 080	1 325 128	20 540	3 401 810
Total loans and advances to customers	**19 958 072**	**10 305 545**	**8 546 508**	**5 955 523**	**44 765 648**

Information about collateral at 31 December 2010 is as follows:

In thousands of Russian Roubles	Loans to small and medium enterprises (SME)	Corporate loans	Consumer loans and car loans	Mortgage loans	Total
Loans collateralised by:	15 185 444	6 215 088	5 106 992	3 738 598	30 246 122
- real estate	*8 533 286*	*4 382 103*	*751 063*	*3 216 538*	*16 882 990*
- tradable securities	*87 269*	*-*	*6 098*	*-*	*93 367*
- motor vehicles	*3 012 769*	*278 857*	*2 778 460*	*15 577*	*6 085 663*
- agricultural equipment	*693 660*	*140 155*	*9 925*	*-*	*843 740*
- property	*926 871*	*507 091*	*152 072*	*231 706*	*1 817 740*
- pledge of rights	*36 002*	*-*	*25 372*	*31 449*	*92 823*
- goods in turnover	*801 701*	*346 391*	*376*	*-*	*1 148 468*
- guarantees of third parties	*1 093 886*	*560 491*	*1 383 626*	*243 328*	*3 281 331*
Unsecured loans	163 594	1 776 925	619 762	51 947	2 612 228
Total loans and advances to customers	**15 349 038**	**7 992 013**	**5 726 754**	**3 790 545**	**32 858 350**

10 Loans and Advances to Customers (Continued)

The disclosure above represents the lower of the carrying value of the loan or collateral taken. The carrying value of loans was allocated based on liquidity of the assets taken as collateral.

The analysis of loans and advances to customers by credit quality at 31 December 2011 is as follows:

In thousands of Russian Roubles	**Loans to small and medium enterprises (SME)**	**Corporate loans**	**Consumer loans and car loans**	**Mortgage loans**	**Total**
Current and not impaired					
Individually significant borrowers					
- A1 rated	573 040	3 561 325	-	-	4 134 365
- A2 rated	-	-	-	-	-
- A3 rated	458 752	1 445 007	-	-	1 903 759
- B1 rated	-	-	-	-	-
- B2 rated	1 400 397	1 282 116	-	-	2 682 513
Loans assessed on a portfolio basis					
- agriculture	4 287 121	597 891	-	-	4 885 012
- trade	5 563 951	638 359	-	-	6 202 310
- manufacturing	2 301 843	1 200 217	-	-	3 502 060
- other	4 142 073	628 217	-	-	4 770 290
- mortgage loans	-	-	-	5 509 196	5 509 196
- car loans	-	-	1 173 437	-	1 173 437
- consumer loans	-	-	6 818 973	-	6 818 973
Total current and not impaired	**18 727 177**	**9 353 132**	**7 992 410**	**5 509 196**	**41 581 915**
Past due but not impaired					
Loans assessed on a portfolio basis					
- less than 30 days overdue	25 308	-	190 356	122 889	338 553
Total past due but not impaired	**25 308**	-	**190 356**	**122 889**	**338 553**
Impaired					
Individually significant borrowers					
- over 181 days overdue	-	559 158	-	-	559 158
Loans assessed on a portfolio basis					
- up to 180 days overdue	277 802	338 471	114 289	111 304	841 866
- over 181 days overdue	927 785	54 784	249 453	212 134	1 444 156
Total impaired loans and advances to customers	**1 205 587**	**952 413**	**363 742**	**323 438**	**2 845 180**
Total loans and advances to customers (gross)	**19 958 072**	**10 305 545**	**8 546 508**	**5 955 523**	**44 765 648**
Less: provision for impairment	(992 558)	(968 418)	(543 849)	(250 263)	(2 755 088)
Total loans and advances to customers	**18 965 514**	**9 337 127**	**8 002 659**	**5 705 260**	**42 010 560**

10 Loans and Advances to Customers (Continued)

The analysis of loans and advances to customers by credit quality at 31 December 2010 is as follows:

In thousands of Russian Roubles	**Loans to small and medium enterprises (SME)**	**Corporate loans**	**Consumer loans and car loans**	**Mortgage loans**	**Total**
Current and not impaired					
Individually significant borrowers					
- A1 rated	836 096	3 185 241	-	-	4 021 337
- A2 rated	-	-	-	-	-
- A3 rated	-	582 024	-	-	582 024
- B1 rated	-	-	-	-	-
- B2 rated	737 477	392 983	-	-	1 130 460
- Loans assessed on a portfolio basis					
- agriculture	2 974 943	606 764	-	-	3 581 707
- trade	5 000 123	387 012	-	-	5 387 135
- manufacturing	1 543 027	912 050	-	-	2 455 077
- other	3 008 425	822 433	-	-	3 830 858
- mortgage loans	-	-	-	3 437 860	3 437 860
- car loans	-	-	1 254 556		1 254 556
- consumer loans	-	-	3 927 456	-	3 927 456
Total current and not impaired	**14 100 091**	**6 888 507**	**5 182 012**	**3 437 860**	**29 608 470**
Past due but not impaired					
Loans assessed on a portfolio basis					
- less than 30 days overdue	29 136	-	145 987	112 695	287 818
Total past due but not impaired	**29 136**	**-**	**145 987**	**112 695**	**287 818**
Impaired					
Individually significant borrowers					
- up to 180 days overdue	-	316 850	-	-	316 850
- over 181 days overdue	-	730 038	-	-	730 038
Loans assessed on a portfolio basis					
- up to 180 days overdue	414 267	1 623	93 327	52 739	561 956
- over 181 days overdue	805 544	54 995	305 428	187 251	1 353 218
Total impaired loans and advances to customers	**1 219 811**	**1 103 506**	**398 755**	**239 990**	**2 962 062**
Total loans and advances to customers (gross)	**15 349 038**	**7 992 013**	**5 726 754**	**3 790 545**	**32 858 350**
Less: provision for impairment	(1 085 838)	(893 395)	(545 072)	(191 474)	(2 715 779)
Total loans and advances to customers	**14 263 200**	**7 098 618**	**5 181 682**	**3 599 071**	**30 142 571**

10 Loans and Advances to Customers (Continued)

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

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

Past due, but not impaired, loans primarily include collateralised loans where the fair value of collateral covers the overdue interest and principal repayments. The amount reported as past due but not impaired is the whole balance of such loans, not only the individual instalments that are past due.

Based on the results of the collection rate analysis, the Group assigns one of the following ratings to borrowers with individually significant, unimpaired and not past due loans:

A 1 – is assigned when a comprehensive analysis of the borrower's financial and economic activity and other information on the borrower, including information on external conditions, confirm the borrower's absolute financial stability and the absence of any negative aspects or trends (with consideration of the seasonal factor) that can affect the borrower's financial stability in future, or existence of certain insignificant adverse aspects or trends that do not, and should not, affect the borrower's financial stability in foreseeable future (or before the agreement expires).

A2 – is assigned when a comprehensive analysis of the borrower's financial and economic activity and/or other information on the borrower confirm the absence of any direct threats to the borrower's financial position in the presence of adverse aspects and/or trends in the borrower's activity (with consideration of the seasonal factor) which in foreseeable future (or before the agreement expires) can cause financial problems unless the borrower undertakes necessary actions to remedy the situation, however the analysis of movements on the borrower's settlement accounts with the Bank confirms the borrower's ability to fully meet its obligations to the Bank in due time.

A3 – is assigned when a comprehensive analysis of the borrower's financial and economic activity and/or other information on the borrower confirm the absence of any direct threats to the borrower's financial position in the presence of adverse aspects and/or trends in the borrower's activity (with consideration of the seasonal factor) which in foreseeable future (or before the agreement expires) can cause financial problems unless the borrower undertakes necessary actions to remedy the situation, however the sound budgeted performance indicators of the borrower of the Bank confirm the borrower's ability to fully meet its obligations to the Bank in due time.

B1 – is assigned when a comprehensive analysis of the borrower's financial and economic activity and/or other information on the borrower indicates the absence of any direct threats to the borrower's financial position in the presence of adverse aspects and/or trends in the borrower's activity (with consideration of the seasonal factor) which in foreseeable future (or before the agreement expires) can lead to financial problems unless the borrower undertakes necessary actions to remedy the situation, and the analysis of actual and justified performance indicators of a group of entities, of which the borrower is a part, allows to conclude that the borrower will be able to repay its debt with the use of the group's funds.

B2 – is assigned when a comprehensive analysis of the borrower's financial and economic activity and/or other information on the borrower indicates the absence of any direct threats to the borrower's financial position in the presence of adverse aspects and/or trends in the borrower's activity (with consideration of the seasonal factor) which in foreseeable future (or before the agreement expires) can cause financial problems unless the borrower undertakes necessary actions to remedy the situation, and the analysis of movements on the borrower's settlement accounts with the Bank indicates insufficiency of the movements for the purpose of debt repayment, however, the analysis of the borrower's loan collateral enables to conclude that the borrower will be able to repay its debt to the Bank by selling the available collateral.

An entity's rating deterioration alone is not an impairment indicator, however, it may become an impairment indicator when other available information is taken into account.

10 Loans and Advances to Customers (Continued)

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

	Over-collateralised assets		**Under-collateralised assets**	
In thousands of Russian Roubles	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Loans to small and medium enterprises (SME)	8 654 258	15 779 759	11 303 814	3 877 224
Corporate loans	2 374 222	5 581 668	7 931 323	1 874 409
Consumer loans and car loans	6 858 952	15 730 511	1 687 557	247 590
Mortgage loans	5 867 663	14 928 392	87 860	54 578

The effect of collateral at 31 December 2010:

	Over-collateralised assets		**Under-collateralised assets**	
In thousands of Russian Roubles	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Loans to small and medium enterprises (SME)	6 630 470	11 999 880	8 718 568	3 145 900
Corporate loans	2 918 412	6 693 735	5 073 601	1 138 100
Consumer loans and car loans	5 018 107	12 360 495	708 647	98 627
Mortgage loans	3 655 600	9 782 641	134 945	71 681

The fair value of the collateral in respect of retail loans includes personal guarantees in the amount less than or equal to the loan amount. At 31 December 2011 fair value of these guarantees was RR 12 895 264 thousand (31 December 2010: RR 9 132 578 thousand). The Group believes it reasonable to use personal guarantees as loan collateral, since it has practical experience in collecting overdue loans from guarantors.

The fair value of residential real estate at the end of the reporting period was estimated by indexing the values determined by the Group's internal credit department staff at the time of loan inception for the average increases in residential real estate prices by city and region. The fair value of other real estate and other assets was determined by the Group's credit department using the Group's internal guidelines. The management treats collateralised loans as impaired because in the current economic conditions there exists an uncertainty as to complete repossession of collateral. Provision for impairment reflects the risk that the management will not be able to change the right of ownership and take possession of the collateral on a particular loan or the amount received from the disposal of the collateral will be insufficient.

Carrying value of each class of loans and advances to customers approximates their fair value at 31 December 2011 and 31 December 2010. At 31 December 2011, the estimated fair value of loans and advances to customers was RR 42 548 719 thousand (31 December 2010: RR 30 231 836 thousand). Refer to Note 34.

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

11 Finance Lease Receivables

In thousands of Russian Roubles	**2011**	**2010**
Total investments in finance lease	670 668	640 893
Less: Unearned future finance income	(110 189)	(106 303)
Less: Provision for impairment	(21 812)	(52 493)
Total finance lease receivables	**538 667**	**482 097**

The primary factor that the Group considers in determining whether a finance lease receivable is impaired is its overdue status. The rights to the leased assets revert to the Group in the event of default by the lessee.

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

In thousands of Russian Roubles	**Corporate business**	**SME**	**Total**
Current and not impaired	86 903	442 663	529 566
Total current and not impaired	**86 903**	**442 663**	**529 566**
Past due but not impaired			
- less than 30 days overdue	398	-	398
Total past due but not impaired	**398**	**-**	**398**
Impaired			
- 181 days to 1 year overdue	-	10 045	10 045
- over 1 year overdue	-	20 470	20 470
Total impaired	**-**	**30 515**	**30 515**
Total finance lease receivables (gross)	**87 301**	**473 178**	**560 479**
Less provision for impairment	-	(21 812)	(21 812)
Total finance lease receivables	**87 301**	**451 366**	**538 667**

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

In thousands of Russian Roubles	**Corporate business**	**SME**	**Total**
Current and not impaired	99 584	339 081	438 665
Total current and not impaired	**99 584**	**339 081**	**438 665**
Impaired			
- 30 to 180 days overdue	5 972	69 271	75 243
- 181 days to 1 year overdue	286	899	1 185
- over 1 year overdue	1 411	18 086	19 497
Total impaired	**7 669**	**88 256**	**95 925**
Total finance lease receivables (gross)	**107 253**	**427 337**	**534 590**
Less: Provision for impairment	(4 060)	(48 433)	(52 493)
Total finance lease receivables (gross)	**103 193**	**378 904**	**482 097**

11 Finance Lease Receivables (Continued)

The Group applies a single approach in assessing impairment of overdue loans and finance lease receivables. General principles, individual and collective risk assessment, rating system and other components of assessment for leasing and loans are the same. Individually significant loans related to leasing are determined based on initial investments under a finance lease. The Group believes that all lease receivables are collateralised.

Movements in the provision for uncollectible finance lease receivables during 2011 and 2010 are as follows:

In thousands of Russian Roubles	2011	2010
Provision for impairment of finance lease receivables as at 1 January	**52 493**	**53 789**
Provision for impairment of finance lease receivables during the year	(16 421)	32 775
Amounts written off during the year as uncollectible and provision repaid by selling assets	(14 260)	(34 071)
Provision for impairment of finance lease receivables as at 31 December	**21 812**	**52 493**

Fair value of leased assets related to finance lease receivables as at 31 December 2011 and 31 December 2010 is as follows:

In thousands of Russian Roubles	2011	2010
Motor vehicles	435 799	361 325
Industrial equipment	331 868	325 789
Agricultural equipment	217 643	335 573
Construction equipment	100 073	164 424
Real estate	2 009	15 971
Office equipment	2 839	3 974
Trading equipment	775	-
Fair value of collateral in respect of finance lease receivables	**1 091 006**	**1 207 056**

The collateral for finance lease receivables is also the asset for lease. All investments into finance lease are over-collateralised assets.

The structure of finance lease receivables by leased assets is as follows:

	2011		2010	
In thousands of Russian Roubles	Amount	%	Amount	%
Motor vehicles	234 071	41.7	161 524	30.2
Industrial equipment	187 879	33.5	206 526	38.6
Agricultural equipment	85 627	15.3	111 435	20.8
Construction equipment	50 238	9.0	49 453	9.3
Office equipment	2 008	0.4	3 642	0.7
Trading equipment	504	0.1	-	-
Real estate	152	0.0	2 010	0.4
Total finance lease receivables (before impairment)	**560 479**	**100.0**	**534 590**	**100.0**

11 Finance Lease Receivables (Continued)

The structure of finance lease receivables by economic sector is as follows:

	2011		2010	
In thousands of Russian Roubles	**Amount**	**%**	**Amount**	**%**
Manufacturing	117 885	21.0	139 421	26.1
Agriculture	105 813	18.9	137 397	25.7
Transport	105 395	18.8	43 412	8.1
Trade	69 337	12.4	49 818	9.3
Construction	41 658	7.4	55 845	10.4
Energy	7 093	1.3	15 816	3.0
Other	113 298	20.2	92 881	17.4
Total finance lease receivables (before impairment)	**560 479**	**100.0**	**534 590**	**100.0**

The analysis of gross investment in finance lease receivables and the net investment in finance lease receivables by maturity is disclosed below:

In thousands of Russian Roubles	**Due within 1 year**	**Due between 1 and 5 years**	**Total**
Total investments in finance lease at 31 December 2011	**338 423**	**332 245**	**670 668**
Unearned finance income	(70 139)	(40 050)	(110 189)
Less: Provision for impairment	(10 441)	(11 371)	(21 812)
Finance lease receivables as at 31 December 2011	**257 843**	**280 824**	**538 667**
Total investments in finance lease at 31 December 2010	**400 487**	**240 406**	**640 893**
Unearned finance income	(83 438)	(22 865)	(106 303)
Less: Provision for impairment	(31 132)	(21 361)	(52 493)
Finance lease receivables as at 31 December 2010	**285 917**	**196 180**	**482 097**

As at 31 December 2011 the estimated fair value of finance lease receivables amounted to RR 543 812 thousand (31 December 2010: RR 483 186 thousand). Refer to Note 34.

Geographical, currency, maturity and interest rate analyses of finance lease receivables are disclosed in Note 31. Information on related party balances is disclosed in Note 36.

12 Investment in Associate

Before December 2007, OAO TPTS Teploenergo was a subsidiary of the Center-invest Bank. Following the additional share issue in December 2007, Center-invest Bank Group holds 47.31% in the charter capital of Teploenergo and EBRD holds a 25.00% share.

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

In thousands of Russian Roubles	**2011**	**2010**
Carrying amount at 1 January	**320 657**	**307 922**
Share of profit of associate	3 934	7 856
Share of revaluation premises and equipment of associate	(5 392)	4 879
Carrying amount at 31 December	**319 199**	**320 657**

12 Investment in Associate (Continued)

Summarised financial information on this associate, including total assets, liabilities, revenues and profit or loss, was as follows:

In thousands of Russian Roubles	**2011**	**2010**
Total assets	1 052 920	1 041 264
Total liabilities	(378 224)	(363 485)
Revenue	542 823	439 862
Profit	8 316	16 606
% interest held	47.31%	47.31%

13 Intangible Assets

In thousands of Russian Roubles	**Note**	**2011**	**2010**
Carrying value			
Balance at 1 January		450 566	435 929
Additions		34 515	15 961
Disposals		(33 661)	(1 324)
Balance at 31 December		**451 420**	**450 566**
Accumulated amortisation			
Balance at 1 January		95 819	73 185
Amortisation charge	27	48 612	23 958
Disposals		(22 685)	(1 324)
Balance at 31 December		**121 746**	**95 819**
Net carrying amount at 31 December		**329 674**	**354 747**

The major part of investments in intangible assets represents investments into a new integrated computerised banking system - SAP for Banking and of RR 170 170 thousand and Data Storage SAP BW of RR 43 866 thousand (31 December 2010: RR 163 765 thousand and RR 45 387 thousand respectively). The Data Storage and integrated platform SAP PI modules were put into operation in 2011, these modules will be amortised over seven years. The HR module was put into operation in 2010 for 10 years. SAP for Banking module was not yet put into operation, and accordingly amortisation is not being charged.

14 Premises and Equipment

In thousands of Russian Roubles	Note	Land	Premises	Other	Total
Residual value as at 31 December 2009		**419 290**	**1 718 419**	**498 333**	**2 636 042**
Carrying value					
Balance at the beginning of the year		419 290	1 725 291	1 025 924	3 170 505
Additions		53 737	26 391	20 169	100 297
Disposals		-	(13 608)	(59 325)	(72 933)
Revaluation		(11 747)	127 916	-	116 169
Balance at the end of the year		**461 280**	**1 865 990**	**986 768**	**3 314 038**
Accumulated depreciation					
Balance at the beginning of the year		-	6 872	527 591	534 463
Depreciation charge	27	-	42 941	168 693	211 634
Disposals		-	(827)	(14 668)	(15 495)
Revaluation		-	(40 323)	-	(40 323)
Balance at the end of the year		**-**	**8 663**	**681 616**	**690 279**
Residual value as at 31 December 2010		**461 280**	**1 857 327**	**305 152**	**2 623 759**
Carrying value					
Balance at the beginning of the year		461 280	1 865 990	986 768	3 314 038
Additions		44 825	54 415	46 742	145 982
Disposals		(22 088)	(32 888)	(65 506)	(120 482)
Revaluation		45 682	106 867	-	152 549
Balance at the end of the year		**529 699**	**1 994 384**	**968 004**	**3 492 087**
Accumulated depreciation					
Balance at the beginning of the year		-	8 663	681 616	690 279
Depreciation charge	27	-	47 428	150 583	198 011
Disposals		-	-	(63 349)	(63 349)
Revaluation		-	(43 486)	-	(43 486)
Balance at the end of the year		**-**	**12 605**	**768 850**	**781 455**
Residual value as at 31 December 2011		**529 699**	**1 981 779**	**199 154**	**2 710 632**

Premises and land were independently valued at 31 December 2011 and 31 December 2010 by an independent firm of valuers, ZAO BDO Unikon, Moscow, who hold a recognised and relevant professional qualification and who have recent experience in valuation of assets of similar location and category. The basis used for the appraisal was market value and cost method where market value was not observable.

The carrying amount at 31 December 2011 includes RR 1 629 773 thousand (31 December 2010: RR 1 453 761 thousand) of revaluation surplus relating to premises and land of the Group. At 31 December 2011 the carrying amount of premises and land would have been RR 881 705 thousand (31 December 2010: RR 864 846 thousand), had the assets been carried at cost less depreciation.

The total value of premises and equipment includes RR 117 576 thousand related to the premises and equipment leased under operating lease contract (31 December 2010: RR 160 662 thousand). The income from lease of these premises and equipment for the year 2011 amounted to RR 7 291 thousand (2010: RR 8 948 thousand).

15 Other Financial Assets

In thousands of Russian Roubles	2011	2010
Trade receivables and prepayments	135 343	86 831
Plastic cards receivables	92 167	39 555
Settlements on brokerage operations	12	3 418
Foreign exchange forward contracts	-	5 003
Settlements on other operations	75 329	67 650
Total other financial assets	**302 851**	**202 457**

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

Other financial assets are neither overdue, nor impaired. There is no collateral on other financial assets.

Carrying value of each class of other financial assets approximates the fair value at 31 December 2011 and 31 December 2010. At 31 December 2011, the estimated fair value of other financial assets was RR 302 851 thousand (31 December 2010: RR 202 457 thousand).

16 Other Assets

In thousands of Russian Roubles	2011	2010
Repossessed collateral	138 102	458 445
Prepayments to suppliers of equipment for finance leasing purposes	47 753	111 269
Prepaid taxes and recoverable taxes (other than income tax)	22 139	31 253
Prepaid income tax	17 361	-
Equipment purchased for finance leasing purposes	10 243	68 457
Other	35 412	15 812
Less: impairment provision	(69 052)	(147 810)
Total other assets	**201 958**	**537 426**

Repossessed collateral represents assets obtained by the Group in settlement of overdue loans. The Group expects to dispose of the assets in the foreseeable future. The assets were initially recognised at fair value when acquired using reports on the property's estimated value, prepared by accredited valuators approved by the Bank's departments based on a comparative assessment approach, which reflects the property value in relation to equivalent objects, with available market value taking into account adjustments, and information on the average increase in prices. The fair value as at the end of the year was determined by an independent valuation firm OOO Audit Firm "Centre-Audit" possessing a recognised qualification and a current professional experience in property valuation. As at 31 December 2011 the Group created an impairment provision for this class of assets amounting to RR 69 052 thousand (31 December 2010: RR 75 485 thousand).

Movements in the provision for impairment of other assets during 2011 and 2010 are as follows:

In thousands of Russian Roubles	2011	2010
Provision for other assets at 1 January	147 810	72 325
Charge to provision for other assets during the period	158 444	80 412
Amounts written off during the year as uncollectible and provision repaid by selling assets	(237 202)	(4 927)
Provision for other assets at 31 December	**69 052**	**147 810**

17 Due to Other Banks

In thousands of Russian Roubles	2011	2010
Current term placements of other banks	89 277	356 703
Correspondent accounts and overnight placements of other banks	5 412	6 154
Total due to other banks	**94 689**	**362 857**

The structure of current term deposits of other banks as at 31 December 2011 and 31 December 2010:

In thousands of Russian Roubles	2011	2010
Credit line from PNC Bank	65 381	185 042
Loans from Raiffesenlandesbank for trade financing	19 838	19 182
Loans from Commerzbank for trade financing	4 058	-
Current term deposit of NOMOS Bank	-	152 479
Total current term deposits	**89 277**	**356 703**

Carrying value of each class of due to other banks approximates fair value at 31 December 2011 and 31 December 2010. At 31 December 2011, the estimated fair value of due to other banks was RR 94 689 thousand (31 December 2010: RR 362 857 thousand). Refer to Note 34.

Geographical, currency, maturity and interest rate analyses of due to other banks are disclosed in Note 31. Information on related party balances is disclosed in Note 36.

18 Customer Accounts

In thousands of Russian Roubles	2011	2010
State and public organisations		
- Current/settlement accounts	715 978	978 001
- Term deposits	67 802	75 693
Other legal entities		
- Current/settlement accounts	8 859 625	8 650 610
- Term deposits	1 103 273	703 674
Individuals		
- Current/demand accounts	3 315 995	2 526 465
- Term deposits	24 938 086	20 879 245
Total customer accounts	**39 000 759**	**33 813 688**

State and public organisations exclude government owned profit oriented businesses.

Economic sector concentrations within customer accounts are as follows:

	2011		2010	
In thousands of Russian Roubles	Amount	%	Amount	%
Individuals	28 254 081	72.4	23 405 710	69.3
Trade	2 714 854	7.0	2 036 860	6.0
Construction	1 557 841	4.0	1 835 808	5.4
Manufacturing	1 003 502	2.6	818 174	2.4
Agricultural	844 172	2.2	580 067	1.7
Education	629 774	1.6	943 894	2.8
Transport	475 726	1.2	293 140	0.9
Municipal organisations	328 849	0.8	267 613	0.8
Energy	140 165	0.4	608 695	1.8
Financial sector	39 232	0.1	82 475	0.2
Telecommunication	37 314	0.1	689 593	2.0
Other	2 975 249	7.6	2 251 659	6.7
Total customer accounts	**39 000 759**	**100.0**	**33 813 688**	**100.0**

18 Customer Accounts (Continued)

At 31 December 2011 the total aggregate balance of 10 largest clients of the Group was RR 2 106 455 thousand or 5.4% of customer accounts (31 December 2010: the total aggregate balance of 10 largest customers amounted to RR 3 605 758 thousand or 10.7% of customer accounts).

Carrying value of each class of customer accounts approximates fair value at 31 December 2011 and 31 December 2010. At 31 December 2011, the estimated fair value of customer accounts was RR 39 000 759 thousand (31 December 2010: RR 33 813 688 thousand). Refer to Note 34.

Geographical, currency, maturity and interest rate analyses of customer accounts are disclosed in Note 31. Information on related party balances is disclosed in Note 36.

19 Debt Securities in Issue

In thousands of Russian Roubles	**2011**	**2010**
Bonds	3 705 061	1 959 795
Promissory notes	15 608	80 637
Total debt securities in issue	**3 720 669**	**2 040 432**

In June 2009 the Bank placed at MICEX the second issue of bonds in the total amount of RR 3 000 000 thousand with maturity in June 2014. Each bond has par value of RR 1 000 and an embedded put option at par value and exercisable at the moment of coupon income change.

In July 2010, the Bank fully met claims of bond holders who exercised their put options for bonds with par value of RR 1 879 380 thousand. As at 31 December 2011 coupon rate was 9.25% p.a.

In June 2011, the Bank placed two issues of commercial bonds for the total amount of RR 2 500 000 thousand with maturity in June 2014 and an embedded put option exercisable in December 2012. As at 31 December 2011 coupon rate was 8.4% p.a.

As at 31 December 2011, there were 5 313 thousand bonds outstanding, including 1 607 thousand bonds repurchased by a subsidiary of the Bank (31 December 2010: 2 813 thousand outstanding bonds, including those repurchased by a subsidiary: 853 thousand bonds).

The put option is regarded as closely related to the bonds issued, therefore, not accounted as a separate derivative.

Carrying value of debt securities in issue approximates fair value at 31 December 2011 and 31 December 2010. At 31 December 2011, the estimated fair value of debt securities in issue was RR 3 764 168 thousand (31 December 2010: RR 2 074 292 thousand). Refer to Note 34.

Geographical, currency, interest rate and maturity analyses of debt securities in issue are disclosed in Note 31.

20 Borrowings from International financial institutions

In thousands of Russian Roubles	**2011**	**2010**
Term borrowings from EBRD	1 562 919	2 315 613
Term borrowings from IFC	671 116	659 532
Term borrowings from KfW-Bank	214 461	468 528
Term borrowings from OeEB	201 782	267 838
Term borrowings from Landesbank Berlin	5 021	28 061
Term borrowings from DEG	-	267 946
Total borrowings from international financial institutions	**2 655 299**	**4 007 518**

20 Borrowings from International Financial Institutions (Continued)

In 2005 - 2011, the Group opened several credit lines with International Finance Corporation ("IFC"), Landesbank Berlin (formerly Gesellschaft Berlin Bank), European Bank for Reconstruction and Development ("EBRD"), German governmental finance and consulting company DEG, KfW-Bank and Austrian Bank of Economic Development (Oesterreichische Entwicklungsbank AG (OeEB).

The principal conditions of these loans are as follows:

In thousands of Russian Roubles	Currency	Issue date	Maturity date	Balance at 31 December 2011	Balance at 31 December 2010
Term borrowings from EBRD	RR	November 2007	November 2012	105 347	209 933
	RR	December 2007	September 2014	376 184	501 005
	RR	December 2007	September 2012	148 338	295 501
	RR	August 2008	February 2013	150 497	249 633
	RR	August 2008	September 2012	24 076	48 096
	RR	January 2009	February 2013	75 171	124 685
	USD	March 2009	April 2014	356 846	473 586
	USD	April 2009	April 2014	326 460	413 174
Term borrowings from KfW-Bank	USD	August 2008	December 2012	214 461	407 220
	EUR	February 2005	August 2011	-	61 308
Term borrowings from DEG	USD	June 2009	April 2014	-	267 946
Term borrowings from OeEB	USD	August 2009	April 2014	201 782	267 838
Term borrowings from IFC	RR	May 2010	December 2014	550 383	593 861
	RR	December 2010	September 2015	50 243	50 176
	RR	December 2011	September 2015	70 490	-
	RR	June 2006	June 2011	-	15 495
Term borrowings from Landesbank Berlin	EUR	July 2007	June 2012	5 021	14 577
	EUR	January 2006	January 2011	-	2 648
	EUR	July 2006	June 2011	-	1 168
	EUR	July 2006	July 2011	-	2 563
	EUR	August 2006	July 2011	-	7 105
Total borrowings from international financial institutions				**2 655 299**	**4 007 518**

The carrying value of borrowings from international financial institutions approximates fair value at 31 December 2011 and 31 December 2010, as interest rate of these borrowings is floating. At 31 December 2011, the estimated fair value of borrowings from international financial institutions was RR 2 655 299 thousand (31 December 2010: RR 4 007 518 thousand). Refer to Note 34.

Geographical, currency, maturity and interest rate analyses of borrowings from international financial institutions are disclosed in Note 31. Information on covenants related to borrowings is disclosed in Note 33. Information on related party balances is disclosed in Note 36.

21 Subordinated Debt

In thousands of Russian Roubles	2011	2010
Subordinated loan from DEG	971 446	918 918
Subordinated loan from EBRD	647 690	612 681
Subordinated loan from Black Sea Bank of Reconstruction and Development (Greece)	323 579	305 799
Subordinated loan from IFC	-	38 663
Total subordinated debt	**1 942 715**	**1 876 061**

The principal conditions of these subordinated loans are as follows:

	Amount (thousands of USD)	Issue date	Maturity date
Subordinated loan from DEG	30 000	June 2008	October 2018
Subordinated loan from EBRD	20 000	April 2008	October 2018
Subordinated loan from Black Sea Bank of Reconstruction and Development (Greece)	10 000	April 2007	April 2014
Subordinated loan from IFC	5 000	December 2004	January 2011

The carrying value of subordinated loans approximates fair value at 31 December 2011 and 31 December 2010, as interest rate of these loans is floating. At 31 December 2011, the estimated fair value of subordinated loans was RR 1 942 715 thousand (31 December 2010: RR 1 876 061 thousand). Refer to Note 34.

The claims of other lenders against the Group in respect of the principal and interest on these loans will be subordinated to the claims of other creditors in accordance with legislation of the Russian Federation.

Geographical, currency, maturity and interest rate analyses of subordinated debt are disclosed in Note 31. Information on covenants related to borrowings is disclosed in Note 33. Information on related party balances is disclosed in Note 36.

22 Other Financial Liabilities

Other financial liabilities comprise the following:

In thousands of Russian Roubles	Note	2011	2010
Prepayment under lease contracts		45 847	51 040
Plastic cards payables		44 985	15 814
Deferred income on issued guarantees and letters of credit	33	29 357	15 864
Trade payables		15 624	21 357
Other accrued liabilities		12 616	12 450
Total other financial liabilities		**148 429**	**116 525**

The carrying amount of each class of other financial liabilities approximates fair value at 31 December 2011 and 31 December 2010. At 31 December 2011, the estimated fair value of other financial liabilities was RR 148 429 thousand (31 December 2010: RR 116 525 thousand). Refer to Note 34.

23 Other Liabilities

Other liabilities comprise the following:

In thousands of Russian Roubles	Note	2011	2010
Taxes payable other than on income		28 190	58 047
Deposits insurance agency		26 998	21 950
Provisions for liabilities and charges	33	2 856	-
Other		14 237	11 888
Income tax liability		-	29 960
Total other liabilities		**72 281**	**121 845**

Movements in the provision for liabilities and charges during 2011 and 2010 are as follows:

In thousands of Russian Roubles	2011	2010
Provision for liabilities and charges at 1 January	-	-
Provision for liabilities and charges during the year	2 856	-
Provision for liabilities and charges at 31 December	**2 856**	**-**

The provision for liabilities and charges includes a provision for legal claims brought against the Group by borrowers and lessees. The balance at 31 December 2011 is expected to be utilised by the end of 2012. In management's opinion, after taking appropriate legal advice, the outcome of these legal claims will not give rise to any significant loss beyond the accrued amounts. Refer to Note 33.

24 Share Capital

	Number of shares			**Ordinary shares**	**Prefe-rence shares**	**Share premium**	**Total**
In thousands of Russian Roubles excluding number of shares	**Ordinary shares**	**Preference shares with a par value of RR 4**	**Preference shares with a par value of RR 1000**				
At 1 January 2010	**77 550 750**	**123 125**	**90 000**	**1 162 786**	**95 923**	**1 646 428**	**2 905 137**
At 31 December 2010	**77 550 750**	**123 125**	**90 000**	**1 162 786**	**95 923**	**1 646 428**	**2 905 137**
At 31 December 2011	**77 550 750**	**123 125**	**90 000**	**1 162 786**	**95 923**	**1 646 428**	**2 905 137**

The nominal registered amount of the Bank's issued share capital, prior to restatement of capital contributions made before 1 January 2003 to the purchasing power of the Russian Rouble at 31 December 2002, is RR 866 000 thousand (2010: RR 866 000 thousand). At 31 December 2011 and 2010, all of the Bank's outstanding shares were authorised, issued and fully paid in.

All ordinary shares have a nominal value of RR 10 per share (31 December 2010: RR 10 per share) and rank equally. Each ordinary share carries one vote.

24 Share Capital (Continued)

The preference shares have nominal value of RR 4 and RR 1 000 and carry no voting rights but rank ahead of the ordinary shares in the event of the Bank's liquidation. Preference shares are not redeemable. Preference share dividends are set at 20% p.a. (2010: 20% p.a.) and rank above ordinary dividends. If preference dividends are not declared by the shareholders, the preference shareholders obtain the right to vote as ordinary shareholders until such time as the dividends are paid.

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

25 Interest Income and Expense

In thousands of Russian Roubles	**2011**	**2010**
Interest income		
Loans and advances to SME	2 438 706	2 016 581
Consumer loans and car loans	1 065 553	847 708
Loans and advances to legal entities	910 334	901 735
Mortgage loans	546 028	407 531
Debt trading securities	130 737	293 468
Due from other banks	98 925	65 639
Finance leasing	97 906	133 321
Impaired loans	85 571	267 692
Overnight placements with other banks	159	1 018
Correspondent accounts with other banks	311	36
Total interest income	**5 374 230**	**4 934 729**
Interest expense		
Term deposits of individuals	1 666 469	1 906 193
Borrowings from international financial institutions and subordinated debt	318 817	402 762
Bonds issued	271 711	263 467
Term deposits of legal entities	41 796	78 912
Current accounts of legal entities	30 057	3 147
Term placements of other banks	10 456	15 933
Promissory notes issued	558	959
Total interest expense	**2 339 864**	**2 671 373**
Net interest income	**3 034 366**	**2 263 356**

26 Fee and Commission Income and Expense

In thousands of Russian Roubles	**2011**	**2010**
Fee and commission income		
Commission on settlement transactions	371 376	333 586
Commission on cash transactions	205 781	244 395
Commission on operations with plastic cards	166 983	142 252
Commission on currency transactions	36 969	31 234
Commission on issued guarantees	27 899	29 191
Commission on cash collection	6 188	5 762
Commission on fiduciary operations	808	1 765
Other	26 037	18 630
Total fee and commission income	**842 041**	**806 815**
Fee and commission expense		
Commission to collection agencies	57 400	31 393
Commission on operations with plastic cards	49 067	42 625
Commission on cash collection	44 183	36 293
Settlement transactions	43 034	35 219
Agent commission on interbank transactions	8 271	11 478
Commission on received guarantees	782	2 747
Commission on currency transactions	2 693	1 961
Other	5 488	4 620
Total fee and commission expense	**210 918**	**166 336**
Net fee and commission income	**631 123**	**640 479**

27 Administrative and Other Operating Expenses

In thousands of Russian Roubles	**Note**	**2011**	**2010**
Staff costs		898 994	716 668
Depreciation of premises and equipment	14	198 011	211 634
Other costs of premises and equipment		115 873	87 394
Security services		115 827	102 322
Taxes other than on income		95 361	93 304
Rent		77 617	76 537
Amortisation of intangible assets	13	48 612	23 958
Professional services		36 109	28 279
General administrative costs		29 616	24 761
Telecommunication and mail		28 321	29 817
Staff costs other than salary		24 141	24 911
Losses on disposal of premises and equipment		21 414	12 953
Advertising and marketing services		17 413	13 647
Expenses for holding meetings of the Board of Directors		16 158	3 804
Stationary		12 466	11 434
Insurance		9 640	9 270
Business trip and entertainment expenses		8 776	7 754
Charity		373	4 005
Other		23 920	16 418
Total administrative and other operating expenses		**1 778 642**	**1 498 870**

Included in staff costs are statutory pension and social security contributions and contributions to the obligatory medical insurance fund of RR 182 382 thousand (2010: RR 123 972 thousand).

28 Income Taxes

(a) Components of income tax expense / (benefit)

Income tax expense comprises the following:

In thousands of Russian Roubles	2011	2010
Current tax	297 943	135 750
Deferred tax	(45 459)	(38 670)
Income tax expense for the year	**252 484**	**97 080**

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

The income tax rate applicable to the Group's income is 20% (2010: 20%). A reconciliation between the expected and the actual taxation charge is provided below.

In thousands of Russian Roubles	2011	2010
Profit before tax	**1 164 660**	**316 894**
Theoretical tax charge at statutory rate (2011: 20%; 2010: 20%)	232 932	63 379
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Non-deductible expenses	19 970	34 433
- Income on government securities taxed at different rates	(418)	(732)
Income tax expense for the year	**252 484**	**97 080**

(c) Deferred taxes analysed by type of temporary difference

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

In thousands of Russian Roubles	1 January 2011	Credited/ (charged) to profit or loss	Charged directly to equity	31 December 2011
Loans and advances to customers	73 854	1 074	-	74 928
Finance lease receivables	12 869	(12 869)	-	-
Other	15 099	41 749	-	56 848
Gross deferred tax asset	**101 822**	**29 954**	-	**131 776**
Premises and equipment	(222 232)	(16 568)	(35 346)	(274 146)
Investment in associate	-	-	(59 853)	(59 853)
Finance lease receivables	-	(6 697)	-	(6 697)
Other	(45 913)	38 770	-	(7 143)
Gross deferred tax liability	**(268 145)**	**15 505**	**(95 199)**	**(347 839)**
Less offsetting with deferred tax assets	101 822	29 954	-	131 776
Recognised deferred tax liability	**(166 323)**	**45 459**	**(95 199)**	**(216 063)**

28 Income Taxes (Continued)

In thousands of Russian Roubles	1 January 2010	Credited to profit or loss	Charged directly to equity	31 December 2010
Loans and advances to customers	61 467	12 387	-	73 854
Finance lease receivables	10 466	2 403	-	12 869
Other	12 337	2 762	-	15 099
Gross deferred tax asset	**84 270**	**17 552**	-	**101 822**
Premises and equipment	(210 944)	20 010	(31 298)	(222 232)
Other	(47 021)	1 108	-	(45 913)
Gross deferred tax liability	**(257 965)**	**21 118**	**(31 298)**	**(268 145)**
Less offsetting with deferred tax assets	84 270	17 552	-	101 822
Recognised deferred tax liability	**(173 695)**	**38 670**	**(31 298)**	**(166 323)**

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

29 Dividends

	2011		2010	
In thousands of Russian Roubles	Ordinary shares	Preference shares	Ordinary shares	Preference shares
Dividends payable at 1 January	-	-	-	-
Dividends declared during the period	77 550	18 099	-	18 099
Dividends paid during the period	(77 550)	(18 099)	-	(18 099)
Dividends payable at 31 December	**-**	**-**	**-**	**-**

During 2011 the Bank declared and paid dividends on preference shares with nominal value of RR 1 000 – RR 200 per share (2010: RR 200 per share) and on preference shares with nominal value of RR 4 – RR 0.8 per share (2010: RR 0.8 per share). During 2011 the Bank declared and paid dividends on ordinary shares - RR 1 per share (2010: no dividends). All dividends are declared and paid in Russian Roubles.

30 Segment Analysis

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

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

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

- Lending - representing retail and corporate lending services, leasing, factoring and bank guarantees issued.
- Treasury – representing financial instruments trading, borrowings on domestic and international markets, management of liquidity and foreign currency position of the Group, correspondent and current accounts, corporate deposits.
- Retail banking – representing private banking services to individuals, private customer, deposits, investment savings products, custody, credit and debit cards, municipal payments.

Factors that management used to identify the reportable segments

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

The Group has identified the following operating segments: lending activities, leasing, retail, securities, treasury, correspondent and current accounts, and plastic cards. Lending and leasing have been aggregated into one reportable segment - lending, correspondent and current accounts, securities, and treasury have been aggregated into one reportable segment - treasury. Retail and plastic cards have been aggregated into one segment - retail.

In addition, the Bank's Management Board reviews the major categories of general and administrative expenses, however, these expenses are not allocated to the above segments and they are not taken into consideration in allocating resources to segments and assessing their performance. These unallocated expenses are therefore presented as a reconciling item.

Measurement of operating segment profit or loss, assets and liabilities

The Management Board reviews financial information prepared based on Russian Accounting Standards adjusted to meet the requirements of internal reporting. Such financial information differs in certain aspects from International Financial Reporting Standards:

- for operating decisions standalone information not adjusted to statutory subsequent events;
- income taxes are not allocated to segments;
- loan provisions are recognised based on management judgement and availability of information, rather than based on the incurred loss model prescribed in IAS 39;
- income on impaired loans are not recognised;
- commission income related to lending and commission expenses on borrowings are recognised immediately rather than deferred using the effective interest method;
- finance income arising from leasing is recognised as services provided, advances from lessees are recognised as income pro rata during the period of the leasing agreement;
- the fair value of trading securities portfolio is determined based on average market price other than last bid market price;
- funds are generally reallocated between segments ignoring internal interest rates.

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

30 Segment Analysis (Continued)

Information about reportable segment profit or loss, assets and liabilities

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

In thousands of Russian Roubles	**Lending and leasing**	**Treasury**	**Retail**	**Total**
2011				
External revenues:				
- Interest income	4 839 145	222 809	7 731	5 069 685
- Fee and commission income and other operating income	597 311	540 386	359 816	1 497 513
Total revenues	**5 436 456**	**763 195**	**367 547**	**6 567 198**
Interest expense	-	(759 023)	(1 670 918)	(2 429 941)
Provision for impairment	(513 924)	(35 846)	(965)	(550 735)
Losses on assignment of the rights of claim	(184 287)	-	-	(184 287)
Losses less gains from trading securities	-	(10 905)	-	(10 905)
Fee and commission expenses and other expenses	(69 016)	(58 170)	(55 341)	(182 527)
Segment result	**4 669 229**	**(100 749)**	**(1 359 677)**	**3 208 803**
Total reportable segment assets	**44 140 782**	**3 408 236**	**-**	**47 549 018**
Total reportable segment liabilities	-	**(20 736 063)**	**(27 983 498)**	**(48 719 561)**

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

In thousands of Russian Roubles	**Lending and leasing**	**Treasury**	**Retail**	**Total**
2010				
External revenues:				
- Interest income	4 172 346	365 769	9 716	4 547 831
- Fee and commission income and other operating income	635 892	516 400	305 965	1 458 257
-Assignment	5 359	-	-	5 359
Total revenues	**4 813 597**	**882 169**	**315 681**	**6 011 447**
Interest expense	-	(835 780)	(1 909 360)	(2 745 140)
Provision for impairment	(1 168 263)	(6 392)	(7 446)	(1 182 101)
Losses less gains from trading securities	-	(29 245)	-	(29 245)
Fee and commission expenses and other expenses	(33 690)	(53 930)	(49 025)	(136 645)
Segment result	**3 611 644**	**(43 178)**	**(1 650 150)**	**1 918 316**
Total reportable segment assets	**31 637 604**	**7 897 772**	**-**	**39 535 376**
Total reportable segment liabilities	-	**(19 539 101)**	**(22 987 263)**	**(42 526 364)**

30 Segment Analysis (Continued)

Reconciliation of reportable segment revenues, profit or loss, assets and liabilities

In thousands of Russian Roubles	2011	2010
Total revenues for reportable segments	**6 567 198**	**6 011 447**
Accrual method application to fee and commission income	(88 273)	(93 262)
Application of IAS 17 on finance lease	(14 933)	(21 772)
Fair value of trading securities portfolio recalculation	(13 493)	24 298
Recognition of interest income on impaired loans	10 266	37 141
Consolidation effect	(61 589)	(71 648)
Other	137 293	48 599
Total consolidated revenues	**6 536 469**	**5 934 803**

Total consolidated revenues comprise interest income, fee and commission income and other operating income.

In thousands of Russian Roubles	2011	2010
Total reportable segment result	**3 208 803**	**1 918 316**
Administrative expenses	(1 875 830)	(1 542 883)
Application of effective interest rate method	(96 264)	(107 330)
Application of IAS 17 on finance lease	(14 933)	(21 772)
Fair value of trading securities portfolio and other financial assets and liabilities recalculation	(56 748)	42 863
Recognition of interest income on impaired loans	10 266	37 141
Recognition of loan loss provision	107 459	81 793
Consolidation effect	35 481	(9 251)
Events after the end of the reporting period	(99 025)	(43 525)
Depreciation/amortisation recalculation	(49 175)	(30 518)
Other	(5 374)	(7 940)
Profit or loss before tax	**1 164 660**	**316 894**
Total reportable segment assets	**47 549 018**	**39 535 376**
Unallocated assets	8 486 585	9 474 875
Recognition of loan loss provision	188 568	44 201
Recognition of interest income on impaired loans	262 716	273 745
Application of effective interest rate method to fee and commission income	(407 476)	(318 115)
Finance lease adjustments	(120 735)	(139 073)
Fair value of trading securities portfolio recalculation	(4 507)	(4 926)
Consolidation effect	(1 338 150)	(615 147)
Other	(79 056)	28 401
Total consolidated assets	**54 536 963**	**48 279 337**
Total reportable segment liabilities	**48 719 561**	**42 526 364**
Unallocated liabilities	814 352	900 563
Application of effective interest rate method to fee and commission expenses	(38 088)	(46 079)
Consolidation effect	(1 650 247)	(871 858)
Other	5 326	(3 741)
Total consolidated liabilities	**47 850 904**	**42 505 249**

30 Segment Analysis (Continued)

Geographical information

The Group operates only in the Southern Federal District of the Russian Federation. Below is income as at 31 December 2011 and 31 December 2010:

In thousands of Russian Roubles	**2011**	**2010**
Rostov region	5 090 823	4 662 173
Krasnodar Krai	696 535	588 855
Stavropol region and Volgograd region	521 764	385 365
External market operations	258 076	375 054
Total revenues for reportable segments	**6 567 198**	**6 011 447**

The analysis is based on domicile of the customer.

As at 31 December 2011 and 2010 capital expenditures mainly relate to Rostov region.

Analysis of revenues by products and services

The Group's revenues are analysed by products and services in Notes 25 and 26.

Major customers

The Group does not have customers, revenues from which represent 10% or more of the total revenues.

31 Financial Risk Management

The risk management function within the Group is carried out in respect of the entire range of financial risks faced by the Group in the course of business. The focus is placed on the following risks: credit, market (including currency, equity and interest rate risk), liquidity, operational, business event (including legal, strategic and reputational risks) and system risk.

The Bank's risk management function is viewed as a full set of activities aimed to protect its assets.

The Group uses the following main risk management tools:

- Limiting accepted risks and risk concentration by setting limits;
- Managing positions;
- Creating collateral;
- Insuring risks;
- Hedging risks;
- Covering risks by an adequate reserves level;
- Covering risks by an adequate capital level;
- Monitoring compliance with internal procedures and regulations.

The Bank manages risks on the basis of the document "Risk Management Policy of OAO CB Center-invest" approved by the Bank's Board of Directors in February 2010. The policy regulates the Bank's risk management strategy, main requirements and strategy implementation procedures, mandatory business lines and types of risks for monitoring, interaction in the process of managing the Bank's risks.

The risk management strategy described in this document includes:

- Accepting risks on the basis of the level of profitability and risks associated with business lines;
- Priority of developing lending operations;
- Regulatory revaluation of market risks associated with assets;
- Consideration of the level of risk in evaluating business lines' efficiency;
- Capital and reserves management.

31 Financial Risk Management (Continued)

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

The Bank manages credit risks on the basis of the following principles:

- Avoiding risks through refusing from transactions that fall beyond the Bank's Credit Policy or Risk Management Policy;
- Setting concentration limits, limits per one borrower (a group of related borrowers) covering on-balance sheet and off-balance sheet risks ("one obligor" principle);
- Creating and adequately evaluating collateral;
- Using a system of corporate and personal guarantees;
- Diversifying the loan portfolio;
- Limiting officials' authority in making lending decisions without consideration by collegial bodies (credit committees);
- Improving methods of reviewing borrowers' financial and business activity enabling to adequately evaluate the level of risk associated with loans and other credit instruments;
- Regular monitoring of borrowers' financial position, state of collateral and debt servicing;
- Using same credit policies in relation to contingent liabilities and on-balance sheet financial instruments through established credit approvals, risk control limits, monitoring procedures;
- Using selective approaches and procedures for evaluating credit risks and decision-making procedures with consideration of products, risk levels and aggregate outstanding balances per borrower (a group of borrowers);
- Covering credit risks by an adequate capital and reserves level;
- Performing preventive and efficient work on collection of overdue debts.

The Group's maximum exposure to credit risk is reflected in the carrying amounts of financial assets on the consolidated balance sheet. For guarantees, the exposure to credit risk is the amount of the commitment. Refer to Note 33.

Such risks are monitored on a regular basis.

Lending transactions are approved according to individual decision-making limits and the structure of credit committees:

Large Credit Committee of the Bank's Head Office approves credit limits for borrowers or groups of related borrowers with aggregate outstanding balances in the range from RR 5 million (without positive credit history) and RR 12 million (with positive credit history) to 25% of capital, calculated in accordance with the requirements of the Central Bank of the Russian Federation. It is also responsible for issuing guidance to lower level credit committees. The Committee meets twice a week.

Small Credit Committees of the Bank's Head Office approve loans to borrowers and groups of related borrowers with aggregate outstanding balances less than RR 5 million (without positive credit history) and RR 12 million (with positive credit history). At present, there are two small credit committees functioning at the Bank's Head Office which approve credit limits for small businesses and retail clients. The Committees meet twice a week.

Transactions of borrowers and a group of related borrowers - legal entities and entrepreneurs with an aggregate debt of up to RR 3 million on standard loan programmes are approved by sole decisions of authorised persons who are confirmed by the order of the Chairman of the Bank's Management Board.

31 Financial Risk Management (Continued)

Transactions of borrowers and a group of related borrowers - individuals on standard loan programmes are approved by authorised persons within the limits set by the order of the Chairman of the Bank's Management Board.

Loan applications originated by the relevant client relationship managers are considered on the basis of standardised procedures and passed on to the relevant Credit Committee for approval of credit limit after completion of preliminary, authorisation and monitoring procedures.

In order to monitor credit risk credit officers are monitoring the borrowers based on a structured analysis of borrowers' business and financial performance in conformity with the requirements of the Central Bank of the Russian Federation. Any significant exposures to customers and groups of related customers with deteriorating creditworthiness are reported to, and reviewed by, Credit Committees, the Risk Committee and the Committee for Problem Loans. The Group uses formalised internal credit ratings in compliance with regulations of the Central Bank of the Russian Federation. The Bank takes preventive actions, performs monitoring and conducts a set of measures aimed at collection of overdue debts.

The Group's credit departments review ageing analysis of outstanding loans and follows up past due balances. The ageing and other information about credit risk is disclosed in Note 11.

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

Market risk. The Group takes on exposure to market risks. Market risks arise from open positions in (a) currency, (b) interest rates and (c) equity products, all of which are exposed to general and specific market movements.

The Bank manages market risks and monitors corresponding limits on a daily basis. Market risks are managed in respect of each component and in general on the basis of the following principles:

- Ongoing monitoring of trading operations;
- Setting limits on financial investments;
- Setting limits on homogenous financial instrument portfolios;
- Monitoring and evaluation of the level of market risk;
- Coverage of market risks through ensuring an adequate capital level.

Market risk associated with revaluation of the trading securities portfolio. The Bank accepts equity risk associated with losses resulting from fluctuations of market values of open positions on securities and derivative market instruments. The Bank opens positions on securities for subsequent resale and for investment purposes.

Equity risks are managed through limiting the overall volume of transactions, exposed to such risk, and setting limits on different types of transactions and specific issuers with consideration of risks associated with the issuer's industry (on the basis of regular monitoring and analysis). The Bank uses a wide range of VaR (Value at Risk) methodologies for reviewing and limiting risks associated with market price fluctuations.

The management sets limits in respect of the level of capital allocated for coverage of market risk.

At 31 December 2011, the level of market risk was RR 173 831 thousand under a limit of RR 975 686 thousand (31 December 2010: RR 249 180 thousand under a limit of RR 844 254 thousand).

31 Financial Risk Management (Continued)

Currency risk. The Group is exposed to currency risk associated with losses resulting from fluctuations of market values of open positions in different currencies. Exposure to currency risk is evaluated on the basis of VaR. The size of the currency position is regulated through matching assets and liabilities balances in foreign currencies. The Group seeks to decrease the open currency position, thereby, decreasing its exposure to currency risk. The Bank manages its currency position by using currency swaps and forwards in the interbank market and other transactions. The Group is not exposed to risks associated with changes in precious metals' prices due to the absence of such transactions.

As at 31 December 2011, the ten day VAR level was RR 4 884 thousand (31 December 2010: RR 794 thousand).

Since VAR is used for management of certain risks, for the purpose of this consolidated financial statements the level of currency risk is examined based on simple sensitivity, calculated based on open currency position of the Group at the reporting date. The table below summarises the Group's exposure to foreign currency exchange rate risk at the reporting date:

	2011				2010			
In thousands of Russian Roubles	**Monetary financial assets**	**Monetary financial liabilities excluding derivatives**	**Derivative financial instruments**	**Net balance sheet position**	**Monetary financial assets**	**Monetary financial liabilities excluding derivatives**	**Derivative financial instruments**	**Net balance sheet position**
Russian roubles	45 405 029	(42 187 168)	-	3 217 861	38 060 279	(36 231 144)	326 170	2 155 305
US dollars	4 572 283	(4 437 187)	-	135 096	5 402 216	(5 040 103)	(333 277)	28 836
Euro	933 263	(881 343)	-	51 920	953 589	(944 904)	12 110	20 795
Other	64 925	(56 862)	-	8 063	21 661	(930)	-	20 731
Total	**50 975 500**	**(47 562 560)**	-	**3 412 940**	**44 437 745**	**(42 217 081)**	**5 003**	**2 225 667**

Amounts disclosed in respect of derivatives represent the fair value, at the end of the reporting period, of the respective currency that the Group agreed to buy (positive amount) or sell (negative amount) before netting of positions and payments with the counterparty. The net total represents the fair value of the currency derivatives.

The above analysis includes only monetary assets and liabilities. The Group's management believes that investments in equities and non-monetary assets are not considered to give rise to any material currency risk.

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

	2011		2010	
In thousands of Russian Roubles	**Impact on profit or loss**	**Impact on equity**	**Impact on profit or loss**	**Impact on equity**
US dollar strengthening by 8% (2010: 7%)	10 808	10 808	2 019	2 019
US dollar weakening by 8% (2010: 7%)	(10 808)	(10 808)	(2 019)	(2 019)
Euro strengthening by 9% (2010: 13%)	4 673	4 673	2 703	2 703
Euro weakening by 9% (2010: 13%)	(4 673)	(4 673)	(2 703)	(2 703)

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

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

Interest rate risk is managed based on the analysis of the structure of the Group's assets and liabilities by interest repricing dates.

31 Financial Risk Management (Continued)

The management monitors exposure to interest rate risk on a regular basis and sets limits on the level of interest rate risk that may be undertaken on a quarterly basis.

The Group evaluates new products from the point of their impact on interest rate risk. Treasury department of the Group operates daily within approved limits on the level of interest rate risk whereas Risk Management department independently monitors compliance of actual level of interest rate to the approved limits.

To manage interest rate risk, the Group uses fixed and floating interest rates for attracted funds.

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

In thousands of Russian Roubles	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 to 6 months**	**From 6 to 12 months**	**Over 1 year**	**Non interest bearing assets**	**Total**
31 December 2011							
Total financial assets	9 591 854	4 640 413	5 623 090	13 329 630	17 740 469	50 044	50 975 500
Total financial liabilities	(13 545 776)	(3 225 025)	(4 828 465)	(7 128 295)	(18 834 999)	-	(47 562 560)
Net interest sensitivity gap at 31 December 2011	**(3 953 922)**	**1 415 388**	**794 625**	**6 201 335**	**(1 094 530)**	**50 044**	**3 412 940**
31 December 2010							
Total financial assets	11 343 641	3 820 364	4 037 711	9 342 104	15 823 300	75 628	44 442 748
Total financial liabilities	(13 569 680)	(4 098 723)	(3 481 321)	(2 630 125)	(18 437 232)	-	(42 217 081)
Net interest sensitivity gap at 31 December 2010	**(2 226 039)**	**(278 359)**	**556 390**	**6 711 979**	**(2 613 932)**	**75 628**	**2 225 667**

All of the Group's debt instruments reprice within 5 years (2010: all reprice within 5 years).

At 31 December 2011, if interest rates had been 200 basis points lower/higher, with all other variables held constant, profit for the year would have been RR 139 260 thousand (at 31 December 2010: if interest rates had been 200 basis points higher/lower, profit would have been RR 153 319 thousand) higher/lower, due to the structure and repricing timing of attracted and invested funds.

The Group monitors interest rates for its financial instruments. The table below summarises interest rates based on reports reviewed by key management personnel:

	2011				**2010**			
In % p.a.	**RR**	**USD**	**EUR**	**Other**	**RR**	**USD**	**EUR**	**Other**
Assets								
Cash balances with the CBRF	-	-	-	-	-	-	-	-
Correspondent accounts and overnight placements with other banks	0.0	0.1	0.0	0.0	0.0	0.1	0.0	0.0
Debt trading securities	8.2	-	3.2	-	7.8	2.6	2.6	-
Due from other banks								
- Placements with the Bank of Russia	4.0	-	-	-	3.0	-	-	-
- Short-term placements with other banks	-	-	-	-	3.7	2.0	-	-
- Long-term placements with other banks	0.0	-	-	-	-	4.6	-	-
Loans and advances to customers:								
- Corporate loans	11.2	7.8	8.3	-	12.8	6.6	7.7	-
- Loans to SME	13.8	8.9	11.3	-	15.0	9.2	11.3	-
- Loans to individuals - consumer loans	15.6	11.6	-	-	17.8	10.7	8.0	-
- Loans to individuals - car loans	14.2	13.7	-	-	14.8	13.7	-	-
- Mortgage loans	12.7	12.0	11.0	-	13.0	12.8	10.9	-
Finance lease receivables	20.4	21.6	13.6	-	22.6	21.6	17.5	-

31 Financial Risk Management (Continued)

	2011				2010			
In % p.a.	RR	USD	EUR	Other	RR	USD	EUR	Other
Liabilities								
Due to other banks	-	3.4	5.0	-	-	2.7	4.6	-
Customer accounts								
- Demand deposits of individuals	0.2	0.1	0.1	0.1	0.2	0.1	0.1	0.1
- Term deposits of legal entities	6.5	1.6	1.8	-	7.2	2.0	-	-
- Term deposits of individuals	6.4	3.7	3.0	1.0	7.8	4.2	3.1	1.0
Promissory notes issued	4.4	-	-	-	7.0	-	-	-
Bonds issued	9.0	-	-	-	9.3	-	-	-
Loans from international financial institutions	10.4	5.7	2.7	-	7.2	6.2	4.0	-
Subordinated debt	-	4.8	-	-	-	4.8	-	-

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

Other price risk. The Group is exposed to limited risk as a result of fluctuation of equity securities’ prices. Transactions with equity instruments are monitored and authorised by the Group’s Treasury. The amount of the 10-day VaR in a 99% confidence interval for the Bank’s equity portfolio was RR 19 897 thousand as at 31 December 2011 (31 December 2010: RR 17 628 thousand).

The Group is exposed to prepayment risk through providing fixed or variable rate loans, including mortgages, which give the borrower the right to early repay the loans. The Group’s current year profit or loss and equity for the year and at the end of the reporting period would not have been significantly impacted by changes in prepayment rates because such loans are carried at amortised cost and the prepayment right is at or close to the amortised cost of the loans and advances to customers.

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

In thousands of Russian Roubles	Russia	USA	Europe	Other	Total
Assets					
Cash and cash equivalents	4 049 737	220 314	379 262	1 649	4 650 962
Mandatory cash balances with the CBRF	484 091	-	-	-	484 091
Trading securities	970 349	-	-	-	970 349
Other securities at fair value through profit or loss	5 997	-	-	-	5 997
Due from other banks	2 001 219	-	-	10 804	2 012 023
Loans and advances to customers	41 766 744	-	243 816	-	42 010 560
Finance lease receivables	538 667	-	-	-	538 667
Other financial assets	302 851	-	-	-	302 851
Total financial assets	**50 119 655**	**220 314**	**623 078**	**12 453**	**50 975 500**
Other assets	3 561 463	-	-	-	3 561 463
Total assets	**53 681 118**	**220 314**	**623 078**	**12 453**	**54 536 963**
Liabilities					
Due to other banks	1 248	65 381	23 896	4 164	94 689
Customer accounts	38 964 358	518	19 228	16 655	39 000 759
Debt securities in issue	3 720 669	-	-	-	3 720 669
Borrowings from international financial institutions	-	671 116	1 984 183	-	2 655 299
Subordinated debt	-	-	1 942 715	-	1 942 715
Other financial liabilities	148 429	-	-	-	148 429
Total financial liabilities	**42 834 704**	**737 015**	**3 970 022**	**20 819**	**47 562 560**
Other liabilities	288 344	-	-	-	288 344
Total liabilities	**43 123 048**	**737 015**	**3 970 022**	**20 819**	**47 850 904**
Net position	**10 558 070**	**(516 701)**	**(3 346 944)**	**(8 366)**	**6 686 059**
Credit related commitments (Note 33)	**6 426 401**	-	-	**1 518**	**6 427 919**

31 Financial Risk Management (Continued)

Assets, liabilities and credit related commitments have been based on the country in which the counterparty is located. Cash on hand and premises and equipment have been allocated based on the country in which they are physically held.

The geographical concentration of the Group's assets and liabilities at 31 December 2010 is disclosed in table below:

	Russia	USA	Europe	Other	Total
Assets					
Cash and cash equivalents	5 333 535	489 268	123 088	-	5 945 891
Mandatory cash balances with the CBRF	244 706	-	-	-	244 706
Trading securities	2 907 567	-	-	-	2 907 567
Other securities at fair value through profit or loss	6 005	-	-	-	6 005
Due from other banks	4 511 454	-	-	-	4 511 454
Loans and advances to customers	30 142 571	-	-	-	30 142 571
Finance lease receivables	482 097	-	-	-	482 097
Other financial assets	202 457	-	-	-	202 457
Total financial assets	**43 830 392**	**489 268**	**123 088**	**-**	**44 442 748**
Other assets	3 836 589	-	-	-	3 836 589
Total assets	**47 666 981**	**489 268**	**123 088**	**-**	**48 279 337**
Liabilities					
Due to other banks	156 262	185 042	19 182	2 371	362 857
Customer accounts	33 778 096	641	22 268	12 683	33 813 688
Debt securities in issue	2 040 432	-	-	-	2 040 432
Borrowings from international financial institutions	-	659 532	3 347 986	-	4 007 518
Subordinated debt	-	38 663	1 837 398	-	1 876 061
Other financial liabilities	116 525	-	-	-	116 525
Total financial liabilities	**36 091 315**	**883 878**	**5 226 834**	**15 054**	**42 217 081**
Other liabilities	288 168	-	-	-	288 168
Total liabilities	**36 379 483**	**883 878**	**5 226 834**	**15 054**	**42 505 249**
Net position	**11 287 498**	**(394 610)**	**(5 103 746)**	**(15 054)**	**5 774 088**
Credit related commitments (Note 33)	**4 517 415**	**-**	**30 222**	**4 516**	**4 552 153**

Other risk concentrations. Management monitors and discloses concentrations of credit risk by obtaining reports listing exposures to borrowers with aggregated loan balances in excess of 10% of capital. Refer to Note 11.

31 Financial Risk Management (Continued)

Liquidity risk. Liquidity risk is determined as the risk of facing difficulties associated with the transformation of assets into cash required for repayment of liabilities upon maturity, the real cost of the asset remaining unchanged.

The Asset and Liability Committee of the Bank is a regulatory and consultative body in charge of liquidity risk management. It coordinates actions of the Bank's units that have a direct or indirect impact on liquidity and cooperates with the Credit Committee in respect of liquidity issues.

Operational liquidity management is carried out by the Bank's Treasury on a daily basis through maintaining the overall liquidity reserve, consisting of balances on the Bank's correspondent accounts, cash on hand, due from other banks – primary liquidity reserve, and high liquid securities – secondary liquidity reserve. The Treasury monitors the Bank's payment position on a daily basis.

Efficient liquidity management is ensured through forecasting and reviewing liquidity gaps calculated as the difference between assets and liabilities (including off-balance sheet positions) by maturity. Based on forecast data, the Bank prepares a schedule of future cash receipts and payments and sets its own liquidity surplus (deficit) ratios. These are approved by the Asset and Liability Committee and are used in the current operations of the Bank.

The table below shows combined assets and liabilities at 31 December 2011 by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows. Such undiscounted cash flows differ from the amount included in the statement of financial position because the amount in the statement of financial position is based on discounted cash flows. Trading securities are classified within demand and less than 1 month, as they are readily saleable in case of necessity. Impaired loans are included at their carrying amounts net of impairment provisions, and based on the expected timing of cash inflows.

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

In thousands of Russian Roubles	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 to 6 months**	**From 6 to 12 months**	**From 12 months Less than 5 years**	**Over 5 years**	**Total**
Assets							
Cash and cash equivalents	4 650 962	-	-	-	-	-	4 650 962
Mandatory cash balances with the CBRF	156 155	15 009	15 501	65 400	232 026	-	484 091
Trading securities	992 617	-	-	-	-	-	992 617
Other securities at fair value through profit or loss	-	-	-	-	-	5 997	5 997
Due from other banks	2 002 405	-	10 804	-	1 000	-	2 014 209
Loans and advances to customers	1 505 516	5 174 701	5 387 237	13 398 984	22 821 271	6 681 287	54 968 996
Finance lease receivables	27 399	63 599	88 759	158 666	303 015	-	641 438
Other financial assets	178 873	5 753	2 133	32 567	53 525	30 000	302 851
Total financial assets	**9 513 927**	**5 259 062**	**5 504 434**	**13 655 617**	**23 410 837**	**6 717 284**	**64 061 161**
Liabilities							
Due to other banks	71 027	-	19 887	4 420	-	-	95 334
Customer accounts	13 403 326	1 288 246	1 330 511	5 613 487	19 915 529	-	41 551 099
Debt securities in issue	3 539	-	1 924 520	2 122 364	486 658	-	4 537 081
Borrowings from international financial institutions	-	1 004 496	255 127	660 564	947 042	-	2 867 229
Subordinated debt	-	325 313	41 096	366 408	2 775	1 937 669	2 673 261
Contingent credit related commitments	159 779	546 993	759 087	2 068 952	2 893 107	-	6 427 918
Other financial liabilities	111 454	7 617	1	-	-	-	119 072
Total potential future payments for financial obligations	**13 749 125**	**3 172 665**	**4 330 229**	**10 836 195**	**24 245 111**	**1 937 669**	**58 270 994**
Net liquidity gap as at 31 December 2011	**(4 235 198)**	**2 086 397**	**1 174 205**	**2 819 422**	**(834 274)**	**4 779 615**	**5 790 167**
Cumulative liquidity gap as at 31 December 2011	**(4 235 198)**	**(2 148 801)**	**(974 596)**	**1 844 826**	**1 010 552**	**5 790 167**	

31 Financial Risk Management (Continued)

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment disclosed in the above maturity analysis, because the Group does not generally expect the third party to draw funds under the agreement.

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

In thousands of Russian Roubles	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 to 6 months**	**From 6 to 12 months**	**From 12 months to 5 years**	**Over 5 years**	**Total**
Assets							
Cash and cash equivalents	5 945 891	-	-	-	-	-	5 945 891
Mandatory cash balances with the CBRF	89 089	9 805	6 834	17 569	121 409	-	244 706
Trading securities	2 982 981	-	-	-	-	-	2 982 981
Other securities at fair value through profit or loss	-	-	-	-	-	6 005	6 005
Due from other banks	3 832 890	158 916	4 377	540 686	-	-	4 536 869
Loans and advances to customers	1 336 071	4 511 200	4 534 938	9 768 028	15 958 010	3 653 460	39 761 707
Finance lease receivables	38 912	91 624	108 791	161 160	184 113	-	584 600
Gross settled forwards	234 309	158 862	-	-	-	-	393 171
Other financial assets	42 769	19 398	6 045	29 710	69 532	30 000	197 454
Total financial assets	**14 502 912**	**4 949 805**	**4 660 985**	**10 517 153**	**16 333 064**	**3 689 465**	**54 653 384**
Liabilities							
Due to other banks	70 643	152 948	328	63 632	81 685	-	369 236
Customer accounts	13 254 186	1 458 803	1 016 784	2 613 764	18 062 452	-	36 405 989
Debt securities in issue	2 077	602	93 533	171 792	2 424 525	-	2 692 529
Borrowings from international financial institutions	7 544	397 343	326 073	841 940	2 997 683	-	4 570 583
Subordinated debt	-	38 764	43 890	44 132	637 886	1 835 227	2 599 899
Gross settled forwards	234 874	153 294	-	-	-	-	388 168
Contingent credit related commitments	190 272	459 387	838 081	1 898 225	1 166 188	-	4 552 153
Other financial liabilities	88 948	10 729	432	412	140	-	100 661
Total potential future payments for financial obligations	**13 848 544**	**2 671 870**	**2 319 121**	**5 633 897**	**25 370 559**	**1 835 227**	**51 679 218**
Net liquidity gap as at 31 December 2010	**654 368**	**2 277 935**	**2 341 864**	**4 883 256**	**(9 037 495)**	**1 854 238**	**2 974 166**
Cumulative liquidity gap as at 31 December 2010	**654 368**	**2 932 303**	**5 274 167**	**10 157 423**	**1 119 928**	**2 974 166**	

31 Financial Risk Management (Continued)

Customer accounts are classified in the above analysis based on contractual maturities. However, in accordance with Russian Civil Code, individuals have a right to withdraw their deposits prior to maturity if they forfeit their right to accrued interest.

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

In thousands of Russian Roubles	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 12 months to 5 years	Over 5 years	No stated maturity	Total
Assets								
Cash and cash equivalents	4 650 962	-	-	-	-	-	-	4 650 962
Mandatory cash balances with the CBRF	484 091	-	-	-	-	-	-	484 091
Trading securities	970 349	-	-	-	-	-	-	970 349
Other securities at fair value through profit or loss	-	-	-	-	-	-	5 997	5 997
Due from other banks	2 000 219	-	10 804	-	1 000	-	-	2 012 023
Loans and advances to customers	1 443 665	4 115 720	4 095 578	10 948 032	17 096 424	4 311 141	-	42 010 560
Finance lease receivables	22 728	47 215	66 636	124 115	277 973	-	-	538 667
Investment in associate	-	-	-	-	-	-	319 199	319 199
Intangible assets	-	-	-	-	-	-	329 674	329 674
Premises and equipment	-	-	-	-	-	-	2 710 632	2 710 632
Other financial assets	178 873	5 753	2 133	32 567	53 525	30 000	-	302 851
Other assets	4 210	64 248	13 075	34 404	86 021	-	-	201 958
Total assets	**9 755 097**	**4 232 936**	**4 188 226**	**11 139 118**	**17 514 943**	**4 341 141**	**3 365 502**	**54 536 963**
Liabilities								
Due to other banks	70 908	-	19 475	4 306	-	-	-	94 689
Customer accounts	13 355 486	1 127 836	1 081 593	5 046 628	18 389 216	-	-	39 000 759
Debt securities in issue	3 532	-	1 766 069	1 951 068	-	-	-	3 720 669
Borrowings from International financial institutions	-	955 468	233 970	602 261	863 600	-	-	2 655 299
Subordinated debt	-	323 579	17 077	-	-	1 602 059	-	1 942 715
Other financial liabilities	111 546	8 418	794	5 392	22 279	-	-	148 429
Deferred income tax liability	-	-	-	-	-	-	216 063	216 063
Other liabilities	30 951	29 055	53	12 222	-	-	-	72 281
Total liabilities	**13 572 423**	**2 444 356**	**3 119 031**	**7 621 877**	**19 275 095**	**1 602 059**	**216 063**	**47 850 904**
Net liquidity gap at 31 December 2011	**(3 817 326)**	**1 788 580**	**1 069 195**	**3 517 241**	**(1 760 152)**	**2 739 082**	**3 149 439**	**6 686 059**
Cumulative liquidity gap as at 31 December 2011	**(3 817 326)**	**(2 028 746)**	**(959 551)**	**2 557 690**	**797 538**	**3 536 620**	**6 686 059**	

31 Financial Risk Management (Continued)

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

The expected maturities are as follows at 31 December 2010:

In thousands of Russian Roubles	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 12 months to 5 years	Over 5 years	Not defined maturity	Total
Assets								
Cash and cash equivalents	5 945 891	-	-	-	-	-	-	5 945 891
Mandatory cash balances with the CBRF	244 706	-	-	-	-	-	-	244 706
Trading securities	2 907 567	-	-	-	-	-	-	2 907 567
Other securities at fair value through profit or loss	-	-	-	-	-	-	6 005	6 005
Due from other banks	3 829 053	155 229	38	527 134	-	-	-	4 511 454
Loans and advances to customers	1 257 079	3 550 781	3 582 595	7 924 323	11 624 894	2 202 899	-	30 142 571
Finance lease receivables	24 143	63 936	82 892	117 672	193 454	-	-	482 097
Investment in associate	-	-	-	-	-	-	320 657	320 657
Intangible assets	-	-	-	-	-	-	354 747	354 747
Premises and equipment	-	-	-	-	-	-	2 623 759	2 623 759
Other financial assets	42 769	24 401	6 045	29 710	69 532	30 000	-	202 457
Other assets	17 636	51 775	37 312	18 713	411 990	-	-	537 426
Total assets	**14 268 844**	**3 846 122**	**3 708 882**	**8 617 552**	**12 299 870**	**2 232 899**	**3 305 168**	**48 279 337**
Liabilities								
Due to other banks	70 385	152 479	20	60 954	79 019	-	-	362 857
Customer accounts	13 231 973	1 393 010	921 633	2 430 351	15 836 721	-	-	33 813 688
Debt securities in issue	2 164	602	4 591	75 418	1 957 657	-	-	2 040 432
Borrowings from International financial institutions	7 537	316 098	289 654	710 791	2 683 438	-	-	4 007 518
Subordinated debt	38 663	-	18 884	-	303 555	1 514 959	-	1 876 061
Other financial liabilities	89 106	11 214	2 617	5 835	7 753	-	-	116 525
Deferred income tax liability	-	-	-	-	-	-	166 323	166 323
Other liabilities	39 278	70 883	-	11 684	-	-	-	121 845
Total liabilities	**13 479 106**	**1 944 286**	**1 237 399**	**3 295 033**	**20 868 143**	**1 514 959**	**166 323**	**42 505 249**
Net liquidity gap at 31 December 2010	**789 738**	**1 901 836**	**2 471 483**	**5 322 519**	**(8 568 273)**	**717 940**	**3 138 845**	**5 774 088**
Cumulative liquidity gap as at 31 December 2010	**789 738**	**2 691 574**	**5 163 057**	**10 485 576**	**1 917 303**	**2 635 243**	**5 774 088**	

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

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

31 Financial Risk Management (Continued)

Operational risk. To ensure efficient risk management, the Bank has created an operational risk management system. Currently, the Bank uses the Base Indicative Approach (BIA) to operational risk evaluation. Operational risks are managed on the basis of the regulation approved by the Bank's Executive Board. This activity includes the following:

- Collecting information on operating losses;
- Identifying sources of operational risk in the credit institution's activity;
- Developing regulations and actions for decreasing the level of operational risk;
- Coverage of risks by maintenance of adequate level of capital.

The Bank's information security and continuity are ensured by the Bank's Information Security Policy developed on the basis of ISO 17799 and approved by the Board of Directors.

The Bank has a policy that insures its property interests associated with ownership, use and disposal of the Bank's property and also with unforeseen expenses (losses) incurred by the Bank in its operations.

32 Management of Capital

The Group's objectives when managing capital are (i) to comply with the capital requirements set by the Central Bank of the Russian Federation, (ii) to safeguard the Group's ability to continue as a going concern and (iii) to maintain a sufficient capital base to achieve a capital adequacy ratio based on the Basel Accord of at least 8%. Compliance with capital adequacy ratios set by the Central Bank of the Russian Federation is monitored monthly with reports outlining their calculation reviewed and signed by the Bank's Chief Executive Officer and Chief Accountant. Other objectives of capital management are evaluated annually.

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

In thousands of Russian Roubles	**2011**	**2010**
Tier 1 capital		
Share capital	1 258 709	1 258 709
Share premium	1 646 428	1 646 428
Retained earnings	2 403 314	1 598 671
Total tier 1 capital	**5 308 451**	**4 503 808**
Tier 2 capital		
Revaluation reserve for premises and equipment	1 377 608	1 270 280
Subordinated debt	1 732 687	1 701 436
Total tier 2 capital	**3 110 295**	**2 971 716**
Total capital	**8 418 746**	**7 475 524**

As at 31 December 2011 the Bank's capital adequacy ratio, calculated in accordance with Basel Accord is 18.2% (31 December 2010 – 19.8%).

Management of the Bank believes that the Group and the Bank complied with all externally imposed capital requirements throughout 2011 and 2010. In accordance with the Bank's Risk Management Policy, the Bank's capital is distributed to cover unexpected losses on credit, market and operational risks.

Management of Bank believes that during the reporting year the Bank complied with capital distribution limits set by the Board of Directors.

33 Contingencies and Commitments

Legal proceedings. From time to time and in the normal course of business, claims against the Group may be received. At 31 December 2011, the Group was engaged in litigation proceedings in relation to claims from borrowers and lessees. A provision of RR 2 856 thousand (2010: nil) has been made as internal professional advice has indicated that it is likely that a loss will eventuate.

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

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

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

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

Capital expenditure commitments. At 31 December 2011, the Group has contractual capital expenditure commitments in respect of premises and equipment, and software and other intangible assets totalling RR 474 thousand (31 December 2010: RR 62 960 thousand).

The Group has already allocated the necessary resources in respect of these commitments. The Group believes that future net income and funding will be sufficient to cover this and any similar such commitments.

Compliance with covenants. The Group is subject to certain covenants related primarily to its borrowings. Non-compliance with such covenants may result in negative consequences for the Group including growth in the cost of borrowings and declaration of default. As at 31 December 2011, the Group did not comply with covenants with regard to the 'one borrower's debt to equity' ratio. This situation arose due to a significant increase in the USD/RR exchange rate and a respective increase in the RR equivalent of the USD denominated debt. The Bank notified respective creditors of this situation. On 8 March 2012 and 19 March 2012, notifications were received from the creditors on temporary cancellation of the respective covenant. As at 1 February 2012 and later, the Group complied with this covenant. The Group was in compliance with all covenants as at 31 December 2010.

33 Contingencies and Commitments (Continued)

Credit related commitments. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans.

Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralised by cash deposits and, therefore, carry less risk than a direct borrowing.

The Group monitors the term to maturity of credit related commitments, because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments. Outstanding credit related commitments are as follows:

In thousands of Russian Roubles	**2011**	**2010**
Guarantees issued	1 039 147	789 727
Import documentary letters of credit	1 518	18 541
Total credit related commitments	**1 040 665**	**808 268**

The total outstanding contractual amount of guarantees does not necessarily represent future cash requirements, as this financial instrument may expire or terminate without being funded. The fair value of credit related commitments was USD 29 357 thousand at 31 December 2011 (31 December 2010: USD 15 864 thousand). Credit related commitments are denominated in currencies as follows:

In thousands of Russian Roubles	**2011**	**2010**
Russian roubles	1 011 187	759 569
US dollars	25 311	13 776
Euro	4 167	34 923
Total	**1 040 665**	**808 268**

The Group has loan commitments of RR 5 387 254 thousand (2010: RR 3 743 885 thousand). All undrawn credit facilities can be automatically closed upon failure by the borrower to meet the requirements of the loan agreement. The Group does not bear credit risk and does not book provisions with regard to these loans. The fair value of the loans is equal close to zero.

Assets pledged and restricted. Mandatory cash balances with the CBRF of RR 484 091 thousand (31 December 2010: RR 244 706 thousand) represent mandatory reserve deposited with the CBRF, which are not available to finance the Bank's day to day operations.

34 Fair Value of Financial Instruments

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

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

In thousands of Russian Roubles	2011 Carrying value	2011 Fair value	2010 Carrying value	2010 Fair value
FINANCIAL ASSETS				
Cash and cash equivalents	4 650 962	4 650 962	5 945 891	5 945 891
Mandatory cash balances with the Central Bank of the Russian Federation	484 091	484 091	244 706	244 706
Due from other banks	2 012 023	2 012 023	4 511 454	4 511 454
Loans and advances to customers	42 010 560	42 548 719	30 142 571	30 231 836
- Corporate loans and loans to SME	*28 302 641*	*28 177 787*	*21 361 818*	*21 325 281*
- Loans to individuals – consumer and car loans	*8 002 659*	*8 249 766*	*5 181 682*	*5 244 378*
- Mortgage loans	*5 705 260*	*6 121 166*	*3 599 071*	*3 662 177*
Finance lease receivables	538 667	543 812	482 097	483 186
Other financial assets	302 851	302 851	197 454	197 454
TOTAL FINANCIAL ASSETS CARRIED AT AMORTISED COST	**49 999 154**	**50 542 458**	**41 524 173**	**41 614 527**
FINANCIAL LIABILITIES				
Due to other banks	94 689	94 689	362 857	362 857
Customer accounts	39 000 759	39 000 759	33 813 688	33 813 688
Debt securities in issue	3 720 669	3 764 168	2 040 432	2 074 292
- Promissory notes	*15 608*	*15 608*	*80 637*	*80 637*
- Bonds issued on domestic market	*3 705 061*	*3 748 560*	*1 959 795*	*1 993 655*
Borrowings from International financial institutions	2 655 299	2 655 299	4 007 518	4 007 518
Subordinated debt	1 942 715	1 942 715	1 876 061	1 876 061
Other financial liabilities	119 072	119 072	100 661	100 661
TOTAL FINANCIAL LIABILITIES CARRIED AT AMORTISED COST	**47 533 203**	**47 576 702**	**42 201 217**	**42 235 077**

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

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

In thousands of Russian Roubles	2011 Quoted price in an active market (Level 1)	2011 Valuation technique with inputs observable in markets (Level 2)	2011 Valuation technique with signifi-cant non-observa-ble inputs (Level 3)	2010 Quoted price in an active market (Level 1)	2010 Valuation technique with inputs observable in markets (Level 2)	2010 Valuation technique with signifi-cant non-observa-ble inputs (Level 3)
FINANCIAL ASSETS						
Trading securities						
- Eurobonds	478 953	-	-	1 039 241	-	-
- Corporate bonds	447 349	-	-	1 614 686	-	-
- Shares of closed mutual funds	44 047	-	-	69 623	-	-
- Municipal bonds	-	-	-	184 017	-	-
Other securities at fair value through profit or loss						
- Corporate shares – unquoted	-	-	-	-	-	8
- Other	-	-	5 997	-	-	5 997
Other financial assets						
Foreign exchange forward contracts	-	-	-	5 003	-	-
TOTAL FINANCIAL ASSETS CARRIED AT FAIR VALUE	**970 349**	**-**	**5 997**	**2 912 570**	-	**6 005**

33 Fair Value of Financial Instruments (Continued)

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

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price. Where quoted market prices are not available, the Group used valuation techniques. The fair value of floating rate instruments that are not quoted in an active market was estimated to be equal to their carrying amount. The fair value of unquoted fixed interest rate instruments was estimated based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

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

In thousands of Russian Roubles	2011	2010
RR		
Loans and advances to customers		
Corporate loans and loans to SME	9.6% - 16.5%	11.1% - 20.1%
Loans to individuals - consumer loans	11.5% - 14.5%	13.2% - 18.1%
Loans to individuals - car loans	10.8% - 13.6%	13.9% - 14.8%
Mortgage loans	10.2% - 11.0%	12.7% - 13.9%
Finance lease receivables	19.0%-19.2%	21.7% - 22.0%
Currency		
Loans and advances to customers		
Corporate loans and loans to SME	7.7% - 8.0%	7.0% - 14.1%
Loans to individuals - consumer loans	11.0%	9.0%
Loans to individuals - car loans	11.0%	10.5%
Mortgage loans	10.0%	8.5%
Finance lease receivables	12.4%	12.0%

35 Presentation of Financial Instruments by Measurement Category

For the purposes of measurement, IAS 39, Financial Instruments: Recognition and Measurement, the Group classifies financial assets into the following categories: (1) loans and receivables; (2) available-for-sale financial assets; (3) financial assets held to maturity and (4) financial assets at fair value through profit or loss ("FVTPL"). Financial assets at fair value through profit or loss have two subcategories: (1) assets designated as such upon initial recognition, and (2) those classified as held for trading.

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

In thousands of Russian Roubles	Loans and receivables	Financial assets at fair value through profit or loss	Total
Assets			
Cash and cash equivalents	**4 650 962**		**4 650 962**
Mandatory cash balances with the CBRF	**484 091**	**-**	**484 091**
Trading securities	**-**	**970 349**	**970 349**
Other securities at fair value through profit or loss	**-**	**5 997**	**5 997**
Due from other banks	**2 012 023**	**-**	**2 012 023**
- Placements with the Bank of Russia	2 000 219	-	2 000 219
- Long-term placements with other banks	1 000	-	1 000
- Issued letters of credit	10 804	-	10 804
Loans and advances to customers	**42 010 560**	**-**	**42 010 560**
- Loans to SME	18 965 514	-	18 965 514
- Corporate loans	9 337 127	-	9 337 127
- Loans to individuals – consumer and car loans	8 002 659	-	8 002 659
- Mortgage loans	5 705 260	-	5 705 260
Finance lease receivables	**538 667**	**-**	**538 667**
Other financial assets:	**302 851**	**-**	**302 851**
- Receivables related to plastic card transactions	92 167	-	92 167
- Trade debtors and prepayments	135 343	-	135 343
- Foreign exchange forward contracts	30 000	-	30 000
- Settlements on brokerage operations	12	-	12
- Settlements on other operations	45 329	-	45 329
Total financial assets	**49 999 154**	**976 346**	**50 975 500**

35 Presentation of Financial Instruments by Measurement Category (Continued)

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

In thousands of Russian Roubles	**Loans and receivables**	**Financial assets at fair value through profit or loss**	**Total**
Assets			
Cash and cash equivalents	**5 945 891**	**-**	**5 945 891**
Mandatory cash balances with the CBRF	**244 706**	**-**	**244 706**
Trading securities	**-**	**2 907 567**	**2 907 567**
Other securities at fair value through profit or loss	**-**	**6 005**	**6 005**
Due from other banks	**4 511 454**	**-**	**4 511 454**
- Placements with the Bank of Russia	3 000 690	-	3 000 690
- Short-term placements with other banks with original maturities of less than three months	982 212	-	982 212
- Long-term placements with other banks	528 552	-	528 552
Loans and advances to customers	**30 142 571**	**-**	**30 142 571**
- Loans to SME	14 263 200	-	14 263 200
- Corporate loans	7 098 618	-	7 098 618
- Loans to individuals – consumer and car loans	5 181 682	-	5 181 682
- Mortgage loans	3 599 071	-	3 599 071
Finance lease receivables	**482 097**	**-**	**482 097**
Other financial assets	**197 454**	**5 003**	**202 457**
- Receivables related to plastic card transactions	39 555	-	39 555
- Trade debtors and prepayments	86 831	-	86 831
- Target capital fund	30 000	-	30 000
- Foreign exchange forward contracts		5 003	5 003
- Settlements on brokerage operations	3 418	-	3 418
- Settlements on other operations	37 650	-	37 650
Total financial assets	**41 524 173**	**2 918 575**	**44 442 748**

All of the Group's financial liabilities except for derivatives are carried at amortised cost. Derivatives belong to the fair value through profit or loss measurement category.

36 Related Party Transactions

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

The Group's policy is to lend funds to related parties if they have an appropriate credit history and provide sufficient guarantees from third parties or pledge collateral valued in excess of the committed credit lines.

The combined financial statements of the Group include the following significant transactions and balances with related parties:

	2011			2010		
In thousands of Russian Roubles	**Significant share-holders**	**Associate**	**Manage-ment and Board of Directors**	**Significant share-holders**	**Associate**	**Manage-ment and Board of Directors**
Correspondent accounts with banks	5 542			3 772	-	-
Gross amount of loans and advances to customers (contractual interest rate: 2011: 8% - 18%; 2010: 7% – 18%)	-	6 661	13 557	-	-	13 336
Customer accounts (contractual interest rate: 2011: 0% – 9.5%; 2010: 0% – 17%)	-	12 839	430 293	-	73 576	433 470
Borrowings from international financial institutions (contractual interest rate: 2011: 7% – 10%; 2010: 6% – 8%)	1 562 919	-	-	2 583 559	-	-
Subordinated loans (contractual interest rate: 2011: 5%; 2010: 5%)	1 619 136	-	-	1 531 599	-	-
Interest income	-	447	1 170	-	-	818
Finance income arising from leasing	-	-	-	-	6	-
Interest expense	(220 404)	(672)	(22 005)	(307 580)	(4 739)	(32 664)
Fee and commission income	-	146	-	-	1 914	-
Administrative expenses	-	-	(1 018)	-	-	(1 968)

36 Related Party Transactions (Continued)

The major shareholders of the Bank at 31 December 2011 and 31 December 2010 are as follows:

	2011		2010	
Shareholder	**Equity share, %**	**Voting rights share, %**	**Equity share, %**	**Voting rights share, %**
European Bank for Reconstruction and Development	24.58	27.45	24.58	27.45
DEG (Deutsche Investitions und Entwicklungsgesellschaft GmbH)	20.10	22.45	20.10	22.45
Erste Bank	9.80	9.80	9.80	9.80
Firebird funds	8.87	9.90	8.87	9.90
Vysokov Vasiliy Vasilievich	8.07	9.01	8.07	9.01
Vysokova Tatiana Nikolaevna	7.91	8.83	7.91	8.83
Rekha Holdings Limited	7.29	8.15	7.29	8.15

Key management compensation is presented below:

	2011		2010	
In thousands of Russian Roubles	**Expense**	**Accrued liability**	**Expense**	**Accrued liability**
Short-term benefits:				
- Salaries	18 340	-	15 945	-
- Short-term bonuses	36 284	-	2 529	-
Post-employment benefits:	1 958	-	-	-
Total	**56 582**	**-**	**18 474**	-

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

In 2011, the Board of Directors consisted of 7 persons (2010: 7 persons). As at the end of 2011, the Group's Executive Board consisted of 4 persons (2010: 7 persons).