RUSSIAN AGRICULTURAL BANK GROUP

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

31 December 2011

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Independent Auditor's Report

To the Shareholder and the Supervisory Board of Russian Agricultural Bank:

1 We have audited the accompanying consolidated financial statements of Open Joint-Stock Company Russian Agricultural Bank and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2011 and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory 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 whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

6 In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 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

25 April 2012

Moscow, Russia

Russian Agricultural Bank Group
Consolidated Statement of Financial Position

In millions of Russian Roubles	**Note**	**31 December 2011**	**31 December 2010**
ASSETS			
Cash and cash equivalents	7	133 959	81 010
Mandatory cash balances with the Central Bank of the Russian Federation		8 417	3 468
Trading securities	8	-	3 563
Repurchase receivables	9	2 369	15 240
Financial instruments designated at fair value through profit or loss	10	11 225	9 686
Derivative financial instruments	34	23 296	20 621
Due from other banks	11	39 569	34 477
Loans and advances to customers	12	903 697	688 556
Investment securities available for sale	13	76 595	15 687
Investment securities held to maturity	14	31 319	14 922
Deferred income tax asset		5 531	1 930
Intangible assets	15	1 531	1 563
Premises and equipment	15	25 093	25 985
Current income tax prepayment		820	191
Other assets	16	15 904	11 052
Assets of the disposal groups held for sale	38	5 101	2 849
TOTAL ASSETS		**1 284 426**	**930 800**
LIABILITIES			
Derivative financial instruments	34	739	541
Due to other banks	17	90 417	105 578
Customer accounts	18	607 295	386 279
Promissory notes issued	19	20 129	9 874
Other borrowed funds	20	342 499	257 559
Deferred income tax liability		1 322	1 405
Current income tax liability		7	17
Other liabilities	21	6 769	4 389
Subordinated debts	22	57 192	46 545
Liabilities directly associated with the disposal groups held for sale	38	1 282	1 015
TOTAL LIABILITIES		**1 127 651**	**813 202**
EQUITY			
Share capital	23	148 798	108 798
Revaluation reserve for premises		1 050	933
Revaluation reserve for investment securities available for sale		(898)	(101)
Retained earnings		7 017	6 851
Equity attributable to the Bank's owner		**155 967**	**116 481**
Non-controlling interest		**808**	**1 117**
TOTAL EQUITY		**156 775**	**117 598**
TOTAL LIABILITES AND EQUITY		**1 284 426**	**930 800**

Approved for issue and signed on behalf of the Management Board on 25 April 2012.

D.N. Patrushev
Chairman of the Management Board

E.A. Romankova
Chief Accountant

In millions of Russian Roubles	Note	2011	2010
Interest income	24	113 314	105 007
Interest expense	24	(59 699)	(53 383)
Net interest income		**53 615**	**51 624**
Provision for loan impairment	11, 12	(22 552)	(28 507)
Net interest income after provision for loan impairment		**31 063**	**23 117**
Fee and commission income	25	4 834	3 411
Fee and commission expense	25	(631)	(589)
(Losses net of gains)/gains less losses from trading securities		(76)	708
Losses net of gains from financial instruments designated at fair value through profit or loss		(749)	(734)
Foreign exchange translation losses net of gains		(8 136)	(1 737)
Gains less losses/(losses net of gains) from foreign exchange swaps with settlement dates of more than 30 working days		2 933	(456)
Gains less losses/(losses net of gains) from other derivative financial instruments		221	(342)
Gains less losses from dealing in foreign currencies		82	289
Gains less losses from disposal of investment securities available for sale	13	324	390
(Provision)/recovery of provision for other assets and litigation	16, 21	(78)	192
Gains from early redemption of other borrowed funds	20	25	41
Losses net of gains from non-banking activities	26	(1 245)	(269)
Gains on disposal of subsidiaries	38	21	-
Other operating income		927	296
Administrative and other operating expenses	27	(29 165)	(23 584)
Profit before tax		**350**	**733**
Income tax expense	28	(292)	(364)
Profit for the year		**58**	**369**
Other comprehensive (loss)/income			
Securities available for sale:			
- Revaluation of securities at fair value	13	(672)	246
- Realised revaluation reserve (at disposal)	13	(324)	(390)
Revaluation of premises		211	142
Income tax recorded directly in other comprehensive income	28	157	-
Other comprehensive loss for the year, net of tax		**(628)**	**(2)**
Total comprehensive (loss)/income for the year		**(570)**	**367**
Profit/(loss) is attributable to:			
Owner of the Bank		367	489
Non-controlling interest		(309)	(120)
Profit for the year		**58**	**369**
Total comprehensive (loss)/income is attributable to:			
Owner of the Bank		(261)	487
Non-controlling interest		(309)	(120)
Total comprehensive (loss)/income for the year		**(570)**	**367**

In millions of Russian Roubles	Note	Attributable to owner of the Bank					Non-controlling interest	Total equity
		Share capital	Revaluation reserve for premises	Revaluation reserve for securities available for sale	Retained earnings	Total		
Balance at 31 December 2009		**106 973**	**842**	**14**	**6 572**	**114 401**	**1 135**	**115 536**
Profit/(loss) for the year, net of tax		-	-	-	489	489	(120)	369
Other comprehensive loss, net of tax		-	113	(115)	-	(2)	-	(2)
Total comprehensive income/(loss), net of tax		-	113	(115)	489	487	(120)	367
Share issue	23	1 825	-	-	-	1 825	-	1 825
Change in ownership interests		-	-	-	-	-	102	102
Realised revaluation reserve for premises, net of tax		-	(22)	-	22	-	-	-
Dividends declared	29	-	-	-	(232)	(232)	-	(232)
Balance at 31 December 2010		**108 798**	**933**	**(101)**	**6 851**	**116 481**	**1 117**	**117 598**
Profit/(loss) for the year, net of tax		-	-	-	367	367	(309)	58
Other comprehensive loss, net of tax		-	169	(797)	-	(628)	-	(628)
Total comprehensive income/(loss), net of tax		-	169	(797)	367	(261)	(309)	(570)
Share issue	23	40 000	-	-	-	40 000	-	40 000
Realised revaluation reserve for premises, net of tax		-	(52)	-	52	-	-	-
Dividends declared	29	-	-	-	(253)	(253)	-	(253)
Balance at 31 December 2011		**148 798**	**1 050**	**(898)**	**7 017**	**155 967**	**808**	**156 775**

In millions of Russian Roubles	**Note**	**2011**	**2010**
Cash flows from operating activities			
Interest received		104 112	99 098
Interest paid		(54 586)	(51 386)
Income received from trading in securities and financial instruments designated at fair value through profit or loss		424	1 091
Income received from foreign exchange swaps with settlement dates of more than 30 working days		75	7 624
Income received/(losses incurred) from other derivative financial instruments		602	(380)
Income received from dealings in foreign currencies		82	289
Fees and commissions received		4 930	3 411
Fees and commissions paid		(631)	(440)
Other operating income received		577	296
Staff costs paid		(17 831)	(14 794)
Administrative and other operating expenses paid		(9 915)	(6 873)
Income tax paid		(4 462)	(1 940)
Cash flows from operating activities before changes in operating assets and liabilities		**23 377**	**35 996**
Changes in operating assets and liabilities			
Net increase in mandatory cash balances with the Central Bank of the Russian Federation		(4 949)	(494)
Net decrease in trading securities		3 967	16 826
Net increase in financial instruments designated at fair value through profit or loss		(1 406)	(6 055)
Net (increase)/decrease in due from other banks		(3 147)	3 586
Net increase in loans and advances to customers		(225 985)	(125 768)
Net increase in other assets		(6 378)	(1 336)
Net decrease in due to other banks		(20 899)	(87 348)
Net increase in customer accounts		218 666	154 883
Net increase/(decrease) in promissory notes issued		9 807	(2 633)
Net increase in other liabilities		1 271	257
Net cash used in operating activities		**(5 676)**	**(12 086)**
Cash flows from investing activities			
Acquisition of premises and equipment	15	(1 820)	(2 855)
Proceeds from disposal of premises and equipment		75	702
Acquisition of intangible assets	15	(416)	(829)
Acquisition of investment securities available for sale	13	(116 178)	(40 136)
Proceeds from disposal of investment securities available for sale	13	51 385	16 825
Acquisition of investment securities held to maturity		(1 132)	(7 956)
Proceeds from redemption of investment securities held to maturity		1 625	865
Acquisition of subsidiaries, net of cash acquired		(17)	-
Cash outflow on disposal of subsidiaries, net of cash disposed of		(24)	-
Net cash used in investing activities		**(66 502)**	**(33 384)**
Cash flows from financing activities			
Issue of ordinary shares	23	40 000	1 825
Proceeds from subordinated debts		22 434	-
Repayment of subordinated debts		(15 748)	-
Proceeds from other borrowed funds	20	83 564	65 958
Repayment of other borrowed funds	20	(9 089)	(27 081)
Proceeds from sale of previously bought back other borrowed funds		1 137	-
Buy back of other borrowed funds		(102)	-
Dividends paid	29	(253)	(232)
Repayment of syndicated loans		-	(7 374)
Net cash from financing activities		**121 943**	**33 096**
Effect of exchange rate changes on cash and cash equivalents		**3 178**	**(1 568)**
Effect directly associated with disposal groups held for sale		**6**	**(6)**
Net increase/(decrease) in cash and cash equivalents		**52 949**	**(13 948)**
Cash and cash equivalents at the beginning of the year	7	81 010	94 958
Cash and cash equivalents at the end of the year	7	**133 959**	**81 010**

1 Introduction

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (the "IASB") for the year ended 31 December 2011 for Open Joint-Stock Company Russian Agricultural Bank (the "Bank") and its subsidiaries (together referred to as the "Group").

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

The Bank's only shareholder is the Government of the Russian Federation represented by the Federal Agency for Managing State Property.

Principal activity. The Bank's principal business activity is commercial and retail banking operations in the Russian Federation with emphasis on lending to agricultural enterprises. The main objectives of the Bank are:

- to participate in realisation of the monetary policy of the Russian Federation in the area of agricultural production;
- to develop within the agricultural industry a national system of lending to the domestic agricultural producers; and
- to maintain an effective and uninterrupted performance of the settlement system in the area of agricultural production across the Russian Federation.

The Bank has operated under a full banking licence issued by the Central Bank of the Russian Federation ("CBRF") since 13 June 2000. The Bank participates in the State deposit insurance scheme, which was introduced by the Federal Law #177-FZ "Deposits of individuals insurance in Russian Federation" dated 23 December 2003. The State Deposit Insurance Agency guarantees repayment of 100% of individual deposits up to RR 700 thousand per individual in case of the withdrawal of a licence of a bank or a CBRF imposed moratorium on payments.

The Bank has 78 (2010: 78) branches within the Russian Federation. The Bank's registered address is 119034 Russia, Moscow, Gagarinsky Pereulok, 3. The Bank's principal place of business is 119019 Russia, Moscow, Arbat, 1.

In August 2011 the Group acquired 100% of shares in Closed Joint-Stock Company «Insurance Company «GazGarant», which was later renamed to Closed Joint-Stock Company «RSHB-Insurance».

The number of the Group's employees at 31 December 2011 was 35 699 (2010: 36 120).

Presentation currency. These consolidated financial statements are presented in the currency of the Russian Federation, millions of Russian Roubles ("RR millions").

2 Operating Environment of the Group

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

In the summer 2010, the Government declared a drought emergency in several Russian regions. This event had significant negative consequences, including an increase in consumer prices for certain food products. The Russian Government announced state support for drought-affected regions.

Borrowers of the Group were adversely affected by the financial and economic environment, which in turn has had an impact on their ability to repay the amounts owed. Deteriorating economic conditions for borrowers were reflected in revised estimates of expected future cash flows in impairment assessments.

In 2011 the harvest in Russia was significantly higher compared to the previous year due to favourable weather conditions in major agricultural regions.

2 Operating Environment of the Group (Continued)

The market in Russia for many types of collateral, especially real estate, has been severely affected by the volatile global financial markets, resulting in a low level of liquidity for certain types of assets. As a result, the actual realisable value on future foreclosures may differ from the value ascribed in estimating allowances for impairment at the end of the reporting period.

Under International Financial Reporting Standards ("IFRS"), impairment losses on financial assets expected as a result of future events, no matter how likely, cannot be recognised until such events arise.

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

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

3 Summary of Significant Accounting Policies

Basis of preparation. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value, and by the revaluation of premises used in banking activity, investment securities available for sale, and financial instruments categorised as at fair value through profit or loss. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated (refer to Note 5).

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

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

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

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

3 Summary of Significant Accounting Policies (Continued)

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

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

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

Purchases and sales of non-controlling interest. The Group applies the economic entity model to account for transactions with non-controlling shareholders. Any difference between the purchase consideration and the carrying amount of non-controlling interest acquired is recorded directly in equity.

The Group recognizes the difference between sales consideration and carrying amount of non-controlling interest sold in the consolidated statement of changes in equity.

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

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss, where appropriate.

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

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

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

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

3 Summary of Significant Accounting Policies (Continued)

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 consolidated statement of financial position.

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

Initial recognition of financial instruments. Trading securities, derivatives and financial instruments designated 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 with the same instrument or by a valuation technique whose inputs include only data from observable markets.

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

Derecognition of financial assets. The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise are 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 are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents include interbank loans, deposits and reverse sale and repurchase agreements with other banks with original maturity of less than one month. Amounts which relate to funds that are of a restricted nature are excluded from cash and cash equivalents.

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

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

3 Summary of Significant Accounting Policies (Continued)

Trading securities are carried at fair value. Interest earned on trading securities calculated using the effective interest method is presented in 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 profit or loss as gains less losses from trading securities in the period in which they arise.

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

Securities purchased under agreements to resell ("reverse repo agreements") which effectively provide a lender's return to the Group are recorded as cash and cash equivalents, due from other banks or loans and advances to customers, 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.

Financial instruments designated at fair value through profit or loss. Financial instruments designated 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 performance of these investments is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information on that basis is regularly provided to and reviewed by the Group's key management personnel. Recognition and measurement of this category of financial assets is consistent with the above policy for trading securities.

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

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

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

3 Summary of Significant Accounting Policies (Continued)

Investment securities held to maturity. This classification includes quoted non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has both the intention and ability to hold to maturity. An investment is not classified as held-to-maturity investment if the Group has the right to require that the issuer repay or redeem the investment before its maturity, because paying for such a feature is inconsistent with expressing an intention to hold the asset until maturity. Management determines the classification of investment securities held to maturity at their initial recognition and reassesses the appropriateness of that classification at the end of each reporting period. The Group may reclassify financial assets into this category from fair value through profit or loss category in rare circumstances arising from a single event that is unusual and highly unlikely to reoccur in the near term. Investment securities held to maturity are carried at amortised cost.

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

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

Impairment of financial assets carried at amortised cost. Impairment losses are recognised in profit or loss for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Group determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. The primary factors that the Group considers in determining whether a financial asset is impaired are its overdue status and significant financial difficulty of the debtor. Refer to Note 12 for the detailed principal criteria to determine whether there is objective evidence that an impairment loss has occurred.

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.

3 Summary of Significant Accounting Policies (Continued)

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 through profit or loss for the year.

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

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

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

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

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

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

Premises owned by the Group and used in a banking activity were for the first time revalued at fair value as at 31 December 2007 and are subject to regular subsequent revaluation. The frequency of revaluation depends upon the movements in the fair values of the premises being revalued. The revaluation is recognised by proportionally restating the gross carrying amount and accumulated depreciation of the revalued premises. These changes in values are shown separately in the reconciliation of movements in premises in Note 15. The revaluation reserve for premises and equipment 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.

Premises owned by the Group and used in non-banking activities are stated at cost less accumulated depreciation and provision for impairment, where required.

3 Summary of Significant Accounting Policies (Continued)

Construction in progress is carried at historical cost less provision for impairment where required. Construction in progress is not depreciated until the asset is available for use.

Costs of minor repairs and maintenance are expensed when incurred. Cost of replacing major parts or components of premises and equipment items are capitalised and the replaced part is retired. Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss.

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.

Depreciation. Land is not depreciated. Depreciation on other items of premises and equipment is calculated using the straight-line method to allocate cost or revalued amounts of premises and equipment to their residual values over the estimated remaining useful lives. The following useful lives in years are applied for the main categories of premises and equipment:

Useful lives in years	Used in banking activities	Used in non-banking activities
Premises	40	20 - 40
Equipment	5 - 20	5 - 20
Leasehold improvements	10	-

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

Intangible assets. The Group's intangible assets other than goodwill have definite useful life and primarily include capitalised computer software.

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Development costs that are directly associated with identifiable and unique software controlled by the Group are recorded as intangible assets if the inflow of incremental economic benefits exceeding costs is probable. Capitalised costs include staff costs of the software development team and 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 5 years.

Investment property. Investment property is property held by the Group to earn rental income or for capital appreciation and which is not occupied by the Group.

Investment properties are stated at cost less accumulated depreciation and provision for impairment, where required. If any indication exists that investment properties may be impaired, the Group estimates the recoverable amount as the higher of value in use and fair value less costs to sell. The carrying amount of an investment property is written down to its recoverable amount through profit or loss. An impairment loss recognised in prior years is reversed if there has been a subsequent change in the estimates used to determine the asset's recoverable amount.

Earned rental income is recorded in profit or loss within other operating income. Gains or losses on disposal of investment property are calculated as proceeds less carrying amount.

3 Summary of Significant Accounting Policies (Continued)

Subsequent expenditure is capitalised to the asset's carrying amount only when it is probable that future economic benefits associated with the expenditure will flow to the Group and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred.

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 on a straight-line basis over the period of the lease.

Finance lease liabilities. Where the Group is a lessee in a lease which transferred substantially all the risks and rewards incidental to ownership to the Group, the assets leased are capitalised in premises and equipment at the commencement of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of future finance charges, are included in other liabilities. The interest cost is charged to profit or loss over the lease period using the effective interest method. The assets acquired under finance leases are depreciated over their useful life or the shorter lease term if the Group is not reasonably certain that it will obtain ownership by the end of the lease term.

Inventory. Inventories are stated at the lower of cost and net realisable value. The cost of inventories is determined using the first-in, first-out (FIFO) method. Net realisable value is the estimated selling price in the ordinary course of business less applicable variable selling expenses. The cost of finished goods and work in progress comprises packaging costs, raw materials, direct labour, other direct costs and related production overheads.

Non-current assets classified as held for sale. Non-current assets and disposal groups, 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 a 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 or disposal groups classified as held for sale in the current period's statement of financial position are not reclassified or re-presented in the comparative consolidated statement of financial position to reflect the classification at the end of the current period.

A disposal group is a group of assets (current or non-current) to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction. Goodwill is included if the disposal group includes an operation within a cash-generating unit, to which goodwill has been allocated on acquisition. 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 disposal groups as a whole are measured at the lower of their carrying amount and fair value less costs to sell.

Liabilities directly associated with disposal groups that will be transferred in the disposal transaction are reclassified and presented separately in the consolidated statement of financial position.

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

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

3 Summary of Significant Accounting Policies (Continued)

Promissory notes issued. Promissory notes issued by the Group are carried at amortised cost. If the Group purchases its own promissory notes issued, 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/(losses) arising from early retirement of debt.

Other borrowed funds. Other borrowed funds represent amounts attracted from Eurobonds issue and bonds issued on domestic market. Issued Eurobonds and bonds issued on domestic market carry a coupon and are redeemable on a specific date. Other borrowed funds are carried at amortised cost. If the Group repurchases its borrowed funds, 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/(losses) arising from early retirement of debt.

Subordinated debts. Subordinated debts are carried at amortised cost. Creditors' claims on subordinated debts will be considered only after all claims of other creditors of the Group are satisfied.

Derivative financial instruments. Derivative financial instruments, including foreign exchange contracts (forwards and swaps) and futures on shares are carried at their fair value. Non-derivative transactions are aggregated and treated as a derivative when the transaction result, in substance, is a derivative.

An embedded derivative shall be separated from the host contract and accounted for as a derivative if, and only if:

a. the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract;

b. a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and

c. the hybrid (combined) instrument is not measured at fair value with changes in fair value recognised in profit or loss (i.e. a derivative that is embedded in a financial asset or financial liability at fair value through profit or loss is not separated).

If an embedded derivative is separated, the host contract shall be accounted for under IAS 39 Financial Instruments: Recognition and Measurement, and in accordance with other appropriate Standards if it is not a financial instrument. If a contract contains one or more embedded derivatives, the Group may designate the entire hybrid (combined) contract as a financial asset or financial liability at fair value through profit or loss.

All derivative financial 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 financial instruments are included in gains less losses from derivative financial instruments. The Group does not apply hedge accounting.

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

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

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

3 Summary of Significant Accounting Policies (Continued)

Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

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

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

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

Trade 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 are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

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

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

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents.

Commitment fees received by the Group to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. The Group does not designate loan commitments as financial liabilities at fair value through profit or loss.

When loans and other debt instruments become doubtful of collection, they are written down to 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.

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.

3 Summary of Significant Accounting Policies (Continued)

Commissions on agency services are recognised based on the applicable service contracts.

Revenue recognition — sale of goods. Revenues from sales of goods are recognised at the point of transfer of risks and rewards of ownership of the goods, normally when the goods are shipped. If the Group agrees to transport goods to a specified location, revenue is recognised when the goods are passed to the customer at the destination point. Sales are shown net of VAT and discounts.

Revenues are measured at the fair value of the consideration received or receivable. When the fair value of goods received in a barter transaction cannot be measured reliably, the revenue is measured at the fair value of the goods or service given up.

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

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

Fiduciary assets. Assets and liabilities held by the Group in its own name, but on the account of third parties, are not reported in the consolidated statement of financial position. The extent of such balances and transactions is indicated in Note 33. For the purposes of disclosure, fiduciary activities do not encompass safe custody functions. 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.

Accounting for the effects of hyperinflation. The Russian Federation has previously experienced relatively high levels of inflation and was considered to be hyperinflationary as defined by IAS 29 Financial Reporting in Hyperinflationary Economies ("IAS 29"). IAS 29 requires that the consolidated financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the end of the reporting period. It states that reporting operating results and financial position in the local currency without restatement is not useful because money loses purchasing power at such a rate that the comparison of amounts from transactions and other events that have occurred at different times, even within the same accounting period, is misleading.

The characteristics of the economic environment of the Russian Federation indicated that hyperinflation had ceased effective from 1 January 2003. Restatement procedures of IAS 29 are therefore only applied to share capital. For these balances, the amounts expressed in the measuring unit current as at 31 December 2002 are the basis for the carrying amounts in these consolidated financial statements. The restatement was calculated using the conversion factors derived from the Russian Federation Consumer Price Index ("CPI"), published by the Russian Statistics Agency, and from indices obtained from other sources for years prior to 1992.

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 makes payments to a non-state pension fund in respect of certain groups of employees (a defined contribution plan). These payments are included in staff expenses in consolidated profit or loss.

Segment Reporting. IFRS 8 requires an entity to report financial and descriptive information about its operating segments, with segment information presented on a similar basis to that used for internal reporting purposes.

3 Summary of Significant Accounting Policies (Continued)

An operating segment is a component of the Group that engages in business activities from which it earns revenues and incurs expenses whose operating results are regularly reviewed by the Group's Chief Operating Decision Maker (CODM) to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. The Management Board has been identified as the CODM.

In these consolidated financial statements the Group defined operating segments on the basis of organizational structure and geographical areas.

Amendments of the financial statements after issue. Any further changes to these consolidated financial statements require approval of the Group's Management who authorised these consolidated financial statements for issue.

4 Critical Accounting Estimates and Judgements in Applying Accounting Policies

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

Impairment losses on loans and advances. The Group regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in the profit or loss, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group.

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. A 5% increase or decrease in actual loss given default compared to estimated loss given default used would result in an increase or decrease in loan impairment losses by RR 2 045 million (2010: a 5% increase or decrease in actual loss given default compared to estimated loss given default used would result in an increase or decrease in loan impairment losses by RR 1 480 million).

Held-to-maturity financial assets. Management applies judgement in assessing whether financial assets can be categorised as held-to-maturity, in particular its intention and ability to hold the assets to maturity. If the Group fails to keep these investments to maturity other than in certain specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to reclassify the entire class as available-for-sale. The investments would therefore be measured at fair value rather than amortised cost. Refer to Note 36.

Accounting for subordinated debt from Vnesheconombank. The Russian government provided assistance to the Russian financial system by instructing the Russian State Corporation Bank Razvitiya i Vneshneekonomicheskoy Deyatelnosti ("Vnesheconombank") to grant subordinated debts to selected banks. This subordinated debt was attracted in accordance with the Federal Law # 173-FZ "On supplementary measures to support financial system of the Russian Federation" dated 13 October 2008 (the "Federal Law # 173-FZ").

4 Critical Accounting Estimated and Judgements in Applying Accounting Policies (Continued)

In October 2008 the Group attracted a subordinated debt from Vnesheconombank in the amount of RR 25 000 million with maturity in December 2019 and interest rate of 8.0% p.a.

Due to its unique terms and conditions, subordinated nature and absence of observable current market transactions providing evidence of a market rate for such instruments, the debt was originally recognised and subsequently carried on the consolidated statement of financial position at amortised contractual value.

Had there been evidence that the market interest rate for such debt was higher than the contractual interest rate, the amortised contractual value of the debt would have been replaced by (i) the amortised value of the debt determined based on the fair value of the debt at the date of origination and (ii) the unamortised value of the government grant embedded in such low interest debt; there would have been no impact on the profit or loss for the year since the increased effective interest rate would have been offset by amortisation of the government grant.

Accounting for the change of interest rate on the subordinated debt from Vnesheconombank. In July 2010, Federal Law # 173-FZ was amended to reduce the interest rate on subordinated debt attracted by the Group from Vnesheconombank from 8.0% p.a. to 6.5% p.a. All other terms of the debt remained unchanged.

The Group accounted for such reduction in accordance with IAS 39 "Financial Instruments: Recognition and Measurement" and tested whether the modification was substantial. As the modification was not substantial, the Group accounted for the change in the interest rate as a prospective adjustment of the effective interest rate.

The alternative possible accounting treatment could have been to account for the above reduction of interest rate in accordance with IAS 20 "Accounting for Government Grants and Disclosure of Government Assistance" and the difference between the previous and revised carrying value of the debt in the amount of RR 2 375 million would have been recorded as a government grant and included in deferred income within other liabilities and would have to be amortised through interest expense until the debt's maturity date.

5 Adoption of New or Revised Standards and Interpretations

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

Amendment to IAS 24, Related Party Disclosures (issued in November 2009 and effective for annual periods beginning on or after 1 January 2011). IAS 24 was revised in 2009 by: (a) simplifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies; and by (b) providing a partial exemption from the disclosure requirements for government-related entities. The Group has early adopted amendments to IAS 24. Refer to Note 37.

Amendment to IFRS 7, Financial Instruments: Disclosures (issued in May 2010 and effective from 1 January 2011). 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. This amendment was adopted previously by the Group in its prior year's consolidated financial statements. The financial effect of collateral required to be disclosed by the amendments to IFRS 7 is presented in these consolidated financial statements by disclosing collateral values separately for (i) those financial assets where collateral and other credit enhancements are equal to, or exceed, gross amount (before impairment) of the asset ("over-collateralised assets") and (ii) those financial assets where collateral and other credit enhancements are less than the gross amount (before impairment) of the asset ("under-collateralised assets"). Refer to Note 12 .

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:

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

- 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 interest that does 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;

- 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 improvements 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.

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.

Unless otherwise stated above, the amendments, improvements and interpretations did not have any significant effect on the Group's 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 periods 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.

6 New Accounting Pronouncements (Continued)

- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent only payments of principal and interest (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 recognize 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 as at fair value through profit or loss in other comprehensive income.

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

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

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

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

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

6 New Accounting Pronouncements (Continued)

IAS 27, Separate Financial Statements (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013), was changed and its objective is now to prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The guidance on control and consolidated financial statements was replaced by IFRS 10, Consolidated Financial Statements. There is no impact of the amended standard on these 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 of an entity's financial statements 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 June 2011, effective for annual periods beginning on or after 1 July 2012), changes the disclosure of items presented in other comprehensive income. The amendments require entities to separate items presented in other comprehensive income into two groups, based on whether or not they may be reclassified to profit or loss in the future. The suggested title used by IAS 1 has changed to 'statement of profit or loss and other comprehensive income'. The Group expects the amended standard to change presentation of its consolidated financial statements, but have no impact on measurement of transactions and balances.

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

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

Offsetting Financial Assets and Financial Liabilities — Amendments to IAS 32 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2014). The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. These include 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 amendments, the impact on the Group and the timing of theirs adoption by the Group.

6 New Accounting Pronouncements (Continued)

Other revised standards and interpretations: The amendments to IFRS 1 "First-time adoption of IFRS", relating to severe hyperinflation and eliminating references to fixed dates for certain exceptions and exemptions, will not have any impact on these consolidated financial statements. The amendment to IAS 12 "Income taxes", which introduces a rebuttable presumption that an investment property carried at fair value is recovered entirely through sale, will not have any impact on these consolidated financial statements. IFRIC 20, Stripping Costs in the Production Phase of a Surface Mine, which considers when and how to account for the benefits arising from the stripping activity in mining industry, will have no impact on these 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 millions of Russian Roubles	**2011**	**2010**
Cash on hand	19 635	16 101
Cash balances with the CBRF (other than mandatory reserve deposits)	33 015	37 361
Correspondent accounts and deposits with other banks with original maturities less than one month	77 225	25 952
Settlement accounts with stock and currency exchanges	3 256	1 596
Deals with securities purchased under "reverse-repo agreements" with original maturities of less than one month	828	-
Total cash and cash equivalents	**133 959**	**81 010**

As at 31 December 2011 cash equivalents of RR 828 million are effectively collateralized by securities purchased under reverse sale and repurchase agreements at fair value of RR 956 million (2010: no cash equivalents effectively collateralized by securities purchased under reverse sale and repurchase agreements). The Group has a right to sell or repledge these securities.

As at 31 December 2011 correspondent accounts and deposits with other banks with original maturities less than one month included the balance with one Russian banking group with rating of its state-owned parent bank BBB (S&P) in the amount of RR 45 505 million or 34% of total cash and cash equivalents (2010: one Russian banking group with rating of its state-owned parent bank BBB (S&P) in the amount of RR 21 457 million or 26% of total cash and cash equivalents).

Analysis by credit quality of cash and cash equivalents is as follows:

In millions of Russian Roubles	**2011**	**2010**
Current and not impaired		
Cash on hand	19 635	16 101
Cash balances with the CBRF (other than mandatory reserve deposits)	33 015	37 361
Correspondent accounts and deposits with other banks with original maturities less than one month:		
- top 30 Russian banks (by net assets) and their subsidiary banks	58 815	23 441
- OECD banks and their subsidiary banks	17 099	2 498
- other Russian banks	1 303	3
- other non-resident banks	8	10
Settlement accounts with stock and currency exchanges	3 256	1 596
Deals with securities purchased under "reverse-repo agreements" with original maturities of less than one month:		
- other Russian banks	828	-
Total cash and cash equivalents	**133 959**	**81 010**

Refer to Note 35 for the disclosure of fair value of cash and cash equivalents. Geographical and interest rate analyses of cash and cash equivalents are disclosed in Note 31.

8 Trading Securities

In millions of Russian Roubles	2011	2010
Corporate bonds	-	3 312
Municipal and subfederal bonds	-	251
Total trading securities	**-**	**3 563**

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

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

In millions of Russian Roubles	Securities internationally rated not lower than BB- (S&P)*	Securities internationally rated lower than BB- (S&P)*	Total
Corporate bonds	2 412	900	3 312
Municipal and subfederal bonds	251	-	251
Total debt trading securities	**2 663**	**900**	**3 563**

* or ratings of other analogous rating agencies

If a security's rating is unavailable, the issuer's rating is used.

Corporate bonds are securities denominated in Russian Roubles issued by major Russian companies. Corporate bonds are traded at a discount or premium to face value and carry a coupon payable quarterly or semi-annually, depending on the type of the bond issue and the issuer. As at 31 December 2010 these bonds have maturity dates from May 2011 to December 2013, coupon rates from 10.0% to 13.5% p.a. and yield to maturity or next repricing date from 6.3% to 7.0% p.a., depending on the type of the bond issue, the issuer and the market conditions.

Municipal and subfederal bonds are represented by bonds issued by Russian municipal and subfederal authorities. These bonds are traded at a discount or premium to face value and carry a coupon payable quarterly or semi-annually, depending on the type of the bond issue and the issuer. As at 31 December 2010 these bonds have maturity date in June 2017, coupon rate 8.0% p.a. and yield to maturity 7.4% p.a.

Refer to Note 35 for the disclosure of fair value hierachy for trading securities. Geographical and interest rate analyses of trading securities are disclosed in Note 31.

8 Trading Securities (Continued)

The Group reclassified the following financial assets from held for trading category during 2008:

In million of Russian Roubles	**Amount reclassified**	**Undiscounted cash flows expected to be recovered**	**Effective interest rate (%)**
Reclassified into held to maturity			
Federal loan bonds (OFZ)	4 141	7 825	5.7 – 7.3
Municipal and subfederal bonds	1 201	1 698	7.1 – 9.2
Corporate bonds	980	1 411	6.7 – 10.1
Corporate Eurobonds	793	1 300	7.0 – 8.8
Reclassified into available for sale			
Municipal and subfederal bonds	53	56	7.0
Corporate bonds	2 792	3 868	7.3 – 15.4
Corporate Eurobonds	1 959	2 918	6.2 – 11.6
Corporate shares	12	12	-
Total	**11 931**	**19 088**	

The reclassification was made effective from 1 July 2008 when, in management's opinion, the third quarter 2008 collapse in financial markets liquidity and stability commenced, which had also led to the International Accounting Standards Board issuing the amendment allowing reclassifications from that date.

Management believes that the declines in market prices that occurred in the third quarter of 2008 represent a rare event as they are significantly out of line with historical volatilities observed in financial markets.

The carrying amounts and fair values of all financial assets that have been reclassified from trading securities and which were not yet sold or otherwise derecognised, were as follows:

	2011		**2010**	
In millions of Russian Roubles	**Carrying value**	**Fair value**	**Carrying value**	**Fair value**
Reclassified into held to maturity	5 774	5 936	5 959	5 906
Reclassified into available for sale	292	292	1 183	1 183
Total	**6 066**	**6 228**	**7 142**	**7 089**

8 Trading Securities (Continued)

Income or loss recognised for 2011 and fair value gain or loss that would have been recognised if financial assets had not been reclassified were as follows:

In millions of Russian Roubles	**Income/(loss) recognised in profit or loss after reclassification***				**Fair Value gain/(loss) that would have been recognised if the assets had not been reclassified**			
	2011	**2010**	**2009**	**2008**	**2011**	**2010**	**2009**	**2008**
Reclassified into held to maturity	486	480	540	482	84	441	833	(1 307)
Reclassified into available for sale	59	215	492	743	(40)	74	1 067	(1 612)
Total	**545**	**695**	**1 032**	**1 225**	**44**	**515**	**1 900**	**(2 919)**

* Income or loss recognised after reclassification comprises gains less losses from sale, interest income, foreign exchange gains less losses.

9 Repurchase Receivables

In millions of Russian Roubles	**2011**	**2010**
Trading securities		
Corporate bonds	-	618
Securities available for sale		
Corporate bonds	825	11 929
Federal loan bonds (OFZ)	443	-
State Eurobonds	-	2 658
Municipal and subfederal bonds	48	35
Securities held to maturity		
Corporate bonds	1 053	-
Total repurchase receivables	**2 369**	**15 240**

Analysis by credit quality of repurchase receivables outstanding at 31 December 2011 is as follows:

In millions of Russian Roubles	**Securities internationally rated not lower than BB- (S&P)***	**Internationally unrated securities**	**Total**
Securities available for sale			
Corporate bonds	536	289	825
Federal loan bonds (OFZ)	443	-	443
Municipal and subfederal bonds	48	-	48
Securities held to maturity			
Corporate bonds	931	122	1 053
Total repurchase receivables	**1 958**	**411**	**2 369**

* or ratings of other analogous rating agencies

9 Repurchase Receivables (Continued)

Analysis by credit quality of repurchase receivables outstanding at 31 December 2010 is as follows:

In millions of Russian Roubles	Securities internationally rated not lower than BB- (S&P)*	Securities internationally rated lower than BB- (S&P)*	Internationally unrated securities	Total
Trading securities				
Corporate bonds	618	-	-	618
Securities available for sale				
Corporate bonds	10 556	676	697	11 929
State Eurobonds	2 658	-	-	2 658
Municipal and subfederal bonds	35	-	-	35
Total repurchase receivables	**13 867**	**676**	**697**	**15 240**

* or ratings of other analogous rating agencies

If a security's rating is unavailable, the issuer's rating is used.

Corporate bonds are securities denominated in Russian Roubles issued by major Russian companies. Corporate bonds are traded at a discount or premium to face value and carry a coupon payable semi-annually. As at 31 December 2011 these bonds have maturity dates from September 2013 to June 2021 (2010: from October 2011 to November 2020), coupon rates from 7.5% to 15.0% p.a. (2010: from 7.0% to 14.8% p.a.) and yield to maturity or next repricing date from 7.6% to 10.4% p.a. (2010: from 6.3% to 11.2% p.a.), depending on the type of the bond issue, the issuer and the market conditions.

Federal loan bonds (OFZ) are represented by state securities denominated in Russian Roubles issued by Ministry of Finance of Russian Federation. Federal loan bonds (OFZ) are traded at a discount or premium to face value and carry a coupon payable semi-annually. As at 31 December 2011 these bonds have maturity date from June 2017 to March 2018, annual coupon rate from 7.4% to 7.5% p.a. and yield to maturity from 8.3% to 8.4% p.a. depending on the type of the bond issue and the market conditions.

Municipal and subfederal bonds are represented by bonds issued by Russian municipal and subfederal authorities. These bonds are traded at a discount or premium to face value and carry a coupon payable semi-annually. As at 31 December 2011 these bonds have maturity date in June 2017 (2010: June 2012), coupon rate 8% p.a. (2010: 9.5% p.a.) and yield to maturity 8.7% p.a. (2010: 6.7% p.a).

State Eurobonds are represented by Russian Federation bonds denominated in USD. As at 31 December 2010 these bonds have maturity date in March 2030, annual coupon rate 7.5% p.a. payable semi-annually, and yield to maturity 4.8% p.a.

Refer to Note 35 for the disclosure of fair value hierarchy of repurchase receivables related to securities available for sale and fair values of repurchase receivables related to securities held to maturity. Geographical and interest rate analyses of repurchase receivables are disclosed in Note 31.

10 Financial Instruments Designated at Fair Value Through Profit or Loss

In millions of Russian Roubles	2011	2010
Credit Linked Note	848	825
Due from other banks	10 377	8 861
Total financial instruments designated at fair value through profit or loss	**11 225**	**9 686**

International credit ratings of issuers of the notes and of counterparty banks were not less than BB- (S&P) as at 31 December 2011 (31 December 2010: not less than BB- (S&P)).

10 Financial Instruments Designated at Fair Value Through Profit or Loss (Continued)

Management classified financial instruments with embedded derivatives as financial instruments designated at fair value through profit or loss, although there was an option to separate the embedded derivative and value the host contract at amortised cost.

In May 2008, the Group purchased a Credit Linked Note from an OECD bank in the nominal amount of RR 2 500 million at the net price of 19.5% of the nominal amount with maturity in May 2023 and a zero coupon. The Note has an embedded Credit Default Swap linked to the Bank's own credit risk.

Due from other banks with embedded derivatives are as follows:

In March 2010, the Group placed funds with the OECD bank in the total amount of USD 200 million, with maturity in April 2014 and interest rates of 10.0% and 10.4% p.a. The contracts have embedded derivatives FTD ("first to default"), linked to credit events associated with quasi-sovereign issuers.

In April 2010 and August 2010, the Group placed funds with the OECD bank in the total amount of USD 107 million, with maturity in March 2013 and August 2015 and interest rates of 10.3% and 10.1% p.a. The contracts have embedded derivatives linked to a credit risk of a quasi-sovereign issuer.

In May 2011, the Group placed funds with the OECD bank in the total amount of USD 50 million, with maturity in May 2016, an interest rate of 0.6% p.a. The contract has an embedded option linked to the performance of commodity index.

Refer to Note 35 for the disclosure of fair value hierarchy for financial instruments designated at fair value through profit or loss. Geographical and interest rate analyses of financial instruments designated at fair value through profit or loss are disclosed in Note 31.

11 Due from Other Banks

In millions of Russian Roubles	**2011**	**2010**
Current term placements with other banks	39 577	34 500
Less: Provision for impairment	(8)	(23)
Total due from other banks	**39 569**	**34 477**

Analysis of the movements in the provision for loan impairment for due from other banks is as follows:

In millions of Russian Roubles	**2011**	**2010**
Provision for loan impairment for due from other banks at 1 January	**23**	**7**
(Recovery of provision)/provision for loan impairment for due from other banks during the year	(15)	16
Provision for loan impairment for due from other banks at 31 December	**8**	**23**

11 Due from Other Banks (Continued)

Analysis by credit quality of amounts due from other banks is as follows:

In millions of Russian Roubles	2011	2010
Current and not impaired		
- OECD banks and their subsidiary banks	25 962	24 566
- Other non-resident banks	5 580	3 787
- Top 30 Russian banks (by net assets) and their subsidiary banks	4 831	916
- Other Russian banks	2 898	4 861
Total current and not impaired	**39 271**	**34 130**
Individually assessed for impairment		
- watch-list	306	370
Total individually assessed for impairment	**306**	**370**
Total due from other banks (before impairment)	**39 577**	**34 500**
Provision for impairment	**(8)**	**(23)**
Total due from other banks	**39 569**	**34 477**

Analysis of amounts due from other banks by collateral is as follows:

In millions of Russian Roubles	2011	2010
Unsecured interbank loans	10 709	5 099
Interbank loans collateralised by:		
- guarantee deposits	25 962	24 566
- other assets	2 898	4 812
Total due from other banks	**39 569**	**34 477**

As at 31 December 2011 the Group has placements with one foreign bank with rating A+ (S&P) in the total amount of RR 25 962 million, or 66% of total due from other banks (2010: one foreign bank with rating AA- (S&P) in the total amount of RR 24 566 million, or 71% of total due from other banks).

Refer to Note 35 for the disclosure of fair value of due from other banks. Geographical and interest rate analyses of due from other banks are disclosed in Note 31.

12 Loans and Advances to Customers

In millions of Russian Roubles	2011	2010
Loans to legal entities		
- Loans to corporates	796 450	615 385
- Lending for food interventions	33 256	44 514
- Deals with securities purchased under “reverse-repo agreements”	1 990	-
- Investments in agricultural cooperatives	509	655
Loans to individuals	147 403	85 031
Total loans and advances to customers (before impairment)	**979 608**	**745 585**
Less: Provision for loan impairment	(75 911)	(57 029)
Total loans and advances to customers	**903 697**	**688 556**

As at 31 December 2011 included in gross amount of loans are loans in the principal amount of RR 502 982 million (2010: RR 419 590 million), where borrowers are eligible for interest subsidies from federal and regional budgets. Subsidies are paid directly to the borrowers.

Lending for food interventions is represented by loans to a company, which is 100% owned by the Federal Government of the Russian Federation.

Investments in agricultural cooperatives represent contributions made by the Group as part of its participation in the National Project "Development of the Agro-Industrial Sector". According to the contracts with cooperatives the Group receives fixed annual dividends at the rate 1/2 of the rate of refinancing of the Bank of Russia of the contributions made. The Group’s management has a right to make cooperative member contributions for the period of 5 years and at the end to withdraw its contributions.

As at 31 December 2011, loans and advances to customers in the amount of RR 1 990 million are effectively collateralised by securities purchased under reverse repo agreements with a fair value RR 2 348 million (2010: no loans and advances to customers were effectively collateralised by securities purchased under reverse repo agreements). The Group has the right to sell or repledge securities.

12 Loans and Advances to Customers (Continued)

Analysis of the movements in the provision for loan impairment is as follows:

In millions of Russian Roubles	2011 Loans to corporates	2011 Investments in agricultural cooperatives	2011 Loans to individuals	2011 Total	2010 Loans to corporates	2010 Investments in agricultural cooperatives	2010 Loans to individuals	2010 Total
Provision for loan impairment at 1 January	**54 769**	**23**	**2 237**	**57 029**	**28 439**	**8**	**1 503**	**29 950**
Provision/(recovery of provision) for loan impairment during the year	22 000	(5)	572	22 567	27 742	15	734	28 491
Sale of loans	(3 203)	-	-	(3 203)	(1 405)	-	-	(1 405)
Loans and advances to customers written off during the year as uncollectible	(467)	-	-	(467)	(7)	-	-	(7)
Reclassification to assets of disposal groups held for sale	(15)	-	-	(15)	-	-	-	-
Provision for loan impairment at 31 December	**73 084**	**18**	**2 809**	**75 911**	**54 769**	**23**	**2 237**	**57 029**

No provision for "Lending for food interventions" and "Reverse repo agreements" was recorded as at 31 December 2011 and 2010.

The economic sector structure of the credit portfolio is as follows:

In millions of Russian Roubles	2011 Amount	2011 %	2010 Amount	2010 %
Agriculture	543 731	55	467 876	63
Individuals	147 403	15	85 031	11
Manufacturing	126 716	13	99 002	13
Trading	85 529	9	54 179	7
Construction	35 111	4	25 898	4
Other	41 118	4	13 599	2
Total loans and advances to customers (before impairment)	**979 608**	**100**	**745 585**	**100**

As at 31 December 2011, the aggregate amount of loans to individuals included loans in the principal amount of RR 61 884 million issued to individuals-sole farmers (2010: RR 52 689 million).

Loan portfolio analysis by credit quality. The Group estimates credit risk on the basis of professional judgement pronounced upon completing a comprehensive review of a borrower's activities taking into account their financial situation, debt service quality as well as all other information available to the Group related to any other risks of the borrower.

In reviewing the borrower's financial position the Group applies a system of coefficients according to which the borrower's financial situation is assessed as follows:

- *good* if the total score in evaluation of financial situation using the coefficient approach is 53 or more;
- *average* if the total score in evaluation of financial situation using the coefficient approach ranges from 52 to 25 (inclusive);
- *poor* if the total score in evaluation of financial situation using the coefficient approach is less than 25.

12 Loans and Advances to Customers (Continued)

In accordance with the methodology of financial assets impairment evaluation, the Group includes loans, for which there is no identified loss event or a borrower/debtor default into the category "*collectively assessed for impairment".*

As a *loss event* the Group recognizes objective evidence of asset impairment that emerged subsequent to initial recognition, namely:

- *for loans issued to legal entities (including individual entrepreneurs – sole farmers):*
  - significant financial difficulty of the borrower – changes in financial position from the moment when the loan is issued from good or average to poor (score of 24 and below in accordance with the methodology of evaluation and analysis of the Group's borrower financial position taking into consideration their industry, organisational and legal specifics);
  - violation of contract – principal or interest overdue by more than 5 days;
- *for loans issued to individuals:*
  - significant financial difficulty of the borrower – changes in the scoring of the borrower's financial position from the moment when the loan was issued from good to poor. i.e., loss or significant decrease in income or cost of property, out of which the individual intended to repay the debt (e.g., termination of labour relations between the employer and the individual if the latter has no significant savings, existence of court decisions on bringing the individual to criminal responsibility in the form of imprisonment that came into effect, existence of documentarily supported information of revocation of the license from the credit institution with which the individual's deposit is placed, if failure to receive this deposit impacts the ability of the individual borrower to fulfil his/her obligations on the loan);
  - violation of contract – principal or interest overdue by more than 30 days.

As a *default* of a borrower/debtor, the Group recognizes objective evidence that it is impossible for the creditor to claim future cash flows due under the contract, unless the collateral is used (default of the borrower/debtor), namely:

- *for legal entities (including individual entrepreneurs – sole farmers):*
  - the debtors excluded from the Single State Register of Legal Entities without legal succession (based upon the results of completed bankruptcy proceedings or on the basis of court decision on liquidation of the borrower at the presentation of the authorised body);
  - the debtors, with respect to whom bankruptcy proceedings are completed but they are not excluded from the Single State Register of Legal Entities;
  - the debtors, with respect to whom bankruptcy proceedings are conducted however the court has rejected the claim to include the amounts payable to the Bank into the register of creditors and/or there is no actual property used as a collateral that belongs to these debtors;
  - the debtors, with respect to whom court decision has entered into force but the court has rejected the claim to collect the debt in the Bank's favour or collection under a write-off execution is impossible due to expiry of the term, during which it can be presented for execution;
  - the debtors, who actually discontinued their operation and with respect to whom there exists a documentary confirmation of their actual absence;
  - principal or interest overdue by over 365 days;
- *for individuals:*
  - death of the debtor in the absence of heirs and inheritance;
  - the debtors, with respect to whom court decision has entered into force but the court has rejected the claim to collect the debt in the Bank's favour or collection under a writ of execution is impossible due to expiry of the term, during which it can be presented for execution;

12 Loans and Advances to Customers (Continued)

- principal or interest overdue by over 365 days;
- the debtors, who do not reside at the place of residence indicated in the loan agreement and with respect to whom it is impossible to identify the new place of residence.

Lending for food interventions and reverse repo agreements are assessed for impairment by the Group on the individual basis as the nature of the borrowers/products is unique and exposures could not be grouped with others.

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

In millions of Russian Roubles	Loans to corporates	Lending for food interventions	Reverse repo agreements	Investments in agricultural cooperatives	Loans to individuals	Total
1. Current and not impaired						
- good financial position	-	33 256	1 990	-	-	35 246
Total current and not impaired	**-**	**33 256**	**1 990**	**-**	**-**	**35 246**
2. Collectively assessed for impairment						
Current						
- good financial position	389 123	-	-	509	-	389 632
- average financial position	193 421	-	-	-	-	193 421
- included in portfolios of similar risk loans	441	-	-	-	143 244	143 685
Overdue						
- overdue by: less than 6 days for legal entities, less than 31 days for individuals	9 427	-	-	-	1 002	10 429
Total collectively assessed for impairment	**592 412**	**-**	**-**	**509**	**144 246**	**737 167**
3. Individually assessed for impairment						
- watch list	120 524	-	-	-	-	120 524
- poor financial position	2 972	-	-	-	-	2 972
- 6 to 30 days overdue	3 244	-	-	-	-	3 244
- 31 to 90 days overdue	8 452	-	-	-	470	8 922
- 91 to 180 days overdue	8 680	-	-	-	338	9 018
- 181 to 365 days overdue	16 324	-	-	-	394	16 718
- over 365 days overdue	43 842	-	-	-	1 955	45 797
Total individually assessed for impairment	**204 038**	**-**	**-**	**-**	**3 157**	**207 195**
Total loans and advances to customers (before impairment)	**796 450**	**33 256**	**1 990**	**509**	**147 403**	**979 608**
Provision for loan impairment	**(73 084)**	**-**	**-**	**(18)**	**(2 809)**	**(75 911)**
Total loans and advances to customers	**723 366**	**33 256**	**1 990**	**491**	**144 594**	**903 697**

12 Loans and Advances to Customers (Continued)

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

In millions of Russian Roubles	**Loans to corporates**	**Lending for food interven-tions**	**Investments in agricultural cooperatives**	**Loans to individuals**	**Total**
1. Current and not impaired					
- good financial position	-	44 514	-	-	44 514
Total current and not impaired	**-**	**44 514**	**-**	**-**	**44 514**
2. Collectively assessed for impairment					
Current					
- good financial position	316 256	-	-	-	316 256
- average financial position	149 659	-	-	-	149 659
- included in portfolios of similar risk loans	1 313	-	655	81 900	83 868
Overdue					
- overdue by: less than 6 days for legal entities, less than 31 days for individuals	5 229	-	-	425	5 654
Total collectively assessed for impairment	**472 457**	**-**	**655**	**82 325**	**555 437**
3. Individually assessed for impairment					
- watch list	73 990	-	-	-	73 990
- poor financial position	3 372	-	-	-	3 372
- 6 to 30 days overdue	3 273	-	-	-	3 273
- 31 to 90 days overdue	8 241	-	-	238	8 479
- 91 to 180 days overdue	18 267	-	-	302	18 569
- 181 to 365 days overdue	10 296	-	-	529	10 825
- over 365 days overdue	25 489	-	-	1 637	27 126
Total individually assessed for impairment	**142 928**	**-**	**-**	**2 706**	**145 634**
Total loans and advances to customers (before impairment)	**615 385**	**44 514**	**655**	**85 031**	**745 585**
Provision for loan impairment	**(54 769)**	**-**	**(23)**	**(2 237)**	**(57 029)**
Total loans and advances to customers	**560 616**	**44 514**	**632**	**82 794**	**688 556**

Overdue loans represent not only past due payments but also outstanding balances of such loans.

Loans included in the watch list are in the process of restructuring and/or renegotiation. Watch list includes loans and advances to customers overdue from 6 to 180 days of RR 14 879 million (2010: RR 26 878 million) and loans and advances to customers overdue more than 180 days of RR 46 439 million (2010: RR 7 869 million). The remaining loans included in the watch list are not overdue.

Loans included in portfolio with similar risk loans consist of small value loans with homogeneous credit characteristics without any signs of impairment, which are not analysed by the Group on an individual basis.

12 Loans and Advances to Customers (Continued)

The table below summarizes the results of quality analysis of the loan portfolio:

In millions of Russian Roubles	2011	2010
Current loans	824 162	636 912
Past due instalments	92 816	50 825
Current portion of past due loans	62 630	57 848
Provision for loan impairment	(75 911)	(57 029)
Total loans and advances to customers	**903 697**	**688 556**

Loan collateral

The Group accepts different types of collateral, such as: inventories (finished products, raw materials, goods in turnover), equipment, including agricultural machinery, motor vehicles, real estate, land plots, construction in progress, sea and other vessels, farm animals, future crop, property acquired in the future, property rights, warranties, banking guarantees, government guarantees of Russian Federation and municipal guarantees.

Where appropriate, the value of collateral was incorporated in the assessment of recoverable amount of loans and advances to customers.

Among other measures aimed at credit enhancement is the Group's requirement to insure the subject of collateral. Property is insured by insurance companies that have accreditation and a cooperation agreement with the Bank.

The Group monitors the condition and reviews the structure of the collateral. The primary purpose of the review of the structure of collateral as well as monitoring of the collateral rights by the Group include:

- obtaining complete and objective information on the available collateral property and its structure;
- development of optimal schemes of realisation of collateral rights with account for the specifics of regional distribution;
- improving the effectiveness and timeliness of collateral foreclosure process;
- preparation of statistical and analytical information for the Group management; and
- control over the Group's regional branches with respect to issued loans.

The majority of collateral (over 78%) (2010: over 70%) relates to the following types: real estate – 49% (2010: 41%), equipment – 17% (2010: 17%) and goods in turnover – 12% (2010: 15%).

According to the Group's internal documents it is allowed to issue unsecured loans in the following cases:

- for legal entities – overdrafts; and
- for individuals – loans up to RR 50 thousand (or equivalent in foreign currency) under the programs "Consumer loans", "Loans to the sole farmers", "Reliable Customer"; loans up to RR 750 thousand (or equivalent in foreign currency) under the program of lending to individuals without collateral; loans up to RR 3 million (or equivalent in foreign currency) under the program "Credit card" and overdrafts (up to RR 300 thousand or equivalent in foreign currency).

12 Loans and Advances to Customers (Continued)

The financial effect of collateral is presented by disclosing collateral values separately for (i) those loans and advances to customers where collateral and other credit enhancements are equal to, or exceed, gross amount (before impairment) of the asset ("over-collateralised assets") and (ii) those loans and advances to customers where collateral and other credit enhancements are less than the gross amount (before impairment) of the asset ("under-collateralised assets"). The effect of collateral at 31 December 2011 was as follows:

	Over-collateralised assets		**Under-collateralised assets**	
In millions of Russian Roubles	**Loans and advances to customers (before impairment)**	**Fair value of collateral**	**Loans and advances to customers (before impairment)**	**Fair value of collateral**
Loans to legal entities				
- Loans to corporates	544 897	1 168 542	251 553	25 268
- Lending for food interventions	31 087	31 087	2 169	446
- Deals with securities purchased under "reverse-repo agreements"	1 990	2 348	-	-
- Investments in agricultural cooperatives	-	-	509	-
Loans to individuals	18 543	35 597	128 860	770
Total	**596 517**	**1 237 574**	**383 091**	**26 484**

The effect of collateral at 31 December 2010 was as follows:

	Over-collateralised assets		**Under-collateralised assets**	
In millions of Russian Roubles	**Loans and advances to customers (before impairment)**	**Fair value of collateral**	**Loans and advances to customers (before impairment)**	**Fair value of collateral**
Loans to legal entities				
- Loans to corporates	504 262	986 522	111 123	16 899
- Lending for food interventions	44 514	44 543	-	-
- Investments in agricultural cooperatives	-	-	655	-
Loans to individuals	7 125	15 287	77 906	391
Total	**555 901**	**1 046 352**	**189 684**	**17 290**

Refer to Note 35 for the disclosure of fair value of each class of loans and advances to customers. Geographical and interest rate analyses of loans and advances to customers are disclosed in Note 31. The information on related party transactions is disclosed in Note 37.

13 Investment Securities Available for Sale

In millions of Russian Roubles	2011	2010
Corporate bonds	44 083	7 139
Corporate Eurobonds	22 650	4 955
Federal loan bonds (OFZ)	8 003	-
Municipal and subfederal bonds	1 140	524
State Eurobonds	707	3 054
Corporate shares	12	15
Total investment securities available for sale	**76 595**	**15 687**

The primary factor that the Group considers in determining whether a debt security is impaired is its overdue status.

Analysis by credit quality of debt investment securities available for sale outstanding at 31 December 2011 is as follows:

In millions of Russian Roubles	Securities internationally rated not lower than BB- (S&P)*	Securities internationally rated lower than BB- (S&P)*	Internationally unrated securities	Total
Corporate bonds	35 368	5 466	3 249	44 083
Corporate Eurobonds	21 743	907	-	22 650
Federal loan bonds (OFZ)	8 003	-	-	8 003
Municipal and subfederal bonds	1 038	102	-	1 140
State Eurobonds	707	-	-	707
Total debt investment securities available for sale	**66 859**	**6 475**	**3 249**	**76 583**

* or ratings of other analogous rating agencies

Analysis by credit quality of debt investment securities available for sale outstanding at 31 December 2010 is as follows:

In millions of Russian Roubles	Securities internationally rated not lower than BB- (S&P)*	Securities internationally rated lower than BB- (S&P)*	Internationally unrated securities	Total
Corporate bonds	5 482	201	1 456	7 139
Corporate Eurobonds	4 645	310	-	4 955
State Eurobonds	3 054	-	-	3 054
Municipal and subfederal bonds	322	202	-	524
Total debt investment securities available for sale	**13 503**	**713**	**1 456**	**15 672**

* or ratings of other analogous rating agencies

Corporate bonds in the Group's portfolio are represented by securities denominated in Russian Roubles issued by major Russian companies. Corporate bonds are traded at a discount or premium to face value and carry a coupon payable quarterly, semi-annually or annually depending on the type of the bond issue and the issuer. As at 31 December 2011 these bonds have maturity dates from January 2012 to January 2025 (2010: from October 2011 to November 2020), annual coupon rates from 6.3% to 14.8% p.a. (2010: from 7.0% to 14.8% p.a.) and yield to maturity or next repricing date from 6.1% to 14.9% p.a. (2010: from 6.3% to 17.7% p.a), depending on the type of the bond issue, the issuer and the market conditions.

13 Investment Securities Available for Sale (Continued)

Corporate Eurobonds are bonds denominated in USD and in Russian Roubles issued by major Russian companies. As at 31 December 2011 these bonds have maturity dates from April 2014 to September 2017 (2010: from January 2011 to October 2020), annual coupon rates from 5.4% to 9.8% p.a. (2010: 5.4% to 12.0% p.a.), payable semi-annually, and yield to maturity or next repricing date from 5.5% to 10.6% p.a. (2010: from 4.3% to 10.9%p.a.), depending on the type of the bond issue, the issuer and the market conditions.

Federal loan bonds (OFZ) are represented by state securities denominated in Russian Roubles issued by Ministry of Finance of Russian Federation. Federal loan bonds (OFZ) are traded at a discount or premium to face value and carry a coupon payable semi-annually. As at 31 December 2011 these bonds have maturity date from February 2013 to March 2018, annual coupon rate from 6.7% to 12.0% p.a. and yield to maturity from 6.7% p.a to 8.4% p.a. depending on the type of the bond issue and the market conditions.

Municipal and subfederal bonds are represented by Russian Roubles bonds of Russian municipal and subfederal authorities. These bonds are traded at a discount or premium to face value and carry a coupon payable quarterly or semi-annually, depending on the type of the bond issue and the issuer. As at 31 December 2011 these bonds have maturity dates from June 2012 to June 2017 (2010: June 2012 to December 2014), annual coupon rates from 7.6% to 9.3% p.a. (2010: from 8.3% to 9.5%p.a.) and yield to maturity or next repricing date from 6.8% to 9.0% p.a. (2010: from 6.7% to 8.9%p.a.), depending on the type of the bond issue, the issuer and the market conditions.

State Eurobonds are represented by Russian Federation bonds denominated in USD and in Russian Roubles. As at 31 December 2011 these bonds have maturity date from March 2018 to March 2030 (2010: April 2020), annual coupon rate from 7.5% p.a. to 7.9% p.a. (2010: 5.0%p.a.), payable semi-annually, and yield to maturity from 4.6% p.a. to 7.6% p.a. (2010: 5.0% p.a.).

The movements in investment securities available for sale are as follows:

In millions of Russian Roubles	Note	2011	2010
Carrying amount at 1 January		**15 687**	**7 800**
Purchases		116 178	40 136
Addition in the result of acquisition of subsidiary		14	-
Reclassification to investment securities held to maturity		(17 187)	-
Fair value gains less losses		(672)	246
Realised revaluation reserve (at disposal)		(324)	(390)
Interest income accrued	24	4 441	1 346
Interest income received		(3 554)	(1 010)
Proceeds from disposal		(51 385)	(17 966)
Foreign exchange differences gains less losses		91	147
Reclassification from/(to) Repurchase receivables	9	13 306	(14 622)
Carrying amount at 31 December		**76 595**	**15 687**

During 2008 and 2011 the Group reclassified the following financial assets from the available-for-sale category:

In million of Russian Roubles	Amount reclassified	Undiscounted cash flows expected to be recovered	Effective interest rate (%)
Reclassified into held to maturity during 2008			
Corporate Eurobonds	222	739	8.2
Reclassified into held to maturity during 2011			
Corporate bonds	14 546	20 606	6.2 - 8.9
Municipal and subfederal bonds	2 641	3 099	7.7 - 8.1
Total	**17 409**	**24 444**	

13 Investment Securities Available for Sale (Continued)

The reclassification during 2008 was made effective from 1 July 2008 when, in management's opinion, the third quarter 2008 collapse in financial markets liquidity and stability commenced, which had also led to the International Accounting Standards Board issuing the amendment allowing reclassifications from that date.

Management believes that the declines in market prices which occurred in the third quarter of 2008 represent a rare event as they are significantly out of line with historical volatilities observed in financial markets.

During 2011 the Group reclassified financial assets from the available-for-sale category as result of reassessment of its intention to held-to-maturity.

Refer to Note 35 for the disclosure of the fair value hierachy for investment securities available for sale. Geographical and interest rate analyses of investment securities available for sale are disclosed in Note 31.

14 Investment Securities Held to Maturity

In millions of Russian Roubles	**2011**	**2010**
Corporate bonds	14 306	1 087
State Eurobonds	7 058	6 682
Municipal and subfederal bonds	3 732	1 082
Federal Loan bonds (OFZ)	3 196	3 317
Corporate Eurobonds	1 564	1 473
Promissory notes	1 463	1 281
Total investment securities held to maturity	**31 319**	**14 922**

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

In millions of Russian Roubles	**Securities internationally rated not lower than BB- (S&P)***	**Securities internationally rated lower than BB- (S&P)***	**Internationally unrated securities**	**Total**
Corporate bonds	13 476	-	830	14 306
State Eurobonds	7 058	-	-	7 058
Municipal and subfederal bonds	3 328	404	-	3 732
Federal Loan bonds (OFZ)	3 196	-	-	3 196
Corporate Eurobonds	1 564	-	-	1 564
Promissory notes	-	1 463	-	1 463
Total investment securities held to maturity	**28 622**	**1 867**	**830**	**31 319**

* or ratings of other analogous rating agencies

14 Investment Securities Held to Maturity (Continued)

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

In millions of Russian Roubles	**Securities internationally rated not lower than BB- (S&P)***	**Securities internationally rated lower than BB- (S&P)***	**Total**
State Eurobonds	6 682	-	6 682
Federal Loan bonds (OFZ)	3 317	-	3 317
Corporate Eurobonds	1 473	-	1 473
Promissory notes	-	1 281	1 281
Corporate bonds	1 087	-	1 087
Municipal and subfederal bonds	1 082	-	1 082
Total investment securities held to maturity	**13 641**	**1 281**	**14 922**

* or ratings of other analogous rating agencies

If a security's rating is unavailable, the issuer's rating is used.

The primary factor that the Group considers when deciding whether a debt security is impaired is its overdue status. Since the Group did not have overdue securities held to maturity, no provisions for impairment of these securities were recognised.

Corporate bonds are represented by securities denominated in Russian Roubles, issued by major Russian companies. Corporate bonds are traded at a discount or premium to face value and carry a coupon payable quarterly, semi-annually or annually, depending on the type of the bond issue and the issuer. As at 31 December 2011 these bonds have maturity dates from October 2012 to Jule 2023 (2010: from July 2011 to September 2020), annual coupon rates from 7.0% to 15.0% p.a. (2010: from 7.2% to 8.5% p.a.) and yield to maturity or next repricing date from 6.6% to 9.8% p.a. (2010: from 5.5% to 8.9% p.a.), depending on the type of the bond issue, the issuer and the market conditions.

State Eurobonds are represented by Russian Federation bonds denominated in USD. As at 31 December 2011 these bonds have maturity date in April 2020 (2010: in April 2020), annual coupon rate 5.0% p.a.(2010: 5.0% p.a) payable semi-annually, and yield to maturity 4.6% p.a. (2010: 5.0% p.a.).

Municipal and subfederal bonds are represented by bonds issued by Russian municipal and subfederal authorities denominated in Russian Roubles. These bonds are traded at a discount or premium to face value and carry a coupon payable quarterly or semi-annually, depending on the type of the bond issue and the issuer. As at 31 December 2011 these bonds have maturity dates from June 2012 to December 2015 (2010: from June 2012 to December 2015), annual coupon rates from 7.0% to 14.0% p.a. (2010: from 7.0% to 8.0% p.a.) and yield to maturity from 7.1% to 8.9% p.a. (2010: from 7.1% to 8.5% p.a.), depending on the type of the bond issue, the issuer and the market conditions.

Federal Loan bonds (OFZ) are represented by the state securities denominated in Russian Roubles issued by the Ministry of Finance of Russian Federation. As at 31 December 2011 these OFZ have maturity dates from July 2012 to February 2036 (2010: from July 2012 to February 2036), annual coupon rates from 6.1% to 8.0% p.a. (2010: from 6.1% to 8.0% p.a.) payable quarterly or semi-annually, and yield to maturity from 6.0% to 8.2% p.a. (2010: from 5.1% to 8.0% p.a.), depending on the type of the bond issue and the market conditions.

Corporate Eurobonds are interest bearing securities denominated in USD, issued by major Russian companies. As at 31 December 2011 these bonds have maturity dates from January 2012 to August 2037 (2010: from January 2012 to August 2037), annual coupon rates from 6.7% to 9.6% p.a. (2010: from 6.7% to 9.6%p.a.) payable semi-annually, and yield to maturity or next repricing date from 3.5% to 8.5% p.a. (2010: from 2.7% to 6.9% p.a.), depending on the type of the bond issue, the issuer and the market conditions.

Promissory notes are represented by promissory notes denominated in USD at a discount to nominal value issued by one Russian bank. As at 31 December 2011 these promissory notes have maturity date in November 2013 (2010: in November 2013) and yield to maturity 9.0% p.a. (2010: 9.0% p.a.).

Refer to Note 35 for the disclosure of the fair value of investment securities held to maturity. Geographical and interest rate analyses of securities held to maturity are disclosed in Note 31.

15 Premises, Equipment and Intangible Assets

In millions of Russian Roubles	Note	Used in banking activities: Office premises	Used in banking activities: Leasehold (premises) improvements	Used in banking activities: Office and computer equipment	Used in banking activities: Land	Used in non-banking activities: Production premises	Used in non-banking activities: Equipment	Used in non-banking activities: Land	Total premises and equipment	Intangible assets	Total
Cost at 1 January 2010		7 249	1 507	4 966	281	13 823	1 804	161	29 791	1 538	31 329
Accumulated depreciation		(338)	(302)	(1 344)	-	(273)	(88)	-	(2 345)	(515)	(2 860)
Carrying amount at 1 January 2010		**6 911**	**1 205**	**3 622**	**281**	**13 550**	**1 716**	**161**	**27 446**	**1 023**	**28 469**
Acquisitions through business combinations		-	-	-	-	292	98	-	390	-	390
Additions		1 151	62	1 068	72	94	408	-	2 855	829	3 684
Disposals		-	(5)	(17)	(3)	(764)	-	-	(789)	-	(789)
Depreciation charge: before revaluation	26, 27	(133)	(162)	(868)	-	(603)	(207)	-	(1 973)	(287)	(2 260)
Depreciation charge: realised revaluation reserve and revaluation loss	27	(14)	-	-	-	-	-	-	(14)	-	(14)
Changes in gross carrying value resulting from revaluation		209	-	-	-	-	-	-	209	-	209
Changes in accumulated depreciation resulting from revaluation		(17)	-	-	-	-	-	-	(17)	-	(17)
Reclassification to assets of the disposal groups held for sale	38	(96)	-	(4)	-	(1 526)	(396)	(100)	(2 122)	(2)	(2 124)
Carrying amount at 31 December 2010		**8 011**	**1 100**	**3 801**	**350**	**11 043**	**1 619**	**61**	**25 985**	**1 563**	**27 548**
Cost at 31 December 2010		8 500	1 562	5 969	350	11 883	1 819	61	30 144	2 359	32 503
Accumulated depreciation		(489)	(462)	(2 168)	-	(840)	(200)	-	(4 159)	(796)	(4 955)
Carrying amount at 31 December 2010		**8 011**	**1 100**	**3 801**	**350**	**11 043**	**1 619**	**61**	**25 985**	**1 563**	**27 548**

15 Premises, Equipment and Intangible Assets (Continued)

In millions of Russian Roubles	Note	Used in banking activities: Office premises	Used in banking activities: Leasehold (premises) improvements	Used in banking activities: Office and computer equipment	Used in non-banking activities: Land	Used in non-banking activities: Production premises	Used in non-banking activities: Equipment	Used in non-banking activities: Land	Total premises and equipment	Intangible assets	Total
Cost at 1 January 2011		8 500	1 562	5 969	350	11 883	1 819	61	30 144	2 359	32 503
Accumulated depreciation		(489)	(462)	(2 168)	-	(840)	(200)	-	(4 159)	(796)	(4 955)
Carrying amount at 1 January 2011		**8 011**	**1 100**	**3 801**	**350**	**11 043**	**1 619**	**61**	**25 985**	**1 563**	**27 548**
Additions		664	34	743	37	405	121	57	2 061	416	2 477
Disposals		(6)	(29)	(76)	(1)	(6)	(19)	-	(137)	-	(137)
Depreciation charge: before revaluation	26, 27	(165)	(166)	(965)	-	(563)	(132)	-	(1 991)	(448)	(2 439)
Depreciation charge: realised revaluation reserve and revaluation loss	27	(17)	-	-	-	-	-	-	(17)	-	(17)
Changes in accumulated depreciation resulting from revaluation		(34)	-	-	-	-	-	-	(34)	-	(34)
Reclassification to assets of the disposal groups held for sale		-	-	-	-	(560)	(214)	-	(774)	-	(774)
Carrying amount at 31 December 2011		**8 453**	**939**	**3 503**	**386**	**10 319**	**1 375**	**118**	**25 093**	**1 531**	**26 624**
Cost at 31 December 2011		9 158	1 545	6 490	386	11 688	1 660	118	31 045	2 775	33 820
Accumulated depreciation		(705)	(606)	(2 987)	-	(1 369)	(285)	-	(5 952)	(1 244)	(7 196)
Carrying amount at 31 December 2011		**8 453**	**939**	**3 503**	**386**	**10 319**	**1 375**	**118**	**25 093**	**1 531**	**26 624**

15 Premises, Equipment and Intangible Assets (Continued)

Non-banking premises are mainly represented by grain storages and production premises related to subsidiaries activities.

Intangible assets mainly include capitalised computer software.

Construction in progress in respect of banking and non-banking premises at 31 December 2011 was RR 1 259 million (2010: RR 2 859 million).

Carrying amount of office premises without revaluation at 31 December 2011 is RR 7 935 million (2010: RR 7 442 million), including cost in amount of RR 8 478 million (2010: RR 7 820 million) and accumulated depreciation of RR 543 million (2010: RR 378 million). Premises were independently valued as at 31 December 2011. The valuation was carried out by an independent appraisers firm, Institute of Valuation of Property and Financial Activity Ltd, which hold a relevant professional qualification and which have recent experience in valuation of assets of similar location and category.

16 Other Assets

In millions of Russian Roubles	Note	2011	2010
Non-financial assets			
Repossessed collateral		5 334	5 395
Prepayment for goods		2 572	305
Inventory		1 050	847
Prepayment for services		389	421
Prepaid taxes		69	102
Goodwill		8	-
Other		9	9
Financial assets			
Settlements on banking cards		3 850	1 937
Trade receivables		1 253	1 215
Restricted cash	33	202	-
Settlements on funds transfer operations		165	75
Other		1 250	913
Provision for impairment of other financial assets		(247)	(167)
Total other assets		**15 904**	**11 052**

Repossessed collateral mainly represents the land and production premises measured in accordance with IAS 40 «Investment Property». The Group is not going to use repossessed collateral in its own operations.

Trade receivables, inventory and prepayment for goods are related to trade activities of subsidiaries.

The movements in the provision for impairment of other financial assets are as follows:

In millions of Russian Roubles	2011	2010
Provision for impairment of other financial assets at 1 January	**167**	**170**
Provision for impairment of other financial assets during the year	78	8
Reclassification to assets of the disposal groups held for sale	3	(6)
Other financial assets written off during the year as uncollectible	(1)	(5)
Provision for impairment of other financial assets at 31 December	**247**	**167**

16 Other Assets (Continued)

The movements in repossessed collateral are as follows:

In millions of Russian Rouble	Note	2011	2010
Repossessed collateral at 1 January		**5 395**	**5 610**
Additions for the year		138	1 088
Disposal for the year		(157)	(1 279)
Depreciation charge	27	(42)	(24)
Repossessed collateral at 31 December		**5 334**	**5 395**

As at 31 December 2011 the fair value of repossessed collateral was RR 5 486 million (2010: RR 5 544 million).

Movements in goodwill arising on the acquisition of subsidiaries are as follows:

In millions of Russian Roubles	Note	2011	2010
Carrying amount at 1 January		**-**	**298**
Acquisition of subsidiaries		8	-
Impairment loss	27	-	(298)
Carrying amount at 31 December		**8**	**-**

Refer to the Note 35 for the disclosure of fair value of other financial assets. Geographical analysis of other assets is disclosed in Note 31.

17 Due to Other Banks

In millions of Russian Roubles	2011	2010
Borrowings from other banks with term to maturity		
- sale and repurchase agreements less than 30 days	2 006	12 911
- less than 30 days	3 090	7 378
- from 31 to 180 days	2 678	4 793
- from 181 days to 1 year	14 297	4 652
- from 1 year to 3 years	49 504	53 558
- more than 3 years	18 490	18 192
Borrowings from the CBRF with term to maturity		
- less than 30 days	-	1 058
- from 31 to 180 days	-	2 795
Correspondent accounts and overnight placements of other banks	352	241
Total due to other banks	**90 417**	**105 578**

As at 31 December 2011 the Group had balances due to one foreign bank with the aggregated amount of RR 31 105 million, or 34% of total due to other banks (2010: due to one foreign bank with the aggregated amount of RR 29 254 million, or 28% of total due to other banks).

Refer to Note 35 for the disclosure of the fair value of due to other banks. Geographical, maturity and interest rate analyses of due to other banks are disclosed in Note 31.

18 Customer Accounts

In millions of Russian Roubles	2011	2010
State and public organisations		
- Current/settlement accounts	4 757	5 333
- Term deposits	192 706	74 300
Other legal entities		
- Current/settlement accounts	57 226	50 317
- Term deposits	201 264	128 443
- Sale and repurchase agreements with securities	89	195
Individuals		
- Current/demand accounts	23 556	16 835
- Term deposits	127 697	110 856
Total customer accounts	**607 295**	**386 279**

State and public organisations exclude state-controlled joint-stock companies.

Economic sector concentrations within customer accounts are as follows:

	2011		2010	
In millions of Russian Roubles	Amount	%	Amount	%
State and public organisations	197 463	33	79 633	21
Individuals	151 253	25	127 691	33
Financial services and pension funds	88 081	15	33 260	9
Insurance	38 740	6	29 444	8
Manufacturing	33 718	6	35 371	9
Agriculture	23 149	3	25 203	6
Trading	18 795	3	13 685	4
Construction	13 755	2	12 738	3
Leasing	9 662	2	8 920	2
Telecommunication	9 046	1	7 404	2
Other	23 633	4	12 930	3
Total customer accounts	**607 295**	**100**	**386 279**	**100**

As at 31 December 2011, the Group had four customers with balances above RR 15 000 million (2010: three customers with balances above RR 11 500 million). The aggregate balance of these customers was RR 197 372 million, or 33% of total customer accounts (2010: RR 60 639 million, or 16% of total customer accounts).

As at 31 December 2011, customer accounts include secured deposit of RR 6 168 million (2010: RR 5 928 million). The deposit was secured by State Eurobonds with carring value of RR 7 058 million (2010: RR 6 682 million). Refer to Note 33.

Refer to Note 35 for the disclosure of the fair value of customer accounts. Geographical, interest rate and maturity analyses of customer accounts are disclosed in Note 31. The information on related party balances is disclosed in Note 37.

19 Promissory Notes Issued

In millions of Russian Roubles	2011	2010
Promissory notes issued	20 129	9 874
Total promissory notes issued	**20 129**	**9 874**

The Group issued promissory notes at a discount to nominal value and interest bearing promissory notes denominated in Russian Roubles, US dollars and Euros with effective interest rate from 0% p.a. (for promissory notes on demand) up to 11% p.a. and maturity dates from January 2012 to December 2016 (2010: promissory notes denominated in Russian Roubles, US dollars and Euros with effective interest rate from 0% p.a. (for promissory notes on demand) up to 11% p.a. and maturity dates from January 2011 to December 2016).

As at 31 December 2011, promissory notes issued, which were initially purchased by one counterparty, amounted to RR 13 969 million or 69% of total promissory notes issued by the Group (2010: one counterparty, amounted to RR 3 948 million or 40% of total promissory notes issued by the Group).

Refer to Note 35 for the disclosure of the fair value of promissory notes issued. Geographical, maturity and interest rate analyses of promissory notes issued are disclosed in Note 31.

20 Other Borrowed Funds

In millions of Russian Roubles	2011	2010
Eurobonds issued	231 155	169 102
Bonds issued on domestic market	111 344	88 457
Total other borrowed funds	**342 499**	**257 559**

20 Other Borrowed Funds (Continued)

As at 31 December 2011, other borrowed funds consist of US Dollars, Russian Roubles and Swiss Francs denominated Eurobonds issued by the Group through its special purpose entity, RSHB Capital S.A. as well as Russian Roubles denominated bonds issued on domestic market.

Currency of denomination	Nominal value, in million of currency	Issue date	Maturity date	Put option date	Coupon rate	Coupon payment	Yield to maturity/ next repricing date
Eurobonds issued							
US Dollars	630	16 May 2006	16 May 2013	-	7.175%	6 months	4.06%
US Dollars	1 148	14 May 2007	15 May 2017	-	6.299%	6 months	6.29%
Swiss Francs	150	30 April 2008	30 April 2012	-	6.263%	1 year	4.08%
US Dollars							
- tranche A	702	29 May 2008	14 January 2014	-	7.125%	6 months	5.20%
- tranche B	901	29 May 2008	29 May 2018	-	7.750%	6 months	6.51%
US Dollars	1 000	11 June 2009	11 June 2014	-	9.000%	6 months	5.43%
Russian Roubles	30 000	25 March 2010	25 March 2013	-	7.500%	6 months	8.71%
Russian Roubles	20 000	17 March 2011	17 March 2016	-	8.700%	6 months	9.67%
Russian Roubles	12 000	20 April 2011	17 March 2016	-	8.700%	6 months	9.67%
Russian Roubles	20 000	23 November 2011	23 November 2016	-	6.970%	6 months	7.38%
Bonds issued on domestic market							
Russian Roubles	10 000	22 February 2007	9 February 2017	17 February 2014	9.250%	6 months	8.90%
Russian Roubles	9 010	10 October 2007	27 September 2017	4 October 2013	7.500%	6 months	7.69%
Russian Roubles	585	22 February 2008	9 February 2018	19 August 2014	7.800%	6 months	9.78%
Russian Roubles	5 000	17 June 2008	5 June 2018	14 June 2013	6.850%	6 months	8.56%
Russian Roubles	10 000	9 December 2008	27 November 2018	5 December 2013	8.750%	6 months	8.94%
Russian Roubles	5 000	26 November 2009	14 November 2019	26 November 2012	10.100%	6 months	7.42%
Russian Roubles	5 000	26 November 2009	14 November 2019	26 November 2012	10.100%	6 months	7.49%
Russian Roubles	5 000	10 February 2010	29 January 2020	8 February 2013	9.000%	6 months	9.68%
Russian Roubles	5 000	11 February 2010	30 January 2020	11 February 2013	9.000%	6 months	8.35%
Russian Roubles	5 000	1 September 2010	28 August 2013	31 August 2012	7.200%	6 months	7.40%
Russian Roubles	10 000	1 September 2010	28 August 2013	31 August 2012	7.200%	6 months	7.42%
Russian Roubles	10 000	2 November 2010	29 October 2013	3 May 2012	6.600%	6 months	7.65%
Russian Roubles	10 000	12 July 2011	29 June 2021	09 July 2015	7.700%	6 months	9.22%
Russian Roubles	5 000	14 July 2011	1 July 2021	13 July 2015	7.700%	6 months	8.94%
Russian Roubles	5 000	15 July 2011	2 July 2021	14 July 2015	7.700%	6 months	8.19%
Russian Roubles	10 000	8 November 2011	26 October 2021	7 November 2013	8.750%	6 months	8.92%

20 Other Borrowed Funds (Continued)

As at 31 December 2010, the Group's other borrowed funds included Eurobonds denominated in US Dollars and Swiss Francs that are issued by the Group through its special purpose entity, RSHB Capital S.A. as well as bonds denominated in Russian Roubles and issued on domestic market.

Currency of denomination	Nominal value, in million of currency	Issue date	Maturity date	Put option date	Coupon rate	Coupon payment	Yield to maturity/ next repricing date
Eurobonds issues							
US Dollars	630	16 May 2006	16 May 2013	-	7.175%	6 months	4.17%
US Dollars	1 127	14 May 2007	15 May 2017	-	6.299%	6 months	6.20%
Swiss Francs	150	30 April 2008	30 April 2012	-	6.263%	1 year	3.50%
US Dollars							
- tranche A	702	29 May 2008	14 January 2014	-	7.125%	6 months	4.76%
- tranche B	898	29 May 2008	29 May 2018	-	7.750%	6 months	6.42%
US Dollars	1 000	11 June 2009	11 June 2014	-	9.000%	6 months	5.02%
Russian Roubles	29 700	25 March 2010	25 March 2013	-	7.500%	6 months	7.56%
Bonds issued in domestic market							
Russian Roubles	7 000	22 February 2006	16 February 2011	-	7.850%	3 months	7.64%
Russian Roubles	10 000	22 February 2007	9 February 2017	17 February 2014	9.250%	6 months	7.98%
Russian Roubles	10 000	10 October 2007	27 September 2017	7 October 2011	11.500%	6 months	5.43%
Russian Roubles	264	22 February 2008	9 February 2018	19 August 2014	7.800%	6 months	8.08%
Russian Roubles	5 000	17 June 2008	5 June 2018	16 June 2011	6.900%	6 months	4.93%
Russian Roubles	10 000	9 December 2008	27 November 2018	8 December 2011	13.500%	6 months	13.93%
Russian Roubles	5 000	26 November 2009	14 November 2019	26 November 2012	10.100%	6 months	6.84%
Russian Roubles	5 000	26 November 2009	14 November 2019	26 November 2012	10.100%	6 months	6.79%
Russian Roubles	5 000	10 February 2010	29 January 2020	8 February 2013	9.000%	6 months	7.71%
Russian Roubles	5 000	11 February 2010	30 January 2020	11 February 2013	9.000%	6 months	7.62%
Russian Roubles	5 000	1 September 2010	28 August 2013	31 August 2012	7.200%	6 months	7.35%
Russian Roubles	10 000	1 September 2010	28 August 2013	31 August 2012	7.200%	6 months	7.35%
Russian Roubles	10 000	2 November 2010	29 October 2013	3 May 2012	6.600%	6 months	6.90%

Refer to Note 35 for the disclosure of the fair value for other borrowed funds. Geographical, maturity and interest rate analyses of other borrowed funds are disclosed in Note 31.

21 Other Liabilities

In millions of Russian Roubles	2011	2010
Non-financial liabilities		
Accrued staff costs	1 465	922
Taxes payable other than on income	364	294
Insurance contribution	139	114
Other	467	302
Financial liabilities		
Settlements on banking cards	2 463	1 495
Trade payables	949	704
Other subsidiaries' payables	621	371
Financial liabilities associated with issuance of guarantees by subsidiaries	187	187
Carryng value of guarantees issued	114	-
Total other liabilities	**6 769**	**4 389**

Trade payables are related to the business activities of subsidiaries.

Refer to Note 35 for the disclosure of the fair value of other financial liabilities. Geographical analysis of other liabilities is disclosed in Note 31.

22 Subordinated Debts

As at 31 December 2011, the Group's subordinated debts totalled RR 57 192 million (2010: RR 46 545 million).

In June 2007, the Group attracted a subordinated debt totalling USD 200 million maturing in June 2017 and bearing an interest rate of Libor +1.875%. The Group has an option to terminate this subordinated debt at the nominal value in the last five years before its maturity date.

In October 2008, the Group attracted from Vnesheconombank a subordinated debt totalling RR 25 000 million with maturity in December 2019 and an interest rate of 8.0% p.a. This subordinated debt was attracted in accordance with the Federal Law # 173-FZ "On supplementary measures to support financial system of the Russian Federation". In July 2010, Federal Law # 173-FZ was amended to reduce the interest rate on subordinated debt attracted by the Group from Vnesheconombank from 8.0% p.a. to 6.5% p.a.

In June 2011, the Group attracted a subordinated debt totalling USD 800 million in Eurobonds issued by the Group through its special purpose entity, RSHB Capital S.A. The Eurobonds mature in June 2021, have contractual interest rate of 6.0% p.a., and yield to the next repricing date, i.e. in June 2016 at 8.3% p.a. The Group has an option to terminate this subordinated debt at the nominal value in June 2016.

In September 2011, the Group executed its option to early terminate the subordinated debt attracted in September 2006 in the total amount of USD 500 million.

Refer to Note 35 for the disclosure of the fair value of subordinated debts. Geographical, maturity and interest rate analyses of subordinated debts are disclosed in Note 31. The information on related party balances is disclosed in Note 37.

23 Share Capital

Share capital issued and fully paid comprises:

In millions of Russian Roubles (except for number of shares)	**Number of outstanding shares**	**Nominal amount**	**Inflation adjusted amount**
At 1 January 2010	**106 223**	**106 223**	**106 973**
New shares issued	1 825	1 825	1 825
At 31 December 2010	**108 048**	**108 048**	**108 798**
New shares issued	40 000	40 000	40 000
At 31 December 2011	**148 048**	**148 048**	**148 798**

Issued and fully paid authorised share capital comprises 148 048 issued and registered ordinary shares. All ordinary shares have a nominal value of RR 1 million per share and rank equally. Each share carries one vote.

In 2011, the Bank increased its share capital by issuing 40 000 ordinary shares with the total nominal amount of RR 40 000 million. All shares were purchased by the Bank's only shareholder - the Government of the Russian Federation represented by the Federal Agency for Managing State Property.

24 Interest Income and Expense

In millions of Russian Roubles	**Note**	**2011**	**2010**
Interest income			
Loans and advances to customers		103 276	97 749
Investment securities available for sale and related repurchase receivables	13	4 441	1 346
Due from other banks		2 480	3 246
Financial instruments designated at fair value through profit or loss		1 139	813
Investment securities held to maturity and related repurchase receivables		1 006	665
Cash equivalents		658	210
Trading securities and related repurchase receivables		314	978
Total interest income		**113 314**	**105 007**
Interest expense			
Other borrowed funds		(22 834)	(20 003)
Term deposits of legal entities		(17 096)	(10 849)
Term deposits of individuals		(7 711)	(8 268)
Term deposits of other banks		(7 040)	(7 557)
Subordinated debts		(3 381)	(3 090)
Promissory notes issued		(841)	(1 590)
Current/settlement accounts		(748)	(720)
Term deposits of the CBRF		(48)	(1 282)
Syndicated loans		-	(24)
Total interest expense		**(59 699)**	**(53 383)**
Net interest income		**53 615**	**51 624**

Interest income on loans and advances to customers includes interest income recognised on impaired loans in the total amount of RR 21 486 million (2010: RR 15 911 million).

25 Fee and Commission Income and Expense

In millions of Russian Roubles	2011	2010
Fee and commission income		
Commission on cash transactions	3 553	2 668
Commission on settlement transactions	537	423
Agency fees for sale of insurance contracts	246	-
Commission on banking cards	235	137
Agency fees for debt collection and currency control	100	77
Commission on guarantees issued	25	10
Other	138	96
Total fee and commission income	**4 834**	**3 411**
Fee and commission expense		
Commission on cash collection	(426)	(349)
Commission on settlement transactions	(163)	(59)
Commission on restructuring of loans	-	(148)
Other	(42)	(33)
Total fee and commission expense	**(631)**	**(589)**
Net fee and commission income	**4 203**	**2 822**

26 Losses net of Gains from Non-banking Activities

In millions of Russian Roubles	2011	2010
Sales of goods	8 873	3 799
Cost of goods sold	(8 443)	(4 205)
Impairment charge of trade receivables and prepayments	(359)	-
Financial result from netting receivables and payables before impairment charge	-	614
Other non-banking income	446	1 399
Other non-banking expenses	(1 762)	(1 876)
Total losses net of gains from non-banking activities	**(1 245)**	**(269)**

Sales of goods mainly represent sales of grain, sugar, meat and milk products, animal feedstuff and other nonfoods.

During 2010, the Group settled receivables for the total amount of RR 1 801 million on the net basis with payables in the total amount of RR 2 415 million. As a result the Group recognised a gain in the total amount of RR 614 million.

Included in cost of goods sold is depreciation of non-banking premises and equipment in the total amount of RR 695 million (2010: RR 810 million).

27 Administrative and Other Operating Expenses

In millions of Russian Roubles	Note	2011	2010
Staff costs		18 734	15 301
Rental expenses		2 383	2 050
Depreciation of premises and equipment	15	1 314	1 177
Taxes other than on income		1 114	895
Security services		836	716
Other costs of premises and equipment		682	536
Communications and information services		669	565
Advertising and marketing services		508	185
Payments to the Deposit Insurance Fund		499	279
Amortization of intangible assets	15	448	287
Supplies and other materials		428	258
Impairment of premises /(reversals of impairment)		246	(51)
Depreciation of repossessed collateral	16	42	24
Impairment of goodwill	16	-	298
Other		1 262	1 064
Total administrative and other operating expenses		**29 165**	**23 584**

Included in staff costs are statutory social security and contributions to a state and non-state pension funds of RR 3 720 million (2010: RR 2 496 million).

28 Income Taxes

Income tax expense comprises the following:

In millions of Russian Roubles	2011	2010
Current tax	3 823	1 995
Deferred tax	(3 531)	(1 631)
Income tax expense for the year	**292**	**364**

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

In millions of Russian Roubles	2011	2010
IFRS profit before tax	**350**	**733**
Theoretical tax charge at statutory rate (2011: 20%; 2010: 20%)	70	147
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Non deductible interest expenses	133	1
- Non deductible staff costs	38	53
- Non deductible charity costs	6	8
- Impairment of goodwill	-	58
- Income on government securities taxed at different rates	(36)	(19)
- Other nontemporary differences	81	116
Income tax expense for the year	**292**	**364**

Differences between IFRS and Russian statutory tax regulations 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%), except for income on government securities that is taxed at 15% (2010: 15%).

28 Income Taxes (Continued)

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

In millions of Russian Roubles	31 December 2010	(Charged)/ credited to profit or loss	(Charged)/ credited directly to other compre-hensive income	Transfer to disposal groups classified as held for sale	31 December 2011
Tax effect of deductible/(taxable) temporary differences					
Accruals on loans	1 968	1 905	-	(2)	3 871
Provision for impairment	648	20	-	-	668
Fair valuation of derivative financial instruments	(325)	667	-	-	342
Accrued staff costs	178	113	-	2	293
Accruals on due to other banks	74	215	-	-	289
Fair valuation of securities	(110)	70	199		159
Defferal of fees on guarantees issued	-	23	-	-	23
Promissory notes issued	(3)	10	-	-	7
Premises and equipment	(1 895)	22	(42)	27	(1 888)
Accruals on other borrowed funds and subordinated debts	(218)	3	-	-	(215)
Intangible assets	(57)	13	-	-	(44)
Other	265	470	-	(31)	704
Net deferred income tax asset	**525**	**3 531**	**157**	**(4)**	**4 209**
Recognised deferred income tax asset	1 930	3 601	-	-	5 531
Recognised deferred income tax liability	(1 405)	(70)	157	(4)	(1 322)
Net deferred income tax asset	**525**	**3 531**	**157**	**(4)**	**4 209**

28 Income Taxes (Continued)

In millions of Russian Roubles	31 December 2009	(Charged)/ credited to profit or loss	(Charged)/ credited directly to other compre-hensive income	Transfer to disposal groups classified as held for sale	31 December 2010
Tax effect of deductible/(taxable) temporary differences					
Accruals on loans	1 455	515	-	(2)	1 968
Provision for impairment	418	240	-	(10)	648
Accrued staff costs	153	25	-	-	178
Fair valuation of derivative financial instruments	(526)	201	-	-	(325)
Premises and equipment	(2 294)	127	(29)	301	(1 895)
Accruals on other borrowed funds, syndicated loans and subordinated debts	(202)	(16)	-	-	(218)
Fair valuation of securities	(186)	47	29	-	(110)
Intangible assets	(49)	(8)	-	-	(57)
Accruals on due to other banks	(26)	100	-	-	74
Promissory notes issued	(3)	-	-	-	(3)
Other	(155)	400	-	20	265
Net deferred income tax asset/(liability)	**(1 415)**	**1 631**	**-**	**309**	**525**
Recognised deferred income tax asset	400	1 530	-	-	1 930
Recognised deferred income tax liability	(1 815)	101	-	309	(1 405)
Net deferred income tax asset/(liability)	**(1 415)**	**1 631**	**-**	**309**	**525**

29 Dividends

In millions of Russian Roubles	2011 Ordinary shares	2010 Ordinary shares
Dividends payable at 1 January	-	-
Dividends declared during the year	253	232
Dividends paid during the year	(253)	(232)
Dividends payable at 31 December	**-**	**-**
Dividends per share declared during the year	**0.0023**	**0.0022**

30 Segment Analysis

(a) Description of geographic areas from which each reportable segment derives its revenue and factors that management used to identify the reportable segments

Operational decision making is the responsibility of the Management Board of the Bank. The Management Board of the Bank reviews internal management reporting in order to assess efficiency and allocate resources.

The Management Board of the Bank performs geographic analysis of the Bank's operations and therefore the Bank's regional branches have been designated as operating segments.

Taking into account the administrative-territorial division of Russia, federal districts of the Russian Federation have been designated as reportable segments.

30 Segment Analysis (Continued)

Based on IFRS 8 requirements Group also discloses those operational segments where revenue, profit or total assets are higher than 10% of related Group's indicators.

As at 31 December 2011 and at 31 December 2010 the Group defines the following reportable segments:

- Head office,
- Central federal district,
- Far Eastern federal district,
- Volga federal district,
- North-West federal district,
- North-Caucasian federal district,
- Siberian federal district,
- Ural federal district,
- Krasnodar branch,
- Southern federal district (without Krasnodar branch).

For analysis of revenue by products refer to Notes 24, 25.

(b) Measurement of operating segment profit or loss and assets

The Management Board of the Bank assesses efficiency of operating segments based on a financial performance measure prepared from statutory accounting data and not adjusted for an intersegment income and expenses. Intersegment income and expenses are used by CODM for information purpose only and not for identification of profit or loss of the operating segments. Intrersegment income/(expense) represents mainly income from/(costs of) funding provided by Head Office to other reportable segments.

The accounting policy of the operating segments is based on Russian Accounting Rules (RAR) and thus materially differs from policies described in the summary of significant accounting policies in these consolidated financial statements.

(c) Information about reportable segment profit or loss and assets

Segment reporting of the Group's revenue and profit/(loss) for the reporting period ended 31 December 2011 and 31 December 2010 and segment reporting of the Group's assets at 31 December 2011 and 31 December 2010 is as follows:

30 Segment Analysis (Continued)

In millions of Russian Roubles	Head office	Central federal district	Far Eastern federal district	Volga federal district	North-west federal district	North-Caucasian federal district	Siberian federal district	Ural federal district	Krasnodar branch	Southern federal district (without Krasnodar branch)	Total
For the year ended 31 December 2011											
Revenue from external customers:	**15 102**	**27 242**	**3 952**	**22 989**	**6 821**	**9 622**	**12 334**	**2 459**	**8 240**	**5 026**	**113 787**
- Income from loans and advances to customers, due from other banks and other placed funds	13 981	25 776	3 622	21 866	6 457	9 116	11 570	2 343	7 857	4 714	107 302
- Fee and commission income from credit related operations	1 121	1 466	330	1 123	364	506	764	116	383	312	6 485
Gains less losses / (losses net of gains) arising from securities	(2 414)	(25)	(1)	(61)	(1)	(3)	4	(1)	(2)	(17)	(2 521)
Net interest and commissions from current/correspondent/settlement accounts	(79)	772	126	586	188	595	369	86	186	173	3 002
Expenses from due to other banks, term deposits and other borrowed funds	(46 176)	(4 760)	(673)	(2 355)	(1 139)	(386)	(1 421)	(319)	(712)	(573)	(58 514)
Provision charge for impairment	(920)	(10 060)	(578)	510	(1 118)	(916)	63	(223)	(11 587)	(572)	(25 401)
Administrative and Maintenance expense	(6 029)	(4 862)	(1 749)	(4 507)	(1 711)	(1 830)	(3 563)	(784)	(1 973)	(1 194)	(28 202)
Including depreciation charge for the reporting period	(160)	(252)	(63)	(230)	(77)	(114)	(155)	(34)	(46)	(43)	(1 174)
Intersegment income and expense*	**54 524**	**(12 961)**	**(1 865)**	**(12 078)**	**(3 737)**	**(5 735)**	**(6 475)**	**(1 389)**	**(7 556)**	**(2 728)**	**-**
Profit/(loss) of reportable segments	**(44 277)**	**8 297**	**1 089**	**17 233**	**2 977**	**7 303**	**7 850**	**1 218**	**(3 286)**	**2 869**	**1 273**
For the year ended 31 December 2010											
Revenue from external customers:	**17 132**	**24 352**	**3 660**	**19 397**	**7 253**	**7 759**	**10 850**	**2 421**	**12 273**	**4 072**	**109 169**
- Income from loans and advances to customers, due from other banks and other placed funds	15 769	22 997	3 386	18 494	6 886	7 407	10 246	2 298	11 676	3 879	103 038
- Fee and commission income from credit related operations	1 363	1 355	274	903	367	352	604	123	597	193	6 131
Gains less losses / (losses net of gains) arising from securities	(4 283)	(37)	-	(60)	3	-	9	-	2	(14)	(4 380)
Net interest and commissions from current/correspondent/settlement accounts	(389)	623	122	467	148	452	278	65	151	127	2 044
Expenses from due to other banks, term deposits and other borrowed funds	(40 307)	(4 257)	(697)	(2 372)	(1 345)	(467)	(1 386)	(331)	(1 041)	(569)	(52 772)
Provision charge for impairment	(552)	(4 947)	(492)	(5 071)	(1 748)	(101)	(3 797)	(882)	(9 667)	(536)	(27 793)
Administrative and Maintenance expense	(4 152)	(4 292)	(1 468)	(3 926)	(1 684)	(1 759)	(3 068)	(650)	(843)	(1 244)	(23 086)
Including depreciation charge for the reporting period	(136)	(245)	(63)	(235)	(75)	(112)	(154)	(34)	(48)	(48)	(1 150)
Intersegment income and expense*	**49 724**	**(11 876)**	**(1 665)**	**(10 653)**	**(3 700)**	**(4 614)**	**(5 781)**	**(1 282)**	**(7 818)**	**(2 335)**	**-**
Profit/(loss) of reportable segments	**(35 315)**	**11 640**	**1 148**	**8 452**	**2 788**	**6 089**	**2 805**	**633**	**909**	**1 865**	**1 014**
Total assets											
31 December 2011	1 577 279	443 342	58 505	303 908	107 959	129 403	168 682	35 754	163 520	69 749	3 058 101
31 December 2010	1 183 530	311 373	44 238	237 058	99 122	94 890	131 428	26 113	150 337	47 362	2 325 451
Provision for loan impairment (RAR)											
31 December 2011	(1 151)	(18 111)	(2 429)	(9 318)	(5 566)	(3 733)	(7 789)	(1 888)	(19 960)	(3 190)	(73 135)
31 December 2010	(55)	(9 479)	(1 978)	(10 281)	(4 754)	(3 106)	(8 167)	(1 667)	(11 293)	(2 744)	(53 524)

***** Intersegment income and expense are used by CODM for information purpose only and not for identification of profit or loss of the operating segments.

30 Segment Analysis (Continued)

The amount of additions/(disposals) in premises and equipment and land for the reporting period ended 31 December 2011 and 31 December 2010 is as follows:

In millions of Russian Roubles	2011	2010
Additions/(disposals)*		
Head office	(11)	126
Central federal district	707	4 156
Far Eastern federal district	29	86
Volga federal district	143	1 316
North-West federal district	(21)	145
North-Caucasian federal district	(23)	110
Siberian federal district	132	494
Ural federal district	37	43
Krasnodar branch	35	35
Southern federal district (without Krasnodar branch)	22	34
Total additions	**1 050**	**6 545**

* Based on RAR including revaluation as at 31 December 2010.

(d) Reconciliation of reportable segment revenues, profit or loss, assets and provision for loan impairment

Reconciliation of profit and assets of the reporting segments for the reporting period ended 31 December 2011 and 31 December 2010 is as follows:

In millions of Russian Roubles	2011	2010
Total profit of reportable segments (after tax)	**1 273**	**1 014**
Adjustments of deferred tax	3 720	1 479
Adjustments of provisions for impairment	1 184	1 300
Revenue of non-reportable segments, including the effect of consolidation*	341	(307)
Accounting for derivative financial instruments at fair value	(3 348)	(960)
Accounting for financial assets and liabilities carried at amortised cost	(1 704)	(482)
Losses less gains from revaluation of other financial assets at fair value through profit and loss	(749)	(734)
Revaluation of premises	(246)	23
Accrued staff costs	(165)	(132)
Other expenses from non-reportable segments, including the effect of consolidation*	(156)	(636)
Other	(92)	(196)
The Group's profit under IFRS (after tax)	**58**	**369**
Assets of reportable segments	**3 058 101**	**2 325 451**
Elimination of settlements between branches	(1 561 892)	(1 228 300)
Elimination of back-to-back deposits	(124 963)	(105 506)
Provision for loan impairment	(75 926)	(57 052)
Assets of non-reportable segments, including the effect of consolidation*	4 227	1 737
Other	(15 121)	(5 530)
The Group's assets under IFRS	**1 284 426**	**930 800**
Provision for loan impairment for loans and advances to customers of reportable segments	**(73 135)**	**(53 524)**
Accounting for provision under IFRS	(4 694)	(4 156)
Provision related to non-reportable segments, including the effect of consolidation*	1 918	451
Accounting for provision for litigation	-	200
The Group's provision for loan impairment for loans and advances to customers under IFRS	**(75 911)**	**(57 029)**

* Non-reportable segments are represented by subsidiaries of the Group.

30 Segment Analysis (Continued)

Reconciliation of material items of income and expenses for the years ended 31 December 2011 and 31 December 2010 is as follows:

In millions of Russian Roubles	2011	2010
Total revenue of reportable segments from external customers	**113 787**	**109 169**
Reclassification of income related to back-to-back deposits to income from derivative financial instruments	(5 530)	(7 144)
Reclassification of income not included in segment revenue	11 373	7 682
Interest income related to effective interest rate implication	(258)	(966)
Revenue of non-reportable segments, including the effect of consolidation*	341	(307)
Effect of disposal of loans	(1 557)	-
Other	(8)	(16)
The Group's revenue under IFRS	**118 148**	**108 418**
Total expenses from due to other banks, term deposits and other borrowed funds of reportable segments	**(58 514)**	**(52 772)**
Reclassification of expense related to back-to-back deposits to expense from derivative financial instruments	8 915	9 512
Interest expense related to the securities issued by the Bank	(8 971)	(9 526)
Effective interest rate adjustments	(1 248)	(628)
Results of non-reportable segments, including the effect of consolidation*	103	82
Other	16	(51)
The Group's interest expense under IFRS	**(59 699)**	**(53 383)**
Provision charge for impairment	**(25 401)**	**(27 793)**
Accounting for provision under IFRS	13	1 300
Provision related to non-reportable segments, including the effect of consolidation*	2 758	(2 022)
Accounting for provision for litigation	-	200
The Group's provision charge for impairment	**(22 630)**	**(28 315)**
Administrative and Maintenance expenses of reportable segments	**(28 202)**	**(23 086)**
Reclassification of results from loan restructuring	1 171	1 121
Expense of non-reportable segments, including the effect of consolidation*	36	(341)
Taxes other than income tax and charity expense	(1 542)	(980)
Accrued staff costs	(165)	(132)
Other	(463)	(166)
The Group's administrative and other operating expenses under IFRS	**(29 165)**	**(23 584)**

* Non-reportable segments are represented by subsidiaries of the Group.

The CODM 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:

- Adjustments of provisions for impairment are related to the difference between the methodology applied to calculate provisions for loan impairment under the RAR used for preparation of management reporting and the methodology used for IFRS reporting. The provision under RAR is calculated based mainly on formal criteria depending on the financial position of the borrower, quality of debt service and collateral, whereas the provision under IFRS requirement is calculated based on incurred loss model.

30 Segment Analysis (Continued)

- Adjustments of derivative financial instruments to their fair value arise from the difference in the accounting treatment of currency swaps under RAR (which are the basis for management reporting) and IFRS reporting. Under RAR gross settled swap transactions are recognised as back-to-back deposits, whereas in IFRS financial statements such transactions are recognised at fair value. Refer to Note 34. Providing reconciliation, accounting for deals described above under RAR assumes also adjustments related to interest income/expense and total assets of reportable segments.

- Adjustments to fair value of securities resulted from application of different valuation techniques and input data.

- Adjustments to financial assets and liabilities carried at amortised cost resulted from accruals of interest income/expenses using effective interest rate method.

- There is no concept of deferred tax accounting in RAR for credit organizations.

- Reclassification of income non included in segment revenue mainly related to interest income from securities.

- Interest income and interest expense under IFRS are accounted using the effective interest rate method.

- Balances of intercompany settlements related to regional branches of the Bank are presented in assets and liabilities, while in IFRS such balances are shown on a net basis.

All other differences also resulted from the differences between RAR (used as the basis for management reporting) and IFRS.

(e) Major Customers

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

31 Financial Risk Management

The purpose of the Group's risk management policy is to maintain acceptable levels of risks determined by the Group with consideration of its strategic goals. The Group's priority task is to ensure the maximum safety of assets and capital through minimising exposures that can lead to unforeseen losses.

The Bank's Supervisory Board approves the risk management policy and, consequently, is responsible for creating and monitoring the operation of the Bank's risk management system in general. Its competence also covers decisions relating to significant risks.

The Bank's Management Board monitors the functioning of the risk management system, approves documents and procedures for identification, evaluation, determination of acceptable risk level, selection of response actions (acceptance, limitation, reallocation, hedging, avoidance) and monitoring thereof.

Operational risk management is carried out by the Bank's Management Board, its Chairman, special working committees and groups, and also by separate structural divisions and executives on the basis of their competence.

The Risks Department (hereinafter, the RD) is responsible for risk control and evaluation and performs its functions independently from business units. The RD is responsible for implementing the principles and methods of identification, evaluation and monitoring of financial risks.

The Bank's authorized bodies on a regular basis consider the Bank's performance, approve and adjust actions in order to reveal and minimize negative consequences on early stages.

31 Financial Risk Management (Continued)

In order to ensure stable operation of the Bank in 2011, the Bank took the following priority steps.

For its lending activities the Bank developed Methodology of limits and internal rating of counterparties and issuers, existing lending regulation was amended in order to improve the credit portfolio quality and mitigate credit risks. These amendments provide, in particular, for inclusion of cooperation with a credit history bureau into the lending business process, also specific actions were taken to ensure appropriate quality of monitoring of loans issued. A vertically-arranged unit for risk assessment and control in the Banks' regional branches was established in order to carry out independent control of the level of risks taken by the branches and additional offices. The role of risk managers in taking lending decisions was enhanced.

The Bank took a set of measures aimed at intensification of actions with regard to non-performing loans and certain steps were taken to establish an infrastructure providing for various actions resolving issues in the area of non-performing loans.

The Head Office tightened its control over target use of the allocated resources in priority areas and over compliance with established limits. The Bank approved and applied additional control measures for liquidity control, which include estimated liquidity indicators. These indicators allowed to timely identify imbalances between the volume of claims and liabilities of the Bank in different time intervals and to promptly identify the necessity of management actions.

To exclude the possibility of losses from transactions in the interbank market the Bank ensured control over the credit risk level of counterparty banks and significantly optimised the limits for transactions with the counterparties. The Bank performs stress-testing of exposed financial risks on quarterly basis.

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 Group's maximum exposure to credit risk is reflected in the carrying amounts of financial assets on the consolidated statement of financial position. For guarantees and commitments to extend credit, the maximum exposure to credit risk is the amount of the commitment. Refer to Note 33.

The credit risk approval competencies in 2011 and 2010 are determined as follows:

- The Supervisory Board approves decisions on loans or determines credit limits per one borrower or a group of related borrowers with the aggregate credit risk limit in excess of RR 4 000 million (2010: RR 4 000 million).

- The Bank's Management Board approves decisions on loans or determines credit limits per one borrower or a group of related borrowers with the aggregate credit risk limit per one borrower or a group of related borrowers totalling up to RR 4 000 million (2010: up to RR 4 000 million) .

- The Credit Committee resolves on providing loans or establishing individual credit risk limits per one borrower or a group of related borrowers within the aggregate credit risk limit in the amount of RR 2 000 million (2010: RR 500 million till February 2010, RR 1 000 million since February 2010 till April 2010, RR 2 000 million since April 2010).

31 Financial Risk Management (Continued)

- Credit committees of regional branches, Credit commissions of additional offices, certain executives of the Bank make credit decisions within the preset limits.

- The Resource Committee adopts decisions on limiting credit risks through setting structural and portfolio limits and also limits for counteragents and securities issuers. The Committee's competence also covers credit limits for the Bank's regional branches.

The Bank's authorised management bodies approve internal regulations that contain formalised descriptions of risk evaluation procedures and processes for provision and servicing of credit products.

The Bank selects credit projects with consideration of the purpose of lending, primary sources of repayment of the loan, borrower's financial position, credit history, state of the economic sector and region, all relationships between the Bank and related persons, availability of sufficient collateral, and loan pricing.

The Bank's authorised bodies set and promptly review credit limits for regional branches and additional offices that are monitored on an ongoing basis.

The Bank monitors portfolio concentration risk through setting credit limits by region, type of loan and certain borrowers. Currently, the maximum level of portfolio concentration per one of the Bank's regional branch is 15% of the Bank's aggregate loan portfolio.

In selecting lending and investment programmes, priority rests with the agricultural sector and related industries, which support and service agricultural producers. The loan portfolio industry concentration risk is mitigated by:

- lending to the entire cycle of agricultural product turnover (production, storage, processing and sales to ultimate consumers);

- lending to borrowers with different specialisation in different regions;

- a combination of several types of production in one entity typical for agricultural producers;

- diversification of investments in effective and reliable projects of other economic sectors;

- limiting one borrower's risk exposure.

The Bank uses different methods of securing execution by borrowers of their contractual obligations in the form of pledge of property or ownerhip rights (with approval of a list of pledged items subject to obligatory insurance by insurers accredited by the Bank), guarantees and warranties from third parties.

Credit risk is monitored at different levels on the basis of the Bank's regulatory documents: at the level of regional branch, additional office and the Head Office of the Bank.

Market risk. The Group takes on exposure to market risk arising from open positions in (a) currency, (b) interest and (c) equity products.

Market risks are managed by means of identifying, evaluating, forecasting market prices, currency rates and market interest rates, determining the acceptable level of risk on open positions, setting limits (creating a system of limits enabling to minimise losses in case of unfavourable market changes) and developing risk insurance mechanisms.

The Bank's authorized bodies perform qualitative evaluation of market risk by means of expert analysis method.

The responsibility of managing the Bank's market risk rests with the Management Board and the Resource Committee within their competence.

31 Financial Risk Management (Continued)

The responsibility for operational managing of market risk, implementing market risk management policies and complying with set limits rests with the heads of structural units that carry out transactions exposed to market risk.

The Bank's exposure to market risks is analysed by the Treasury, the Capital Markets Department and the RD within their competence.

The Bank has contingency plans in case of unfavourable market fluctuations in the value of trading financial instruments, derivative financial instruments, exchange rates and potential losses associated with changes in interest rates. These actions constitute an integral part of the Bank's risk management system and serve a preventive measure for ensuring the continuity of the Bank's operations and safety of the Bank's capital.

The responsibility for making decisions in case of dramatic market changes is laid on the Chairman of the Bank's Management Board or the Resource Committee depending on specific procedures established for particular types of limits.

Any additional expenses that need to be incurred for covering financial losses are approved by the Bank's Management Board.

The responsibility for reviewing and preparation of reports for the Bank's management, for providing information for assigning credit ratings by international rating agencies and for regulators rests with the RD.

The RD's functional duties cover determining the acceptable market risk level, independent of the business unit evaluation, review and control of the actual level of the Bank's market risk exposure, agreeing and monitoring limits, monitoring transactions with financial instruments, evaluating the efficiency of these transactions and comparing with the market risk level.

The Bank's business units (the Capital Markets Department, the Treasury) and the Operations Department are also in charge of current monitoring of positions exposed to market risks in the process of entering into, and accounting for transactions.

The RD jointly with business units, creates the regulatory basis for risks evaluation and interaction of the Bank's units in the process of identification and management of market risks, and also summarizes and optimises the system of monitoring market risk.

Market risk is also mitigated by setting limits with consideration of the portfolio's (instrument's) risk and the Bank's business strategy. When setting limits, the Bank considers several factors, such as market environment, financial position, business trends and management experience.

Limits are regularly reviewed by the Bank's authorised bodies, and the RD monitors limits and reports information on compliance with the set limits to the Bank's management. The RD also considers and agrees all limits proposed by business units for carrying out new transactions.

The Bank has a hierarchy of limits: structural limits, positional limits, stop-loss limits, limits on transactions' parameters, etc. The RD is improving the system of limits on an ongoing basis.

The Bank sets limits on:

- the maximum volume of investments in certain types of assets or liabilities;
- the maximum level of losses and gains in case of changes in financial instruments' prices (stop-loss);
- personal limit (limitation of authorities) on the Bank's staff to adopt independent decisions concerning certain types of transactions;
- the maximum allowed relation between certain ratios on assets and liabilities, including off-balance sheet claims and liabilities (open position limit, limits on other comparative figures); and
- various characteristics of financial instruments (discounts, etc.).

The Bank monitors currency position for each currency to comply with CBRF requirements.

31 Financial Risk Management (Continued)

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 or decrease in the event if unexpected movements arise.

The sources of interest rate risk are:

- Mismatching of the level of interest rate changes for floating rate instruments with the same regularity of repricing (basis risk).
- Mismatching of the maturities of assets, liabilities and off-balance sheet claims and liabilities associated with fixed or floating rate instruments (repricing risk).
- Changes in the yield curve on long and short positions relating to financial instruments, which create the risk of loss as a result of excess of potential expenses over income at the close of these positions (risk of yield curve changes).

The main method of interest rate risk measurement is evaluating the gaps between the Group's assets and liabilities that are sensitive to changes in the interest rate level (GAP method).

The tables below are based on management reports on the Bank's interest rate risk at the stated dates, that were prepared in accordance with the Interest Rate Evaluation Methodology approved by the Bank. Interest rate reports are issued on a monthly basis using the information extracted from the accounting system, which is based on RAR with the assumption of stability of the structure of the Bank's assets and liabilities.

The table below summarises the Group's exposure to interest rate risk at 31 December 2011 by showing the Group's interest bearing financial assets and liabilities in categories based on the earlier of contractual repricing or maturity dates:

In millions of Russian Roubles	**Demand and less than 30 days**	**Due between 31 and 90 days**	**Due between 91 and 180 days**	**Due between 181 days and 1 year**	**Due between 1 and 3 years**	**More than 3 years**	**Total**
Total interest bearing financial assets*	212 593	136 996	116 685	168 666	339 439	314 256	1 288 635
Total interest bearing financial liabilities*	109 718	198 283	175 403	171 616	301 365	199 962	1 156 347
Sensitivity gap	**102 875**	**(61 287)**	**(58 718)**	**(2 950)**	**38 074**	**114 294**	**132 288**
Cummulative sensitivity gap	**102 875**	**41 588**	**(17 130)**	**(20 080)**	**17 994**	**132 288**	

* Total interest-bearing financial assets and total interest-bearing financial liabilities include positions in derivative financial instruments with gross settlements valued at spot foreign exchange rates as they are accounted in accordance with RAR.

Securities included in the table above are presented by maturity (repricing) dates, except for the most highly liquid securities categorised as "Demand and less than 30 days".

31 Financial Risk Management (Continued)

For the year ended 31 December 2011, if interest rates at that date had been 100 basis points lower with all other variables held constant, net interest income for the year would have been RR 12 million higher (2010: RR 592 million higher); other components of equity (pre-tax) would have been RR 1 943 million higher (2010: RR 303 million higher), as a result of an increase in the fair value of fixed interest rate debt investments classified as available for sale.

For the year ended 31 December 2011, if interest rates at that date had been 100 basis points higher with all other variables held constant, net interest income for the year would have been RR 12 million lower (2010: RR 592 million lower); other components of equity (pre-tax) would have been RR 1 943 million lower (2010: RR 303 million lower), as a result of a decrease in the fair value of fixed interest rate debt investments classified as available for sale.

The table below summarises the Group's exposure to interest rate risk at 31 December 2010 by showing the Group's interest bearing financial assets and liabilities in categories based on the earlier of contractual repricing or maturity dates:

In millions of Russian Roubles	**Demand and less than 30 days**	**Due between 31 and 90 days**	**Due between 91 and 180 days**	**Due between 181 days and 1 year**	**Due between 1 and 3 years**	**More than 3 years**	**Total**
Total interest bearing financial assets*	83 313	83 673	105 389	171 807	245 424	252 650	942 256
Total interest bearing financial liabilities*	100 699	111 641	132 739	163 084	151 178	183 152	842 493
Sensitivity gap	**(17 386)**	**(27 968)**	**(27 350)**	**8 723**	**94 246**	**69 498**	**99 763**
Cummulative sensitivity gap	**(17 386)**	**(45 354)**	**(72 704)**	**(63 981)**	**30 265**	**99 763**	

* Total interest-bearing financial assets and total interest-bearing financial liabilities include positions in derivative financial instruments with gross settlements valued at spot foreign exchange rates as they are accounted in accordance with RAR.

31 Financial Risk Management (Continued)

The Group monitors interest rates for its financial instruments. The table below summarises interest rates based on reports reviewed by key management personnel. The analysis has been prepared based on year-end interest rates.

	2011				2010			
In % p.a.	RR	US Dollars	Euros	Other	RR	US Dollars	Euros	Other
Assets								
Cash and cash equivalents*	6	-	-	-	3	1	-	-
Mandatory cash balances with the CBRF	0	-	-	-	0	-	-	-
Debt trading securities and related repurchase receivables	-	-	-	-	12	-	-	-
Financial instruments designated at fair value through profit or loss	12	9	-	-	12	10	-	-
Due from other banks*	-	7	-	-	-	8	-	-
Loans and advances to customers	13	8	9	7	14	9	10	7
Debt investment securities available for sale and related repurchase receivables	8	8	-	-	8	6	-	-
Debt investment securities held to maturity and related repurchase receivables	8	6	-	-	8	6	-	-
Liabilities								
Due to other banks*	7	8	3	5	7	8	3	5
Customer accounts*	8	3	3	-	7	7	6	-
Promissory notes issued	7	1	5	-	6	1	5	-
Other borrowed funds	8	8	-	6	9	8	-	6
Subordinated debts	7	5	-	-	7	6	-	-

* disclosed rates on term deposits

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

Currency and Equity Risk Management

Currency and equity risks are assessed on the basis of the VAR method (Value At Risk). This method represents a statistical evaluation of the ratio characterising the maximum amount of possible losses on a portfolio consisting of different financial instruments (or one instrument) with a specified probability and for a certain period of time. Reports on the level of market risk are issued on the basis of the approved Methodology for Currency and Equity Risk Evaluation and provided by the RD to the Bank's management and heads of interested units in compliance with the internal regulatory documents.

The Bank calculates VaR on the basis of a 95% confidence level and makes evaluations on the basis of retrospective information on closing prices (as the most dynamic and precise in terms of risk evaluation) for 250 days, evaluation period is one day. Therefore, VaR shows the maximum loss that can be received from the open position during one trading day with a 95% probability; however, in 5% of cases losses may exceed this level.

VaR calculation is based on the data extracted from RAR accounting system and is shown in management reports in two forms: relative (in percentage terms) and absolute (in Roubles). Relative VaR shows the maximum possible loss as per RR 1 of investments, and absolute VaR – losses on the current open position during the period of evaluation.

Together with VAR, the Bank calculates ES indicator (Expected Shortfall), which represents monetary value of expected losses in case of excess VAR.

31 Financial Risk Management (Continued)

VaR is calculated by historical method and, subsequently, the most adequate evaluation of calculations' parameters is chosen on the basis of analysing the changes in a financial instrument (group of instruments).

The methods used by the Bank are back-tested on a quarterly basis.

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

- The use of historic data as a basis for determining future events may not encompass all possible scenarios, particularly those which are of an extreme nature;
- A one day holding period assumes that all positions can be liquidated or hedged within that period. This is considered to be a realistic assumption in almost all cases but may not be the case in situation in which there is a severe market illiquidity for a prolonged period;
- The use of 95% confidence level does not take into account losses that may occur beyond this level. There is a 5% probability that the loss could exceed the VaR; and
- VaR is calculated only on the end-of-day basis and does not necessarily reflect exposures that may arise on positions during the trading day.

Currency risk

The below table shows possible changes in financial results and equity during one day as a result of possible fluctuations in exchange rates, evaluated on the basis of VaR and Expected ShortFall methods.

In millions of Russian Roubles		2011	2010
At period end	Short position	(35)	(1 068)
	VAR	2	9
	Expected ShortFall	3	11

Equity risk taken by the Group is assessed as insignificant due to limited volumes of transactions.

The below table shows possible changes in financial results and equity during one day as a result of possible fluctuations in stock quotations, evaluated on the basis of VaR and Expected ShortFall methods.

In millions of Russian Roubles		2011	2010
At period end	Short position	9	15
	VAR	-	-
	Expected ShortFall	-	1

31 Financial Risk Management (Continued)

Geographical risk concentration.

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

In millions of Russian Roubles	Russia	OECD*	Other countries	Total
Assets				
Cash and cash equivalents	130 071	3 883	5	133 959
Mandatory cash balances with the CBRF	8 417	-	-	8 417
Repurchase receivables	2 369	-	-	2 369
Financial instruments designated at fair value through profit or loss	-	11 225	-	11 225
Derivative financial instruments	-	23 296	-	23 296
Due from other banks	8 019	25 962	5 588	39 569
Loans and advances to customers	903 697	-	-	903 697
Investment securities available for sale	76 595	-	-	76 595
Investment securities held to maturity	31 319	-	-	31 319
Deferred income tax asset	5 531	-	-	5 531
Intangible assets	1 531	-	-	1 531
Premises and equipment	25 093	-	-	25 093
Current income tax prepayment	820	-	-	820
Other assets	15 903	1	-	15 904
Assets of the disposal groups held for sale	5 099	2	-	5 101
Total assets	**1 214 464**	**64 369**	**5 593**	**1 284 426**
Liabilities				
Derivative financial instruments	386	353	-	739
Due to other banks	13 424	75 772	1 221	90 417
Customer accounts	600 925	6 168	202	607 295
Promissory notes issued	20 129	-	-	20 129
Other borrowed funds	111 344	231 155	-	342 499
Deferred income tax liability	1 322	-	-	1 322
Current income tax liability	7	-	-	7
Other liabilities	6 762	7	-	6 769
Subordinated debts	25 004	32 188	-	57 192
Liabilities directly associated with disposal groups held for sale	1 281	1	-	1 282
Total liabilities	**780 584**	**345 644**	**1 423**	**1 127 651**
Net position in on-balance sheet positon	**433 880**	**(281 275)**	**4 170**	**156 775**
Credit related commitments	**29 896**	**-**	**-**	**29 896**

* OECD – Organisation for Economic Cooperation and Development.

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

31 Financial Risk Management (Continued)

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

In millions of Russian Roubles	Russia	OECD*	Other countries	Total
Assets				
Cash and cash equivalents	80 504	496	10	81 010
Mandatory cash balances with the CBRF	3 468	-	-	3 468
Trading securities	3 563	-	-	3 563
Repurchase receivables	15 240	-	-	15 240
Financial instruments designated at fair value through profit or loss	-	9 686	-	9 686
Derivative financial instruments	42	20 579	-	20 621
Due from other banks	5 777	24 566	4 134	34 477
Loans and advances to customers	688 556	-	-	688 556
Investment securities available for sale	15 687	-	-	15 687
Investment securities held to maturity	14 922	-	-	14 922
Deferred income tax asset	1 930	-	-	1 930
Intangible assets	1 563	-	-	1 563
Premises and equipment	25 985	-	-	25 985
Current income tax prepayment	191	-	-	191
Other assets	11 050	1	1	11 052
Assets of the disposal groups held for sale	2 847	2	-	2 849
Total assets	**871 325**	**55 330**	**4 145**	**930 800**
Liabilities				
Derivative financial instruments	31	510	-	541
Due to other banks	31 825	73 498	255	105 578
Customer accounts	375 817	7 473	2 989	386 279
Promissory notes issued	9 874	-	-	9 874
Other borrowed funds	88 457	169 102	-	257 559
Deferred income tax liability	1 405	-	-	1 405
Current income tax liability	17	-	-	17
Other liabilities	4 389	-	-	4 389
Subordinated debts	25 000	21 545	-	46 545
Liabilities directly associated with disposal groups held for sale	1 014	1	-	1 015
Total liabilities	**537 829**	**272 129**	**3 244**	**813 202**
Net position in on-balance sheet positon	**333 496**	**(216 799)**	**901**	**117 598**
Credit related commitments	**1 155**	**-**	**-**	**1 155**

* OECD – Organisation for Economic Cooperation and Development.

Liquidity risk. Liquidity risk is defined as the risk of the Group's inability to meet its obligations on a timely and full basis. The Group is exposed to daily calls on its available cash resources from customer accounts, demand deposits, maturing interbank loans (deposits), term deposits and issued securities, loan draw downs, guarantees and from margin and other calls on cash settled derivative instruments. The Group does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty.

The Group manages liquidity risk on the basis of the following principles:

- segregation of duties between the Groups's management bodies, its collegial working bodies, structural units and executives;
- setting limits ensuring an optimal liquidity level and corresponding to the Group's financial position;
- priority of maintaining liquidity over profit maximisation;
- excluding conflicts of interest in organising the liquidity management system; and
- optimal matching of the volumes and maturities of funding sources with the volumes and maturities of placed assets.

31 Financial Risk Management (Continued)

The responsibility for liquidity management rests with the Bank's Management Board, Resource Committee and the Treasury. The responsibility for maintaining an optimal level of current (short-term) liquidity rests with the Treasury of the Bank's Head Office within the set limits of attraction/placement of funds in the money market. In case of necessity to attract/place funds in the volumes exceeding the set limits, such decisions are made by the Bank's Management Board (Resource Committee). Medium-term and long-term liquidity management is carried out with consideration of information and proposals provided by the Risk Evaluation and Management Department at each end of reporting period.

The Group manages liquidity risk using the following basic methods:

- evaluating the daily payment position on the basis of cash flow analysis;
- reviewing the actual values and changes in mandatory liquidity ratios;
- evaluating structure and quality of assets and liabilities;
- setting limits on asset-side transactions by types of investments;
- analysing maturity gaps of the Group on the basis of the most likely claim/repayment dates by main currencies;
- analysing the Group's exposure to liquidity risk with consideration of stress factors's impact on various scenarios covering standard and more unfavourable market conditions.

Information on financial assets and liabilities (their structure and gaps within certain time intervals) is used in management decisions on the Group's liquidity maintenance at an adequate level. Treasury is responsible to maintain short-term assets portfolio of liquid trading securities, deposits with banks and other interbank instruments.

The Group maintains a stable financing base consisting mainly of funds that were attracted through placing of bonds in russian roubles and other currencies, increasing the volume of deposits (including interbank deposits), issuing promissory notes and also current resources of the Group as a result of an increase in customer current accounts.

The Group develops and promptly reviews a contingency plan for maintaining the necessary liquidity level with consideration of any changes in the Group's financial position and volume and nature of its transactions. In case of a liquidity crisis and additional expenses to be incurred in this respect, as well as for coverage of incurred or potential financial losses all decision-making responsibilities are transferred to Resource Committee and the Management Board Resource Committee.

Compliance with liquidity requirements set by the Bank of Russia is forecasted on a daily basis for the Bank in general with consideration of the branch network. The Bank sets and daily monitors individual liquidity sublimits for its regional branches.

For the purpose of additional management of the Group's term liquidity in general, the Group uses estimated liquidity ratios, the level of which is supervised by the Risk Evaluation and Monitoring Department as part of ongoing monitoring.

The table below shows distribution of financial liabilities at 31 December 2011 by their remaining contractual maturity. The amounts disclosed in the table are the contractual undiscounted cash flows of the Group's financial liabilities and off-balance sheet credit related committments. Such undiscounted cash flows differ from the amount included in the statement of financial position, since the amount in statement of financial position is based on discounted cash flows. Net settled derivative financial instruments are included at the net amounts expected to be paid. In respect of gross settled derivative financial instruments, payments are presented for related cash inflows and outflows separately.

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

31 Financial Risk Management (Continued)

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

In millions of Russian Roubles	Demand and less than 30 days	Due between 31 and 180 days	Due between 181 days and 1 year	From 1 to 3 years	More than 3 years	Total
Financial liabilities						
Gross settled derivative financial instruments						
- inflow	(5 223)	(20 569)	(16 714)	(51 799)	(79 554)	(173 859)
- outflow	5 440	19 102	15 969	53 215	65 867	159 593
Net settled derivative financial instruments (liabilities)	386	-	-	-	-	386
Due to other banks	948	3 880	11 232	52 113	27 507	95 680
Customer accounts	151 076	252 654	140 738	82 113	7 758	634 339
Promissory notes issued	888	13 365	5 695	405	660	21 013
Other borrowed funds	1 573	26 818	37 611	193 386	160 173	419 561
Subordinated debts	-	8 107	1 581	6 341	60 392	76 421
Other financial liabilities	2 563	100	1 387	-	187	4 237
Off-balance sheet financial liabilities						
Sureties issued	20 732	-	-	-	-	20 732
Guarantees issued	7 736	-	-	-	-	7 736
Letters of credit	1 428	-	-	-	-	1 428
Other credit related commitments*	36 368	-	-	-	-	36 368
Total potential future payments for financial obligations	**223 915**	**303 457**	**197 499**	**335 774**	**242 990**	**1 303 635**

* Other credit related commitments include cancellable commitments, which are dependent on borrowers' compliance with certain creditworthiness criteria.

31 Financial Risk Management (Continued)

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

In millions of Russian Roubles	Demand and less than 30 days	Due between 31 and 180 days	Due between 181 days and 1 year	From 1 to 3 years	More than 3 years	Total
Financial liabilities						
Gross settled derivative financial instruments						
- inflow	(308)	(8 877)	(36 045)	(23 664)	(81 748)	(150 642)
- outflow	377	9 362	34 439	23 540	75 238	142 956
Net settled derivative financial instruments (liabilities)	31	-	-	-	-	31
Due to other banks	21 753	9 458	7 285	61 787	27 659	127 942
Customer accounts	119 173	161 625	91 715	18 920	7 604	399 037
Promissory notes issued	855	2 046	5 785	1 167	700	10 553
Other borrowed funds	762	21 504	29 652	127 663	144 492	324 073
Subordinated debts	-	1 003	17 075	9 409	34 714	62 201
Other financial liabilities	1 498	-	797	27	435	2 757
Off-balance sheet financial liabilities						
Guarantees issued	320	-	-	-	-	320
Letters of credit	835	-	-	-	-	835
Other credit related commitments*	24 497	-	-	-	-	24 497
Total potential future payments for financial obligations	**169 793**	**196 121**	**150 703**	**218 849**	**209 094**	**944 560**

* Other credit related commitments include cancellable commitments, which are dependent on borrowers' compliance with certain creditworthiness criteria.

The future minimum lease payments under non-cancellable operating lease commitments where the Group is a lessee is disclosed in Note 33.

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.

The tables presented below are based on the management reports on the Bank's liquidity risk at the stated dates that were issued in accordance with the Net liquidity Gap Methodology approved by the Bank. These reports are prepared using the information extracted from the accounting system, which is based on the Russian Accounting Rules (RAR).

31 Financial Risk Management (Continued)

The table below summarizes analysis of liquidity risk at 31 December 2011:

In millions of Russian Roubles	**Demand and less than 30 days**	**Due between 31 and 90 days**	**Due between 91 and 180 days**	**Due between 181 and 1 year**	**From 1 to 3 years**	**More than 3 years**	**Overdue**	**Total**
Total financial assets*	262 869	135 061	120 662	179 511	342 473	318 885	72 234	1 431 695
Total financial liabilities*	164 881	188 073	117 141	189 420	319 816	266 434	-	1 245 765
Net liquidity gap	**97 988**	**(53 012)**	**3 521**	**(9 909)**	**22 657**	**52 451**	**72 234**	**185 930**
Cumulative liquidity gap	**97 988**	**44 976**	**48 497**	**38 588**	**61 245**	**113 696**	**185 930**	

* Total financial assets and total financial liabilities include gross positions in derivative financial instruments with gross settlements valued at spot foreign exchange rates as they are accounted in accordance with RAR.

The table below summarize analysis of liquidity risk at 31 December 2010:

In millions of Russian Roubles	**Demand and less than 30 days**	**Due between 31 and 90 days**	**Due between 91 and 180 days**	**Due between 181 and 1 year**	**From 1 to 3 years**	**More than 3 years**	**Overdue**	**Total**
Total financial assets*	138 516	77 425	106 128	175 921	255 616	258 207	42 489	1 054 302
Total financial liabilities*	143 975	99 962	89 495	164 073	188 906	229 389	-	915 800
Net liquidity gap	**(5 459)**	**(22 537)**	**16 633**	**11 848**	**66 710**	**28 818**	**42 489**	**138 502**
Cumulative liquidity gap	**(5 459)**	**(27 996)**	**(11 363)**	**485**	**67 195**	**96 013**	**138 502**	

* Total financial assets and total financial liabilities include gross positions in derivative financial instruments with gross settlements valued at spot foreign exchange rates as they are accounted in accordance with RAR.

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the liquidity risks 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 customers 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.

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 ensure the Group's ability to continue as a going concern; and

iii. to maintain a sufficient capital base and to achieve a capital adequacy ratio of at least 8% in accordance with the requirements as defined in the June 2004 Basel II Framework and in the reference on the application of Basel II to Trading activities and the Treatment of Double Default Effects, and elements of the 1988 Accord, and the 1996 Amendment to the Capital Accord to Incorporate Market risks.

Compliance with the capital adequacy ratio set by the Central Bank of the Russian Federation is monitored by the Group's management on a monthly basis.

Under the current capital requirements set by the Central Bank of the Russian Federation banks have to maintain a ratio of capital and assets weighted to risk ("statutory capital ratio") above a prescribed minimum level.

The Group is also subject to minimum capital requirements established by covenants stated in loan agreements, including capital adequacy levels calculated in accordance with Basel Accord and based on the IFRS figures.

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

In millions of Russian Roubles	**2011**	**2010**
Share capital	148 798	108 798
Retained earnings	7 017	6 851
Goodwill	(8)	-
Total tier 1 capital	155 807	115 649
Revaluation reserves	152	832
Subordinated debts	57 192	46 545
Total tier 2 capital	57 344	47 377
Total capital	**213 151**	**163 026**

Management of the Group is of the opinion that the Group complied with all the external capital adequacy requirements imposed by the Central Bank of the Russian Federation and loan covenants.

33 Contingencies and Commitments

Legal proceedings. From time to time in the normal course of business, claims against the Group are received. As at 31 December 2011, based on its own estimates and both internal and external professional advice the Group's management is of the opinion that no material losses will be incurred in respect of claims and accordingly no provision for cover of such losses has been made in these consolidated financial statements (2010: Group's management is of the opinion that no material losses will be incurred in respect of claims and accordingly no provision for cover of such losses has been made in these consolidated financial statements).

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

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

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

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

The Group's Management believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency legislation and customs positions will be sustained. In addition to the aforementioned risks, the Group estimates that as at 31 December 2011 it had other possible obligations from exposure to other than remote tax risks of up to approximately RR 513 million (2010: RR 311 million). These exposures are estimates that result from uncertainties in interpretation of applicable legislation and related documentation requirements. Management will vigorously defend the entity's positions and interpretations that were applied in determining taxes recognised in these consolidated financial statements if these are challenged by the authorities.

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.

33 Contingencies and Commitments (Continued)

Capital expenditure commitments. At 31 December 2010, the Group had contractual capital expenditure commitments of RR 135 million (2010: RR 307 million).

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

In millions of Russian Roubles	**2011**	**2010**
Not later than 1 year	2 433	1 676
Later than 1 year and not later than 5 years	6 977	3 679
Later than 5 years	3 591	2 391
Total operating lease commitments	**13 001**	**7 746**

Compliance with covenants. The Group is subject to certain covenants primarily relating to its borrowings. Non-compliance with such covenants may result in negative consequences for the Group including an increase of the borrowing costs and announcement of the default. The Group's Management believes that the Group is in compliance with the covenants.

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

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. 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 millions of Russian Roubles	**2011**	**2010**
Sureties issued	20 732	-
Guarantees issued	7 736	320
Letters of credit	1 428	835
Total credit related commitments	**29 896**	**1 155**

As at 31 December 2011 sureties issued are represented by financial guaranties to the Central Bank of the Russian Federation for one state-owned Russian bank with rating not less than BB- (S&P). There were no such sureties issued as at 31 December 2010.

The total outstanding contractual amount of sureties issued, undrawn credit lines, letters of credit, and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded.

As at 31 December 2011 the fair value of guarantees issued was RR 114 million (2010: the fair value was negligible).

33 Contingencies and Commitments (Continued)

In 2011 no provision for losses on credit related commitments was created (2010: nil).

Credit related commitments are denominated in currencies as follows:

In millions of Russian Roubles	2011	2010
Russian Roubles	28 749	356
Euros	1 024	291
US Dollars	23	508
Other currencies	100	-
Total	**29 896**	**1 155**

Fiduciary assets. These assets are not included in the consolidated statement of financial position as they are not assets of the Group. Nominal values disclosed below are normally different from the fair values of respective securities.

The fiduciary assets fall into the following categories:

In millions of Russian Roubles	2011	2010
Corporate bonds held with the National Settlement Depository	3 396	3 564
Promissory notes issued by the Bank	714	803
Shares and bonds of companies held with other depositories	220	184

Assets pledged and restricted. The Group had assets pledged as follows:

In millions of Russian Roubles	Note	2011	2010
Under secured loans from the CBRF			
- loans to customers		-	7 101
Under term deposits from clients:			
- State Eurobonds	18	7 058	6 682
Under repo agreements			
- Corporate bonds	9	1 878	12 547
- Federal loan bonds (OFZ)	9	443	-
- Municipal and subfederal bonds	9	48	35
- State Eurobonds	9	-	2 658
Restricted cash	16	202	-

As at 31 December 2011, mandatory cash balances with the CBRF of RR 8 417 million (2010: RR 3 468 million) represent mandatory reserve deposits which are not available to finance the Group's day to day operations.

As at 31 December 2011, the Bank's subsidiaries pledged production premises and equipment under loan agreements with other banks in the total amount of RR 1 375 million (2010: RR 1 863 million).

34 Derivative Financial Instruments

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

34 Derivative Financial Instruments (Continued)

The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time. Liquidity risk on derivative financial instruments is managed by the Group's Treasury and the Capital Markets Department within powers of departments. Management of derivative financial instrument portfolio risks is carried out by authorized Group's bodies through establishing limits.

Foreign exchange swaps with original settlement dates of more than 30 working days are structured as loans issued by the Bank in US Dollars, Euros, Swiss Francs and Japanese yens to five OECD banks and one Russian banking group with maturities from January 2012 to May 2023, and deposits in Russian Roubles received from the same six counterparties with the same maturities ("back to back loans"). These transactions are aimed at economically hedging the currency exposure of the Group.

As at 31 December 2011, international credit ratings of these counterparties were not less than BB- (S&P) (31 December 2010: not less than BB- (S&P)).

Most of these agreements contain special procedures for counterparties upon the occurrence of a credit event or an event of default (including bankruptcy, failure to pay, obligation acceleration, repudiation/moratorium or restructuring of any Bank's obligation on its debts, falling of ratings, providing incorrect or misleading representation). The subjects of such events are the Group, and in some instances, the counterparty of the agreement, and/or the Russian Federation. No further mutual payment obligation between the parties is due, if a credit event or default event happens and the Group receives a formal Event Notice from its counterparty. Other of these swap agreements, in the case of a default event, will be terminated with a mark-to-market payment.

The table below reflects gross positions in derivative financial instruments before netting of any counterparty positions at 31 December 2011 and covers the contracts with settlement dates after the respective end of the reporting period:

In millions of Russian Roubles	Contracts with positive fair value	Contracts with negative fair value	Total
Foreign exchange swaps with settlement dates of more than 30 working days: fair values at the end of the reporting period, of			
USD receivable on settlement (+)	122 903	9 519	132 422
RR payable on settlement (-)	(101 774)	(9 826)	(111 600)
CHF receivable on settlement (+)	5 411	-	5 411
RR payable on settlement (-)	(3 684)	-	(3 684)
EUR receivable on settlement (+)	-	2 770	2 770
RR payable on settlement (-)	-	(2 816)	(2 816)
JPY receivable on settlement (+)	4 317	-	4 317
RR payable on settlement (-)	(3 877)	-	(3 877)
Foreign exchange forwards with settlement dates from 2 to 30 working days: fair values at the end of the reporting period, of			
RR receivable on settlement (+)	-	28 270	28 270
USD payable on settlement (-)	-	(28 629)	(28 629)
USD receivable on settlement (+)	-	3 860	3 860
RR payable on settlement (-)	-	(3 877)	(3 877)
Foreign exchange futures with settlement dates of more than 30 working dates: fair value at the end of the reporting period, of			
USD receivable on settlement (+)	-	966	966
RR payable on settlement (-)	-	(976)	(976)
Total net fair value	**23 296**	**(739)**	**22 557**

34 Derivative Financial Instruments (Continued)

The table below reflects gross positions in derivative financial instruments before netting of any counterparty positions at 31 December 2010 and covers the contracts with settlement dates after the respective end of the reporting period:

In millions of Russian Roubles	Contracts with positive fair value	Contracts with negative fair value	Total
Foreign exchange swaps with settlement dates of more than 30 working days: fair values at the end of the reporting period, of			
USD receivable on settlement (+)	95 172	21 373	116 545
RR payable on settlement (-)	(76 548)	(21 883)	(98 431)
CHF receivable on settlement (+)	5 313	-	5 313
RR payable on settlement (-)	(3 824)	-	(3 824)
JPY receivable on settlement (+)	4 364	-	4 364
RR payable on settlement (-)	(3 898)	-	(3 898)
Foreign exchange forwards with settlement dates from 2 to 30 working days: fair values at the end of the reporting period, of			
RR receivable on settlement (+)	31	3 954	3 985
USD payable on settlement (-)	(31)	(3 966)	(3 997)
USD receivable on settlement (+)	14 257	13 430	27 687
RR payable on settlement (-)	(14 215)	(13 449)	(27 664)
Total net fair value	**20 621**	**(541)**	**20 080**

As at 31 December 2011 receivables and payables on settlement of foreign exchange swaps included the balances with one foreign bank in the amount of RR 46 486 million and RR 41 122 million, respectively, or 32% of total receivables or 34% of total payables on settlement of foreign exchange swaps (2010: RR 52 878 million and RR 43 137 million, respectively, or 42% of total receivables or 41% of total payables on settlement of foreign exchange swaps).

35 Fair Value of Financial Instruments

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation. The best evidence of the fair value is the quotation of the financial instrument in an active market.

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. The Russian Federation continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

35 Fair Value of Financial Instruments (Continued)

Financial instruments carried at fair value. Trading securities, securities available for sale, and related repurchase receivables are carried on the consolidated statement of financial position at their fair value based on quoted market prices.

Financial instruments designated at fair value through profit or loss and derivative financial instruments are carried on the consolidated statement of financial position at their fair value based on valuation technique with inputs observable in markets.

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

Loans and receivables carried at amortised cost. The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate bearing placements is based on discounted cash flows using current market interest rates for instruments with similar credit risk and similar maturity.

Held to maturity securities carried at amortised cost. The fair value for held to maturity securities related repurchase receivables is based on market prices/dealer price quotations.

Liabilities carried at amortised cost. The fair value of other borrowed funds is based on market prices, if available. The estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and similar remaining maturity.

Discount rates used depend on currency, maturity of the instrument and credit risk of the counterparty. The analysis of these rates (in % p.a.) is as follows:

	2011	2010
Due from other banks		
Short-term placements with other banks with original maturity more than one month	0% - 12%	3% - 12%
Loans and advances to customers		
Corporate loans	5% - 16%	6% - 16%
Loans to individuals	11% - 29%	9% - 22%
Securities held to maturity	4% - 10%	3% - 9%
Due to other banks	0% - 9%	1% - 9%
Customer accounts		
Term deposits of legal entities	1% - 13%	1% - 13%
Term deposits of individuals	2% - 9%	1% - 7%
Promissory notes issued	2% - 10%	2% - 11%
Subordinated debts	3% - 7%	2% - 7%

35 Fair Value of Financial Instruments (Continued)

(a) Fair value of financial instruments carried at amortised cost and at fair value:

In millions of Russian Roubles	2011 Carrying amount	2011 Fair value	2010 Carrying amount	2010 Fair value
FINANCIAL ASSETS CARRIED AT AMORTISED COST				
Cash and cash equivalents	133 959	133 959	81 010	81 010
Mandatory cash balances with the CBRF	8 417	8 417	3 468	3 468
Due from other banks	39 569	41 531	34 477	36 835
Loans and advances to customers				
- Loans to corporates	723 366	724 085	560 616	569 632
- Lending for food interventions	33 256	33 256	44 514	44 514
- Reverse repo agreements	1 990	1 990	-	-
- Investments in agricultural cooperatives	491	491	632	632
- Loans to individuals	144 594	144 280	82 794	83 945
Investment securities held to maturity related repurchase receivables	32 372	32 107	14 922	14 753
Other financial assets	6 473	6 473	3 973	3 973
TOTAL FINANCIAL ASSETS CARRIED AT AMORTISED COST	**1 124 487**	**1 126 589**	**826 406**	**838 762**
FINANCIAL ASSETS CARRIED AT FAIR VALUE	**112 432**	**112 432**	**64 797**	**64 797**
TOTAL FINANCIAL ASSETS	**1 236 919**	**1 239 021**	**891 203**	**903 559**
FINANCIAL LIABILITIES CARRIED AT AMORTISED COST				
Due to other banks				
- Term borrowings from other banks	90 065	92 523	101 484	110 102
- Term borrowings from the CBRF	-	-	3 853	3 853
- Correspondent accounts and overnight placements of other banks	352	352	241	241
Customer accounts				
- State and public organisations	197 463	197 463	79 633	79 633
- Other legal entities	258 579	258 579	178 955	178 955
- Individuals	151 253	151 316	127 691	128 673
Promissory notes issued	20 129	20 129	9 874	9 874
Other borrowed funds				
- Eurobonds issued	231 155	237 489	169 102	179 233
- Bonds issued on domestic market	111 344	112 179	88 457	90 899
Other financial liabilities	4 334	4 334	2 757	2 757
Subordinated debts	57 192	54 420	46 545	46 665
TOTAL FINANCIAL LIABILITIES CARRIED AT AMORTISED COST	**1 121 866**	**1 128 784**	**808 592**	**830 885**
FINANCIAL LIABILITIES CARRIED AT FAIR VALUE	**739**	**739**	**541**	**541**
TOTAL FINANCIAL LIABILITIES	**1 122 605**	**1 129 523**	**809 133**	**831 426**

35 Fair Value of Financial Instruments (Continued)

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

Analysis of financial instruments at fair value at 31 December 2011 is as follows:

In million of Russian Roubles	Quoted price in an active market (Level 1)	Valuation technique with inputs observable in markets (Level 2)	Total
Financial assets			
Repurchase receivables related to available for sale securities	1 316	-	1 316
Financial instruments designated at fair value through profit or loss	-	11 225	11 225
Investment securities available for sale	76 595	-	76 595
Derivative financial instruments assets	-	23 296	23 296
Financial liabilities			
Derivative financial instruments liabilities	-	(739)	(739)

Analysis of financial instruments at fair value at 31 December 2010 is as follows:

In million of Russian Roubles	Quoted price in an active market (Level 1)	Valuation technique with inputs observable in markets (Level 2)	Total
Financial assets			
Trading securities	3 563	-	3 563
Repurchase receivables related to trading securities and available for sale securities	15 240	-	15 240
Financial instruments designated at fair value through profit or loss	-	9 686	9 686
Investment securities available for sale	15 687	-	15 687
Derivative financial instruments assets	-	20 621	20 621
Financial liabilities			
Derivative financial instruments liabilities	-	(541)	(541)

There were no financial instruments carried at fair value based on a valuation technique with non-observable inputs (Level 3) at 31 December 2011 (2010: nil).

36 Presentation of Financial Instruments by Measurement Category

According to the IAS 39, *Financial Instruments: Recognition and Measurement*, the Group classifies its financial assets into the following categories: (a) loans and receivables; (b) available for sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit and loss. Financial assets at fair value through profit and loss have two subcategories: (i) assets designated as such upon initial recognition, and (ii) financial assets held for trading. The table below provides a reconciliation of classes of financial assets with these measurement categories as at 31 December 2011.

In millions of Russian Roubles	**Loans and receivables**	**Available for sale assets**	**Trading assets**	**Financial assets designated at fair value through profit or loss**	**Held-to-maturity assets**	**Total**
FINANCIAL ASSETS						
Cash and cash equivalents						
- cash on hand	19 635	-	-	-	-	19 635
- cash balances with the CBRF (other than mandatory reserve deposits)	33 015	-	-	-	-	33 015
- correspondent accounts and placements with other banks with original maturities of less than one month	81 309	-	-	-	-	81 309
Mandatory cash balances with the CBRF	8 417	-	-	-	-	8 417
Repurchase receivables	-	1 316	-	-	1 053	2 369
Financial instruments designated at fair value through profit or loss	-	-	-	11 225	-	11 225
Derivative financial instruments	-	-	23 296	-	-	23 296
Due from other banks	39 569	-	-	-	-	39 569
Loans and advances to customers						
- Loans to corporates	723 366	-	-	-	-	723 366
- Lending for food interventions	33 256				-	33 256
- Deals with securities purchased under “reverse-repo agreements”	1 990	-	-	-	-	1 990
- Investments in agricultural cooperatives	491	-	-	-	-	491
- Loans to individuals	144 594	-	-	-	-	144 594
Investment securities available for sale	-	76 595	-	-	-	76 595
Investment securities held to maturity	-	-	-	-	31 319	31 319
Other financial assets	6 473	-	-	-	-	6 473
TOTAL FINANCIAL ASSETS	**1 092 115**	**77 911**	**23 296**	**11 225**	**32 372**	**1 236 919**
Non-financial assets						**47 507**
TOTAL ASSETS	**1 092 115**	**77 911**	**23 296**	**11 225**	**32 372**	**1 284 426**

36 Presentation of Financial Instruments by Measurement Category (Continued)

The table below provides a reconciliation of classes of financial assets with measurement categories mentioned above as at 31 December 2010.

In millions of Russian Roubles	Loans and receivables	Available for sale assets	Trading assets	Financial assets designated at fair value through profit or loss	Held-to-maturity assets	Total
FINANCIAL ASSETS						
Cash and cash equivalents						
- cash on hand	16 101	-	-	-	-	16 101
- cash balances with the CBRF (other than mandatory reserve deposits)	37 361	-	-	-	-	37 361
- correspondent accounts and placements with other banks with original maturities of less than one month	27 548	-	-	-	-	27 548
Mandatory cash balances with the CBRF	3 468	-	-	-	-	3 468
Trading securities						
- Debt securities	-	-	3 563	-	-	3 563
Repurchase receivables	-	14 622	618	-	-	15 240
Financial instruments designated at fair value through profit or loss	-	-	-	9 686	-	9 686
Derivative financial instruments	-	-	20 621	-	-	20 621
Due from other banks	34 477	-	-	-	-	34 477
Loans and advances to customers						
- Loans to corporates	560 616	-	-	-	-	560 616
- Lending for food interventions	44 514	-	-	-	-	44 514
- Investments in agricultural cooperatives	632	-	-	-	-	632
- Loans to individuals	82 794	-	-	-	-	82 794
Investment securities available for sale	-	15 687	-	-	-	15 687
Investment securities held to maturity	-	-	-	-	14 922	14 922
Other financial assets	3 973	-	-	-	-	3 973
TOTAL FINANCIAL ASSETS	**811 484**	**30 309**	**24 802**	**9 686**	**14 922**	**891 203**
Non-financial assets						**39 597**
TOTAL ASSETS	**811 484**	**30 309**	**24 802**	**9 686**	**14 922**	**930 800**

All of the Group’s financial liabilities except for derivative financial instruments are carried at amortised cost. Derivative financial instruments are classified as held for trading.

37 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. The Bank's only shareholder is the Government of the Russian Federation represented by the Federal Agency for Managing State Property (Refer to Note 1).

The Group early adopted amendment to IAS 24, Related Party Disclosures (issued in November 2009 and effective for annual periods beginning on or after 1 January 2011) in the consolidated financial statements for the year ended 31 December 2009.

In these consolidated financial statements, the most significant balances and transactions with related parties owned by the Russian State and balances and transactions with related parties represented by key management and their family members are disclosed.

In millions of Russian Roubles	**2011**	**2010**
Loans and advances to customers (before impairment)		
State-owned entities (contractual interest rate: 7%-12% p.a. (2010: 7%-12% p.a.))	39 233	45 937
Key management and their family members (2010: contractual interest rate 5% p.a.)	-	21
Provision for loan impairment at the year end		
State-owned entities	(11)	(8)
Customer accounts		
State-owned entities (contractual interest rate for term deposits: 4%-10% p.a. (2010: 1%-9% p.a.))	225 451	89 763
Key management and their family members (contractual interest rate for term deposits: 1%-10% p.a. (2010: 1%-7% p.a.))	24	235
Subordinated debts		
State-owned entities (contractual interest rate: 6.5% p.a. (2010: 6.5% p.a.))	25 004	25 000

The income and expense items with related parties were as follows:

In millions of Russian Roubles	**2011**	**2010**
Interest income on loans and advances to customers		
State-owned entities	3 040	3 458
Key management and their family members	-	1
Interest expense on customer accounts		
State-owned entities	(10 765)	(5 169)
Key management and their family members	(11)	(36)
Interest expense on subordinated debts		
State-owned entities	(1 621)	(1 867)

37 Related Party Transactions (Continued)

The Group had also the following insignificant balances and transactions with related parties:

- cash and cash equivalents as at 31 December 2011 and as at 31 December 2010 (refer to Note 7);
- repurchase receivables as at 31 December 2011 and as at 31 December 2010 (refer to Note 9);
- due from state-owned banks as at 31 December 2011 and as at 31 December 2010;
- securities of state-owned companies and banks in portfolio of securities avalaible for sale as at 31 December 2011 and as at 31 December 2010 (refer to Note 13);
- securities of state-owned companies and banks in portfolio of securities held to maturity as at 31 December 2011 and as at 31 December 2010 (refer to Note 14);
- due to state-owned banks as at 31 December 2010;
- credit related commitments as at 31 December 2011 (refer to Note 33);
- foreign exchange swap with one state-owned Banking Group as at 31 December 2011;
- interest income on cash equivalents, trading securities, securities available for sale, securities held to maturity and related repurchase receivables, due from other banks;
- interest expense on due to other banks;
- results from operation with trading securities and securities available for sale;
- other.

In 2011 and 2010, the only transactions with the shareholder were share capital increase, dividends and taxes paid. Refer to Note 28 and 29.

As at 31 December 2011, investment securities available for sale and investment securities held to maturity included securities issued by Russian Federation in the total amount of RR 19 403 million (31 December 2010: RR 15 710 million); interest income from these securities for the year ended 31 December 2011 amounted to RR 1 042 million (for the year ended 31 December 2010: RR 532 million).

Key management of the Group represents members of the Management Board and Chief Accountant of the Bank. In 2011 short-term benefits of the key management amounted to RR 113 million (2010: RR 139 million).

	2011		2010	
In millions of Russian Roubles	**Remuneration paid**	**Accrued liability**	**Remuneration paid**	**Accrued liability**
Short-term benefits:				
Salary, social security costs and short-term bonuses included in salary	108	4	118	6
Post-employment benefits:				
- Defined contribution retirement scheme	-	-	14	-
- State pension and social costs	1	-	1	-
Total	**109**	**4**	**133**	**6**

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

38 Disposal of Subsidiaries and Groups Classified as Held for Sale

a) Disposal of Subsidiaries

In June 2011 the Group completed disposal of its subsidiary Chelyabinskiy Commercial Land Bank.

In millions of Russian Roubles	**06 June 2011**
Cash and cash equivalents	250
Mandatory cash balances with the Central Bank of the Russian Federation	2
Intangible assets	1
Premises and equipment	58
Customer accounts	(30)
Current income tax liability	(2)
Other liabilities	(74)
Net assets of subsidiary	**205**
Carrying amount of net assets disposed of	**205**
Total disposal consideration	**226**
Less: cash and cash equivalents in subsidiary disposed of	(250)
Cash outflow on disposal	**(24)**

In millions of Russian Roubles	**Gain on disposal of subsidiary**
Consideration for disposal of the subsidiary	226
Carrying amount of net assets disposed of	(205)
Gains on disposal of subsidiary	**21**

b) Groups Classified as Held for Sale

As at 31 December 2011 the Group has classified the assets and liabilities related to companies in Bashkortostan and Leningrad Region as disposal groups held for sale (31 December 2010: the assets and liabilities related to companies in Leningrad Region and Chelyabinskiy Commercial Land Bank).

Major classes of assets of disposal groups held for sale are as follows:

In millions of Russian Roubles	**2011**	**2010**
Premises and equipment	2 861	2 122
Trade receivables	1 119	364
Inventory	745	125
Loans and advances to customers	108	93
Cash and cash equivalents	6	12
Other	262	133
Total assets of the disposal groups held for sale	**5 101**	**2 849**

38 Disposal of Subsidiaries and Groups Classified as Held for Sale (Continued)

Major classes of liabilities directly associated with disposal groups held for sale are as follows:

In millions of Russian Roubles	2011	2010
Trade payables	639	498
Deferred income tax liability	301	309
Due to other banks	-	158
Customer accounts	-	16
Other	342	34
Total liabilities directly associated with disposal groups held for sale	**1 282**	**1 015**

Cumulative income or expenses recognised in statement of comprehensive income relating to disposal groups classified as held for sale as part of gains net of losses from non-banking activity:

In millions of Russian Roubles	2011	2010
Sales of goods	3 845	1 363
Cost of goods sold	(3 276)	(1 240)
Administrative and other operating expenses	(436)	(199)
Interest income	27	93
Interest expenses	(79)	(32)
Other income	311	138
Other expenses	(222)	(120)
Total income directly associated with disposal groups held for sale	**170**	**3**

The Group actively markets these assets and expects the sale to be completed by the end of first half of 2012.

39 Events after the End of the Reporting Period

In February 2012, the Group attracted RR 10 000 million through the issue of bonds denominated in Russian Roubles with semi-annual payment of coupon at 8.2% p.a. and maturing in February 2015. According to the issue terms the Group has the right to amend interest rate or offer a full redemption in one and a half year term.

In February 2012, the Group attracted RR 10 000 million through the issue of Eurobonds (loan participation notes) denominated in Russian Roubles with semi-annual payment of coupon at 8.625% p.a. and maturing in February 2017.

In April 2012, the Group attracted RR 10 000 million through the issue of bonds denominated in Russian Roubles with semi-annual payment of coupon at 8.55% p.a. and maturing in April 2022. According to the issue terms the Group has the right to amend interest rate or offer a full redemption in three years term.