Sovcombank Group

Consolidated financial statements

for the year ended 31 December 2011

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Independent auditors' report

To the Board of Directors of Sovcombank (LLC)

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

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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

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

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

Opinion

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

Ernst & Young LLC

21 March 2012

Consolidated statement of comprehensive income

for the year ended 31 December 2011

	Notes	*2011 RUR'000*	*2010 RUR'000 (after reclassification)*
Interest income	6	9,324,471	8,007,835
Interest expense	6	(3,619,062)	(2,946,337)
Net interest income		**5,705,409**	**5,061,498**
Allowances for loan impairment	11	(1,556,488)	(1,287,508)
Net interest income after allowances for loan impairment and other impairment		**4,148,921**	**3,773,990**
Fee and commission income	7	4,311,001	559,410
Fee and commission expense	8	(111,539)	(89,446)
Net fee and commission income		**4,199,462**	**469,964**
Net losses (gains) on financial instruments at fair value through profit or loss		(47,531)	604,091
Net gains on financial assets available-for-sale		–	229
Net foreign exchange gain	9	70,299	21,919
Other impairment and provisions	15	(146,431)	(82,925)
Other operating income	10	122,547	13,813
Operating income		**8,347,267**	**4,801,081**
Revaluation of buildings and investment property	12	25,517	(58,031)
Personnel expenses	13	(2,022,759)	(1,533,247)
Other general administrative expenses	14	(2,134,304)	(1,235,513)
Profit before income tax expense		**4,215,721**	**1,974,290**
Income tax expense	16	(894,358)	(375,166)
Profit for the year		**3,321,363**	**1,599,124**
Other comprehensive income			
Revaluation reserve for assets available-for-sale:			
- Net change in fair value of available-for-sale assets, net of tax		–	1,671
Revaluation of buildings, net of tax		(9,764)	12,039
Other comprehensive income (loss), net of tax		**(9,764)**	**13,710**
Total comprehensive income		**3,311,599**	**1,612,834**

The consolidated financial statements as set out on pages 1 to 50 were approved by the Board of Directors on 21 March 2012.

Mr. Khotimsky S.V.
Chief Executive Officer

Mr. Savoschenko D.N.
Chief Financial Officer

The consolidated statement of comprehensive income is to be read in conjunction with the notes 1 to 41, and forming part of, the consolidated financial statements.

Consolidated statement of financial position

as at 31 December 2011

	Notes	*31 December 2011 RUR'000*	*31 December 2010 RUR'000*
Assets			
Cash and cash equivalents	17	4,338,044	5,318,321
Mandatory cash balances with the Central Bank of the Russian Federation		523,088	220,181
Placements with banks		75,014	100,613
Financial instruments at fair value through profit or loss		–	
- Held by the Group	18	9,954,669	7,920,383
- Pledged under repurchase agreements and borrowings from the CBR	18	4,392,817	5,779,772
Loans to customers	19	34,782,936	21,742,985
Investment in associates		5,880	–
Investment property	21	110,765	119,951
Property, equipment and intangible assets	22	2,094,734	831,305
Goodwill	39	450,587	450,587
Deferred tax asset	30	73,232	243,008
Other assets	23	509,778	570,401
Total assets		**57,311,544**	**43,297,507**
Liabilities			
Amounts due to the CBR	25	3,055,507	–
Deposits and balances from banks	26	1,242,465	4,554,283
Current accounts and deposits from customers	24	42,618,037	31,040,694
Promissory notes	27	1,647,496	1,990,280
Subordinated debt	28	868,567	808,486
Deferred tax liability	30	207,030	4,706
Other liabilities	29	498,957	452,107
Total liabilities		**50,138,059**	**38,850,556**
Net assets attributable to participants			
Charter capital	31	2,242,358	1,097,561
Other capital contributions		2,428,960	2,428,960
Revaluation reserve for buildings		14,570	24,334
Retained earnings		2,487,597	896,096
Total net assets attributable to participants		**7,173,485**	**4,446,951**
Total liabilities		**57,311,544**	**43,297,507**

The consolidated statement of financial position is to be read in conjunction with the notes 1 to 41, and forming part of, the consolidated financial statements.

Consolidated statement of cash flows

for the year ended 31 December 2011

	Notes	2011 RUR'000	2010 RUR'000
Cash flows from operating activities			
Interest and fee and commission received		13,464,058	8,392,058
Interest and fee and commission paid		(3,069,062)	(2,196,193)
Net realised gain on other financial instruments at fair value through profit or loss		78,643	848,019
Net realised gain (loss) foreign currencies		64,343	(64,158)
Other operating income (expense) received		122,547	(47,028)
Personnel expenses and other general administrative expenses paid		(4,070,066)	(2,486,400)
Cash flows from operating activities		**6,590,463**	**4,446,298**
(Increase)/decrease in operating assets			
Mandatory cash balances with the Central Bank of the Russian Federation		(302,907)	(51,538)
Placements with banks		25,599	(65,613)
Financial instruments at fair value through profit or loss		(266,880)	(426,767)
Loans to customers		(14,175,456)	(7,746,909)
Other assets		55,000	(63,848)
Increase/(decrease) in operating liabilities			
Current accounts and deposits from customers		10,883,371	8,524,809
Deposits and balances from banks		(760,454)	(3,134,385)
Promissory notes		(352,784)	1,324,784
Other liabilities		(57,216)	(26,057)
Net cash provided from operating activities before taxes paid		**1,638,736**	**2,780,774**
Taxes paid		(568,780)	(425,469)
Cash flows from operations		**1,069,956**	**2,355,305**
Cash flows from investing activities			
Acquisition of joint-ventures, net of cash received	38	–	(271,076)
Purchases of property, equipment and intangible assets	22	(1,470,399)	(121,038)
Proceeds from disposal of property, equipment and intangible assets		23,201	20,647
Proceeds from sale of available-for-sale assets		–	20,847
Cash flows from investing activities		**(1,447,198)**	**(350,620)**
Cash flows from financing activities			
Subordinated debt repayment		(71,061)	(36,938)
Distributions to participants	31	(585,065)	–
Cash flows from financing activities		**(656,126)**	**(36,938)**
Net decrease (increase) in cash and cash equivalents		**(1,033,368)**	**1,967,747**
Effect of changes in exchange rates on cash and cash equivalents		53,091	(50,042)
Cash and cash equivalents at the beginning of the year	17	5,318,321	3,400,616
Cash and cash equivalents at the end of the year	17	**4,338,044**	**5,318,321**

The consolidated statement of cash flows is to be read in conjunction with the notes 1 to 41, and forming part of, the consolidated financial statements.

Consolidated statement of changes in net assets attributable to participants

for the year ended 31 December 2011

	Attributable to participants					
	Charter capital RUR'000	***Other capital contributions RUR'000***	***Revaluation reserve for buildings RUR'000***	***Revaluation reserve for assets available-for-sale RUR'000***	***Retained earnings RUR'000***	***Total net assets RUR'000***
Balance as at 1 January 2010 (Adjusted)	**1,097,561**	**2,428,960**	**2,311**	**(1,671)**	**(693,043)**	**2,834,118**
Total comprehensive income	**–**	**–**	**12,039**	**1,671**	**1,599,123**	**1,612,833**
Transfer from revaluation reserve due to disposal of buildings net of tax	–	–	9,984	–	(9,984)	–
Balance as at 31 December 2010	**1,097,561**	**2,428,960**	**24,334**	–	**896,096**	**4,446,951**
Total comprehensive income	–	–	**(9,764)**	–	**3,321,363**	**3,311,599**
Transfer from retained earnings to charter capital	1,144,797	–	–	–	(1,144,797)	–
Distributions to participants	–	–	–	–	(585,065)	**(585,065)**
Balance as at 31 December 2011	**2,242,358**	**2,428,960**	**14,570**	–	**2,487,597**	**7,173,485**

The consolidated statement of changes in equity is to be read in conjunction with the notes 1 to 41, and forming part of, the consolidated financial statements.

(In thousands of Russian Rubles, unless otherwise indicated)

1. Background

Principal activities

These consolidated financial statements include the financial statements of Sovcombank (LLC) (the “Bank” or “Sovcombank”) and its subsidiaries (together referred to as the “Group” or “Sovcombank Group”). The list of principal consolidated subsidiaries of the Sovcombank Group is disclosed in Note 41.

Sovcombank, the parent company of the Group, was originally established in Kostroma as a limited liability company in 1990. The Bank’s registered legal address is 156000, Kostroma, Russia, 46 prospect Tekstilschikov. The Bank operates under general banking licence № 963 issued by the Central Bank of the Russian Federation (the “CBRF”). The Bank also has licences for operations with securities and custody services issued by the Federal Securities Market Commission (the “FSMC”) on 7 February 2006. The Bank is a member of the state deposit insurance system in the Russian Federation.

The Bank accepts deposits from the public and extends credit, transfers payments in Russia and abroad, exchanges currencies and provides other banking services to its commercial and retail customers. The Group is headquartered in Kostroma and has a network of branches in the Central, Ural, Siberian, South and Far East Federal Districts. The Group operates in 30 regions and more than 260 cities of the Russian Federation. The Group had 3,916 employees as at 31 December 2011 (31 December 2010 - 2,944).

Shareholders

As at 31 December 2011 and 31 December 2010, the Group's ownership was as follows:

	Ownership % 31 December 2011	*Ownership % 31 December 2010*
TBIF Financial Services B.V.	50.0000%	50.0000%
SovCo Capital Partners B.V.	50.0000%	50.0000%

Kardan N.V. is the ultimate parent company of TBIF. It was incorporated on 2 May 2003. Kardan activities include real estate, financial services and infrastructure. Its shares are listed and traded on the Official Segment of the Stock Market of Euronext in Amsterdam (Euronext Amsterdam) and on the Tel Aviv Stock Exchange in Israel (TASE). There is no single ultimate entity that exercises control over the Group as at 31 December 2011 and as at 31 December 2010.

Russian business environment

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

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

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

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

(In thousands of Russian Rubles, unless otherwise indicated)

2. Basis of preparation

General

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

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

The consolidated financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below.

These consolidated financial statements are presented in thousands of Russian Rubles ("RUR") unless otherwise indicated.

Inflation accounting

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

3. Significant accounting policies

Changes in accounting policies

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

IAS 24 Related Party Disclosures (Revised)

The revised IAS 24, issued in November 2009 and effective for annual periods beginning on or after 1 January 2011, simplifies the disclosure requirements for government-related entities and clarifies the definition of a related party. Previously, an entity controlled or significantly influenced by a government was required to disclose information about all transactions with other entities controlled or significantly influenced by the same government. The revised standard requires disclosure about these transactions only if they are individually or collectively significant. The amendment did not affect the Group's consolidated financial statements as the Group is not a government-related entity.

Amendments to IAS 32 Financial instruments: Presentation: Classification of Rights Issues

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

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

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

(In thousands of Russian Rubles, unless otherwise indicated)

3. Significant accounting policies (continued)

Changes in accounting policies (continued)

Improvements to IFRSs

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

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

The following amendments to standards and interpretations did not have any impact on the accounting policies, financial position or performance of the Group:

- IFRS 1 *First-time Adoption of International Financial Reporting Standards* – Limited Exemption from Comparative IFRS 7 *Disclosures for First-time Adopters*
- IFRIC 14 *Prepayments of a Minimum Funding Requirement*

Basis of consolidation

Subsidiaries, which are those entities in which the Group has an interest of more than one half of the voting rights, or otherwise has power to exercise control over their operations, are consolidated. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. All intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated in full; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction. Losses are attributed to the non-controlling interests even if that results in a deficit balance.

If the Group looses control over a subsidiary, it derecognises the assets (including goodwill) and liabilities of the subsidiary, the carrying amount of any non-controlling interests, the cumulative translation differences, recorded in equity; recognises the fair value of the consideration received, the fair value of any investment retained and any surplus or deficit in profit or loss and reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss.

Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the acquirer measures the non-controlling interests in the acquiree that are present ownership interests either at fair value or at the proportionate share of the acquiree's identifiable net assets and other components of non-controlling interests at their acquisition date fair value. Acquisition costs incurred are expensed.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognised in accordance with IAS 39 either in profit or loss or as change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

(In thousands of Russian Rubles, unless otherwise indicated)

3 Significant accounting policies (continued)

Business combinations (continued)

Goodwill is initially measured at cost being the excess of the consideration transferred over the Group's net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Acquisition of subsidiaries from parties under common control

Acquisitions of subsidiaries from parties under common control are accounted for using the uniting of interests method.

The assets and liabilities of the subsidiary transferred under common control are recorded in these consolidated financial statements at the carrying amounts of the transferring entity (the Predecessor) at the date of the transfer. Related goodwill inherent in the Predecessor's original acquisition is also recorded in these consolidated financial statements. Any difference between the total book value of net assets, including the Predecessor's goodwill, and the consideration paid is accounted for in these consolidated financial statements as an adjustment to the net assets attributable to participants.

These consolidated financial statements, including corresponding figures, are presented as if the subsidiary had been acquired by the Group on the date it was originally acquired by the Predecessor.

Investments in associates

Associates are entities in which the Group generally has between 20% and 50% of the voting rights, or is otherwise able to exercise significant influence, but which it does not control or jointly control. Investments in associates are accounted for under the equity method and are initially recognised at cost, including goodwill. Subsequent changes in the carrying value reflect the post-acquisition changes in the Group's share of net assets of the associate. The Group's share of its associates' profits or losses is recognised in the consolidated income statement, and its share of movements in reserves is recognised in other comprehensive income. However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless the Group is obliged to make further payments to, or on behalf of, the associate.

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

Investments in jointly controlled entities

Jointly controlled entitis are joint ventures that involves the establishment of a corporation, partnership or other entity in which each venturer has an interest. The entity operates in the same way as other entities, except that a contractual arrangement between the venturers establishes joint control over the economic activity of the entity. A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. A venturer shall recognise its interest in a jointly controlled entity using proportionate consolidation. The application of proportionate consolidation means that the statement of financial position of the venturer includes its share of the assets that it controls jointly and its share of the liabilities for which it is jointly responsible. The statement of comprehensive income of the venturer includes its share of the income and expenses of the jointly controlled entity. The venturer combines its share of each of the assets, liabilities, income and expenses of the jointly controlled entity with the similar items, line by line, in its financial statements. Many of the procedures appropriate for the application of proportionate consolidation are similar to the procedures for the consolidation of investments in subsidiaries. When a venturer contributes or sells assets to a joint venture, recognition of any portion of a gain or loss from the transaction shall reflect the substance of the transaction. While the assets are retained by the joint venture, and provided the venturer has transferred the significant risks and rewards of ownership, the venturer shall recognise only that portion of the gain or loss that is attributable to the interests of the other venturers. The venturer shall recognise the full amount of any loss when the contribution or sale provides evidence of a reduction in the net realisable value of current assets or an impairment loss.

(In thousands of Russian Rubles, unless otherwise indicated)

3 Significant accounting policies (continued)

Cash and cash equivalents

The Group includes cash, nostro accounts with the CBRF and other banks, placements with other banks with an original maturity less than 90 days in cash and cash equivalents. The minimum mandatory reserve deposit with the CBRF is not considered to be a cash equivalent due to restrictions on its withdrawnability.

Financial instruments

Classification

Financial instruments at fair value through profit or loss are financial assets or liabilities that are:

- acquired or incurred principally for the purpose of selling or repurchasing in the near term
- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking
- derivative financial instruments (except for derivative financial instruments that are designated and effective hedging instruments) or,
- upon initial recognition, designated as at fair value through profit or loss.

The Group may designate financial assets and liabilities at fair value through profit or loss where either:

- the assets or liabilities are managed and evaluated on a fair value basis
- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise or,
- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

All trading derivatives in a net receivable position (positive fair value), as well as options purchased, are reported as assets. All trading derivatives in a net payable position (negative fair value), as well as options written, are reported as liabilities.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Group:

- intends to sell immediately or in the near term
- upon initial recognition designates as at fair value through profit or loss
- upon initial recognition designates as available-for-sale or,
- may not recover substantially all of its initial investment, other than because of credit deterioration.

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity, other than those that:

- the Group upon initial recognition designates as at fair value through profit or loss
- the Group designates as available-for-sale or,
- meet the definition of loans and receivables.

Available-for-sale assets are those financial assets that are designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial instruments at fair value through profit or loss.

Management determines the appropriate classification of financial instruments at the time of the initial recognition. Derivative financial instruments and financial instruments designated as at fair value through profit or loss upon initial recognition are not reclassified out of at fair value through profit or loss category. Financial asset that would have met the definition of loan and receivables may be reclassified out of the fair value through profit or loss or available-for-sale category if the entity has an intention and ability to hold it for the foreseeble future or until maturity. Other financial instruments may be reclassified out of at fair value through profit or loss category only in rare circumstances. Rare circumstances arise from a single event that is unusual and highly unlikely to recur in the near term.

Recognition

Financial assets and liabilities are recognized in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instrument. All regular way purchases of financial assets are accounted for at the settlement date.

(In thousands of Russian Rubles, unless otherwise indicated)

3 Significant accounting policies (continued)

Financial instruments (continued)

Measurement

A financial asset or liability is initially measured at its fair value plus, in the case of a financial asset or liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability.

Subsequent to initial recognition, financial assets, including derivatives that are assets, are measured at their fair values, without any deduction for transaction costs that may be incurred on sale or other disposal, except for:

- loans and receivables which are measured at amortized cost using the effective interest method;
- held-to-maturity investments that are measured at amortized cost using the effective interest method; and
- investments in equity instruments that do not have a quoted market price in an active market and whose fair value can not be reliably measured which are measured at cost.

All financial liabilities, other than those designated at fair value through profit or loss and financial liabilities that arise when a transfer of a financial asset carried at fair value does not qualify for derecognition, are measured at amortized cost. Amortized cost is calculated using the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortized based on the effective interest rate of the instrument.

Where a valuation based on observable market data indicates a fair value gain or loss on initial recognition of an asset or liability, the gain or loss is recognised immediately in profit or loss. Where an initial gain or loss is not based entirely on observable market data, it is deferred and recognised over the life of the asset or liability on an appropriate basis, or when prices become observable, or on disposal of the asset or liability.

Fair value measurement principles

The fair value of financial instruments is based on their quoted market price at the reporting date without any deduction for transaction costs. Where a quoted market price is not available, fair value is determined using valuation techniques with a maximum use of market inputs. Such valuation techniques include reference to recent arm's length market transactions, current market prices of substantially similar instruments, discounted cash flow and option pricing models and other techniques commonly used by market participants to price the instrument.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate at the reporting date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the reporting date.

The fair value of derivatives that are not exchange-traded is estimated at the amount that the Group would receive or pay to terminate the contract at the reporting date taking into account current market conditions and the current creditworthiness of the counterparties and own credit risk.

Gains and losses on subsequent measurement

A gain or loss arising from a change in the fair value of a financial asset or liability is recognized as follows:

- a gain or loss on a financial instrument classified as at fair value through profit or loss is recognized in profit or loss
- a gain or loss on an available-for-sale asset is recognized as other comprehensive income in equity (except for impairment losses and foreign exchange gains and losses on debt financial instruments available-for-sale) until the asset is derecognized, at which time the cumulative gain or loss previously recognised in equity is recognized in profit or loss. Interest in relation to an available-for-sale asset is recognized as earned in profit or loss using the effective interest method.

For financial assets and liabilities carried at amortized cost, a gain or loss is recognized in profit or loss when the financial asset or liability is derecognized or impaired, and through the amortization process.

(In thousands of Russian Rubles, unless otherwise indicated)

3 Significant accounting policies (continued)

Financial instruments (continued)

Derecognition

A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire or when the Group transfers substantially all the risks and rewards of ownership of the financial asset. Any rights or obligations created or retained in the transfer are recognized separately as assets or liabilities. A financial liability is derecognised when it is extinguished.

The Group also derecognises certain assets when it writes off balances pertaining to the assets deemed to be uncollectible.

Repurchase and reverse repurchase agreements

Securities sold under sale and repurchase (repo) agreements are accounted for as secured financing transactions, with the securities retained in the consolidated statement of financial position and the counterparty liability included in amounts payable under repo transactions within deposits and balances from banks or current accounts and deposits from customers, as appropriate. The difference between the sale and repurchase prices represents interest expense and is recognized in profit or loss over the term of the repo agreement using the effective interest method.

Securities purchased under agreements to resell (reverse repo) are recorded as amounts receivable under reverse repo transactions within placements with banks or loans to customers, as appropriate. The difference between the purchase and resale prices represents interest income and is recognized in profit or loss over the term of the repo agreement using the effective interest method.

If assets purchased under an agreement to resell are sold to third parties, the obligation to return securities is recorded as a trading liability and measured at fair value.

Derivative financial instruments

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

Derivatives embedded in other financial instruments are treated as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contract, and the host contract is not itself held for trading or designated at fair value through profit or loss. The embedded derivatives separated from the host are carried at fair on the trading portfolio with changes in fair value recognised in the consolidated income statement.

Offsetting

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

Property, equipment and intangible assets

Owned assets

Items of property, equipment and intangible assets are stated at cost less accumulated depreciation and impairment losses, except for buildings which are stated at revalued amounts as described below.

Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

Leased assets

Leases under which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Equipment acquired by way of finance lease is stated at the amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

(In thousands of Russian Rubles, unless otherwise indicated)

3 Significant accounting policies (continued)

Property, equipment and intangible assets (continued)

Revaluation

Buildings of the Group are measured at revalued amounts. The frequency of revaluation depends on the movements in fair values of the buildings being revalued. A revaluation increase on an item of building is recognised directly in other comprehensive income (in equity) except to the extent that it reverses a previous revaluation decrease recognised in profit or loss, in which case it is recognised in profit or loss. A revaluation decrease on an item of building is recognised in profit or loss except to the extent that it reverses a previous revaluation increase recognised as other comprehensive income directly in equity, in which case it is recognised directly in other comprehensive income (in equity).

Depreciation

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful life of the individual assets. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Land is not depreciated. The estimated useful lives are as follows:

Buildings	20-50 years
Computers and ATMs	2-5 years
Motor vehicles	3-5 years
Furniture and equipment	3-7 years
Intangible assets	2-10 years

Intangible assets

Intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and impairment losses.

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in normal course of business, or for the use in production or supply of goods or services or for administrative purposes. Investment property is measured at fair value with any change recognised in profit or loss.

When the use of a property changes such that it is reclassified as property and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the consideration transferred over the Group's net identifiable assets acquired and liabilities assumed. Goodwill on an acquisition of a subsidiary and joint venture is included in goodwill and other intangible assets. Goodwill on an acquisition of an associate is included in the investments in associates. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than the operating segment as defined in IFRS 8 *Operating Segments* before aggregation

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

(In thousands of Russian Rubles, unless otherwise indicated)

3 Significant accounting policies (continued)

Repossessed assets

The assets repossessed by the Group following legal proceedings for recovery of amounts due under loans and held for sale in the near term to cover losses arising from lending activities are classified as inventories in accordance with IAS 2. In accordance with IAS 2, the Group measures these assets at the lower of cost and net realizable value.

Leases

i. Finance – Group as lessee

The Group recognises finance leases as assets and liabilities in the consolidated statement of financial position at the date of commencement of the lease term at amounts equal to the fair value of the leased property or, if lower, at the present value of the minimum lease payments. In calculating the present value of the minimum lease payments the discount factor used is the interest rate implicit in the lease, when it is practicable to determine; otherwise, the Group's incremental borrowing rate is used. Initial direct costs incurred are included as part of the asset. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to periods during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The costs identified as directly attributable to activities performed by the lessee for a finance lease, are included as part of the amount recognised as an asset under the lease.

ii. Finance – Group as lessor

The Group recognises lease receivables at value equal to the net investment in the lease, starting from the date of commencement of the lease term. Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding. Initial direct costs are included in the initial measurement of the lease receivables.

iii. Operating – Group as lessee

Leases of assets under which the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognised as expenses on a straight-line basis over the lease term and included into other operating expenses.

iv. Operating – Group as lessor

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

Promissory notes

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

Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include current accounts and deposits from customers, deposits and balanced from banks, promissory notes, subordinated debts. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the consolidated income statement when the borrowings are derecognised as well as through the amortisation process.

3 Significant accounting policies (continued)

Impairment

Financial assets carried at amortized cost

Financial assets carried at amortized cost consist principally of loans and other receivables (“loans and receivables”). The Group reviews its loans and receivables, to assess impairment on a regular basis using the traditional conservative approach. A loan or receivable is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the loan or receivable and that event (or events) has had an impact on the estimated future cash flows of the loan that can be reliably estimated.

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, breach of loan covenants or conditions, restructuring of a loan or advance by the Group on terms that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, deterioration in the value of collateral, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers in the group, or economic conditions that correlate with defaults in the group.

The Group first assesses whether objective evidence of impairment exists individually for loans and receivables that are individually significant, and individually or collectively for loans and receivables that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed loan or receivable, whether significant or not, it includes the loan in a group of loans and receivables with similar credit risk characteristics and collectively assesses them for impairment. Loans and receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Group’s internal credit grading system that mainly considers credit risk characteristics such as asset type, industry, past-due status.

If there is objective evidence that an impairment loss on a loan or receivable has been incurred, the amount of the loss is measured as the difference between the carrying amount of the loan or receivable and the present value of estimated future cash flows including amounts recoverable from guarantees and collateral discounted at the loan or receivable’s original effective interest rate. Contractual cash flows and historical loss experience adjusted on the basis of relevant observable data that reflect current economic conditions provide the basis for estimating expected cash flows.

In some cases the observable data required to estimate the amount of an impairment loss on a loan or receivable may be limited or no longer fully relevant to current circumstances. This may be the case when a borrower is in financial difficulties and there is little available historical data relating to similar borrowers. In such cases, the Group uses its experience and judgement to estimate the amount of any impairment loss.

All impairment losses in respect of loans and receivables are recognized in profit or loss and are only reversed if a subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

When a loan is uncollectable, it is written off against the related allowance for loan impairment. The Group writes off a loan balance (and any related allowances for loan losses) when the Group’s management determines that the loans are uncollectible and when all necessary steps to collect the loan are completed. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the consolidated income statement.

Financial assets carried at cost

Financial assets carried at cost include unquoted equity instruments included in available-for-sale assets that are not carried at fair value because their fair value can not be reliably measured. If there is objective evidence that such investments are impaired, the impairment loss is calculated as the difference between the carrying amount of the investment and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset.

All impairment losses in respect of these investments are recognized in profit or loss and can not be reversed.

Where the transaction price in a non-active market is different to the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets, the Group immediately recognises the difference between the transaction price and fair value (a ‘Day 1’ profit) in the consolidated income statement. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognised in the consolidated income statement when the inputs become observable, or when the instrument is derecognised.

(In thousands of Russian Rubles, unless otherwise indicated)

3 Significant accounting policies (continued)

Impairment (continued)

Available-for-sale assets

Impairment losses on available-for-sale assets are recognised by transferring the cumulative loss that has been recognised in other comprehensive income to profit or loss as a reclassification adjustment. The cumulative loss that is reclassified from other comprehensive income to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

For an investment in an equity security available-for-sale, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security 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, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

Non financial assets

Other non financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of goodwill is estimated at each reporting date. The recoverable amount of non financial assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

All impairment losses in respect of non financial assets are recognized in profit or loss and reversed only if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss reversed is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Renegotiated loans

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions.

The accounting treatment of such restructuring is as follows:

- If the currency of the loan has been changed the old loan is derecognised and the new loan is recognised.
- If the loan restructuring is not caused by the financial difficulties of the borrower the Group uses the same approach as for financial liabilities described below.
- If the loan restructuring is due to the financial difficulties of the borrower and the loan is impaired after restructuring, the Group recognizes the difference between the present value of the new cash flows discounted using the original effective interest rate and the carrying amount before restructuring in the provision charges for the period. In case loan is not impaired after restructuring the Group recalculates the effective interest rate.

Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original or current effective interest rate.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, and 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 obligation can be made.

(In thousands of Russian Rubles, unless otherwise indicated)

3 Significant accounting policies (continued)

Credit related commitments

In the normal course of business, the Group enters into credit related commitments, comprising undrawn loan commitments, letters of credit and guarantees, and provides other forms of credit insurance.

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

A financial guarantee liability is recognised initially at fair value net of associated transaction costs, and is measured subsequently at the higher of the amount initially recognised less cumulative amortisation or the amount of provision for losses under the guarantee. Provisions for losses under financial guarantees and other credit related commitments are recognised when losses are considered probable and can be measured reliably.

Any increase in the liability relating to financial guarantees is taken to the [consolidated] income statement. The premium received is recognised in the consolidated income statement on a straight-line basis over the life of the guarantee.

Financial guarantee liabilities and provisions for other credit related commitment are included in other liabilities.

Net assets attributable to participants

In accordance with organization charter Participants of the Group, limited liability company, have the unilateral right to withdraw their capital from the company and receive their share of the company's net assets within six months after the end of the year of the withdrawal. As a result, charter capital and other reserves attributable to participants of the Group are recorded as liabilities.

Distributions to participants

Distributions to participants are recognized in the period in which they are declared. The Group distributes profits to participants on the basis of financial statements prepared in accordance with Russian Accounting Rules.

Taxation

Income tax comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items of other comprehensive income or transactions with participants of the Group recognised directly in equity, in which case it is recognised within other comprehensive income or directly within equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and temporary differences related to investments in subsidiaries, associates and joint ventures where the parent is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences, unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

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

Recognition of income and expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

(In thousands of Russian Rubles, unless otherwise indicated)

3 Significant accounting policies (continued)

Taxation (continued)

Interest and similar income and expense

For all financial instruments measured at amortised cost and interest bearing securities classified as trading or available-for-sale, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the original effective interest rate applied to the new carrying amount.

Fee and commission income

The Bank earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

- *Fee income earned from services that are provided over a certain period of time*

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loan.

- *Fee income from providing transaction services*

Fees arising from negotiating or participating in the negotiation of a transaction for a third party – such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses – are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

Dividend income

Revenue is recognised when the Groups' right to receive the payment is established.

Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of the Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments or qualifying cash flow hedges, which are recognised in other comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Standards and interpretations issued but not yet effective

IFRS 9 Financial Instruments

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

(In thousands of Russian Rubles, unless otherwise indicated)

3 Significant accounting policies (continued)

Standards and interpretations issued but not yet effective (continued)

IFRS 10 Consolidated Financial Statements

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

IFRS 11 Joint Arrangements

IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. IFRS 11 supersedes IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly Controlled Entities—Non-monetary Contributions by Venturers* and is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. The Group expects that adoption of IFRS 11 will have no effect on its financial position and performance.

IFRS 12 Disclosure of Interests in Other Entities

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

IFRS 13 Fair Value Measurement

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

IAS 27 Separate Financial Statements (as revised in 2011)

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

IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)

As a consequence of the new IFRS 11 and IFRS 12. IAS 28 has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

Amendments to IFRS 7 Financial Instruments: Disclosures

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

Amendments to IAS 12 Income Taxes – Deferred tax: Recovery of underlying assets

In December 2010 the IASB issued amendments to IAS 12 effective for annual periods beginning on or after 1 January 2012. The amendment clarified the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 always be measured on a sale basis of the asset. The Group now evaluates the impact of the adoption of these amendments.

(In thousands of Russian Rubles, unless otherwise indicated)

3 Significant accounting policies (continued)

Standards and interpretations issued but not yet effective (continued)

Amendments to IAS 19 Employee Benefits
The IASB has published amendments to IAS 19 *Employee Benefits*, effective for annual periods beginning on or after 1 January 2013, which proposes major changes to the accounting for employee benefits, including the removal of the option for deferred recognition of changes in pension plan assets and liabilities (known as the "corridor approach"). In addition, these amendments will limit the changes in the net pension asset (liability) recognised in profit or loss to net interest income (expense) and service costs. The Group expects that these amendments will have no impact on the Group's financial position.

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

Amendment to IFRS 1 Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters
These amendments to IFRS 1, effective for annual periods beginning on or after 1 July 2011, introduce a new deemed cost exemption for entities that have been subject to severe hyperinflation. The Group expects that these amendments will have no impact on the Group's financial position.

4. Significant accounting judgments and estimates

Estimation uncertainty

In the process of applying the Group's accounting policies, management has used its judgments and made estimates in determining the amounts recognised in the financial statements. The most significant use of judgments and estimates are as follows:

Fair value of financial instruments

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

Allowance for loan impairment

The Group regularly reviews its loans and receivables to assess impairment. The Group uses its experienced judgment to estimate the amount of any impairment loss in cases where a borrower is in financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Group estimates changes in future cash flows based on the 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 group of loans and receivables. The Group uses its experienced judgment to adjust observable data for a group of loans or receivables to reflect current circumstances.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2011 was RUR 450,587 thousand (2010: RUR 450,587 thousand). More details are provided in Note 39.

Revaluation of buildings and investment property

The Group regularly reviews the value of its buildings and investment property in case of significant difference between the fair value of the relevant asset and its carrying amount. The Group performs revaluation using special valuation techniques and information about real estate transactions entered into in the local market. The results received from the application of the above valuation methods, however, may not always correspond to the market value of buildings and investment property.

(In thousands of Russian Rubles, unless otherwise indicated)

4 Significant accounting judgments and estimates (continued)

Changes in accounting estimates

In 2011, the Group amended the applied methodology to estimate allowance for impairment of loans to small and medium size companies. The current methodology to estimate allowances is based on the type of the collateral. In accordance with the new methodology, allowances for loans to small and medium size companies increased by RUR 74,941 thousand as compared to those estimated using the previous methodology.

Also, the Group amended the applied methodology to estimate allowances for impairment of loans to corporate entities and loans to small and medium size companies secured by promissory notes of the Group. In accordance with the new methodology, allowances for loans to corporate entities and loans to small and medium size companies decreased by RUR 7,188 thousand and RUR 1,300 thousand, respectively, as compared to those estimated using the previous methodology.

5. Reclassification to prior period

Since 31 December 2011 the Group decided to show allowances for loan impairment and other impairment and provisions in a separate line in consolidated statement of comprehensive income.

	31 December 2010 before the reclassifications	*Reclassification*	*31 December 2010 after the reclassifications*
	RUR'000	*RUR'000*	*RUR'000*
Allowances for loan impairment and other impairment	(1,321,402)	1,321,402	–
Other general administrative expenses	(1,284,544)	49,031	(1,235,513)
Allowances for loan impairment	–	(1,287,508)	(1,287,508)
Other impairment and provisions	–	(82,925)	(82,925)

6. Net interest income

	2011	*2010*
	RUR'000	*RUR'000*
Interest income		
Loans to individuals	6,262,851	5,036,537
Loans to corporate entities and finance lease receivables	1,677,103	1,551,890
Financial instruments at fair value through profit or loss	1,362,839	1,371,387
Placements with banks	21,678	48,021
	9,324,471	**8,007,835**
Interest expense		
Current accounts and deposits from customers	(3,033,736)	(2,468,617)
Deposits and balances from banks	(319,422)	(299,567)
Promissory notes	(177,742)	(95,504)
Subordinated debt	(88,162)	(82,649)
	(3,619,062)	**(2,946,337)**
Net interest income	**5,705,409**	**5,061,498**

7. Fee and commission income

	2011	*2010*
	RUR'000	*RUR'000*
Insurance agent's fee	3,939,348	348,214
Plastic cards	164,921	34,793
Settlement operations	83,595	78,399
Cash withdrawal	31,568	34,390
Security operations	29,134	20,642
Foreign exchange operations	26,173	15,464
Guarantee issuance	22,775	17,303
Cash transfer	6,635	6,487
Other	6,852	3,718
	4,311,001	**559,410**

(In thousands of Russian Rubles, unless otherwise indicated)

8. Fee and commission expense

	2011 RUR'000	*2010 RUR'000*
Plastic cards	(42,944)	(25,857)
Depository services	(23,409)	(21,184)
Settlement operations	(22,143)	(27,389)
Cash operations	(10,873)	(9,380)
Borrowings	(293)	(345)
Other	(11,877)	(5,291)
	(111,539)	**(89,446)**

9. Net foreign exchange gain

	2011 RUR'000	*2010 RUR'000*
Dealing	69,144	(48,778)
Translation differences	1,155	70,697
	70,299	**21,919**

Dealing represents gains and losses from spot contracts in foreign currency which the Group made to manage currency positions and to comply with requirements of the Central Bank of Russia in terms of open currency position.

10. Other operating income

	2011 RUR'000	*2010 RUR'000*
Disposal of foreclosed property	88,402	–
Income from operating sublease	13,412	2,423
Operating lease (Note 21)	5,905	5,099
Disposal of fixed assets	2,096	890
Penalties recieved	579	397
Operations with precious metals	96	2,617
Other	12,057	2,387
	122,547	**13,813**

11. Allowances for loan impairment

	2011 RUR'000	*2010 (after reclassification) RUR'000*
Loans to individuals (Note 19)	(827,121)	(935,274)
Loans to corporate entities and finance lease receivables (Note 19)	(729,367)	(352,234)
	(1,556,488)	**(1,287,508)**

12. Revaluation of buildings and investment property

	2011 RUR'000	*2010 RUR'000*
Investment property (Note 21)	(2,752)	3,750
Revaluation of buildings (Note 22)	28,269	(61,781)
	25,517	**(58,031)**

(In thousands of Russian Rubles, unless otherwise indicated)

13. Personnel expenses

	2011 RUR'000	*2010 RUR'000*
Employee compensation, including bonuses	(1,623,299)	(1,302,427)
Payroll related taxes	(399,460)	(230,820)
	(2,022,759)	**(1,533,247)**

14. Other general administrative expenses

	2011 RUR'000	*2010 (after reclassification) RUR'000*
Advertising and marketing	(580,137)	(182,510)
Occupancy	(318,393)	(235,003)
Depreciation and amortization (Note 22)	(201,054)	(164,612)
Professional services	(177,289)	(90,418)
Office stationary	(154,315)	(31,544)
Communications and information services	(137,241)	(84,508)
Obligatory deposit insurance	(112,507)	(78,171)
Security	(95,178)	(85,157)
Maintenance	(87,664)	(51,942)
IT supporting payments	(81,317)	(45,949)
Transport	(60,040)	(41,723)
Taxes other than on income	(39,527)	(80,672)
Premises Insurance	(14,826)	(7,159)
Other	(74,816)	(56,145)
	(2,134,304)	**(1,235,513)**

15. Other impairment and provisions

	2011 RUR'000	*2010 RUR'000*
Provision under litigation cases (Note 20)	(89,629)	(49,031)
Foreclosed assets (Note 23)	(38,018)	–
Other assets (Note 20)	(18,784)	(33,894)
	(146,431)	**(82,925)**

16. Income tax expense

	2011 RUR'000	*2010 RUR'000*
Current tax expense	(519,818)	(445,599)
Charge/Reversal of temporary differences (Note 30)	(374,540)	70,433
Total income tax expense	**(894,358)**	**(375,166)**

Deferred tax related to items charged or credited to other comprehensive income during the year is as follows:

	2011 RUR'000	*2010 RUR'000*
Net gains on investment securities available-for-sale	–	(418)
Revaluation of buildings	2,440	(3,010)
Income tax charged to other comprehensive income (Note 30)	**2,440**	**(3,428)**

(In thousands of Russian Rubles, unless otherwise indicated)

16. Income tax expense (continued)

Russian legal entities have to file individual corporate income tax declarations. Standard corporate income tax rate for companies (including banks) comprised 20% for 2011 and 2010. Corporate income tax rate applicable to interest (coupon) income on state and mortgage-backed bonds in 2011 and 2010 was 15% while corporate income tax rate applicable to interest (coupon) income on municipal bonds in 2011 and 2010 was 9%. Dividends are taxed at the standard corporate income tax rate of 9%, which could be reduced to 0% subject to certain criteria.

Reconciliation of effective tax rate

	2011 RUR'000	*2010 RUR'000*
Income before tax	**4,215,721**	**1,974,290**
Income tax (expense) at the applicable tax rate	(843,144)	(394,858)
Effect of non-deductible expenses	(22,652)	(7,905)
Income on state securities taxed at different rates	7,052	6,405
Other	(35,614)	21,192
	(894,358)	**(375,166)**

17. Cash and cash equivalents

	2011 RUR'000	*2010 RUR'000*
Cash on hand	2,703,387	1,470,111
Due from the CBR	537,128	2,279,883
Short-term REPO deals less than 90 days with Russian banks	502,460	56,802
Nostro accounts with Russian banks	390,710	508,044
Nostro accounts with OECD banks	204,359	603,481
Short-term placements less than 90 days with CBR	–	400,000
	4,338,044	**5,318,321**

18. Financial instruments at fair value through profit or loss

	2011 RUR'000	*2010 RUR'000*
Held by the Group		
Corporate bonds	8,095,332	6,333,254
Promissory notes	1,281,355	927,131
Government and municipal bonds	577,982	659,997
Equities	–	1
Total financial instruments at fair value through profit or loss held by the Group	**9,954,669**	**7,920,383**
Financial instruments at fair value through profit or loss pledged under repurchase agreements and borrowings from CBR		
Corporate bonds	4,018,356	5,578,550
Government and municipal bonds	374,461	201,222
Total financial instruments at fair value through profit or loss pledged under sale and repurchase agreements	**4,392,817**	**5,779,772**
Total financial instruments at fair value through profit or loss	**14,347,486**	**13,700,155**

As of 31 December 2011, total amount of corporate bonds held by the Group and pledged under sale and repurchase agreements amounted to RUR 12,113,688 thousand and comprised securities issued by Russian banks and financial companies (85.8%), oil-producing and oil-refining (7.0%), non-Russian banks and financial companies (0.7%) and other sectors accounting for less than 6.5% of the portfolio value, with maturity ranging from April 2012 to February 2041 and coupon rates of 7.6% – 20.0%. The most significant share of the issuer amounted to 18.2% in the total portfolio of corporate bonds maturing in December 2013 – February 2041 and bearing coupon rate of 7.6% – 10.8%

(In thousands of Russian Rubles, unless otherwise indicated)

18. Financial instruments at fair value through profit or loss (continued)

As of 31 December 2010, total amount of corporate bonds held by the Group and pledged under sale and repurchase agreements amounted to RUR 11,911,804 thousand and comprised securities issued by Russian banks and financial companies (81.0%), oil-producing and oil-refining companies (6.9%), transport companies (3.7%) and other sectors accounting for less than 9.0% of the portfolio value, with maturity ranging from March 2011 to August 2020 and coupon rates of 7.5% – 20.0%. The most significant share of the issuer amounted to 17.0% in the total portfolio of corporate bonds maturing in December 2013 – Febrary 2041 and bearing coupon rate of 7.4% – 10.5%.

As of 31 December 2011 the Group pledged securities as collateral under repurchase agreements included in amounts due to CBR RUR 3,055,507 thousand (Note 25) (as of 31 December 2010 null), deposits and balances from banks and deposits from customers (Note 26) RUR 318,623 thousand and RUR 317,759 thousand (Note 24), respectively (as of 31 December 2010 RUR 4,330,872 thousand and RUR 645,129 thousand, respectively).

19. Loans to customers

	2011 RUR'000	*2010 RUR'000*
Loans to individuals		
Consumer loans	23,679,365	11,604,035
Mortgage loans	425,286	481,226
Car loans	23,518	65,161
Other	50,526	67,431
Total loans to individuals	**24,178,695**	**12,217,853**
Loans to legal entities and finance lease receivables		
Loans to corporate entities	9,763,253	7,870,640
Loans to small and medium size companies	1,365,604	2,129,197
Finance lease receivables	882,544	776,622
Total loans to legal entities and finance lease receivables	**12,011,401**	**10,776,459**
Gross loans to customers	**36,190,096**	**22,994,312**
Less: provision for loan impairment	(1,407,160)	(1,251,327)
Net loans to customers	**34,782,936**	**21,742,985**

As of 31 December 2011 and 2010, the Group had a concentration of loans represented by RUR 6,812,996 thousand and RUR 5,187,595 thousand, respectively, due from ten largest borrowers, which accounts for 18.8% and 22.6%, respectively, of the total amount of loans to customers. As of 31 December 2011 and 2010, an allowance of RUR 81,536 thousand and RUR 54,373 thousand, respectively, was recognized against these loans. As of 31 December 2011 and 2010, total loan balances due from the ten largest borrowers accounted for 11.9% and 12.0% of the total assets, respectively.

Industry analysis of the loans to corporate entities

Loans to corporate entities were issued primarily to entities located within the Russian Federation, who operate in the following economic sectors:

	2011 RUR'000	*2010 RUR'000*
Commercial estate property rent	4,870,062	2,169,670
Manufacturing	1,698,775	1,436,845
Construction	1,556,081	157,090
Finance	624,330	1,163,498
Other activity with real estate	546,778	1,604,835
Agriculture	125,000	95,000
Hotel industry	112,385	206,637
Public sector	79,830	132,350
Trade	62,565	646,701
Leasing	59,349	109,600
Insurance	–	103,500
Other	28,098	44,914
	9,763,253	**7,870,640**

(In thousands of Russian Rubles, unless otherwise indicated)

19 Loans to customers (continued)

Industry analysis of the loans to corporate entities (continued)

Movements in the loan impairment provision for the years ended 31 December 2011 and 31 December 2010 are as follows:

	Loans to corporate entities	*Loans to small and medium size companies*	*Finance lease receivables*	*Consumer loans*	*Mortgage loans*	*Car loans*	*Other loans to individuals*	*Total*
At 1 January 2011	(167,083)	(311,525)	(82,603)	(649,002)	(29,657)	(5,975)	(5,482)	**(1,251,327)**
Charge for the year	(646,140)	(41,513)	(41,714)	(780,450)	(60,260)	7,633	5,956	**(1,556,488)**
Recoveries	–	(24,289)	–	(138,452)	(10,688)	(11,309)	(3,486)	**(188,224)**
Loans written off as uncollectible	457,739	285,297	41,852	720,231	83,760	–	–	**1,588,879**
At 31 December 2011	**(355,484)**	**(92,030)**	**(82,465)**	**(847,673)**	**(16,845)**	**(9,651)**	**(3,012)**	**(1,407,160)**
Individual impairment	(263,679)	–	(35,828)	–	–	–	–	**(299,507)**
Collective impairment	(91,805)	(92,030)	(46,637)	(847,673)	(16,845)	(9,651)	(3,012)	**(1,107,653)**
	(355,484)	**(92,030)**	**(82,465)**	**(847,673)**	**(16,845)**	**(9,651)**	**(3,012)**	**(1,407,160)**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**882,453**		**79,209**					**961,662**

	Loans to corporate entities	*Loans to small and medium size companies*	*Finance lease receivables*	*Consumer loans*	*Mortgage loans*	*Car loans*	*Other loans to individuals*	*Total*
At 1 January 2010	(303,219)	(380,205)	(113,518)	(1,271,293)	(125,284)	(42,858)	(42,993)	**(2,279,370)**
Charge for the year	(117,976)	(200,021)	(34,237)	(882,786)	(78,061)	(11,938)	37,511	**(1,287,508)**
Recoveries	–	(22,917)	–	(101,633)	(15,618)	–	–	**(140,168)**
Loans written off as uncollectible	254,112	291,618	65,152	1,606,710	189,306	48,821	–	**2,455,719**
At 31 December 2010	**(167,083)**	**(311,525)**	**(82,603)**	**(649,002)**	**(29,657)**	**(5,975)**	**(5,482)**	**(1,251,327)**
Individual impairment	(88,843)	(208,491)	–	–	–	–	–	**(297,334)**
Collective impairment	(78,240)	(103,034)	(82,603)	(649,002)	(29,657)	(5,975)	(5,482)	**(953,993)**
	(167,083)	**(311,525)**	**(82,603)**	**(649,002)**	**(29,657)**	**(5,975)**	**(5,482)**	**(1,251,327)**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**279,484**	**377,257**	**–**	**–**	**–**	**–**	**–**	**656,741**

Interest income accrued on loans, for which individual impairment allowances have been recognized, for the year ended 31 December 2011, comprised RUR 75,744 thousand (2010 – RUR 56,755 thousand).

Analysis of collateral

The following table provides the analysis of loans to customers, net of impairment, by types of collateral as at 31 December 2011:

RUR'000	*Loans to corporate entities*	*Loans to small and medium size companies*	*Finance lease receivables*	*Consumer loans*	*Mortgage loans*	*Car loans*	*Other loans to individuals*	*Total*
Real estate	5,528,836	556,569	–	–	408,441	–	4,424	**6,498,270**
Motor vehicles	14,123	51,566	562,197	–	–	13,867	2,020	**643,773**
Goods and materials	–	83,787	237,882	–	–	–	–	**321,669**
Securities and equity investments	1,633,855	151,571	–	–	–	–	752	**1,786,178**
Other collateral	1,905,765	280,277	–	–	–	–	4,821	**2,190,863**
No collateral	325,190	149,804	–	22,831,692	–	–	35,497	**23,342,183**
Total loans to customers	**9,407,769**	**1,273,574**	**800,079**	**22,831,692**	**408,441**	**13,867**	**47,514**	**34,782,936**

(In thousands of Russian Rubles, unless otherwise indicated)

19 Loans to customers (continued)

Industry analysis of the loans to corporate entities (continued)

As at 31 December 2011 and December 31 2010 the group of loans with other collateral mainly represents loans secured by guarantees issued by third parties.

The following table provides the analysis of loans to customers, net of impairment, by types of collateral as at 31 December 2010:

RUR'000	*Loans to corporate entities*	*Loans to small and medium size companies*	*Finance lease receivables*	*Consumer loans*	*Mortgage loans*	*Car loans*	*Other loans to individuals*	*Total*
Real estate	3,920,532	921,540	–	–	451,569	–	5,831	**5,299,472**
Motor vehicles	15,624	25,628	364,062	–	–	59,186	4,127	**468,627**
Goods and materials	387,234	185,978	329,957	–	–	–	–	**903,169**
Securities and equity investments	944,846	114,573	–	–	–	–	144	**1,059,563**
Other collateral	1,669,682	416,011	–	2,262	–	–	6,434	**2,094,389**
No collateral	765,639	153,942	–	10,952,771	–	–	45,413	**11,917,765**
Total loans to customers	**7,703,557**	**1,817,672**	**694,019**	**10,955,033**	**451,569**	**59,186**	**61,949**	**21,742,985**

The amounts shown in the tables above represent the carrying value of the loans, and do not necessarily represent the fair value of the collateral.

Finance lease receivables

The analysis of finance lease receivables at 31 December 2011 is as follows:

	Not later than 1 year	*Later than 1 year and not later than 5 years*	*Total*
Gross investment in finance leases	621,900	484,767	**1,106,667**
Unearned future finance income on finance leases	(55,216)	(168,907)	**(224,123)**
Net investment in finance leases	**566,684**	**315,860**	**882,544**

The analysis of finance lease receivables at 31 December 2010 is as follows:

	Not later than 1 year	*Later than 1 year and not later than 5 years*	*Total*
Gross investment in finance leases	539,909	474,234	**1,014,143**
Unearned future finance income on finance leases	(59,284)	(178,237)	**(237,521)**
Net investment in finance leases	**480,625**	**295,997**	**776,622**

20. Movements in other impairment and provisions

The movements in other impairment allowances and provisions were as follows:

	Other assets (Note 23)	*Provision (Note 29)*	*Total*
31 December 2009	**32,523**	**65,787**	**98,310**
Charge (Note 15)	33,894	49,031	**82,925**
Write-offs	(26,854)	–	**(26,854)**
Redemption of obligations	–	(65,787)	**(65,787)**
31 December 2010	**39,563**	**49,031**	**88,594**
Charge (Note 15)	18,784	89,629	**108,413**
Write-offs	(25,162)	–	**(25,162)**
Redemption of obligations	–	(91,101)	**(91,101)**
31 December 2011	**33,185**	**47,559**	**80,744**

As at 31 December 2011 and as at 31 December 2010 the Group created provision under litigation cases against the Group in accordance with IAS 37 in the amount of RUR 47,559 thousand and RUR 49,031 thousand, respectively.

(In thousands of Russian Rubles, unless otherwise indicated)

21. Investment property

	2011 RUR'000	*2010 RUR'000*
Fair value at the beginning of the year	119,951	120,701
Transfer to property and equipment (Note 22)	(6,434)	(4,500)
Revaluation (Note 12)	(2,752)	3,750
Fair value at the end of the year	**110,765**	**119,951**

During 2011 the Group recognized rental income in relation to investment property in the amount of RUR 5,905 thousand (31 December 2010: RUR 5,099 thousand) (Note 10).

The Management of the Group estimated fair value of investment property based on the results of independent appraisal company.

22. Property, equipment and intangible assets

	Land and buildings RUR'000	*Leasehold improvements RUR'000*	*Computers and ATMs RUR'000*	*Motor vehicles RUR'000*	*Furniture and equipment RUR'000*	*Construction in progress RUR'000*	*Intangible assets RUR'000*	*Total RUR'000*
Cost / revalued amount								
As at 1 January 2011	513,114	67,939	300,374	37,587	177,285		122,360	1,218,659
Additions	24,649	2,819	299,438	32,485	28,595	1,023,642	58,771	1,470,399
Disposals	(24,654)	–	(11,062)	(8,271)	(2,625)	–	(296)	(46,908)
Transfer from investment property (Note 21)	6,434	–	–	–	–	–	–	6,434
Revaluation	16,067	–	–	–	–	–	–	16,067
Elimination of accumulated depreciation of revalued assets	(11,856)	–	–	–	–	–	–	(11,856)
As at 31 December 2011	**523,754**	**70,758**	**588,750**	**61,801**	**203,255**	**1,023,642**	**180,835**	**2,652,795**
Depreciation								
As at 1 January 2011	–	(53,374)	(153,578)	(19,804)	(108,453)	–	(52,145)	(387,354)
Depreciation charge	(13,670)	(14,044)	(92,914)	(10,850)	(36,927)	–	(32,649)	(201,054)
Disposals	1,814	–	10,396	4,052	2,172	–	57	18,491
Revaluation	11,856	–	–	–	–	–	–	11,856
As at 31 December 2011	**–**	**(67,418)**	**(236,096)**	**(26,602)**	**(143,208)**	**–**	**(84,737)**	**(558,061)**
Carrying value as at 31 December 2011	**523,754**	**3,340**	**352,654**	**35,199**	**60,047**	**1,023,642**	**96,098**	**2,094,734**
Carrying value as at 31 December 2010	**513,114**	**14,565**	**146,796**	**17,783**	**68,832**	**–**	**70,215**	**831,305**

	Land and buildings RUR'000	*Leasehold improvements RUR'000*	*Computers and ATMs RUR'000*	*Motor vehicles RUR'000*	*Furniture and equipment RUR'000*	*Construction in progress RUR'000*	*Intangible assets RUR'000*	*Total RUR'000*
Cost / revalued amount								
As at 1 January 2010	589,823	76,142	252,336	40,768	188,837	4,767	156,302	1,308,975
Additions through business combinations (Note 38)	–	–	329	504	–	–	–	833
Additions	17,269	214	72,394	4,895	3,309	–	25,711	123,792
Disposals	(32,590)	(8,417)	(24,685)	(8,580)	(14,861)	(4,767)	(59,653)	(153,553)
Revaluation	(46,730)	–	–	–	–	–	–	(46,730)
Elimination of accumulated depreciation of revalued assets	(14,658)	–	–	–	–	–	–	(14,658)
As at 31 December 2010	**513,114**	**67,939**	**300,374**	**37,587**	**177,285**	**–**	**122,360**	**1,218,659**
Depreciation								
As at 1 January 2010	–	(43,977)	(107,865)	(17,546)	(74,683)	–	(48,468)	(292,539)
Depreciation charge	(16,030)	(14,800)	(62,590)	(7,261)	(40,091)	–	(23,840)	(164,612)
Disposals	1,372	5,403	16,877	5,003	6,321	–	20,163	55,139
Revaluation	14,658	–	–	–	–	–	–	14,658
As at 31 December 2010	**–**	**(53,374)**	**(153,578)**	**(19,804)**	**(108,453)**	**–**	**(52,145)**	**(387,354)**
Carrying value as at 31 December 2010	**513,114**	**14,565**	**146,796**	**17,783**	**68,832**	**–**	**70,215**	**831,305**
Carrying value as at 31 December 2009	**589,823**	**32,165**	**144,471**	**23,222**	**114,154**	**4,767**	**107,834**	**1,016,436**

(In thousands of Russian Rubles, unless otherwise indicated)

22. Property, equipment and intangible assets (continued)

Revalued assets

As at 31 December 2011 buildings were revalued by Management of the Group based on the results of independent appraisal company. The fair value of assets was determined based on the active market data, i.e. the market approach was used to determine the fair value. The market approach was based upon analysis of the results of comparable sales of similar buildings.The net book value of the buildings as of 31 December 2011 was increased by RUR 16,067 thousand (as of 31 December 2010: decreased by RUR 46,730 thousand), which represents a positive revaluation of the Group's buildings that was recognised as positive revaluation in the profit and loss (Note 12) in the amount of RUR 28,269 thousand (as of 31 December 2010: as negative revaluation in the profit and loss in the amount of RUR 61,781 thousand) and as negative revaluation through other comprehensive income and revaluation reserve in the amount of RUR 12,202 thousand (as of 31 December 2010: as positive revaluation through other comprehensive income and revaluation reserve in the amount of RUR 15,051 thousand).

The carrying value of land and buildings as at 31 December 2011, if the land and buildings would not have been revalued, would be RUR 630,380 thousand (as at 31 December 2010: RUR 621,319 thousand).

23. Other assets

	2011 RUR'000	*2010 RUR'000*
Advances to suppliers	235,066	232,807
Current income tax assets	109,433	54,786
VAT receivables on leasing operations	69,280	87,316
Security deposit placed in MasterCard Europe	48,294	45,715
Foreclosed assets	23,054	97,358
Advances for taxes other than VAT and income tax	4,490	12,319
Settlements with personnel	4,417	2,282
Consideration receivable on disposal of subsidiaries	–	27,665
Other	48,929	49,716
	542,963	**609,964**
Impairment allowance in respect of advances to suppliers (Note 20)	(33,185)	(39,563)
	509,778	**570,401**

As a result of collection efforts on defaulted loans, the Group foreclosed real estate property and other assets. As the Group has taken a decision to dispose foreclosed assets within a year, such assets are classified as inventory according to IAS 2, and are measured at the lower of cost and net realizable value. Following IAS 2 considerations in order to value foreclosed assets the Group recognized decrease in its value in the amount of RUR 38,018 thousand for the residential property as of 31 December 2011 (Note 15).

24. Current accounts and deposits from customers

	2011 RUR'000	*2010 RUR'000*
Individuals		
Current accounts and demand deposits	959,854	1,433,845
Term deposits	34,854,228	22,528,165
Legal entities		
Current accounts and demand deposits	4,660,194	5,314,358
Term deposits	1,826,002	1,119,197
Amounts payable under repurchase agreements	317,759	645,129
	42,618,037	**31,040,694**

At 31 December 2011 and as of 31 December 2010 amounts due to customers of RUR 4,162,423 thousand and RUR 5,611,707 thousand, respectively, were due to ten largest customers that represented 9.8% and 18.1% of the total amount of current accounts and deposits from customers, respectively.

At 31 December 2011 the Group didnot have customers whose balance exceeded 10% of the total amount of current accounts and deposits from customers. At 31 December 2010 the Group had one customer whose balance exceeded 10% of the total amount of current accounts and deposits from customers and that amounted to RUR 3,223,461 thousand.

(In thousands of Russian Rubles, unless otherwise indicated)

24. Current accounts and deposits from customers (continued)

Included in time deposits are deposits of individuals in the amount of RUR 34,854,228 thousand (2010 – RUR 22,528,165 thousand). In accordance with the Russian Civil Code, the Group is obliged to repay such deposits upon demand of a depositor. In case a term deposit is repaid upon demand of the depositor prior to maturity, interest on it is paid based on the interest rate for demand deposits, unless a different interest rate is specified in the agreement.

As of 31 December 2011, the Bank had pledged government and municipal bonds securities (as of 31 December 2010 – corporate bonds securities) as collateral under repurchase agreements with the corporate entities in the amount of RUR 374,461 thousand (2010 RUR 607,175 thousand) (refer Note 18).

25. Amounts due to the CBR

	2011 RUR'000	***2010 RUR'000***
Secured loans received	1,000,450	–
Repurchase agreements	2,055,057	–
	3,055,507	**–**

As of 31 December 2011 the Bank had pledged corporate bonds as collateral under repurchase agreements with the CBR in the amount of RUR 3,682,037 thousand (as of 31 December 2010 null) (Note 18).

26. Deposits and balances from banks

	2011 RUR'000	***2010 RUR'000***
Loro accounts of banks	630,768	74,174
Repurchase agreements with other banks	318,623	4,330,872
Deposits from banks	285,691	149,237
Other borrowed funds	7,383	–
	1,242,465	**4,554,283**

As of 31 December 2011 the Group had two counterparties (as of 31 December 2010: two counterparties), whose aggregated balance exceeded more than 10% of total deposits and balances from banks. The total amount of these balances as of 31 December 2011 was RUR 890,032 thousand or 71.6% of deposits and balances from banks (as of 31 December 2010: RUR 999,153 thousand or 21.9% of deposits and balances from banks and other financial institutions).

As of 31 December 2011 the Bank had pledged corporate bonds (as of 31 December 2010 – government and municipal bonds and corporate bonds securities) as collateral under repurchase agreements with other banks in the amount of RUR 336,320 thousand (as of 31 December 2010 – RUR 5,172,597 thousand, respectively (Note 18).

27. Promissory notes

As of 31 December 2011, the Group issued interest bearing promissory notes for the total amount of RUR 1,195,058 thousand (as of 31 December 2010 – RUR 1,596,483 thousand), which mainly represented settlement promissory notes maturing within 365 days (as of 31 December 2010 – maturing within 365 days). As of 31 December 2011, other discount promissory notes in the total amount of RUR 452,438 thousand (as of 31 December 2010 – RUR 393,797 thousand) were issued by the Group.

(In thousands of Russian Rubles, unless otherwise indicated)

28. Subordinated debt

Principal'000	*Currency*	*Counterparty*	*Interest rate*	*Issue date*	*Maturity date*	*31 December 2011 RUR'000*	*31 December 2010 RUR'000*
25,000	USD	Nederlandse Financierings(Maatschappij voor Ontwikkelingslanden N.V. (FMO)	3m Libor+4.5%	24.10.2008 22.01.2009	15.10.2018	868,567	808,486
						868,567	**808,486**

As of 31 December 2011, the Group accrued additional fees in the amount of RUR 61,237 thousand (as of 31 December 2010 – RUR 45,000 thousand) payable to FMO in accordance with terms of agreements which were accounted for as part of effective interest rate on subordinated debt. In accordance with terms of agreement additional fees are calculated based on the financial result of the Group before tax and paid since the Group accumulated profit for the period.

29. Other liabilities

	2011 RUR'000	*2010 RUR'000*
Payables to personnel	172,266	216,369
Payables to suppliers	94,371	70,788
Accrued expenses on obligatory deposit insurance	87,770	15,757
Taxes payable other than VAT and income tax	52,827	36,807
Provision for legal claims and contingent liabilities (Note 20)	47,559	49,031
Obligations under lease payments	28,260	14,976
VAT payable	3,648	7,814
Income taxes payable	–	615
Other	12,256	39,950
	498,957	**452,107**

30. Deferred tax

Movement in temporary differences during the year ended 31 December 2011 and 31 December 2010:

		Origination and reversal of temporary differences				*Origination and reversal of temporary differences*		
	2009 (adjusted)	*In the income statement*	*In other compre-hensive income*	*Effect of business combination (Note 38)*	*2010*	*In the income statement*	*In other compre-hensive income*	*2011*
Tax effect of deductible temporary differences:								
Promissory notes	–	(878)	–	–	(878)	3,194	–	2,316
Other assets	–	41,030	–	–	41,030	(4,921)	–	36,109
Other liabilities	29,224	(22,222)	–	–	7,002	29,224	–	36,226
Tax losses carried forward	57,343	(57,343)	–	–	–			
Deferred tax asset	**86,567**	**(39,413)**	**–**	**–**	**47,154**	**27,497**	**–**	**74,651**
Tax effect of taxable temporary differences:								
Loans to customers	229,035	48,354	–	(4,706)	272,683	(412,346)	–	(139,663)
Financial instruments at fair value through profit or loss	(107,882)	54,964	(418)	–	(53,336)	7,129	–	(46,207)
Investment property	(5,321)	(1,510)	–	–	(6,831)	(750)	–	(7,581)
Property, equipment and intangible assets	(26,396)	9,286	(3,010)	–	(20,120)	3,841	2,440	(13,839)
Subordinated debt	–	(1,248)	–	–	(1,248)	89	–	(1,159)
Deferred tax liability	**89,436**	**109,846**	**(3,428)**	**(4,706)**	**191,148**	**(402,037)**	**2,440**	**(208,449)**
Deferred tax asset	**176,003**	**70,433**	**(3,428)**	**–**	**243,008**	**(169,776)**	**–**	**73,232**
Deferred tax liability	**–**	**–**	**–**	**(4,706)**	**(4,706)**	**(204,764)**	**2,440**	**(207,030)**

(In thousands of Russian Rubles, unless otherwise indicated)

31. Charter capital and other capital contributions

As of 31 December 2011 and 31 December 2010 charter capital totalled RUR 2,242,358 thousand and RUR 1,097,561 thousand, respectively.

In August 2011 at the extraordinary General meeting of participants it was decided to increase the charter capital by RUR 1,144,796,762 from retained earnings of the Bank and allocate the increase in proportion to the share of participants units prior the increase.

On 7 July 2011 at the extraordinary General meeting of participants it was decided to make distributions to participants from the net profit earned in 2010. The total amount of distributions to participants was RUR 585,065 thousand and made in proportion to units of participants. Distributions to participants were fully paid in July 2011.

In accordance with SovcomBank LLC charter, participants may unilaterally withdraw their interests. In such cases the Bank will be obliged to pay the withdrawing participant's share of net assets of the Bank, determined on the basis of statutory accounting reports for the year of withdrawal, in cash or, subject to consent of the participant, by in-kind transfer of assets. The payment should be made no later than six months after the end of the year of the withdrawal.

32. Commitments

At any time the Group has outstanding commitments to extend loans. These commitments take the form of approved loans and credit card limits and overdraft facilities.

The Group provides financial guarantees to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to five years. The Group also provides guarantees by acting as settlement agent in securities borrowing and lending transactions.

The contractual amounts of commitments are set out in the following table by category. The amounts reflected in the table for commitments assume that amounts are fully advanced. The amounts reflected in the table for guarantees and letters of credit represent the maximum accounting loss that would be recognised at the balance sheet date if counterparties failed completely to perform as contracted.

Contracted amount	*2011 RUR'000*	*2010 RUR'000*
Guarantees	1,042,387	1,098,258
Loan and credit line commitments	1,421,798	1,545,379
	2,464,185	**2,643,637**

The total outstanding contractual commitments to extend credit indicated above does not necessarily represent future cash requirements, as these commitments may expire or terminate without being funded.

The Group does not have any non-cancellable operating leases as of 31 December 2011 and as of 31 December 2010.

33. Contingencies

Litigation

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

During 2011 and 2010 the Group was subject to legal actions raised by the borrowers regarding the compensation of up-front lending commission charged by the Group at loan origination. As of 31 December 2011 the total amount of claims against the Group compounded RUR 114 million, including RUR 63 million paid (as of 31 December 2010 the total amount of claims against the Group compounded RUR 29 million, including RUR 5 million paid). For the rest amount the Bank created provisions for legal claims. The amount of potential future claims against the Group cannot be measured with sufficient reliability.

The Bank has cancelled up-front comissions for all consumer finance products starting from January 1, 2011. Nevertheless, the Bank expects new legal claims for loans originated before 31 December 2010. The amount of such claims would be aproximately 1% of interest income on loans..

(In thousands of Russian Rubles, unless otherwise indicated)

33. Contingencies (continued)

Taxation contingencies

Russian tax legislation as currently in effect is vaguely drafted and is subject to varying interpretations, selective and inconsistent application and changes, which can occur frequently, at short notice and may apply retrospectively. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal tax authorities. In particular, the tax authorities may try to challenge the VAT treatment of certain commission income that might require the Group to defend its position in court.

Recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in their interpretation and application of this legislation and assessments. It is therefore possible that transactions and activities of the Group that have not been challenged in the past may be challenged at any time in the future. As a result, significant additional taxes, penalties and interest may be assessed by the relevant authorities. Fiscal periods remain open and subject to review by the tax authorities for a period of three calendar years immediately preceding the year in which the decision to conduct a tax review is taken. Under certain circumstances tax reviews may cover longer periods.

Russian transfer pricing legislation as currently in effect allows the tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of all “controlled” transactions (except for those conducted at state regulated prices and tariffs), if the transaction price differs upwards or downwards from the market price by more than 20%. Transfer pricing rules as were in effect in 2010 were vaguely drafted, generally leaving wide scope for their interpretation by the tax authorities and courts in practice. Transfer pricing legislation in Russia effective from 1 January 2012 provides for more stringent transfer pricing rules. In 2010 and 2011 the Group determined its tax liabilities arising from intercompany transactions using actual transaction prices. It is possible that with the introduction of new transfer pricing rules in Russia or changes in the approach of the Russian tax authorities to the interpretation and application of transfer pricing rules applicable in 2010 and 2011, prices applied by the Group under these transactions could potentially be challenged by the tax authorities in the future.

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

34. Risk management

Management of risk is fundamental to the business of banking and is an essential element of the Group’s operations. The major risks faced by the Group are those related to market risk, which includes price, interest rate and currency risks, credit risk and liquidity risk.

Risk management policies and procedures

The Group’s risk management policies aim to identify, analyse and manage the risks faced by the Group, to set appropriate risk limits and controls, and to continuously monitor risk levels and adherence to limits. Risk management policies and procedures are reviewed regularly to reflect changes in market conditions, products and services offered and emerging best practice.

The Board of Directors of the Group has overall responsibility for the oversight of the risk management framework, overseeing the management of key risks and reviewing its risk management policies and procedures as well as approving significantly large exposures. Application of risk management policies is subject to regular review by the Internal Audit department.

The Management Board of the Group is responsible for monitoring and implementation of risk mitigation measures and making sure that the Group operates within the established risk parameters.

Credit, market and liquidity risks both at portfolio and transactional levels are managed and controlled through a system of Credit Committees, and an Asset and Liability Management Committee. In order to facilitate efficient decision(making, the Group has established a hierarchy of credit committees depending on the type and amount of the exposure.

Both external and internal risk factors are identified and managed throughout the Group’s organisational structure. Apart from the standard credit and market risk analysis, the Risk Department implemented a system of identification and quantification of operational risks.

(In thousands of Russian Rubles, unless otherwise indicated)

34 Risk management (continued)

Market risk

Market risk is the risk that movements in market prices, including foreign exchange rates, interest rates, credit spreads and equity prices will affect the Group's income or the value of its portfolios. Market risks comprise currency risk, interest rate risk and other price risk. Market risk arises from open positions in interest rate, currency and equity financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices.
The objective of market risk management is to manage and control market risk exposures within acceptable parameters, whilst optimizing the return on risk.

Overall authority for market risk is vested in the Asset and Liability Committee (ALCO), chaired by the First Deputy Chairman of the Management Board of the Group. Market risk limits are approved by ALCO based on recommendations of the Risk Department.

The Group manages its market risk by setting open position limits in relation to financial instruments, interest rate maturity and currency positions and stop-loss limits which are monitored on a regular basis and reviewed and approved by the Management Board.

Interest rate risk

The market risk for the trading portfolio is managed and monitored using sensitivity analysis. Interest rate risk arises from the possibility that changes in interest rates will affect the fair value of the financial instruments or the future cash flows on financial instruments. The Group's interest rate policy is reviewed and approved by the Group's Assets and Liabilities Committee. The Group sets limits on the level of mismatch of interest rate repricing that may be undertaken. The sensitivity of the fair value of such instruments includes the effect of the reasonably possible changes in risk-free interest rates on the fair value for one year. The above parameter is measured by reference to the effect of the fair value of such fixed-rate instruments held as of 31 December 2011 and 2010. Such measurement envisages applying the assumption of a parallel shift of the yield curve.

Currency	***Increase in basis points***	***Sensitivity of net interest income 2011***	***Sensitivity of equity 2011***	***Sensitivity of net interest income 2010***	***Sensitivity of equity 2010***
RUR	50	(168,764)	(168,764)	(133,131)	(133,131)
USD	50	(14,220)	(14,220)	(5,947)	(5,947)
EUR	50	(1,379)	(1,379)	–	–

Currency	***Decrease in basis points***	***Sensitivity of net interest income 2011***	***Sensitivity of equity 2011***	***Sensitivity of net interest income 2010***	***Sensitivity of equity 2010***
RUR	50	168,764	168,764	133,131	133,131
USD	50	14,220	14,220	5,947	5,947
EUR	50	1,379	1,379	–	–

The table below analyses the Group's interest rate risk exposure on non-trading financial assets and liabilities. The Group's assets and liabilities are included at carrying amount and categorised by the the earlier of contractual re-pricing or maturity dates.

(In thousands of Russian Rubles, unless otherwise indicated)

34 Risk management (continued)

Market risk (continued)

The position as at 31 December 2011 is as follows:

	Less than 1 month RUR'000	*1 to 3 months RUR'000*	*3 months to 1 year RUR'000*	*1 to 5 years RUR'000*	*More than 5 years RUR'000*	*Non-interest bearing RUR'000*	*Overdue RUR'000*	*Total RUR'000*
Assets								
Cash and cash equivalents	502,460	–	–	–	–	3,835,584	–	4,338,044
Mandatory cash balances with the Central Bank of the Russian Federation	–	–	–	–	–	523,088	–	523,088
Placements with banks	4,602	8,498	34,786	27,128				75,014
Loans to customers	1,943,776	3,430,604	13,024,879	15,199,226	167,927		1,016,524	34,782,936
Investment in associates	–	–	–	–	–	5,880	–	5,880
Investment property	–	–	–	–	–	110,765	–	110,765
Property, equipment and intangible assets	–	–	–	–	–	2,094,734	–	2,094,734
Goodwill	–	–	–	–	–	450,587	–	450,587
Deferred tax asset	–	–	–	–	–	73,232	–	73,232
Other assets	–	–	–	–	–	509,778	–	509,778
Total assets	**2,450,838**	**3,439,102**	**13,059,665**	**15,226,354**	**167,927**	**7,603,648**	**1,016,524**	**42,964,058**
Liabilities								
Amounts due to the CBR	3,055,507	–	–	–	–	–	–	3,055,507
Deposits and balances from banks	996,780	11,470	90,726	143,489	–	–	–	1,242,465
Current accounts and deposits from customers	4,840,180	4,732,644	5,911,494	22,473,525	–	4,660,194	–	42,618,037
Promissory notes	175,433	106,295	734,321	629,941	1,506	–	–	1,647,496
Subordinated debt	–	868,567	–	–	–	–	–	868,567
Deferred tax liabilities	–	–	–	–	–	207,030	–	207,030
Other liabilities	–	–	–	–	–	498,957	–	498,957
Total liabilities	**9,067,900**	**5,718,976**	**6,736,541**	**23,246,955**	**1,506**	**5,366,181**	–	**50,138,059**
Net position as at 31 December 2011	**(6,617,062)**	**(2,279,874)**	**6,323,124**	**(8,020,601)**	**166,421**	**2,237,467**	**1,016,524**	**(7,174,001)**

The position as at 31 December 2010 is as follows:

	Less than 1 month RUR'000	*1 to 3 months RUR'000*	*3 months to 1 year RUR'000*	*1 to 5 years RUR'000*	*More than 5 years RUR'000*	*Non-interest bearing RUR'000*	*Overdue RUR'000*	*Total RUR'000*
Assets								
Cash and cash equivalents	456,802	–	–	–	–	4,861,519	–	5,318,321
Mandatory cash balances with the Central Bank of the Russian Federation	–	–	–	–	–	220,181	–	220,181
Placements with banks	–	–	100,613	–	–	–	–	100,613
Loans to customers	1,799,183	2,571,774	8,156,017	8,310,280	190,521	–	715,210	21,742,985
Investment property	–	–	–	–	–	119,951	–	119,951
Property, equipment and intangible assets	–	–	–	–	–	831,305	–	831,305
Goodwill	–	–	–	–	–	450,587	–	450,587
Deferred tax asset	–	–	–	–	–	243,008	–	243,008
Other assets	–	–	–	–	–	570,401	–	570,401
Total assets	**2,255,985**	**2,571,774**	**8,256,630**	**8,310,280**	**190,521**	**7,296,952**	**715,210**	**29,597,352**
Liabilities								
Deposits and balances from banks	4,497,965	8,238	20,908	27,172	–	–	–	4,554,283
Current accounts and deposits from customers	4,244,023	3,336,520	11,473,660	6,672,129	4	5,314,358	–	31,040,694
Promissory notes	152,785	193,688	1,046,900	595,487	1,420	–	–	1,990,280
Subordinated debt	–	808,486	–	–	–	–	–	808,486
Deferred tax liabilities	–	–	–	–	–	4,706	–	4,706
Other liabilities	–	–	–	–	–	452,107	–	452,107
Total liabilities	**8,894,773**	**4,346,932**	**12,541,468**	**7,294,788**	**1,424**	**5,771,171**	**–**	**38,850,556**
Net position as at 31 December 2010	**(6,638,788)**	**(1,775,158)**	**(4,284,838)**	**1,015,492**	**189,097**	**1,525,781**	**715,210**	**(9,253,204)**

(In thousands of Russian Rubles, unless otherwise indicated)

34 Risk management (continued)

Currency risk

The Group has assets and liabilities denominated in several foreign currencies. Foreign currency risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liabilities in that currency. The Group's policy requires that total currency risk exposure should not exceed 10% of equity.

An analysis of sensitivity of the Group's profit or loss for the year and equity to participants to changes in the foreign currency exchange rates based on positions existing as at 31 December 2011 and 2010 and a simplified scenario of a 5% change in exchange rates of major currencies is as follows:

	2011		*2010*	
	Profit or loss RUR'000	***Equity RUR'000***	***Profit or loss RUR'000***	***Equity RUR'000***
5% appreciation of USD against RUR	(8,136)	(8,136)	(6,526)	(6,526)
5% depreciation of USD against RUR	8,136	8,136	6,526	6,526
5% appreciation of EUR against RUR	(84)	(84)	(1,387)	(1,387)
5% depreciation of EUR against RUR	84	84	1,387	1,387

The following table shows the currency structure of assets and liabilities as at 31 December 2011:

	RUR RUR'000	***USD RUR'000***	***EUR RUR'000***	***Other RUR'000***	***Total RUR'000***
Assets					
Cash and cash equivalents	3,468,192	510,856	358,996	–	4,338,044
Mandatory cash balances with the Central Bank of the Russian Federation	523,088	–	–	–	523,088
Placements with banks	75,014	–	–	–	75,014
Financial instruments at fair value through profit or loss					
- Held by the Group	9,615,882	255,167	83,620	–	9,954,669
- Pledged under sale and repurchase agreements	3,733,849	658,968	–	–	4,392,817
Loans to customers	30,386,042	3,895,534	501,360	–	34,782,936
Investment in associates	5,880	–	–	–	5,880
Investment property	110,765	–	–	–	110,765
Property, equipment and intangible assets	2,094,734	–	–	–	2,094,734
Goodwill	450,587	–	–	–	450,587
Deferred tax asset	73,232	–	–	–	73,232
Other assets	460,158	49,603	17	–	509,778
Total assets	**50,997,423**	**5,370,128**	**943,993**	–	**57,311,544**
Liabilities					
Amounts due to the CBR	3,055,507	–	–	–	3,055,507
Deposits and balances from banks	1,211,111	30,716	638	–	1,242,465
Current accounts and deposits from customers	36,528,931	3,427,957	2,655,988	5,161	42,618,037
Promissory notes	1,149,418	294,821	203,257	–	1,647,496
Subordinated debt	–	868,567	–	–	868,567
Deferred tax liability	207,030	–	–	–	207,030
Other liabilities	497,716	1,240	1	–	498,957
Total liabilities, other than net assets attributable to participants	**42,649,713**	**4,623,301**	**2,859,884**	**5,161**	**50,138,059**
Net balance sheet position as at 31 December 2011	**8,347,710**	**746,827**	**(1,915,891)**	**(5,161)**	**7,173,485**
Net off-balance sheet position as at 31 December 2011	**(1,004,678)**	**(909,543)**	**1,914,221**	–	–
Net position as at 31 December 2011	**7,343,032**	**(162,716)**	**(1,670)**	**(5,161)**	**7,173,485**
Credit related commitments	**2,348,981**	**94,043**	**21,161**	–	**2,464,185**

(In thousands of Russian Rubles, unless otherwise indicated)

34 Risk management (continued)

Currency risk (continued)

The following table shows the currency structure of assets and liabilities as at 31 December 2010:

	RUR RUR'000	*USD RUR'000*	*EUR RUR'000*	*Other RUR'000*	*Total RUR'000*
Assets					
Cash and cash equivalents	3,882,717	849,778	585,826	–	5,318,321
Mandatory cash balances with the Central Bank of the Russian Federation	220,181	–	–	–	220,181
Placements with banks	100,613	–	–	–	100,613
Financial instruments at fair value through profit or loss					
- Held by the Group	7,615,256	305,127	–	–	7,920,383
- Pledged under sale and repurchase agreements	5,779,772	–	–	–	5,779,772
Loans to customers	18,386,624	2,683,363	672,998	–	21,742,985
Investment property	119,951	–	–	–	119,951
Property, equipment and intangible assets	831,305	–	–	–	831,305
Goodwill	450,587	–	–	–	450,587
Deferred tax asset	243,008	–	–	–	243,008
Other assets	523,840	46,561	–	–	570,401
Total assets	**38,153,854**	**3,884,829**	**1,258,824**	**–**	**43,297,507**
Liabilities					
Deposits and balances from banks	4,446,677	43,679	63,927	–	4,554,283
Current accounts and deposits from customers	25,656,688	3,154,125	2,223,862	6,019	31,040,694
Promissory notes	1,157,063	619,254	213,963	–	1,990,280
Subordinated debt	–	808,486	–	–	808,486
Deferred tax liability	4,706	–	–	–	4,706
Other liabilities	451,499	569	39	–	452,107
Total liabilities, other than net assets attributable to participants	**31,716,633**	**4,626,113**	**2,501,791**	**6,019**	**38,850,556**
Net balance sheet position as at 31 December 2010	**6,437,221**	**(741,284)**	**(1,242,967)**	**(6,019)**	**4,446,951**
Net off-balance sheet position as at 31 December 2010	**(1,825,993)**	**610,757**	**1,215,236**	**–**	**–**
Net position as at 31 December 2010	**4,611,228**	**(130,527)**	**(27,731)**	**(6,019)**	**4,446,951**
Credit related commitments	**2,433,625**	**200,186**	**9,826**	**–**	**2,643,637**

Prepayment risk

Prepayment risk is the risk that the Group will incur a financial loss because its customers and counterparties repay or request repayment earlier or later than expected, such as fixed rate mortgages when interest rates fall.

The Group identifies the prepayment risk for consumer loans. During 2011 the amount of consumer loans repaid prior to maturity composed RUR 4,765,260 thousand or 29.8% of expected payments (during 2010 the amount of consumer loans repaid prior to maturity composed RUR 2,043,752 thousand or 19.9% of expected payments).

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Group cannot expect to eliminate all operational risks, but a control framework and monitoring and responding to potential risks could be effective tools to manage the risks. Controls should include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

(In thousands of Russian Rubles, unless otherwise indicated)

34 Risk management (continued)

Credit risk

Credit risk is the risk of financial loss occurring as a result of default by a borrower or counterparty on their obligation to the Group. The Group has developed policies and procedures for the management of credit exposures (both for on balance sheet and off balance sheet exposures), including guidelines to limit portfolio concentration and the establishment of a Credit Committee, which actively monitors the Group's credit risk. The Group's credit policy is reviewed and approved by the Management Board.

The Group's credit policy establishes:

- Procedures for review and approval process of different kinds of credit products;
- Methodology for the credit assessment of lessees under leasing contracts;
- Methodology for the credit assessment of borrowers (commercial and retail);
- Methodology for the credit assessment of issuers and insurance companies;
- Methodology for the evaluation and monitoring of collateral;
- Procedures for the ongoing monitoring of loans and other credit exposures;
- Procedures for collection process for different borrowers and lessees.

Relevant client manager produce commercial loan/credit applications which are then passed on to the Loans Department. The latter is responsible for the Group's commercial loans portflio. Reports produced by the department's credit analysts are based on structured analysis focusing on the customer's business and financial performance. The loan/credit application and the report are then independently reviewed by the Risk Department's Credit Risk Management Division and Economic security department. A second opinion is given accompanied by a check that credit policy requirements have been met. The credit application should be approved by the appropriate Credit Committee depending on the exposure and the borrower. The Credit Committee reviews the loan/credit application on the basis of submissions by the Loan Department and the Risk Department. Individual transactions are also reviewed by the Group's Legal department and pending final approval of the Credit Committee.

The Group continuously monitors the performance of individual credit exposures and regularly reassesses the creditworthiness of its customers. The review is based on the customer's most recent financial statements and other information submitted by the borrower, or otherwise obtained by the Group. The current market value of collateral is regularly assessed by either independent appraisal companies or the Group's specialists, and in the event of negative movements in market prices the borrower is usually requested to put up additional security.

Retail loan/credit applications are reviewed by the Group's Retail Lending Division through the behavioural check and application data verification procedures developed together with the Risk Department. Some retail loan application are subject to additional verification conducted by Economic Security Department. All underwriting procedures are approved by the Risk Committee.

Retail loan portfolio is subject to continuous monitoring by the Risk Management Department. Portfolio quality analysis and fraud prevention procedures are conducted on a regular basis.

Apart from individual customer analysis, the whole credit portfolio is assessed by the Risk Department with regard to credit concentration and market risks.

The Group's maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets on the balance sheet and off balance sheet credit related commitments. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

The table below shows the maximum exposure to credit risk for the components of the consolidated statement of financial position, including derivatives. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements.

	Notes	*Maximum exposure 2011*	*Maximum exposure 2010*
Cash and cash equivalents (excluding cash on hand)	17	1,634,657	3,848,210
Placements with banks		75,014	100,613
Financial instruments at fair value through profit or loss	18	14,347,486	13,700,155
Loans to customers	19	34,782,936	21,742,985
Other assets (less settlements with tax authorities)	23	326,575	415,980
		51,166,668	**39,807,943**
Credit related commitments	32	2,464,185	2,643,637
Total credit risk exposure		**53,630,853**	**42,451,580**

(In thousands of Russian Rubles, unless otherwise indicated)

34 Risk management (continued)

Credit risk (continued)

Where financial instruments are recorded at fair value, the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

For more detail on the maximum exposure to credit risk for each class of financial instrument references shall be made to the specific notes. The effect of collateral and other risk mitigation techniques is shown in Note 19.

Credit quality of loans to individuals

The credit quality of loans to individuals and loans to corporate entities portfolio are managed by the Group based on overdue group. The tables below show the credit quality of loan to individuals based allocation of loans depending on overdue days as of 31 December 2011 and 31 December 2010.

The following table provides information on the credit quality of loans to individuals as at 31 December 2011:

	Gross loans RUR'000	***Allowance for impairment RUR'000***	***Net loans RUR'000***	***Impairment to gross loans, %***
Consumer loans				
Not past due	21,762,483	(89,186)	21,673,297	0.41%
Overdue less than 30 days	711,239	(51,135)	660,104	7.19%
Overdue 30-89 days	372,728	(125,174)	247,554	33.58%
Overdue 90-179 days	346,484	(185,094)	161,390	53.42%
Overdue 180-360 days	486,431	(397,084)	89,347	81.63%
Total consumer loans	**23,679,365**	**(847,673)**	**22,831,692**	**3.58%**
Mortgage loans				
Not past due	367,122	(3,660)	363,462	1.00%
Overdue less than 30 days	21,649	(1,082)	20,567	5.00%
Overdue 30-89 days	4,381	(435)	3,946	9.93%
Overdue 90-179 days	5,610	(1,122)	4,488	20.00%
Overdue 180-360 days	13,541	(4,056)	9,485	29.95%
Overdue more than 360 days	12,983	(6,490)	6,493	49.99%
Total mortgage loans	**425,286**	**(16,845)**	**408,441**	**3.96%**
Car loans				
Not past due	10,745	(107)	10,638	1.00%
Overdue less than 30 days	2,775	(416)	2,359	14.99%
Overdue 30-89 days	798	(319)	479	39.97%
Overdue 90-179 days	978	(587)	391	60.02%
Overdue 180-360 days	8,222	(8,222)	–	100.00%
Total car loans	**23,518**	**(9,651)**	**13,867**	**41.03%**
Other loans to individuals				
Not past due	47,620	(1,665)	45,955	3.50%
Overdue less than 30 days	1,154	(115)	1,039	9.97%
Overdue 30-89 days	188	(75)	113	39.89%
Overdue 90-179 days	472	(283)	189	59.96%
Overdue 180-360 days	1,092	(874)	218	80.04%
Total other loans to individuals	**50,526**	**(3,012)**	**47,514**	**5.96%**
Total loans to individuals	**24,178,695**	**(877,181)**	**23,301,514**	**3.63%**

(In thousands of Russian Rubles, unless otherwise indicated)

34 Risk management (continued)

Credit quality of loans to individuals (continued)

The following table provides information on the credit quality of loans to individuals as at 31 December 2010:

	Gross loans RUR'000	*Allowance for impairment RUR'000*	*Net loans RUR'000*	*Impairment to gross loans, %*
Consumer loans				
Not past due	10,396,880	(57,988)	10,338,892	0.56%
Overdue less than 30 days	347,624	(34,583)	313,041	9.95%
Overdue 30-89 days	210,751	(73,782)	136,969	35.01%
Overdue 90-179 days	231,008	(132,707)	98,301	57.45%
Overdue 180-360 days	417,772	(349,942)	67,830	83.76%
Total consumer loans	**11,604,035**	**(649,002)**	**10,955,033**	**5.59%**
Mortgage loans				
Not past due	356,096	(3,496)	352,600	0.98%
Overdue less than 30 days	49,503	(2,459)	47,044	4.97%
Overdue 30-89 days	13,685	(1,363)	12,322	9.96%
Overdue 90-179 days	11,539	(2,284)	9,255	19.79%
Overdue 180-360 days	23,986	(7,136)	16,850	29.75%
Overdue more than 360 days	26,417	(12,919)	13,498	48.90%
Total mortgage loans	**481,226**	**(29,657)**	**451,569**	**6.16%**
Car loans				
Not past due	45,850	(447)	45,403	0.97%
Overdue less than 30 days	10,728	(1,609)	9,119	15.00%
Overdue 30-89 days	6,155	(2,462)	3,693	40.00%
Overdue 90-179 days	2,428	(1,457)	971	60.01%
Total car loans	**65,161**	**(5,975)**	**59,186**	**9.17%**
Other loans to individuals				
Not past due	57,979	(2,026)	55,953	3.49%
Overdue less than 30 days	4,599	(460)	4,139	10.00%
Overdue 30-89 days	2,065	(826)	1,239	40.00%
Overdue 90-179 days	303	(182)	121	60.07%
Overdue 180-360 days	2,485	(1,988)	497	80.00%
Total other loans to individuals	**67,431**	**(5,482)**	**61,949**	**8.13%**
Total loans to individuals	**12,217,853**	**(690,116)**	**11,527,737**	**5.6%**

Credit quality of loans to corporate entities

The following table provides information on the credit quality of the loans to legal entities and finance lease receivables as at 31 December 2011:

	Gross loans RUR'000	*Impairment RUR'000*	*Net loans RUR'000*	*Impairment to gross loans %*
Loans to legal entities and finance lease receivables				
Unimpaired loans and finance lease receivables	**10,813,289**	**(178,868)**	**10,634,421**	**1.65%**
Impaired loans and finance lease receivables:				
Overdue less than 90 days	419,865	(144,481)	275,384	34.41%
Overdue more than 90 days and less than 1 year	515,658	(92,388)	423,270	17.92%
Overdue more than 1 year	262,589	(114,242)	148,347	43.51%
Total impaired loans and finance lease receivables	**1,198,112**	**(351,111)**	**847,001**	**29.31%**
Individual impairment	961,662	(299,507)	662,155	31.14%
Collective impairment	236,450	(51,604)	184,846	21.82%
Total loans to legal entities and finance lease receivables	**12,011,401**	**(529,979)**	**11,481,422**	**4.41%**

(In thousands of Russian Rubles, unless otherwise indicated)

34 Risk management (continued)

Credit quality of loans to individuals (continued)

The majority of loans to corporate entities are represented by loans issued to small and medium size companies.

The following table provides information on the credit quality of the loans to legal entities and finance lease receivables as at 31 December 2010:

	Gross loans RUR'000	*Impairment RUR'000*	*Net loans RUR'000*	*Impairment to gross loans %*
Loans to legal entities and finance lease receivables				
Unimpaired loans and finance lease receivables	**9,672,325**	**(172,489)**	**9,499,836**	**1.8%**
Impaired loans and finance lease receivables:				
Overdue less than 90 days	415,968	(40,417)	375,551	9.7%
Overdue more than 90 days and less than 1 year	393,170	(153,232)	239,938	38.9%
Overdue more than 1 year	294,996	(195,073)	99,923	66.1%
Total impaired loans and finance lease receivables	**1,104,134**	**(388,722)**	**715,412**	**35.2%**
Individual impairment	656,741	(297,334)	359,407	45.3%
Collective impairment	447,393	(91,388)	356,005	20.4%
Total loans to legal entities and finance lease receivables	**10,776,459**	**(561,211)**	**10,215,248**	**5.2%**

Impairment assessment

Collectively assessed allowances

Allowances are assessed collectively for losses on loans to customers that are not individually significant (including car loans, mortgage loans, consumer loans, and loans to corporate entities and finance lease receivables) and for individually significant loans where there is not yet objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review. The Group has estimated loan impairment for loans to individuals based on its past historical loss experience and in some cases peer group experience for comparable loan groups. The Group estimated loan impairment for loans to legal entities based on an analysis of the future cash flows for impaired loans and based on its past loss experience for portfolios of loans for which no indications of impairment has been identified.

Loan impairment results from one or more events that occurred after the initial recognition of the loan and that have an impact on the estimated future cash flows associated with the loan, and which can be reliably estimated.

The objective indicators of loan impairment include the following:

- overdue payments under the loan agreement
- significant difficulties in the financial conditions of the borrower
- deterioration in business environment, negative changes in the borrower's markets

Individually assessed allowances

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

(In thousands of Russian Rubles, unless otherwise indicated)

34 Risk management (continued)

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet its commitments. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of financial institutions. It is unusual for financial institutions 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 Group maintains liquidity management with the objective of ensuring that funds will be available at all times to honor all cash flow obligations as they become due. The Group's liquidity policy is reviewed and approved by the Management Board.

The Group seeks to actively support a diversified and stable funding base comprising longterm and shortterm loans from other banks, core corporate and retail customer deposits, accompanied by diversified portfolios of highly liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The liquidity management policy of the Group requires:

- projecting cash flows by major currencies and considering the level of liquid assets necessary in relation thereto;
- maintaining a diverse range of funding sources;
- managing the concentration and profile of debts;
- maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any interruption to cash flow;
- maintaining liquidity and funding contingency plans;
- monitoring balance sheet liquidity ratios against regulatory requirements.

The Treasury Department receives information from business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. The Treasury Department then provides for an adequate portfolio of shortterm liquid assets to be maintained, largely made up of shortterm liquid trading securities, loans to banks and other interbank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole.

The daily liquidity position is monitored and regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions is performed by the Treasury Department. Decisions on the Group's liquidity management are made by the Asset and Liability Management Committee and implemented by the Treasury Department.

The Bank also calculates mandatory liquidity ratios on a daily basis in accordance with the requirement of the Central Bank of Russia. The Bank is in compliance with these ratios during the years ended 31 December 2011 and 2010.

The following tables show the undiscounted cash flows on the Group's financial liabilities, guarantees and unrecognized loan commitments on the basis of their earliest possible contractual maturity. The total gross inflow and outflow disclosed in the table is the contractual, undiscounted cash flow on the financial asset, liability or commitment. The Group's expected cash flows on these financial liabilities and unrecognized loan commitments may vary significantly from this analysis:

	Demand and less than 1 month	*From 1 to 3 months*	*From 3 months to 1 year*	*From 1 to 5 years*	*More than 5 years*	*Total gross amount outflow*	*Carrying amount*
Financial liabilities							
As at 31 December 2011							
Amounts due to the CBR	3,060,517	–	–	–	–	3,060,517	3,055,507
Deposits and balances from banks	998,159	11,992	98,077	161,084	–	1,269,312	1,242,465
Current accounts and deposits from customers	9,517,261	4,830,755	6,222,981	27,313,046	–	47,884,043	42,618,037
Promissory notes	176,432	107,701	784,988	800,114	3,000	1,872,235	1,647,496
Subordinated debt	11,408	6,372	28,675	152,931	873,334	1,072,720	868,567
Other liabilities	59,815	439,142	–	–	–	498,957	498,957
Total financial liabilities	**13,823,592**	**5,395,962**	**7,134,721**	**28,427,175**	**876,334**	**55,657,784**	**49,931,029**
Credit related commitments	**450,353**	**492,707**	**823,147**	**697,979**	–	**2,464,186**	**2,464,186**

(In thousands of Russian Rubles, unless otherwise indicated)

34 Risk management (continued)

Liquidity risk (continued)

	Demand and less than 1 month	*From 1 to 3 months*	*From 3 months to 1 year*	*From 1 to 5 years*	*More than 5 years*	*Total gross amount outflow*	*Carrying amount*
Financial liabilities							
As at 31 December 2010							
Deposits and balances from banks	4,506,667	6,089	23,296	30,997	–	4,567,049	4,554,283
Current accounts and deposits from customers	9,569,966	3,383,679	12,219,916	7,948,680	4	33,122,245	31,040,694
Promissory notes	102,034	249,339	1,145,673	779,921	3,000	2,279,967	1,990,280
Subordinated debt	3,016	6,032	27,143	144,765	909,452	1,090,408	808,486
Other liabilities	88,981	363,126	–	–	–	452,107	452,107
Total financial liabilities	**14,270,664**	**4,008,265**	**13,416,028**	**8,904,363**	**912,456**	**41,511,776**	**38,845,850**
Credit related commitments	**330,031**	**286,999**	**1,312,508**	**714,099**	**–**	**2,643,637**	**2,643,637**

The following table shows monetary assets and liabilities by remaining contractual maturity dates as at 31 December 2011:

	Less than 1 month RUR'000	*1 to 3 months RUR'000*	*3 months to 1 year RUR'000*	*Less than 1 year RUR'000*	*1 to 5 years RUR'000*	*More than 5 years RUR'000*	*More than 1 year RUR'000*	*No maturity and overdue RUR'000*	*Total RUR'000*
Assets									
Cash and cash equivalents	4,338,044	–	–	**4,338,044**	–	–	**–**	–	**4,338,044**
Mandatory cash balances with the Central Bank of the Russian Federation	523,088	–	–	**523,088**	–	–	**–**	–	**523,088**
Placements with banks	4,602	8,498	34,786	**47,886**	27,128	–	27,128	–	**75,014**
Financial instruments at fair value through profit or loss Held by the Group	9,954,669	–	–	**9,954,669**	–	–	**–**	–	**9,954,669**
Pledged under sale and repurchase agreements	4,392,817	–	–	**4,392,817**	–	–	**–**	–	**4,392,817**
Loans to customers	1,943,776	3,430,604	13,024,879	**18,399,259**	15,199,226	167,927	**15,367,153**	1,016,524	**34,782,936**
Investment in associates	–	–	–			–		5,880	**5,880**
Other assets	419,591	13,699	51,693	**484,983**	24,795	–	**24,795**		**509,778**
Total assets	**21,576,587**	**3,452,801**	**13,111,358**	**38,140,746**	**15,251,149**	**167,927**	**15,419,076**	**1,022,404**	**54,582,226**
Liabilities									
Amounts due to the CBR	3,055,507	–	–	**3,055,507**	–	–	–	–	**3,055,507**
Deposits and balances from banks	996,780	11,470	90,726	**1,098,976**	143,489	–	**143,489**	–	**1,242,465**
Current accounts and deposits from customers	9,500,374	4,732,644	5,911,494	**20,144,512**	22,473,525	–	**22,473,525**	–	**42,618,037**
Promissory notes	175,433	106,295	734,321	**1,016,049**	629,941	1,506	**631,447**	–	**1,647,496**
Subordinated debt	–	–	–	**–**	–	868,567	**868,567**	–	**868,567**
Other liabilities	59,815	439,142	–	**498,957**	–	–	–	–	**498,957**
Total liabilities	**13,787,909**	**5,289,551**	**6,736,541**	**25,814,001**	**23,246,955**	**870,073**	**24,117,028**	**–**	**49,931,029**
Net position as at 31 December 2011	**7,788,678**	**(1,836,750)**	**6,374,817**	**12,326,745**	**(7,995,806)**	**(702,146)**	**(8,697,952)**	**1,022,404**	**4,651,197**
Cumulative gap as at 31 December 2011	**7,788,678**	**5,951,928**	**12,326,745**	**12,326,745**	**4,330,939**	**3,628,793**	**3,628,793**	**4,651,197**	**–**
Credit related commitments	**450,353**	**492,707**	**823,147**	**1,766,207**	**697,979**	**–**	**697,979**	**–**	**2,464,186**

(In thousands of Russian Rubles, unless otherwise indicated)

34 Risk management (continued)

Liquidity risk (continued)

The following table shows monetary assets and liabilities by remaining contractual maturity dates as at 31 December 2010.

	Less than 1 month RUR'000	*1 to 3 months RUR'000*	*3 months to 1 year RUR'000*	*Less than 1 year RUR'000*	*1 to 5 years RUR'000*	*More than 5 years RUR'000*	*More than 1 year RUR'000*	*No maturity and overdue RUR'000*	*Total RUR'000*
Assets									
Cash and cash equivalents	5,318,321	–	–	**5,318,321**	–	–	**–**	–	**5,318,321**
Mandatory cash balances with the Central Bank of the Russian Federation	220,181	–	–	**220,181**	–	–	**–**	–	**220,181**
Placements with banks	–	–	100,613	**100,613**	–	–	**–**	–	**100,613**
Financial instruments at fair value through profit or loss									
Held by the Group	7,920,383	–	–	**7,920,383**	–	–	**–**	–	**7,920,383**
Pledged under sale and repurchase agreements	5,779,772	–	–	**5,779,772**	–	–	**–**	–	**5,779,772**
Loans to customers	1,799,183	2,571,774	8,156,017	**12,526,974**	8,310,280	190,521	**8,500,801**	715,210	**21,742,985**
Other assets	390,594	16,008	130,444	**537,046**	33,355	–	**33,355**	–	**570,401**
Total assets	**21,428,434**	**2,587,782**	**8,387,074**	**32,403,290**	**8,343,635**	**190,521**	**8,534,156**	**715,210**	**41,652,656**
Liabilities									
Deposits and balances from banks	4,497,965	8,238	20,908	**4,527,111**	27,172	–	**27,172**	–	**4,554,283**
Current accounts and deposits from customers	9,558,381	3,336,520	11,473,660	**24,368,561**	6,672,129	4	**6,672,133**	–	**31,040,694**
Promissory notes	152,785	193,688	1,046,900	**1,393,373**	595,487	1,420	**596,907**	–	**1,990,280**
Subordinated debt	–	–	–	**–**	–	808,486	**808,486**	–	**808,486**
Other liabilities	88,981	363,126	–	**452,107**	–	–	**–**	–	**452,107**
Total liabilities	**14,298,112**	**3,901,572**	**12,541,468**	**30,741,152**	**7,294,788**	**809,910**	**8,104,698**	**–**	**38,845,850**
Net position as at 31 December 2010	**7,130,322**	**(1,313,790)**	**(4,154,394)**	**1,662,138**	**1,048,847**	**(619,389)**	**429,458**	**715,210**	**2,806,806**
Cumulative gap as at 31 December 2010	**7,130,322**	**5,816,532**	**1,662,138**	**1,662,138**	**2,710,985**	**2,091,596**	**2,091,596**	**2,806,806**	**–**
Credit related commitments	**330,031**	**286,999**	**1,312,508**	**1,929,538**	**714,099**	**–**	**714,099**	**–**	**2,643,637**

The amounts in the tables above represent carrying amounts of the assets and liabilities as at the reporting date and do not include future interest payments.

The above table shows assets and liabilities of the Group by their remaining contractual maturity as at 31 December 2011 and 2010, with the exception of securities included into financial instruments at fair value through profit or loss as at 31 December 2011 and 2010. As at 31 December 2011 and 2010 securities included into financial instruments at fair value through profit or loss are shown in the category "Less than 1 month", because as at that date the Group's management believed that all of these financial instruments could be sold within one month in the normal course of business or were able to be used as collateral for loans from the CBR.

In accordance with Russian legislation, term deposits of individuals may be withdrawn before maturity. However Management believes that in spite of this early withdrawal option and the fact that a substantial portion of customer accounts are on demand, diversification of these customer accounts and deposits by number and type of depositors, and the past experience of the Group indicates that these customer accounts provide a long-term and stable source of funding for the Group.

The Group has undrawn lines of credit with the CBR. Accordingly, the Group in its liquidity forecasts estimates that the liquidity gaps in the table below will be sufficiently covered by the continued retention of current accounts and deposits from customers, as well as the undrawn credit line facilities from the CBR.

(In thousands of Russian Rubles, unless otherwise indicated)

35. 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 or exercise significant influence over the other party in making financial or operational decisions as defined by International Financial Reporting Standard IAS 24 *Related Party Disclosures*. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Total remuneration included in employee compensation (refer Note 13):

	2011 RUR'000	*2010 RUR'000*
Members of the Board of Directors	96,523	109,274
Other key management personnel	48,832	67,911
	145,355	**177,185**

The outstanding balances as at 31 December 2011 with related parties are as follows:

	Participants of Parent Group RUR'000	*Key management personnel RUR'000*	*Other related parties RUR'000*	*Total RUR'000*
Loans outstanding at 1 January, gross	**483,997**	**63,897**	**64,020**	**611,914**
Loans issued during the year	786,096	280,476	607,515	**1,674,087**
Loan repayments during the year	(770,036)	(290,698)	(462,471)	**(1,523,205)**
Other movements	–	8,116	191,158	**199,274**
Loans outstanding at 31 December, gross	**500,057**	**61,791**	**400,222**	**962,070**
Less: allowance for impairment at 31 December	–	(1,490)	(3,061)	**(4,551)**
Loans outstanding at 31 December, net	**500,057**	**60,301**	**397,161**	**957,519**
Deposits at 1 January	**288,365**	**9,777**	**210,780**	**508,922**
Deposits received during the year	557,976	40,071	7,045	**605,092**
Deposits repaid during the year	(585,114)	(5,993)	–	**(591,107)**
Other movements	55,667	1,384	29,194	**86,245**
Deposits at 31 December	**316,894**	**45,239**	**247,019**	**609,152**
Current accounts at 31 December	**136**	**12,363**	**27,719**	**40,218**
Guarantees received	–	659,612	2,433,024	**3,092,636**

The outstanding balances as at 31 December 2010 with related parties are as follows:

	Participants RUR'000	*Key management personnel RUR'000*	*Other RUR'000*	*Total RUR'000*
Loans outstanding at 1 January, gross	**363,066**	**14,757**	**82,756**	**460,579**
Loans issued during the year	1,507,903	129,414	43,580	**1,680,897**
Loan repayments during the year	(1,364,727)	(77,586)	(62,316)	**(1,504,629)**
Other movements	(22,245)	(2,688)	–	**(24,933)**
Loans outstanding at 31 December, gross	**483,997**	**63,897**	**64,020**	**611,914**
Less: allowance for impairment at 31 December	–	(200)	(768)	**(968)**
Loans outstanding at 31 December, net	**483,997**	**63,697**	**63,252**	**610,946**
Deposits at 1 January	**–**	**103,223**	**216,989**	**320,212**
Deposits received during the year	338,406	9,340	292,899	**640,645**
Deposits repaid during the year	(56,074)	(102,824)	(308,175)	**(467,073)**
Other movements	6,033	38	9,067	**15,138**
Deposits at 31 December	**288,365**	**9,777**	**210,780**	**508,922**
Current accounts at 31 December	**1,270**	**23,554**	**21,488**	**46,312**
Guarantees received	–	6,605	102,265	**108,870**

(In thousands of Russian Rubles, unless otherwise indicated)

35 Related party transactions (continued)

Amounts included in the consolidated income statement for 2011 in relation to transactions with the related parties are as follows:

	Participants RUR'000	*Key management personnel RUR'000*	*Other RUR'000*	*Total RUR'000*
Interest income	35,695	4,703	44,511	**84,909**
Interest expense	(30,922)	(2,379)	(15,102)	**(48,403)**
Provision for loans impairment	–	(1,290)	(2,293)	**(3,583)**
Fee and commission income	46	752	426	**1,224**
Other income	–	1	56	**57**
General administrative expenses	(3,077)	(185)	–	**(3,262)**

Amounts included in the consolidated income statement for 2010 in relation to transactions with the related parties are as follows:

	Participants RUR'000	*Key management personnel RUR'000*	*Other RUR'000*	*Total RUR'000*
Interest income	47,748	929	12,050	**60,727**
Interest expense	(6,208)	(779)	(14,065)	**(21,052)**
Provision for loans impairment	–	11	225	**236**
Fee and commission income	60	229	195	**484**
Other income	–	2	–	**2**
General administrative expenses	–	(2,641)	(102)	**(2,743)**

36. Fair value of financial instruments

The following disclosure of the estimated fair value of financial instruments is made in accordance with the requirements of IFRS 7 *Financial Instruments: Disclosures*. Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction other than in forced sale or liquidation. As no readily available market exists for a large part of the Group's financial instruments (specifically extended loans) at which such financial assets would be traded on a regular basis, judgment is necessary in arriving at fair value based on current economic conditions and the specific risks attributable to a given instrument. The estimates presented herein are not necessarily indicative of the amounts the Group could realize in a market exchange from the sale of its full holdings of a particular instrument.

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

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

At 31 December 2011	*Level 1*	*Level 2*	*Level 3*	*Total*
Financial assets				
Financial instruments at fair value through profit or loss	12,068,376	2,195,490	83,620	**14,347,486**
	12,068,376	**2,195,490**	**83,620**	**14,347,486**

At 31 December 2010	*Level 1*	*Level 2*	*Level 3*	*Total*
Financial assets				
Financial instruments at fair value through profit or loss	12,467,897	927,131	305,127	**13,700,155**
	12,467,897	**927,131**	**305,127**	**13,700,155**

(In thousands of Russian Rubles, unless otherwise indicated)

36 Fair value of financial instruments (continued)

Financial instruments recorded at fair value

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

Financial assets at fair value through profit or loss

Trading securities valued using a valuation technique or pricing models primarily consist of unquoted equity and debt securities. These securities are valued using models which sometimes only incorporate data observable in the market and at other times use both observable and nonobservable data. The non-observable inputs to the models include assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry and geographical jurisdiction in which the investee operates.

Movements in level 3 financial instruments measured at fair value

The following tables show a reconciliation of the opening and closing amount of Level 3 financial assets which are recorded at fair value:

	At 1 January 2011	*Total gain/(loss) recorded in profit or loss*	*Total gains/ (losses) recorded in other comprehensive income*	*Business combination*	*Purchases*	*Sales*	*Settlements*	*Transfers to level 2*	*At 31 December 2011*
Financial assets									
Financial instruments at fair value through profit or loss	305,127	(11)	–	–	123,029	(39,921)	–	(305,127)	83,620
Total level 3 financial assets	**305,127**	**(11)**	**–**	**–**	**123,029**	**(39,921)**	**–**	**(305,127)**	**83,620**

During the year ended 31 December 2011, the Group transferred certain financial instruments from level 3 to level 2 of the fair value hierarchy. The carrying amount of the total assets transferred was RUB 305,127 thousand. The cumulative unrealised loss at the time of transfer was RUB 29,731 thousand. The securities were transferred from level 3 to level 2 based on occurrence of recent arm's length transactions with these securities which were used to estimate their fair value.

During the year ended 31 December 2011, the Group had no transfers of financial instruments from level 1 and level 2 to level 3 of the fair value hierarchy.

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

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

	2011 RUR'000	***2011 RUR'000***	***2011 RUR'000***	***2010 RUR'000***	***2010 RUR'000***	***2010 RUR'000***
	Carrying Value	***Fair Value***	***Unrecognised gain/(loss)***	***Carrying Value***	***Fair Value***	***Unrecognised gain/(loss)***
Assets						
Cash and cash equivalents	4,338,044	4,338,044	–	5,318,321	5,318,321	–
Mandatory reserves with the Central Bank of the Russian Federation	523,088	523,088	–	220,181	220,181	–
Placements with banks and other financial institutions	75,014	75,014	–	100,613	100,613	–
Loans to customers	34,782,936	35,183,551	400,615	21,742,985	22,015,455	272,470
Other assets	509,778	509,778	–	570,401	570,401	–
Liabilities						
Amounts due to the CBR	3,055,507	3,055,507	–			
Deposits and balances from banks	1,242,465	1,242,465	–	4,554,283	4,554,283	–
Current accounts and deposits from customers	42,618,037	42,558,959	59,078	31,040,694	31,467,467	(426,773)
Promissory notes	1,647,496	1,647,496	–	1,990,280	1,990,280	–
Subordinated debt	868,567	868,567	–	808,486	808,486	–
Other liabilities	498,957	498,957	–	452,107	452,107	–
			459,693			**(154,303)**

(In thousands of Russian Rubles, unless otherwise indicated)

36 Fair value of financial instruments (continued)

Financial assets at fair value through profit or loss (continued)

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements.

The following methods and assumptions are used by the Group to estimate the fair value of these financial instruments:

Cash and accounts with the Central Bank of Russia

The carrying value of cash and accounts with the CBR approximates their fair value due to relatively shortterm maturity of these financial instruments.

Amounts due from and to credit institutions

For financial assets and financial liabilities that are liquid or having a short term maturity (less than three month) it is assumed that the carrying amounts approximate to their fair value.

Loans and advances to customers

The estimate was made by discounting of scheduled future cash flows of the individual loans through the estimated maturity using prevailing market rates as of the respective year end.

Debt securities issued

Fair value of debt securities issued is assed based on the available market quotes of bonds issued at the year end.

Due to customers

The estimate was made by discounting of scheduled future cash flows of the term deposits through the estimated maturity using prevailing market rates as of the respective year end.

37. Events subsequent to the balance sheet date

On 12 January 2012, 24 January 2012 and 20 February 2012 at the extraordinary General meetings of participants it was decided to make distributions from the net profit earned for nine months of 2011. The total amount of declared distributions was RUR 576,746 thousand and made in proportion to units of participants. Distributions were made in February 2012.

38. Business combination and disposal of subsidiaries

Disposal of "ARKA" Group

During 2010 LLC ARKA, subsidiary of SovcomBank made the decision to decrease its charter capital without dilution of participants' shares and SovcomBank received buildings in the amount of RUR 307,275 thousand as exchange of investments in LLC ARKA in respect of this decision.

In April 2010 the Group announced its withdrawal from participation in LLC "ARKA". At the same time the Bank possessed the option on purchase 100% of LLC "ARKA", so the Group retained control of the Company and consolidated the company as of 31 December 2010. At 30 September 2011 the Group signed additional agreement confirming their intention not to use its option, thus the Group lost its control and deconsolidated the Company as of 31 December 2011.

(In thousands of Russian Rubles, unless otherwise indicated)

38. Business combination and disposal of subsidiaries (continued)

Disposal of "ARKA" Group (continued)

The disposal of the subsidiary had the following assets and liabilities at the date of disposal:

RUR'000	*Carrying amount at date of disposal*
Assets	
Cash and cash equivalents	7,406
Other assets	6,256
Total assets	**13,662**
Liabilities	
Other liabilities	9,902
Total liabilities	**9,902**
Net identifiable assets and liabilities	**3,760**

RUR'000	*Consideration received*	*Cash (outflow) Inflow*
Cash and cash equivalents	–	(7,406)
Total assets	**–**	**(7,406)**

Acquisition of LLC "SollersFinance"

In December 2010 the Group acquired 50% of LLC "SollersFinance" for a total consideration of RUR 273,500 thousand that represents RUR 105,000 thousand additional contribution to charter capital and purchase consideration of RUR 168,500 paid to the previous owner of the company.

LLC "SollersFinance" provides its customers with the leasing services for automobiles supplied by Sollers Group – another shareholder of the company, as well as construction and agricultural equipment. The wide range of leasing and credit programs allows providing customers with the most flexible and beneficial conditions for purchasing the equipment.

The acquisition of the LLC "SollersFinance" had the following effect on the Group's assets and liabilities at the date of acquisition:

	50% of assets and liabilities recognised at fair value on acquisition RUR'000
Assets	
Cash and cash equivalents	2,424
Loans to customers	364,606
Property, equipment and intangible assets	833
Other assets	49,963
Total assets	**417,826**
Liabilities	
Deposits and balances from banks	165,916
Other liabilities	16,813
Deferred tax liabilities	4,706
Total liabilities	**187,435**
Net identifiable assets and liabilities	**230,391**
Goodwill (Note 39)	43,109
Consideration paid	(273,500)
Cash and cash equivalents acquired	2,424
Net cash outflow	**(271,076)**

(In thousands of Russian Rubles, unless otherwise indicated)

39. Goodwill

Goodwill acquired through business combinations with indefinite lives have been allocated to two individual cash-generating units for impairment testing as follows:

- Retail Banking; and
- Retail Leasing.

The carrying amount and movements of goodwill allocated to each of the cash-generating units is as follows:

	Retail banking RUR'000	*Retail leasing RUR'000*	*Total RUR'000*
Goodwill as at 31 December 2010	407,478	43,109	**450,587**
Goodwill as at 31 December 2011	**407,478**	**43,109**	**450,587**

	Retail banking business RUR'000	*Retail leasing business RUR'000*	*Total RUR'000*
Goodwill as at 31 December 2009	407,478	–	**407,478**
Acquired in business combination	–	43,109	**43,109**
Goodwill as at 31 December 2010	**407,478**	**43,109**	**450,587**

Management performed an impairment assessment in respect of the goodwill and concluded there was no impairment. A value in use assessment was performed by management to assess for impairment. Projected cash flows are based on management approved budgets over a three year period and a 20% discount rate is used.

40. Capital adequacy

The Group maintains and actively managed capital base to cover risks inherent in the business. The adequacy of the Group's capital is monitored using, among other measures, the ratios established by the Basel Capital Accord 1988 and the ratios established by the CBR in supervising the Group.

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

In accordance with the Basel Capital Accord 1988 regulatory capital consist of Tier 1 capital, which comprises charter capital, retained earnings, including current year profit, less goodwill. The other component of regulatory capital is Tier 2 capital, which includes subordinated long term debt.

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

CBR capital adequacy ratio

The CBR requires banks to maintain a capital adequacy ratio of 10% of risk-weighted assets, computed based on RAL. As of 31 December 2011 and 2010, the Bank's capital adequacy ratio on this basis was as follows:

	2011	***2010***
Main capital	3,485,458	4,174,778
Additional capital	2,598,913	575,556
Less: deductions from capital	–	–
Total capital	**6,084,371**	**4,750,334**
Risk weighted assets	**52,109,617**	**36,761,885**
Capital adequacy ratio	11.7%	12.9%

(In thousands of Russian Rubles, unless otherwise indicated)

40. Capital adequacy (continued)

Capital adequacy ratio under Basel Capital Accord 1988

The Group's capital adequacy ratio, computed in accordance with the Basel Capital Accord 1988, with subsequent amendments including the amendment to incorporate market risks, as of 31 December 2011 and 2010, comprised:

	31 December 2011	***31 December 2010***
Tier 1 capital	6,722,898	3,996,364
Tier 2 capital	868,567	808,486
Total capital	7,591,465	4,804,850
Risk weighted assets	**42,482,702**	**32,698,598**
Tier 1 capital ratio	15.8%	12.2%
Total capital ratio	17.9%	14.7%

41. Principal consolidated subsidiaries

Included in the table below is the list of the principal consolidated subsidiaries and joint ventures of the Group as at 31 December 2011 and 31 December 2010:

			Voting rights/ Equity owned
	Principal activity	***31 December 2011***	***31 December 2010***
Leasing			
LLC "Leasing Company Razvitie"	Leasing	100.00% (subsidiary)	100.00% (subsidiary)
LLC "Regionalnaya Lisingovaya Compania"	Leasing	100.00% (subsidiary)	100.00% (subsidiary)
LLC "SollersFinance"	Leasing	50.00% (joint venture)	50.00% (joint venture)
Retail lending			
LLC "ARKA"	Retail lending	–	100.00% (subsidiary)
LLC "BKA"	Retail lending	100.00% (subsidiary)	100.00% (subsidiary)
LLC "Kreditniy Ostrov "Primorye"	Retail lending	–	100.00% (subsidiary)
LLC "Avtozaim"	Retail lending	100.00% (special purpose entity)	–
OJSC "Kostromskoy ipotechniy operator"	Retail lending	49.00% (associate)	–