Sberbank of Russia

Consolidated Financial Statements and
Independent Auditors' Report

31 December 2011

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Independent auditors' report

To the Shareholders and Supervisory Board of Sberbank -

We have audited the accompanying consolidated financial statements of Sberbank and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2011, and the consolidated income statement, consolidated statements of comprehensive income, of changes in equity 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 the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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.

CJSC Ernst & Young Vneshaudit

27 March 2012

Consolidated Statement of Financial Position

In millions of Russian Roubles	Note	31 December 2011	31 December 2010
ASSETS			
Cash and cash equivalents	7	625 565	719 601
Mandatory cash balances with central banks		101 205	51 678
Trading securities	8	101 973	66 168
Securities designated at fair value through profit or loss	9	51 993	106 875
Due from other banks		35 097	13 035
Loans and advances to customers	10	7 719 700	5 489 387
Securities pledged under repurchase agreements	11	300 839	81 493
Investment securities available for sale	12	884 529	1 210 921
Investment securities held to maturity	13	286 516	358 191
Deferred income tax asset	27	7 823	7 518
Premises and equipment	14	359 903	283 756
Other financial assets	15	163 120	115 436
Other non-financial assets	15	196 836	124 468
TOTAL ASSETS		**10 835 099**	**8 628 527**
LIABILITIES			
Due to other banks	16	532 385	134 668
Due to individuals	17	5 726 319	4 834 459
Due to corporate customers	17	2 205 814	1 816 672
Debt securities in issue	18	268 707	272 699
Other borrowed funds	19	244 020	171 255
Deferred income tax liability	27	21 207	15 921
Other financial liabilities	20	222 785	49 174
Other non-financial liabilities	20	42 373	42 999
Subordinated debt	21	303 518	303 513
TOTAL LIABILITIES		**9 567 128**	**7 641 360**
EQUITY			
Share capital	22	87 742	87 742
Treasury shares	22	(6 962)	-
Share premium		232 553	232 553
Revaluation reserve for office premises		81 527	53 648
Fair value reserve for investment securities available for sale		(7 459)	24 431
Foreign currency translation reserve		(5 692)	(1 136)
Retained earnings		882 766	585 819
Total equity attributable to shareholders of the Bank		**1 264 475**	**983 057**
Non-controlling interest		3 496	4 110
TOTAL EQUITY		**1 267 971**	**987 167**
TOTAL LIABILITIES AND EQUITY		**10 835 099**	**8 628 527**

Approved for issue and signed on behalf of the Management Board on 27 March 2012.

Herman Gref, Chairman of the Management Board and CEO

Andrey Kruzhalov, Chief Accountant

SBERBANK

Consolidated Income Statement

In millions of Russian Roubles	Note	Year ended 31 December 2011	2010
Interest income	23	850 624	795 646
Interest expense	23	(269 521)	(299 825)
Expenses directly attributable to deposit insurance		(20 077)	(16 718)
Net interest income		**561 026**	**479 103**
Net recovery of provision/(net provision charge) for loan impairment	10	1 193	(153 809)
Net interest income after recovery of provision/provision charge for loan impairment		**562 219**	**325 294**
Fee and commission income	24	151 876	130 949
Fee and commission expense	24	(11 242)	(7 375)
Net (losses)/gains arising from trading securities		(1 397)	4 770
Net (losses)/gains arising from securities designated at fair value through profit or loss		(2 810)	9 642
Net gains arising from investment securities available for sale		12 109	9 597
Impairment of investment securities available for sale	12	(1 095)	(39)
Net gains arising from trading in foreign currencies, operations with foreign currency derivatives and foreign exchange translation	25	9 526	14 072
Net gains arising from operations with precious metals and precious metals derivatives		5 072	570
Net gains arising from operations with other derivatives		5 060	1 793
Net losses from revaluation of office premises	14	(11 297)	-
Goodwill impairment	15	(1 209)	(917)
Provision charge for impairment of other assets	15	(1 859)	(6 437)
Other operating income		29 071	14 117
Operating income		**744 024**	**496 036**
Operating expenses	26	(348 343)	(265 901)
Profit before tax		**395 681**	**230 135**
Income tax expense	27	(79 739)	(48 487)
Profit for the year		**315 942**	**181 648**
Attributable to:			
- shareholders of the Bank		316 195	182 131
- non-controlling interest		(253)	(483)
Earnings per ordinary share for profit attributable to the shareholders of the Bank, basic and diluted (expressed in RR per share)	**28**	**14.61**	**8.42**

Approved for issue and signed on behalf of the Management Board on 27 March 2012.

Herman Gref, Chairman of the Management Board and CEO

Andrey Kruzhalov, Chief Accountant

SBERBANK

Consolidated Statement of Comprehensive Income

In millions of Russian Roubles	Note	Year ended 31 December 2011	2010
Profit for the year recognised in the income statement		**315 942**	**181 648**
Components of other comprehensive income:			
Office premises remeasurement:			
- Gains from revaluation of office premises	14	36 874	-
Investment securities available for sale:			
- Net (losses)/gains on revaluation of investment securities available for sale		(28 816)	40 823
- Impairment of investment securities available for sale transferred to Income statement	12	1 095	39
- Accumulated gains transferred to Income statement upon disposal of securities		(12 109)	(9 597)
Net foreign currency translation (losses)/gains		(4 657)	(152)
Deferred income tax relating to components of other comprehensive income:			
- Office premises remeasurement	27	(7 273)	39
- Investment securities available for sale	27	7 947	(6 236)
Total components of other comprehensive income for the year, net of tax		**(6 939)**	**24 916**
Total comprehensive income for the year		**309 003**	**206 564**
Attributable to:			
- shareholders of the Bank		309 350	207 072
- non-controlling interest		(347)	(508)

Consolidated Statement of Changes in Equity

		Attributable to shareholders of the Bank									
In millions of Russian Roubles	Note	Share capital	Treasury shares	Share premium	Revaluation reserve for office premises	Fair value reserve for investment securities available for sale	Foreign currency translation reserve	Retained earnings	Total	Non-controlling interest	Total equity
Balance as at 1 January 2010		**87 742**	**-**	**232 553**	**55 540**	**(598)**	**(1 009)**	**403 934**	**778 162**	**774**	**778 936**
Changes in equity for the year ended 31 December 2010											
Dividends declared	29	-	-	-	-	-	-	(2 177)	(2 177)	-	(2 177)
Amortisation of revaluation reserve for office premises, net of tax		-	-	-	(1 931)	-	-	1 931	-	-	-
Business combinations		-	-	-	-	-	-	-	-	4 211	4 211
Acquisition of non-controlling interests in subsidiaries		-	-	-	-	-	-	-	-	(367)	(367)
Total comprehensive income recognised for the year ended 31 December 2010		-	-	-	39	25 029	(127)	182 131	207 072	(508)	206 564
Balance as at 31 December 2010		**87 742**	**-**	**232 553**	**53 648**	**24 431**	**(1 136)**	**585 819**	**983 057**	**4 110**	**987 167**
Changes in equity for the year ended 31 December 2011											
Dividends declared	29	-	-	-	-	-	-	(21 010)	(21 010)	-	(21 010)
Amortisation of revaluation reserve for office premises, net of tax		-	-	-	(1 722)	-	-	1 722	-	-	-
Business combinations		-	(6 962)	-	-	-	-	-	(6 962)	(167)	(7 129)
Acquisition of non-controlling interests in subsidiaries		-	-	-	-	-	-	40	40	(100)	(60)
Total comprehensive income recognised for the year ended 31 December 2011		-	-	-	29 601	(31 890)	(4 556)	316 195	309 350	(347)	309 003
Balance as at 31 December 2011		**87 742**	**(6 962)**	**232 553**	**81 527**	**(7 459)**	**(5 692)**	**882 766**	**1 264 475**	**3 496**	**1 267 971**

Consolidated Statement of Cash Flows

In millions of Russian Roubles	Note	2011	2010
Cash flows from operating activities			
Interest received		826 551	809 556
Interest paid		(231 656)	(250 681)
Fees and commissions received		152 177	130 669
Fees and commissions paid		(10 709)	(7 140)
Net gains received from trading securities		431	1 040
Net gains received from securities designated at fair value through profit or loss		217	4 505
Net gains received / (losses incurred) from trading in foreign currencies and from operations with foreign currency derivatives		2 127	(14 516)
Net gains received from operations with other derivatives		1 523	2 944
Net gains received from operations with precious metals and precious metals derivatives		6 979	928
Other operating income received		74 691	12 267
Operating expenses paid		(372 522)	(240 549)
Income tax paid		(71 752)	(48 249)
Cash flows from operating activities before changes in operating assets and liabilities		**378 057**	**400 774**
Changes in operating assets and liabilities			
Net increase in mandatory cash balances with central banks		(49 572)	(10 195)
Net decrease in trading securities		14 181	28 436
Net decrease in securities designated at fair value through profit or loss		41 516	24 532
Net increase in due from other banks		(26 631)	(2 948)
Net increase in loans and advances to customers		(2 163 308)	(807 732)
Net increase in other assets		(39 897)	(75 956)
Net increase in due to other banks		384 458	130 062
Net increase in due to individuals		869 840	1 044 458
Net increase in due to corporate customers		337 816	155 431
Net decrease in debt securities in issue		(19 150)	(4 672)
Net increase in other liabilities		28 437	29 597
Net cash (used in) / from operating activities		**(244 253)**	**911 787**
Cash flows from investing activities			
Purchase of investment securities available for sale		(852 637)	(1 835 415)
Proceeds from disposal and redemption of investment securities available for sale		1 122 763	1 178 645
Purchase of investment securities held to maturity		(98 739)	(94 636)
Proceeds from redemption of investment securities held to maturity		40 016	-
Acquisition of premises and equipment	14	(109 352)	(63 082)
Proceeds from disposal of investment property		(208)	-
Proceeds from disposal of premises and equipment including insurance payments		10 918	410
Acquisition of associates		(2)	(2 211)
Acquisition of subsidiaries		27 338	(994)
Proceeds from disposal of subsidiaries		726	-
Dividends received		3 504	1 414
Net cash from / (used in) investing activities		**144 327**	**(815 869)**
Cash flows from financing activities			
Other borrowed funds received		154 372	10 270
Redemption of other borrowed funds		(98 129)	(26 209)
Repayment of interest on other borrowed funds		(2 409)	(586)
Redemption of subordinated debt		-	(214 912)
Repayment of interest on subordinated debt		(19 518)	(28 992)
Funds received from loan participation notes issued under the MTN programme		27 896	167 920
Redemption of loan participation notes issued under the MTN programme		(22 896)	(1 590)
Repayment of interest on loan participation notes issued under the MTN programme		(8 913)	(3 332)
Acquisition of non-controlling interests in subsidiaries	37	(60)	(367)
Dividends paid	29	(20 951)	(2 205)
Net cash from / (used in) financing activities		**9 392**	**(100 003)**
Effect of exchange rate changes on cash and cash equivalents		**5 435**	**(1 835)**
Effect of inflation on cash and cash equivalents		**(8 937)**	**-**
Net decrease in cash and cash equivalents		**(94 036)**	**(5 920)**
Cash and cash equivalents at the beginning of the year		719 601	725 521
Cash and cash equivalents as at the end of the year	**7**	**625 565**	**719 601**

1 Introduction

These consolidated financial statements of Sberbank of Russia (Sberbank, “the Bank”) and its subsidiaries (together referred to as “the Group” or “Sberbank Group”) have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2011. Principal subsidiaries include foreign commercial banks and other Russian and foreign companies controlled by the Group. A list of principal subsidiaries included in these consolidated financial statements is disclosed in Note 37.

The Bank is an open joint stock commercial bank established in 1841 and operating in various forms since then. The Bank was incorporated and is domiciled in the Russian Federation. The Bank’s principal shareholder, the Central Bank of the Russian Federation (“Bank of Russia”), owns 60.3% of ordinary shares or 57.6% of the issued and outstanding shares as at 31 December 2011 (31 December 2010: 60.3% of ordinary shares or 57.6% of the issued and outstanding shares).

As at 31 December 2011 the Supervisory Board of the Bank is headed by the Chairman of the Bank of Russia. The Supervisory Board also includes representatives from the Bank’s other shareholders and independent directors. Two First Deputy Chairmen of the Bank of Russia are Deputy Chairmen of the Supervisory Board.

The Bank operates under a full banking license issued by the Bank of Russia since 1991. In addition, the Bank holds licenses required for trading and holding securities and engaging in other securities-related activities, including acting as a broker, a dealer, a custodian, and provision of asset management services. The Bank is regulated and supervised by the Bank of Russia and by the Federal Service for Financial Markets. The Group’s foreign banks and companies operate under the regulatory regimes of their respective countries.

The Group’s principal business activity is corporate and retail banking. This includes, but is not limited to, deposit taking and commercial lending in freely convertible currencies, local currencies of countries where the subsidiary banks operate and in Russian Roubles, support of clients’ export/import transactions, foreign exchange and securities trading. In December 2011 the Group obtained the control over the financial and operating policies of Troika Dialog Group Ltd. which will enable for the Group to develop further range of services provided to clients. Refer to Note 37. The Group’s operations are conducted in both Russian and international markets. As at 31 December 2011 the Group conducts its business in Russia through Sberbank with its network of 17 (31 December 2010: 17) regional head offices, 505 (31 December 2010: 522) branches and 18 727 (31 December 2010: 18 883) sub-branches, and through principal subsidiaries located in Russia such as CJSC Sberbank Leasing, LLC Sberbank Capital and some companies of Troika Dialog Group Ltd. The Group operates outside Russia through 4 banking subsidiaries, located in the Ukraine, Belarus, Kazakhstan and Switzerland, a branch office in India, representative offices in Germany and China and companies of Troika Dialog Group Ltd. located in the United States of America, the United Kingdom, Cyprus and certain other jurisdictions.

The actual headcount of the Group’s employees as at 31 December 2011 was 266 187 (31 December 2010: 262 779).

Registered address and place of business. The Bank’s registered address is: Vavilova str., 19, Moscow, Russian Federation.

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

2 Operating Environment of the Group

The Group primarily conducts its business in the Russian Federation. The Russian Federation continues economic reforms and development of its legal, tax and regulatory frameworks. The recent developments of the Russian government are focused on modernization of the Russian economy in order to improve its productivity and quality, increase the proportion of industries producing high-value-added products and services. 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.

During 2011 the development of the Russian economy was constrained by unstable economic environment in Europe and USA. Low or negative growth rates of developed economies characterised by substantial amounts of internal and external borrowings were the main global trends on international financial markets in 2011. As a result volatility on the Russian stock and currency market grew significantly during the year. Thus, in the second half of 2011 on the back of worsened economic conditions in Eurozone RUR/USD exchange rates grew from RR 28.1 per US Dollar in July 2011 to RR 32.2 per US Dollar as at the end of the year.

At the same time Russian economy recovery trend continued during 2011; GDP rate grew by 4.3% according to preliminary report of Federal government statistic service. Internal consumer and investment demand was the main driver for the growth. External demand decreased slightly due to global instability which led to decrease in export industries of the Russian economy. Real income of population stayed at almost the same level as in 2010.

Higher loan growth rate over deposit growth rate was the distinctive feature of the Russian economy in 2011 which led to lack of liquidity in the financial sector in the second part of the year.

Despite economic recovery trends there continues to be uncertainty regarding further economic growth in Russia, access to capital markets and cost of capital, which could negatively affect the Group’s future financial position, results of its operations and its business prospects. As the Russian economy is vulnerable to global economic slowdowns, there still remain the risks of fluctuations on the Russian financial markets.

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

3 Basis of Preparation and Significant Accounting Policies

Basis of Preparation. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) under the historical cost convention, as modified by the revaluation of office premises, investment property, available for sale financial assets and financial instruments at fair value through profit or loss.

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

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

Business combinations are accounted for using the acquisition method. For each business combination, the acquirer measures the non-controlling interest 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.

3 Basis of Preparation and Significant Accounting Policies (Continued)

Non-controlling interest is the interest in subsidiaries not held by the Group. Acquisition costs incurred are expensed. Non-controlling interest is presented within equity.

Goodwill is initially measured at cost being the excess of the aggregate of consideration transferred, any non-controlling interest in the acquiree and the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If the aggregate of consideration transferred, any non-controlling interest in the acquiree and the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree is lower than the fair value of the net assets of the subsidiary acquired, the difference ("gain from bargain purchase") is recognised in profit or loss. After initial recognition, goodwill is measured at cost less any accumulated impairment.

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

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

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition and includes transaction costs. Measurement at cost is only applicable to investments in equity instruments that do not have a quoted market price and whose fair value cannot be reliably measured, derivatives that are linked to and must be settled by delivery of such unquoted equity instruments and fixed assets except for office premises.

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

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair value is the current bid price for financial assets, current ask price for financial liabilities and the average of current bid and ask prices when the Group is both in short and long position for the financial instrument. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange or other institution and those prices represent actual and regularly occurring market transactions on an arm's length basis.

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

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

3 Basis of Preparation and Significant Accounting Policies (Continued)

The effective interest method is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. Premiums and discounts on variable interest instruments are amortised to the next interest repricing date except for premiums and discounts which reflect the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument.

The present value calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (refer to income and expense recognition policy).

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

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

Cash and cash equivalents. Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Cash and cash equivalents include interbank deposits and reverse sale and repurchase agreements with original maturity up to 30 days. Amounts, which relate to funds that are of a restricted nature, are excluded from cash and cash equivalents.

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

Precious metals. Physical precious metals and deposits in precious metals are recorded at the lower of cost and net realizable value on the reporting date.

Plastic cards settlements. Plastic cards settlements are accounted for on the accruals basis and are carried at amortised cost. Plastic cards settlements are recorded when the legal right to receive the payment or legal obligation to execute payment arise under the agreement.

Trading securities. Trading securities are securities, which are either acquired for generating a profit from short-term fluctuations in price or trader’s margin, or are securities on initial recognition included in a portfolio in which a pattern of short-term trading exists. The Group classifies securities into trading securities if it has an intention to sell them within a short period after purchase, i.e. within six months.

3 Basis of Preparation and Significant Accounting Policies (Continued)

Trading securities are carried at fair value. Interest earned on trading securities calculated using the effective interest rate method is accounted for in the consolidated income statement as interest income. Dividends are included in dividend income within other operating income when the Group's right to receive the dividend payment is established. Translation differences are included in Net foreign exchange translation gains. All other elements of the changes in the fair value and gains or losses on derecognition are recorded in the consolidated income statement as gains less losses arising from trading securities in the period in which they arise.

Securities designated at fair value through profit or loss. Securities designated at fair value through profit or loss are securities designated irrevocably, at initial recognition, into this category. Management designates securities into this category only if a group of financial assets is managed and its performance is evaluated on a fair value basis and information on that basis is regularly provided to and reviewed by the Group's key management personnel. Recognition and measurement of this category of financial assets is consistent with the above policy for trading securities.

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

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

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

A loan is considered past due when the borrower fails to make any payment due under the loan at the reporting date. In this case a past due amount is recognized as the aggregate amount of all amounts due from borrower under the respective loan agreement including accrued interest and commissions. As defined by the Group for the purposes of internal credit risk assessment, loans fall into the "non-performing" category when a principal and/or interest payment becomes more than 90 days overdue.

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

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

3 Basis of Preparation and Significant Accounting Policies (Continued)

Write-off of assets at amortised cost. Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined.

Impairment of loans and advances to legal entities. Estimating loan portfolio impairment provision for corporate loans involves the following steps:

- Identification of loans that are individually significant and contain signs of impairment, i.e., those loans, that, if fully impaired, would have a material impact on the Group's expected average level of operating income.
- Determination of whether an individually significant loan shows objective evidence of impairment. This requires estimating the expected timing and amount of cash flows from interest and principal payments and other cash flows, including amounts recoverable from guarantees and collateral, and discounting them at the loan's original effective interest rate. The loan is considered impaired if its carrying amount materially exceeds its estimated recoverable amount. A separate impairment loss is recorded on an individually significant impaired loan.
- All remaining loans and individually significant loans without objective evidence of impairment are assessed on a portfolio basis.

The Group applies the portfolio provisioning methodology prescribed by IAS 39, *Financial Instruments: Recognition and Measurement*, and creates portfolio provisions for impairment losses that were incurred but have not been specifically identified with any individual loan by the reporting date. Total impairment provisions may exceed the gross amount of individually impaired loans as a result of this methodology.

For the purposes of credit risk measurement and analysis the Group internally classifies loans depending on their quality. The quality of a corporate loan is monitored regularly on the basis of a comprehensive analysis of the borrower's financial position and includes analysis of liquidity, profitability and sufficiency of own funds. The capital structure, organisational structure, credit history and business reputation of the borrower are also taken into consideration. The Group takes into account the customer's position in the industry and the region, production equipment and level of the technology used as well as the general efficiency of management. Upon analysis corporate borrowers are assigned internal ratings and classes. For the purpose of collective assessment of not past due loans and advances the Group analyses loans of each class in terms of its historical loss and recovery rate separately for renegotiated and non-renegotiated loans. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods and to remove the effects of past conditions that do not exist currently. For the purpose of collective assessment of past due loans and advances Group analyses ageing of past due debts.

Impairment of loans and advances to individuals. For the purpose of credit quality analysis, loans to individuals are grouped by type of credit product into homogeneous sub-portfolios with similar risk characteristics. The Group analyses each portfolio by the ageing of past due debts.

Retail loans are deemed fully impaired when the principal and/or interest payment becomes more than 180 days overdue.

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

3 Basis of Preparation and Significant Accounting Policies (Continued)

Investment securities available for sale are carried at fair value. Interest income on available for sale securities is calculated using the effective interest method and recognised in profit or loss. Dividends on available-for-sale equity instruments are recognised in profit or loss in other operating income when the Group's right to receive payment is established and inflow of economic benefits is probable. Exchange differences arising on the settlement of debt investment securities available for sale or on translating of debt investment securities available for sale at rates different from those at which they were translated on initial recognition during the period or in previous financial statements is recognised in profit or loss in the period in which they arise. All other elements of changes in the fair value are recognised in other comprehensive income until the investment is derecognised or impaired, at which time the cumulative gain or loss is reclassified to profit or loss.

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

If the Group has both the intention and ability to hold investment securities available for sale to maturity, they may be reclassified as investment securities held to maturity. In this case the fair value of securities as at the date of reclassification becomes their new amortised cost. For instruments with a fixed maturity the revaluation reserve as at the date of reclassification is amortised to profit or loss during the period until maturity using the effective interest rate method.

Sale and repurchase agreements. Sale and repurchase agreements ("repo agreements") are treated as secured financing transactions. Securities sold under sale and repurchase agreements are not derecognised. The securities are not reclassified in the statement of financial position unless the transferee has the right by contract or custom to sell or repledge the securities, in which case they are reclassified as securities pledged under repurchase agreements. The corresponding liability is presented within amounts due to other banks or due to corporate customers.

Securities purchased under agreements to resell ("reverse repo agreements") are recorded as cash and cash equivalents, due from other banks or loans and advances to customers, in accordance with the nature of the counterparty and the term of the deal.

The difference between the sale and repurchase price is treated as interest income/expense and accrued over the life of repo agreements using the effective interest rate method.

Securities lent to counterparties are retained in the consolidated financial statements in their original statement of financial position category unless the counterparty has the right by contract or custom to sell or repledge the securities, in which case they are reclassified and presented separately. Securities borrowed are not recorded in the consolidated financial statements, unless these are sold to third parties, in which case the sale proceeds are recorded as a liability held for trading representing the obligation to repurchase and return the securities. The liability is carried at fair value with effects of remeasurement presented as gains less losses arising from trading securities in the consolidated income statement.

3 Basis of Preparation and Significant Accounting Policies (Continued)

Investment securities held to maturity. This classification includes quoted non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has both the intention and ability to hold to maturity. Management determines the classification of investment securities held to maturity at their initial recognition or upon reclassification from available for sale category when the Group changes its expectations and has the ability to hold investment securities which were previously classified as available for sale to maturity. The Investment securities held to maturity are carried at amortised cost.

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

Renegotiated financial assets. From time to time in the normal course of business the Group performs restructuring of financial assets, mostly of loans.

Accounting treatment of renegotiations which do not lead to derecognition of financial assets. If terms of an agreement are not materially modified, restructuring of financial instruments leads to reassessment of effective interest rate based on current carrying amount and modified future cash flows.

Accounting treatment of renegotiations which lead to derecognition of financial assets. Material modifications of agreement terms lead to derecognition of a financial asset and a recognition of a new asset at fair value. The following principal modifications in terms are considered to be material:

- Change of currency in which cash flows are denominated;
- Consolidation or separation of several financial instruments;
- Present value of the cash flows under the new terms discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial asset.

In both cases if the restructuring of financial assets is due to financial difficulties of a borrower, financial assets are assessed for impairment before recognition of a renegotiation.

Goodwill. Goodwill represents the excess of the aggregate of consideration transferred, any non-controlling interest in the acquiree and the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. Goodwill on acquisitions of subsidiaries is included in other assets or separately disclosed on the face of the statement of financial position if material. Goodwill on acquisitions of associates is included as part of investment in associates. Goodwill is carried at cost less accumulated impairment losses, if any. The Group tests goodwill for impairment at least annually and whenever there are indications that goodwill may be impaired. Goodwill is allocated to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the business combination. Such units or group of units represent the lowest level at which the Group monitors goodwill and are not larger than a segment before aggregation. Gains or losses on disposal of an operation within a cash generating unit to which goodwill has been allocated include the carrying amount of goodwill associated with the operation disposed of, generally measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit which is retained.

3 Basis of Preparation and Significant Accounting Policies (Continued)

Premises and equipment. Equipment and premises other than office premises are stated at cost less accumulated depreciation. Office premises of the Group are held at revalued amount subject to revaluation to market value on a regular basis. The revaluation gains are recognised in other comprehensive income. The frequency of revaluation depends upon the movements in the fair values of the premises being revalued. The revaluation reserve for office premises included in equity is transferred directly to retained earnings on a straight-line basis as the asset is used by the Group. On the retirement or disposal of the asset the remaining revaluation reserve is immediately transferred to the retained earnings.

Construction in progress is carried at cost, less provision for impairment where required. Upon completion, assets are transferred to office premises, other premises or equipment at their carrying amount. Construction in progress is not depreciated until the asset is available for use.

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

If impaired premises are written down to the higher of their value in use and fair value less costs to sell. The decrease in carrying amount is charged to profit or loss to the extent it exceeds the previous revaluation surplus in other comprehensive income.

Positive revaluation shall be recognised in profit or loss to the extent that it reverses a negative revaluation of the same asset previously recognised in profit or loss. The amount that exceeds negative revaluation previously charged to profit or loss shall be recognised in other comprehensive income.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss.

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

Office premises	2.5-3.3%;
Other premises	2.5%;
Office and computer equipment	25%; and
Vehicles and other equipment	18%.

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

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

Investment property is stated at fair value which reflects current market value and represents potential price between knowledgeable, willing parties in an arm's length transaction. Revaluation of investment property is held on each reporting date and recognised in consolidated income statement as gains/losses on investment property revaluation. Earned rental income is recorded in consolidated income statement within other operating income.

3 Basis of Preparation and Significant Accounting Policies (Continued)

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

If an investment property becomes owner-occupied, it is reclassified to premises and equipment, and its carrying value at the date of reclassification becomes its deemed cost to be subsequently revalued and depreciated.

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

Finance leases. A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Where the Group is a lessor lease receivables are recognised 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. The net investment in finance lease is recorded within loans and advances to customers.

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

Due to individuals and corporate customers. Amounts due to individuals and corporate customers are non-derivative liabilities to individuals and corporate customers (including state agencies) and are carried at amortised cost.

Debt securities in issue. Debt securities in issue include promissory notes, certificates of deposit, savings certificates and other debt securities issued by the Group. Debt securities in issue except structured notes which are described below are stated at amortised cost. If the Group repurchases its debt securities in issue, they are removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in other operating income.

Structured notes. Structured notes are issued by the Group and are stated at fair value. The underlying assets of structured notes are securities issued by Russian companies which cannot be purchased by the Group's foreign clients directly from the market. Structured notes are included in Debt securities in issue.

Other borrowed funds*.* Other borrowed funds represent syndicated loans attracted by the Group on financial markets and trade finance deals. Other borrowed funds are carried at amortised cost.

Securities sold, not yet purchased. Securities sold, not yet purchased are transactions in which the Group sells securities which it does not own, and which it is obligated to deliver at a future date. Such transactions are initially recorded at cost as liabilities and then are carried at fair value. Any unrealized gain or loss is recorded in the consolidated income statement in net gains from trading securities for the difference between the proceeds receivable from the sale and the value of the open short position. The Group realizes a gain or loss when the short position is closed. Valuation of securities sold, not yet purchased is consistent with the accounting policy of the Group for trading securities.

Subordinated debt. Subordinated debt represents long-term funds attracted by the Group on the international financial markets or domestic market. The holders of subordinated debt would be subordinate to all other creditors to receive repayment on debt in case of the Bank liquidation. Subordinated debt is carried at amortised cost.

3 Basis of Preparation and Significant Accounting Policies (Continued)

Derivative financial instruments. Derivative financial instruments, including forward and future contracts, option contracts on financial instruments and SWAP contracts are carried at their fair value. All derivative instruments are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of foreign exchange derivative financial instruments are included in the Consolidated income statement in net gains/(losses) arising from trading in foreign currencies, operations with foreign currency derivatives and foreign exchange translation; changes in the fair value of derivative financial instruments on precious metals are included in net gains/(losses) arising from operations with precious metals and precious metals derivatives; changes in the fair value of derivatives on securities, interest rates and other derivatives – in net gains/(losses) arising from operations with other derivatives. The Group does not apply “hedge accounting” according to IAS 39.

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

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxes, other than on income, are recorded within operating expenses.

Deferred income tax is recognised for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recognised for temporary differences on initial recognition of goodwill or any other asset or liability if the transaction, when initially recorded, affects neither accounting nor taxable profit.

Deferred tax balances are measured at tax rates enacted or substantively enacted at the reporting date which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group.

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

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

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

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

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

Preference shares. Preference shares are not redeemable. Dividend payments are at the discretion of the Bank. When a dividend is paid, the preference shares attract a minimum payment of annual dividends of 15% of their nominal value, subject to confirmation of the shareholders’ meeting. Preference shares are classified as a part of equity.

3 Basis of Preparation and Significant Accounting Policies (Continued)

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

Dividends. Dividends are recorded in equity in the period in which they are declared. Dividends declared after the reporting date and before the consolidated financial statements are authorised for issue are disclosed in the subsequent events note. The statutory accounting reports of the Bank are the basis for profit distribution and other appropriations.

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

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

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

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

Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, which are earned on execution of the underlying transaction are recorded on its completion. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-proportion basis. Trust and custody services fees related to investment funds are recorded proportionally over the period the service is provided.

Credit related commitments. The Group enters into credit related commitments, including letters of credit and financial guarantees. Financial guarantees represent irrevocable assurances to make payments in the event that a customer cannot meet its obligations to third parties and carry the same credit risk as loans. Financial guarantees and commitments to provide a loan are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitment, except for commitments to originate loans if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination; such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition.

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

3 Basis of Preparation and Significant Accounting Policies (Continued)

Monetary assets and liabilities are translated into each entity's functional currency at the applicable exchange rate at the respective reporting dates. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into each entity's functional currency are recognised in profit or loss. Effects of exchange rate changes on the fair value of equity instruments are recorded as part of the fair value gain or loss.

The results and financial position of each group entity (except for subsidiary bank in Belarus which economy is considered hyperinflationary) are translated into the presentation currency as follows:

(I) assets and liabilities for each statement of financial position presented are translated at the applicable closing rate at the respective reporting date;

(II) income and expenses for each statement of comprehensive income are translated either at the rates prevailing at the dates of the transactions or at average exchange rates (in case this average is a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates).

The results and financial position of subsidiary bank in Belarus which economy is considered hyperinflationary are translated into the presentation currency using the same methodology as for other subsidiaries except for the following:

(I) assets and liabilities of the statement of financial position as at 31 December 2011 are restated according to IAS 29 and IAS 22 (see below "Accounting for the effects of hyperinflation") and translated at the applicable closing rate for the year;

(II) income and expenses for the statement of comprehensive income for the year ended 31 December 2011 are translated at closing rate.

Exchange differences arising on the translation of results and financial position of each of the Group's consolidated entities are included in other components of comprehensive income and taken to a separate component of equity.

The cumulative balance of currency translation differences presented in equity at 31 December 2011 amounted to a loss of RR 5 692 million (31 December 2010: a loss of RR 1 136 million).

At 31 December 2011 the principal rates of exchange used for translating each entity's functional currency into the Group's presentation currency and foreign currency monetary balances were as follows:

	/RUR	/UAH	/BYR	/KZT
RUR/	1	0.250	259.348	4.611
USD/	32.196	8.038	8 350.001	148.455
EUR/	41.671	10.404	10 807.403	192.146

At 31 December 2010 the principal rates of exchange used for translating each entity's functional currency into the Group's presentation currency and foreign currency monetary balances were as follows:

	/RUR	/UAH	/BYR	/KZT
RUR/	1	0.261	98.039	4.836
USD/	30.477	7.961	2 987.941	147.387
EUR/	40.333	10.535	3 954.215	195.050

Accounting for the effects of hyperinflation. With the effect from 1 January 2011, the Belorussian economy is considered to be hyperinflationary in accordance with the criteria in IAS 29 *Financial Reporting in Hyperinflationary Economies* ("IAS 29"). The standard requires that the financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the reporting date.

3 Basis of Preparation and Significant Accounting Policies (Continued)

In applying IAS 29, the Group has used conversion factors derived from the Belorussian consumer price index ("CPI"), published by the State Committee on Statistics of the Republic of Belarus. The CPIs for the six year period and respective conversion factors after Belarus previously ceased to be considered hyperinflationary on 1 January 2006 were as follows:

Year	Index, %	Conversion factors
2006	106.6	320.8
2007	112.1	286.2
2008	113.3	252.6
2009	110.1	229.4
2010	109.9	208.7
2011	208.7	100.0

Monetary assets and liabilities are not restated because they are already expressed in terms of the monetary unit current as of 31 December 2011. Non-monetary assets and liabilities (items which are not already expressed in terms of the monetary unit current as of 31 December 2011) are restated by applying the relevant index. The effect of inflation on the Group's net monetary position is included in profit or loss.

Fiduciary assets. Assets and liabilities held by the Group in its own name, but on the account of third parties, are not reported on the consolidated statement of financial position. The extent of such balances and transactions is indicated in Note 32. For the purposes of disclosure, fiduciary activities do not encompass safe custody functions. Commissions received from fiduciary activities are shown in fee and commission income.

Assets under management. The Group has set up mutual investment funds and acts as the manager of their assets. The assets of these funds do not represent assets of the Group and therefore are not reported on the consolidated statement of financial position. The management fee income is recorded in the consolidated income statement within fee and commission income.

Contingent assets. Contingent assets are possible assets that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. Contingent assets are not recognised by the Group in its consolidated statement of financial position, but disclosed in the notes to the consolidated financial statements if inflow of economic benefits is probable.

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

Earnings per share. Preference shares are not redeemable and are not considered to be participating shares. Earnings per share are determined by dividing the profit or loss attributable to equity holders of the Bank by the weighted average number of ordinary shares outstanding during the reporting period, excluding treasury shares.

Staff costs and related contributions. Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid annual leave and sick leave, pensions, bonuses, and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the Group.

Segment reporting. The Group determined its operating segments on the basis of organizational structure of the Group and geographical areas. Operating segments are reported in a manner consistent with the internal reporting provided to the Management Board. Segments whose revenue, result or assets are 10% or more of all the segments are reported separately.

4 Critical Accounting Estimates and Judgements in Applying Accounting Policies

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

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

Also, the Group's management accounting system in some cases does not allow collecting all necessary information on incurred losses for certain groups of loans. Management uses estimates and incurred loss models for groups of loans with similar credit risk profile. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Held-to-maturity financial assets. Management applies judgement in assessing whether financial assets can be categorised as held-to-maturity, in particular (a) its intention and ability to hold the assets to maturity and (b) whether the assets are quoted in an active market. If the Group fails to keep these investments to maturity other than in certain specific circumstances – for example, selling an insignificant amount or settle a position close to maturity – it will be required to reclassify the entire class as available-for-sale. The investments would therefore be measured at fair value rather than amortised cost. For the estimated fair value of investment securities held to maturity as at 31 December 2011 refer to Note 34.

An active market exists if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Tax legislation. Russian tax, currency and customs legislation is subject to varying interpretations. Refer to Note 32.

Deferred income tax asset recognition. The recognised deferred tax asset represents income taxes recoverable through future deductions from taxable profits and is recorded in the statement of financial position. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. The future taxable profits and the amount of tax benefits that are probable in the future are based on management expectations that are believed to be reasonable under the circumstances.

Fair value of financial instruments. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price. The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. To the extent practical, models use only observable data, however certain areas require Management to make estimates. Changes in assumptions about these factors could affect reported fair values. The Russian Federation continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore sometimes not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

4 Critical Accounting Estimates and Judgments in Applying Accounting Policies (Continued)

Related party transactions. The Group's principal shareholder is the Bank of Russia (refer to Note 1). Disclosures are made in these consolidated financial statements for transactions with state-controlled entities and government bodies. Currently the Government of the Russian Federation does not provide to the general public or entities under its ownership/control a complete list of the entities which are owned or controlled directly or indirectly by the State. Judgement is applied by the Management in determining the scope of operations with related parties to be disclosed in the consolidated financial statements. Refer to Notes 35 and 36.

Revaluation of office premises. The Group regularly reviews the value of its office premises for compliance with fair value and performs revaluation to ensure that the current carrying amount of office premises does not materially differ from its fair value. Office premises have been revalued to market value at 31 December 2011. The revaluation was performed based on the reports of independent appraisers, who hold a recognised and relevant professional qualification and who have recent experience in valuation of assets of similar location and category. The basis used for the appraisal was market value. Revalued premises are depreciated in accordance with their remaining useful life since 1 January 2012.

Impairment of available-for-sale equity investments. The Group determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value of the investment below its cost. Determination of what is significant or prolonged requires judgement. In making this judgement, the Group evaluates among other factors, the volatility in share price. In addition, impairment may be appropriate when there is evidence of changes in technology or deterioration in the financial health of the investee, industry and sector performance, or operational or financing cash flows.

Changes in presentation and reclassifications. For an aggregate disclosure of mandatory reserves with central banks of foreign countries in which the Group operates, the presentation of the comparative figures has been adjusted to be consistent with the new presentation. The effect of changes on the consolidated statement of financial position as at 31 December 2010 is as follows:

In millions of Russian Roubles	**As previously reported**	**Reclassification**	**As reclassified**
Assets			
Mandatory cash balances with central banks	-	51 678	51 678
Other financial assets	116 582	(1 146)	115 436
Mandatory cash balances with the Bank of Russia	50 532	(50 532)	-

The effect of corresponding reclassifications on the consolidated statement of cash flows for the year ended 31 December 2010 is as follows:

In millions of Russian Roubles	**As previously reported**	**Reclassification**	**As reclassified**
Net increase in mandatory cash balances with central banks	-	(10 195)	(10 195)
Net increase in other assets	(76 191)	235	(75 956)
Net increase in mandatory cash balances with the Bank of Russia	(9 960)	9 960	-

4 Critical Accounting Estimates and Judgments in Applying Accounting Policies (Continued)

For a more detailed disclosure of loan participation notes issued under the MTN-programme and trade finance deals, the presentation of the comparative figures has been adjusted to be consistent with the new presentation. The effect of changes on the consolidated statement of financial position as at 31 December 2010 is as follows:

In millions of Russian Roubles	**As previously reported**	**Reclassification**	**As reclassified**
Liabilities			
Due to other banks	188 431	(53 763)	134 668
Debt securities in issue	119 426	153 273	272 699
Other borrowed funds	270 765	(99 510)	171 255

For a more detailed disclosure of interest expenses on loan participation notes and trade finance deals, the presentation of comparative figures have been adjusted to conform to the presentation of the current period amounts. The effect of reclassifications for the year ended 31 December 2010 is as follows:

In millions of Russian Roubles	**As previously reported**	**Reclassification**	**As reclassified**
Interest expense			
Debt securities in issue	(8 776)	(4 568)	(13 344)
Other borrowed funds	(5 950)	4 310	(1 640)
Term placements of other banks	(1 640)	258	(1 382)

The effect of corresponding reclassifications on the consolidated statement of cash flows for the year ended 31 December 2010 is as follows:

In millions of Russian Roubles	**As previously reported**	**Reclassification**	**As reclassified**
Other borrowed funds received	178 190	(167 920)	10 270
Redemption of other borrowed funds	(27 799)	1 590	(26 209)
Repayment of interest on other borrowed funds	(3 918)	3 332	(586)
Funds received from loan participation notes issued under the MTN programme	-	167 920	167 920
Redemption of loan participation notes issued under the MTN programme	-	(1 590)	(1 590)
Repayment of interest on loan participation notes issued under the MTN programme	-	(3 332)	(3 332)

4 Critical Accounting Estimates and Judgments in Applying Accounting Policies (Continued)

The Group has changed disclosure of expenses directly attributable to deposit insurance according to the substance of such expenses. The presentation of the comparative figures has been adjusted to be consistent with the new presentation. The effect of changes on the consolidated income statement as at 31 December 2010 is as follows:

In millions of Russian Roubles	As previously reported	Reclassification	As reclassified
Operating expenses			
State deposit insurance system membership fee	16 718	(16 718)	-
Consolidated Income Statement			
Expenses directly attributable to deposit insurance	-	16 718	16 718

5 Adoption of New or Revised Standards and Interpretations

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

Classification of Rights Issues – Amendment to IAS 32 (issued on 8 October 2009; effective for annual periods beginning on or after 1 February 2010). The amendment exempts certain rights issues of shares with proceeds denominated in foreign currencies from classification as financial derivatives.

Related Party Disclosures – Amendment to IAS 24 (issued in November 2009 and effective for annual periods beginning on or after 1 January 2011). IAS 24 was revised in 2009 by: (a) simplifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies; and by (b) providing a partial exemption from the disclosure requirements for government-related entities. Due to the amendment the Group changed the disclosure of operations with government-related entities. Refer to Note 36.

IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after 1 July 2010). This IFRIC clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished through the debtor issuing its own equity instruments to the creditor. A gain or loss is recognised in profit or loss based on the fair value of the equity instruments compared to the carrying amount of the debt.

Prepayments of a Minimum Funding Requirement – Amendment to IFRIC 14 (effective for annual periods beginning on or after 1 January 2011). This amendment will have a limited impact as it applies only to companies that are required to make minimum funding contributions to a defined benefit pension plan. It removes an unintended consequence of IFRIC 14 related to voluntary pension prepayments when there is a minimum funding requirement.

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

Improvements to International Financial Reporting Standards (issued in May 2010 and effective from 1 January 2011). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations:

- IFRS 3 was amended (i) to require measurement at fair value (unless another measurement basis is required by other IFRS standards) of non-controlling interests that are not present ownership interest or do not entitle the holder to a proportionate share of net assets in the event of liquidation, (ii) to provide guidance on acquiree's share-based payment arrangements that were not replaced or were voluntarily replaced as a result of a business combination and (iii) to clarify that the contingent considerations from business combinations that occurred before the effective date of revised IFRS 3 (issued in January 2008) will be accounted for in accordance with the guidance in the previous version of IFRS 3;
- IFRS 7 was amended to clarify certain disclosure requirements, in particular (i) by adding an explicit emphasis on the interaction between qualitative and quantitative disclosures about the nature and extent of financial risks, (ii) by removing the requirement to disclose carrying amount of renegotiated financial assets that would otherwise be past due or impaired, (iii) by replacing the requirement to disclose fair value of collateral by a more general requirement to disclose its financial effect, and (iv) by clarifying that an entity should disclose the amount of foreclosed collateral held at the reporting date and not the amount obtained during the reporting period;
- IAS 1 was amended to clarify that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements;
- IAS 27 was amended by clarifying the transition rules for amendments to IAS 21, 28 and 31 made by the revised IAS 27 (as amended in January 2008);
- and IFRIC 13 was amended to clarify measurement of fair value of award credits.

The above mentioned new or revised standards and interpretations effective from 1 January 2011 did not have a material impact on the accounting policies, financial position or performance of the Group unless otherwise stated.

6 New Accounting Pronouncements

Certain new standards and interpretations have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2012 or later periods and which the Group has not early adopted:

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 2015. 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.

6 New Accounting Pronouncements (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.

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.

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.

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). 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.

6 New Accounting Pronouncements (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.

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 the financial position and performance.

Deferred tax: Recovery of underlying assets – Amendment to IAS 12 (issued in December 2010 and effective for annual periods beginning on or after 1 January 2012). IAS 12 has been updated to include 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 and a requirement that deferred tax on non-depreciable assets, measured using the revaluation model in IAS 16, should always be measured on a sale basis.

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

Offsetting Financial Assets and Financial liabilities – Amendments to IAS 32 Financial Instruments: Presentation (issued in December 2011; effective for annual periods beginning on or after 1 January 2014, with retrospective application). These amendments clarify the meaning of "currently has a legally enforceable right to set-off" and also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous.

Disclosures — Offsetting Financial Assets and Financial liabilities – Amendments to IFRS 7 Financial instruments: Disclosures (issued in December 2011 and effective for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods, with retrospective application). These disclosures, which are similar to the new US GAAP requirements, would provide users with information that is useful in (a) evaluating the effect or potential effect of netting arrangements on an entity's financial position and (b) analysing and comparing financial statements prepared in accordance with IFRSs and US GAAP.

The Group is considering the implications of the new standards, the impact on the Group and the timing of their adoption by the Group.

7 Cash and Cash Equivalents

In millions of Russian Roubles	2011	2010
Cash on hand	438 699	297 956
Cash balances with the Bank of Russia (other than mandatory reserve deposits)	51 254	77 447
Correspondent accounts and placements with other banks with original maturities up to 30 days:	-	
- Russian Federation	25 247	142 417
- Other countries	88 618	167 287
Reverse-repo agreements with original maturities up to 30 days	21 747	34 494
Total cash and cash equivalents	**625 565**	**719 601**

At 31 December 2011 cash and cash equivalents of RR 21 747 million (2010: RR 34 494 million) are effectively collateralised by securities received under reverse sale and repurchase agreements at a fair value of RR 27 013 million (2010: RR 39 988 million), which the Group has a right to sell or repledge. None of these securities have been sold or repledged (2010: nil).

Correspondent accounts and placements with other banks and reverse-repo agreements with original maturities up to 30 days mostly represent balances with the largest and well-known foreign banks, top rated Russian banks and financial companies. Analysis by credit quality of the balances with counterparty banks and financial companies at 31 December 2011 made on the basis of ratings of international rating agencies is as follows:

In millions of Russian Roubles	Investment rating	Speculative rating	Not rated	Total
Correspondent accounts and placements with other banks with original maturities up to 30 days:				
- Russian Federation	7 058	3 728	14 461	25 247
- Other countries	69 581	18 162	875	88 618
Reverse-repo agreements with original maturities up to 30 days	1 727	16 139	3 881	21 747
Total correspondent accounts and placements with other banks and reverse-repo agreements with original maturity up to 30 days	**78 366**	**38 029**	**19 217**	**135 612**

Analysis by credit quality of the balances with counterparty banks and financial companies at 31 December 2010 made on the basis of ratings of international rating agencies is as follows:

In millions of Russian Roubles	Investment rating	Speculative rating	Not rated	Total
Correspondent accounts and placements with other banks with original maturities up to 30 days:				
- Russian Federation	137 890	1 478	3 049	142 417
- Other countries	142 242	19 991	5 054	167 287
Reverse-repo agreements with original maturities up to 30 days	-	1 461	33 033	34 494
Total correspondent accounts and placements with other banks and reverse-repo agreements with original maturity up to 30 days	**280 132**	**22 930**	**41 136**	**344 198**

7 Cash and Cash Equivalents (Continued)

Rating definitions in the tables above represent the rating scale developed by the international rating agencies.

As at 31 December 2011 and 31 December 2010 all cash and cash equivalents are neither past due nor impaired.

Currency and maturity analyses of cash and cash equivalents are disclosed in Note 31. The information on related party balances is disclosed in Notes 35 and 36.

8 Trading securities

In millions of Russian Roubles	**2011**	**2010**
Corporate bonds	26 564	14 931
Federal loan bonds (OFZ bonds)	25 980	32 037
Municipal and subfederal bonds	7 224	11 484
Russian Federation Eurobonds	6 277	2 935
Foreign government bonds	3 915	1 994
State domestic loan bonds (OVGVZ)	-	16
Total debt trading securities	**69 960**	**63 397**
Corporate shares	29 687	2 771
Investments in mutual funds	2 326	-
Total trading securities	**101 973**	**66 168**

Corporate bonds are interest-bearing securities denominated in Russian Roubles and foreign currencies, issued by large Russian and foreign companies. These bonds have maturity dates from January 2012 to April 2034 (2010: from February 2011 to September 2028), coupon rates from 4% to 19% p.a. (2010: from 5% to 18% p.a.) and yield to maturity from 2% to 36% p.a. (2010: from 3% to 18% p.a.), depending on the type of bond issue. As at 31 December 2011 corporate bonds are mostly represented by debt securities issued by banks, metallurgy, telecommunication and oil and gas companies. As at 31 December 2010 corporate bonds are mostly represented by debt securities issued by banks, metallurgy, oil and gas, telecommunication, energy and mining companies.

OFZ bonds are Russian Rouble denominated government securities issued by the Ministry of Finance of the Russian Federation. OFZ bonds have maturity dates from January 2012 to February 2036 (2010: from January 2011 to February 2036), coupon rates from 6% to 12% p.a. (2010: from 3% to 12% p.a.) and yield to maturity from 5% to 9% p.a. (2010: from 2% to 9% p.a.), depending on the type of bond issue.

Municipal and subfederal bonds are interest-bearing securities denominated in Russian Roubles and Euro and issued by municipal and subfederal bodies of the Russian Federation. These bonds have maturity dates from June 2012 to June 2017 (2010: from April 2011 to June 2022), coupon rates from 5% to 13% p.a. (2010: from 5% to 18% p.a.) and yield to maturity from 5% to 24% p.a. (2010: from 5% to 9% p.a.), depending on the type of bond issue.

Russian Federation Eurobonds are interest-bearing securities denominated in US Dollars, issued by the Ministry of Finance of the Russian Federation, and are freely tradable internationally. These bonds have maturity dates from April 2015 to March 2030 (2010: from July 2018 to March 2030), coupon rates from 4% to 13% p.a. (2010: from 5% to 13% p.a.) and yield to maturity from 3% to 8% p.a. (2010: from 5% to 6% p.a.), depending on the type of bond issue.

8 Trading Securities (Continued)

Foreign government bonds are interest-bearing securities denominated in Russian Roubles and foreign currencies, issued by foreign governments, and are freely tradable internationally. These bonds have maturity dates from December 2012 to March 2022 (2010: from December 2012 to March 2021), coupon rates from 5% to 11% p.a. (2010: from 6% to 9% p.a.) and yield to maturity from 6% to 23% p.a. (2010: from 4% to 19% p.a.), depending on the type of bond issue.

State domestic loan bonds (OVGVZ) are interest-bearing securities denominated in US Dollars and issued by the Ministry of Finance of the Russian Federation. As at 31 December 2010 the bonds had maturity date in May 2011 and carried an annual coupon of 3% p.a. and yield to maturity 2% p.a.

Investments in mutual funds are investments in mutual funds specialising in operations with property, shares, venture capital funds and stock market index fund, nominated in Russian Roubles and Ukranian Hryvnas.

As at 31 December 2011 corporate shares are mostly represented by quoted shares of large Russian oil and gas, chemical and metallurgy companies and banks. As at 31 December 2010 corporate shares are mostly represented by quoted shares of large Russian metallurgy and oil and gas companies.

Fair value of trading securities is based on their market quotations and valuation models with use of data both observable and not observable on the open market and reflects credit risk related write downs.

As trading securities are carried at fair value the Group does not analyse or monitor impairment indicators separately for these securities.

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

In millions of Russian Roubles	**Investment rating**	**Speculative rating**	**Not rated**	**Total**
Corporate bonds	8 975	9 231	8 358	26 564
Federal loan bonds (OFZ bonds)	25 980	-	-	25 980
Municipal and subfederal bonds	947	6 114	163	7 224
Russian Federation Eurobonds	6 277	-	-	6 277
Foreign government bonds	406	3 476	33	3 915
Total debt trading securities	**42 585**	**18 821**	**8 554**	**69 960**

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

In millions of Russian Roubles	**Investment rating**	**Speculative rating**	**Not rated**	**Total**
Federal loan bonds (OFZ bonds)	32 037	-	-	32 037
Corporate bonds	5 255	7 369	2 307	14 931
Municipal and subfederal bonds	1 042	10 309	133	11 484
Russian Federation Eurobonds	2 935	-	-	2 935
Foreign government bonds	347	1 647	-	1 994
State domestic loan bonds (OVGVZ)	16	-	-	16
Total debt trading securities	**41 632**	**19 325**	**2 440**	**63 397**

8 Trading Securities (Continued)

As at 31 December 2010 included in not rated corporate bonds are bonds with fair value of RR 152 million with default rating.

Credit quality in the tables above is based on the rating scale developed by the international rating agencies.

As at 31 December 2011 included in trading securities are federal loan bonds (OFZ bonds) with fair value of RR 15 746 million (2010: RR 14 715 million) pledged on the special accounts with the Bank of Russia as collateral against overnight interbank borrowings that the Group attracts on a regular basis from the Bank of Russia. Refer to Notes 32 and 35.

At 31 December 2011 and 31 December 2010 there were no renegotiated trading debt securities that would otherwise be past due. Trading debt securities are not collateralised. All trading debt securities are not past due.

Currency and maturity analyses of trading securities are disclosed in Note 31. The information on trading securities issued by related parties is disclosed in Note 36.

9 Securities Designated at Fair Value through Profit or Loss

In millions of Russian Roubles	**2011**	**2010**
Federal loan bonds (OFZ bonds)	30 470	76 698
Foreign government bonds	203	-
Municipal and subfederal bonds	145	1 625
Corporate bonds	-	4 648
Total debt securities designated at fair value through profit or loss	**30 818**	**82 971**
Corporate shares	21 175	23 904
Total securities designated at fair value through profit or loss	**51 993**	**106 875**

OFZ bonds are Russian Rouble denominated government securities issued by the Ministry of Finance of the Russian Federation. OFZ bonds have maturity dates from July 2012 to November 2021 (2010: from January 2011 to November 2021), coupon rates from 0% to 8% p.a. (2010: from 0% to 8% p.a.) and yield to maturity from 6% to 9% p.a. (2010: from 2% to 7% p.a.), depending on the type of bond issue.

Foreign government bonds included in the portfolio of securities designated at fair value through profit or loss are interest-bearing securities denominated in foreign currencies, issued by foreign governments, and are freely tradable internationally. These bonds have maturity in November 2014, coupon rate 8% p.a. and yield to maturity 8% p.a.

Municipal and subfederal bonds are interest-bearing securities denominated in Russian Roubles and issued by municipal and subfederal bodies of the Russian Federation. These bonds have maturity dates from November 2013 to December 2014 (2010: from August 2011 to June 2015), coupon rates from 8% to 12% p.a. (2010: from 8% to 12% p.a.) and yield to maturity from 8% to 10% p.a. (2010: from 7% to 8% p.a.), depending on the type of bond issue.

9 Securities Designated at Fair Value through Profit or Loss (Continued)

Corporate bonds are interest-bearing securities denominated in Russian Roubles and foreign currencies, issued by large Russian companies. As at 31 December 2010 these bonds had maturity dates from February 2011 to December 2011, coupon rates from 5% to 9% p.a. and yield to maturity from 1% to 6% p.a., depending on the type of bond issue.

Corporate shares are quoted and non-quoted shares of large Russian companies valuation of which was performed using professional judgement of Management of the Group and valuation models with use of available market data. As at 31 December 2011 and 31 December 2010 corporate shares are mostly represented by oil and gas and construction companies.

The Group irrevocably designated the above securities that are not part of its trading book, as at fair value through profit or loss. The securities meet the criteria for classification as at fair value through profit or loss because Management of the Group assesses performance of these investments based on their fair values in accordance with the Policy of the Group for securities portfolios classification. Fair value of securities designated at fair value through profit or loss is based on their market quotations and valuation models with use of data both observable and not observable on the open market.

Securities designated at fair value through profit or loss are carried at fair value, which also reflects credit risk related write downs. Analysis by credit quality of debt securities designated at fair value through profit or loss outstanding at 31 December 2011 is as follows:

In millions of Russian Roubles	Investment rating	Speculative rating	Not rated	Total
Federal loan bonds (OFZ bonds)	30 470	-	-	30 470
Foreign government bonds	-	203	-	203
Municipal and subfederal bonds	-	145	-	145
Total debt securities designated at fair value through profit or loss	**30 470**	**348**	**-**	**30 818**

Analysis by credit quality of debt securities at fair value through profit or loss outstanding at 31 December 2010 is as follows:

In millions of Russian Roubles	Investment rating	Speculative rating	Not rated	Total
Federal loan bonds (OFZ bonds)	76 698	-	-	76 698
Corporate bonds	4 233	-	415	4 648
Municipal and subfederal bonds	1 386	239	-	1 625
Total debt securities designated at fair value through profit or loss	**82 317**	**239**	**415**	**82 971**

9 Securities Designated at Fair Value through Profit or Loss (Continued)

Credit quality in the tables above is based on the rating scale developed by the international rating agencies.

As at 31 December 2011 included in securities designated at fair value through profit or loss are federal loan bonds (OFZ bonds) with fair value of RR 28 608 million (2010: RR 31 520 million) pledged on the special accounts with the Bank of Russia as collateral against overnight interbank borrowings that the Group attracts on a regular basis from the Bank of Russia. Refer to Notes 32 and 35.

At 31 December 2011 and 31 December 2010 there are no renegotiated balances that would otherwise be past due. Debt securities designated at fair value through profit or loss are not collateralised. All debt securities designated at fair value through profit or loss are not past due.

Currency and maturity analyses of securities designated at fair value through profit or loss are disclosed in Note 31. The information on securities designated at fair value through profit or loss issued by related parties is disclosed in Note 36.

10 Loans and Advances to Customers

The tables below show credit quality of the Group's loan portfolio by loan classes as at 31 December 2011 and 31 December 2010.

For the purposes of these consolidated financial statements a loan is considered past due when the borrower fails to make any payment due under the loan agreement at the reporting date. In this case the aggregate amount of all amounts due from borrower under the respective loan agreement including accrued interest and commissions is recognised as past due.

31 December 2011:

In millions of Russian Roubles	Not past due loans	Past due loans	Total
Commercial loans to legal entities	3 828 772	184 113	4 012 885
Specialised loans to legal entities	2 347 859	215 836	2 563 695
Consumer and other loans to individuals	898 662	45 302	943 964
Mortgage loans to individuals	741 567	35 790	777 357
Car loans to individuals	80 714	3 492	84 206
Total loans and advances to customers before provision for loan impairment	**7 897 574**	**484 533**	**8 382 107**
Less: Provision for loan impairment	(281 523)	(380 884)	(662 407)
Total loans and advances to customers net of provision for loan impairment	**7 616 051**	**103 649**	**7 719 700**

10 Loans and Advances to Customers (Continued)

31 December 2010:

In millions of Russian Roubles	**Not past due loans**	**Past due loans**	**Total**
Commercial loans to legal entities	2 519 062	189 630	2 708 692
Specialised loans to legal entities	1 900 813	262 673	2 163 486
Consumer and other loans to individuals	598 304	37 385	635 689
Mortgage loans to individuals	572 339	31 439	603 778
Car loans to individuals	76 792	3 473	80 265
Total loans and advances to customers before provision for loan impairment	**5 667 310**	**524 600**	**6 191 910**
Less: Provision for loan impairment	(276 906)	(425 617)	(702 523)
Total loans and advances to customers net of provision for loan impairment	**5 390 404**	**98 983**	**5 489 387**

Commercial lending to legal entities comprises corporate loans, loans to individual entrepreneurs, federal bodies and municipal authorities of the Russian Federation. Loans are granted for current needs (working capital financing, acquisition of movable and immovable property, portfolio investments, expansion and consolidation of business, etc.). Majority of commercial loans are provided for periods up to 5 years depending on the borrowers' risk assessment. Commercial lending also includes overdraft lending and lending for export-import transactions. The repayment source is cash flow from current production and financial activities of the borrower.

Specialised lending to legal entities includes investment and construction project financing and also developers' financing. As a rule, loan terms are linked to payback periods of investment and construction projects, contract execution periods and exceed the terms of commercial loans to legal entities. The principal and interest may be repaid from cash flows generated by the investment project at the stage of its commercial operation.

Consumer and other individual loans comprise loans to individuals other than housing acquisition, construction and repair of real estate as well as car loans. These loans include loans for current needs and overdrafts.

Mortgage loans to individuals include loans for acquisition, construction and reconstruction of real estate. These loans are mostly long-term and are collateralized by real estate.

Car loans to individuals include loans for purchasing a car or other vehicle. Car loans are provided for periods of up to 5 years.

10 Loans and Advances to Customers (Continued)

The table below shows the analysis of loans and provisions for loan impairment as at 31 December 2011:

In millions of Russian Roubles	Gross loans	Provision for impairment	Net loans	Provision for impairment to gross loans
Commercial loans to legal entities				
Collectively assessed				
Not past due	3 795 522	(117 384)	3 678 138	3.1%
Loans up to 30 days overdue	11 319	(3 072)	8 247	27.1%
Loans 31 to 60 days overdue	4 741	(2 160)	2 581	45.6%
Loans 61 to 90 days overdue	3 416	(1 779)	1 637	52.1%
Loans 91 to 180 days overdue	7 389	(4 787)	2 602	64.8%
Loans over 180 days overdue	115 586	(111 787)	3 799	96.7%
Total collectively assessed loans	**3 937 973**	**(240 969)**	**3 697 004**	**6.1%**
Individually impaired				
Not past due	33 250	(22 251)	10 999	66.9%
Loans up to 30 days overdue	7 005	(6 951)	54	99.2%
Loans 31 to 60 days overdue	497	(236)	261	47.5%
Loans 61 to 90 days overdue	4 138	(321)	3 817	7.8%
Loans 91 to 180 days overdue	67	(6)	61	9.0%
Loans over 180 days overdue	29 955	(28 667)	1 288	95.7%
Total individually impaired loans	**74 912**	**(58 432)**	**16 480**	**78.0%**
Total commercial loans to legal entities	**4 012 885**	**(299 401)**	**3 713 484**	**7.5%**
Specialised loans to legal entities				
Collectively assessed				
Not past due	2 276 063	(86 675)	2 189 388	3.8%
Loans up to 30 days overdue	5 239	(806)	4 433	15.4%
Loans 31 to 60 days overdue	3 279	(1 236)	2 043	37.7%
Loans 61 to 90 days overdue	1 630	(711)	919	43.6%
Loans 91 to 180 days overdue	2 123	(1 315)	808	61.9%
Loans over 180 days overdue	59 315	(52 776)	6 539	89.0%
Total collectively assessed loans	**2 347 649**	**(143 519)**	**2 204 130**	**6.1%**
Individually impaired				
Not past due	71 796	(38 721)	33 075	53.9%
Loans up to 30 days overdue	3 997	(2 794)	1 203	69.9%
Loans 31 to 60 days overdue	2 193	(1 586)	607	72.3%
Loans 61 to 90 days overdue	-	-	-	-
Loans 91 to 180 days overdue	427	(347)	80	81.3%
Loans over 180 days overdue	137 633	(106 806)	30 827	77.6%
Total individually impaired loans	**216 046**	**(150 254)**	**65 792**	**69.5%**
Total specialised loans to legal entities	**2 563 695**	**(293 773)**	**2 269 922**	**11.5%**
Total loans to legal entities	**6 576 580**	**(593 174)**	**5 983 406**	**9.0%**

10 Loans and Advances to Customers (Continued)

In millions of Russian Roubles	Gross loans	Provision for impairment	Net loans	Provision for impairment to gross loans
Consumer and other loans to individuals				
Collectively assessed				
Not past due	898 662	(10 929)	887 733	1.2%
Loans up to 30 days overdue	12 585	(212)	12 373	1.7%
Loans 31 to 60 days overdue	3 108	(183)	2 925	5.9%
Loans 61 to 90 days overdue	1 652	(195)	1 457	11.8%
Loans 91 to 180 days overdue	2 753	(586)	2 167	21.3%
Loans over 180 days overdue	25 204	(25 204)	-	100.0%
Total consumer and other loans to individuals	**943 964**	**(37 309)**	**906 655**	**4.0%**
Mortgage loans to individuals				
Collectively assessed				
Not past due	741 567	(4 602)	736 965	0.6%
Loans up to 30 days overdue	8 176	(240)	7 936	2.9%
Loans 31 to 60 days overdue	1 962	(169)	1 793	8.6%
Loans 61 to 90 days overdue	940	(99)	841	10.5%
Loans 91 to 180 days overdue	1 280	(309)	971	24.1%
Loans over 180 days overdue	23 432	(23 432)	-	100.0%
Total mortgage loans to individuals	**777 357**	**(28 851)**	**748 506**	**3.7%**
Car loans to individuals				
Collectively assessed				
Not past due	80 714	(961)	79 753	1.2%
Loans up to 30 days overdue	969	(7)	962	0.7%
Loans 31 to 60 days overdue	181	(5)	176	2.8%
Loans 61 to 90 days overdue	107	(4)	103	3.7%
Loans 91 to 180 days overdue	150	(11)	139	7.3%
Loans over 180 days overdue	2 085	(2 085)	-	100.0%
Total car loans to individuals	**84 206**	**(3 073)**	**81 133**	**3.6%**
Total loans to individuals	**1 805 527**	**(69 233)**	**1 736 294**	**3.8%**
Total loans and advances to customers as at 31 December 2011	**8 382 107**	**(662 407)**	**7 719 700**	**7.9%**

10 Loans and Advances to Customers (Continued)

The table below shows the analysis of loans and provisions for loan impairment as at 31 December 2010:

In millions of Russian Roubles	Gross loans	Provision for impairment	Net loans	Provision for impairment to gross loans
Commercial loans to legal entities				
Collectively assessed				
Not past due	2 457 676	(106 849)	2 350 827	4.3%
Loans up to 30 days overdue	6 895	(2 234)	4 661	32.4%
Loans 31 to 60 days overdue	4 480	(2 261)	2 219	50.5%
Loans 61 to 90 days overdue	7 058	(4 552)	2 506	64.5%
Loans 91 to 180 days overdue	10 398	(6 910)	3 488	66.5%
Loans over 180 days overdue	124 081	(117 807)	6 274	94.9%
Total collectively assessed loans	**2 610 588**	**(240 613)**	**2 369 975**	**9.2%**
Individually impaired				
Not past due	61 386	(39 929)	21 457	65.0%
Loans up to 30 days overdue	1 616	(1 378)	238	85.3%
Loans 31 to 60 days overdue	-	-	-	-
Loans 61 to 90 days overdue	3 896	(2 688)	1 208	69.0%
Loans 91 to 180 days overdue	2 861	(2 423)	438	84.7%
Loans over 180 days overdue	28 345	(25 898)	2 447	91.4%
Total individually impaired loans	**98 104**	**(72 316)**	**25 788**	**73.7%**
Total commercial loans to legal entities	**2 708 692**	**(312 929)**	**2 395 763**	**11.6%**
Specialised loans to legal entities				
Collectively assessed				
Not past due	1 835 754	(77 060)	1 758 694	4.2%
Loans up to 30 days overdue	16 715	(3 805)	12 910	22.8%
Loans 31 to 60 days overdue	2 043	(897)	1 146	43.9%
Loans 61 to 90 days overdue	5 827	(3 330)	2 497	57.1%
Loans 91 to 180 days overdue	3 927	(2 867)	1 060	73.0%
Loans over 180 days overdue	63 018	(57 148)	5 870	90.7%
Total collectively assessed loans	**1 927 284**	**(145 107)**	**1 782 177**	**7.5%**
Individually impaired				
Not past due	65 059	(36 916)	28 143	56.7%
Loans up to 30 days overdue	5 086	(5 072)	14	99.7%
Loans 31 to 60 days overdue	208	(200)	8	96.2%
Loans 61 to 90 days overdue	689	(689)	0	100.0%
Loans 91 to 180 days overdue	1 575	(1 453)	122	92.3%
Loans over 180 days overdue	163 585	(131 345)	32 240	80.3%
Total individually impaired loans	**236 202**	**(175 675)**	**60 527**	**74.4%**
Total specialised loans to legal entities	**2 163 486**	**(320 782)**	**1 842 704**	**14.8%**
Total loans to legal entities	**4 872 178**	**(633 711)**	**4 238 467**	**13.0%**

10 Loans and Advances to Customers (Continued)

In millions of Russian Roubles	Gross loans	Provision for impairment	Net loans	Provision for impairment to gross loans
Consumer and other loans to individuals				
Collectively assessed				
Not past due	598 304	(9 776)	588 528	1.6%
Loans up to 30 days overdue	6 521	(159)	6 362	2.4%
Loans 31 to 60 days overdue	2 014	(141)	1 873	7.0%
Loans 61 to 90 days overdue	1 324	(170)	1 154	12.8%
Loans 91 to 180 days overdue	2 177	(490)	1 687	22.5%
Loans over 180 days overdue	25 349	(25 349)	-	100.0%
Total consumer and other loans to individuals	**635 689**	**(36 085)**	**599 604**	**5.7%**
Mortgage loans to individuals				
Collectively assessed				
Not past due	572 339	(5 139)	567 200	0.9%
Loans up to 30 days overdue	3 979	(242)	3 737	6.1%
Loans 31 to 60 days overdue	1 669	(236)	1 433	14.1%
Loans 61 to 90 days overdue	1 206	(246)	960	20.4%
Loans 91 to 180 days overdue	2 060	(891)	1 169	43.3%
Loans over 180 days overdue	22 525	(22 525)	-	100.0%
Total mortgage loans to individuals	**603 778**	**(29 279)**	**574 499**	**4.8%**
Car loans to individuals				
Collectively assessed				
Not past due	76 792	(1 237)	75 555	1.6%
Loans up to 30 days overdue	682	(20)	662	2.9%
Loans 31 to 60 days overdue	248	(17)	231	6.9%
Loans 61 to 90 days overdue	152	(18)	134	11.8%
Loans 91 to 180 days overdue	300	(65)	235	21.7%
Loans over 180 days overdue	2 091	(2 091)	-	100.0%
Total car loans to individuals	**80 265**	**(3 448)**	**76 817**	**4.3%**
Total loans to individuals	**1 319 732**	**(68 812)**	**1 250 920**	**5.2%**
Total loans and advances to customers as at 31 December 2010	**6 191 910**	**(702 523)**	**5 489 387**	**11.3%**

10 Loans and Advances to Customers (Continued)

The table below shows the credit quality analysis of the Group's not past due collectively assessed loans before provision for loan impairment as at 31 December 2011:

In millions of Russian Roubles	1 group	2 group	3 group	Total
Commercial loans to legal entities	159 123	2 125 219	1 511 180	3 795 522
Specialised loans to legal entities	98 620	1 141 737	1 035 706	2 276 063
Consumer and other loans to individuals	5 556	892 604	502	898 662
Mortgage loans to individuals	4 997	735 408	1 162	741 567
Car loans to individuals	455	80 179	80	80 714
Total	**268 751**	**4 975 147**	**2 548 630**	**7 792 528**

The table below shows the credit quality analysis of the Group's not past due collectively assessed loans before provision for loan impairment as at 31 December 2010:

In millions of Russian Roubles	1 group	2 group	3 group	Total
Commercial loans to legal entities	161 500	1 273 414	1 022 762	2 457 676
Specialised loans to legal entities	80 026	793 995	961 733	1 835 754
Consumer and other loans to individuals	5 685	590 441	2 178	598 304
Mortgage loans to individuals	7 214	563 935	1 190	572 339
Car loans to individuals	425	76 258	109	76 792
Total	**254 850**	**3 298 043**	**1 987 972**	**5 540 865**

For the purpose of these consolidated financial statements, all not past due collectively assessed loans to legal entities are classified in three quality groups presented in the tables above with group 1 loans being of the highest quality. The 1-st group includes borrowers with sound level of liquidity and profitability as well as high capital adequacy ratio. The probability of breach of loan agreement terms is assessed as low. The 2-nd group includes borrowers with average level of liquidity and profitability as well as average capital adequacy ratio. The probability of breach of loan agreement terms is assessed as moderate. The 3-rd group includes borrowers with satisfactory level of liquidity and profitability as well as moderate capital adequacy ratio. The probability of breach of loan agreement terms is assessed as above moderate.

For the purpose of these consolidated financial statements, all not past due loans to individuals are combined into three groups presented in the tables above. The 1-st group of these loans to individuals is represented by loans with good debt servicing and excellent financial position of a borrower. The 2-nd group is represented by loans with good/average debt servicing and excellent/moderate financial position of a borrower. The 3-rd group is represented by loans with average debt servicing and moderate financial position of a borrower.

As defined by the Group for the purposes of internal credit risk assessment, loans fall into the "non-performing" category when a principal and/or interest payment becomes more than 90 days overdue.

10 Loans and Advances to Customers (Continued)

As at 31 December 2011 the outstanding non-performing loans were as follows:

In millions of Russian Roubles	Gross loans	Provision for impairment	Net loans	Provision for impairment to gross loans
Commercial loans to legal entities	152 997	(145 247)	7 750	94.9%
Specialised loans to legal entities	199 498	(161 244)	38 254	80.8%
Consumer and other loans to individuals	27 957	(25 790)	2 167	92.2%
Mortgage loans to individuals	24 712	(23 741)	971	96.1%
Car loans to individuals	2 235	(2 096)	139	93.8%
Total non-performing loans and advances to customers as at 31 December 2011	**407 399**	**(358 118)**	**49 281**	**87.9%**

As at 31 December 2010 the outstanding non-performing loans were as follows:

In millions of Russian Roubles	Gross loans	Provision for impairment	Net loans	Provision for impairment to gross loans
Commercial loans to legal entities	165 685	(153 038)	12 647	92.4%
Specialised loans to legal entities	232 105	(192 813)	39 292	83.1%
Consumer and other loans to individuals	27 526	(25 839)	1 687	93.9%
Mortgage loans to individuals	24 585	(23 416)	1 169	95.2%
Car loans to individuals	2 391	(2 156)	235	90.2%
Total non-performing loans and advances to customers as at 31 December 2010	**452 292**	**(397 262)**	**55 030**	**87.8%**

Provisions for Loan Impairment. The analysis of changes in provisions for loan impairment for the year ended 31 December 2011 is presented in the table below:

In millions of Russian Roubles	Commercial loans to legal entities	Specialised loans to legal entities	Consumer and other loans to individuals	Mortgage loans to individuals	Car loans to individuals	Total
Provision for loan impairment as at 1 January 2011	**312 929**	**320 782**	**36 085**	**29 279**	**3 448**	**702 523**
Net provision charge / (net recovery of provision) for loan impairment during the reporting period	10 665	(15 780)	3 001	1 163	(242)	(1 193)
Foreign currencies translation	(680)	(933)	(126)	7	(9)	(1 741)
Loans and advances written off during the reporting period	(23 513)	(10 296)	(1 651)	(1 598)	(124)	(37 182)
Provision for loan impairment as at 31 December 2011	**299 401**	**293 773**	**37 309**	**28 851**	**3 073**	**662 407**

10 Loans and Advances to Customers (Continued)

The analysis of changes in provisions for loan impairment for the year ended 31 December 2010 is presented in the table below:

In millions of Russian Roubles	Commercial loans to legal entities	Specialised loans to legal entities	Consumer and other loans to individuals	Mortgage loans to individuals	Car loans to individuals	Total
Provision for loan impairment as at 1 January 2010	**221 488**	**287 059**	**38 238**	**28 775**	**4 254**	**579 814**
Net provision charge / (net recovery of provision) for loan impairment during the reporting period	118 880	35 863	(1 041)	832	(725)	153 809
Loans and advances written off during the reporting period	(27 439)	(2 140)	(1 112)	(328)	(81)	(31 100)
Provision for loan impairment as at 31 December 2010	**312 929**	**320 782**	**36 085**	**29 279**	**3 448**	**702 523**

Renegotiated loans. Information on loans whose terms have been renegotiated, as at 31 December 2011 and 31 December 2010 is presented in the table below. It shows the amount for renegotiated loans before provision for loan impairment by class.

In millions of Russian Roubles	Commercial loans to legal entities	Specialised loans to legal entities	Consumer and other loans to individuals	Mortgage loans to individuals	Car loans to individuals	Total
31 December 2011:						
Not past due collectively assessed loans	551 959	329 492	7 010	5 393	456	894 310
Other renegotiated loans	85 129	42 067	3 332	6 032	708	137 268
Total renegotiated loans before provision for loan impairment	**637 088**	**371 559**	**10 342**	**11 425**	**1 164**	**1 031 578**
31 December 2010:						
Not past due collectively assessed loans	402 606	171 884	6 824	1 958	38	583 310
Other renegotiated loans	96 571	54 160	3 299	10 197	184	164 411
Total renegotiated loans before provision for loan impairment	**499 177**	**226 044**	**10 123**	**12 155**	**222**	**747 721**

10 Loans and Advances to Customers (Continued)

Investments in finance lease. Included in specialised loans to legal entities are net investments in finance lease. The analysis of net investments in finance lease as at 31 December 2011 and as at 31 December 2010 is as follows:

in millions of Russian Roubles	2011	2010
Gross investment in finance lease	134 866	72 717
Unearned future finance income on finance lease	(46 593)	(21 274)
Net investment in finance lease before provision for impairment	**88 273**	**51 443**
Less provision for impairment	(2 275)	(1 033)
Net investment in finance lease after provision for impairment	**85 998**	**50 410**

The contractual maturity analysis of net investments in finance lease as at 31 December 2011 is as follows:

in millions of Russian Roubles	Net investment in finance lease before provision for impairment	Provision for impairment	Net investment in finance lease after provision for impairment
Not later than 1 year	26 561	(694)	25 867
Later than 1 year but not later than 5 years	48 864	(1 254)	47 610
Later than 5 years	12 848	(327)	12 521
Total as at 31 December 2011	**88 273**	**(2 275)**	**85 998**

The contractual maturity analysis of net investments in finance lease as at 31 December 2010 is as follows:

In millions of Russian Roubles	Net investment in finance lease before provision for impairment	Provision for impairment	Net investment in finance lease after provision for impairment
Not later than 1 year	18 567	(325)	18 242
Later than 1 year but not later than 5 years	29 303	(657)	28 646
Later than 5 years	3 573	(51)	3 522
Total as at 31 December 2010	**51 443**	**(1 033)**	**50 410**

The analysis of minimal finance lease receivables as at 31 December 2011 and as at 31 December 2010 per contractual maturity is as follows:

In millions of Russian Roubles	31 December 2011	31 December 2010
Not later than 1 year	28 422	19 662
Later than 1 year but not later than 5 years	71 999	41 593
Later than 5 years	34 445	11 462
Total	**134 866**	**72 717**

10 Loans and Advances to Customers (Continued)

Economic sector concentration risk. Economic sector concentration risk within the customer loan portfolio as at 31 December 2011 and as at 31 December 2010 are as follows:

	2011		2010	
In millions of Russian Roubles	**Amount**	**%**	**Amount**	**%**
Individuals	1 805 527	21.5	1 319 732	21.3
Services	1 658 527	19.8	1 001 330	16.2
Trade	1 134 763	13.5	1 008 025	16.3
Food and agriculture	703 863	8.4	585 394	9.5
Construction	451 261	5.4	404 601	6.5
Energy	379 891	4.5	208 797	3.4
Machine building	355 574	4.2	317 588	5.1
Chemical industry	340 211	4.1	216 833	3.5
Telecommunications	331 954	4.0	168 042	2.7
Metallurgy	299 424	3.6	300 806	4.9
Transport, aviation, space industry	285 364	3.4	147 540	2.4
Government and municipal bodies	268 087	3.2	153 280	2.5
Oil and gas	164 663	2.0	177 495	2.9
Timber industry	50 388	0.6	49 609	0.8
Other	152 610	1.8	132 838	2.0
Total loans and advances to customers before provision for loan impairment	**8 382 107**	**100.0**	**6 191 910**	**100.0**

"Services" category includes financial, insurance and other service companies, as well as loans granted to holding and multi-industry companies.

As at 31 December 2011 the Group had 20 largest corporate borrowers with aggregated loan amounts due from each of these borrowers exceeding RR 47 900 million (31 December 2010: 20 largest borrowers with loan amounts due from each of these borrowers exceeding RR 29 300 million). The total aggregate amount of these loans was RR 1 956 233 million or 23.3% of the total gross loan portfolio of the Group (31 December 2010: RR 1 401 637 million or 22.6%).

As at 31 December 2011 several commercial loans are collateralized by highly liquid securities with fair value of RR 295 143 million which the Group has the right to dispose (2010: RR 83 042 million).

Interest income accrued on loans, for which individual impairment has been recognised, for the year ended 31 December 2011, comprised RR 8 946 million (31 December 2010: RR 8 322 million).

In interest income on loans and advances to customers in the consolidated income statement are included fines and penalties received from borrowers in the amount of RR 8 741 million (31 December 2010: RR 10 759 million).

The estimated fair value of loans and advances to customers is disclosed in Note 34. Currency and maturity analyses of loans and advances to customers are disclosed in Note 31. The information on related party balances is disclosed in Note 35 and 36.

11 Securities Pledged under Repurchase Agreements

In millions of Russian Roubles	**2011**	**2010**
Trading securities pledged under repurchase agreements		
Corporate shares	34 311	-
Russian Federation Eurobonds	7 045	12 150
Corporate bonds	6 102	-
Federal loan bonds (OFZ bonds)	440	-
Investments in mutual funds	312	-
Total trading securities pledged under repurchase agreements	**48 210**	**12 150**
Securities designated at fair value through profit or loss pledged under repurchase agreements		
Federal loan bonds (OFZ bonds)	8 060	-
Corporate shares	1 282	-
Total securities designated at fair value through profit or loss pledged under repurchase agreements	**9 342**	**-**
Investment securities available for sale pledged under repurchase agreements		
Corporate bonds	30 773	13 484
Russian Federation Eurobonds	29 384	47 027
Federal loan bonds (OFZ bonds)	25 551	-
Corporate shares	20 126	8 276
Foreign government bonds	275	556
Total investment securities available for sale pledged under repurchase agreements	**106 109**	**69 343**
Investment securities held to maturity pledged under repurchase agreements		
Federal loan bonds (OFZ bonds)	136 425	-
Corporate bonds	753	-
Total investment securities held to maturity pledged under repurchase agreements	**137 178**	**-**
Total securities pledged under repurchase agreements	**300 839**	**81 493**

Securities pledged under repurchase agreements represent securities pledged under sale and repurchase agreements, which the counterparty has the right, by contract or custom, to sell or repledge. As at 31 December 2011 included in Due to corporate customers are deposits in the amount of RR 38 090 million (31 December 2010: RR 5 968 million) received under sale and repurchase agreements with legal entities. Refer to Note 17. Deposits in the amount of RR 220 863 million (31 December 2010: RR 61 803 million) received under sale and repurchase agreements with other banks are included in Due to other banks. Refer to Note 16.

OFZ bonds included in the portfolio of trading securities, securities designated at fair value through profit or loss, investment securities available for sale and investment securities held to maturity pledged under repurchase agreements are Russian Rouble denominated government securities issued by the Ministry of Finance of the Russian Federation. OFZ bonds have maturity dates from August 2012 to January 2019, coupon rates from 0% to 12% p.a. and yield to maturity from 6% to 9% p.a., depending on the type of bond issue.

Corporate bonds included in the portfolio of trading securities, investment securities available for sale and investment securities held to maturity pledged under repurchase agreements have maturity dates from March 2012 to March 2031 (2010: from January 2012 to November 2019), coupon rates from 5% to 13% p.a. (2010: from 6% to 10% p.a.) and yield to maturity from 2% to 16% p.a. (2010: from 2% to 8% p.a.), depending on the type of bond issue. As at 31 December 2011 corporate bonds pledged under repurchase agreements are mostly represented by debt securities issued by oil and gas and telecommunication companies and banks. As at 31 December 2010 corporate bonds pledged under repurchase agreements are mostly represented by debt securities issued by a bank, oil and gas and metallurgy companies.

11 Securities Pledged under Repurchase Agreements (Continued)

Russian Federation Eurobonds included in the portfolio of trading securities and investment securities available for sale pledged under repurchase agreements have maturity dates from July 2018 to March 2030 (2010: from July 2018 to March 2030), coupon rates from 7% to 13% p.a. (2010: from 8% to 13% p.a.) and yield to maturity from 4% to 6% p.a. (2010: from 5% to 6% p.a.), depending on the type of bond issue.

Foreign government bonds included in the portfolio of investment securities available for sale pledged under repurchase agreements are interest-bearing securities denominated in foreign currencies, issued by foreign governments, and are freely tradable internationally. These bonds have maturity from February 2012 to December 2012 (2010: in October 2012), coupon rate from 10% to 20% p.a. (2010: 20% p.a.) and yield to maturity from 15% p.a. to 24% p.a. (2010: 14% p.a.).

As at 31 December 2011 corporate shares included in the portfolio of trading securities, securities designated at fair value through profit or loss and investment securities available for sale pledged under repurchase agreements pledged under repurchase agreements are mostly represented by quoted shares of Russian oil and gas companies. As at 31 December 2010 corporate shares pledged under repurchase agreements are mostly represented by quoted shares of Russian oil and gas and metallurgy companies.

Investments in mutual funds included in the portfolio of trading securities pledged under repurchase agreements are on-demand investments in a stock market index fund nominated in Russian Roubles.

Analysis by credit quality of debt securities pledged under repurchase agreements outstanding at 31 December 2011 is as follows:

In millions of Russian Roubles	**Investment rating**	**Speculative rating**	**Not rated**	**Total**
Federal loan bonds (OFZ bonds)	170 476	-	-	170 476
Corporate bonds	24 902	11 500	1 226	37 628
Russian Federation Eurobonds	36 429	-	-	36 429
Foreign government bonds	-	275	-	275
Total debt securities pledged under repurchase agreements	**231 807**	**11 775**	**1 226**	**244 808**

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

In millions of Russian Roubles	**Investment rating**	**Speculative rating**	**Not rated**	**Total**
Russian Federation Eurobonds	59 177	-	-	59 177
Corporate bonds	7 620	5 864	-	13 484
Foreign government bonds	-	556	-	556
Total debt securities pledged under repurchase agreements	**66 797**	**6 420**	**-**	**73 217**

Credit quality in the tables above is based on the rating scale developed by the international rating agencies.

All corporate bonds pledged under repurchase agreements are not past due. None of the securities pledged under repurchase agreements were renegotiated.

Currency and maturity analyses of securities pledged under repurchase agreements are disclosed in Note 31. The information on related party balances is disclosed in Note 36.

12 Investment Securities Available for Sale

In millions of Russian Roubles	2011	2010
Federal loan bonds (OFZ bonds)	410 978	348 353
Corporate bonds	320 307	275 563
Municipal and subfederal bonds	47 558	50 219
Russian Federation Eurobonds	23 599	4 950
Foreign government bonds	21 956	17 899
Bonds of the Bank of Russia	-	433 585
Total debt investment securities available for sale	**824 398**	**1 130 569**
Corporate shares	60 131	80 352
Total investment securities available for sale	**884 529**	**1 210 921**

OFZ bonds are Russian Rouble denominated government securities issued by the Ministry of Finance of the Russian Federation. These bonds have maturity dates from January 2012 to February 2036 (2010: from January 2011 to February 2036), coupon rates from 0% to 12% p.a. (2010: from 0% to 12% p.a.) and yield to maturity from 3% to 9% p.a. (2010: from 2% to 10% p.a.), depending on the type of bond issue.

Corporate bonds are interest-bearing and non-interest bearing securities denominated in Russian Roubles and foreign currencies, issued by large Russian and CIS companies. These bonds have maturity dates from February 2012 to November 2025 (2010: from February 2011 to November 2025), coupon rates from 0% to 16% p.a. (2010: from 1% to 18% p.a.) and yield to maturity from 1% to 33% p.a. (2010: from 2% to 34% p.a.), depending on the type of bond issue. As at 31 December 2011 corporate bonds are mostly represented by debt securities issued by oil and gas, transportation, telecommunication, metallurgy, energy, service companies and banks. As at 31 December 2010 corporate bonds are mostly represented by debt securities issued by banks, oil and gas, metallurgy, mining, transportation and telecommunication companies.

Municipal and subfederal bonds are interest-bearing securities denominated in Russian Roubles and Euro and issued by municipal and subfederal bodies of the Russian Federation. These bonds have maturity dates from May 2012 to June 2022 (2010: from April 2011 to June 2022), coupon rate from 5% to 18% p.a. (2010: from 5% to 18% p.a.) and yield to maturity from 5% to 17% p.a. (2010: from 2% to 9% p.a.), depending on the type of bond issue.

Russian Federation Eurobonds are interest-bearing securities denominated in US Dollars, issued by the Ministry of Finance of the Russian Federation, and are freely tradable internationally. These bonds have maturity dates from July 2018 to March 2030 (2010: from July 2018 to March 2030), coupon rates from 7% to 13% p.a. (2010: from 8% to 13% p.a.) and yield to maturity from 4% to 6% p.a. (2010: from 5% to 6% p.a.).

Foreign government bonds are interest-bearing and non-interest-bearing securities denominated in Russian Roubles and foreign currencies, issued by foreign governments. These bonds have maturity dates from February 2012 to October 2027 (2010: from February 2011 to October 2020), coupon rates from 0% to 20% p.a. (2010: from 4% to 20% p.a.) and yield to maturity from 4% to 22% p.a. (2010: from 2% to 20% p.a.), depending on the type of bond issue.

Bonds of the Bank of Russia are zero-coupon securities denominated in Russian Roubles, issued by the Central Bank of the Russian Federation, and are freely tradable on the domestic market. As at 31 December 2010 these bonds had maturity date in March 2011 and yield to maturity of 4% p.a.

12 Investment Securities Available for Sale (Continued)

Corporate shares are quoted and non-quoted shares of large Russian and CIS companies. As at 31 December 2011 corporate shares are mostly represented by oil and gas and finance companies. As at 31 December 2010 corporate shares are mostly represented by oil and gas, energy, communication, transport, finance and metallurgy companies.

As at 31 December 2011 investment securities available for sale in the amount of RR 1 320 million (2010: 0) represent securities collateralised under sale and repurchase agreements with other banks which the counterparty has no right to sell or repledge. Deposits in the amount of RR 1 154 million (2010: 0) received under these sale and repurchase agreements are included in Due to other banks. Refer to Note 16.

Investment securities available for sale are carried at fair value which also reflects credit risk related write downs. Fair value of investment securities available for sale is based on their market quotations and valuation models with use of data both observable and not observable on the open market. According to the assessment of the Group as at 31 December 2011 impairment of investment securities available for sale comprised RR 1 095 million (2010: RR 39 million) and was recognised in profit or loss. The unrealised gains/(losses) on revaluation of investment securities available for sale other than impairment loss are recognised in other comprehensive income and presented in equity as fair value reserve for investment securities available for sale as at 31 December 2011 in the cumulative loss of RR 7 459 million (2010: gain of RR 24 431 million). As at 31 December 2011 included in investment securities available for sale are past due fully impaired corporate bonds with nominal value of RR 96 million (2010: 91 million). None of the investment securities available for sale were renegotiated.

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

In millions of Russian Roubles	**Investment rating**	**Speculative rating**	**Not rated**	**Total**
Federal loan bonds (OFZ bonds)	410 978	-	-	410 978
Corporate bonds	163 944	139 989	16 374	320 307
Municipal and subfederal bonds	28 776	18 475	307	47 558
Russian Federation Eurobonds	23 599	-	-	23 599
Foreign government bonds	8 218	13 738	-	21 956
Total debt investment securities available for sale	**635 515**	**172 202**	**16 681**	**824 398**

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

In millions of Russian Roubles	**Investment rating**	**Speculative rating**	**Not rated**	**Total**
Bonds of the Bank of Russia	433 585	-	-	433 585
Federal loan bonds (OFZ bonds)	348 353	-	-	348 353
Corporate bonds	140 463	100 485	34 615	275 563
Municipal and subfederal bonds	32 769	17 314	136	50 219
Foreign government bonds	6 377	11 448	74	17 899
Russian Federation Eurobonds	4 950	-	-	4 950
Total debt investment securities available for sale	**966 497**	**129 247**	**34 825**	**1 130 569**

12 Investment Securities Available for Sale (Continued)

As at 31 December 2010 included in not rated corporate bonds are bonds with fair value of RR 287 million with default rating.

Credit quality in the tables above is based on the rating scale developed by the international rating agencies.

As at 31 December 2011 included in investment securities available for sale are federal loan bonds (OFZ bonds) with fair value of RR 203 920 million (2010: RR 42 498 million) and Eurobonds of the Russian Federation with fair value of RR 5 million (2010: RR 5 million) pledged on the special accounts with the Bank of Russia as collateral against overnight interbank borrowings that the Group attracts on a regular basis from the Bank of Russia. Refer to Notes 32 and 35.

Currency and maturity analyses of investment securities available for sale are disclosed in Note 31. The information on related party balances is disclosed in Notes 35 and 36.

13 Investment Securities Held to Maturity

In millions of Russian Roubles	**2011**	**2010**
Corporate bonds	130 123	44 512
Federal loan bonds (OFZ bonds)	74 644	227 328
Municipal and subfederal bonds	79 613	86 052
Promissory notes	2 003	-
Foreign government bonds	133	299
Total investment securities held to maturity	**286 516**	**358 191**

Corporate bonds are interest bearing securities denominated in Russian Roubles and foreign currencies, issued by large Russian and CIS companies. These bonds have maturity dates from February 2012 to October 2023 (2010: from February 2011 to November 2017), coupon rates from 5% to 12% p.a. (2010: from 5% to 15% p.a.) and yield to maturity from 2% to 16% p.a. (2010: from 2% to 15% p.a.), depending on the type of bond issue. As at 31 December 2011 corporate bonds are mostly represented by debt securities issued by machine building, energy, oil and gas, metallurgy and telecommunication companies. As at 31 December 2010 corporate bonds are mostly represented by debt securities issued by energy and telecommunication companies.

OFZ bonds are Russian Rouble denominated government securities issued by the Ministry of Finance of the Russian Federation. These bonds have maturity dates from August 2012 to January 2019 (2010: from June 2011 to January 2019), coupon rates from 0% to 12% p.a. (2010: from 0% to 12% p.a.) and yield to maturity from 6% to 9% p.a. (2010: from 4% to 7% p.a.), depending on the type of bond issue.

Municipal and subfederal bonds are interest-bearing securities denominated in Russian Roubles and issued by municipal and subfederal bodies of the Russian Federation. These bonds have maturity dates from March 2012 to December 2016 (2010: from December 2011 to September 2016), coupon rate from 8% to 18% p.a. (2010: from 8% to 18% p.a.) and yield to maturity from 6% to 10% p.a. (2010: from 6% to 8% p.a.), depending on the type of bond issue.

Promissory notes are interest-bearing securities denominated in Russian Roubles, issued by a Russian bank. The maturity dates are from January 2012 to March 2012; yield to maturity is 8% p.a.

13 Investment Securities Held to Maturity (Continued)

Foreign government bonds are interest-bearing securities denominated in foreign currencies, issued by foreign governments. These bonds have maturity date from September 2014 to July 2020 (2010: from September 2014 to July 2020), coupon rate 2% p.a. (2010: from 2% to 11% p.a.), depending on the type of bond issue, and yield to maturity – 11% p.a. (2010: 11% p.a.).

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

In millions of Russian Roubles	Investment rating	Speculative rating	Not rated	Total
Corporate bonds	27 355	48 172	54 596	130 123
Federal loan bonds (OFZ bonds)	74 644	-	-	74 644
Municipal and subfederal bonds	63 351	16 262	-	79 613
Promissory notes	-	-	2 003	2 003
Foreign government bonds	-	133	-	133
Total investment securities held to maturity	**165 350**	**64 567**	**56 599**	**286 516**

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

In millions of Russian Roubles	Investment rating	Speculative rating	Not rated	Total
Federal loan bonds (OFZ bonds)	227 328	-	-	227 328
Municipal and subfederal bonds	70 629	15 423	-	86 052
Corporate bonds	14 478	24 514	5 520	44 512
Foreign government bonds	-	225	74	299
Total investment securities held to maturity	**312 435**	**40 162**	**5 594**	**358 191**

Credit quality in the table above is based on the rating scale developed by the international rating agencies.

As at 31 December 2011 included in investment securities held to maturity are federal loan bonds (OFZ bonds) with carrying value of RR 36 721 million (2010: 37 044 million) pledged on the special accounts with the Bank of Russia as collateral against overnight interbank borrowings that the Group attracts on a regular basis from the Bank of Russia. Refer to Notes 32 and 35.

At 31 December 2011 and at 31 December 2010 there are no renegotiated debt investment securities held to maturity that would otherwise be past due. All debt investment securities held to maturity are not past due.

The estimated fair value of investment securities held to maturity is disclosed in Note 34. Currency and maturity analyses of investment securities held to maturity are disclosed in Note 31. The information on related party balances is disclosed in Note 36.

14 Premises and Equipment

In millions of Russian Roubles	Note	Office premises	Other premises	Office and computer equipment	Vehicles and other equipment	Construction in progress	Total
Cost or revalued amount at 1 January 2010		181 065	2 462	111 216	20 442	13 768	328 953
Accumulated depreciation		(588)	(34)	(71 115)	(7 335)	-	(79 072)
Carrying amount at 1 January 2010		**180 477**	**2 428**	**40 101**	**13 107**	**13 768**	**249 881**
Additions		12 191	1 585	29 613	2 798	16 895	63 082
Acquisitions through business combinations		979	3 531	78	4 147	2 137	10 872
Transfers		7 965	-	-	-	(7 965)	-
Disposals – at cost or revalued amount		(2 300)	(54)	(4 159)	(5 407)	(1 705)	(13 625)
Disposals – accumulated depreciation		18	2	4 060	1 825	-	5 905
Depreciation charge	26	(5 694)	(34)	(22 852)	(3 779)	-	(32 359)
Carrying amount at 31 December 2010		**193 636**	**7 458**	**46 841**	**12 691**	**23 130**	**283 756**
Cost or revalued amount at 31 December 2010		199 900	7 524	136 748	21 980	23 130	389 282
Accumulated depreciation		(6 264)	(66)	(89 907)	(9 289)	-	(105 526)
Additions		10 536	1 153	49 392	5 817	42 454	109 352
Acquisitions through business combinations		827	91	648	22	279	1 867
Transfers		26 877	7 740	64	1 674	(36 355)	-
Disposals – at cost or revalued amount		(4 914)	(4 413)	(6 196)	(5 940)	(2 672)	(24 135)
Disposals – accumulated depreciation		204	240	5 816	1 914	-	8 174
Depreciation charge	26	(6 708)	(788)	(32 746)	(3 355)	-	(43 597)
Impairment of construction in progress recognised in profit or loss		-	-	-	-	(125)	(125)
Revaluation of office premises recognised in profit or loss		(11 297)	-	-	-	-	(11 297)
Revaluation of premises recognised in other comprehensive income		36 874	-	-	-	-	36 874
Foreign currencies translation		(972)	-	9	14	(17)	(966)
Carrying amount at 31 December 2011		**245 063**	**11 481**	**63 828**	**12 837**	**26 694**	**359 903**
Cost or revalued amount at 31 December 2011		245 063	12 095	180 665	23 567	26 694	488 084
Accumulated depreciation		-	(614)	(116 837)	(10 730)	-	(128 181)

Construction in progress consists of construction or refurbishment of the Group’s premises and equipment. Upon completion, assets are transferred to office premises, other premises or equipment categories.

14 Premises and Equipment (Continued)

Office premises have been revalued to market value at 31 December 2011. At 31 December 2011 the carrying amount of office premises would have been RR 156 510 million (2010: RR 126 885 million) had the premises been carried at cost less depreciation. The amount reconciles to the carrying value of the office premises as follows:

In millions of Russian Roubles	2011	2010
Office premises at revalued amount in the statement of financial position	245 063	193 636
Revaluation reserve presented in equity before tax and amortisation	(112 870)	(75 823)
Negative revaluation of office premises presented in income statement	29 771	18 474
Difference between accumulated depreciation based on cost and based on revalued amount	(5 454)	(9 402)
Office premises at cost less accumulated depreciation	**156 510**	**126 885**

At 31 December 2011 included in office and computer equipment were fully depreciated items in the amount of RR 22 111 million (2010: RR 27 741 million). There were no fully depreciated items in vehicles and other equipment as at 31 December 2011 (2010: RR 1 120 million).

15 Other Assets

In millions of Russian Roubles	2011	2010
Other financial assets		
Receivables on plastic cards settlements	78 805	91 219
Derivative financial instruments	51 204	9 257
Settlements on operations with securities	15 214	-
Settlements on currency conversion operations	6 497	6 196
Accrued fees and commissions	3 884	2 758
Trade receivables	2 653	5 259
Funds in settlement	157	118
Other financial assets	6 920	2 791
Provision for impairment of other financial assets	(2 214)	(2 162)
Total other financial assets	**163 120**	**115 436**
Other non-financial assets		
Precious metals	65 964	34 767
Prepayments for premises and other assets	29 933	39 258
Goodwill	15 050	8 251
Non-current assets held for sale and assets of the disposal group	14 355	402
Inventory of non-banking subsidiaries	12 709	11 589
Intangible assets acquired through business combinations	12 239	4 170
Investment property	11 758	5 414
Tax settlements (other than on income)	9 821	4 230
Non-exclusive licences	8 909	4 091
Investments in associates	4 677	2 479
Prepaid expenses	3 845	2 840
Prepayment on income tax	1 458	929
Other non-financial assets	10 038	8 658
Provision for impairment of other non-financial assets	(3 920)	(2 610)
Total other non-financial assets	**196 836**	**124 468**
Total other assets	**359 956**	**239 904**

15 Other Assets (Continued)

In December 2011 the Group signed a preliminary agreement on a stage-by-stage disposal of 100% share of OJSC Holding company GVSU Center in a period of less than twelve months after the reporting date as a result of which assets of GVSU were classified as assets of the disposal group as at 31 December 2011. Refer to Notes 20 and 39.

As at 31 December 2011 receivables on plastic cards settlements of RR 78 805 million (2010: RR 91 219 million) represent receivables due within 30 days on operations of the Group`s customers with plastic cards.

As at 31 December 2011 and 31 December 2010 intangible assets acquired through business combinations are as follows:

In millions of Russian Roubles	**2011**	**2010**
Licenses for oil exploitation	2 381	2 598
Core deposit intangible	5 355	1 483
Other	4 503	89
Total intangible assets acquired through business combinations	**12 239**	**4 170**

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

In millions of Russian Roubles	**Funds in settlement**	**Other financial assets**	**Prepayments for premises and other assets**	**Other non-financial assets**	**Total**
Provision for impairment at 1 January 2011	**77**	**2 085**	**1 083**	**1 527**	**4 772**
Net provision charge for impairment during the year	13	259	(82)	1 669	1 859
Other assets written off during the year as uncollectible	-	(220)	-	(277)	(497)
Provision for impairment at 31 December 2011	**90**	**2 124**	**1 001**	**2 919**	**6 134**

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

In millions of Russian Roubles	**Funds in settlement**	**Other financial assets**	**Prepayments for premises and other assets**	**Other non-financial assets**	**Total**
Provision for impairment at 1 January 2010	**385**	**3 623**	**1 111**	**335**	**5 454**
Net provision charge for impairment during the year	(308)	5 458	(26)	1 313	6 437
Other assets written off during the year as uncollectible	-	(6 996)	(2)	(121)	(7 119)
Provision for impairment at 31 December 2010	**77**	**2 085**	**1 083**	**1 527**	**4 772**

15 Other Assets (Continued)

Provision for impairment of other assets is recognised by the Group on operations conducted in the normal course of the Group's business. Provision is accessed on the basis of the Group's best estimates of recoverability of other assets.

Movements in goodwill arising on the acquisition of subsidiaries are:

In millions of Russian Roubles	Note	2011	2010
Carrying amount at 1 January		**8 251**	**469**
Acquisition of subsidiaries	37	8 028	8 699
Impairment loss		(1 209)	(917)
Transfer of goodwill to non-current assets held for sale		(20)	-
Carrying amount at 31 December		**15 050**	**8 251**

The estimated fair value of other financial assets is disclosed in Note 34. Currency and maturity analyses of other assets are disclosed in Note 31.

16 Due to Other Banks

In millions of Russian Roubles	2011	2010
Term placements of other banks	240 445	34 149
Sale and repurchase agreements with other banks	232 870	61 803
Correspondent accounts and overnight placements of other banks	59 070	38 716
Total due to other banks	**532 385**	**134 668**

Term placements of other banks represent funds received on interbank market.

At 31 December 2011, included in amounts due to other banks are liabilities of RR 222 017 million (2010: RR 61 803 million) received under sale and repurchase agreements with other banks. Fair value of securities collateralised under these agreements with other banks was included in securities pledged under repurchase agreements in the amount of RR 254 947 million (2010: RR 74 550 million) and in investment securities available for sale in the amount of RR 1 320 million (2010: nil). Refer to Notes 11 and 32.

Included in due to other banks are liabilities in the amount of RR 10 853 million under sale and repurchase agreements which are collateralised with securities of clients. Fair value of such securities totalled RR 11 936 million.

The estimated fair value of due to other banks is disclosed in Note 34. Currency and maturity analyses of due to other banks are disclosed in Note 31. The information on related party balances is disclosed in Notes 35 and 36.

17 Due to Individuals and Corporate Customers

In millions of Russian Roubles	2011	2010
Individuals:		
- Current/demand accounts	1 077 039	785 750
- Term deposits	4 649 280	4 048 709
Total due to individuals	**5 726 319**	**4 834 459**
State and public organisations:		
- Current/settlement accounts	142 182	116 827
- Term deposits	39 560	40 475
Total due to state and public organisations	**181 742**	**157 302**
Other corporate customers:		
- Current/settlement accounts	1 230 174	1 082 754
- Term deposits	793 898	576 616
Total due to other corporate customers	**2 024 072**	**1 659 370**
Total due to corporate customers	**2 205 814**	**1 816 672**
Total due to individuals and corporate customers	**7 932 133**	**6 651 131**

Economic sector concentrations within customer accounts are as follows:

	2011		2010	
In millions of Russian Roubles	**Amount**	**%**	**Amount**	**%**
Individuals	5 726 319	72.2	4 834 459	72.7
Services	450 186	5.7	254 117	3.8
Oil and gas	311 902	3.9	266 889	4.0
Trade	305 636	3.9	260 559	3.9
Construction	182 704	2.3	166 905	2.5
Machine building	132 237	1.7	110 165	1.7
Energy	122 241	1.5	104 246	1.6
Transport, aviation, space industry	79 736	1.0	57 687	0.9
Food and agriculture	78 601	1.0	79 381	1.2
Municipal bodies and state organisations	58 320	0.7	82 717	1.2
Chemical	56 349	0.7	44 269	0.7
Telecommunications	48 703	0.6	39 465	0.6
Metallurgy	43 306	0.5	87 854	1.3
Other	335 893	4.3	262 418	3.9
Total due to individuals and corporate customers	**7 932 133**	**100.0**	**6 651 131**	**100.0**

17 Due to Individuals and Corporate Customers (Continued)

As at 31 December 2011 included in term deposits of corporate customers are deposits in the amount of RR 38 090 million (2010: RR 5 968 million) received under sale and repurchase agreements with legal entities. Fair value of securities collateralised under these agreements amounted to RR 46 054 million and was included in securities pledged under repurchase agreements (2010: RR 6 943 million). Refer to Notes 11 and 32.

Included in term deposits of corporate customers are deposits in the amount of RR 3 883 million under sale and repurchase agreements which are collateralised with securities of clients. Fair value of such securities totalled RR 5 142 million.

As at 31 December 2011 included in Due to corporate customers are deposits of RR 95 001 million (2010: RR 78 749 million) held as collateral for irrevocable commitments under import letters of credit. Refer to Note 32.

As at 31 December 2011 the Group had 20 largest customers with balances above RR 11 500 million (2010: 20 customers with balances above RR 7 450 million). The aggregate balance of these customers was RR 621 086 million (2010: RR 561 760 million) or 7.8% (2010: 8.4%) of total due to individuals and corporate customers.

The estimated fair value of due to individuals and corporate customers is disclosed in Note 34. Currency and maturity analyses of due to individuals and corporate customers are disclosed in Note 31. The information on related party balances is disclosed in Notes 35 and 36.

18 Debt Securities in Issue

In millions of Russian Roubles	31 December 2011	31 December 2010
Loan participation notes issued under the MTN programme	169 623	153 273
Promissory notes	77 214	96 505
Savings certificates	9 798	13 102
Structured notes	1 498	-
Deposits certificates	700	1 889
Other debt securities	9 874	7 930
Total debt securities in issue	**268 707**	**272 699**

At 31 December 2011 included in loan participation notes issued under the MTN programme are notes issued by the Group under USD 10 000 million loan participation notes MTN issuance programme launched in 2006. In May 2006 the Group issued the first series of notes under this programme in the amount of USD 500 million equivalent to RR 13 472 million as at the date of issue. As at 31 December 2011 these notes were accounted for at amortised cost of RR 16 360 million (2010: RR 15 539 million). The notes mature in May 2013 and have contractual fixed interest rate of 6.5% p.a. As at 31 December 2011 the effective interest rate on the notes was 6.6% p.a. (2010: 6.6% p.a.).

In July 2008 the Group issue the third series of notes under the MTN issuance programme in the amount of USD 500 million equivalent to RR 11 734 million as at the date of issue. As at 31 December 2011 these notes were accounted for at amortised cost of RR 16 689 million (2010: RR 15 843 million). These notes mature in July 2013 and have contractual fixed interest rate of 6.5% p.a. As at 31 December 2011 the effective interest rate on the notes was 6.6% p.a. (2010: 6.6% p.a.).

18 Debt Securities in Issue (Continued)

In July 2010 the Group issued the fourth series of loan participation notes under the MTN issuance programme in the amount of USD 1 000 million equivalent to RR 31 112 million as at the date of issue. The notes mature in July 2015 and have contractual fixed interest rate of 5.5% p.a. Additional notes of USD 500 million (equivalent to RR 15 093 million as at the date of issue) were issued In August 2010 with a premium and form a single series with the fourth series issue. Additional notes have the same interest rate and maturity date. As at 31 December 2011 the notes were accounted for at amortised cost of RR 49 737 million (2010: RR 47 124 million); the effective interest rate on the notes was 5.4% p.a. (2010: 5.4% p.a.).

In September 2010 the Group issued the fifth series of loan participation notes under the MTN issuance programme in the amount of USD 1 000 million equivalent to RR 31 003 million as at the date of issue. The notes mature in March 2017 and have contractual fixed interest rate of 5.4% p.a. In October 2010 the Group issued additional notes for USD 250 million (equivalent to RR 7 631 million as at the date of issue) with a premium which form a single series with the fifth series issue and have the same interest rate and maturity. As at 31 December 2011 the notes were accounted for at amortised cost of RR 40 882 million (2010: RR 38 681 million); the effective interest rate was 5.4% p.a. (2010: 5.4% p.a.).

In November 2010 the Group issued the sixth series of loan participation notes under the MTN issuance programme in the amount of CHF 400 million equivalent to RR 12 577 million as at the date of issue. The notes mature in November 2014 and have contractual fixed interest rate of 3.5% p.a. As at 31 December 2011 the notes were accounted for at amortised cost of RR 13 738 million (2010: RR 12 988 million); the effective interest rate was 3.6% p.a. (2010: 3.6% p.a.).

In June 2011 the Group issued the seventh series of loan participation notes under the MTN issuance programme in the amount of USD 1 000 million equivalent to RR 27 896 million as at the date of issue. The notes mature in June 2021 and have contractual fixed interest rate of 5.7% p.a. As at 31 December 2011 the notes were accounted for at amortised cost of RR 32 217 million; the effective interest rate on the notes was 5.8% p.a.

During the year ended 31 December 2010 the Group partly repurchased loan participation notes, recognised at amortised cost of RR 2 123 million. The transaction was organised as a buy-out of the notes from the market. As a result of this transaction the Group has received a net loss in the amount of RR 87 million included in the consolidated income statement. In 2010 the Group partly disposed of the loan participation notes which were previously bought back from the market. The sale was conducted in several tranches. Amortised cost of the newly recognised liabilities comprised RR 7 116 as at 31 December 2011 (2010: RR 9 392 million, RR 2 569 million of which were redeemed in 2011). Effective interest rates varied from 2.5% to 4.3 % p.a.

In November 2011 the Group repaid the second series of loan participation notes under the MTN issuance programme in the amount of USD 750 million equivalent to RR 22 896 million as at the date of redemption. The notes were issued in November 2006 and had contractual fixed interest rate of 5.9% p.a.

Promissory notes are interest-bearing or discount securities issued by the Group. They are denominated in Russian roubles, US Dollars and Euro and have maturity dates from ”on demand” to September 2014 (2010: from ”on demand” to December 2013). Interest or discount rates on promissory notes issued by the Group vary from 0.1% to 6.5% p.a. (2010: from 0.3% to 10.4% p.a.). Promissory notes are freely tradable on the Russian financial market.

Savings and deposits certificates are interest-bearing securities issued by the Group. They are denominated in Russian Roubles and Belorussian Roubles and have maturity dates from ”on demand” to December 2014 (2010: from “on demand” to December 2013). Interest rates on these securities vary from 4.1% to 7.2% p.a. (2010: from 0.03% to 18.0% p.a.).

Structured notes represent interest-bearing and non-interest-bearing securities issued by the Group. They are denominated in Russian Roubles and have maturity dates from ”on demand” to August 2018. Interest rates on these securities vary from 0% to 17% p.a.

18 Debt Securities in Issue (Continued)

Other debt securities represent interest-bearing securities issued by the Group. They are denominated in Belorussian Roubles, Kazakh Tenge, US Dollars and Euro and have maturity dates from ”on demand” to 2019 (2010: from “on demand” to 2019). Interest rates on these securities vary from 5.5% to 12.8% p.a. (2010: from 4.0% p.a. to 16.5% p.a.).

The estimated fair value of debt securities in issue is disclosed in Note 34. Currency and maturity analyses of debt securities in issue are disclosed in Note 31.

19 Other Borrowed Funds

In millions of Russian Roubles	**2011**	**2010**
Syndicated loans received	102 115	96 904
Trade finance deals	141 905	74 351
Total other borrowed funds	**244 020**	**171 255**

In December 2010 the Group received a syndicated loan in the amount of USD 2 000 million from a consortium of foreign banks equivalent to RR 61 506 million as at the date of issue. As at 31 December 2011 the loan was accounted for at amortised cost of RR 64 016 million (2010: RR 60 391 million). This loan matures in December 2013 and had contractual floating interest rate of 6 months LIBOR + 1.5% p.a. As at 31 December 2011 the effective interest rate on the loan was 2.7% p.a. (2010: 2.3% p.a.).

In November 2011 the Group received a multicurrency syndicated loan in the total amount of USD 1 197 million from a consortium of foreign banks equivalent to RR 37 638 million as at the date of issue. The loan was received in two tranches in two different currencies: c. 90% of the above sum was received in USD dollars and the remaining part in Euro. The loan matures in November 2014 and has contractual floating interest rates of 3 months LIBOR + 1.5% p.a. for the tranche in USD dollars and 3 months EURIBOR + 1.1% p.a. for the tranche in Euro. As at 31 December 2011 the loan was accounted for at amortised cost of RR 38 099 million; the effective interest rate on the tranche in USD dollars was 2.4% p.a., on the tranche in Euro – 2.9% p.a.

In October 2011 the Group repaid a syndicated loan in the amount of USD 1 200 million equivalent to RR 37 603 million as at the date of redemption. The loan was received by the Group in October 2008 from a consortium of foreign banks; the contractual floating interest rate was 3 months LIBOR + 0.85% p.a.

Other long-term borrowings represent trade finance deals performed by the Group. As at 31 December 2011 these borrowings were accounted for at amortised cost of RR 141 905 million (2010: RR 74 351 million), had interest rates varying from 0.9% to 8.3% p.a. (2010: from 0.1% to 9.1% p.a.) and maturity dates from January 2012 to December 2021 (2010: from January 2011 to June 2019).

The estimated fair value of other borrowed funds is disclosed in Note 34. Currency and maturity analyses of other borrowed funds are disclosed in Note 31.

20 Other Liabilities

In millions of Russian Roubles	Note	2011	2010
Other financial liabilities			
Securities sold, not yet purchased		67 492	-
Payable for acquisition of Troika Dialog Group Ltd.	37	36 133	-
Payables on plastic card settlements		45 777	25 425
Derivative financial instruments		26 665	1 553
Trade payables		13 097	9 318
Settlements on operations with securities		10 497	-
Funds in settlement		10 091	5 071
Deposit insurance system fees payable		5 184	4 476
Deferred commissions received on guarantees issued		1 373	1 222
Other		6 476	2 109
Total other financial liabilities		**222 785**	**49 174**
Other non-financial liabilities			
Accrued employee benefit costs		17 898	15 709
Taxes payable other than on income		9 508	8 573
Liabilities of the disposal group		8 459	-
Advances received		1 801	5 648
Income tax payable		1 492	7 761
Deferred gains on initial recognition of financial instruments		819	4 108
Other		2 396	1 200
Total other non-financial liabilities		**42 373**	**42 999**
Total other liabilities		**265 158**	**92 173**

In December 2011 the Group signed a preliminary agreement on a stage-by-stage disposal of 100% share of OJSC Holding company GVSU Center in a period of less than twelve months after the reporting date as a result of which liabilities of GVSU were classified as liabilities of the disposal group as at 31 December 2011. Refer to Notes 15 and 39.

As at 31 December 2011 and 31 December 2010 the movements in deferred gains on initial recognition of financial instruments were as follows:

In millions of Russian Roubles	**Deferred gains on initial recognition of financial instruments**
Carrying amount at 1 January 2010	**3 863**
Additions	1 104
Amortisation transferred to Income statement	(859)
Carrying amount at 31 December 2010	**4 108**
Additions	143
Gains transferred to Income statement upon disposal	(2 862)
Amortisation transferred to Income statement	(570)
Carrying amount at 31 December 2011	**819**

20 Other Liabilities (Continued)

Defined benefit plans of the Group. The Group applies IAS 19 *Employee Benefits* for accounting for its pension liabilities. As at 31 December 2011 the Group operates two benefit plans – benefit plan with defined pension payments and benefit plan with defined pension contributions. The Group takes direct liability to provide pension payments and contributions defined according to the Group's pension programmes.

All the employees of the Bank (including retired) who are entitled for state pension payments or have five years or less to retirement as at 1 January 2011 participate in the benefit plan with defined pension payments. The amount of payments is determined based on employee staying with the Bank at the date of retirement. As at 31 December 2011 the Bank operates 18 separate pension programmes with defined payments, for Central Head Office and each Regional Head Office. The programmes covered 93 058 participants (2010: 296 315 participants).

All the employees of the Bank with three years of continuous employment with the Bank except the Management Board members, those employees who have five years or less to retirement as at 1 January 2011 or those who are already entitled for state pension payments participate in the benefit plan with defined pension contributions (which are calculated as a percent of wage). According to the programme employees whose continuous employment with the Bank reaches seven years become unconditionally entitled for these contributions upon retirement. The programme covered 169 982 participants.

As at 31 December 2011 pension liabilities of the Group comprised RR 4 650 million (2010: RR 7 842 million). Pension expenses for 2011 amounted to RR 685 million (2010: RR 1 898 million) and were included in staff costs within operating expenses.

The estimated fair value of other financial liabilities is disclosed in Note 34. Currency and maturity analyses of other liabilities are disclosed in Note 31.

21 Subordinated Debt

In millions of Russian Roubles	**2011**	**2010**
Subordinated debt received from the Bank of Russia	303 294	303 299
Other subordinated debts	224	214
Total subordinated debt	**303 518**	**303 513**

In December 2008 the Group received a subordinated loan of RR 500 000 million from the Bank of Russia with a contractual fixed interest rate of 8.0% p.a. The transaction was structured in three tranches. In May 2010 the Group paid back RR 200 000 million of the loan. The remaining part of the loan matures in December 2019. On 30 July 2010 under the additional agreement with the Bank of Russia the interest rate was changed to 6.5% p.a. As at 31 December 2011 the loan was accounted for at amortised cost of RR 303 294 million (2010: RR 303 299 million); the effective interest rate on the loan was 6.5% p.a. (2010: 6.5% p.a.).

In the event of the Bank's liquidation the holders of these debts would be subordinated to all other creditors.

The estimated fair value of subordinated debt is disclosed in Note 34. Currency and maturity analyses of subordinated debt are disclosed in Note 31. The information on related party balances is disclosed in Note 35.

22 Share Capital and Treasury Shares

In millions of Russian Roubles, except for number of shares	2011 Number of shares, in thousands	2011 Nominal amount	2011 Inflation adjusted amount	2010 Number of shares, in thousands	2010 Nominal amount	2010 Inflation adjusted amount
Ordinary shares	21 586 948	64 761	83 337	21 586 948	64 761	83 337
Preference shares	1 000 000	3 000	4 405	1 000 000	3 000	4 405
Total share capital	**22 586 948**	**67 761**	**87 742**	**22 586 948**	**67 761**	**87 742**

As at 31 December 2011 all ordinary shares have a nominal value of RR 3 per share and rank equally. Each ordinary share carries one vote. All issued ordinary shares are fully paid. Preference shares have a nominal value of RR 3 per share and carry no voting rights but rank ahead of the ordinary shares in the event of the Bank's liquidation. Preference shares are not redeemable. Dividend payments are at the discretion of the Bank. When a dividend is paid, the preference shares attract a minimum payment of annual dividends of 15% of their nominal value, subject to confirmation of the shareholders meeting. If preference dividends are not declared, the preference shareholders obtain the right to vote as ordinary shareholders, but lose this right when the next dividend is paid. Preference share dividends are set at 38.3% of nominal value in 2011 for the year ended 31 December 2010 (2010: 15.0% of nominal value for the year ended 31 December 2009). Preference share dividends rank above ordinary dividends.

On 26 June 2009 by the Annual Shareholders' Meeting a decision was passed to increase the Bank's authorized capital through a placement of ordinary shares by open subscription within the limit of authorized shares (15 billion shares). As at 31 December 2011 the issue has not yet been performed.

The treasury shares as at 31 December 2011 and 31 December 2010 were as follows:

In millions of Russian Roubles, except for number of shares	2011 Number of shares, in thousands	2011 Inflation adjusted amount	2011 Fair value	2010 Number of shares, in thousands	2010 Inflation adjusted amount	2010 Fair value
Ordinary shares	32 199	124	4 313	5	-	-
Preference shares	44 783	197	2 649	-	-	-
Total treasury shares	**76 982**	**321**	**6 962**	**5**	**-**	**-**

23 Interest Income and Expense

In millions of Russian Roubles	2011	2010
Interest income		
Interest income on financial assets carried at amortised cost and on financial assets available for sale:		
- Loans and advances to customers	741 796	682 010
- Debt investment securities available for sale	67 424	83 219
- Debt investment securities held to maturity	26 799	9 101
- Due from other banks	6 861	7 955
- Correspondent accounts with other banks	121	118
	843 001	**782 403**
Interest income on financial assets carried at fair value through profit or loss:		
- Debt trading securities	4 035	7 503
- Debt securities designated at fair value through profit or loss	3 588	5 740
	7 623	**13 243**
Total interest income	**850 624**	**795 646**
Interest expense		
Term deposits of individuals	(186 214)	(213 384)
Term deposits of legal entities	(26 040)	(29 747)
Subordinated debt	(19 512)	(28 219)
Debt securities in issue	(12 746)	(13 344)
Current/settlement accounts of legal entities	(10 540)	(9 089)
Term placements of other banks	(4 977)	(1 382)
Current/demand accounts of individuals	(4 702)	(2 628)
Other borrowed funds	(4 226)	(1 640)
Correspondent accounts of other banks	(564)	(392)
Total interest expense	**(269 521)**	**(299 825)**
Expenses directly attributable to deposit insurance	(20 077)	(16 718)
Net interest income	**561 026**	**479 103**

24 Fee and Commission Income and Expense

In millions of Russian Roubles	2011	2010
Fee and commission income		
Cash and settlements transactions with individuals	41 476	41 845
Cash and settlements transactions with legal entities	42 500	40 623
Plastic cards operations	35 084	23 639
Agent commissions on selling insurance contracts	13 973	9 448
Operations with foreign currencies	6 551	5 858
Cash collection	4 733	4 445
Guarantees issued	4 364	2 717
Transactions with securities	1 120	1 116
Other	2 075	1 258
Total fee and commission income	**151 876**	**130 949**
Fee and commission expense		
Settlement transactions	(7 554)	(5 373)
Operations with foreign currencies	(372)	(101)
Cash collection	(326)	(254)
Other	(2 990)	(1 647)
Total fee and commission expense	**(11 242)**	**(7 375)**
Net fee and commission income	**140 634**	**123 574**

25 Net Gains Arising from Trading in Foreign Currencies, Operations with Foreign Currency Derivatives and Foreign Exchange Translation Gains

In millions of Russian Roubles	2011	2010
Net gains arising from trading in foreign currencies	5 503	8 081
Net foreign exchange translation gains	1 411	15 166
Net gains/(losses) from operations with foreign currency derivatives	2 612	(9 175)
Total net gains arising from trading in foreign currencies, operations with foreign currency derivatives and foreign exchange translation	**9 526**	**14 072**

Net foreign exchange translation gains include net foreign exchange translation gains arising on operations with securities at fair value through profit or loss in the amount of RR 147 million (2010: a gain of RR 287 million).

26 Operating Expenses

In millions of Russian Roubles	Note	2011	2010
Staff costs		203 802	161 180
Depreciation of premises and equipment	14	43 597	32 359
Repairs and maintenance of premises and equipment		24 845	19 789
Administrative expenses		22 519	14 227
Taxes other than on income		11 712	12 586
Telecommunication expenses		10 752	8 187
Operating lease expenses for premises and equipment		10 407	8 644
Advertising and marketing services		5 137	2 867
Consulting and assurance services		3 502	1 760
Other		12 070	4 302
Total operating expenses		**348 343**	**265 901**

Included in staff costs are compulsory statutory social security and pension contributions of RR 32 651 million (2010: RR 21 758 million).

27 Income Taxes

Income tax expense comprises the following:

In millions of Russian Roubles	2011	2010
Current tax	75 734	50 622
Deferred tax	3 331	4 062
Less: Deferred tax recognised in other comprehensive income	674	(6 197)
Income tax expense for the year	**79 739**	**48 487**

The income tax rate applicable to the major part of the Group's income for 2011 is 20% (2010: 20%).

Reconciliation between the expected and the actual taxation charge is provided below:

In millions of Russian Roubles	2011	2010
IFRS profit before tax	**395 681**	**230 135**
Theoretical tax charge at statutory rate	79 136	46 027
Tax effect on income on government securities taxed at different rates	(3 259)	(2 367)
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Non-deductible staff costs	2 578	790
- Unrecognised tax assets of subsidiaries	609	1 300
- Non-deductible losses on cessions	568	1 184
- Other non-temporary differences	107	1 553
Income tax expense for the year	**79 739**	**48 487**

27 Income Taxes (Continued)

Differences between IFRS and Russian statutory taxation regulations give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 20% (2010: 20%), except for income on state, municipal and certain other types of securities that is taxed at 15%, 9% and 0% (2010: 15%, 9% and 0%) and on dividends that is taxed at a standard rate of 9% (2010: 9%).

In millions of Russian Roubles	**31 December 2010**	**Business combinations**	**Credited/ (charged) to profit or loss**	**Recognised in other comprehensive income**	**31 December 2011**
Tax effect of deductible temporary differences					
Deferred fees and commissions income	5 751	-	(649)	-	5 102
Accrued employee benefit costs	40	-	60	-	100
Low value items write-off	1 330	-	532	-	1 862
Accrued interest on loans	6 638	-	(1 404)	-	5 234
Fair valuation of trading securities and securities designated at fair value through profit or loss	4 163	-	5 160	-	9 323
Other	-	-	(8 575)	-	(8 575)
Gross deferred tax asset	**17 922**	**-**	**(4 876)**	**-**	**13 046**
Tax effect of taxable temporary differences					
Loan impairment provision	(2 897)	-	(1 598)	-	(4 495)
Premises and equipment	(17 850)	-	2 773	(7 273)	(22 350)
Fair valuation of investment securities available for sale	(5 521)	-	10	7 947	2 436
Other	(57)	(1 650)	(314)	-	(2 021)
Gross deferred tax liability	**(26 325)**	**(1 650)**	**871**	**674**	**(26 430)**
Total net deferred tax asset/ (liability)	**(8 403)**	**(1 650)**	**(4 005)**	**674**	**(13 384)**

27 Income Taxes (Continued)

In millions of Russian Roubles	31 December 2009	Business combinations	Credited/ (charged) to profit or loss	Recognised in other comprehensive income	31 December 2010
Tax effect of deductible temporary differences					
Deferred fees and commissions income	6 298	-	(547)	-	5 751
Accrued employee benefit costs	2 446	-	(2 406)	-	40
Low value items write-off	1 163	-	167	-	1 330
Accrued interest on loans	3 978	-	2 660	-	6 638
Fair valuation of investment securities available for sale	(2 980)	-	7 143	-	4 163
Gross deferred tax asset	**10 905**	**-**	**7 017**	**-**	**17 922**
Tax effect of taxable temporary differences					
Loan impairment provision	3 361	-	(464)	-	2 897
Premises and equipment	15 611	335	1 943	(39)	17 850
Fair valuation of trading securities and securities designated at fair value through profit or loss	(1 869)	-	1 154	6 236	5 521
Other	(1 600)	(592)	2 249	-	57
Gross deferred tax liability	**15 503**	**(257)**	**4 882**	**6 197**	**26 325**
Total net deferred tax asset/ (liability)	**(4 598)**	**257**	**2 135**	**(6 197)**	**(8 403)**

As at 31 December 2011, the temporary difference associated with investments in subsidiaries in the statement of financial position of the parent company amounted to RR 20 509 million (2010: RR 27 037 million). In accordance with IAS 12 Income Taxes respective deferred tax asset of RR 4 102 million (2010: respective deferred tax asset of RR 5 407 million) was not recognized in the financial statements.

28 Earnings per Share

Basic earnings per share is calculated by dividing the profit attributable to shareholders of the Bank by the weighted average number of ordinary shares in issue during the period, excluding treasury shares. The Bank has no dilutive potential ordinary shares; therefore the diluted earnings per share equals the basic earnings per share.

In millions of Russian Roubles	2011	2010
Profit for the reporting period attributable to the shareholders of the Bank	316 195	182 131
Less preference dividends declared	(1 150)	(450)
Profit attributable to the ordinary shareholders of the Bank	**315 045**	**181 681**
Weighted average number of ordinary shares in issue (millions)	21 571	21 587
Earnings per ordinary share, basic and diluted (expressed in RR per share)	**14.61**	**8.42**

29 Dividends

	2011		2010	
In millions of Russian Roubles	Ordinary	Preference	Ordinary	Preference
Dividends payable at 1 January	65	29	92	30
Dividends declared during the year ended 31 December	19 860	1 150	1 727	450
Dividends paid during the year ended 31 December	(19 816)	(1 135)	(1 754)	(451)
Dividends payable as at 31 December	**109**	**44**	**65**	**29**
Dividends per share declared during the year (RR per share)	**0.92**	**1.15**	**0.08**	**0.45**

All dividends were declared and paid in Russian Roubles.

In accordance with the new Dividend policy of the Bank approved in August 2011 and as part of initiatives to optimize its capital structure and build long-term relationships with its shareholders, during 2011-2013 the Bank intends to increase dividend payments to up to 20% of the net profit determined based on annual consolidated financial statements of the Bank prepared in accordance with IFRS. Consequently, the Bank intends to ensure consistency of its Dividend policy. In accordance with the new Dividend policy, on 16 March 2012 the Supervisory Board recommended to the General Shareholders Meeting to distribute RR 47 491 million to shareholders as dividends.

30 Segment Analysis

For the purposes of management the Group is divided into operating segments of activity – central head office, 17 regional head offices and subsidiaries – which are defined on the basis of organizational structure of the Group and geographical areas. The principal activity of all operating segments is banking operations. For the purposes of presentation in these consolidated financial statements the operating segments are aggregated in the following reportable segments:

- **Moscow, including:**
  - Central head office of the Group,
  - Regional head office of Moscow,
  - Subsidiaries of the Group located in the region.
- **Central and Northern regions of European part of Russia, including:**
  Regional head offices:
  - Severny – Yaroslavl,
  - Severo-Zapadny – Saint-Petersburg,
  - Tsentralno-Chernozemny – Voronezh,
  - Srednerussky – Moscow;

  Subsidiaries of the Group located in the region.
- **Volga region and South of European part of Russia, including:**
  Regional head offices:
  - Volgo-Vyatsky – Nizhniy Novgorod,
  - Povolzhsky – Samara,
  - Severo-Kavkazsky – Stavropol,
  - Yugo-Zapadny – Rostov-on-Don,

  Subsidiaries of the Group located in the region.
- **Ural, Siberia and Far East of Russia, including:**
  Regional head offices:
  - Zapadno-Uralsky – Perm,
  - Uralsky – Ekaterinburg,
  - Sibirsky – Novosibirsk,
  - Zapadno-Sibirsky – Tumen,
  - Severo-Vostochny – Magadan,
  - Dalnevostochny – Khabarovsk,
  - Vostochno-Sibirsky – Krasnoyarsk,
  - Baikalsky – Irkutsk,

  Subsidiaries of the Group located in the region.
- **Other countries, including:**
  - Subsidiaries located in CIS (Ukraine, Kazakhstan, Belarus),
  - Subsidiaries located in Switzerland,
  - A branch office in India,
  - Companies of Troika Dialog Group Ltd. located in the USA, the United Kingdom, Cyprus and certain other jurisdictions.

30 Segment Analysis (Continued)

The Management of the Group analyses operating results of every segment of activity for the purposes of making decision about allocation of resources and assessment of segments' business results. The segments' reporting and operating results which are provided to the Management of the Group for analysis are prepared under Russian accounting standards, except the segments' reporting of the subsidiaries which is prepared under International Financial Reporting Standards.

Intersegment operations are performed on the basis of internal transfer pricing rates which are established, approved and regularly revised by the Management of the Group.

The subsidiaries' activity is controlled by the Group integrally.

Segment reporting of the Group's assets and liabilities as at 31 December 2011 is as follows:

In millions of Russian Roubles	Moscow	Central and Northern regions of European part of Russia	Volga region and South of European part of Russia	Ural, Siberia and Far East of Russia	Other countries	Total
Total assets	**4 848 994**	**1 877 776**	**1 530 792**	**2 110 444**	**445 511**	**10 813 517**
Total liabilities	**3 825 699**	**2 045 324**	**1 433 959**	**1 876 422**	**349 521**	**9 530 925**

Segment reporting of the Group's assets and liabilities as at 31 December 2010 is as follows:

In millions of Russian Roubles	Moscow	Central and Northern regions of European part of Russia	Volga region and South of European part of Russia	Ural, Siberia and Far East of Russia	Other countries	Total
Total assets	**4 318 256**	**1 445 164**	**1 163 282**	**1 548 746**	**185 817**	**8 661 265**
Total liabilities	**2 885 376**	**1 776 676**	**1 270 092**	**1 549 502**	**146 145**	**7 627 791**

Reconciliation of total assets and total liabilities as per the reportable segments with the Group's total assets and total liabilities under IFRS as of 31 December 2011 and 31 December 2010 is as follows:

	Total assets		Total liabilities	
In millions of Russian Roubles	**2011**	**2010**	**2011**	**2010**
Total amount per segment information	**10 813 517**	**8 661 265**	**9 530 925**	**7 627 791**
Adjustment of provisions	72 995	55 642	(17 205)	(19 765)
Additional interest accrued on loans	4 152	1 889	453	(924)
Deferred commission income on loans	(25 506)	(28 753)	650	388
Deferred comission income on guarantees	-	-	1 342	1 135
Accounting for derivatives at fair value	17 442	4 749	17 224	3 867
Adjustment of depreciation and cost or revalued amount of premises and equipment including effect of deferred tax	(51 200)	(68 145)	3 377	(952)
Staff expenses accrued related to the reporting period (bonuses, annual leave, pension liabilities)	218	184	13 795	14 831
Adjustment of income tax	-	-	18 886	7 018
Other adjustments	3 481	1 696	(2 319)	7 971
The Group's total amount under IFRS	**10 835 099**	**8 628 527**	**9 567 128**	**7 641 360**

30 Segment Analysis (Continued)

Segment reporting of the Group's income and expenses for the year ended 31 December 2011 is as follows:

In millions of Russian Roubles	**Moscow**	**Central and Northern regions of European part of Russia**	**Volga region and South of European part of Russia**	**Ural, Siberia and Far East of Russia**	**Other countries**	**Total**
Interest income	323 557	160 164	138 752	186 221	23 262	831 956
Interest expense	(113 647)	(58 118)	(40 252)	(48 786)	(8 558)	(269 361)
Inter-segment (expense)/ income	(35 492)	24 510	5 806	5 176	-	-
Fee and commission income	29 640	39 427	31 678	45 035	4 501	150 281
Fee and commission expense	(2 849)	(2 178)	(1 984)	(3 385)	(973)	(11 369)
Net gains/(losses) arising from securities	7 450	-	-	-	(134)	7 316
Net gains arising from trading in foreign currencies, operations with foreign currency derivatives and foreign exchange translation	12 619	3 706	2 299	2 800	2 227	23 651
Net gains arising from operations with other derivatives	675	-	-	-	-	675
Net gains/(losses) arising from operations with precious metals	3 122	1 041	916	1 352	(95)	6 336
Other net operating gains/ (losses)	15 770	(1 510)	(483)	827	1 432	16 036
Operating income before recovery of provision/ provision charge for loan impairment	**240 845**	**167 042**	**136 732**	**189 240**	**21 662**	**755 521**
Net recovery of provision/ (net provision charge) for loan impairment	25 321	(13 628)	(8 486)	7 589	(3 702)	7 094
Operating income	**266 166**	**153 414**	**128 246**	**196 829**	**17 960**	**762 615**
Operating expenses	(93 523)	(80 599)	(70 410)	(101 806)	(8 820)	(355 158)
Profit before tax (Segment result)	**172 643**	**72 815**	**57 836**	**95 023**	**9 140**	**407 457**
Other disclosures						
Capital expenditure incurred (additions of premises and equipment)	19 686	18 733	17 073	24 727	2 571	82 790
Depreciation of premises and equipment	(6 926)	(6 233)	(5 631)	(7 873)	(1 250)	(27 913)

30 Segment Analysis (Continued)

Segment reporting of the Group's income and expenses for the year ended 31 December 2010 is as follows:

In millions of Russian Roubles	Moscow	Central and Northern regions of European part of Russia	Volga region and South of European part of Russia	Ural, Siberia and Far East of Russia	Other countries	Total
Interest income	296 580	153 262	132 496	179 334	14 935	776 607
Interest expense	(117 168)	(69 627)	(48 327)	(58 576)	(6 706)	(300 404)
Inter-segment (expense)/income	(46 536)	31 180	9 875	5 481	-	-
Fee and commission income	23 975	35 992	27 727	38 840	3 927	130 461
Fee and commission expense	(2 584)	(1 404)	(1 027)	(2 160)	(680)	(7 855)
Net gains arising from securities	21 553	6	-	-	84	21 643
Net (losses)/gains arising from trading in foreign currencies, operations with foreign currency derivatives and foreign exchange translation	(780)	3 237	1 858	2 464	1 847	8 626
Net (losses)/gains arising from operations with precious metals	(1 767)	624	524	901	(314)	(32)
Other net operating (losses)/ gains	6 162	256	(7 551)	(1 604)	282	(2 455)
Operating income before provision charge for loan impairment	**179 435**	**153 526**	**115 575**	**164 680**	**13 375**	**626 591**
Net provision charge for loan impairment	(36 570)	(43 466)	(42 907)	(32 413)	(3 709)	(159 065)
Operating income	**142 865**	**110 060**	**72 668**	**132 267**	**9 666**	**467 526**
Operating expenses	(63 996)	(64 780)	(56 640)	(78 154)	(6 596)	(270 166)
Profit before tax (Segment result)	**78 869**	**45 280**	**16 028**	**54 113**	**3 070**	**197 360**
Other disclosures						
Capital expenditure incurred (additions of premises and equipment)	9 884	17 133	11 010	14 970	1 588	54 585
Depreciation of premises and equipment	(3 809)	(6 384)	(4 944)	(7 234)	(474)	(22 845)

30 Segment Analysis (Continued)

Reconciliation of profit before tax, interest income and expense, fee and commission income, gains from operations with securities and gains from operations with foreign currencies for the reportable segments with the Group's income statement items under IFRS for the year ended 31 December 2011 as follows:

In millions of Russian Roubles	Profit before tax	Interest income	Interest expense	Fee and commission income	Net gains/(losses) arising from operations with securities	Net gains arising from trading in foreign currencies, operations with foreign currency derivatives and foreign exchange translation gains
Total amount per reportable segment	**407 457**	**831 956**	**(269 361)**	**150 281**	**7 316**	**23 651**
Adjustment of provisions	11 201	(2 797)	-	-	-	-
Staff expenses accrued for the year (bonuses, annual leave, pension liabilities)	2 095	-	-	-	-	-
Differences arising on reporting of fee and commission income and expense	3 250	18 543	-	1 262	-	(6 015)
Differencies arising on securities classification	969	(348)	-	-	1 430	(113)
Accounting for derivatives at fair value	(4 219)	-	-	-	-	(6 557)
Additional interest accrued on loans	2 265	2 265	-	-	-	-
Adjustment of depreciation and cost or revalued amount of premises and equipment	(19 180)	-	-	-	-	-
Adjustment of amortised cost and partial repurchase of other borrowed funds	-	(5)	(144)	-	(1 001)	45
Other adjustments	(8 157)	1 010	(16)	333	(938)	(1 485)
The Group's total amount under IFRS	**395 681**	**850 624**	**(269 521)**	**151 876**	**6 807**	**9 526**

30 Segment Analysis (Continued)

Reconciliation of profit before tax, interest income and expense, fee and commission income, gains from operations with securities and gains from operations with foreign currencies for the reportable segments with the Group's income statement items under IFRS for the year ended 31 December 2010 as follows:

In millions of Russian Roubles	Profit before tax	Interest income	Interest expense	Fee and commission income	Net gains/(losses) arising from operations with securities	Net gains arising from trading in foreign currencies, operations with foreign currency derivatives and foreign exchange translation gains
Total amount per reportable segment	**197 360**	**776 607**	**(300 404)**	**130 461**	**21 643**	**8 626**
Adjustment of provisions	28 789	-	-	-	-	-
Staff expenses accrued for the year (bonuses, annual leave, pension liabilities)	(3 024)	-	-	-	-	-
Differences arising on reporting of fee and commission income and expense	1 516	17 589	-	347	-	(5 536)
Differences arising on securities classification	3 413	1 202	-	-	2 176	35
Accounting for derivatives at fair value	13 549	-	-	-	-	11 224
Additional interest accrued on loans	(4 620)	1 094	-	-	-	-
Adjustment of depreciation and cost or revalued amount of premises and equipment	(4 434)	-	-	-	-	-
Adjustment of amortised cost and partial repurchase of other borrowed funds	(456)	(675)	482	(378)	218	49
Other adjustments	(1 958)	(171)	97	519	(67)	(326)
The Group's total amount under IFRS	**230 135**	**795 646**	**(299 825)**	**130 949**	**23 970**	**14 072**

The differences shown above arise from classification variances as well as different accounting policies.

Adjustment of provisions is related to the difference between estimation methodology applied in statutory accounting records used as a basis for management reporting and estimation methodology according to IFRS.

Differences arising on securities' classification relate to gains/(losses) on revaluation of securities designated at fair value through profit or loss in IFRS reporting but classified as available for sale in statutory accounting records used as a basis for management reporting.

For the year ended 31 December 2011 the Group's revenues from customers in the Russian Federation amounted to RR 1 027 366 million (for the year ended 31 December 2010: RR 960 441 million); revenues from customers in all foreign countries from which the Group derives revenues amounted to RR 34 210 million (for the year ended 31 December 2010: RR 20 954 million).

30 Segment Analysis (Continued)

As at 31 December 2011 the carrying value of premises and equipment located in the Russian Federation amounted to RR 350 705 million (2010: RR 276 827 million). Carrying value of premises and equipment of the Group located in foreign countries amounted to RR 9 198 million (2010: RR 6 929 million).

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Group’s total revenue during the year ended 31 December 2011, and during the year ended 31 December 2010.

31 Financial Risk Management

The risk management function within the Group is carried out in respect of major types of risks: credit, country, market, liquidity and operational risks. Market risk includes interest rate risk, equity risk and currency risk. The Group's risk management policies are designed to identify risk carrying operations and allocate key functions within the risk management system of the Group.

The Bank's Management Board under authority delegated by the Shareholders Meeting sets the Group's general risk policy as well as specific policies for managing each type of major risk. The Bank’s Assets and Liabilities Management Committee (ALMC) and Credit and Investment Committee (CIC) in Head Office set limits for operations that create risk exposure according to principles determined by risk policies of the Group and initiated by the departments responsible for risk monitoring and control. The risk-controlling departments operate separately from the business departments involved in developing operations with clients.

The Group performs stress-testing for all major types of risk at least once a year. Test results are reviewed and discussed by Group Management.

The Supervisory Board is informed about all main types of risk on a quarterly basis.

In 2011 the Group launched a project on implementing integrated risk management system which comprises the following key components:

- Management of aggregated risks of the Group using economic capital concept and scenarios methodology, including stress scenarios;
- Defining risk appetite through a set of parameters for the level of risk the Group is capable and/or willing to accept to provide a target return to the shareholders in line with the strategic plans, as well as maintaining the risk of the Group at the level approved;
- Developing and using risk models compliant with the Basel committee requirements and their validation by the departments independent from the model developers;
- Risk identification system ensuring the timely identification and proper measurement of all risks of the Group.

The Group plans to implement this system in full by 2014.

Credit Risk. The Group is exposed to credit risk, which is a risk of a counterparty being unable to meet its credit obligations in whole or in part when due. The Group’s risk management policy aims at increasing competitive advantage of the Group by expanding the list of counterparties and the range of credit products, implementing systemic approach to credit risk to maintain or bring down the level of credit risk losses, optimization of credit portfolio structure by industry, region and product.

The Group’s maximum exposure to credit risk is reflected in the carrying amounts of financial assets in the consolidated statement of financial position. For guarantees and commitments to extend credit, the maximum exposure to credit risk is the amount of the commitment. Refer to Note 32.

31 Financial Risk Management (Continued)

The Group applies the following basic methods of credit risk management:

- prevention of credit risk by identifying, analysing and assessing potential risks before entering the transaction creating risk exposure;
- limiting credit risk by setting exposure or risk limits;
- structuring of transactions;
- monitoring and control of credit risk level.

Assessment of the Group’s credit risk is made in aggregate, by individual portfolios of credit risk bearing assets, by individual counterparties, transactions and groups, by country, geographic region and by industry.

The Group operates a system of internal ratings based on economic-mathematical models for estimating the probability of default of counterparties and transactions. Assessment of individual credit risks of the Group's counterparties in transactions which carry credit risks depends on the counterparty category:

- corporate customers, credit institutions, financial companies, individual entrepreneurs, sovereigns, subjects of the Russian Federation and municipal entities, insurance and leasing companies are assessed on the basis of the system of credit ratings and expected cash flow models or other important indicators;
- individuals are assessed based on their creditworthiness in accordance with the Bank's internal regulatory documents and express assessment.

The Group’s system of credit ratings provides a differentiated assessment of probability of default/non-execution by the counterparties of their obligations by analyzing quantitative (financial) and qualitative factors of credit risk, materiality of their impact on the ability of the counterparty to serve and repay their obligations.

The Group’s internal procedures provide for a multi-factor approach, the factor list being standardized depending on the counterparty category.

Risk factors related to counterparty’s creditworthiness and its volatility, ownership structure, business reputation, credit history, cash flow and financial risks control, transparency, position of the client in the industry and the region, strength of support from local administration and parent companies (in case of a holding) as well as the so-called early warning factors are subject to mandatory monitoring and control. Based on the analysis of these risk factors the probability of default is assessed and graded by counterparty/transaction with their subsequent classification ratings.

The Group closely monitors its credit risk concentration and compliance with prudential regulations of the Bank of Russia, making analysis and forecast of credit risk level. In analysis, monitoring and management of credit risk concentration the following methods are used:

- a distributed criteria mechanism for identifying legally and economically related borrowers, followed by the centralized maintenance of a uniform hierarchical list of groups of related borrowers;
- control of large loans per borrower in groups of related borrowers,
- identifying groups of borrowers by industry, country and region.

The system of controlling and monitoring credit risk level is based on the principles stipulated by the Group's internal regulatory documents that provide for a preliminary, current and follow-up control of transactions creating exposure to credit risk, of keeping within set risk limits and their timely update.

31 Financial Risk Management (Continued)

The Group developed a multi-tier system of limits to separate credit risk of lending business and operations on financial markets. At the same time, the Group operates a multi-dimensional system of authority limits to determine the level of decision-making for each loan application. Each territorial unit is assigned a risk profile, which defines the discretionary powers of the unit to take independent decisions, depending on the risk category of the requested loan. In its turn, the risk category of the requested loan depends on the aggregate risk limit and the risk category of the borrower/group of related borrowers. Thus, the system of differentiated risk levels decision-making authority allows to optimize the lending process. Despite the fact that the existing system of limits provides for proper management of credit risk, the Group is further developing its limits methodology.

In 2011, the Bank expanded its new individual lending "Credit Factory" technology to individual housing loans, the last of the major groups of individual loan products. This technology provides for a comprehensive analysis of the borrower using information from various sources and data bases, centralization of analytical and decision-making functions and high level of pre-loan processing automatisation.

During 2010-2011, the Bank progressed towards an intra-bank automated lending system to achieve end-to-end automation of the lending process comprising:

- capture and maintenance of customer data (contact information, financial statements for different periods, etc.);
- initiation of the loan;
- making a team of representatives from various departments of the Bank to work with the loan;
- identification of the group of related borrowers using a set of relevant criteria;
- automatic rating of the borrowing client/project and determining the level of expected loss given default using appropriate economic and mathematical models;
- automated determination of the appropriate decision-making level for the transaction;
- automated request for, allocation and maintaining limits on the product/client/group of related borrowers;
- automated processes of loan approval with the record of all resolutions and approvals;
- automated on-going monitoring of the client (financial state of the client, intra-group relationship etc.);
- report generation.

This automated system has optimized loan process improving control over credit risk.

Currently, the Group starts implementing an automated system of integrated corporate credit risk control to monitor the current state and change dynamics and to make projections of credit risk, meeting the Basel Committee requirements.

Using the macroeconomic scenarios, the Group conducts sensitivity analyses of credit risk level by both counterparty and corporate portfolio to identify macro factors of maximum correlation with the counterparties' probability of default. Statistics on radical changes of macro factors is used in stress scenario for ratings models for the purpose of stress testing.

The Group monitors debt recovery at all phases of debt collection. Identification of problem areas/phases in the process of debt recovery, drop in debt recovery ratio and non-performing loans growth in territorial units, customer or product segments, contributes to optimization of lending/collection process.

In 2011 the "Tallyman" system was implemented making the base for automated debt collection process for individual loans at an early stage of delays in loan repayments.

31 Financial Risk Management (Continued)

Credit risk for financial instruments not recognised in the statement of financial position is defined as the possibility of sustaining a loss as a result of another party to a financial instrument failing to perform in accordance with the terms of the contract. The Group uses the same credit policies in making conditional obligations as it does for financial instruments recognised in the statement of financial position through established credit approvals, risk control limits and monitoring procedures.

Country risk is the risk of losses due to the default by sovereign and other counterparties in a particular country for reasons other than the standard risks (caused by the Government actions but beyond the control of the counterparties).

Risk exposure of the Group when financing non-residents or foreign Governments is minimized by assessment of the country related risk and setting country risk limits. Assessment of country risks is based on the ratings by international rating agencies (Fitch, Moody's, S&P), the nominal GDP, the level of economic development of the country and its strategic relevance for the group. Countries without international ratings are assessed in accordance with internal procedures, which include the analysis of risk factors related to sovereign solvency, current development trends, efficiency of external debt management, offshore status and international reputation, public policy and domestic political situation. To reduce the country risk, transactions with counterparties are conducted within the risk limits on the countries concerned.

Market Risk. Market risk is the possibility of the Group's financial losses as a result of unfavorable movements in exchange rates, equity prices, interest rates, precious metal prices. The Group manages its market risk in accordance with the Policy of the Bank on Market Risk Management. The main goal of Market Risk Management is to optimize risk/return ratio, minimize loss given unfavorable developments and to reduce the deviation of actual financial result from the expected result.

The Group categorises market risk into:

- interest rate risk,
- equity risk and
- currency risk.

The Group manages its market risks through securities portfolios management and control over positions in currencies, interest rates and derivatives. For this purpose the ALMC sets limits on securities portfolios, open positions, stop-loss and other limits. Market risk limits are updated at least once a year and controlled constantly. The ALMC determines market risk management methodologies and sets limits on particular operations. The Regional Head Offices have their own assets and liabilities management committees that set limits for operations of the Regional Head Offices on the basis of the methodologies and limits set by ALMC of the Bank.

Market risk limits are set on the basis of the value-at-risk analysis, scenario analysis and stress testing as well as regulatory requirements of the Bank of Russia.

The Group makes market risk assessment both by components and in aggregate, determining the diversification effect.

Market risks are controlled by monitoring of operations on foreign exchange and securities market by departments independent of trading divisions. Monitoring of market risks implies continual control over trading deals.

Interest Rate Risk. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on the value of debt securities and cash flows.

31 Financial Risk Management (Continued)

The Group defines two types of interest rate risk:

1. *Interest rate risk on debt securities at fair value through profit or loss or other comprehensive income*

The Group is exposed to interest rate risk of its investments in debt securities portfolio, when changing interest rates impact the fair value of bonds. Trading operations with bonds are performed only by the Bank's Head Office.

For managing and limiting interest rate risk across the debt securities portfolio, the ALMC guided by the market risk policy sets the following limits and controls: aggregate limits for bond categories and currencies; limits on investing in one issue of the issuer, loss limits on trading operations, limits on the maturities structure of investments in bonds, minimum return of investments, limits on repo and reverse repo agreements.

This type of interest rate risk is assessed using Value-at-Risk (hereinafter – VaR) methodology.

The Group also assesses interest rate risk by bonds type: aggregate for the securities at fair value through profit or loss and for the securities available for sale.

2. *Interest rate risk resulting from maturities mismatch (interest rates repricing) across assets and liabilities that are interest rate sensitive (interest rate risk of non-trading positions)*

The Group accepts risk of market interest rate fluctuations effect on cash flows. Interest rate risk of non-trading positions is a result of unfavourable interest rate movement and includes:

- the risk of a parallel shift, change in the slope and shape of the yield curve resulting from the maturities (repricing) mismatch of assets and liabilities sensitive to interest rate changes;
- basis risk, which results from a mismatch in the degree of interest rate sensitivity, of assets and liabilities with similar maturity (repricing term); and
- risk of early repayment (repricing) of interest rate sensitive assets and liabilities.

Increasing interest rates can drive the cost of borrowed funds up faster and at a higher growth rate than return on investments, thus worsening financial results and interest rate margin, whereas decreasing interest rates can decrease return on working assets faster than the cost of borrowed funds.

The objective of managing this type of market risk is to reduce the impact of market interest rates on net interest income. To manage interest rate risk the ALMC sets maximum interest rates on corporate deposits/ current accounts and minimum rates on corporate loans, minimum rate of return on investments into securities and limits on investments into long-term assets bearing inherently the maximum interest rate risk. The Bank's Management Board approves fixed interest rates on deposits from individuals and individual loans for the Bank's Head Office and Regional Head Offices, which require preliminary approval from the ALMC. As a rule interest rates on retail loans and deposits depend on loan and deposit maturity date, amount and the client's category.

ALMC of each regional bank approves interest rates for corporate clients taking into account the regional market situation and the efficiency of the regional bank's transactions on the assets and liabilities side as well as the limits on interest rates set by the ALMC of the Bank's Head Office for corporate funds and placements.

This type of interest rate risk is assessed using the scenario analysis. Forecasting of possible changes in interest rates is carried out separately for Russian Rouble positions and positions in foreign currency. The indicative rate for 3 month-term loans at the Moscow interbank market (MOSPRIME 3M) is used as the base rate for an estimation of rates volatility on rouble positions and LIBOR 3M and EURIBOR 3M – for positions in foreign currency.

31 Financial Risk Management (Continued)

The table below shows the impact of bps interest rates increase and decrease on profit before tax as at 31 December 2011:

Change in profit before tax as at 31 December 2011 *(in millions of Russian Roubles)*	**RR positions**	**Foreign currency position**	**Total**
Decrease in interest rates by 290 bps	22 200	-	22 200
Increase in interest rates by 412 bps	(31 529)	-	(31 529)
Decrease in interest rates by 31 bps	-	968	968
Increase in interest rates by 83 bps	-	(2 608)	(2 608)

The table below shows the impact of bps interest rates increase and decrease on profit before tax as at 31 December 2010:

Change in profit before tax as at 31 December 2010 *(in millions of Russian Roubles)*	**RR positions**	**Foreign currency position**	**Total**
Decrease in interest rates by 173 bps	4 943	-	4 943
Increase in interest rates by 311 bps	(8 887)	-	(8 887)
Decrease in interest rates by 25 bps	-	299	299
Increase in interest rates by 55 bps	-	(672)	(672)

The sensitivity analysis above shows changes in profit before tax given a parallel shift of the yield curve across all interest rate sensitive positions, i.e. when interest rates move by the same value for all maturities. In addition, interest rate risk is assessed considering the following simplifications: the calculation disregards possible early repayment or call of instruments.

Equity Price Risk. The Group is exposed to equity price risk through investments in corporate shares that may lose value when their market quotations change. In order to limit equity price risk the ALMC shortlists the issuers eligible for investing, sets limits for the aggregate investments in equities, limits on investment into a single issuer, stop-loss limits for the aggregate trading portfolio. The regional offices do not perform trading operations with shares.

Equity price risk analysis is based on the VaR methodology.

Currency Risk. Currency risk results from fluctuations in the prevailing foreign currency exchange rates. The Group is exposed to foreign exchange risk on open positions (mainly US dollar/RUB and EUR/RUB exchange rate fluctuations).

As part of managing foreign exchange risk the Group sets sublimits for open foreign exchange positions for Regional Head Offices. Besides, limits and control system are in place for arbitrage operations which sets open position limits for foreign currencies, limits on operations on the international and domestic markets, and stop-loss limits.

The Bank's Department for managing operations with currency and precious metals undertakes daily aggregation of the currency position of the Group and takes measures for maintaining of the Group's currency risk exposure at a minimum level. The Group uses swaps, forwards and USD futures contracts tradable on MICEX as the main instruments for risk management.

31 Financial Risk Management (Continued)

The table below summarizes the Group's exposure to foreign exchange risk in respect of monetary assets, liabilities and notional positions on currency derivatives as at 31 December 2011. Foreign exchange risk on forward and future contracts is represented by their notional positions. Foreign exchange options are disclosed in the amount that reflects theoretical sensitivity of their fair value to reasonable change in exchange rates.

In millions of Russian Roubles	Russian Roubles	USD	Euro	Other	Total
Assets					
Cash and cash equivalents	488 731	58 934	20 889	57 011	625 565
Mandatory cash balances with central banks	99 515	562	113	1 015	101 205
Debt trading securities	47 918	17 085	2 348	2 609	69 960
Debt securities designated at fair value through profit or loss	30 615	-	-	203	30 818
Due from other banks	23 667	8 122	70	3 238	35 097
Loans and advances to customers	6 074 370	1 385 518	157 379	102 433	7 719 700
Debt securities pledged under repurchase agreements	178 440	65 840	44	484	244 808
Debt investment securities available for sale	696 631	73 415	39 445	14 907	824 398
Debt investment securities held to maturity	273 376	12 917	84	139	286 516
Other financial assets (less fair value of derivatives)	93 081	17 053	1 265	517	111 916
Total monetary assets	**8 006 344**	**1 639 446**	**221 637**	**182 556**	**10 049 983**
Liabilities					
Due to other banks	404 596	98 860	21 032	7 897	532 385
Due to individuals	4 959 608	366 553	265 212	134 946	5 726 319
Due to corporate customers	1 517 442	524 619	88 236	75 517	2 205 814
Debt securities in issue	64 427	181 824	1 789	20 667	268 707
Other borrowed funds	339	222 268	19 803	1 610	244 020
Other financial liabilities (less fair value of derivatives)	145 480	48 289	830	1 521	196 120
Subordinated debt	303 293	225	-	-	303 518
Total monetary liabilities	**7 395 185**	**1 442 638**	**396 902**	**242 158**	**9 476 883**
Net monetary assets/(liabilities)	**611 159**	**196 808**	**(175 265)**	**(59 602)**	**573 100**
Foreign exchange derivatives	**6 003**	**(167 429)**	**167 550**	**16 214**	**22 338**
Credit related commitments (Note 32)	**1 406 337**	**594 064**	**113 353**	**41 792**	**2 155 546**

31 Financial Risk Management (Continued)

The table below summarizes the Group's exposure to foreign exchange risk in respect of monetary assets, liabilities and notional positions on currency derivatives as at 31 December 2010.

In millions of Russian Roubles	Russian Roubles	USD	Euro	Other	Total
Assets					
Cash and cash equivalents	519 447	111 079	41 781	47 294	719 601
Mandatory cash balances with central banks	50 532	792	93	261	51 678
Debt trading securities	52 516	9 354	1 510	17	63 397
Debt securities designated at fair value through profit or loss	78 738	-	4 233	-	82 971
Due from other banks	2 086	8 452	2 484	13	13 035
Loans and advances to customers	4 322 771	954 172	123 606	88 838	5 489 387
Debt securities pledged under repurchase agreements	15	72 646	-	556	73 217
Debt investment securities available for sale	1 020 150	55 075	38 179	17 165	1 130 569
Debt investment securities held to maturity	352 996	4 478	298	419	358 191
Other financial assets (less fair value of derivatives)	98 217	6 657	1 195	110	106 179
Total monetary assets	**6 497 468**	**1 222 705**	**213 379**	**154 673**	**8 088 225**
Liabilities					
Due to other banks	63 932	64 811	2 053	3 872	134 668
Due to individuals	4 214 842	262 845	267 768	89 004	4 834 459
Due to corporate customers	1 265 948	407 369	88 167	55 188	1 816 672
Debt securities in issue	110 350	141 627	2 236	18 486	272 699
Other borrowed funds	-	163 883	7 332	40	171 255
Other financial liabilities (less fair value of derivatives)	44 018	1 752	720	1 131	47 621
Subordinated debt	303 299	214	-	-	303 513
Total monetary liabilities	**6 002 389**	**1 042 501**	**368 276**	**167 721**	**7 580 887**
Net monetary assets/(liabilities)	**495 079**	**180 204**	**(154 897)**	**(13 048)**	**507 338**
Foreign exchange derivatives	**63 914**	**(215 079)**	**128 121**	**13 573**	**(9 471)**
Credit related commitments (Note 32)	**621 754**	**561 599**	**107 667**	**35 122**	**1 326 142**

The Group provides loans and advances to customers in foreign currency. Fluctuations of foreign currency exchange rates may negatively affect the ability of borrowers to repay loans, which will in turn increase the probability of loan loss.

31 Financial Risk Management (Continued)

The Group's analysis of currency risk is based on the VaR methodology described below.

Value-at-Risk, VaR. The VaR methodology is one of the main instruments of assessing market risk of the Group. VaR allows to estimate the maximum financial loss with a defined confidence level of probability and time horizon. The Group calculates VaR using the historical modeling methodology. This method allows to evaluate probability scenarios of future price fluctuations on the basis of past changes taking into account market indicators correlations (e.g. interest rates and foreign exchange rates).

VaR is calculated using the following assumptions:

- historical data on changes in financial market indicators comprise 500 trading days preceding the reporting date;
- the market indicators used include currency exchange rates, bond, equity and precious metal prices;
- movements in financial market indicators are calculated over a 10-day period, i.e. an average period when the Group is able to close or hedge its positions exposed to market risk; and
- a 99% one-way confidence level is used, which means that losses in the amount exceeding VaR are expected by the Group maximum once every 100 trading days or not more than 5 times within 2 years.

For evaluating the adequacy of the applied VaR calculation model the Group regularly back-tests the model by comparing the modeled losses with actual losses.

Despite the fact that VaR allows to measure risk, its shortcomings must be taken into account such as:

- past price fluctuations are not sufficient to assess accurately future price fluctuations;
- calculation of financial market price indicators over a 10-day period is based on the assumption that the Group will be able to close (or hedge) all positions within this period. This assessment may be far from accurate in measuring risk exposure at the time of reduced market liquidity, when the period of closing (or hedging) the Group's positions may increase;
- using 99% one-way confidence level of probability does not provide for estimating losses with a probability below 1%; and
- VaR is calculated based on end-of-day position and misses the intra-day risks accepted by the Group.

Taking into account the shortcomings of the VaR methodology the Group applies scenario analysis and stress-testing to have a better understanding of market risk exposure.

To measure interest rate risk for non-trading positions, the Group applies scenario analysis rather than the VaR methodology.

The table below shows the interest rate, equity and currency risk calculation using the VaR methodology as at 31 December 2011:

In millions of Russian Roubles	Value as at 31 December 2011	Average value for 2011	Maximum value for 2011	Minimum value for 2011	Impact on equity	Impact on profit
Interest rate risk on debt securities	41 706	35 289	63 479	21 780	2.8%	13.4%
Equity price risk	9 872	9 304	10 724	7 386	0.7%	3.2%
Currency risk	5 379	5 359	6 911	2 447	0.4%	1.7%
Market risk including diversification effect	42 962	37 558	64 633	28 781	2.8%	13.8%
Diversification effect	13 995	-	-	-	0.9%	4.5%

31 Financial Risk Management (Continued)

The table below shows the interest rate, equity and currency risk calculation using the VaR methodology as at 31 December 2010:

In millions of Russian Roubles	**Value as at 31 December 2010**	**Average value for 2010**	**Maximum value for 2010**	**Minimum value for 2010**	**Impact on equity**	**Impact on profit**
Interest rate risk on debt securities	40 074	48 428	56 852	33 768	3.2%	23.0%
Equity price risk	9 439	13 165	20 675	5 252	0.8%	5.4%
Currency risk	1 910	2 431	3 064	1 359	0.2%	1.1%
Market risk including diversification effect	46 621	56 140	67 639	38 572	3.8%	26.8%
Diversification effect	4 802	-	-	-	0.4%	2.8%

Data in the tables above are calculated on the basis of the Bank's internal management accounting system which is based on the statutory accounting reports of the Bank.

Liquidity Risk. Liquidity risk is defined as the risk of mismatch between the maturities of assets and liabilities. The Group is exposed to daily calls on its available cash resources from overnight deposits, customer's current accounts, term deposits, loan drawdowns, guarantees and from margin and other calls on cash settled derivative instruments. The Group does not maintain cash resources to meet all of the above mentioned needs, as according to historical data a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. Liquidity risk is managed by the ALMC.

The Group liquidity risk management is aimed at ensuring timely and complete fulfillment of its payment obligations at minimum cost. For this purpose the Group:

- maintains a stable and diversified liabilities structure including both term resources and funds on demand,
- reserves capacity for immediate borrowing of funds on financial markets, and
- invests in highly liquid assets diversified by currencies and maturities for quick and effective coverage of unexpected gaps in liquidity.

Policy and Procedures. The Finance department performs analysis and forecasts, and advise Management on regulation of current and short-term liquidity of the Group. Analysis, forecasts and proposals on regulation of medium-term and long-term liquidity are produced by the Finance department of the Bank. Liquidity position and execution of requirements on managing the liquidity risk are controlled by the ALMC of the Bank. Liquidity risk is assessed, managed and controlled on the basis of "Policies of the Bank for Management and Control of Liquidity" and the guidelines of the Bank of Russia and the Basel Committee for Banking Supervision.

Provisions of this Policy lay down the guidelines for organizing the liquidity management in the Regional Head Offices of the Bank. The Management Board of the Bank's Regional Head Office is responsible for efficiently managing and controlling the Regional Head Office liquidity. It is also responsible for monitoring limits and controls required by the Group's internal regulations. Guided by the limits, controls, requirements and policies, the Regional Head Office selects evaluation methods and the necessary level of liquidity and develops and implements measures to ensure liquidity. In case of an insufficient liquidity the Treasury provides funds to the Regional Head Office (according to an established procedure) in the required amount.

31 Financial Risk Management (Continued)

Liquidity risk management includes the following procedures:

- forecasting payment flows by major currencies to ensure the necessary volume of liquid assets to cover liquidity deficit;
- forecasting assets and liabilities structure based on scenario analysis to control the required volume of liquid assets in medium-term and long-term perspective;
- forecasting and monitoring liquidity ratios compliance with regulatory and internal policy requirements;
- control over liquidity reserves of the Group to assess maximum opportunities for the Group to attract funds from various sources in different currencies;
- diversification of funding sources in different currencies taking into account maximum amounts, cost of funding and maturity; and
- stress-testing and planning actions for restoring the required liquidity level in unfavorable conditions or during crisis periods.

The tables below show distribution of undiscounted contractual cash flows (taking into account future interest payments) on liabilities by remaining contractual maturities.

The analysis of undiscounted cash flows on the Group's liabilities by remaining contractual maturity at 31 December 2011 is set out below:

In millions of Russian Roubles	**On demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**From 1 to 3 years**	**More than 3 years**	**Total**
Liabilities						
Due to other banks	356 164	119 818	48 210	12 756	1 588	538 536
Due to individuals	1 639 662	1 584 936	1 271 450	1 757 423	229 390	6 482 861
Due to corporate customers	1 626 081	194 267	78 459	341 649	14 668	2 255 124
Debt securities in issue	42 100	38 473	18 932	62 045	144 436	305 986
Other borrowed funds	317	23 449	54 083	160 839	20 433	259 121
Other liabilities (including derivative financial instruments)	187 393	18 677	2 607	13 130	4 996	226 803
Subordinated debt	1	129	19 516	39 218	400 892	459 756
Total liabilities	**3 851 718**	**1 979 749**	**1 493 257**	**2 387 060**	**816 403**	**10 528 187**
Credit related commitments	2 155 546	-	-	-	-	2 155 546

31 Financial Risk Management (Continued)

The analysis of undiscounted cash flows on the Group's liabilities by remaining contractual maturity at 31 December 2010 is set out below:

In millions of Russian Roubles	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 1 to 3 years	More than 3 years	Total
Liabilities						
Due to other banks	69 683	43 515	19 642	787	2 648	136 275
Due to individuals	1 157 004	1 302 046	891 456	1 475 067	256 027	5 081 600
Due to corporate customers	1 442 153	124 428	92 195	173 099	2 003	1 833 878
Debt securities in issue	37 554	52 194	60 752	40 041	113 097	303 638
Other borrowed funds	393	16 680	83 357	71 424	7 233	179 087
Other liabilities (including derivative financial instruments)	44 069	5 785	302	1 329	253	51 738
Subordinated debt	2	8	19 509	39 223	420 392	479 134
Total liabilities	**2 750 858**	**1 544 656**	**1 167 213**	**1 800 970**	**801 653**	**8 065 350**
Credit related commitments	1 326 142	-	-	-	-	1 326 142

The above analysis is based on undiscounted cash flows on liabilities of the Group taking into account all future payments (including future payments of interest throughout life of the relevant liability). The liabilities were included in the time intervals according to the earliest possible repayment date. For example:

- Demand liabilities (including demand deposits) are included in the earliest time interval; and
- Guarantees issued are included in the earliest period when they may be called.

However, in accordance with the Civil Code of the Russian Federation individuals have the right to withdraw their deposits from any accounts (including time deposits) prior to maturity if they forfeit their right to accrued interest. The Group utilises a wide range of market instruments to maintain its liquidity on the level sufficient for timely execution of the current and forecasted financial obligations including the disposal of liquid assets or funding in domestic and international markets.

The derivative contracts entered into by the Group may be deliverable or settled on net basis. If the derivatives are closed by delivery of underlying asset, inflow and outflow of funds occur simultaneously.

The table below shows assets and liabilities at 31 December 2011 by their remaining expected maturity. Following principles underlying gap analysis presentation and the Group liquidity risk management are based on the mix of CBR initiatives and the Bank's practice:

- ► Cash and cash equivalents represent highly liquid assets and are classified as "on demand and less than 1 month"
- ► Trading securities, securities designated at fair value through profit or loss and highly liquid portion of investment securities available for sale, including those pledged under repurchase agreements are considered to be liquid assets as these securities could be easily converted into cash within short period of time. Such financial instruments are disclosed in gap analysis table as "on demand and less than 1 month"
- ► Investment securities available for sale which are less liquid are disclosed according to remaining contractual maturities (for debt instruments) or as "no stated maturity" (for equities)

31 Financial Risk Management (Continued)

- Investment securities held to maturity including those pledged under repurchase agreements are classified based on the remaining maturities
- Loans and advances to customers, amounts due from other banks, other assets, debt securities in issue, amounts due to other banks, other borrowed funds and other liabilities are included into gap analysis table based on remaining contractual maturities
- Customer deposits diversification by number and type of depositors and the past experience of the Group indicate that such accounts and deposits provide a long-term and stable source of funding, and as a result they are allocated per expected time of funds outflow in the gap analysis table on the basis of statistical data accumulated by the Group during the previous periods and assumptions regarding the "permanent" part of current account balances.

The liquidity position of the Group's assets and liabilities as at 31 December 2011 is set out below.

(Unaudited) *In millions of Russian Roubles*	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 1 to 3 years	More than 3 years	No stated maturity	Total
Assets							
Cash and cash equivalents	625 565	-	-	-	-	-	625 565
Mandatory cash balances with central banks	27 803	10 662	8 920	47 652	6 168	-	101 205
Trading securities	101 973	-	-	-	-	-	101 973
Securities designated at fair value through profit or loss	51 993	-	-	-	-	-	51 993
Due from other banks	18 919	13 846	1 774	226	332	-	35 097
Loans and advances to customers	253 271	1 043 352	1 243 324	2 477 600	2 702 153	-	7 719 700
Securities pledged under repurchase agreements	163 661	-	39 045	82 103	16 030	-	300 839
Investment securities available for sale	869 221	35	2 832	3 147	8 432	862	884 529
Investment securities held to maturity	668	11 739	9 048	116 856	148 205	-	286 516
Deferred income tax asset	-	-	-	-	-	7 823	7 823
Premises and equipment	-	-	-	-	-	359 903	359 903
Other assets	138 249	35 691	29 934	39 659	19 080	97 343	359 956
Total assets	**2 251 323**	**1 115 325**	**1 334 877**	**2 767 243**	**2 900 400**	**465 931**	**10 835 099**
Liabilities							
Due to other banks	373 094	118 933	36 720	3 172	466	-	532 385
Due to individuals	1 243 652	739 229	654 132	2 725 999	363 307	-	5 726 319
Due to corporate customers	973 964	88 003	50 772	1 081 799	11 276	-	2 205 814
Debt securities in issue	35 293	36 734	17 880	53 545	125 255	-	268 707
Other borrowed funds	206	19 688	52 337	151 969	19 820	-	244 020
Deferred income tax liability	-	-	-	-	-	21 207	21 207
Other liabilities	185 810	47 501	9 633	11 944	6 541	3 729	265 158
Subordinated debt	-	-	-	224	303 294	-	303 518
Total liabilities	**2 812 019**	**1 050 088**	**821 474**	**4 028 652**	**829 959**	**24 936**	**9 567 128**
Net liquidity surplus/(gap)	**(560 696)**	**65 237**	**513 403**	**(1 261 409)**	**2 070 441**	**440 995**	**1 267 971**
Cumulative liquidity surplus/ (gap) at 31 December 2011	**(560 696)**	**(495 459)**	**17 944**	**(1 243 465)**	**826 976**	**1 267 971**	**-**

31 Financial Risk Management (Continued)

The liquidity position of the Group's assets and liabilities as at 31 December 2010 is set out below.

In millions of Russian Roubles	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 1 to 3 years	More than 3 years	No stated maturity	Total
Assets							
Cash and cash equivalents	719 601	-	-	-	-	-	719 601
Mandatory cash balances with central banks	10 880	8 987	6 089	22 095	3 627	-	51 678
Trading securities	66 168	-	-	-	-	-	66 168
Securities designated at fair value through profit or loss	106 875	-	-	-	-	-	106 875
Due from other banks	150	9 998	2 111	345	431	-	13 035
Loans and advances to customers	186 302	745 278	998 398	1 960 855	1 598 554	-	5 489 387
Securities pledged under repurchase agreements	81 493	-	-	-	-	-	81 493
Investment securities available for sale	1 183 231	1 460	2 404	13 748	7 543	2 535	1 210 921
Investment securities held to maturity	-	13 069	5 541	177 661	161 920	-	358 191
Deferred income tax asset	-	-	-	-	-	7 518	7 518
Premises and equipment	-	-	-	-	-	283 756	283 756
Other assets	122 498	14 745	20 080	7 587	21 395	53 599	239 904
Total assets	**2 477 198**	**793 537**	**1 034 623**	**2 182 291**	**1 793 470**	**347 408**	**8 628 527**
Liabilities							
Due to other banks	68 222	44 771	18 312	1 555	1 808	-	134 668
Due to individuals	1 040 936	859 810	582 571	2 004 184	346 958	-	4 834 459
Due to corporate customers	861 805	34 828	18 788	897 122	4 129	-	1 816 672
Debt securities in issue	34 706	44 831	56 175	35 944	101 043	-	272 699
Other borrowed funds	83	15 019	81 152	68 042	6 959	-	171 255
Deferred income tax liability	-	-	-	-	-	15 921	15 921
Other liabilities	45 165	23 870	10 513	4 179	492	7 954	92 173
Subordinated debt	-	-	-	214	303 299	-	303 513
Total liabilities	**2 050 917**	**1 023 129**	**767 511**	**3 011 240**	**764 688**	**23 875**	**7 641 360**
Net liquidity surplus/(gap)	**426 281**	**(229 592)**	**267 112**	**(828 949)**	**1 028 782**	**323 533**	**987 167**
Cumulative liquidity surplus/ (gap) at 31 December 2010	**426 281**	**196 689**	**463 801**	**(365 148)**	**663 634**	**987 167**	**-**

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

31 Financial Risk Management (Continued)

Operational Risk. Operational risk and losses connected with it arise from deficiencies in operational management, technologies and information systems in use, unauthorised actions or errors of the staff, or by external events.

The Group considers management of operational risk as part of its overall risk management system. To manage operational risk the Group uses appropriate Policies for prevention and/or minimisation of operational risk.

The Group's Policies for Operational Risk Management include segregation of duties, overall reglamentation of business processes and internal procedures, control over credit limit discipline, rules and procedures for deals and transactions execution; action plan for information security, continuity and recovery in case of emergency and ongoing professional development of staff across the Group's hierarchy.

Management of operational risk depends on the volume of transactions, multi-branch operational structure and diversity of information systems in place.

The Group monitors operational risk data, collects, analyses and systematises the loss data and monitors losses caused by processes and operations exposed to operational risk.

32 Contingencies and Commitments

***Legal proceedings*.** From time to time and in the normal course of business, claims against the Group are received. On the basis of its own estimates and internal professional advice the Management is of the opinion that no material losses will be incurred in respect of claims and accordingly no provision has been made in these consolidated financial statements.

Tax legislation. Russian tax, currency and customs 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 authorities. It is therefore possible that transactions and activities of the Bank Group that have not been challenged in the past may be challenged. As a result, 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 were vaguely drafted, generally leaving wide scope for their interpretation by the tax authorities and courts in practice. The Bank determined its tax liabilities arising from intercompany transactions using actual transaction prices. It is possible that prices applied by the Bank 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 Bank's tax, currency and customs positions will be sustained.

32 Contingencies and Commitments (Continued)

Capital expenditure commitments. At 31 December 2011 the Group has contractual capital expenditure commitments in respect of premises and equipment totalling RR 21 625 million (2010: RR 12 546 million) and in respect of computer equipment acquisition of RR 1 874 million (2010: RR 406 million). The Group has already allocated the necessary resources in respect of these commitments. The Group believes that future net income and funding will be sufficient to cover these and any similar commitments.

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

		2011		2010
In millions of Russian Roubles	**Lease payments under cancellable operating lease**	**Lease payments under non-cancellable operating lease**	**Lease payments under cancellable operating lease**	**Lease payments under non-cancellable operating lease**
Not later than 1 year	7 165	1 163	6 413	1 069
Later than 1 year and not later than 5 years	12 174	2 879	10 527	3 327
Later than 5 years	11 110	2 395	6 626	1 689
Total operating lease commitments	**30 449**	**6 437**	**23 566**	**6 085**

Compliance with covenants. The Group is subject to certain covenants related primarily to its borrowings. Non-compliance with such covenants may result in negative consequences for the Group. The Group is in compliance with covenants as at 31 December 2011 and as at 31 December 2010.

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

Commitments to extend credit represent unused portions of authorisations to extend credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to a loss equal to the total amount of unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the maturities of credit related commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments. Outstanding credit related commitments are as follows:

In millions of Russian Roubles	**2011**	**2010**
Commitments to extend credit	741 920	488 029
Export letters of credit	364 505	353 366
Guarantees issued	490 639	159 158
Undrawn credit lines	377 952	182 220
Import letters of credit and letters of credit for domestic settlements	180 530	143 369
Total credit related commitments	**2 155 546**	**1 326 142**

32 Contingencies and Commitments (Continued)

At 31 December 2011 included in Due to corporate customers are deposits of RR 95 001 million (31 December 2010: RR 78 749 million) held as collateral for irrevocable commitments under import letters of credit. Refer to Note 17.

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

Fiduciary assets. These assets are not included in the consolidated statement of financial position as they are not assets of the Group. Nominal values disclosed below are normally different from the fair values of respective securities. The fiduciary assets fall into the following categories:

In millions of Russian Roubles	**2011** **Nominal value**	**2010** **Nominal value**
State savings bonds and OFZ bonds	599 758	315 649
Corporate shares	317 161	196 605
Promissory notes	13 418	17 930
Corporate bonds	8 934	8 281
Foreign government bonds	1 226	-
Debt securities of municipal and subfederal bodies of the Russian Federation	263	636
Eurobonds of the Russian Federation	5	1 406
Bonds of the Bank of Russia	-	31 197
State domestic loan bonds (OVGVZ)	-	31
Other securities	333	205
Total fiduciary assets	**941 098**	**571 940**

Assets under management. As at 31 December 2011 assets under management include investment funds under the management of Troika Dialog Group Ltd. and mutual investment funds under the management of Sberbank Asset Management Company.

In millions of Russian Roubles	**Value of net assets**
Mutual investment funds	17 430
Designated funds	7 588
Hedge funds	5 108
Venture funds	3 389
Private equity	1 465
Total	**34 980**

As at 31 December 2010 mutual investment funds represented funds under the management of Sberbank Asset Management Company which was established in June 2010 to provide professional asset management services to a broad client base. As at 31 December 2010 the value of net assets of mutual investment funds was RR 140 million.

32 Contingencies and Commitments (Continued)

Assets pledged and restricted. As at 31 December 2011 the Group has pledged federal loan bonds (OFZ bonds) and Eurobonds of the Russian Federation on the special accounts with the Bank of Russia as collateral against overnight interbank borrowings that the Group attracts on a regular basis from the Bank of Russia. The carrying value of assets pledged is as follows:

In millions of Russian Roubles	Notes	2011	2010
Trading securities	8		
- Federal loan bonds (OFZ bonds)		15 746	14 715
Securities designated at fair value through profit or loss	9		
- Federal loan bonds (OFZ bonds)		28 608	31 520
Investment securities available for sale	12		
- Federal loan bonds (OFZ bonds)		203 920	42 498
- Russian Federation Eurobonds		5	5
Investment securities held to maturity	13		
- Federal loan bonds (OFZ bonds)		36 721	37 044
Total		**285 000**	**125 782**

Mandatory cash balances with the Bank of Russia in the amount of RR 101 205 million (2010: RR 51 678 million) represent mandatory reserve deposits, which are not available to finance the Group's day-to-day operations.

The Group also had assets pledged as collateral under repurchase agreements with other banks and corporate customers with the following carrying value:

		2011		2010	
In millions of Russian Roubles	Notes	Asset pledged	Related liability	Asset pledged	Related liability
Securities pledged under repurchase agreements	11	301 001	258 953	81 493	67 323
Investment securities available for sale	12	1 320	1 154	-	-
Total		**302 321**	**260 107**	**81 493**	**67 323**

Refer to Note 11 and Note 12 for more detailed information on securities pledged under repurchase agreements.

33 Derivative Financial Instruments

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

33 Derivative Financial Instruments (Continued)

Fair value of forward contracts is calculated as present value of amounts receivable less present value of amounts payable. The inputs in the discounted cash flows model used are forward exchange rate quotations and quoted implied depo rates. Such instruments are classified as level 2 of fair value hierarchy. Refer to Note 34.

Fair value of option contracts is calculated using the Black-Scholes model. Adjustments for credit risk are made where appropriate. The main inputs of this model are current market price and implied volatility. Where these inputs could be observed on the open market, the carrying amounts are disclosed as level 2 of fair value hierarchy. Otherwise, the amounts are disclosed as level 3. Refer to Note 34.

The table reflects gross positions before the netting of any counterparty positions (and payments) and covers the contracts with settlement dates after the respective reporting date. The contracts are short term in nature.

	Russian counterparties				Foreign counterparties			
As at 31 December 2011: *(in millions of Russian Roubles)*	**Principal or agreed amount at fair value of assets receivable**	**Principal or agreed amount at fair value of assets payable**	**Assets Positive fair value**	**Liabilities Negative fair value**	**Principal or agreed amount at fair value of assets receivable**	**Principal or agreed amount at fair value of assets payable**	**Assets Positive fair value**	**Liabilities Negative fair value**
Forwards and swaps								
Currency								
- purchase CAD / sale USD	-	-	-	-	897	(898)	-	(1)
- purchase CHF / sale USD	-	-	-	-	920	(927)	-	(7)
- purchase EUR / sale CHF	-	-	-	-	4 350	(4 359)	-	(9)
- purchase EUR / sale RUB	1 060	(1 125)	-	(65)	2 010	(2 030)	4	(24)
- purchase EUR / sale USD	-	-	-	-	163 879	(166 209)	169	(2 499)
- purchase GBP / sale USD	-	-	-	-	629	(625)	4	-
- purchase JPY / sale GBP	-	-	-	-	175	(175)	-	-
- purchase JPY / sale USD	-	-	-	-	37	(37)	-	-
- purchase RUB / sale EUR	17	(17)	-	-	42	(42)	-	-
- purchase RUB / sale JPY	-	-	-	-	257	(266)	-	(9)
- purchase RUB / sale USD	20 302	(20 904)	51	(653)	195 670	(203 110)	507	(7 947)
- purchase USD / sale EUR	-	-	-	-	2 370	(2 298)	74	(2)
- purchase USD / sale RUB	90 780	(88 942)	1 872	(34)	114 647	(109 276)	5 474	(103)
- purchase USD / sale BYR					2 831	(396)	2 435	-
- purchase EUR / sale BYR					10 988	(1 909)	9 079	-
- purchase EUR / sale UAH					20	(20)	-	-
- purchase USD / sale UAH	-	-	-	-	157	(163)	-	(6)
- purchase USD / sale HKD	-	-	-	-	17	(17)	-	-
- purchase USD / sale KZT	-	-	-	-	96	(97)	-	(1)
- purchase USD / sale SEK	-	-	-	-	5	(6)	-	(1)
- purchase HKD / sale USD	-	-	-	-	22	(22)	-	-
- purchase USD / sale GBP	-	-	-	-	427	(429)	-	(2)
- purchase USD / sale CAD	-	-	-	-	3	(3)	-	-
- purchase USD / sale CHF	-	-	-	-	1 037	(867)	170	-
- purchase USD / sale NOK	-	-	-	-	1	(1)	-	-
- purchase SEK / sale USD	-	-	-	-	5	(5)	-	-
Precious metals								
- purchase EUR / sale gold	-	-	-	-	1 406	(1 335)	71	-
- purchase gold / sale USD	-	-	-	-	16 465	(17 174)	14	(723)
- purchase palladium / sale USD	-	-	-	-	10	(10)	-	-
- purchase platinum / sale USD	-	-	-	-	27	(27)	-	-
- purchase silver / sale USD	-	-	-	-	6 365	(7 110)	2	(747)
- purchase USD / sale palladium	-	-	-	-	4	(4)	-	-
- purchase USD / sale platinum	-	-	-	-	5	(5)	-	-
- purchase gold / sale BYR	-	-	-	-	10 984	(2 736)	8 248	-

33 Derivative Financial Instruments (Continued)

	Russian counterparties				Foreign counterparties			
As at 31 December 2011: *(in millions of Russian Roubles)*	**Principal or agreed amount at fair value of assets receivable**	**Principal or agreed amount at fair value of assets payable**	**Assets Positive fair value**	**Liabilities Negative fair value**	**Principal or agreed amount at fair value of assets receivable**	**Principal or agreed amount at fair value of assets payable**	**Assets Positive fair value**	**Liabilities Negative fair value**
Interest rate								
- purchase fixed rate / sale fixed rate	27 706	(26 019)	1 765	(78)	-	-	-	-
- purchase fixed rate / sale floating rate	10 622	(10 213)	434	(25)	51 109	(53 184)	1 458	(3 533)
- purchase floating rate / sale fixed rate	222	(217)	14	(9)	42 868	(41 482)	5 843	(4 457)
- purchase floating rate / sale floating rate	643	(646)	3	(6)	139 134	(137 813)	4 936	(3 615)
Securities								
- purchase USD / sale shares	-	-	-	-	-	(2)	-	(2)
- purchase shares / sale USD	-	-	-	-	151	(138)	13	-
- purchase fixed income / sale income on shares	-	-	-	-	1 279	(1 071)	208	-
Market indexes								
- purchase index return / sale RUB	-	-	-	-	2 585	(2 594)	8	(17)
Commodities								
- purchase RUB / sale Brent	-	-	-	-	3	(2)	1	-
- purchase cocoa / sale USD	-	-	-	-	1	(1)	-	-
- purchase cotton / sale USD	-	-	-	-	3	(3)	-	-
Credit Default Swaps								
- purchase fixed rate / sale credit risk	-	-	-	-	-	-	22	-
Options purchased								
Currency								
- purchase EUR / sale USD	-	-	-	-	4 094	(4 201)	263	-
- purchase RUB / sale USD	-	-	-	-	3 728	(3 498)	34	-
- purchase USD / sale EUR	-	-	-	-	-	-	-	-
- purchase USD / sale RUB	7	(7)	11	-	4 394	(4 436)	217	-
- purchase EUR / sale RUB	-	-	-	-	896	(644)	-	-
- purchase RUB / sale EUR	-	-	-	-	833	(830)	4	-
Precious metals								
- purchase gold / sale USD	-	-	-	-	243	(337)	1	-
- purchase RUB / sale gold	-	-	-	-	-	-	-	-
- purchase silver / sale USD	-	-	-	-	99	(162)	-	-
- purchase USD / sale gold	-	-	-	-	356	(476)	2	-
Equity								
- purchase RUB / sale shares	9 604	(9 824)	5 129	-	-	-	-	-
- purchase shares / sale RUB	87	(42)	45	-	595	(2 323)	-	-
- purchase shares / sale USD	-	-	-	-	2 255	(2 912)	57	-
- purchase USD / sale shares	-	-	-	-	1 490	(1 305)	271	-
Debt								
- purchase RUB / sale debt	(5 302)	(4 721)	-	(581)	-	-	-	-

33 Derivative Financial Instruments (Continued)

	Russian counterparties				Foreign counterparties			
As at 31 December 2011: *(in millions of Russian Roubles)*	Principal or agreed amount at fair value of assets receivable	Principal or agreed amount at fair value of assets payable	Assets Positive fair value	Liabilities Negative fair value	Principal or agreed amount at fair value of assets receivable	Principal or agreed amount at fair value of assets payable	Assets Positive fair value	Liabilities Negative fair value
Options sold								
Currency								
- purchase EUR / Sale USD	-	-	-	-	-	-	-	-
- purchase RUB / Sale USD	9	(10)	-	(16)	4 950	(4 813)	-	(340)
- purchase USD / Sale EUR	-	-	-	-	4 245	(4 131)	-	(289)
- purchase USD / Sale RUB	-	-	-	-	2 900	(2 942)	-	(96)
- purchase EUR / Sale RUB	-	-	-	-	830	(833)	-	(4)
- purchase RUB / Sale EUR	-	-	-	-	833	(896)	-	-
Precious metals								
- purchase gold / sale USD	-	-	-	-	76	(58)	-	-
- purchase RUB / sale gold	-	-	-	-	-	-	-	-
- purchase silver / sale USD	-	-	-	-	-	-	-	-
- purchase USD / sale gold	-	-	-	-	-	-	-	-
Securities								
- purchase shares / sale USD	-	-	-	-	556	(700)	-	(182)
- purchase USD / sale shares	-	-	-	-	2 037	(1 439)	-	(36)
Futures								
Currency								
- purchase RUB / sale USD	2 835	(2 835)	-	-	1 960	(1 960)	199	(421)
- purchase USD / sale RUB	7 133	(7 133)	-	-	21 078	(21 078)	2 058	-
- purchase EUR / sale USD	-	-	-	-	-	-	-	-
- purchase EUR / sale RUB	16	(16)	-	-	-	-	-	-
Precious metals								
- purchase USD / sale gold	15	(15)	-	-	35	(35)	23	-
- purchase gold / sale USD	52	(52)	-	-	-	-	-	-
- purchase platinum / sale USD	-	-	-	-	9	(9)	-	-
- purchase USD / sale platinum	9	(9)	-	-	-	-	-	-
- purchase silver / sale USD	-	-	-	-	72	(72)	-	(7)
- purchase USD / sale silver	73	(73)	-	-	-	-	-	-
Interest rate								
- purchase Interest / Sale RUB	19	(19)	-	-	486	(486)	-	-
- purchase RUB / Sale Interest	10 852	(10 852)	-	-	23	(23)	-	-
- purchase Interest / Sale USD	-	-	-	-	4 797	(4 797)	9	(2)
- purchase USD / Sale Interest	-	-	-	-	55 409	(55 409)	-	(112)
Securities								
- purchase RUR / sale shares	1 284	(1 284)	-	-	-	-	-	-
- purchase shares / sale RUR	173	(173)	-	-	-	-	-	-
- purchase OFZ / sale RUR	71	(71)	-	-	-	-	-	-
Market indexes								
- purched USD / sale index return	-	-	-	-	324	(324)	-	(2)
- purched UAH / sale index return	-	-	-	-	142	(142)	-	-
- purched RUB / sale index return	24	(24)	-	-	-	-	-	-
- purchase index return / sale RUB	10 987	(10 987)	-	-	-	-	-	-
Commodities								
- purchase RUB / sale brent	184	(184)	-	-	-	-	-	-
- purchase brent / sale RUB	22	(22)	-	-	-	-	-	-
- purchase cocoa / sale USD	-	-	-	-	1	(1)	-	-
- purchase USD/ sale brent	-	-	-	-	58	(58)	2	-
- purchase cotton / sale USD	-	-	-	-	3	(3)	-	-
- purchase rough rice / sale USD	-	-	-	-	2	(2)	-	-
- purchase sugar / sale USD	-	-	-	-	33	(33)	-	(2)
- purchase RUB / sale sugar	33	(33)	-	-	-	-	-	-
Total	**189 539**	**(196 469)**	**9 324**	**(1 467)**	**893 733**	**(880 246)**	**41 880**	**(25 198)**

33 Derivative Financial Instruments (Continued)

As at 31 December 2010: *(in millions of Russian Roubles)*	Russian counterparties: Principal or agreed amount at fair value of assets receivable	Russian counterparties: Principal or agreed amount at fair value of assets payable	Russian counterparties: Assets Positive fair value	Russian counterparties: Liabilities Negative fair value	Foreign counterparties: Principal or agreed amount at fair value of assets receivable	Foreign counterparties: Principal or agreed amount at fair value of assets payable	Foreign counterparties: Assets Positive fair value	Foreign counterparties: Liabilities Negative fair value
Forwards								
Currency								
- purchase EUR / sale CHF	-	-	-	-	2 040	(2 461)	-	(421)
- purchase EUR / sale RUR	286	(283)	3	-	-	-	-	-
- purchase EUR / sale USD	194	(197)	-	(3)	146 888	(145 614)	1 613	(339)
- purchase RUR / sale USD	9 952	(9 872)	96	(16)	95 008	(94 062)	1 119	(173)
- purchase USD / sale RUR	14 932	(15 061)	20	(149)	24 740	(25 065)	10	(335)
- purchase USD / sale BYR	-	-	-	-	2 867	(2 862)	59	(54)
- purchase UAH / sale USD	-	-	-	-	1 723	(1 725)	-	(2)
- purchase USD / sale UAH	-	-	-	-	305	(305)	-	-
- purchase BYR / sale USD	-	-	-	-	124	(122)	2	-
Precious metals								
- purchase precious metals / sale RUR	255	(253)	2	-	-	-	-	-
- purchase precious metals / sale USD	-	-	-	-	19 173	(18 361)	814	(2)
- purchase USD / sale precious metals	-	-	-	-	1 584	(1 575)	9	-
Options purchased								
Currency								
- purchase EUR / sale RUR	242	(250)	5	-	403	(415)	3	-
- purchase RUR / sale EUR	-	-	-	-	415	(403)	10	-
- purchase RUR / sale USD	-	-	-	-	534	(518)	16	-
- purchase USD / sale RUR	152	(158)	2	-	1 432	(1 534)	6	-
Equity								
- purchase shares / sale RUR	-	-	-	-	1 277	(2 323)	81	-
- purchase shares / sale USD	-	-	-	-	1 048	(660)	400	-
- purchase RUR / sale shares	7 227	(4 265)	3 377	-	-	-	-	-
- purchase USD / sale shares	10 179	(6 430)	1 596	-	-	-	-	-
Options sold								
Currency								
- purchase EUR / sale RUR	-	-	-	-	403	(432)	-	(2)
- purchase RUR / sale EUR	-	-	-	-	402	(403)	-	(4)
- purchase RUR / sale USD	-	-	-	-	1 966	(1 981)	-	(24)
- purchase USD / sale RUR	9	(9)	-	(15)	1 067	(1 115)	-	(6)
Interest rate swaps								
- receive fixed rate / pay floating rate	494	(480)	14	-	27	(28)	-	(1)
- receive floating rate / pay fixed rate	-	-	-	-	432	(439)	-	(7)
Total	**43 922**	**(37 258)**	**5 115**	**(183)**	**303 858**	**(302 403)**	**4 142**	**(1 370)**

During the year the Group has incurred a net gain on foreign currency derivatives in the amount of RR 2 612 million (2010: a net loss of RR 9 175 million) and earned a net gain on precious metals derivatives in the amount of RR 6 521 million (2010: a net gain of RR 679 million), which is recorded in the Group's consolidated income statement within net gains arising from trading in foreign currencies, operations with foreign currency derivatives and foreign exchange translation, and net gains arising from operations with precious metals and precious metals derivatives correspondingly.

34 Fair Value of Financial Instruments

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

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 tables show 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				
Trading securities	94 546	4 745	2 682	101 973
Securities designated at fair value through profit or loss	32 219	14 395	5 379	51 993
Securities pledged under repurchase agreements	163 017	644	-	163 661
Investment securities available for sale	842 626	27 555	14 348	884 529
Derivative financial instruments	2 286	25 366	23 552	51 204
Total financial assets at fair value	**1 134 694**	**72 705**	**45 961**	**1 253 360**
Financial liabilities				
Securities sold, not yet purchased	65 875	1 358	259	67 492
Derivative financial instruments	546	25 538	581	26 665
Structured notes	556	12	930	1 498
Total financial liabilities at fair value	**66 977**	**26 908**	**1 770**	**95 655**

At 31 December 2010	Level 1	Level 2	Level 3	Total
Financial assets				
Trading securities	65 704	464	-	66 168
Securities designated at fair value through profit or loss	81 486	21 945	3 444	106 875
Securities pledged under repurchase agreements	81 493	-	-	81 493
Investment securities available for sale	1 193 158	5 866	11 897	1 210 921
Derivative financial instruments	-	4 285	4 972	9 257
Total financial assets at fair value	**1 421 841**	**32 560**	**20 313**	**1 474 714**
Financial liabilities				
Derivative financial instruments	-	1 553	-	1 553
Total financial liabilities at fair value	**-**	**1 553**	**-**	**1 553**

34 Fair Value of Financial Instruments (Continued)

Level 2 includes debt securities of first-class borrowers that are not actively traded on the market. Fair value of the securities was calculated using techniques for which all inputs which have a significant effect on the recorded fair value are observable. Financial characteristics of comparable financial instruments actively traded on the market were used as inputs for the fair valuation models.

There were no transfers between Level 1 and Level 2 during the year ended 31 December 2011. Corporate bonds recorded in trading portfolio and in portfolio of investment securities available for sale at fair value of RR 858 million were transferred from Level 1 to Level 2 during the year ended 31 December 2010.

The following table shows a reconciliation of the opening and closing amount of Level 3 financial assets and liabilities which are recorded at fair value as at 31 December 2011:

	At 1 January 2011	Total gains reported in income statement	Total gains reported in other comprehen-sive income	Purchases	Business combinations	Sales	At 31 December 2011
Financial assets							
Trading securities	-	-	-	-	2 682	-	2 682
Securities designated at fair value through profit or loss	3 444	330	-	442	1 163	-	5 379
Investment securities available for sale	11 897	(151)	48	8 500	-	(5 946)	14 348
Derivative financial instruments	4 972	20 596	-	-	-	(2 016)	23 552
Total level 3 financial assets	**20 313**	**20 775**	**48**	**8 942**	**3 845**	**(7 962)**	**45 961**
Financial liabilities							
Structured notes	-	-	-	-	930	-	930
Derivative financial instruments	-	-	-	581	-	-	581
Securities sold, not yet purchased	-	-	-	-	259	-	259
Total level 3 financial liabilities	**-**	**-**	**-**	**581**	**1 189**	**-**	**1 770**

For the year ended 31 December 2011 the gains in the amount of RR 21 443 million reported in income statement on Level 3 financial assets were unrealized. All the gains reported in other comprehensive income on Level 3 financial assets were unrealized.

Total gains recognized as profit or loss on securities designated at fair value through profit or loss which are presented in the table above are reported in income statement within net (losses)/gains arising from securities designated at fair value through profit or loss.

Total gains recognized as profit or loss on investment securities available for sale which are presented in the table above are reported in income statement within net gains arising from investment securities available for sale.

34 Fair Value of Financial Instruments (Continued)

Total gains recognized as profit or loss on derivative financial instruments which are presented in the table above are reported in income statement within net gains arising from operations with other derivatives.

Investments in shares of a company involved in construction business at fair value through profit and loss of RR 3 617 million using a valuation technique based on non-observable inputs

The Group determined the fair value of the investments based on discounted cash flow model with the following principal assumptions underlying the estimation of the fair value: type of the weighted average cost of capital (hereinafter – "WACC"); volume of construction of housing premises and hotels, terms of construction and subsequent sale, sale price per square meter of housing premises and respective cost of sale, booking rates for hotel rooms.

When determining the sale prices per square meter of housing premises and booking rates for hotel rooms the Group used comparable analogues and estimation of the annual increase in prices.

As at 31 December 2011 the estimated value of the WACC used by the Group comprised 17.02%.

Should the WACC used by the Group in the valuation model increase/decrease by 1%, the carrying value of the financial instrument would be RR 269 million lower / RR 285 million higher.

Valuation of available for sale shares in a stock exchange of RR 13 211 million using valuation techniques based on non-observable inputs

The Group determined the fair value of the investments based on discounted cash flow model with the following principal assumptions underlying the estimation of the fair value: type of WACC and estimated future operating cash flows.

Should the WACC used by the Group in the valuation model increase/decrease by 1%, the carrying value of the financial instrument would be RR 1 082 million lower / RR 921 million higher.

Valuation of available for sale shares in a construction company of RR 731 million using valuation techniques based on non-observable inputs

The Group determined fair value of investments based on discounted cash-flow model. The principal input of the model used is the estimation of fair value of assets and liabilities of the company.

Should the fair value of net assets used by the Group in the valuation model increase/decrease by 5%, the carrying value of the financial instrument would be RR 37 million lower / RR 37 million higher.

Valuation of available for sale shares in a construction company of RR 322 million using valuation techniques based on non-observable inputs

The Group determined fair value of investments based on discounted cash flow model using the following key assumptions: type of WACC and estimated future operating cash flows which depend on forecasts on property prices.

Should the discount rate used by the Group in the valuation model increase/decrease by 1%, the carrying value of the financial instrument would be RR 63 million lower / RR 66 million higher. Should the rate of growth of property prices used by the Group in the valuation model increase/decrease by 1%, the carrying value of the financial instrument would be RR 101 million lower / RR 105 million higher.

34 Fair Value of Financial Instruments (Continued)

Valuation of available for sale shares of a venture company of RR 81 million using valuation techniques based on non-observable inputs

The Group determined fair value of investments based on discounted cash-flow model. The principal input of the model used is the discount rate used, production volumes and cost of production, terms and sale price of goods, and costs of development.

As at 31 December 2011 the estimated value of the discount rate used by the Group and represented by required rate of return for venture investments comprised 42.45%. Should the discount rate used by the Group in the valuation model increase/decrease by 1%, the carrying value of the financial instrument would be RR 4 million lower / RR 4 million higher.

Valuation of forward foreign currency contracts and forward precious metals contracts of RR 20 089 million using non-observable inputs

Fair values for forward foreign currency contracts and forward precious metals contracts are obtained from the interest rates parity model, using rates prevailing on the market of the Republic of Belarus and international markets with comparable business conditions.

The inputs used for estimation of fair values of foreign currency derivatives were the quotes of sovereign credit default swaps of the countries with the same credit rating as the rating of the Republic of Belarus (10.2%).

Claims in precious metals were estimated against the rate of attracting cashless precious metals in term deposits (6%).

The obligations in Belorussian Roubles were estimated against the prevailing rate of attracting funds in Belorussian Roubles at the reporting date (57.9%).

Should the input rate for Belorussian Roubles decrease/increase for 10 p.p. the carrying value of the foreign currency derivatives would be 2.7% lower / 2.2% higher.

Valuation of a put option on unquoted retail trading company shares of RR 1 180 million using non-observable inputs

The fair value of the option was determined using the Black-Scholes option pricing model. The inputs of the model include current market price of underlying shares and its historical volatility, option strike price and market risk-free rate of return, the principal input being the price of the shares.

Fair value of the underlying shares as at 31 December 2011 was estimated using the discounted cash flow model and comprised RR 9 075 million. Should the estimated value of shares used by the Group in the valuation model increase/decrease by 1%, the carrying value of the financial instrument would be RR 20 million lower / RR 20 million higher.

Valuation of a put/call option on shares of RR 2 614 million using non-observable inputs

The fair value of the option was determined using the Black-Scholes option pricing model. The principal inputs of the model include share price volatility of publicly traded companies operating in the same industry, share price valuation made using the discounted cash flow model and market risk-free rate of return.

34 Fair Value of Financial Instruments (Continued)

Valuation of shares in a company producing construction materials at fair value through profit or loss of RR 453 million using market approach (deal comparables)

The shares are valued using market approach (using acquisition of similar companies as deal comparatives). We used parameters of similar companies (including ratios: Enterprise value to Sales and Enterprise value to Earnings before Interest, Taxes, Depreciation and Amortization) to determine fair value of the investment.

The following table shows a reconciliation of the opening and closing amount of Level 3 financial assets and liabilities which are recorded at fair value as at 31 December 2010:

	At 1 January 2010	Total gains reported in income statement	Total gains reported in other comprehen-sive income	Purchases	Transfers from Level 3	Transfers to Level 3	At 31 December 2010
Financial assets							
Securities designated at fair value through profit or loss	15 990	678	-	159	(13 383)	-	3 444
Investment securities available for sale	9 909	212	4 472	252	(2 948)	-	11 897
Derivative financial instruments	-	601	-	2 131	-	2 240	4 972
Total level 3 financial assets	**25 899**	**1 491**	**4 472**	**2 542**	**(16 331)**	**2 240**	**20 313**

Certain financial instruments were transferred from Level 3 to Level 2 during the year ended 31 December 2010 as additional observable market data became available.

For the year ended 31 December 2010 all the gains reported in income statement and reported in other comprehensive income on Level 3 financial assets were unrealized.

Total gains recognized as profit or loss on securities designated at fair value through profit or loss which are presented in the table above are reported in income statement within net gains arising from securities designated at fair value through profit or loss.

Total gains recognized as profit or loss on investment securities available for sale which are presented in the table above are reported in income statement within net gains arising from investment securities available for sale.

Total gains recognized as profit or loss on derivative financial instruments investment which are presented in the table above are reported in income statement within net gains arising from operations with other derivatives.

34 Fair Value of Financial Instruments (Continued)

Investments in shares of a company involved in construction business at fair value through profit and loss of RR 3 340 million using a valuation technique based on non-observable inputs

The Group determined the fair value of the investments based on discounted cash flow model with the following principal assumptions underlying the estimation of the fair value: type of the weighted average cost of capital (hereinafter – "WACC"); volume of construction of housing premises and hotels, terms of construction and subsequent sale, sale price per square meter of housing premises and respective cost of sale, booking rates for hotel rooms.

When determining the sale prices per square meter of housing premises and booking rates for hotel rooms the Group used comparable analogues and estimation of the annual increase in prices.

Should the WACC used by the Group in the valuation model increase/decrease by 1%, the carrying value of the financial instrument would be RR 229 million lower / RR 247 million higher.

Investments in shares of a company involved in machine building at fair value through profit and loss of RR 104 million using a valuation technique based on non-observable inputs

The Group determined fair value of investments based on estimation of fair value of net assets of the company as at the reporting date. The Group applied share of ownership to fair value of assets ratio to determine fair value of shares.

Valuation of available for sale shares in a construction company of RR 731 million using valuation techniques based on non-observable inputs

The Group determined fair value of investments based on discounted cash-flow model. The principal input of the model used is the estimation of fair value of assets and liabilities of the company.

Should the fair value of net assets used by the Group in the valuation model increase/decrease by 5%, the carrying value of the financial instrument would be RR 37 million lower / RR 37 million higher.

Valuation of available for sale shares in a stock exchange of RR 4 683 million using valuation techniques based on non-observable inputs

The Group determined the fair value of the investments based on discounted cash flow model with the following principal assumptions underlying the estimation of the fair value: type of the weighted average cost of capital (hereinafter – "WACC") and estimated future operating cash flows.

Should the WACC used by the Group in the valuation model increase/decrease by 1%, the carrying value of the financial instrument would be RR 336 million lower / RR 395 million higher.

Valuation of available for sale shares of a transportation company of RR 6 442 million using valuation techniques based on non-observable inputs

The principal assumptions underlying the estimation of the fair value include the WACC, commission for transshipment/storage of the goods, annual volume of service and capacity utilization.

34 Fair Value of Financial Instruments (Continued)

The principal assumptions and the impact of reasonable possible changes in these assumptions on the fair value (with all other variables being determined as fixed values) are as follows:

- The volume of the commission for transshipment/storage of the goods will change in the range from -1.5% to +2%;
- The annual production volume will increase by 10%; and
- Capacity utilization ratio will be in the range from 60% to 70%.

As at 31 December 2010 the estimated value of the WACC denominated in US Dollars used by the Group comprised 11.13%.

Should the WACC used by the Group in the valuation model increase/decrease by 1%, the carrying value of the financial instrument would be RR 586 million lower / RR 703 million higher.

Valuation of available for sale shares of a venture company of RR 41 million using valuation techniques based on non-observable inputs

The Group determined fair value of investments based on discounted cash-flow model. The principal input of the model used is the discount rate used, production volumes and cost of production, terms and sale price of goods, and costs of development.

As at 31 December 2010 the estimated value of the discount rate used by the Group and represented by required rate of return for venture investments comprised 41.96%. Should the discount rate used by the Group in the valuation model increase/decrease by 1%, the carrying value of the financial instrument would be RR 3 million lower / RR 3 million higher.

Valuation of a put option on unquoted retail trading company shares of RR 1 189 million using non-observable inputs

The fair value of the option was determined using the Black-Scholes option pricing model. The inputs of the model include current market price of underlying shares and its historical volatility, option strike price and market risk-free rate of return, the principal input being the price of the shares.

Fair value of the underlying shares as at 31 December 2010 was estimated using the discounted cash flow model and comprised RR 10 663 million. Should the estimated value of shares used by the Group in the valuation model increase/decrease by 1%, the carrying value of the financial instrument would be RR 23 million lower / RR 23 million higher.

Valuation of a put option on shares of RR 2 187 million using non-observable inputs

The fair value of the option was determined using the Black-Scholes option pricing model. The principal inputs of the model include current market price of underlying shares, share price volatility and market risk-free rate of return.

Should the share price volatility used by the Group in the valuation model increase/decrease by 1%, the carrying value of the financial instrument would be RR 19 million lower / RR 19 million higher.

Valuation of a put/call option on shares of RR 1 596 million using non-observable inputs

The fair value of the option was determined using the Black-Scholes option pricing model. The principal inputs of the model include share price volatility of publicly traded companies operating in the same industry, share price valuation made using the discounted cash flow model and market risk-free rate of return.

34 Fair Value of Financial Instruments (Continued)

Should the estimated value of shares used by the Group in the valuation model increase/decrease by 1%, the carrying value of the financial instrument would be RR 16 million lower / RR 16 million higher.

Fair values of financial assets are as follows:

	2011		2010	
In millions of Russian Roubles	**Carrying value**	**Fair value**	**Carrying value**	**Fair value**
Financial assets carried at amortised cost				
Cash and cash equivalents:				
- Cash on hand	438 699	438 699	297 956	297 956
- Cash balances with the Bank of Russia (other than mandatory reserve deposits)	51 254	51 254	77 447	77 447
- Correspondent accounts and overnight placements with other banks with original maturities up to 30 days	113 865	113 865	309 704	309 704
- Reverse-repo agreements with original maturities up to 30 days	21 747	21 747	34 494	34 494
Mandatory cash balances with the Central Banks	101 205	101 205	51 678	51 678
Due from other banks	35 097	35 097	13 035	13 035
Loans and advances to customers:				
- Commercial loans to legal entities	3 713 484	3 658 087	2 395 763	2 409 594
- Specialized loans to legal entities	2 269 922	2 215 426	1 842 704	1 875 248
- Consumer and other loans to individuals	906 655	930 315	599 604	621 434
- Mortgage loans to individuals	748 506	778 570	574 499	599 206
- Car loans to individuals	81 133	82 337	76 817	76 993
Securities pledged under repurchase agreements:				
- Investment securities held to maturity pledged under repurchase agreements	137 178	136 103	-	-
Investment securities held to maturity	286 516	278 884	358 191	357 060
Other financial assets:				
- Receivables on plastic cards settlements	78 805	78 805	91 219	91 219
- Settlements on operations with securities	15 214	15 214	-	-
- Settlements on currency conversion operations	6 497	6 497	6 196	6 196
- Trade receivables	2 653	2 653	5 259	5 259
- Accrued fees and commissions	3 884	3 884	1 164	1 164
- Funds in settlement	67	67	41	41
- Other financial assets	4 796	4 796	2 300	2 300
Total financial assets carried at amortised cost	**9 017 177**	**8 953 505**	**6 738 071**	**6 830 028**

34 Fair Value of Financial Instruments (Continued)

Fair values of financial liabilities are as follows:

	2011		2010	
In millions of Russian Roubles	Carrying value	Fair value	Carrying value	Fair value
Financial liabilities carried at amortised cost				
Due to other banks:				
- Correspondent accounts and overnight placements of other banks	59 070	59 070	38 716	38 716
- Term placements of other banks	240 445	240 445	34 149	34 149
- Sale and repurchase agreements with other banks	232 870	232 870	61 803	61 803
Due to Individuals:				
- Current/demand accounts	1 077 039	1 077 039	785 750	785 750
- Term deposits	4 649 280	4 667 881	4 048 709	4 075 185
Due to corporate customers:				
- Current/settlement accounts of state and public organisations	142 182	142 182	116 827	116 827
- Term deposits of state and public organisations	39 560	39 508	40 475	40 691
- Current/settlement accounts of other corporate customers	1 230 174	1 230 174	1 082 754	1 082 754
- Term deposits of other corporate customers	793 898	837 023	576 616	610 231
Debt securities in issue:				
- Loan participation notes issued under the MTN programme	169 623	168 070	153 273	153 968
- Promissory notes	77 214	70 767	96 505	94 615
- Savings certificates	9 798	9 798	13 102	13 102
- Deposit certificates	700	700	1 889	1 889
- Other debt securities except for structured notes	9 874	9 978	7 930	8 081
Other borrowed funds:				
- Syndicated loans received	102 115	102 115	96 904	96 947
- Other long-term borrowings	141 905	141 905	74 351	74 351
Other financial liabilities:				
- Plastic card payables	45 777	45 777	25 425	25 425
- Trade payables	13 097	13 097	9 318	9 318
- Settlements on operations with securities	10 497	10 497	-	-
- Funds in settlement	10 091	10 091	5 071	5 071
- Deposit insurance system fees payable	5 184	5 184	4 476	4 476
- Deferred commissions received on guarantees issued	1 373	1 373	1 222	1 222
- Other financial liabilities	6 476	6 476	2 109	2 109
Subordinated debt:				
- Subordinated debt received by the Group from the Bank of Russia	303 294	303 294	303 299	303 299
- Subordinated debt received by subsidiaries	224	228	214	213
Total financial liabilities carried at amortised cost	**9 371 760**	**9 425 542**	**7 580 887**	**7 640 192**

Financial instruments carried at fair value. Trading securities, other assets at fair value through profit or loss, financial derivatives, available for sale financial assets are carried in the consolidated statement of financial position at fair value.

Cash and cash equivalents are carried at amortised cost which approximately equals their current fair value.

Refer to Note 3 for accounting policy on financial instruments carried at fair value.

34 Fair Value of Financial Instruments (Continued)

Loans and receivables carried at amortised cost. The fair value of floating rate instruments is normally their carrying amount. Due to significant changes in market situation interest rates for loans and advances to customers and due from other banks issued at fixed interest rates can be revised. Therefore interest rates for loans issued just before reporting date do not differ significantly from interest rates for new credit instruments with similar credit risk and remaining maturity. If under the Group assessment interest rates for the loans issued before reporting date differ significantly from current interest rates for similar credit instruments the fair value for these loans is estimated. The estimation is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on currency, maturity of the instrument and credit risk of the counterparty.

Contractual interest rates on loans and advances to customers and due from other banks as at 31 December 2011 and 31 December 2010 were as follows:

	2011	2010
Due from other banks	1.5% to 8.5% p.a.	2.5% to 10.0% p.a.
Loans and advances to customers:		
Corporate loans	5.3% to 17.1% p.a.	5.4% to 18.0% p.a.
Loans to individuals	8.0% to 21.0% p.a.	9.0% to 20.5% p.a.

Estimated fair value of other financial assets including trade debtors equals their carrying amount considering short-term nature of these assets.

Liabilities carried at amortised cost. The fair value is based on quoted market prices, if available. The estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The fair value of liabilities repayable on demand or after a notice period ("demandable liabilities") is estimated as the amount payable on demand, discounted from the first date that the amount could be required to be paid. Discount rates used were consistent with the Group's credit risk and also depend on currency and maturity of the instrument and ranged from 0.1% p.a. to 17.0% p.a. (2010: from 0.03% p.a. to 18.0% p.a.).

Derivative financial instruments. All derivative financial instruments are carried at fair value as assets when the fair value is positive and as liabilities when the fair value is negative. Refer to Note 33.

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, is under common control, or can exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

The Group's principal shareholder is the Bank of Russia (refer to Note 1). Other related parties in the tables below comprise key management personnel, their close family members, associated companies of the Group. Disclosures are made in Note 36 for significant transactions with state-controlled entities and government bodies.

35 Related Party Transactions (Continued)

As at 31 December 2011 and 31 December 2010, the outstanding balances with the Bank of Russia and other related parties were as follows:

		2011		2010	
In millions of Russian Roubles	**Note**	**the Bank of Russia**	**Other related parties**	**the Bank of Russia**	**Other related parties**
Assets					
Cash and cash equivalents (contractual interest rates: 0.0% p.a. - 3.0% p.a.)		51 254	945	212 451	-
Mandatory cash balances with the Bank of Russia		99 512	-	50 532	-
Bonds of the Bank of Russia (yield to maturity: 4% p.a.)	12	-	-	433 585	-
Due from other banks (contractual interest rates: 2.0% p.a. - 6.5% p.a.)		-	840	-	-
Gross amount of loans and advances to customers (contractual interest rates: 9.3%-21.0% p.a.)		-	315	-	528
Impairment provision for loans and advances to customers		-	(3)	-	(7)
Other assets		-	98	-	-
Liabilities					
Due to corporate customers (contractual interest rates: 0.1% - 7.0% p.a.)		-	1 462	-	1 163
Due to other banks (contractual interest rate: 3.0% p.a.)		-	48	-	-
Subordinated debt (effective interest rates: 6.5% p.a.)	21	303 294	-	303 299	-
Other liabilities		-	252	-	-

As at 31 December 2011 the Group has pledged federal loan bonds (OFZ bonds) and Eurobonds of the Russian Federation on the special accounts with the Bank of Russia as collateral against overnight interbank borrowings that the Group attracts on a regular basis from the Bank of Russia. Refer to Notes 8, 9, 12, 13 and 32. The carrying value of assets pledged is as follows:

In millions of Russian Roubles	**Notes**	**2011**	**2010**
Trading securities	8		
- Federal loan bonds (OFZ bonds)		15 746	14 715
Securities designated at fair value through profit or loss	9		
- Federal loan bonds (OFZ bonds)		28 608	31 520
Investment securities available for sale	12		
- Federal loan bonds (OFZ bonds)		203 920	42 498
- Russian Federation Eurobonds		5	5
Investment securities held to maturity	13		
- Federal loan bonds (OFZ bonds)		36 721	37 044
Total		**285 000**	**125 782**

35 Related Party Transactions (Continued)

The income and expense items with the Bank of Russia and other related parties for the year ended 31 December 2011 and 31 December 2010 were as follows:

	2011		2010	
In millions of Russian Roubles	the Bank of Russia	Other related parties	the Bank of Russia	Other related parties
Interest income	9 022	17	32 158	59
Interest expense on subordinated debt	(19 492)	-	(27 851)	-
Interest expense other than on subordinated debt	(3 326)	(7)	(343)	(8)
Net recovery of provision / (net provision charge) for loan impairment	-	(18)	-	(7)
Net gains arising from trading securities	-	-	8	-
Net gains arising from investment securities available for sale	19	-	570	-
Other operating income	-	13	-	6
Operating expenses	(1 257)	(102)	(1 005)	(12)

For the year ended 31 December 2011, remuneration of the members of the key management personnel comprised salaries and bonuses totaling RR 2 200 million (for the year ended 31 December 2010: RR 1 043 million).

36 Operations with State-Controlled Entities and Government Bodies

In the normal course of business, the Group enters into contractual agreements with the government of the Russian Federation and entities controlled or significantly influenced by it. The Group provides the government-related entities with a full range of banking services including, but not limited to, lending, deposit-taking, issue of guarantees, operations with securities, cash and settlement transactions. Operations with government-related entities are carried out on general market terms and constitute the minority of the Group's operations.

Balances with government-related entities which are significant in terms of the carrying amount as at 31 December 2011 are disclosed below:

		31 December 2011		
Client	**Sector**	**Loans and advances to customers**	**Due to corporate customers**	**Guarantees issued**
Client 1	Oil and gas	-	44 241	-
Client 2	Oil and gas	-	18 298	-
Client 3	Energy	79 252	37 857	-
Client 4	Energy	-	17 380	-
Client 5	Energy	87 415	12 460	-
Client 6	Energy	52 563	11 567	-
Client 7	Telecommunications	93 401	-	-
Client 8	Telecommunications	-	-	7 563
Client 9	Machine building	65 444	13 468	-
Client 10	Machine building	-	-	19 500
Client 11	Transport, aviation, space industry	-	-	16 055
Client 12	Food and agriculture	-	-	9 872
Client 13	Government and municipal bodies	-	12 000	-
Client 14	Government and municipal bodies	-	11 700	-
Client 15	Government and municipal bodies	51 081	-	-
Client 16	Government and municipal bodies	-	-	20 841
Client 17	Government and municipal bodies	-	-	8 063
Client 18	Services	-	13 032	-
Client 19	Services	-	-	100 000
Client 20	Other	-	21 308	-

36 Operations with State-Controlled Entities and Government Bodies (Continued)

Balances with government-related entities which are significant in terms of the carrying amount as at 31 December 2010 are disclosed below:

		31 December 2010		
Client	**Sector**	**Loans and advances to customers**	**Due to corporate customers**	**Guarantees issued**
Client 1	Oil and gas	-	46 273	-
Client 2	Oil and gas	-	23 952	-
Client 3	Energy	-	27 199	-
Client 5	Energy	46 999	11 937	-
Client 7	Telecommunications	48 230	-	-
Client 9	Machine building	54 669	10 750	8 425
Client 10	Machine building	-	-	11 902
Client 11	Transport, aviation, space industry	-	-	15 489
Client 12	Food and agriculture	-	-	9 872
Client 13	Government and municipal bodies	-	10 000	-
Client 14	Government and municipal bodies	-	24 200	-
Client 16	Government and municipal bodies	-	-	14 840
Client 18	Services	-	10 348	-
Client 21	Oil and gas	40 046	-	-

As at 31 December 2011 and 31 December 2010 the Group's investments in securities issued by government-related corporate entities were as follows:

	31 December 2011		31 December 2010	
	Corporate bonds	**Corporate shares**	**Corporate bonds**	**Corporate shares**
Trading securities	8 239	8 139	5 280	1 093
Securities designated at fair value through profit or loss	-	2 683	2 123	2 748
Securities pledged under repurchase agreements	11 595	40 481	300	50
Investment securities available for sale	139 216	20 673	127 779	22 950
Investment securities held to maturity	45 944	-	18 070	-

For disclosures on investments in government debt securities please refer to Notes 8, 9, 11, 12 and 13.

37 Principal Subsidiaries

The table below provides details on principal subsidiaries of the Bank as at 31 December 2011:

Name	Nature of business	Percentage of ownership	Country of registration
Subsidiaries:			
OJSC Belpromstroy Bank (OAO BPS Bank)	banking	97.91%	Belarus
SB JSC Sberbank	banking	100.00%	Kazakhstan
JSC Sberbank of Russia	banking	100.00%	Ukraine
Sberbank (Switzerland) AG (former SLB Commercial Bank AG)	banking	99.15%	Switzerland
CJSC Sberbank Leasing	leasing	100.00%	Russia
LLC Sberbank Capital	finance	100.00%	Russia
Troika Dialog Group Ltd.	finance	100.00%	Cayman islands
LLC Sberbank Investments	finance	100.00%	Russia
Sberbank Asset Management Company	asset management	100.00%	Russia
CJSC NK Dulisma	oil company	100.00%	Russia
LLC Khrustalnye Bashni	construction	50.01%	Russia
CJSC GOTEK Group Management Company	packaging materials	60.00%	Russia
Vester Retail N.V.	retail trading	54.00%	Netherlands

In December 2011 following the binding agreement signed in May 2011 the Group obtained the power to govern financial and operating policies of Troika Dialog Group Ltd. (the Company or Troika Dialog). At 31 December 2011 the Company was consolidated into the Bank's financial statements as a 100% subsidiary. The documentation on the acquisition of the Company assumes two tranches for the deal settlement: (a) the first payment of USD 1 000 million for 100% of the shares of Troika Dialog and (b) subsequent payment which is dependent upon the net earnings of the Company for 2011 – 2013.

The first tranche was recorded as a liability amounted to RR 32 196 million at 31 December 2011 and was settled in January 2012. Refer to Note 20.

The Bank determined that the second part of the payment includes two components. The first component represents consideration for business combination, which is recognised as liability at 31 December 2011 in the amount of RR 3 937 million. The Bank assessed respective contingent consideration on the basis of the business prospects and synergies of the Company upon its integration to the Group.

The second tranche represents a compensation to the Company's employees to be accrued over 2012-2013. No accrual of the compensation component was made as of 31 December 2011.

Taking into account different accounting principles of Troika Dialog prior to the acquisition by the Bank, its financial year ends different from those of the Bank and uncertainties associated with the factors effecting volume of the Company's business the Bank considers impracticable to disclose the revenue and net profit of the Group with Troika Dialog for the year ended 31 December 2011 as if the acquisition had occurred on 1 January 2011.

The Bank acquired Troika Dialog following its strategy on the development of diversified product range for corporate, SME and retail customers and improvement of profitability and efficiency of the Group's operations.

Founded in 1991, Troika Dialog is one of the leading investment companies in the CIS. The Company's business consists of securities sales and trading, investment banking, private wealth and asset management, direct and venture investments, retail distribution and alternative investment. Troika Dialog's operations are located in 21 cities across Russia plus offices in London, New York, Kyiv, Almaty and Nicosia.

The goodwill is primarily attributable to the potential synergies and profitability of the business as well as set up business processes. The goodwill will not be deducted for tax purposes in future periods.

37 Business Combinations (Continued)

For the purpose of determining goodwill from the business combination provisional fair values of identifiable assets and liabilities of Troika Dialog based on the results of an independent external appraisal at the acquisition date were as follows:

In millions of Russian Roubles	Note	Provisional fair value
Cash and cash equivalents		42 149
Mandatory cash balances with central banks		120
Trading securities		48 997
Securities designated at fair value through profit or loss		1 163
Due from other banks		8 025
Loans and advances to customers		35 602
Securities pledged under repurchase agreements		45 524
Investment securities held to maturity		1 156
Deferred income tax asset		247
Premises and equipment		1 591
Other financial assets		33 245
Other non-financial assets		10 760
Total assets		**228 579**
Due to other banks		(46 203)
Due to individuals		(4 587)
Due to corporate customers		(49 822)
Debt securities in issue		(1 498)
Deferred income tax liability		(2 063)
Other financial liabilities		(91 007)
Other non-financial liabilities		(4 394)
Total liabilities		**(199 574)**
Fair value of net assets of subsidiary		**29 005**
Calculation of goodwill:		
Total purchase consideration	20	**36 133**
Fair value of net assets of subsidiary		**(29 005)**
Goodwill on acquisition		**7 128**

Gross amount of loans and receivables acquired through this business combination amounted to RR 35 945 million. The amount of cash flows not expected to be received was assessed at RR 343 million.

Intangible assets recognised on acquisition of the subsidiary comprised core deposit intangible of RR 4 785 million and other intangible assets of RR 4 348 million.

The measurement of outflow of cash and cash equivalents on acquisition is detailed below:

In millions of Russian Roubles	
Total consideration paid at 31 December 2011	-
Less: fair value of cash and cash equivalents of subsidiary acquired	42 149
Inflow of cash and cash equivalents on acquisition as at 31 December 2011	**42 149**

37 Business Combinations (Continued)

In June 2011 the Group disposed of a 93.44% share in OJSC Pavlovskaya Keramika, a company involved in production and sale of construction materials, and in October 2011 the Group disposed of a 93.44% in LLC Pavlovo-Posadskoe Gornodobyvauchee Obiedinenie for RR 197 million. The gain from these operations amounted to RR 172 million.

During the year ended 31 December 2011 the Group acquired or repossessed under the settlement of the loan to its borrowers interests in some other companies. The details of the fair value of net assets of other companies acquired during the reporting period ended 31 December 2011 are as follows:

In millions of Russian Roubles	**Fair value**
Fair value of net assets of subsidiaries	**3 874**
Total purchase consideration	**3 837**
Non-controlling interest's proportionate share of net assets acquired	119
Total purchase consideration and non-controlling interest	**3 956**
Goodwill arising on acquisition	**191**
Gain from bargain purchase	**(109)**

The Group holds major interest in certain entities but does not have the power to govern the financial and operating policies of those entities so as to obtain benefits from their activities due to legally bound agreements on transfer of management powers and all risks and rewards of the entities for the benefit of third parties. These entities are not included into the Group's consolidated financial statements.

In December 2011 the Group signed a preliminary agreement on a stage-by-stage disposal of 100% share of OJSC Holding company GVSU Center in a period of less than twelve months after the reporting date as a result of which assets and liabilities of GVSU were classified as assets and liabilities of the disposal group in the consolidated statement of financial position as at 31 December 2011. Refer to Notes 15 and 20.

The share of the subsidiaries of the Bank in the consolidated assets of the Group as at 31 December 2011 was 7.1% (31 December 2010: 4.2%).

38 Capital Adequacy Ratio

The Group's objectives when managing capital are (i) to comply with the regulatory capital requirements set by the Bank of Russia and (ii) to safeguard the Group's ability to continue as a going concern. The Group also monitors capital adequacy ratio based on Basel Accord to make sure it maintains a level of at least 8%.

38 Capital Adequacy Ratio (Continued)

Under the current capital requirements set by the Bank of Russia banks have to maintain a ratio of regulatory capital to risk weighted assets ("statutory capital ratio") above a prescribed minimum level. According to requirements set by the Bank of Russia statutory capital ratio has to be maintained above the minimum level of 10%. The Bank's Assets and Liabilities Management Committee (ALMC) sets the minimum level of the capital ratio of 11%. This level exceeds both the minimum level set by the Bank of Russia (10%) and Basel Committee (8%) and allows the Bank to participate in the State deposit insurance scheme, which was introduced by the Federal Law №177-FZ "Guarantees on Bank Deposits of Individuals in the Russian Federation" dated 23 December 2003. As at 31 December 2011 the regulatory capital adequacy ratio was 15.0% (31 December 2010: 17.7%). Compliance with capital adequacy ratios set by the Bank of Russia is monitored monthly with reports outlining the calculation. Regulatory capital based on the Bank's reports prepared under Russian accounting standards totalled RR 1 515 780 million as of 31 December 2011 (2010: RR 1 241 876 million).

As at 31 December 2011 and 31 December 2010, Capital Adequacy Ratios calculated by the Group in accordance with the International Convergence of Capital Measurement and Capital Standards (July 1988, updated to November 2005) and Amendment to the Capital Accord to incorporate market risks (updated November 2005), commonly known as Basel 1 requirements, were as follows:

In millions of Russian Roubles	**2011**	**2010**
Tier 1 capital		
Share capital	87 742	87 742
Share premium	232 553	232 553
Retained earnings	882 766	585 819
Treasury shares	(6 962)	-
Less goodwill	(15 050)	(8 251)
Total Tier 1 capital	**1 181 049**	**897 863**
Tier 2 capital		
Revaluation reserve for premises	81 527	53 648
Fair value reserve for investment securities available for sale	(3 357)	13 437
Foreign currency translation reserve	(5 692)	(1 136)
Subordinated capital	303 518	303 513
Less investments in associates	(4 677)	(2 479)
Total Tier 2 capital	**371 319**	**366 983**
Total capital	**1 552 368**	**1 264 846**
Risk weighted assets (RWA)		
Credit risk	9 867 778	7 327 090
Market risk	349 064	199 883
Total risk weighted assets (RWA)	**10 216 842**	**7 526 973**
Core capital adequacy ratio (Total Tier 1 capital to Total RWA)	**11,6**	**11,9**
Total capital adequacy ratio (Total capital to Total RWA)	**15,2**	**16,8**

39 Subsequent Events

January 2012 the Group acquired 100% share in the insurance company Alians Life. The company will be focused on cumulative and investment life insurance.

In January 2012 the Group signed an agreement for sale of 74.5% share of OJSC Holding company GVSU Center. The settlement took place in February 2012. As a result the Group lost control over subsidiaries of OJSC Holding company GVSU Center. Also in February 2012 the Group signed an agreement for sale of the remaining 25.5% share. Preliminary financial result (loss) on disposal was RR 57 million. As at 31 December 2011 assets and liabilities of OJSC Holding company GVSU Center included in Assets/liabilities of disposal group. Refer to Notes 15 and 20.

On 3 February 2012 the Group launched venture fund focused on investing in high technology companies and projects. The fund will be managed by Troika Ventures (venture department of Troika Dialog Group Ltd.). Currently the total amount of funds under management is above USD 100 million. The Group together with foreign partners is planning to increase investments in the venture fund from USD 100 million to USD 500 million.

In February 2012 following the entering into sale and purchase agreement in September 2011 Sberbank has completed its acquisition of 100% of Volksbank International AG ("VBI").

In the period between signing and closing, the selling shareholders have made capital contributions to increase VBI shareholders' equity to offset Q3 2011 losses, and also agreed to reduce the Euro 585 million consideration by Euro 80 million. Final consideration paid by the Bank amounts to Euro 505 million.

This transaction represents Sberbank's first major acquisition outside the CIS and is another step in its transformation from a dominant domestic financial institution to a leading international bank. VBI has 295 branches and over 600,000 clients. VBI's subsidiaries are within the top 10 financial institutions (by total assets) in each of Bosnia and Herzegovina, Croatia, the Czech Republic, and Slovakia, and within the top 15 financial institutions (by total assets) in each of Hungary, Serbia and Slovenia. It also has presence in Ukraine and holds a limited banking license in Austria.

This transaction is an important step in Sberbank's international strategy to benefit from a growth potential offered by Central and Eastern European countries.

39 Subsequent Events (Continued)

For the purpose of determining goodwill from the business combination provisional fair values of identifiable assets and liabilities of VBI based on the results of an independent external appraisal at the acquisition date were as follows:

In millions of Russian Roubles	**Provisional fair value**
Cash and cash equivalents	43 215
Mandatory cash balances with central banks	10 587
Trading securities	362
Securities designated at fair value through profit or loss	400
Due from other banks	16 069
Loans and advances to customers	257 960
Securities pledged under repurchase agreements	4 927
Investment securities available for sale	14 907
Investment securities held to maturity	1 964
Deferred income tax asset	994
Premises and equipment	4 439
Other assets	9 867
Total assets	**365 691**
Due to other banks	(48 484)
Due to individuals	(110 629)
Due to corporate customers	(78 076)
Debt securities in issue	(9 514)
Other borrowed funds	(93 117)
Deferred income tax liability	(386)
Other liabilities	(5 018)
Subordinated debt	(2 744)
Total liabilities	**(347 968)**
Fair value of net assets of subsidiary	**17 723**
Calculation of goodwill:	
Total purchase consideration	**20 184**
Non-controlling interest at fair value	341
Fair value of net assets of subsidiary	**(17 723)**
Goodwill on acquisition	**2 802**

Gross amount of loans and receivables acquired through this business combination amounted to RR 276 541 million. The amount of cash flows not expected to be received was assessed at RR 18 581 million.