Natixis Bank (ZAO)

Financial Statements

for the year ended December 31, 2011

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Management is responsible for the preparation of the financial statements that present fairly the financial position of the Bank as at December 31, 2011, the results of its operations, cash flows and changes in equity for the year then ended, in accordance with International Financial Reporting Standards ("IFRS").

In preparing the financial statements, management is responsible for:

- Selecting suitable accounting principles and applying them consistently;
- Making judgments and estimates that are reasonable and prudent;
- Stating whether IFRS have been followed; and
- Preparing the financial statements on a going concern basis, unless it is inappropriate to presume that the Bank will continue in business for the foreseeable future.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Bank;
- Maintaining proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Bank, and which enable them to ensure that the financial statements of the Bank comply with IFRS;
- Maintaining statutory accounting records in compliance with legislation and accounting standards of the Russian Federation (the "RF");
- Taking reasonably available steps to safeguard the assets of the Bank; and
- Detecting and preventing fraud, errors and other irregularities.

The financial statements for the year ended December 31, 2011 were approved by the Bank's Management Board on June 14, 2012.

On behalf of the Management Board:

E.A. Hodakova	***I.A. Komarova***
Deputy Chairman of the Management Board	***Chief Accountant***
June 14, 2012	June 14, 2012
Moscow	Moscow

"Натиксис Банк"
Natixis Bank (ZAO)
МОСКВА

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INDEPENDENT AUDITORS' REPORT

To the Shareholders and the Board of Directors of Closed Joint Stock Company Natixis Bank:

Report on the financial statements

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

Management's responsibility for the financial statements

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

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 financial statements.

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

Opinion

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

Deloitte & Touche

June 14, 2012
Moscow

(in thousands of Russian Rubles)

	Notes	2011	2010
Assets			
Cash and cash equivalents	5, 24	1 032 978	1 047 285
Minimum reserve deposits with the Central Bank of the Russian Federation		261 428	121 010
Financial assets at fair value through profit or loss and spot transactions	6	3 369 229	1 422 767
Due from banks	7, 24	7 234 783	7 311 477
Loans to customers	8	9 685 401	6 557 942
Property, equipment and intangible assets	9	8 391	11 742
Other assets	12, 24	273 607	200 069
Deferred income tax assets	19	-	11 964
Total assets		**21 865 817**	**16 684 256**
Liabilities			
Financial liabilities at fair value through profit or loss and spot transactions	6, 24	1 220 297	94 703
Due to banks	10, 24	16 711 457	13 425 188
Customer accounts	11	881 076	289 135
Other liabilities	12, 24	66 584	41 463
Subordinated loan	13, 24	643 922	609 538
Deferred income tax liabilities	19	8 505	-
Total liabilities		**19 531 841**	**14 460 027**
Equity			
Share capital	14	1 153 089	1 153 089
Share premium		50 367	50 367
Retained earnings	15	1 130 520	1 020 773
Total equity		**2 333 976**	**2 224 229**
Total liabilities and equity		**21 865 817**	**16 684 256**

E.A. Hodakova
Deputy Chairman of the Management Board

June 14, 2012

"Натиксис Банк"
Natixis Bank (ZAO)
МОСКВА

I.A. Komarova
Chief Accountant

June 14, 2012

The notes on pages 7-49 form an integral part of these financial statements.

(in thousands of Russian Rubles)

	Notes	2011	2010
Interest income	16, 24	763 472	709 933
Interest expense	16, 24	(262 680)	(155 079)
Net interest income before provision for impairment losses on interest bearing assets		**500 792**	**554 854**
(Provision)/recovery of provision for impairment losses on interest bearing assets	8	(4 153)	53 446
Net interest income		**496 639**	**608 300**
Net loss on financial assets and liabilities at fair value through profit or loss		(98 569)	(26 302)
Net (loss)/gain on foreign exchange operations	24	(357 163)	152 487
Net gain/(loss) on foreign currency revaluation		513 763	(164 654)
Fee and commission income	17	40 393	59 513
Fee and commission expense	17, 24	(42 604)	(48 893)
Provision for impairment losses on other assets	12	(4)	(66)
Other income		3 192	1 226
Operating income		**555 647**	**581 611**
Operating expenses	18, 24	(273 311)	(259 156)
Profit before income tax		**282 336**	**322 455**
Income tax expense	19	(65 920)	(78 611)
Net profit for the period		**216 416**	**243 844**
Comprehensive income for the period		**216 416**	**243 844**

E.A. Hodakova
Deputy Chairman of the Management Board

June 14, 2012

"Натиксис Банк"
Natixis Bank (ZAO)
МОСКВА

I.A. Komarova
Chief Accountant

June 14, 2012

Natixis Bank (ZAO)
Statement of changes in equity for the year ended December 31, 2011
(in thousands of Russian Rubles)

	Share capital	Share premium	Retained earnings	Total equity
Balance at December 31, 2009	**1 153 089**	**50 367**	**776 929**	**1 980 385**
Comprehensive income	-	-	243 844	243 844
Balance at December 31, 2010	**1 153 089**	**50 367**	**1 020 773**	**2 224 229**
Comprehensive income	-	-	216 416	216 416
Dividends paid	-	-	(106 669)	(106 669)
Balance at December 31, 2011	**1 153 089**	**50 367**	**1 130 520**	**2 333 976**

E.A. Hodakova
Deputy Chairman of the Management Board

June 14, 2012

I.A. Komarova
Chief Accountant

June 14, 2012

The notes on pages 7-49 form an integral part of these financial statements.

(in thousands of Russian Rubles)

	Notes	2011	2010
Cash flows from operating activities			
Interest received		755 500	636 193
Interest paid		(261 205)	(150 396)
(Loss)/gain on foreign exchange operations		(459 578)	144 815
(Loss)/gain on financial assets at fair value through profit or loss		(84 061)	14 157
Fee and commission received		40 389	56 236
Fee and commission paid		(53 929)	(48 892)
Other operating income		3 118	1 228
Other operating expenses paid		(249 834)	(256 865)
Income tax paid		(128 331)	(94 895)
Cash (outflow)/inflow from operating activities before changes in operating assets and liabilities		**(437 931)**	**301 581**
Changes in operating assets and liabilities			
Net increase in minimum reserve deposits with the Central Bank of the Russian Federation		(140 418)	(8 095)
Net increase in financial assets at fair value through profit or loss		(733 058)	(30 652)
Net decrease/(increase) in due from banks		303 524	(3 352 070)
Net (increase)/decrease in loans to customers		(2 528 427)	2 045 907
Net decrease/(increase) in other assets		30 155	(38 666)
Net increase in due to banks		2 975 555	668 868
Net increase/(decrease) in customer accounts		581 320	(119 188)
Net increase/(decrease) in other liabilities		4 949	(5 039)
Net cash inflow/(outflow) from operating activities		**55 669**	**(537 354)**
Cash flows from investing activities			
Proceeds on disposal of property and equipment		407	-
Acquisition of property and equipment	9	(1 796)	(4 272)
Net cash outflow from investing activities		**(1 389)**	**(4 272)**
Cash flows from financing activities			
Dividends paid		(106 669)	-
Net cash outflow from financing activities		**(106 669)**	-
Effect of exchange rate changes on cash and cash equivalents		**38 082**	**5 767**
Net decrease in cash and cash equivalents		**(14 307)**	**(535 859)**
Cash and cash equivalents, beginning of the year	5	1 047 285	1 583 144
Cash and cash equivalents, end of the year	5	**1 032 978**	**1 047 285**

E.A. Hodakova
Deputy Chairman of the Management Board

June 14, 2012

"Натиксис Банк"
Natixis Bank (ZAO)
Москва

I.A. Komarova
Chief Accountant

June 14, 2012

The notes on pages 7-49 form an integral part of these financial statements.

1 Principal activities

Natixis Bank (ZAO) (the “Bank”) is a commercial bank incorporated as a closed joint stock company in 2002. The Bank conducts its business under banking license No. 3390 issued by the Central Bank of the Russian Federation. The Bank’s primary business consists of commercial banking activities in the territory of the Russian Federation. The Bank holds a license for securities transactions and participates in the deposit insurance scheme.

The Bank is a subsidiary of Natixis, a legal entity incorporated under the laws of France (the “Parent Bank”), which holds a 100% stake in the Bank’s share capital.

The Bank is registered at: 23, bld. 1, 1-st Tverskaya-Yamskaya street, Moscow, Russia. The Bank has no branches or representative offices.

These financial statements were authorized for issue by the Bank’s Management Board on June 14, 2012.

2 Operating environment

The Russian economy has features of emerging markets, such as a currency that is not freely convertible in most countries outside the Russian Federation, relatively high inflation and risks not typical for other markets. Tax, currency and customs legislation is subject to frequent changes and various interpretations. Besides, the necessity to further develop bankruptcy legislation, lack of a formalized procedure for registration and realization of collateralized property and other tax and legislative deficiencies complicate the work of financial institutions in the Russian Federation. Further direction of economic development of the Russian Federation depends very much on the efficiency of economic, tax and monetary policies of the Russian government.

The accompanying financial statements represent management’s assessment of possible impact of the existing operating environment on the Bank’s operational and financial performance. Subsequent changes in the operating environment may differ from management’s judgment.

3 Basis of preparation

Basis of presentation. These financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”) and Interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”).

The Bank maintains its accounting records in accordance with the banking legislation of the Russian Federation (“RAS”) and France. These financial statements have been prepared from the Russian statutory accounting records and adjusted to conform to IFRS. Entered adjustments include certain reclassifications to reflect the economic substance of underlying transactions including reclassifications of certain assets and liabilities, income and expenses to appropriate items in the statement of financial position and the statement of comprehensive income.

These financial statements have been prepared and presented in the national currency of the Russian Federation, Russian Rubles. These financial statements have been prepared under the historical cost convention, except for the measurement at fair value of certain financial instruments.

Functional currency. Items included in the financial statements of the Bank are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to the Bank (the “functional currency”). The functional currency of the financial statements is the Russian Ruble (“RUB”).

Adoption of new and revised standards. The accounting policy is the same as the policy applied in the previous financial year. New and revised standards which became obligatory for application in the period from January 1, 2011 to December 31, 2011 had no impact on the Bank's financial statements.

3 Basis of preparation (continued)

Standards and interpretations issued and not yet adopted. At the date of authorization of these financial statements, the following new standards and interpretations were in issue, but not yet effective, and which the Bank has not early adopted:

- IFRS 7 "Financial Instruments: Disclosures" – amendments enhancing disclosures about transfers of financial assets [1];
- IFRS 9 "Financial Instruments" [6];
- IFRS 10 "Consolidated Financial Statements" [3];
- IFRS 11 "Joint Arrangements" [3];
- IFRS 12 "Disclosure of Interest in Other Entities" [3];
- IFRS 13 "Fair Value Measurement" [2];
- IAS 1 "Presentation of Financial Statements" — amendments to revise the way other comprehensive income is presented [4];
- IAS 12 "Income Taxes" — limited scope amendment (recovery of underlying assets) [5];
- IAS 27 - reissued as IAS 27 "Separate Financial Statements" (as amended in May 2011) [3];
- IAS 28 - reissued as IAS 28 "Investments in Associates and Joint Ventures" (as amended in May 2011) [3];
- IAS 32 – amendments which provide clarifications on the application of the offsetting rules and disclosure requirements [7].

[1] Effective for annual periods beginning on or after July 1, 2011, with earlier application permitted.
[2] Effective for annual periods beginning on or after January 1, 2013, with earlier application permitted.
[3] Each of the five standards becomes effective for annual periods beginning on or after January 1, 2013, with earlier application permitted if all the other standards in the "package of five" are also early applied (except for IFRS 12 that can be applied earlier on its own).
[4] Effective for annual periods beginning on or after July 1, 2012, with earlier application permitted.
[5] Effective for annual periods beginning on or after January 1, 2012, with earlier application permitted.
[6] Effective for annual periods beginning on or after January 1, 2015, with earlier application permitted.
[7] Effective for annual periods beginning on or after January 1, 2014. The new offsetting disclosure requirements are effective for annual periods beginning on or after January 1, 2013.

Amendments to IFRS 7 – The amendments introduce additional disclosures, designed to allow users of financial statements to improve their understanding of transfer transactions of financial assets (for example, securitisations), including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period.

Retrospective application is required in accordance with IAS 8 with the exception that in the first year of application, an entity need not provide comparative information for the disclosures required by the amendments for periods beginning before July 1, 2011. The Bank is currently assessing the impact of the amended standard on its financial statements.

3 Basis of preparation (continued)

IFRS 9 issued in November 2009 and amended in October 2010 introduces new requirements for the classification and measurement of financial assets and financial liabilities and for derecognition.

- IFRS 9 requires all recognised financial assets that are within the scope of IAS 39 “Financial Instruments: Recognition and Measurement” to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.
- The most significant effect of IFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under IFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was recognised in profit or loss.

The Bank management anticipate that IFRS 9 that will be adopted in the Bank's financial statements for the annual period beginning January 1, 2015 and that the application of the new Standard will have a significant impact on amounts reported in respect of the Bank’s financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

IFRS 10 Consolidated Financial Statements - replaces all of the guidance on control and consolidation in IAS 27 and SIC-12 by introducing a single consolidation model for all entities based on control, irrespective of the nature of the investee (i.e. whether an entity is controlled through voting rights or through other contractual arrangements as is common in special purpose entities). Under IFRS 10, the single definition of control, accompanied by extensive application guidance, is based on whether an investor has:

- power over the investee;
- exposure, or rights, to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect the amount of the returns.

IFRS 11 Joint Arrangements - replaces IAS 31 with new accounting requirements for joint arrangements by classifying them as either joint operations or joint ventures (the “jointly controlled assets” classification exists no more).

- In recognising their rights and obligations arising from the arrangement, the parties should no longer focus on the legal structure of the joint arrangement, but rather on how rights and obligations are shared by them.
- A joint operation gives parties to the arrangement direct rights to the assets and obligations for the liabilities. Thus, a joint operator recognises its interest based on its involvement in the joint operation (i.e. based on its direct rights and obligations) rather than on the participation interest it has in the joint arrangement. A party to a “joint operation” recognises assets, liabilities, revenues and expenses arising from the arrangement.
- A joint venture gives the parties rights to the net assets or outcome (profit or loss) of the arrangement. Joint ventures are accounted for using the equity method in accordance with IAS 28 “Investments in Associates”. Entities can no longer account for an interest in a joint venture using the proportionate consolidation method. A party to a “joint venture” recognises an investment.

IFRS 12 Disclosure of Interests in Other Entities – requires enhanced disclosures about both consolidated and unconsolidated entities in which an entity has involvement, so that financial statement users are able to evaluate the nature, risks and financial effects associated with the entity’s interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. Thus, IFRS 12 sets out the required disclosures for entities reporting under the two new standards, IFRS 10 and IFRS 11 and replaces the disclosure requirements currently found in IAS 28.

3 Basis of preparation (continued)

IAS 27 (2011) Separate Financial Statements - includes the provisions on separate financial statements that are left almost unchanged after the control provisions of IAS 27 have been replaced with the new IFRS 10.

IAS 28 (2011) Investments in Associates and Joint Ventures – now includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of IFRS 11.

This package of standards will not have a material effect on the financial statements of the Bank.

IFRS 13 Fair Value Measurement - aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements to use across IFRSs. The Standard:

- Defines fair value;
- Sets out in a single IFRS a framework for measuring fair value;
- Requires disclosures about fair value measurements.

IFRS 13 applies when another IFRS requires or permits fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements), except for share-based payment transactions within the scope of IFRS 2 "Share-based Payment", leasing transactions within the scope of IAS 17 "Leases", and measurements that have some similarities to fair value but that are not fair value, such as net realizable value in IAS 2 "Inventories" or value in use in IAS 36 "Impairment of Assets".

The Bank is currently assessing the impact of the amended standard on its financial statements.

Amendments to IAS 1 Presentation of Financial Statements – revise the way other comprehensive income is presented.

The amendments to IAS 1:

- Preserve the amendments made to IAS 1 in 2007 to require profit or loss and OCI to be presented together, i.e. either as a single "statement of profit or loss and comprehensive income", or a separate "statement of profit or loss" and a "statement of comprehensive income" – rather than requiring a single continuous statement as was proposed in the exposure draft;
- Require entities to group items presented in OCI based on whether they are potentially reclassifiable to profit or loss subsequently, i.e. those that might be reclassified and those that will not be reclassified;
- Require tax associated with items presented before tax to be shown separately for each of the two groups of OCI items (without changing the option to present items of OCI either before tax or net of tax).

The Bank does not expect these amendments to have a material effect on its financial position or results of operations.

Amendment to IAS 12 Income Taxes – provide a presumption that recovery of the carrying amount of an asset measured using the fair value model in IAS 40 "Investment Property" will, normally, be through sale.

Retrospective application is required in accordance with IAS 8. The Bank is considering the impact of this amendment on the separate financial statements and the timing of its application.

Amendments to IAS 32 Financial Instruments: Presentation – provide clarifications on the application of the offsetting rules, and focus on four main areas:

- The meaning of "currently has a legally enforceable right of set-off";
- The application of simultaneous realisation and settlement;
- The offsetting of collateral amounts;
- The unit of account for applying the offsetting requirements.

3 Basis of preparation (continued)

The respective amendments to the disclosure requirements in IFRS 7 “Financial Instruments: Disclosure” require information about all recognised financial instruments that are set off in accordance with paragraph 42 of IAS 32. The amendments also require disclosure of information about recognised financial instruments subject to enforceable master netting arrangements and similar agreements even if they are not set off under IAS 32. These disclosures will allow financial statement users to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with an entity's recognised financial assets and recognised financial liabilities, on the Bank's financial position.

The Bank is considering the impact of these amendments on the financial statements and the timing of their application.

Key assumptions. The preparation of the Bank’s financial statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities at the balance sheet date and the reported amounts of income and expenses during the period ended. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. Judgments made by the respective structural subdivision when applying the accounting policies, having a material effect on amounts recognised in the financial statements and being the most important for the financial statements are disclosed in Note 26.

4 Significant accounting policies

Key valuation techniques. The Bank uses the following methods for recognition and measurement of financial instruments: at fair value, at amortised cost or at cost.

Fair value is the amount for which an asset could be exchanged or a liability could be settled between knowledgeable willing parties in an arm's length transaction. A financial instrument has a quoted market price in an active market if the quotes for such instruments are regularly determined and related information is available at the stock exchange through information and analytical systems or from other information sources, and if such quotes reflect real and regular market transactions carried out on an arm’s length basis.

The fair value of financial instruments quoted at an active market is determined based on:

- Stock market quotations (quoted market prices), generally, for financial instruments traded through trade organizers;
- Demand prices for financial assets and supply prices for financial liabilities, and estimated fair value determined based on the data from information and analytic systems (e.g., Reuters and Bloomberg), market dealers and other sources.

With absence of current quoted market prices to determine the fair value the following information may be used:

- The latest quoted market price (demand/supply price) according to external independent sources, if no material changes occurred in the economic environment between the date of estimation and the reporting date;
- The actual price of the latest transaction performed by the Bank in the active market, if there were no significant changes in the economic environment between the transaction date and the reporting date.

In case of a material change in the economic environment, the latest quoted market price (price of the transaction) should be adjusted based on changes in the quoted market price (price of the transaction) for similar financial instruments. For debt securities, the latest quoted market price (price of the transaction) may be adjusted based on changes in maturity of such debt security.

Underlying the definition of fair value is an assumption that an entity is a going concern without any intention or need to liquidate, curtail materially the scale of its operations or undertake a transaction on adverse terms. Fair value is not, therefore, the amount that the Bank would receive in a forced transaction, involuntary liquidation or distress sale.

The model of discounted cash flows and the analysis of financial information on investees are used for determination of the fair value of financial instruments when the information on their quoted market prices is unavailable from external sources. If there is a method for valuation of a financial instrument widely applicable by market participants, which confirms the valuation results with the prices of actual market transactions, it can be used to determine the price of such financial instrument.

4 Significant accounting policies (continued)

Such method may be selected for each particular case of fair value determination, and unless otherwise substantiated, valuation methods based on stock market prices and demand/supply quoted prices should be applied. Determination of the fair values of financial instruments when the information on their quoted market prices is unavailable from external sources depends on various factors, circumstances and requires application of professional judgment.

The Bank classifies the information used for determination of the fair value of a financial instrument based on the significance of the input data used for valuation, as follows:

- The current market prices for financial instruments identical with the financial instrument under evaluation (level 1);
- If the information on current quoted market prices is unavailable – the most recent market transaction price, if no significant changes in the operating environment occurred from the date of transaction, and current quoted market prices on comparable financial instruments, if the operating environment changed from the date of transaction, and the information based on observable market data (level 2);
- The prices calculated using valuation techniques with inputs not based on observable market data (level 3).

Amortised cost of a financial asset or a financial liability is the amount at which the financial instrument was measured at initial recognition, less cash received or paid (principal amount, interest income (expense) or other payments under agreement) adjusted for accumulated depreciation charged on the difference between the initially recognised amount and actually received (paid) amount on the financial instrument, and for financial asset impairment loss recognised. This difference is depreciated using the effective interest rate. Accrued interest includes amortisation of transaction costs deferred at initial recognition and any premiums or discounts to maturity amount using the effective interest rate method. Accrued interest income and accrued interest expenses, including accrued coupon income and amortised discount and premium, are not presented separately but included in the carrying value of respective assets and liabilities.

With respect to variable financial assets and liabilities cash flows and effective interest rate are recalculated at the date of establishment of a new coupon (interest) rate. The effective interest rate is recalculated based on the current amortised cost and expected future payments. Current amortised cost of the financial instrument does not change, and the amortised cost is measured applying the newly established effective interest rate.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and allocating the interest income or interest expense over the relevant period.

The effective interest rate is the rate that discounts estimated future cash payments or receipts over the expected life of the financial instrument or, if applicable, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate the Bank estimates cash flows taking into account all contractual terms and conditions relating to the financial instrument (for example, the early repayment option), but not future credit losses.

Such calculation includes all fees and commission paid or received by parties to the contract and are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. When loans become doubtful of collection, they are written down to their recoverable amounts and interest income is thereafter recognised based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those cases when it is not possible to estimate the cash flows or the expected life of a financial instrument, the entity shall use the contractual cash flows over the full contractual term of the financial instrument.

Cost is the amount of cash or cash equivalents paid or the fair value of other consideration given to acquire an asset at the date of its acquisition and includes transaction costs.

Only investments in equity instruments, which have no quoted market prices and the fair value of which cannot be measured reliably, and derivative financial instruments related to such equity instruments and which are subject to extinguishment with such equity instruments are measured at cost. Transaction costs are additional costs directly related to the acquisition, issue or disposal of a financial instrument and include fees and commissions paid to agents, advisers, brokers, and dealers; levies paid to regulatory agencies and stock exchanges, and taxes and duties levied on the transfer of assets. Transaction costs do not include debt premium or discount, financing costs, internal administrative or holding costs.

4 Significant accounting policies (continued)

Initial recognition of financial instruments. When a financial asset or financial liability is recognised initially, the Bank measures it at its fair value plus, in case of a financial asset or financial liability measured not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Gains and losses at initial recognition of a financial asset or a financial liability are only recognised if there is a difference between the transaction price and the fair value that may be substantiated through other current market transactions with the same instrument or a valuation method which is based on the available market data.

Subject to standard terms and conditions of settlements, the purchase and sale of financial assets is recognised at the transaction date, i.e. the date when the Bank must buy or sell the asset, or at the date of settlement, i.e. the date of delivery of the financial asset by the Bank or to the Bank. The selected method is applied by the Bank consistently to all purchases and sales of financial assets related to the same category of financial assets. For this purpose financial assets held for trading form a category separate from financial assets at fair value through profit or loss.

When accounting for at the transaction date, it is provided for:

- The recognition of a financial asset receivable and the liability for its payment at the transaction date;
- The derecognition of an asset which is the subject of sale, recognition of any gain or loss on its disposal and recognition of receivables from the customer which is repayable at the transaction date.

When accounting for at the date of settlements, it is stipulated:

- The recognition of an asset at the date of transfer to the Bank;
- The derecognition of an asset and recognition of any gain or loss on its disposal at the date of delivery by the Bank.

When accounting at the date of settlements, the Bank recognises any change in fair value of a financial asset receivable during the period between the transaction and the date of settlements, the same as it accounts for changes in value of an acquired asset, i.e. changes in value are not recognised in relation to the assets recorded at cost or amortised cost. Changes in value are included in profit or loss with respect to assets classified as financial assets at fair value through profit or loss and recognised in other comprehensive income of the statement of comprehensive income with respect to available-for-sale assets.

When accounting for at the date of settlements before settlements all transactions are classified as operations with derivative financial instruments.

Impairment of financial assets. For objective recognition of risks accepted the Bank makes provisions for loans to customers and due from banks.

A financial asset is impaired and impairment losses are incurred only if there is an objective evidence of impairment as a result of one or more events occurred after the initial recognition of the asset (a “loss event”) and if this loss event (or events) has an impact on the estimated future cash flows of the financial asset that can be measured reliably.

The key indicators of impairment of a financial asset (a “loss event”) are as follows:

- A regular payment was overdue and the delay did not result from breakdowns in the payment system;
- The borrower or the issuer has significant financial problems, which may be confirmed by the borrower’s/issuer’s financial statements received by the Bank;
- The borrower or the issuer considers possible bankruptcy;
- There are unfavourable changes in the borrower’s/issuer’s solvency caused by changes in the national and regional economy, which have impact on the borrower or issuer;
- The cost of collateral decreased considerably due to unfavourable market conditions;
- Due to economic or legal factors, the lender granted privileges to the borrower, which could hardly happen otherwise;
- Assets are provided to the borrower to settle the debt on a previously provided asset;
- The lack of an active market for this financial asset due to financial difficulties of the issuer (not because the asset is no longer traded in the market);
- There is the information available on breaches by the issuer/borrower of contractual terms and conditions relating to similar financial assets.

4 Significant accounting policies (continued)

Impairment losses on financial assets at amortised cost are included in profit or loss as incurred as a result of one or more events (a "loss event") occurred after the initial recognition of the financial asset.

The Bank does not recognise impairment losses at initial recognition of financial assets.

If the Bank has no impartial evidence of impairment for an individually evaluated asset, regardless its materiality, this asset is included in a group of financial assets with similar parameters of credit risk and assessed for impairment in aggregate with those assets.

For the purposes of an aggregate assessment, financial assets are grouped by similar characteristics of credit risk. These characteristics relate to the assessment of future cash flows for groups of such assets and are evidence of the debtors' ability to repay all due amounts related to the assessed assets in accordance with contractual terms and conditions.

Impairment loss on a financial asset either decreases directly carrying value of the asset or is recognised by means of making provisions for impairment losses in the amount necessary to decrease the carrying value of the asset to the current value of estimated future cash flows (which does not include a future loss on the loan which, presently, have not yet been incurred) discounted using the initial effective interest rate on this asset. The calculation of the discounted value of estimated future cash flows from a secured financial asset includes cash flows which may be generated as a result of realization of the collateral less selling costs, regardless of the probability of such sale.

If in the subsequent period the impairment loss on financial asset decreases, and the decrease may be related objectively to an event occurring after the impairment was recognised, and the previously recognised impairment loss is reversed in profit or loss through adjusting the provision.

After adjustment of a loan as a result of impairment to recoverable amount, the interest income is recorded based on the interest rate which was used for discounting future cash flows in order to assess the impairment loss.

Financial assets that cannot be repaid and in relation to which the company has completed all the required procedures for partial or complete compensation and determined the total amount of loss, are written off against the provision for impairment losses included in the statement of financial position.

If in case of a revision of the terms relating to impaired financial assets the revised terms materially differ from the previous ones, the new asset is recorded at fair value.

Derecognition of financial instruments. The Bank only derecognises a financial asset if one of the following requirements is met:

- The contractual rights to the cash flows from the financial asset expire;
- The Bank transfers the financial asset and this transfer complies with derecognition criteria.

A financial asset is considered as transferred by the Bank only if one of the following requirements is met:

- The Bank transfers the contractual rights to receive cash flows related to the financial asset;
- The Bank retains its contractual rights to receive cash flows related to the financial asset, but assumes a contractual obligation to pay cash to one or more recipients, and subject to the following requirements:
- The Bank has no obligation to pay cash to ultimate customers, unless the Bank received the equivalent amounts from the original customer (short-term advance payments made by the Bank with the right of full recovery of borrowed funds plus interest accrued at market rates do not violate this requirement);
- The Bank is prohibited by the terms of the transfer contract from selling or pledging the original asset other than as security to ultimate customers for the obligation to pay them cash flows;
- The Bank has an obligation to remit any cash flows it collects on behalf of ultimate customers without a material delay. In addition, the Bank is not entitled to reinvest such cash flows, except for investments in cash or cash equivalents during the short settlement period from the collection date to the date of required remittance to ultimate customers, and the interest income from such investments is subject to allocation to ultimate customers.

4 Significant accounting policies (continued)

When transferring a financial asset the Bank shall evaluate the extent to which it retains the risks and rewards related to ownership of the financial asset. If the Bank:

- Transfers substantially all the risks and rewards related to ownership of a financial asset, this financial asset shall be derecognised. The rights and obligations arisen or retained upon transferring a financial asset are recognised separately as assets and liabilities;
- Retains substantially all the risks and rewards related to ownership of a financial asset, this financial asset shall continue to be recognised;
- Neither transfers nor retains substantially all the risks and rewards of ownership of a financial asset, the Bank shall determine whether it retains the control over the financial asset. If the control is not retained, the Bank derecognises the transferred financial asset. The rights and obligations arisen or retained upon transferring a financial asset are recognised separately as assets and liabilities. If the Bank retains the control over a financial asset, the Bank continues to recognise the transferred asset to the degree it continues to participate in this asset.

If financial assets are reregistered with material changes in conditions, such assets are derecognised and further recognised in the statement of financial position as newly acquired.

If financial assets are reregistered without material changes in conditions, such assets are recognised at the carrying value of the transferred financial asset.

A financial liability is derecognised in case of repayment, cancellation or expiry of this liability. If one existing financial liability is replaced with another liability to the same lender at materially different conditions or in case of making material changes in the terms of the existing liability, the original liability is derecognised and the new liability is recognised charging the difference in their carrying values to profit or loss.

Cash and cash equivalents. Cash and cash equivalents include cash on hand, unrestricted balances on correspondent accounts with commercial banks, accounts with the Central Bank of the Russian Federation and overnight deposits. All short-term interbank placements, beyond overnight deposits, are included in advances to banks.

Minimum reserve deposits with the Central Bank of the Russian Federation. Minimum reserve deposits with the Central Bank of the Russian Federation are recorded at amortised cost and represent non-interest bearing reserves with the CBR which are not available to finance the Bank's day to day operations, and hence are not considered as part of cash and cash equivalents for the purposes of the statement of cash flows.

Financial assets and liabilities at fair value through profit or loss. This category includes financial assets at fair value through profit or loss held for trading and other financial assets designated as at fair value through profit or loss at initial recognition.

A financial asset is classified as held for trading if it is acquired for the purpose of selling it in the near term or is part of a portfolio of identified financial instruments that the Bank manages together and has a recent actual pattern of short-term profit-taking. Derivative financial instruments having a positive fair value (i.e. potentially profitable terms) are also designated as financial assets at fair value through profit or loss held for trading unless they are derivative financial instruments designated as effective hedging instruments.

Other financial assets classified as at fair value through profit or loss comprise financial assets included in this category at initial recognition. The Bank includes financial assets in this category only if one of the following requirements is met:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise where such assets and liabilities were measured, or relevant gain or loss was recognised, using various methods;
- A group of financial assets is managed, and its performance is evaluated on a fair value basis, in accordance with the Bank's documented risk management or investment strategy. Information about these financial assets managed on a fair value basis is submitted to the CEO;
- A financial asset includes an embedded derivative financial instrument which shall be recognised separately.

Initially and subsequently financial assets measured at fair value through profit or loss are valued at fair value which is calculated either based on quoted market prices or applying various valuation techniques. The valuation techniques are presented in section "Key valuation techniques".

4 Significant accounting policies (continued)

Realised and non-realised income and expenses on operations with financial assets at fair value through profit or loss are recognised in the statement of comprehensive income in the period when they were received or incurred, included in net gain on financial assets at fair value through profit or loss. Interest income from financial assets at fair value through profit or loss is measured using the effective interest rate method and recognised in the statement of comprehensive income as interest income on financial assets at fair value through profit or loss. Received dividends are included in other operating income in the statement of comprehensive income. The Bank classifies financial assets at fair value through profit or loss in an appropriate category at the date of acquisition. Derivative financial assets classified into this category and other financial assets classified as measured at fair value through profit or loss at initial recognition are not reclassified.

Securities repurchase and reverse repurchase agreements. Transactions on sale and repurchase of securities ("repos") which actually ensure for the counterparty income of the lender are considered as borrowing operations secured by securities. Securities transferred under repo agreements are included in financial assets at fair value through profit or loss. If terms of the transaction allow the recipient of financial assets to sell or repledge them, such financial assets are recorded separately in the statement of financial position as financial assets transferred without derecognition in accordance with categories from which they were transferred. Respective liabilities on borrowed funds are recorded in due to banks. The difference between the sale price of the security and its repurchase price is recognised as an interest expense and accrued throughout the term of the repo using the effective interest rate method.

Transactions on purchase and resale of securities ("reverse repos") which actually ensure for the Bank income of the lender are considered as lending operations secured by securities. Securities purchased under reverse repo agreements are not recognised in the statement of financial position. Respective receivables on loans issued are included in due from banks or loans to customers.

The difference between the purchase price of the security and its resale price is recognised as interest income and accrued throughout the term of the repo agreement using the effective interest rate method. Securities provided by the Bank as loans to counterparties continue to be recognised as securities in the original line in the statement of financial position. If terms of the transaction allow the recipient of the financial assets to sell or repledge them, such financial assets are reclassified in a separate item of the statement of financial position.

Securities received as a loan are not recognised in the financial statements. If such securities are sold to third parties, the financial result of purchase and sale of these securities is recorded in the statement of comprehensive income in net gain on financial assets at fair value through profit or loss. A liability for return of these securities is recorded as held for trading at the fair value and included in financial liabilities at fair value through profit or loss.

Due from banks. Due from banks include non-derivative financial assets with fixed or defined payments not quoted in an active market issued by the Bank to counterparty banks (including the Central Bank of the Russian Federation), except for:

- Overnight deposits;
- Financial assets the Bank intends to sell immediately or in the near future, which shall be classified as held for trading, and those that the Bank after initial recognition designates as at fair value through profit or loss;
- Financial assets designated as available-for-sale after initial recognition;
- Financial assets for which the holder will not be able to recover substantially all of its initial investment, other than because of credit quality deterioration, and which shall be classified as available-for-sale;
- Due from other banks are recognised from the date of issuance (placement). Due from other banks are initially recognised at fair value. Financial assets that are reclassified from the category "at fair value through profit or loss" or from "available-for-sale" are stated at fair value as at the date of reclassification. Gains or losses already recognised in the statement of comprehensive income as at the date of reclassification of financial assets from the category "at fair value through profit or loss" are not recovered.

4 Significant accounting policies (continued)

Further, loans issued and deposits placed are carried at amortised cost net of any provision for impairment losses. Amortised cost is based on fair value of loan issued or deposit placed calculated using prevalent interest rates for similar loans and deposits as at the date of loan issuance or deposit placement. The difference between the fair value and the nominal amount of loan (deposit) arising at the origination of loans (placement of deposits) at interest rates above or below the prevailing rates is recognised in the statement of comprehensive income at the date of loan issuance (deposit placement) in income (expenses) from assets placed at the rates above (below) market rates. Subsequently, the carrying value of these loans (deposits) is adjusted by depreciation amount of this income/(expense), and the interest income is recognised in the statement of comprehensive income using the effective interest rate method.

The procedure for assessment of impairment of financial assets is presented in section “Impairment of financial assets”.

Loans to customers. Loans to customers include non-derivative financial assets with fixed or defined payments that are not quoted in an active market, other than:

- Financial assets that the Bank intends to sell immediately or in the near future, which shall be classified as held for trading, and those that the Bank after initial recognition designates as at fair value through profit or loss;
- Financial assets designated as available-for-sale after initial recognition;
- Financial assets for which the holder will not be able to recover substantially all of its initial investment, other than because of credit quality deterioration, and which shall be classified as available-for-sale.

Loans to customers are initially recognised at fair value plus transaction costs (i.e. fair value of the recovery paid or received). Financial assets that are reclassified from the category “at fair value through profit or loss” or from “available-for-sale” are stated at fair value as at the date of reclassification. Gains or losses already recognised in the statement of comprehensive income as at the date of reclassification of financial assets from the category “at fair value through profit or loss” are not recovered.

Subsequently, loans and receivables are measured at amortised cost using the effective interest rate method.

Loans to customers are recognised from the date of issuance to borrowers. Loans issued at interest rates different from the market interest rates are measured as at the date of issuance at fair value which consists of future interest payments and principal debt amount discounted applying market interest rates for similar loans. The difference between the fair value and the nominal value of a loan is recognised in the statement of comprehensive income as income from the assets placed at interest rates above the market rates, or as an expense on the assets placed at interest rates below the market rates. Subsequently, the carrying value of these loans is adjusted for depreciation of income/(expense), and the respective income is recognised in the statement of comprehensive income using the effective interest rate method.

The procedure for assessment of impairment of financial assets is provided in section “Impairment of financial assets”.

Property, equipment and intangible assets. Property, equipment and intangible assets acquired after January 1, 2003 are carried at historical cost less accumulated depreciation and amortisation (for intangible assets). Property, equipment and intangible assets acquired before January 1, 2003 are carried at historical cost restated to the equivalent purchasing power of the Russian Ruble as at December 31, 2002, less accumulated depreciation.

At each reporting date the Bank assesses whether there is any indication of impairment of property and equipment and intangible assets. If any such indication exists, the Bank estimates the recoverable amount, which is determined as the higher of an asset’s net selling price and its value in use. Where the carrying value of an asset is greater than its estimated recoverable amount, it is written down to its recoverable amount and the difference is charged to the statement of comprehensive income as an impairment loss. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the assets recoverable amount.

Gains and losses on disposal of property, equipment and intangible assets are determined by reference to the carrying amount and included in the statement of comprehensive income. Repairs and maintenance costs are charged to the statement of comprehensive income as incurred.

4 Significant accounting policies (continued)

Depreciation and amortisation. Depreciation and amortisation of property, equipment and intangible assets are applied on a straight-line basis over the estimated useful lives of the assets using the following rates:

- Motor vehicles – 14% per annum;
- Furniture – 5-33% per annum;
- Office and computer equipment – 14-48% per annum; and
- Intangible assets – 10-33% per annum.

Operating leases. Where the Bank is the lessee, and the risks and rewards of the ownership of leased property are not transferred by the lessor to the Bank, the total lease payments are charged by the lessee to the statement of comprehensive income on a straight-line basis over the period of the lease.

Borrowings. Borrowings include customer accounts and due to other banks. Borrowings are initially recorded at the fair value of the funds received, net of any transaction costs incurred. Subsequently, borrowings are stated at amortised cost, and any difference between the proceeds and the redemption value is recognised in the statement of comprehensive income over the period of the borrowing using the effective interest rate method.

Borrowings at interest rates different from the market rates are measured as at the date of the receipt at fair value which includes future interest payments and the principal debt amount discounted using market interest rates for similar loans. The difference between the fair value and the nominal amount of borrowings is recognised in the statement of comprehensive income as income from borrowings issued at interest rates below the market rates, or as expense from borrowings issued at the rates above the market rates. Subsequently, the carrying value of these borrowings is adjusted for depreciation of initial income/(expense) from borrowings, and the respective expenses are recognised as interest expenses in the statement of comprehensive income using the effective interest rate method.

Credit commitments. The Bank assumes credit commitments including letters of credit and financial guarantees. Financial guarantees are irrevocable commitments to make payments in case a client fails to fulfill its obligations to third parties, and exposed to the same credit risk as loans.

Commitments to issue loans with interest rates lower than market rates and financial guarantees are initially recognised at fair value which is generally confirmed by the amount of fee and commission received. This amount is amortised on a straight-line basis over the term of the commitment, with the exception to a commitment to issue a loan if there is a probability that the Bank will enter into a particular loan agreement and will not plan to realise this loan within a short period after the issuance; such commission income related to a commitment on origination of a loan is accounted for as deferred income and included in the carrying value of the loan at initial recognition. As at the end of each reporting period liabilities are measured at the greater of the two values: amortised cost of the initial recognition and the best estimation of the expenses on settlement of the liability as at the end of the reporting period.

A provision is made on loan commitments, if there is a probability of incurring a loss.

Share capital. Share capital is recognised at cost adjusted for inflation.

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

Dividends. Dividends declared after the reporting period are recognised in the events after the reporting period. If dividends are declared by the holder of equity instruments after the reporting period, such dividends are not recognised as liabilities as at the reporting date. Dividends are reported as earnings distribution in the financial statements upon approval by the general meeting of shareholders.

Subordinated loan. Subordinated loan is initially recognised at fair value. Subsequently, subordinated loan is stated at amortised cost using the effective interest rate method.

Income and expense recognition. Interest income and expense are recognised in the statement of comprehensive income for all debt instruments on an accrual basis using the effective interest rate method.

4 Significant accounting policies (continued)

Fees and commissions related to the effective interest rate include fees and commissions received or paid in connection with formation or acquisition of a financial asset or issuance of a financial liability (for example, fees and commissions for creditworthiness assessment, evaluation and accounting of guarantees or collateral, for settlement of instrument provision conditions and for processing of transaction documents). Fees for the commitment to loan extension at market rates received by the Banks are an integral part of the effective interest rate if there is a probability that the Bank will enter into a particular loan agreement and will not plan to realise this loan within a short period after the extension. The Bank does not classify 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 their recoverable amounts and interest income is thereafter recognised based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

All other commission income and other income and other expenses are generally recognised on an accrual basis over the period of service provision depending on the completeness extent of a particular transaction determined as the share of an actually rendered service in the total scope of services to be provided.

Income tax. Tax expenses are presented in the financial statements in accordance with the RF legislation currently in force. Income tax expense in the statement of comprehensive income for the year comprises current tax and changes in deferred tax.

Current tax is calculated on the basis of amounts expected to be paid to taxation authorities or refunded by taxation authorities in respect of the taxable profit or losses for the current and prior periods using income tax rates in effect as at the end of the reporting period. Taxable profit or losses are based on estimates if financial statements are approved before the submission of respective tax returns. Other tax expense, other than income tax, is included in operating expenses.

Deferred income tax is assessed using the balance sheet liability method for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Deferred income tax assets and liabilities are measured at income tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on income tax rates that have been enacted or substantively enacted at the end of the reporting period.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax asset to be recovered. Unrecognised deferred tax assets are reviewed at the end of each reporting period and recognised to the extent it is likely that future taxable profit will allow the deferred tax asset to be utilized.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to set off current tax assets against current tax liabilities and the deferred taxes are levied by the same taxation authority.

Foreign currency revaluation. Items included in the Bank’s financial statements are measured using the currency of primary economic environment where the Bank operates (the “functional currency”). The financial statements are presented in the currency of the Russian Federation which is the Bank’s functional currency and the currency of presentation.

Transactions denominated in foreign currency are recorded at the official exchange rate established by the Central Bank of the Russian Federation at the date of transaction.

The date of transaction is the date on which the transaction first qualifies for recognition in accordance with IFRS.

A foreign exchange difference arising on settlements of transactions denominated in foreign currencies at exchange rates different from the official CBR rate are included in the statement of comprehensive income within net gain on foreign exchange operations.

Monetary assets and liabilities denominated in foreign currencies are translated into Russian Rubles at the official CBR exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies are translated into Russian Rubles at the official CBR exchange rate at the date of initial recognition.

4 Significant accounting policies (continued)

As at December 31, 2011, the official exchange rate used for revaluating foreign currency account balances was as follows:

- RUB 32.1961 to USD 1 (December 31, 2010: RUB 30.4769 to USD 1);
- RUB 41.6714 to EUR 1 (December 31, 2010: RUB 40.3331 to EUR 1).

At present, the currency of the Russian Federation is not a freely convertible currency in most countries outside the Russian Federation.

Derivative financial instruments. Derivative financial instruments are financial instruments which meet all of the following criteria:

- Their value changes in response to the change in an underlying variable, provided that in case of a non-financial variable this variable does not specifically relate to a party to the agreement;
- No initial investment or small initial investment is required for their acquisition;
- They are settled at a future date.

Derivative financial instruments, including forward foreign exchange contracts and cross currency and interest rate swaps, are initially recognised in the statement of financial position at fair value and are subsequently remeasured to fair value.

Fair value is estimated using quoted market prices, discounted cash flow models, or spot rates at the year-end, depending on the type of transaction. Derivative financial instruments with positive fair values are offset against derivative financial instruments with negative fair values only when there is a legally enforceable right to offset.

Derivative financial instruments are recognised in the statement of financial position in the line "Financial assets at fair value through profit or loss" if their fair value is positive, or in the line "Financial liabilities at fair value through profit or loss", if their fair value is negative.

Changes in the fair values of derivatives are recognised in the statement of comprehensive income as net gain on foreign exchange operations and net gain on financial assets at fair value through profit or loss depending on the type of transaction.

A derivative financial instrument is derecognised upon discharge of assets and liabilities under a derivative financial instrument according to a contract, as well as upon expiration of the contract maturity period. The date of derivative derecognition is the date of the discharge of assets and liabilities under a derivative according to a contract.

The Bank does not enter into transactions designated as hedge transactions under IAS 39.

Offsetting. Financial assets and liabilities are offset and the net amount is reported in the 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 net or realise the asset and settle the liability simultaneously.

Accounting for the effects of inflation. Until December 31, 2002, it was considered that there is hyperinflation in the Russian economy. Accordingly, the Bank applied IFRS (IAS) 29 "Financial Reporting in Hyperinflationary Economies" ("IFRS (IAS) 29"). The effect of IFRS (IAS) 29 application is that non-monetary items of the financial statements, including equity components, were recalculated in units for December 31, 2002, by applying respective inflation indices to the original value, and in subsequent periods accounting was performed on the basis of the recalculated value.

The adjustment amounts were calculated on the basis of conversion rates based on the consumer price indices (CPI) of the Russian Federation published by the Federal State Statistics Service (until 2004 - the State Statistics Committee of the Russian Federation), and in compliance with indices obtained from other sources for periods before 1992.

Accrued liabilities. An accrued liability is a non-financial liability of uncertain timing or amount.

Accrued liabilities are recognised if the Bank has contingent liabilities (legal or constructive) that occurred before the end of the reporting period. Meanwhile there is a high probability that outflow of economic resources will be required for the settlement of these liabilities, and the amount of liabilities can be measured reliably.

(in thousands of Russian Rubles)

4 Significant accounting policies (continued)

Retirement obligations. The Bank does not have any pension arrangements separate from the state pension system of the Russian Federation, which provides for calculating current contributions by the employer as a percentage of current total payments to staff. Such expense is charged in the period when the related salaries are earned. The Bank has no post-retirement benefits or other significant compensated benefits requiring accrual. Upon retirement, all retirement benefit payments are made by the pension funds selected by employees.

Transactions with related parties. The Bank enters into related party transactions. Parties are considered to be related, inter alia, if one party has the ability to control the other party, is under common control with the other party, is under joint control of the other party and a third party, or may exercise significant influence over the other party in making financial or operational decisions. In considering related party relationships, the Bank pays attention to the economic substance of such relationships and not merely their legal form.

5 Cash and cash equivalents

	2011	2010
Cash on hand	6 580	2 245
Balances with the Central Bank of the Russian Federation (other than minimum reserve deposit)	273 315	394 163
Correspondent accounts and overnight deposits with the banks of:		
- the Russian Federation	247	239
- other countries	752 836	650 638
Total cash and cash equivalents	**1 032 978**	**1 047 285**

Geographical, currency and interest rate analyses of cash and cash equivalents, and analysis of counterparties by assigned ratings are disclosed in Note 21.

As at December 31, 2011 included in cash and cash equivalents was the interest accrued on correspondent accounts in the amount of RUB 82 thousand (2010: RUB 133 thousand).

6 Financial assets and financial liabilities at fair value through profit or loss and spot transactions

	Note	2011	2010
Financial assets at fair value through profit or loss and spot transactions			
Corporate bonds		2 049 054	1 337 192
Derivative financial instruments and spot transactions	22, 24	1 320 175	85 575
Total financial assets at fair value through profit or loss and spot transactions		**3 369 229**	**1 422 767**
Financial liabilities at fair value through profit or loss and spot transactions			
Derivative financial instruments and spot transactions	22, 24	1 220 297	94 703
Total financial liabilities at fair value through profit or loss and spot transactions		**1 220 297**	**94 703**

Corporate bonds. Corporate bonds are debt securities of Russian banks and companies denominated in Russian Rubles freely tradable in the Russian Federation in organized security markets.

(in thousands of Russian Rubles)

6 Financial assets and financial liabilities at fair value through profit or loss and spot transactions (continued)

The following table presents the terms of corporate bonds as at December 31, 2011:

	Maturity		**Coupon rate, % per annum**		**Yield to maturity/offer, % per annum**	
	Min.	**Max.**	**Min.**	**Max.**	**Min.**	**Max.**
Corporate bonds	March 2013	October 2021	6.60%	12.50%	4.11%	7.77%

The following table presents the terms of corporate bonds as at December 31, 2010:

	Maturity		**Coupon rate, % per annum**		**Yield to maturity/offer, % per annum**	
	Min.	**Max.**	**Min.**	**Max.**	**Min.**	**Max.**
Corporate bonds	January 2011	April 2019	7.10%	16.70%	3.08%	11.48%

Information on derivative financial instruments and spot transactions is presented in Note 22.

Geographical and currency analyses and analysis of financial assets at fair value through profit or loss by assigned ratings are disclosed in Note 21.

7 Due from banks

All due from banks are current and unimpaired.

As at December 31, 2011 and 2010 due from banks included accrued interest income in the amount of RUB 37 665 thousand and RUB 28 092 thousand, respectively.

As at December 31, 2011 and 2010 deposits in the amount of RUB 2 944 777 thousand and RUB 613 466 thousand, respectively, were placed with the Parent Bank which is 41% and 8%, respectively, of due from banks.

In addition, as at December 31, 2011 and 2010 the Bank placed loans with 7 and 11 banks totaling RUB 3 988 424 thousand and RUB 6 546 989 thousand, respectively, which individually exceeded 10% of the Bank's equity.

As at December 31, 2010, in order to mitigate the credit risk, the Bank received guarantees from the Parent Bank for certain due from banks in the amount of RUB 1 310 507 thousand (Note 24).

Geographical, currency, maturity and interest rate analyses of due from banks, and analysis of counterparties by assigned ratings are disclosed in Note 21.

8 Loans to customers

	2011	**2010**
Loans to customers	9 447 428	6 557 942
Loans under reverse repurchase agreements	242 126	-
Less: provision for impairment losses	(4 153)	-
Total loans to customers	**9 685 401**	**6 557 942**

(in thousands of Russian Rubles)

8 Loans to customers (continued)

Movements in the provision for impairment of the loan portfolio are analyzed below:

	2011	2010
Provision for impairment of the loan portfolio at January 1	**-**	**53 446**
Provision/(recovery of provision) for impairment	4 153	(53 446)
Provision for impairment of the loan portfolio at December 31	**4 153**	**-**

The structure of the Bank's loan portfolio by industry:

	2011		2010	
	Amount	**%**	**Amount**	**%**
Energy	5 563 570	57	1 863 937	28
Metallurgy	2 933 657	30	2 744 173	42
Financial sector	723 852	8	84 588	1
Trade	395 724	4	-	-
Production	50 052	1	760 385	12
Communication	18 546	-	497 014	8
Food production	-	-	607 846	9
Total loans to customers	**9 685 401**	**100**	**6 557 942**	**100**

Information about security for the loan portfolio is provided below:

	2011	2010
Loans collateralized by guarantees of:		
-the Parent Bank	6 259 427	2 692 491
-third parties	482 782	1 070 984
Loans collateralized by pledge of:		
-securities	1 469 445	1 285 639
-receivables under contracts	463 835	39 807
-property	56 363	167 886
-real estate	36 610	194 561
-goods in turnover	13 442	655 209
Unsecured loans	903 497	451 365
Total loans to customers	**9 685 401**	**6 557 942**

As at December 31, 2011 the carrying value of loans under reverse repurchase agreements and the fair value of assets pledged under the stated agreements comprised:

	December 31, 2011 (RUB '000)	
	Carrying value of loans	**Fair value of collateral**
Bonds of Russian companies	242 126	274 636
Total loans to customers	**242 126**	**274 636**

(in thousands of Russian Rubles)

8 Loans to customers (continued)

As at December 31, 2011 and 2010 the Bank granted loans to 8 and 6 borrowers (groups of borrowers) totaling RUB 9 467 948 thousand and RUB 6 442 915 thousand, respectively, which individually exceeded 10% of the Bank's equity.

As at December 31, 2011 and 2010 loans to customers included accrued interest income in the amount of RUB 29 803 thousand and RUB 36 261 thousand, respectively.

As at December 31, 2011 loans to customers in the amount of RUB 2 339 144 thousand were individually determined to be impaired (2010: nil).

As at December 31, 2011 these loans were collateralized by the Parent Bank's guarantees in the amount of RUB 1 931 766 thousand. On the basis of the borrowers' financial position, the debt service quality, the credit history, the amount and the quality of the collateral, the Bank's management considers these loans to be individually impaired. Individually impaired loans were current and not overdue.

The analysis of financial assets individually determined to be impaired is provided below:

	2011			**2010**		
	Initial carrying value	**Provision for impairment**	**Carrying value after provision**	**Initial carrying value**	**Provision for impairment**	**Carrying value after provision**
Loans to customers individually impaired	2 339 144	4 153	2 334 991	-	-	-

As at December 31, 2011 and 2010 the Bank's maximum exposure to credit risk on loans to customers was RUB 9 685 401 thousand and RUB 6 557 942 thousand, respectively.

As at December 31, 2011 and 2010 most of the loans were granted to companies operating in the Russian Federation, which is a significant risk concentration in one geographic region.

Geographical, currency, maturity and interest rate analyses of loans to customers and the analysis of borrowers by assigned ratings are disclosed in Note 21.

(in thousands of Russian Rubles)

9 Property, equipment and intangible assets

	Note	Motor vehicles	Furniture	Office and computer equipment	Intangible assets	Total
Net book value at December 31, 2009		**1 214**	**4 873**	**5 819**	**318**	**12 224**
Initial cost/indexed cost						
Balance, beginning of the year		2 428	7 623	16 241	10 152	36 444
Additions		-	1 362	2 910	-	4 272
Disposals		-	(51)	-	-	(51)
Balance, end of the year		**2 428**	**8 934**	**19 151**	**10 152**	**40 665**
Accumulated depreciation and amortisation						
Balance, beginning of the year		1 214	2 750	10 422	9 834	24 220
Charge for the year	18	347	1 407	2 881	119	4 754
Disposals		-	(51)	-	-	(51)
Balance, end of the year		**1 561**	**4 106**	**13 303**	**9 953**	**28 923**
Net book value at December 31, 2010		**867**	**4 828**	**5 848**	**199**	**11 742**
Initial cost/indexed cost						
Balance, beginning of the year		2 428	8 934	19 151	10 152	40 665
Additions		-	43	1 753	-	1 796
Disposals		(1 268)	-	-	-	(1 268)
Balance, end of the year		**1 160**	**8 977**	**20 904**	**10 152**	**41 193**
Accumulated depreciation and amortisation						
Balance, beginning of the year		1 561	4 106	13 303	9 953	28 923
Charge for the year	18	286	1 448	2 960	120	4 814
Disposals		(935)	-	-	-	(935)
Balance, end of the year		**912**	**5 554**	**16 263**	**10 073**	**32 802**
Net book value at December 31, 2011		**248**	**3 423**	**4 641**	**79**	**8 391**

Intangible assets comprise software and information systems.

As at December 31, 2011 and 2010 the carrying amount of fully depreciated property and equipment and fully amortised intangible assets used by the Bank was RUB 19 852 thousand and RUB 15 285 thousand, respectively.

(in thousands of Russian Rubles)

10 Due to banks

	2011	2010
Current term loans and deposits from banks	15 725 204	13 393 038
Correspondent accounts	986 253	32 150
Total due to banks	**16 711 457**	**13 425 188**

As at December 31, 2011 and 2010 due to banks included accrued interest expense in the amount of RUB 13 351 thousand and RUB 13 219 thousand, respectively.

As at December 31, 2011 and 2010 due to banks included RUB 11 325 531 thousand and RUB 12 622 470 thousand, respectively, received from the Parent Bank (Note 24) which is 68% and 94%, respectively, of due to banks.

Geographical, currency, maturity and interest rate analyses of due to banks are disclosed in Note 21.

11 Customer accounts

	2011	2010
Legal entities		
- Term deposits	613 235	40 051
- Current/settlement accounts	267 841	249 084
Total customer accounts	**881 076**	**289 135**

Allocation of customer accounts by industry:

	2011		2010	
	Amount	**%**	**Amount**	**%**
Transportation	524 260	60	111 669	39
Financial sector	292 729	33	86 682	30
Energy	38 635	4	50 049	17
Construction	5 753	1	-	-
Metallurgy	2 139	-	6 492	2
Trade	1 080	-	5 037	2
Information systems	7	-	11 729	4
Machinery construction	-	-	3 642	1
Other	16 473	2	13 835	5
Total customer accounts	**881 076**	**100**	**289 135**	**100**

Geographical, currency, maturity and interest rate analyses of customer accounts are disclosed in Note 21.

(in thousands of Russian Rubles)

12 Other assets and other liabilities

	2011	2010
Other financial assets		
Funds on stock exchanges	131 987	154 724
Prepayments and other debtors	25 991	12 592
Less: provision for impairment losses	(181)	(177)
Other non-financial assets		
Prepaid income tax	115 810	32 930
Total other assets	**273 607**	**200 069**
Other financial liabilities		
Bonuses payable	37 543	37 852
Payables for rendered services	20 982	-
Other non-financial liabilities		
Deferred income	580	584
Tax liabilities, other than income tax	3 539	667
Other liabilities	3 940	2 360
Total other liabilities	**66 584**	**41 463**

Movements in the provision for impairment losses on other assets are analyzed below:

	2011	2010
Provision for impairment losses on other assets at January 1	**177**	**111**
Provision for impairment losses	4	66
Provision for impairment losses on other assets at December 31	**181**	**177**

13 Subordinated loan

In May 2006 the Bank raised a subordinated loan from the Parent Bank in the amount of USD 20 million, maturing not later than May 2013. The interest rate on the subordinated loan equals LIBOR (for USD deposits maturing within six months) +1.5 pct pts, or 2.16% as at December 31, 2011 (2010: 1.94%).

In the event of bankruptcy or liquidation of the Bank, repayment of this debt is subordinate to the repayment of the Bank's liabilities to all other creditors.

14 Share capital

Share capital authorized, issued and fully paid comprises:

	2011			2010		
	Number of shares	Par value	Inflation adjusted amount	Number of shares	Par value	Inflation adjusted amount
Ordinary shares	111 618	1 116 180	1 153 089	111 618	1 116 180	1 153 089
Total share capital	**111 618**	**1 116 180**	**1 153 089**	**111 618**	**1 116 180**	**1 153 089**

All ordinary shares have a par value of RUB 10 thousand per share. Each share carries one vote.

(in thousands of Russian Rubles)

15 Retained earnings

In accordance with the Russian legislation, the Bank distributes profit as dividends or transfers it to reserves on the basis of financial statements prepared in accordance with RAS. Non-distributable reserves are represented by a reserve fund, which is created as required by the statutory regulations in respect of general banking risks, including future losses and other unforeseen risks or contingencies. The reserve has been created in accordance with the Bank's Charter which provides for creation of a reserve for such purposes in the amount of at least 15% of the Bank's share capital reported in the Bank's accounting records in accordance with RAS. Annual contributions to the reserve amount to 5% of the Bank's net profit in accordance with RAS, until the minimum reserve amount is reached. As at December 31, 2011 and 2010 the Bank's reserve fund under RAS comprised RUB 53 896 thousand and RUB 48 282 thousand, respectively.

16 Interest income and expense

	2011	**2010**
Interest income		
Interest income on assets recorded at amortised cost		
- interest income on unimpaired assets	534 771	455 285
- interest income on impaired assets	24 269	107 831
Interest income on assets at fair value through profit or loss	204 432	146 817
Total interest income	**763 472**	**709 933**
Interest income on assets recorded at amortised cost comprises		
Interest on loans to customers	398 055	391 692
Interest on due from banks	160 985	171 424
Total interest income on assets recorded at amortised cost	**559 040**	**563 116**
Interest expense		
Interest expense on liabilities recorded at amortised cost	262 680	155 079
Total interest expense	**262 680**	**155 079**
Interest expense on liabilities recorded at amortised cost comprises		
Interest on due to banks	216 500	130 556
Interest on subordinated debt	12 510	12 726
Interest on customer accounts	33 670	11 797
Total interest expense on liabilities recorded at amortised cost	**262 680**	**155 079**
Net interest income before provision for impairment losses on interest bearing assets	**500 792**	**554 854**

(in thousands of Russian Rubles)

17 Fee and commission income and expense

	2011	2010
Fee and commission income		
Opened letters of credit	19 356	23 938
Currency control	13 486	12 472
Settlements	4 448	5 108
Lending operations	1 585	17 995
Guarantees issued	1 518	-
Total fee and commission income	**40 393**	**59 513**
Fee and commission expense		
Guarantees received	37 683	44 513
Settlements	2 126	2 263
Other	2 795	2 117
Total fee and commission expense	**42 604**	**48 893**
Net fee and commission (expense)/income	**(2 211)**	**10 620**

18 Operating expenses

	Note	2011	2010
Staff costs		155 280	162 456
Professional services		24 183	24 330
Communication		23 578	6 894
Other taxes, other than income tax		14 160	10 768
Leases		14 047	15 119
Repairs and maintenance of property and equipment		9 383	12 893
Unified social tax		8 347	7 246
Business development and business trip expenses		7 362	7 201
Depreciation and amortisation	9	4 814	4 754
Insurance		2 987	2 633
Security		235	232
Other		8 935	4 630
Total operating expenses		**273 311**	**259 156**

(in thousands of Russian Rubles)

19 Income tax

Income tax expense comprises:

	2011	2010
Current income tax expense	45 451	61 335
Deferred taxation movements due to origination and reversal of temporary differences	20 469	17 276
Income tax expense for the year	**65 920**	**78 611**

Current income tax rate applicable to the Bank's profit for 2011 and 2010 is 20%. The comparison of theoretical and actual income tax expenses is presented below.

	2011	2010
Profit before tax	**282 336**	**322 455**
Theoretical tax expenses at statutory rate 20% (2010: 20%)	56 468	64 492
Adjustments for non-taxable income and non-deductible expenses:		
- Non-deductible expenses	9 452	14 119
Income tax expense for the year	**65 920**	**78 611**

Differences between IFRS and the RF tax legislation give rise to certain temporary differences between the carrying amounts of certain assets and liabilities for financial reporting purposes and for income tax purposes.

	2010	Movement	2011
Tax effect of deductible temporary differences			
Effect of calculation of amortised cost of loans to customers	2 252	(40)	2 212
Effect of accrued/deferred income/expenses and financial result of term transactions	10 089	(10 089)	-
Total amount of deferred tax asset	**12 341**	**(10 129)**	**2 212**
Tax effect of taxable temporary differences			
Property, equipment and intangible assets	(353)	99	(254)
Effect of accrued/deferred income/expenses and financial result of term transactions	(24)	(10 439)	(10 463)
Total amount of deferred tax liability	**(377)**	**(10 340)**	**(10 717)**
Total net deferred income tax assets	**11 964**	**(20 469)**	**(8 505)**

Net deferred income tax assets represent income taxes which can be utilized against future income and are recognised in the statement of financial position. A deferred tax asset arising from the carryforward of tax losses is recognised only to the extent it is probable to utilize the appropriate tax benefit.

(in thousands of Russian Rubles)

20 Dividends

In 2011 the Bank declared and paid dividends for 2010 in the amount of RUB 106 669 thousand. All dividends were declared and paid in Russian Rubles.

In accordance with the Russian legislation only retained earnings that are accumulated in the Bank's statutory financial statements may be distributed between the Bank's shareholders. The Bank's retained earnings for 2011 amounted to RUB 168 944 thousand (2010: RUB 112 283 thousand). However, RUB 8 447 thousand is subject to contribution to the Bank's reserve fund, according to the legislation of the Russian Federation.

21 Financial risk management

Management of risk is fundamental to the Bank’s business. The main risks inherent in the Bank’s operations include financial risks (credit, market, geographical, currency, liquidity and interest rate risks), operational and legal risks.

The Bank’s risk management activities include identifying, measuring and controlling the above risks and making management decisions to avoid or minimize such risks.

Credit risk

The Bank is exposed to credit risk which is the risk that one party to a financial instrument will fail to discharge a contractual obligation and cause the other party to incur a financial loss.

The Bank controls the level of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower or a group of borrowers.

The Bank has a Credit Committee which makes decisions on credit risk-bearing operations.

The Bank’s credit structural subdivisions monitor the credit risk level by analyzing market information, financial performance and counterparties’ activities and inform the Credit Committee about the monitoring results.

Credit risk is also managed through setting and consolidating requirements to the borrowers on collateral for credit liabilities, collateral valuation and insurance, and the procedure of repossession of collateral.

The Department of Loan Administration and Documentary Operations controls observance of lending authorities and limits on an ongoing basis.

Subsequent control over customer lending is exercised by the Internal Control Service during internal audits conducted according to the audit plan approved by the Bank’s Supervisory Board.

Maximum exposure to credit risk

The Bank’s maximum exposure to credit risk depends greatly on individual exposures of borrowers and risks inherent in the state of market economy.

The following table presents the Bank’s maximum exposure to credit risk with respect to financial assets and credit-related commitments. For financial assets, the maximum exposure to credit risk corresponds to the current value of an asset before taking account of any offsets or received collateral. For credit-related commitments, the maximum exposure to credit risk is the maximum amount the Bank would have to pay if they were to be called upon by counterparties as at December 31, 2011:

	Maximum exposure to credit risk	**Collateral**	**Net exposure to credit risk after collateral**
Cash and cash equivalents, less cash on hand	1 026 398	-	1 026 398
Minimum reserve deposits with the Central Bank of the Russian Federation	261 428	-	261 428
Due from banks	7 234 783	1 545 413	5 689 370
Loans to customers	9 685 401	8 781 904	903 497
Financial assets at fair value through profit or loss and spot transactions	3 369 229	547 334	2 821 895
Other financial assets	157 797	-	157 797
Credit-related commitments	3 130 237	450 745	2 679 492

(in thousands of Russian Rubles)

21 Financial risk management (continued)

Provided below is the analysis of the Bank's maximum exposure to credit risk of its assets and credit-related commitments as at December 31, 2010:

	Maximum exposure to credit risk	Collateral	Net exposure to credit risk after collateral
Cash and cash equivalents, less cash on hand	1 045 040	-	1 045 040
Minimum reserve deposits with the Central Bank of the Russian Federation	121 010	-	121 010
Due from banks	7 311 477	1 310 507	6 000 970
Loans to customers	6 557 942	6 106 577	451 365
Financial assets at fair value through profit or loss and spot transactions	1 422 767	-	1 422 767
Other financial assets	154 724	-	154 724
Credit-related commitments	2 798 413	-	2 798 413

Financial assets are graded based on the current rating assigned by leading international rating agencies. The highest possible rating is AAA. Investment grade financial assets have ratings from AAA to BBB. Financial assets which have ratings lower than BBB are classed as speculative grade.

The table below discloses the groups of the Bank's current financial assets and credit-related commitments which are neither past due nor impaired as at December 31, 2011:

	AAA/AA	A	BBB	<BBB	Not rated	Total
Cash and cash equivalents, less cash on hand	75 395	677 440	273 371	192	-	1 026 398
Minimum reserve deposits with the Central Bank of the Russian Federation	-	-	261 428	-	-	261 428
Due from banks	-	2 944 777	2 154 533	2 135 473	-	7 234 783
Loans to customers	-	-	481 726	4 086 566	2 782 118	7 350 410
Financial assets at fair value through profit or loss and spot transactions	12 555	156 416	857 237	2 033 019	310 002	3 369 229
Credit-related commitments	-	2 000 000	-	832 807	297 430	3 130 237

An analysis of unimpaired financial assets and credit-related commitments by assigned ratings as at December 31, 2010 is provided below:

	AAA/AA	A	BBB	<BBB	Not rated	Total
Cash and cash equivalents, less cash on hand	36 108	614 530	394 181	-	221	1 045 040
Minimum reserve deposits with the Central Bank of the Russian Federation	-	-	121 010	-	-	121 010
Due from banks	-	613 466	1 819 274	2 267 505	2 611 232	7 311 477
Loans to customers	-	-	-	581 602	5 976 340	6 557 942
Financial assets at fair value through profit or loss and spot transactions	-	52 462	1 065 803	291 577	12 925	1 422 767
Credit-related commitments	-	2 000 000	-	798 413	-	2 798 413

The Bank enters into numerous transactions where the counterparties are not rated by internationally recognised rating agencies. The Bank has developed internal models which allow it to determine the ratings of counterparties which are comparable to ratings of the international rating agencies.

(in thousands of Russian Rubles)

21 Financial risk management (continued)

A methodology has been developed by the Bank to assess financial position of corporate borrowers. This methodology allows for calculating and assigning/confirming a borrower's rating and rating of collateral for a loan. The system is based on a scoring model depending on the key performance indicators of the borrower with the possibility of insignificant expert adjustments in case of insufficient objectivity of the benchmark. The method provides for assigning the rating on the basis of the following criteria groups: market indicators of the borrower, goodwill, credit history, transparency and reliability of information, information on business and business environment, relations of the Bank and the borrower, financial situation of the borrower, business activities and collateral provided. The financial situation and business activities are the most important criteria. Therefore, the scoring model provides for overall assessment of the borrower and the loan.

A model of the borrower's scoring assessment has been developed by the Bank to assess and decide on loans to small and medium enterprises. The scoring model is developed for standard loan products and includes key performance indicators: financial situation, relations with the borrower, management quality, target use, location, credit history, collateral, etc.
The scoring assessment based on the borrower's parameters is one of the main factors for the decision-making process relating to loans.

The Bank applies internal methodologies to specific corporate loans. The scoring methodologies are tailor-made for specific products and are applied at various stages over the life of the loan. As a result, it is not possible to make a cross-product score comparison which would agree to the outstanding balance of loans to customers per the separate statement of financial position. Therefore, more detailed information is not presented.

Financial assets other than loans to customers are graded according to the current credit ratings assigned by internationally recognised agencies such as Fitch, Standard & Poor's and Moody's. The highest possible rating is AAA. Investment grade financial assets have ratings from AAA to BBB. Financial assets which have ratings lower than BBB are classed as speculative grade.

The following table provides an analysis of neither past due nor impaired loans to corporate customers that are classified in two categories according to internal ratings assigned to borrowers:

- The "Top performing" category with low credit risk includes loans with no past due status that are granted to borrowers that have unexceptionable credit history with the Bank and other creditors; which proved to be profitable and well performing businesses with no signs of decline of their financial stability;
- The "Moderately performing" category with moderate credit risk includes loans with no past due status that are granted to borrowers with good credit history with the Bank and other creditors with minor exceptions in the past; which proved to be well performing businesses in the past but are characterized by average financial performance at the moment.

	December 31, 2011	**December 31, 2010**
Top performing loans	2 489 939	4 857 720
Moderately performing loans	50 052	1 118 620
Total	**2 539 991**	**5 976 340**

The banking industry is generally exposed to credit risk through loans to customers and inter bank deposits. With regard to loans to customers, this risk exposure is concentrated within the Russian Federation. The exposure is monitored on an ongoing basis to ensure that the credit limits and credit worthiness guidelines established by the Bank's risk management policy are observed.

(in thousands of Russian Rubles)

21 Financial risk management (continued)

Geographic risk. Geographical analysis of the Bank's assets and liabilities as at December 31, 2011 is provided below:

	Russian Federation	France	Other countries	Total
Assets				
Cash and cash equivalents	280 143	677 440	75 395	1 032 978
Minimum reserve deposits with the Central Bank of the Russian Federation	261 428	-	-	261 428
Financial assets at fair value through profit or loss and spot transactions	3 200 258	156 416	12 555	3 369 229
Due from banks	4 290 006	2 944 777	-	7 234 783
Loans to customers	9 685 401	-	-	9 685 401
Other financial assets	157 623	174	-	157 797
Total financial assets	**17 874 859**	**3 778 807**	**87 950**	**21 741 616**
Property, equipment and intangible assets	8 391	-	-	8 391
Other non-financial assets	115 810	-	-	115 810
Total non-financial assets	**124 201**	**-**	**-**	**124 201**
Total assets	**17 999 060**	**3 778 807**	**87 950**	**21 865 817**
Liabilities				
Financial liabilities at fair value through profit or loss and spot transactions	34 713	1 185 584	-	1 220 297
Due to banks	5 385 926	11 325 531	-	16 711 457
Customer accounts	865 232	6 305	9 539	881 076
Subordinated loan	-	643 922	-	643 922
Other financial liabilities	37 543	20 982	-	58 525
Total financial liabilities	**6 323 414**	**13 182 324**	**9 539**	**19 515 277**
Deferred income tax liabilities	8 505	-	-	8 505
Other non-financial liabilities	8 059	-	-	8 059
Total non-financial liabilities	**16 564**	**-**	**-**	**16 564**
Total liabilities	**6 339 978**	**13 182 324**	**9 539**	**19 531 841**
Net balance sheet position	**11 659 082**	**(9 403 517)**	**78 411**	**2 333 976**
Off-balance sheet credit-related commitments	**1 130 237**	**2 000 000**	**-**	**3 130 237**

(in thousands of Russian Rubles)

21 Financial risk management (continued)

Geographical analysis of the Bank's assets and liabilities as at December 31, 2010 is provided below:

	Russian Federation	France	Other countries	Total
Assets				
Cash and cash equivalents	396 647	614 530	36 108	1 047 285
Minimum reserve deposits with the Central Bank of the Russian Federation	121 010	-	-	121 010
Financial assets at fair value through profit or loss and spot transactions	1 370 305	52 462	-	1 422 767
Due from banks	6 698 011	613 466	-	7 311 477
Loans to customers	6 557 942	-	-	6 557 942
Other financial assets	166 659	112	368	167 139
Total financial assets	**15 310 574**	**1 280 570**	**36 476**	**16 627 620**
Property, equipment and intangible assets	11 742	-	-	11 742
Deferred income tax assets	11 964	-	-	11 964
Other non-financial assets	32 930	-	-	32 930
Total non-financial assets	**56 636**	**-**	**-**	**56 636**
Total assets	**15 367 210**	**1 280 570**	**36 476**	**16 684 256**
Liabilities				
Financial liabilities at fair value through profit or loss and spot transactions	23 119	71 584	-	94 703
Due to banks	802 718	12 622 470	-	13 425 188
Customer accounts	276 654	1 608	10 873	289 135
Subordinated loan	-	609 538	-	609 538
Other financial liabilities	37 852	-	-	37 852
Total financial liabilities	**1 140 343**	**13 305 200**	**10 873**	**14 456 416**
Other non-financial liabilities	3 611	-	-	3 611
Total non-financial liabilities	**3 611**	**-**	**-**	**3 611**
Total liabilities	**1 143 954**	**13 305 200**	**10 873**	**14 460 027**
Net balance sheet position	**14 223 256**	**(12 024 630)**	**25 603**	**2 224 229**
Off-balance sheet credit-related commitments	**798 413**	**2 000 000**	**-**	**2 798 413**

Assets, liabilities and credit-related commitments are generally classified by the country where the counterparty is located. Cash and property and equipment are classified based on their physical location.

21 Financial risk management (continued)

Market Risk

The Bank is exposed to market risk related to open positions on currency operations, money market transactions and debt instruments. The Bank's Assets and Liabilities Management Committee manages market risk by setting open position limits for specific financial instruments, stop-loss limits, and structural limits. The Bank also uses the "Value-at-Risk" method to control market risk exposure. The Value-at-Risk method is used for making quantitative risk assessment for each type of the Treasury Department transactions. Value-at-risk is defined as the maximum potential loss during a specific period of time (one day) estimated based on expected changes in the market prices at a set probability level (99%). This statistical method allows for comparing market risks of various portfolios and establishing the limit of value-at-risk for various types of transactions. The Market Risk Control Department controls compliance with the limits on a daily basis and informs the Bank's management and business units of their use.

Stock market risk

Stock market risk is the risk of potential losses due to unfavourable changes in the securities market, including changes in the market value of securities, changes in price ratios for various securities or stock indices, and changes in the amounts of dividends.

The Bank manages the stock market risk by means of a system of volume limits to the Bank's transactions in the stock market. The Bank is extremely conservative in its operations with securities and only trades in securities of the leading issuers.

Currency risk

The Bank is exposed to the effects of fluctuations in different exchange rates on its financial position and cash flows.

The Bank's Assets and Liabilities Management Committee sets limits to assumed risk categorized by currency both at end of each day and within a day, and controls compliance with such limits on a daily basis. Analysis of the Bank's currency risk as at December 31, 2011 is presented in the table below. The Bank's assets and liabilities are disclosed at carrying value, categorized by currency. Currency derivatives are usually used to minimize the Bank's risk in case of exchange rate fluctuations.

(in thousands of Russian Rubles)

21 Financial risk management (continued)

As at December 31, 2011 the Bank's position with regard to foreign currencies was as follows:

	RUB	USD	EUR	Total
Assets				
Cash and cash equivalents	279 511	720 955	32 512	1 032 978
Minimum reserve deposits with the Central Bank of the Russian Federation	261 428	-	-	261 428
Financial assets at fair value through profit or loss and spot transactions	3 369 229	-	-	3 369 229
Due from banks	3 321 321	2 100 516	1 812 946	7 234 783
Loans to customers	687 902	8 997 499	-	9 685 401
Other financial assets	58 322	99 475	-	157 797
Total financial assets	**7 977 713**	**11 918 445**	**1 845 458**	**21 741 616**
Property, equipment and intangible assets	8 391	-	-	8 391
Other non-financial assets	115 810	-	-	115 810
Total non-financial assets	**124 201**	**-**	**-**	**124 201**
Total assets	**8 101 914**	**11 918 445**	**1 845 458**	**21 865 817**
Liabilities				
Financial liabilities at fair value through profit or loss and spot transactions	1 220 297	-	-	1 220 297
Due to banks	5 567 144	11 144 313	-	16 711 457
Customer accounts	311 344	528 453	41 279	881 076
Subordinated loan	-	643 922	-	643 922
Other financial liabilities	37 543	4 666	16 316	58 525
Total financial liabilities	**7 136 328**	**12 321 354**	**57 595**	**19 515 277**
Deferred income tax liabilities	8 505	-	-	8 505
Other non-financial liabilities	5 960	2 099	-	8 059
Total non-financial liabilities	**14 465**	**2 099**	**-**	**16 564**
Total liabilities	**7 150 793**	**12 323 453**	**57 595**	**19 531 841**
Net balance sheet position	**951 121**	**(405 008)**	**1 787 863**	**2 333 976**

(in thousands of Russian Rubles)

21 Financial risk management (continued)

As at December 31, 2010 the Bank's position with regard to foreign currencies was as follows:

	RUB	USD	EUR	Total
Assets				
Cash and cash equivalents	396 050	646 565	4 670	1 047 285
Minimum reserve deposits with the Central Bank of the Russian Federation	121 010	-	-	121 010
Financial assets at fair value through profit or loss and spot transactions	1 422 767	-	-	1 422 767
Due from banks	5 174 021	2 137 456	-	7 311 477
Loans to customers	760 385	5 797 557	-	6 557 942
Other financial assets	43 405	83 328	40 406	167 139
Total financial assets	**7 917 638**	**8 664 906**	**45 076**	**16 627 620**
Property, equipment and intangible assets	11 742	-	-	11 742
Deferred income tax assets	11 964	-	-	11 964
Other non-financial assets	32 930	-	-	32 930
Total non-financial assets	**56 636**	**-**	**-**	**56 636**
Total assets	**7 974 274**	**8 664 906**	**45 076**	**16 684 256**
Liabilities				
Financial liabilities at fair value through profit or loss and spot transactions	94 703	-	-	94 703
Due to banks	1 034 868	12 349 987	40 333	13 425 188
Customer accounts	161 754	122 776	4 605	289 135
Subordinated loan	-	609 538	-	609 538
Other financial liabilities	37 852	-	-	37 852
Total financial liabilities	**1 329 177**	**13 082 301**	**44 938**	**14 456 416**
Other non-financial liabilities	1 575	2 023	13	3 611
Total non-financial liabilities	**1 575**	**2 023**	**13**	**3 611**
Total liabilities	**1 330 752**	**13 084 324**	**44 951**	**14 460 027**
Net balance sheet position	**6 643 522**	**(4 419 418)**	**125**	**2 224 229**

The Bank extended loans denominated in foreign currencies. Depending on the borrower's cash inflows, the growth of foreign currency exchange rates against the Russian Ruble may adversely affect the borrower's repayment ability, which, in its turn, increases the likelihood of future loan losses.

(in thousands of Russian Rubles)

21 Financial risk management (continued)

The table below presents changes in the financial results and equity resulting from potential changes in exchange rates prevailing as at the reporting date, provided that all other variables remain unchanged as at December 31, 2011:

	2011 Effect on net profit and equity
Appreciation of USD by 20%	3 231
Depreciation of USD by 20%	(3 231)
Appreciation of EUR by 20%	(31)
Depreciation of EUR by 20%	31

Changes in the financial results and equity resulting from potential changes in exchange rates prevailing as at the reporting date, provided that all other variables remain unchanged as at December 31, 2010:

	2010 Effect on net profit and equity
Appreciation of USD by 20%	(30)
Depreciation of USD by 20%	30
Appreciation of EUR by 20%	20
Depreciation of EUR by 20%	(20)

The risk was calculated only for cash balances in currencies other than the Bank's functional currency.

Liquidity risk. Liquidity risk arises when maturities of assets and liabilities do not match. The Bank is exposed to the risk as it has to use the cash resources on a daily basis in order to execute clients' transactions, redeem deposits, issue loans, redeem guarantees and derivatives that involve movement of cash resources. The Bank does not accumulate funds to provide for a necessity to meet all the above liabilities simultaneously, as the accumulated operational experience allows for forecasting the level of cash required to meet such liabilities with a reasonable level of certainty.

The Bank uses the opportunity of raising additional funds and other resources from the only founder Natixis (France). Liquidity risk is therefore not material for the Bank.

The Assets and Liabilities Management Committee develops and implements the liquidity management policy and ensures that liquidity is efficiently managed.

The Treasury Department and its Transaction Documentation Division control the daily liquidity position and perform regular stress-tests to assess liquidity at different scenarios covering standard and less favourable market conditions.

The table below shows the distribution of liabilities as at December 31, 2011 by remaining contractual maturities. The amounts in the table represent contractual undiscounted cash flows on all financial liabilities. These undiscounted cash flows differ from the amounts recognised in the statement of financial position as the balance sheet amounts are based on discounted cash flows. Derivative financial instruments which are estimated on the net basis are recognised in the net amount payable. Where amounts payable are not fixed, the amount in the table is determined based on the conditions existing as at the reporting date. Currency payments are recalculated using the spot exchange rate as at the reporting date.

(in thousands of Russian Rubles)

21 Financial risk management (continued)

The table below presents maturity analysis of the Bank's financial liabilities as at December 31, 2011:

	On demand and less than 1 month	1 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Total
Liabilities						
Due to banks	9 179 560	2 513 400	1 377 649	3 761 847	-	16 832 456
Customer accounts	397 791	484 428	-	-	-	882 219
Subordinated loan	-	7 027	7 104	649 096	-	663 227
Deliverable forward contracts	5 519 346	6 209 562	185 361	22 095 593	-	34 009 862
Credit-related commitments	3 130 237	-	-	-	-	3 130 237

The table below presents maturity analysis of the Bank's financial liabilities as at December 31, 2010:

	On demand and less than 1 month	1 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Total
Liabilities						
Due to banks	6 852 493	1 900 520	815 643	3 965 822	-	13 534 478
Customer accounts	249 084	40 330	-	-	-	289 414
Subordinated loan	-	5 954	6 053	625 985	-	637 992
Deliverable forward contracts	8 995 993	5 608 138	-	-	-	14 604 131
Credit-related commitments	2 798 413	-	-	-	-	2 798 413

Interest rate risk. The Bank is exposed to the effects of fluctuations in the market interest rates on its financial position and cash flows. Such fluctuations may increase the interest margin; however, unexpected changes of interest rates may decrease the margin or cause losses.

The Bank is exposed to interest rate risk mainly as a result of lending at fixed interest rates in the amounts and for the periods which differ from those of borrowings at fixed interest rates. In practice, interest rates are usually set for a short period of time. In addition, the interest rates fixed in the contractual terms and conditions with regard to assets and liabilities are often revised based on mutual agreement in accordance with the current market environment.

To manage the interest rate, the Bank's Assets and Liabilities Management Committee performs periodic assessments of the impact the market environment has on the Bank's financial results. The Bank's policy with regard to interest rates is subject to the analysis and approval by the Bank's Assets and Liabilities Management Committee.

(in thousands of Russian Rubles)

21 Financial risk management (continued)

The table below provides a general analysis of the Bank's liquidity risk as at December 31, 2011. The Bank's financial assets and liabilities are recorded at carrying amounts by dates of revision of interest rates under contracts or by maturities, depending on which is earlier.

	On demand and less than 1 month	1 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Maturity undefined/ non-interest	Total
Assets							
Cash and cash equivalents	752 835	-	-	-	-	280 143	1 032 978
Minimum reserve deposits with the Central Bank of the Russian Federation	-	-	-	-	-	261 428	261 428
Financial assets at fair value through profit or loss and spot transactions	2 049 054	-	-	-	-	1 320 175	3 369 229
Due from banks	4 805 938	2 428 845	-	-	-	-	7 234 783
Loans to customers	7 988 611	1 696 790	-	-	-	-	9 685 401
Other financial assets	-	-	-	-	-	157 797	157 797
Total financial assets	**15 596 438**	**4 125 635**	**-**	**-**	**-**	**2 019 543**	**21 741 616**
Liabilities							
Financial liabilities at fair value through profit or loss and spot transactions	-	-	-	-	-	1 220 297	1 220 297
Due to banks	14 049 341	2 662 116	-	-	-	-	16 711 457
Customer accounts	397 523	483 553	-	-	-	-	881 076
Subordinated loan	-	643 922	-	-	-	-	643 922
Other financial liabilities	-	-	-	-	-	58 525	58 525
Total financial liabilities	**14 446 864**	**3 789 591**	**-**	**-**	**-**	**1 278 822**	**19 515 277**
Liquidity gap	**1 149 574**	**336 044**	**-**	**-**	**-**	**740 721**	**2 226 339**
Cumulative liquidity gap	**1 149 574**	**1 485 618**	**1 485 618**	**1 485 618**	**1 485 618**	**2 226 339**	**-**

(in thousands of Russian Rubles)

21 Financial risk management (continued)

The table below provides a general analysis of the Bank's interest rate risk as at December 31, 2010:

	On demand and less than 1 month	1 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Maturity undefined/ non-interest	Total
Assets							
Cash and cash equivalents	650 637	-	-	-	-	396 648	1 047 285
Minimum reserve deposits with the Central Bank of the Russian Federation	-	-	-	-	-	121 010	121 010
Financial assets at fair value through profit or loss and spot transactions	1 337 192	-	-	-	-	85 575	1 422 767
Due from banks	4 580 647	2 730 830	-	-	-	-	7 311 477
Loans to customers	1 973 455	4 584 487	-	-	-	-	6 557 942
Other financial assets	-	-	-	-	-	167 139	167 139
Total financial assets	**8 541 931**	**7 315 317**	**-**	**-**	**-**	**770 372**	**16 627 620**
Liabilities							
Financial liabilities at fair value through profit or loss and spot transactions	-	-	-	-	-	94 703	94 703
Due to banks	7 938 731	5 486 457	-	-	-	-	13 425 188
Customer accounts	249 084	40 051	-	-	-	-	289 135
Subordinated loan	-	609 538	-	-	-	-	609 538
Other financial liabilities	-	-	-	-	-	37 852	37 852
Total financial liabilities	**8 187 815**	**6 136 046**	**-**	**-**	**-**	**132 555**	**14 456 416**
Liquidity gap	**354 116**	**1 179 271**	**-**	**-**	**-**	**637 817**	**2 171 204**
Cumulative liquidity gap	**354 116**	**1 533 387**	**1 533 387**	**1 533 387**	**1 533 387**	**2 171 204**	**-**

(in thousands of Russian Rubles)

21 Financial risk management (continued)

The table below presents changes in net profit and equity as a result of potential changes in the effective interest rates applied as at the reporting date provided that all other variables remain unchanged:

	December 31, 2011		December 31, 2010	
	Interest rate increase by 200 basis points	**Interest rate decrease by 200 basis points**	**Interest rate increase by 200 basis points**	**Interest rate decrease by 200 basis points**
Cash and cash equivalents	12 044	(12 044)	10 408	(10 408)
Financial assets at fair value through profit or loss	32 246	(32 246)	20 898	(20 898)
Due from banks	115 154	(115 154)	116 534	(116 534)
Loans to customers	154 556	(154 556)	104 347	(104 347)
Due to banks	(251 390)	251 390	(214 077)	214 077
Subordinated loan	(10 303)	10 303	(9 753)	9 753
Total impact on net profit and equity	**52 307**	**(52 307)**	**28 357**	**(28 357)**

The table below provides an analysis of the effective average interest rates by main currencies for principal monetary financial instruments. The analysis was prepared based on the effective interest rates at period end used for interest income and expense accruals for appropriate categories of assets/liabilities.

	2011			2010		
	USD	**RUB**	**EUR**	**USD**	**RUB**	**EUR**
Assets						
Cash and cash equivalents	0.1%	-	0.6%	0.2%	-	0.6%
Financial assets at fair value through profit or loss	-	8.3%	-	-	12.9%	-
Due from banks	1.3%	6.9%	0.9%	0.8%	3.4%	-
Loans to customers	4.1%	9.5%	-	5.0%	12.5%	-
Liabilities						
Due to banks	1.1%	4.4%	-	0.7%	3.4%	0.6%
Customer accounts						
- Current/settlement accounts	0%	0%	0%	0%	0%	0%
- Term deposits	1.3%	5.0%	0.9%	-	3.4%	-
Subordinated loan	2.2%	-	-	1.9%	-	-

Operational risk. Operational risk is the risk of loss arising from the absence or inadequate efficiency of internal controls, human error, or software failures. The Bank has an Operational Risk Management Committee. The Bank's authorized personnel monitors, analyzes and forecasts operational risk events on a daily basis and develops and implements measures to minimize operational risk exposure.

Legal risk. Legal risk may arise from both external and internal factors. External factors include, inter alia, imperfection of the legal system and violations of the law and contractual terms and conditions by the Bank's clients and counterparties. Internal factors include the Bank's failure to comply with the legislation of the Russian Federation, non-compliance of the Bank's internal documents with the RF legislation, and inadequate consideration of legal aspects by the Bank when developing and implementing new technologies and terms of conducting banking operations and other transactions.

21 Financial risk management (continued)

The Bank pays increased attention to legal risk management:

- All provisions of the Bank's internal documents and requirements of the RF legislation are strictly observed when conducting banking operations and transactions;
- Changes in the RF legislation are monitored on an ongoing basis and prompt measures are taken to prevent the Bank from violating the effective legislation, including through amending the Bank's internal regulations;
- Legal risk is assessed for the Bank's main lines of business.

The Bank's Legal Department and Internal Control Service control compliance of documentation for the banking operations and other transactions with the RF legislation.

22 Contingent liabilities and derivative financial instruments

Litigation. At the moment of preparing the financial statements, the Bank had no litigations, except the ones described below and related to tax claims. Also, the Bank's management is not aware of any customer's intention to file a lawsuit. Accordingly, the Bank's management did not create any provision for losses on potential legal proceedings in the financial statements.

Tax legislation. Provisions of the RF tax legislation are sometimes inconsistent and may have more than one interpretation, which allows the RF tax authorities to take decisions based on their own arbitrary interpretation of these provisions. In practice, the RF tax authorities often interpret the tax legislation not in favor of the taxpayers, who have to resort to court proceeding to defend their position against the tax authorities. It should be noted that the RF tax authorities can use the clarifications issued by the judicial bodies that have introduced the concept of "unjustified tax benefit", "primary commercial goal of transaction" and the criteria of "commercial purpose (substance) of transaction".

Such uncertainty could, in particular, occur with regard to tax treatment of financial instruments and determination of market prices of transactions. It could also lead to temporary tax differences occurred due to creation and recovery of provisions for losses on loans and loan equivalents being treated by the tax authorities as understatement of the tax base. The management of the Bank is confident that applicable taxes have all been accrued and, consequently, creation of respective provisions is not required.

Generally, taxpayers are subject to tax audits with respect to three calendar years preceding the year of the audit. However, completed audits do not exclude the possibility of subsequent additional tax audits performed by upper-level tax inspectorates. Also, according to clarifications of the judicial bodies, the statute of limitation for tax liabilities may be extended if a court determines that the taxpayer has obstructed or hindered a tax inspection.

In 2011 the Bank underwent a tax audit. According to the results of the audit a report and a claim for payment of the income tax and the value-added tax, as well as penalties and interest in the total amount of RUB 19 976 thousand, were prepared. The Bank intends to apply for judicial defence to dispute the decision of the tax authorities. The management of the Bank considers that the judicial decision is likely to be taken in favour of the Bank, and, accordingly, did not create provisions for the stated tax claims. The situation is expected to be settled by the end of 2012.

Operating environment. Emerging markets such as RF are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. As has happened in the past, actual or perceived financial problems or an increase in the perceived risks associated with investing in emerging economies could adversely affect the investment climate in RF and the Russian economy in general.

(in thousands of Russian Rubles)

22 Contingent liabilities and derivative financial instruments (continued)

Laws and regulations affecting businesses in RF continue to change rapidly. Tax, currency and customs legislation within RF are subject to varying interpretations, and other legal and fiscal impediments contribute to the challenges faced by entities currently operating in RF. The future economic direction of RF is largely dependent upon economic, fiscal and monetary measures undertaken by the government, together with legal, regulatory, and political developments.

The global financial system continues to exhibit signs of deep stress and many economies around the world are experiencing lesser or no growth than in prior years. Additionally there is increased uncertainty about the creditworthiness of some sovereign states in the Eurozone and financial institutions with exposure to the sovereign debt of such states. These conditions could slow or disrupt the Russian economy, adversely affect the Bank's access to capital and cost of capital for the Bank and, more generally, its business, results of operations, financial condition and prospects.

Since Russia produces and exports large volumes of oil and gas, its economy is particularly sensitive to the prices of oil and gas on the world market that fluctuated significantly during 2011 and 2010.

Management is unable to reliably estimate the effects of any further deterioration in the liquidity of the financial markets and increased volatility in the currency and equity markets on the Bank's financial position. Management believes it has taken all the necessary measures to support the sustainability and growth of the Bank's business in the current circumstances.

Operating lease commitments. The Bank has no lease payment commitments under non-cancellable operating leases of premises.

Credit-related commitments. At any time credit commitments may arise with the Bank. These commitments take the form of approved loans and overdraft facilities. The Bank also opens letters of credit to ensure that its customers fulfill their obligations to third parties. Said agreements set out the limits of the Bank's commitments.

	2011	**2010**
Overdraft limit	2 000 000	2 000 000
Letters of credit	832 807	798 413
Unused credit lines	168 646	-
Guarantees issued	128 784	-
Total credit-related commitments	**3 130 237**	**2 798 413**

Contractual amounts of off-balance sheet commitments are shown in the table by types of transactions. The amounts disclosed in the table with regard to credit commitments suggest that the specified liabilities will be fully realised. The amounts shown in the table with regard to letters of credit represent the maximum amount of the Bank's loss for financial accounting purposes which may be recognised in financial statements if the Bank's counterparties fail to fulfill their contractual obligations.

Many of these commitments may expire without being fully or partially fulfilled. Therefore, the above commitments do not always represent an expected cash outflow.

As at December 31, 2011 the Bank received guarantees in the amount of RUB 321 961 thousand (2010: nil) from the Parent Bank for the purposes of mitigating the risk associated with credit-related commitments (Note 24).

The Bank applies the same credit policy to the contingent liabilities as it does to the balance sheet financial instruments, i.e. the one based on the procedures for approving deals, using limits which mitigate the risk, and monitoring.

The Bank's management did not create any provisions for credit-related commitments.

(in thousands of Russian Rubles)

22 Contingent liabilities and derivative financial instruments (continued)

Derivative financial instruments: forward deals and cross currency and interest rate swaps. The table below presents an analysis of contractual or agreed amounts and fair values of forward deals and cross currency and interest rate swaps. Disclosed in this table is the Bank's position before each counterparty position was offset by categories of financial instruments, including contracts with value date after December 31, 2011. These transactions were entered into in the period from February to December 2011 with maturities from January 2012 to January 2016.

	Contracts with foreign counterparties			Contracts with Russian counterparties		
	Contractual amount	**Negative fair value**	**Positive fair value**	**Contractual amount**	**Negative fair value**	**Positive fair value**
Forward deals						
Foreign currency						
- purchase of foreign currency	3 233 875	(19 777)	109 383	10 959 325	(264)	942 255
- sale of foreign currency	14 257 074	(937 309)	33 234	2 181 045	(34 449)	214
Cross currency and interest rate swaps						
- purchase of foreign currency	1 692 115	(31 777)	3 463	1 000 000	-	208 735
- sale of foreign currency	1 958 600	(196 721)	22 891	-	-	-
Total	**21 141 664**	**(1 185 584)**	**168 971**	**14 140 370**	**(34 713)**	**1 151 204**

In connection with forward deals the Bank recorded net gain in the amount of RUB 93 287 thousand in the line "Net (loss)/gain on foreign exchange operations", the gain in the amount of RUB 6 591 thousand was recorded within net loss on financial assets and liabilities at fair value through profit or loss.

The position as at December 31, 2010 is shown in the table below:

	Contracts with foreign counterparties			Contracts with Russian counterparties		
	Contractual amount	**Negative fair value**	**Positive fair value**	**Contractual amount**	**Negative fair value**	**Positive fair value**
Forward deals						
Foreign currency						
- purchase of foreign currency	4 287 263	(71 584)	3 397	5 592 949	(20 240)	5 357
- sale of foreign currency	2 218 070	-	49 065	3 233 660	(2 879)	27 756
Total	**6 505 333**	**(71 584)**	**52 462**	**8 826 609**	**(23 119)**	**33 113**

In connection with these operations the Bank recorded net loss in the amount of RUB 9 128 thousand in the line "Net (loss)/gain on foreign exchange operations".

23 Fair value of financial instruments

The Bank estimated the fair value of financial instruments using available market information (if any) and proper valuation techniques taking into account unobservable inputs. However, professional judgment is required for interpreting market data in order to estimate the fair value. The economy of the Russian Federation still displays certain features characteristic of emerging markets, while the economic environment continues to restrict the volume of activities in the financial markets. Market quotations may be outdated or reflect the value of selling at low prices and, therefore, not represent fair values of financial instruments. When determining the fair value of financial instruments, the Bank uses all available market information.

Financial instruments at fair value

Financial assets and financial liabilities at fair value through profit or loss (including derivative financial instruments) are included in the statement of financial position at fair value. Fair value is estimated based on quoted market prices.

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

(in thousands of Russian Rubles)

23 Fair value of financial instruments (continued)

Due from banks and loans to customers

The Bank believes that the fair value of due from banks and loans to customers as at the end of the reporting period, December 31, 2011 and 2010, differs immaterially from their carrying amount. This can be explained by the existing practice of reconsidering interest rates to reflect current market conditions, which results in accruing interest on most balances at the rates approximating market interest rates.

Financial liabilities at amortised cost

The Bank believes that the fair value of due to banks, customer accounts and the subordinated loan as at the end of the reporting period, December 31, 2011 and December 31, 2010, differs immaterially from their carrying amount. This can be explained by the existing practice of reconsidering interest rates to reflect current market conditions, which results in accruing interest on most balances at the rates approximating market interest rates.

The table below presents the fair values and applied techniques of valuation of financial instruments at fair value as at December 31, 2011:

	Quoted prices in active market (Level 1)	**Valuation techniques based on observable market data (Level 2)**	**Valuation techniques incorporating information other than observable market data (Level 3)**
Financial assets at fair value through profit or loss	2 049 054	1 320 175	-
Financial liabilities at fair value through profit or loss	-	1 220 297	-

The table below presents the fair values and applied techniques of valuation of financial instruments at fair value as at December 31, 2010:

	Quoted prices in active market (Level 1)	**Valuation techniques based on observable market data (Level 2)**	**Valuation techniques incorporating information other than observable market data (Level 3)**
Financial assets at fair value through profit or loss	1 337 192	85 575	-
Financial liabilities at fair value through profit or loss	-	94 703	-

(in thousands of Russian Rubles)

24 Transactions with related parties

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

In the normal course of business, the Bank carries out transactions with the Parent Bank and management. These transactions included settlements, issue of loans, raising of deposits, issue of guarantees and foreign currency operations. These transactions were priced predominantly at the market rates. The balances at the year end and income and expense items, as well as other related party transactions for the years ended December 31, 2011 and 2010 are as follows:

	December 31, 2011		December 31, 2010	
	Parent Bank	**Total category as per the financial statements caption**	**Parent Bank**	**Total category as per the financial statements caption**
Correspondent accounts of banks and overnight deposits	677 440	1 032 978	614 530	1 047 285
Due from banks	2 944 777	7 234 783	613 466	7 311 477
Due to banks				
-Correspondent accounts	986 253	986 253	32 150	32 150
-Term deposits of banks	10 339 278	15 725 204	12 590 320	13 393 038
Assets on forward contracts and swaps	156 416	1 320 175	52 462	85 575
Liabilities on forward contracts and swaps	1 185 584	1 220 297	71 584	94 703
Other assets	11 813	273 607	-	200 069
Other liabilities	20 982	66 584	303	41 463
Subordinated loan	643 922	643 922	609 538	609 538
Overdraft limit issued	2 000 000	2 000 000	2 000 000	2 000 000

As at December 31, 2011 and 2010, guarantees were received from the Parent Bank in relation to loan operations totaling RUB 9 963 502 thousand and RUB 5 180 707 thousand, respectively.

Included in the statement of comprehensive income for the years ended December 31, 2011 and 2010 are the following amounts which arose due to transactions with related parties:

	Year ended December 31, 2011		Year ended December 31, 2010	
	Parent Bank	**Total category as per the financial statements caption**	**Parent Bank**	**Total category as per the financial statements caption**
Interest income	59 154	763 472	10 718	709 933
Interest expense	97 927	262 680	98 881	155 079
Operating expenses	20 982	273 311	691	259 156
Commissions on guarantees paid	37 683	37 683	35 632	44 513
Net loss on foreign exchange operations	(1 227 828)	(357 163)	27 780	152 487

In 2011 the amount of consideration to the members of the Bank's Management Board, including UST charges and one-time payments, was RUB 42 641thousand (2010: RUB 57 788 thousand).

25 Capital management

The Bank manages its capital to: (i) comply with the capital requirements set by the Central Bank of the Russian Federation and (ii) ensure that the Bank continues as a going concern. Compliance with the capital adequacy ratio set by the Central Bank of the Russian Federation is monitored by means of monthly reports containing the relevant calculations checked and signed by the Deputy Chairman of the Management Board and the Deputy Chief Accountant of the Bank. Other objectives of capital management are assessed annually.

In accordance with effective requirements to capital set by the Central Bank of the Russian Federation, banks shall maintain the capital/risk weighted assets ratio ("capital adequacy ratio") above the established minimum. During 2011 and 2010, the Bank complied with all externally imposed capital requirements.

The Bank's overall capital risk management policy has remained unchanged from 2010.

26 Effect of estimates and assumptions on recognised assets and liabilities

The Bank makes estimates and assumptions influencing the recognised amounts of assets and liabilities for the next financial year. Estimates and judgments are assumed and based on historical experience and other factors, including expectations of future events, occurrence of which is possible under certain circumstances.

Impairment losses on loans and accounts receivable. The Bank analyzes the state of the loan portfolio in terms of impairment on continuing basis. Determining the necessity of recognising an impairment loss in the statement of comprehensive income, the Bank uses judgments concerning the existence of data evidencing decrease of estimated future cash flows of the loan portfolio before the decrease can be determined for an individual loan in this portfolio. Such an evidence may include data about changes in the creditworthiness of the Bank's borrower, national or local economic conditions influencing decrease of the values of the Bank's assets. The Bank uses estimates based on historical experience of losses on assets with credit risk characteristics and objective evidence of impairment for similar assets in the portfolio when planning future cash flows. The methodology and assumptions used for estimation of amounts and terms of cash flows are regularly analyzed for reduction of differences between loss estimates and the actual impairment loss.

Fair values of derivative financial instruments. Fair values of derivative financial instruments not quoted in active markets are determined with usage of valuation techniques. Valuation techniques are periodically tested by qualified staff and checked for reflection of fair values of derivative financial instruments with usage of comparable market prices. For the purposes of practical application of the model only actual data were used but such risks as credit risk (own and the counterparty's), changeability in dynamics and correlation, require the Bank's valuation. Changes in assumptions concerning these factors may influence the recognised fair values of derivative financial instruments.

Initial recognition of transactions with related parties. In the course of business the Bank carries out transactions with related parties. According to IFRS (IAS) 39, financial instruments shall be initially recognised at fair value. If there is no active market for such transactions to determine whether transactions were carried out at market or non-market interest rates, professional judgments are used. The bases for a judgment are pricing for similar types of transactions with unrelated parties and analysis of the effective interest rate.

Going concern principle. These financial statements have been prepared on the basis of the going concern principle. Using this judgment, the Bank considered the existing intentions, the profitability of the transactions, the available financial resources and the effect of the current economic situation on the Bank's activities.