

**BANCA INTESA
(CLOSED JOINT-STOCK COMPANY)**

Consolidated financial statements

Year ended 31 December 2011

Together with Independent auditors' report

Contents

Independent auditors' report

Consolidated statement of financial position.....	1
Consolidated statement of comprehensive income	2
Consolidated statement of changes in equity	3
Consolidated statement of cash flows	4

Notes to consolidated financial statements

1. Principal activities	5
2. Basis of preparation.....	5
3. Summary of accounting policies	6
4. Significant accounting judgments and estimates	16
5. Business combination.....	17
6. Cash and cash equivalents	17
7. Trading securities	17
8. Amounts due from credit institutions.....	18
9. Derivative financial assets and liabilities.....	18
10. Loans to customers	19
11. Finance lease receivables	20
12. Available-for-sale securities.....	21
13. Property and equipment	22
14. Intangible assets.....	22
15. Taxation.....	23
16. Other impairment and provisions.....	24
17. Other assets and liabilities.....	25
18. Amounts due to credit institutions.....	25
19. Amounts due to customers	25
20. Other borrowed funds.....	26
21. Subordinated debt	26
22. Equity	26
23. Commitments and contingencies.....	28
24. Net fee and commission income.....	30
25. Losses net of gains from other operating activities.....	30
26. Personnel and other operating expenses	30
27. Risk management.....	31
28. Fair values of financial instruments	46
29. Related party disclosures	49
30. Capital adequacy.....	52
31. Events after the reporting period	52

Independent auditors' report

To the Shareholders and Board of Directors of BANCA INTESA (CLOSED JOINT-STOCK COMPANY)

We have audited the accompanying consolidated financial statements of BANCA INTESA (CLOSED JOINT-STOCK COMPANY) and its subsidiary ZAO "Intesa-Leasing" (together the "Bank"), which comprise the consolidated statement of financial position as at 31 December 2011, and the consolidated statements of comprehensive income, of changes in equity and of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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

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

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

Opinion

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



20 February 2012

Consolidated statement of financial position**As at 31 December 2011***(Thousands of Russian Roubles)*

	Notes	2011	2010
Assets			
Cash and cash equivalents	6	3 184 157	4 797 576
Mandatory cash balances with the Central Bank of the Russian Federation		429 886	192 456
Trading securities	7	–	891
Amounts due from credit institutions	8	13 970 416	8 403 443
Derivative financial assets	9	33 489	77 152
Loans to customers	10	62 225 938	59 719 026
Finance lease receivables	11	1 573 252	2 017 998
Available-for-sale securities	12	3 370 702	4 379 580
Property and equipment	13	597 205	711 282
Intangible assets	14	1 214 995	1 269 909
Current income tax assets		139 331	36 664
Deferred income tax assets	15	–	58 333
Tax assets other than income tax		68 504	176 523
Other assets	17	904 426	887 056
Total assets		87 712 301	82 727 889
Liabilities			
Amounts due to credit institutions	18	37 846 949	36 631 634
Derivative financial liabilities	9	70 653	70 711
Amounts due to customers	19	19 751 997	17 601 018
Debt securities issued		–	17 640
Other borrowed funds	20	14 793 731	14 206 988
Current income tax liabilities		3 366	–
Deferred income tax liabilities	15	67 644	30 456
Tax liabilities other than income tax		157 538	255 105
Other liabilities	17	514 334	449 797
Subordinated debt	21	695 671	658 244
Total liabilities		73 901 883	69 921 593
Equity			
Share capital	22	10 820 181	10 820 181
Other capital reserve	22	1 803 914	1 803 914
Available-for-sale securities revaluation reserve	22	(11 054)	(10 204)
Retained earnings	22	1 197 377	192 405
Total equity		13 810 418	12 806 296
Total equity and liabilities		87 712 301	82 727 889

Signed and authorised for release on behalf of the Board of Directors of the Bank

Olga Lein

Tatyana Pavlycheva

20 February 2012



Acting Chairman of the Management Board

Head of Accounting,
Planning and Control Group/Chief accountant*The accompanying notes on pages 5 to 52 are an integral part of these consolidated financial statements.*

Consolidated statement of comprehensive income**For the year ended 31 December 2011***(Thousands of Russian Roubles)*

	Notes	2011	2010
Interest income			
Loans to customers		7 191 622	6 943 526
Finance lease receivables		458 290	548 657
Amounts due from credit institutions		285 387	335 192
Available-for-sale securities		222 009	293 052
Trading securities		1 792	42 651
		8 159 100	8 163 078
Interest expense			
Amounts due to credit institutions		(1 704 882)	(1 561 053)
Other borrowed funds		(589 439)	(613 878)
Amounts due to customers		(281 945)	(565 322)
Subordinated debt		(22 406)	(25 195)
Debt securities issued		(961)	(520)
		(2 599 633)	(2 765 968)
Net interest income			
		5 559 467	5 397 110
Provision for loan and finance lease impairment	8, 10, 11	(1 108 378)	(1 729 284)
Net interest income after provision for loan and finance lease impairment			
		4 451 089	3 667 826
Net gains/(losses) from trading securities		(294)	21 864
Net gains from available-for-sale securities		5 323	143 093
Net losses from interest rate swaps		–	(111 711)
Net gains/(losses) from foreign currencies:			
- dealing		(144 653)	118 510
- translation differences		372 298	82 751
Fee and commission income	24	798 807	716 885
Fee and commission expense	24	(175 998)	(134 903)
Losses net of gains from other operating activities	25	(125 624)	(208 156)
Operating income			
		5 180 948	4 296 159
Personnel expenses	26	(1 719 393)	(1 548 180)
Depreciation and amortisation	13, 14	(513 471)	(381 141)
Other operating expenses	26	(1 643 138)	(1 794 515)
Other impairment and provisions	16	(72 547)	(9 679)
Profit before tax			
		1 232 399	562 644
Income tax expense	15	(227 427)	(140 601)
Profit for the year			
		1 004 972	422 043
Other comprehensive income			
Unrealised net losses on available-for-sale securities	22	(1 063)	(51 380)
Income tax relating to components of other comprehensive income	15, 22	213	29 674
Other comprehensive loss for the year, net of tax			
		(850)	(21 706)
Total comprehensive income for the year			
		1 004 122	400 337

The accompanying notes on pages 5 to 52 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity**For the year ended 31 December 2011***(Thousands of Russian Roubles)*

	<i>Note</i>	<i>Share capital</i>	<i>Share premium</i>	<i>Other capital reserve</i>	<i>Available-for-sale securities revaluation reserve</i>	<i>Retained earnings/ (accumulated deficit)</i>	<i>Total equity</i>
Balance as at 31 December 2009*		6 789 066	84 182	1 803 914	11 502	(816 967)	7 871 697
Effect of business combination under common control	22	5 083 013	(84 041)	–	–	(464 710)	4 534 262
Reclassification of hyperinflation effect from share capital and share premium to retained earnings	22	(1 051 898)	(141)	–	–	1 052 039	–
Balance as at the merger date		10 820 181	–	1 803 914	11 502	(229 638)	12 405 959
Profit for the year		–	–	–	–	422 043	422 043
Other comprehensive loss for the year		–	–	–	(21 706)	–	(21 706)
Total comprehensive income for the year		–	–	–	(21 706)	422 043	400 337
Balance as at 31 December 2010		10 820 181	–	1 803 914	(10 204)	192 405	12 806 296
Profit for the year		–	–	–	–	1 004 972	1 004 972
Other comprehensive loss for the year		–	–	–	(850)	–	(850)
Total comprehensive income for the year		–	–	–	(850)	1 004 972	1 004 122
Balance as at 31 December 2011		10 820 181	–	1 803 914	(11 054)	1 197 377	13 810 418

* *Figures relative to KMB BANK (CLOSED JOINT-STOCK COMPANY)*

Consolidated statement of cash flows**For the year ended 31 December 2011***(Thousands of Russian Roubles)*

	<i>Note</i>	2011	2010
Cash flows from operating activities			
Interest received		8 144 026	8 391 858
Interest paid		(2 562 810)	(2 926 360)
Realised gains less losses from dealing in foreign currencies		(101 050)	110 335
Realised gains less losses from trading securities		590	21 864
Realised losses net of gains from interest rate swaps		–	(424 858)
Fees and commissions received		811 754	718 671
Fees and commissions paid		(171 180)	(152 005)
Losses net of gains from other operating activities		(115 306)	(196 348)
Operating expenses paid		(3 298 491)	(3 231 555)
Cash flows from operating activities before changes in operating assets and liabilities		2 707 533	2 311 602
<i>Net (increase)/decrease in operating assets</i>			
Mandatory cash balances with the Central Bank of the Russian Federation		(237 430)	(14 541)
Trading securities		6	667 667
Amounts due from credit institutions		(5 040 964)	(2 254 655)
Loans to customers		(2 211 069)	(12 744 659)
Finance lease receivables		267 290	528 364
Other assets		(21 020)	321 466
Net increase/(decrease) in operating liabilities			
Amounts due to credit institutions		632 870	8 377 807
Amounts due to customers		1 913 173	3 841 771
Derivative financial liabilities		–	(286 173)
Debt securities issued		(15 862)	4 441
Other liabilities		24 952	(32 679)
Net cash flows from operating activities before income tax		(4 688 054)	(1 591 191)
Income tax (paid)/refunded		(230 995)	10 613
Net cash from/(used in) operating activities		(2 211 516)	731 024
Cash flows from investing activities			
Purchase of property and equipment		(75 023)	(99 376)
Purchase of intangible assets		(305 128)	(289 144)
Purchase of available-for-sale securities		(4 660 162)	(13 205 079)
Proceeds from sale and redemption of available-for-sale securities		5 604 009	12 869 629
Purchase of subsidiary net of cash acquired		–	1 547 029
Net cash from investing activities		563 696	823 059
Cash flows from financing activities			
Proceeds from other borrowed funds		5 070 000	11 176 938
Redemption of other borrowed funds		(5 070 000)	(12 453 200)
Redemption of subordinated debts		–	(84 526)
Net cash used in financing activities		–	(1 360 788)
Effect of exchange rate changes on cash and cash equivalents		34 401	(42 655)
Net increase/(decrease) in cash and cash equivalents		(1 613 419)	150 640
Cash and cash equivalents as at the beginning of the year		4 797 576	4 646 936
Cash and cash equivalents as at the end of the year	6	3 184 157	4 797 576

The accompanying notes on pages 5 to 52 are an integral part of these consolidated financial statements.

(Thousands of Russian Roubles)

1. Principal activities

BANCA INTESA (CLOSED JOINT-STOCK COMPANY) (the “Bank”) is a commercial bank organised in the form of a closed joint-stock company under the laws of the Russian Federation.

The Bank, formerly known as KMB BANK (CLOSED JOINT-STOCK COMPANY) (the “incorporating Bank”), changed its name following the merger with ZAO Banca Intesa (the “incorporated Bank”), 100% Russian banking subsidiary of Intesa Sanpaolo S.p.A. (Italy), on 11 January 2010. Details of the reorganisation are presented in Note 5.

The Bank operates under General Banking License № 2216.

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

<i>Shareholder</i>	2011 %	2010 %
Intesa Sanpaolo S.p.A. (Italy)	46.9772	46.9772
Intesa Sanpaolo Holding International SA (Luxembourg)	39.7670	39.7670
European Bank for Reconstruction and Development (“the EBRD”) (United Kingdom)	13.2558	13.2558
Total	100.0000	100.0000

The ultimate controlling party of the Bank is Intesa Sanpaolo S.p.A. (Italy) (“ISP”) holding 46.9772% of the Bank’s issued and outstanding shares as at 31 December 2011 and as at 31 December 2010.

The Bank’s principal business activities are retail bank products and services, including an affluent segment, and corporate bank products to small, medium and large businesses. The Bank is engaged in a program of the EBRD to support the businesses of small to medium sized companies by providing them with lending facilities.

In 2004, the Bank became a member of the obligatory deposit insurance system provided by the State Corporation “Deposit Insurance Agency”.

The Bank has a wholly owned and controlled subsidiary, ZAO “Intesa-Leasing”, former ZAO “KMB-Leasing”. It is primarily engaged in the provision of leasing services to the Bank’s clients and other companies.

The Bank’s head office is located in Moscow and it has 6 branches within the Russian Federation in the cities of Saint Petersburg, Nizhny Novgorod, Ekaterinburg, Novosibirsk, Vladivostok and Rostov-on-Don (2010: 6 branches). As at 31 December 2011 the Bank has 75 offices selling banking products in different cities within the Russian Federation (2010: 79 offices).

The Bank’s registered office is located at the following address: 2 Petroverigsky pereulok, bld. 2, Moscow, Russia, 101000.

As at 31 December 2011 the Bank employed 1 838 employees (2010: 1 945).

2. Basis of preparation

General

These consolidated financial statements comprise the financial statements of BANCA INTESA (CLOSED JOINT-STOCK COMPANY) and its wholly owned and controlled subsidiary, ZAO “Intesa-Leasing”, collectively referred to as the “Bank”.

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

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

The consolidated financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below. For example, trading securities, available-for-sale securities and derivative financial instruments have been measured at fair value.

These consolidated financial statements are presented in thousands of Russian Roubles (“RUB”) unless otherwise indicated.

(Thousands of Russian Roubles)

2. Basis of preparation (continued)

Inflation accounting

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

3. Summary of accounting policies

Changes in accounting policies

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

IAS 24 Related party disclosures (Revised)

The revised IAS 24, issued in November 2009 and effective for annual periods beginning on or after 1 January 2011, simplifies the disclosure requirements for government-related entities and clarifies the definition of a related party. Previously, an entity controlled or significantly influenced by a government was required to disclose information about all transactions with other entities controlled or significantly influenced by the same government. The revised standard requires disclosure about these transactions only if they are individually or collectively significant. The revised IAS 24 is effective for annual periods beginning on or after 1 January 2011, with earlier application permitted. The Bank has decided to adopt the revised IAS 24 from 1 January 2011. The disclosure of the transactions with related parties in accordance with the revised Standard is presented in the Note 29.

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

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

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

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

Improvements to IFRSs

In May 2010 the IASB issued the third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. Most of the amendments are effective for annual periods beginning on or after 1 January 2011. There are separate transitional provisions for each standard.

Amendments included in May 2010 "Improvements to IFRS" had impact on the accounting policies, financial position or performance of the Bank, as described below:

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

The following amendments resulting in changes to standards and interpretations also did not have any impact on the accounting policies, financial position or performance of the Bank:

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

(Thousands of Russian Roubles)

3. Summary of accounting policies (continued)

Basis of consolidation

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

Accounting for business combinations under common control

In the absence of specific provisions in IAS/IFRS and in compliance with IAS 8 and ISP accounting policy with respect to accounting for the business combination under common control, the Bank used its judgment in developing and applying an accounting policy that is relevant, reliable, prudent and that reflects the economic substance of the transaction.

Mergers are examples of concentrations between companies and represent the most complete business combinations, since they imply the legal and economic unification of the merged entities. Accession or mergers by incorporation (which entail that an entity is absorbed by another existing entity) are treated according to the criteria illustrated above, that is:

- ▶ if the transaction leads to the transfer of control of a company, it is accounted for as a business combination as provided for by IFRS 3;
- ▶ if the transaction does not lead to the transfer of control, it is accounted for by privileging the continuity of the values of the merged company or pooling of interest method.

The pooling of interests method involves the following:

- ▶ The assets and liabilities of the combining entities are reflected at their carrying amounts
- ▶ No adjustments are made to reflect fair values, or recognise any new assets or liabilities, that would otherwise be done under the purchase method. The only adjustments that may be made to harmonise accounting policies
- ▶ Any difference between legally registered share capital of the Bank and combination of the share capital of the merging entities (e.g., hyperinflation effect related to application of IAS 29 *Financial Reporting in Hyperinflationary Economies* and currency translation effects of IAS 21 *The Effects of Changes in Foreign Exchange Rates*) are reclassified to the retained earnings/(accumulated deficit) line
- ▶ No 'new' goodwill is recognised as a result of the combination
- ▶ The statement of comprehensive income *reflects the results of the combining entities* for the period starting from the date of business combination
- ▶ Comparatives include the financial position of the incorporating Bank

The effect of the merger is disclosed in Notes 5 and 22.

Financial assets

Initial recognition

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Bank determines the classification of its financial assets upon initial recognition and subsequently can reclassify financial assets in certain cases as described below.

Date of recognition

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the Bank commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

(Thousands of Russian Roubles)

3. Summary of accounting policies (continued)

Financial assets (continued)

'Day 1' profit

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

Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category 'financial assets at fair value through profit or loss'. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated and effective hedging instruments. Gains or losses on financial assets held for trading are recognised in the consolidated income statement.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Bank has the positive intention and ability to hold them to maturity. Investments intended to be held for an undefined period are not included in this classification. Held-to-maturity investments are subsequently measured at amortised cost. Gains and losses are recognised in the consolidated income statement when the investments are impaired, as well as through the amortisation process. The Bank currently has no held-to-maturity investments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition, available-for-sale financial assets are measured at fair value with gains or losses being recognised in the other comprehensive income until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in the other comprehensive income is included in the consolidated income statement. However, interest calculated using the effective interest method is recognised in the consolidated income statement.

Determination of fair value

The fair value for financial instruments traded in active market at the reporting date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, options pricing models and other relevant valuation models.

Offsetting

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the consolidated statement of financial position.

(Thousands of Russian Roubles)

3. Summary of accounting policies (continued)

Financial assets (continued)

Reclassification of financial assets

If a non-derivative financial asset classified as held for trading is no longer held for the purpose of selling in the near term, it may be reclassified out of the fair value through profit or loss category in one of the following cases:

- ▶ a financial asset that would have met the definition of loans and receivables above may be reclassified to loans and receivables category if the Bank has the intention and ability to hold it for the foreseeable future or until maturity;
- ▶ other financial assets may be reclassified to available for sale or held to maturity categories only in rare circumstances.

A financial asset classified as available for sale that would have met the definition of loans and receivables may be reclassified to loans and receivables category if the Bank has the intention and ability to hold it for the foreseeable future or until maturity.

Financial assets are reclassified at their fair value on the date of reclassification. Any gain or loss already recognised in income statement is not reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortised cost, as applicable.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, amounts due from the CBR, excluding obligatory reserves, and items which can be converted into cash within one day and are free from contractual encumbrances. All short term interbank placements are included in due from other banks.

Mandatory cash balances with the CBR

Credit institutions are required to maintain a non-interest earning cash deposit (mandatory reserve) with the CBR, the amount of which depends on the level of funds attracted by the credit institution. The Bank's ability to withdraw such deposit is significantly restricted by the statutory legislation. Mandatory cash balances with the CBR 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 consolidated statement of cash flows.

Derivative financial instruments

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

The Bank does not apply hedge accounting.

Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include amounts due to the Government, amounts due to credit institutions, amounts due to customers and debt securities issued. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the consolidated income statement when the borrowings are derecognised as well as through the amortisation process.

Leases

Finance - Bank as lessor

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

(Thousands of Russian Roubles)

3. Summary of accounting policies (continued)

Leases (continued)

Operating – Bank as lessee

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

Impairment of financial assets

The Bank assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortised cost

A credit risk provision for loan and finance lease impairment is established if there is objective evidence that the Bank will not be able to collect the amounts due according to the original contractual terms. Objective evidence includes actual breach of contract (for example, missed payment), financial difficulties of the borrower, probability of bankruptcy or other financial reorganisation of the borrower, adverse changes in the payment status of the borrower or deterioration in economic conditions which the borrower operates. The amount of the provision is the difference between the carrying amount and estimated recoverable amount, calculated as the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted at the instrument's original effective interest rate.

The provision for loan and finance lease impairment also covers losses where there is objective evidence that probable losses are present in components of the loan and finance lease portfolio at the balance sheet date. These have been estimated based upon historical patterns of losses in each component, the credit ratings assigned to the borrowers and reflection of the current economic environment in which the borrowers operate.

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant (if any), and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group or their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

When a loan or finance lease receivable is uncollectible, it is written off against the related provision for loan and finance lease impairment. Loans and finance lease receivables are written off on an individual basis at the decision of the Asset Quality Session and ultimately the Board of Directors of the Bank.

If the amount of the provision for loan and finance lease impairment subsequently decreases due to an event occurring after the write-down, the release of the provision is credited to the provision for loan and finance lease impairment in the consolidated income statement.

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the consolidated statement on income, is transferred from the other comprehensive income to the consolidated income statement. Reversals in respect of equity instruments classified as available-for-sale are not recognised in the consolidated income statement. Reversals of impairment losses on debt instruments are reversed through the consolidated income statement if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in the income statement.

(Thousands of Russian Roubles)

3. Summary of accounting policies (continued)

Impairment of financial assets (continued)

Renegotiated loans

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

The accounting treatment of such restructuring is as follows:

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

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

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- ▶ the rights to receive cash flows from the asset have expired;
- ▶ the Bank has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; and
- ▶ the Bank either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Bank has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Bank's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the consolidated income statement.

Financial guarantees

In the ordinary course of business, the Bank gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the consolidated financial statements at fair value, in 'Other liabilities', being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amortised premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

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

(Thousands of Russian Roubles)

3. Summary of accounting policies (continued)

Taxation

The current income tax expense is calculated in accordance with the regulations of the Russian Federation.

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date.

Deferred income tax is not provided on temporary differences arising on investments in subsidiary, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

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

Property and equipment

Property and equipment are carried at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any accumulated impairment. Such cost includes the cost of replacing part of equipment when that cost is incurred if the recognition criteria are met.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Depreciation of an asset begins when it is available for use. Depreciation is calculated on a straight-line basis over the following estimated useful lives of the assets using the following rates:

	<u>per annum, %</u>
Premises	3
Office and computer equipment	20
Intangible assets	20-33

The asset's residual values, useful lives and methods are reviewed, and adjusted as appropriate, at each financial year-end.

Costs related to repairs and renewals are charged when incurred and included in other operating expenses, unless they qualify for capitalization.

Equipment purchased for leasing purposes

The Bank records capital expenditures related to acquisition of equipment subject to leasing as equipment purchased for leasing purposes. These expenditures are accumulated until the equipment is ready for use and being transferred to the lessee.

Settlements on equipment purchased for leasing purposes are recognised when the Bank has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Intangible assets

Intangible assets include computer software and licences.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic lives, not exceeding a period of 5 years, and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets with indefinite useful lives are reviewed at least at each financial year-end.

(Thousands of Russian Roubles)

3. Summary of accounting policies (continued)

Investment property

Investment property is property held to earn rentals or for capital appreciation or both. The investment property is measured at cost less accumulated depreciation and any accumulated impairment.

Repossessed collateral

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

Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Retirement and other employee benefit obligations

The Bank does not have any pension arrangements separate from the State pension system of the Russian Federation, which requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged in the period the related salaries are earned. In addition, the Bank has no significant post-retirement benefits.

Equity

Share capital

Ordinary shares are classified as equity. External costs directly attributable to the issuance of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity.

Share premium

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

Other capital reserve

Funds transferred from the Bank's shareholders' in the form of debt free financing are classified as other capital reserves.

Contingencies and other credit related commitments

Contingent liabilities are not recognised in the consolidated statement of financial position but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognised in the consolidated statement of financial position but disclosed when an inflow of economic benefits is probable.

In the normal course of business, the Bank enters into credit related commitments including letters of credit, guarantees and other commitments (refer to Note 22). Provisions are recorded against credit related commitments when losses are considered probable. Non-performing positions of credit related commitments are individually measured, performing positions are collectively measured using the same methods as for the performing loans and receivables.

Recognition of income and expenses

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

Interest and similar income and expense

Interest income and expense are recorded in the consolidated income statement for all interest bearing instruments on an accrual basis using the effective interest method.

(Thousands of Russian Roubles)

3. Summary of accounting policies (continued)

Recognition of income and expenses (continued)

When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument, but does not consider future credit losses. The calculation includes all fees directly related to the loan issue and points paid or received between the parties to the contract that are an integral part of the effective interest rate, including incremental directly attributable loan origination costs, such as bonuses for loan issue. Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the original effective interest rate applied to the new carrying amount.

Fee and commission income

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

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

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

- ▶ *Fee income from providing transaction services*

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

Foreign currency translation

The consolidated financial statements are presented in Russian Roubles, which is the Bank's functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the consolidated income statement as net foreign exchange translation gains/(losses).

Differences between the contractual exchange rate of a transaction in a foreign currency and the Central Bank exchange rate on the date of the transaction are included in gains less losses from dealing in foreign currencies. The official CBR exchange rates at 31 December 2011 and 2010, were 32.1961 Roubles and 30.4769 Roubles to 1 USD, respectively.

Future changes in accounting policies

Standards and interpretations issued but not yet effective

IFRS 9 Financial Instruments

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

IFRS 10 Consolidated Financial Statements

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

(Thousands of Russian Roubles)

3. Summary of accounting policies (continued)

Future changes in accounting policies (continued)

IFRS 11 Joint Arrangements

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

IFRS 12 Disclosure of Interests in Other Entities

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

IFRS 13 Fair Value Measurement

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

IAS 27 Separate Financial Statements (as revised in 2011)

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

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

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

Amendments to IFRS 7 Financial Instruments: Disclosures

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

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

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

(Thousands of Russian Roubles)

3. Summary of accounting policies (continued)

Future changes in accounting policies (continued)

Amendments to IAS 19 Employee Benefits

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

Amendments to IAS 1 Changes to the Presentation of Other Comprehensive Income

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

Amendment to IFRS 1 Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters

These amendments to IFRS 1, effective for annual periods beginning on or after 1 July 2011, introduce a new deemed cost exemption for entities that have been subject to severe hyperinflation. The Bank expects that these amendments will have no impact on the Bank's financial position.

4. Significant accounting judgments and estimates

The preparation of these consolidated financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent liabilities as at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reported period. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Impairment losses on loans to customers and finance lease receivables

The Bank regularly reviews its loans and receivables to assess impairment. The Bank uses its experienced judgement to estimate the amount of any impairment loss in cases where a borrower is in financial difficulty and there are few available sources of historical data relating to similar borrowers. Similarly, the Bank estimates changes in future cash flows based on the observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans and receivables. The Bank uses its experienced judgment to adjust observable data for a group of loans or receivables to reflect current circumstances. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

In case of economic factors affecting a group of loans, such as country and industry factors, the Bank reevaluates loan impairment even if there is no objective evidence of impairment of an individual loan.

Recoverability of deferred tax assets

As of 31 December 2010, the Bank has recognised a deferred tax asset in the amount of RUB 58 333 thousand that was utilised during the year ended 31 December 2011.

*(Thousands of Russian Roubles)***5. Business combination**

On 11 January 2010 the Bank increased its share capital by RUB 5 083 013 thousand through the issuance of 411 580 ordinary shares with a nominal value of RUB 12 350 per share attributed to Intesa Sanpaolo S.p.A. (Italy), the sole shareholder of ZAO "Banca Intesa". As a result on 11 January 2010 the Bank legally merged with the incorporated bank, 100% Russian banking subsidiary of ISP, without changing its legal form and operating under General Banking License № 2216.

Given this merger represents a business combination involving entities under common control which did not lead to a transfer of control from the ultimate controlling party, the pooling of interests method was applied on the Bank's level. As a result of the merger there is only one ISP banking subsidiary in Russia.

The statement of financial position of the incorporated bank as at the merger date was as follows.

	Carrying amount as at 11 January 2010
Assets	
Cash and cash equivalents	1 547 029
Mandatory cash balances with the Central Bank of the Russian Federation	15 133
Amounts due from credit institutions	1 920 860
Derivative financial assets	23 771
Loans to customers	5 728 735
Property and equipment	332 460
Tax assets other than income tax	220
Other assets	14 019
Total assets	9 582 227
Liabilities	
Amounts due to credit institutions	3 323 374
Derivative financial liabilities	65 421
Amounts due to customers	1 426 145
Current income tax liabilities	16 052
Tax liabilities other than income tax	319
Other liabilities	49 052
Subordinated debt	167 602
Total liabilities	5 047 965
Equity	
Share capital	3 600 000
Retained earnings	934 262
Total equity	4 534 262
Total equity and liabilities	9 582 227

6. Cash and cash equivalents

Cash and cash equivalents comprise:

	2011	2010
Cash on hand	698 088	619 590
Current accounts with the Central Bank	1 908 254	3 016 418
Current accounts and overnight placements with other credit institutions		
- Russian Federation	104 534	234 684
- Other countries	473 281	926 884
Cash and cash equivalents	3 184 157	4 797 576

7. Trading securities

As at 31 December 2011 the Bank had no trading securities. As at 31 December 2010 trading securities amounted to RUB 891 thousand.

(Thousands of Russian Roubles)

8. Amounts due from credit institutions

Amounts due from credit institutions represent short-term and long-term interbank placements with Russian and foreign banks.

As at 31 December 2011 the estimated fair value of due from other banks was RUB 13 970 416 thousand (2010: RUB 8 403 443 thousand).

As at 31 December 2011 and 2010, no allowance has been provided for, as amounts due from credit institutions are deemed of high credit quality.

The movements in allowance for impairment of amounts due from credit institutions were as follows:

	<u>2011</u>	<u>2010</u>
1 January	-	-
Effect of business combination under common control	-	44 422
Recovery for the period	-	(44 422)
	<u>-</u>	<u>-</u>
31 December	<u>-</u>	<u>-</u>

As at 31 December 2011 amounts due from credit institutions included loans in the amount of RUB 5 726 749 thousand placed with six Russian banks (2010: RUB 7 730 882 thousand placed with six Russian banks).

9. Derivative financial assets and liabilities

The Bank enters into derivative financial instruments for trading purposes. The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are not indicative of the credit risk.

	<u>2011</u>			<u>2010</u>		
	<i>Notional amount</i>	<i>Fair values</i>		<i>Notional amount</i>	<i>Fair value</i>	
		<i>Asset</i>	<i>Liability</i>		<i>Asset</i>	<i>Liability</i>
Foreign exchange contracts						
Spot deals – foreign	3 000 000	-	(5 072)	453 331	44	(347)
Spot deals – domestic	481 260	-	(2 224)	467 449	15	(1 074)
Forwards – foreign	1 000 000	-	(31 073)	3 128 278	73 583	-
Forwards – domestic	2 681 022	33 489	(32 284)	2 729 371	3 510	(69 290)
Total derivative financial assets/liabilities		<u>33 489</u>	<u>(70 653)</u>		<u>77 152</u>	<u>(70 711)</u>

Foreign and domestic in the table above stand for counterparties where foreign means non-Russian entities and domestic means Russian entities.

As at 31 December 2011 and 2010, the Bank had positions in the following types of derivatives:

Forwards and spot deals

Forwards and spot deals are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards and spot deals are customised contracts transacted in the MICEX and the over-the-counter market.

(Thousands of Russian Roubles)

10. Loans to customers

Loans to customers comprise:

	<u>2011</u>	<u>2010</u>
Corporate loans	25 829 444	22 642 023
Small loans	17 210 268	16 660 991
Medium loans	12 718 241	11 922 940
Micro loans	8 202 427	10 166 998
Consumer loans	1 777 600	1 514 815
Mortgage	1 623 199	1 057 020
Loans to employees	328 415	391 669
Term loans	67 689 594	64 356 456
Overdrafts	785 852	754 909
Credit Cards	82 526	59 438
Total loans to customers before impairment	68 557 972	65 170 803
Less: Provision for loan impairment	(6 332 034)	(5 451 777)
Total loans to customers	62 225 938	59 719 026

Allowance for impairment

Movements in the provision for loan impairment are as follows:

	<u>2011</u>	<u>2010</u>
Provision for loan impairment as at 1 January	5 451 777	3 845 755
Effect of business combination under common control	–	18 117
Provision charge for loan impairment during the year	923 134	1 697 407
Loans to customers written off during the year as uncollectible	(42 877)	(109 502)
Provision for loan impairment as at 31 December	6 332 034	5 451 777
Individual impairment	6 239 875	5 271 292
Collective impairment	92 159	180 485
	6 332 034	5 451 777

As at 31 December 2011 the total amount of overdue outstanding payments on loans was RUB 7 003 404 thousand (2010: RUB 4 308 526 thousand).

Interest income accrued on loans, for which individual impairment allowances have been recognised, for the year ended 31 December 2011, comprised RUB 233 963 thousand (2010: RUB 219 758 thousand).

Concentration

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

	<u>2011</u>		<u>2010</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Trade	30 414 593	44%	29 608 540	44%
Manufacturing	19 122 225	28%	20 577 125	32%
Services	13 530 827	20%	11 207 287	17%
Individuals	3 811 740	6%	3 022 942	6%
Other	1 678 587	2%	754 909	1%
Total loans to customers (aggregate amount)	68 557 972	100%	65 170 803	100%

The majority of loans to customers have monthly principal and interest repayments. The majority of loans to customers are granted to individual entrepreneurs or to small businesses owned by them as well as to corporate customers.

As at 31 December 2011, the 20 largest borrowers of the Bank each had an aggregate loan amount above RUB 250 330 thousand. The total aggregate amount of these loans was RUB 18 591 144 thousand or 27.1% of the gross loan portfolio, with impairment allowance of RUB 114 546 thousand (2010: the 20 largest borrowers each had an aggregate loan amount above RUB 203 326 thousand and total aggregate amount of RUB 18 995 631 thousand or 29.1% of the gross loan portfolio, with impairment allowance of RUB 61 994 thousand).

(Thousands of Russian Roubles)

10. Loans to customers (continued)**Concentration (continued)**

The Bank accepts property and equipment as collateral for commercial loans, which the Bank is not permitted to sell or re-pledge in the absence of default. Refer to Note 27.

As at 31 December 2011, the estimated fair value of loans to customers was RUB 62 225 938 thousand (2010: RUB 59 719 026 thousand). Refer to Note 28.

During the year, the Bank took possession of the residential and non-residential buildings. As at December 2011, the estimated value of the residential buildings is RUB 20 545 thousand (2010: RUB 20 767 thousand) and the estimated value of the non-residential buildings is RUB 30 317 thousand (2010: 21 594 thousand), which the Bank is deciding on how to proceed with and is not going to use it in operating activity. It is the Bank's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Bank does not occupy repossessed properties for business use. The repossessed collateral is recorded within other assets. Refer to Note 17.

11. Finance lease receivables

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

	<i>Not later than 1 year</i>	<i>Later than 1 year and not later than 5 years</i>	<i>Later than 5 years</i>	<i>Total</i>
Gross investment in finance leases	1 566 874	1 043 810	–	2 610 684
Unearned future finance income on finance leases	(141 949)	(366 793)	–	(508 742)
Net investment in finance leases before impairment	1 424 925	677 017	–	2 101 942
Less: Allowance for impairment	(312 679)	(216 011)	–	(528 690)
Net investment in finance leases	1 112 246	461 006	–	1 573 252

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

	<i>Not later than 1 year</i>	<i>Later than 1 year and not later than 5 years</i>	<i>Later than 5 years</i>	<i>Total</i>
Gross investment in finance leases	1 578 907	1 683 556	23 848	3 286 311
Unearned future finance income on finance leases	(204 300)	(656 554)	(19 809)	(880 663)
Net investment in finance leases before impairment	1 374 607	1 027 002	4 039	2 405 648
Less: Allowance for impairment	(169 937)	(214 555)	(3 158)	(387 650)
Net investment in finance leases	1 204 670	812 447	881	2 017 998

Movements in the impairment loss provision are as follows:

	<i>2011</i>	<i>2010</i>
Impairment loss provision as at 1 January	387 650	311 351
Provision for loss impairment during the year	185 244	76 299
Finance lease receivables written off during the year as uncollectible	(44 204)	–
Impairment loss provision as at 31 December	528 690	387 650
Individual impairment	521 664	366 186
Collective impairment	7 026	21 464
	528 690	387 650

(Thousands of Russian Roubles)

11. Finance lease receivables (continued)

The leased assets are effectively pledged, as the rights to the leased asset revert to the lessor in the event of default. Lease payments are due on a monthly basis. The Bank holds title to the leased property during the lease term. Risks related to the leased property such as damage caused by various reasons, theft and other are generally insured under finance lease agreements.

Interest income accrued on finance lease receivables, for which individual impairment allowances have been recognised, for the year ended 31 December 2011, comprised RUB 8 522 thousand (2010: RUB 11 495 thousand).

As at 31 December 2011 the 20 largest lessees of the Bank each had a finance lease receivable greater than RUB 13 350 thousand. The total aggregate amount of finance lease receivables related to these lease agreements was RUB 560 427 thousand or 26.7% of the total finance lease receivables amount, with impairment allowance of RUB 144 013 thousand (2010: the 20 largest lessees each had a finance lease receivable greater than RUB 13 225 thousand and total aggregate amount of RUB 639 164 thousand or 26.6% of the total finance lease receivables amount, with impairment allowance of RUB 104 200 thousand).

There is no unguaranteed residual value related to lease contracts outstanding as at 31 December 2011 (2010: nil).

The Bank accepts equipment as collateral for finance lease receivables, which the Bank is not permitted to sell or re-pledge in the absence of default. Refer to Note 27.

As at 31 December 2011, the estimated fair value of finance lease receivables was RUB 1 573 252 thousand (2010: RUB 2 017 998 thousand). Refer to Note 28.

12. Available-for-sale securities

Available-for-sale securities comprise:

	<u>2011</u>	<u>2010</u>
Russian State bonds (OFZ)	3 107 720	2 113 418
Corporate bonds	258 572	2 261 752
Corporate shares	4 410	4 410
Available-for-sale securities	<u>3 370 702</u>	<u>4 379 580</u>

As at 31 December 2011 Russian State bonds are Russian Rouble denominated securities issued by the Ministry of Finance of the Russian Federation. Russian State bonds have maturity dates from 11 July 2012 to 24 March 2013, coupon rates from 6.1% to 12.0% per annum and yields to maturity from 6.1% to 6.7% per annum, depending on the bond issue.

As at 31 December 2011 corporate bonds are Russian Rouble denominated securities issued by major Russian companies. Corporate bonds have maturity dates from 13 December 2012 to 9 April 2013, coupon rates from 7.2% to 9.2% per annum and yields to maturity 7.7% per annum, depending on the bond issue.

As at 31 December 2010 Russian State bonds are Russian Rouble denominated securities issued by the Ministry of Finance of the Russian Federation. Russian State bonds have maturity dates from 11 July 2012 to 17 October 2012, coupon rates from 6.1% to 11.3% per annum and yields to maturity from 6.1% to 6.2% per annum, depending on the bond issue.

As at 31 December 2010 corporate bonds are Russian Rouble denominated securities issued by major foreign and Russian banks and companies. Corporate bonds have maturity dates from 21 April 2011 to 13 October 2020, coupon rates from 3.6% to 16.8% per annum and yields to maturity from 4.1% to 7.8% per annum, depending on the bond issue.

(Thousands of Russian Roubles)

13. Property and equipment

The movements in property and equipment were as follows:

	<i>Premises</i>	<i>Office and computer equipment</i>	<i>Total</i>
Cost at 31 December 2009*	35 100	978 687	1 013 787
Accumulated depreciation at 31 December 2009*	(4 972)	(512 988)	(517 960)
Carrying amount at 31 December 2009*	30 128	465 699	495 827
Effect of business combination under common control (net of accumulated depreciation)	326 516	6 825	333 341
Additions	–	93 332	93 332
Disposals (net of accumulated depreciation)	–	(8 250)	(8 250)
Depreciation charge	(14 330)	(173 302)	(187 632)
Impairment		(15 336)	(15 336)
Cost at 31 December 2010	426 028	1 086 723	1 512 751
Accumulated depreciation at 31 December 2010	(83 714)	(717 755)	(801 469)
Carrying amount at 31 December 2010	342 314	368 968	711 282
Additions	15 396	59 627	75 023
Disposals (net of accumulated depreciation)	–	(8 955)	(8 955)
Depreciation charge	(14 289)	(165 856)	(180 145)
Cost at 31 December 2011	441 424	1 075 891	1 517 315
Accumulated depreciation at 31 December 2011	(98 003)	(822 107)	(920 110)
Carrying amount at 31 December 2011	343 421	253 784	597 205

* Figures relative to KMB BANK (CLOSED JOINT-STOCK COMPANY)

As at 31 December 2011 and 31 December 2010 premises are represented by a building in Nizhny Novgorod, acquired at the end of 2004, which was put into use in October 2005; and a building in Moscow, acquired and put into use in December 2004 by the incorporated Bank.

For capital expenditure commitments related to property and equipment refer to Note 23.

14. Intangible assets

The movements in intangible assets were as follows:

	<i>Computer software and licenses</i>
Cost at 31 December 2009*	1 337 120
Accumulated amortisation at 31 December 2009*	(162 845)
Carrying amount at 31 December 2009*	1 174 275
Additions	289 144
Disposals (net of accumulated amortisation)	–
Amortisation	(193 510)
Cost at 31 December 2010	1 626 264
Accumulated amortisation at 31 December 2010	(356 355)
Carrying amount at 31 December 2010	1 269 909
Additions	305 128
Disposals (net of accumulated amortisation)	–
Impairment	(26 716)
Amortisation	(333 326)
Cost at 31 December 2011	1 885 593
Accumulated amortisation at 31 December 2010	(670 598)
Carrying amount at 31 December 2011	1 214 995

* Figures relative to KMB BANK (CLOSED JOINT-STOCK COMPANY)

(Thousands of Russian Roubles)

14. Intangible assets (continued)

As at 31 December 2011 included in intangible assets there was IT software "T 24" amounting to RUB 833 434 thousand (2010: RUB 833 434 thousand). The amortisation of those intangible assets started in August 2010 and amounted to RUB 236 140 thousand as at 31 December 2011 (2010: RUB 69 453 thousand).

Impairment in 2011 represents the software developed for the Bank in prior periods due to the Bank has no plans to use it in its operations

For capital expenditure commitments related to software licenses refer to Note 23.

15. Taxation

The corporate income tax expense comprises:

	<u>2011</u>	<u>2010</u>
Current tax charge	131 693	13 017
Deferred tax charge – origination and reversal of temporary differences	95 734	127 584
Income tax expense	<u>227 427</u>	<u>140 601</u>
	<u>2011</u>	<u>2010</u>
Deferred tax related to items charged or credited to other comprehensive income (Note 22)	213	29 674

Russian legal entities must file individual tax declarations. The tax rate for banks for profits other than on state securities was 20% for 2011 and 2010. The tax rate for companies other than banks was also 20% for 2011 and 2010. The tax rate for interest income on state securities was 15%.

The effective income tax rate differs from the statutory income tax rates. A reconciliation of the income tax expense based on statutory rates with actual is as follows:

	<u>2011</u>	<u>2010</u>
Profit/before tax	1 232 399	562 644
Statutory tax rate	20%	20%
Theoretical tax charge at the applicable statutory rate	<u>246 480</u>	<u>112 529</u>
Tax effect of items which are not deductible and not taxable:		
- Income on government securities taxed at different rates	(11 809)	(4 688)
- Non-deductible expenses	6 484	70 190
- Non-taxable income	–	(16 332)
Change in unrecognised deferred tax asset	(13 728)	(21 098)
Income tax expense	<u>227 427</u>	<u>140 601</u>

Deferred tax assets and liabilities as at 31 December and their movements for the respective years comprise:

	<u>31 December 2010</u>	<u>Movement in the income statement</u>	<u>Movement in other comprehensive income</u>	<u>31 December 2011</u>
Tax effect of deductible temporary differences				
Loans and advances to customers	271 149	4 521	–	275 670
Other assets	126 931	(7 905)	–	119 026
Tax losses carried forward	90 232	(89 747)	–	485
Available-for-sale securities	2 551	17 242	213	20 006
Fair valuation of trading securities	197	(197)	–	–
Fair valuation of forward foreign exchange contracts	–	7 026	–	7 026
Gross deferred tax assets	<u>491 060</u>	<u>(69 060)</u>	<u>213</u>	<u>422 213</u>
Unrecognized deferred tax assets	(14 213)	13 728	–	(485)
Deferred tax assets	<u>476 847</u>	<u>(55 332)</u>	<u>213</u>	<u>421 728</u>
Tax effect of taxable temporary differences				
Finance lease receivable	(213 906)	156 694	–	(57 212)
Provisions for loan and finance lease receivable impairment	(169 114)	(195 630)	–	(364 744)
Premises and equipment	(65 010)	(2 406)	–	(67 416)
Fair valuation of forward foreign exchange contracts	(940)	940	–	–
Gross deferred tax liabilities	<u>(448 970)</u>	<u>(40 402)</u>	<u>–</u>	<u>(489 372)</u>
Net deferred tax asset/(liabilities) which cannot be offset	<u>58 333</u>	<u>(105 973)</u>	<u>213</u>	<u>(47 427)</u>
Net deferred tax liabilities	<u>(30 456)</u>	<u>10 239</u>	<u>–</u>	<u>(20 217)</u>

(Thousands of Russian Roubles)

15. Taxation (continued)

	31 December 2009*	Movement in the income statement	Movement in other comprehensive income	31 December 2010
Tax effect of deductible temporary differences				
Loans and advances to customers	174 891	96 258	–	271 149
Other assets	16 206	110 725	–	126 931
Tax losses carried forward	269 685	(179 453)	–	90 232
Available-for-sale securities	–	–	2 551	2 551
Fair valuation of trading securities	–	197	–	197
Premises and equipment	51 076	(51 076)	–	–
Fair valuation of forward foreign exchange contracts	268	(268)	–	–
Gross deferred tax assets	512 126	(23 617)	2 551	491 060
Unrecognized deferred tax assets	(35 311)	21 098	–	(14 213)
Deferred tax assets	476 815	(2 519)	2 551	476 847
Tax effect of taxable temporary differences				
Finance lease receivable	(290 831)	76 925	–	(213 906)
Provisions for loan and finance lease receivable impairment	(53 123)	(115 991)	–	(169 114)
Premises and equipment	–	(65 010)	–	(65 010)
Fair valuation of forward foreign exchange contracts	–	(940)	–	(940)
Available-for-sale securities (without fair value)	(4 899)	(22 224)	27 123	–
Fair valuation of trading securities	(2 176)	2 176	–	–
Gross deferred tax liabilities	(351 029)	(125 064)	27 123	(448 970)
Net deferred tax assets which cannot be offset against deferred tax liabilities	170 267	(141 608)	29 674	58 333
Net deferred tax liabilities	(44 481)	14 025	–	(30 456)

* Figures relative to KMB BANK (CLOSED JOINT-STOCK COMPANY)

The Bank standalone and its subsidiary calculated net deferred tax liability and net deferred tax asset which were attributable to net deferred tax position in the respective entity of the Group.

The standalone Bank has no tax loss carry forwards as at 31 December 2011 (2010: RUB 380 097 thousand).

The Bank's subsidiary has available RUB 1 299 thousand of tax loss carry forwards as at 31 December 2011 (2010: RUB 71 064 thousand) which begin to expire in 2019, if not utilised.

16. Other impairment and provisions

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

	Property and equipment	Intangible assets	Other assets	Credit related commitments	Provision for other risks and charges	Total
31 December 2009*	–	–	–	–	–	–
Effect of business combination under common control	–	–	–	15 932	–	15 932
Charge/(reversal)	15 336	–	–	(5 657)	–	9 679
Write-offs	(15 336)	–	–	–	–	(15 336)
31 December 2010	–	–	–	10 275	–	10 275
Charge/(reversal)	–	26 716	31 321	(490)	15 000	72 547
Write-offs	–	(26 716)	(10 699)	–	–	(37 415)
31 December 2011	–	–	20 622	9 785	15 000	45 407

* Figures relative to KMB BANK (CLOSED JOINT-STOCK COMPANY)

Allowance for impairment of assets is deducted from the carrying amounts of the related assets. Provisions for claims, guarantees and commitments are recorded in liabilities.

*(Thousands of Russian Roubles)***17. Other assets and liabilities**

Other assets comprise:

	2011	2010
Leasehold improvements	266 998	320 202
Settlements on currency conversion operations	193 394	184 892
Prepayments	133 662	124 591
Repossessed collateral (refer to Note 10)	125 472	47 039
Settlements with suppliers and customers	92 721	135 066
Deferred expenses	35 602	17 102
Guarantee claims	20 598	539
Other	56 601	57 625
Other assets before impairment	925 048	887 056
Less: Allowance for impairment	(20 622)	–
Other assets	904 426	887 056

Other liabilities comprise:

	2011	2010
Settlements with suppliers and customers	166 360	172 367
Trade creditors	164 068	189 181
Settlements with employees	122 431	55 202
Provision for other risks and charges	15 000	–
Provision for losses on credit related commitments	9 785	10 275
Other	36 690	22 772
Other liabilities	514 334	449 797

18. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	2011	2010
Time deposits and loans	36 705 630	35 452 550
Current accounts	1 141 319	1 179 084
Amounts due to credit institutions	37 846 949	36 631 634

The term placements of banks as at 31 December 2011 and 31 December 2010 are represented by four short-term placements of Russian banks and five short-term and twelve long-term placements of international banks.

As at 31 December 2011, the estimated fair value of due to banks was RUB 37 846 949 thousand (2010: RUB 36 631 634 thousand). Refer to Note 28.

19. Amounts due to customers

The amounts due to customers include the following:

	2011	2010
State and non-profit organisations		
- current/settlement accounts	111 805	139 598
- term deposits	10 430	42 671
Other legal entities		
- current/settlement accounts	10 303 674	9 528 953
- term deposits	4 537 994	3 291 474
Individuals		
- current/demand accounts	1 252 711	1 102 861
- term deposits	3 535 383	3 495 461
Total due to customers	19 751 997	17 601 018

State and non-profit organisations exclude government-owned profit oriented businesses.

(Thousands of Russian Roubles)

19. Amounts due to customers (continued)

As at 31 December 2011, the 20 largest customers of the Bank each had a balance greater than RUB 94 926 thousand. The aggregate balance of these customers was RUB 6 937 967 thousand or 35.1% of total customer accounts (2010: the 20 largest customers each had a balance greater than RUB 130 007 thousand and aggregate balance of RUB 5 933 232 thousand or 33.7% of total customer accounts).

As at 31 December 2011, included in time deposits are deposits of individuals in the amount of RUB 3 535 383 thousand (2010: RUB 3 495 461 thousand). In accordance with the Russian Civil Code, the Bank is obliged to repay such deposits upon demand of a depositor. In case a term deposit is repaid upon demand of the depositor prior to maturity, interest on it is paid based on the interest rate for demand deposits, unless a different interest rate is specified in the agreement.

As at 31 December 2011, the estimated fair value of customer accounts was RUB 19 751 997 thousand (2010: RUB 17 601 018 thousand). Refer to Note 27.

20. Other borrowed funds

Other borrowed funds represent long-term loans from non-resident companies with the aim to finance the lending operations of the Bank.

As at 31 December 2011 and 31 December 2010 these long-term loans mature in 2012-2015, some loans have fixed annual interest rates varying from 2.8% to 7.6% per annum, and others have floating annual interest rates varying from 6-month LIBOR+0.4% to 6-month LIBOR+2.0% and 3-month LIBOR+1.3% per annum.

As at 31 December 2011 the estimated fair value of other borrowed funds was RUB 14 793 731 thousand (2010: RUB 14 206 988 thousand). Refer to Note 28.

21. Subordinated debt

As at 31 December 2011 and 31 December 2010, subordinated debt consists of four loans from non-resident companies, two of which are the shareholders of the Bank. These subordinated loans are denominated in US dollars and mature between August 2012 and December 2015. The interest rates for these subordinated loans vary from 3-month LIBOR+1.6% to 3-month LIBOR+3.5% and from 6-month LIBOR+1.5% to 6-month LIBOR+4.0% per annum.

The claims of the Bank's creditor on subordinated debt shall only be satisfied after all claims of other creditors of the Bank are satisfied in full.

As at 31 December 2011, the estimated fair value of subordinated debt was RUB 695 671 thousand (2010: RUB 658 244 thousand). Refer to Note 28.

22. Equity

Movements in shares outstanding, issued and fully paid were as follows:

	Number of shares	Nominal amount	Inflation adjustment	Total
	Ordinary	Ordinary		
31 December 2009*	464 548	5 737 168	1 051 898	6 789 066
Increase in share capital	411 580	5 083 013	–	5 083 013
Reclassification of hyperinflation effect from share capital to retained earnings	–	–	(1 051 898)	(1 051 898)
31 December 2010	876 128	10 820 181	–	10 820 181

* Figures relative to KMB BANK (CLOSED JOINT-STOCK COMPANY)

There were no movements in share capital during 2011.

All ordinary shares have a nominal value of RUB 12 350 per share, rank equally and carry one vote.

(Thousands of Russian Roubles)

22. Equity (continued)

In accordance with the Charter the share capital of the merged bank totals RUB 10 820 181 thousand. The share capital was formed by:

- 1) the share capital of KMB Bank CJSC, the incorporating Bank, in the amount RUB 5 737 168 thousand;
- 2) the share capital of ZAO Banca Intesa, the incorporated Bank, in the amount of RUB 3 600 000 thousand;
- 3) the share premium of KMB Bank CJSC in the amount of RUB 84 041 thousand and
- 4) undistributed profits of merged banks in the amount of RUB 1 398 972 thousand.

In accordance with the accounting policies selected for the business combination under common control, following the legal merger with ZAO Banca Intesa, the Bank reclassified the IAS 29 hyperinflation effect of RUB 1 051 898 thousand from the "Share capital" and of RUB 141 thousand from "Share premium" to "Retained earnings/(accumulated deficit)" in the Consolidated statement of financial position.

Other capital reserve

As at 31 December 2011 and 31 December 2010 other capital reserve in the amount of RUB 1 803 914 thousand (or 41 400 000 Euro) represents funds transferred in June 2009 to the Bank by the Bank's shareholder Intesa Sanpaolo Holding International SA in the form of debt free financing. These funds are not repayable to the Bank's shareholder.

Movements in reserve for unrealised gains/(losses) on available-for-sale securities

	<i>Unrealised gains/(losses) on available-for- sale securities</i>
At 31 December 2009*	11 502
Net unrealised gains on available-for-sale securities	91 713
Gains on available-for-sale securities reclassified to the profit/(loss) for the year	(143 093)
Tax effect of net gains on available-for-sale securities	29 674
At 31 December 2010	(10 204)
Net unrealised gains on available-for-sale securities	4 260
Gains on available-for-sale securities reclassified to the profit/(loss) for the year	(5 323)
Tax effect of net gains on available-for-sale securities	213
At 31 December 2011	(11 054)

* Figures relative to KMB BANK (CLOSED JOINT-STOCK COMPANY)

Reserve for unrealised gains/(losses) on available-for-sale securities records fair value changes on available-for-sale securities.

Retained earnings / (Accumulated losses)

In accordance with Russian Accounting Legislation ("RAL"), the Bank distributes profits as dividends or transfers them to reserves (fund accounts) on the basis of accounting reports prepared in accordance with RAL. The Bank's reserves under RAL as at 31 December 2011 were RUB 1 163 763 thousand (non-inflated) (2010: RUB 614 171 thousand (non-inflated)).

Statutory general reserve

The statutory general reserve is created as required by the regulations of the Russian Federation, 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 the creation of a reserve for these purposes of not less than 5% of the Bank's share capital reported in accordance with RAL.

Operating environment

Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government. The Russian economy has been affected by the global financial crisis. Despite some indications of recovery there continues to be uncertainty regarding further economic growth, access to capital and cost of capital, which could negatively affect the Group's future financial position, results of operations and business prospects.

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

*(Thousands of Russian Roubles)***23. Commitments and contingencies****Legal**

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

Taxation

Major part of the Bank's business activity is carried out in the Russian Federation. Russian tax, currency and customs legislation as currently in effect is vaguely drafted and is subject to varying interpretations, selective and inconsistent application and changes, which can occur frequently, at short notice and may apply retrospectively. Management's interpretation of such legislation as applied to the transactions and activity of the Bank may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in their interpretation and application of this legislation and assessments., It is therefore possible that transactions and activities of the Bank that have not been challenged in the past may be challenged at any time in the future. As a result, significant additional taxes, penalties and interest may be assessed by the relevant authorities. Fiscal periods remain open and subject to review by the tax authorities for a period of three calendar years immediately preceding the year in which the decision to conduct a tax review is taken. Under certain circumstances tax reviews may cover longer periods.

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

As at 31 December 2011 management believes that its interpretation of the relevant legislation is appropriate and that the Bank's tax, currency and customs positions will be sustained. The field tax audit held in 2011 for taxes calculated and paid by the bank in 2009 resulted in the dispute between the Bank and tax authorities. The reason of dispute comes from not clear legislation rules on calculating the limit of interest expense for tax purposes. According to the tax authorities' opinion the Bank overstated interest expense in tax accounts for the amount of RUB 207 303 thousand (impact of on income tax is RUB 41 461 thousand). The Bank assessed the risk of additional tax payment charge and believes no provision is required in this relation.

Commitments and contingencies

As at 31 December the Bank's commitments and contingencies comprised the following:

	2011	2010
Credit related commitments		
Guarantees	6 366 236	4 803 455
Undrawn overdraft loan commitments	1 800 438	1 254 731
Undrawn credit line commitments	1 098 844	–
Letters of credit	319 468	629 280
Commitments to extend credit	84 214	104 683
	9 669 200	6 792 149
Operating lease commitments		
Later than 1 year but not later than 5 years	850 625	1 034 815
Not later than 1 year	561 543	597 149
Later than 5 years	119 278	–
	1 531 446	1 631 964
Capital expenditure commitments – property and equipment	14 546	16 999
Capital expenditure commitments – intangible assets	3 000	–
	17 546	16 999
Other commitments and contingencies	16 489	–
Less – Provisions	(9 785)	(10 275)
Commitments and contingencies	11 224 896	8 430 837

(Thousands of Russian Roubles)

23. Commitments and contingencies (continued)

Credit related commitments

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

In 2011 the Bank launched the new product "committed credit line". Commitments to extend credit and unused limits on overdraft and other loans represent unused irrevocable portions of authorisations to extend credit in the form of loans. With respect to credit risk on commitments to extend credit and unused limits on overdraft and other loans, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely loss is less than the total unused commitments since most unused limits on overdraft and other loans are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of credit related commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

The total outstanding contractual amount of unused limits on overdraft and other loans, import letters of credit and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded.

Operating lease commitments

As at 31 December 2011 within total operating lease commitments, RUB 497 931 thousand relates to an operating lease of the Bank's head office premise at 1A Semenovskaya sq., Moscow, and an additional offices at 11/19 Valovaya st., Moscow, 49 Oktyabrskaya st., Novosibirsk, and 29A Pobedy Prospekt, Lipetsk (2010: RUB 346 628 thousand relates to an operating lease of the Bank's head office premise at 1A Semenovskaya sq., Moscow, and an additional offices at 11/19 Valovaya st., Moscow, and 6 Nesebrskaya st., Sochi). The Bank has preferential right to renewal of these rent agreements upon expiration of lease. The contracts have provision for an increase in rent fee in the event of an increase in costs such as public utilities, electricity and telecommunication. None of these agreements has purchase options.

As at 31 December 2011, the Bank had 94 lease agreements (2010: 92). Operating lease commitments under extended agreements are accounted for in the table above. The extension of the remaining short-term agreements is currently being negotiated.

Insurance

The Bank's premises and other property are insured for the total amount of RUB 6 230 743 thousand as at 31 December 2011 (2010: RUB 6 102 495 thousand).

The Bank has not currently obtained insurance coverage related to liabilities arising from errors or omissions. Liability insurance is generally not available in Russia at present.

Assets pledged and restricted

As at 31 December 2011 there were no assets pledged as collateral. As at 31 December 2011 mandatory cash balances with the Central Bank of the Russian Federation in the amount of RUB 429 886 thousand (2010: RUB 192 456 thousand) represent mandatory reserve deposits which are not available to finance the Bank's day to day operation.

As at 31 December 2011 available-for-sale securities in the amount of RUB 2 103 618 thousand were eligible for pledge within the limit of refinancing from CBR (2010: RUB 724 500 thousand). As at 31 December 2011 the Bank had no loans from CBR therefore the eligible available-for-sale securities were not pledged (2010: nil).

*(Thousands of Russian Roubles)***24. Net fee and commission income**

Net fee and commission income comprises:

	<u>2011</u>	<u>2010</u>
Fee and commission income		
Commission on settlement transactions	291 964	255 920
Commission on cash transactions	190 508	165 838
Commission for accounts remote administration	104 220	76 665
Guarantees issued	101 688	94 912
Commission on lending transactions	65 059	94 860
Other	45 368	28 690
Total fee and commission income	<u>798 807</u>	<u>716 885</u>
Fee and commission expense		
Commission on settlement transactions	71 044	53 972
Commission on guarantees received	67 526	32 020
Commission on cash collection	19 199	20 754
Participation in deposit insurance program charge	17 164	19 975
Other	1 065	8 182
Total fee and commission expense	<u>175 998</u>	<u>134 903</u>
Net fee and commission income	<u><u>622 809</u></u>	<u><u>581 982</u></u>

Included in commission on lending transactions are fees and commissions charged during the life of the loan, for example, commission for amendments to the original terms and conditions of the loan agreement; commission for loan repayment prior to maturity and commission for information letters to the borrower.

25. Losses net of gains from other operating activities

	<u>2011</u>	<u>2010</u>
Depreciation of capital expenditures (leased buildings)	(103 134)	(102 666)
Expenses on operations of prior years	(14 204)	(9 931)
Loss on disposal of property and equipment	(10 839)	(13 011)
Expenses for services provided to Treasury	(9 885)	(5 235)
Notarial expenses, state duties, insurance	(6 178)	(9 902)
Net result on leasing disposal	12 069	(91 635)
Net other operating income	6 547	24 224
Net losses from other operating activities	<u><u>(125 624)</u></u>	<u><u>(208 156)</u></u>

26. Personnel and other operating expenses

Personnel and other operating expenses comprise:

	<u>2011</u>	<u>2010</u>
Salaries and bonuses	1 445 551	1 349 305
Social security costs	273 842	198 875
Personnel expenses	<u>1 719 393</u>	<u>1 548 180</u>
Operating lease expense	625 186	652 541
Legal and consultancy	263 543	287 304
Data processing	196 324	167 351
Communications	105 015	115 921
Office supplies	97 888	97 228
Security	60 580	56 056
Operating taxes	53 552	58 535
Insurance	48 319	51 936
Marketing and advertising	46 359	127 431
Repair and maintenance of property and equipment	33 651	25 186
Business travel and related	24 893	24 149
Charity	12 423	27 449
Personnel training	8 310	31 142
Other	67 095	72 286
Other operating expenses	<u><u>1 643 138</u></u>	<u><u>1 794 515</u></u>

(Thousands of Russian Roubles)

27. Risk management

Risk is inherent in the Bank's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. It is also subject to operating risks.

Risk management is the identification, measurement and monitoring process of risk, conducted in accordance with particular organisational and functional structure of the Bank and established for the correct management of the risk appetite expressed by the shareholders.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Bank's strategic planning process.

The Bank has the risk management function to preserve and enhance value for shareholders by optimizing the overall risk-adjusted return subject to growth constraint and to reduce earnings volatility within the main business areas.

The definition of the risk governance system is based on the following general principles:

- ▶ **Independence** of Risk Management function from the Business Lines;
- ▶ **Enterprise wide approach** in tools, locations and risk;
- ▶ **Coherence** at all aggregation levels through the use of consistent measuring models;
- ▶ **Timing** in the production of data to support the decision-making and control process;
- ▶ **Transparency** in assessment methodologies and criteria used for a better understanding of applied risk measures;
- ▶ **Empowerment** in the power definitions delegated and the consequent limit structure among Board of Directors, CEO, Divisions and Departments.

These are considered fundamental principles of governance rules with reference to the characteristics of internal management and control system.

Risk management structure

The Board of Directors is ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks.

Board of Directors

The Board of Directors is responsible for the overall risk management approach and for approving risk strategies and principles, including setting a framework for limit structure of the Bank.

Management Board

The Management Board has the responsibility to monitor the overall risk process within the Bank.

Risk Management Group

The Risk Management Group is responsible for implementing and maintaining risk related procedures to ensure an independent control process.

Financial Risks Committee

The Financial Risks Committee has the responsibility to protect the Bank's equity and its allocation, to harmonise assets and liabilities of the Bank taking into consideration pricing structure and maturity profile, in compliance with the legislation or relevant internal regulations as well as Intesa Sanpaolo Group guidelines. The Financial Risks Committee performs regular monitoring and evaluation of the structure of statement of financial position, yield expectations versus actual business, evaluation of the general market conditions; assessment of the Bank versus its competitors, approval of the terms and conditions of new financial products, or amendment of the terms and conditions of existing products, definition of the interest rate, liquidity, currency and operational risk management policies and limits, coherently with Intesa Sanpaolo Group regulations, monitors limits' compliance (internal and external requirements).

(Thousands of Russian Roubles)

27. Risk management (continued)

Risk management structure (continued)

Bank's Treasury

The Bank's Treasury is responsible for managing the Bank's assets and liabilities and the overall financial structure. It is also primarily responsible for the funding of the Bank and liquidity risks' management.

Internal Audit

Risk management processes throughout the Bank are audited annually by the Internal Audit Department, that examines both the adequacy of the procedures and the Bank's compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Audit Committee.

Risk measurement and reporting systems

Monitoring and controlling of risks is primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept, with additional emphasis on selected industries. In addition the Bank monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risks types and activities.

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Management Board, Financial Risks Committee and the head of each business division. The report includes aggregate credit exposure, credit metric forecasts, hold limit exceptions, VaR, liquidity ratios and risk profile changes. On a monthly basis detailed reporting of industry, customer and geographic risks takes place. Senior management assesses the appropriateness of the allowance for credit losses on a monthly basis. The Board of Directors receives a comprehensive risk report once a quarter which is designed to provide all the necessary information to assess and conclude on the risks of the Bank.

For all levels throughout the Bank, specifically tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, necessary and up-to-date information.

A daily briefing is given to the Management Board and all other relevant employees of the Bank on the utilisation of market risk limits, sensitivity analysis, proprietary investments and liquidity, plus any other risk developments.

Risk mitigation

As part of its overall risk management, the Bank uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, and exposures arising from forecast transactions.

The Bank actively uses collateral to reduce its credit risks (see below for more detail).

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risks, the Bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

Credit risk

Credit Risk is the risk of loss due to counterparties in lending activity failing to fulfil their contractual obligations and arrangements; risk of loss arising from failure of counterparties to settle the positive revaluation of derivative contracts and repurchase agreements or repossession of collateral.

The Bank is exposed to credit risk which is the risk that a counterparty will be unable to pay all amounts in full when due. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and considering geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. Limits on the level of credit risk by product and geographical sector are established and regularly reviewed by the Management Board, when limits on borrower, aggregate large exposures are approved regularly by the Board of Directors.

*(Thousands of Russian Roubles)***27. Risk management (continued)****Credit risk (continued)**

The exposure to any one borrower, including banks, is further restricted by sub-limits covering on and off-balance sheet exposures and daily delivery risk limits. Actual exposures against limits are monitored daily.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and principal repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed, in part, by obtaining collateral and corporate and personal guarantees.

Derivative financial instruments

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the statement of financial position.

Credit-related commitments risks

The Bank makes available to its customers guarantees which may require that the Bank makes payments on their behalf. Such payments are collected from customers based on the terms of the letter of credit. They expose the Bank to similar risks as loans and these are mitigated by the same control processes and policies.

The table below shows the reconciliation of provision movement for loans to customers, by class:

	<i>Loans to legal entities/ individual entrepreneurs</i>	<i>Loans to individuals</i>	<i>Total</i>
Balance as at 1 January 2010	2 049 778	1 795 977	3 845 755
Effect of business combination under common control	18 117	–	18 117
Provision for loan impairment during the year	1 249 145	448 262	1 697 407
Loans and advances to customers written off during the year as uncollectible	(50 569)	(58 933)	(109 502)
Balance as at 31 December 2010	3 266 471	2 185 306	5 451 777
Provision for loan impairment during the year	837 112	86 022	923 134
Loans and advances to customers written off during the year as uncollectible	(42 006)	(871)	(42 877)
Balance as at 31 December 2011	4 061 577	2 270 457	6 332 034

The maximum exposure to credit risk for the components of the consolidated statement of financial position, including derivatives. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements is the best represented by their carrying amounts.

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

For more detail on the maximum exposure to credit risk for each class of financial instrument, references shall be made to the specific notes. The effect of collateral and other risk mitigation techniques is shown in Note 10.

(Thousands of Russian Roubles)

27. Risk management (continued)**Credit risk (continued)**

The credit quality of financial assets is managed by the Bank's internal credit ratings. The tables below show the credit quality by class of asset for loan-related lines in the statement of financial position, based on the Bank's credit rating system.

	2011			2010		
	<i>Loans and receivables to legal entities/ individual entrepreneurs</i>	<i>Loans and receivables to individuals</i>	<i>Total</i>	<i>Loans and receivables to legal entities/ individual entrepreneurs</i>	<i>Loans and receivables to individuals</i>	<i>Total</i>
Loans and advances:						
1. Neither past due nor impaired:						
1.1. Standard	21 932 540	315 592	22 248 132	22 002 642	246 461	22 249 103
1.2. Non-standard Group 1	30 319 930	4 261 798	34 581 728	28 585 560	4 173 640	32 759 200
1.3. Non-standard Group 2	2 746 508	131 474	2 877 982	1 561 184	63 661	1 624 845
1.4. Non-standard Group 3	233 751	106	233 857	385 908	453	386 361
1.5. Non-standard Group 4	294 593	28	294 621	433 285	4 709	437 994
2. Past due but not impaired	334 137	83 300	417 437	397 935	191 010	588 945
3. Impaired	5 543 111	2 361 104	7 904 215	4 844 818	2 279 537	7 124 355
Gross	61 404 570	7 153 402	68 557 972	58 211 332	6 959 471	65 170 803
Less: allowance for impairment	(4 061 577)	(2 270 457)	(6 332 034)	(3 266 471)	(2 185 306)	(5 451 777)
Net	57 342 993	4 882 945	62 225 938	54 944 861	4 774 165	59 719 026

	2011	2010
Finance lease receivables:		
1. Neither past due nor impaired:	1 477 229	1 941 357
2. Past due but not impaired	56 079	81 030
3. Impaired	568 634	383 261
Gross	2 101 942	2 405 648
Less: allowance for impairment	(528 690)	(387 650)
Net	1 573 252	2 017 998

	2011	2010
Amounts due from credit institutions:		
1. Neither past due nor impaired:	13 970 416	8 403 443
1.1. Standard	13 970 416	8 403 443
1.2. Non-standard Group 1	—	—
1.3. Non-standard Group 2	—	—
1.4. Non-standard Group 3	—	—
1.5. Non-standard Group 4	—	—
2. Past due but not impaired	—	—
3. Impaired	—	—
Gross	13 970 416	8 403 443
Less: allowance for impairment	—	—
Net	13 970 416	8 403 443

Category 3, impaired loans, is comprised of loans which are both considered impaired and individually assessed for impairment.

Categories 1 and 2 are not considered individually impaired and are collectively assessed for impairment.

Loans classified into Category 1 "Neither past due nor impaired" are subdivided additionally basing on professional judgement in accordance with risk factors into five groups (Standard, Non-standard Group 1, Non-standard Group 2, Non-standard Group 3 and Non-standard Group 4).

(Thousands of Russian Roubles)

27. Risk management (continued)**Credit risk (continued)**

An analysis of past due but not individually impaired loans, by age, is provided below.

	2011			2010		
	<i>Past due but not individually impaired loans to customers</i>			<i>Past due but not individually impaired loans to customers</i>		
	<i>Loans and receivables to legal entities/ individual entrepreneurs</i>	<i>Loans and receivables to individuals</i>	<i>Total</i>	<i>Loans and receivables to legal entities/ individual entrepreneurs</i>	<i>Loans and receivables to individuals</i>	<i>Total</i>
Past due up to 30 days	288 292	50 447	338 739	311 666	119 908	431 574
Past due 30-60 days	26 259	15 468	41 727	56 222	42 378	98 600
Past due 60-90 days	19 586	12 663	32 249	30 047	23 889	53 936
Past due 90-180 days	–	4 722	4 722	–	4 835	4 835
Past due over 180 days but less than 1 year	–	–	–	–	–	–
Past due over 1 year	–	–	–	–	–	–
Total	334 137	83 300	417 437	397 935	191 010	588 945

	<i>Past due but not individually impaired finance lease receivables</i>	
	2011	2010
Past due up to 30 days	46 355	54 734
Past due 30-60 days	7 399	17 460
Past due 60-90 days	2 325	8 836
Total	56 079	81 030

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- ▶ For commercial lending, charges over real estate properties, inventory and trade receivables, equipments and guarantees,
- ▶ For retail lending, mortgages over residential properties.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for loan impairment.

Impairment assessment

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than 30 days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Bank addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

Individually assessed allowances

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

(Thousands of Russian Roubles)

27. Risk management (continued)**Credit risk (continued)***Collectively assessed allowances*

Allowances are assessed collectively for losses on loans to customers that are not individually significant (including credit cards, residential mortgages and unsecured consumer lending) and for individually significant loans where there is not yet objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is no yet objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration of the following information: historical losses on the portfolio, current economic conditions, the appropriate delay between the time a loss is likely to have been uncured and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired. Local management is responsible for deciding the length of this period which can extend for as long as one year. The impairment allowance is then reviewed by credit management to ensure alignment with the Bank's overall policy.

Financial guarantees and letters of credit are assessed and provision made in a similar manner as for loans.

Geographical risk

The geographical concentration of Bank's assets and liabilities is set out below:

	2011			Total
	Russia	OECD	CIS and other	
Assets:				
Cash and cash equivalents	2 710 876	473 281	–	3 184 157
Mandatory cash balances with the Central Bank of the Russian Federation	429 886	–	–	429 886
Amounts due from credit institutions	5 926 771	8 043 645	–	13 970 416
Derivative financial assets	33 489	–	–	33 489
Loans to customers	60 734 205	15 220	1 476 513	62 225 938
Finance lease receivables	1 573 252	–	–	1 573 252
Available-for-sale securities	3 370 702	–	–	3 370 702
Property and equipment	597 205	–	–	597 205
Intangible assets	1 214 995	–	–	1 214 995
Current income tax assets	139 331	–	–	139 331
Tax assets other than income tax	68 504	–	–	68 504
Other assets	445 622	458 599	205	904 426
	77 244 838	8 990 745	1 476 718	87 712 301
Liabilities:				
Amounts due to credit institutions	3 621 816	34 224 953	180	37 846 949
Derivative financial liabilities	34 508	36 145	–	70 653
Amounts due to customers	18 553 287	1 083 910	114 800	19 751 997
Other borrowed funds	–	14 793 731	–	14 793 731
Current income tax liabilities	3 366	–	–	3 366
Deferred income tax liabilities	67 644	–	–	67 644
Tax liabilities other than income tax	157 538	–	–	157 538
Other liabilities	417 842	96 492	–	514 334
Subordinated debt	–	695 671	–	695 671
	22 856 001	50 930 902	114 980	73 901 883
Net assets/(liabilities)	54 388 837	(41 940 157)	1 361 738	13 810 418
Credit related commitments	9 213 829	4 626	450 745	9 669 200

Assets, liabilities and credit related commitments have been based on the country in which the counterparty is performing its' business activities. Cash on hand and property and equipment have been allocated based on the country in which they are physically held. The Bank's operations include transactions with counterparties registered in OECD countries, primarily Italy, Luxemburg, Germany, United States, United Kingdom.

*(Thousands of Russian Roubles)***27. Risk management (continued)****Geographical risk (continued)**

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

	<i>Russia</i>	<i>OECD</i>	<i>CIS and other</i>	<i>Total</i>
Net assets/(liabilities)	63 190 533	(50 059 876)	(324 361)	12 806 296
Credit related commitments	5 969 354	16 133	806 662	6 792 149

Liquidity risk

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

Liquidity risk relates to the ability of the Bank to repay short-term borrowings with new borrowings or assets that can be converted into cash in a timely manner at a reasonable price while meeting its obligations and continuing to operate as a going concern. The Bank's Liquidity Risk can be decomposed in two parts:

- ▶ **Cash-flow risk** – the risk of financial loss or loss of the Bank's financial stability due to deficiency of cash or its equivalents to cover demand for asset funding and settlement of liabilities as well as due to the necessity to raise funds at high interest rates;
- ▶ **Market liquidity risk** – the risk of financial loss entailing disposition of assets at less than fair value because of lack of volume of market operations.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Bank and its exposure to changes in interest and exchange rates.

Liquidity risk is defined as the risk when the maturity of assets and liabilities does not match. The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw downs, guarantees and from margin and other calls on cash settled derivative instruments. The Bank does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. Thus the Bank's liquidity management framework is intended to maximise liquidity access and preserve stable, reliable and cost-effective sources of funding with the desired maturity profile and interest rate characteristics. Liquidity is managed by the Treasury Department under supervision of the Financial Risks Committee within the limits established by the Board of Directors of the Bank. Risk Management holds a key role in liquidity risk monitoring and reporting. Management of operational liquidity involves a day-to-day monitoring of the Bank's current payment position and the analysis of short-term net funding requirements (forecasting future cash flows based on assumptions of the future behaviour of assets, liabilities and off-balance-sheet items, cash flows in derivatives, etc). Management of strategic liquidity represents procedures with the object of securing a sufficient level of the Bank's financial soundness and meeting its obligations when they come due, depending on future market conditions and business trends. It involves construction of a maturity ladder to reveal potential asset-liability mismatches over a series of specified time periods.

The liquidity position is assessed and managed by the Bank primarily on a standalone basis, based on certain liquidity ratios established by the CBR. As at 31 December, these ratios were as follows:

	<i>CBR required ratio value</i>	<i>2011, %</i>	<i>2010, %</i>
N2 "Instant Liquidity Ratio" (assets receivable or realisable within one day / liabilities repayable on demand)	Min. 15%	51.3	65.5
N3 "Current Liquidity Ratio" (assets receivable or realisable within 30 days / liabilities repayable within 30 days)	Min. 50%	85.6	79.0
N4 "Long-Term Liquidity Ratio" (assets receivable in more than one year / sum of capital and liabilities repayable in more than one year)	Max. 120%	102.4	117.1

(Thousands of Russian Roubles)

27. Risk management (continued)**Liquidity risk (continued)**

The table below shows assets and liabilities as at 31 December 2011 by their remaining contractual maturity, unless there is evidence that any of these assets are impaired and will be settled after their contractual maturity dates, in which case the expected date of settlement is used. Some of the assets and liabilities, however, may be of a longer term nature; for example, loans are frequently renewed and accordingly short term loans can have a longer term duration.

	On demand	Less than 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Overdue and no stated maturity	Total
Assets								
Cash and cash equivalents	3 184 157	–	–	–	–	–	–	3 184 157
Mandatory cash balances with the Central Bank of the Russian Federation	255 616	66 472	22 401	61 964	23 264	169	–	429 886
Amounts due from credit institutions	–	9 919 457	–	805 732	3 245 227	–	–	13 970 416
Derivative financial assets	–	283	33 206	–	–	–	–	33 489
Loans to customers	123 846	1 858 360	5 366 277	16 688 337	29 741 570	2 314 790	6 132 758	62 225 938
Finance lease receivables	–	325 852	182 459	603 935	461 006	–	–	1 573 252
Available-for-sale securities	–	3 366 292	–	–	–	–	4 410	3 370 702
Property and equipment	–	–	–	–	–	–	597 205	597 205
Intangible assets	–	–	–	–	–	–	1 214 995	1 214 995
Current income tax assets	–	–	–	139 331	–	–	–	139 331
Tax assets other than income tax	–	54 504	–	14 000	–	–	–	68 504
Other assets	40 483	253 978	104 618	41 234	91 700	–	372 413	904 426
Total assets	3 604 102	15 845 198	5 708 961	18 354 533	33 562 767	2 314 959	8 321 781	87 712 301
Liabilities								
Amounts due to credit institutions	1 141 319	5 608 520	4 005 310	10 460 762	16 631 038	–	–	37 846 949
Derivative financial liabilities	–	44 316	26 337	–	–	–	–	70 653
Amounts due to customers	11 744 823	3 054 187	1 029 283	2 847 057	1 068 926	7 721	–	19 751 997
Other borrowed funds	–	–	–	2 580 866	12 212 865	–	–	14 793 731
Current income tax liabilities	–	3 366	–	–	–	–	–	3 366
Deferred income tax liabilities	–	–	–	–	–	–	67 644	67 644
Tax liabilities other than income tax	–	141 378	15 442	718	–	–	–	157 538
Other liabilities	6 746	–	129 725	344 711	17 607	–	15 545	514 334
Subordinated debt	–	–	–	114 614	581 057	–	–	695 671
Total liabilities	12 892 888	8 851 767	5 206 097	16 348 728	30 511 493	7 721	83 189	73 901 883
Net liquidity gap	(9 288 786)	6 993 431	502 864	2 005 805	3 051 274	2 307 238	8 238 592	13 810 418
Cumulative liquidity gap as at 31 December 2011	(9 288 786)	(2 295 355)	(1 792 491)	213 314	3 264 588	5 571 826	13 810 418	
Cumulative liquidity gap as at 31 December 2010	(6 974 579)	(2 758 451)	(3 958 439)	2 486 511	2 677 447	3 095 814	12 806 296	

(Thousands of Russian Roubles)

27. Risk management (continued)**Liquidity risk (continued)**

Overdue liabilities, such as term deposits not withdrawn by the Bank's customers, are classified within the "on demand and less than one month" column. Overdue assets are classified within the "no stated maturity" column. The mandatory cash balances with the CBR are allocated between the different maturity categories in accordance with the maturities of the liabilities to which these balances relate.

Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date the bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

Management does not consider some liquidity gaps as a threat to the Bank, as the most part of the maturing liabilities represents funding from the Parent Company, Intesa Sanpaolo Group. The Bank has easy access of Parent funds. At present there is no indication that the Parent Company would discontinue funding the Bank, so Management expects that the funding lines from Intesa Sanpaolo Group would be prolonged, if needed.

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Bank's financial liabilities at 31 December 2011 based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

	On demand	Less than 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	No stated maturity	Total
Financial liabilities								
Amounts due to credit institutions	1 141 319	5 615 313	4 063 715	10 692 573	17 597 936	–	–	39 110 856
Derivative financial liabilities	–	44 316	26 337	–	–	–	–	70 653
Amounts due to customers	11 744 823	3 058 192	1 038 224	2 964 892	1 192 447	7 721	–	20 006 299
Other borrowed funds	–	–	–	2 622 364	13 393 731	–	–	16 016 095
Subordinated debt	–	–	–	117 782	657 023	–	–	774 805
Total liabilities as at 31 December 2011	12 886 142	8 717 821	5 128 276	16 397 611	32 841 137	7 721	–	75 978 708
Credit related commitments as at 31 December 2011	9 200	296 752	614 169	3 729 729	4 717 439	301 911	–	9 669 200

The table below summarises the maturity profile of the Bank's financial liabilities at 31 December 2010 based on contractual undiscounted repayment obligations.

	On demand	Less than 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	No stated maturity	Total
Financial liabilities								
Amounts due to credit institutions	1 179 084	955 218	2 289 061	8 953 490	24 971 546	–	–	38 348 399
Derivative financial liabilities	–	41 534	29 177	–	–	–	–	70 711
Amounts due to customers	10 848 739	1 557 830	2 908 104	2 143 557	238 511	5 140	–	17 701 881
Debt securities issued	9 000	–	–	10 098	–	–	–	19 098
Other borrowed funds	–	–	–	–	13 778 253	2 051 626	–	15 829 879
Subordinated debt	–	–	–	–	297 021	453 437	–	750 458
Total liabilities as at 31 December 2010	12 036 823	2 554 582	5 226 342	11 107 145	39 285 331	2 510 203	–	72 720 426
Credit related commitments as at 31 December 2010	173 251	197 915	910 424	3 351 680	2 153 739	5 140	–	6 792 149

(Thousands of Russian Roubles)

27. Risk management (continued)

Liquidity risk (continued)

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

Management believes that despite a substantial portion of due to customers accounts being on demand, the diversification of these deposits through the number and type of depositors, and the past experience of the Bank, would indicate that these customers' accounts provide a long-term and stable source of funding for the Bank.

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

The liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Bank does not generally expect the third party to draw funds under the agreement. The total unused limits on overdraft loans do not necessarily represent future cash requirements since some of these commitments will expire or terminate without being funded in full.

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchanges, and equity prices. Market risk includes currency risk, interest rate risk and other price risks.

For the presentation of market risks, IFRS 7 requires sensitivity analysis that shows the effects of hypothetical changes of relevant risk variables on income statement and shareholder's equity. Simple sensitivity analysis is presented for currency risk and interest rate risk. The periodic effects are determined by relating the hypothetical changes in risk variables to the balance of financial instruments at the reporting date. It is assumed that the balance at the reporting date is representative for the year as a whole and other variables remain unchanged. The changes in the risk variables represent management's best estimate of a reasonable, possible change as used in the Bank's budget assumptions.

The Bank is exposed to market risks. Market risks arise from open positions in interest rate, currency and fixed income financial instruments, all of which are exposed to general and specific market movements.

Objectives to pursue by applying a market risk process are:

- ▶ To preserve the corporate economic capital and maximizing the economic value for the shareholders, avoiding inappropriate risk exposures;
- ▶ To optimise the capital allocation process;
- ▶ To verify that the risk measurement models are coherent with the effective income result pursued by Risk Owners;
- ▶ To ensure that all taken and potential risks in all operational areas are correctly identified, measured, controlled and managed following the shared and formalised methodologies and procedures;
- ▶ To keep systems quality and management processes aligned to the best market practice standards;
- ▶ To ensure production of detailed and timely informative reports for Departments responsible for management and control activities;
- ▶ To ensure the observance of organisational rules regarding national and international Regulatory controls.

Tools In order to apply reported principles and to reach the objectives Risk Management department has the following tools:

- ▶ A database Kondor+ that can provide Risk Management with the following information:
 - ▶ Daily market data;
 - ▶ Information on securities;
 - ▶ Information on issuers and counterparties;
 - ▶ Information on Bank deals.
- ▶ System using the above-mentioned database for computation and capable of performing the following basic requirements:
 - ▶ To measure mark-to-market of single position and portfolio value;
 - ▶ To deal with the current limits system;
 - ▶ To calculate risk indicators;
- ▶ Effective communication process;
- ▶ System of behavioural (procedural) rules.

(Thousands of Russian Roubles)

27. Risk management (continued)

Market risk (continued)

Risk indicators are calculated by using Kondor+. The risk parameters are measured and limit grids are controlled in the software.

The limits monitoring process involves the daily measurement and control of the exposures of trading portfolios and the weekly measurement and control of the exposures in the banking book by market risk management.

The Bank classifies exposures to market risk into either trading or non-trading portfolios. For risk management purposes the Bank calculates risk indicators on the available-for-sale portfolio the same as for the trading portfolio. The market risk for the trading portfolio is managed and monitored based on a VaR methodology, which reflects the interdependency between risk variables. Non-trading positions are managed and monitored using other sensitivity analysis.

Market risk – Trading

The Management Board has set limits on the level of risk that may be accepted. The Bank applies a VaR methodology to assess the market risk positions held and to estimate the potential economic loss based upon a number of parameters and assumptions for various changes in market conditions. VaR is the method used in measuring financial risk by estimating the potential negative change in the market value of a portfolio at a given confidence level and over a specified time horizon. The Bank uses a full non-linear VaR model for interest rate, and FX risk. These calculations are based on Parametric approach.

The confidence level is assumed to be 99% for VaR calculation. The VaR is calculated for 1 day time horizon.

For the purposes of interest rate VaR calculation present values related to 1D to 30Y term interest rates are taken as risk factors and assumed to be normally distributed. The information on interest rate volatilities and correlations based on global activity of the Intesa Sanpaolo Group is received from Intesa Sanpaolo on a daily basis automatically. The expected cash flows from the securities portfolio (without any possible event of default assumptions) are mapped to corresponding time buckets.

Positions on FX instruments are mapped to corresponding risk factors.

Objectives and limitations of the VaR Methodology

The use of VaR has limitations because it is based on historical correlations and volatilities in market prices and assumes that future price movements will follow a statistical distribution. Due to the fact that VaR relies heavily on historical data to provide information and may not clearly predict the future changes and modifications of the risk factors, the probability of large market moves may be underestimated. VaR may also be under- or over-estimated due to the assumptions placed on risk factors and the relationship between such factors for specific instruments. Even though positions may change throughout the day, the VaR only represents the risk of the portfolios at the close of each business day, and it does not account for any losses that may occur beyond the confidence level.

In practice the actual trading results will differ from the VaR calculation and, in particular, the calculation does not provide a meaningful indication of profits and losses in stressed market conditions. To determine the reliability of the VaR models, actual outcomes are monitored regularly to test the validity of the assumptions and the parameters used in the VaR calculation. Market risk positions are also subject to regular stress tests to ensure that the Bank would withstand an extreme market event.

VaR assumptions

The VaR that the Bank measures is an estimate, using a confidence level of 99% of the potential loss that is not expected to be exceeded if the current market risk positions were to be held unchanged for one day. The use of a 99% confidence level means that, within a one day horizon, losses exceeding the VaR figure should occur, on average, not more than once every hundred days.

Since VaR is an integral part of the Bank's market risk management, VaR limits have been established for the trading portfolio and exposure is reviewed daily against the limits by management.

Indicators for market risk exposure (VaR) for the total trading portfolio are calculated by using software Kondor+. At 31 December 2011 VaR for the trading securities portfolio was equal to zero since the Bank did not hold any position in trading portfolio. At 31 December 2010 VaR for the trading securities portfolio was equal to zero since the portfolio consisted only of defaulted MOIA-2 bonds.

(Thousands of Russian Roubles)

27. Risk management (continued)

Market risk (continued)

Additionally, VaR limits have been established for available-for-sale portfolio and exposure is calculated and monitored daily against the limits set by management. At 31 December 2011 VaR for available-for-sale portfolio was RUB 3 976 thousand (2010: RUB 9 940 thousand).

Market risk – Non-Trading

Interest rate risk

Interest rate risk is a risk the exposure of a bank's condition to adverse movements in interest rates Interest rate risk is measured and monitored over Bank's banking book meaning the set of on and off-balance sheet financial assets and liabilities formed by Banca Intesa loan issuing and deposit collecting activities

Interest Rate Risk includes the following:

- ▶ **Repricing Risk**, meaning the risk linked to time differences in maturities (for fixed-rate positions) and in the repricing date (for floating rate positions) of the Bank's assets, liabilities and off-balance sheet items;
- ▶ **Yield Curve Risk** – the risk linked to changes in the slope and shape of the yield curve (pivoting, steepening and flattening of the yield curve);
- ▶ **Basis Risk** – the risk linked to imperfect correlation in the adjustment of the rates accrued and paid on different instruments, with otherwise similar repricing characteristics. When interest rates change, these differences can give rise to unexpected changes in the cash flows and earnings spread between assets, liabilities and off-balance sheet instruments of similar maturities or repricing frequencies;
- ▶ **Optionality risk**, meaning the risk to the options embedded in the Bank's assets, liabilities and off-balance sheet instruments.

The interest rate risk measurement system adopted by Banca Intesa, capturing the risk of its banking book, ensures that the risk profile can be examined from two separate but complimentary perspectives:

- ▶ **The economic value perspective**, which considers the impact of changes in interest rates and related volatilities on the present value of all future cash flows, calculating the Shift Sensitivity of fair values by applying the shock of +100 b.p. on the yield curve.
- ▶ **The earnings perspective**, focused on analyzing the impact that changes in interest rates (+50 b.p., -50 b.p., +100 b.p., -100 b.p.) and related volatilities generate on the net interest income and, therefore, on the related effects on net interest income margin (NII).

The economic value perspective therefore involves an assessment of the medium-long term effects caused by changes in interest rates, compared to a short-term assessment provided by the earnings perspective.

To calculate the risk measures, all positions and significant cash flows must be promptly and accurately incorporated into the interest rate risk measurement, reflecting the contractual conditions in force at the time of measurement, both for fixed and floating rate transactions.

Banca Intesa uses the following methods to measure interest rate risk in its banking book:

The **Shift Sensitivity of Fair Value** measures the changes in economic value of the banking book resulting from a parallel shift in the discount curves by 100 b.p. upwards. To calculate the present value, discount curves which are suitable for measuring individual financial instruments are applied. The total value of shift sensitivity is broken down by time bucket (**bucket analysis**) to identify the distribution of risk over the time axis. The number and scope of the buckets must guarantee a functional representation of the operational measures implemented by operating structures.

The **Sensitivity of the Interest Margin** quantifies the short term (usually twelve months) impact on the interest margin of sight and term assets and liabilities applying a parallel, instantaneous and permanent shock (+50 b.p., -50 b.p., + 100 b.p., -100 b.p.) in the interest rate curve. This measure highlights the effect of changes in interest rates on the portfolio being divided into sight and term products excluding assumptions on future changes in the mix of assets and liabilities. Therefore, it cannot be considered a predictor of the future levels of the interest margin.

The Bank is exposed to interest rate risk, principally as a result of lending at fixed interest rates, in amounts and for periods, which differ from those of term borrowings secured at floating interest rates. In practice, interest rates are generally fixed on a short-term basis. To reduce the interest rate risk the Bank includes in its loan contracts a clause providing for a change in the lending rate in the event of a significant change in the international interest rates. Additionally, interest rates for long term loans in foreign currencies (20 to 120 months) are linked to LIBOR and EURIBOR.

*(Thousands of Russian Roubles)***27. Risk management (continued)****Market risk (continued)**

The Bank is exposed to cash flow interest rate risk, principally through assets and liabilities for which interest rates are reset as market rates change.

The Board of Directors sets limits on the potential loss from a mismatch of interest rate repricing that may be undertaken. These limits are monitored weekly. In the absence of any available hedging instruments, the Bank normally seeks to match its interest rate positions.

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments.

The following table demonstrates the changes in economic value of the banking book resulting from a parallel shift in the discount curves by 100 b.p. upwards.

Currency	2011		2010	
	Increase in base points	Shift sensitivity of fair value	Increase in base points	Shift sensitivity of fair value
RUB	+100 b.p.	(123 395)	+100 b.p.	(157 002)
USD	+100 b.p.	22 071	+100 b.p.	30 042
EUR	+100 b.p.	(3 943)	+100 b.p.	(210)
Total		(105 267)		(127 170)

The following table demonstrates the sensitivity of interest income to a reasonable possible change in interest rates of 50 b.p., with all other variables held constant, of the Bank's assets and liabilities divided into sight and term products excluding assumptions on future changes in the mix of assets and liabilities.

Currency	2011		2010	
	Increase in base points	Shift sensitivity of interest income	Increase in base points	Shift Sensitivity of interest income
RUB	+50 b.p.	(58 650)	+50 b.p.	(21 475)
USD	+50 b.p.	20 420	+50 b.p.	(15 813)
EUR	+50 b.p.	(1 266)	+50 b.p.	(6 827)
Total		(39 496)		(44 115)

As at 31 December 2011 and 2010 the Bank had no interest rate swaps.

(Thousands of Russian Roubles)

27. Risk management (continued)**Market risk (continued)***Currency risks*

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Bank takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board of Directors sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. The table below summarises the Bank's exposure to foreign currency exchange rate risk as at 31 December 2011. Included in the table are the Bank's assets and liabilities at carrying amounts, categorised by currency. As at 31 December 2011, the Bank had the following positions in currencies:

	<i>RUB</i>	<i>USD</i>	<i>Euro</i>	<i>Other</i>	<i>Total</i>
Assets					
Cash and cash equivalents	2 576 794	266 863	335 439	5 061	3 184 157
Mandatory cash balances with the Central Bank of the Russian Federation	429 886	–	–	–	429 886
Amounts due from credit institutions	1 875 812	10 844 426	1 250 178	–	13 970 416
Derivative financial assets	1 802	31 687	–	–	33 489
Loans to customers	40 363 583	20 350 787	1 511 568	–	62 225 938
Finance lease receivables	1 496 811	17 764	58 677	–	1 573 252
Available-for-sale securities	3 370 702	–	–	–	3 370 702
Property and equipment	597 205	–	–	–	597 205
Intangible assets	1 214 995	–	–	–	1 214 995
Current income tax assets	139 331	–	–	–	139 331
Tax assets other than income tax	68 504	–	–	–	68 504
Other assets	728 521	131 093	44 812	–	904 426
Total assets	52 863 946	31 642 620	3 200 674	5 061	87 712 301
Liabilities					
Amounts due to credit institutions	24 183 546	13 663 403	–	–	37 846 949
Derivative financial liabilities	–	59 849	10 804	–	70 653
Amounts due to customers	13 982 745	3 358 875	2 410 253	124	19 751 997
Other borrowed funds	3 820 954	10 972 777	–	–	14 793 731
Current income tax liabilities	3 366	–	–	–	3 366
Deferred income tax liabilities	67 644	–	–	–	67 644
Tax liabilities other than income tax	157 538	–	–	–	157 538
Other liabilities	418 775	29 247	61 575	4 737	514 334
Subordinated debt	–	695 671	–	–	695 671
Total liabilities	42 634 568	28 779 822	2 482 632	4 861	73 901 883
Net balance sheet position	10 229 378	2 862 798	718 042	200	13 810 418
Credit related commitments	5 564 222	2 298 250	1 806 728	–	9 669 200
Off-balance sheet net notional position	4 639 490	(3 870 653)	(768 837)	–	–

At 31 December 2010, the Bank had the following positions in currency:

	<i>RUB</i>	<i>USD</i>	<i>Euro</i>	<i>Other</i>	<i>Total</i>
Net balance sheet position	13 420 030	155 665	(766 556)	(2 843)	12 806 296
Credit related commitments	2 324 023	886 285	3 581 841	–	6 792 149
Off-balance sheet net notional position	558 665	(1 095 418)	536 753	–	–

(Thousands of Russian Roubles)

27. Risk management (continued)**Market risk (continued)**

The off-balance sheet net notional position represents the notional currency position on deliverable forward and spot foreign exchange contracts entered into during 2011 and 2010. As the borrowings in foreign currencies from international financial institutions represent a significant part of the Bank's liabilities, it is the Bank's policy to effectively hedge against risks associated with its open currency position.

The Bank has significant share of loans and advances denominated in foreign currencies. Depending on the revenue stream of the borrower, the appreciation of the currencies against the Russian Rouble may adversely affect the borrowers' repayment ability and therefore increases the likelihood of future loan losses.

The tables below indicate the currencies to which the Bank had significant exposure at 31 December 2011 and 2010 on its non-trading monetary assets and liabilities and off-balance sheet derivatives and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Rouble, with all other variables held constant on the income statement (due to the fair value of currency sensitive non-trading monetary assets and liabilities and off-balance sheet derivatives). The effect on equity does not differ from the effect on the income statement (as the Bank does not apply hedge accounting). A negative amount in the table reflects a potential net reduction in the income statement or equity, while a positive amount reflects a net potential increase.

Currency	2011		2010	
	Changes in exchange rate, %	Influence on the profit before taxation	Changes in exchange rate, %	Influence on the profit before taxation
Net balance				
USD	(12.5%)	125 981	(8.9%)	83 638
EUR	(11.8%)	5 994	(11.1%)	25 393
Total		131 975		109 031

Currency	2011		2010	
	Changes in exchange rate, %	Influence on the profit before taxation	Changes in exchange rate, %	Influence on the profit before taxation
Net balance				
USD	12.5%	(125 981)	8.9%	(83 638)
EUR	11.8%	(5 994)	11.1%	(25 393)
Total		(131 975)		(109 031)

Prepayment risks

The Bank's exposure to prepayment risks is considered by the management as not significant. The majority of the borrowers repay the loans not earlier than contractual schedules.

Operational risk

For managing operational risks the Bank follows the Intesa Sanpaolo Group's operational risk guidelines and methodology in compliance with Basel II recommendations as well as locally-developed tools.

Under internal regulations operational risk is defined as the risk of losses resulting from unsuitability or failure of procedures, human resources and systems, or from external events. This definition includes legal risk, but excludes strategic and reputation risk. The legal risk includes, but is not limited to, exposure to fines, penalties, or punitive damages resulting from supervisory actions, as well as private settlements.

The Bank, in accordance with the Intesa Sanpaolo Group's requirements and the regulatory suggestions, developed an operational risk framework consisting of operational risk policy and other internal regulations in order to perform an effective Operational Risk Management and support to the Bank's business.

(Thousands of Russian Roubles)

27. Risk management (continued)

Operational risk (continued)

Among operational risk management tools the following activities are performed:

- ▶ self risk assessment (held on annual basis),
- ▶ loss data collection,
- ▶ scenario analysis,
- ▶ key risk indicators,
- ▶ regulatory capital calculation (the Basic Indicator Approach).

The operational risk management activity within the Bank is aimed at prevention, monitoring and mitigation of operational risks as well as at minimisation (where possible) of frequency and/or severity of operational risk events in case of realisation.

The created system of operational risk management anticipates that the management of operational risks should be performed on two levels:

- 1) through heads of organisational and business units who are responsible for management of operational risks within the areas of their responsibility – decentralised operational risk management function.
- 2) through the operational risk unit which is responsible for elaboration of methodological support, detection/analysis/monitoring of operational risks, verification of business processes/procedures and generation of optional solutions for business owners in order to prevent/mitigate operational risks in the areas of their responsibility – centralised operational risk management function.

As a prudent market agent, the Bank recognises the importance of mitigation actions in order to guarantee to its clients a reliable service and efficiency. For that reason the Bank gives much attention to insurance of liability and assets and ensuring of business continuity of the Bank with the tools such as:

- ▶ Banker's Blanket Bond,
- ▶ Business Continuity Plan.

28. Fair values of financial instruments

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price.

The definition **Fair Value** is a presumption that an entity is a going concern without any intention or need to liquidate, to curtail materially the scale of its operations or to undertake a transaction on adverse terms.

A financial instrument is regarded as **quoted** in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The prices in the more advantageous markets are adjusted to reflect any differences in counterparty credit risk between instruments traded in that market and the one being valued.

In case an instrument is quoted in active market the appropriate price for determining the fair value is:

- ▶ **Last bid price** for an asset held or liability to be issued;
- ▶ **Last offer price** for an asset to be acquired or liability held.

If the market for a financial instrument is not active, market pricing information is not available the Bank determines the Fair Value by using a valuation technique by reference to market conditions that existed at its acquisition or origination date and current market conditions.

(Thousands of Russian Roubles)

28. Fair values of financial instruments (continued)

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

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

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

At 31 December 2011	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial assets	–	33 489	–	33 489
Available-for-sale securities	3 278 273	92 429	–	3 370 702
	3 278 273	125 918	–	3 404 191
Financial liabilities				
Derivative financial liabilities	–	70 653	–	70 653
	–	70 653	–	70 653

At 31 December 2010	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial assets	–	77 152	–	77 152
Trading securities	–	–	891	891
Available-for-sale securities	3 327 207	1 052 373	–	4 379 580
	3 327 207	1 129 525	891	4 457 623
Financial liabilities				
Derivative financial liabilities	–	70 711	–	70 711
	–	70 711	–	70 711

Financial instruments recorded at fair value

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

Derivatives

Derivatives valued using a valuation technique with market observable inputs are mainly interest rate swaps, currency swaps and forward foreign exchange contracts. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves.

Derivatives valued using a valuation technique with significant non-market observable inputs are primarily long dated option contracts. These derivatives are valued using the binomial models. The models incorporate various non-observable assumptions, which include market rate volatilities.

Trading securities and available-for-sale securities

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

(Thousands of Russian Roubles)

28. Fair values of financial instruments (continued)**Movements in level 3 financial instruments measured at fair value**

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

	<i>As at 1 January 2011</i>	<i>Reclass from level 2</i>	<i>Total gain/(loss) recorded in income statement</i>	<i>Sales</i>	<i>As at 31 December 2011</i>
Financial assets					
Trading securities	891	–	(891)	–	–
Total level 3 financial assets	891	–	(891)	–	–
Total level 3 financial liabilities	–	–	–	–	–
Total net level 3 financial assets/ (liabilities)	891	–	(891)	–	–

	<i>As at 1 January 2010</i>	<i>Reclass from level 2</i>	<i>Total gain/(loss) recorded in income statement</i>	<i>Sales</i>	<i>As at 31 December 2010</i>
Financial assets					
Trading securities	941	–	(50)	–	891
Total level 3 financial assets	941	–	(50)	–	891
Total level 3 financial liabilities	–	–	–	–	–
Total net level 3 financial assets/ (liabilities)	941	–	(50)	–	891

Gains or losses on level 3 financial instruments included in the income statement for the period comprise:

	<i>2011</i>			<i>2010</i>		
	<i>Realised gains</i>	<i>Unrealised losses</i>	<i>Total</i>	<i>Realised gains</i>	<i>Unrealised losses</i>	<i>Total</i>
Total gains/(losses) included in the income statement for the period	–	(891)	(891)	–	(50)	(50)

Transfers between level 1 and 2

The reason of all transfers between levels 1 and 2 during the years ended 31 December 2011 and 2010 is the presence or absence of using quotes (last bid) at the end of the day. All bonds traded by the Bank for the years ended 31 December 2011 and 2010 are regularly traded on the market. The absence of last bid price (Level 1 quote) for exact bond is due to current market daily supply and demand fluctuations. There were no significant changes in levels of liquidity and in issuers financial position.

As at 31 December 2011 one out of two bonds in the available-for-sale portfolio for each issuer (LUKOIL-06 and GAZPROMNEFT-06) were classified as level 2.

	<i>Transfers from level 1 to level 2 2011</i>	
	<i>Level 1</i>	<i>Level 2</i>
Financial assets		
Available-for-sale securities	(140 292)	140 292

As at 31 December 2010 two (EBRD-2 and EBRD-3) out of three bonds in the available-for-sale portfolio of one issuer were classified as level 2.

	<i>Transfers from level 1 to level 2 2010</i>	
	<i>Level 1</i>	<i>Level 2</i>
Financial assets		
Available-for-sale securities	(410 579)	410 579

(Thousands of Russian Roubles)

28. Fair values of financial instruments (continued)

Financial instruments not carried at fair value

Loans carried at amortised cost less provision for impairment

The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on the estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity terms. Refer to Notes 8 and 10 for the estimated fair values of amounts due from credit institutions and loans to customers, respectively.

Finance leases receivables

Finance lease receivables are stated net of provisions for finance lease impairment. The estimated fair value of finance lease receivables represents the discounted amount of estimated future cash flows expected to be received. The expected cash flows are discounted at current market rates to determine the fair value. Refer to Note 11 for the estimated fair value of finance lease receivables.

Liabilities carried at amortised cost

The fair value of instruments with a quoted market price is based on quoted market prices. The estimated fair value of instruments with no stated maturity is the amount repayable on demand. The estimated fair value of fixed interest rate instruments without a quoted market price is based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Refer to Notes 18, 19, 20 and 21 for the estimated fair values of amounts due to credit institutions, amounts due to customers, other borrowed funds and subordinated debt, respectively.

29. Related party disclosures

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

Banking transactions are entered into in the normal course of business with the Bank's shareholders and key Management. These transactions include loans, deposit and loan taking and other transactions. These transactions are priced at market rates.

Since 2005 the Bank is a member of Intesa Sanpaolo Group. Intesa Sanpaolo Group companies are entities comprising a banking group with clear leadership in the Italian market and a strong international presence focused on Central-Eastern Europe and the Mediterranean basin.

Intesa Sanpaolo Holding International SA (Luxembourg) is an entity with significant influence as at 31 December 2011 with 39.7670% share (2010: 39.7670%).

Intesa Sanpaolo S.p.A. (Italy) is the ultimate controlling party as at 31 December 2011 and 2010.

(Thousands of Russian Roubles)

29. Related party disclosures (continued)

The outstanding balances of related party transactions are as follows:

	2011				2010			
	<i>Ultimate controlling party</i>	<i>Entities with significant influence over the Bank</i>	<i>Intesa Sanpaolo Group companies</i>	<i>Key management personnel</i>	<i>Ultimate controlling party</i>	<i>Entities with significant influence over the Bank</i>	<i>Intesa Sanpaolo Group companies</i>	<i>Key management personnel</i>
Cash and cash equivalents								
Current accounts and overnight placements with other credit institutions	172 753	–	32 322	–	497 119	–	26 629	–
Amounts due from credit institutions								
Short-term interbank placements outstanding as the period end	7 689 488	–	354 157	–	–	–	152 385	–
Loans to customers as at 1 January, gross	–	–	–	11 467	–	–	–	4 677
Loans issued during the year	–	–	–	350	–	–	–	11 428
Loan repayments during the year	–	–	–	(3 641)	–	–	–	–
Other movements	–	–	–	(10)	–	–	–	39
Loans to customers as at 31 December, gross	–	–	–	8 166	–	–	–	11 467
Less: allowance for impairment as at 31 December	–	–	–	(1)	–	–	–	–
Loans to customers as at 31 December, net	–	–	–	8 165	–	–	–	11 467
Amounts due to credit institutions								
Current accounts	1 125 518	–	14 495	–	1 162 357	–	13 087	–
Time deposits and loans as at the period end	1 322 871	–	31 762 249	–	609 950	–	33 887 944	–
Other borrowed funds								
Other borrowed funds as at 1 January	–	14 206 988	–	–	–	15 657 102	–	–
Other borrowed funds received during the year	–	5 070 000	–	–	–	11 176 938	–	–
Other borrowed funds repaid during the year	–	(5 070 000)	–	–	–	(12 453 200)	–	–
Other movements	–	586 743	–	–	–	(173 853)	–	–
Other borrowed funds as at 31 December	–	14 793 731	–	–	–	14 206 988	–	–
Subordinated debt								
Subordinated debt as at 1 January	168 775	380 961	–	–	–	378 053	–	–
Effect of business combination under common control	–	–	–	–	167 602	–	–	–
Subordinated debt received during the year	–	–	–	–	–	–	–	–
Subordinated debt repaid during the year	–	–	–	–	–	–	–	–
Other movements	9 784	21 536	–	–	1 173	2 908	–	–
Subordinated debt as at 31 December	178 560	402 497	–	–	168 775	380 961	–	–
Derivative financial instruments								
Notional amount of foreign exchange contracts	4 000 000	–	–	–	3 581 609	–	–	–
Positive fair value	–	–	–	–	73 627	–	–	–
Negative fair value	(36 144)	–	–	–	(347)	–	–	–

(Thousands of Russian Roubles)

29. Related party disclosures (continued)

The income and expense arising from related party transactions are as follows:

	For the year ended 31 December							
	2011				2010			
	Ultimate controlling party	Entities with significant influence over the Bank	Intesa Sanpaolo Group companies	Key management personnel	Ultimate controlling party	Entities with significant influence over the Bank	Intesa Sanpaolo Group companies	Key management personnel
Amounts due from credit institutions								
Interest income on amounts due from credit institutions	8 975	–	61	–	7 055	–	4	–
Loans to customers								
Interest income on loans to customers	–	–	–	977	–	–	–	39
Provision for loan Impairment	–	–	–	(1)	–	–	–	–
Amounts due to credit institutions								
Interest expense on amounts due to credit institutions	14 447	–	1 587 695	–	667	–	1 529 336	–
Other borrowed funds								
Interest expense on other borrowed funds	–	589 439	–	–	–	613 878	–	–
Subordinated debt								
Interest expense on subordinated debt	3 532	14 165	–	–	3 364	14 789	–	–
Derivative financial instruments								
Loss on interest rate swaps	–	–	–	–	(111 711)	–	–	–
Positive fair value of foreign exchange contracts	–	–	–	–	73 627	–	–	–
Negative fair value of foreign exchange contracts	(36 144)	–	–	–	(347)	–	–	–
Net loss from trading in foreign currencies	(5 408)	–	–	–	(5 053)	–	–	–
Fee and commission expense for the period	7 219	–	219	–	4 818	–	392	–
Other operating expense for the period	127 755	–	–	–	97 081	–	–	–

In 2011, the total remuneration of the Management Board members was RUB 34 866 thousand, including social contributions of RUB 557 thousand (2010: RUB 50 777 thousand, including social contributions of RUB 767 thousand).

Included in guarantees issued as at 31 December 2011 and 31 December 2010 are the amounts of RUB 1 969 276 thousand and RUB 903 700 thousand, respectively, counter-guaranteed by an Intesa Sanpaolo Group company. In addition to the guarantees issued, the Bank counter-guaranteed RUB 45 881 thousand and RUB 3 661 317 thousand on the guarantees issued by another Intesa Sanpaolo Group company as at 31 December 2011 and 31 December 2010, respectively.

(Thousands of Russian Roubles)

30. Capital adequacy

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the ratios established by the Basel Capital Accord 1988, with subsequent amendments, including the amendments to incorporate market risk, and the ratios established by the CBR in supervising the Bank.

During 2011, the Bank complied in full with all its externally imposed capital requirements.

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value.

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

CBR capital adequacy ratio

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

	<u>2011</u>	<u>2010</u>
Main capital	11 395 908	11 029 333
Additional capital	711 288	578 242
Total regulatory capital	<u>12 107 196</u>	<u>11 607 575</u>
Risk weighted assets (including banking risks)	<u>81 718 845</u>	<u>76 350 884</u>
Capital adequacy ratio	14.8%	15.2%

Regulatory capital consists of Tier 1 and Tier 2 capital. Tier 1 capital is comprised of share capital, share premium and retained earnings. Certain adjustments are made to RAL-based results and reserves, as prescribed by the Central Bank. Tier 2 capital is comprised of subordinated long-term debts and revaluation reserves.

Capital adequacy ratio under Basel Capital Accord 1988

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

	<u>2011</u>	<u>2010</u>
Tier 1 capital	13 810 418	12 806 296
Tier 2 capital	391 602	653 834
Total capital	<u>14 202 020</u>	<u>13 460 130</u>
Risk weighted assets	<u>89 207 132</u>	<u>82 168 641</u>
Tier 1 capital ratio	15.5%	15.6%
Total capital ratio	15.9%	16.4%

31. Events after the reporting period

The Bank of Russia registered the Bank's three years interest-bearing non-convertible bonds issue prospectus with the nominal amount of five billion Roubles in January 2012.