



Annual Report 2011
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Russian Agricultural Bank

ANNUAL REPORT 2011





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ADDRESS BY THE CHAIRMAN OF THE MANAGEMENT BOARD



*Dmitry N. Patrushev
Chairman of the Management Board and CEO
Russian Agricultural Bank*

The year 2011 was marked for Russian Agricultural Bank as a period of an effective credit support provided to the national agribusiness, ongoing operational stability, and systematic customer service enhancement.

Today, agricultural sector is fairly named as one of the driving forces of the Russian economy. The growth of agricultural production exceeded 22% in 2011. Significant financial resources provided by the Bank for the development of domestic agriculture, as well as our methodical work as the main partner of Russian agribusiness, contributed to a boost in this important industry. In 2011, the Bank extended loans for the total amount of RUB 409 billion in the framework of the State Program on Agribusiness Development implementation, which is 24% more than in 2010.

Russian Agricultural Bank steadily holds the leading market positions: 1st – in terms of lending to agribusiness sector, 2nd – in terms of lending to small- and medium-sized enterprises, and the 2nd largest branch network in Russia. Corporate loan portfolio of the Bank grew 26% in 2011, the total volume of lending to small-scale enterprises increased by 61% against 2010. Retail loan portfolio made up 73%. The volume of loans for the purchase of agricultural machinery and equipment almost doubled compared to 2010. Growth rates of Russian Agricultural Bank's key financial indicators exceeded the average of the Russian banking system.

One of the main goals of Russian Agricultural Bank – financing of seasonal field works and harvesting – was fully completed. The 2011 grain yield made up about 93 million tons, and the Bank provided two-thirds of the total amount of loans for seasonal field works in Russia. Volume of lending for these purposes increased almost by RUB 30 billion against 2010 and amounted to over RUB 150 billion.

Russian Agricultural Bank strong performance in 2011 was facilitated by a set of measures aimed at enhancing the availability of its credit resources, mainly through optimization of core lending programs and loan processing, as well as diversification of the product range.

Lending to personal household plots is one of the priority activities of the Bank. In 2011, Russian Agricultural Bank extended loans to over 128 thousand household plot owners across the country for the total amount of RUB 61.9 billion, which makes 30% of the total volume of lending. The Bank's funds allowed borrowers to purchase necessary veterinary preparations, seeds and fertilizers, agricultural equipment and machinery, and build new facilities.

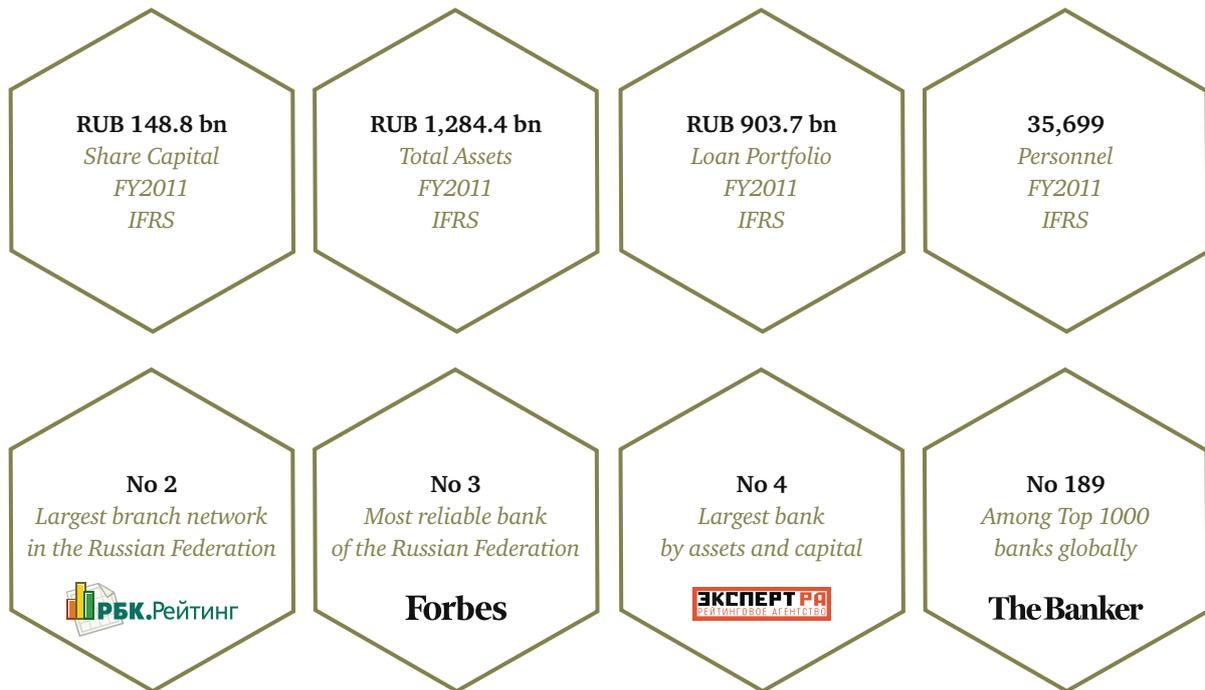
A ramified infrastructure of production storage, processing and marketing is essential for realization of the agribusiness sector great potential. Russian Agricultural Bank provides financing to the whole agricultural value chain. The Bank will continue to expand its lending to agribusiness, and diversify banking services, especially for rural population, which is a key priority for the Bank in the long term.

Russian Agricultural Bank plans to further develop its regional network, implement mobile offices project, broaden options of distance-servicing using the cutting edge internet technologies, as well as to increase the quality of the Bank's loan portfolio, form a balanced funding base, enhance business efficiency and profitability while maintaining leading positions in financing agribusiness. The Bank should become an effective mechanism of governmental support for agribusiness and related sectors, which is particularly significant for the state considering accession to WTO.

We recognize the Bank's strategic role as a key financial institution, implementing federal policy in agribusiness support, and will continue to carry out our mission.

Dmitry N. Patrushev
Chairman of the Management Board and CEO
Russian Agricultural Bank

2011 KEY DEVELOPMENTS



Source: company information, RBC Rating, Expert RA, The Banker, Forbes.

Note: Forward looking statements

This report contains certain forward looking statements with respect to the financial condition, results of operations and businesses of Russian Agricultural Bank. These statements involve risk and uncertainty because they relate to events and depend upon circumstances that will occur in the future. There are a number of factors which could cause actual results or developments to differ materially from those expressed or implied by these forward looking statements. The statements are based on current expected market and economic conditions, the existing regulatory environment and interpretations of IFRS applicable to past, current and future periods. Nothing in this report should be construed as a profit forecast.

Mission of Russian Agricultural Bank is to ensure the availability of affordable banking products and services for Russia's agribusiness enterprises and rural population, contribute to the evolution and operation of the national credit and financial system, and promote the development of Russia's agribusiness sector and rural areas.



1. MISSION AND STRATEGY

MISSION OF RUSSIAN AGRICULTURAL BANK

- Ensuring the availability of affordable banking products and services for Russia's agribusiness enterprises and the rural population;
- Contributing to the development and operation of Russia's credit and financial system;
- Fostering the development of Russia's agribusiness and rural areas.

KEY STRATEGIC OBJECTIVES:

Upgrading the efficiency of Government policy in the agribusiness sector and rural development

- Maintaining and enhancing the Bank's key role as the main government agent for agribusiness financial support;
- Ensuring the consistency of the Bank's strategy with the State Program on Agribusiness Development;
- Increasing the efficiency of State Program on Agribusiness Development implementation;
- Maintaining a market share in lending to Russian agribusiness enterprises at 50% or more.

Increasing the efficiency of the Bank's activity

- Providing for business and operational efficiency growth;
- Diversifying business:
 - Increasing the number of customer segments via agribusiness related sectors;
 - Expanding into new markets for financial products.
- Upgrading the efficiency of the corporate governance system.

To implement its strategic objectives, the Bank ensures the enhancement of operational efficiency and introduces innovations. Today, Russian Agricultural Bank has become a modern competitive financial institution and has proved its status as a reliable partner to both Russian and foreign banks.

Adhering to these strategic objectives and applying global best practices and technologies has made Russian Agricultural Bank into one of Russia's Top-5 financial institutions. The Bank's strength will continue to be its ability to combine long-term client commitment, a sound financial position and a broad understanding of industry dynamics. As a key player in Russian agribusiness development, the Bank conveys the value of local presence responsibility and solidarity, supported by its regional footing.

2011 STRATEGY IMPLEMENTATION

In 2011, the Bank's main strategic document was the Concept of the development of Russian Agricultural Bank till 2015.

The main normative document determining the development of Russian agribusiness during the reporting period was the State Program on agribusiness development and the market regulation for agricultural products, raw materials and foodstuffs for 2008–2012.

In accordance with the adopted Concept, in 2011, Russian Agricultural Bank developed the following directions:

- Providing financial services to agribusiness enterprises;
- Providing financing support to develop rural areas;
- Financially supporting social development processes;
- Providing for the financial recovery of agribusiness enterprises;
- Developing the infrastructure of the national financial system in the agribusiness sector.

In 2011, the Bank's main strategic document was the Concept of the development of Russian Agricultural Bank till 2015

During 2000–2011, the Bank went through numerous development stages, during which the Bank's goals and strategic objectives were influenced by the extent of State contribution to the formation of the national financial system in the agribusiness sector. As the result of its ongoing development, Russian Agricultural Bank became one of Russia's largest financial institutions. Furthermore, the Bank has formed the second largest regional branch network in Russia, which secures a wide geographical presence and the availability of financial services to the rural population.

Russian Agricultural Bank holds a leading position among Russia's largest banks in agribusiness lending with an approximate 50% market share. Within the framework of implementing the State Program, from January 1, 2008 to January 1, 2012, the Bank extended more than RUB 1.3 trillion, accounting for 42% of the total volume of lending to Russia's agribusiness. Loans extended within the framework of implementing the State Program constitutes the largest portion of the Bank's loan portfolio — 78%. At the same time, the Bank maintains the quality of its loans to agribusiness at a stable level.

The Bank's product range is customized to agricultural sector specifics, the mechanisms of State support for the industry and agribusiness enterprises within the whole production chain and processing and realizing agricultural output — more than 70 lending programs.

The Bank has consistently increased the volume and liquidity of the client fund base, while at the same time diversifying it. A sufficient volume of

resources and the capital adequacy safety margin allowed the Bank to form a considerable loan portfolio at rates that outpaced the market.

The Bank's client base grew by 1 million customers and totaled more than 3 million customers in 2011.

Today, Russian Agricultural Bank maintains its strong position among Russia's Top-5 largest banks based on key performance indicators:

- No 1 in terms of agribusiness lending;
- No 2 in terms of branch network size and SME lending;
- No 4 in terms of assets, total loan portfolio and equity capital.

The following factors contributed to the Bank's capital growth and the strengthening of its financial stability:

- Regular capital injections from the Government;
- The Bank's participation in implementing the State Program and industry-specific development programs;
- Focus on the provision of financial services to individuals and enterprises in rural areas, as well as in small- and medium-sized towns;
- Expansion of the regional branch network.

2012 STRATEGIC GOALS

In 2012, Russian Agricultural Bank's strategic development plan includes the following, while maintaining the Bank's leading position in agribusiness lending:

- Upgrading the quality of the loan portfolio;
- Building a well-balanced funding base;
- Raising the efficiency and profitability of the business.

The Bank has consistently increased the volume and liquidity of the client fund base, while at the same time diversifying it

At the same time, the Bank considers the effect of Russia's accession to the WTO (World Trade Organization). Russia's full membership in the WTO should seriously spur modernization and innovative development of domestic agriculture and food production, optimize structure and increase efficiency, form a civilized agricultural and food market, broaden the variety of products available on the market coupled with a quality improvement and increase in agricultural and food exports.

The Bank intends to become an effective instrument for State support of agriculture, timber, fish and related industries under Russia's WTO membership. The key task for the Bank is to adapt its products and services to these new conditions.

The Bank's 2012 business development plan is aimed at:

- Targeting higher growth rates than the market, especially in retail lending;
- Diversifying the passive base;
- Significantly increasing commission income;
- Lowering the NPLs share in the loan portfolio;
- Expanding the client base;
- Raising net profit;
- Maintaining the share of lending to agribusiness at a level of not less than 50%;
- Transforming the operational model;
- Upgrading manageability and optimizing the operations of the regional branch network;
- Diversifying the sales channels and client support services, paying particular attention to the development of distance services.

Starting from 2013, the Government of the Russian Federation plans to implement the State program on agribusiness development and the market regulation for agricultural products, raw materials and foodstuffs for 2013–2020. Russian Agricultural Bank will maintain its leading lending positions under the 2013–2020 State Program.

The Concept of the Bank's development and the 2013–2020 State Program formed the basis for the Bank's Strategy till 2020 that is under development, as well as for the long-term programs and projects of the Bank's governing bodies, determining strategic planning objectives and measures for their realization.

STRATEGIC OBJECTIVES TILL 2020

The Bank plans a step-by-step evolution adjusted to the main goals and objectives of its Concept of the development and the State Program on Agribusiness Development 2013–2020, providing for the comprehensive development of all sectors and spheres of domestic agribusiness, including:

- Increasing the profitability of agribusiness producers, as a condition for transitioning to the innovative model of industry development;
- Providing for the sustainable development of rural areas as a pre-condition for maintaining human resources and Russia's territorial integrity;
- Developing cooperation and integrating relations in agribusiness, building product-focused subsectors and territorial clusters;
- Supporting investment projects.

The Bank plans to increase its share in lending under State programs, and also to enhance its business positions in the retail, corporate, investment and international segments.

Russian Agricultural Bank, in its development, adheres to the concept of a universal commercial bank of federal importance, specializing in the financial support of agribusiness, rural regions, the fish and timber sectors, and balancing the interests of its shareholder, industries, the general population and the Bank.

2. RUSSIAN AGRICULTURAL BANK OVERVIEW

Russian Agricultural Bank is the only 100% State-owned bank with a unique mandate to act as the State agent for implementing the Government's financial policy in the domestic agribusiness sector. The Bank has extensive knowledge of agribusiness and related subsectors. It is the only State-owned bank in Russia that exclusively focuses on providing services to agribusiness and the rural population, which makes up 27% of Russia's total population (the electorate). Established in 2000, today, the Bank has become a universal commercial bank that provides all types of banking products and services, as well as the main pillar for supporting Russia's agribusiness.

2.1. MARKET POSITION

Operating the second-largest Russian branch network — with more than 1,500 offices — Russian Agricultural Bank is an acknowledged leader in agricultural lending, holding an approximate 50% market share. According to The Banker magazine ranking based on the FY 2011 results, the Bank is 4th among Russia's largest banks and 189th worldwide. The Bank has four representative offices in Belarus, Kazakhstan, Tajikistan and Azerbaijan. Russian Agricultural Bank's ratings are quasi-sovereign and are investment grade.

Russian Agricultural Bank is widely known as a reliable banking partner to major financial institutions throughout the world, and its transparency has been hailed by the world's leading rating agencies. The Bank's international experience, its diversified investor base and strong governmental support have helped it strengthen its positions on the global market.

Table 1: Stable Market Position

Criteria	Ranking				
	2006	2008	2010	2011	Market share
Assets	8	4	4	4	3.6%
Share capital	7	4	4	4	3.7%
Net profit	21	26	33	35	0.3%
Loan portfolio	10	4	4	4	3.4%
Retail loans	12	12	5	4	2.6%
Corporate loans	7	4	4	4	4.5%
Deposits	–	7	6	4	3.3%
Retail deposits	–	8	7	6	1.3%
Corporate deposits and current accounts	17	6	6	4	3.8%

2.2. CREDIT RATINGS

Fitch Ratings

- Issuer's Default Rating — *BBB, stable*;
- National Long-term Rating — *AAA(rus), stable*.

Moody's

- Long-term Deposit Rating — *Baa1, stable*;
- National Scale Rating, long-term — *Aaa.ru*.

2.3. KEY HISTORICAL EVENTS

2000

- Established in 2000 by a Presidential Decree to implement state policy in agribusiness and stimulate rural development.

2002

- Launched the lending program for personal household plots owners;
- Obtained license to attract retail deposits.

2004

- Moody's Interfax Rating Agency assigned the Bank a rating on the national ratings scale;
- First Ruble-denominated bond issue.

2005

- Moody's Investors Service and Fitch Ratings assigned the Bank investment grade ratings;
- First USD 350 million Eurobond issue.

2006

- Second largest branch network in Russia;
- More than 40% market-share in agribusiness.

2008

- Ranked No 372 by The Banker;
- Key financial institution implementing the 2008–2012 State Program on Agribusiness Development.

2010

- Ranked No 196 by The Banker;
- More than 50% market-share in agribusiness;
- No 4 among largest Russian banks, based on capital and assets.

2011

- No 1 among largest Russian banks by absolute increase in SME loan portfolio;
- Third most reliable bank in the Russian Federation;
- Number of the Bank's customers exceeded 3 million.

Over RUB 1.3 trillion was extended by Russian Agricultural Bank since 2008 in the framework of the State Program implementation. The Bank's share in lending to agribusiness amounted over 40% of the total volume of loans provided by the largest Russian banks.



2.4. 2011 CALENDAR

January

- Russian Agricultural Bank ratings confirmed by Moody's
- Signed a Cooperation Agreement on Agribusiness Development with the Kaliningrad Region

February

- Signed Cooperation Agreements on Agribusiness Development with the Ulyanovsk Region and the Republic of Tatarstan

March

- Successfully placed a 5-year RUB 20 billion Eurobond with a coupon rate of 8.7%. The bond issue was assigned a "BBB" rating by Fitch
- Signed a Cooperation Agreement on Agribusiness Development with the Republic of Ingushetia
- Ranked as the 3rd most reliable bank and the 4th in terms of assets by Forbes
- Ranked 4th among Russia's **100 largest banks** in terms of assets and capital by Kommersant

April

- The Bank placed RUB 12 billion tap to its ruble Eurobonds due March 2016
- Ranked 1st, by Expert RA, among Russia's largest banks in terms of its absolute increase in loan portfolio to small- and medium-sized enterprises

May

- The Bank successfully priced its 10-year USD 800 million subordinated Eurobond issue at a 6.0% rate

June

- Ratings confirmed at "BBB" with a stable outlook by Fitch
- Signed a Cooperation Agreement on Agribusiness Development with the Pskov Region

July

- Russian Agricultural Bank is the laureate of the banking premium in the nomination "For the contribution to the state projects implementation in the real sector of economy" by Expert RA

August

- Signed Cooperation Agreements on Agribusiness Development with the Omsk and Tomsk Regions and the Republic of Buryatia
- Closed the deal on a 1-year trade finance loan with Citi. The loan was denominated in Russian rubles and was the equivalent of USD 100 million

September

- Signed a Cooperation Agreement on Agribusiness Development with the Leningrad Region
- Russian Agricultural Bank exercised the call option under its subordinated USD 500 million loan participation notes, which were due in 2016

October

- General partner for the 13th exhibition "Golden Autumn" — Russia's primary agricultural event
- Signed Cooperation Agreements on Agribusiness Development with the Republic of Karelia and the Republic of Khakassia

November

- Successfully placed a 10-year RUB 10 billion local Series 15 bonds with a 2 year put option
- Signed a Cooperation Agreement on Agribusiness Development with the Penza Region

December

- Authorized capital increased RUB 40 billion
- The number of the Bank's retail customers reached 3.2 million — 36% growth. The number of loan agreements with retail customers increased 46%, retail deposits grew 24.3%

Key Events after the Reporting Date

January 2012

- A Cooperation Agreement on implementing the State program on agribusiness development and the market regulation for agricultural products, raw materials and foodstuffs for 2008–2012 was signed with the Government of the Novosibirsk Region. The Agreement is aimed at enhancing the availability of credit products and expanding its lending to agricultural producers of the region.

February 2012

- Successfully placed Series EO-02 and BO-03 exchange bonds in the total amount of RUB 10 billion at an 8.20% rate. The issue attracted strong interest from both Russian and international banks, as well as from large investment and asset-management companies;
- Russian Agricultural Bank and the Government of the Chelyabinsk Region signed a Cooperation Agreement on Implementing the 2008–2012 State Program on Agribusiness Development.

March 2012

- Chairman of the Board and CEO of Russian Agricultural Bank Dmitry N. Patrushev became the laureate in the nomination “Banker of the Year” of one of the most prestigious business events in Russia — the International premium “Person of the Year”, held in Moscow;
- Deputy Chairman of Russian Agricultural Bank

Victoria V. Kirina was awarded the Honorary Diploma of International Public Recognition by the Association of Russian Banks. The Association recognized Ms. Kirina as one of the most successful female executives, who has made a significant contribution to developing the Russian banking system;

- Russian Agricultural Bank and the Agency for Strategic Initiatives (ASI) signed a Memorandum of Cooperation, aimed at promoting socially important projects and contributing to upgrading the investment climate in the agribusiness sector. The cooperation between the Bank and ASI will pursue the goals of implementing innovative technologies in the agricultural industry;
- The Bank’s representative office will be opened in the Republic of Armenia.

April 2012

- Chairman of the Board and CEO of Russian Agricultural Bank Dmitry N. Patrushev was elected a member of Councils of Association of Russian Banks and Association of Regional Banks of Russia. Both associations play a great role, as coordinators of relationships between their members and the public authorities in order to modernize Russian banking system, and actively participate in the formation of the international financial center and in the innovative development of Russian economy.

- Russian Agricultural Bank was awarded the Diploma “For the contribution to Russian banking system development,” by the Association of Russian Banks.

May 2012

- Russian Agricultural Bank rated the 4th best known bank and the 6th most recognized banking brand according to a survey conducted by the National Agency for Financial Studies (NAFS).

June 2012

- In 2011, customer base of Russian Agricultural Bank reached 3.5 million. The Bank showed the highest growth rates in retail business with the number of retail customers soaring by 40.9%. At the same time, the largest volumes of lending and funds attraction are brought by the corporate segment, mostly by small-scale enterprises that make a 57% of the total number of the Bank’s corporate clients, including individual entrepreneurs.

July 2012

- Russian Agricultural Bank is number 189 in terms of capital among the World’s 1000 largest banks, in the ranking published by The Banker magazine. The Bank was ranked 4th among the largest Russian banks and 5th among the largest banks of Central and Eastern Europe.

2.5. KEY FINANCIAL HIGHLIGHTS

USD million

	FY 2011	FY 2010	FY 2009
Summary of consolidated income statement			
Net interest income	1,665.1	1,693.7	1,160.0
Net interest income after provision for loan impairment	964.7	758.4	716.1
Profit before tax	10.9	24.0	27.8
Profit for the year	1.8	12.1	8.3
Summary of consolidated balance sheet			
Cash and cash equivalents	4,160.2	2,657.8	3,140.1
Mandatory cash balances with the Central Bank of the Russian Federation	261.4	113.8	98.3
Securities	3,351.4	2,115.5	2,179.7
Due from other banks	1,228.8	1,131.1	1,249.7
Loans and advances to customers	28,065.1	22,590.4	19,325.6
Premises and equipment	779.3	852.5	907.6
Other assets	2,042.8	1,076.9	567.9
Total assets	39,889.0	30,538.0	27,469.0
Due to other banks	2,808.0	3,463.8	6,349.5
Customer accounts	18,860.1	12,673.2	7,615.8
Promissory notes issued	625.1	324.0	415.6
Other borrowed funds	10,636.6	8,450.1	7,158.9
Syndicated loans	–	–	250.4
Derivative financial instruments	23.0	17.7	5.5
Other liabilities	291.3	224.0	319.3
Subordinated debts	1,776.1	1,527.1	1,533.4
Total liabilities	35,020.2	26,679.8	23,648.4
Total equity	4,868.8	3,858.2	3,820.6
Total liabilities and equity	39,889.0	30,538.0	27,469.0

Strong Capitalization

CAPITAL ADEQUACY

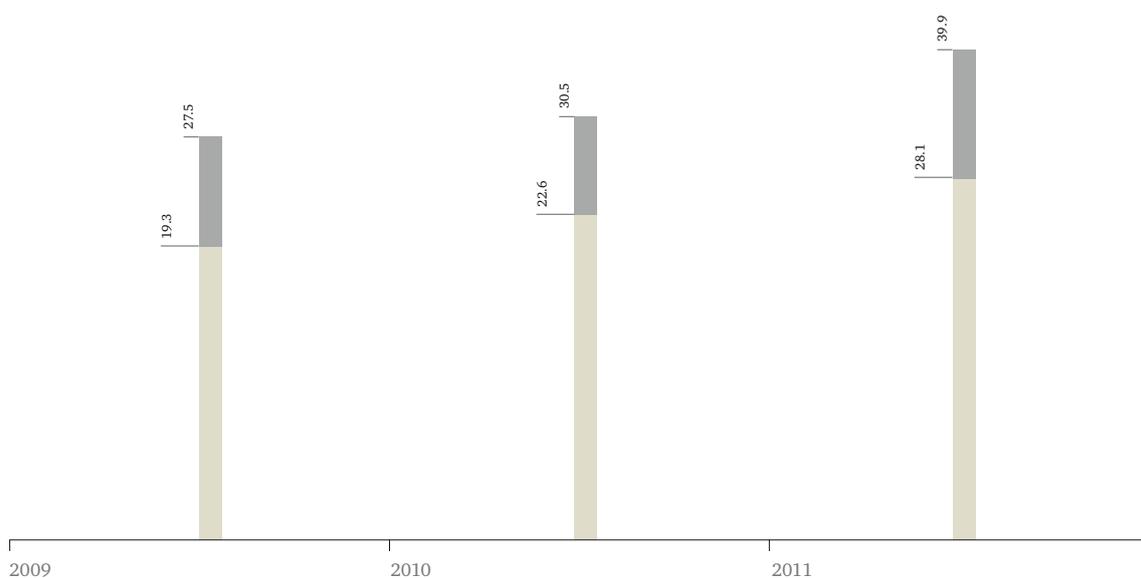
USD million, %

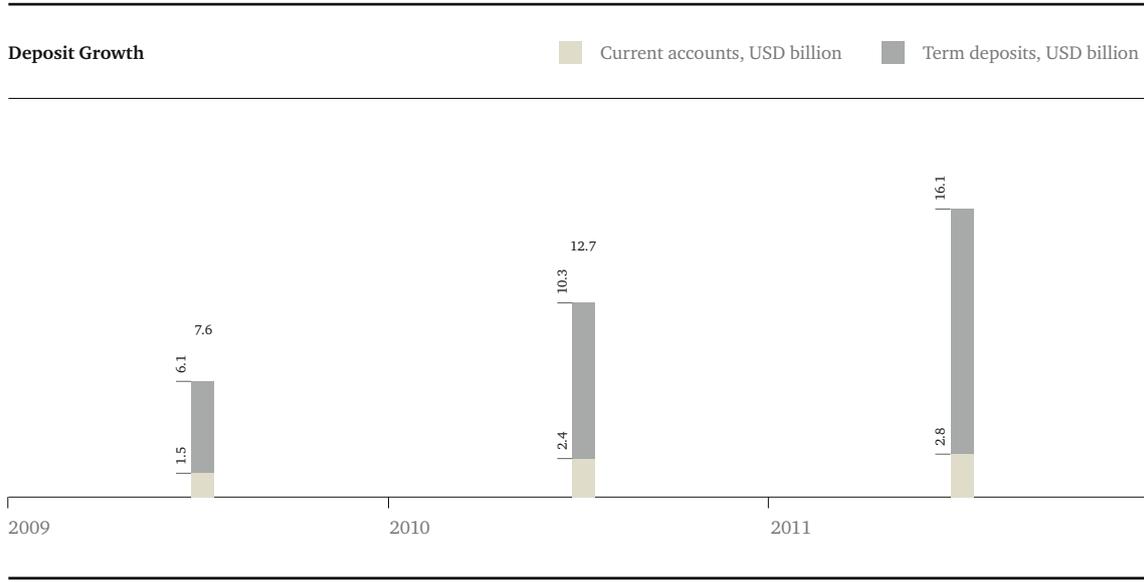
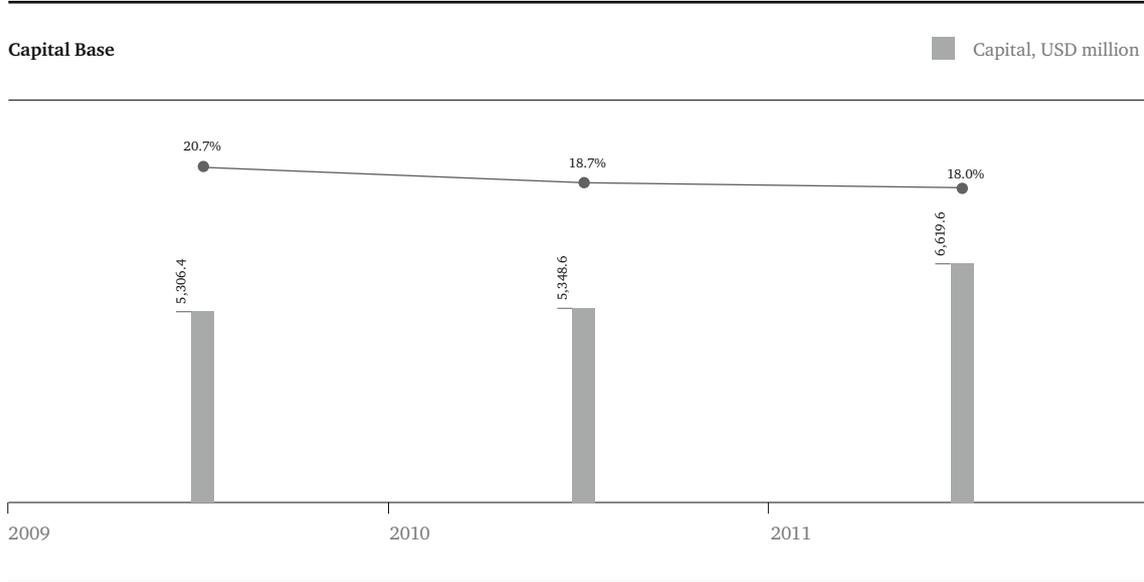
	FY 2011	FY 2010	FY 2009
Tier I Capital	4,838.7	3,794.3	3,744.9
Tier II Capital	1,780.9	1,554.3	1,561.5
Total Capital	6,619.6	5,348.6	5,306.4
Total RWA	36,992.0	28,611.2	25,589.0
Tier I Capital / RWA	13.2%	13.3%	14.6%
Total Capital Ratio	18.0%	18.7%	20.7%

Source: Audited IFRS Financial Statements as of December 31, 2009, December 31, 2010 and December 31, 2011. Converted using exchange rates quoted by the Bank of Russia as of December 31, 2009 — 30.24, December 31, 2010 — 30.48 and December 31, 2011 — 32.20

Strong Asset Growth

Loans and advances to customers, USD billion Total assets, USD billion





Source: Audited IFRS Financial Statements as of December 31, 2009, December 31, 2010 and December 31, 2011.

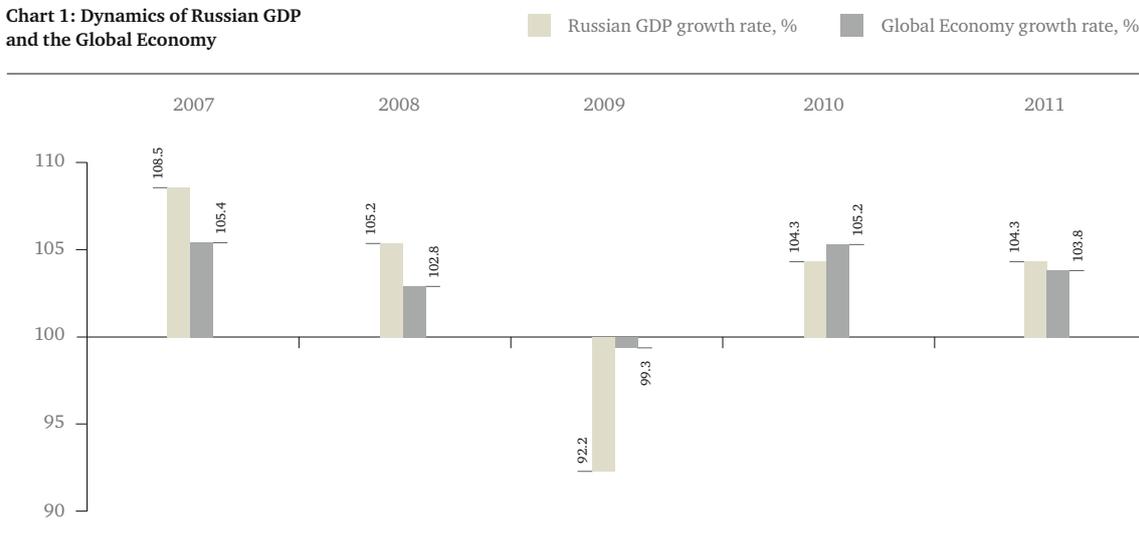
Bank of Russia RUB/USD exchange rates as of December 31, 2009 — 30.24, December 31, 2010 — 30.48 and December 31, 2011 — 32.20

3. ECONOMIC ENVIRONMENT

3.1. 2012 MACROECONOMIC CLIMATE AND OUTLOOK

In 2011, the Russian economy demonstrated strong performance development; the unemployment rate decreased and GDP and industrial production grew, despite increased uncertainty in external conditions and greater turbulence on financial markets.

Chart 1: Dynamics of Russian GDP and the Global Economy



Source: Federal State Statistics Service, International Monetary Fund

The favorable external economic environment contributed to Russian economic growth — GDP grew 4.3% in 2011. The positive trend in Russian economic performance was due to the growth in domestic demand. In 2011, the increase in capital investments amounted to 6.2%. Consumer demand grew 7.2% due to a lower propensity to save and an increase in consumer lending, as well as positive trends in the labor market — the unemployment rate by the end of 2011 fell to 6%.

Throughout the year, outstripping growth rates of 6.5% year-on-year prevailed in manufacturing. Industrial production increased 5.2% (compared with 8.9% for the same period in 2010). The agribusiness sector demonstrated absolute record growth rates — production increased 15.9%. During the same period in 2010, there was a 13% decline due to the drought. However, 2011 production growth of 22.1% in the agribusiness and the high yield significantly surpassed the 2010 decrease.

With the background of export revenue growth, the Russian macroeconomic situation remained stable. Based on preliminary data from the Russian Ministry of Finance, the 2011 federal budget surplus amounted to RUB

416.5 billion or 0.8% of GDP, compared with a deficit of 4% a year earlier. This allowed public debt to remain at a low level (9.8% of GDP) as of the end of 2011, and also allowed the reserve fund to be increased to more than RUB 1 trillion. A low level of national debt provides some flexibility in budget management and room to maneuver in the form of increased borrowings to settle budget deficits.

Table 2: Federal Budget of the Russian Federation

	2007	2008	2009	2010	2011
Budget deficit, RUB billion	1,782	1,697	-2,326	-1,795	417
Budget deficit, % of GDP	5.4	4.1	-6.0	-3.9	0.8
Budget deficit, excluding revenue from oil and gas	–	–	13.7%	12.5%	9.6%
Government debt, % of GDP	6.9%	6.3%	8.2%	9.2%	9.8%
External debt, % of GDP	3.3%	2.9%	2.9%	2.7%	2.1%

Source: Russian Ministry of Finance

In 2011, despite the strong 30% growth in imports year-on-year, the trade surplus amounted to USD 198.1 billion, the current account increased USD 29.8 billion and reached USD 101 billion.

Table 3: Balance of Payments Position of the Russian Federation

	2007	2008	2009	2010	2011
Current account, USD billion	78	104	49	70	101
Capital flows, USD billion	82	-134	-56	-34	-84
Oil price, USD/bbl	70	94	61	78	110

Source: Bank of Russia

Based on 2011 results, inflation was kept at a record low level. The consumer price index was 6.1% compared with 8.8% in 2010. This was facilitated by tightening monetary policy, as well as the withdrawal of liquidity through budgetary channels. As a result, growth in the monetary base (broadly defined) totaled 5.5% versus 26.6% in 2010. A significant contribution to limiting inflation was also made by non-monetary factors — slowdown

in food price increases due to a good harvest, as well as transferring the date of tariff indexation for natural monopolies to July 2012. A substantial slowdown in inflation has meant that real interest rates in Russia have become positive.

While world oil prices remain at historical highs, the Russian macroeconomic situation is stable and GDP shows steady growth despite the slowing global economy. However, given the strong political and speculative component in the oil price, as well as signs of instability in the growth rates of the world's largest economies, we should not underestimate the risk of deteriorating external economic conditions. For the Russian economy, which remains highly dependent on commodity prices, this would mean numerous negative consequences.

The agribusiness sector demonstrated absolute record growth rates — production increased 15.9%

Among these potential negative consequences, one can point to an increase in capital outflow and destabilization of the domestic financial market situation, as well as negative terms for external funding. The GDP growth rate may be lower than the 3.7% forecast by the Russian Ministry of Finance in 2012 despite income indexation. At the same time, a decrease in oil prices has a positive effect associated with activating the import-substitution process under conditions of ruble devaluation, which is favorable for the agribusiness sector.

Economic growth in Russia should stay dynamic in H1 2012. However, the economy could lose some steam in the second half of the year. Following 4.3% growth in 2011, the slowdown will lead to GDP growth of approximately 3.5% for the year. Inflation should remain moderate in the first half of the year due to Government measures to postpone the regulated tariff hikes on electricity and gas prices to July, allowing inflation to remain below 5%. Consumer lending, which reached an expected double-digit rate in 2011, should also continue to underpin consumer demand in the first part of 2012.

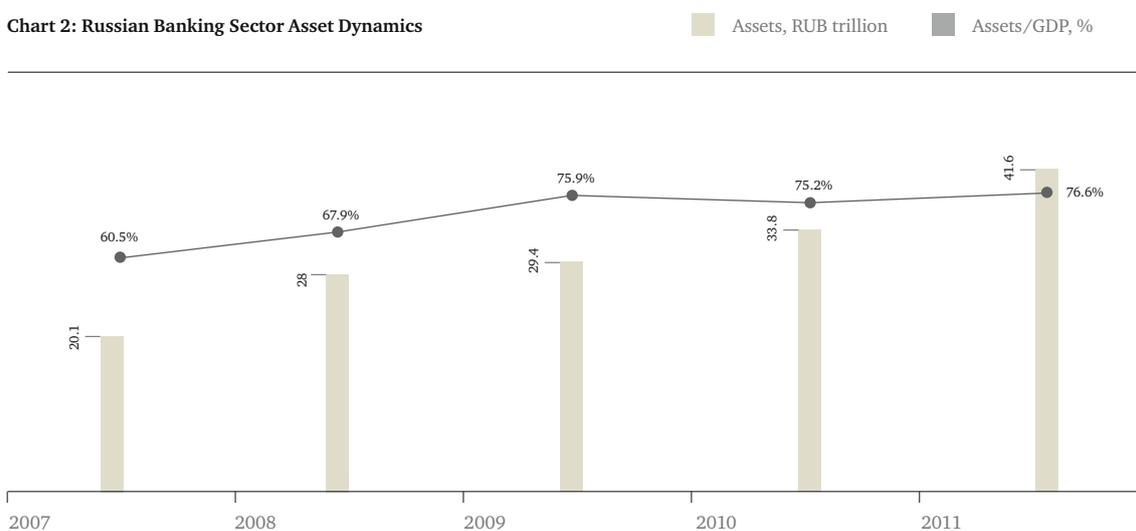
Agricultural production grew 22% in 2011. Significant financial resources provided for the development of domestic agriculture, as well as the systematic work of Russian Agricultural Bank as the key partner of national agribusiness, contributed to a boost in this important industry.



3.2. BANKING SECTOR

In 2011, there was an acceleration in banking sector asset growth rates by 23%, up to RUB 41.6 trillion, compared with 2010, primarily due to a 28% increase in the loan portfolio of Russian banks (this indicator reached RUB 23.3 trillion). As a consequence, the share of banking sector assets grew from 75.2% to 76.6% of GDP.

Chart 2: Russian Banking Sector Asset Dynamics



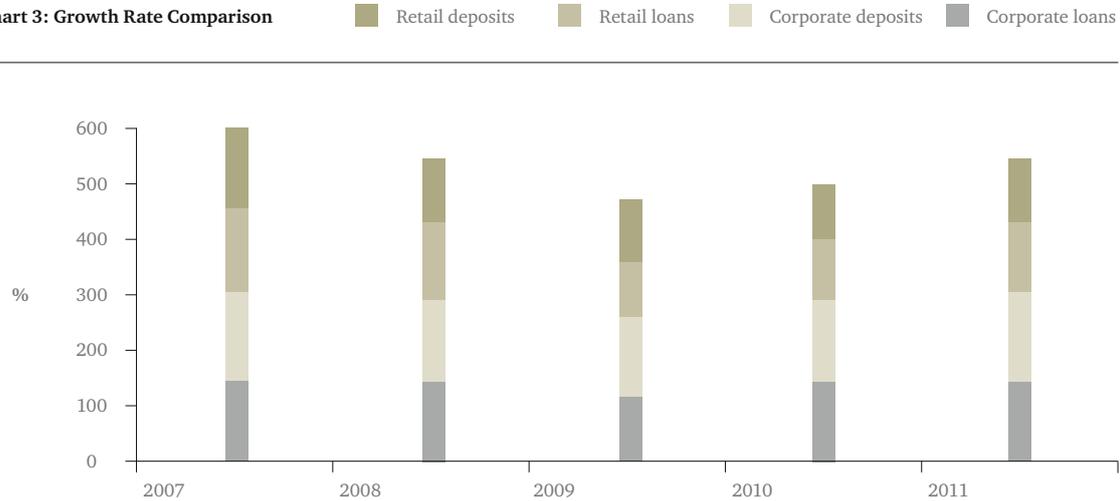
Source: Federal State Statistics Service, Bank of Russia

The difficulty of raising funds for companies on financial markets, as well as continued Russian economic growth, led to an increase in lending activity to non-financial institutions of the banking system. In total in 2011, the volume of loans to non-financial institutions reached RUB 17.7 trillion, which is a 26% increase compared with 12.1% in 2010. Loans to individuals grew 35.9%, compared with a 14.3% increase in 2010.

In 2011, there was an acceleration in banking sector asset growth rates by 23%, primarily due to a 28% increase in the loan portfolio of Russian banks

Customer accounts remained the primary source of funding for bank operations. The most considerable increase in funds was for corporate deposits — 39%, principally due to reduced capital investments and the direction of free resources to bank deposits.

Chart 3: Growth Rate Comparison



Source: Bank of Russia

Within the background of the easing situation in the economy's real sector and rapid lending growth, the quality of the loan portfolio continued to increase. The share of overdue loans to non-financial institutions declined from 5.3% to 4.6% and on loans to individuals — from 6.9% to 5.2%. The improvement in the quality of the loan portfolio allowed banks to reduce the proportion of reserves to the total amount of extended loans to 7.2%, which covers 106% of overdue loans — 6.8% of the total amount of extended loans.

In 2011, banks' equity capital increased 10.8%. As a result, the capital adequacy ratio (H1) in 2011 decreased from 18.1% to 14.7%. Nevertheless, this remains above the minimum level set by the Bank of Russia, thus providing an additional "safety margin."

Given the growth in business indicators (in volume terms) and an increase in asset quality, financial institutions' aggregate profit reached RUB 848.2 billion by the end of 2011, approximately 1.5 times greater than in 2010.

Despite a strong growth in lending, in the fall of 2011, Moody's downgraded the outlook on Russia's banking sector from stable to negative. The move reflects the agency's concerns over the weak global economy and financial volatility worsening domestic economic conditions and negatively affecting the banking sector. Financial market volatility, limited access to financing, continuous capital outflow and pressures on the RUB rate caused a liquidity deficit in the banking system in the fall of 2011. However, Moody's believes that Russian banks have sufficient safety reserves and sufficient income to absorb credit and investment losses.

For 2012, the forecast calls for solid economic growth, but much more modest than before the crisis, with real expansion less than 4% in 2012. Growth is forecast to slow in 2012 to 3.2%, before picking up moderately.

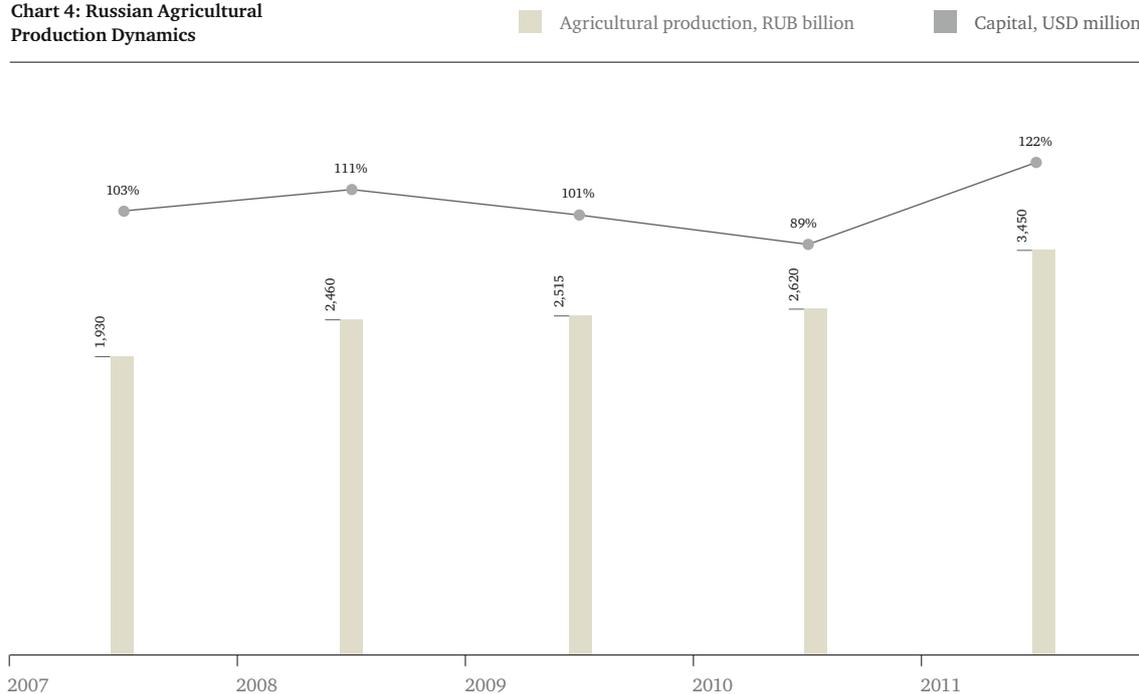
Over the medium-term, the financial sector retains considerable potential for further growth, as a rise in disposable income will boost demand for products in several areas.

The Government is likely to support large institutions in the event of a new crisis. Sizeable foreign exchange reserves, in the amount of USD 444 billion, as of the end of January 2012, mean that authorities have the resources to re-capitalise systemically important banks if necessary.

3.3. AGRIBUSINESS SECTOR

In 2011, the index of agricultural production was 122.1% of the 2010 figure, or RUB 3,450 billion. Favorable climatic and global market conditions, as well as State agribusiness support measures allowed the industry not only to fully recover from the 2010 drought, but also to significantly exceed 2009 growth rates.

Chart 4: Russian Agricultural Production Dynamics



Source: Russian Ministry of Agriculture, Federal State Statistics Service

During the period from 2008 to 2010, capital investments in the agribusiness sector (in fixed price terms) dropped 36.4% due to volatile market conditions and a drought in Q3 2010. In 2011, the volume of investments reached RUB 355 billion, the index of the actual volume of investments — 120%.

In 2011, the loan portfolio of the agribusiness sector grew 22.3% and reached RUB 1,008 billion. The total volume of loans, extended by Russian banks to agribusiness enterprises and small farms, increased 5.6% and reached RUB 546 billion in 2011.

Crop Production

2011 was a year of production recovery for basic crops, after the 2010 drought. Thus, in 2010, the crop production index dropped nearly 26%. In 2011, there was the reverse — the crop production index increased 47%.

Table 4: 2007–2011 Basic Crop Production, thousand tons

	2007	2008	2009	2010	2011
Grain and leguminous crops	81,472	108,179	97,111	60,960	93,908
Sugar beets	28,836	28,995	24,892	22,256	46,278
Oil-plants	7,037	8,972	8,186	7,457	12,431
<i>including:</i>					
Sunflower	5,671	7,350	6,454	5,345	9,627
Soy	650	746	944	1,222	1,749
Potato	27,195	28,846	31,134	21,141	32,646

Source: Russian Ministry of Agriculture, Federal State Statistics Service

Grain production in 2011, based on preliminary data, stood at 93.9 million tons, which is a 54.1% increase compared with 2010. The volume of harvested grain completely covers domestic demand for both cereal and fodder grain.

Due to favorable 2011 harvest forecasts, in July, the embargo on grain export was lifted. In 2011, 17.9 million tons of grain were exported, which is 4.7 times more than during the same period in the previous year; the total volume of grain exports reached approximately 20 million tons as of January 1, 2012.

In 2012, the crop area is forecast to increase 1.8 million hectares over 2011 capacity and will reach 78.3 million hectares.

Livestock Production

In recent years, livestock production has shown a steady increase in the production of major commodity groups. Based on 2011 results, the index of livestock production was 101.5%.

Thanks to implementing livestock support measures, in 2011, there was an upward trend in the production of livestock and poultry for slaughter, with

the largest share being in poultry and pig production. In 2011, livestock production across farms of all categories increased 4.4%, including pig production — by 3.6% and poultry production — by 11.3%.

Table 5: 2007–2011 Livestock Production, thousand tons

	2007	2008	2009	2010	2011
Livestock and poultry for slaughter (slaughter weight)	5,790	6,268	6,720	7,167	7,480
<i>including:</i>					
Cattle	1,699	1,769	1,741	1,727	1,635
Pigs	1,930	2,042	2,170	2,331	2,415
sheep and goats	168	174	183	185	190
Poultry	1,925	2,217	2,555	2,847	3,170
Milk	31,988	32,363	32,570	31,847	31,742
Eggs, million pieces	38,208	38,058	39,429	40,599	41,038

Source: Russian Ministry of Agriculture, Federal State Statistics Service

Industry Outlook

Given positive trends in industrial development and current Government support measures, agribusiness will continue its sustainable growth. In the medium-term, the agricultural production forecast will grow 4–5% year-on-year.

The 2012 federal budget allocates RUB 170 billion to domestic agribusiness support, including RUB 136 billion for implementing the 2008–2012 State Program on Agribusiness Development.

In 2012, active production growth in the food industry is expected, which is associated with an increase in the domestic supply of agricultural raw materials based on 2011 yield, as well as the liberalization of the agribusiness markets for selected agricultural products as a condition of Russia joining the WTO. Livestock is expected to continue its stable growth, particularly in poultry and pork production.

4. CORPORATE GOVERNANCE

Russian Agricultural Bank strictly adheres to the highest corporate standards and principles to drive business performance. Responsibilities within the Bank are effectively separated to ensure a smooth decision-making process and information transparency. Implementing corporate governance best practice is the key to loyal prosperity and the Bank's overall success.

The Bank acknowledges the following corporate governance principles established by international practice:

- Disclosure and transparency;
- The role and responsibilities of the Board;
- The rights and equitable treatment of shareholders;
- Integrity and ethical behavior.

Implementing corporate governance best practice is the key to loyal prosperity and the Bank's overall success

Corporate governance is a dynamic process. The Bank regularly assesses its corporate governance in light of new events, statutory requirements and developments in both domestic and international standards, and makes appropriate adjustments based on these assessments.

In 2011, Russian Agricultural Bank created the position of Corporate Secretary to comply with the procedures for ensuring the legitimate rights and interests of the Bank's shareholders.

The Corporate Secretary performs the following functions:

- Complying with procedural requirements of current Russian legislation to guarantee the exercise of the rights and interests of the Bank's shareholders;
- Arranging the General Shareholders Meeting and Supervisory Board meetings;
- Preparing guidelines on issues that require the resolution of the Bank's shareholders;
- Coordinating activity of secretaries to the Bank's Committees under Supervisory Board;
- Providing for the compulsory disclosure of information that concerns the activities of the Bank's Supervisory Board in accordance with current Russian legislation.

Russian Agricultural Bank is among steady leaders of the Russian banking sector:

- 1st in lending to agribusiness sector;
- 2nd in lending to small- and medium-sized enterprises;
- 2nd largest branch network in Russia.



4.1. SUPERVISORY AND MANAGEMENT BOARDS

At Russian Agricultural Bank, authority is efficiently delegated between the Supervisory Board and the Management Board. Corporate strategy, risk management policy, annual reports and business plans are approved by the Supervisory Board. In addition, the Supervisory Board plays an advisory role in respect to the Management Board.

The responsibilities of the Management Board include: achieving the Bank's core goals, ensuring the compliance of the Bank's activity with all relevant laws and regulations and managing business risks and financial operations.

Following Basel Committee recommendations to upgrade transparency and management efficiency, to strengthen support provided to the Bank's management and to develop a new strategic vision in the current economic environment, independent directors were introduced to the Supervisory Board of Russian Agricultural Bank.

Supervisory Board

Ilya V. Lomakin-Rumyantsev	Head of the Expert Council of JSC Rosgosstrakh, Chairman of the Supervisory Board of JSC Rosselkhozbank
Anatoly B. Ballo	Member of the Board — Deputy Chairman of the State Corporation Bank for Development and Foreign Economic Affairs (Vnesheconombank)
Anna G. Belova	General Director of LLC Center for New and Innovative Technologies SUEK (independent director)
Tatyana B. Kulkina	Chief Secretariat for the First Deputy Prime Minister of the Russian Federation
Dmitry N. Patrushev	Chairman of the Board and CEO of JSC Rosselkhozbank
Alexander I. Sobol	Deputy Chairman of JSC Gazprombank (independent director)
Mukhadin A. Eskindarov	Rector of the Financial University under the auspices of the Government of the Russian Federation (independent director)

Management Board

Dmitry N. Patrushev	Chairman of the Board and CEO
Boris P. Listov	First Deputy Chairman of the Board
Andrey A. Alyakin	Deputy Chairman of the Board
Victoria V. Kirina	Deputy Chairman of the Board
Kirill Y. Levin	Deputy Chairman of the Board
Dmitry G. Sergeev	Deputy Chairman of the Board
Aleksey Y. Zhdanov	Deputy Chairman of the Board
Evgeny V. Kryukov	Deputy Chairman of the Board

4.2. COMMITTEES AND COMMISSIONS

There are three committees under Supervisory Board patronage:

Audit Committee	Reviews the Bank's accounting and risk policies, as well as the internal control environment.
Strategic Planning and Development Committee	Sets and supervises general and priority strategic objectives, makes recommendations on dividend policy and appraises the Bank's operational effectiveness.
HR and Remuneration Committee	Approves HR Policy and the remuneration policy for senior executives.

The Management Board is supported by a number of specialized committees and commissions, including but not limited to (listed in alphabetical order):

ALCO Committee	<p>Reviews proposals to be considered by the Management Board and prepares materials for the Management Board on the following issues:</p> <ul style="list-style-type: none"> • Implementing the Bank's limits policy; • Accepting internal procedures to regulate financial risk management; • Approving the terms of new funding for the Bank and the use of this funding.
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Headed by the Deputy Chairman of the Management Board.

Membership is made up of Managing Directors of the following departments: Treasury, Capital Markets, Financial Institutions, Finance and Planning, Marketing and Credit Management, Risk Management, Retail Business Development, Legal, Corporate Business Development Department and the Chief Accountant.

ALCO Committee also makes decisions on issues such as fund allocation between regional branches, setting limits and sub-limits for regional branches and personal limits for the employees of the Head Office within the authority provided for by the Management Board.

Branch Network Committee	<p>Committee's activity is focused on:</p> <ul style="list-style-type: none"> • Implementing the Bank's branch network development policy; • Supporting branch network modernization; • Building an efficient branch network management system.
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Headed by the Deputy Chairman of the Management Board.

Committee members include: Deputy Chairman of Management Board and the Managing Directors of the following departments — Branch Network Development, Corporate Business Development, Administrative, Small-scale Business Development and Human Resources Department; as well as representatives of Finance and Taxation, Asset Management, Retail Business Development, Marketing and Credit Management, Finance and Planning, Risk Management and Security Departments.

Corporate Ethics Committee

Corporate Ethics Committee works on:

- Promoting corporate culture;
- Ensuring compliance with corporate ethics principles and rules.

Corporate Ethics Committee is headed up by the Deputy Chairman of the Management Board. Members include: Managing Director of Human Resources Department and representatives of Branch Network Development and Customer Relations and Communications Departments.

Credit Committee

Credit Committee works independently from the Credit Department and is responsible for approving terms of individual credit transactions and preparing proposals to upgrade the Bank's credit policy.

The Committee's main objectives include:

- Establishing and modifying criteria used by the Bank to analyze asset quality and risk classification categories;
- Developing procedures for reserve management;
- Setting the minimum interest rates for Bank loans;
- Reviewing and analyzing the results of inspections carried out by external auditors, regulatory bodies and the Internal Control Service.

Headed by the Deputy Chairman of the Management Board.

Committee members include: Deputy Chairmen of the Management Board, Deputy Chief Accountant and representatives of the following departments — Treasury, Finance and Planning, Marketing and Credit Management, Credit, Corporate Business Development, Retail Business Development, Risk Management and Security and Legal Departments.

Moreover, the Bank has credit committees that work at the regional branch level and in additional offices to approve terms of individual credit transactions for regional branches and additional offices, respectively. Regional branch credit committees also approve credit transactions for additional offices that exceed the established credit limits.

IFRS Committee

The following issues fall under the competency of the Committee:

- Coordinating the Bank's financial reporting based on IFRS; Operational control over financial statement preparation;
- Cooperating with the external auditor.

Headed by the Deputy Chief Accountant.

Committee is made up of Managing Directors of Treasury and Capital Markets Department, and representatives of the following departments: Information Technology, Risk Management, Finance and Planning, Accounting, Financial Institutions, Marketing and Credit Management and Retail Business Development Department.

NPL Management Committee

Committee is headed by the Deputy Chairman of the Management Board and includes representatives of Asset Management, Risk Management, Credit, Branch Network Development and Security and Legal Departments.

NPL Management Committee works to withdraw bad debts.

Strategy and Corporate Development Committee

The Committee focuses on the following issues:

- Reviewing the Bank's strategy and corporate development projects;
- Establishing and re-structuring the Bank's structural units;
- Updating IT development strategy;
- Developing an internal legal framework;
- Updating existing banking technologies and adopting new ones.

Headed by the Advisor to the Chairman of the Management Board.

Members of the Committee include: Deputy Chairman of the Management Board and the Managing Directors of the following departments — Finance and Planning, Strategy Development and Corporate Management, Legal, Retail Business Development, Regional Network Development and the Marketing and Credit Management Department, the Chief Accountant and representatives of the Risk Management Department.

Technological Committee

Technological Committee focuses on the following tasks:

- Determining the Bank's IT development strategy;
- Updating existing banking technologies and developing new ones;
- Purchasing, designing and introducing new software and hardware to streamline the Bank's management technologies.

Headed by the Deputy Chairman of the Management Board.

Members of the Committee include Managing Directors of the following departments: Operational, Automated Systems, Branch Network Development, Finance and Planning, Strategic Development and Corporate Management, Treasury, Financial Institutions, Security, Risk Management, Retail Business Development and Marketing and Credit Management Department, as well as the Chief Accountant.

Russian Agricultural Bank's strong performance was facilitated by a set of measures aimed to increase the availability of its credit resources, mainly through optimization of core lending programs and loan processing, as well as diversification of the product range.



5. CONTROLS AND PROCEDURES

Supervisory Board of Russian Agricultural Bank has established an ongoing process for identifying, evaluating and managing significant risks faced by the Bank, which includes enhancing the internal control system to deal with changes in the business environment or regulatory guidelines.

5.1. INTERNAL CONTROL

Internal Control ensures that rules and regulations set by management (regarding security and risk management) are incorporated into the Bank's business procedures.

The Bank follows the independence principle of the Internal Control Service, which reports directly to the Supervisory Board and makes recommendations on the efficiency of risk management procedures.

In 2011, the Internal Control Service of Russian Agricultural Bank performed in accordance with current legislation and requirements of the Bank of Russia and the Bank's internal documents.

The Bank follows the independence principle of the Internal Control Service, which reports directly to the Supervisory Board and makes recommendations on the efficiency of risk management procedures

The Internal Control Service's audit plan adds in the revisions schedule and is prepared on based on adopted methodology of the Bank's risk management assessment, which considers changes in the internal control system and The Bank's new business directions.

On an annual basis, the plan includes an audit of regional branches that show signs of increased risk, a significant amount of the loan portfolio and a substantial share of problem loans. The Head Office audit plan adds in business processes, which are exposed to high credit, market, operational and reputational risks. On a monthly basis, audit trials on the functioning of the internal control system on credit operations are carried out.

In 2011, the Bank's Internal Control Service conducted 74 revisions, including:

- 45 scheduled and 15 unscheduled audits of regional branch operations;
- 4 scheduled and 3 unscheduled audits of the activities of Head office structural units;

- 3 scheduled and 1 unscheduled audit of subsidiary companies;
- 3 scheduled audits of the Bank's representative offices.

Employees of the Internal Control Service, operating in regional branches, have conducted more than 2,000 audits of regional branches and additional offices during 2011, including end-to-end checks of the following directions:

- Credit operations;
- Operations with payment cards;
- IT technologies;
- HR management;
- Anti-money laundering and terrorism financing measures;
- Internal operations.

On an ongoing basis, the Internal Control Service conducts monitors the Bank's financial market operations, including:

- Changes in internal and external regulatory documents;
- Limits validity;
- The Bank's own transactions with securities;
- The Bank's brokerage activity.

This also includes auditing the reliability and timeliness of the Bank's reports as a professional securities market participant, as well as the adequacy of reserves for possible losses on securities investments.

An important issue for further development of Russian Agricultural Bank's Internal Control is the use of computer technologies for auditing and the further development of the IT audit.

5.2. RISK MANAGEMENT

Russian Agricultural Bank's risk management system is updated on a regular basis to comply with business development and international best practice standards. This allows the Bank to maintain an appropriate balance between risk and reward.

According to Russian Agricultural Bank's Risk Management Policy, the goal is to ensure that the outcomes of risk-taking activities are predictable and consistent with the Bank's objectives and risk tolerance level. The priority is to ensure the maximum preservation of assets and capital by minimizing the exposure to risks which can lead to losses.

The risk management process

The Bank's Supervisory Board approves the Risk Management Policy and is responsible for organizing and controlling system functioning as a whole. The Supervisory Board is also in charge of decision-making on large risks.

The Bank's Management Board controls risk management system functioning, approves documents and procedures for risk exposure and assesses and determines the acceptable level of risk. The Management Board is also responsible for risk monitoring and decides on ways to respond to risk, such as: risk assumption, restriction, re-distribution, hedging and risk aversion.

Operational risk management is carried out by the Management Board, the Chairman of the Management Board and specially created working committees and commissions, as well as by individual structural units of the Bank and officials in accordance with delegated authority.

Russian Agricultural Bank's authorized bodies on a regular basis consider the Bank's business results, approve and correct measures targeting early exposure and minimization of undesirable consequences

Independent control and risk assessment is exercised by specialized structural units of the Bank — the Risk Department in the Head Office and Risk Control and Assessment Services in the Bank's regional branches, which report to the Risk Department. The Risk Department is also responsible for implementing principles and methods for the exposure, assessment and monitoring of financial risks — credit, market, liquidity and operational risks.

Russian Agricultural Bank's authorized bodies on a regular basis consider the Bank's business results, approve and correct measures targeting early exposure and minimization of undesirable consequences.

Risk management system development

In 2011, with a view to integrated risk management development, the Bank's Management Board adopted the Plan of measures on the development of the risk management system.

Plan implementation in 2011 resulted in the realization of the first stage of measures providing for the improvement of the risk management system. Therefore, within the framework of organizational changes, a new structure for the Risk Department was introduced that better corresponds with the new goals.

Russian Agricultural Bank has developed the Methodology for the rating and credit limit exposure of counter-parties, including borrowers and issuers, and has made changes in the regulatory base on lending policy to upgrade the quality of the loan portfolio and minimize credit risks. Special attention was paid to developing risk management in retail lending. The Bank launched a project to centralize decision-making for retail lending; the process is based on a scoring system. The Bank introduced a series of measures to strengthen work with problem loans and to create an infrastructure that provides for all possible ways to deal with problem loans.

To eliminate losses from inter-bank operations, the Bank ensures control over the credit risk level for counter-party banks and optimizes its credit

exposure accordingly. The Bank's general exposure to financial risks is analyzed via stress-testing on a quarterly basis.

Financial market operations are subject to daily control by the Risk Department in terms of credit limits. In 2011, this process was upgraded to secure better control over securities investments.

The Bank's Head Office monitors the appropriate use of resources allocated to priority directions, as well as compliance with established limits. As an additional instrument to control liquidity risk, the Bank adopted liquidity assessment indicators. These indicators help spot an imbalance between the volume of assets and liabilities on-line and promptly call for management action.

Risk management in 2012

Following the performance of the Plan of measures on the development of the risk management system, Russian Agricultural Bank intends to bring the system to a new level. Based on the Plan, the following key projects will be realized in 2012:

- Further implementation of the project on centralizing the decision-making process in retail lending (based on a scoring system);
- Continued development and implementation of the internal credit rating definition models, particularly for corporate borrowers. To implement this project, the Bank plans to attract an outside consultant from one of the leading risk management consulting companies on the international market. These models will help optimize the procedures for credit risk assessment and make it possible to segment the Bank's corporate loan portfolio by credit risk levels.

The Bank intends to significantly upgrade and extend its operational control over market risk exposure

Under the implementation of new projects, the Bank plans to build a comprehensive risk management system and to further develop its credit limit policy.

The Bank intends to significantly upgrade and extend its operational control over market risk exposure.

To minimize its operational risks, the Bank also plans to implement numerous measures, among which is the centralization of the cooperative process between internal structural units responsible for inside and outside fraud control.

Via Plan implementation, given sufficient technological and organizational support, the Bank's risk management system will be on par with best international practices and will correspond to Basel II requirements. This will improve asset quality and enhance financial sustainability and the Bank's investment attractiveness.

5.3. ANTI-MONEY LAUNDERING AND TERRORISM FINANCING POLICY

Based on Russian laws and regulations, as well as international recommendations, Russian Agricultural Bank is committed to complying with strict anti-money laundering principles and requires the same from its management and employees.

To upgrade risk management efficiency and maintain its strong business reputation, The Bank's management circulated the Bank's adopted anti-money laundering policy and guidelines, which were designed to prevent, detect and combat money laundering and terrorism financing, at all of its structural units, regional branches and additional offices.

The Bank implements the "Know Your Client" (KYC) program to identify clients a priori. The criteria for evaluating the risk level for a client's potential involvement in legalizing proceeds from criminal activities (money laundering) and terrorism financing are set by The Bank's Internal Control Rules. If the Bank considers the risk to be high, it will pay special attention to all transactions on that particular client's accounts.

The Bank's effective risk management and optimized security systems meet the highest anti-money laundering standards and enable the Bank to identify, analyze and assess potential threats and to take appropriate measures to avoid these risks

All information received during client identification and the establishment and identification of beneficiaries is regularly updated, as data changes occur or depending on the risk level for a client's involvement in legalizing proceeds from criminal activities (money laundering) and terrorism financing.

When establishing account relationships with a partner bank, Russian Agricultural Bank inquires whether the correspondent bank has implemented an anti-money laundering and terrorism financing policy, including client identification. In cases when the partner-bank has not implemented these measures, the Bank will refrain from establishing correspondent relationships with said institution.

Russian Agricultural Bank does not establish or maintain correspondent relationships with non-resident banks that have no permanent governing bodies in the countries in which they are registered.

On a daily basis, Russian Agricultural Bank monitors all operations via a special automated banking system and, in accordance with Russian legislation, forwards information about transactions that are subject to anti-money laundering control to the Federal Financial Monitoring Service.

If a party, either an individual or legal entity, performing a banking transaction, is known to be involved in extremist activities, the Bank suspends these operations.

Adhering to the Bank's Anti-money Laundering and Terrorism Financing Policy is compulsory for all employees. Both the Head Office and the Bank's regional branches operate anti-money laundering policy.

The Bank's effective risk management and optimized security systems meet the highest anti-money laundering standards and enable the Bank to identify, analyze and assess potential threats and to take appropriate measures to avoid these risks.

In 2012, Russian Agricultural Bank will elaborate on new supervisory tools, regularly participate in procedural reviews and conduct personnel training programs throughout the branch network and at the Head Office to raise awareness. These measures will further enhance the effectiveness of the Bank's risk management and Anti-money Laundering and Terrorism Financing systems.

Russian Agricultural Bank extended loans to over 128 thousand household plots across the country in 2011 for the total amount of RUB 61.9 billion, which makes 30% of the total volume of lending to household plots. The Bank's funds allowed borrowers to purchase necessary veterinary preparations, seeds and fertilizers, agricultural equipment and machinery, and build new facilities.



6. INFORMATION TECHNOLOGY

Russian Agricultural Bank's IT system employs software solutions from leading Russian and foreign IT companies, as well as modern integration technologies, and has the capacity and potential to manage the Bank's growing scale of operations and the increased number of clients.

The Bank is committed to continue investing in information technology to support the efficiency of the growing scale of its operations and to ensure the highest possible management standards and degree of transparency.

The development of the Bank's information technology system is based on current IT strategy, which establishes core principles, including:

- An innovative and industry-specific IT base;
- The maximum centralization of applications that support key business processes;
- A single integrated environment;
- A unified corporate information space.

Russian Agricultural Bank maintains a strong and secure operating platform, which allows it to adapt to fluctuations in the business environment and to ensure safe and stable operations.

Information support is one of the key factors that drives the Bank's overall performance and operating results. The successful implementation of integrated design and comprehensive IT solutions heavily depends on an efficient technology landscape and the availability of IT resources.

2011 IT system development

In 2011, the Bank's IT Department, in conjunction with the Accenture Company, implemented the project "Development of Application Architecture and IT Infrastructure, IT Transformation and the Development of Project Management Principles." Proceeding from the results of the project, the Bank plans to launch numerous new projects to introduce modern automation technologies in different business areas, to upgrade the existing IT platform and to optimize internal IT services.

In 2011, within the framework of the program to transform the information technology system, the IT Department promoted the following IT projects.

During the second half of 2011, the Bank successfully developed and installed a new retail credit process system. It resulted in the organization of the front office for retail loan application processing on the IBS "BIScuit" platform.

As a part of the IBS "BIScuit" automated banking system, a technology was introduced that provides the Bank's borrowers with the opportunity to join the collective banking insurance program, as well as allowing for the reassignment of claims under loan agreements in favor of Russian Agricultural Bank.

In September 2011, the Bank launched the process of replicating the Centralized System Distance Service for corporate clients throughout the

whole branch network. The Centralized System substituted for autonomous workstations rendering distant access services in separate branches. The system provides for a high level of reliability and strong privacy protection. It standardizes and optimizes distance services for more than 35 thousand clients.

In December 2011, the Bank launched trial operation of the “Customer Identification File” (CIF), which is a basic component of the customer relationship management system on the Siebel CRM platform. The CIF is a centralized automated system that stores customer data from different systems of the Bank, along with effective quality control management mechanisms for said information.

Russian Agricultural Bank maintains a strong and secure operating platform, which allows it to adapt to fluctuations in the business environment and to ensure safe and stable operations

Also, in December 2011, the Bank launched the Automated System for Human Resources Management, utilizing the SAP HCM platform. This system offers solutions for internal corporate management and human resource management, along with managing the payroll for more than 30 thousand Bank employees.

By the end of 2011, the first implementation stage of the Automated System of Financial Resources Management (on the Kondor+ platform) was completed. Currently, on this platform operates the Bank’s front-office on the currency market.

To upgrade the quality of projects, to secure the achievement of targets within each project and to provide for the effective management of financial resources, the Bank steadily implements the Methodology of project management. A significant part of the Bank’s project portfolio is represented by IT projects.

Implementing these projects will allow Russian Agricultural Bank to upgrade the quality of services provided to clients, to introduce new banking products, to increase the efficiency of resources used, to enable further reductions in operating risks and to ensure the transition to new capital adequacy assessment methods (based on Basel II) without strangling business growth.

7. REGIONAL PERSPECTIVE

Russian Agricultural Bank has the second largest branch network in Russia, which provides the rural population and agribusiness enterprises with access to banking services. The Bank's regional branch network covers 84% of Russia's territory. The Bank is agriculture-dedicated, providing credit and financial services to rural regions. The Bank is represented in small rural settlements — areas that other banks do not go to.

Russian Agricultural Bank pursues a strategy of sustainable, profitable growth due to a unified approach to structuring relationships between the Head Office, regional branches and additional offices.

As of January 1, 2012, Russian Agricultural Bank had 78 regional branches and 1,518 points of sale, including:

- Additional offices — 1,457;
- Operational offices — 43;
- Separate cash desks — 18.

In rural settlements, Russian Agricultural Bank is represented by 85 authorized officials of regional branches. The Bank also has 4 representative offices in Belarus, Tajikistan, Kazakhstan and Azerbaijan.

Russian Agricultural Bank Regional Branch Network in 2011

In 2011, the Top-5 most effective regional branches (in terms of operation) were in the Krasnodar, Moscow, Altay, Orenburg and Samara Regions. As of January 1, 2012, the assets of the Top-5 branches amounted to RUB 337 billion or 25% of all regional branch network assets. This represents a 30% increase compared with 2010.

Financial results of the Top-5 regional branches as of January 1, 2012:

- Customer Lending
 - Total lending volume — RUB 215 billion;
 - The Top-5 share in lending activity of the entire regional branch network — 24%;
 - Growth in lending volume in 2011 — RUB 38 billion;
 - Lending growth rate in 2011 — 21%.
- Attracting Customer Funds
 - Total volume of funds raised — RUB 73 billion;
 - The Top-5 share in attracting funds within the entire regional branch network — 23%;
 - Growth in funds raised in 2011 — RUB 26 billion;
 - Fund raising growth rate in 2011 — 56%.
- Estimation of Final Results
 - The Krasnodar Regional Branch — ranked 6th in terms of business performance improvement in 2011;
 - The Moscow Regional Branch — ranked 9th by business development assessment;
 - The Altay Regional Branch — ranked 10th by business development and 2nd by the business efficiency assessment;
 - The Orenburg Regional Branch — ranked 1st in terms of the quality of business processes;

- The Samara Regional Branch — ranked 6th by the business efficiency assessment.

In 2011, the largest regional branches implemented numerous successful investment projects, including but not limited to:

- The Krasnodar Regional Branch provided RUB 966 million to reconstruct OOO “Vitiazevskaya Poultly Plant,” and to construct the new production facility and purchase technological equipment for poultry production;
- The Altay Regional Branch financed the launch of a secondary line of the cattle-breeding complex, OOO “Zapadnoe,” for the production of milk and meat in the amount of RUB 900 million;
- The Moscow Regional Branch extended RUB 430 million to construct a cattle-breeding complex by the Federal State Unitary Enterprise “APK “Nepetsino;”
- The Orenburg Regional Branch provided RUB 120 million to OAO “Terensaisky Elevator” to reconstruct and modernize facilities for grain purification and storage;
- The Samara Regional Branch financed the reconstruction and equipment of a dairy farm by ZAO “Niva” in the amount of RUB 63 million.

Russian Agricultural Bank has the second largest branch network in Russia, which covers 84% of Russia’s territory

Russian Agricultural Bank sets a high value on developing official relationships with regional and local administrations. Regional branches and additional office openings are supported by these administrations, as they enhance agribusiness development in these regions. During 2011, the Bank signed numerous cooperative agreements aimed at agribusiness development with the administrations in constituent Russian republics, regions and districts, including agreements within the framework of implementing the State Program on Agribusiness Development.

2012 Regional Branch Network Development

In 2012, the Bank plans to upgrade the operational efficiency of its branch network — centralizing resources, middle and back offices, as well as creating an optimal balance between the centralization and de-centralization of authority and responsibilities by:

- Intensifying the volume of customers per branch from 2,000 to 4,500 by 2020, optimizing the product range, etc.;
- Full customer service, package offers including partner products — insurance, leasing, pension programs and asset management;
- Implementing mass-production technologies in the new products generating process;
- Ensuring an effective presence in the regions, optimizing territorial branch coverage;
- Paying attention to regional specifics and the behavior models of the population and business;

- Developing small- and micro-format front offices and points-of-sale for small- and medium-sized towns and rural areas, standardizing front office formats and optimizing costs;
- Motivating personnel, controlling service quality.

The expansion of the Bank's branch network and sales channels via the transformation of 78 regional branches with 1,500 additional offices to 10 regional banks with 1,600–3,700, primarily small- and micro-format offices, includes:

- Territorial coverage growth up to 90% (from 84%);
- Improving network manageability by creating regional banks;
- Organizing partner sales channels, for example, via Russian Post, Rostelecom and retailers, etc., and the partners' products via the Bank's network (insurance products, etc.);
- Operating in remote areas via the development of mobile and distant channels;
- Advancing the development of distant, partner and micro-format service and sales channels;
- Replicating successful product and client solutions;
- Making a full product range available through various service and sales channels: small- and micro-format offices and mobile and distant services, etc.

Russian Agricultural Bank sets a high value on developing official relationships with regional and local administrations

In developing its regional service and selling network, the Bank should promote the interests and priorities of the State in regional economic development:

- Ensuring the timely distribution of State support to final recipients by participating in federal and regional development programs and the realization of municipal-level projects;
- Cooperating with regional governments on reaching their key performance targets;
- Collaborating with guaranty and pledge funds, assisting in receiving grants and subsidies;
- Providing payment services for the housing and utilities system;
- Harmonizing the lending policy with the budget process and seasonal factors in agribusiness.

In addition to the development of its branch network (principally small- and micro-format offices), Russian Agricultural Bank plans to actively develop various service and sales channels. The share of distance and out-sourced service channels should grow considerably by 2015, and will become predominant by 2020.

8. MANAGEMENT DISCUSSION AND ANALYSIS

8.1. PERFORMANCE REVIEW

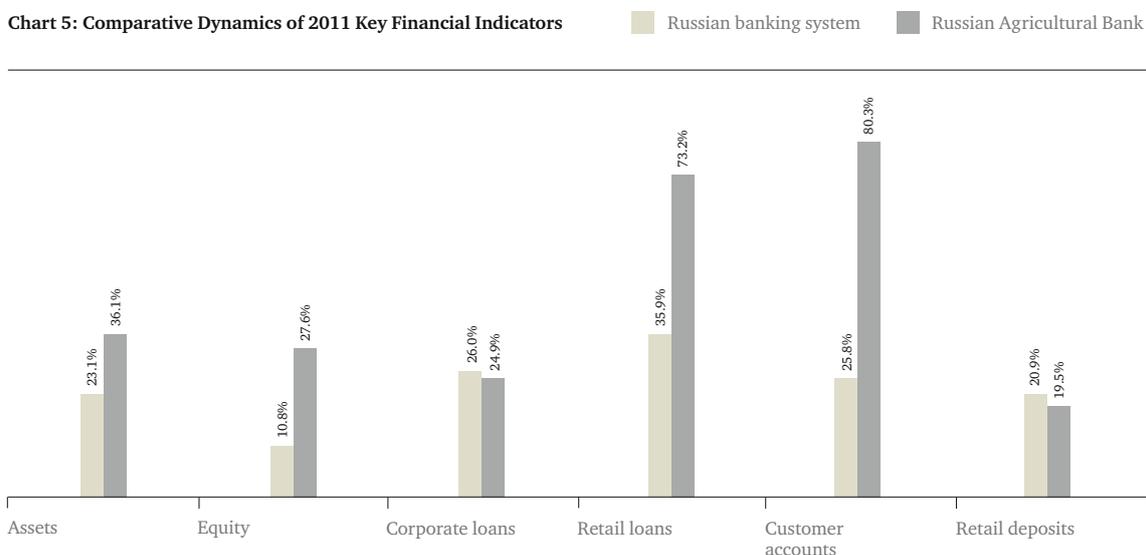
Russian Agricultural Bank has maintained its leading position in the Russian banking system, as well as specifically in agribusiness lending.

In 2011, the Bank demonstrated consistent growth in both the corporate and retail loan portfolio — 26% and 73%, respectively. For the banking system, the corresponding figures were 26% and 36%.

During the reporting period, the growth rate for the retail loan portfolio was 37.2 percent points higher than the growth rate for the banking system as a whole, resulting in growth of the Bank's share in lending to individuals from 2.1% to 2.6%.

As a result, the Bank has maintained its 4th place ranking among Russian banks in lending to both corporate clients and individuals.

Chart 5: Comparative Dynamics of 2011 Key Financial Indicators



Source: Bank of Russia, Russian Agricultural Bank information

Note: Financial data in this section is prepared under IFRS as of December 31, 2011. Some detailed information on Russian Agricultural Bank business performance is prepared under RAS as of January 1, 2012.

Strong Capital Position

During 2011, Russian Agricultural Bank's capital continued to grow from both federal and market sources.

International investor confidence and the strong perception of the Bank's credit quality allowed Russian Agricultural Bank to attract Tier 2 capital leveraging resources at the most attractive price. To finance the loan, the

Russian Agricultural Bank's retail loan portfolio grew 73%, corporate loan portfolio – 26%, in 2011. Total volume of loans to small-scale enterprises increased 61%. Lending for purchase of agricultural machinery and equipment almost doubled compared to 2010.



Bank successfully priced a 10-year USD 800 million subordinated Eurobond issue in May 2011 at a 6.0% rate, with a 2016 call option.

An increase in equity capital allowed the Bank to maintain capital adequacy at its traditionally high level amid rapid loan portfolio growth.

In December 2011, the Government of the Russian Federation increased the capital of Russian Agricultural Bank by RUB 40 billion. As of January 1, 2011, the Bank's capital amounted to RUB 148.8 billion under IFRS.

The Government is committed to funding further capital increases for Russian Agricultural Bank to support lending activity under the 2008–2012 State Program on Agribusiness Development.

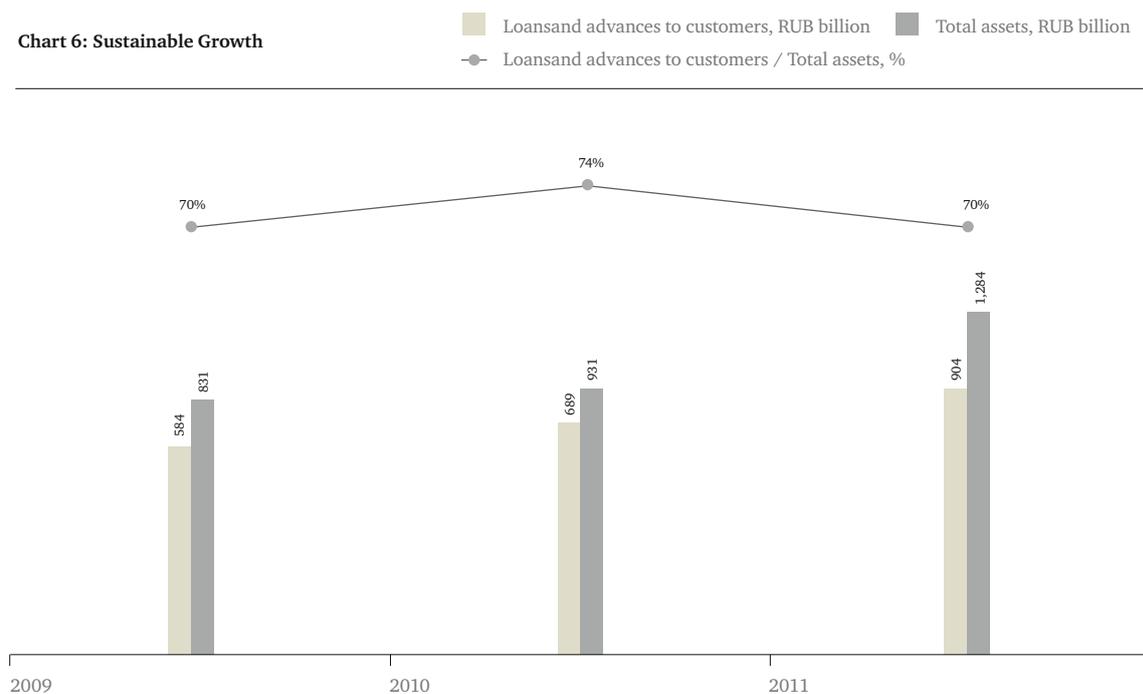
Russian Agricultural Bank believes that its capital strength and liquidity are two of its competitive advantages, ensuring that it is well-positioned to seize new opportunities for agribusiness support wherever and whenever they arise.

Stable Financial Position

In 2011, the Bank's asset volume grew 38% and amounted about RUB 1.3 trillion. The Bank's loan portfolio stood at RUB 903.7 billion, which marks a more than 30% increase compared with 2010.

Russian Agricultural Bank has achieved strong asset growth (by more than RUB 350 billion) in line with management expectations and objectives.

Chart 6: Sustainable Growth



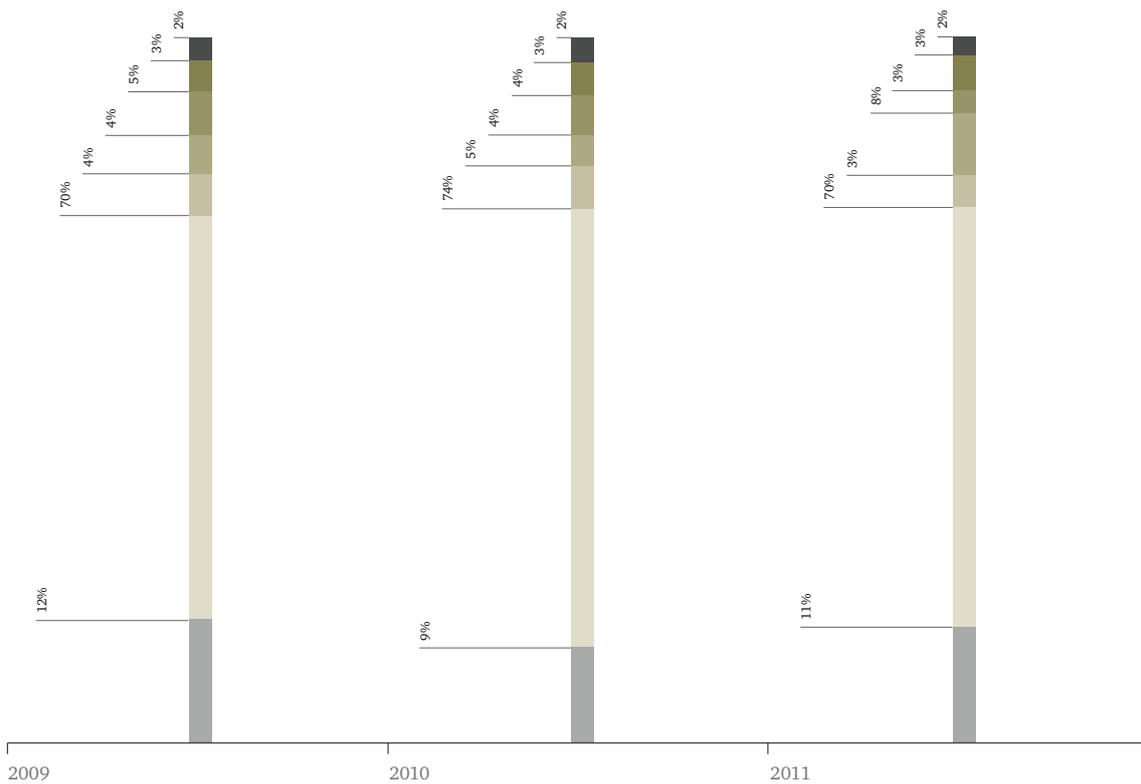
Assets and Liabilities

During 2011, the share of corporate and retail loans (70%) consistently dominated the Bank’s asset structure (Chart 7), indicating a high degree of customer credit loyalty.

The share of cash and cash equivalents accounted for 11% of the Bank’s total assets as of January 1, 2012, financial instruments and securities —11%, due from other banks — 3%, premises and other assets — 5%.

Chart 7: Asset Structure Dynamics

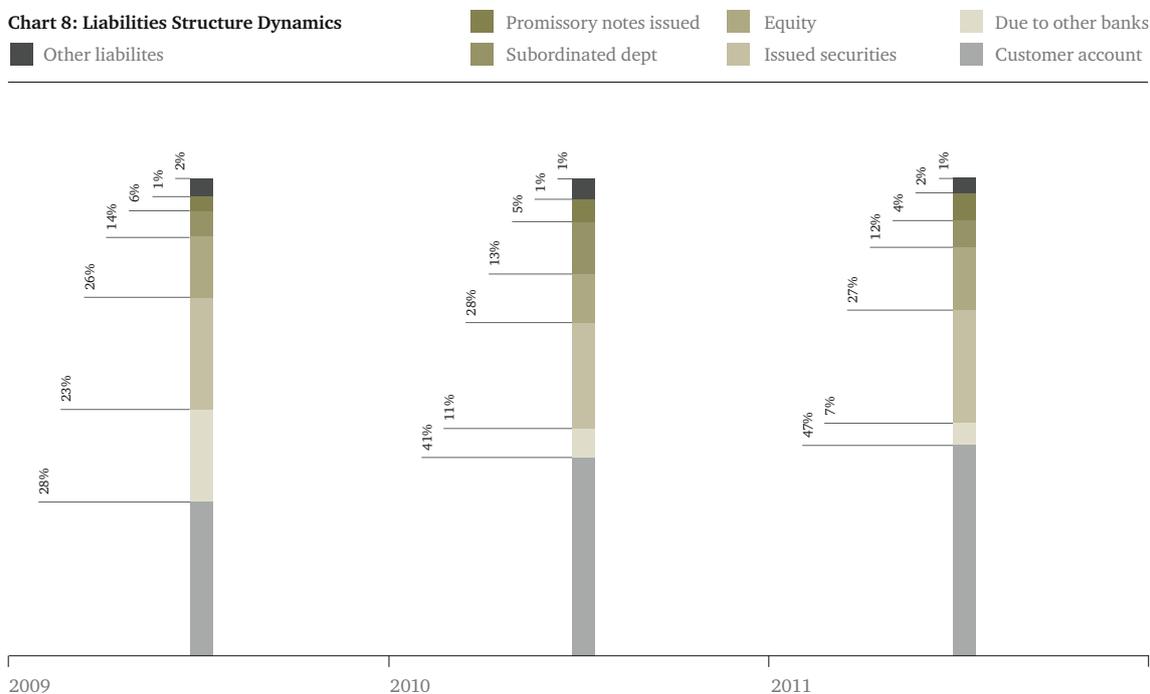
- Premium and equipment
- Securities portfolio
- Loans and advances to customers
- Other assets
- Due from other banks
- Financial instruments
- Cash and cash equivalents



Russian Agricultural Bank liabilities are reasonably well diversified (Chart 8).

In 2011, customer accounts made up the largest share of the Bank’s liabilities structure — 47%. The share of issued securities accounted for 27% of the Bank’s total liabilities as of January 1, 2012, equity and due to other banks — 12% and 7%, respectively.

Chart 8: Liabilities Structure Dynamics



Incomes and Expenses

In 2011, Russian Agricultural Bank's active policy of lending capacity accumulation contributed to growth in the Bank's net interest income of RUB 2 billion to RUB 53.6 billion, or 3.9% compared with 2010. Net fee and commission income increased approximately 50% compared with 2010 and reached RUB 4.2 billion. For FY 2011, net profit amounted to RUB 58 million.

Investing in future profitability and sustainable growth is a priority for the Bank. In 2011, operating expenses remained particularly tightly controlled, with continued investment in new growth initiatives.

Interest expenses grew 11%; total administrative and other operating expenses increased 23% compared with the previous period. Staff costs accounted for 64% of the total net increase in administrative and other operating expenses and include statutory social security and contributions to State and non-State pension funds.

Russian Agricultural Bank focuses on balancing growth and returns to maximize operating efficiency and value creation.

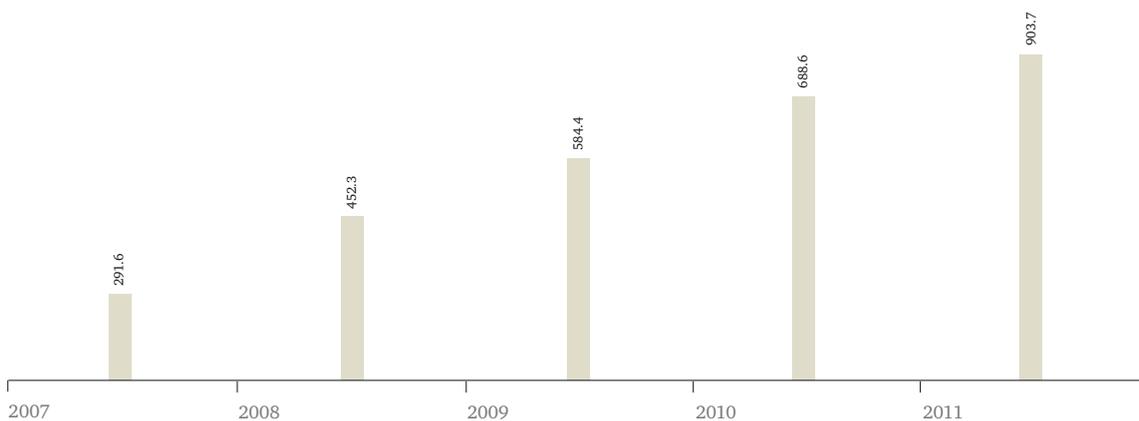
Sustainable Lending Business

With the second largest regional branch network in Russia, covering more than 80% of Russian territory, the Bank is well-positioned to support its customers wherever they do business.

From a financial perspective, the Bank has shown significant results in its lending business, confirming its market share in major agribusiness segments and enhancing the quantitative and qualitative value of its customer base.

In 2011, Russian Agricultural Bank achieved its main goal — providing full-scale financial support to the agricultural industry and demonstrating positive dynamics across all key performance indicators, in compliance with management plans and expectations. The Bank's loan portfolio grew 31% and amounted to RUB 903.7 billion after provisions under IFRS.

Chart 9: Loan Portfolio Dynamics,
RUB billion

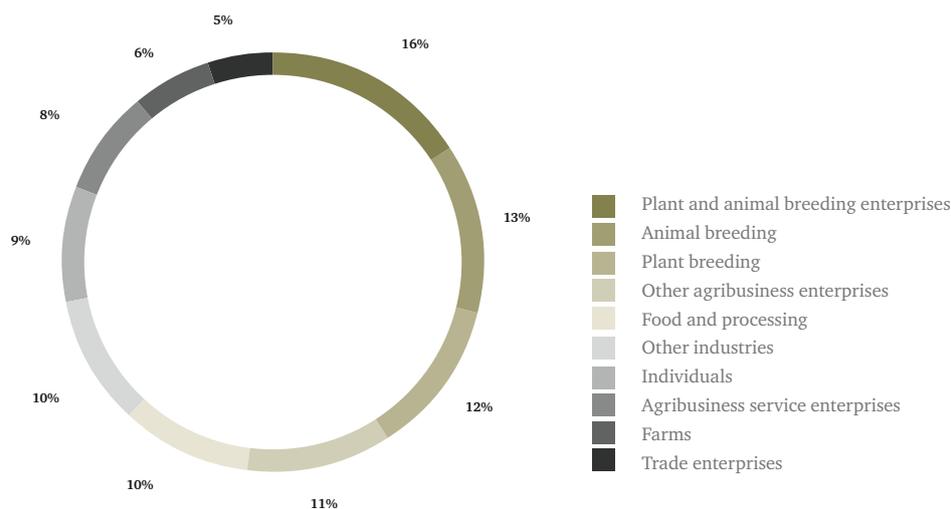


During 2011, the Bank increased its agribusiness lending and issued more than 168 thousand loans in the amount of more than RUB 409 billion, marking a 24% growth compared with 2010.

One of the primary objectives of the Bank's credit policy is to expand the scale of lending to agribusiness and the rural population within the framework of the State Program on Agribusiness Development, by financing grain purchases and commodity interventions, developing a land mortgage system and providing for the technical and technological modernization of Russian agribusiness. The total volume of financial resources provided by Russian Agricultural Bank within the framework of State Program implementation for the period from January 1, 2008 — January 1, 2012 exceeded RUB 1.3 trillion.

The Bank's conservative lending policy, coupled with precise criteria for identifying doubtful operations, allowed Russian Agricultural Bank to limit non-performing loans to 7.06% (according to RAS) and to 7.3% (according to IFRS). Corporate loans made up more than 90% of overdue loans; the share of retail loans was only 2.6%, which is well below the banking system average.

Chart 10: Loan Portfolio Diversification by Sector



Corporate Lending

As of January 1, 2012, the volume of the Bank's corporate loan portfolio reached RUB 832.2 billion, including food intervention lending in the amount of RUB 33.3 billion and investments in agricultural cooperatives, which stood at RUB 509 million. The number of corporate clients increased 11%.

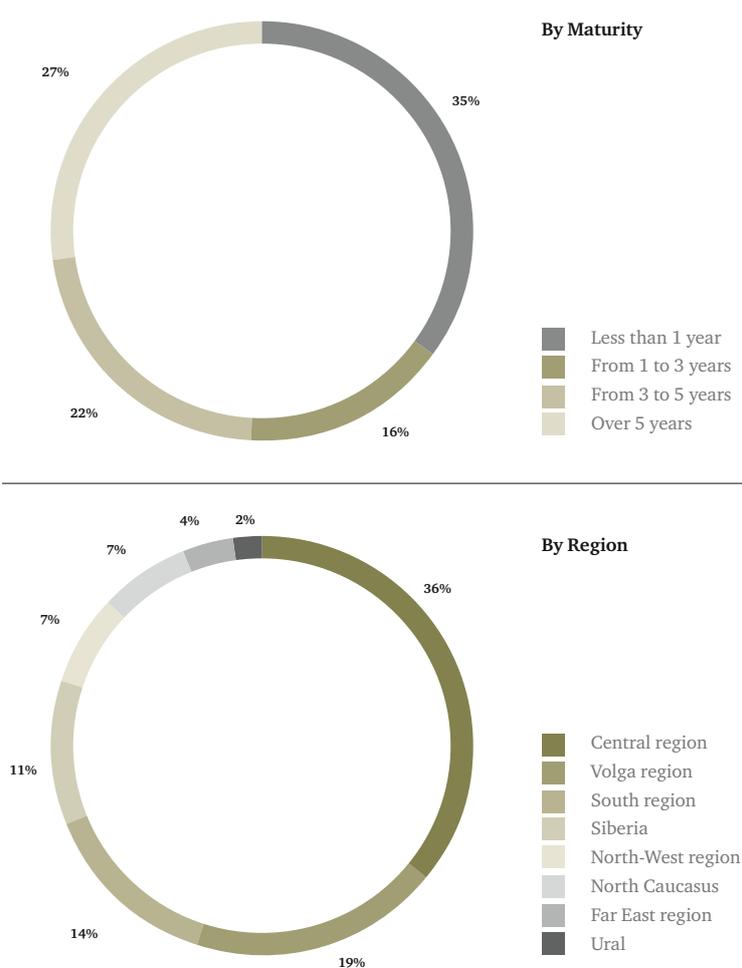
Lending to agricultural producers, manufacturing and retail customers dominates the Bank's lending business. The share of loans to agribusiness enterprises in the Bank's total loan portfolio amounted to 55% or RUB 543.7 billion in 2011.

Russian Agricultural Bank offers agribusiness producers a variety of industry-specific lending programs, including those to purchase agricultural equipment and machinery, construct and modernize livestock complexes, develop grain market infrastructure and to lend for seasonal field work, as well as to lend to agricultural credit and consumer cooperatives and SME lending programs.

Moreover, Russian Agricultural Bank has elaborated on special innovative lending programs focused on developing indigenous handicrafts and local agricultural specialties, including: reindeer breeding, yak breeding, horse breeding and aqua-culture development lending, etc.

By implementing a wide range of lending programs and offering an extensive set of lending products, the Bank developed a well-diversified corporate loan portfolio (Chart 11).

Chart 11: Corporate Portfolio Breakdown



Small-scale Enterprises Support

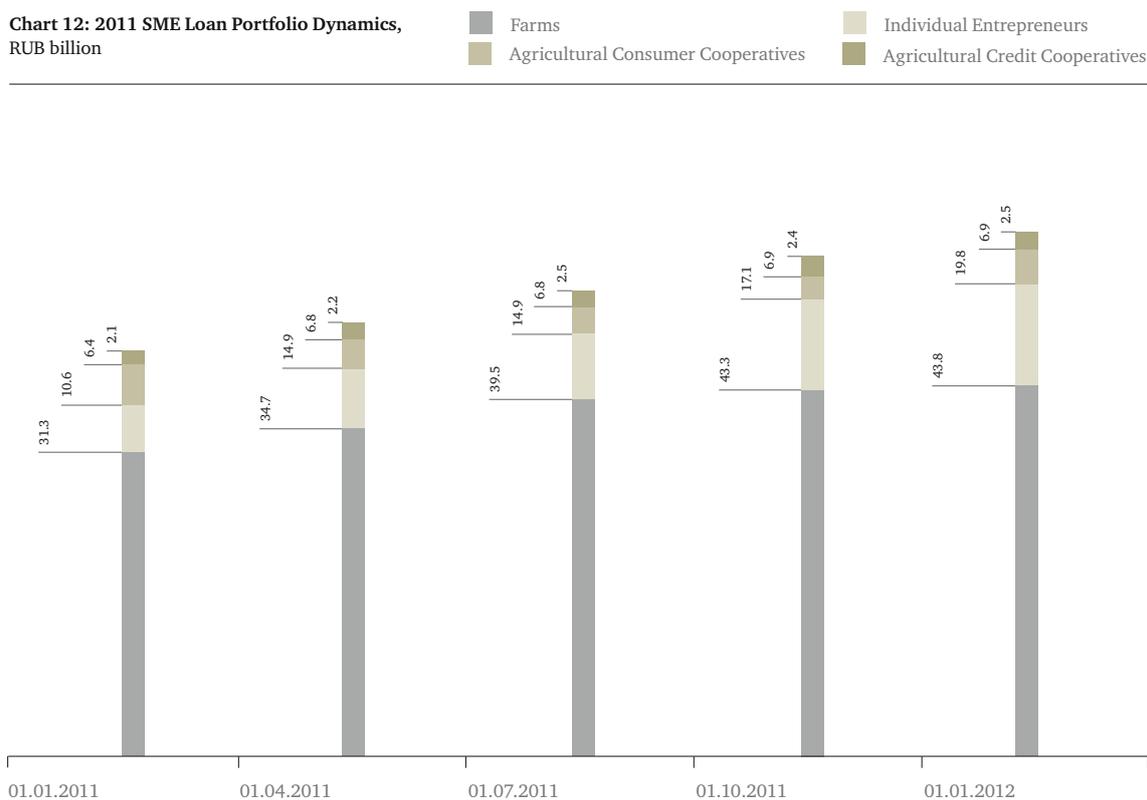
Russian Agricultural Bank provides financial support to 4 major types of small-scale enterprises (SME): farms, individual entrepreneurs, agricultural consumer cooperatives and agricultural credit cooperatives.

In 2011, the Bank extended RUB 57.4 billion to small-scale enterprises, which represents 61% growth compared with 2010. During the reporting period, growth in the Bank's SME loan portfolio amounted to 45% or RUB 22.6 billion (3.1 times more than the 2010 figure).

The SME loan portfolio is made up of almost 60% of loans to farmers, agricultural consumer cooperatives accounted for 9.4% and agricultural credit cooperatives — 3.5%. During 2011, the share of individual entrepreneurs grew 6.1% and reached 27.1%.

Loans extended for investment purposes make up 55% of the SME portfolio, including for the purchase of machinery and equipment — 34%, the construction and modernization of agricultural complexes (farms) — 11%, and the purchase of farm animals — 6%. Funds for working capital and seasonal field work account for 42% of the SME loan portfolio.

Chart 12: 2011 SME Loan Portfolio Dynamics,
RUB billion



Lending to farmers and individual entrepreneurs

In 2011, Russian Agricultural Bank extended more than 14,000 loans to farms and individual entrepreneurs totaling RUB 52 billion, including:

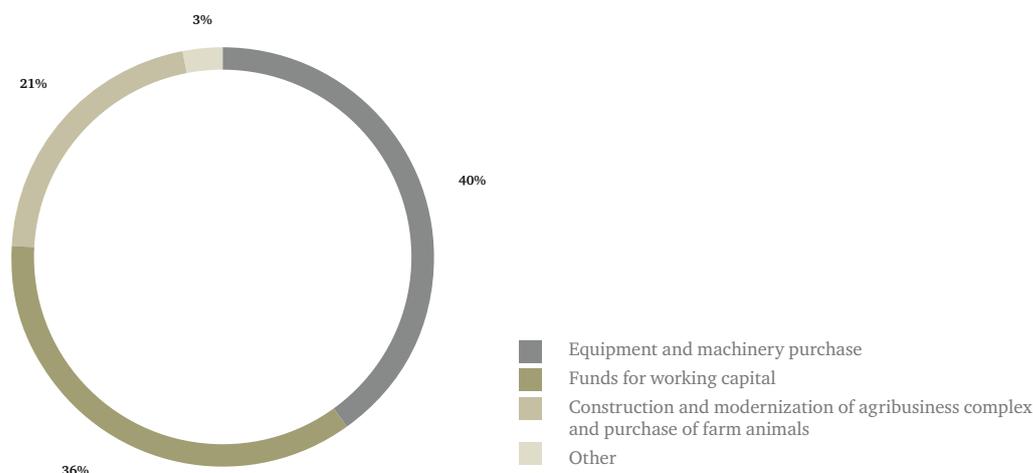
- Farms — 10,167 loans in the amount of RUB 30.3 billion;
- Individual entrepreneurs — 4,370 loans in the amount of RUB 21.7 billion.

In absolute terms, in respect to 2010, the number of loans and the lending volume to farms and individual entrepreneurs grew 65% and 63%, respectively.

The loan portfolio to farms and individual entrepreneurs increased 52% during the reporting period and reached RUB 63.6 billion as of January 1, 2012, including loans to farms — RUB 43.8 billion and to individual entrepreneurs — RUB 19.8 billion.

A significant part of the portfolio of loans to farmers consists of loans to purchase machinery and equipment — 40%.

Chart 13: Breakdown of Loans to Farms by Lending Purpose



Lending to agricultural cooperatives

During the reporting period, the Bank extended 994 loans to agricultural cooperatives in the total amount of RUB 5.4 billion, including:

- Agricultural consumer cooperatives — RUB 3.5 billion, 522 loans;
- Agricultural credit cooperatives — RUB 1.9 billion, 472 loans.

The year-on-year increase in the number of loans and lending volume to agricultural cooperatives stood at 18% and 24%, respectively.

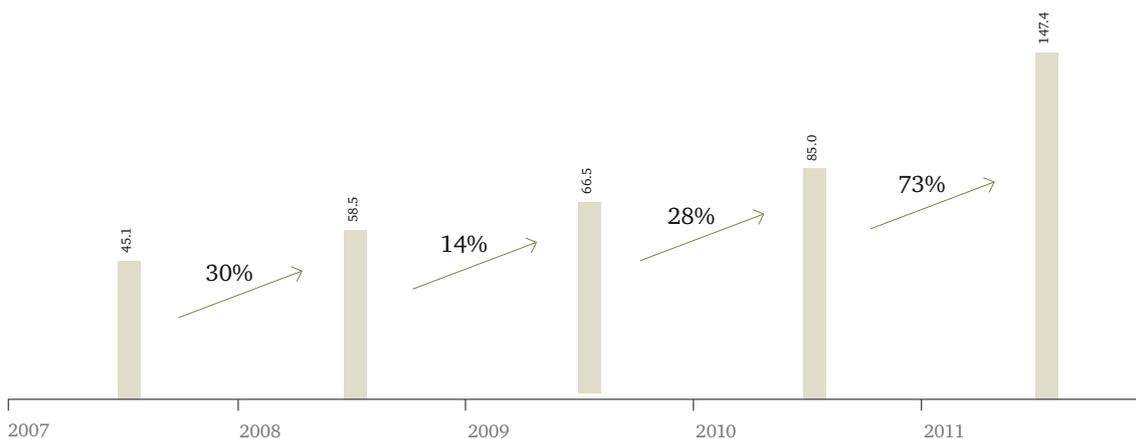
As of January 1, 2012, the total portfolio of loans to agricultural cooperatives increased 11% and reached RUB 9.4 billion, including loans to agricultural consumer cooperatives in the amount of RUB 6.9 billion (7.5% growth) and RUB 2.5 billion to agricultural credit cooperatives (21.4% growth).

Retail Lending

In 2011, Russian Agricultural Bank continued to dynamically develop its retail lending programs. The Bank's retail loan portfolio showed a significant 73% growth rate (Chart 14) and reached RUB 147.4 billion by the end of the year. The number of retail clients increased 41%.

The growing retail portfolio is strengthened by the Bank's nation-wide branch network that covers almost the entire rural population (84% of the Russian territory).

Chart 14: Retail Loan Portfolio Dynamics,
RUB billion



In 2011, consumer loans comprised 47% of the retail portfolio, loans to personal household land owners — 28.9%. Almost 50% of loans to personal household land owners were used for livestock breeding purposes, 16.2% — for purchasing machinery and equipment and 10.6% — for seasonal field work.

Consumer lending continues to be the most in-demand product in rural areas. In 2011, Russian Agricultural Bank issued 571 thousand loans to retail customers. The most popular retail lending programs were as follows:

- “Gardener” — 11.3 thousand loans, which is 7.4 times more than the 2010 figure;
- “Successful partner,” for personal household plots owners — 21.6 thousand loans, a 7.1 times increase compared with 2010;
- Mortgage loans for rural residents — 13.4 thousand loans, which is a 4.2 times increase compared with 2010.

In 2011, the Bank introduced new credit products — a non-purpose consumer loan pledged with real estate collateral, a consumer loan without collateral, “Business-corporation” and “Start-up Capital” programs, in addition to others. During the year, the lending volume to the above-mentioned programs reached RUB 3.3 billion or 2.9% of the total lending volume in 2011.

Growing Customer Base

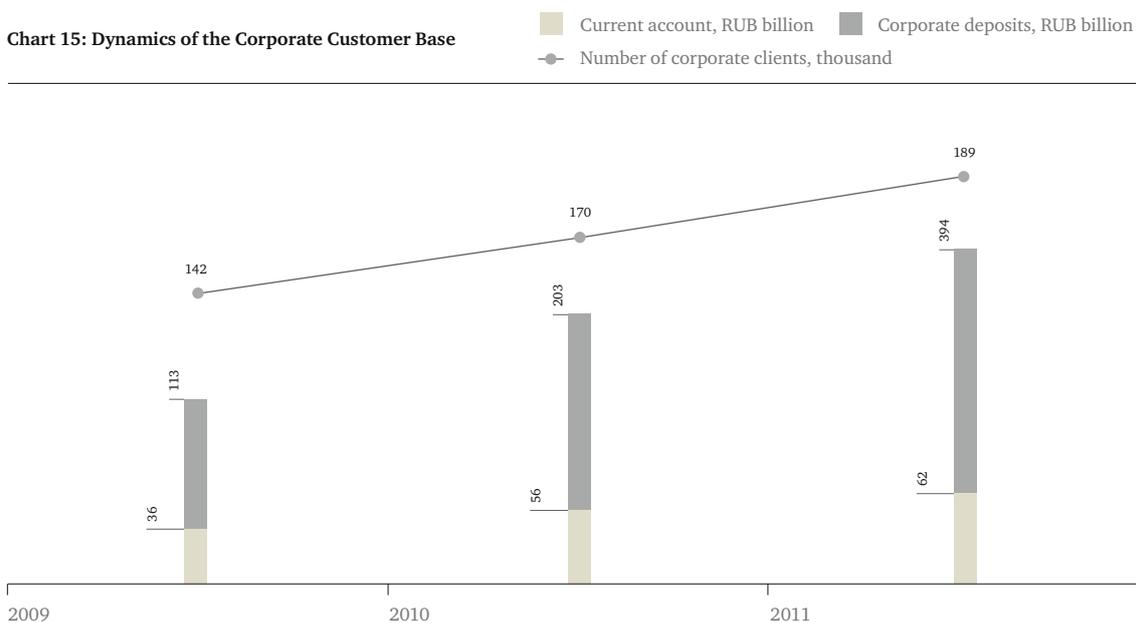
Russian Agricultural Bank maintains a client-oriented culture to increase customer satisfaction and retention. The Bank does its best to ensure that its customers receive professional advice and dedicated and personalized feedback. Russian Agricultural Bank offers a wide range of products, attractive solutions and advice in both banking services and in how to conduct business when necessary.

The Bank has a nation-wide network of more than 1,600 points of sale throughout Russia's rural areas, including in small settlements and remote regions, providing all potential clients with access to financial services. The Bank's stability and reliability as a government-owned institution, coupled with its competitive products and services, are highly attractive to Russia's rural population. Its customer-centered approach allowed the Bank to significantly increase its customer base in 2011.

Russian Agricultural Bank clients are both corporate entities and individuals who reside in both rural and urban areas.

During 2011, the Bank attracted 19.1 thousand corporate clients, which is an 11.3% increase year-on-year. The total number of corporate clients reached 188.7 thousand. The cash balance on corporate customers' current accounts grew 11.4% and reached RUB 62 billion compared with 2010. The actual volume of corporate deposits showed a significant 94% increase and reached RUB 394 billion.

Chart 15: Dynamics of the Corporate Customer Base

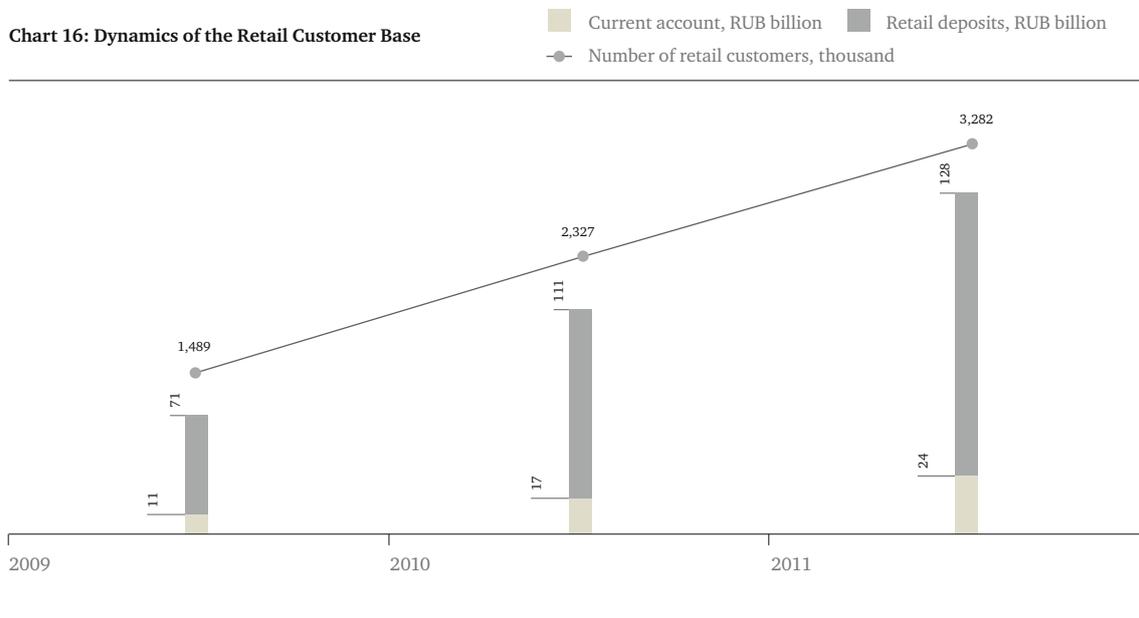


Russian Agricultural Bank's agribusiness market experience, along with that of its subsidiaries, allows it to attract deposits and savings from the rural population. The number of retail clients exceeded 3.3 million, which represents 41% year-on-year growth.

In 2011, the Bank's retail deposit base demonstrated 15% growth and reached RUB 128 billion. Customer accounts grew to RUB 23.5 billion compared with RUB 16.8 billion in 2010.

A ramified infrastructure of production storage, processing and marketing is essential for realization of the agribusiness great potential. Russian Agricultural Bank provides financing to the whole agricultural value chain.





With a very strong regional presence, Russian Agricultural Bank provides banking services to individual clients, farmers, corporate customers and local authorities. Regional branches provide a full range of banking and financial products and services, including corporate and retail lending, cash management services, payroll services and many others. These services are available through the local branch network and a range of supplementary channels, including additional offices and operating cash desks.

Payment Cards

In 2011, Russian Agricultural Bank continued active cooperation with the international VISA and MasterCard payment services, which allowed the Bank to increase the volume of transactions with payment cards 100% and the number of transactions more than 75% compared with 2010. Implementing new innovative services for plastic card owners promoted an increase in the client base. The Bank has successfully completed certification and confirmed the high quality and safety standards of services offered.

Today, Russian Agricultural Bank is one of the most significant participants in the financial and payment markets. In the mid-term, the Bank intends to become one of the leading players in developing the Russia National payment system.

In 2011, the number of the Bank's payment cards increased 698 thousand, the total number of issued cards reached 1,776 thousand. This includes payroll cards that made up 212 thousand; the total number of payroll cards issued amounted to 737 thousand. Compared with 2010, the growth rate for cards issued was 65%. Fee and commission income from the payment card business increased in 2011, going from RUB 330 million to RUB 630 million.

In 2011, merchant-acquiring business of Russian Agricultural Bank continued to grow steadily. The number of retail business establishments that have a merchant account in the Bank increased to 2,735 as of January 1, 2012 (as of January 1, 2011, the indicator was 1,645), merchant-acquiring turnover amounted to RUB 5 billion (in 2010 – RUB 800 million). The fee and commission income from this business direction increased from RUB 4.8 million to RUB 21.7 million in 2011.

In 2011, the ATM network grew by 276 units (11%) and reached 2,694 cash points, including 575 with the function of cash reception.

The amount of cash dispensed in the Bank's ATM network reached RUB 103.2 billion as of January 1, 2012, which is an 83% increase (or RUB 46.8 billion) compared with 2010. The amount of accepted cash totaled RUB 4.1 billion — a growth of RUB 2.5 billion or 156% year-on-year.

Income from ATM network operations totaled RUB 181.7 million — an increase of RUB 62.9 million or 53% compared with 2010.

8.2. AGRIBUSINESS DEVELOPMENT

Russian Agricultural Bank holds a unique position in the market, fostering sustainable agribusiness sector development in Russia. Via more than 1,600 points of service, including regional branches, additional offices and cash desks, the Bank has one of Russia's widest financial distribution networks and offers a highly diversified range of banking products and services.

Russian Agricultural Bank plays a fundamental role in financing domestic agribusiness development. The Bank has cooperation agreements to implement federal programs and support agribusiness with the administrations of Russia's major republics and regions.

In recent years, as a result of implementation of the National Priority Project and the State Program on Agribusiness Development, as well as other measures of governmental support, agricultural sector has steadily demonstrated one of the best results among Russian industrial sectors. Since 2006, the volume of agribusiness investments has exceeded RUB 1.5 trillion.

Implementing government programs provided for a 28.8% increase in domestic agricultural production over 6 years. The livestock sector has developed at a rapid pace — 22.5% growth. Meat production increased 43%. The crop sector demonstrated positive dynamics with 31.9% growth.

In general, agricultural production profitability reached 13.6% in 2011, compared with 9.4% in 2009. The 2011 agricultural production index stood at 122%. The grain yield in 2011 amounted to approximately 94 million tons, and grain exports reached a record of more than 20 million tons. Logistics, storage systems, agricultural product processing and sector infrastructure are now being actively developed.

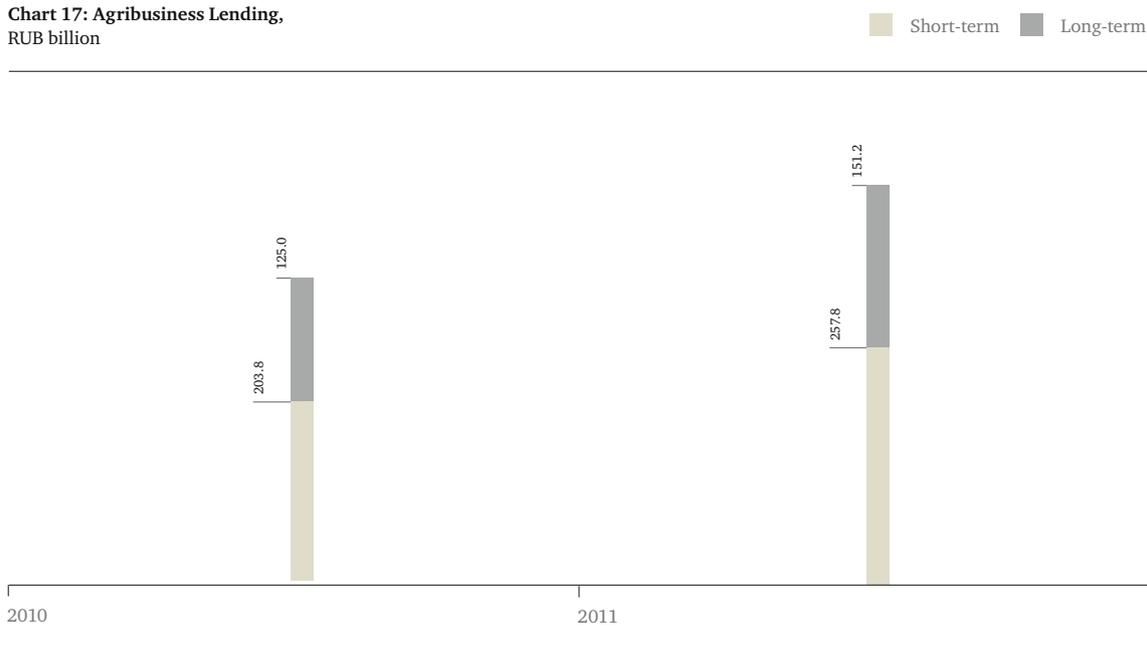
State Program on Agribusiness Development

Russian Agricultural Bank is the key financial institution supporting the implementation of the State program on agribusiness development and market regulation for agricultural products, raw materials and foodstuffs for 2008–2012.

During the reporting period, the Bank provided financial support to agribusiness enterprises across all stages of the production cycle: from primary agricultural production, to storage and processing to final output.

In 2011, the Bank extended more than 168 thousand loans to the agribusiness sector in the total amount of RUB 409 billion, which is a 24.4% increase compared with 2010. The share of short-term loans was 63% of the total lending volume. During the reporting period, the amount of short-term loans extended by Russian Agricultural Bank increased RUB 54 billion (or 26.5%) compared with 2010.

Chart 17: Agribusiness Lending, RUB billion

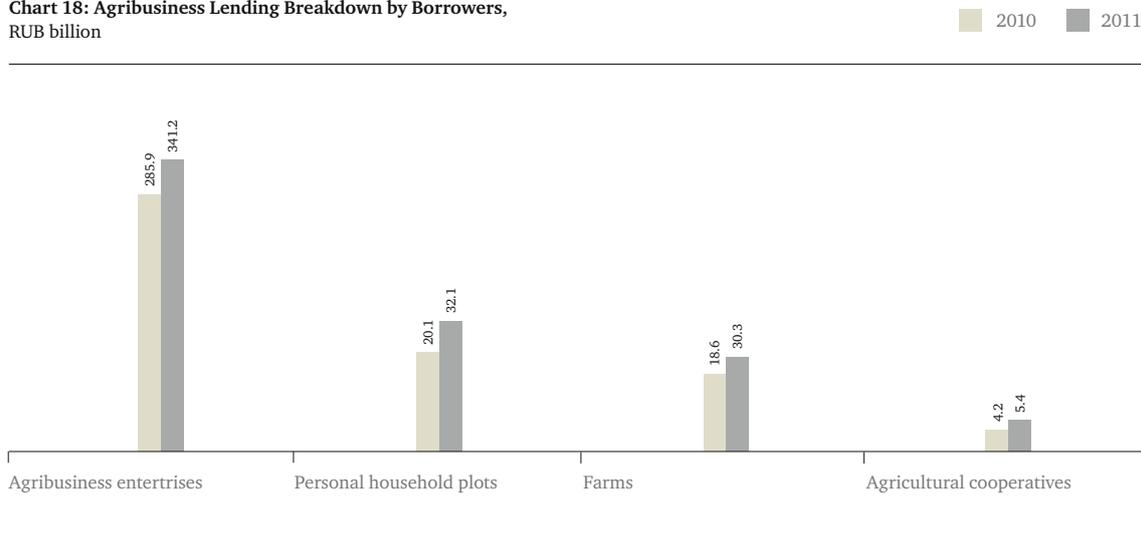


As of January 1, 2012, the share of agribusiness loans in the Bank's loan portfolio amounted to 75.9%.

Within the framework of State Program implementation, the breakdown of loans extended by the Bank was as follows:

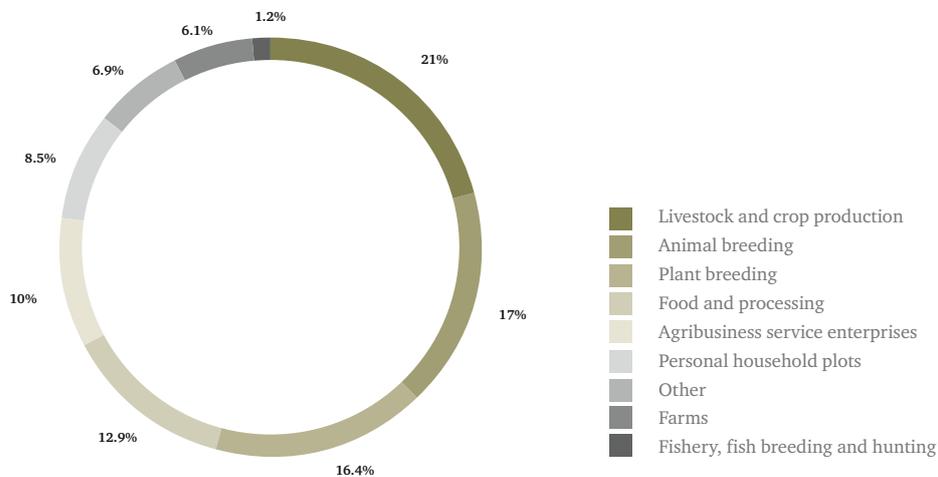
- To agribusiness enterprises — 83.4% or RUB 341.2 billion;
- To personal household plots owners — 7.9% or RUB 32.1 billion;
- To farms — 7.4% or RUB 30.3 billion;
- To agricultural cooperatives — 1.3% or RUB 5.4 billion.

Chart 18: Agribusiness Lending Breakdown by Borrowers, RUB billion



As of the beginning of 2012, 55.6% of financial resources allocated in the agricultural industry were devoted to agribusiness enterprises. The share of loans to personal household plots owners was 8.5%, to farms — 6.1%. Within the structure of the Bank’s financial resources in agriculture, loans to the food and processing industry account for 12.9%, agribusiness service enterprises — 10%.

Chart 19: Structure of the Agribusiness Loan Portfolio, as of January 1, 2012



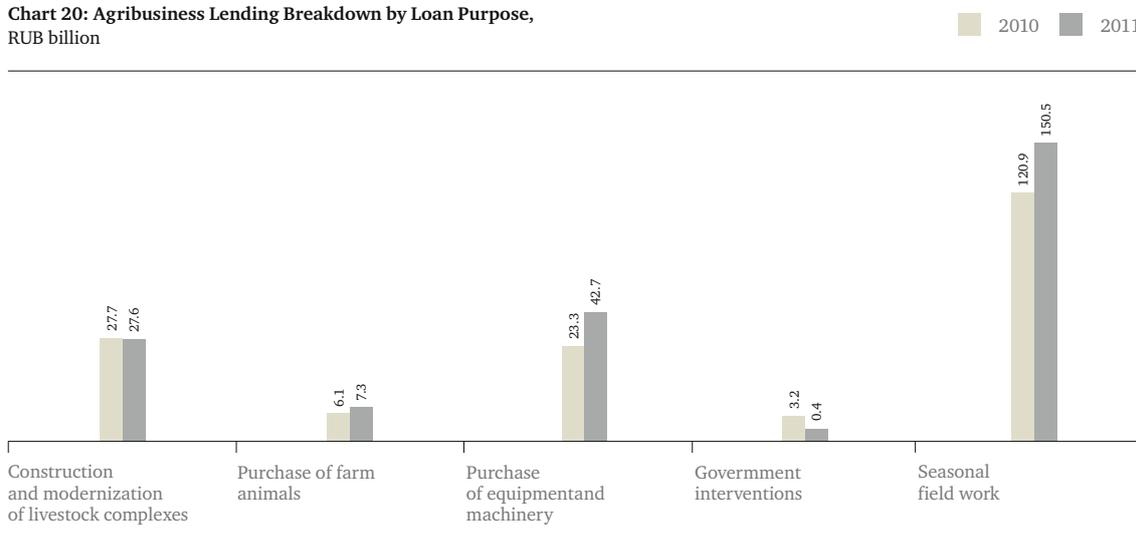
One of the main directions of the Bank's corporate lending is seasonal field work financing. For this purpose, in 2011, the Bank issued RUB 150.5 billion. During the reporting year, the volume of financing for seasonal field work increased 24.4% or RUB 29.5 billion year-on-year. This can be attributed to measures adopted by the Bank to increase the availability of credit resources.

Russian Agricultural Bank successfully implements special corporate lending programs for agricultural equipment and machinery purchases. In 2011, for these purposes, the Bank extended RUB 42.7 billion, which represents an 83.1% or RUB 19.38 increase compared with 2010.

One of the Bank's priority business directions, within the framework of implementing the State Program on Agribusiness Development, is financing investment projects for constructing and modernizing livestock (including poultry) complexes. In 2011, in this sphere, the Bank extended RUB 27.6 billion.

For the purchase of farm animals, the Bank issued RUB 7.3 billion in loans in 2011, which marks a 19.2% increase compared with 2010.

Chart 20: Agribusiness Lending Breakdown by Loan Purpose, RUB billion



In total during 2006–2011, within the framework of the Priority National Project and the State Program on Agribusiness Development implementation, Russian Agricultural Bank provided financial resources to enterprises and farmers to realize 2,653 investment projects to construct and modernize livestock (including poultry) complexes in the amount of RUB 188.2 billion.

Executing the Functions of the Government Agent's

Acting as the Government agent in agribusiness development programs, Russian Agricultural Bank performs the following functions.

– Financing grain purchases and commodity interventions

Since 2005, in accordance with a Government resolution, Russian Agricultural Bank provides financial resources for purchasing interventions on the grain market.

- *Trading on the agricultural commodity exchange*

In 2011, the Bank allocated 1.3 million tons of grain from the federal intervention fund in the total amount of RUB 8 billion within the framework of the State commodity intervention program. The Bank, acting as the state agent for purchase and commodity interventions, had signed 792 sales agreements with producers of flour and/or feed on 921.5 thousand tons of grain worth RUB 6.1 billion.

- *Addressing grain distribution*

Was implemented at purchasing price on terms of prepayment, franco-elevator delivery, and given the full payment of taxes in accordance with the Russian legislation. On these terms, consumers received 913.2 thousand tons of grain in a total amount of RUB 4.2 billion.

Russian Agricultural Bank is the only government-owned bank in the Russian Federation exclusively focused on providing services to agribusiness and the rural population, which makes up 27% of Russia's total population

Pursuant to the Government resolution, Russian Agricultural Bank, acting as the State agent, transferred to consumers feed grain in the amount of 1.3 million tons worth RUB 5 billion.

- *Grain purchase interventions in the 2011 yield*

During the reporting period, 221 supply agreements were signed, under which, the federal intervention fund received 332 thousand tons of grain in the total amount of RUB 1.5 billion.

- *Intervention fund total grain reserves*

The total grain reserves for 2005, 2008, 2009 and 2011 harvests, allocated in the federal intervention fund, stood at 6,647.3 thousand tons in the amount of RUB 31,532.5 million as of January 1, 2012. Food grain stocks made up 83%, feed grains — 17%.

– Ensuring the repayment of legal entities' outstanding loans to the Russian Federation

Since 2001, Russian Agricultural Bank has provided for the recovery of loans, extended from 1992 to 2000 from the Russian federal budget and extra-budgetary sources to legal entities engaged in agribusiness, as part of its functions as an agent of the Government of the Russian Federation. In 2011, the Bank recovered RUB 496.3 million. The total amount of loans repaid, starting from 2001, reached RUB 7.3 billion.

– Financial recovery of agribusiness enterprises

Since 2002, Russian Agricultural Bank has implemented governmental policy on the financial recovery of agricultural producers.

The total volume of debt subject to re-structuring amounted to RUB 17.5 billion, including tax payments on principal — RUB 9 billion and fines and penalties — approximately RUB 4.4 billion.

The volume of financial support for companies involved in financial recovery programs is constantly increasing. Thus, the loan portfolio of agricultural producers participating in the financial recovery program increased RUB 8 billion and amounted to RUB 47.2 billion, as of January 1, 2012, compared with 2010.

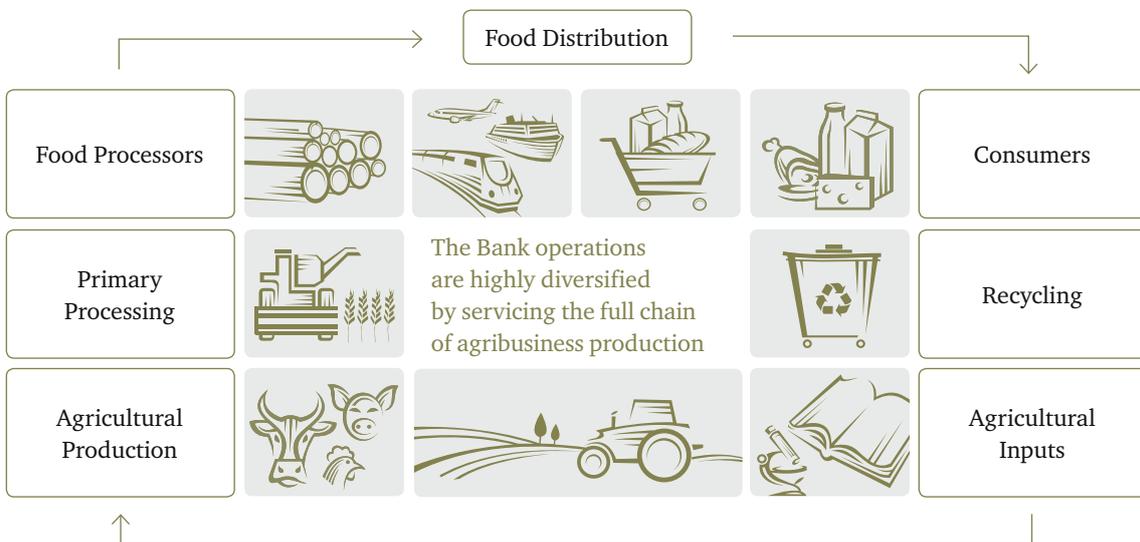
Lending Diversification

Russian Agricultural Bank is the only government-owned bank in the Russian Federation exclusively focused on providing services to agribusiness and the rural population, which makes up 27% of Russia’s total population.

The Bank strengthened its market position by increasing lending to agribusiness sub-sectors, as well as by upgrading the quality of banking services and broadening the range of products and services provided to customers via its network of regional branches and additional offices.

Agribusiness is a highly diversified sector with more than 20 sub-sectors and related industries, which provides multiple areas for lending within the framework of agribusiness production chain (Scheme 1).

Scheme 1: Agribusiness Production Chain

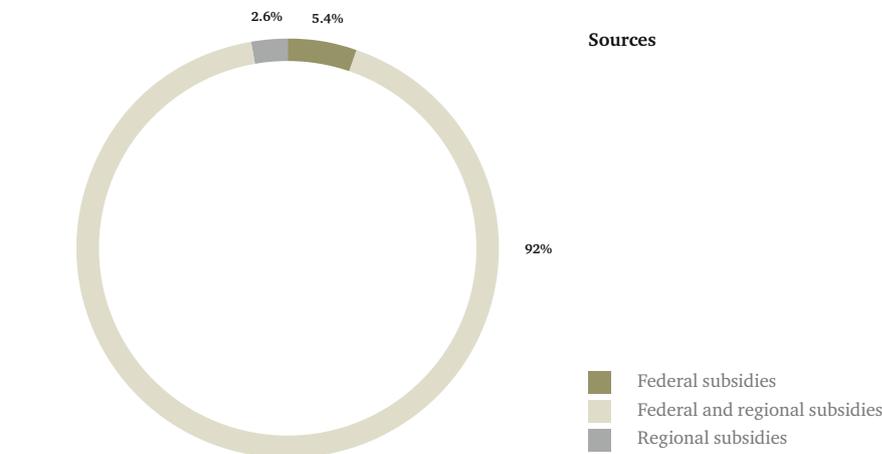
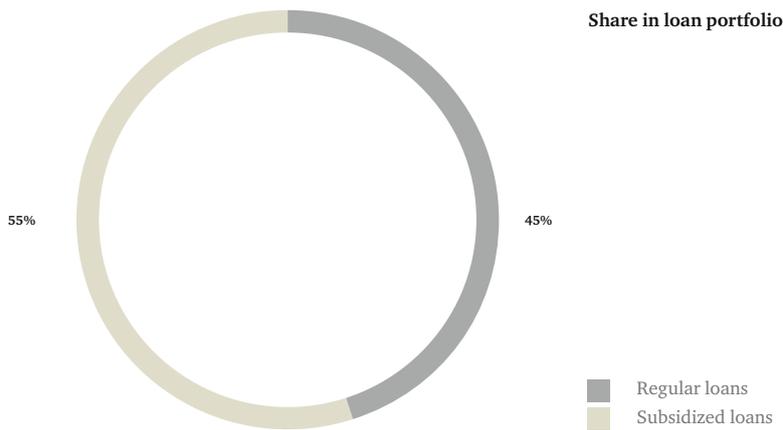


Russian Agricultural Bank is also engaged in rural infrastructure development, mortgage lending and consumer lending, including loans designed to promote the implementation of modern environmentally-friendly technologies. The Bank has expanded on its special innovative lending programs, which are targeted at developing local handicrafts and agricultural specialties.

Subsidized Lending

Russian Agricultural Bank is a key participant in the federal and regional programs under which agricultural producers receive compensation in the form of a subsidy from federal and/or regional budgets for a portion of their interest costs. In 2012, federal budget allocates over RUB 76 billion for these purposes.

Chart 21: Subsidized Loans — Share and Sources



Source: The Bank information according to RAS.

Russian Agricultural Bank will continue to expand its lending to agribusiness and diversify banking services, especially for rural population, which is a key priority for the Bank in the long term.



For a borrower to receive compensation from the appropriate budget, a loan must be granted to agricultural producers, farmers, SMEs, agricultural cooperatives or personal household plots owners, for the purchase of agricultural machinery or equipment, seeds, fodder, fertilizers or other similar products required for seasonal work and other products in compliance with a list approved by the Russian Ministry of Agriculture. The borrower must also have a good credit history and be in good financial condition. The borrower could receive a subsidy in the next period, only if he makes timely loan payments in the previous periods.

Borrowers are eligible for interest subsidies amounting to:

- Corporate enterprises: federal subsidies of 80%, regional subsidies of 20% of the refinancing rate; livestock (meat and dairy) production — federal subsidies of 100% of the refinancing rate and regional subsidies — greater than or equal to 3%.
- Individuals and farmers: federal subsidies of 95% of the refinancing rate and the remaining 5% is compensated by regional budgets.

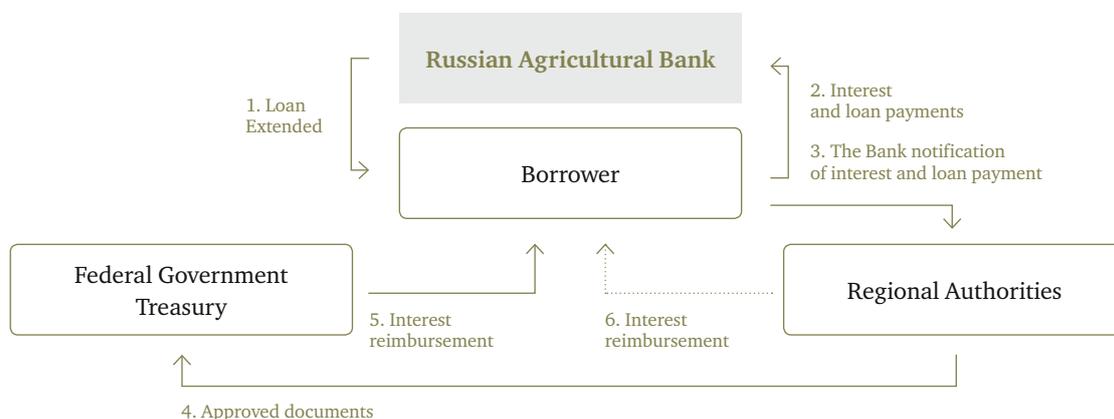
Subsidy calculations are based on the Bank of Russia refinancing rate, which is currently set at 8%.

Depending on the purpose of the loan and the borrower category, loans subject to subsidies may have a maturity of up to ten years.

Availability of subsidy for the borrower does not require the Bank to approve such a loan, the procedure for a decision on granting subsidized loan is the same as for a regular loan.

Subsidized lending allows Russian Agricultural Bank to upgrade the quality of its loan portfolio; on-time payments on subsidized loans are stated in the Law as a condition to compensate borrowers' interest expenses by the State (Scheme 2).

Scheme 2: Subsidized Lending Process



In 2012, Russian Agricultural Bank will continue to provide existing products and services and will also launch new banking products and services that promote the sustainability and resilience of the country's agribusiness and the social development of rural Russia. Special attention will be paid to enhancing business effectiveness targeted, first of all, at strengthening the potential of Russian agribusiness and improvement of its competitiveness and infrastructure.

A diversified network of storage, processing and marketing of agricultural products is essential to industry development. That is why the Bank will continue to finance all stages of the agribusiness production chain, as well as to expand lending to agri-related industries — fish industry, wood processing, food industry, etc.

8.3. INTERNATIONAL OPERATIONS

Russian Agricultural Bank is widely recognized as a highly reliable banking partner to major financial institutions around the world, given its more than 10-year presence on the market. Its transparency has been hailed by the world's leading rating agencies. The Bank's international experience, diversified investor base and strong governmental support have helped strengthen its positions on the global market.

International operations are an organic part of the Bank's business model

Within the framework of the Bank's business activity, international operations have become an essential component. In today's global economy, Russian Agricultural Bank strives to keep pace with global financial market developments.

2011 achievements

- Ranked No 189 in the Top 1000 World Banks ranking (compiled by The Banker);
- Ranked No 4 among Russia's largest Russian banks and No 5 among Central and Eastern Europe's largest banks (compiled by The Banker);
- Ranked No 3 among Russia's most reliable banks (according to Forbes magazine);
- Issued a USD 800 million subordinated Eurobond;
- Closed a deal on a 1-year trade finance loan for the equivalent of USD 100 million with Citi.

Russian Agricultural Bank maintains strong relationships with all international financial market participants. International operations are an organic part of the Bank's business model. Russian Agricultural Bank sees international operations development as a crucial investment in future successful performance.

The Bank has demonstrated efficient commercial performance in most of its international business lines via the development of relationships with foreign financial institutions, investors, correspondent banks, export credit agencies and foreign agribusiness producers.

Correspondent Relations

Russian Agricultural Bank has a strong and reliable correspondent bank network – comprised of more than a hundred banks around the world. The Bank guarantees strict compliance with its obligations to which it is a party under both domestic and international agreements.

To expand limit transactions with Russian and foreign financial institutions, in 2011, the Bank significantly improved:

- Number of counter-parties/issuers with established limits – 31%, from 123 to 161;
- Amount of established limits – 32%, from RUB 473 billion to RUB 623 billion;
- Limit types.

Russian Agricultural Bank has a strong and reliable correspondent bank network — comprised of more than a hundred banks around the world

To maintain financial stability and hedge specific currency-related risks, as well as to meet client demands, Russian Agricultural Bank has signed a series of ISDA Master Agreements with top-ranked international banks. The ISDA Master Agreements shall reduce operational and legal risks for SWAP transactions and allow the Bank to broaden derivative relationships with correspondents and strengthen its own presence in relevant markets.

In 2011, the Bank set up eight USD-denominated SWAP transactions to hedge currency risks. These SWAP agreements were signed with: Barclays Bank PLC, BNP Paribas, VTB Capital and JP Morgan Chase Bank in the amount of USD 1.75 billion for a period from 1 to 4 years. One Euro-denominated SWAP transaction was signed with Societe Generale S.A. in the amount of EUR 66 million for 11 months.

During the reporting period, Russian Agricultural Bank signed 22 interbank cooperation agreements on the interbank and foreign exchange markets. Currently, the Bank has 192 such agreements in place.

To further develop and enhance joint business opportunities, the Bank has signed eight confidentiality agreements with top-ranked Russian and international financial institutions.

Table 6: Correspondent Accounts of Russian Agricultural Bank

Correspondent	Currency	Account No.	SWIFT CODE
JP Morgan Chase Bank N.A., New York	USD	400-807408	CHASUS33
JP Morgan AG, Frankfurt-en-Main	EUR	6231606895	CHASDEFX
Commerzbank AG, Frankfurt-en-Main	EUR	400886853100EUR	COBADEFF
Citibank N.A., New York	USD	36892274	CITIUS33
DZ BANK AG Deutsche Zentral- Genossenschaftsbank, Frankfurt-en-Main	EUR	EUR 0000140450	GENODEFF
VTB Bank (Germany) AG, Frankfurt-en-Main	USD	USD 0001140450	
	EUR	0104678396	OWHBDEFF
	USD	0104678412	
	GBP	0104678420	
	NOK	0104678438	
	CHF	0104678446	
	JPY	0104678453	
Sumitomo Mitsui Banking Corporation, Tokyo	JPY	4749	SMBCJPJT
Belagroprombank, Minsk	BYB	1702080840014	BAPBBY2X
Toronto-Dominion Bank, Toronto	CAD	0360-01-2000587	TDOMCATTTOR
VTB Bank (Austria) AG, Vienna	USD	11000617725001	DOBAATWW
	EUR	11000617725900	

Covenants

Russian Agricultural Bank ensures strict compliance with its obligations under domestic and international agreements and contracts to which it is a party. In particular, the Bank adheres to all fixed financial ratios, covenants and other debt financing agreement requirements.

- The State's share in the Bank's capital $\geq 50\% + 1$ share;
- The capital adequacy ratio (under IFRS): $\geq 8\%$;
- Capital adequacy (per CBR) \geq minimum required by Russian law (currently - 10%);
- Other economic ratios and requirements, including current, short - and long-term and total liquidity ratios, conforming to values prescribed by Russian law;
- Long-term, unsecured, un-subordinated debt obligation ratings are \geq Baa3 by Moody's and BBB- by Fitch;
- The Bank does not enter into transactions to sell, lease, transfer or otherwise dispose of any asset for which the book value exceeds 10 percent of the Bank's total assets; it also ensures that none of its material subsidiaries do so;
- The Bank discloses all information required under contractual obligations;
- No overdue taxes;
- The Bank is not in default on any of its contractual obligations.

Trade and Structured Finance

Russian Agricultural Bank engages in agribusiness trade and structured financing. The Bank offers its partners and customers special loans that are critical for large-scale investment projects, facilitating long-term financing based on future cash flows. For international finance in particular, the Bank's customers expect financing arrangements to be accompanied by highly professional advice and effective management. By combining classic trade products with a professional, individualized approach to customers, the Bank is intentionally transitioning from simple lending relationships towards structured solutions.

As a State agent for agribusiness development, Russian Agricultural Bank has undertaken numerous measures to develop bi-lateral relationships and expand project financing

As a State agent for agribusiness development, Russian Agricultural Bank has undertaken numerous measures to develop bi-lateral relationships and expand project financing. The Bank has signed cooperation agreements with numerous international financial institutions to finance technological upgrades for both agribusiness companies and food processing industries.

The Bank offers its clients a complete range of documentary products for foreign trade transactions, including:

- Import L/C;
- Export L/C;
- Deferred Payment;
- Re-imburement Authorization;
- Re-imburement Undertaking;
- Guarantee Operations;
- Import Document Collection;
- Export Document Collection;
- Clean Collection;
- Post-Finance.

In 2011, the Bank established 122 import letters of credit in the amount of USD 238.8 million and advised on 35 export letters of credit in the amount of USD 226.1 million, issued by foreign banks, in favor of the Bank's clients and advised on 102 guarantees totaling USD 134 million.

The Bank is currently intensifying its activity in the import-export financing sphere and cooperates with leading global export credit agencies to cover risks. ECAs provide government-backed loans, guarantees and insurance coverage against both commercial and political risks. As of now, Russian Agricultural Bank is accredited by and maintains relationships with nineteen major ECAs.

ASHRA	Israel
ATRADIUS	The Netherlands
CESCE	Spain
COFACE	France
ECGD	The United Kingdom
EDC	Canada
EGAP	The Czech Republic
EKF	Denmark
EKN	Sweden
Ex-Im Bank	The USA
Eurler Hermes	Germany
FINNVERA	Finland
KUKE	Poland
OeKB	Austria
ONDE	Belgium
NEXI	Japan
SACE	Italy
SERV	Switzerland
Sinoshure	China

During 2011, the Bank implemented 26 structured finance transactions in the amount of EUR 38.3 million, USD 98.8 million and RUB 5.3 billion.

Structured finance transactions ensure highly efficient banking operations, because they do not multiply national currency inflation. Project finance transactions are an additional source of non-interest income for the Bank.

Table 7: Trade Finance Projects

USD 70,053,000.00 OOO «Smolenskspischtorg» (Group of companies Dominant) — raw sugar delivery from Brazil	EUR 21,071,000.00 OOO «Tambovskaya Sugar Company» — sugar factory construction
USD 11,530,000.00 OAO «Zhelezobeton» — purchase of processing equipment	USD 3,600,000.00 OOO «KuzbassAvto» — purchase of vehicle sets
USD 9,800,000.00 OOO «Yupiter-9» — purchase of foreign agricultural machinery	EUR 8,700,000.00 OAO MKK «Kaliningradskiy» — purchase of meat-canning equipment
EUR 3,350,000.00 ZAO «Agrotechmash» — purchase of spare parts for tractors	EUR 11,700,000.00 OAO «Olhovatskiy Sugar Plant» — purchase of foreign agricultural machinery
EUR 3,400,000.00 SPK «Kommunar» — purchase of dairy unit machinery	EUR 8,400,000.00 OOO «Krasnaya Gorka» — poultry complex and slaughter facility construction
EUR 2,500,000.00 SPK Animal plant «Starodvorskiy» — purchase of pedigreed livestock	EUR 3,280,000.00 OOO «Zagorsky Broiler» — purchase of poultry equipment
USD 34,500,000.00 OOO «Sinee More» — purchase of fresh-frozen fish / canned goods delivery	USD 8,000,000.00 Trading house «OGO-Produkty» — sale of grain

USD 1,180,000.00 OOO «Sib-Agro» — purchase of foreign agricultural machinery	USD 60,000,000.00 OOO «EcoNiva-Technika» — purchase of foreign agricultural machinery	USD 53,000,000.00 OOO «AST» — purchase of foreign agricultural machinery
CHF 2,600,000.00 OOO «Kened Food» — equipment purchase for metal can production	EUR 2,229,500.00 OOO «Agrofirma Aleksandrovskaya» — purchase of high-precision automatic sewing-machines	USD 52,459,000.00 OOO «OPTIMA-SAKHAR» (Group of companies Dominant) — raw sugar delivery from Brazil
EUR 6,700,000.00 OOO «Bashkirskiy Poultry Complex named after M.Gafuri» — purchase of poultry equipment	EUR 5,800,000.00 OOO Poultry farm «Akashevskaya» — purchase of poultry equipment	EUR 1,300,000.00 OOO «Teplichnoe» — purchase of equipment for the greenhouse complex
EUR 1,407,000.00 OOO «Krasnogvardeiskiy Milk Plant» — purchase of milk processing equipment	RUB 648,000,000.00 ZAO «Kievo-Juraki APK» — pig complex construction	USD 4,250,000.00 OOO «TVS — Agrotechnika» — purchase of foreign agricultural machinery
EUR 25,000,000.00 OOO Confectionary plant «Krasnaya Zarya» — plant reconstruction	EUR 5,200,000.00 OOO «Centarion» — construction of recreational hotel facilities in Anapa	EUR 3,300,000.00 ZAO «Russian Salmon» — purchase of feed for Atlantic salmon
EUR 6,100,000.00 OOO «“Maksimovskiy” pig complex» — pig complex construction	EUR 2,092,500.00 OOO «Agroburo VVC» — purchase of foreign agricultural machinery	EUR 1,890,000.00 OOO «Company AYAKS-Agro» — purchase of foreign agricultural machinery
EUR 9,000,000.00 OOO «Chekhovsky Sad» — purchase of equipment for the greenhouse complex	EUR 2,259,075.00 ZAO «NPO “Severniy Standart» — purchase of equipment for a by-product processing plant	USD 4,000,000.00 OOO «Urozhay» — purchase of agricultural machinery and equipment

Capital and Money Markets

Russian Agricultural Bank is an active player on both international and domestic capital markets. The Bank offers a comprehensive range of debt instruments to reduce risks by placing funds on the market and to raise additional funds, via: REPO operations, ruble-denominated bonds, loan participation notes, government and municipal debt securities, corporate debt securities, promissory notes and equities.

Reliable investor relationships are essential to broaden global capital market access

In 2011, the Bank arranged several successful borrowings:

- In March-April 2011, Russian Agricultural Bank priced a ruble-denominated Eurobond issue due March 2016. The offering size totaled RUB 32 billion at an 8.7% coupon rate. The issue received strong support from more than 150 investors and represents the longest maturity term for a ruble-denominated bond by a Russian bank on international capital markets. Investor geography for the issue included: Europe, the offshore United States and Asian investors.
- In May 2011, the Bank successfully priced a 10-year USD 800 million sub-ordinated Eurobond issue at a 6.0% rate, with a 2016 call option. The joint lead managers of the deal were Barclays Capital, JP Morgan and VTB Capital. Attracted funds were included in the Bank's Tier 2 capital. Russian Agricultural Bank was the first Russian bank that issued sub-ordinated Eurobonds jointly as 144A and Reg S and offered the securities directly to U.S. investors. For the first time following the global financial crisis, a Russian issuer was able to use the classic structure of a 10-year issue. The Issue attracted strong demand from more than 140 investors from Europe, the United States and Asia, and is the largest placement of sub-ordinated Eurobonds from Russia during the past 5 years.
- In July 2011, Russian Agricultural Bank placed three 10-year local bond issues in the total amount of RUB 20 billion, with a 4-year put option at a 7.7% rate.
- In November 2011, the Bank successfully placed 10-year RUB 10 billion local bonds, with a 2-year put option at an 8.75% rate.

Investor Relations

Reliable investor relationships are essential to broaden global capital market access. Russian Agricultural Bank maintains contacts with its investors, ensuring that they receive in-depth information on the Bank's business activities. The Bank's IR policy prioritizes information availability on the Bank's business development and outlook. Carrying out a policy of openness and transparency, the Bank ensures that its investors have accurate and complete information about the Bank, encouraging the creation of strong and long-lasting relationships.

In 2011, Russian Agricultural Bank conducted numerous investor relations events, including a series of road shows and non-deal road shows, along with the release of financial reports. In addition to numerous discussions

with investor groups and one-on-one meetings, the Bank regularly holds due diligence meetings.

Russian Agricultural Bank international web site provides its investors access to the Bank's information and documents that are subject to disclosure, including: statutory documents, internal regulations and policies, annual reports, financial statements (both consolidated and interim), rating information, material facts and other relevant data.

These transparency measures facilitate fostering comfortable relationships with the international banking community.

International Cooperation

Russian Agricultural Bank participates in numerous inter-governmental commissions and is a member in international business councils that allow the Bank to establish new business contacts and strengthen existing relationships with international organizations and investment funds, while at the same time obtaining and analyzing the latest market intelligence.

Cooperation with the Bank's foreign partners in the professional training and experience exchange sphere contributes to introducing new practices, tools and innovative technologies

The Bank is an active member of the following organizations: the US-Russia Business Council, the Canada Eurasia Russia Business Association (CERBA), the Russian-Chinese Business Council and the International Confederation of Agricultural Credit (CICA), which enhances the Bank's potential to further develop its business and foster international cooperation in agribusiness lending.

Russian Agricultural Bank participates in bi-lateral Inter-governmental Commissions on economic, scientific and technological cooperation with Hungary, Israel, Norway, the Netherlands, Norway and Turkmenistan, which are co-chaired by Russia's First Deputy Prime Minister. The Bank also participates in Inter-governmental Commissions on trade and economic cooperation with Australia, Greece, Korea and Mongolia. The Bank's participation in these commissions provides an opportunity for the Bank to expand its involvement in the global economic environment and to generate additional international partnerships.

Russian Agricultural Bank is also a member of the Association of Russian Banks, which unites financial companies (across all forms of ownership), consistently defending their interests, including legislatively. In April 2012,

the Bank resumed its membership in the Council of the Association, which will provide the Bank with new opportunities to achieve its goals.

Cooperation with the Bank's foreign partners in the professional training and experience exchange sphere contributes to introducing new practices, tools and innovative technologies. For this reason, representatives of Russian Agricultural Bank visited the Agricultural Bank of China in March 2011 and the Italian Banco Popolare in October 2011.

Russian Agricultural Bank representatives also participate in international financial congresses, conferences, forums and meetings, which allows the Bank to obtain information on various innovations and best practices in the banking sector and contributes to further strengthening and developing bi-lateral cooperation with counter-party banks.

Fitch Ratings

Long-term Issuer Default Rating	BBB, stable
Short-term Issuer Default Rating	F3
National Long-term Rating	AAA(rus), stable
Support Rating	2
Individual Rating	D
Viability Rating	b+
Senior Unsecured Debt Rating	BBB
Subordinated Debt Rating	BBB-

Ratings

The Bank's operational results are translated into ratings assigned by Moody's and Fitch Ratings (international rating agencies), which regularly assess Russian Agricultural Bank's financial standing. The Bank's ratings are quasi-sovereign and are investment grade.

On June 8, 2011, Fitch confirmed Russian Agricultural Bank's ratings, including its Long-term IDRs at 'BBB' with a Stable Outlook.

On July 20, 2011, Fitch introduced Viability Ratings for financial institutions around the globe. These ratings represent Fitch's primary assessment of the intrinsic creditworthiness of these institutions. Russian Agricultural Bank's Viability Rating is 'b+.' Other Russian Agricultural Bank ratings remained at their current level.

The newly launched Viability Rating reflects the same core risks as the legacy Individual Rating, but with greater granularity and on a more familiar rating scale. The two rating scales had been maintained in parallel to facilitate an orderly transition from Individual Ratings to Viability Ratings. In January 2012, Viability Ratings replaced Individual Ratings for financial institutions.

Moody's Investors Service

Long-term Deposit Rating	Baa1, stable
Short-term Deposit Rating	Prime-2, stable
Bank Financial Strength Rating	E+, stable
National Scale Long-term Rating	Aaa.ru
Senior Unsecured Debt Rating	Baa1
Subordinated Debt Rating	Baa2

On January 21, 2011, Moody's confirmed Russian Agricultural Bank's ratings at its current level with a stable outlook. The rating agency noted the Bank's consistently strong capital ratios, demonstrating the Government's commitment to support the Bank, which plays a key role in the country's agribusiness.

Moody's Interfax Rating Agency confirmed the Bank's long-term national scale credit rating at its current level.

Russian Agricultural Bank plans to further enhance its regional network, form a balanced funding base, and increase business efficiency and profitability while maintaining leading positions in financing national agribusiness.



9. HUMAN RESOURCES POLICY

Russian Agricultural Bank's successful performance in many respects can be attributed to the high degree of professionalism of its employees, and its sound and well-established Human Resources Policy (HR Policy).

The Bank's HR Policy is based on the main objectives of HR management, including but not limited to: corporate policy and culture, unified standard of good banking practice performance, a sophisticated HR appraisal system, a diversified training program, a personnel succession plan, a motivation system and adaptation.

In 2011, the main objective of the Bank's HR Policy was to ensure the successful transition of the Head Office and the regional network to a new organizational structure.

In 2011, the total actual number of Bank employees reached 31,751

Core Goals of Russian Agricultural Bank HR Policy:

- Development of personnel management;
- Centralization of the Internal Control Service in the Bank's Head Office to enhance effectiveness;
- Re-allocation of the staff in the front- and back-office in accordance with the business orientation of regional branches;
- Development of new banking activity directions by optimizing existing structures and implementing new structural units with an innovative focus;
- Upgrading the quality of the Bank's project activities via the recruitment of highly qualified experts with successful work experience in the banking system.

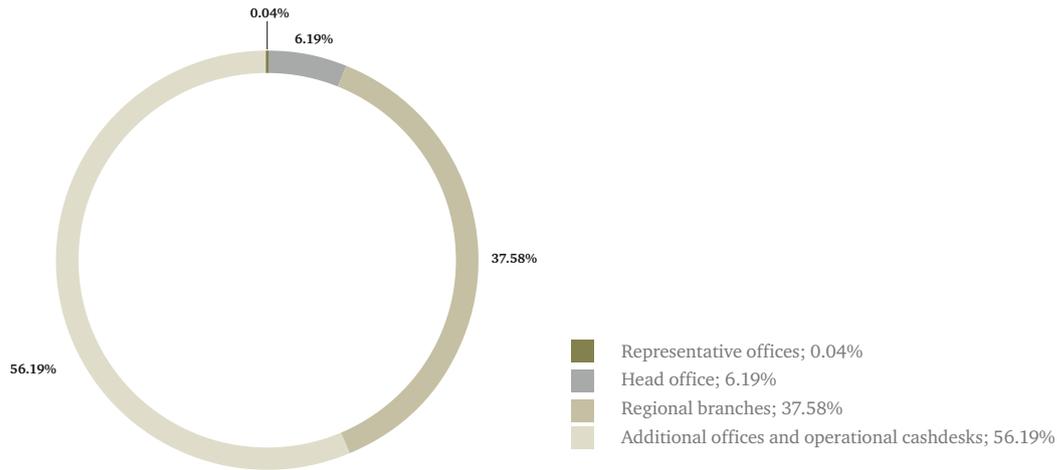
Russian Agricultural Bank considers the quality and commitment of its personnel to be one of the key factors for future development

In 2011, the total actual number of Bank employees reached 31,751* including:

- The Head Office — 1,967 employees;
- Regional branches and additional offices — 29,772 employees;
- Representative offices — 12 employees.

* Note: The total number of personnel for 2011 does not include contract employees.

Chart 22: Personnel Structure



Source: The Bank information as of January 1, 2012.

Personnel

Russian Agricultural Bank considers the quality and commitment of its personnel to be one of the key factors for future development. The Bank recruits employees with banking industry knowledge, as well as with an understanding of both the agribusiness sector and lending operations in various sub-sectors. Ongoing growth in the Bank's activities and the regional network, as well as the nature of its business, requires personnel to regularly develop their knowledge and competency.

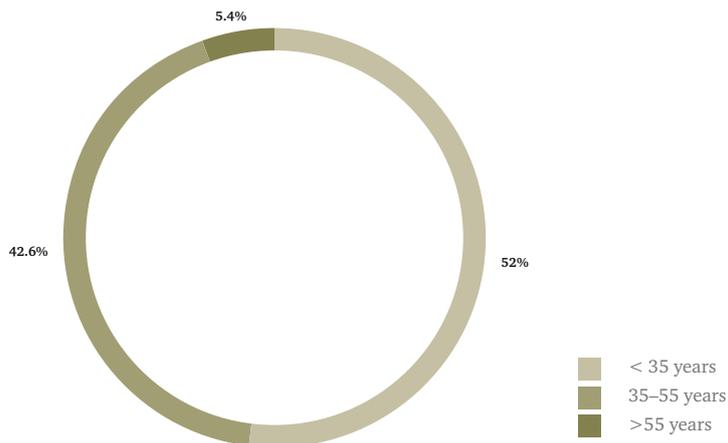
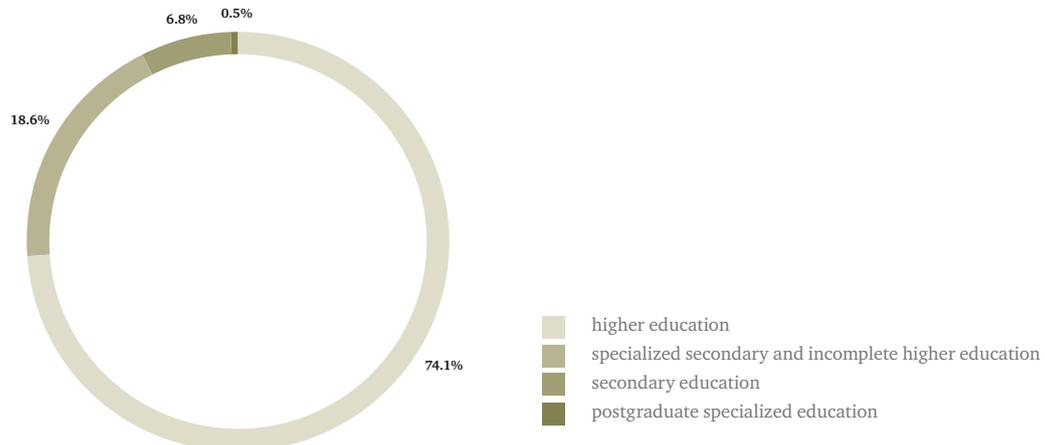
In 2011, Russian Agricultural Bank performed a qualitative renewal of its executive personnel in regional branches by 25%, in the Head Office — 20%.

The Bank carries out systematic work to develop internal and external succession pools to ensure the timely and effective replacement of vacant executive positions, as well as to minimize risks associated with management turnover.

In the course of internal succession pool development, the Bank has a talent pool of 2,938 employees.

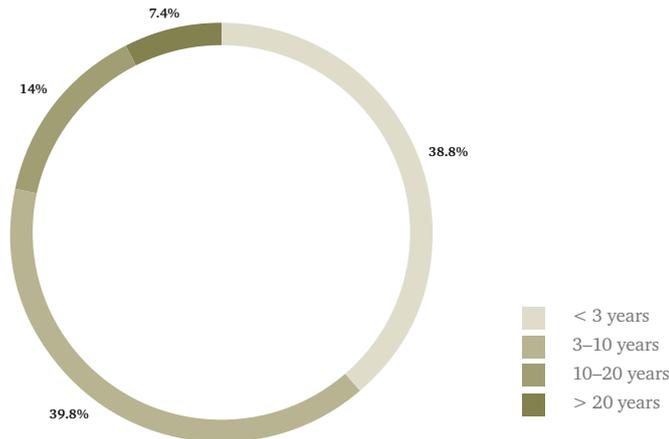
External succession pool development was carried out in the following directions:

- Developing fruitful cooperation with more than 130 universities;
- Organizing an internship for university students — 2,595 trainees;
- Organizing groups for finance students in regional branches — 40 students groups with a total of 583 people.

Chart 23: Staff Structure by Age¹Chart 24: Staff Structure by Education²

1-2 Source: The Bank information as of January 1, 2012.

Chart 25: Staff Structure by Work Experience in the Banking Sector



Source: The Bank information as of January 1, 2012.

In 2011, Russian Agricultural Bank conducted a comprehensive business appraisal and competency assessment of executive personnel in all 78 regional branches — 380 employees — in accordance with a Supervisory Board resolution and a change in requirements for professional skills and personal qualities of the Bank's executive personnel. In total, 1,334 employees passed the comprehensive business assessment in 2011.

Based on personnel assessment results, the Bank determined the need for further training and the development of employees' professional competencies.

Corporate Training System

Helping employees to unlock their full potential — by giving them opportunities to advance their career goals — is a priority for the Bank. Russian Agricultural Bank is convinced that professional skills development is the most effective tool for fostering social and economic progress. The Bank has 6 training centers operating in Russian regions, offering business-focused training and development programs for employees.

The principal working direction, implemented by the Bank's Corporate Training System, is to provide necessary training and professional skills enhancement across all categories of employees. In 2011, an emphasis was placed on further development of a system for compulsory distance training and proficiency testing for employees.

Within the framework of the corporate training system, in 2011, more than 21 thousand employees completed distance training programs, which constitute 66% of the average work force.

More than 23 thousand employees in the Head Office and regional branches

completed on-line testing; this figure represents 73% of the average actual number of Bank employees in 2011.

Main Achievements of Corporate Training in 2011:

1. Developed new training programs, including training for division directors, succession pool training and HR managers training in the Head Office;
2. Corporate Training System has carried out professional skills development programs and working seminars in the following areas:
 - Lending to small-scale enterprises;
 - Legal support for banking activity;
 - Practical application of Russian labor legislation;
 - Accounting policy.
3. Developed distance training programs on the sales technology of the Bank's credit and passive products;
4. Retail business training;
5. Professional development program for executive personnel in regional branches.

The Bank has 6 training centers operating in Russian regions, offering business-focused training and development programs for employees

Corporate Training System Prospects for 2012:

1. Enhancing the Corporate Training System and activities:
 - Re-organizing the Corporate Training System network;
 - Developing and implementing planning system for individual training;
 - Developing “Open Courses” for Head Office employees;
 - Implementing training programs for the Bank's top management;
 - Expanding the full-time training programs;
 - Developing a motivation system for internal specialists to conduct the corporate training.
2. Implementing the following projects:
 - Advanced technology of retail sales management;
 - The organization of sales of banking products to small businesses, including farms.
3. Implementing the professional development program for chief accountants and deputy chief accountants;
4. Training HR managers in regional branches;
5. Enhancing the distance training system.

Corporate Culture

Given the intensive development of the Bank's activity and increased head count, special emphasis is placed on promoting a corporate culture that unifies the Bank's employees and strengthens team spirit. To promote

corporate culture and ensure compliance with ethical principles and rules, Russian Agricultural Bank has a Corporate Ethics Committee that works to develop corporate culture and to promote and optimize the personnel motivation system. The Bank follows the Corporate Conduct Code that outlines behavior rules for the Bank's employees.

In 2011, the Bank organized the "Best in Profession" contest, as a part of the corporate culture development program, and to motivate employees to achieve strong performance in their professional activity. 454 employees in the Bank's regional branches participated in this contest.

Russian Agricultural Bank is implementing a special scholarship program with a view to training highly qualified specialists in agricultural universities, in areas that are particularly important for the agribusiness sector and the banking system. In 2011, scholarships were granted to 76 students and 19 graduates of Russia's leading agricultural universities.

Employee Responsibility

Russian Agricultural Bank makes all mandatory contributions to the Russian Social and Pension Funds, in accordance with applicable Russian legislation, so that pensions are duly provided to former employees via its own established pension fund — the APK Fund.

The Bank provides its employees with social support payments using funds accumulated in the special social welfare fund. Payments are made for different personal and family circumstances and are designed to provide targeted social support.

Russian Agricultural Bank ensures an ongoing employee-manager dialogue. All employees participate in a year-round performance management process that assesses individual achievements, skills and knowledge. The Bank has implemented a special employee-succession plan under which successful employees can be promoted. This process supports staff development, links behavior to corporate values and helps ensure that employees have the necessary skills to meet client needs and to implement the Bank's strategic goals.

Employee engagement supports workforce retention and performance. The Bank believes that good health and good employability are the basis for a successful career. Employees are actively engaged via communication and participating in different events, including the Bank's social, cultural and sports activities.

The Bank's wide range of business directions and career opportunities throughout Russia, coupled with its open and collaborative culture, provide a platform for the individual success of employees. Today, Russian Agricultural Bank employs a talented team dedicated to the Bank's principal goals.

10. CORPORATE RESPONSIBILITY

Russian Agricultural Bank has integrated its corporate responsibility policy into its business model via corporate self-regulation. The Bank monitors and ensures that its business is in compliance with the spirit of the law, ethical standards and international norms.

The goal of the corporate responsibility policy is to encourage a positive impact, via the Bank's activities, on the environment, consumers, employees, communities, stakeholders and all other members of the public who may also be considered to be stakeholders, as well as to prevent the Bank from participating in projects that may harm society in any way.

The Bank monitors and ensures that its business is in compliance with the spirit of the law, ethical standards and international norms

The Bank's overall strategic approach to sustainability is determined by its mission and envisages the following goals:

- Providing accessible, innovative and environmentally-friendly banking products and services for agricultural commodity producers and Russia's rural population;
- Implementing the Government's socio-economic and lending policies;
- Facilitating domestic and foreign investment in the Russian agribusiness sector;
- Ensuring sustainable development of agribusiness and Russia's rural regions.

This approach is outlined in The Bank's lending policy, its participation in local initiatives and in the range of financial products offered to clients. Sustainability also plays an important role in determining business plans and re-alignments.

The Bank's goal is to channel funds in ways that serve the real economy and achieve social progress by studying the social and environmental impacts of any project prior to agreeing to finance it. Russian Agricultural Bank primarily supports socially-oriented projects that present new business opportunities for Russia's rural population.

Russian Agricultural Bank is engaged in investment projects that promote the implementation of modern environmentally-friendly technologies, such as: bio-fuel production, drop irrigation and sewage treatment, etc. in agribusiness production and processing with a special emphasis on livestock breeding and fishing industry development. The Bank has initiated specialized lending programs focused on developing indigenous handicrafts and local agricultural specialties — e.g. reindeer breeding, yak breeding and horse breeding, etc.

Sponsoring and supporting social, cultural and sporting activities is an integral part of the Bank's broader communication strategy with society as a whole. Regional branches support and sponsor various regional social, sports and charity programs.

Social Responsibility

Russian Agricultural Bank, together with its employees, seeks to positively influence the social and environmental well-being of the rural areas in which it operates; rural communities make up 27% of Russia's total population. The Bank creates a positive impact via social programs.

The Bank provides affordable housing to young specialists in rural areas and extends student loans to rural youth wanting to receive their education at specialized colleges and universities that prepare agribusiness specialists. The Bank plans to encourage these loan programs and to facilitate financial support for the most under-financed industries and population groups, generating agribusiness development and an improvement in rural living standards.

For almost 10 years now, Russian Agricultural Bank has participated in implementing federal programs on the social development of Russia's rural territories, providing financial support for building houses and roads and laying gas in rural areas.

Investing in human capital is an important aspect of the Bank's activity. Russian Agricultural Bank gives students from rural regions an opportunity to launch their banking careers. The Bank has organized special finance student teams for students at Russian agribusiness universities. Team members had the opportunity to practice in the Bank's regional branches, with the opportunity for future work as a staff member.

Charity

Russian Agricultural Bank's charitable activity is driven by its common intrinsic sense of humanity and the commitment of the Bank's personnel and management team to charity.

The Bank's financial strength allows it to pay particular attention to arranging charitable events. Naturally, there are a great number of projects for which people need a helping hand. For the last 10 years, the Bank has provided financial support to projects that are implemented in various spheres of the country's social and economic life.

In accordance with its charitable activity policy, the Bank decides on charitable initiatives that are related to key priorities of Russia's social and economic development and that are defined by the Bank's shareholders — namely, developing the health care and education system, preserving Russia's cultural and historical heritage and promoting spirituality in society.

Russian Agricultural Bank is implementing special scholarship programs to support the most promising and talented students and post-graduates at universities that specialize in training agribusiness specialists throughout Russia.

In the health care sector, Russian Agricultural Bank offers financial assistance to upgrade medical institutions that employ the latest medical, scientific and technological innovations.

The Bank also strives to contribute to preserving Russia's cultural and historical heritage. Since 2009, the Bank has participated in a project to finance reconstruction of the New Jerusalem Stauropegial Friary Monastery. This initiative represents a major contribution to further developing national identity.



Russian Agricultural Bank is implementing special scholarship programs to support the most promising and talented students and post-graduates at universities that specialize in training agribusiness specialists throughout Russia



Corporate social responsibility reflects Russian Agricultural Bank's commitment to its customers, shareholders, employees and to the communities that the Bank serves, leading it to perform in line with the highest governance and ethics standards, providing products and services that meet increased customer expectations, attracting and retaining well-qualified employees, supporting communities and lessening any environmental impact from the Bank's business practices.

Russian Agricultural Bank recognizes its strategic role as a key financial institution, implementing federal policy in agribusiness support, and will continue to carry out its mission.



11. AUDITED IFRS 2011 FINANCIAL STATEMENTS, WITH NOTES

INTERNATIONAL FINANCIAL REPORTING STANDARDS CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT 31 December 2011

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INDEPENDENT AUDITOR'S REPORT

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

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

ZAO PricewaterhouseCoopers Audit

25 April 2012
Moscow, Russia

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CONSOLIDATED FINANCIAL STATEMENTS

Russian Agricultural Bank Group *Consolidated Statement of Financial Position*

In millions of Russian Roubles

	Note	31 December 2011	31 December 2010
ASSETS			
Cash and cash equivalents	7	133 959	81 010
Mandatory cash balances with the Central Bank of the Russian Federation		8 417	3 468
Trading securities	8	–	3 563
Repurchase receivables	9	2 369	15 240
Financial instruments designated at fair value through profit or loss	10	11 225	9 686
Derivative financial instruments	34	23 296	20 621
Due from other banks	11	39 569	34 477
Loans and advances to customers	12	903 697	688 556
Investment securities available for sale	13	76 595	15 687
Investment securities held to maturity	14	31 319	14 922
Deferred income tax asset		5 531	1 930
Intangible assets	15	1 531	1 563
Premises and equipment	15	25 093	25 985
Current income tax prepayment		820	191
Other assets	16	15 904	11 052
Assets of the disposal groups held for sale	38	5 101	2 849
TOTAL ASSETS		1 284 426	930 800
LIABILITIES			
Derivative financial instruments	34	739	541
Due to other banks	17	90 417	105 578
Customer accounts	18	607 295	386 279
Promissory notes issued	19	20 129	9 874
Other borrowed funds	20	342 499	257 559
Deferred income tax liability		1 322	1 405
Current income tax liability		7	17
Other liabilities	21	6 769	4 389

In millions of Russian Roubles

	Note	31 December 2011	31 December 2010
Subordinated debts	22	57 192	46 545
Liabilities directly associated with the disposal groups held for sale	38	1 282	1 015
TOTAL LIABILITIES		1 127 651	813 202
EQUITY			
Share capital	23	148 798	108 798
Revaluation reserve for premises		1 050	933
Revaluation reserve for investment securities available for sale		(898)	(101)
Retained earnings		7 017	6 851
Equity attributable to the Bank's owner		155 967	116 481
Non-controlling interest		808	1 117
TOTAL EQUITY		156 775	117 598
TOTAL LIABILITES AND EQUITY		1 284 426	930 800

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

D.N. Patrushev
Chairman of the Management Board

E.A. Romankova
Chief Accountant

The notes set out on pages 116 to 231 form an integral part of these consolidated financial statements

Russian Agricultural Bank Group
Consolidated Statement of Comprehensive Income

In millions of Russian Roubles

	Note	2011	2010
Interest income	24	113314	105 007
Interest expense	24	(59 699)	(53 383)
Net interest income		53 615	51 624
Provision for loan impairment	11, 12	(22 552)	(28 507)
Net interest income after provision for loan impairment		31 063	23117
Fee and commission income	25	4 834	3 411
Fee and commission expense	25	(631)	(589)
(Losses net of gains)/gains less losses from trading securities		(76)	708
Losses net of gains from financial instruments designated at fair value through profit or loss		(749)	(734)
Foreign exchange translation losses net of gains		(8 136)	(1 737)
Gains less losses/(losses net of gains) from foreign exchange swaps with settlement dates of more than 30 working days		2 933	(456)
Gains less losses/(losses net of gains) from other derivative financial instruments		221	(342)
Gains less losses from dealing in foreign currencies		82	289
Gains less losses from disposal of investment securities available for sale	13	324	390
(Provision)/recovery of provision for other assets and litigation	16, 21	(78)	192
Gains from early redemption of other borrowed funds	20	25	41
Losses net of gains from non-banking activities	26	(1 245)	(269)
Gains on disposal of subsidiaries	38	21	–
Other operating income		927	296
Administrative and other operating expenses	27	(29 165)	(23 584)
Profit before tax		350	733
Income tax expense	28	(292)	(364)
Profit for the year		58	369
Other comprehensive (loss)/income			
Securities available for sale:			
– Revaluation of securities at fair value	13	(672)	246
– Realised revaluation reserve (at disposal)	13	(324)	(390)
Revaluation of premises		211	142

In millions of Russian Roubles

	Note	2011	2010
Income tax recorded directly in other comprehensive income	28	157	–
Other comprehensive loss for the year, net of tax		(628)	(2)
Total comprehensive (loss)/income for the year		(570)	367
Profit/(loss) is attributable to:			
Owner of the Bank		367	489
Non-controlling interest		(309)	(120)
Profit for the year		58	369
Total comprehensive (loss)/income is attributable to:			
Owner of the Bank		(261)	487
Non-controlling interest		(309)	(120)
Total comprehensive (loss)/income for the year		(570)	367

The notes set out on pages 116 to 231 form an integral part of these consolidated financial statements

Russian Agricultural Bank Group
Consolidated Statement of Changes in Equity

In millions of Russian Roubles

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

The notes set out on pages 116 to 231 form an integral part of these consolidated financial statements

Russian Agricultural Bank Group
Consolidated Statement of Cash Flows

In millions of Russian Roubles

	Note	2011	2010
Cash flows from operating activities			
Interest received		104 112	99 098
Interest paid		(54 586)	(51 386)
Income received from trading in securities and financial instruments designated at fair value through profit or loss		424	1 091
Income received from foreign exchange swaps with settlement dates of more than 30 working days		75	7 624
Income received/(losses incurred) from other derivative financial instruments		602	(380)
Income received from dealings in foreign currencies		82	289
Fees and commissions received		4 930	3 411
Fees and commissions paid		(631)	(440)
Other operating income received		577	296
Staff costs paid		(17 831)	(14 794)
Administrative and other operating expenses paid		(9 915)	(6 873)
Income tax paid		(4 462)	(1 940)
Cash flows from operating activities before changes in operating assets and liabilities		23 377	35 996
Changes in operating assets and liabilities			
Net increase in mandatory cash balances with the Central Bank of the Russian Federation		(4 949)	(494)
Net decrease in trading securities		3 967	16 826
Net increase in financial instruments designated at fair value through profit or loss		(1 406)	(6 055)
Net (increase)/decrease in due from other banks		(3 147)	3 586
Net increase in loans and advances to customers		(225 985)	(125 768)
Net increase in other assets		(6 378)	(1 336)
Net decrease in due to other banks		(20 899)	(87 348)
Net increase in customer accounts		218 666	154 883
Net increase/(decrease) in promissory notes issued		9 807	(2 633)
Net increase in other liabilities		1 271	257
Net cash used in operating activities		(5 676)	(12 086)

In millions of Russian Roubles

	Note	2011	2010
Cash flows from investing activities			
Acquisition of premises and equipment	15	(1 820)	(2 855)
Proceeds from disposal of premises and equipment		75	702
Acquisition of intangible assets	15	(416)	(829)
Acquisition of investment securities available for sale	13	(116 178)	(40 136)
Proceeds from disposal of investment securities available for sale	13	51 385	16 825
Acquisition of investment securities held to maturity		(1 132)	(7 956)
Proceeds from redemption of investment securities held to maturity		1 625	865
Acquisition of subsidiaries, net of cash acquired		(17)	–
Cash outflow on disposal of subsidiaries, net of cash disposed of		(24)	–
Net cash used in investing activities		(66 502)	(33 384)
Cash flows from financing activities			
Issue of ordinary shares	23	40 000	1 825
Proceeds from subordinated debts		22 434	–
Repayment of subordinated debts		(15 748)	–
Proceeds from other borrowed funds	20	83 564	65 958
Repayment of other borrowed funds	20	(9 089)	(27 081)
Proceeds from sale of previously bought back other borrowed funds		1 137	–
Buy back of other borrowed funds		(102)	–
Dividends paid	29	(253)	(232)
Repayment of syndicated loans		–	(7 374)
Net cash from financing activities		121 943	33 096
Effect of exchange rate changes on cash and cash equivalents		3 178	(1 568)
Effect directly associated with disposal groups held for sale		6	(6)
Net increase/(decrease) in cash and cash equivalents		52 949	(13 948)
Cash and cash equivalents at the beginning of the year	7	81 010	94 958
Cash and cash equivalents at the end of the year	7	133 959	81 010

The notes set out on pages 116 to 231 form an integral part of these consolidated financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

I. INTRODUCTION

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

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

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

Principal activity

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

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

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

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

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

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

Presentation currency

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

**2.
OPERATING ENVIRONMENT
OF THE GROUP**

Russian Federation

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

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

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

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

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

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

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

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

**3.
SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES**

Basis of preparation

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

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

Consolidated financial statements

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

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

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

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

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

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

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

Purchases and sales of non-controlling interest

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

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

Disposals of subsidiaries, associates or joint ventures

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

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

Financial instruments — key measurement terms

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

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

exchange or other institution and those prices represent actual and regularly occurring market transactions on an arm's length basis.

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

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

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

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

Initial recognition of financial instruments

Trading securities, derivatives and financial instruments designated at fair value through profit or loss are initially recorded at fair value. All other

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

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

Derecognition of financial assets

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

Cash and cash equivalents

Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents include interbank loans, deposits and reverse sale and repurchase agreements with other banks with original maturity of less than one month. Amounts which relate to funds that are of a restricted nature are excluded from cash and cash equivalents.

Mandatory cash balances with the CBRF

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

Trading securities

Trading securities are financial assets which are either acquired for generating a profit from short-term fluctuations in price or trader’s margin, or are securities included in a portfolio in which a pattern of short-term trading exists. The Group classifies securities into trading securities if it has an intention to sell them within a short period after purchase. The Group may choose to reclassify a non-derivative trading financial asset out of the fair value through profit or loss category if the asset is no longer held for the purpose of selling it in the near term. Financial assets other than loans and

receivables are permitted to be reclassified out of fair value through profit or loss category only in rare circumstances arising from a single event that is unusual and highly unlikely to reoccur in the near term. Financial assets that would meet the definition of loans and receivables may be reclassified if the Group has the intention and ability to hold these financial assets for the foreseeable future or until maturity.

Trading securities are carried at fair value. Interest earned on trading securities calculated using the effective interest method is presented in the consolidated statement of comprehensive income as interest income. Dividends are included in dividend income within other operating income when the Group's right to receive the dividend payment is established and it is probable that the dividends will be collected. All other elements of the changes in the fair value and gains or losses on derecognition are recorded in profit or loss as gains less losses from trading securities in the period in which they arise.

Sale and repurchase agreements and lending of securities

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

Securities purchased under agreements to resell ("reverse repo agreements") which effectively provide a lender's return to the Group are recorded as cash and cash equivalents, due from other banks or loans and advances to customers, as appropriate. The difference between the sale and repurchase price is treated as interest income and accrued over the life of repo agreements using the effective interest method.

Financial instruments designated at fair value through profit or loss.

Financial instruments designated at fair value through profit or loss are financial assets designated irrevocably, at initial recognition, into this category. Management designates securities into this category only if (a) such classification eliminates or significantly reduces an accounting mismatch that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or (b) a group of financial assets, financial liabilities or both is managed and performance of these investments is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information on that basis is regularly provided to and reviewed by the Group's key management personnel. Recognition and measurement of this category of financial assets is consistent with the above policy for trading securities.

Investment securities available for sale

This classification includes investment securities which the Group intends to hold for an indefinite period of time and which may be sold in response

to needs for liquidity or changes in interest rates, exchange rates or equity prices. The Group classifies investments as available for sale at the time of purchase or as a result of reclassification.

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

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

Investment securities held to maturity

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

Due from other banks

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

Loans and advances to customers

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

Impairment of financial assets carried at amortised cost

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

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors’ ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and the experience of management in respect of the extent, to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods and to remove the effects of past conditions that do not exist currently.

If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the borrower or issuer, impairment is measured using the original effective interest rate before the modification of terms.

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

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

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to impairment loss account through profit or loss for the year.

Repossessed collateral

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

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

Credit related commitments

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

Promissory notes purchased

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

Goodwill

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

Premises and equipment

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

Premises owned by the Group and used in a banking activity were for the first time revalued at fair value as at 31 December 2007 and are subject to regular subsequent revaluation. The frequency of revaluation depends upon the movements in the fair values of the premises being revalued. The revaluation is recognised by proportionally restating the gross carrying amount and accumulated depreciation of the revalued premises. These changes in values are shown separately in the reconciliation of movements in premises in Note 15. The revaluation reserve for premises and equipment included in equity is transferred directly to retained earnings when the surplus is realised, i.e. either on the retirement or disposal of the asset, or as the asset is used by the Group; in the latter case, the amount of the surplus realised is the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost.

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

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

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

At the end of each reporting period management assesses whether there is any indication of impairment of premises and equipment. If any such indication exists, management estimates the recoverable amount, which

is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit or loss for the year to the extent it exceeds the previous revaluation surplus in equity. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Depreciation

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

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

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

Intangible assets

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

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Development costs that are directly associated with identifiable and unique software controlled by the Group are recorded as intangible assets if the inflow of incremental economic benefits exceeding costs is probable. Capitalised costs include staff costs of the software development team and an appropriate portion of relevant overheads. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred. Capitalised computer software is amortised on a straight line basis over expected useful lives of 5 years.

Investment property

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

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

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

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

Operating leases

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

Finance lease liabilities

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

Inventory

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

Non-current assets classified as held for sale

Non-current assets and disposal groups, which may include both non-current and current assets, are classified in the statement of financial position as 'noncurrent assets held for sale' if their carrying amount will be recovered principally through a sale transaction, including loss of control

of a subsidiary holding the assets, within twelve months after the end of the reporting period. Assets are reclassified when all of the following conditions are met: (a) the assets are available for immediate sale in their present condition; (b) the Group's management approved and initiated an active programme to locate a buyer; (c) the assets are actively marketed for a sale at a reasonable price; (d) the sale is expected within one year and (e) it is unlikely that significant changes to the plan to sell will be made or that the plan will be withdrawn. Non-current assets or disposal groups classified as held for sale in the current period's statement of financial position are not reclassified or re-presented in the comparative consolidated statement of financial position to reflect the classification at the end of the current period.

A disposal group is a group of assets (current or non-current) to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction. Goodwill is included if the disposal group includes an operation within a cashgenerating unit, to which goodwill has been allocated on acquisition. Non-current assets are assets that include amounts expected to be recovered or collected more than twelve months after the end of the reporting period. If reclassification is required, both the current and non-current portions of an asset are reclassified.

Held for sale disposal groups as a whole are measured at the lower of their carrying amount and fair value less costs to sell.

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

Due to other banks

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

Customer accounts

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

Promissory notes issued

Promissory notes issued by the Group are carried at amortised cost. If the Group purchases its own promissory notes issued, they are removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains/(losses) arising from early retirement of debt.

Other borrowed funds

Other borrowed funds represent amounts attracted from Eurobonds issue and bonds issued on domestic market. Issued Eurobonds and bonds issued on domestic market carry a coupon and are redeemable on a specific date. Other borrowed funds are carried at amortised cost. If the Group repurchases its borrowed funds, they are removed from the consolidated

statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains/ (losses) arising from early retirement of debt.

Subordinated debts

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

Derivative financial instruments

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

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

- a. the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract;
- b. a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- c. the hybrid (combined) instrument is not measured at fair value with changes in fair value recognised in profit or loss (i.e. a derivative that is embedded in a financial asset or financial liability at fair value through profit or loss is not separated).

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

All derivative financial instruments are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative financial instruments are included in gains less losses from derivative financial instruments. The Group does not apply hedge accounting.

Income taxes

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

Current tax is the amount expected to be paid to or recovered from the tax authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if financial

statements are authorised prior to filing relevant tax returns. Taxes other than on income are recorded within administrative and other operating expenses.

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

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

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

Uncertain tax positions

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

Provisions for liabilities and charges

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

Trade and other payables

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

Share capital

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

Dividends

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

Income and expense recognition

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

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

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

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

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

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

Revenue recognition — sale of goods

Revenues from sales of goods are recognised at the point of transfer of risks and rewards of ownership of the goods, normally when the goods are shipped. If the Group agrees to transport goods to a specified location,

revenue is recognised when the goods are passed to the customer at the destination point. Sales are shown net of VAT and discounts.

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

Foreign currency translation

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

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

Fiduciary assets

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

Offsetting

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

Accounting for the effects of hyperinflation

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

The characteristics of the economic environment of the Russian Federation indicated that hyperinflation had ceased effective from 1 January 2003. Restatement procedures of IAS 29 are therefore only applied to share capital. For these balances, the amounts expressed in the measuring unit current

as at 31 December 2002 are the basis for the carrying amounts in these consolidated financial statements. The restatement was calculated using the conversion factors derived from the Russian Federation Consumer Price Index ("CPI"), published by the Russian Statistics Agency, and from indices obtained from other sources for years prior to 1992.

Staff costs and related contributions

Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the Group. The Group makes payments to a non-state pension fund in respect of certain groups of employees (a defined contribution plan). These payments are included in staff expenses in consolidated profit or loss.

Segment Reporting

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

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

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

Amendments of the financial statements after issue

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

Impairment losses on loans and advances

The Group regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in the profit or

loss, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group.

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

Held-to-maturity financial assets

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

Accounting for subordinated debt from Vnesheconombank

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

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

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

Had there been evidence that the market interest rate for such debt was higher than the contractual interest rate, the amortised contractual value of the debt would have been replaced by (i) the amortised value of the debt

determined based on the fair value of the debt at the date of origination and (ii) the unamortised value of the government grant embedded in such low interest debt; there would have been no impact on the profit or loss for the year since the increased effective interest rate would have been offset by amortisation of the government grant.

Accounting for the change of interest rate on the subordinated debt from Vnesheconombank

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

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

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

**5.
ADOPTION OF NEW
OR REVISED STANDARDS
AND INTERPRETATIONS**

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

Amendment to IAS 24, Related Party Disclosures (issued in November 2009 and effective for annual periods beginning on or after 1 January 2011)

IAS 24 was revised in 2009 by: (a) simplifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies; and by (b) providing a partial exemption from the disclosure requirements for government-related entities. The Group has early adopted amendments to IAS 24. Refer to Note 37.

Amendment to IFRS 7, Financial Instruments: Disclosures (issued in May 2010 and effective from 1 January 2011)

IFRS 7 was amended to clarify certain disclosure requirements, in particular: (i) by adding an explicit emphasis on the interaction between qualitative and quantitative disclosures about the nature and extent of financial risks, (ii) by removing the requirement to disclose carrying amount of renegotiated financial assets that would otherwise be past due or impaired, (iii) by replacing the requirement to disclose fair value of collateral by a more general requirement to disclose its financial effect, and (iv) by clarifying that an entity should disclose the amount of foreclosed collateral held at the reporting date and not the amount obtained during

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

Improvements to International Financial Reporting Standards (issued in May 2010 and effective from 1 January 2011)

The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations:

- IFRS 1 was amended (i) to allow previous GAAP carrying value to be used as deemed cost of an item of property, plant and equipment or an intangible asset if that item was used in operations subject to rate regulation, (ii) to allow an event driven revaluation to be used as deemed cost of property, plant and equipment even if the revaluation occurs during a period covered by the first IFRS financial statements and (iii) to require a first-time adopter to explain changes in accounting policies or in the IFRS 1 exemptions between its first IFRS interim report and its first IFRS financial statements;
- IFRS 3 was amended (i) to require measurement at fair value (unless another measurement basis is required by other IFRS standards) of non-controlling interest that does not present ownership interest or do not entitle the holder to a proportionate share of net assets in the event of liquidation, (ii) to provide guidance on the acquiree's share-based payment arrangements that were not replaced, or were voluntarily replaced as a result of a business combination and (iii) to clarify that the contingent considerations from business combinations that occurred before the effective date of revised IFRS 3 (issued in January 2008) will be accounted for in accordance with the guidance in the previous version of IFRS 3;
- IAS 1 was amended to clarify the requirements for the presentation and content of the statement of changes in equity;
- IAS 27 was amended by clarifying the transition rules for amendments to IAS 21, 28 and 31 made by the revised IAS 27 (as amended in January 2008);
- IAS 34 was amended to add additional examples of significant events and transactions requiring disclosure in a condensed interim financial report, including transfers between the levels of fair value hierarchy, changes in classification of financial assets or changes in business or economic environment that affect the fair values of the entity's financial instruments; and
- IFRIC 13 was amended to clarify measurement of fair value of award credits.

The above improvements resulted in additional or revised disclosures, but had no material impact on measurement or recognition of transactions and balances reported in these consolidated financial statements.

Other revised standards and interpretations effective for the current period

IFRIC 19 “Extinguishing financial liabilities with equity instruments”, amendments to IAS 32 on classification of rights issues, clarifications in IFRIC 14 “IAS 19 - The limit on a defined benefit asset, minimum funding requirements and their interaction” relating to prepayments of minimum funding requirements and amendments to IFRS 1 “First-time adoption of IFRS”, did not have any impact on these consolidated financial statements.

Unless otherwise stated above, the amendments, improvements and interpretations did not have any significant effect on the Group’s consolidated financial statements.

**6.
NEW ACCOUNTING
PRONOUNCEMENTS**

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2012 or later periods and which the Group has not early adopted.

IFRS 9, Financial Instruments Part 1: Classification and Measurement

IFRS 9 issued in November 2009 replaces those parts of IAS 39 relating to the classification and measurement of financial assets. IFRS 9 was further amended in October 2010 to address the classification and measurement of financial liabilities and in December 2011 to (i) change its effective date to annual periods beginning on or after 1 January 2015 and (ii) add transition disclosures. Key features of the standard are as follows:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity’s business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity’s business model is to hold the asset to collect the contractual cash flows, and (ii) the asset’s contractual cash flows represent only payments of principal and interest (that is, it has only “basic loan features”). All other debt instruments are to be measured at fair value through profit or loss.
- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognize unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated as at fair value through profit or loss in other comprehensive income.

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

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

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

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

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

IAS 27, Separate Financial Statements (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013), was changed and its objective is now to prescribe the accounting and disclosure requirements

for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The guidance on control and consolidated financial statements was replaced by IFRS 10, Consolidated Financial Statements. There is no impact of the amended standard on these consolidated financial statements.

IAS 28, Investments in Associates and Joint Ventures (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013)

The amendment of IAS 28 resulted from the Board's project on joint ventures. When discussing that project, the Board decided to incorporate the accounting for joint ventures using the equity method into IAS 28 because this method is applicable to both joint ventures and associates. With this exception, other guidance remained unchanged. The Group is currently assessing the impact of the amended standard on its consolidated financial statements.

Disclosures — Transfers of Financial Assets — Amendments to IFRS 7 (issued in October 2010 and effective for annual periods beginning on or after 1 July 2011)

The amendment requires additional disclosures in respect of risk exposures arising from transferred financial assets. The amendment includes a requirement to disclose by class of asset the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party, yet remain on the entity's balance sheet. Disclosures are also required to enable a user of an entity's financial statements to understand the amount of any associated liabilities, and the relationship between the financial assets and associated liabilities. Where financial assets have been derecognised, but the entity is still exposed to certain risks and rewards associated with the transferred asset, additional disclosure is required to enable the effects of those risks to be understood. The Group is currently assessing the impact of the amended standard on disclosures in its consolidated financial statements.

Amendments to IAS 1, Presentation of Financial Statements (issued June 2011, effective for annual periods beginning on or after 1 July 2012), changes the disclosure of items presented in other comprehensive income. The amendments require entities to separate items presented in other comprehensive income into two groups, based on whether or not they may be reclassified to profit or loss in the future. The suggested title used by IAS 1 has changed to 'statement of profit or loss and other comprehensive income'. The Group expects the amended standard to change presentation of its consolidated financial statements, but have no impact on measurement of transactions and balances.

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

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

Disclosures — Offsetting Financial Assets and Financial Liabilities — Amendments to IFRS 7 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2013)

The amendment requires disclosures that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off. The amendment will have an impact on disclosures but will have no effect on measurement and recognition of financial instruments.

Offsetting Financial Assets and Financial Liabilities — Amendments to IAS 32 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2014)

The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. These include clarifying the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to net settlement. The Group is considering the implications of the amendments, the impact on the Group and the timing of their adoption by the Group.

Other revised standards and interpretations: The amendments to IFRS 1 "First-time adoption of IFRS", relating to severe hyperinflation and eliminating references to fixed dates for certain exceptions and exemptions, will not have any impact on these consolidated financial statements. The amendment to IAS 12 "Income taxes", which introduces a rebuttable presumption that an investment property carried at fair value is recovered entirely through sale, will not have any impact on these consolidated financial statements. IFRIC 20, Stripping Costs in the Production Phase of a Surface Mine, which considers when and how to account for the benefits arising from the stripping activity in mining industry, will have no impact on these consolidated financial statements.

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Group's consolidated financial statements.

7. CASH AND CASH EQUIVALENTS

In millions of Russian Roubles

	2011	2010
Cash on hand	19 635	16 101
Cash balances with the CBRF (other than mandatory reserve deposits)	33 015	37 361
Correspondent accounts and deposits with other banks with original maturities less than one month	77 225	25 952
Settlement accounts with stock and currency exchanges	3 256	1 596
Deals with securities purchased under “reverse-repo agreements” with original maturities of less than one month	828	–
Total cash and cash equivalents	133 959	81 010

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

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

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

In millions of Russian Roubles

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

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

8. TRADING SECURITIES

In millions of Russian Roubles

	2011	2010
Corporate bonds	–	3 312
Municipal and subfederal bonds	–	251
Total trading securities	–	3 563

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

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

In millions of Russian Roubles

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

** or ratings of other analogous rating agencies*

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

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

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

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

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

In millions of Russian Roubles

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

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

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

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

In millions of Russian Roubles

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

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

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

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

9. REPURCHASE RECEIVABLES

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

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

In millions of Russian Roubles

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

* or ratings of other analogous rating agencies

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

In millions of Russian Roubles

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

* or ratings of other analogous rating agencies

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

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

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

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

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

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

IO. FINANCIAL INSTRUMENTS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

In millions of Russian Roubles

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

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

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

In May 2008, the Group purchased a Credit Linked Note from an OECD bank in the nominal amount of RR 2 500 million at the net price of 19.5% of the

nominal amount with maturity in May 2023 and a zero coupon. The Note has an embedded Credit Default Swap linked to the Bank's own credit risk.

Due from other banks with embedded derivatives are as follows:

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

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

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

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

II. DUE FROM OTHER BANKS

In millions of Russian Roubles

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

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

In millions of Russian Roubles

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

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

In millions of Russian Roubles

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

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

In millions of Russian Roubles

	2011	2010
Unsecured interbank loans	10 709	5 099
<i>Interbank loans collateralised by:</i>		
– guarantee deposits during the year	25 962	24 566
– other assets	2 898	4 812
Total due from other banks	39 569	34 477

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

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

I2. LOANS AND ADVANCES TO CUSTOMERS

In millions of Russian Roubles

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

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

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

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

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

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

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

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

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

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

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

Loan portfolio analysis by credit quality

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

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

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

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

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

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

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

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

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

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

In millions of Russian Roubles

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

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

In millions of Russian Roubles

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

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

Loans included in the watch list are in the process of restructuring and/or renegotiation. Watch list includes loans and advances to customers overdue from 6 to 180 days of RR 14 879 million (2010: RR 26 878 million) and loans and advances to customers overdue more than 180 days

of RR 46 439 million (2010: RR 7 869 million). The remaining loans included in the watch list are not overdue.

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

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

In millions of Russian Roubles

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

Loan collateral

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

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

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

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

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

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

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

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

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

In millions of Russian Roubles

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

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

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

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

I3. INVESTMENT SECURITIES AVAILABLE FOR SALE

In millions of Russian Roubles

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

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

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

In millions of Russian Roubles

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

** or ratings of other analogous rating agencies*

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

In millions of Russian Roubles

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

** or ratings of other analogous rating agencies*

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

Corporate Eurobonds are bonds denominated in USD and in Russian Roubles issued by major Russian companies. As at 31 December 2011 these

bonds have maturity dates from April 2014 to September 2017 (2010: from January 2011 to October 2020), annual coupon rates from 5.4% to 9.8% p.a. (2010: 5.4% to 12.0% p.a.), payable semi-annually, and yield to maturity or next repricing date from 5.5% to 10.6% p.a. (2010: from 4.3% to 10.9%p.a.), depending on the type of the bond issue, the issuer and the market conditions.

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

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

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

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

In millions of Russian Roubles

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

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

In millions of Russian Roubles

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

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

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

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

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

I4. INVESTMENT SECURITIES HELD TO MATURITY

In millions of Russian Roubles

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

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

In millions of Russian Roubles

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

** or ratings of other analogous rating agencies*

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

In millions of Russian Roubles

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

** or ratings of other analogous rating agencies*

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

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

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

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

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

(2010: from 7.1% to 8.5% p.a.), depending on the type of the bond issue, the issuer and the market conditions.

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

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

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

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

I5. PREMISES, EQUIPMENT AND INTANGIBLE ASSETS

In millions of Russian Roubles

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

In millions of Russian Roubles

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

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

Intangible assets mainly include capitalised computer software.

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

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

16. OTHER ASSETS

In millions of Russian Roubles

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

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

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

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

In millions of Russian Roubles

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

The movements in repossessed collateral are as follows:

In millions of Russian Roubles

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

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

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

In millions of Russian Roubles

	Note	2011	2010
Carrying amount at 1 January		–	298
Acquisition of subsidiaries		8	–
Impairment loss	27	–	(298)
Carrying amount at 31 December		8	–

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

17. DUE TO OTHER BANKS

In millions of Russian Roubles

	2011	2010
Borrowings from other banks with term to maturity		
– sale and repurchase agreements less than 30 days	2 006	12911
– less than 30 days	3 090	7 378
– from 31 to 180 days	2 678	4 793
– from 181 days to 1 year	14 297	4 652
– from 1 year to 3 years	49 504	53 558
– more than 3 years	18 490	18 192
Borrowings from the CBRF with term to maturity		
– less than 30 days	–	1 058
–from 31 to 180 days	–	2 795
Correspondent accounts and overnight placements of other banks	352	241
Total due to other banks	90 417	105 578

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

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

18. CUSTOMER ACCOUNTS

In millions of Russian Roubles

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

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

Economic sector concentrations within customer accounts are as follows:

In millions of Russian Roubles

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

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

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

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

I9. PROMISSORY NOTES ISSUED

In millions of Russian Roubles

	2011	2010
Promissory notes issued	20 129	9 874
Total promissory notes issued	20 129	9 874

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

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

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

20.
OTHER BORROWED FUNDS

In millions of Russian Roubles

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

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

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

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

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

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

21. OTHER LIABILITIES

In millions of Russian Roubles

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

Trade payables are related to the business activities of subsidiaries.

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

22. SUBORDINATED DEBTS

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

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

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

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

2016 at 8.3% p.a. The Group has an option to terminate this subordinated debt at the nominal value in June 2016.

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

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

23. SHARE CAPITAL

Share capital issued and fully paid comprises:

*In millions of Russian Roubles
(except for number of shares)*

	Number of outstanding shares	Nominal amount	Inflation adjusted amount
At 1 January 2010	106 223	106 223	106 973
New shares issued	1 825	1 825	1 825
At 31 December 2010	108 048	108 048	108 798
New shares issued	40 000	40 000	40 000
At 31 December 2011	148 048	148 048	148 798

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

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

24. INTEREST INCOME AND EXPENSE

In millions of Russian Roubles

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

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

**25.
FEE AND COMMISSION
INCOME AND EXPENSE**

In millions of Russian Roubles

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

26. LOSSES NET OF GAINS FROM NON-BANKING ACTIVITIES

In millions of Russian Roubles

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

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

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

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

27. ADMINISTRATIVE AND OTHER OPERATING EXPENSES

In millions of Russian Roubles

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

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

28. INCOME TAXES

Income tax expense comprises the following:

In millions of Russian Roubles

	2011	2010
Current tax	3 823	1 995
Deferred tax	(3 531)	(1 631)
Income tax expense for the year	292	364

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

In millions of Russian Roubles

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

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

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

In millions of Russian Roubles

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

In millions of Russian Roubles

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

29. DIVIDENDS

In millions of Russian Roubles

	2011 Ordinary shares	2010 Ordinary shares
Dividends payable at 1 January	–	–
Dividends declared during the year	253	232
Dividends paid during the year	(253)	(232)
Dividends payable at 31 December	–	–
Dividends per share declared during the year	0.0023	0.0022

**30.
SEGMENT ANALYSIS****(a) Description of geographic areas from which each reportable segment derives its revenue and factors that management used to identify the reportable segments**

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

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

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

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

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

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

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

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

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

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

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

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

In millions of Russian Roubles

	Head office	Central federal district	Far Eastern federal district	Volga federal district	North-west federal district	North-Caucasian federal district	Siberian federal district	Ural federal district	Krasnodar branch	Southern federal district (without Krasnodar branch)	Total
For the year ended 31 December 2011											
Revenue from external customers:	15 102	27 242	3 952	22 989	6 821	9 622	12 334	2 459	8 240	5 026	113 787
– Income from loans and advances to customers, due from other banks and other placed funds	13 981	25 776	3 622	21 866	6 457	9 116	11 570	2 343	7 857	4 714	107 302
– Fee and commission income from credit related operations	1 121	1 466	330	1 123	364	506	764	116	383	312	6 485
Gains less losses / (losses net of gains) arising from securities	(2 414)	(25)	(1)	(61)	(1)	(3)	4	(1)	(2)	(17)	(2 521)
Net interest and commissions from current/correspondent/settlement accounts	(79)	772	126	586	183	595	369	86	186	173	3 002
Expenses from due to other banks, term deposits and other borrowed funds	(46 176)	(4 760)	(673)	(2 355)	(1 139)	(386)	(1421)	(319)	(712)	(573)	(58 514)
Provision charge for impairment	(920)	(10 060)	(578)	510	(1 118)	(916)	63	(223)	(11 587)	(572)	(25 401)
Administrative and Maintenance expense	(6 029)	(4 862)	(1 749)	(4 507)	(1 711)	(1 830)	(3 563)	(784)	(1 973)	(1 194)	(28 202)
Including depreciation charge for the reporting period	(160)	(252)	(63)	(230)	(77)	(114)	(155)	(34)	(46)	(43)	(1 174)
Intersegment income and expense*	54 524	(12 961)	(1 865)	(12 078)	(3 737)	(5 735)	(6 475)	(1 389)	(7 556)	(2 728)	–
Profit/(loss) of reportable segments	(44 277)	8 297	1 089	17 233	2 977	7 303	7 850	1 218	(3 286)	2 869	1 273
For the year ended 31 December 2010											
Revenue from external customers:	17 132	24 352	3 660	19 397	7 253	7 759	10 850	2 421	12 273	4 072	109 169
– Income from loans and advances to customers, due from other banks and other placed funds	15 769	22 997	3 386	18 494	6 886	7 407	10 246	2 298	11 676	3 879	103 038
– Fee and commission income from credit related operations	1 363	1 355	274	903	367	352	604	123	597	193	6 131
Gains less losses / (losses net of gains) arising from securities	(4 283)	(37)	–	(60)	3	–	9	–	2	(14)	(4 380)
Net interest and commissions from current/correspondent/settlement accounts	(389)	623	122	467	148	452	278	65	151	127	2 044
Expenses from due to other banks, term deposits and other borrowed funds	(40 307)	(4 257)	(697)	(2 372)	(1 345)	(467)	(1 386)	(331)	(1 041)	(569)	(52 772)
Provision charge for impairment	(552)	(4 947)	(492)	(5 071)	(1 748)	(101)	(3 797)	(882)	(9 667)	(536)	(27 793)
Administrative and Maintenance expense	(4 152)	(4 292)	(1 468)	(3 926)	(1 684)	(1 759)	(3 068)	(650)	(843)	(1 244)	(23 086)
Including depreciation charge for the reporting period	(136)	(245)	(63)	(235)	(75)	(112)	(154)	(34)	(48)	(48)	(1 150)
Intersegment income and expense*	49 724	(11 876)	(1 665)	(10 653)	(3 700)	(4 614)	(5 781)	(1 282)	(7 818)	(2 335)	–
Profit/(loss) of reportable segments	(35 315)	11 640	1 148	8 452	2 788	6 089	2 805	633	909	1 865	1 014
Total assets											
31 December 2011	1 577 279	443 342	58 505	303 908	107 959	129 403	168 682	35 754	163 520	69 749	3 058 101
31 December 2010	1 183 530	311 373	44 238	237 058	99 122	94 890	131 428	26 113	150 337	47 362	2 325 451
Provision for loan impairment (RAR)											
31 December 2011	(1 151)	(18 111)	(2 429)	(9 318)	(5 566)	(3 733)	(7 789)	(1 888)	(19 960)	(3 190)	(73 135)
31 December 2010	(55)	(9 479)	(1 978)	(10281)	(4 754)	(3 106)	(8 167)	(1 667)	(11 293)	(2 744)	(53 524)

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

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

In millions of Russian Roubles

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

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

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

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

In millions of Russian Roubles

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

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

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

In millions of Russian Roubles

	2011	2010
Total revenue of reportable segments from external customers	113 787	109 169
Reclassification of income related to back-to-back deposits to income from derivative financial instruments	(5 530)	(7 144)
Reclassification of income not included in segment revenue	11 373	7 682
Interest income related to effective interest rate implication	(258)	(966)
Revenue of non-reportable segments, including the effect of consolidation*	341	(307)
Effect of disposal of loans	(1 557)	–
Other	(8)	(16)
The Group's revenue under IFRS	118 148	108 418
Total expenses from due to other banks, term deposits and other borrowed funds of reportable segments	(58 514)	(52 772)
Reclassification of expense related to back-to-back deposits to expense from derivative financial instruments	8915	9 512
Interest expense related to the securities issued by the Bank	(8 971)	(9 526)
Effective interest rate adjustments	(1 248)	(628)
Results of non-reportable segments, including the effect of consolidation*	103	82
Other	16	(51)
The Group's interest expense under IFRS	(59 699)	(53 383)
Provision charge for impairment	(25 401)	(27 793)
Accounting for provision under IFRS	13	1 300
Provision related to non-reportable segments, including the effect of consolidation*	2 758	(2 022)
Accounting for provision for litigation	–	200
The Group's provision charge for impairment	(22 630)	(28 315)
Administrative and Maintenance expenses of reportable segments	(28 202)	(23 086)
Reclassification of results from loan restructuring	1 171	1 121
Expense of non-reportable segments, including the effect of consolidation*	36	(341)
Taxes other than income tax and charity expense	(1 542)	(980)
Accrued staff costs	(165)	(132)
Other	(463)	(166)
The Group's administrative and other operating expenses under IFRS	(29 165)	(23 584)

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

The CODM reviews financial information prepared based on Russian accounting standards adjusted to meet the requirements of internal reporting. Such financial information differs in certain aspects from International Financial Reporting Standards:

- Adjustments of provisions for impairment are related to the difference between the methodology applied to calculate provisions for loan impairment under the RAR used for preparation of management reporting and the methodology used for IFRS reporting. The provision under RAR is calculated based mainly on formal criteria depending on the financial position of the borrower, quality of debt service and collateral, whereas the provision under IFRS requirement is calculated based on incurred loss model.
- Adjustments of derivative financial instruments to their fair value arise from the difference in the accounting treatment of currency swaps under RAR (which are the basis for management reporting) and IFRS reporting. Under RAR gross settled swap transactions are recognised as back-to-back deposits, whereas in IFRS financial statements such transactions are recognised at fair value. Refer to Note 34. Providing reconciliation, accounting for deals described above under RAR assumes also adjustments related to interest income/expense and total assets of reportable segments.
- Adjustments to fair value of securities resulted from application of different valuation techniques and input data.
- Adjustments to financial assets and liabilities carried at amortised cost resulted from accruals of interest income/expenses using effective interest rate method.
- There is no concept of deferred tax accounting in RAR for credit organizations.
- Reclassification of income non included in segment revenue mainly related to interest income from securities.
- Interest income and interest expense under IFRS are accounted using the effective interest rate method.
- Balances of intercompany settlements related to regional branches of the Bank are presented in assets and liabilities, while in IFRS such balances are shown on a net basis.

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

(e) Major Customers

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

31. FINANCIAL RISK MANAGEMENT

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

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

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

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

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

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

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

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

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

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

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

Credit risk

The Group takes on exposure to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of the Group's lending and other transactions with counterparties giving rise to financial assets.

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

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

- The Supervisory Board approves decisions on loans or determines credit limits per one borrower or a group of related borrowers with the aggregate credit risk limit in excess of RR 4 000 million (2010: RR 4 000 million).
- The Bank's Management Board approves decisions on loans or determines credit limits per one borrower or a group of related borrowers with the aggregate credit risk limit per one borrower or a group of related borrowers totalling up to RR 4 000 million (2010: up to RR 4 000 million) .
- The Credit Committee resolves on providing loans or establishing individual credit risk limits per one borrower or a group of related borrowers within the aggregate credit risk limit in the amount of RR 2 000 million (2010: RR 500 million till February 2010, RR 1 000 million since February 2010 till April 2010, RR 2 000 million since April 2010).
- Credit committees of regional branches, Credit commissions of additional offices, certain executives of the Bank make credit decisions within the preset limits.
- The Resource Committee adopts decisions on limiting credit risks through setting structural and portfolio limits and also limits for counteragents and securities issuers. The Committee's competence also covers credit limits for the Bank's regional branches.

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

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

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

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

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

- lending to the entire cycle of agricultural product turnover (production, storage, processing and sales to ultimate consumers);
- lending to borrowers with different specialisation in different regions;
- a combination of several types of production in one entity typical for agricultural producers;
- diversification of investments in effective and reliable projects of other economic sectors;
- limiting one borrower's risk exposure.

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

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

Market risk

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Bank sets limits on:

- the maximum volume of investments in certain types of assets or liabilities;
- the maximum level of losses and gains in case of changes in financial instruments' prices (stoploss);
- personal limit (limitation of authorities) on the Bank's staff to adopt independent decisions concerning certain types of transactions;
- the maximum allowed relation between certain ratios on assets and

- liabilities, including off-balance sheet claims and liabilities (open position limit, limits on other comparative figures); and
- various characteristics of financial instruments (discounts, etc.).

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

Interest rate risk

The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase or decrease in the event if unexpected movements arise.

The sources of interest rate risk are:

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

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

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

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

In millions of Russian Roubles

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

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

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

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

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

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

In millions of Russian Roubles

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

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

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

In % p.a.

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

* disclosed rates on term deposits

The sign “–” in the table above means that the Group does not have the respective assets or liabilities in corresponding currency.

Currency and Equity Risk Management

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

The Bank calculates VaR on the basis of a 95% confidence level and makes evaluations on the basis of retrospective information on closing prices (as the most dynamic and precise in terms of risk evaluation) for 250 days, evaluation period is one day. Therefore, VaR shows the maximum loss that

can be received from the open position during one trading day with a 95% probability; however, in 5% of cases losses may exceed this level.

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

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

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

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

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

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

Currency risk

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

In millions of Russian Roubles

		2011	2010
At period end	Short position	(35)	(1 068)
	VAR	2	9
	Expected ShortFall	3	11

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

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

In millions of Russian Roubles

		2011	2010
At period end	Short position	9	15
	VAR	–	–
	Expected ShortFall	–	1

Geographical risk concentration

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

In millions of Russian Roubles

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

* OECD — Organisation for Economic Cooperation and Development.

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

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

In millions of Russian Roubles

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

* OECD — Organisation for Economic Cooperation and Development.

Liquidity risk

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

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

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

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

The Group manages liquidity risk using the following basic methods:

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

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

The Group maintains a stable financing base consisting mainly of funds that were attracted through placing of bonds in Russian roubles and other

currencies, increasing the volume of deposits (including interbank deposits), issuing promissory notes and also current resources of the Group as a result of an increase in customer current accounts.

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

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

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

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

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

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

In millions of Russian Roubles

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

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

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

In millions of Russian Roubles

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

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

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

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

The Group does not use the above undiscounted maturity analysis to manage liquidity. Instead, the Group monitors expected maturities.

The tables presented below are based on the management reports on the Bank's liquidity risk at the stated dates that were issued in accordance with the Net liquidity Gap Methodology approved by the Bank. These reports

are prepared using the information extracted from the accounting system, which is based on the Russian Accounting Rules (RAR).

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

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

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

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

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

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

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

Management believes that in spite of a substantial portion of customers accounts being on demand diversification of these deposits by number and type of depositors, and the past experience of the Group would indicate that these customer accounts provide a long-term and stable source of funding for the Group.

32. MANAGEMENT OF CAPITAL

The Group's objectives when managing capital are:

- i. to comply with the capital requirements set by the Central Bank of the Russian Federation;
- ii. to ensure the Group's ability to continue as a going concern; and
- iii. to maintain a sufficient capital base and to achieve a capital adequacy ratio of at least 8% in accordance with the requirements as defined in the June 2004 Basel II Framework and in the reference on the application of Basel II to Trading activities and the Treatment of Double Default Effects, and elements of the 1988 Accord, and the 1996 Amendment to the Capital Accord to Incorporate Market risks.

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

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

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

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

In millions of Russian Roubles

	2011	2010
Share capital	148 798	108 798
Retained earnings	7 017	6 851
Goodwill	(8)	–
<i>Total tier 1 capital</i>	155 807	115 649
Revaluation reserves	152	832
Subordinated debts	57 192	46 545
<i>Total tier 2 capital</i>	57 344	47 377
Total capital	213 151	163 026

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

**33.
CONTINGENCIES
AND COMMITMENTS****Legal proceedings**

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

Tax contingencies

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

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

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

The Group includes company incorporated outside of Russia. The tax liabilities of the Group are determined on the assumption that this company is not subject to Russian profits tax, because it does not have a permanent

establishment in Russia. This interpretation of relevant legislation may be challenged but the impact of any such challenge cannot be reliably estimated currently; however, it may be significant to the financial position and/or the overall operations of the entity.

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

As Russian tax legislation does not provide definitive guidance in certain areas, the Group adopts, from time to time, interpretations of such uncertain areas that reduce the overall tax rate of the Group. While management currently estimates that the tax positions and interpretations that it has taken can probably be sustained, there is a possible risk that outflow of resources will be required should such tax positions and interpretations be challenged by the relevant authorities. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the Group.

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

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

In millions of Russian Roubles

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

Compliance with covenants

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

Credit related commitments

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

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit related commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

Outstanding credit related commitments are as follows:

In millions of Russian Roubles

	2011	2010
Sureties issued	20 732	–
Guarantees issued	7 736	320
Letters of credit	1 428	835
Total credit related commitments	29 896	1 155

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

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

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

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

Credit related commitments are denominated in currencies as follows:

In millions of Russian Roubles

	2011	2010
Russian Roubles	28 749	356
Euros	1 024	291
US Dollars	23	508
Other currencies	100	–
Total	29 896	1 155

Fiduciary assets

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

The fiduciary assets fall into the following categories:

In millions of Russian Roubles

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

Assets pledged and restricted

The Group had assets pledged as follows:

In millions of Russian Roubles

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

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

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

34. DERIVATIVE FINANCIAL INSTRUMENTS

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

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

Foreign exchange swaps with original settlement dates of more than 30 working days are structured as loans issued by the Bank in US Dollars, Euros, Swiss Francs and Japanese yens to five OECD banks and one Russian banking group with maturities from January 2012 to May 2023, and deposits in Russian Roubles received from the same six counterparties

with the same maturities (“back to back loans”). These transactions are aimed at economically hedging the currency exposure of the Group.

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

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

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

In millions of Russian Roubles

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

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

In millions of Russian Roubles

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

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

35. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

instruments. Management has used all available market information in estimating the fair value of financial instruments.

Financial instruments carried at fair value

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

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

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

Loans and receivables carried at amortised cost

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

Held to maturity securities carried at amortised cost

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

Liabilities carried at amortised cost

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

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

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

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

In millions of Russian Roubles

	2011		2010	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets carried at amortised cost				
Cash and cash equivalents	133 959	133 959	81 010	81 010
Mandatory cash balances with the CBRF	8417	8417	3 468	3 468
Due from other banks	39 569	41 531	34 477	36 835
Loans and advances to customers				
– Loans to corporates	723 366	724 085	560 616	569 632
– Lending for food interventions	33 256	33 256	44 514	44 514
– Reverse repo agreements	1 990	1 990	–	–
– Investments in agricultural cooperatives	491	491	632	632
– Loans to individuals	144 594	144 280	82 794	83 945
Investment securities held to maturity related repurchase receivables	32 372	32 107	14 922	14 753
Other financial assets	6 473	6 473	3 973	3 973
Total financial assets carried at Amortised cost	1 124 487	1 126 589	826 406	838 762
Financial assets carried at fair value	112 432	112 432	64 797	64 797
Total financial assets	1 236 919	1 239 021	891 203	903 559
Financial liabilities carried at amortised cost				
Due to other banks				
– Term borrowings from other banks	90 065	92 523	101 484	110 102
– Term borrowings from the CBRF	–	–	3 853	3 853
– Correspondent accounts and overnight placements of other banks	352	352	241	241
Customer accounts				
– State and public organisations	197 463	197 463	79 633	79 633
– Other legal entities	258 579	258 579	178 955	178 955
– Individuals	151 253	151 316	127 691	128 673
Promissory notes issued	20 129	20 129	9 874	9 874
Other borrowed funds				
– Eurobonds issued	231 155	237 489	169 102	179 233
– Bonds issued on domestic market	111 344	112 179	88 457	90 899
Other financial liabilities	4 334	4 334	2 757	2 757
Subordinated debts	57 192	54 420	46 545	46 665
Total financial liabilities carried at amortised cost	1 121 866	1 128 784	808 592	830 885
Financial liabilities carried at fair value	739	739	541	541
Total financial liabilities	1 122 605	1 129 523	809 133	831 426

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

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

In millions of Russian Roubles

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

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

In millions of Russian Roubles

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

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

**36.
PRESENTATION
OF FINANCIAL
INSTRUMENTS
BY MEASUREMENT
CATEGORY**

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

of classes of financial assets with these measurement categories as at 31 December 2011.

In millions of Russian Roubles

	Loans and receivables	Available for sale assets	Trading assets	Financial assets designated at fair value through profit or loss	Held- tomaturity assets	Total
Financial assets						
Cash and cash equivalents						
– cash on hand	19 635	–	–	–	–	19 635
– cash balances with the CBRF (other than mandatory reserve deposits)	33 015	–	–	–	–	33 015
– correspondent accounts and placements with other banks with original maturities of less than one month	81 309	–	–	–	–	81 309
Mandatory cash balances with the CBRF	8417	–	–	–	–	8417
Repurchase receivables	–	1 316	–	–	1 053	2 369
Financial instruments designated at fair value through profit or loss	–	–	–	11 225	–	11 225
Derivative financial instruments	–	–	23 296	–	–	23 296
Due from other banks	39 569	–	–	–	–	39 569
Loans and advances to customers						
– Loans to corporates	723 366	–	–	–	–	723 366
– Lending for food interventions	33 256	–	–	–	–	33 256
– Deals with securities purchased under “reverse-repo agreements”	1 990	–	–	–	–	1 990
– Investments in agricultural cooperatives	491	–	–	–	–	491
– Loans to individuals	144 594	–	–	–	–	144 594
Investment securities available for sale	–	76 595	–	–	–	76 595
Investment securities held to maturity	–	–	–	–	31 319	31 319
Other financial assets	6 473	–	–	–	–	6 473
Total financial assets	1 092 115	77 911	23 296	11 225	32 372	1 236 919
Non-financial assets						47 507
Total assets	1 092 115	77 911	23 296	11 225	32 372	1 284 426

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

In millions of Russian Roubles

	Loans and receivables	Available for sale assets	Trading assets	Financial assets designated at fair value through profit or loss	Held- tomaturity assets	Total
Financial assets						
Cash and cash equivalents						
– cash on hand	16 101	–	–	–	–	16 101
– cash balances with the CBRF (other than mandatory reserve deposits)	37 361	–	–	–	–	37 361
– correspondent accounts and placements with other banks with original maturities of less than one month	27 548	–	–	–	–	27 548
Mandatory cash balances with the CBRF	3 468	–	–	–	–	3 468
Trading securities						
– Debt securities	–	–	3 563	–	–	3 563
Repurchase receivables	–	14 622	618	–	–	15 240
Financial instruments designated at fair value through profit or loss	–	–	–	9 686	–	9 686
Derivative financial instruments	–	–	20 621	–	–	20 621
Due from other banks	34 477	–	–	–	–	34 477
Loans and advances to customers						
– Loans to corporates	560 616	–	–	–	–	560 616
– Lending for food interventions	44 514	–	–	–	–	44 514
– Investments in agricultural cooperatives	632	–	–	–	–	632
– Loans to individuals	82 794	–	–	–	–	82 794
Investment securities available for sale	–	15 687	–	–	–	15 687
Investment securities held to maturity	–	–	–	–	14 922	14 922
Other financial assets	3 973	–	–	–	–	3 973
Total financial assets	811 484	30 309	24 802	9 686	14 922	891 203
Non-financial assets						39597
Total assets	811 484	30 309	24 802	9 686	14 922	930 800

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

**37.
RELATED PARTY
TRANSACTIONS**

For the purposes of these consolidated financial statements, parties are considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence over the other party in making financial or operational decisions. The Bank's only shareholder is the Government of the Russian Federation represented by the Federal Agency for Managing State Property (Refer to Note 1).

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

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

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

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

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

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

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

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

As at 31 December 2011, investment securities available for sale and investment securities held to maturity included securities issued by Russian

Federation in the total amount of RR 19 403 million (31 December 2010: RR 15 710 million); interest income from these securities for the year ended 31 December 2011 amounted to RR 1 042 million (for the year ended 31 December 2010: RR 532 million).

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

In millions of Russian Roubles

	2011		2010	
	Remuneration paid	Accrued liability	Remuneration paid	Accrued liability
Short-term benefits:				
Salary, social security costs and short-term bonuses included in salary	108	4	118	6
<i>Post-employment benefits</i>				
– Defined contribution retirement scheme	–	–	14	–
– State pension and social costs	1	–	1	–
Total	109	4	133	6

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

38. DISPOSAL OF SUBSIDIARIES AND GROUPS CLASSIFIED AS HELD FOR SALE	a) Disposal of Subsidiaries In June 2011 the Group completed disposal of its subsidiary Chelyabinskiy Commercial Land Bank.
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In millions of Russian Roubles

	06 June 2011
Cash and cash equivalents	250
Mandatory cash balances with the Central Bank of the Russian Federation	2
Intangible assets	1
Premises and equipment	58
Customer accounts	(30)
Current income tax liability	(2)
Other liabilities	(74)
Net assets of subsidiary	205
Carrying amount of net assets disposed of	205
Total disposal consideration	226
Less: cash and cash equivalents in subsidiary disposed of	(250)
Cash outflow on disposal	(24)
Gain on disposal of subsidiary	
Consideration for disposal of the subsidiary	226
Carrying amount of net assets disposed of	(205)
Gains on disposal of subsidiary	21

b) Groups Classified as Held for Sale

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

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

In millions of Russian Roubles

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

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

In millions of Russian Roubles

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

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

In millions of Russian Roubles

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

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

39. EVENTS AFTER THE END OF THE REPORTING PERIOD

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

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

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

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603022, Nizhniy Novgorod, 3 Kulibina St.
Tel/Fax: +7 (831) 421 62 70
E-mail: nnrshb@nnovgorod.rshb.ru

NORTH OSSETIA REGIONAL BRANCH

Reg. № 3349/26 of 09.02.2001
362007, Vladikavkaz, 2 Kantemirov St.
Tel: +7 (8672) 53 22 81
Fax: +7 (8672) 53 44 30
E-mail: alania@oset.rshb.ru

NOVGOROD REGIONAL BRANCH

Reg. № 3349/8 of 27.09.2000
173000, Velikiy Novgorod,
9 Bolshaya Moscovskaya St.
Tel/Fax: +7 (8162) 63 22 21
E-mail: ngd@vnovgorod.rshb.ru

NOVOSIBIRSK REGIONAL BRANCH

Reg. № 3349/25 of 09.02.2001
630007, Novosibirsk, 13 Fabrichnaya St.
Tel/Fax: +7 (383) 218 30 35
E-mail: bank@nsk.rshb.ru

OMSK REGIONAL BRANCH

Reg. № 3349/9 of 27.09.2000
644043, Omsk, 52 Frunze St.
Tel: +7 (3812) 23 34 23
Fax: +7 (3812) 21 06 77
E-mail: office@omsk.rshb.ru

ORENBURG REGIONAL BRANCH

Reg. № 3349/5 of 27.09.00
460000, Orenburg, 59 Leninskaya St.
Tel/Fax: +7 (3532) 77 02 95
E-mail: referent@orn.rshb.ru

OREL REGIONAL BRANCH

Reg. № 3349/10 of 27.09.2000
302030, Orel, 60 Dubrovinskiy Emb.
Tel: +7 (086-2) 54 11 20
Fax: +7 (4862) 54 11 20
E-mail: ref@orel.rshb.ru

PENZA REGIONAL BRANCH

Reg. № 3349/15 of 29.09.2000
440018, Penza, 39 Bekeshskaya St.
Tel: +7 (8412) 42 18 73
Fax: +7 (8412) 42 18 45
E-mail: info@penza.rshb.ru

PERM REGIONAL BRANCH

Reg. № 3349/76 of 14.12.2007
614000, Perm, 50 Lenin St.
Tel/Fax: +7 (342) 218 14 62
E-mail: office@perm.rshb.ru

PRIMORSKY REGIONAL BRANCH

Reg. № 3349/54 of 08.02.2002
690091, Vladivostok, 26-1 Okeanskiy Ave.
Tel/Fax: +7 (4322) 22 35 87
E-mail: Referent@primor.rshb.ru

PSKOV REGIONAL BRANCH

Reg. № 3349/68 of 14.09.2006
180000, Pskov, 44A Nekrasov St.
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Fax: +7 (8112) 66 81 18
E-mail: bank@pskov.rshb.ru

ROSTOV REGIONAL BRANCH

Reg. № 3349/7 of 27.09.2000
344038, Rostov-on-Don, 14A M. Nagibin Ave.
Tel: +7 (863) 243 25 00
Fax: +7 (863) 243 25 36
E-mail: mail@rostov.rshb.ru

RYAZAN REGIONAL BRANCH

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390000 Ryazan, 58 Svobody St.
Tel: +7 (4912) 28 42 00
Fax: +7 (4912) 28 41 83
E-mail: bank@ryazan.rshb.ru

SAMARA REGIONAL BRANCH

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443011, Samara, 10 Academician Platonov St.
Tel/Fax: +7 (846) 373 51 01, 373 51 19
E-mail: tmas@samara.rshb.ru

SAINT-PETERSBURG REGIONAL BRANCH

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188305 Leningrad Region, Gatchina, 9 Volodarsky St.
Tel/Fax: +7 (812) 335 06 30
E-mail: office@spb.rshb.ru

SARATOV REGIONAL BRANCH

Reg. № 3349/52 of 06.02.2002
410003, Saratov, 65/2 Radysheva St.
Tel/Fax: +7 (8452) 26 22 00
E-mail: info@saratov.rshb.ru

SAKHALIN REGIONAL BRANCH

Reg. № 3349/72 of 19.04.2007
693020, Sakhalin Region,
Yuzhno-Sakhalinsk, 107 Mira Ave.
Tel/Fax: +7 (4242) 31 21 01
E-mail: office@shl.rshb.ru

SMOLENSK REGIONAL BRANCH

Reg. № 3349/43 of 25.06.2001
214000, Smolensk, 4B Kommunisticheskaya St.
Tel/Fax: +7 (4812) 38 14 41
E-mail: info@smol.rshb.ru

STAVROPOL REGIONAL BRANCH

Reg. № 3349/6 of 27.09.2000
355037, Stavropol Territory, Stavropol,
107A Shpakovskaya St.
Tel/Fax: +7 (8652) 55 03 90
E-mail: referent@stavropol.rshb.ru

SVERDLOVSK REGIONAL BRANCH

Reg. № 3349/73 of 18.05.2007
620014, Ekaterinburg, 27 March the 8th St.
Tel: +7 (343)) 356 18 60
E-mail: office@sverdlovsk.rshb.ru

TAMBOV REGIONAL BRANCH

Reg. № 3349/2 of 27.09.2000
392000, Tambov, 20 Maksim Gorky St.
Tel: +7 (4752) 63 03 03
Fax: +7 (4752) 63 03 07
E-mail: office@tambov.rshb.ru

TATARSTAN REGIONAL BRANCH

Reg. № 3349/67 of 16.03.2006
420097, Kazan, 80 Dostoevskiy St.
Tel: +7 (843) 524 98 05
E-mail: rkazan@kazan.rshb.ru

TOMSK REGIONAL BRANCH

Reg. № 3349/64 of 11.05.2005
634050, Tomsk, 8B Moskovskiy Trakt
Tel/Fax: +7 (3822) 42 60 69
E-mail: Rakov@tomsk.rshb.ru

TVER REGIONAL BRANCH

Reg. № 3349/19 of 18.12.2000
170006, Tver, 37 Dmitry Donskoy St.
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E-mail: mail@tver.rshb.ru

TYVA REGIONAL BRANCH

Reg. № 3349/57 of 06.03.2002
667000, Tyva Republic, Kyzyl,
23 Tyvinskie Dobrovoltsy St.
Tel: +7 (39422) 2 04 01
Fax: +7 (39422) 1 41 01
E-mail: rshb@tuva.ru

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300041, Tula, 5 Turgenevskaya St.
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Fax: +7 (4872) 37 07 91
E-mail: filial@tula.rshb.ru

TYUMEN REGIONAL BRANCH

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625003, Tyumen, 21 Pervomaiskaya St.
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E-mail: office@tumen.rshb.ru

UDMURT REGIONAL BRANCH

Reg. № 3349/28 of 26.02.2001
426006, Izhevsk, 30 Telegina St.
Tel: +7 (3412) 63 11 36
E-mail: RF@udm.rshb.ru

ULYANOVSK REGIONAL BRANCH

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432063, Ulyanovsk, 15 Minayev St.
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Fax: +7 (8422) 41 07 76
E-mail: DirectorUIn@uln.rshb.ru

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Tel: +7 (4922) 42 12 80
Fax: +7 (4922), 42 12 80
E-mail: info@vladimir.rshb.ru

VOLGOGRAD REGIONAL BRANCH

Reg. № 3349/46 of 04.10.2001

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Tel/Fax: +7 (8442) 23 72 01

E-mail: mail@volg.rshb.ru

VOLOGDA REGIONAL BRANCH

Reg. № 3349/50 of 11.01.2002

160002, Vologda, 4 Petin St.

Tel/Fax: +7 (8172) 26 68 06

E-mail: info@vologda.rshb.ru

VORONEZH REGIONAL BRANCH

Reg. № 3349/14 of 29.09.2000

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Fax: +7 (4732) 46 21 72

E-mail: vrf@vrn.rshb.ru

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E-mail: office@yakutia.rshb.ru

YAROSLAVL REGIONAL BRANCH

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Fax: +7 (4852) 32 12 44

E-mail: dir@yar.rshb.ru

13. CONTACTS AND PAYMENT DETAILS

RUSSIAN AGRICULTURAL BANK DETAILS

<i>Full Name</i>	Russian Agricultural Bank
<i>Legal Form</i>	Open Joint Stock Company
<i>General Banking License</i>	№ 3349 dated 25.07.2007
<i>Registration Details</i>	Central Bank of the Russian Federation, 24 April 2000, Moscow
<i>Registered number</i>	1027700342890
<i>Regulatory / supervisory authority</i>	Central Bank of the Russian Federation
<i>Legal Address</i>	3 Gagarinsky Pereulok, 119034, Moscow, Russian Federation
<i>Contact Number</i>	+ 7 (495) 787 77 87
<i>Contact E-mail</i>	office@rshb.ru
<i>Internet website</i>	www.rshb.ru, www.rusagrobank.com
<i>Appointed Auditor</i>	ZAO PricewaterhouseCoopers Audit 52, bld. 5 Kosmodamianskaya Nab., 115054 Moscow, Russia

CONTACT DETAILS / INTERNATIONAL CONTACTS

<i>Address</i>	1 Arbat Street, 119019, Moscow, Russian Federation
<i>Tel/Fax</i>	+7 (495) 363 06 53
<i>E-mail</i>	<i>Investor Relations</i> IR_RusAgroBank@rshb.ru <i>Financial Institutions</i> fininst@rshb.ru <i>Structured and Trade Finance</i> exterfin@rshb.ru

ACCOUNT DETAILS

<i>Account with OPERU MGTU Bank of Russia</i>	30101810200000000111
<i>Tax Identification Number (INN) / KPP</i>	7725114488 / 997950001
<i>BIC</i>	044525111
<i>OKPO Code</i>	52750822
<i>OKONKH Code</i>	96120
<i>OKATO Code</i>	45286590000
<i>Telex</i>	485493 RSB RU
<i>SWIFT</i>	RUAG RU MM

LICENSES

- General license for banking operations № 3349 (issued by the Central Bank of the Russian Federation on July 25, 2007)
- License for the brokerage activity (issued by the Federal Financial Markets Service on May 19, 2005 №007-08455-100000)
- License for the dealing operations (issued by the Federal Financial Markets Service on May 19, 2005 №007-08456-010000)
- License for the depositary operations (issued by the Federal Financial Markets Service on May 19, 2005 №007-08461-000100)
- License of the stock market agent to trade futures and options on the stock (issued by the Federal Financial Markets Service on November 17, 2009 №1473)
- License for the data encryption service supply (issued by the Centre of the Federal Security Service of the Russian Federation for Licensing, Certification and the Protection of State Secrets on April 27, 2010 №8744U)
- License for the distribution of encryption (cryptographic) facilities (issued by the Centre of the Federal Security Service of the Russian Federation for Licensing, Certification and the Protection of State Secrets on April 27, 2010 №8743R)
- License for the technical support of encryption (cryptographic) facilities (issued by the Centre of the Federal Security Service of the Russian Federation for Licensing, Certification and the Protection of State Secrets on April 27, 2010 №8742H)

CERTIFICATES

- Certificate of state registration of the credit organisation, registration number 3349 (issued by the Central Bank of the Russian Federation on April 24, 2000)
- Certificate of inclusion of the bank in the State Register of Banks — participants of the obligatory deposit insurance system (issued by the State Agency for Deposit Insurance on March 14, 2005 № 760)
- Certificate of registration of the legal entity in the tax authority (issued by the Ministry of Taxation of the Russian Federation on February 8, 2001)
- Certificate of registration in the Unified State Register of Legal Entities (issued by the Ministry of Taxation of the Russian Federation on October 22, 2002)
- Insurance certificate (issued by the Social Insurance Fund of the Russian Federation on March 14, 2001)
- Certificate of registration in the Municipal Register of Enterprises of the city of Moscow (issued by the Moscow Registration Chamber on May 18, 2000 №002.003.381)
- Certificate of change of the legal address (issued by the Federal Tax Service on December 25, 2008)

14. ABBREVIATIONS AND GLOSSARY *In alphabetical order*

ALCO — transliteration from Russian stands for Asset and Liability Management Committee.

APK — transliteration from Russian stands for Agro-industrial Company.

BASEL II — Revised capital adequacy framework of the Basel Committee. Basel II replaced the earlier Basel I regulations, particularly for calculating the regulatory risk position.

CAPITAL ADEQUACY RATIO — The key figure for banks, which is expressed as a %; the ratio between capital (based on Basel II) and the regulatory risk position comprised of credit risks, market risks and operational risks. The minimum total capital adequacy ratio to comply with is 8%.

CASH FLOW STATEMENT — The calculation and presentation of cash flow generated or consumed by a company during the financial year, as a result of its business, investment and financing activities, as well as the reconciliation of cash and cash equivalent (cash reserve) holdings as of the beginning and end of the financial year.

COLLATERAL — Assets pledged as security for a loan or other obligation. Collateral can take many forms, including: cash, highly rated securities, property, inventory, equipment and receivables.

COST/INCOME RATIO — The ratio of operating costs and general expenses to net income. The lower the cost/income ratio, the more efficiently a company operates. This is also referred to as the “efficiency ratio.”

CREDIT RISK — The risk that customers may not be able to meet their contractual payment obligations.

CURRENCY SWAP — The exchange of interest payment flows and principal amounts in different currencies.

DERIVATIVE PRODUCTS — Financial contracts whose value is derived from an underlying price, interest rate, exchange rate or price index. Forwards, options and swaps are all types of derivative instruments.

FOREIGN EXCHANGE CONTRACTS — Commitments to buy or sell a specified amount of foreign currency on a set date at a pre-determined exchange rate.

HEDGING — A strategy under which transactions are effected to protect against the risk of unfavorable price movements (interest rates, prices and/or commodities).

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) — Standards, interpretations and the framework adopted by the International Accounting Standards Board (IASB) to ensure globally transparent and comparable accounting and disclosure.

IMPAIRMENT — An unscheduled write-down of asset value, such as loans and advances, securities, intangible assets and property and equipment in the amount by which the amortized cost or cost minus depreciation exceeds the amount recoverable on the market.

INVESTOR RELATIONS — Systematic and continuous two-way communication between companies and both current and potential capital providers. Information is supplied to the market on major corporate events, financial results, business strategy and the management team's capital market expectations. One objective of investor relations is to ensure that corporate equity is appropriately valued by the market.

IT — Information Technology.

LONDON INTER-BANK OFFERED RATE (LIBOR) — The short-term interest rate that creditworthy international banks charge each other for loans.

MKK — transliteration from Russian stands for Meat canning plant.

NET INTEREST MARGIN (NIM) — Measures the difference between interest income generated by banks or other financial institutions and the interest paid out to their lenders (for example, on deposits), relative to asset amounts. It is usually expressed as a percentage of what the financial institution earns on loans and other assets in a time period minus the interest paid on borrowed funds divided by the average amount of assets on which income was earned in that time period (average earning assets).

NPO — transliteration from Russian stands for Scientific Production Association.

PAYMENT CARD — Also known as a bank card or check card; it is a plastic card that provides an alternative payment method to cash when making purchases. Functionally, it can be referred to as an electronic cheque, as funds are withdrawn directly from either the bank account or from the remaining card balance. Payment cards can also allow for instant cash withdrawals, acting as an ATM card to withdraw cash, and as a cheque guarantee card.

RATING — Standardized assessment of the creditworthiness of companies, countries or debt instruments issued by them, based on standardized qualitative and quantitative criteria carried out by specialized rating agencies. The rating process is the basis for determining default probability, which in turn is used to calculate capital needed to back credit risks.

REPO TRANSACTIONS — Abbreviation for re-purchase agreements; these are combinations of spot purchases or the sales of securities and the simultaneous forward sale or re-purchase of these securities in an agreement that involves the same counter-party.

RETURN ON AVERAGE ASSETS — Annualized income divided by average assets.

RETURN ON AVERAGE EQUITY — Annualized income divided by average equity.

RISK — Financial institutions face numerous different types of risks that expose them to possible losses. These risks include: credit risks, market risks, operational risks, liquidity and funding risks, reputation risks, regulatory and legal risks, environmental risks, insurance risks, strategic risks, competitive risks and systemic risks.

RISK-WEIGHTED ASSETS — Calculated using weights based on the degree of credit risk for each counter-party class. Off-balance sheet instruments are converted to balance sheet equivalents, using specified conversion factors, before appropriate risk weights are applied.

RUSSIAN ACCOUNTING STANDARDS (RAS) — Standards, interpretations and the framework for financial reporting adopted by the Russian Federation.

SPK — transliteration from Russian stands for Agricultural production cooperative. The organization where production resources (land and machinery, etc.) are pooled and members farm jointly.

STANDBY LETTERS OF CREDIT AND GUARANTEE LETTERS — Assurances given by the Bank that it will make payments on behalf of its clients to third parties. The Bank has recourse against its clients for any such advanced funds.

STRESS TEST — A simulation exercise that assesses the impact of extreme market scenarios on the Bank's overall risk exposure.

TIER 1 AND TIER 2 CAPITAL RATIOS — Measures of a bank's capital adequacy, as determined in accordance with specific regulatory guidelines. Tier 1 ratio refers to core capital, whereas Tier 2 ratio refers to supplementary capital.

TOTAL CAPITAL RATIO — The Bank's total capital expressed as a percentage of total risk-weighted commitments. The minimum standard set by the Bank for international settlements is 8%.

VALUE AT RISK (VAR) — A technique that uses the statistical analysis of historical market trends and volatility to estimate the likelihood that a given portfolio's losses will exceed a certain amount.

VVC — transliteration from Russian stands for Russian exhibition center.