# OJSC OTP Bank

**Financial Statements**
Year Ended 31 December 2011

# OJSC OTP BANK

## CONTENTS

# OJSC OTP BANK

## STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 31 2010

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

In preparing the financial statements, management is responsible for:

- properly selecting and applying accounting policies;
- presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- providing additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Banks's financial position and financial performance;
- making an assessment of the Bank's ability to continue as a going concern

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Bank;
- Maintaining adequate accounting records that are sufficient to show and explain the Bank's transactions and disclose with reasonable accuracy at any time the financial position of the Bank, and which enable them to ensure that the financial statements of the Bank comply with IFRS;
- Maintaining statutory accounting records in compliance with legislation and accounting standards of the Russian Federation ("RF");
- Taking such steps as are reasonably available to them to safeguard the assets of the Bank and
- Preventing and detecting fraud and other irregularities.

The financial statements for the year ended December 31, 2011 were approved by the Acting President of the Bank on April 16, 2012.

**On behalf of the Management Board:**

**Acting President**
T.Kamarasi

16 April 2012
Moscow

**Chief Accountant**
D.I. Karpov

16 April 2012
Moscow

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# INDEPENDENT AUDITORS' REPORT

To the Shareholders and the Board of Directors of Open Joint-Stock Company "OTP Bank":

## Report on the financial statements

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

## Management's Responsibility for the Financial Statements

Management of the Bank is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

## Auditors' responsibility

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

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

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

## Opinion

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

Deloitte + Touche

May 4, 2012
Moscow

*(in thousands of Russian Rubles unless otherwise stated)*

| | Notes | 2011 | 2010 |
|---|---|---|---|
| Interest income | 4,33 | 24 190 539 | 19 632 137 |
| Interest expense | 4,33 | (4 121 904) | (4 860 156) |
| **Net interest income before impairment of interest earning assets** | | **20 068 635** | **14 771 981** |
| Impairment of interest earning assets | 5 | (6 449 949) | (5 339 802) |
| **Net interest income** | | **13 618 686** | **9 432 179** |
| Net gain on financial assets and liabilities at fair value through profit or loss | 6 | 987 366 | 959 838 |
| Net loss on foreign exchange operations | 7,33 | (794 655) | (536 562) |
| Fee and commission income | 8,33 | 3 595 078 | 2 310 466 |
| Fee and commission expense | 8,33 | (1 090 891) | (885 202) |
| Net loss on financial assets available-for-sale | 33 | (9 122) | (32 618) |
| Net loss on financial assets held-to-maturity | 20,33 | - | (39 508) |
| Income received from sale of loans | | 62 626 | 10 |
| Provision for other transactions | 5 | (41 283) | (46 360) |
| Share of losses of associates | 21 | (49 495) | - |
| Other income | 9,33 | 74 499 | 46 885 |
| **Net non-interest income** | | **2 734 123** | **1 776 949** |
| Operating income | | 16 352 809 | 11 209 128 |
| Operating expenses | 10,33 | (8 685 498) | (6 898 883) |
| **Profit before income tax** | | **7 667 311** | **4 310 245** |
| Income tax expense | 11 | (1 663 626) | (941 234) |
| **Profit for the year** | | **6 003 685** | **3 369 011** |
| **Other comprehensive Income** | | | |
| Financial assets available-for-sale | | | |
| Net change in fair value of financial assets available-for-sale | | (576 933) | (232 192) |
| Net change in fair value transferred to profit or loss | | 11 201 | (9 211) |
| Revaluation of property, plant and equipment | | (123 147) | 53 426 |
| Exchange differences on translating foreign operations | | 4 711 | - |
| Income tax relating to components of other comprehensive income | | 137 777 | 38 562 |
| **Other comprehensive income, net of tax** | | **(546 391)** | **(149 415)** |
| **Total comprehensive income** | | **5 457 294** | **3 219 596** |
| **Earnings per share** – basic and diluted (RUR, per share) | 12 | 0.021 | 0.012 |

The financial statements are approved for issue by the Management Board and signed on its behalf on 16 April 2012.

**Acting President**
T.Kamarasi

16 April 2012
Moscow

**Chief Accountant**
D.I. Karpov

16 April 2012
Moscow

# OJSC OTP Bank

***Statement of Financial Position as at 31 December 2011***

*(in thousands of Russian Rubles unless otherwise stated)*

| | Notes | 31December 2011 | 31 December 2010 |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | 13 | 7 819 379 | 7 512 535 |
| Minimum reserve with the Central Bank of the Russian Federation | 14 | 975 726 | 499 289 |
| Financial assets at fair value through profit or loss | 15 | 400 493 | 221 235 |
| Derivative financial assets | 16 | 356 087 | - |
| Due from banks | 17 | 5 957 940 | 8 690 274 |
| Loans to customers | 18 | 90 218 006 | 67 991 589 |
| Financial assets available-for-sale | 19 | 7 679 417 | 9 441 223 |
| Financial assets held-to-maturity | 20 | 160 991 | 150 180 |
| Investments in associates | 21 | 255 749 | 7 275 |
| Property, equipment and intangible assets | 22 | 2 534 846 | 2 510 451 |
| Investment property | 23 | 51 876 | 5 900 |
| Other assets | 24 | 495 399 | 425 968 |
| **Total assets** | | **116 905 909** | **97 455 919** |
| **Liabilities and equity** | | | |
| **Liabilities** | | | |
| Due to banks | 25 | 12 281 210 | 17 200 105 |
| Derivative financial liabilities | 16 | 118 825 | 146 061 |
| Customer accounts | 26 | 66 105 061 | 58 598 793 |
| Debt securities issued | 27 | 14 121 884 | 3 340 229 |
| Current income tax liabilities | | 445 095 | 134 492 |
| Deferred tax liabilities | 11 | 26 527 | 279 685 |
| Subordinated debt | 29 | 2 351 652 | 2 257 764 |
| Other liabilities | 28 | 1 523 118 | 1 023 547 |
| **Total liabilities** | | **96 973 372** | **82 980 676** |
| **Equity** | | | |
| Share capital | 30 | 4 423 768 | 4 423 768 |
| Share premium | 30 | 2 000 000 | 2 000 000 |
| Financial assets available-for-sale revaluation reserve | | 242 358 | 694 943 |
| Property, plant and equipment revaluation reserve | | 387 684 | 505 523 |
| Foreign currency translation reserve | | 4 711 | - |
| Retained earnings | | 12 874 016 | 6 851 009 |
| **Total equity** | | **19 932 537** | **14 475 243** |
| **Total liabilities and equity** | | **116 905 909** | **97 455 919** |

The financial statements are approved for issue by the Management Board and signed on its behalf on 16 April 2012.

**Acting President**
T.Kamarasi

16 April 2012
Moscow

Открытое акционерное общество
г. Москва
«ОТП Банк»

**Chief Accountant**
D.I. Karpov

16 April 2012
Moscow

## OJSC OTP Bank

***Statement of Changes in Equity for the Year Ended 31 December 2011***

*(in thousands of Russian Rubles unless otherwise stated)*

| | Share capital | Share premium | Financial assets available-for-sale revaluation reserve | Property, plant and equipment revaluation reserve | Foreign currency translation reserve | Retained earnings | Total equity |
|---|---|---|---|---|---|---|---|
| **Balance as at 1 January 2010** | **4 423 768** | **2 000 000** | **887 115** | **462 845** | | **3 481 920** | **11 255 648** |
| Profit for the year | - | - | - | - | - | 3 369 011 | 3 369 011 |
| **Other comprehensive income** | | | | | | | |
| Revaluation of property, plant and equipment, net of deferred tax | - | - | - | 42 757 | - | - | 42 757 |
| Net change in fair value of financial assets available-for-sale, net of deferred tax | - | - | (182 961) | - | - | - | (182 961) |
| Disposal of financial assets available-for-sale | - | - | (9 211) | - | - | - | (9 211) |
| **Total other comprehensive income for the year ended 31 December 2010** | **-** | **-** | **(192 172)** | **42 757** | **-** | **-** | **(149 415)** |
| **Total comprehensive income for the year ended 31 December 2010** | **-** | **-** | **(192 172)** | **42 757** | | **3 369 011** | **3 219 596** |
| De-recognition of property, plant and equipment revaluation reserve | - | - | - | (79) | | 79 | - |
| Treasury shares | | | | | | (1) | (1) |
| **Balance as at 31 December 2010** | **4 423 768** | **2 000 000** | **694 943** | **505 523** | **-** | **6 851 009** | **14 475 243** |
| Profit for the year | - | - | - | - | - | 6 003 685 | 6 003 685 |
| **Other comprehensive income** | | | | | | | |
| Exchange differences on translating foreign operations | - | - | - | - | 4 711 | - | 4 711 |
| Revaluation of property, plant and equipment, net of deferred tax | - | - | - | (98 517) | - | - | (98 517) |
| Net change in fair value of financial assets available-for-sale, net of deferred tax | - | - | (463 786) | - | - | - | (463 786) |
| Disposal of financial assets available-for-sale | - | - | 11 201 | - | - | - | 11 201 |
| **Total other comprehensive income for the year ended 31 December 2011** | **-** | **-** | **(452 585)** | **(98 517)** | **4 711** | **-** | **(546 391)** |
| **Total comprehensive income for the year ended 31 December 2011** | **-** | **-** | **(452 585)** | **(98 517)** | **4 711** | **6 003 685** | **5 457 294** |
| De-recognition of property, plant and equipment revaluation reserve | - | - | - | (19 322) | - | 19 322 | - |
| **Balance as at 31 December 2011** | **4 423 768** | **2 000 000** | **242 358** | **387 684** | **4 711** | **12 874 016** | **19 932 537** |

**Acting President**
T.Kamarasi

16 April 2012
Moscow

Открытое акционерное общество «ОТП Банк» г. Москва

**Chief Accountant**
D.I. Karpov

16 April 2012
Moscow

*(in thousands of Russian Rubles unless otherwise stated)*

| | Notes | 2011 | 2010 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Income before tax | | 7 667 311 | 4 310 245 |
| Adjustments for: | | | |
| Allowance for impairment losses on interest bearing assets | | 6 449 949 | 5 339 802 |
| Other provisions | | 41 283 | 46 360 |
| Adjustment of fair value of financial assets held for trading | | 2 527 | (7 508) |
| Adjustment of fair value of derivative instruments | | (384 839) | 143 604 |
| Loss on disposal of property, plant and equipment and intangible assets | | 25 145 | 23 027 |
| Loss on disposal of financial assets held-to-maturity | | - | 39 508 |
| Loss on disposal of financial assets available-for-sale | | 9 122 | 32 618 |
| Depreciation charge on property, plant and equipment and amortization charge on intangible assets | | 547 719 | 461 165 |
| Gain from translation of foreign currency transactions | | (128 659) | (320 395) |
| Net change in interest accruals | | (2 422 070) | (2 594 928) |
| Net change in other accruals | | 342 031 | 119 880 |
| Loss/(gain) on revaluation of property, plant and equipment | | 22 478 | (8 868) |
| Dividend income | | (98) | (82) |
| Impairment of investments available-for-sale | | - | 50 |
| Share of losses of associates | | 49 495 | - |
| **Cash flows from operating activities before changes in operating assets and liabilities** | | **12 221 394** | **7 584 478** |
| **(Increase)/decrease in operating assets** | | | |
| Minimum reserve deposit with the Central Bank of the Russian Federation | | (476 437) | (120 986) |
| Financial assets at fair value through profit or loss | | (176 821) | 357 652 |
| Due from banks | | 2 596 565 | 6 976 582 |
| Loans and advances to customers | | (25 278 393) | (16 183 873) |
| Other assets | | (220 755) | (75 716) |
| **Increase/(decrease) in operating liabilities** | | | |
| Due to other banks | | (4 955 420) | (8 409 132) |
| Customer accounts | | 6 902 662 | 8 998 401 |
| Debt securities issued in the normal course of business | | 10 495 707 | 775 340 |
| Other liabilities | | 141 657 | 71 238 |
| **Cash inflow/(outflow) from operating activities before taxation** | | **1 250 159** | **(26 016)** |
| Income tax paid | | (1 347 751) | (739 006) |
| **Net cash outflow from operating activities** | | **(97 592)** | **(765 022)** |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment and intangible assets | | (807 063) | (300 620) |
| Proceeds on sale of property, plant and equipment and intangible assets | | 4 454 | 3 224 |
| Proceeds on disposal of financial assets available-for-sale | | 8 849 713 | 9 304 889 |
| Purchase of financial assets available-for-sale | | (7 408 611) | (9 601 798) |
| Proceeds on disposal of financial assets held-to-maturity | | - | 266 186 |
| Investment in associate | | (293 258) | (7 275) |
| Dividends received | | 98 | 82 |
| **Net cash inflow/(outflow) from investing activities** | | **345 333** | **(335 312)** |
| **Cash flows from financing activities** | | | |
| Repayment of subordinated debt | | - | (1 300) |
| **Net cash outflow from financing activities** | | **-** | **(1 300)** |
| **Effect of changes in foreign exchange rate fluctuations on cash and cash equivalents** | | **59 103** | **(109 890)** |
| **Net increase/(decrease) in cash and cash equivalents** | | **306 844** | **(1 211 524)** |
| **Cash and cash equivalents, beginning of year** | 13 | **7 512 535** | **8 724 059** |
| **Cash and cash equivalents, end of year** | 13 | **7 819 379** | **7 512 535** |

Interest paid and received by the Bank during the year ended 31 December 2011 amounted to RUR 3 666 685 thousand and RUR 23 950 626 thousand, respectively.

Interest paid and received by the Bank during the year ended 31 December 2010 amounted to RUR 4 721 419 thousand and RUR 17 394 798 thousand, respectively.

**Acting President**
T.Kamarasi

16 April 2012
Moscow

Открытое акционерное общество «ОТП Банк» г. Москва

**Chief Accountant**
D.I. Karpov

16 April 2012
Moscow

*(in thousands of Russian Rubles unless otherwise stated)*

## 1. ORGANISATION

OJSC "OTP Bank" (the "Bank") is an open joint stock company, which was incorporated in the Russian Federation (the "RF") in 1994. The Bank is regulated by the Central Bank of the Russian Federation (the "CBR") and conducts its business under general license number 2766 dated March 4, 2008. The Bank's primary business consists of commercial operations and retail banking. These operations include receipt of funds on deposits and lending to corporate clients, small businesses and individuals, provision of guarantees, servicing clients on import and export operations, cash settlement services, operations with securities, foreign currency, derivative financial instruments, borrowing and issuing funds in the interbank loan market.

The registered office of the Bank is located at: 16A Leningradskoye shosse, bld. 1, Moscow, 125171, Russian Federation.

As of 31 December 2011 and 2010 the Bank had 9 branches in the Russian Federation.

The Bank is the parent company of a banking group which consists of the following entities:

| Company | Country of operation | Ownership interest, % 2011 | 2010 | Type of operation |
|---|---|---|---|---|
| Open Joint Stock Company "OTP Bank" | RF | Parent company | Parent company | Commercial bank |
| Limited Liability Company "Gamayun" | RF | 100.0 | 100.0 | Catering |
| Limited Liability Company "OTP Credit" | Ukraine | 40.0 | 40.0 | Financial activities |
| Limited Liability Company "PSF" | RF | - | 100.0 | Finance leases |
| Limited Liability Company "Investment company "Promstroyinvest" | RF | - | 99.0 | Investments |

The Limited Liability Company "Gamayun" is not consolidated as at December, 31 2011 as it is immaterial. The Limited Liability Company "OTP Credit" is accounted for as investment in associate using the equity method of accounting as at December, 31 2011.

As of 31 December 2011 and 2010, the following shareholders owned the issued shares of the Bank.

| | 31 December, 2011, % | 31 December, 2010, % |
|---|---|---|
| **First level shareholders:** | | |
| OTP BANK PLC | 66.04 | 64.16 |
| ALLIANCE RESERVE LLC | 31.71 | 31.71 |
| Other | 2.25 | 4.13 |
| **Total** | **100.00** | **100.00** |
| **Ultimate controlling parties:** | | |
| OTP BANK PLC | 97.75 | 95.87 |
| Other | 2.25 | 4.13 |
| **Total** | **100.00** | **100.00** |

Being the sole owner of ALLIANCE RESERVE LLC, OTP BANK PLC holds 97.75% of the Bank's shares as of 31 December 2011 and 95.87% of the Bank's share as of 31 December 2010, so the Bank is a subsidiary of OTP BANK PLC.

## 2. SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

Other basis of presentation criteria

These financial statements have been prepared on the assumption that the Bank is a going concern and will continue in operation for the foreseeable future. Management has plans to develop the business both in corporate and retail segments and believes that the Bank is a going concern.

These financial statements are presented in thousands of Russian rubles ("kRUR"), unless otherwise indicated. These financial statements have been prepared under the historical cost convention, except for the measurement at fair value of certain financial instruments and measurement of buildings at revalued amounts according to International Accounting Standard ("IAS") No.16 "Property, plant and equipment" and № 40 "Investment property". Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The Bank maintains its accounting records in accordance with Russian law. These financial statements have been prepared from the Russian statutory accounting records and have been adjusted to conform with IFRS. The functional currency of these financial statements is the Russian Ruble.

The Bank presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the statement of financial position date (current) and more than 12 months after the statement of financial position date (non-current) is presented in Note 36.

Financial assets and liabilities are offset and reported net in the statement of financial position when the Bank has a legally enforceable right to set off the recognized amounts and the Bank intends either to settle on a net basis or to realize the asset and settle the liability simultaneously. Income and expense is not offset in the income statement unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Bank.

The principal accounting policies are set out below.

**Recognition of interest income and expense**

Interest income and expense are recognized on an accrual basis using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. The discounting period is equal to the expected life of the financial instrument, or if applicable, to a shorter period.

Once a financial asset or a group of similar financial assets has been written down (partly written down) as a result of an impairment loss, interest income is thereafter recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Interest earned on assets at fair value is classified within interest income.

**Recognition of income on repurchase and reverse repurchase agreements**

Gain/loss on the sale of the above instruments is recognized as interest income or expense in the income statement based on the difference between the repurchase price accreted to date using the effective interest method and the sale price when such instruments are sold to third parties. When the reverse repo/repo is fulfilled on its original terms, the effective yield/interest between the sale and repurchase price negotiated under the original contract is recognized using the effective interest method.

**Recognition of fee and commission income**

Loan origination fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the loan. Where it is probable that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the resulting loan. Where it is unlikely that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are recognized in profit or loss over the remaining period of the loan commitment. Where a loan commitment expires without resulting in a loan, the loan commitment fee is recognized in profit or loss on expiry. Loan servicing fees are recognized as revenue as the services are provided. Loan syndication fees are recognized in profit or loss when the syndication has been completed. All other commissions are recognized when services are provided. Other income/expense is recognized as received/incurred in the period to which it relates.

**Cash and cash equivalents**

Cash comprises cash on hand and cash on current accounts of the Bank. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Amounts that are subject to restrictions on their availability are not included in cash and cash equivalents.

**Minimum reserve deposit with the Central Bank of the RF**

Minimum reserve deposits with the Central Bank of the Russian Federation comprises funds deposited with the Central Bank of the Russian Federation and not used to finance the Bank's current operations. and hence they are not considered as part of cash and cash equivalents for the purposes of the cash flow statement and recorded as a separate balance sheet item.

**Financial instruments**

The Bank recognizes financial assets and liabilities in its statement of financial position when it becomes a party to the contractual obligation of the instrument. Regular way purchases and sales of financial assets and liabilities are recognized using settlement date accounting.

Financial assets and liabilities are initially recognized at fair value. The historic cost of financial assets not at fair value through profit or loss is adjusted for transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

The accounting policies for subsequent re-measurement of these items are disclosed in the respective accounting policies set out below.

**Financial assets**

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss', 'held-to-maturity' investments, 'available-for-sale' financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

**Financial assets at fair value through profit or loss**

Financial assets are classified as at fair value through profit or loss when the financial asset is either held for trading or it is designated as at fair value through profit or loss.

A financial asset is classified as held for trading if:

- It has been acquired principally for the purpose of selling it in the near term; or
- On initial recognition it is part of a portfolio of identified financial instruments that the Bank manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

Financial assets at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The Bank uses quoted market prices to determine fair value for financial assets at fair value through profit or loss.

The Bank does not reclassify financial instruments in or out of this category while they are held (except for cases of reclassification in accordance with amendments to IAS 39 “Financial Instruments: Recognition and Measurement” and IFRS 7 “Financial instruments: Disclosure”).

**Financial assets held-to-maturity**

Financial assets held-to-maturity are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Bank has the positive intent and ability to hold to maturity. Financial assets held-to-maturity are measured at amortized cost using the effective interest method less any impairment.

If the Bank were to sell or reclassify more than an insignificant amount of financial assets held-to-maturity before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as available-for-sale. Furthermore, the Bank will not classify any financial asset as held-to-maturity during the following two years.

**Financial assets available-for-sale**

Financial assets available-for-sale are non-derivatives that are either designated as available-for-sale or are not classified as (a) loans and receivables, (b) financial assets held-to-maturity or (c) financial assets at fair value through profit or loss.

Financial assets available-for-sale are financial investments in equity and debt securities. Such securities are initially recorded at fair value. Subsequently the securities are measured at fair value, with such re-measurement recognized directly in equity until sold when gain/(loss) previously recorded in equity recycles through the income statement. The impairment losses, foreign exchange gains or losses and interest income accrued using the effective interest method are recognized in the income statement. The Bank uses quoted market prices to determine fair value of the Bank’s financial assets available-for-sale. If the market for investments is not active, the Bank establishes fair value by using valuation techniques. Valuation techniques include using recent arm’s length market transactions between knowledgeable, willing parties, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the Bank uses that technique. Dividends received on investments available-for-sale are included in dividend income in the income statement.

Non-marketable debt and equity securities are stated at amortized cost and cost, respectively, less impairment losses, if any, unless fair value can be reliably measured.

When there is objective evidence that such securities have been impaired, the cumulative loss previously recognized in equity is removed from equity and recognized in the income statement for the period. Reversals of such impairment losses on debt instruments, which are objectively related to events occurring after the impairment, are recognized in the income statement for the year. Reversals of such impairment losses on equity instruments are not recognized in the income statement.

**Loans and receivables**

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as ‘loans and receivables’. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

**Repurchase and reverse repurchase agreements**

In the normal course of business, the Bank enters into financial assets sale and purchase back agreements (“repos”) and financial assets purchase and sale back agreements (“reverse repos”) in the normal course of its business. Repos and reverse repos are utilized by the Bank as an element of its treasury management.

A repo is an agreement to transfer a financial asset to another party in exchange for cash or other consideration and a concurrent obligation to reacquire the financial assets at a future date for an amount equal to the cash or other consideration exchanged plus interest. These agreements are accounted for as financing transactions. Financial assets sold under repo are retained in the financial statements and consideration received under these agreements is recorded as collateralized deposit received within balances due to banks/customer accounts.

Assets purchased under reverse repos are recorded in the financial statements as cash placed on deposit collateralized by securities and other assets and are classified within balances due from banks/loans to customers.

The Bank enters into securities repurchase agreements and securities lending transactions under which it receives or transfers collateral in accordance with normal market practice. Under standard terms for repurchase transactions in the RF and other CIS states, the recipient of collateral has the right to sell or repledge the collateral, subject to returning equivalent securities on settlement of the transaction, only if the counterparty fails to meet its obligations per the agreement on the lending transaction.

In the event that assets purchased under reverse repo are sold to third parties, the results are recorded with the gain or loss included in net gains/(losses) on respective assets. Any related income or expense arising from the pricing difference between purchase and sale of the underlying assets is recognized as interest income and/or (expense).

Transfer of securities to counterparties is recorded in case when all risks and rewards are transferred.

**Impairment of financial assets**

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For listed and unlisted equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- Significant financial difficulty of the issuer or counterparty; or
- Breach of contract, such as default or delinquency in interest or principal payments
- Default or delinquency in interest or principal payments; or
- It becoming probable that the borrower will enter bankruptcy or financial re-organisation or
- Disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, such as loans and receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of loans and receivables could include the Bank's past experience of collecting payments, an increase in the number of delayed payments as well as observable changes in economic conditions that correlate with defaults on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The change in the impairment is included into profits using the allowance account (financial assets recorded at amortized cost) or by a direct write-off (financial assets recorded at cost). Assets recorded in the statement of financial position are reduced by the amount of the impairment. When a loan or a receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

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 recognized, the previously recognized impairment loss is reversed by adjustment to profit and loss account. For financial assets measured at amortized cost, 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 recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

In respect of available-for-sale equity securities, impairment losses previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to impairment losses recognized in other comprehensive income and accumulated under the heading of investments revaluation reserve. In respect of available-for-sale debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

**Renegotiated loans**

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur.

Accounting for restructurings which do not lead to derecognition of financial assets: if contractual terms do not change materially, restructuring is accounted for through recalculation of effective interest rate based on current carrying value and changes in future cash flows.

Accounting for restructurings which result in derecognition of financial assets: a material change in contractual terms results in derecognition of one financial asset and recognition of a new financial asset at fair value. The following changes in contractual terms and conditions are material:

- Change of currency of the cash flow;
- Combination and division of a few financial instruments;
- Present value of new cash flows discounted applying the first effective interest rate differs by at least 10% from the present value of the remaining cash flow of the initial financial assets.

In both cases, if restructuring of financial assets is performed due to financial difficulties of the borrower, prior to recognition of the restructuring, the impairment of financial assets shall be measured.

**Write off of loans**

Loans are written off against the allowance for impairment losses in the case of uncollectibility of loans and advances, including through repossession of collateral. Loans are written off after the Bank has made all necessary and sufficient efforts to collect amounts due to the Bank and after the Bank has obtained and sold all available collateral. Excess funds realized from the sale are repaid to the borrower.

According to the decision of the Board of Directors simultaneous meeting of the following conditions:

- Delay in payment of the principal amount of debt is over two years;
- No proceeds under the agreement for over two years,

may be accepted as a sufficient ground to consider inefficient measures on further collection of the amounts due to the Bank and for the de-recognition of such amounts.

Subsequent recoveries of amounts previously written off are reflected as an offset to the charge for impairment of financial assets in the income statement in the period of recovery.

**Derecognition of financial assets**

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

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

A financial asset is derecognized when it has been transferred and the transfer qualifies for derecognition. A transfer requires that the Bank either: (a) transfers the contractual rights to receive the asset's cash flows; or (b) retains the right to the asset's cash flows but assumes a contractual obligation to pay those cash flows to a third party. After a transfer, the Bank reassesses the extent to which it has retained the risks and rewards of ownership of the transferred asset. If substantially all the risks and rewards have been retained, the asset remains in the statement of financial position. If substantially all of the risks and rewards have been transferred, the asset is derecognized. If substantially all the risks and rewards have been neither retained nor transferred, the Bank assesses whether or not it has retained control of the asset. If it has not retained control, the asset is derecognized. Where the Bank has retained control of the asset, it continues to recognize the asset to the extent of its continuing involvement.

**Classification as debt or equity**

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

***Equity instruments***

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Bank are recognised at the proceeds received, net of direct issue costs. Equity instruments issued and paid before January 1, 2003 are recognized at their cost restated for inflation.

Repurchase of the Bank's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Bank's own equity instruments.

**Financial liabilities**

Financial liabilities are classified as either financial liabilities ‘at fair value through profit or loss’ or ‘other financial liabilities’.

**Financial liabilities at fair value through profit or loss**

Financial liabilities are classified as at fair value through profit or loss when the financial liability is either held for trading or it is designated as at fair value through profit or loss.

A financial liability is classified as held for trading if:

- It has been acquired principally for the purpose of repurchasing it in the near term;
- On initial recognition it is part of a portfolio of identified financial instruments that the Bank manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

Financial liabilities at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The Bank uses quoted market prices to determine fair value of liabilities at fair value through profit or loss.

**Other financial liabilities**

Other financial liabilities, including due to banks, customer accounts, debt securities issued, subordinated debt and other liabilities are initially recognized at fair value, less transaction costs.

Further, other financial liabilities are carried at amortized cost. Interest expense is calculated applying the effective interest rate.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

**Derecognition of financial liabilities**

The Bank derecognises financial liabilities when, and only when, the Bank’s obligations are discharged, cancelled or they expire. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit and loss.

**Derivative financial instruments**

In the normal course of business, the Bank enters into various derivative financial instruments. The Bank enters into derivative financial instruments to manage currency and liquidity risks and for trading purposes. The Bank makes operations with futures currency contracts, futures at short term interest rates, futures for delivery of securities. Derivative financial instruments entered into by the Bank do not qualify for hedge accounting. Derivatives are initially recognized at fair value at the date a derivative contract is entered into and are subsequently re-measured to their fair value at each reporting date. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Derivatives are included in financial assets and liabilities at fair value through profit or loss in the statement of financial position. Gains and losses resulting from these instruments are included in Net gain/loss from financial assets and liabilities at fair value through profit or loss in the income statement.

Derivative instruments embedded in other financial instruments are treated as separate derivatives if their risks and characteristics are not closely related to those of the host contracts and the host contracts are not carried at fair value with unrealized gains and losses reported in the income statement. An embedded derivative is a component of a hybrid (combined) financial instrument that includes both the derivative and a host contract, with the effect that some of the cash flows of the combined instrument vary in a similar way to a stand-alone derivative.

**Leases**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

**The Bank as lessee**

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

**Financial guarantees**

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantees are initially recorded at fair value. Consequently, they are recognized at the higher of the following values:

- The amount of the obligation under the contract, as determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets; and
- The amount initially recognized less, where appropriate, cumulative amortization recognized in accordance with the revenue recognition policies.

**Property, plant and equipment and intangible assets**

Buildings are stated at the revalued amount, being the fair value at the date of revaluation, determined from market-based evidence by appraisal undertaken by professional independent appraisers, less subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the reporting date.

Any revaluation increase arising on the revaluation of property, plant and equipment is recognized in the property, plant and equipment revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognized as an expense, in which case the increase is credited to the income statement to the extent of the decrease previously charged. A decrease in the carrying amount arising on the revaluation of an asset is charged as an expense to the income statement to the extent that it exceeds the balance, if any, held in the property, plant and equipment revaluation reserve relating to a previous revaluation of that asset.

Depreciation on revalued buildings is recognised in profit or loss. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the properties revaluation reserve is transferred directly to retained earnings.

Freehold land is not depreciated.

Property, plant and equipment and intangible assets, acquired after January 1, 2003 are carried at historical cost less accumulated depreciation and any recognized impairment loss. Property, plant and equipment and intangible assets, acquired before January 1, 2003 are carried at historical cost restated for inflation less accumulated depreciation and any recognized impairment loss.

Depreciation is recognized so as to write off the cost or valuation of assets (other than freehold land) less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis at the following annual rates:

| | |
|---|---|
| Buildings | 1%-20% |
| Other fixed assets | 3.3%-50% |
| Intangible assets | 10-33.3% |

Leasehold improvements are amortized over the contractual lease term of the related leased asset. Expenses related to repairs and renewals are charged when incurred and included in operating expenses unless they qualify for capitalization.

The carrying amounts of property, plant and equipment (except for buildings) and intangible assets are reviewed at each reporting date to assess whether they are recorded in excess of their recoverable amounts. The recoverable amount is the higher of fair value less costs to sell and value in use. Where carrying values exceed this estimated recoverable amount, assets are written down to their recoverable amount. an impairment is recognized in the respective period and is included in operating expenses. After the recognition of an impairment loss the depreciation charge for property, plant and equipment is adjusted in future periods to allocate the assets' revised carrying value, less its residual value (if any), on a systematic basis over its remaining useful life.

An item of property, plant and equipment/intangible asset is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

**Investment property**

Investment property includes assets used to earn rental payment. Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value. Gains and losses arising from changes in the fair value of investment properties are included in profit or loss in the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

**Taxation**

Income tax expense represents the sum of the tax currently payable and deferred tax.

***Current tax***

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Bank's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

***Deferred tax***

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Bank is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Bank expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

***Current and deferred tax for the year***

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

**Taxation**

Income tax expense represents the sum of the tax currently payable and deferred tax.

**Current provision for income taxes**

The current tax expense is based on taxable profit for the year. Taxable profit differs from profit before tax as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Bank’s current tax expense is calculated using tax rates that have been enacted during the reporting period.

**Deferred tax benefit**

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Bank is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Bank expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and deferred tax liabilities are offset and reported net in the statement of financial position if:

- The Bank has a legally enforceable right to set off current income tax assets against current income tax liabilities; and
- Deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on the same taxable entity.

***Current and deferred tax for the year***

Current and deferred tax is recognized in profit or loss, except when they are recorded as items directly recognized within other comprehensive income or equity. In this case current and deferred taxes are also recognized within other comprehensive income or directly in equity, respectively.

**Operating taxes**

There are various other taxes in the Russian Federation, which are assessed on the Bank’s activities. These taxes are included as a component of operating expenses in the income statement.

**Other provisions**

Provisions are recognised when the Bank has a present obligation (legal or constructive) as a result of a past event, it is probable that the Bank will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.

### Contingencies

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

### Fiduciary activities

The Bank provides trustee services to its customers. The Bank also provides depositary services to its customers which include transactions with securities on their depositary accounts. Assets accepted and liabilities incurred under the fiduciary activities are not included in the Bank's financial statements. The Bank accepts the operational risk on these activities, but the Bank's customers bear the credit and market risks associated with such operations. Revenue for provision of trustee services is recognized as services are provided.

### Foreign currencies

In preparing the financial statements of the individual transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise.

The Central Bank of the Russian Federation exchange rates for the key currencies at year-end used by the Bank in the preparation of the financial statements are as follows:

| | 31 December 2011 | 31 December 2010 |
|---|---|---|
| RUR/1 US Dollar | 32.1961 | 30.4769 |
| RUR/1 Euro | 41.6714 | 40.3331 |

### Collateral pledged

The Bank obtains collateral in respect of customer liabilities where it is considered to be appropriate. The collateral normally takes the form of a lien over the customer's assets and gives the Bank a claim on these assets for both existing and future customer liabilities.

### Equity reserves

The reserves recorded in equity on the Bank's statement of financial position include:

- Available-for-sale investment reserve which comprises changes in fair value of available-for-sale financial assets;
- Property, plant and equipment revaluation reserve which reflects change in fair value of buildings;
- Foreign currency translation reserve which is used to record exchange differences arising from the translation of the net investment in foreign operations, net of the effects of hedging.

**Investments in associated companies**

Associates are enterprises on the financial and operating activities of which the Bank has significant influence and which are neither subsidiaries nor joint ventures. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are recorded in the financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations.* Under the equity method, an investment in an associate is initially recognised in the statement of financial position at cost and adjusted thereafter to recognise the Bank's share of the profit or loss and other comprehensive income of the associate.

When necessary, the entire carrying amount of the investment is tested for impairment in accordance with IAS 36 *Impairment of Assets* as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When the Bank transacts with its associate, profits and losses resulting from the transactions with the associate are recognised in the Bank’s financial statements only to the extent of interest in the associate that is not related to the Bank.

**Critical accounting judgments and key sources of estimation uncertainty**

The preparation of the Bank’s financial statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities at the reporting date and the reported amount of income and expenses during the period ended. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

***Key sources of estimation uncertainty***

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

***Impairment of loans and advances to customers***

The Bank regularly reviews its loans to assess for impairment. The Bank’s loan impairment allowances are established to recognize incurred impairment losses in its portfolio of loans and receivables. The Bank considers accounting estimates related to allowance for impairment of loans a key source of estimation uncertainty because (i) they are highly susceptible to change from period to period as the assumptions about future default rates and valuation of potential losses relating to impaired loans are based on recent performance experience, and (ii) any significant difference between the Bank’s estimated losses and actual losses would require the Bank to record allowances which could have a material impact on its financial statements in future periods.

The Bank uses management’s judgment to estimate the amount of any impairment loss in cases where a borrower has financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Bank estimates changes in future cash flows based on past performance, past customer behavior, observable data indicating an adverse change in the payment status of borrowers in a group, and national or local economic conditions that correlate with defaults on assets. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans. The Bank uses management’s judgment to adjust observable data for a group of loans to reflect current circumstances not reflected in historical data.

The allowances for impairment of financial assets in the financial statements have been determined on the basis of existing economic and political conditions. The Bank is not in a position to predict what changes in conditions will take place in RF and what effect such changes might have on the adequacy of the allowance for impairment of financial assets in future periods.

As of 31 December 2011 the loans to customers totaled RUR 103 699 295 thousand (31 December 2010: RUR 78 489 627 thousand), and allowance for impairment losses was RUR 13 481 289 thousand (31 December 2010: RUR 10 498 038 thousand).

**Valuation of financial instruments**

As described in Note 34, fair value of financial instruments is calculated by the Bank based on market information available, if any, and proper evaluation methods. However, professional judgment is required to interpret market data in order to calculate fair value. Changes in assessment may influence the fair value recognized in financial statements. The Russian Federation still has some typical features of a developed market, but the economic environment still restricts operations in financial markets. Market quotations may be outdated or reflect transactions at residual value and, thus, sometimes do not reflect fair value of financial instruments. All market information available has been used for measurement of fair value of financial instruments.

**Properties carried at revalued amounts**

Certain property, plant and equipment (buildings) and investment properties are carried in the financial statements at revalued cost. The date of the latest appraisal was 31 December 2011. As of 31 December 2011 the carrying value of revalued buildings amounted to RUR 1 041 382 thousand (31 December 2010: RUR 1 267 755 thousand). The carrying amount of these investment properties as of 31 December 2011 was RUR 51 876 thousand (31 December 2010: RUR 5 900 thousand).

**Recoverability of deferred tax assets**

The Bank regularly assesses the possibility of recognition of deferred tax assets. Recognized deferred tax asset is the amount of income tax which can be offset against future income tax and is recognized in the statement of financial position. Deferred tax assets are recognized to the extent that utilization of respective tax benefit is probable. Assessment of future taxable profit and tax benefit probable for recovery in the future is based on expectations of the management which are considered reasonable in current conditions.

**Adoption of new and revised standards**

The Bank has adopted the following new or revised standards and interpretations issued by International Accounting Standards Board and the International Financial Reporting Interpretations Committee (the IFRIC) which became effective for the Bank's annual financial statement for the year ended 31 December 2011:

- *IFRS 7 Financial Instruments: Disclosures* — amendments resulting from May 2010 Annual Improvements to IFRSs: clarification of disclosures and release of requirement for disclosure regarding restructured loans;
- *IAS 24 Related Party Disclosures* — (as revised in 2010) modifies the definition of a related party and simplifies disclosures for government-related entities.

The adoption of the new and revised standards and interpretations has had no effect on the Bank's financial statements for the current or corresponding periods.

**New and revised IFRSs in issue but not yet effective**

At the date of authorization of this financial information, the following new standards and interpretations were in issue, but not yet effective, and which the Bank has not early adopted:

- *IFRS 7 Financial Instruments: Disclosures* — amendments enhancing disclosures about transfers of financial assets. Effective for annual periods beginning on or after 1 July 2011, with earlier application permitted;
- *IFRS 9 Financial Instruments*. Effective for annual periods beginning on or after 1 January 2013, with earlier application permitted;
- *IFRS 13 Fair Value Measurement*. Effective for annual periods beginning on or after 1 January 2013, with earlier application permitted;
- I*AS 1 Presentation of Financial Statements* — amendments to revise the way other comprehensive income is presented. Effective for annual periods beginning on or after 1 July 2012, with early adoption permitted;
- *IAS 12 Income Taxes* — Limited scope amendment (recovery of underlying assets). Effective for annual periods beginning on or after 1 January 2012, with earlier application permitted.

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

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

IFRS 9 is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted.

The management anticipates that IFRS 9 that will be adopted in the Bank's financial statements for the annual period beginning January 1, 2013 and that the application of the new Standard will have a significant impact on the amounts reported in respect of the Bank’s financial assets and financial liabilities. It is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

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

Retrospective application is required in accordance with IAS 8 with the exception that in the first year of application, an entity need not provide comparative information for the disclosures required by the amendments for periods beginning before July 1, 2011. The Bank does not expect this amendment to have a material effect on its financial position or results of operations.

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

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

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

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

The amendments to IAS 1:

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

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

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

Retrospective application is required in accordance with IAS 8.

*(in thousands of Russian Rubles unless otherwise stated)*

## 3. RECLASSIFICATIONS

Certain reclassifications have been made to the financial statements as of 31 December 2010 and for the year ended 31 December 2010 to conform to the presentation as of 31 December 2011 and for the year ended 31 December 2011:

| Description of an article | As previously reported | Reclassification amount | As reclassified | Description of reclassification |
|---|---|---|---|---|
| Operating expenses | (6 918 461) | 19 578 | (6 898 883) | Change in presentation |
| Impairment of interest earning assets | (5 320 450) | (19 352) | (5 339 802) | Change in presentation |
| Other income | 47 111 | (226) | 46 885 | Netting of financial result on sale of assets not reclassified as property, plant and equipment |
| Operating expenses | (6 918 461) | (226) | (6 898 883) | Netting of financial result on sale of assets not reclassified as property, plant and equipment |
| Deferred tax assets | 20 431 | (20 431) | - | Change in presentation |
| Deferred tax liabilities | 300 116 | (20 431) | 279 685 | Change in presentation |
| Other provisions | 33 282 | (33 282) | - | Change in presentation |
| Other liabilities | 990 265 | 33 282 | 1 023 547 | Change in presentation |

## 4. NET INTEREST INCOME

Net interest income for the year ended 2011 and 2010 comprises:

| | 2011 | 2010 |
|---|---|---|
| **Interest income comprises** | | |
| Interest income on financial assets recorded at amortized cost | 23 616 173 | 18 507 955 |
| Interest income on assets recorded at fair value | 574 366 | 1 124 182 |
| **Total interest income** | **24 190 539** | **19 632 137** |
| Interest income on assets recorded at amortized cost comprises: | | |
| Interest on loans and advances to customers | 23 292 807 | 18 057 720 |
| Interest due from banks | 307 535 | 416 857 |
| Interest on financial assets held-to-maturity | 15 831 | 33 378 |
| **Total interest income on financial assets recorded at amortized cost** | **23 616 173** | **18 507 955** |
| Interest income on financial assets at fair value through profit or loss: | | |
| Interest income on financial assets at fair value through profit or loss | 22 305 | 17 363 |
| Interest income on financial assets available-for-sale | 552 061 | 1 106 819 |
| **Total interest income on financial assets recorded at fair value** | **574 366** | **1 124 182** |
| **Interest expense comprises** | | |
| Interest on financial liabilities recorded at amortized cost | 4 121 904 | 4 860 156 |
| **Total interest expense** | **4 121 904** | **4 860 156** |
| Interest expense on financial liabilities recorded at amortized cost comprises: | | |
| Interest on customer accounts | 2 881 931 | 3 546 754 |
| Interest on subordinated debt | 612 684 | 140 565 |
| Interest on due to banks | 486 083 | 992 193 |
| Interest on debt securities issued | 141 206 | 180 644 |
| **Total interest expense on financial liabilities recorded at amortized cost** | **4 121 904** | **4 860 156** |
| **Net interest income before impairment of interest earning assets** | **20 068 635** | **14 771 981** |

*(in thousands of Russian Rubles unless otherwise stated)*

## 5. IMPAIRMENT OF INTEREST EARNING ASSETS

The movements in allowance for impairment losses on interest bearing assets were as follows:

| | Due from banks | Loans and advances to customers | Financial assets available-for-sale | Held-to-maturity financial assets | Total |
|---|---|---|---|---|---|
| **31 December 2009** | **-** | **8 085 382** | **48 355** | **35 380** | **8 169 117** |
| Allowances/(recovery of allowances) | 3 495 | 5 413 245 | (44 577) | (32 361) | 5 339 802 |
| Write-off against allowances | - | (3 038 632) | - | - | (3 038 632) |
| Recoveries of allowances on assets previously written off | - | 38 043 | - | - | 38 043 |
| **31 December 2010** | **3 495** | **10 498 038** | **3 778** | **3 019** | **10 508 330** |
| Allowances/(recovery of allowances) | 577 | 6 449 394 | (22) | - | 6 449 949 |
| Write-off against allowances | - | (3 523 680) | (3 756) | (3 019) | (3 530 455) |
| Recoveries of allowances on assets previously written off | - | 57 537 | - | - | 57 537 |
| **31 December 2011** | **4 072** | **13 481 289** | **-** | **-** | **13 485 361** |

The movements in allowance for impairment losses on other assets and in other provisions were as follows:

| | Other assets | Provision for credit commitments | Legal proceedings | Total |
|---|---|---|---|---|
| **31 December 2009** | **37 676** | **5 642** | **1 823** | **45 141** |
| Provision | 20 058 | 23 806 | 2 496 | 46 360 |
| Write-off against allowance | (311) | - | (485) | (796) |
| **31 December 2010** | **57 423** | **29 448** | **3 834** | **90 705** |
| Provision | 15 107 | 14 780 | 11 396 | 41 283 |
| Write-off against allowance | (2 018) | - | (9 421) | (11 439) |
| **31 December 2011** | **70 512** | **44 228** | **5 809** | **120 549** |

## 6. NET (LOSS)/GAIN ON FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

Net (loss)/gain on financial assets and liabilities at fair value through profit or loss comprises:

| | 2011 | 2010 |
|---|---|---|
| Net gain on operations with derivative financial instruments | 992 259 | 949 018 |
| Net (loss)/gain on financial assets and liabilities held for trading | (4 893) | 10 820 |
| **Total net gain on financial assets and liabilities at fair value through profit or loss** | **987 366** | **959 838** |
| Net (loss)/gain on operations with financial assets and liabilities held-for-trading comprise: | | |
| Realized (loss)/gain on trading operations | (2 366) | 3 312 |
| Unrealized (loss)/gain on fair value adjustment | (2 527) | 7 508 |
| **Total net (loss)/gain on financial assets and liabilities held for trading** | **(4 893)** | **10 820** |

The Bank enters into derivative financial instruments to manage currency and liquidity risks and such financial instruments are held primarily for trading purposes.

*(in thousands of Russian Rubles unless otherwise stated)*

## 7. NET LOSS ON FOREIGN EXCHANGE OPERATIONS

Net loss on foreign exchange operations comprises:

| | 2011 | 2010 |
|---|---|---|
| Translation differences, net | 124 683 | 320 395 |
| Dealing, net | (919 338) | (856 957) |
| **Net loss on foreign exchange operations** | **(794 655)** | **(536 562)** |

## 8. FEE AND COMMISSION INCOME AND EXPENSES

Fee and commission income and expense comprise:

| | 2011 | 2010 |
|---|---|---|
| **Fee and commission income** | | |
| Plastic cards operations | 1 636 105 | 1 004 276 |
| Cash operations and settlements | 1 264 208 | 799 179 |
| Intermediary services | 436 806 | 258 623 |
| Foreign exchange operations | 71 709 | 93 045 |
| Use of a remote access system | 66 881 | 69 932 |
| Currency control agent's functions | 38 815 | 34 095 |
| Attraction of clients for insurance companies | 24 852 | 17 683 |
| Documentary operations | 21 962 | 3 423 |
| Encashment operations | 14 905 | 17 179 |
| Banknote transactions | 5 779 | 1 010 |
| Broker services | 874 | 1 657 |
| Other | 12 182 | 10 364 |
| **Total fee and commission income** | **3 595 078** | **2 310 466** |
| **Fees and commission expense** | | |
| Intermediary services | 712 436 | 553 655 |
| Plastic cards operations | 253 655 | 212 159 |
| Settlements and money transfers | 62 652 | 49 954 |
| Financial market operations, including transactions with securities | 42 352 | 51 669 |
| Encashment operations | 7 635 | 6 689 |
| Banknote transactions | 6 800 | 5 479 |
| Depositary services | 3 449 | 4 657 |
| Other | 1 912 | 940 |
| **Total fee and commission expense** | **1 090 891** | **885 202** |

## 9. OTHER INCOME

Other income comprises:

| | 2011 | 2010 |
|---|---|---|
| Income tax refund | 40 782 | 3 183 |
| Income from letting safe boxes | 18 476 | 16 902 |
| Income from recalculation of interest on deposits upon early termination of agreement | 6 446 | 4 093 |
| Property lease | 3 555 | 3 424 |
| Income on accounts payable write-off | 1 214 | 769 |
| Fines and penalty interest received | 778 | 877 |
| Reversal of loss on revaluation of property, plant and equipment of prior periods | 505 | 12 516 |
| Gain on transactions with own bills of exchange | 64 | 167 |
| Other | 2 679 | 4 954 |
| **Total other income** | **74 499** | **46 885** |

*(in thousands of Russian Rubles unless otherwise stated)*

## 10. OPERATING EXPENSES

Operating expenses comprise:

| | 2011 | 2010 |
|---|---|---|
| Staff costs | 4 222 340 | 3 512 853 |
| Unified Social Tax | 947 092 | 553 624 |
| Operating lease | 801 147 | 755 204 |
| Telecommunication and information services | 671 169 | 410 899 |
| Depreciation and amortization expense | 547 719 | 461 165 |
| Other fees and taxes | 436 915 | 351 272 |
| Repairs and maintenance expenses | 220 179 | 221 677 |
| Advertising costs | 207 854 | 102 353 |
| Payments to the Deposit Insurance Fund | 156 115 | 134 667 |
| Expenses on materials and furniture not classifies as property and equipment | 120 434 | 92 139 |
| Security expenses | 106 188 | 95 608 |
| Business trip expenses | 46 669 | 43 987 |
| Loss on disposals of property and equipment | 25 145 | 15 271 |
| Information and consulting services | 24 078 | 23 243 |
| Professional services | 21 100 | 19 961 |
| Transportation expenses | 18 100 | 7 624 |
| Loss on revaluation of property and equipment | 17 693 | 3 417 |
| Expenses on rights to use intellectual property | 13 107 | 17 778 |
| Charity and sponsorship expenses | 4 475 | 4 893 |
| Other | 77 979 | 71 248 |
| **Total operating expenses** | **8 685 498** | **6 898 883** |

## 11. INCOME TAX

The Bank provides for income taxes based on the tax accounts maintained and prepared in accordance with the tax regulations of Russian Federation, which may differ from IFRS.

The Bank is subject to certain permanent tax differences due to non-tax deductibility of certain expenses and tax-free regime for certain income.

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as of 31 December 2011 and 2010 relate mostly to different methods of income and expense recognition as well as to recorded values of certain assets.

The tax rate used for the 2011 and 2010 reconciliations below is the corporate tax rate of 20% payable by corporate entities in the RF on taxable profits under tax law in that jurisdiction.

*(in thousands of Russian Rubles unless otherwise stated)*

Temporary differences as of 31 December 2011 and 2010 comprise:

| | 31 December 2011 | 31 December 2010 |
|---|---|---|
| **Deductible temporary differences** | | |
| Loans and advances to customers | 1 841 043 | 655 252 |
| Other liabilities and other provisions | 675 506 | 421 646 |
| Other assets | 190 136 | 126 582 |
| Financial liabilities at fair value through profit or loss | 118 825 | 146 061 |
| Investments in associated companies | 40 586 | - |
| Investment property | 5 521 | 2 876 |
| Due from banks | 1 318 | - |
| Debt securities issued | - | 31 127 |
| Financial assets at fair value through profit or loss | - | 2 237 |
| **Total deductible temporary differences** | **2 872 935** | **1 385 781** |
| **Taxable temporary differences** | | |
| Property, plant and equipment and intangible assets | 944 346 | 1 116 014 |
| Debt securities issued | 26 440 | - |
| Financial assets held-to-maturity less allowance for impairment loss | 22 064 | 18 907 |
| Available-for-sale financial assets | 634 316 | 1 162 340 |
| Due from banks | - | 3 211 |
| Financial liabilities at fair value through profit or loss | 352 858 | - |
| **Total taxable temporary differences** | **1 980 024** | **2 300 472** |
| Total net taxable temporary differences | 892 911 | (914 691) |
| Total net deferred tax assets/(liabilities) at the rate 20% | 178 582 | (182 938) |
| Less: unrecognized deferred tax asset | (205 109) | (96 747) |
| **Net deferred tax liabilities** | **(26 527)** | **(279 685)** |

Relationships between tax expenses and accounting profit for the years ended 31 December 2011 and 2010 are explained below:

| | 2011 | 2010 |
|---|---|---|
| **Income before tax** | **7 667 311** | **4 310 245** |
| Tax at the statutory tax rate (20%) | 1 533 462 | 862 049 |
| Change in deferred tax asset not recognized | 108 363 | 59 709 |
| Tax effect of permanent differences – non-deductible expenses | 21 801 | 19 476 |
| **Attributable income tax expense** | **1 663 626** | **941 234** |
| Current income tax expense | 1 779 006 | 790 112 |
| Change in deferred tax | (115 380) | 151 122 |
| **Attributable income tax expense** | **1 663 626** | **941 234** |

Income tax effects related to comprehensive income:

| | 2011 | | | 2010 | | |
|---|---|---|---|---|---|---|
| | Amount before tax | Tax benefit (expense) | Amount net of tax | Amount before tax | Tax benefit (expense) | Amount net of tax |
| Revaluation of property, plant and equipment | (123 147) | 24 630 | (98 517) | 53 426 | (10 669) | 42 757 |
| Net change in fair value of financial assets available-for-sale | (579 733) | 115 947 | (463 786) | (229 889) | 46 928 | (182 961) |
| Disposal of financial assets available-for-sale | 14 001 | (2 800) | 11 201 | (11 514) | 2 303 | (9 211) |
| Exchange differences on translating foreign operations | 4 711 | - | 4 711 | - | - | - |
| | **(684 168)** | **137 777** | **(546 391)** | **(187 977)** | **38 562** | **(149 415)** |

*(in thousands of Russian Rubles unless otherwise stated)*

## 12. EARNINGS PER SHARE

Basic earnings per share are calculated by dividing profits owned by the Bank's shareholders by the average weighted number of ordinary shares outstanding for the year, less treasury shares. The Bank holds no ordinary shares which could potentially dilute earnings per share. Thus, diluted earnings per share are equal to basic earnings per share.

| | 2011 | 2010 |
|---|---|---|
| Net profit for the year attributable to owners of the Bank | 6 003 685 | 3 369 011 |
| Weighted average number of ordinary shares for purposes of basic and diluted earnings per share (thousand of shares) | 279 788 785 | 279 788 785 |
| **Earnings per share – basic and diluted (RUR, per share)** | **0.021** | **0.012** |

## 13. CASH AND CASH EQUIVALENTS

| | 31 December 2011 | 31 December 2010 |
|---|---|---|
| Cash on hand | 3 040 077 | 2 684 826 |
| Balances on correspondent accounts with the Central Bank of the Russian Federation (less minimum reserves) | 3 608 309 | 3 302 629 |
| Balances on correspondent accounts with banks and non-banking credit institutions | 1 170 993 | 1 525 080 |
| **Total cash and cash equivalents** | **7 819 379** | **7 512 535** |

Geographical, currency and interest rate are disclosed in Note 36.

## 14. MINIMUM RESERVE DEPOSITS WITH THE CENTRAL BANK OF THE RUSSIAN FEDERATION

As of 31 December 2011 minimum reserve deposits with the Central Bank of the Russian Federation amounted to RUR 975 726 thousand (31 December 2010: RUR 499 289 thousand). The Bank is required to maintain the reserve balance at the CBR at all times.

Geographical, currency and interest rate are disclosed in Note 36.

## 15. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets at fair value through profit or loss comprise:

| | 31 December 2011 | 31 December 2010 |
|---|---|---|
| **Financial assets held for trading:** | | |
| Government bonds | 400 493 | 221 235 |
| **Total financial assets held for trading** | **400 493** | **221 235** |
| **Total financial assets at fair value through profit or loss** | **400 493** | **221 235** |

As of 31 December 2011 financial assets at fair value through profit or loss included accrued interest income on debt securities for the total amount of RUR 8 690 thousand (31 December 2010: RUR 3 726 thousand).

As of 31 December 2011 federal loan bonds amounting to RUR 167 945 thousand (31 December 2010: RUR 184 756 thousand), were restricted by the Central Bank of Russian Federation. Collateral represented by these securities enables the Bank to use the one-day and automatic overdraft loans while transfer payments through the current accounts with the Central Bank of the Russian Federation.

Geographical, currency and interest rate are disclosed in Note 36.

*(in thousands of Russian Rubles unless otherwise stated)*

## 16. DERIVATIVE FINANCIAL ASSETS AND LIABILITIES

| | 31 December 2011 | | | | 31 December 2010 | | | |
|---|---|---|---|---|---|---|---|---|
| | | | Fair value | | | | Fair value | |
| | Assets | Liabilities | Assets | Liabilities | Assets | Liabilities | Assets | Liabilities |
| **Forward contracts** | | | | | | | | |
| Buy USD sell RUR | 260 371 | (270 474) | - | (10 103) | - | - | - | - |
| Buy EUR sell RUR | 274 605 | (271 912) | 2 693 | - | - | - | - | - |
| **Swap contracts** | | | | | | | | |
| Buy USD sell RUR | 2 174 522 | (2 253 361) | 17 062 | (95 900) | | | | |
| Buy RUR sell USD | 5 345 624 | (5 009 423) | 336 201 | - | 3 047 690 | (3 127 085) | - | (79 395) |
| Buy USD sell EUR | 1 373 429 | (1 375 106) | - | (1 677) | - | - | - | - |
| Buy CHF sell USD | 482 768 | (482 911) | - | (143) | 457 154 | (523 820) | - | (66 666) |
| Buy EUR sell USD | 270 715 | (281 716) | - | (11 002) | - | - | - | - |
| Buy USD sell GBP | 89 430 | (89 299) | 131 | - | - | - | - | - |
| **Total** | **10 271 464** | **(10 034 202)** | **356 087** | **(118 825)** | **3 504 844** | **(3 650 905)** | **-** | **(146 061)** |

Derivatives often involve at their inception only a mutual exchange of promises with little or no transfer of consideration. However, these instruments frequently involve a high degree of leverage and are very volatile. A relatively small movement in the value of the asset, rate or index underlying a derivative contract may have a significant impact on the profit or loss of the Group.

### Forwards

Forward contracts are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over-the-counter market. The Bank has credit exposure to the counterparties of forward contracts. Forward contracts are settled on a gross basis. Forwards result in market risk exposure.

### Swaps

Swaps are contractual agreements between two parties to exchange streams of payments over time based on specified notional amounts, in relation to movements in a specified underlying index such as foreign currency rate.

In a currency swap, the Bank pays a specified amount in one currency and receives a specified amount in another currency. Currency swaps are mostly gross-settled.

As at December 31, 2011 and 2010 derivative financial assets and liabilities included transactions with the parent bank (OTP BANK PLC) (see Note 33).

Geographical, currency and interest rate are disclosed in Note 36.

## 17. LOANS AND ADVANCES TO BANKS AND OTHER FINANCIAL INSTITUTIONS

Due from banks comprise:

| | 31 December 2011 | 31 December 2010 |
|---|---|---|
| Due from banks | 5 962 012 | 8 431 718 |
| Loans under reverse repurchase agreements | - | 262 051 |
| | **5 962 012** | **8 693 769** |
| Less: allowance for impairment losses | (4 072) | (3 495) |
| **Total due from banks** | **5 957 940** | **8 690 274** |

As of 31 December 2011 included in amounts due from banks is accrued interest income of RUR 11 973 thousand (31 December 2010: RUR 50 773 thousand).

As of 31 December 2011 the maximum credit risk exposure of loans and advances to banks amounted to RUR 5 957 940 thousand (31 December 2010: RUR 8 690 274 thousand).

*(in thousands of Russian Rubles unless otherwise stated)*

As of 31 December 2011 the Bank had due from the parent bank (OTP BANK PLC), which exceeded 9.26% (31 December 2010: 43.37%) of the Bank's equity.

Movements in allowances for impairment losses on loans to banks for the years ended 31 December 2011 and 2010 are disclosed in Note 5.

Carrying value of loans under reverse repurchase agreements and fair value of assets pledged as of 31 December 2010 comprise:

| | **31 December 2010** | |
|---|---|---|
| | **Carrying value of loans** | **Fair value of collateral** |
| Bonds of Russian banks | 212 307 | 234 798 |
| Corporate bonds | 49 744 | 52 507 |
| **Total** | **262 051** | **287 305** |

As of 31 December 2011 the Bank had due from the Central Bank of the Russian Federation, which exceeded 20.37% of the Bank's equity.

As at 31 December 2010 assets with a fair value of RUR 287 305 thousand received as a pledge under the reverse repurchase agreements were pledged by the Bank under the repurchase agreements (see Note 19).

Geographical, currency and interest rate are disclosed in Note 36.

## 18. LOANS AND ADVANCES TO CUSTOMERS

Loans to customers comprise:

| | **31 December 2011** | **31 December 2010** |
|---|---|---|
| Loans and advances to customers | 103 698 616 | 77 747 054 |
| Net investment in finance lease | 679 | 1 217 |
| Loans under reverse repurchase agreements | - | 741 356 |
| | **103 699 295** | **78 489 627** |
| Less: allowance for impairment losses | (13 481 289) | (10 498 038) |
| **Total loans and advances to customers** | **90 218 006** | **67 991 589** |

As of 31 December 2011 included in loans to customers is accrued interest income, less allowance for impairment losses, of RUR 2 188 793 thousand (31 December 2010: RUR 1 604 976 thousand).

Movements in allowances for impairment losses for the years ended 31 December 2011 and 2010 are disclosed in Note 5.

The table below summarizes the amount of loans analyzed by type of collateral, rather than the fair value of the collateral itself:

| | **31 December 2011** | **31 December 2010** |
|---|---|---|
| Unsecured loans | 86 151 049 | 53 916 823 |
| Loans collateralized by pledge of real estate and receivables | 11 585 043 | 15 165 779 |
| Loans collateralized by pledge of motor vehicles | 2 009 309 | 2 669 253 |
| Loans collateralized by pledge of other property | 975 163 | 1 507 067 |
| Loans collateralized by pledge of securities | 589 233 | 2 108 474 |
| Loans collateralized by goods in turnover | 509 868 | 1 890 375 |
| Loans collateralized by Bank's promissory notes | 30 682 | 261 679 |
| Loans collateralized by pledge of inventories | 7 415 | 35 653 |
| Loans collateralized by other collateral | 1 841 533 | 934 524 |
| | **103 699 295** | **78 489 627** |
| Less: allowance for impairment losses | (13 481 289) | (10 498 038) |
| **Total loans and advances to customers** | **90 218 006** | **67 991 589** |

*(in thousands of Russian Rubles unless otherwise stated)*

The table below summarizes the amount of loans analyzed by industry:

| | 31 December 2011 | 31 December 2010 |
|---|---|---|
| **Analysis by sector** | | |
| Individuals | 95 592 677 | 65 820 961 |
| Real estate and rent | 2 279 892 | 4 021 357 |
| Trade | 2 700 208 | 3 629 147 |
| Manufacturing | 947 554 | 1 025 807 |
| Construction | 811 504 | 1 191 041 |
| Transport and communication | 788 877 | 1 109 263 |
| Financial services | 163 049 | 1 041 000 |
| Publishing and printing | 112 540 | 13 609 |
| Services | 109 362 | 250 396 |
| Agriculture | 87 051 | 161 698 |
| Finance and operating leases | 73 933 | 122 358 |
| Science | - | 40 308 |
| Other | 32 648 | 62 682 |
| | **103 699 295** | **78 489 627** |
| Less: allowance for impairment losses | (13 481 289) | (10 498 038) |
| **Total loans and advances to customers** | **90 218 006** | **67 991 589** |

During 2011 the Bank received financial assets by taking possession of collateral it held as security with fair value of RUR 20 108 thousand (2010 – RUR 10 237 thousand). As of 31 December 2011 part of such assets in the amount of RUR 4 303 thousand (31 December 2010: RUR 3 086 thousand) was included in other assets. The remaining part was sold during 2011 and 2010.

Loans to individuals comprise the following products:

| | 31 December 2011 | 31 December 2010 |
|---|---|---|
| Consumer loans | 60 262 912 | 36 634 851 |
| Overdrafts on plastic cards | 24 453 730 | 15 194 234 |
| Mortgage loans | 8 625 911 | 9 896 310 |
| Car loans | 1 844 641 | 2 398 652 |
| Entrepreneurs | 34 392 | 710 541 |
| Other | 371 091 | 986 373 |
| | **95 592 677** | **65 820 961** |
| Less: allowance for impairment losses | (12 696 562) | (8 163 647) |
| **Total loans to individuals** | **82 896 115** | **57 657 314** |

As of 31 December 2010 the Bank granted loans to one borrowers/groups of related borrowers totaling RUR 1 490 273 thousand, which individually exceeded 10% of the Bank’s equity.

As of 31 December 2011 a significant amount of loans (99.98% (31 December 2010: 99.97%) of total loans to customers) is granted to companies operating and individuals registered in the RF, which represents a significant geographical concentration in one region.

As of 31 December 2011 loans granted to 10 borrowers/groups of related borrowers amounted to 4.62% (RUR 4 793 471 thousand) (31 December 2010: 10.83% (RUR 8 064 787 thousand) of the loan portfolio.

As of 31 December 2011, included in loans to customers were loans of RUR 938 728 thousand (31 December 2010: RUR 1 644 331 thousand), the terms of which were renegotiated. Otherwise these loans would have been past due or impaired.

*(in thousands of Russian Rubles unless otherwise stated)*

The table below summarizes an analysis of loans to customers by impairment:

| | 31 December 2011 | | | 31 December 2010 | | |
|---|---|---|---|---|---|---|
| | **Carrying value before allowance** | **Allowance for impairment losses** | **Carrying value** | **Carrying value before allowance** | **Allowance for impairment losses** | **Carrying value** |
| Loans to customers individually determined to be impaired | 3 758 309 | (830 688) | 2 927 621 | 9 634 617 | (2 598 119) | 7 036 498 |
| Loans to customers collectively determined to be impaired | 95 558 285 | (12 650 601) | 82 907 684 | 65 110 420 | (7 899 919) | 57 210 501 |
| Unimpaired loans | 4 382 701 | - | 4 382 701 | 3 744 590 | - | 3 744 590 |
| **Total** | **103 699 295** | **(13 481 289)** | **90 218 006** | **78 489 627** | **(10 498 038)** | **67 991 589** |

As of 31 December 2011 loans amounting to RUR 3 758 309 thousand (31 December 2010: RUR 9 634 617 thousand) that were individually determined to be impaired were collateralized by the Bank’s promissory notes, pledge of real estate, motor vehicles, equipment, goods in turnover and other collateral with fair value of RUR 4 247 473 thousand (31 December 2010: RUR 16 710 580 thousand).

Carrying value of loans under reverse repurchase agreements and fair value of assets pledged as of 31 December 2010 comprise:

| | 31 December 2010 | |
|---|---|---|
| | **Carrying value of loans** | **Fair value of collateral** |
| Equity securities | 741 356 | 872 234 |
| Promissory notes of Russian companies | - | - |
| **Total** | **741 356** | **872 234** |

As at 31 December 2010 assets received as a pledge under the reverse repurchase agreements totaling RUR 872 234 thousand were pledged by the Bank under repurchase agreements (see Note 19).

Geographical, currency and interest rate are disclosed in Note 36.

## 19. FINANCIAL ASSETS AVAILABLE-FOR-SALE

In accordance with amendments to IAS 39 and IFRS 7 on October 31, 2008 the Bank’s management has made a decision to reclassify debt securities out of available-for-sale financial assets to held-to-maturity financial assets effective as at July 1, 2008. As at July 1, 2008 the total value of reclassified securities amounted to RUR 1 549 239 thousand. As at July 1, 2008 the total value of estimated cash flows related to the reclassified securities amounted to RUR 2 647 143 thousand with effective interest rates varying from 10.85% to 17.79% per annum. Without reclassification, the Bank’s statement of changes in equity for the year ended 31 December 2010 would have included unrealized income from change in fair value in the amount of RUR 10 728 thousand. For the year ended 31 December 2011 would have included unrealized losses from change in fair value in the amount of RUR 6 157 thousand.
Available-for-sale financial assets comprise:

| | **31 December 2011** | **31 December 2010** |
|---|---|---|
| Debt securities | 7 671 280 | 9 437 248 |
| Equity securities | 8 137 | 7 753 |
| | **7 679 417** | **9 445 001** |
| Less: allowance for impairment losses | - | (3 778) |
| **Total financial assets available-for-sale** | **7 679 417** | **9 441 223** |

*(in thousands of Russian Rubles unless otherwise stated)*

Disclosures on debt securities are as follows:

| | Maturity | Nominal annual interest rate,% | 31 December 2011 | Maturity | Nominal annual interest rate,% | 31 December 2010 |
|---|---|---|---|---|---|---|
| Eurobonds | February 2012-November 2016 | 4.00-7.875 | 5 026 770 | May 2011-November 2016 | 4.00-9.00 | 7 064 042 |
| Eurobonds | delay | - | - | delay | - | 3 756 |
| Promissory notes | January 2012-May 2012 | 3.03-8.40 | 2 392 099 | On demand-April 2011 | 2.82-9.40 | 2 213 279 |
| Corporate bonds | November 2018-October 2021 | 8.75 | 252 411 | July 2011-April 2013 | 7.30-14.90 | 156 171 |
| | | | **7 671 280** | | | **9 437 248** |
| Less: allowance for impairment losses | | | - | | | (3 778) |
| **Total debt securities available-for-sale** | | | **7 671 280** | | | **9 433 470** |

Disclosures on equity securities are as follows:

| | Ownership interest, % | 31 December 2011 | Ownership interest, % | 31 December 2010 |
|---|---|---|---|---|
| Equity securities | 0.006-100.00 | 8 137 | 0.006-100.00 | 7 753 |
| **Total shares** | | **8 137** | | **7 753** |
| **Total financial assets available-for-sale** | | **7 679 417** | | **9 441 223** |

Movements in allowances for impairment for the years ended 31 December 2011 and 2010 are disclosed in Note 5.

Investments in equity instruments are investments in shares or ownership interest recorded at cost less recognized impairment, including the Bank's investments in subsidiaries (Note 1).

As of 31 December 2011 available-for-sale investments included accrued interest income on debt securities, less allowance for impairment loss, for the total amount of RUR 453 297 thousand (31 December 2010: RUR 569 182 thousand).

As of 31 December 2010 corporate bonds amounting to RUR 154 332 thousand were restricted by the Central Bank of Russian Federation. Collateral represented by these securities enables the Bank to use the one-day and automatic overdraft loans while transfer payments through the correspondent accounts with the Central Bank of the Russian Federation.

As at 31 December 2010 available-for-sale investments included pledged under repurchase agreements with other banks totaling RUR 287 305 thousand (see Note 17).

As at 31 December 2010 available-for-sale investments included pledged under repurchase agreements with customers totaling RUR 872 234 thousand (see Note 18).

Geographical, currency and interest rate are disclosed in Note 36.

*(in thousands of Russian Rubles unless otherwise stated)*

## 20. HELD TO MATURITY FINANCIAL ASSETS

Investments held-to-maturity comprise:

| | 31 December 2011 | | 31 December 2010 | |
|---|---|---|---|---|
| | Nominal annual interest rate,% | Amount | Nominal annual interest rate,% | Amount |
| Eurobonds | 8.63 | 160 991 | 8.63 | 153 199 |
| | | **160 991** | | **153 199** |
| Less: allowance for impairment losses | | - | | (3 019) |
| **Total financial assets held-to-maturity** | | **160 991** | | **150 180** |

Movements in allowances for impairment losses for the year ended 31 December 2011 and 2010 are disclosed in Note 5.

As of 31 December 2011 held-to-maturity financial assets included accrued interest income, less allowance for impairment loss, totaling to RUR 6 762 thousand (31 December 2010: RUR 6 389 thousand).

In 2010 securities of KazakhGold Group Limited and OJSC Astana-finance with carrying value of RUR 263 505 thousand and RUR 40 730 thousand at the date of sale respectively were sold before the maturity date. The securities were sold due to the significant worsening of the financial position of the issuers. The worsening of the financial position of the issuers was of an emergency nature and could not be reasonably anticipated by the Bank. The Bank’s management believes that the sale of securities does not contradict the requirements of IFRS and has been carried out in accordance with IAS 39.

Geographical, currency and interest rate are disclosed in Note 36.

## 21. INVESTMENTS IN ASSOCIATES

In November 2010 the Bank became a member of LLC OTP Credit, whose exclusive activity is the provision of finance services, in particular, issuance of loans to legal entities and individuals. The company was registered in 2010 and operates under the laws of Ukraine. The contribution of the Bank to the share capital of the company amounted to UAH 2 000 thousand which is equal to a share of 40%.

The Company is included in the Bank’s financial statements using the equity method of accounting. As of 31 December 2011 the carrying amount of the investment was RUR 255 749 thousand (31 December 2010: RUR 7 275 thousand).

Reconciliation of the investments in associates as of 31 December 2011 and 2010 comprise:

| | 31 December 2011 | 31 December 2010 |
|---|---|---|
| **As at January 1** | **7 275** | **-** |
| Acquisition of investments | 293 258 | 7 275 |
| Share of loss of associates | (49 495) | - |
| Exchange differences | 4 711 | - |
| **As at December 31** | **255 749** | **7 275** |

*(in thousands of Russian Rubles unless otherwise stated)*

Summarized financial information in respect of the Bank's associate as of 31 December 2011 and 2010 is set out below:

| | 2011 | | | 2010 | | |
|---|---|---|---|---|---|---|
| | **Assets** | **Liabilities** | **Loss** | **Assets** | **Liabilities** | **Loss** |
| LLC OTP Credit | 1 351 706 | 712 333 | (123 328) | 18 422 | 773 | (1 492) |

As of 31 December 2010 the Bank`s share in the post-acquisition reserves of the associate company was immaterial.

Geographical, currency and interest rate are disclosed in Note 36.

## 22. PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS

Property, equipment and intangible assets comprise:

| | Land | Buildings | Other property and equipment | Intangible assets | Construction in progress, capital investments | Total |
|---|---|---|---|---|---|---|
| **At initial/indexed/revalued cost** | | | | | | |
| **31 December 2009** | **6 067** | **1 452 354** | **1 993 972** | **410 813** | **158 059** | **4 021 265** |
| Acquisitions | - | 395 | 159 258 | 159 032 | 7 839 | 326 524 |
| Revaluation | - | 74 751 | - | - | - | 74 751 |
| Transfers | - | - | 122 153 | 26 314 | (148 467) | - |
| Reclassification to investment property | - | (6 715) | - | - | - | (6 715) |
| Disposals | - | - | (86 124) | (3 748) | (5 108) | (94 980) |
| **31 December 2010** | **6 067** | **1 520 785** | **2 189 259** | **592 411** | **12 323** | **4 320 845** |
| Acquisitions | - | - | 486 906 | 269 878 | 36 547 | 793 331 |
| Revaluation | - | (173 440) | - | - | - | (173 440) |
| Transfers | - | - | 3 066 | 7 065 | (10 131) | - |
| Reclassification to investment property | (229) | (58 846) | - | - | - | (59 075) |
| Disposals | (13) | (2 205) | (153 800) | (26 494) | (292) | (182 804) |
| **31 December 2011** | **5 825** | **1 286 294** | **2 525 431** | **842 860** | **38 447** | **4 698 857** |
| **Accumulated depreciation and amortization and impairment** | | | | | | |
| **31 December 2009** | **-** | **209 998** | **1 054 473** | **141 846** | **-** | **1 406 317** |
| Charge for the period | - | 31 391 | 325 944 | 103 830 | - | 461 165 |
| Revaluation | - | 12 226 | - | - | - | 12 226 |
| Reclassification to investment property | - | (585) | - | - | - | (585) |
| Disposals | - | - | (67 821) | (908) | - | (68 729) |
| **31 December 2010** | **-** | **253 030** | **1 312 596** | **244 768** | **-** | **1 810 394** |
| Charge for the period | - | 33 015 | 334 443 | 180 261 | - | 547 719 |
| Revaluation | - | (33 105) | - | - | - | (33 105) |
| Reclassification to investment property | - | (7 808) | - | - | - | (7 808) |
| Disposals | - | (220) | (127 406) | (25 563) | - | (153 189) |
| **31 December 2011** | **-** | **244 912** | **1 519 633** | **399 466** | **-** | **2 164 011** |
| **Net book value** | | | | | | |
| **31 December 2011** | **5 825** | **1 041 382** | **1 005 798** | **443 394** | **38 447** | **2 534 846** |
| **31 December 2010** | **6 067** | **1 267 755** | **876 663** | **347 643** | **12 323** | **2 510 451** |

*(in thousands of Russian Rubles unless otherwise stated)*

As of 31 December 2011 included in property, plant and equipment was fully depreciated equipment of RUR 851 909 thousand (31 December 2010: RUR 701 998 thousand).

As of 31 December 2011 and 2010 the Bank revalued its buildings. The revaluation was performed by appraisers who have recognized qualifications and are experienced in the revaluation of properties with similar location and category. Due to heterogeneity of the revalued buildings, which are located in different regions of the Russian Federation, the revaluation was performed using the following methods: discounted cash flow approach (income approach), sales comparison approach (comparative approach). In evaluation of properties, taking into consideration the developed market for sales of such properties, the comparative approach was mainly used. Since the properties are commercial real estate, they were evaluated using the income approach, in particular, the capitalization method was used.

As of 31 December 2011 buildings owned by the Bank were recognized at a revalued amount. As a result, the carrying value of these buildings amounted to RUR 1 041 382 thousand. If the buildings were accounted at historical cost restated for inflation less accumulated depreciation their carrying value at 31 December 2011 would be RUR 683 156 thousand.

As of 31 December 2010 the carrying value of buildings including previous revaluation amounted to RUR 1 267 755 thousand. If the buildings were accounted at historical cost less accumulated depreciation their carrying value at 31 December 2010 would be RUR 752 706 thousand.

Geographical, currency and interest rate are disclosed in Note 36.

## 23. INVESTMENT PROPERTY

| | 31 December 2011 | 31 December 2010 |
|---|---|---|
| **Investment properties as of 1 January** | **5 900** | **-** |
| Transferred from property and equipment | 51 267 | 6 130 |
| Change in fair value | (5 291) | (230) |
| **Investment properties as of 31 December** | **51 876** | **5 900** |

The Bank applies the fair value accounting model to investment properties.

The properties were reclassified to Investment Property upon the change of the intention of the Bank with regard to their usage.

The properties were reclassified at net book value at the date of reclassification. As of 31 December 2011 and 2010 they were revalued at fair value which was determined based on the assessment performed by appraisers who have the required qualification and experience in appraising properties of similar categories and similar location. The valuation was arrived at by reference to market evidence of transaction prices for similar properties (comparative approach), as well as based on discounted cash flow approach (income approach).

As of 31 December 2011 net loss from revaluation of investment property in the amount of RUR 5 291 thousand (31 December 2010: RUR 230 thousand) was reflected within other operating expense of the Bank.

Included into operating lease income is investment property rental income as of 31 December 2011 of RUR 361 thousand (31 December 2010: 199 thousand).

As of 31 December 2011 and 2010 the Bank had no limitations regarding sales of investment properties, as well as regarding distribution of proceeds from their disposal.

As of 31 December 2011 and 2010 the Bank had no material liabilities regarding repairs, current servicing or improvement of investment properties.

Geographical, currency and interest rate are disclosed in Note 36.

*(in thousands of Russian Rubles unless otherwise stated)*

## 24. OTHER ASSETS

Other assets comprise:

| | 31 December 2011 | 31 December 2010 |
|---|---|---|
| **Other financial assets** | | |
| Accrued commission income | 28 405 | 25 924 |
| Receivables on other transactions | 23 636 | 17 160 |
| Insurance coverage of transactions at trading venues | 10 050 | 10 050 |
| Unsettled transactions with plastic cards | 7 547 | 19 671 |
| Accrued dividends | 17 | 16 |
| Spot position | 1 | 1 961 |
| | **69 656** | **74 782** |
| Less: allowance for impairment losses | (39 967) | (30 759) |
| **Total other financial assets** | **29 689** | **44 023** |
| **Other non-financial assets** | | |
| Prepayments and receivables on business transactions | 416 977 | 327 625 |
| Tax settlements, other than income tax | 44 914 | 63 495 |
| Inventories | 27 888 | 4 539 |
| Property received under loan | 4 303 | 3 086 |
| Payables to staff | 2 049 | 4 469 |
| Current income tax assets | 124 | 5 395 |
| | **496 255** | **408 609** |
| Less: allowance for impairment losses | (30 545) | (26 664) |
| **Total other non-financial assets** | **465 710** | **381 945** |
| **Total other assets** | **495 399** | **425 968** |

Movements in the provision for impairment losses on other assets for the years ended 31 December 2011 and 2010 are disclosed in Note 5.

Geographical, currency and interest rate are disclosed in Note 36.

## 25. DUE TO BANKS

Due to banks comprise:

| | 31 December 2011 | 31 December 2010 |
|---|---|---|
| Loans and deposits from banks | 12 040 055 | 17 002 863 |
| Correspondent accounts of other banks | 241 155 | 197 242 |
| **Total due to banks** | **12 281 210** | **17 200 105** |

As of 31 December 2011 accrued interest expenses included in due to banks was RUR 65 529 thousand (31 December 2010: RUR 92 827 thousand).

As of 31 December 2011 amounts of RUR 11 528 274 thousand (93.87%) (31 December 2010: RUR 15 590 559 thousand (90.64%)), were due to the parent bank, which represents significant concentration.

Geographical, currency and interest rate are disclosed in Note 36.

*(in thousands of Russian Rubles unless otherwise stated)*

## 26. CUSTOMER ACCOUNTS

Customer accounts comprise:

| | 31 December 2011 | 31 December 2010 |
|---|---|---|
| Time deposits | 45 155 725 | 41 328 739 |
| Current/settlement accounts and demand deposits | 20 949 336 | 17 270 054 |
| **Total customer accounts** | **66 105 061** | **58 598 793** |

| | 31 December 2011 | 31 December 2010 |
|---|---|---|
| **Analysis by sector** | | |
| Individuals | 45 234 077 | 38 602 785 |
| Trade | 4 101 264 | 3 629 309 |
| Finance and investments | 3 378 030 | 1 371 058 |
| Insurance | 2 617 785 | 3 453 635 |
| Services | 2 609 607 | 1 628 684 |
| Construction | 2 154 789 | 2 720 071 |
| Real estate and rent | 2 143 442 | 1 783 484 |
| Public activities and charity | 837 007 | 180 502 |
| Science, education and IT | 774 068 | 1 087 902 |
| Manufacturing and engineering | 683 891 | 522 872 |
| Transport and communication | 563 818 | 1 255 103 |
| Marketing and advertising | 259 322 | 220 400 |
| Publishing and mass media | 231 624 | 179 011 |
| Agriculture | 150 019 | 89 045 |
| Geological investigations | 69 690 | 87 115 |
| Food | 49 564 | 607 761 |
| Oil & gas production, refining and transportation | 24 577 | 6 309 |
| Power and heat generation and distribution | 18 122 | 32 113 |
| Finance and operating leases | 4 456 | 960 765 |
| Other | 199 909 | 180 869 |
| **Total customer accounts** | **66 105 061** | **58 598 793** |

As of 31 December 2011 included in customer accounts is accrued interest expense of RUR 699 542 thousand (31 December 2010: RUR 504 252 thousand).

As of 31 December 2011 customer accounts totaling RUR 2 040 739 thousand (31 December 2010: RUR 2 391 950 thousand) exceeded 10% of the Bank’s capital.

Geographical, currency and interest rate are disclosed in Note 36.

## 27. DEBT SECURITIES ISSUED

Debt securities issued comprise:

| | Maturity month/year | Interest rate per annum, % | 31 December 2011 | Maturity month/year | Interest rate per annum, % | 31 December 2010 |
|---|---|---|---|---|---|---|
| Bonds | March 2014-October 2014 | 8.21-10.88 | 11 754 851 | - | - | - |
| Discount bearing promissory notes | January 2012-July 2015 | 5.75-9.03 | 2 338 313 | January 2011-July 2015 | 3.93-11.48 | 3 201 643 |
| Interest-bearing promissory notes | January 2012 | 0.10 | 2 906 | January 2011-January 2012 | 0.10-9.50 | 130 268 |
| Interest/discount free promissory notes | on demand-March 2013 | - | 25 814 | on demand-February 2012 | - | 8 318 |
| **Total debt securities issued** | | | **14 121 884** | | | **3 340 229** |

As of 31 December 2011 included in debt securities issued is accrued interest expense of RUR 383 903 thousand (31 December 2010: RUR 98 211 thousand).

Geographical, currency and interest rate are disclosed in Note 36.

*(in thousands of Russian Rubles unless otherwise stated)*

## 28. OTHER LIABILITIES

Other liabilities comprise:

| | 31 December 2011 | 31 December 2010 |
|---|---|---|
| **Other financial liabilities** | | |
| Trade accounts payable and fees payable for professional services | 222 331 | 138 559 |
| Unsettled transactions with plastic cards | 90 989 | 58 691 |
| Accrued commission expenses | 61 137 | 39 031 |
| Settlements on other operations | 46 864 | 17 629 |
| Spot position | - | 3 476 |
| | **421 321** | **257 386** |
| **Other non-financial liabilities** | | |
| Salary payable | 716 037 | 517 851 |
| Taxes payable, other than income tax | 287 916 | 175 943 |
| Accrued expenses on deposit insurance premiums | 40 745 | 36 009 |
| Advances received | 7 062 | 3 076 |
| | **1 051 760** | **732 879** |
| **Total other liabilities** | **1 473 081** | **990 265** |

Geographical, currency and interest rate are disclosed in Note 36.

## 29. SUBORDINATED DEBT

As of 31 December 2011 and 2010 carrying value of subordinated loan comprised the following:

| | Currency | Maturity date | Interest rate % | 31 December 2011 | Interest rate % | 31 December 2010 |
|---|---|---|---|---|---|---|
| Subordinated loan from the parent bank | U.S. Dollars | 2014 | 7.05% | 1 169 358 | 7.05% | 1 106 916 |
| Subordinated loan from the parent bank | RUR | 2014-2015 | 6.05-7% | 569 851 | 6.5-7% | 569 851 |
| Subordinated loan from related party | Swiss francs | 2014 | 4.6% | 585 396 | 4.6% | 554 137 |
| Subordinated loan from other companies – third party | RUR | 2013-2015 | 8.00% | 27 047 | 7.75% | 26 860 |
| | | | | **2 351 652** | | **2 257 764** |

As of 31 December 2011 accrued interest expense included in subordinated debt was RUR 18 710 thousand (31 December 2010: RUR 17 793 thousand)

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

The Bank issued subordinated debt in order to comply with its capital adequacy ratio approved by the Central Bank of the Russian Federation and to maintain this ratio at the level established by the major shareholder of OTP BANK PLC.

Geographical, currency and interest rate are disclosed in Note 36.

*(in thousands of Russian Rubles unless otherwise stated)*

## 30. SHARE CAPITAL AND SHARE PREMIUM

As of 31 December 2011 and 2010, the issued share capital of the Company comprised of 279 788 785 310 ordinary shares with a par value of RUR 0.01 per share carrying equal rights. Each share provides for one vote. All issued ordinary shares are fully paid up.

In 2010 the reorganization of OJSC "OTP Bank" in the form of merger with CJSC "Donskoy Narodny Bank" was completed, and the shares were converted as follows: 1 share of CJSC "Donskoy Narodny Bank" with par value of RUR 0.01 for 1 share of OJSC "OTP Bank" with par value of RUR 0.01. Additional issue of ordinary shares of OJSC "OTP Bank" for the purposes of conversion comprised 17 987 400 000 shares.

| | 31 December 2011 | | | 31 December 2010 | | |
|---|---|---|---|---|---|---|
| | **Number of shares, thousand of shares** | **Notional value** | **Amount adjusted for inflation** | **Number of shares, thousand of shares** | **Notional value** | **Amount adjusted for inflation** |
| Ordinary shares | 279 788 785 | 2 797 888 | 4 423 768 | 279 788 785 | 2 797 888 | 4 423 768 |
| **Total shares** | **279 788 785** | **2 797 888** | **4 423 768** | **279 788 785** | **2 797 888** | **4 423 768** |

As of 31 December 2011 and 2010, share premium amounting to RUR 2 000 000 thousand represents an excess of contributions received over the nominal value of shares issued.

The Bank's distributable reserves among shareholders reserves are limited to the amount of its reserves as disclosed in its statutory accounts. Non-distributable funds are represented by a reserve fund, which is created, as required by the statutory regulations, in respect of general banking risks, including future losses and other unforeseen risks or contingencies. The reserve has been created in accordance with the Bank's statute that provides for the creation of a reserve for these purposes of not less than 5% of the Bank's share capital reported in statutory books.

## 31. SEGMENT REPORTING

The Bank discloses information to enable users of its financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates. This matter is regulated by IFRS 8 "Operating segments" and other standards that require special disclosures in the form of segmental reporting.

IFRS 8 defines an operating segment as follows. An operating segment is a component of an entity:

- That engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity);
- Whose operating results are reviewed regularly by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance; and
- For which discrete financial information is available.

Information reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance focuses on types of services delivered or provided. The Bank's reportable segments under IFRS 8 are therefore as follows:

- Retail banking – representing private banking services, private customer current accounts, savings, deposits, custody, credit and debit cards, consumer loans and mortgages;
- Corporate banking – cash settlement service, deposits, overdrafts, loans and other credit facilities, foreign currency operations;
- Treasury – operations in finance markets (borrowing and lending funds in the interbank loan market, conversion operations, swaps, note operations, operations in the currency market, with interest rates, repurchase operations with securities).

*(in thousands of Russian Rubles unless otherwise stated)*

Segment information for the main operating segments of the Bank is set out below as of 31 December 2011 and for the year then ended, is provided below:

| | Retail banking | Corporate banking | Treasury | Unallocated amounts | 2011 |
|---|---|---|---|---|---|
| Interest income from operations with counterparties | 22 333 427 | 948 155 | 908 957 | - | 24 190 539 |
| Interest expense on operations with counterparties | (2 410 284) | (600 658) | (1 105 212) | (5 750) | (4 121 904) |
| Internal income/(expense) on funding | (1 005 676) | 275 978 | (728 646) | 1 458 344 | - |
| (Allowance)/recovery of allowance for impairment losses on interest bearing assets | (6 851 171) | 402 241 | (68) | (951) | (6 449 949) |
| **Net interest income** | **12 066 296** | **1 025 716** | **(924 969)** | **1 451 643** | **13 618 686** |
| Net gain on financial assets and liabilities at fair value through profit or loss | - | - | 987 366 | - | 987 366 |
| Net gain/(loss) on foreign exchange operations | 27 355 | 27 431 | (849 441) | - | (794 655) |
| Fee and commission income | 3 038 273 | 548 308 | 8 497 | - | 3 595 078 |
| Fee and commission expense | (1 013 216) | (58 842) | (18 833) | - | (1 090 891) |
| Net loss on financial assets available-for-sale | - | - | (9 122) | - | (9 122) |
| Income received from sale of loans | 62 626 | - | - | - | 62 626 |
| Provision on other operations | (35 713) | (456) | (800) | (4 314) | (41 283) |
| Share of profits of associates | (49 495) | - | - | - | (49 495) |
| Other income | 57 897 | 3 687 | 17 | 12 898 | 74 499 |
| **Net non-interest income** | **2 087 727** | **520 128** | **117 684** | **8 584** | **2 734 123** |
| **Operating income** | **14 154 023** | **1 545 844** | **(807 285)** | **1 460 227** | **16 352 809** |
| Operating expenses | (8 084 391) | (434 513) | (166 594) | - | (8 685 498) |
| **Profit/(loss) before income tax** | **6 069 632** | **1 111 331** | **(973 879)** | **1 460 227** | **7 667 311** |
| Income tax expense | (1 316 967) | (241 133) | 211 309 | (316 835) | (1 663 626) |
| **Net profit/(loss)** | **4 752 665** | **870 198** | **(762 570)** | **1 143 392** | **6 003 685** |
| **Segment assets** | **80 971 559** | **6 962 302** | **21 652 297** | **7 319 751** | **116 905 909** |
| **Segment liabilities** | **45 234 077** | **20 870 984** | **28 168 471** | **2 699 840** | **96 973 372** |

*(in thousands of Russian Rubles unless otherwise stated)*

Segment information for the main operating segments of the Bank is set out below as of 31 December 2010 and for the year then ended:

| | Retail banking | Corporate banking | Treasury | Unallocated amounts | 2010 |
|---|---|---|---|---|---|
| Interest income from operations with counterparties | 16 305 775 | 1 742 364 | 1 583 998 | - | 19 632 137 |
| Interest expense on operations with counterparties | (2 793 382) | (884 554) | (1 172 837) | (9 383) | (4 860 156) |
| Internal income/(expense) on funding | 300 774 | 255 756 | (845 401) | 288 871 | - |
| (Allowance)/recovery of allowance for impairment losses on interest bearing assets | (3 862 368) | (1 580 359) | 74 330 | 28 595 | (5 339 802) |
| **Net interest income** | **9 950 799** | **(466 793)** | **(359 910)** | **308 083** | **9 432 179** |
| Net gain on financial assets and liabilities at fair value through profit or loss | - | - | 959 838 | - | 959 838 |
| Net gain/(loss) on foreign exchange operations | 124 215 | 1 105 | (661 882) | - | (536 562) |
| Fee and commission income | 1 669 263 | 633 857 | 7 346 | - | 2 310 466 |
| Fee and commission expense | (741 975) | (125 278) | (17 949) | - | (885 202) |
| Net loss on financial assets available-for-sale | - | - | (32 618) | - | (32 618) |
| Net loss on financial assets held-to-maturity | - | - | (39 508) | - | (39 508) |
| Income received from sale of loans | 10 | - | - | - | 10 |
| (Provision)/recovery of provision on other operations | (43 701) | 3 916 | (100) | (6 475) | (46 360) |
| Other income | 21 285 | 3 384 | 584 | 21 623 | 46 885 |
| **Net non-interest income** | **1 029 097** | **516 984** | **215 711** | **15 157** | **1 776 949** |
| **Operating income** | **10 979 896** | **50 191** | **(144 199)** | **323 249** | **11 209 128** |
| Operating expenses | (6 038 315) | (531 999) | (328 569) | - | (6 898 883) |
| **Profit/(loss) before income tax** | **4 941 581** | **(481 808)** | **(472 768)** | **323 031** | **4 310 245** |
| Income tax expense | (1 079 145) | 105 213 | 103 239 | (70 541) | (941 234) |
| **Net profit/(loss)** | **3 862 436** | **(376 595)** | **(369 529)** | **252 699** | **3 369 011** |
| **Segment assets** | **55 457 232** | **9 407 771** | **24 459 986** | **8 130 960** | **97 455 919** |
| **Segment liabilities** | **37 536 105** | **21 175 657** | **22 831 229** | **1 437 685** | **82 980 676** |

Operations between segments are performed as a part of ordinary activities. The Bank operates principally in the Russian Federation.

*(in thousands of Russian Rubles unless otherwise stated)*

## 32. COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Bank is a party to financial instruments with off-balance sheet risk, in order to meet the needs of its customers. These instruments, involving varying degrees of credit risk, are not reflected in the statement of financial position.

The Bank uses the same credit control and management policies in undertaking off-balance sheet commitments as it does for on-balance operations.

As of 31 December 2011 provision for losses on credit commitments was RUR 44 228 thousand (31 December 2010: RUR 29 448 thousand).

As of 31 December 2011 and 2010, the nominal or contract amounts were:

| | 31 December 2011 Nominal amount | 31 December 2010 Nominal amount |
|---|---|---|
| **Contingent liabilities and loan commitments** | | |
| Unused credit lines | 30 974 743 | 33 492 797 |
| Guarantees issued | 592 168 | 79 454 |
| Import letters of credit | 589 508 | 33 476 |
| Loan commitments | 7 856 | 15 369 |
| **Total contingent liabilities and loan commitments** | **32 164 275** | **33 621 096** |

Extension of the loans to customers within credit line limits is approved by the Bank on a case-by-case basis and depends on borrowers' financial performance, debt service and other conditions.

***Capital commitments*** – The Bank had capital commitments in respect of rented premises totaling RUR 23 908 thousand as of 31 December 2011 (31 December 2010: RUR 26 105 thousand).

***Operating lease commitments*** – Where the Bank is the lessee, the future minimum lease payments under non cancelable operating leases of premises and land as of 31 December 2011 and 2010 are as follows:

| | 31 December 2011 | 31 December 2010 |
|---|---|---|
| Less than 1 year | 614 939 | 593 971 |
| Later than 1 year and not later than 5 years | 1 610 079 | 1 026 256 |
| Later than 5 years | 676 660 | 385 903 |
| **Total operating lease commitments** | **2 901 678** | **2 006 130** |

As of 31 December 2011 and 2010 the Bank concluded an operating lease agreement in respect of the central office building, expiring on April 21, 2019. The building has the following address: Moscow. Leningradskoye highway, 16A, building 1.

As of 31 December 2011 the Bank concluded an operating lease agreement in respect of the office building, expiring on April, 21 2019. The building has the following address: Moscow, Klary Tsetkin str, building 4a.

***Fiduciary activities*** – In the normal course of its business the Bank enters into agreements with customers for their assets management in accordance with specific criteria established by customers. The Bank may be liable for losses or actions aimed at appropriation of the clients' funds until such funds or securities are not returned to the client due to gross negligence or wilful misconduct by the Bank only. The maximum potential financial risk of the Bank at any given moment is equal to the volume of the clients' funds plus/minus any unrealized income/loss on the clients' position. As of 31 December 2011 the Bank had no assets management operations, as of 31 December 2010 total customer accounts in the Bank's management, including unrealized income on the customers' positions did not exceed RUR 7 507 thousand.

The Bank also provides depositary services to its customers. As of 31 December 2011 the Bank held as the nominee holder for its customers' securities in the amount of 92 129 641 183 securities (31 December 2010: 97 442 356 880 securities).

***Legal proceedings*** – From time to time and in the normal course of business, claims against the Bank are received from customers and counterparties. Management is of the opinion that no material unaccrued losses will be incurred and accordingly no provision has been made in these financial statements. The movements of provisions for legal proceedings are disclosed in Note 5.

***Taxation*** – Due to the presence in Russian commercial legislation, and tax legislation in particular, of provisions allowing for more than one interpretation, and also due to the probability that tax authorities may make judgments on the Bank's activities which differ from those of the Bank, if a particular treatment based on management's judgment of the Bank's business activities are to be challenged by the tax authorities, the Bank may be assessed additional taxes, penalties and interest. Such uncertainty may relate to the valuation of financial instruments, valuation of provision for impairment losses and the market pricing of deals. The management of the Bank believes that it has accrued all tax amounts due and therefore no allowance has been made in the financial statements. Generally, taxpayers are subject to tax audits with respect to three calendar years preceding the year of the audit. However, completed audits do not exclude the possibility of subsequent additional tax audits performed by upper-level tax inspectorates reviewing the results of tax audits of their subordinate tax inspectorates.

***Business environment*** **–** The Bank's principal business activities are within the RF. Laws and regulations affecting the business environment in the RF are subject to rapid changes and the Bank's assets and operations could be at risk due to negative changes in the political and business environment.

***Operating Environment*** **–** Emerging markets such as Russia are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks.

As has happened in the past, actual or perceived financial problems or an increase in the perceived risks associated with investing in emerging economies could adversely affect the investment climate in Russia and the Russian's economy in general.

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

The global financial turmoil that has negatively affected Russia's financial and capital markets in 2009 and 2010 has receded and Russia's economy returned to growth in 2011. However significant economic uncertainties remain. Adverse changes arising from decline in the oil and gas prices could slow or disrupt the Russian economy, adversely affect the Bank's access to capital and cost of capital for the Bank and, more generally, its business, results of operations, financial condition and prospects.

Russia is facing a relatively high level of inflation (according to the government's statistical data consumer price inflation for the years ended 31 December 2011 and 2010 was 6.1% and 8.8%, respectively).

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

*(in thousands of Russian Rubles unless otherwise stated)*

## 33. TRANSACTIONS WITH RELATED PARTIES

Related parties or transactions with related parties, as defined by IAS 24 “Related Party Disclosures”, represent:

Parties that directly, or indirectly through one or more intermediaries: control, or are controlled by, or are under common control with, the Bank (this includes parents, subsidiaries and fellow subsidiaries); have an interest in the Bank that gives then significant influence over the Bank; and that have joint control over the Bank:

(a) Associates – enterprises on which the Bank has significant influence and which is neither a subsidiary nor a joint venture of the investor;
(b) Joint ventures in which the Bank is a venturer;
(c) Key management personnel of the Bank or its parent;
(d) Close members of the family of any individuals referred to in (a)-(d);
(e) Parties that are entities controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (a)-(e);
(f) Post-employment benefit plans for the benefit of employees of the Bank, or of any entity that is a related party of the Bank.

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. The Bank had the following transactions outstanding with related parties:

| | 31 December 2011 | | 31 December 2010 | |
|---|---|---|---|---|
| | **Related party transactions** | **Total category as per financial statements caption** | **Related party transactions** | **Total category as per financial statements caption** |
| **Cash and cash equivalents** | **2 581** | **7 819 379** | **4 956** | **7 512 535** |
| - shareholders | 2 247 | | 2 017 | |
| - entities and banks controlled by the shareholders | 334 | | 2 939 | |
| **Derivative financial assets** | **38 933** | **356 087** | **-** | **221 235** |
| - shareholders | 38 933 | | - | |
| **Due from banks** | **1 818 731** | **5 962 012** | **6 329 952** | **8 693 769** |
| - shareholders | 1 818 731 | | 6 329 952 | |
| **Loans and advances to customers** | **354 235** | **103 699 295** | **222 980** | **78 489 627** |
| - key management personnel of the Bank | 15 316 | | 6 892 | |
| - entities and banks controlled by the shareholders | 337 339 | | 216 043 | |
| - other related parties | 1 580 | | 45 | |
| **Allowance for impairment loss on loans and advances to customers** | **(5)** | **(13 481 289)** | **2 160** | **(10 498 038)** |
| - key management personnel of the Bank | (4) | | - | |
| - entities and banks controlled by the shareholders | - | | 2 160 | |
| - other related parties | (1) | | - | |
| **Financial assets available-for-sale** | **4 476 981** | **7 679 417** | **6 001 551** | **9 441 223** |
| - shareholders | 4 476 981 | | 6 001 551 | |
| **Investments in associates** | **255 749** | **255 749** | **7 275** | **7 275** |
| - entities and banks controlled by the shareholders | 255 749 | | 7 275 | |

*(in thousands of Russian Rubles unless otherwise stated)*

| | 31 December 2011 | | 31 December 2010 | |
|---|---|---|---|---|
| | Related party transactions | Total category as per financial statements caption | Related party transactions | Total category as per financial statements caption |
| **Property, plant and equipment and intangible assets** | - | **2 534 846** | **6 964** | **2 510 451** |
| - shareholders | - | | 6 964 | |
| **Other assets** | **160** | **565 787** | **8 150** | **477 996** |
| - shareholders | 155 | | 6 906 | |
| - key management personnel of the Bank | 4 | | 408 | |
| - entities and banks controlled by the shareholders | - | | 827 | |
| - other related parties | 1 | | 9 | |
| **Allowance for impairment loss on other assets** | **(1)** | **(70 512)** | **-** | **(57 423)** |
| - other related parties | (1) | | - | |
| **Derivative financial liabilities** | **12 822** | **118 825** | **66 665** | **146 061** |
| - shareholders | 12 822 | | 66 665 | |
| **Due to banks** | **11 696 380** | **12 281 210** | **15 701 745** | **17 200 105** |
| - shareholders | 11 528 274 | | 15 590 559 | |
| - entities and banks controlled by the shareholders | 168 106 | | 111 186 | |
| **Customer accounts** | **517 584** | **66 105 061** | **472 598** | **58 598 793** |
| - shareholders | 216 554 | | 205 317 | |
| - key management personnel of the Bank | 264 264 | | 166 407 | |
| - entities and banks controlled by the shareholders | 9 632 | | 46 985 | |
| - other related parties | 27 134 | | 53 889 | |
| **Debt securities issued** | **110 005** | **14 121 884** | **-** | **3 340 229** |
| - shareholders | 110 005 | | - | |
| **Other liabilities** | **80** | **1 473 081** | **25** | **990 265** |
| - shareholders | - | | 22 | |
| - key management personnel of the Bank | 80 | | 3 | |
| **Subordinated debt** | **2 324 604** | **2 351 652** | **2 230 904** | **2 257 764** |
| - shareholders | 1 739 208 | | 1 676 767 | |
| - entities and banks controlled by the shareholders | 585 396 | | 554 137 | |
| **Commitments on unused credit lines** | **5 593** | **30 974 743** | **7 784** | **18 015 671** |
| - key management personnel of the Bank | 5 329 | | 7 370 | |
| - other related parties | 264 | | 414 | |

The remuneration of directors and other members of key management was as follows:

| | 31 December 2011 | | 31 December 2010 | |
|---|---|---|---|---|
| | Related party transactions | Total category as per financial statements caption | Related party transactions | Total category as per financial statements caption |
| **Key management personnel compensation** | | | | |
| Short-term benefits | 396 555 | 4 222 340 | 411 721 | 3 512 853 |
| | **396 555** | **4 222 340** | **411 721** | **3 512 853** |

*(in thousands of Russian Rubles unless otherwise stated)*

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

| | 31 December 2011 | | 31 December 2010 | |
|---|---|---|---|---|
| | **Related party transactions** | **Total category as per financial statements caption** | **Related party transactions** | **Total category as per financial statements caption** |
| **Interest income** | **578 804** | **24 190 539** | **1 034 982** | **19 632 137** |
| - shareholders | 548 067 | | 1 024 615 | |
| - key management personnel of the Bank | 1 314 | | 2 355 | |
| - entities and banks controlled by the shareholders | 29 180 | | 7 956 | |
| - other related parties | 243 | | 56 | |
| **Interest expenses** | **611 797** | **4 121 904** | **1 128 201** | **4 860 156** |
| - shareholders | 574 859 | | 1 092 758 | |
| - key management personnel of the Bank | 6 752 | | 8 921 | |
| - entities and banks controlled by the shareholders | 29 817 | | 25 755 | |
| - other related parties | 369 | | 767 | |
| **Net gain on financial assets and liabilities at fair value through profit or loss** | **298 196** | **987 366** | **494 975** | **959 838** |
| - shareholders | 298 196 | | 494 975 | |
| **Net loss on foreign exchange operations** | **(469)** | **(794 655)** | **(25 927)** | **(536 562)** |
| - shareholders | (257) | | (29 904) | |
| - key management personnel of the Bank | 289 | | 279 | |
| - entities and banks controlled by the shareholders | (501) | | 3 671 | |
| - other related parties | - | | 27 | |
| **Fee and commission income** | **1 984** | **3 595 078** | **1 384** | **2 310 466** |
| - shareholders | 55 | | 30 | |
| - key management personnel of the Bank | 377 | | 251 | |
| - entities and banks controlled by the shareholders | 1 515 | | 1 052 | |
| - other related parties | 37 | | 51 | |
| **Fee and commission expense** | **100** | **1 090 891** | **47** | **885 202** |
| - shareholders | 97 | | 44 | |
| - entities and banks controlled by the shareholders | 3 | | 3 | |
| **Net loss on financial assets available-for-sale** | **2 081** | **(9 122)** | **17 857** | **(32 618)** |
| - shareholders | 2 081 | | 17 857 | |
| **Net loss on financial assets held-to-maturity** | - | - | - | **(39 508)** |
| - shareholders | - | | - | |
| **Other income** | **295** | **74 499** | **513** | **46 885** |
| - shareholders | 71 | | 87 | |
| - entities and banks controlled by the shareholders | 223 | | 426 | |
| - other related parties | 1 | | - | |
| **Operating expense other than short-term benefits to key management personnel** | **156 588** | **4 463 158** | **50 721** | **3 386 030** |
| - shareholders | - | | - | |
| - key management personnel of the Bank | 6 029 | | 7 718 | |
| - entities and banks controlled by the shareholders | 150 515 | | 41 451 | |
| - other related parties | 44 | | 159 | |

*(in thousands of Russian Rubles unless otherwise stated)*

## 34. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is defined as the amount at which the instrument could be acquired in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in forced or liquidation sale. The estimates presented herein are not necessarily indicative of the amounts the Bank could realize in a market exchange from the sale of its full holdings of a particular instrument.

The fair value of financial assets and liabilities compared with their carrying amounts is presented below:

| | 31 December 2011 | | 31 December 2010 | |
|---|---|---|---|---|
| | **Carrying amount** | **Fair value** | **Carrying amount** | **Fair value** |
| Cash and cash equivalents | 7 819 379 | 7 819 379 | 7 512 535 | 7 512 535 |
| Due from banks | 5 957 940 | 5 957 940 | 8 690 274 | 8 690 274 |
| Loans and advances to customers | 90 218 006 | 88 103 997 | 67 991 589 | 65 745 823 |
| Financial assets held-to-maturity | 160 991 | 162 703 | 150 180 | 155 432 |
| Other financial assets | 29 689 | 29 689 | 44 023 | 44 023 |
| Due to banks | 12 281 210 | 12 281 210 | 17 200 105 | 17 200 105 |
| Customer accounts | 66 105 061 | 65 999 398 | 58 598 793 | 58 683 068 |
| Debt securities issued | 14 121 884 | 14 121 884 | 3 340 229 | 3 340 229 |
| Subordinated debt | 2 351 652 | 2 351 652 | 2 257 764 | 2 257 764 |
| Other financial liabilities | 421 321 | 421 321 | 257 386 | 257 386 |

For financial assets and liabilities that have a short term maturity, it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits and savings accounts without a maturity. Fair value of instruments with floating interest rate, generally, is equal to their current value.

Financial assets with change in fair value recognized through profit and loss accounts, derivative financial instruments, and financial assets available-for-sale recorded in the statement of financial position at fair value. As of 31 December 2011, equity investments available-for-sale in the amount of RUR 8 137 thousand (31 December 2010: RUR 7 753 thousand), were recorded at cost. The fair value of investments cannot be measured reliably due to time and cost restrictions.

The fair values of financial assets and financial liabilities are determined as follows.

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices (includes listed redeemable notes, bills of exchange, debentures and perpetual notes).
- The fair values of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.
- The fair values of derivative instruments are calculated using quoted prices. Foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts.

*(in thousands of Russian Rubles unless otherwise stated)*

Financial instruments recognized at fair value are broken down for disclosure purposes into a three level fair value hierarchy based on the observability of inputs as follows:

- Quoted prices in an active market (Level 1) – Valuations based on quoted prices in active markets that the Bank has the ability to access for identical assets or liabilities. Valuation adjustments and block discounts are not applied to these financial instruments. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant amount of judgment.
- Valuation techniques using observable inputs (Level 2) – Valuations based on inputs for which all significant inputs are observable, either directly or indirectly and valuations based on one or more observable quoted prices for orderly transactions in markets that are not considered active.
- Valuation techniques incorporating information other than observable market data (Level 3) – Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The Bank's valuation approach and fair value hierarchy categorization for certain significant classes of financial instruments recognized at fair value is as follows:

| | 31 December 2011 | | | |
|---|---|---|---|---|
| | **Quoted prices in active market (Level 1)** | **Valuation techniques based on observable market data (Level 2)** | **Total fair value** | **Total carrying value** |
| Financial assets at fair value through profit or loss | 400 493 | - | 400 493 | **400 493** |
| Derivative financial instruments | - | 356 087 | 356 087 | **356 087** |
| Financial assets available-for-sale | 7 687 606 | 811 | 7 679 417 | **7 679 417** |
| | **8 079 099** | **356 898** | **8 435 997** | **8 435 997** |
| Derivative financial instruments | - | (118 825) | (118 825) | **(118 825)** |
| | **-** | **(118 825)** | **(118 825)** | **(118 825)** |

| | 31 December 2010 | | | |
|---|---|---|---|---|
| | **Quoted prices in active market (Level 1)** | **Valuation techniques based on observable market data (Level 2)** | **Total fair value** | **Total carrying value** |
| Financial assets at fair value through profit or loss | 221 235 | - | 221 235 | **221 235** |
| Financial assets available-for-sale | 9 433 470 | - | 9 433 470 | **9 433 470** |
| | **9 654 705** | **-** | **9 654 705** | **9 654 705** |
| Derivative financial instruments | - | (146 061) | (146 061) | **(146 061)** |
| | **-** | **(146 061)** | **(146 061)** | **(146 061)** |

In 2010 the Bank sold investments available-for-sale which fair value had not been reliably measured and they were recorded at cost. Carrying value of these investments at the date of sale was RUR 0.97 thousand; the income from sale was RUR 100 thousand. There were no transfers between Level 1 and 2 in the period.

*(in thousands of Russian Rubles unless otherwise stated)*

## 35. CAPITAL RISK MANAGEMENT

The Bank's policy establishes a basis for the maintenance of a stable capital base to retain the trust of investors, lenders and market participants. The Bank's capital management is aimed at compliance with capital requirements established by the Central Bank of the Russian Federation, future development of the business, maintenance of the capital base sufficient to ensure compliance with laid down capital adequacy ratio requirement. The Bank controls the capital adequacy ratio, determining the ratio value on a daily basis.

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

In accordance with effective requirements established by the Central Bank of the Russian Federation, banks must maintain the ratio of capital to risk weighted assets ("capital adequacy ratio") above the established minimum level of 10%. For the purposes of timely management decision-making the Bank established the internal (stricter) value of the ratio as 11%. The said value exceeds the minimum levels established by the Bank Central Bank of the Russian Federation (10%) and the Basel Committee (8%) and allows the Bank to participate in the deposit insurance scheme in accordance with requirements stipulated by Federal Law No.177-FZ "On insurance of individual deposits with the Russian Federation banks" dated December 23, 2003.

In 2011 the Bank complied with all external requirements to the capital.

The calculation of the Bank's capital adequacy ratio as of 31 December 2011 and 31 December 2010 performed in compliance with the Basel accord of 1988, and taking into account the subsequent amendments made in November 2005, is as follows:

| | **31 December 2011** | **31 December 2010** |
|---|---|---|
| Tier 1 capital | | |
| Share capital | 4 423 768 | 4 423 768 |
| Share premium | 2 000 000 | 2 000 000 |
| Foreign currency translation reserve | 4 711 | - |
| Retained earnings | 12 874 016 | 6 851 009 |
| **Total Tier 1 capital (Principal capital)** | **19 302 495** | **13 274 777** |
| Tier 2 capital | | |
| Property, plant and equipment revaluation reserve | 387 684 | 505 523 |
| Financial assets available-for-sale revaluation reserve | 242 358 | 694 943 |
| Subordinated debt | 1 253 692 | 1 694 208 |
| Less investments in subsidiaries and associates | (255 749) | (7 281) |
| **Total Tier 2 capital** | **1 627 985** | **2 887 393** |
| **Total capital** | **20 930 480** | **16 162 170** |
| Risk weighted assets | **108 521 645** | **80 120 961** |
| **Principal capital adequacy ratio** | **17.79%** | **16.57%** |
| **Total capital adequacy ratio** | **19.29%** | **20.17%** |

As of 31 December 2011 and 2010 the Bank included in the computation of total capital for capital adequacy purposes a subordinated debt received, limited to 50% of Tier 1 capital. In the event of bankruptcy or liquidation of the Bank, repayment of this debt is subordinate to the repayment of the Bank's liabilities to all other creditors.

## 36. RISK MANAGEMENT POLICIES

Improvement of risk management quality is one of the priorities of the Bank. In 2011 the Bank continued the work on bringing the Bank's risk management system to the standards of the Bank's parent – OTP BANK PLC.

In 2011 as a part of its risk management procedures integration process the Bank continued the work on implementation of principles of general evaluation and risk acceptance, adopted by the Bank's parent, taking into consideration local peculiarities, regulative base of the Central Bank of the Russian Federation and the Basel Committee's recommendations on banking surveillance.

A better transparency of the risk management system is a key task for successful integration of the Bank in the general risk management system within the OTP Group. This task is performed, among other, by means of implementation of information systems used in OTP BANK PLC for risk assessment and control.

The risk management system of the Bank is developed based on continuous processes of risk detection, analysis, evaluation, control and monitoring.

The main risks inherent in the Bank's operations are those related to:

- Credit risk;
- Liquidity risk;
- Market risk.

The Bank recognizes that it is essential to have efficient and effective risk management processes in place. To enable this, the Bank has established a risk management framework, whose main purpose is to protect the Bank from risk and allow it to achieve its performance objectives. Through the risk management framework, the Bank manages the following risks:

### Credit risk

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

The Bank's main priority is credit risk management. Expansion of loan portfolio, a larger market share and launch of new products are performed under obligatory control over credit risk levels.

Credit risk management is carried out in compliance with regulative documents approved by the Bank's Main Credit Committee. The regulations envisage a system approach based on risk awareness, differentiation of responsibilities, monitoring and control over the risk run.

The Bank structures the level of credit risk it undertakes by placing limits to the amount of risk accepted in relation to one borrower or groups of interrelated borrowers and monitors the compliance on a regular basis. The limits are subject to quarterly or more frequent reviews. The Bank's Main Credit Committee sets limits to the level of credit risk accepted in relation to a borrower, a product and industry sector. Limits in excess of the Credit Committee's authority are approved by the Credit Committee of OTP Bank Nyrt. Major credit risks of the Bank are associated with operations in financials markets and corporate and retail lending.

Special attention is paid to managing retail lending risks. The level of risk accepted by the Bank is constantly monitored by portfolios and products, amount of overdue debt, ratio between accepted risk and the level of income from retail lending operations. The Bank gives special importance to scoring models used for credit analysis depending on the type of the credit product, regional features of RF constituent territories and client segment. These models are regularly reviewed and adjusted depending on both external (macroeconomic, OTP Group experience) and internal (obtained through its own data analysis) factors. Besides, the Bank applies scoring models on the basis of data of two credit offices. The Bank implements automated anti-fraud systems. All these arrangements allow to support high quality of retail loan portfolio. The Bank also actively collects overdue retail debt both with its own efforts and through six collection agencies, thus improving the portfolio's risk/return ratio.

In 2011 the Bank's approach to lending to retail customers was based on the following principles:

1. Focus on continuous improvement of risk management methods and retail lending processes (implementing and testing new projects);
2. Optimization of the lending process to maintain a low level of overdue debts and keep fraud within acceptable limits;
3. Attraction of best customers by focusing on targeted groups that the Bank is interested in;
4. Cross sale of credit products to current customers;
5. Daily monitoring of the loan portfolio.

In 2011 the Bank, as a part of the retail loan portfolio risk management, performed the following arrangements:

- Implementation of regular monitoring of grant quality for each agent in order to mitigate possible fraud (for all products);
- In the POS lending segment:
  - Implementation of trigger system in order to mitigate risk of fraud;
  - Improvement of collection procedures (collection of overdue debts);
  - Improvement of incentive system which is oriented to business profitability and takes into account both sales and profit indicators;
  - Better lending terms and conditions for reliable POS clients (e.g. better terms for initial installment);
- In the segment of credit cards:
  - Existing technologies of issuance of credit cards were revised and renewed;
  - Improvement of collection procedures (collection of overdue debts);
- In the retail lending segment (non-purpose loans):
  - Centralization of decisions making;
  - A new pricing approach was implemented based on individual risk of client (risk-based pricing);
  - Optimisation of scoring model taking into account the regional features;
  - Implementation of trigger system in order to mitigate risk of fraud;
  - Essentially new products, encouraging new high quality borrowers, have been implemented.

In 2011 the aggregate effect of retail loan portfolios management resulted in the expansion of the retail loan portfolio, growth of income and profitability in general. The main result delivered by the retail business was a significant increase in POS loan portfolios, credit card and non-purpose loan portfolios.

The corporate borrower credit risk management system is based on impartial and precise assessment of the borrowers' financial position and their business development prospects; regular monitoring of corporate borrowers' financial position and quality of debt service throughout the lending period; and a careful and balanced approach to loan portfolio management.

In 2011 the following principles of credit risk management became basic in the corporate business segment:

- Selectivity principle and stricter requirements to the borrower's financial situation when attracting new large corporate customers;
- Diversification of the loan portfolio: distribution of the loan portfolio between the largest possible number of borrowers (including by way of reducing the average amount of transactions) and industries;
- Selectiveness when financing economic sectors, based on key performance indicators of the relevant sector, its competitive environment and dependence on borrowings;
- Better monitoring;
- Management of the process of early detection and reduction of bad debt;
- Minimization of possible losses by accepting lending transactions secured by the most liquid and reliable collateral;
- Higher profitability of the corporate business, including by way of selling the Bank's non-credit services to borrowers.

*(in thousands of Russian Rubles unless otherwise stated)*

Credit risk of financial institutions (banks, insurance and investment companies) is managed by assessment of the counterparties' financial position, setting and controlling of limits compliance, continual monitoring of financial institutions. The techniques of the counterparties' financial position analysis and approaches to limits setting used in the Bank are in accordance with requirements of the OTP Group. The Bank uses structured limit system for banks-counterparties, including limits on values of credit, deliverable and pre-deliverable risks in the financial markets.

***Maximum credit risk exposure***

The Bank's maximum exposure to credit risk varies significantly and is dependant on both individual risks and general market economy risks.

The following table presents the maximum exposure to credit risk of balance sheet and off balance sheet financial assets. For financial assets in the balance sheet accounts, the maximum exposure is equal to the carrying amount of those assets prior to any offset or collateral. For financial guarantees and other off balance sheet assets, the maximum exposure to credit risk is the maximum amount the Bank would have to pay if the guarantee was called on or in the case of commitments, if the loan amount was called on.

As of 31 December 2011:

| | Maximum credit risk exposure | Offset | Net exposure after offset | Collateral pledged | Net exposure after offset and collateral |
|---|---|---|---|---|---|
| Cash and balances with the Central Bank of the Russian Federation | 3 608 309 | - | 3 608 309 | - | 3 608 309 |
| Balances on correspondent accounts and on accounts with non-banking credit institutions | 1 170 993 | - | 1 170 993 | - | 1 170 993 |
| Minimum reserve deposit with the Central Bank of the RF | 975 726 | - | 975 726 | - | 975 726 |
| Financial assets at fair value through profit or loss | 400 493 | - | 400 493 | - | 400 493 |
| Derivative financial assets | 356 087 | - | 356 087 | - | 356 087 |
| Due from banks | 5 957 940 | - | 5 957 940 | - | 5 957 940 |
| Loans and advances to customers | 90 218 006 | (30 682) | 90 187 324 | (17 517 564) | 72 669 760 |
| Financial assets available-for-sale | 7 679 417 | - | 7 679 417 | - | 7 679 417 |
| Financial assets held-to-maturity | 160 991 | - | 160 991 | - | 160 991 |
| Other financial assets | 29 689 | - | 29 689 | - | 29 689 |
| Guarantees issued and other commitments | 591 924 | (276 917) | 315 007 | - | 315 007 |
| Letters of credit and other transaction related contingent obligations | 589 479 | - | 589 479 | - | 589 479 |
| Commitments on loans and unused credit lines | 30 938 645 | - | 30 938 645 | - | 30 938 645 |

*(in thousands of Russian Rubles unless otherwise stated)*

As of 31 December 2010:

| | Maximum credit risk exposure | Offset | Net exposure after offset | Collateral pledged | Net exposure after offset and collateral |
|---|---|---|---|---|---|
| Cash and balances with the Central Bank of the Russian Federation | 3 302 629 | - | 3 302 629 | - | 3 302 629 |
| Balances on correspondent accounts and on accounts with non-banking credit institutions | 1 525 080 | - | 1 525 080 | - | 1 525 080 |
| Minimum reserve deposit with the Central Bank of the RF | 499 289 | - | 499 289 | - | 499 289 |
| Financial assets at fair value through profit or loss | 221 235 | - | 221 235 | - | 221 235 |
| Due from banks | 8 690 274 | - | 8 690 274 | - | 8 690 274 |
| Loans and advances to customers | 67 991 589 | (261 679) | 67 729 910 | (24 311 125) | 43 418 785 |
| Financial assets available-for-sale | 9 441 223 | - | 9 441 223 | - | 9 441 223 |
| Financial assets held-to-maturity | 150 180 | - | 150 180 | - | 150 180 |
| Other financial assets | 44 023 | - | 44 023 | - | 44 023 |
| Guarantees issued and other commitments | 79 061 | (32 910) | 46 151 | - | 46 151 |
| Letters of credit and other transaction related contingent obligations | 3 003 | - | 3 003 | - | 3 003 |
| Commitments on loans and unused credit lines | 18 002 015 | - | 18 002 015 | - | 18 002 015 |

Financial assets are graded according to the current credit rating they have been issued by an internationally recognized agency such as Fitch, Standard & Poor’s and Moody’s. The highest possible rating is AAA. Investment grade financial assets have ratings from AAA to BBB. Financial assets which have ratings lower than BBB are classed as speculative grade.

As of 31 December 2011 the balances with the Central Bank of the Russian Federation comprised RUR 3 608 309 thousand (31 December 2010: RUR 3 302 629 thousand). The credit rating of the Russian Federation according to the international rating agencies in 2011 and 2010 corresponded to investment level BBB.

The following table details the credit ratings of financial assets held by the Bank as of 31 December 2011 (this information prepared for all financial assets that are neither past due nor impaired):

| | AAA | AA | A | BBB | <BBB | Not rated | 31 December 2011 Total |
|---|---|---|---|---|---|---|---|
| Balances on correspondent accounts and on accounts with non-banking credit institutions | - | 6 130 | 100 101 | 303 993 | 11 067 | 749 702 | **1 170 993** |
| Financial assets at fair value through profit or loss | - | - | - | 400 493 | - | - | **400 493** |
| Derivative financial aseets | - | - | 120 555 | 193 906 | 38 934 | 2 692 | **356 087** |
| Due from banks | - | - | 33 607 | 4 000 438 | 1 846 523 | - | **5 880 568** |
| Loans and advances to customers | - | - | - | - | - | 4 382 701 | **4 382 701** |
| Financial assets available-for-sale | - | - | - | 1 975 759 | 5 695 523 | 7 785 | **7 679 067** |
| Financial assets held-to-maturity | - | - | - | | 160 991 | - | **160 991** |
| Other financial assets | - | - | - | - | - | 24 256 | **24 256** |

*(in thousands of Russian Rubles unless otherwise stated)*

As of 31 December 2010:

| | AAA | AA | A | BBB | <BBB | Not rated | 31 December 2010 Total |
|---|---|---|---|---|---|---|---|
| Balances on correspondent accounts and on accounts with non-banking credit institutions | - | 257 116 | 13 025 | 177 923 | 7 849 | 1 069 167 | **1 525 080** |
| Financial assets at fair value through profit or loss | - | - | - | 221 235 | - | - | **221 235** |
| Due from banks | - | 3 | 399 112 | 450 039 | 7 174 593 | 295 859 | **8 319 606** |
| Loans and advances to customers | - | - | - | 45 163 | 984 439 | 2 714 988 | **3 744 590** |
| Financial assets available-for-sale | - | - | 276 234 | 2 050 667 | 7 104 729 | 9 253 | **9 440 883** |
| Financial assets held-to-maturity | - | - | - | - | 150 180 | - | **150 180** |
| Other financial assets | - | - | - | - | - | 43 458 | **43 458** |

Banking industry is generally exposed to credit risk through its financial assets and contingent liabilities. With regard to the loans to customers this risk exposure is generally concentrated within the Russian Federation. The credit risk exposure is monitored on a regular basis to ensure that the credit limits and credit worthiness guidelines established by the Bank's risk management policy are complied with.

All overdue financial assets are impaired.

***Renegotiated loans and advances***

Loans and advances are generally renegotiated either as part of an ongoing customer relationship or in response to an adverse change in the circumstances of the borrower. In the latter case, renegotiation can result in an extension of the due date of payment or repayment plans under which the Bank offers a concessionary rate of interest to genuinely distressed borrowers. This will result in the asset continuing to be overdue and will be individually impaired where the renegotiated payments of interest and principal will not recover the original carrying amount of the asset. In other cases, renegotiation will lead to a new agreement, which is treated as a new loan.

Carrying amount by class of financial assets whose terms have been renegotiated:

The table below shows the carrying amount of renegotiated financial assets, by class:

| **Financial asset class** | **31 December 2011** | **31 December 2010** |
|---|---|---|
| Corporate loans | 866 654 | 1 351 190 |
| Mortgage loans | 35 406 | 227 633 |
| Car loans | 19 095 | 36 194 |
| Consumer loans | 16 840 | 24 974 |
| Other | 733 | 4 340 |
| **Total renegotiated loans and advances** | **938 728** | **1 644 331** |

The banking industry is generally exposed to credit risk through its loans to customers and inter bank deposits. With regard to the loans to customers this risk exposure is concentrated within the country. The exposure is monitored on a regular basis to ensure that the credit limits and credit worthiness guidelines established by the Bank's risk management policy are not breached.

*(in thousands of Russian Rubles unless otherwise stated)*

### *Geographical concentration*

Country (regional) risk is a risk that a credit institution may incur losses due to the failure of foreign counterparties to fulfill their obligations due to economic, political or social changes, as well as due to specific provisions of national legislation. This risk is controlled by the Bank's Credit Committee. When handling loan applications, market work technologies, the Bank pays a special attention to residence of a potential borrower and to the impact of regional factor on functioning of the technology. More severe requirements are in effect for non-residents as compared to the residents of the Russian Federation. The Bank continuously monitors the recent developments in the world in order to be able to react to the relevant changes in a timely manner. The Bank limits the country risk value in accordance with requirements of the OTP Group, implements regular country risk control.

The geographical concentration of financial assets and liabilities is set out below:

| | Russian Federation | OECD countries | Other countries | 31 December 2011 Total |
|---|---|---|---|---|
| **Non-derivative financial assets** | | | | |
| Cash and cash equivalents | 7 694 065 | 116 490 | 8 824 | 7 819 379 |
| Minimum reserve deposit with the Central Bank of the RF | 975 726 | - | - | 975 726 |
| Financial assets at fair value through profit or loss | 400 493 | - | - | 400 493 |
| Due from banks | 4 105 601 | 1 852 339 | - | 5 957 940 |
| Loans and advances to customers | 90 202 913 | 13 985 | 1 108 | 90 218 006 |
| Financial assets available-for-sale | 2 645 321 | 5 034 096 | - | 7 679 417 |
| Financial assets held-to-maturity | - | 160 991 | - | 160 991 |
| Other financial assets (excluding spot positions) | 29 363 | 200 | 126 | 29 689 |
| **Total non-derivative financial assets** | **106 053 482** | **7 178 101** | **10 058** | **113 241 641** |
| **Non-derivative financial liabilities** | | | | |
| Due to banks | 584 830 | 11 528 274 | 168 106 | 12 281 210 |
| Customer accounts | 64 734 839 | 332 834 | 1 037 388 | 66 105 061 |
| Debt securities issued | 14 121 884 | - | - | 14 121 884 |
| Other financial liabilities (excluding spot positions) | 405 665 | 15 403 | 253 | 421 321 |
| Subordinated debt | 27 047 | 1 739 209 | 585 396 | 2 351 652 |
| **Total non-derivative financial liabilities** | **79 874 265** | **13 615 720** | **1 791 143** | **95 281 128** |
| **Net position on non-derivative financial instruments** | **26 179 217** | **(6 437 619)** | **(1 781 085)** | **17 960 513** |
| **Derivative financial instruments** | | | | |
| - spot deals | - | - | 1 | 1 |
| - foreign exchange forward contracts | (7 411) | - | - | (7 411) |
| - forex swap contracts | 193 907 | 50 766 | - | 244 673 |
| **Net position on derivative financial instruments** | **186 496** | **50 766** | **1** | **237 263** |
| **Net position** | **26 365 713** | **(6 386 853)** | **(1 781 084)** | **18 197 776** |

*(in thousands of Russian Rubles unless otherwise stated)*

| | Russian Federation | OECD countries | Other countries | 31 December 2010 Total |
|---|---|---|---|---|
| **Non-derivative financial assets** | | | | |
| Cash and cash equivalents | 7 233 965 | 275 443 | 3 127 | 7 512 535 |
| Minimum reserve deposit with the Central Bank of the RF | 499 289 | - | - | 499 289 |
| Financial assets at fair value through profit or loss | 221 235 | - | - | 221 235 |
| Due from banks | 1 815 090 | 6 729 067 | 146 117 | 8 690 274 |
| Loans and advances to customers | 67 971 480 | 15 537 | 4 572 | 67 991 589 |
| Financial assets available-for-sale | 2 370 240 | 7 070 983 | - | 9 441 223 |
| Financial assets held-to-maturity | - | 150 180 | - | 150 180 |
| Other financial assets (excluding spot positions) | 42 046 | 16 | - | 42 062 |
| **Total non-derivative financial assets** | **80 153 345** | **14 241 226** | **153 816** | **94 548 387** |
| **Non-derivative financial liabilities** | | | | |
| Due to banks | 1 254 428 | 15 834 491 | 111 186 | 17 200 105 |
| Customer accounts | 57 604 156 | 200 082 | 794 555 | 58 598 793 |
| Debt securities issued | 3 340 229 | - | - | 3 340 229 |
| Other financial liabilities (excluding spot positions) | 191 087 | - | 62 823 | 253 910 |
| Subordinated debt | 26 860 | 1 676 767 | 554 137 | 2 257 764 |
| **Total non-derivative financial liabilities** | **62 416 760** | **17 711 340** | **1 522 701** | **81 650 801** |
| **Net position on non-derivative financial instruments** | **17 736 585** | **(3 470 114)** | **(1 368 885)** | **12 897 586** |
| **Derivative financial instruments** | | | | |
| - spot deals | (2 676) | 1 161 | - | (1 515) |
| - foreign exchange forward contracts | (79 396) | (66 665) | - | (146 061) |
| **Net position on derivative financial instruments** | **(82 072)** | **(65 504)** | **-** | **(147 576)** |
| **Net position** | **17 654 513** | **(3 535 618)** | **(1 368 885)** | **12 750 010** |

**Liquidity risk**

Liquidity risk is the risk that the Bank will fail to fulfil timely its obligations to its customers and counterparties, or to meet its customers' and counterparties' and own needs in funds.

At present, the Bank is adopting new standards of liquidity management on the basis of the following approaches:

- Liquidity gap analysis;
- Liquidity pool concept;
- Calculation of short-term local currency liquidity in the horizon from 1 month to 6 months and identification of the sufficient liquidity level in these horizons taking into account possible outflow of the deposit base, business outlook and the Bank's potential funding opportunities;
- Liquid assets management concept.

The liquidity management process is coordinated by the ALMC, which is responsible for developing the Bank's liquidity management strategy, monitoring current liquidity and making decisions on liquidity management.

Liquidity is continuously monitored by a separate subdivision of the Bank (the Asset and Liability Management Unit). Key monitoring parameters are reported to the Bank's management and a supervising subdivision of the Head Bank on a weekly basis (the Asset and Liability Management Unit of the Head Bank) and examined by the Bank's collective bodies (the ALMC). Current liquidity is monitored by one of the subdivisions of the Asset and Liability Management Unit, which is responsible for the estimation of the Bank's payment position and optimization of its cash flows.

When managing cash flows the Bank's collective bodies closely monitor whether the level of liquidity assets is sufficient. In the event a crisis situation occurs, the Bank believes that a possible rapid outflow of individuals' deposits caused by the ability of individual depositors to cancel deposit agreements concluded with the Bank without any encumbrances and the outflow of funds that legal entities have on their settlement accounts with the Bank pose a major problem.

If a crisis situation on the market is identified, the Bank takes the following actions:

- Analysis of the reasons why the crisis situation occurred;
- Evaluation of the seriousness of the crisis;
- Analysis of the resource market at the moment of the crisis;
- Development of anti-crisis measures;
- Analysis of the efficiency of measures taken followed by their improvement;

Where a crisis situation occurs, the Bank takes the following actions to overcome it:

At the first stage of a crisis:

- Much tighter limits (complete closure is also possible) for counterparties on the financial markets;
- Closure of some transactions on the placement of monetary funds on the financial markets with the aim to accumulate instant liquidity, in particular, by:
  - Raising discounts when granting monetary funds;
  - Reducing an allowable amount of time to place monetary funds on the financial markets;
  - Selling a part of the securities portfolio or raising monetary funds with respect to these assets.
- As regards customer relationship the Bank uses the following techniques aimed to immunize itself against the risk of outflow of customer funds:
  - The Bank will endeavour to satisfy demands of its customers for an early discharge of the Bank's obligations (the repurchase of its own securities, early termination of deposit agreements, the allowance of short-term loans secured by deposits and securities of the Bank) to prevent a panic which may be raised by the Bank's customers and counteragents. The Bank's previous experience of overcoming unstable situations shows that the above mentioned measures lead to the immunization of the outflow of monetary funds that legal entities have with the Bank.

At the second stage of a crisis the Bank provides for the following measures to improve liquidity:

- Further sale of liquid assets;
- Significant reduction of the Bank's market share on the individual lending market (by reducing limits set for plastic cards, introducing tighter credit score requirements, etc.);
- Attraction of additional resources from its shareholders;
- Attraction of additional resources from government authorities;
- Sale of a part of the Bank's loan portfolio.

*(in thousands of Russian Rubles unless otherwise stated)*

Further is analysis of liquidity and interest rate risks:

| | Weighted average effective interest rate | Up to 1 month | 1 month to 3 months | 3 months to 1 year | 1 year to 5 years | Over 5 years | Maturity undefined | 31 December 2011 Total |
|---|---|---|---|---|---|---|---|---|
| **Non-derivative financial assets** | | | | | | | | |
| **Fixed interest rate instruments** | | | | | | | | |
| Cash and cash equivalents | 0.78% | 10 265 | - | - | - | - | - | **10 265** |
| Financial assets at fair value through profit or loss | 6.65% | 2 005 | 6 685 | 165 455 | 192 200 | 34 148 | - | **400 493** |
| Due from banks | 4.25% | 5 791 023 | - | 27 791 | - | - | - | **5 818 814** |
| Loans and advances to customers | 40.25% | 6 242 482 | 7 090 811 | 37 897 215 | 29 542 319 | 5 601 894 | - | **86 374 721** |
| Financial assets available-for-sale | 6.05% | 278 394 | 1 640 562 | 1 909 431 | 3 592 988 | 249 905 | - | **7 671 280** |
| Financial assets held-to-maturity | 8.63% | - | 6 762 | - | 154 229 | - | - | **160 991** |
| **Total fixed interest bearing financial assets** | | **12 324 169** | **8 744 820** | **39 999 892** | **33 481 736** | **5 885 947** | **-** | **100 436 564** |
| **Variable interest rate instruments** | | | | | | | | |
| Cash and cash equivalents | 0.40% | 62 004 | - | - | - | - | - | **62 004** |
| Due from banks | 5.06% | 28 148 | - | 77 372 | - | - | - | **105 520** |
| Loans and advances to customers | 12.90% | 169 191 | 1 135 187 | 654 790 | 1 591 447 | 292 670 | - | **3 843 285** |
| **Total variable interest bearing financial assets** | | **259 343** | **1 135 187** | **732 162** | **1 591 447** | **292 670** | **-** | **4 010 809** |
| **Non-interest bearing financial assets** | | | | | | | | |
| Cash and cash equivalents | | 7 747 110 | - | - | - | - | - | **7 747 110** |
| Minimum reserve deposit with the Central Bank of the RF | | 975 726 | - | - | - | - | - | **975 726** |
| Due from banks | | 33 606 | - | - | - | - | - | **33 606** |
| Financial assets available-for-sale | | - | - | - | - | - | 8 137 | **8 137** |
| Other financial assets (excluding spot positions) | | 27 572 | 791 | 1 298 | 28 | - | - | **29 689** |
| **Total non-interest bearing financial assets** | | **8 784 014** | **791** | **1 298** | **28** | **-** | **8 137** | **8 794 268** |
| **Total non-derivative financial assets** | | **21 367 526** | **9 880 798** | **40 733 352** | **35 073 211** | **6 178 617** | **8 137** | **113 241 641** |
| **Non-derivative financial liabilities** | | | | | | | | |
| **Fixed interest rate instruments** | | | | | | | | |
| Due to banks | 5.73% | 729 444 | 3 327 480 | - | 1 711 830 | - | - | **5 768 754** |
| Customer accounts | 7.43% | 19 410 248 | 7 457 508 | 19 010 004 | 3 237 216 | 15 | - | **49 114 991** |
| Debt securities issued | 7.42% | 606 161 | 414 310 | 1 602 182 | 11 473 417 | - | - | **14 096 070** |
| Subordinated debt | 6.37% | - | 18 523 | - | 2 306 082 | - | - | **2 324 605** |
| **Total fixed interest bearing financial liabilities** | | **20 745 853** | **11 217 821** | **20 612 186** | **18 728 545** | **15** | **-** | **71 304 420** |
| **Variable interest rate instruments** | | | | | | | | |
| Due to banks | 2.30% | - | 31 450 | 1 931 766 | 4 507 454 | - | - | **6 470 670** |
| Customer accounts | 7.83% | 6 074 | 8 140 | 10 937 | 9 889 | - | - | **35 040** |
| Subordinated debt | 8.00% | 187 | - | - | 26 860 | - | - | **27 047** |
| **Total variable interest bearing financial liabilities** | | **6 261** | **39 590** | **1 942 703** | **4 544 203** | **-** | **-** | **6 532 757** |

*(in thousands of Russian Rubles unless otherwise stated)*

| | Weighted average effective interest rate | Up to 1 month | 1 month to 3 months | 3 months to 1 year | 1 year to 5 years | Over 5 years | Maturity undefined | 31 December 2011 Total |
|---|---|---|---|---|---|---|---|---|
| **Non-interest bearing financial liabilities** | | | | | | | | |
| Due to banks | | 41 786 | - | - | - | - | - | **41 786** |
| Customer accounts | | 16 951 638 | 992 | 2 361 | 39 | - | - | **16 955 030** |
| Debt securities issued | | 11 506 | 2 110 | 10 588 | 1 610 | - | - | **25 814** |
| Other financial liabilities (excluding spot positions) | | 421 321 | - | - | - | - | - | **421 321** |
| **Total non-interest bearing financial liabilities** | | **17 426 251** | **3 102** | **12 949** | **1 649** | **-** | **-** | **17 443 951** |
| **Total non-derivative financial liabilities** | | **38 178 365** | **11 260 513** | **22 567 838** | **23 274 397** | **15** | **-** | **95 281 128** |
| **Interest sensitivity gap** | | **(8 168 602)** | **(1 377 404)** | **18 177 165** | **11 800 435** | **6 178 602** | | |
| **Cumulative interest sensitivity gap** | | **(8 168 602)** | **(9 546 006)** | **8 631 159** | **20 431 594** | **26 610 196** | | |
| **Derivative financial instruments** | | | | | | | | |
| Spot deals | | 1 | - | - | - | - | - | **1** |
| Foreign exchange forward contracts | | 2 381 | (9 791) | - | - | - | - | **(7 410)** |
| Forex swap contracts | | (5 978) | 118 595 | 119 584 | 12 471 | - | - | **244 672** |
| **Total derivative financial instruments** | | **(3 596)** | **108 804** | **119 584** | **12 471** | **-** | **-** | **237 263** |
| Liquidity gap | | **(16 814 435)** | **(1 270 911)** | **18 285 098** | **11 811 284** | **6 178 602** | | |
| Cumulative liquidity gap | | **(16 814 435)** | **(18 085 346)** | **199 752** | **12 011 036** | **18 189 638** | | |

| | Weighted average effective interest rate | Up to 1 month | 1 month to 3 months | 3 months to 1 year | 1 year to 5 years | Over 5 years | Maturity undefined | 31 December 2010 Total |
|---|---|---|---|---|---|---|---|---|
| **Non-derivative financial assets** | | | | | | | | |
| **Fixed interest rate instruments** | | | | | | | | |
| Cash and cash equivalents | 1.29% | 29 192 | - | - | - | - | - | 29 192 |
| Financial assets at fair value through profit or loss | 6.48% | 1 980 | 1 746 | - | 181 816 | 35 693 | - | 221 235 |
| Due from banks | 3.41% | 2 857 192 | 59 252 | 94 603 | - | - | - | 3 011 047 |
| Loans and advances to customers | 34.4% | 5 599 079 | 5 337 223 | 27 005 560 | 18 448 807 | 7 800 538 | - | 64 191 207 |
| Financial assets available-for-sale | 7.32% | 1 133 990 | 1 067 745 | 1 799 666 | 1 350 625 | 4 081 444 | - | 9 433 470 |
| Financial assets held-to-maturity | 8.63% | 6 389 | - | - | 143 791 | - | - | 150 180 |
| **Total fixed interest bearing financial assets** | | **9 627 822** | **6 465 966** | **28 899 829** | **20 125 039** | **11 917 675** | **-** | **77 036 331** |
| **Variable interest rate instruments** | | | | | | | | |
| Cash and cash equivalents | 0.45% | 230 580 | - | - | - | - | - | 230 580 |
| Due from banks | 2.28% | 4 934 704 | 46 189 | 199 011 | 100 210 | - | - | 5 280 114 |
| Loans and advances to customers | 11.6% | 208 069 | 1 040 742 | 412 253 | 1 670 327 | 468 991 | - | 3 800 382 |
| **Total variable interest bearing financial assets** | | **5 373 353** | **1 086 931** | **611 264** | **1 770 537** | **468 991** | **-** | **9 311 076** |

*(in thousands of Russian Rubles unless otherwise stated)*

| | Weighted average effective interest rate | Up to 1 month | 1 month to 3 months | 3 months to 1 year | 1 year to 5 years | Over 5 years | Maturity undefined | 31 December 2010 Total |
|---|---|---|---|---|---|---|---|---|
| **Non-interest bearing financial assets** | | | | | | | | |
| Cash and cash equivalents | | 7 252 763 | - | - | - | - | - | 7 252 763 |
| Minimum reserve deposit with the Central Bank of the RF | | - | - | - | - | - | 499 289 | 499 289 |
| Due from banks | | 399 113 | - | - | - | - | - | 399 113 |
| Financial assets available-for-sale | | - | - | - | - | - | 7 753 | 7 753 |
| Other financial assets (excluding spot positions) | | 40 792 | 7 | 1 237 | 26 | - | - | 42 062 |
| **Total non-interest bearing financial assets** | | **7 692 668** | **7** | **1 237** | **26** | **-** | **507 042** | **8 200 980** |
| **Total non-derivative financial assets** | | **22 693 843** | **7 552 904** | **29 512 330** | **21 895 602** | **12 386 666** | **507 042** | **94 548 387** |
| **Non-derivative financial liabilities** | | | | | | | | |
| **Fixed interest rate instruments** | | | | | | | | |
| Due to banks | 4.52% | 1 293 995 | 58 311 | 7 902 646 | 1 620 420 | - | - | 10 875 372 |
| Customer accounts | 7.61% | 20 230 598 | 7 517 240 | 15 841 807 | 1 808 125 | - | - | 45 397 770 |
| Debt securities issued | 7.17% | 183 732 | 1 165 708 | 1 880 313 | 102 158 | - | - | 3 331 911 |
| Subordinated debt | 6.38% | - | 17 793 | - | 2 213 111 | - | - | 2 230 904 |
| **Total fixed interest bearing financial liabilities** | | **21 708 325** | **8 759 052** | **25 624 766** | **5 743 814** | **-** | **-** | **61 835 957** |
| **Variable interest rate instruments** | | | | | | | | |
| Due to banks | 2.47% | 182 014 | 32 111 | 1 828 614 | 4 266 766 | - | - | 6 309 505 |
| Customer accounts | 8.20% | 9 313 | 11 818 | 58 031 | 36 765 | - | - | 115 927 |
| Subordinated debt | 7.75% | - | - | - | 26 860 | - | - | 26 860 |
| **Total variable interest bearing financial liabilities** | | **191 327** | **43 929** | **1 886 645** | **4 330 391** | **-** | **-** | **6 452 292** |
| **Non-interest bearing financial liabilities** | | | | | | | | |
| Due to banks | | 15 228 | - | - | - | - | - | 15 228 |
| Customer accounts | | 13 081 268 | 1 115 | 2 684 | 29 | - | - | 13 085 096 |
| Debt securities issued | | 1 340 | 4 658 | 796 | 1 524 | - | - | 8 318 |
| Other financial liabilities (excluding spot positions) | | 253 910 | - | - | - | - | - | 253 910 |
| **Total non-interest bearing financial liabilities** | | **13 351 746** | **5 773** | **3 480** | **1 553** | **-** | **-** | **13 362 552** |
| **Total non-derivative financial liabilities** | | **35 251 398** | **8 808 754** | **27 514 891** | **10 075 758** | **-** | **-** | **81 650 801** |
| **Interest sensitivity gap** | | **(6 898 477)** | **(1 250 084)** | **1 999 682** | **11 821 371** | **12 386 666** | | |
| **Cumulative interest sensitivity gap** | | **(6 898 477)** | **(8 148 561)** | **(6 148 879)** | **5 672 492** | **18 059 158** | | |
| **Derivative financial instruments** | | | | | | | | |
| Spot deals | | (1 515) | - | - | - | - | - | (1 515) |
| foreign exchange forward contracts | | - | - | (146 061) | - | - | - | (146 061) |
| **Total derivative financial instruments** | | **(1 515)** | **-** | **(146 061)** | **-** | **-** | **-** | **(147 576)** |
| **Liquidity gap** | | **(12 559 070)** | **(1 255 850)** | **1 851 378** | **11 819 844** | **12 386 666** | | |
| **Cumulative liquidity gap** | | **(12 559 070)** | **(13 814 920)** | **(11 963 542)** | **(143 698)** | **12 242 968** | | |

*(in thousands of Russian Rubles unless otherwise stated)*

While preparing the liquidity analysis disclosure the amounts below minimum balances on deposits of customers were split by the contractual terms of maturity but the amounts exceeding the minimum balances were considered as liabilities with a maturity of up to 1 month.

The further analysis of maturities of financial liabilities is represented in accordance with a requirement of clause 39 (a) of IFRS 7. The amounts disclosed in the maturity analysis represent non-discounted cash flows under the contracts and do not concur with the balance sheet amounts as a carrying amount is based on discounted cash flows:

(a) Term to maturity of financial liabilities, that are non-derivatives, is calculated for non-discounted cash flows (principal debt and interest) on the earliest date, when the Bank will be liable to redeem the liability;

(b) Term to maturity of financial liabilities, that are derivatives, is calculated for non-discounted cash flows on the earliest date, when the Bank will be liable to redeem the liability;

(c) When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the reporting date.

| | Up to 1 month | 1 month to 3 months | 3 months to 1 year | 1 year to 5 years | Over 5 years | 31 December 2011 Total |
|---|---|---|---|---|---|---|
| **Fixed interest rate instruments** | | | | | | |
| Due to banks | 729 992 | 3 383 332 | 65 107 | 1 787 392 | - | **5 965 823** |
| Customer accounts | 19 438 568 | 7 572 480 | 19 828 665 | 3 708 301 | 18 | **50 548 032** |
| Debt securities issued | 691 106 | 414 732 | 2 314 752 | 13 445 593 | - | **16 866 183** |
| Subordinated debt | - | 37 046 | 111 138 | 2 563 701 | - | **2 711 885** |
| **Total fixed interest bearing financial liabilities** | **20 859 666** | **11 407 590** | **22 319 662** | **21 504 987** | **18** | **76 091 923** |
| **Variable interest rate instruments** | | | | | | |
| Due to banks | - | 50 105 | 2 028 984 | 4 592 401 | - | **6 671 490** |
| Customer accounts | 6 261 | 8 407 | 11 577 | 11 786 | - | **38 031** |
| Subordinated debt | 370 | 353 | 1 619 | 30 169 | | **32 511** |
| **Total variable interest bearing financial liabilities** | **6 631** | **58 865** | **2 042 180** | **4 634 356** | **-** | **6 742 032** |
| **Non-interest bearing instruments** | | | | | | |
| Due to banks | 41 786 | - | - | - | - | **41 786** |
| Customer accounts | 16 951 638 | 992 | 2 361 | 39 | - | **16 955 030** |
| Debt securities issued | 11 506 | 2 110 | 10 588 | 1 610 | - | **25 814** |
| Other financial liabilities | 421 321 | - | - | - | - | **421 321** |
| Liabilities on financial guarantees | 10 276 | 407 685 | 161 403 | 12 804 | - | **592 168** |
| Commitments on loans and unused credit lines | 30 974 743 | - | - | - | - | **30 974 743** |
| **Total non-interest bearing financial liabilities** | **48 411 270** | **410 787** | **174 352** | **14 453** | **-** | **49 010 862** |
| **Total financial liabilities and commitments** | **69 277 567** | **11 877 242** | **24 536 194** | **26 153 796** | **18** | **131 844 817** |

*(in thousands of Russian Rubles unless otherwise stated)*

| | Up to 1 month | 1 month to 3 months | 3 months to 1 year | 1 year to 5 years | Over 5 years | 31 December 2010 Total |
|---|---|---|---|---|---|---|
| **Fixed interest rate instruments** | | | | | | |
| Due to banks | 1 294 810 | 3 788 787 | 12 162 723 | 1 774 495 | - | **19 020 815** |
| Customer accounts | 20 264 030 | 7 751 440 | 16 713 767 | 1 900 510 | - | **46 629 747** |
| Debt securities issued | 184 351 | 1 180 670 | 1 945 285 | 117 683 | - | **3 427 989** |
| Subordinated debt | - | 35 586 | 105 597 | 2 604 198 | - | **2 745 381** |
| **Total fixed interest bearing financial liabilities** | **21 743 191** | **12 756 483** | **30 927 372** | **6 396 886** | **-** | **71 823 932** |
| **Variable interest rate instruments** | | | | | | |
| Due to banks | 182 014 | 51 127 | 1 926 442 | 4 436 036 | - | **6 595 619** |
| Customer accounts | 9 874 | 13 573 | 64 412 | 44 199 | - | **132 058** |
| Subordinated debt | 177 | 336 | 1 568 | 32 153 | - | 34 234 |
| **Total variable interest bearing financial liabilities** | **192 065** | **65 036** | **1 992 422** | **4 512 388** | **-** | **6 761 911** |
| **Non-interest bearing instruments** | | | | | | |
| Due to banks | 15 228 | - | - | - | - | **15 228** |
| Customer accounts | 13 081 268 | 1 115 | 2 684 | 29 | - | **13 085 096** |
| Debt securities issued | 1 340 | 4 658 | 796 | 1 524 | - | **8 318** |
| Other financial liabilities | 253 910 | - | - | - | - | **253 910** |
| Liabilities on financial guarantees | 14 292 | 48 668 | 14 970 | 1 524 | - | **79 454** |
| Commitments on loans and unused credit lines | 18 015 671 | - | - | - | - | **18 015 671** |
| **Total non-interest bearing financial liabilities** | **31 381 709** | **54 441** | **18 450** | **3 077** | **-** | **31 457 677** |
| **Total financial liabilities and commitments** | **53 316 965** | **12 875 960** | **32 938 244** | **10 912 351** | **-** | **110 043 520** |

The following table details the Bank's liquidity analysis for its derivative financial instruments. The table has been drawn up based on the undiscounted contractual net cash inflows and outflows on derivative instruments that settle on a net basis, and the undiscounted gross inflows and outflows on those derivatives that require gross settlement.

| **31 December 2011** | Up to 1 month | 1 month to 3 months | 3 months to 1 year | 1 year to 5 years | Over 5 years | Total |
|---|---|---|---|---|---|---|
| Foreign exchange forward contracts | 312 | 9 791 | - | - | - | **10 103** |
| Forex swap contracts | 12 822 | - | 95 901 | - | - | **108 723** |
| | **13 134** | **-** | **95 901** | **-** | **-** | **118 826** |
| **31 December 2010** | | | | | | |
| Spot deals | 3 476 | - | - | - | - | **3 476** |
| Foreign exchange forward contracts | - | - | 146 061 | - | - | **146 061** |
| | **3 476** | **-** | **146 061** | **-** | **-** | **149 537** |

*(in thousands of Russian Rubles unless otherwise stated)*

### Market Risk

Market risk is the risk of losses due to changes in market prices of a financial instrument. Market risk includes currency, interest rate and other pricing risks.

The Bank is exposed to market risks associated with its interest rate, currency and equity instruments which are subject to general and specific market fluctuations. The Bank uses system of market risk management, including procedures of limits calculation, setting and controlling which mitigate risk exposure and take into account analysis, control and reporting over limits operation. Regular testing of models and risk estimation techniques, based on historical market data and financial results on the Bank's trading operations, is performed in order to provide reliable risk assessment. The ALMC of the Bank is responsible for work coordination of subdivisions, which manage market risk, setting and revision of market risk limits. The Bank sets the following limits: open position limits, VAR-limits and stop-loss limits. The compliance with these limits is monitored on a daily basis by a separate subdivision responsible for assessment of the risk run.

#### *Interest rate sensitivity*

Interest rate risk refers to the possibility of adverse changes in interest rates in view of the gap between maturities of assets, liabilities and off-balance sheet instruments.

The Bank is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Such fluctuations may increase the interest margin; however, unexpected changes of interest rates may cause a decrease in the interest margin or lead to losses. To minimize the cash flow interest rate risk, the Bank developed a code of regulations to manage liabilities and assets of the Bank according to their terms and liquidity. The interest rate risk is monitored continuously by the Bank’s ALMC. In 2010 the Bank adopted a new transfer pricing system providing that transfer prices should be defined on a monthly basis in accordance with the group’s uniform standards and take into account quoted market prices and the cost of resources by major currencies and maturities (market quote spreads), approved by the ALMC of the Head Bank. This transfer pricing method allows for better estimation of the performance of subdivisions and setting an acceptable margin for the Bank.

Interest rates on raising and placing funds are revised regularly (at least quarterly) and approved by collective bodies of the Bank.

In accordance with the global practices of interest rate risk management the Bank regularly carries out a quantitative assessment of the current level of interest rate risk. Presently, the Bank measures interest rate risk using the gap analysis, which complies with the requirements of the CBR (Letter No. 15-1-3-6-3995 of November 2, 2007 “On the international approaches to (standards of) interest rate risk management”) and those of the parent bank (intragroup requirements). Afterwards, as the Bank’s information systems become more sophisticated, the Bank intends to adopt more complicated measurement techniques (the duration method, simulation models, etc.).

The following table presents a sensitivity analysis of interest rate risk, which has been determined based on “reasonably possible changes in the risk variable”.

Impact on profit and capital as of 31 December 2011 and 2010 is as follows:

**Impact on profit and capital of a change in interest rate by +1%**

| | Up to 1 month | 1 month to 3 months | 3 months to 1 year | Total |
|---|---|---|---|---|
| **2011** | (78 282) | (11 478) | 68 164 | (21 596) |
| **2010** | (66 110) | (10 417) | 7 499 | (69 028) |

**Impact on profit and capital of a change in interest rate by -1%**

| | Up to 1 month | 1 month to 3 months | 3 months to 1 year | Total |
|---|---|---|---|---|
| **2011** | 78 282 | 11 478 | (68 164) | 21 596 |
| **2010** | 66 110 | 10 417 | (7 499) | 69 028 |

*(in thousands of Russian Rubles unless otherwise stated)*

### Currency risk

Currency risk is defined as a market risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

When analyzing the currency risk, impact of external destabilizing factors to the international and local currency markets is taken into consideration.

General management of the Bank's currency positions (in terms of maturity and currency) is carried out by the Bank's collective bodies (the ALMC, the Credit Committee, the Management Board). Presently, the Bank makes a special effort to avoid significant imbalances in the maturity structure of its balance sheet by employing various risk mitigation instruments (borrowing from the parent Bank and use of derivatives).

On-going management of net foreign currency position is performed by the Bank's Treasury Directorate on the basis of limits set by the Bank's collective bodies and limitations set by the Central Bank of the Russian Federation. The Bank's exposure to currency risk is as follows:

| | **RUR** | **USD** USD 1 = RUR 32.1961 | **EUR** EUR 1 = RUR 41.6714 | **Other currency** | **31 December 2011 Total** |
|---|---|---|---|---|---|
| **Non-derivative financial assets** | | | | | |
| Cash and cash equivalents | 6 085 563 | 789 610 | 718 838 | 225 368 | 7 819 379 |
| Minimum reserve deposit with the Central Bank of the RF | 975 726 | - | - | - | 975 726 |
| Financial assets at fair value through profit or loss | 400 493 | - | - | - | 400 493 |
| Due from banks | 4 631 826 | 1 301 368 | 24 745 | 1 | 5 957 940 |
| Loans and advances to customers | 80 939 761 | 5 483 971 | 1 225 676 | 2 568 598 | 90 218 006 |
| Financial assets available-for-sale | 2 162 226 | 705 132 | 3 649 487 | 1 162 572 | 7 679 417 |
| Financial assets held-to-maturity | - | 160 991 | - | - | 160 991 |
| Other financial assets (excluding spot positions) | 25 995 | 1 920 | 1 774 | - | 29 689 |
| **Total non-derivative financial assets** | **95 221 590** | **8 442 992** | **5 620 520** | **3 956 539** | **113 241 641** |
| **Non-derivative financial liabilities** | | | | | |
| Due to banks | 2 627 192 | 6 496 843 | 13 997 | 3 143 178 | 12 281 210 |
| Customer accounts | 54 850 438 | 6 751 122 | 4 144 240 | 359 261 | 66 105 061 |
| Debt securities issued | 14 118 664 | 3 220 | - | - | 14 121 884 |
| Other financial liabilities (excluding spot positions) | 396 509 | 802 | 24 010 | - | 421 321 |
| Subordinated debt | 596 898 | 1 169 358 | - | 585 396 | 2 351 652 |
| **Total non-derivative financial liabilities** | **72 589 701** | **14 421 345** | **4 182 247** | **4 087 835** | **95 281 128** |
| **Net position on non-derivative financial instruments** | **22 631 889** | **(5 978 353)** | **1 438 273** | **(131 296)** | |
| **Derivative financial instruments** | | | | | |
| - spot deals | - | 5 473 | - | (5 472) | 1 |
| - foreign exchange forward contracts | 534 975 | (270 474) | (271 912) | - | (7 411) |
| - forex swap contracts | (4 194 687) | 5 150 282 | (1 104 391) | 393 469 | 244 673 |
| **Net position on derivative financial instruments** | **(3 659 712)** | **4 885 281** | **(1 376 303)** | **387 997** | |
| **Total net position** | **18 972 177** | **(1 093 072)** | **61 970** | **256 701** | |

*(in thousands of Russian Rubles unless otherwise stated)*

| | RUR | USD USD 1 = RUR 30.4769 | EUR EUR 1 = RUR 40.3331 | Other currency | 31 December 2010 Total |
|---|---|---|---|---|---|
| **Non-derivative financial assets** | | | | | |
| Cash and cash equivalents | 5 275 325 | 911 956 | 1 098 267 | 226 987 | 7 512 535 |
| Minimum reserve deposit with the Central Bank of the RF | 499 289 | - | - | - | 499 289 |
| Financial assets at fair value through profit or loss | 221 235 | - | - | - | 221 235 |
| Due from banks | 2 916 444 | 5 238 568 | 535 262 | - | 8 690 274 |
| Loans and advances to customers | 56 299 327 | 7 695 175 | 1 020 174 | 2 976 913 | 67 991 589 |
| Financial assets available-for-sale | 2 370 239 | 692 934 | 4 936 906 | 1 441 144 | 9 441 223 |
| Financial assets held-to-maturity | - | 150 180 | - | - | 150 180 |
| Other financial assets (excluding spot positions) | 37 000 | 3 274 | 1 788 | - | 42 062 |
| **Total non-derivative financial assets** | **67 618 859** | **14 692 087** | **7 592 397** | **4 645 044** | **94 548 387** |
| **Non-derivative financial liabilities** | | | | | |
| Due to banks | 1 093 714 | 12 263 188 | 517 060 | 3 326 143 | 17 200 105 |
| Customer accounts | 46 312 004 | 6 691 156 | 5 052 553 | 543 080 | 58 598 793 |
| Debt securities issued | 2 976 136 | 4 834 | 359 259 | - | 3 340 229 |
| Other financial liabilities (excluding spot positions) | 217 469 | 2 520 | 33 921 | - | 253 910 |
| Subordinated debt | 596 711 | 1 106 916 | - | 554 137 | 2 257 764 |
| **Total non-derivative financial liabilities** | **51 196 034** | **20 068 614** | **5 962 793** | **4 423 360** | **81 650 801** |
| **Net position on non-derivative financial instruments** | **16 422 825** | **(5 376 527)** | **1 629 604** | **221 684** | |
| **Derivative financial instruments** | | | | | |
| - spot deals | 546 830 | (421 979) | (408 170) | 281 804 | (1 515) |
| - foreign exchange forward contracts | (3 127 085) | 3 504 844 | - | (523 820) | (146 061) |
| **Net position on derivative financial instruments** | **(2 580 255)** | **3 082 865** | **(408 170)** | **(242 016)** | |
| **Total net position** | **13 842 570** | **(2 293 662)** | **1 221 434** | **(20 332)** | |

### Currency risk sensitivity

The following table details the Bank's sensitivity to an increase and decrease in the USD and the EUR exchange rates against the RUR. 15% and 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel of the Bank and represents management's assessment of the possible change in foreign currency exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the period for a 15% and 10% change in foreign currency rates.

| | 31 December 2011 | | 31 December 2010 | |
|---|---|---|---|---|
| | **RUR/USD +15%** | **RUR/USD -15%** | **RUR/USD +15%** | **RUR/USD -15%** |
| Impact on profit | (2.05)% | 2.05% | (7.98)% | 7.98% |
| Impact on equity | (0.83)% | 0.83% | (2.38)% | 2.38% |

| | 31 December 2011 | | 31 December 2010 | |
|---|---|---|---|---|
| | **RUR/EUR +10%** | **RUR/EUR -10%** | **RUR/EUR +10%** | **RUR/EUR -10%** |
| Impact on profit | (0.34)% | 0.34% | 2.83% | (2.83)% |
| Impact on equity | (0.14)% | 0.14% | 0.84% | (0.84)% |

*(in thousands of Russian Rubles unless otherwise stated)*

***Limitations of sensitivity analysis***

The above tables demonstrate the effect of a change in a key assumption while other assumptions remain unchanged. In reality, there is a correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear, and larger or smaller impacts should not be interpolated or extrapolated from these results.

The sensitivity analyses do not take into consideration that the Bank's assets and liabilities are actively managed. Additionally, the financial position of the Bank may vary at the time that any actual market movement occurs. For example, the Bank's financial risk management strategy aims to manage the exposure to market fluctuations. As investment markets move past various trigger levels, management actions could include selling investments, changing investment portfolio allocation and taking other protective action. Consequently, the actual impact of a change in the assumptions may not have any impact on the liabilities, whereas assets are held at market value on the balance sheet. In these circumstances, the different measurement bases for liabilities and assets may lead to volatility in shareholder equity.

Other limitations in the above sensitivity analyses include the use of hypothetical market movements to demonstrate potential risk that only represent the Bank's view of possible near-term market changes that cannot be predicted with any certainty; and the assumption that all interest rates move in an identical fashion.

***Price risk***

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices whether those changes are caused by factors specific to the individual security or its issuer or factors affecting all securities traded in the market. The Bank is exposed to price risks of its products which are subject to general and specific market fluctuations.

The Bank manages price risk through periodic estimation of potential losses that could arise from adverse changes in market conditions and establishing and maintaining appropriate stop-loss limits and margin and collateral requirements.

For mitigation of the price risk the Bank seeks to diversify its security portfolio. Besides the Bank regularly revalues its portfolio at market value or makes allowance for possible losses on the financial investments for offsetting a loss from unfavorable changes in market conditions. The Bank manages the price risk by applying a system of limits that restricts the volumes of the Bank's trading transactions. These limits are set by the Bank's Asset and Liability Management Department and their observance is controlled on a daily basis by an independent subdivision responsible for the risk level assessment.

The table below represents an analysis of sensitivity to price risk based on the balance sheet position for investments in equity and debt securities at the reporting date.

The results of the analysis of the sensitivity of the Bank profit before tax and equity for the year to changes in prices of securities on a simplified scenario of 1% symmetrical increase or decrease in all securities prices are given in the table below:

| | **31 December 2011** | | **31 December 2010** | |
|---|---|---|---|---|
| | **1% increase in securities price** | **1% decrease in securities price** | **1% increase in securities price** | **1% decrease in securities price** |
| Impact on profit before tax | 3 918 | (3 918) | 2 175 | (2 175) |
| Impact on equity | 53 916 | (53 916) | 74 465 | (74 465) |

## 37. OPERATIONAL RISK

Operational risk is the risk of loss arising from inadequate or erroneous internal processes, human error, systems failure or external events.

Operational risk management is performed in accordance with internal normative documents of the Bank, which are in compliance with Instructions of Central Bank of the RF, normative documents of OTP Bank (Hungary) and Basel Committee recommendations. Well-defined division of powers and subdivisions' areas of responsibility in risk management are set in the Bank.

Activity of the Bank's operational risks management includes the following main elements: identification, assessment, monitoring, control and (or) minimization of the Bank's exposure to operational risk as well as distribute authorities to manage operational risk.

The Bank's specially designed software collects information on the facts that operational risk has been realized and losses have been incurred to enable efficient identification of the risk. Collected data are used to develop quantitative techniques of operational risk assessment.

In order to determine potential operational risks the Bank performs annual self-assessment of operational risk, which includes estimation by the Bank of its transactions and business activities in terms of potential exposure to different types of operational risks.

The Bank uses the system of operational risk indication. The system of operational risk indication is maintained in order to prevent exposure to operational risk increase.

For monitoring the level of operational risk and coordinating the activity of operational risk management, and also for development and making decisions on maintaining unique, approved policy for operational risk management the Bank uses collegiate working unit, operating on a continued basis – Committee on operational risks.

To mitigate the operating risk the Bank uses the following primary instruments:

- Improvement of bank technology automation systems and data protection systems (data reconciliation, differentiation of access to information, adjustment and connection of automated checking procedures for diagnostics of erroneous actions, automatic performance of routine repeated actions, etc.);
- Insurance – the Bank uses insurance to cover a number of operating risks;
- Transfer (outsourcing) of risks (e.g. storage and transportation of valuables);
- Control over observance of limits set for transactions;
- Division of powers (no risk concentration);
- Application of the principles "Know your client", "Know your employee";
- Other instruments.

For the purpose of mitigation of operational risk the Bank developed and approved Plan of actions for the case of unexpected circumstances using backup automated systems, as well as a crisis management plan.

## 38. SUBSEQUENT EVENTS

The placement of non-convertible interest-bearing documentary exchange bond in bearer form with mandatory centralized custody of OJSC "OTP Bank" with series BO-02 and par value of RUR 6 billion was completed on 6 March 2012. The bonds in issue have a put option for investors in 2 years, mature within 3 years and are subject to an early redemption on put option date at the request of bondholders and at the discretion of the issuer. The bond coupon will be paid every six months. It was set at the rate of 10.50% per annum for the 1st, 2nd, 3rd, 4th coupons. The 5th and 6th coupons will be set at the end of the 4th coupon period. The bond was placed and traded on the MICEX Stock Exchange through the open subscription on the basis of targeted bids made by buyers wishing to purchase bonds for a fixed price and at the coupon rate of interest effective in the first coupon period.