Open joint stock company
“Asian-Pacific Bank”

Consolidated Financial Statements

for the year ended 31 December 2011

Contents

ZAO KPMG
10 Presnenskaya Naberezhnaya
Moscow, Russia 123317

Telephone +7 (495) 937 4477
Fax +7 (495) 937 4400/99
Internet www.kpmg.ru

Independent Auditors' Report

To the Board of Directors of OJSC "Asian-Pacific Bank"

We have audited the accompanying consolidated financial statements of OJSC "Asian-Pacific Bank" and its subsidiary (the Group), which comprise the consolidated statement of financial position as at 31 December 2011, and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

ZAO KPMG

ZAO KPMG
17 April 2012

	Notes	2011 RUB'000	2010 RUB'000
Interest income	4	7 092 108	4 359 163
Interest expense	4	(2 498 999)	(1 972 216)
Net interest income		**4 593 109**	**2 386 947**
Fee and commission income	5	1 086 238	594 089
Fee and commission expense		(163 530)	(96 407)
Net fee and commission income		**922 708**	**497 682**
Net gain on financial instruments at fair value through profit or loss		301 073	507 841
Net foreign exchange income	6	236 998	138 921
Net gain on operations with precious metals		8 014	24 331
Other operating income	7	328 386	235 775
Operating income		**6 390 288**	**3 791 497**
Impairment (losses) recovery	8	(535 955)	532 239
Personnel expenses	9	(2 190 468)	(1 104 656)
Other general administrative expenses	10	(1 038 832)	(715 981)
Profit before income tax		**2 625 033**	**2 503 099**
Income tax expense	11	(431 537)	(524 833)
Profit for the year		**2 193 496**	**1 978 266**
Other comprehensive income			
Net gain from revaluation of property		1 568 298	-
Income tax related to other comprehensive income		(214 834)	-
Other comprehensive income, net of income tax		**1 353 464**	**-**
Total comprehensive income for the year		**3 546 960**	**1 978 266**

The consolidated financial statements as set out on pages 4 to 75 were approved by the Management board on 17 April 2012.

Mr. E.V. Aksenov
Chairman of the Board

Mr. O.V. Marinchenko
Chief Accountant

The consolidated statement of comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

	Notes	2011 RUB’000	2010 RUB’000
ASSETS			
Cash		2 323 665	1 125 962
Placements with the Central Bank of Russia	12	1 854 991	2 817 189
Financial instruments at fair value through profit or loss	13	9 850 631	7 387 175
Available-for-sale financial assets	14	-	98 150
Due from banks	15	1 314 336	1 437 200
Amounts receivable under reverse repurchase agreements	16	-	5 726 883
Loans to customers	17	37 851 363	20 315 830
Net investments in finance leases	18	1 642 739	582 577
Current tax asset		10 538	23 456
Deferred tax asset	11	8 660	13 509
Property, equipment and intangible assets	19	4 220 145	1 891 758
Other assets	20	1 452 951	361 022
Total assets		**60 530 019**	**41 780 711**
LIABILITIES			
Derivative financial instruments	13	-	950
Deposits and balances from banks	21	3 909 951	1 722 893
Current accounts and deposits from customers	22	46 340 622	32 322 052
Promissory notes		537 674	1 518 137
Subordinated borrowings	23	-	156 610
Current tax liability		153 390	184 750
Deferred tax liability	11	312 900	214 467
Other liabilities	24	551 306	167 436
Total liabilities		**51 805 843**	**36 287 295**
EQUITY			
Share capital	25	562 312	562 312
Share premium		1 192 723	1 192 723
Revaluation surplus for buildings		1 353 464	-
Retained earnings		5 615 677	3 738 381
Total equity		**8 724 176**	**5 493 416**
Total liabilities and equity		**60 530 019**	**41 780 711**

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

	Notes	2011 RUB'000	2010 RUB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest receipts		6 855 932	4 394 594
Interest payments		(2 245 746)	(1 679 622)
Fee and commission receipts		1 059 188	684 965
Fee and commission payments		(150 595)	(96 407)
Net receipts from financial instruments at fair value through profit or loss		221 081	515 441
Net receipts from foreign exchange		256 549	163 580
Other income receipts		326 891	235 775
Net receipts from operations with precious metals		8 014	24 331
General administrative expenses payments		(2 872 895)	(1 662 389)
(Increase) decrease in operating assets			
Obligatory reserves with the CBR		(263 377)	(80 758)
Financial instruments at fair value through profit or loss		(2 383 464)	(1 906 578)
Available-for-sale financial assets		98 150	(98 260)
Due from banks		(208 159)	(204 905)
Amounts receivable under reverse repurchase agreements		5 726 883	(5 408 986)
Loans to customers		(17 953 281)	(7 256 884)
Net investments in finance leases		(900 896)	(180 179)
Other assets		(1 062 073)	499 832
Increase (decrease) in operating liabilities			
Deposits and balances from banks		2 187 058	1 179 831
Current accounts and deposits from customers		13 750 667	9 819 930
Promissory notes		(965 710)	1 291 609
Other liabilities		(35 487)	95 078
Net cash provided from operating activities before income tax paid		**1 448 730**	**329 998**
Income tax paid		(561 532)	(336 142)
Cash flows from (used in) operations		**887 198**	**(6 144)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Effect of business combinations, net of cash received	36	-	1 443 574
Purchases of property and equipment and intangible assets		(910 344)	(274 286)
Cash flows (used in) from investing activities		**(910 344)**	**1 169 288**
CASH FLOWS FROM FINANCING ACTIVITIES			
Distribution to shareholders		(316 200)	-
Cash flows used in financing activities		**(316 200)**	**-**
Net increase in cash and cash equivalents		**(339 346)**	**1 163 144**
Effect of changes in exchange rates on cash and cash equivalents		(19 551)	(16 240)
Cash and cash equivalents as at the beginning of the period		4 877 516	3 730 612
Cash and cash equivalents as at the end of the period	33	**4 518 619**	**4 877 516**

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

RUB’000	Share capital	Share premium	Revaluation surplus for buildings	Retained earnings	Total equity
Balance as at 1 January 2010	**395 522**	**1 192 723**	**-**	**1 006 553**	**2 594 798**
Total comprehensive income					
Profit for the year	-	-	-	1 978 266	1 978 266
Total comprehensive income for the year	**-**	**-**	**-**	**1 978 266**	**1 978 266**
Transactions with owners, recorded directly in equity					
Business combinations (note 36)	166 790	-	-	753 562	920 352
Total transactions with owners	**166 790**	**-**	**-**	**753 562**	**920 352**
Balance as at 31 December 2010	**562 312**	**1 192 723**	**-**	**3 738 381**	**5 493 416**
Total comprehensive income					
Profit for the year	-	-	-	2 193 496	2 193 496
Other comprehensive income					
Revaluation of buildings, net of deferred tax of RUB 214 834thousand	-	-	1 353 464	-	1 353 464
Total comprehensive income for the year	**-**	**-**	**1 353 464**	**2 193 496**	**3 546 960**
Transactions with owners, recorded directly in equity					
Distributions to shareholders (note 34)			-	(316 200)	(316 200)
Total transactions with owners	**-**	**-**		**(316 200)**	**(316 200)**
Balance as at 31 December 2011	**562 312**	**1 192 723**	**1 353 464**	**5 615 677**	**8 724 176**

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

1 Background

Organisation and operations

These consolidated financial statements include the financial statements of OJSC “Asian-Pacific Bank” (the Bank) and its subsidiary LLC “Expo-Leasing” (together referred to as the Group).

The Bank was established in the Russian Federation as a closed joint stock company in 1992 under the name Amurpromstroybank as a successor of Promstroybank of USSR which was founded in 1929. In 2006 the Bank was reorganised from a closed joint stock company to an open joint stock company and renamed to Asian-Pacific Bank by decision of the shareholders. The principal activities are deposit taking and customer accounts maintenance, lending, issuing guarantees, cash and settlement operations and operations with securities and foreign exchange. The activities of the Bank are regulated by the Central Bank of the Russian Federation (the CBR). The Bank has a general banking license, and is a member of the state deposit insurance system in the Russian Federation.

The Bank has 211 (2010: 158) offices from which it conducts business throughout the Russian Federation including a head office, 8 regional branches, 77 additional offices, 121 operational offices and 4 operational cash boxes. The registered address of the head office is Blagoveschensk, 675000, Amurskaya Street, 225. The majority of the assets and liabilities are located in the Russian Federation.

As of 31 December 2011 the following shareholders held the issued shares of Open Joint Stock Company “Asian-Pacific Bank”:

Shareholder	2011 %	2010 %
LLC “PPFIN Region” (Russian Federation)	67.24	67.59
East Capital Explorer Financial Institutions Fund AB (Sweden)	17.91	17.91
International Financial Corporation	6.99	6.99
Aksenov E.V.	5.21	5.21
Others	2.65	2.30
Total:	**100.00**	**100.00**

Details of the subsidiary are as follows:

			Ownership %	
Name	**Country of incorporation**	**Principal activities**	**2011**	**2010**
LLC “Expo-Leasing”	Russian Federation	Leasing	100%	100%

On October 1, 2010 100% of the shares of LLC “Expo-Leasing” was acquired by the Bank (note 36).

LLC “Expo-Leasing” was registered in 2002 in Russia. Its head office is in Moscow and it has 11 branches (2010: 5) comprising 1 regional branch and 10 separate offices.

During 2010 LLC “PPFIN Region”, being a common majority shareholder for OJSC “Asian-Pacific Bank”, OJSC “Kamchatprombank” and OJSC “Kolyma-Bank”, decided to merge the operations of these entities and therefore granted full control over OJSC “Kamchatprombank” and OJSC “Kolyma-Bank” to OJSC “Asian-Pacific Bank”. The merger procedure occurred as at 7 May 2010. For additional information about the merger, see notes 25 and 36.

In 2011 the average number of employees was 3 242 (2010: 2 244).

Business environment

Russian business environment

The Group's operations are primarily located in the Russian Federation. Consequently, the Group is exposed to the economic and financial markets of the Russian Federation which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Russian Federation. In addition, the contraction in the capital and credit markets and its impact on the Russian economy have further increased the level of economic uncertainty in the environment. The consolidated financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

2 Basis of preparation

Statement of compliance

The accompanying consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS).

Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except that financial instruments at fair value through profit or loss are stated at fair value, and buildings are stated at revalued amounts.

Functional and presentation currency

The functional currency of the Bank and the subsidiary is the Russian Rouble (RUB) as, being the national currency of the Russian Federation, it reflects the economic substance of the majority of underlying events and circumstances relevant to them.

The RUB is also the presentation currency for the purposes of these consolidated financial statements.

Financial information presented in RUB is rounded to the nearest thousand.

Use of estimates and judgments

The preparation of consolidated financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results could differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies is described in the following notes:

- loan impairment estimates - note 17
- building revaluation estimates - note 19.

Changes in accounting policies and presentation

With effect from 1 January 2011, the Group changed its accounting policies in the following areas:

- As at 1 January 2011, the Group changed its accounting policy in respect of land and buildings from the cost to the fair value model under IAS 16 *Property, Plant and Equipment*. The effect of the change has been recognized as a revaluation in the current year. Prior years have not been adjusted and comparatives are not restated in accordance with IFRS;
- With effect from 1 January 2011, the Group retrospectively applied a revised version of IAS 24 (issued in 2009) *Related Party Disclosures*. This change has not had a significant impact on the related party disclosures;
- With effect from 1 January 2011, the Group retrospectively applied limited amendments to IFRS 7 *Financial Instruments: Disclosures* issued as part of *Improvements to IFRSs 2010.* These amendments mainly relate to disclosures on collateral and other credit enhancements, as well as to renegotiated assets that would otherwise be past due or impaired.

3 Significant accounting policies

The accounting policies set out below are applied consistently by the Group entities to all periods presented in these consolidated financial statements, except those changes in accounting policies described in previous note.

Basis of consolidation

Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group.

The Group measures goodwill as the fair value of the consideration transferred (including the fair value of any previously-held equity interest in the acquiree) and the recognised amount of any non-controlling interest in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as at the acquisition date. When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The Group elects on a transaction-by-transaction basis whether to measure non-controlling interests at fair value, or at their proportionate share of the recognised amount of the identifiable net assets of the acquiree, at the acquisition date.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases.

Acquisitions of entities under common control

Acquisitions of controlling interests in entities that are under the control of the same controlling shareholder of the Group are accounted from the date of acquisition. The assets and liabilities acquired are recognised at their book values as recorded in the individual financial statements of the acquiree at the acquisition date. The components of equity of the acquired entities are added to the same components within the Group equity. Any cash paid for the acquisition is debited to equity.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates are eliminated to the extent of the Group’s interest in the enterprise. Unrealised gains resulting from transactions with associates are eliminated against the investment in the associate. Unrealised losses are eliminated in the same way as unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment.

Goodwill

Goodwill on acquisitions of subsidiaries is included in intangible assets. In respect of associates, the carrying amount of goodwill is included in the carrying amount of the investment in the associate.

Goodwill is allocated to cash-generating units for impairment testing purposes and is stated at cost less impairment losses.

Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currency of the Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value is determined. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments or qualifying cash flow hedges, which are recognised in other comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances (nostro accounts) held with the CBR and other banks and amounts due from credit institutions which mature within ninety days and are free from contractual encumbrances. The mandatory reserve deposit with the CBR is not considered to be a cash equivalent due to restrictions on its withdrawability. Cash and cash equivalents are carried at amortised cost in the consolidated statement of financial position.

Financial instruments

Classification

Financial instruments at fair value through profit or loss are financial assets or liabilities that are:

- acquired or incurred principally for the purpose of selling or repurchasing in the near term

- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking

- derivative financial instruments (except for derivative financial instruments that are designated and effective hedging instruments) or,

- upon initial recognition, designated as at fair value through profit or loss.

The Group may designate financial assets and liabilities at fair value through profit or loss where either:

- the assets or liabilities are managed, evaluated and reported internally on a fair value basis

- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise or,

- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

All trading derivatives in a net receivable position (positive fair value), as well as options purchased, are reported as assets. All trading derivatives in a net payable position (negative fair value), as well as options written, are reported as liabilities.

Management determines the appropriate classification of financial instruments in this category at the time of the initial recognition. Derivative financial instruments and financial instruments designated as at fair value through profit or loss upon initial recognition are not reclassified out of the at fair value through profit or loss category. A financial asset that would have met the definition of loans and receivables may be reclassified out of the at fair value through profit or loss or available-for-sale category if the entity has an intention and ability to hold it for the foreseeable future or until maturity. Other financial instruments may be reclassified out of the at fair value through profit or loss category only in rare circumstances. Rare circumstances arise from a single event that is unusual and highly unlikely to recur in the near term.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Group:

- intends to sell immediately or in the near term

- upon initial recognition designates as at fair value through profit or loss

- upon initial recognition designates as available-for-sale or,

- may not recover substantially all of its initial investment, other than because of credit deterioration.

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity, other than those that:

- the Group upon initial recognition designates as at fair value through profit or loss

- the Group designates as available-for-sale or,

- meet the definition of loans and receivables.

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial instruments at fair value through profit or loss.

Recognition

Financial assets and liabilities are recognized in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instrument. All regular way purchases of financial assets are accounted for at the settlement date.

Measurement

A financial asset or liability is initially measured at its fair value plus, in the case of a financial asset or liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability.

Subsequent to initial recognition, financial assets, including derivatives that are assets, are measured at their fair values, without any deduction for transaction costs that may be incurred on sale or other disposal, except for:

- loans and receivables which are measured at amortized cost using the effective interest method

- held-to-maturity investments that are measured at amortized cost using the effective interest method

- investments in equity instruments that do not have a quoted market price in an active market and whose fair value can not be reliably measured which are measured at cost.

All financial liabilities, other than those designated at fair value through profit or loss and financial liabilities that arise when a transfer of a financial asset carried at fair value does not qualify for derecognition, are measured at amortized cost.

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortized based on the effective interest rate of the instrument.

Fair value measurement principles

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

When available, the Group measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm’s length basis.

If a market for a financial instrument is not active, the Group establishes fair value using a valuation technique. Valuation techniques include using recent arm’s length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Group, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e., the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When a transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognised in profit or loss on an appropriate basis over the life of the instrument but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

Assets and long positions are measured at a bid price; liabilities and short positions are measured at an asking price. Where the Group has positions with offsetting risks, mid-market prices are used to measure the offsetting risk positions and a bid or asking price adjustment is applied only to the net open position as appropriate. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group entity and the counterparty where appropriate. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that the Group believes a third-party market participant would take them into account in pricing a transaction.

Gains and losses on subsequent measurement

A gain or loss arising from a change in the fair value of a financial asset or liability is recognized as follows:

- a gain or loss on a financial instrument classified as at fair value through profit or loss is recognized in profit or loss

- a gain or loss on an available-for-sale financial asset is recognized as other comprehensive income in equity (except for impairment losses and foreign exchange gains and losses on debt financial instruments available-for-sale) until the asset is derecognized, at which time the cumulative gain or loss previously recognised in equity is recognized in profit or loss. Interest in relation to an available-for-sale financial asset is recognized in profit or loss using the effective interest method.

For financial assets and liabilities carried at amortized cost, a gain or loss is recognized in profit or loss when the financial asset or liability is derecognized or impaired, and through the amortization process.

Derecognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability in the consolidated statement of financial position. The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

The Group enters into transactions whereby it transfers assets recognised on its consolidated statement of financial position, but retains either all risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised.

In transactions where the Group neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, it derecognises the asset if control over the asset is lost.

In transfers where control over the asset is retained, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred assets.

If the Group purchases its own debt, it is removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from early retirement of debt.

The Group writes off assets deemed to be uncollectible.

Repurchase and reverse repurchase agreements

Securities sold under sale and repurchase (repo) agreements are accounted for as secured financing transactions, with the securities retained in the consolidated statement of financial position and the counterparty liability included in amounts payable under repo transactions. The difference between the sale and repurchase prices represents interest expense and is recognized in profit or loss over the term of the repo agreement using the effective interest method.

Securities purchased under agreements to resell (reverse repo) are recorded as amounts receivable under reverse repo transactions within loans and advances to banks or loans to customers, as appropriate. The difference between the purchase and resale prices represents interest income and is recognized in profit or loss over the term of the reverse repurchase agreement using the effective interest method.

If assets purchased under an agreement to resell are sold to third parties, the obligation to return securities is recorded as a trading liability and measured at fair value.

Offsetting

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

Leases

The Group’s lease transactions are classified as either financing or operating leases at inception in accordance with IAS 17 *Leases*.

Finance leases are leases that transfer substantially all the risks and rewards incident to ownership of an asset. Title may or may not eventually be transferred. Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract. The indicators for finance lease classification are:

- The lease transfers ownership of the asset to the lessee by the end of the lease term;
- The lessee has the option to purchase the asset at a price which is expected to be sufficiently lower than the fair value at the date the option becomes exercisable such that, at the inception of the lease, it is reasonably certain that the option will be exercised;
- The lease term is for the major part of the economic life of the asset even if title is not transferred;
- At the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset; or
- The leased assets are of a specialised nature such that only the lessee can use them without major modifications being made.

The Group as a lessor initially measures finance leases at an amount equal to the net investment in the lease. Subsequently the recognition of finance income is based on a pattern reflecting a constant periodic rate of return on the Group's net investment in the finance lease.

Property and equipment

Owned assets

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses, except for buildings, which are stated at revalued amounts as described below.

Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

Revaluation

Buildings are subject to revaluation on a regular basis. The frequency of revaluation depends on the movements in the fair values of the buildings being revalued. A revaluation increase on a building is recognised as other comprehensive income except to the extent that it reverses a previous revaluation decrease recognised in profit or loss, in which case it is recognised in profit or loss. A revaluation decrease on a building is recognised in profit or loss except to the extent that it reverses a previous revaluation increase recognised as other comprehensive income directly in equity, in which case it is recognised in other comprehensive income.

Leased assets

Leases under which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Equipment acquired by way of finance lease is stated at the amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

Depreciation

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Land is not depreciated. The estimated useful lives are as follows:

-	buildings	50 years
-	computers and equipment	5 years
-	fixtures and fittings	5 years
-	vehicles	5 years
-	computer software	5 years

Intangible assets

Acquired intangible assets are stated at cost less accumulated amortisation and impairment losses.

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in normal course of business, or for the use in production or supply of goods or services or for administrative purposes. Investment property is measured at fair value with any change recognised in profit or loss.

When the use of a property changes such that it is reclassified as property and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

Impairment

Financial assets carried at amortized cost

Financial assets carried at amortized cost consist principally of loans, promissory notes designated as financial instruments at fair value through profit or loss and other receivables (loans and receivables). The Group reviews its loans and receivables to assess impairment on a regular basis. A loan or receivable is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the loan or receivable and that event (or events) has had an impact on the estimated future cash flows of the loan that can be reliably estimated.

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, breach of loan covenants or conditions, restructuring of a loan or advance on terms that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, deterioration in the value of collateral, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers in the group, or economic conditions that correlate with defaults in the group.

The Group first assesses whether objective evidence of impairment exists individually for loans and receivables that are individually significant, and individually or collectively for loans and receivables that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed loan or receivable, whether significant or not, it includes the loan in a group of loans and receivables with similar credit risk characteristics and collectively assesses them for impairment. Loans and receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on a loan or receivable has been incurred, the amount of the loss is measured as the difference between the carrying amount of the loan or receivable and the present value of estimated future cash flows including amounts recoverable from guarantees and collateral discounted at the loan or receivable's original effective interest rate. Contractual cash flows and historical loss experience adjusted on the basis of relevant observable data that reflect current economic conditions provide the basis for estimating expected cash flows.

In some cases the observable data required to estimate the amount of an impairment loss on a loan or receivable may be limited or no longer fully relevant to current circumstances. This may be the case when a borrower is in financial difficulties and there is little available historical data relating to similar borrowers. In such cases, the Group uses its experience and judgement to estimate the amount of any impairment loss.

All impairment losses in respect of loans and receivables are recognized in profit or loss and are only reversed if a subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

When a loan is uncollectable, it is written off against the related allowance for loan impairment. The Group writes off a loan balance (and any related allowances for loan losses) when management determines that the loans are uncollectible and when all necessary steps to collect the loan are completed.

Financial assets carried at cost

Financial assets carried at cost include unquoted equity instruments included in available-for-sale financial assets that are not carried at fair value because their fair value can not be reliably measured. If there is objective evidence that such investments are impaired, the impairment loss is calculated as the difference between the carrying amount of the investment and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset.

All impairment losses in respect of these investments are recognized in profit or loss and cannot be reversed.

Available-for-sale financial assets

Impairment losses on available-for-sale financial assets are recognised by transferring the cumulative loss that is recognised in other comprehensive income to profit or loss as a reclassification adjustment. The cumulative loss that is reclassified from other comprehensive income to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment allowances attributable to time value are reflected as a component of interest income.

For an investment in an equity security available-for-sale, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

Non financial assets

Other non financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of goodwill is estimated at each reporting date. The recoverable amount of non financial assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

All impairment losses in respect of non financial assets are recognized in profit or loss and reversed only if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss reversed is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. An impairment loss in respect of goodwill is not reversed.

Provisions

A provision is recognised in the consolidated statement of financial position when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

Credit related commitments

In the normal course of business, the Group enters into credit related commitments, comprising undrawn loan commitments, letters of credit and guarantees, and provides other forms of credit insurance.

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

A financial guarantee liability is recognised initially at fair value net of associated transaction costs, and is measured subsequently at the higher of the amount initially recognised less cumulative amortisation or the amount of provision for losses under the guarantee. Provisions for losses under financial guarantees and other credit related commitments are recognised when losses are considered probable and can be measured reliably.

Financial guarantee liabilities and provisions for other credit related commitment are included in other liabilities.

Loan commitments are not recognised, except for the followings:

- loan commitments that the Group designates as financial liabilities at fair value through profit or loss

- if the Group has a past practice of selling the assets resulting from its loan commitments shortly after origination, then the loan commitments in the same class are treated as derivative instruments

- loan commitments that can be settled net in cash or by delivering or issuing another financial instrument.

- commitments to provide a loan at a below-market interest rate.

Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

Preference share capital

Preference share capital that is non-redeemable and carries no mandatory dividends is classified as equity.

Repurchase of share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a decrease in equity.

Dividends

The ability of the Group to declare and pay dividends is subject to the rules and regulations of the Russian legislation.

Dividends in relation to ordinary shares are reflected as an appropriation of retained earnings in the period when they are declared.

Taxation

Income tax comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items of other comprehensive income or transactions with shareholders recognised directly in equity, in which case it is recognised within other comprehensive income or directly within equity.

Current tax expense is the expected tax payable on the taxable profit for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and temporary differences related to investments in subsidiaries where the parent is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences, unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Income and expense recognition

Interest income and expense are recognised in profit or loss using the effective interest method.

Loan origination fees, loan servicing fees and other fees that are considered to be integral to the overall profitability of a loan, together with the related transaction costs, are deferred and amortized to interest income over the estimated life of the financial instrument using the effective interest method.

Other fees, commissions and other income and expense items are recognised in profit or loss when the corresponding service is provided.

Dividend income is recognised in profit or loss on the date that the dividend is declared.

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Hyperinflation accounting

The Russian Federation ceased to be hyperinflationary with effect from 1 January 2003 and, accordingly, no adjustments for hyperinflation are made for periods subsequent to this date. The hyperinflation-adjusted carrying amounts of equity items as at 31 December 2002 became their carrying amounts as at 1 January 2003 for the purpose of subsequent accounting.

Segment reporting

An operating segment is a component of a Group 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 Group); whose operating results are regularly reviewed by the 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.

Comparative information

A change in the presentation of interest income from financial instruments at fair value through profit or loss was made during 2011 in order to better present the substance of the underlying transactions.

With effect from 1 January 2011, the Group presents interest income on bonds acquired in net gain on financial instruments at fair value through profit or loss. The Group previously presented interest income on bonds acquired within interest income in the consolidated statement of comprehensive income for the year ended 31 December 2010. As a result, an amount of RUB 259 202 thousand has been reclassified from interest income to net gain on financial instruments at fair value through profit or loss in the comparative consolidated statement of comprehensive income, to conform to the 2011 presentation.

New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective as at 31 December 2011, and are not applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the financial position and performance. The Group plans to adopt these pronouncements when they become effective. The Group has not yet analysed the likely impact of the new standards on its financial position or performance.

- IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2015. The new standard is to be issued in phases and is intended ultimately to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement*. The first phase of IFRS 9 was issued in November 2009 and relates to the classification and measurement of financial assets. The second phase regarding classification and measurement of financial liabilities was published in October 2010. The remaining parts of the standard are expected to be issued during 2012. The Group recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on Group’s consolidated financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued. The Group does not intend to adopt this standard early.

- IFRS 10 *Consolidated Financial Statements* will be effective for annual periods beginning on or after 1 January 2013. The new standard supersedes IAS 27 *Consolidated and Separate Financial Statements* and SIC-12 *Consolidation – Special Purpose Entities*. IFRS 10 introduces a single control model which includes entities that are currently within the scope of SIC-12. Under the new three-step control model, an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with that investee, has the ability to affect those returns through its power over that investee and there is a link between power and returns. Consolidation procedures are carried forward from IAS 27 (2008). When the adoption of IFRS 10 does not result in a change in the previous consolidation or non-consolidation of an investee, no adjustments to accounting are required on initial application. When the adoption results in a change in the consolidation or non-consolidation of an investee, the new standard may be adopted with either full retrospective application from date that control was obtained or lost or, if not practicable, with limited retrospective application from the beginning of the earliest period for which the application is practicable, which may be the current period. Early adoption of IFRS 10 is permitted provided an entity also early-adopts IFRS 11, IFRS 12, IAS 27 (2011) and IAS 28 (2011).

- IFRS 13 *Fair Value Measurement* will be effective for annual periods beginning on or after 1 January 2013. The new standard replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It provides a revised definition of fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. IFRS 13 does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurement that currently exist in certain standards. The standard is applied prospectively with early adoption permitted. Comparative disclosure information is not required for periods before the date of initial application.
- Amendment to IAS 1 *Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income.* The amendment requires that an entity present separately items of other comprehensive income that may be reclassified to profit or loss in the future from those that will never be reclassified to profit or loss. Additionally, the amendment changes the title of the statement of comprehensive income to statement of profit or loss and other comprehensive income. However, the use of other titles is permitted. The amendment shall be applied retrospectively from 1 July 2012 and early adoption is permitted.
- Various *Improvements to IFRSs* have been dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect not earlier than 1 January 2012. The Group has not yet analysed the likely impact of the improvements on its financial position or performance.

4 Interest income and expense

	2011 RUB'000	2010 RUB'000
Interest income		
Loans to customers	6 400 517	3 967 430
Net investments in finance leases	280 622	64 299
Financial instruments at fair value through profit or loss	243 322	204 408
Due from banks	167 647	121 168
Available-for-sale financial assets	-	1 858
	7 092 108	**4 359 163**
Interest expense		
Current accounts and deposits from customers	2 244 048	1 837 409
Deposits and balances from banks	170 178	68 452
Promissory notes	81 442	49 649
Subordinated borrowings	3 331	16 706
	2 498 999	**1 972 216**

5 Fee and commission income

	2011 RUB’000	2010 RUB’000
Settlement fees	876 153	421 936
Accounts opening and maintenance	86 142	41 591
Guarantee and letter of credit issuance	79 192	57 034
Other	44 751	73 528
	1 086 238	**594 089**

6 Net foreign exchange income

	2011 RUB’000	2010 RUB’000
Gain on spot transactions and derivatives	256 549	163 580
Loss from revaluation of financial assets and liabilities	(19 551)	(24 659)
	236 998	**138 921**

7 Other operating income

	2011 RUB’000	2010 RUB’000
Penalties on loans issued	200 295	150 660
Rental income	29 272	20 675
Income from trust management	15 150	6 955
Other income	83 669	57 485
	328 386	**235 775**

8 Impairment (losses)/recovery

	2011 RUB’000	2010 RUB’000
Loans to customers	(539 613)	501 139
Net investments in finance leases	3 658	(10 629)
Other assets	-	41 729
	(535 955)	**532 239**

9 Personnel expenses

	2011 RUB'000	2010 RUB'000
Employee compensation	1 830 134	931 343
Payroll related taxes	360 334	173 313
	2 190 468	**1 104 656**

10 Other general administrative expenses

	2011 RUB'000	2010 RUB'000
Taxes other than on income	187 147	108 005
Depreciation and amortization	128 192	106 187
Write-off of materials and loss on disposals of assets	107 707	67 247
Repairs and maintenance	94 078	89 958
Insurance	90 131	57 084
Communications and information services	78 184	59 509
Advertising and marketing	75 557	50 968
Rent	68 037	79 170
Security	36 276	31 516
Travel expenses	21 566	17 055
Professional services	6 782	3 384
Fines and penalties	1 908	6 256
Other	143 267	39 642
	1 038 832	**715 981**

11 Income tax expense

	2011 RUB'000	2010 RUB'000
Current tax expense		
Current year	543 089	489 422
(Reversal) origination of temporary differences	(111 552)	35 411
Total income tax expense	**431 537**	**524 833**

In 2011, the applicable tax rate for current and deferred tax is 20% (2010: 20%).

Reconciliation of effective tax rate:

	2011 RUB'000	%	2010 RUB'000	%
Profit before tax	**2 625 033**		**2 503 099**	
Income tax at the applicable tax rate	525 007	20.0%	500 620	20.0%
Recovery of income tax of previous year	(49 596)	(1.9%)	-	-
Deferred tax asset not recognized	(44 437)	(1.7%)	-	-
Non-deductible costs	2 159	0.1%	27 323	1.1%
Income taxed at lower tax rates	(1 596)	(0.1%)	(3 110)	(0.1%)
	431 537	**16.4%**	**524 833**	**21.0%**

Deferred tax asset and liability

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to deferred tax assets and liabilities as at 31 December 2011 and 2010. Net deferred tax liabilities have been recognised in these consolidated financial statements.

Movements in temporary differences during the years ended 31 December 2011 and 2010 are presented as follows.

RUB'000	Balance 1 January 2011	Recognised in profit or loss	Recognised in equity	Balance 31 December 2011
Due from banks	(3 738)	2 521	-	(1 217)
Financial instruments at fair value through profit or loss	(10 879)	21 274	-	10 395
Derivative financial instruments	(544)	(4 514)	-	(5 058)
Amounts receivable under reverse repurchase agreements	(2 575)	2 575	-	-
Loans to customers	(99 759)	49 221	-	(50 538)
Net investments in finance leases	12 429	(3 769)	-	8 660
Property, equipment and intangible assets	(98 826)	(4 435)	(214 834)	(318 095)
Current accounts and deposits from customers	(5 854)	5 854	-	-
Promissory notes	-	246	-	246
Other liabilities	8 788	42 579	-	51 367
	(200 958)	**111 552**	**(214 834)**	**(304 240)**

RUB’000	Balance 1 January 2010	Recognised in profit or loss	Recognised in business combinations	Balance 31 December 2010
Due from banks	-	(3 738)	-	(3 738)
Financial instruments at fair value through profit or loss	3 138	(12 925)	(1 092)	(10 879)
Derivative financial instruments	360	(904)	-	(544)
Amounts receivable under reverse repurchase agreements	-	(2 575)	-	(2 575)
Loans to customers	(87 374)	14 357	(26 742)	(99 759)
Net investments in finance leases	-	650	11 779	12 429
Property, equipment and intangible assets	(84 682)	8 034	(22 178)	(98 826)
Other assets	14 261	(19 411)	5 150	-
Current accounts and deposits from customers	1 030	(6 884)	-	(5 854)
Promissory notes	(4 714)	4 714	-	-
Other liabilities	15 319	(16 729)	10 198	8 788
	(142 662)	**(35 411)**	**(22 885)**	**(200 958)**

12 Placements with the Central Bank of Russia

	2011 RUB’000	2010 RUB’000
Nostro accounts	1 020 172	1 895 727
Obligatory reserves with the CBR	484 781	221 404
Term deposits	350 038	700 058
Total placements with the Central Bank of Russia	**1 854 991**	**2 817 189**

13 Financial instruments at fair value through profit or loss

	2011 RUB'000	2010 RUB'000
ASSETS		
Debt and other fixed-income instruments		
- Government and municipal bonds		
Russian Government Federal bonds (OFZ)	2 067 217	200 362
Total government and municipal bonds	**2 067 217**	**200 362**
- Corporate bonds		
rated from BB- to BBB+	1 690 351	2 401 541
rated below B+	1 070 855	361 275
not rated	193 265	388 646
Total corporate bonds	**2 954 471**	**3 151 462**
- Promissory notes		
rated from BB- to BBB+	3 391 834	2 361 941
rated below B+	1 221 163	1 520 089
not rated	190 655	143 401
Total promissory notes	**4 803 652**	**4 025 431**
Equity investments		
Corporate shares	-	6 251
Total equity investments	**-**	**6 251**
Derivative financial instruments		
Foreign currency contracts	25 291	3 669
	9 850 631	**7 387 175**
LIABILITIES		
Derivative financial instruments		
Foreign currency contracts	-	950
	-	**950**

No financial assets at fair value through profit or loss are past due.

Foreign currency contracts

The table below summarises, by major currencies, the contractual amounts of forward exchange contracts outstanding at 31 December 2011 and at 31 December 2010 with details of the contractual exchange rates and remaining periods to maturity. Foreign currency amounts presented below are translated at rates ruling at the reporting date. The resultant unrealised gains and losses on these unmatured contracts, along with the amounts payable and receivable on the matured but unsettled contracts, are recognised in profit or loss and in financial instruments at fair value through profit or loss, as appropriate.

	Notional amount		Weighted average contractual exchange rates	
	2011 RUB'000	**2010 RUB'000**	**2011**	**2010**
Buy USD sell RUB				
Less than 3 months	476 270	488 152	31.75	30.51
Buy Euro sell RUB				
Less than 3 months	-	161 368	-	40.34
Buy Gold (grams) sell RUB				
Less than 3 months	1 154 860	435 752	1 603.95	1 372.74
	1 631 130	**1 085 272**		

14 Available-for-sale financial assets

	2011 RUB'000	**2010 RUB'000**
Debt and other fixed-income instruments		
- Corporate bonds		
rated from BB- to BB+	-	46 308
rated below B+	-	51 842
Total corporate bonds	**-**	**98 150**

15 Due from banks

	2011 RUB’000	2010 RUB’000
Nostro accounts		
- OECD banks	167 619	121 733
- Largest 30 Russian banks	156 091	5 539
- Other Russian banks	275 065	224 702
- Other foreign banks	48 011	22 414
Total nostro accounts	**646 786**	**374 388**
Term deposits		
- OECD banks	485 589	785 591
- Largest 30 Russian banks	167 010	180 000
- Other foreign banks	12 636	-
- Other Russian banks	2 315	97 221
Total term deposits	**667 550**	**1 062 812**
	1 314 336	**1 437 200**

None of due from banks balances are impaired or past due.

As at 31 December 2011 the Group has no banks (2010: no banks), whose balances individually exceed 10% of equity.

16 Amounts receivable under reverse repurchase agreements

There are no receivables under reverse repurchase agreements as at 31 December 2011.

The table below sets out receivables under reverse repurchase agreements showing individual types of securities received as collateral under reverse repurchase agreements outstanding as at 31 December 2010:

	Corporate bonds	Municipal bonds	Total
Amounts receivable under reverse repurchase agreements			
- Other Russian banks	3 735 751	762 369	4 498 120
- Other financial institutions	698 950	90 860	789 810
- Largest 30 Russian banks	398 953	40 000	438 953
	4 833 654	**893 229**	**5 726 883**

No amounts receivable under reverse repurchase agreements are impaired or past due.

17 Loans to customers

	2011 RUB'000	2010 RUB'000
Loans to corporate customers	**13 877 657**	**8 953 023**
Loans to retail customers		
Consumer loans	23 180 556	11 679 377
Mortgage loans	2 601 255	1 483 422
Total loans to retail customers	**25 781 811**	**13 162 799**
Gross loans to customers	39 659 468	22 115 822
Impairment allowance	(1 808 105)	(1 799 992)
Net loans to customers	**37 851 363**	**20 315 830**

Movements in the loan impairment allowance by classes of loans to customers for the year ended 31 December 2011 are as follows:

	Loans to corporate customers RUB'000	Loans to retail customers RUB'000	Total RUB'000
Balance at the beginning of the year	**296 833**	**1 503 159**	**1 799 992**
Net charge	51 427	488 186	539 613
Write-offs	(884)	(530 616)	(531 500)
Balance at the end of the year	**347 376**	**1 460 729**	**1 808 105**

Movements in the loan impairment allowance by classes of loans to customers for the year ended 31 December 2010 are as follows:

	Loans to corporate customers RUB'000	Loans to retail customers RUB'000	Total RUB'000
Balance at the beginning of the year	**558 176**	**1 373 894**	**1 932 070**
Business combinations	191 063	321 219	512 282
Net recovery	(427 605)	(73 534)	(501 139)
Write-offs	(24 801)	(118 420)	(143 221)
Balance at the end of the year	**296 833**	**1 503 159**	**1 799 992**

As at 31 December 2011, interest accrued on impaired loans amounts to RUB 219 165 thousand (31 December 2010: RUB 235 973 thousand).

Credit quality of loans to customers

The following table provides information on the credit quality of loans to customers as at 31 December 2011:

	Gross loans RUB’000	Impairment allowance RUB’000	Net loans RUB’000	Impairment allowance to gross loans, %
Loans to corporate customers				
Loans without individual signs of impairment	11 957 340	(134 974)	11 822 366	1.13%
Watch list loans	1 367 183	(15 814)	1 351 369	1.16%
Impaired loans:				
- not overdue	238 454	(824)	237 630	0.35%
- overdue less than 90 days	33 237	(6 990)	26 247	21.03%
- overdue more than 90 days and less than 1 year	96 149	(91 438)	4 711	95.10%
- overdue more than 1 year	185 294	(97 336)	87 958	52.53%
Total impaired loans	**553 134**	**(196 588)**	**356 546**	**35.54%**
Total loans to corporate customers	**13 877 657**	**(347 376)**	**13 530 281**	**2.50%**
Loans to retail customers				
Consumer loans				
- not overdue	20 398 665	(59 443)	20 339 222	0.29%
- overdue less than 30 days	505 358	(10 344)	495 014	2.05%
- overdue 30-89 days	286 245	(74 957)	211 288	26.19%
- overdue 90-179 days	271 285	(122 591)	148 694	45.19%
- overdue more than 180 days	1 719 003	(1 165 340)	553 663	67.79%
Total consumer loans	**23 180 556**	**(1 432 675)**	**21 747 881**	**6.18%**
Mortgage loans				
- not overdue	2 555 556	(1 484)	2 554 072	0.06%
- overdue less than 30 days	1 703	(60)	1 643	3.55%
- overdue 30-89 days	7 339	(686)	6 653	9.35%
- overdue 90-179 days	2 103	(637)	1 466	30.29%
- overdue more than 180 days	34 554	(25 187)	9 367	72.89%
Total mortgage loans	**2 601 255**	**(28 054)**	**2 573 201**	**1.08%**
Total loans to retail customers	**25 781 811**	**(1 460 729)**	**24 321 082**	**5.67%**
Total loans to customers	**39 659 468**	**(1 808 105)**	**37 851 363**	**4.56%**

The following table provides information on the credit quality of loans to customers as at 31 December 2010:

	Gross loans RUB’000	Impairment allowance RUB’000	Net loans RUB’000	Impairment allowance to gross loans. %
Loans to corporate customers				
Loans without individual signs of impairment	7 086 605	(148 292)	6 938 313	2.09%
Watch list loans	1 324 770	(27 722)	1 297 048	2.09%
Impaired loans:				
- not overdue	227 987	(26 741)	201 246	11.73%
- overdue less than 90 days	141	(141)	-	100.00%
- overdue more than 90 days and less than 1 year	62 439	(16 961)	45 478	27.16%
- overdue more than 1 year	251 081	(76 976)	174 105	30.66%
Total impaired loans	**541 648**	**(120 819)**	**420 829**	**22.31%**
Total loans to corporate customers	**8 953 023**	**(296 833)**	**8 656 190**	**3.32%**
Loans to retail customers				
Consumer loans				
- not overdue	9 391 592	(44 030)	9 347 562	0.47%
- overdue less than 30 days	175 254	(13 229)	162 025	7.55%
- overdue 30-89 days	138 001	(40 331)	97 670	29.23%
- overdue 90-179 days	222 739	(116 679)	106 060	52.38%
- overdue more than 180 days	1 751 791	(1 256 146)	495 645	71.71%
Total consumer loans	**11 679 377**	**(1 470 415)**	**10 208 962**	**12.59%**
Mortgage loans				
- not overdue	1 429 805	(1 767)	1 428 038	0.12%
- overdue less than 30 days	3 917	(327)	3 590	8.35%
- overdue 30-89 days	10 503	(1 605)	8 898	15.28%
- overdue 90-179 days	4 488	(2 478)	2 010	55.21%
- overdue more than 180 days	34 709	(26 567)	8 142	76.54%
Total mortgage loans	**1 483 422**	**(32 744)**	**1 450 678**	**2.21%**
Total loans to retail customers	**13 162 799**	**(1 503 159)**	**11 659 640**	**11.42%**
Total loans to customers	**22 115 822**	**(1 799 992)**	**20 315 830**	**8.14%**

Key assumptions and judgments for estimating loan impairment

Loans to corporate customers

Loan impairment results from one or more events that occurred after the initial recognition of the loan and that have an impact on the estimated future cash flows associated with the loan and that can be reliably estimated. Loans without individual signs of impairment do not have objective evidence of impairment that can be directly attributed to them.

The objective indicators of loan impairment for loans to corporate customers include the following:

- overdue payments under the loan agreement
- significant difficulties in the financial conditions of the borrower
- deterioration in the business environment, negative changes in the borrower's markets.

The Group estimates loan impairment for loans to corporate customers based on an analysis of the future cash flows for impaired loans and based on its past loss experience for portfolios of loans for which no indications of impairment has been identified.

In determining the impairment allowance for loans to corporate customers management makes the following key assumptions:

- the principal collateral taken into account in the estimation of future cash flows comprises mainly real estate. Valuations for real estate have been discounted by 10-20 percent depending on the type of the real estate to reflect current market conditions and costs to sell
- a delay of 12 to 24 months in obtaining proceeds from the foreclosure of collateral.

Changes in these estimates could affect the loan impairment allowance. For example, to the extent that the net present value of the estimated cash flows differs by one percent, the impairment allowance on loans to corporate customers as at 31 December 2011 would be RUB 135 303 thousand lower/higher (2010: RUB 86 562 thousand lower/higher).

Loans to retail customers

The Group estimates loan impairment for loans to retail customers based on its past historical loss experience on each type of loan. The significant assumptions used by management in determining the impairment losses for loans to retail customers include:

- loss migration rates are constant and estimated based on historic loss migration pattern for the past 24 months
- the historic actual recovery rate of loans overdue more than 180 days has been taken into account when estimating future recoveries on overdue loans.

Changes in these estimates could affect the loan impairment allowance. For example, to the extent that the net present value of the estimated cash flows differs by plus minus three percent, the impairment allowance on loans to retail customers as at 31 December 2011 would be RUB 729 632 thousand lower/higher (31 December 2010: RUB 349 789 thousand).

Analysis of collateral

Loans to corporate customers

The following table provides an analysis of loans to corporate customers, net of impairment, by types of collateral as at 31 December 2011:

	2011 RUB'000	**% of loan portfolio**	**2010 RUB'000**	**% of loan portfolio**
Corporate and personal guarantees	4 531 735	33.48%	1 295 243	14.96%
Real estate	4 509 348	33.33%	3 748 089	43.30%
Motor vehicles	939 639	6.94%	336 115	3.88%
Goods in turnover	927 920	6.86%	515 944	5.96%
Equipment	435 567	3.22%	531 781	6.14%
Securities	405 412	3.00%	513 887	5.94%
Promissory notes issued by the Bank	167 242	1.24%	163 743	1.89%
Other collateral	666 708	4.93%	379 607	4.39%
No collateral	946 710	7.00%	1 171 781	13.54%
	13 530 281	**100.00%**	**8 656 190**	**100.00%**

The amounts shown in the table above represent the carrying value of the loans and do not necessarily represent the fair value of the collateral.

Loans to corporate customers that are past due or impaired

Impaired or overdue loans to corporate customers are secured by collateral with a fair value of RUB 204 605 thousand (2010: RUB 273 817 thousand), excluding the effect of overcollateralisation.

Loans to corporate customers that are neither past due nor impaired

As at 31 December 2011 the fair value of the Group's own promissory notes, serving as collateral for loans to corporate customers, is RUB 169 231 thousand (2010: RUB 163 743 thousand).

As at 31 December 2011 there were no traded securities and cash balances, serving as collateral for loans to corporate customers (2010: the fair value of such collateral amounted to RUB 441 793 thousand).

For remaining loans to corporate customers with a net carrying amount of RUB 7 695 290 thousand (2010: RUB 5 141 920 thousand), which are neither past due nor impaired, the fair value of collateral was estimated at the inception of the loans and was not adjusted for subsequent changes to the reporting date. The recoverability of these loans is primarily dependent on the creditworthiness of the borrowers rather than the value of collateral, and the current value of the collateral does not impact the impairment assessment.

Loans to retail customers

Mortgage loans are secured by the underlying housing real estate. Consumer loans are mainly not secured.

Mortgage loans

For mortgage loans with a net carrying amount of RUB 2 573 201 thousand (2010: RUB 1 450 678 thousand) management believes that the fair value of collateral is at least equal to the carrying amount of individual loans at the reporting date.

The Group updates the appraised values of collateral at inception of the loans to the current values considering the approximate changes in property values. The Group obtains specific individual valuation of collateral at each reporting date in case there are indications of impairment.

Collateral obtained

During the year ended 31 December 2011, the Group obtained certain assets by taking possession of collateral for loans to customers. As at 31 December 2011, the carrying amount of such assets was RUB 8 390 thousand (2010: RUB 3 716 thousand). The Group’s policy is to dispose of these assets as soon as it is practicable.

Industry and geographical analysis of the loan portfolio

Loans to customers were issued primarily to customers located within the Russian Federation who operate in the following economic sectors:

	2011 RUB’000	**2010 RUB’000**
Wholesale and retail trade	4 635 858	3 419 861
Construction	1 459 664	618 297
Production	1 417 731	439 949
Mining	1 353 862	209 675
Fishery	848 230	725 304
Real estate	647 082	710 022
Investment activities	422 591	158 496
Services	347 926	536 277
Energy	194 487	332 892
Insurance	255 420	462 230
Local authorities and municipal enterprises	147 587	562 227
Other	2 147 219	777 793
Individuals	25 781 811	13 162 799
	39 659 468	**22 115 822**
Impairment allowance	(1 808 105)	(1 799 992)
	37 851 363	**20 315 830**

Significant credit exposures

As at 31 December 2011 the Group has no borrowers or groups of connected borrowers whose loan balances individually exceed 10% of equity (31 December 2010: no borrowers or group of borrowers).

18 Net investments in finance leases

Net investments in finance leases as of 31 December 2011 comprise:

	2011 RUB'000	2010 RUB'000
Gross investments in finance leases	2 216 820	885 766
Less unearned finance lease income	(537 086)	(262 536)
	1 679 734	**623 230**
Less allowance for impairment	(36 995)	(40 653)
Net investments in finance leases	**1 642 739**	**582 577**

Net investments in finance leases generally comprise lease contracts on various types of equipment and vehicles.

Future minimum lease payments to be received following 31 December 2011 are disclosed below:

	2011 RUB'000	2010 RUB'000
Within 1 year	919 853	357 759
From 1 to 5 years	1 267 581	490 887
More than 5 years	29 386	37 120
Minimum lease payments receivable	**2 216 820**	**885 766**

Gross investment in leases as of 31 December 2011 is receivable in the following currencies:

	2011 RUB'000	2010 RUB'000
RUB	1 956 987	823 803
USD	243 656	36 835
EUR	16 177	25 128
Gross investments in finance leases	**2 216 820**	**885 766**

Movements in the impairment allowance for the year ended 31 December 2011 are as follows:

	2011 RUB'000	2010 RUB'000
Balance at the beginning of the year	40 653	-
Net (recovery) charge	(3 658)	10 629
Business combination	-	30 024
Balance at the end of the year	**36 995**	**40 653**

19 Property, equipment and intangible assets

RUB'000	Land and buildings	Leasehold improvements	Computers and equipment	Fixtures and fittings	Vehicles	Intangible assets	Construction in progress	Total
Cost/revalued amount								
Balance at 1 January 2011	1 628 530	5 288	470 208	37 907	30 383	96 948	147 301	2 416 565
Additions	599 728	-	83 729	864	87 432	163 963	44 104	979 820
Disposals	(1 191)	-	(106 310)	(104)	(1 138)	(33 662)	-	(142 405)
Revaluation	1 362 473	-	-	-	-	-	-	1 362 473
At 31 December 2011	**3 589 540**	**5 288**	**447 627**	**38 667**	**116 677**	**227 249**	**191 405**	**4 616 453**
Depreciation and impairment losses								
Balance at 1 January 2011	172 148	468	272 124	35 581	14 535	29 951	-	524 807
Depreciation for the year	37 882	106	50 900	839	4 738	33 727	-	128 192
Disposals	(101)	-	(42 078)	(100)	(753)	(7 834)	-	(50 866)
Revaluation	(205 825)	-	-	-	-	-	-	(205 825)
Balance at 31 December 2011	**4 104**	**574**	**280 946**	**36 320**	**18 520**	**55 844**	**-**	**396 308**
Carrying amounts								
At 31 December 2011	**3 585 436**	**4 714**	**166 681**	**2 347**	**98 157**	**171 405**	**191 405**	**4 220 145**
At 31 December 2010	**1 456 382**	**4 820**	**198 084**	**2 326**	**15 848**	**66 997**	**147 301**	**1 891 758**

There are no capitalised borrowing costs related to the acquisition or construction of property, equipment and intangible assets during 2011 (2010: nil).

RUB’000	Land and buildings	Leasehold improvements	Computers and equipment	Fixtures and fittings	Vehicles	Intangible assets	Construction in progress	Total
Cost								
Balance at 1 January 2010	1 233 431	33 053	196 480	180 814	11 059	89 247	99 036	1 843 120
Acquisitions through business combination	209 833	-	189 231	31 473	10 187	-	-	440 724
Additions	91 851	-	84 869	758	10 075	7 701	141 680	336 934
Disposals	-	(27 765)	(372)	(175 138)	(938)	-	-	(204 213)
Transfers	93 415	-	-	-	-	-	(93 415)	-
At 31 December 2010	**1 628 530**	**5 288**	**470 208**	**37 907**	**30 383**	**96 948**	**147 301**	**2 416 565**
Depreciation and impairment losses								
Balance at 1 January 2010	95 039	3 031	99 678	152 815	5 369	12 278	-	368 210
Acquisitions through business combinations	47 628	-	118 336	6 103	6 304	-	-	178 371
Depreciation for the year	29 481	106	54 389	782	3 756	17 673	-	106 187
Disposals	-	(2 669)	(279)	(124 119)	(894)	-	-	(127 961)
Balance at 31 December 2010	**172 148**	**468**	**272 124**	**35 581**	**14 535**	**29 951**	**-**	**524 807**
Carrying amounts								
At 31 December 2010	**1 456 382**	**4 820**	**198 084**	**2 326**	**15 848**	**66 997**	**147 301**	**1 891 758**
At 31 December 2009	**1 138 392**	**30 022**	**96 802**	**27 999**	**5 690**	**76 969**	**99 036**	**1 474 910**

Revalued assets

At 31 December 2011 buildings are revalued based on the results of an independent appraisal performed by S.A.Ricci.

The basis used for the appraisal is the combination of market and income approaches weighted on 50%/50% basis.

The market approach is based upon an analysis of the results of comparable sales of similar buildings. Adjustments were applied for location, size, condition, design, bargain discount, date of offer, and parking.

The following key assumptions are used in applying the income capitalization approach:

- The rental rates applied by the Appraiser were calculated based on the analysis of comparable properties’ rental rates;
- The vacancy rate of 5% was assumed for the properties with the total area less than 150 m2, the vacancy rate of 7% was assumed for the properties with the total area of 150 to 500 m2, the vacancy rate of 10% was used for the properties with the total area of more than 500 m2;
- The capitalisation rate of 13% was assumed for large cities (regional centres) and 14% for small cities. For the office building located in Moscow, the capitalisation rate of 10% was assumed based on the Appraiser’s internal research (S.A.Ricci).

The values assigned to the key assumptions represent management’s assessment of future business trends and are based on both external sources and internal sources of information.

Changes in the estimates above could effect the value of the buildings. For example, to the extent that the net present value of the estimated cash flows differs by plus minus three percent, the building valuation as at 31 December 2011 would be RUB 47 049 thousand lower/higher (2010: no revaluation).

The carrying value of buildings as at 31 December 2011, if the buildings would not have been revalued, would be RUB 2 651 847 thousand (2010: no revaluation).

20 Other assets

	2011 RUB’000	2010 RUB’000
Other receivables	131 524	91 393
Total other financial assets	**131 524**	**91 393**
Prepayments for assets to be leased under finance lease	461 195	95 645
Prepayments	338 744	115 457
Advances on precious metals delivery	324 363	-
Materials and supplies	26 419	14 713
Other	170 706	43 814
Total other non-financial assets	**1 321 427**	**269 629**
Total other assets	**1 452 951**	**361 022**

21 Deposits and balances from banks

	2011 RUB’000	2010 RUB’000
Vostro accounts	331 144	26 550
Term deposits	3 578 807	1 696 343
	3 909 951	**1 722 893**

As at 31 December 2011 the Group has one bank (2010: one bank), whose balances exceed 10% of equity. The gross value of these balances as at 31 December 2011 is RUB 1 803 707 thousand (2010: RUB 1 001 545 thousand).

Covenants

As at 31 December 2011, the Group has term deposits from banks amounting to RUB 917 993 thousand repayable on 23 December 2013 and term deposits amounting to RUB 704 346 thousand repayable on 27 July 2016 (2010: RUB 1 001 545 thousand repayable on 23 December 2013). According to the terms of the agreements, the Group is subject to a debt covenant stating that funds should be used for loan issuance to small and medium size entities. The Bank should comply with all ratios of the CBR and the N1 ratio should be not less than 10.1%.

As at 31 December 2011, the Group has term deposits from another bank amounting to RUB 332 920 thousand repayable on 15 June 2015 (2010: RUB 427 358 thousand). According to the terms of the agreement the Group is subject to a debt covenant stating that funds should be used for issuance of loans to small and medium size entities and at the end of each year should comply with a number of financial and non-financial covenants.

During 2011 the Group did not breach any covenants described above.

22 Current accounts and deposits from customers

	2011 RUB'000	2010 RUB'000
Current accounts and demand deposits		
- Retail	3 284 368	2 335 274
- Corporate	9 772 574	7 228 868
Term deposits		
- Retail	25 651 605	18 432 463
- Corporate	7 632 075	4 325 447
	46 340 622	**32 322 052**

As at 31 December 2011, the Group has no customers (2010: one customer), whose balances individually exceed 10% of equity. This balance as at 31 December 2010 was RUB 584 849 thousand.

23 Subordinated borrowings

	2011 RUB'000	2010 RUB'000
Subordinated deposit	-	156 610
	-	**156 610**

As at 31 December 2010 subordinated borrowings comprise deposits received from a related party maturing in 2011 and carry an annual interest rate of 11%.

24 Other liabilities

	2011 RUB’000	2010 RUB’000
Payables to employees	272 264	50 589
Payables to creditors	247 703	71 489
Provision for guarantees and letters of credit issued	16 553	40 237
Other taxes payable	6 804	1 617
Other non-financial liabilities	7 982	3 504
	551 306	**167 436**

25 Share capital

Issued capital and share premium

Movements in share capital for the years ended 31 December 2011 and 2010 are as follows:

	Ordinary Shares (thousands)	Nominal amount, RUB’000	Inflation adjustment, RUB’000	Total, RUB’000
Balance as at 1 January 2010	**3 459 821 429 500**	**387 500**	**8 022**	**395 522**
Ordinary shares	3 459 821 429 250	387 500	8 022	395 522
Preferred shares	250	-	-	-
Issue of ordinary shares related to business combination with Kamchatprombank	1 033 878 849 532	115 794	-	115 794
Issue of ordinary shares related to business combination with Kolyma-Bank	455 319 541 907	50 996	-	50 996
Balance as at 1 January 2011	**4 949 019 820 939**	**554 290**	**8 022**	**562 312**
Ordinary shares	4 949 019 820 689	554 290	8 022	562 312
Preferred shares	250	-	-	-
Balance as at 31 December 2011	**4 949 019 820 939**	**554 290**	**8 022**	**562 312**

On 7 May 2010 the Bank completed business combinations with OJSC “Kamchatprombank” and OJSC “Kolyma-Bank”. As a result of the merger these two banks ceased to exist and all their business operations, assets and liabilities are incorporated into OJSC “Asian-Pacific Bank”.

The combination was conducted as follows. As of 31 December 2009 LLC “PPFIN Region” owned 67.27% of ordinary shares of OJSC “Asian-Pacific Bank”, 62.91% of OJSC “Kamchatprombank” and 70.75% of OJSC “Kolyma-Bank”.

In May 2010, OJSC “Asian-Pacific Bank” entered into a merger agreement with shareholders of OJSC “Kamchatprombank” and OJSC “Kolyma-Bank”. In accordance with the merger agreement all outstanding ordinary shares of OJSC “Kamchatprombank” and OJSC “Kolyma-Bank” have been exchanged with the common shares of OJSC “Asian-Pacific Bank”. The established conversion rate was approved by all parties of the merger agreement as follows:

- 1 ordinary share of OJSC “Asian-Pacific Bank” for each 0.000000030699205 shares of OJSC “Kamchatprombank”
- 1 ordinary share of OJSC “Asian-Pacific Bank” for each 0.000000003675479 shares of OJSC “Kolyma-Bank”.

As a result of this conversion, a total of 13 977 866 ordinary shares of OJSC “Kamchatprombank” were exchanged for 455 319 541 907 276 of newly-issued ordinary shares of OJSC “Asian-Pacific Bank” and a total of 3 800 000 ordinary shares of OJSC “Kolyma-Bank” were exchanged for 1 033 878 849 532 260 newly issued ordinary shares of OJSC “Asian-Pacific Bank”. The share capital of OJSC “Asian-Pacific Bank” increased by RUB 166 790 thousand.

In accordance with the Russian legislation, dividends may only be declared to the shareholders of the Bank from accumulated undistributed and unreserved earnings as shown in the Bank's financial statements prepared in accordance with Russian Accounting Legislation.

The share capital of the Bank was contributed by the shareholders in Russian Roubles and they are entitled to dividends and any capital distribution in Russian Roubles.

26 Earnings per share

	2011 RUB	2010 RUB
Earnings per share		
Basic earnings per share	0.0000004432	0.0000004405

Basic earnings per share

The calculation of basic earnings per share as at 31 December 2011 and 2010 is based on the profit attributable to ordinary shareholders of RUB 2 193 496 thousand (2010: RUB 1 978 266 thousand). and a weighted average number of ordinary shares outstanding of 4 949 019 820 689 000 (2010: 4 490 804 931 265 830) calculated as follows.

	2011 RUB’000	2010 RUB’000
Net profit	2 193 496	1 978 266
Net profit attributable to ordinary shareholders	**2 193 496**	**1 978 266**

	2011	2010
Issued ordinary shares at the beginning of the year	4 949 019 820 689 000	3 459 821 429 500 000
Effect of shares issued related to a business combination	-	1 030 983 501 765 830
Weighted average number of ordinary shares for the year ended 31 December	**4 949 019 820 689 000**	**4 490 804 931 265 830**

27 Analysis by segment

The Group has sixteen divisions located in different regions of Russian Federation, as described below, which are the Group's strategic business units. The strategic business units offer different products and services, and are managed separately. For each of the strategic business units the chief operating decision maker reviews internal management reports on at least a monthly basis. The Group combined branches into three reporting units based on geographical location: Far East region, Siberia region and West region.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before income tax as included in the internal management reports that are based on statutory financial information and that are reviewed by the CEO. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to others who operate within these industries.

Segment breakdown of assets and liabilities is set out below:

	2011 RUB'000	**2010 RUB'000**
ASSETS		
Far East region	28 491 545	18 128 717
Siberia region	13 806 811	6 008 999
West region	14 962 925	17 185 155
Total assets	**57 261 281**	**41 322 871**
LIABILITIES		
Far East region	37 674 212	27 217 689
Siberia region	6 990 091	4 126 781
West region	5 170 398	4 146 226
Total liabilities	**49 834 701**	**35 490 696**

Segment information for the main reportable segments for the year ended 31 December 2011 is set below:

RUB’000	Far East region	Siberia region	West region	Total
External interest income	3 344 010	1 688 050	823 093	5 855 153
Fee and commission income	1 366 909	565 324	113 954	2 046 187
Net (loss) gain on financial instruments at fair value through profit or loss	(2 830)	-	221 212	218 382
Net foreign exchange income	139 589	64 358	11 688	215 635
Net loss on available-for-sale financial assets	-	-	(2 534)	(2 534)
Other operating income	182 521	74 529	3 765	260 815
Revenue	**5 030 199**	**2 392 261**	**1 171 178**	**8 593 638**
Impairment losses (recovery)	292 690	405 953	(70 600)	628 043
Interest expense	1 903 306	324 395	211 812	2 439 513
Fee and commission expense	31 407	15 646	18 290	65 343
Other general administrative expenses	2 725 112	222 150	50 018	2 997 280
Segment result	**77 684**	**1 424 117**	**961 658**	**2 463 459**
Income tax expense				543 089
Net profit after taxes				**1 920 370**

Segment information for the main reportable segments for the year ended 31 December 2010 is set below:

RUB’000	Far East region	Siberia region	West region	Total
External interest income	2 092 142	879 924	813 851	3 785 917
Fee and commission income	993 494	389 243	85 200	1 467 937
Net gain on financial instruments at fair value through profit or loss	11 486	-	319 859	331 345
Net foreign exchange income	-	-	1 748	1 748
Net gain on available-for-sale financial assets	95 228	32 247	32 737	160 212
Other operating income	136 676	42 135	2 408	181 219
Revenue	**3 329 026**	**1 343 549**	**1 255 803**	**5 928 378**
Impairment (recovery) losses	(454 238)	162 400	117 475	(174 363)
Interest expense	1 592 082	253 075	113 450	1 958 607
Fee and commission expense	25 734	9 207	7 047	41 988
Other general administrative expenses	1 704 755	349 346	73 683	2 127 784
Segment result	**460 693**	**569 521**	**944 148**	**1 974 362**
Income tax expense				325 617
Net profit after taxes				**1 648 745**

Reconciliations of reportable segment revenues, profit or loss, assets and liabilities

	2011 RUB’000	2010 RUB’000
Revenues		
Total revenues for reportable segments	8 593 638	5 928 378
IFRS accounting policy adjustments:		
- interest income on loans and advances to customers	16 617	(101 674)
- securities at fair value	27 745	(7 600)
- other adjustments	406 801	41 016
Consolidated revenues	**9 044 801**	**5 860 120**
Profit or loss		
Total profit or loss for reportable segments	1 920 370	1 648 745
IFRS accounting policy adjustments:		
- interest income on loans and advances to customers	16 617	(101 674)
- allowance for impairment of loans and advances to customers and finance lease receivables	51 620	226 633
- allowance for impairment of other assets	40 469	121 565
- depreciation and amortisation of property and equipment and intangible assets	(8 951)	12 327
- securities at fair value	27 745	(7 600)
- other adjustments	145 626	78 270
Consolidated profit or loss	**2 193 496**	**1 978 266**

	2011 RUB’000	2010 RUB’000
Assets		
Total assets for reportable segments	57 261 281	41 322 871
IFRS accounting policy adjustments:		
- interest income on loans and advances to customers	(135 685)	(101 674)
- allowance for impairment of loans and advances to customers and finance lease receivables	842 841	722 530
- allowance for impairment of other assets	286 902	319 789
- depreciation and amortisation of property and equipment and intangible assets	80 913	12 327
- securities at fair value	14 108	(7 600)
- deferred income tax asset	8 660	13 509
- recognition of goodwill	73 571	73 571
- revaluation of property and equipment	125 866	(898 853)
- assets of subsidiary	1 333 220	322 197
- other adjustments	638 342	2 044
Consolidated assets	**60 530 019**	**41 780 711**
Liabilities		
Total liabilities for reportable segments	49 834 701	35 490 696
IFRS accounting policy adjustments:		
- accounting for deferred tax liability	312 900	213 910
- liabilities of subsidiary	1 341 346	309 612
- other adjustments	316 896	273 077
Consolidated liabilities	**51 805 843**	**36 287 295**

Information about major customers and geographical areas

For the years ended 31 December 2011 and 2010, there were no corporate customers whose revenues individually exceed 10% of total revenue.

The majority of revenues from external customers relate to residents of the Russian Federation. The majority of non-current assets are located in the Russian Federation.

28 Risk management

Management of risk is fundamental to the business of banking and is an essential element of the Group’s operations. The major risks faced by the Group are those related to market risk, credit risk and liquidity risk.

(a) Risk management policies and procedures

The risk management policies aim to identify, analyse and manage the risks faced by the Group, to set appropriate risk limits and controls, and to continuously monitor risk levels and adherence to limits. Risk management policies and procedures are reviewed regularly to reflect changes in market conditions, products and services offered and emerging best practice.

The Board of Directors has overall responsibility for the oversight of the risk management framework, overseeing the management of key risks and reviewing its risk management policies and procedures as well as approving significantly large exposures.

The Management Board is responsible for monitoring and implementation of risk mitigation measures and making sure that the Group operates within the established risk parameters. The Head of the Risk Department is responsible for the overall risk management and compliance functions, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting both financial and non-financial risks. He reports directly to the Chairman of the Board and indirectly to the Board of Directors.

Credit, market and liquidity risks both at the portfolio and transactional levels are managed and controlled through a system of Credit Committees and an Asset and Liability Management Committee (the ALCO). In order to facilitate efficient and effective decision-making, the Group established a hierarchy of credit committees depending on the type and amount of the exposure.

Both external and internal risk factors are identified and managed throughout the organisation. Particular attention is given to identifying the full range of risk factors and determination of the level of assurance over the current risk mitigation procedures. Apart from the standard credit and market risk analysis, the Risk Department monitors financial and non-financial risks by holding regular meetings with operational units in order to obtain expert judgments in their areas of expertise.

(b) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises currency risk, interest rate risk and other price risks. Market risk arises from open positions in interest rate, currency and equity based financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, whilst optimizing the return on risk.

Overall authority for market risk is vested in the ALCO, which is chaired by the Chairman of the Management Board. Market risk limits are approved by the ALCO based on recommendations of the Risk Department.

The Group manages its market risk by setting open position limits in relation to financial instrument types stated above, value-at-risk based limits and stop-loss limits. These are monitored on a regular basis and reviewed and approved by the ALCO.

(i) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may also reduce or create losses in the event that unexpected movements occur.

Average interest rates

The table below displays average effective interest rates for interest bearing assets and liabilities as at 31 December 2011 and 2010. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	2011 Average effective interest rate. %			2010 Average effective interest rate. %		
	RUB	**USD**	**Other currencies**	**RUB**	**USD**	**Other currencies**
Interest bearing assets						
Term deposits with the CBR	4%	-	-	3%	-	-
Financial instruments at fair value through profit or loss	7%	9%	-	8%	-	-
Available-for-sale financial assets	-	-	-	-	7%	-
Due from banks						
- nostro accounts	2%	-	-	-	-	-
- term deposits	8%	11%	-	4%	10%	-
Amounts receivable under reverse repurchase agreements	-	-	-	4%	-	-
Loans to customers	23%	10%	12%	23%	12%	13%
Net investments in finance leases	23%	20%	35%	32%	23%	26%
Interest bearing liabilities						
Deposits and balances from banks	9%	0%	0%	9%	-	-
Current accounts and deposits from customers	9%	6%	6%	7%	4%	5%
Promissory notes	8%	-	9%	8%	4%	9%
Subordinated borrowings	-	-	-	-	11%	-

Interest rate sensitivity analysis

The management of interest rate risk based on interest rate gap analysis is suplemented by monitoring the sensitivity of financial assets and liabilities. An analysis of sensitivity of profit or loss and equity (net of taxes) to changes in interest rates (repricing risk) based on a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves and positions of interest-bearing assets and liabilities existing as at 31 December 2011 and 2010 is as follows:

	2011		**2010**	
	Profit or loss RUB’000	**Equity RUB’000**	**Profit or loss RUB’000**	**Equity RUB’000**
100 bp parallel fall	70 191	70 191	52 727	52 727
100 bp parallel rise	(70 191)	(70 191)	(52 727)	(52 727)

An analysis of sensitivity of profit or loss and equity as a result of changes in the fair value of financial instruments at fair value though profit or loss and available-for-sale financial assets due to changes in the interest rates based on positions existing as at 31 December 2011 and 2010 and a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves is as follows:

	2011		**2010**	
	Profit or loss RUB’000	**Equity RUB’000**	**Profit or loss RUB’000**	**Equity RUB’000**
100 bp parallel fall	50 217	50 217	60 830	61 756
100 bp parallel rise	(50 217)	(50 217)	(60 830)	(61 756)

(ii) Currency risk

The Group has assets and liabilities denominated in several foreign currencies.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign currency exchange rates. Although the Group hedges its exposure to currency risk, such activities do not qualify as hedging relationships in accordance with IFRS.

The following table shows the foreign currency structure of assets and liabilities as at 31 December 2011:

	RUB	USD	EUR	Gold	Other currencies	Total
	RUB’000	RUB’000	RUB’000	RUB’000	RUB’000	RUB’000
ASSETS						
Cash	1 852 999	272 560	166 390		31 716	2 323 665
Placements with the Central Bank of Russia	1 854 991	-	-	-	-	1 854 991
Financial instruments at fair value through profit or loss	9 766 858	65 154	-	18 619	-	9 850 631
Due from banks	680 054	331 247	204 973	83 939	14 123	1 314 336
Loans to customers	36 627 732	911 517	312 114	-	-	37 851 363
Net investments in finance leases	1 472 513	158 512	11 714	-	-	1 642 739
Current tax asset	10 538	-	-	-	-	10 538
Deferred tax asset	8 660	-	-	-	-	8 660
Property, equipment and intangible assets	4 220 145	-	-	-	-	4 220 145
Other assets	1 317 086	111 706	24 159	-	-	1 452 951
Total assets	**57 811 576**	**1 850 696**	**719 350**	**102 558**	**45 839**	**60 530 019**

	RUB	USD	EUR	Gold	Other currencies	Total
	RUB’000	RUB’000	RUB’000	RUB’000	RUB’000	RUB’000
LIABILITIES						
Deposits and balances from banks	3 665 078	235 178	7 100	-	2 595	3 909 951
Current accounts and deposits from customers	42 403 485	2 048 969	620 607	1 262 964	4 597	46 340 622
Promissory notes	536 100	-	1 574	-	-	537 674
Current tax liability	153 390	-	-	-	-	153 390
Deferred tax liability	312 900	-	-	-	-	312 900
Other liabilities	502 371	43 654	5 281	-	-	551 306
Total liabilities	**47 573 324**	**2 327 801**	**634 562**	**1 262 964**	**7 192**	**51 805 843**
Net position	**10 238 252**	**(477 105)**	**84 788**	**(1 160 406)**	**38 647**	**8 724 176**
The effect of derivatives held for risk management	**(1 631 130)**	**476 270**	**-**	**1 154 860**	**-**	**-**
Net position after derivatives held for risk management purposes	**8 607 122**	**(835)**	**84 788**	**(5 546)**	**38 647**	**8 724 176**

The following table shows the foreign currency structure of assets and liabilities as at 31 December 2010:

	RUB	USD	EUR	Gold	Other currencies	Total
	RUB'000	RUB'000	RUB'000	RUB'000	RUB'000	RUB'000
ASSETS						
Cash	904 465	117 838	77 745	-	25 914	1 125 962
Placements with the Central Bank of Russia	2 817 189	-	-	-	-	2 817 189
Financial instruments at fair value through profit or loss	7 383 506	-	394	3 275	-	7 387 175
Available-for-sale financial assets	51 842	46 308	-	-	-	98 150
Due from banks	962 633	432 713	22 800	15 365	3 689	1 437 200
Amounts receivable under reverse repurchase agreements	5 726 883	-	-	-	-	5 726 883
Loans to customers	19 410 120	600 389	305 321	-	-	20 315 830
Net investments in finance leases	536 830	26 531	19 216	-	-	582 577
Current tax asset	23 456	-	-	-	-	23 456
Deferred tax asset	13 509	-	-	-	-	13 509
Property, equipment and intangible assets	1 891 758	-	-	-	-	1 891 758
Other assets	357 553	3 145	324	-	-	361 022
Total assets	**40 079 744**	**1 226 924**	**425 800**	**18 640**	**29 603**	**41 780 711**

	RUB	USD	EUR	Gold	Other currencies	Total
	RUB'000	RUB'000	RUB'000	RUB'000	RUB'000	RUB'000
LIABILITIES						
Derivative financial instruments	-	521	429	-	-	950
Deposits and balances from banks	1 646 903	74 260	1 730	-	-	1 722 893
Current accounts and deposits from customers	29 736 439	1 569 625	571 996	442 727	1 265	32 322 052
Promissory notes	1 475 440	41 173	1 524	-	-	1 518 137
Subordinated borrowings	-	156 610	-	-	-	156 610
Current tax liability	184 750	-	-	-	-	184 750
Deferred tax liability	214 467	-	-	-	-	214 467
Other liabilities	157 377	291	9 768	-	-	167 436
Total liabilities	**33 415 376**	**1 842 480**	**585 447**	**442 727**	**1 265**	**36 287 295**
Net position	**6 664 368**	**(615 556)**	**(159 647)**	**(424 087)**	**28 338**	**5 493 416**
The effect of derivatives held for risk management	**(1 085 272)**	**488 152**	**161 368**	**435 752**	**-**	**-**
Net position after derivatives held for risk management purposes	**5 579 096**	**(127 404)**	**1 721**	**11 665**	**28 338**	**5 493 416**

A weakening of the RUB, as indicated below, against the following currencies at 31 December 2011 and 2010 would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis is on net of tax basis and is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

	2011		**2010**	
	Profit or loss RUB'000	**Equity RUB'000**	**Profit or loss RUB'000**	**Equity RUB'000**
10% appreciation of USD against RUB	(67)	(67)	(10 192)	(10 192)
10% appreciation of EUR against RUB	6 783	6 783	138	138

A strengthening of the RUB against the above currencies at 31 December 2011 and 2010 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

(iii) Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. Other price risk arises when the Group takes a long or short position in such financial instrument.

An analysis of sensitivity of profit or loss and equity (net of tax) to changes in equity securities prices based on positions existing as at 31 December 2011 and 2010 and a simplified scenario of a 10% change in all securities prices is as follows:

	2011		**2010**	
	Profit or loss RUB'000	**Equity RUB'000**	**Profit or loss RUB'000**	**Equity RUB'000**
10% increase in equity securities prices	-	-	500	500
10% decrease in equity securities prices	-	-	(500)	(500)

(c) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Group has policies and procedures for the management of credit exposures (both for recognised financial assets and unrecognised contractual commitments), including guidelines to limit portfolio concentration and the establishment of a system of Credit Committees, which actively monitors credit risk. The credit policy is reviewed and approved by the Board of Directors.

The credit policy establishes:

- procedures for review and approval of loan credit applications
- methodology for the credit assessment of borrowers (corporate and retail)
- methodology for the credit assessment of counterparties, issuers and insurance companies
- methodology for the evaluation of collateral
- credit documentation requirements
- procedures for the ongoing monitoring of loans and other credit exposures.

Corporate loan credit applications are originated by the relevant client managers and are then passed on to the Loan Department, which is responsible for the corporate loan portfolio. Analysis reports are based on a structured analysis focusing on the customer’s business and financial performance. The loan credit application and the report are then independently reviewed by the Risk Department and a second opinion is given accompanied by a verification that credit policy requirements are met. The Credit Committee reviews the loan credit application on the basis of submissions by the Loan Department and the Risk Department. Individual transactions are also reviewed by the Legal Department depending on the specific risks and pending final approval of the Credit Committee.

The Group continuously monitors the performance of individual credit exposures and regularly reassesses the creditworthiness of its customers. The review is based on the customer’s most recent financial statements and other information submitted by the borrower, or otherwise obtained by the Group. The current market value of collateral is regularly assessed by either independent appraisal companies or internal specialists, and in the event of negative movements in market prices the borrower is usually requested to put up additional security.

Retail loan credit applications are reviewed by the Retail Lending Department through the use of scoring models and application data verification procedures developed together with the Risk Department.

Apart from individual customer analysis, the credit portfolio is assessed by the Risk Department with regard to credit concentration and market risks.

The maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets in the consolidated statement of financial position and unrecognised contractual commitment amounts. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

The maximum exposure to credit risk from financial assets at the reporting date is as follows:

	2011 RUB’000	2010 RUB’000
ASSETS		
Placements with the Central Bank of Russia	1 854 991	2 817 189
Financial instruments at fair value through profit or loss	9 850 631	7 387 175
Available-for-sale financial assets	-	98 150
Due from banks	1 314 336	1 437 200
Amounts receivable under reverse repurchase agreements	-	5 726 883
Loans to customers	37 851 363	20 315 830
Net investments in finance leases	1 642 739	582 577
Other financial assets	131 524	91 393
Total maximum exposure	**52 645 584**	**38 456 397**

For the analysis of concentration of credit risk in respect of loans to customers refer to note 17.

The maximum exposure to credit risk from unrecognised contractual commitments at the reporting date is presented in note 30.

As at 31 December 2011 the Group has no debtors or groups of connected debtors (2010: no debtors or group of debtors), credit risk exposure to whom individually exceeds 10% of maximum credit risk exposure.

(d) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to liquidity management. It is unusual for financial institutions ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

The Group maintains liquidity management with the objective of ensuring that funds will be available at all times to honor all cash flow obligations as they become due. The liquidity policy is reviewed and approved by the Board of Directors.

The Group seeks to actively support a diversified and stable funding base comprising debt securities in issue. long-term and short-term loans from other banks, core corporate and retail customer deposits, accompanied by diversified portfolios of highly liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The liquidity management policy requires:

- projecting cash flows by major currencies and considering the level of liquid assets necessary in relation thereto
- maintaining a diverse range of funding sources
- managing the concentration and profile of debts
- maintaining debt financing plans
- maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any interruption to cash flow
- maintaining liquidity and funding contingency plans
- monitoring liquidity ratios against regulatory requirements.

The Treasury Department receives information from business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. The Treasury Department then provides for an adequate portfolio of short-term liquid assets to be maintained, largely made up of short-term liquid trading securities, loans and advances to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole.

The daily liquidity position is monitored and regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions is performed by the Treasury Department. Under the normal market conditions. liquidity reports covering the liquidity position are presented to senior management on a weekly basis. Decisions on liquidity management are made by the ALCO and implemented by the Treasury Department.

The following tables show the undiscounted cash flows on financial liabilities and credit-related commitments on the basis of their contractual maturity. The total gross inflow and outflow disclosed in the tables is the contractual, undiscounted cash flow on the financial liability or commitment.

The maturity analysis for liabilities as at 31 December 2011 is as follows:

RUB'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Total gross amount outflow (inflow)	Carrying amount
Liabilities							
Deposits and balances from banks	393 281	194 083	1 142 823	2 992 626	22 111	4 744 924	3 909 951
Current accounts and deposits from customers	15 249 807	4 881 754	18 542 484	9 639 799		48 313 844	46 340 622
Promissory notes	148 657	174 935	204 742	2 667	23 727	554 728	537 674
Current tax liability	13 351	140 039	-	-	-	153 390	153 390
Other liabilities	358 835	192 471	-	-	-	551 306	551 306
Derivative liabilities							
Inflow	(1 656 421)	-	-	-	-	(1 656 421)	(25 291)
Outflow	1 631 130	-	-	-	-	1 631 130	-
Total liabilities	**16 138 640**	**5 583 282**	**19 890 049**	**12 635 092**	**45 838**	**54 292 901**	**51 467 652**
Credit related commitments	**3 309 645**	**746 624**	**717 390**	**451 062**	**-**	**5 224 719**	**5 224 719**

The maturity analysis for liabilities as at 31 December 2010 is as follows:

RUB’000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Total gross amount outflow (inflow)	Carrying amount
Liabilities							
Deposits and balances from banks	34 078	15 863	88 330	1 845 923	22 408	2 006 602	1 722 893
Current accounts and deposits from customers	11 476 925	4 824 958	13 184 125	5 295 767	-	34 781 775	32 322 052
Promissory notes	17 437	41 591	898 121	639 866	23 831	1 620 846	1 518 137
Subordinated borrowings	-	4 191	168 676	-	-	172 867	156 610
Current tax liability	184 750	-	-	-	-	184 750	184 750
Other liabilities	76 666	32 954	57 816	-	-	167 436	167 436
Derivative liabilities							
Inflow	(1 087 991)	-	-	-	-	(1 087 991)	(3 669)
Outflow	1 085 272	-	-	-	-	1 085 272	950
Total liabilities	**11 787 137**	**4 919 557**	**14 397 068**	**7 781 556**	**46 239**	**38 931 557**	**36 069 159**
Credit related commitments	**2 015 490**	**457 846**	**2 019 191**	**466 785**	**-**	**4 959 312**	**4 959 312**

The tables above show the undiscounted cash flows of liabilities, including issued financial guarantee contracts, and unrecognised loan commitments on the basis of their earliest possible contractual maturity. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

In accordance with Russian legislation, individuals can withdraw their term deposits at any time, forfeiting in most of the cases the accrued interest. These retail deposits totaling RUB 28 935 973 thousand are classified in accordance with their stated maturity dates, but could legally be withdrawn on demand.

.

The table below shows an analysis, by expected maturities, of the amounts recognised in the consolidated statement of financial position as at 31 December 2011:

RUB’000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Total
Assets							
Cash	2 323 665	-	-	-	-	-	2 323 665
Placements with the Central Bank of Russia	1 370 210	-	-	-	-	484 781	1 854 991
Financial instruments at fair value through profit or loss	5 046 979	1 160 580	3 643 072	-	-	-	9 850 631
Due from banks	824 766	-	378 675	-	-	110 895	1 314 336
Loans to customers	1 605 018	2 813 300	12 887 102	17 809 969	2 735 974	-	37 851 363
Net investments in finance leases	62 549	97 274	437 730	1 019 740	25 446	-	1 642 739
Current tax asset	10 538	-	-	-	-	-	10 538
Deferred tax asset	-	-	-	-	-	8 660	8 660
Property, equipment and intangible assets	-	-	-	-	-	4 220 145	4 220 145
Other assets	1 149 697	55 137	248 117	-	-	-	1 452 951
Total assets	**12 393 422**	**4 126 291**	**17 594 696**	**18 829 709**	**2 761 420**	**4 824 481**	**60 530 019**
Liabilities							
Deposits and balances from banks	386 372	130 751	914 551	2 459 000	19 277	-	3 909 951
Current accounts and deposits from customers	15 112 725	4 734 576	17 617 464	8 875 857	-	-	46 340 622
Promissory notes	148 645	171 288	192 007	2 007	23 727	-	537 674
Current tax liability	13 351	140 039	-	-	-	-	153 390
Deferred tax liability	-	-	-	-	-	312 900	312 900
Other liabilities	358 835	192 471	-	-	-	-	551 306
Total liabilities	**16 019 928**	**5 369 125**	**18 724 022**	**11 336 864**	**43 004**	**312 900**	**51 805 843**
Net position	**(3 626 506)**	**(1 242 834)**	**(1 129 326)**	**7 492 845**	**2 718 416**	**4 511 581**	**8 724 176**

The table below shows an analysis, by expected maturities, of the amounts recognised in the consolidated statement of financial position as at 31 December 2010:

RUB'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Total
Assets							
Cash	1 125 962	-	-	-	-	-	1 125 962
Placements with the Central Bank	2 595 785	-	-	-	-	221 404	2 817 189
Financial instruments at fair value through profit or loss	3 361 744	-	3 791 723	233 708	-	-	7 387 175
Available-for-sale financial assets	-	-	-	98 150	-	-	98 150
Due from banks	554 387	601 381	281 432	-	-	-	1 437 200
Amounts receivable under reverse repurchase agreements	5 726 883	-	-	-	-	-	5 726 883
Loans to customers	350 880	557 808	5 604 876	12 267 664	1 534 602	-	20 315 830
Net investments in finance leases	-	-	197 153	355 215	30 209	-	582 577
Current tax asset	-	-	23 456	-	-	-	23 456
Deferred tax asset	-	-	-	-	-	13 509	13 509
Property. equipment and intangible assets						1 891 758	1 891 758
Other assets	204 802	6 369	136 351	-	-	13 500	361 022
Total assets	**13 920 443**	**1 165 558**	**10 034 991**	**12 954 737**	**1 564 811**	**2 140 171**	**41 780 711**
Liabilities							
Derivative financial instruments	950	-	-	-	-	-	950
Deposits and balances from banks	34 054	15 748	85 522	1 569 231	18 338	-	1 722 893
Current accounts and deposits from customers	11 343 138	4 432 873	12 144 856	4 401 185	-	-	32 322 052
Promissory notes	16 837	41 186	862 794	573 489	23 831	-	1 518 137
Subordinated borrowings	-	-	156 610	-	-	-	156 610
Current tax liability	184 750	-	-	-	-	-	184 750
Deferred tax liability	-	-	-	-	-	214 467	214 467
Other liabilities	76 666	32 954	57 816	-	-	-	167 436
Total liabilities	**11 656 395**	**4 522 761**	**13 307 598**	**6 543 905**	**42 169**	**214 467**	**36 287 295**
Net position	**2 264 048**	**(3 357 203)**	**(3 272 607)**	**6 410 832**	**1 522 642**	**1 925 704**	**5 493 416**

Management expects that the cash flows from certain assets and liabilities will be different from their contractual terms either because management has the discretionary ability to manage the cash flows or because past experience indicates that cash flows will differ from contractual terms. In the tables below the following financial assets and liabilities are presented on a discounted basis and are based on their expected cash flows:

- Financial instruments at fair value through profit or loss: management holds a portfolio of trading securities that are readily marketable and can be used to meet outflows of financial liabilities. Cash flows from these trading securities, totalling RUB 5 021 545 thousand (2010: RUB 3 358 076 thousand) are included in the demand and less than 1 month category.

  Contractual maturities of trading securities are as follows:

	2011 RUB'000	**2010 RUB'000**
Demand and less than 1 month	-	-
From 1 to 3 months	-	-
From 3 to 12 months	407 424	101 522
From 1 to 5 years	2 829 172	1 438 155
More than 5 years	1 784 949	1 812 148
No maturity	-	6 251
	5 021 545	**3 358 076**

- In accordance with Russian legislation, individuals and legal entities can withdraw the amounts from their current accounts at any time. However past experience indicates that current accounts in total population have permanent remainders. Based on the statistics cash flows from the current accounts, totalling RUB 2 869 346 thousand are included in the category from 3 to 12 months instead of the demand and less than 1 month category.

- Board of Directors of the Bank held on 23 November 2011 approved a bond issue of the Bank in the total nominal amount RUB 3 000 000 thousand maturing in 3 years (RUB 1 000 per each bond). The issue prospectus is registered with the CBR and issuance is planned for April 2012.

The Management expects that the liquidity gap to be covered by re-investing of customers' accounts.

The Bank also calculates mandatory liquidity ratios on a daily basis in accordance with the requirements of the CBR. These ratios include:

- instant liquidity ratio (N2), which is calculated as the ratio of highly liquid assets to liabilities payable on demand

- current liquidity ratio (N3), which is calculated as the ratio of liquid assets to liabilities maturing within 30 calendar days

- long-term liquidity ratio (N4), which is calculated as the ratio of assets maturing after 1 year to the shareholders' equity and liabilities maturing after 1 year.

The Bank was in compliance with these ratios during the years ended 31 December 2011 and 2010. The following table shows the mandatory liquidity ratios calculated as at 31 December 2011 and 2010.

	Requirement	2011 % (unaudited)	2010 % (audited)
Instant liquidity ratio (N2)	Not less than 15%	44.6	31.4
Current liquidity ratio (N3)	Not less than 50%	76.2	96.0
Long-term liquidity ratio (N4)	Not more than 120%	84.3	101.5

29 Capital management

The CBR sets and monitors capital requirements for the Bank.

The Bank defines as capital those items defined by statutory regulation as capital for credit institutions. Under the current capital requirements set by the CBR, banks have to maintain a ratio of capital to risk weighted assets (statutory capital ratio) above the prescribed minimum level. As at 31 December 2011 and 31 December 2010, this minimum level is 10%. The Bank is in compliance with the statutory capital ratio during the years ended 31 December 2011 and 2010.

The Group also monitors its capital adequacy levels calculated in accordance with the requirements of the Basle Accord, as defined in the International Convergence of Capital Measurement and Capital Standards (updated April 1998) and Amendment to the Capital Accord to incorporate market risks (updated November 2007), commonly known as Basel I.

The following table shows the composition of the capital position calculated in accordance with the requirements of the Basle Accord as at 31 December:

	2011 RUB'000	2010 RUB'000
Tier 1 capital		
Share capital	562 312	562 312
Share premium	1 192 723	1 192 723
Retained earnings	5 615 677	3 738 381
Total tier 1 capital	**7 370 712**	**5 493 416**
Tier 2 capital		
Revaluation surplus for buildings	1 353 464	-
Subordinated debt (unamortized portion)	-	31 322
Total tier 2 capital	**1 353 464**	**31 322**
Total capital	**8 724 176**	**5 524 738**
Risk-weighted assets		
Banking book	48 782 973	27 552 765
Trading book	3 110 545	8 536 413
Total risk weighted assets	**51 893 518**	**36 089 178**

	2011 RUB'000	2010 RUB'000
Total capital expressed as a percentage of risk-weighted assets (total capital ratio)	**16.81%**	**15.31%**
Total tier 1 capital expressed as a percentage of risk-weighted assets (tier 1 capital ratio)	**14.20%**	**15.22%**

The risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the nature and reflecting an estimate of credit, market and other risks associated with each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for unrecognised contractual commitments, with some adjustments to reflect the more contingent nature of the potential losses.

The Group is subject to minimum capital adequacy requirements calculated in accordance with the methodology of International Finance Corporation (IFC) established by covenants under liabilities incurred by the Group. The Group has complied with all externally imposed capital requirements during the years ended 31 December 2011 and 2010.

30 Commitments

The Group has outstanding commitments to extend loans. These commitments take the form of approved loans and credit card limits and overdraft facilities.

The Group provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to five years. The Group also provides guarantees by acting as settlement agent in securities borrowing and lending transactions.

The Group applies the same credit risk management policies and procedures when granting credit commitments, financial guarantees and letters of credit as it does for granting loans to customers.

The contractual amounts of commitments are set out in the following table by category. The amounts reflected in the table for commitments assume that amounts are fully advanced. The amounts reflected in the table for guarantees and letters of credit represent the maximum accounting loss that would be recognised at the reporting date if counterparties failed completely to perform as contracted.

	2011 RUB'000	2010 RUB'000
Contracted amount		
Guarantees and letters of credit	2 213 476	3 022 568
Undrawn overdraft facilities	2 411 578	1 231 094
Loan and credit line commitments	599 665	705 650
	5 224 719	**4 959 312**

The total outstanding contractual commitments above do not necessarily represent future cash requirements, as these commitments may expire or terminate without being funded.

As at 31 December 2010 there were guarantees to "Tatneft-Centroresource" LLC in amount of RUB 1 522 638 thousand, secured by a pledge of promissory notes issued by the Group. This exposure represented a significant credit risk exposure to the Group.

There is no significant credit risk exposure as at 31 December 2011.

As at 31 December 2011 the Group has a commitment to purchase 1 369 kg of gold (2010: 2 206 kg) under contracts to be settled at the market price at the date of maturity.

31 Operating leases

Leases as lessee

The Group leases a number of premises and equipment under operating leases. The leases typically run for an initial period of five to ten years, with an option to renew the lease after that date. Lease payments are usually increased annually to reflect market rentals. None of the leases includes contingent rentals or non-cancellable payments.

32 Contingencies

(a) Insurance

The insurance industry in the Russian Federation is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Group does not have full coverage for its premises and equipment, business interruption, or third party liability in respect of property or environmental damage arising from accidents on its property or relating to operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on operations and financial position.

(b) Litigation

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

Management is unaware of any significant actual, pending or threatened claims against the Group.

(c) Taxation contingencies

The taxation system in the Russian Federation is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities who have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on the financial position, if the authorities were successful in enforcing their interpretations, could be significant.

33 Cash and cash equivalents

	2011 RUB’000	2010 RUB’000
Cash on hand	2 323 665	1 125 962
Nostro accounts with the CBR	1 020 172	1 895 727
Nostro accounts with other banks	646 786	374 388
Term deposits with the CBR	350 038	700 058
Term deposits with other banks	177 958	781 381
Total cash and cash equivalents	**4 518 619**	**4 877 516**

None of cash and cash equivalents are impaired or past due.

34 Related party transactions

(a) Control relationships

The Group’s parent company is LLC “PPFIN Region” (Russian Federation). As of 31 December 2011, the ultimate beneficial owners of the Group were Mr. Andrey Vdovin (the owner of 16.8109%), Mr. Kirill Yakubovsky (the owner of 16.8109%), Mr. Pavel Maslovsky (the owner of 16.8109%), Mr. Peter Hambro (the owner of 16.8109%), East Capital Explorer Financial Institution Fund (Sweden) (the owner of 17.91%), International Finance Corporation (6.99%) and Mr. Evgeniy Aksenov (the owner of 5.21%).

(b) Transactions with the members of the Board of Directors and the Management Board

Total remuneration included in personnel expenses for the years ended 31 December 2011 and 2010 is as follows:

	2011 RUB’000	2010 RUB’000
Short term employee benefits	229 378	164 254
	229 378	**164 254**

These amounts include non-cash benefits in respect of the members of the Board of Directors and the Management Board.

The outstanding balances and average effective interest rates as at 31 December 2011 and 2010 for transactions with the members of the Board of Directors and the Management Board are as follows:

	2011 RUB’000	Average effective interest rate. %	2010 RUB’000	Average effective interest rate. %
Consolidated statement of financial position				
ASSETS				
Loans to customers	6 748	13.16%	-	-
Other assets	7	-	-	-
LIABILITIES				
Current accounts and deposits from customers	65 974	9.30%	20 669	10.97%
Other liabilities	117	-	-	-

Other amounts included in consolidated statement of comprehensive income in relation to transactions with the members of the Board of Directors and the Management Board for the year ended 31 December are as follows:

	2011 RUB’000	2010 RUB’000
Consolidated statement of comprehensive income		
Interest income	90	83
Interest expense	(1 657)	(3 096)
Commission income	52	45
Commission expense	-	(1)
Other income	-	3

(c) Transactions with shareholders

The outstanding balances and average effective interest rates as at 31 December 2011 and 2010 for transactions with shareholders are as follows:

	2011 RUB’000	Average effective interest rate. %	2010 RUB’000	Average effective interest rate. %
Consolidated statement of financial position				
ASSETS				
Other assets	41	-	-	-
LIABILITIES				
Deposits and balances from banks	332 920	14.54%	-	-
Current accounts and deposits	380 120	11.07%	471 000	12.92%

Amounts included in consolidated statement of comprehensive income in relation to transactions with shareholders for the years ended 31 December are as follows:

	2011 RUB’000	2010 RUB’000
Consolidated statement of comprehensive income		
Interest expense	(58 473)	(77 676)

During 2011 the Group declared and paid dividends of RUB 300 000 thousand (RUB 0.00000006061806 per share) and made an additional cash distribution to shareholders in the amount of RUB 16 200 thousand. No distribution was made in 2010.

(d) Transactions with Banking Holding Group

The Group is part of a Holding Group (the Banking Holding Group) which as at 31 December 2011 and 31 December 2010 includes VMHY Holding, the parent company of LLC “PPFIN Region”.

The outstanding balances and average effective interest rates as at 31 December 2011 and 2010 for transactions with the Banking Holding Group are as follows:

	2011 RUB’000	Average effective interest rate, %	2010 RUB’000	Average effective interest rate, %
Consolidated statement of financial position				
ASSETS				
Loans to customers	-	-	155 000	13%
LIABILITIES				
Current accounts and deposits	140 185	13%	2	-

Amounts included in consolidated statement of comprehensive income in relation to transactions with the Banking Holding Group for the year ended 31 December are as follows:

	2011 RUB’000	2010 RUB’000
Consolidated statement of comprehensive income		
Interest income	2 208	19 505
Interest expense	3 113	-
Commission income	26	962
Net foreign exchange income (expense)	4 356	(638)
Impairment loss recovery /(origination)	3 280	(3 280)

(e) Transactions with other related parties

The outstanding balances and average effective interest rates as at 31 December 2011 and 2010 for transactions with other related parties are as follows:

	2011 RUB’000	Average effective interest rate %	2010 RUB’000	Average effective interest rate %
Consolidated statement of financial position				
ASSETS				
Due from banks	5 931	-	1 545	-
Loans to customers	955 812	10.69%	223 091	12.25%
Other assets	2 855	-	-	-
LIABILITIES				
Deposits and balances from banks	44	-	80 338	15.00%
Current accounts and deposits from customers	817 334	6.48%	220 949	4.70%
Subordinated borrowings	-	-	156 610	11.00%
Other liabilities	349	-	-	-
Commitments				
Guarantees and letters of credit	36 123	-	-	-
Undrawn loan commitments and overdraft	500	-	-	-

Amounts included in consolidated statement of comprehensive income in relation to transactions with other related parties for the year ended 31 December are as follows:

	2011 RUB’000	2010 RUB’000
Consolidated statement of comprehensive income		
Interest income	43 441	80 371
Interest expense	(11 881)	(36 555)
Commission income	23 022	8 941
Other income	115	17 394
Other expense	(2 748)	-
Impairment loss origination	(5 809)	(439)

As at 31 December 2010 the Group has a commitment to purchase 1 044 kg of gold under contracts with other related parties to be settled at the market price at the date of maturity. As at 31 December 2011 there are not any such commitments.

35 Financial assets and liabilities: fair values and accounting classifications

Accounting classifications and fair values

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

The estimated fair values of financial instruments are determined using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. The Russian Federation continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management uses all available market information in estimating the fair value of financial instruments.

The estimated fair values of all other financial assets and liabilities are calculated using discounted cash flow techniques based on estimated future cash flows and discount rates for similar instruments at the reporting date.

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2011:

	2011 RUB’000 Carrying value	2011 RUB’000 Fair value	2010 RUB’000 Carrying value	2010 RUB’000 Fair value
ASSETS				
Cash	2 323 665	2 323 665	1 125 962	1 125 962
Placements with the Central Bank	1 854 991	1 854 991	2 817 189	2 817 189
Financial instruments at fair value through profit or loss	9 850 631	9 850 631	7 387 175	7 387 175
Available-for-sale financial assets	-	-	98 150	98 150
Due from banks	1 314 336	1 314 336	1 437 200	1 437 200
Amounts receivable under reverse repurchase agreements	-	-	5 726 883	5 726 883
Loans to customers	37 851 363	37 767 285	20 315 830	21 044 380
Net investments in finance leases	1 642 739	1 642 739	582 577	582 577
Other financial assets	131 524	131 524	91 393	91 393
LIABILITIES				
Derivative financial instruments	-	-	950	950
Deposits and balances from banks	3 909 951	3 909 951	1 722 893	1 722 893
Current accounts and deposits from customers	46 340 622	46 298 743	32 322 052	32 437 240
Promissory notes	537 674	537 674	1 518 137	1 518 137
Subordinated borrowings	-	-	156 610	156 610

As at 31 December 2011 and 31 December 2010, the Group does not have any financial instruments for which fair value is based on valuation techniques involving the use of non-market observable inputs.

The estimates of fair value are intended to approximate the amount for which a financial instrument can be exchanged between knowledgeable, willing parties in an arm's length transaction. However given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realisable in an immediate sale of the assets or settlement of liabilities.

Fair value hierarchy

The Group measures fair values for financial instruments recorded on the statement of financial position using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: Valuation techniques based on observable inputs, either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument’s valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The table below analyses financial instruments measured at fair value at 31 December 2011, by the level in the fair value hierarchy into which the fair value measurement is categorised:

RUB ’000	**Level 1**	**Level 2**	**Total**
Financial instruments at fair value through profit or loss			
- Debt and other fixed income instruments	5 021 688	4 803 652	9 825 340
- Derivative assets	25 291	-	25 291
	5 046 979	**4 803 652**	**9 850 631**

The table below analyses financial instruments measured at fair value at 31 December 2010, by the level in the fair value hierarchy into which the fair value measurement is categorised:

RUB ’000	**Level 1**	**Level 2**	**Total**
Financial instruments at fair value through profit or loss			
- Debt and other fixed income instruments	3 351 824	4 025 431	7 377 255
- Equity investments	6 251	-	6 251
- Derivative assets	3 669	-	3 669
- Derivative liabilities	(950)	-	(950)
Available-for-sale financial assets			
- Debt and other fixed income instruments	98 150	-	98 150
	3 458 944	**4 025 431**	**7 484 375**

36 Acquisitions

Business combination with LLC "Expo-Leasing"

In October 2010 the Group acquired all of the shares in LLC "Expo-Leasing" for RUB 321 600 thousand, which was settled in cash. This merger transaction has been accounted for in these consolidated financial statements as an acquisition under common control.

The amounts of assets and liabilities of the acquired subsidiary recognised in the Group's consolidated financial statements were as follows at the date of acquisition:

RUB'000	**Acquired carrying amount as at 1 October 2010**
ASSETS	
Cash	30 420
Due from banks	50 000
Loans to customers	126 327
Net investments in finance leases	414 659
Property, equipment and intangible assets	69 959
Deferred tax asset	12 859
Other assets	96 643
LIABILITIES	
Deposits and balances from banks	(526 886)
Other liabilities	(25 953)
Net identifiable assets and liabilities	**248 028**
Consideration paid	321 600
Effect from acquisition of subsidiary	**(73 572)**

The following table presents the cash flows of this acquisition:

Consideration paid	(321 600)
Cash acquired	80 420
Net cash outflow	**(241 180)**

Business combination with OJSC “Kamchatprombank” and OJSC “Kolyma-Bank”

On 7 May 2010 OJSC “Kamchatprombank” and OJSC “Kolyma-Bank” merged with the Group. As a result of this transaction all the assets, liabilities and operations OJSC “Kamchatprombank” and OJSC “Kolyma-Bank” were transferred to the Group. This merger transaction has been accounted for in these consolidated financial statements as an acquisition under common control.

The assets and liabilities acquired were recognised at their book values as recorded in the financial statements of OJSC “Kamchatprombank” and OJSC “Kolyma-Bank”, adjusted where relevant in order to align accounting policies with those of OJSC “Asian-Pacific Bank”.

The assets and liabilities of OJSC “Kamchatprombank” and OJSC “Kolyma-Bank” were as follows at the date of acquisition:

RUB’000	**OJSC “Kamchatprombank”**	**OJSC “Kolyma-Bank”**	**Total acquired carrying amount as at 7 May 2010**
ASSETS			
Cash	142 175	253 536	395 711
Placements with the Central Bank	110 310	236 328	346 638
Financial instruments at fair value through profit or loss	961 375	767 900	1 729 275
Due from banks	409 499	570 886	980 385
Loans to customers	1 150 356	2 022 787	3 173 143
Property, equipment and intangible assets	85 688	106 706	192 394
Other assets	64 444	52 535	116 979
LIABILITIES			
Deposits and balances from banks	(2 422)	-	(2 422)
Current accounts and deposits from customers	(2 585 328)	(3 297 768)	(5 883 096)
Promissory notes	(5 583)	-	(5 583)
Deferred tax liability	(1 179)	(34 565)	(35 744)
Other liabilities	(4 490)	(9 266)	(13 756)
Net identifiable assets and liabilities	**324 845**	**669 079**	**993 924**
Issue of ordinary shares related to business combination	115 794	50 996	166 790
Effect from busines combination	**209 051**	**618 083**	**827 134**

The following table presents the cash flows of this acquisition:

Consideration paid	-
Cash and cash equivalents acquired	1 684 754
Net cash inflow	**1 684 754**

37 Events after the reporting date

The Annual Shareholders Meeting of the Bank held on 6 April 2012 approved dividends for 2011 amounting to of RUB 450 000 thousand (RUB 0.000000090927095 per ordinary share).