Meeting real needs
with concrete solutions.

2011 Annual Report

UniCredit Bank

Every day, life presents new challenges and opportunities. Every day, we each have a new story to tell that involves tangible needs and requires clear answers.

In this year's annual report, we illustrate our way of banking with stories of the people, businesses and institutions who use our customized solutions. You will read stories about how we worked together to promote sports in schools and how we gave a boost to long-established industrial firms by enabling them to update their machinery. You will also learn about how we have supported the development of new computer systems and have provided broad support to the green economy.

These stories were built on entrepreneurship, courageous innovation, respect for tradition, and our strong bonds with local communities.

We strongly believe that being a bank today means making a concrete difference, day in and day out, for those who have chosen to do business with us. It means facing challenges together and creating a world of new opportunities.

These are true stories – snapshots of ordinary life that shape the mosaic of our daily work. At UniCredit, we are creating a world of relationships, where our stakeholders can best meet the changing needs of the times.

2001 Annual Report

Creating initiatives that meet real needs.

Together for the Region is an initiative designed to build tighter bonds with regions and communities, particularly with locally based non-profit organizations. For example, in Nuremberg, UniCredit created a new debit card, “My Town - My Bank - My Card.” Part of card proceeds are donated to “Lebenshilfe Nürnberg”, a charitable organization that helps the disabled. The same model has been adopted by more than 50 UniCredit subsidiaries in Germany. Parallel to the donation, the Bank’s local staff has created a corporate volunteer programme, with employees participating in activities that range from providing volunteer companion services to offering professional training. The project received positive local press attention, demonstrating how simple, concrete actions can serve real needs. This is the practical demonstration of how the Group is giving concrete answers to facilitate full integration of persons with disabilities.

Financial Highlights

	2011	2010	change 2010–2011
ASSETS AT THE END OF THE YEAR, RUB million			
Total assets, including	**771 977**	**575 006**	**34%**
Loans to customers and lease receivables	472 698	386 216	22%
Investments in securities	45 514	35 818	27%
LIABILITIES AT THE END OF THE YEAR, RUB million			
Total liabilities, including	**683 669**	**505 249**	**35%**
Amounts due to customers	462 923	330 414	40%
Amounts due to credit institutions	165 827	137 144	21%
CAPITAL (BASEL II CAPITAL ACCORD) AT THE END OF THE YEAR, RUB million			
Total capital	**88 308**	**68 868**	**27%**
PROFIT FOR THE YEAR, RUB million			
Net interest income	21 772	22 625	-4%
Non-interest income	11 014	4 828	128%
Operating income	**32 785**	**27 454**	**19%**
Loan impairement	-2 662	-5 086	-48%
Net income from financial activities	**30 124**	**22 368**	**34%**
Operating costs	-10 289	-9 678	6%
Gains/losses on associate and disposal of investments	31	-104	+/-
Profit before income tax expense	**19 866**	**12 735**	**56%**
Income tax expense	-4 078	-2 640	55%
Total profit for the year	**15 788**	**10 095**	**56%**
KEY PERFORMANCE INDICATORS, %			
Return on average equity (ROE)	20.38	16.16	
Return on average assets (ROA)	2.56	1.92	
Total capital ratio (Basel II)	12.80	14.5	
Central Bank of Russia N1 capital adequacy ratio	12.40	16.0	
Cost/income ratio	35.2	34.0	
STAFF			
Number	3 886	3 669	6%
GEOGRAPHY			
Branches in Moscow	41	43	-5%
Regional branches	50	49	2%
RepOffices	14	14	0%
Offices abroad	1	1	0%
Total Number of Offices	**106**	**107**	**-1%**

An umbrella covering countries in Central and Eastern Europe.

Many Austrian companies have subsidiaries in other European countries that do not always engage in cross-border treasury operations. When new funding is needed, especially during the start-up phase of a business, local regulations that must be addressed can often present major obstacles to success. UniCredit has created the Umbrella Facility, a flexible and user-friendly credit facility based on the parent company's credit rating, that can be accessed in most Central and Eastern European countries. Bank Austria coordinates every phase of negotiation, acting as the single point of contact between the client and UniCredit's banks across the region. A simple way to help companies focus on their business, leaving the bank to manage their financials.

Michelangelo Pistoletto - Embrace Differences - Serigraphy on Thermodeth Mirror 2005 - 2006
UniCredit Art Collection - © Michelangelo Pistoletto - Courtesy Cittadellarte - Pistoletto Foundation - Details

Contents

Rewarding talented young entrepreneurs.

As Italy's future relies on its young talents, Il talento delle idee (The Talent of Ideas), a contest involving UniCredit and the Young Entrepreneurs Association, provides a valuable challenge. Dedicated to entrepreneurs between the ages of 18 and 40, the contest identifies and promotes business ideas based on feasibility and innovation. Originators of the three best ideas are awarded with specialized financial support, entrepreneurial training, introductions to potential investors and mentoring from UniCredit. Financial awards go to selected projects at a national level. This is a concrete example of how real needs find clear answers at UniCredit.

Introduction

Head of CEE Division Letter to the Shareholders

Dear Shareholders,

This past year will be remembered as a challenging time in our bank’s history. Though 2011 began on a strong note, the start of the third quarter was quickly dominated by the escalating sovereign debt and euro crises.

In response, UniCredit made the bold decision to reinforce our position through a €7.5 billion capital increase and a goodwill write-down, which enabled us to better align our balance sheet with the real economy. Many of our competitors followed suit. We believe that maintaining a strong balance sheet is central to building a sustainable and profitable future for every bank within our Group.

Despite the challenges of the past year, UniCredit’s network in Central and Eastern Europe remains strong and is an engine of growth for our Group. The fourth quarter results for our division were more positive than anticipated, and we reported more than €1 billion in net profit last year, an increase over 2010 of 45% at constant FX rates.

As we move forward, our customers remain at the heart of our business activities. We are an important part of one of the largest banking networks in Europe, doing business with more than 35 million customers in 10,000 branches. The scope of that operation gives us every incentive to build the strongest possible relationships with our customers.

This year we implemented a variety of measures in response to the new economic reality while enhancing our culture of customer service. The ultimate objective of these measures is to strengthen our ties to our local communities and to help meet their real needs with concrete solutions. The strong customer satisfaction results we received in 2011 confirm that we are delivering.

In the retail business, we launched our Branch of the Future project, which fulfills our mandate to support customers at our CEE branches and provide the services they need during these challenging times and - starting from the Czech Republic, a new retail format based on the franchise concept.

Also on the Corporate and Investment Banking side, we developed a large number of initiatives such as Umbrella Facility product to create a win-win situation for our customers and for our bank. Our risk-free Umbrella Loans strengthen our existing client relationships while leveraging cross-selling opportunities. Similarly, the initiatives launched this year by our CIB and Retail divisions address the needs of our customers in the context of the broader economic environment. These initiatives have enabled us to support the internationalization of small and medium-sized enterprises and to connect our entrepreneurial customers with potential new business partners. Through these efforts, we aim to further strengthen our position as a leading cross-border bank.

We apply our customer-centric approach to every aspect of our business, including our community activities. For instance, we supported the UniCredit & Universities Foundation this past year by providing scholarship grants to talented students across Central and Eastern Europe. We sponsor a wide range of additional community projects in each country where we live and work.

Although we anticipate that 2012 will be another challenging year, we believe that a positive carryover in most countries and spill-over from re-acceleration in Western Europe's economic performance in the second half of the year is likely to translate into a 3.4 percent rise in GDP in the Region. In this environment, we are confident that the strength of our Group's network will contribute to increased profitability in Central and Eastern Europe in 2012.

Together we have taken deliberate steps to respond to the critical events of 2011. In doing so, we have secured our future as a strong local bank, backed by a rock-solid European financial institution. I am certain that this dynamic combination will continue to offer sustainable value for you, our shareholders.

Sincerely yours,

Gianni Franco Papa
Head of CEE Division

Statement by the Chairman of the Supervisory Board

Dear Shareholders, Clients, Friends and Colleagues,

I am proud to present the 2011 Annual Report on behalf of the Supervisory Board of UniCredit Bank.

2011 was very successful for the Russian banking system and in spite of further tightening of competition and an unstable situation in the financial markets the year was very successful for UniCredit Bank. During 2011 the Bank earned 15.79 billion rubles of net profit, which is a new record achievement for the Bank and another confirmation of its effective and sustainable business model.

As a result of 2011 UniCredit Bank continues to be the largest foreign bank in Russia and one of the most effective Russian banks. In 2011, the Bank successfully increased its assets, loan portfolio, as well as the amount of funds raised from customers, which allowed the Bank to maintain the optimal loans to deposits ratio at 102%. At the same time I am pleased to note that the Bank’s loan portfolio remains of a good quality and well diversified.

In 2011, UniCredit Bank continued to improve the quality of customer service, because customer satisfaction is one of the most important indicators of the success of activities to UniCredit. High quality of services and a wide range of banking products for a variety of customer segments allowed the Bank to significantly increase its customer base while maintaining the existing long-term relationships with major companies.

In accordance with the Strategic Plan of UniCredit, Russia is one of the most promising countries for further development of the Group's business. We will continue to strive to develop our presence in the Russian financial market, supporting our clients to reach their goals successfully using the most advanced financial products and services as well as the opportunities of an international network of the Group.

I would like to thank the Management Board and the employees of UniCredit Bank for their good work and excellent results achieved in 2011. In 2012, we will continue to develop the Strategic Plan for the benefit of our shareholders, customers and other stakeholders.

Erich Hampel
Chairman of the Supervisory Board

Highlights

UniCredit operates in 22 Countries with more than 160,000 employees and nearly 9,500 branches.

UniCredit benefits from a strong European identity, extensive international presence and broad customer base.

Its strategic position in Western and Eastern Europe gives the Group one of the region's highest market shares.

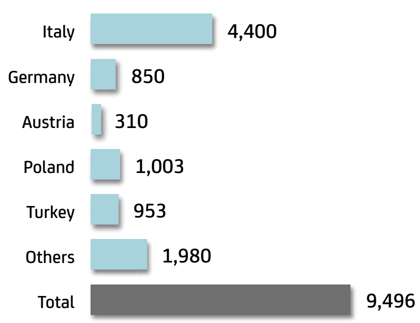
(currency amounts are shown in € million)

OPERATING INCOME	25,200
OPERATING PROFIT	9,740
NET PROFIT (LOSS)	(9,206)

SHAREHOLDERS' EQUITY	51,479
CORE TIER 1 RATIO	8.40%
TIER 1 RATIO	9.32%

EMPLOYEES[1]	over 160,000
BRANCHES[2]	nearly 9,500
TOTAL ASSETS	926,769

BRANCHES BY COUNTRY[2]

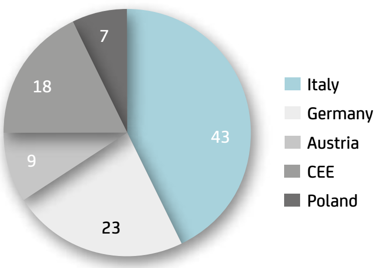


1. Data as at December 31, 2011. FTE = "Full Time Equivalent": number of employees counted for the rate of presence. Figures include all employees of subsidiaries consolidated proportionately, such as Koç Financial Services Group employees.
2. Figures include all branches of subsidiaries consolidated proportionately, such as Koç Financial Services Group branches.

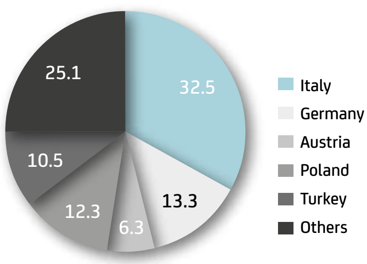
WHERE WE OPERATE

AUSTRIA
AZERBAIJAN
BOSNIA AND HERZEGOVINA
BULGARIA
CROATIA
CZECH REPUBLIC
ESTONIA
GERMANY
HUNGARY
ITALY
KAZAKHSTAN
KYRGYZSTAN
LATVIA
LITHUANIA
POLAND
ROMANIA
RUSSIA
SERBIA
SLOVAKIA
SLOVENIA
TURKEY
UKRAINE

REVENUES BY REGION (%)



EMPLOYEES BY COUNTRY[1] (%)



Focus

AUSTRIA, GERMANY AND ITALY

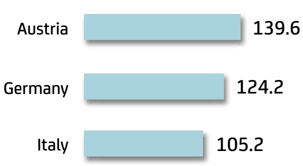
UniCredit is strategically positioned in Italy, Germany and Austria. These three countries account for more than one-third of the combined GDP of the European Union and collectively represent one of the continent's wealthiest transnational regions.

GDP per capita in each of these countries is higher than the average for the EU as a whole. Moreover, Germany ranks first in terms of GDP per capita among the four largest EU economies, surpassing France, the United Kingdom and Italy.

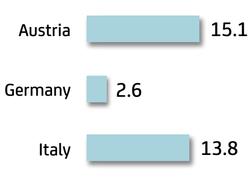
UniCredit has one of the largest banking networks in all three of these core Western European countries and provides access to 310 branches in Austria, 850 in Germany and 4,400 in Italy. Each country is closely linked to the growing economies of Central and Eastern Europe.

In terms of economic performance, 2011 was another year of moderate expansion for these core countries. The first half of the year saw a growth in momentum that was sustained by healthy global demand. During the second half of the year, there was a marked slowdown in economic activity following the sovereign debt crisis, which took place during the summer. In particular, market repricing of risk premiums on Italy's sovereign debt took its toll, fueled by investor concerns about the sustainability of the country's public debt in the context of structurally low GDP growth. The response of the Italian government in terms of fiscal consolidation was impressive, although this likely contributed to dampen the country's growth prospects, at least in the short-term. As for Germany, market sentiment remained extremely positive with regard to the country's perceived health.

GDP PER CAPITA[1]



MARKET SHARE[2] (%)



1. Nominal GDP per capita as at December 31, 2010 (EU27=100). Estimate of Nominal GDP per capita within the EU27 as at December 31, 2010
2. Market Share in terms of Total Customer Loans as at December 31, 2011.

Source: Eurostat, UniCredit Research.

For the next two years, our three core markets will face challenges. These will be particularly acute in Italy. Nevertheless, these three countries will continue to demonstrate their relative strength in comparison to the nations of southern Europe given their balanced growth model, relatively low level of private sector debt and continued prudent management of public finances. Italy and Germany possess the eurozone's largest manufacturing base, together generating more than 50 percent of the euro area's total nominal added value.

From 2011 to 2015, real economic growth is expected to continue at an average annual rate of roughly 2 percent in Austria and Germany, and nearly 0.5 percent in Italy. This is higher than the average rate achieved over the previous five-year period for the three countries. Moreover, while exports will certainly be an important factor behind the ongoing economic recovery, another favorable development will be seen in domestic demand, which will become an increasingly important engine of economic development. Particularly in Germany, this will result in a more sustainable pattern of growth that is not exclusively export-driven.

CENTRAL AND EASTERN EUROPE

UniCredit is a market leader in Central and Eastern Europe, where it has a broad network of roughly 3,900 branches.

Its regional footprint is diverse, and includes a direct presence in 19 countries. It is ranked in the top five in 11 of these countries*. In fact, the CEE now accounts for 18 percent of the Group's revenues.

UniCredit has a long history in this dynamic region, from which nearly half of all its employees come. The Group is well positioned to benefit from the process of economic convergence that has been generating higher living standards and a better business environment in these countries.

UniCredit's market position in this region gives its local banks a substantial competitive advantage. This includes the sharing of best practices, significant economies of scale, access to international markets and strong brand recognition. Moreover, the bank's diversified portfolio in this region enables modular growth and increased market penetration for UniCredit's global product lines.

In the first three quarters of 2011, most countries in the region posted strong gains in economic activity, supported by robust external demand, favorable agricultural conditions and, in some cases, resilient domestic demand growth. To date, available data indicates some slowdown in economic activity in the fourth quarter, in part as a result of weaker external and industrial demand. Nevertheless, the region as a whole proved relatively resilient to the challenges of the EMU. The risks, if any, to UniCredit prediction of 4.7 percent GDP growth for the CEE in 2011** are to the upside.

In 2012, GDP growth for the region is forecast at 3.3 percent, assuming a broadly flat first half-year followed by an improved second half-year. Among the largest economies in the region, Russia is expected to lead, posting growth of almost 4 percent, while in Turkey and Poland GDP should post gains of approximately 3 percent. These economies will benefit from lower debt levels as well as a head start in fiscal consolidation relative to the EMU. Other economies in the region, including Croatia, Slovenia and Hungary, will struggle to post positive gains in GDP.

MARKET SHARE[3] (%)

* as at September, 2011.

**GDP figures at December, 31 2011 are not yet final.

3. Market Share in terms of Total Assets as at December 31, 2011.
   Market Share in Azerbaijan and Kyrgyzstan not available.

4. Pro-forma (Ukrsotsbank + UniCredit Bank Ukraine).

Source: UniCredit Research, UniCredit CEE Strategic Analysis.

Business Model

This model focuses on four pillars:

Customer-centricity

This is the focus of the Business Divisions - Families & Small-Medium sized Enterprises, Corporate & Investment Banking, Private Banking and Central Eastern Europe. With their highly specialized services, they offer clear and simple solutions to all customer segments, thereby maximizing long-term value and generating customer satisfaction.

A multi-local approach

UniCredit combines an international distribution network with deep local roots and close ties to its customers by leveraging the global product lines, like Leasing and Factoring, its global service lines and the local expertise of UniCredit's people operating in the local markets.

Global product lines

Each of the product lines is responsible for the centralized development of a complete portfolio of financial products and services suitable to the diverse needs of its customers. These product lines generate added value for customer segments in all countries and regions by leveraging also the specialized skills and knowledge of the Group's Banks/Companies (e.g Fineco Bank).

Global service lines

UniCredit's service lines provide a broad range of specialized internal services such as information technologies, back-office activities, personnel administrative management, loan recovery, purchasing and the real estate management.

Organizational structure

UniCredit's organization reflects its divisional business model and geographic scope.
To meet customers' needs, UniCredit is divided into **specialized Business Divisions**, as follows:

- Three divisions – *Families & Small-Medium sized Enterprises, Corporate & Investment Banking, Private Banking* – manage the activities intended for their respective customer segments. These include marketing, defining service models and developing products, as well as overseeing and coordinating some specific businesses.
- The CEE Division serves to align the activities in 19 countries of Central and Eastern Europe to a single, comprehensive business vision.

In line with the multi-local approach, responsibility for individual countries is lodged with leadership roles – such as the Country Chairman in the four main markets of Austria, Germany, Italy and Poland and the Country CEO in the six divisionalized CEE countries. Their task is to combine the Group's strategic business vision with that of their country.

Lastly, the functions called **Competence Lines** oversee the guidance, coordination and control of UniCredit's activities and manage the related risks. These competence lines include Planning, Finance & Administration, Risk Management, Legal & Compliance, Internal Audit, Human Resources, Organization and Identity & Communications.

The UniCredit Strategic Plan

Clear goals, specific actions and a long-term vision are key elements of the UniCredit Strategic Plan that will be implemented through 2015. The strategic targets of the plan are related to commercial activity which meets real needs with concrete solutions, capital strength, operating efficiency, profitability and focus on Europe.

Commercial activity. Placing a renewed emphasis on the importance of being a commercial bank will put UniCredit at the center of the real economy. Customers primarily look to UniCredit to provide them with savings and loan services. Most importantly, the Group's return to traditional banking fundamentals means that it can provide tailored solutions to fit these needs.

Capital strength. UniCredit's position as one of the 29 global systematically important financial institutions (G-SIFIs) is official recognition that it is now one of the most secure banks in the world. However, it remains a priority to further improve its capital and liquidity positions, as well as its access to funding.

Operating efficiency. To be truly competitive in the years to come, UniCredit requires a simplified operating structure that is more customer-focused, efficient, cost-conscious and streamlined in terms of central functions.

Profitability. Profits must be sustainable. And only a strong, low-risk traditional business model can generate sustainable profits and a return on capital that is greater than its costs.

Focus on Europe. UniCredit's current orientation is towards Europe. Its geographic diversity is an unquestionable asset that will continue to serve the Group well into the future. In fact, its strong presence in Western Europe and in those CEE countries with high growth potential will strengthen UniCredit's relationships with strategic customers internationally.

The steps set forth in the UniCredit Strategic Plan to achieve these goals can be broken down into four areas of activity: use of capital; cost control and simplification; a business shift for CEE and CIB; and a resurgence in Italy.

Use of capital. This must be carefully addressed. Being a G-SIFI bank may mean that UniCredit is one of the 29 most secure banks in the world, but it also means it is one of the most regulated institutions. This is especially true with regard to the subjects of capital endowment and risk profile. UniCredit's successful €7.5 billion capital increase was the first step towards strengthening its position, and, in 2012, it gave the bank a Common Equity Tier 1 Ratio of over 9 percent based on Basel 3 criteria. UniCredit's goal is to exceed 10 percent by 2015. As for the reduction of its risk profile, this will require the sale of €48 billion in non-strategic assets and greater selectivity in lending as compared to the past. These transactions will allow UniCredit to focus more on its traditional banking business by raising funds and providing loans on an ongoing basis and under attractive conditions.

Cost controls and simplification. UniCredit aims to be efficient, streamlined, fast and unified. To achieve this as quickly as possible and starting in 2012, the strategic plan calls for difficult decisions requiring it to break with the past. UniCredit's organizational model and several other components will change according to customer needs and will involve a downsizing of support functions plus a shift to centralized departments. At the same time, spending will be thoroughly reviewed to achieve overall savings of €440 million.

Business shift for CEE and CIB. Both of these business areas will be reviewed. On one hand, this will involve leveraging countries with the greatest growth potential - especially those where UniCredit is well-positioned in terms of risk/return (the Czech Republic, Poland, Russia and Turkey). On the other hand, it will involve a shift in lending to focus on more strategic customers in order to create additional loans.

Resurgence in Italy. While Italy is number one for UniCredit in terms of revenues and loans, the country's profitability must improve. To do this, UniCredit will adjust the risk profile of its loan portfolio to favor higher credit ratings, reduce the efficiency gap with its main competitors and to be more selective in its lending. These steps will allow UniCredit to provide new medium- and long-term credit lines totaling €33 billion to SMEs, and to extend new loans to households totaling more than €39 billion.

Partnering with clients to generate success.

One of Russia's largest soft drink companies, a longtime client of our bank, once used 6.7 million euros in UniCredit financing to modernize its production facilities. Through this partnership, concrete action was taken in three steps: the bank devised a five-year financing plan; it helped arrange export partnerships with other companies of the Group and it extended additional UniCredit resources, including those of UniCredit Leasing, which financed some of the plant's machinery. This example shows how our bank acts as a truly European commercial institution, with a truly global vision.

Old Spring Group, Stavropol Region, Russia

General Information

- UniCredit Bank is the first bank in Russia with majority foreign ownership.
- Until 20 December 2007, the Bank was called International Moscow Bank, registered by the State Bank of the USSR on 20 October 1989, General License No.1.
- On 20 December 2007, International Moscow Bank officially changed its name to ZAO UniCredit Bank
- The Central Bank of Russia issued UniCredit Bank General License No.1 for banking operations.
- UniCredit Bank is 100% owned (voting shares) by UniCredit Bank Austria AG, Vienna, Austria, a member of the European group UniCredit (UniCredit S.p.A).
- Today, UniCredit Bank is one of Russia's largest full-service banks, offering a wide range of corporate and retail services, as well as services for SMEs and financial institutions.

2011

Main Achievements in 2011

Agreement on cooperation signed by Krasnoyarsk Regional Government, Magnezit Group and UniCredit Bank

On 18 February 2011, during the VIII Krasnoyarsk Economic Forum, an agreement on cooperation was signed by UniCredit Bank, Magnezit Group and the government of the Krasnoyarsk Region. The agreement envisages tripartite cooperation promoting the stable development of the Krasnoyarsk Region's economy and improvement of its investment climate.

UniCredit Bank and S7 Airlines issue the joint card S7 Priority – Visa – UniCreditCard

When paying for regular purchases and services with the S7 Priority – Visa – UniCreditCard, holders of the new card receive bonus miles, which can be exchanged for premium S7 Airlines tickets and the tickets of other members of the **one**world® airline alliance.

UniCredit Bank Management Board Chairman Mikhail Alekseev receives Golden Bridge award for his contribution to Italian-Russian relations

On 18 May 2011, a ceremony to present Golden Bridge awards for contributions to Italian-Russian relations was held at the residence of the Italian ambassador. UniCredit Bank Management Board Chairman Mikhail Alekseev, the winner in the "Economics and Entrepreneurship" category, received from Italy's Ambassador to Russia Antonio Zanardi Landi a commemorative diploma and a Golden Bridge statuette in the form of a Möbius strip, which symbolizes the infinite nature of the friendly relations between Moscow and Rome.

UniCredit Bank serves as lead organizer and coordinator for a syndicated loan of up to USD 1 billion for Uralkali

UniCredit Bank served as organizer and coordinator, jointly with ING Bank N.V., for a five-year pre-export financing transaction for up to USD 1 billion for Uralkali, a leading world producer of potash fertilizers.

UniCredit Bank acquires new office in Moscow's Technopark Nagatino i-Land

UniCredit Bank acquired approximately 12,000 square meters of space in Moscow's Technopark Nagatino i-Land to provide office space for employees of the Bank's operations subdivision.

UniCredit Bank helps organize UEFA Champions League Trophy Tour, presented by UniCredit, in Russia

On 16 September 2011, the 3rd UEFA Champions League Trophy Tour, presented by UniCredit, got under way in St. Petersburg, continuing on from there to Moscow. The legendary Trophy was on display at St. Petersburg's Palace Square from 16-18 September and at Red Square in Moscow from 23-25 September. The UEFA Champions League Trophy Tour exhibit was visited in Russia by a record number of football fans.

Main Achievements in 2011 (Continued)

UniCredit Bank presents “People and the City” exhibition

UniCredit Bank’s “People and the City” exhibition gave the Russian public its first opportunity to see the finest works of world art from the UniCredit collection. The event, organized as part of the Year of Italian Culture and Italian Language in Russia, ran from 21 October to 4 December 2011 at the WINZAVOD Centre for Contemporary Art in Moscow.

UniCredit Bank receives its 9th JPMorgan Chase Bank award “For High Quality”

UniCredit Bank received the award for providing outgoing USD payment orders of impeccable quality. For many years, 99% of the payments of UniCredit Bank’s clients have been made automatically, making it possible to service USD accounts quickly and efficiently.

UniCredit Bank recognized as one of the most active banks in social networks

In 2011, in a study by Social Media Indicator, UniCredit Bank was recognized as one of the most active banks in social networks (ranked second by the study).

UniCredit Bank's Tverskaya office in Moscow wins "Best Bank Office" award

On 2 November 2011, Company magazine and Internet portal MAGAZAN.RU held their "Best Bank Offices" award ceremony in Moscow. UniCredit Bank's Tverskaya office won the award for "Best Location".

UniCredit Bank's Legal Department wins 2011 award for commercial banks

On 8 November 2011, the winners were announced for the "Best Legal Departments in Russia in 2011" competition for the legal departments of various Russian companies from the Top 1,000 list by assets. UniCredit Bank's Legal Department took part in the competition for the first time and, in the opinion of the expert committee, was the best legal department in Russia in the category "Commercial Banks".

UniCredit Bank remains one of Russia's most reliable banks, says Forbes

Forbes announced its Top 100 Banks rating for 2011, with UniCredit ranked fourth in terms of reliability among Russian banks. UniCredit Bank ranked eighth in terms of assets, retaining its status as Russia's leading foreign bank, and seventh in terms of capital.

UniCredit Bank receives four "Deal of the Year" awards from Trade Finance magazine

UniCredit Bank participated in the organization of four transactions recognized by Trade Finance magazine as the best in 2011.

UniCredit Bank recognized as Russia's best bank by Global Finance magazine

UniCredit Bank was recognized as the Best Bank in Russia by Global Finance magazine, which ranked the "Best Banks in Developing Markets of Central and Eastern Europe" on the basis of an in-house study.

UniCredit Bank named Best European Employer in 2012

In a study by CRF Institute, UniCredit Bank was recognized as the Best European Employer, and UniCredit became the first company in the 20-year history of the independent international organization CRF Institute to be named Best European Employer two years in a row.

Helping homeowners save energy. And money.

Heating homes is a major factor of energy consumption. Making heating efficiency is essential to energy saving. The Federal Republic of Germany has made it compulsory for all homeowners to provide buyers and tenants with energy passes, which are valid for 10 years and forecast energy costs. The passes provide homeowners access to specialized financial products. Thanks to the *"HVB Energieausweis service"*, customers are provided with the opportunity to secure public financing and modernize their heating reduction costs. This shows how UniCredit provides customers concrete solutions to real challenges.

Strategy and Results in 2011

Management Statement

Ladies and Gentlemen!

The year 2011 was very successful for UniCredit Bank in terms of the effectiveness of our operations and the fulfillment of our main goals and objectives set by UniCredit.

Despite the fact that competition on the financial services market in Russia is becoming more intense every year, in 2011 UniCredit Bank managed to maintain its positions. It is still the largest foreign-owned Russian bank and one of the most profitable: the Bank’s net profit for 2011 was RUB 15.79 billion, which was the strongest result achieved by the Bank during its 22 years in Russia and the fourth-highest level of profit reported by Russian banks for the year. The growth of net income from financial activity and the ongoing reduction in reserves contributed significantly to the achievement of this result, as did maintenance of an optimal cost/income coefficient of 35.2%, one of the best efficiency results achieved by Russian banks.

In 2011, UniCredit Bank continued to work with large companies, SMEs and individuals. During the year, the Bank’s loan portfolio expanded by 22%, including 21%

growth of the corporate loan portfolio and 31% growth of the retail portfolio. Continuous improvement of the risk-management system allows the Bank also to maintain the loan portfolio's high quality.

Another of UniCredit Bank's important achievements in 2011 was its success at attracting client funds: volume increased by 40% during the year, outperforming the market and providing clear confirmation of the Bank's solid reputation and the highly productive nature of its relations with clients. To strengthen its positions in 2011, the Bank successfully increased its capital to RUB 88.31 billion, achieving year-on-year growth of 27%.

In 2011, UniCredit Bank continued its efforts to improve the effectiveness of its branch network; one important achievement was reaching the break-even level at all our retail offices. We also devoted considerable effort to optimizing our business processes, which allowed us to keep staff size at virtually the same level as in 2010 while maintaining the pace of business development and client service quality at high levels. In 2011, the Bank continued its practice of studying client satisfaction in all key segments, with the results confirming the consistently high quality of our products and services.

In 2011, UniCredit Bank continued its active participation in the cultural and social life of the country, promoting UniCredit projects in Russia. Two large-scale events were held with our participation: the UEFA Champions League Trophy Tour, presented by UniCredit, which enjoyed great success in Moscow and St. Petersburg, and the exhibition "People and the City", which introduced the Russian public to the best works of world art from the UniCredit art collection. The exhibition was one of the main events of the Year of Italian Culture and Language in Russia.

On behalf of the Management Board, I would like to thank the Bank's employees for their excellent work, professionalism and commitment to the corporate values of UniCredit. These efforts enable us to look confidently into the future, following our strategy of sustainable development for the good of society, our shareholders, and our clients.

Mikhail Alekseev,
Chairman of the Management Board

Report on the Bank's Activities

Macroeconomics and the Russian Banking Sector in 2011

Russian Economy

In 2011, the macroeconomic situation in Russia was generally favorable for the development of the banking system. The main economic development indicator, growth of GDP, held at the 2010 level – 4.3% year-on-year, but its composition changed significantly. The post-crisis recovery trends that predominated previously were seen in 2011 only in certain sectors, while a number of sectors – mainly those related to the consumer segment – saw new impetus for growth. The current growth rates, although significantly higher than the global average, are still well below those in the pre-crisis period, apparently due to the exhausted growth potential of energy-driven exports.

The processing and refining sectors and agriculture made significant contributions to GDP growth in Russia in 2011. The low-base effect after a weak 2010 and a record harvest in 2011 allowed agriculture, whose share of the economy is about 4%, to add roughly 1pp to GDP growth. The industrial growth rate slowed from 8.2% in 2010 to 4.7% in 2011, due to the end of recovery-phase growth, but the processing and refining sectors demonstrated strong growth of 6.5% for the year. The extractive industries also contributed to growth, with their share in GDP increasing by over 0.5pp. This occurred thanks to high oil prices: the price of Urals crude rose by 40% USD 109.4 per barrel.

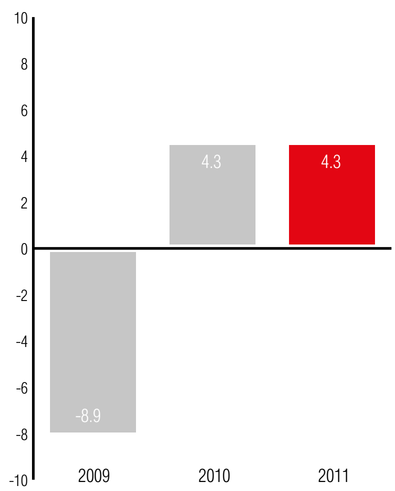
The external environment made it possible to increase exports by 30% to USD 522 billion; imports rose at virtually the same rate, reaching USD 324 billion. The growth was comparable to that in 2010 (32% and 30% respectively), but export growth was mainly due to higher prices, while imports rose mainly on higher volumes. One of the main trends of economic development in Russia in 2011 was the gradual replacement of external growth triggers with internal factors.

This was most noticeable in the consumer sector. Consumption expenditures and retail trade turnover accelerated in real terms to 6.4% and 7.2% respectively. Higher consumption took place amid a slowdown in the growth of real household income, which rose by less than 1% in 2011, the lowest growth in many years. Nevertheless, consumer lending (in 2011, Russian banks increased lending to individuals by 36%) and reduced share of savings supported consumer sector growth. The expansion of the Russian economy helped support the positive trends on the domestic labor market. Unemployment fell to 6.1%, and higher wages were linked almost entirely to labor productivity growth.

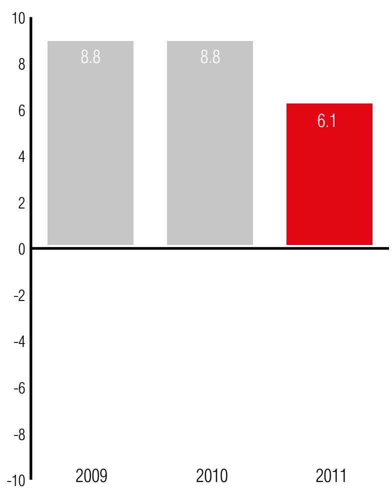
The higher oil and gas prices boosted tax revenues, which rose four times faster than government spending. Budget discipline was quite high, and as a result, in 2011 the federal budget achieved a surplus of 0.8%, the first surplus since the crisis.

Despite the strong economic growth, accompanied by higher expenditures in all the main segments, the consistent use of inflation-targeting policy in 2011 led to record-low annual inflation of 6.1%. Although a number of other factors, such as the harvest, which restrained food prices, and the lower-than-pervious increase in real

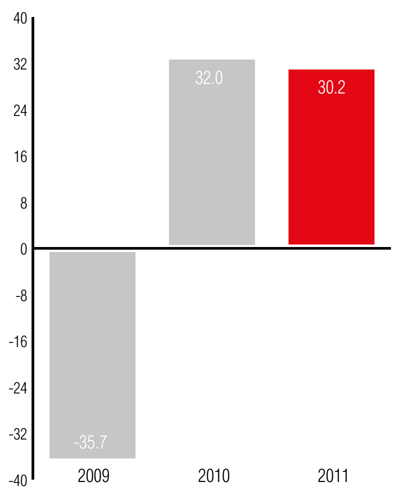
GDP Growth, *% yoy*



CPI Index, *% yoy*



Exports Dynamics, *% yoy*



consumer income, helped make this possible, it is also the case that, beginning in 2011, the Russian economy is developing in a new environment of low inflation.

The year 2011 also featured a number of other patterns. Capital outflow from the private sector was a central negative trend, exceeding USD 80 billion – the highest level since the crisis year of 2008. The accelerating outflow was related to the need to service foreign debt, while capital inflow was restrained by the continuing economic problems in developed economies, prompting investors to take money out of assets. Largely because of this, the Russian ruble weakened in 2011, with the RUB/USD exchange rate exceeding 32/1 at the end of the year.

In 2012, we expect the positive dynamics of most Russian economic indicators to be maintained, although growth rates in the real sector could be somewhat lower amid high ruble volatility. Despite the fact that economic development is increasingly based on domestic sources, external risks remain high, including the growth rates of the economies of the leading developed and the largest developing countries, the cost of energy commodities, and the situation on capital markets. The European debt crisis could have a particularly significant impact. The unstable situation in the Middle East, the world's main oil production region, is supporting oil prices at the moment, but it seems imprudent to rely on this.

Russian Banking Sector in 2011

Despite the rather high volatility on world markets, in 2011 the Russian banking system achieved quite impressive results. In 2010, we witnessed the smooth recovery of the economy as a whole and the banking system in particular, but the 2011 results exceeded all expectations.

The lack of a clear direction early in the year did not change the overall growth trend. The combined assets of the banking system rose by 23% in 2011 to a nominal value of over RUB 41 trillion. This strong growth was spurred by the steady increase in lending to the real sector and households. The continuing recovery of the domestic economy and record-low interest rates gave a solid boost to lending. Total corporate loans rose by RUB 3.7 trillion (26% year-on-year). Retail lending grew even faster, on restored consumer confidence, deferred demand from 2009-2010 and, as a consequence, higher expenditures on goods and services. Thanks to these factors, consumer lending expanded by 36% in 2011.

It is important to note that this strong growth in lending was accompanied by steady improvement in loan portfolio quality. The share of overdue loans in the portfolio, net of the interbank component, contracted by about 90bp in 2011, and the share of bad loans (quality category 3, 4 and 5 under the Central Bank of Russia's (CBR) classification, Regulation 254-P) fell by 250bp. All of this enabled banks to virtually avoid creating new loan loss reserves in 2011.

Another important occurrence was that in 2011, the switch from loans to securities investments in the structure of banks' assets that began in 2009 finally ended. The share of securities investments contracted by 230bp, while loans' share increased by 260bp.

The liquidity situation was generally quite favorable in 2011, but with certain caveats. The growth trend for corporate accounts and deposits in 2011 was almost identical to what we saw in 2010, allowing one to conclude that despite the growth of total corporate accounts and deposits in 2011 by 23%, companies were still wary of a possible negative development scenario and the emergence of new signs of crisis, which caused them to try to balance their use of borrowed and own funds. The growth in corporate accounts and deposits virtually came to a halt late in the year, due in part to the seasonality of the process. Households were more optimistically inclined, as indicated by rising consumption and, consequently, a reduced propensity to save. As a result, the growth of retail deposits fell significantly from 31% in 2010 to 21% in 2011. In 1H 2011, the situation on the interbank market looked quite favorable: record-low interest rates on the liquidity market enabled banks to forget about the problems of the crisis period. However, by late summer the situation began to worsen, due in part to concerns over the debt crisis in Europe, political uncertainty as the elections approached (State Duma and President of Russia), the general nervousness on the financial markets, and the consequent capital flight from developing economies, including Russia. As a result, the risk of a new liquidity crisis in Russia appeared, interest rates began to rise, and counterparties' confidence began to diminish. The regulator took steps to avoid escalation. The CBR gained experience during the 2008 crisis and was prepared to quickly cover players' liquidity shortfalls. The CBR also promised to support the banking system in the future, which calmed market participants' fears but did not halt the growth of interest rates.

During the crisis, many banks learned how to increase efficiency, optimize costs, and adapt their business models in order to remain profitable and competitive. This and other factors enabled the Russian banking sector to demonstrate record profitability in 2011; the main factors included the release of reserves accumulated in 2009-2010, rising net interest income, and higher income from fees and commissions. Total pretax profit in the banking sector was

Report on the Bank's Activities (Continued)

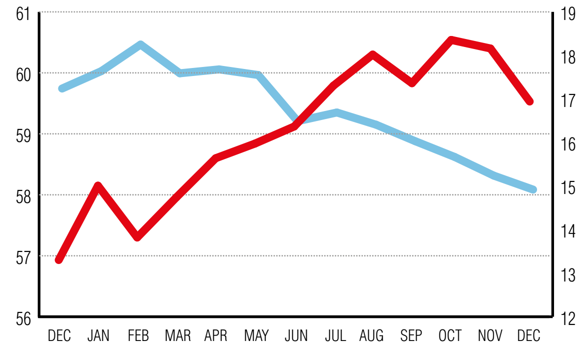
Macroeconomics and the Russian Banking Sector in 2011 (Continued)

RUB 848 billion, the highest level achieved in Russia in the post-Soviet period. The return on banking sector capital in 2011 was 17.6%.

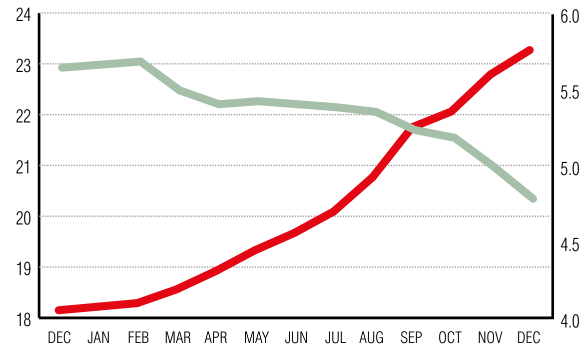
The level of capital adequacy in 2010-2011 fell, following massive influxes from the state in the crisis year of 2009. All the while, the regulator was working to adapt the Basel Committee Resolutions for the Russian banking sector, including tighter capital requirements. On 1 January 2012, a new minimum capital requirement went into effect, and on 1 July, a new requirement is scheduled to go into effect that would change the methodology for calculating the size of assets, weighted for risk, which would have an impact on the level of banks' capital adequacy. Nevertheless, all these innovations did not prompt most banks to consider increasing capital in 2011, with total banking system capital rising by just 11%, and this modest growth could have a negative impact on lending activity in the future.

The number of banks in the Russian banking sector continued to contract in 2011 amid increasing government control. The number of banks in the system fell by 33 (3.5%) in 2011, while the share of the five largest state-controlled banks in total banking assets rose by 250bp. This situation could have a favorable impact on banking system stability in the medium term, but it could reduce the level of banking services penetration, increase their cost, and cause their quality to diminish in the long term.

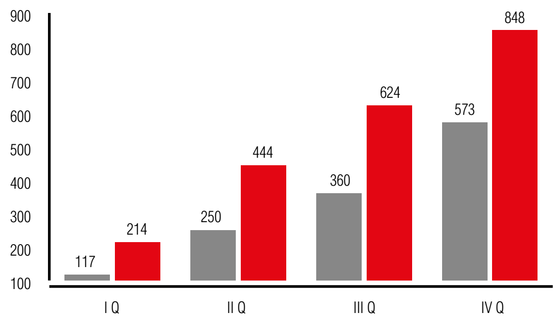
Share of total loans in banks' assets, % – *l.s.*
Share of securities investments in banks' assets, % – *r.s.*



Loan portfolio, *RUB trillion* – *l.s.*
Share of overdue loans in portfolio, % – *r.s.*



Russian Banks' Pretax Income, *RUB billion*
2011
2010



Financial Results in 2011

Financial results of 2011

According to resolution of the sole shareholder dated March 16, 2011, in 2011 the Bank paid RUB 7,409,580 thousand as dividends on ordinary shares based on its IFRS net profit of RUB 10,094,902 thousand generated in 2010. It was also decided to transfer the remaining amount of the 2010 net profit of RUB 2 685 322 thousands to the retained earnings.

Major Transactions

In accordance with the Russian Federal Law "On Joint Stock Companies" a major transaction is one whose value is more than 25 percent of the company's total assets. For ZAO UniCredit Bank this means transactions of over RUB 167 152 million (based on Russian accounting standards' calculation). In 2011, the Bank did not undertake any transactions involving such amounts.

Related-Party Transactions

In 2011, the Bank did not make any transactions in which Directors, Senior Management or other persons mentioned in the Federal Law "On Joint Stock Companies" had vested interests. Further information about related parties' transactions is given in ZAO UniCredit Bank audited consolidated financial statements.

Footnote 27 of the consolidated financial statements lists transactions with related parties made in the normal course of business in accordance with the requirements of IAS 24 "Related Party Disclosures".

Net Profit

According to the International Financial Reporting Standards, UniCredit Bank reported a net profit after tax of RUB 15 788 million for the fiscal year 2011, 56% higher than the 2010 net profit of RUB 10 095 million.

Net income from financial activities rose by 35% and totaled RUB 30 124 million. Operating costs were up by 6.3% by registering the level of RUB 10 289 million. Significant increase of the performance indicators: return-on- average equity was up to 20.4% (2010: 16.2%) and return-on-average assets reached 2.6% (2010: 1.9%). Efficiency was maintained with a cost-to-income ratio of 35.2% (2010: 34.0%).

Net Interest Income

The overall UniCredit Bank net interest income result decreased by RUB 1 002 million or 4.4% from the 2010 level of RUB 22 773 million

"UniCredit Bank continued to strengthen its position in the Russian banking sector in 2011, and the Bank's commitment to steady growth was rewarded with outstanding results: net profit expanded by 50% year-on-year, repeating the previous year's result in the strongest two-year performance in the Bank's history."

Konrad Kozik
Member of the Board

up to RUB 21 772 million influenced by higher costs with funding necessary for business development and also by increased focus on strengthening the Bank liquidity position.

Interest income went up by RUB 3 397 million up to RUB 38 625 million, driven by the contribution of loans to customers result (RUB 32 898 million). Interest income from amounts due from credit institutions increased more than 2 times up to RUB 3 343 million, further to the larger volumes of term deposits placed with banks.

Interest expense reached the level of RUB 16 854 million, increasing by RUB 4 399 million out of which RUB 3 103 million comes from significant growth of the attracted customer deposits and RUB 1 029 million from the new volumes of issued bonds.

Non-Interest Income

The net fee and commission income rose by 15% up to RUB 6 109 million. The largest part (35%) of the net fee and commission income was generated by the customers foreign exchange operations and it increased by 4% up to RUB 2 163 million. High growth (49%) was recorded by the income from documentary business.

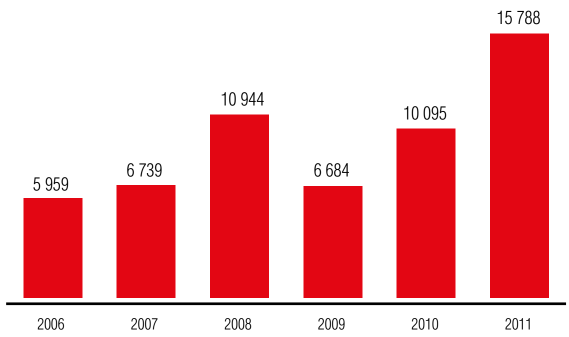
Financial assets and liabilities held for trading result generated a significant increase up to RUB 1 449 million due to the impact of the foreign exchange and interest based derivatives.

An one-off effect of RUB 3 211 million was registered related to the revaluation of the Bank shares invested in MICEX (Moscow Interbank Currency Exchange), being shown as gain on disposal of available-for-sale financial assets.

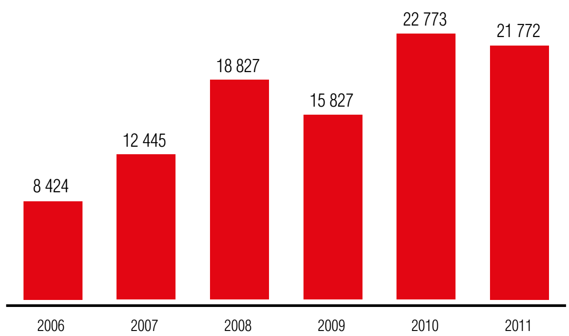
Loan impairment

The total allowances for loan impairment increased by RUB 462 million at the end of 2011 up to RUB 15 777 million, compared to RUB 15 315 million at the end of 2010. The evolution was driven by RUB 2 070 million increase of net charges for impaired loans, offset by RUB 1 608 million diminish in the allowances for not impaired loans. The quality of the loan portfolio improved: the weight of the impaired loans in total loan portfolio decreased to 5.5% at the end of 2011 compared to 7.2% at the end of 2010 determining the decrease of the loan impairment allowances to total portfolio coverage ratio from 3.8% at 2010 year end to 3.2% at 2011 year end. The loan impairment charge was RUB 2 662 million in 2011 compared to RUB 5 096 million in 2010.

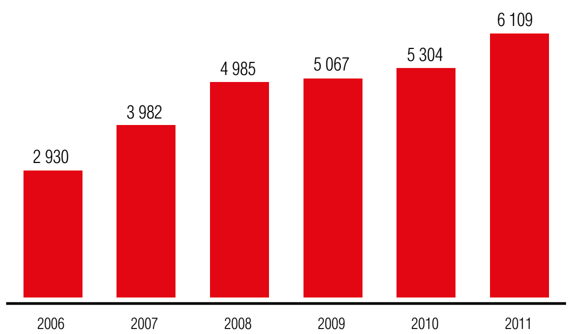
NET PROFIT, *RUB million*

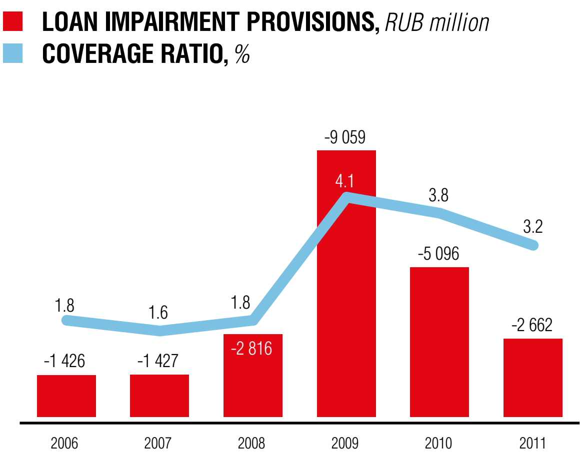


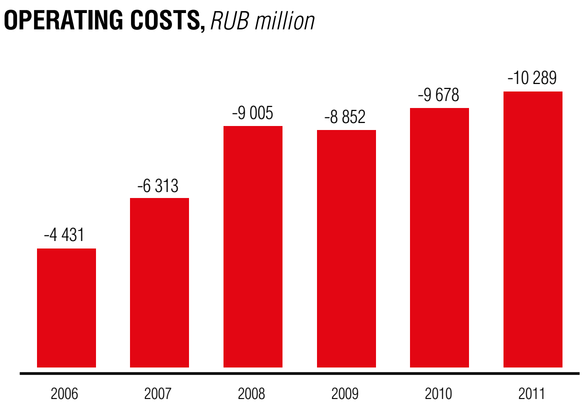
NET INTEREST INCOME, *RUB million*

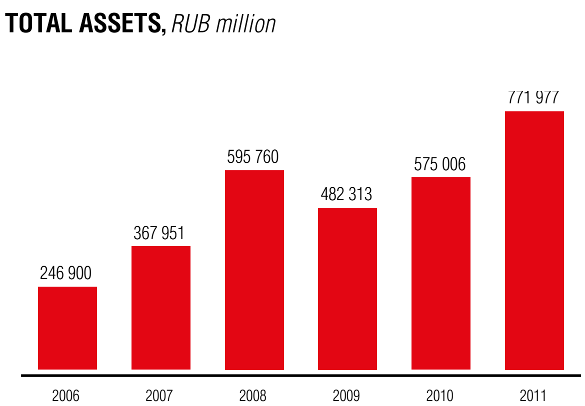


NET INCOME FROM FEES AND COMMISSIONS, *RUB million*









Operating Costs

Continuation of tight cost management determined the excellent level of cost-to-income ratio of 35.2%, one of the best in the Russian banking system. Total operating costs reached the level of RUB 10 289 million, with a growth rate of 6.3% compared to the previous year.

Assets

The value of total balance sheet grew by 34% up to RUB 771 977 million, driven mainly by the increase of the loan portfolio and of the customer deposits base. The gross loan portfolio totaled RUB 488 475 million and increased by 21.7% compared to the last year mainly due to Corporate loans, which represented 82% of the total portfolio and reached the volume of RUB 400 603 million at the end of the year, including portfolio of reverse repurchase agreements concluded with companies of RUB 8 123 million. Loans to Retail customers amounted RUB 87 324 million.

Placements on interbank market amounted RUB 200 143 million at the year end and were 113% higher than at the end of 2010 due mainly to increase of time deposits volume. The trading securities portfolio contracted from RUB 34 934 million in 2010 to RUB 1 939 million while AFS portfolio increased to RUB 43 575 million.

Liabilities

The Bank continued in 2011 to keep a diversified and sound funding base. The customers' deposits volumes increased by 40% at 2011 year end compared to the end of 2010, up to RUB 462 923 million, reducing the Bank leverage to a Loan (net) to deposit ratio of 102% (from 117% at the end of 2010). The Corporate customer deposits, representing 82% of the portfolio, reached the level of RUB 379 967million and the Retail customer deposits amounted RUB 82 955 million.

The Bank increased in 2011 its volume of issued bonds up to RUB 25 833 million at the year end. The amount of funds raised from credit institutions grew up to RUB 165 827 million.

Shareholder Equity

In the last quarter of the year, Bank increased its shareholder capital by RUB 3 174 million up to RUB 31 788 million, by issuing additional 188 703 ordinary shares with a par value per share of RUB 16 820.

The N1 Central Bank solvency ratio was 12.4% at the end of 2011, well above the 10% CBR limit.

Report on the Bank's Activities (Continued)

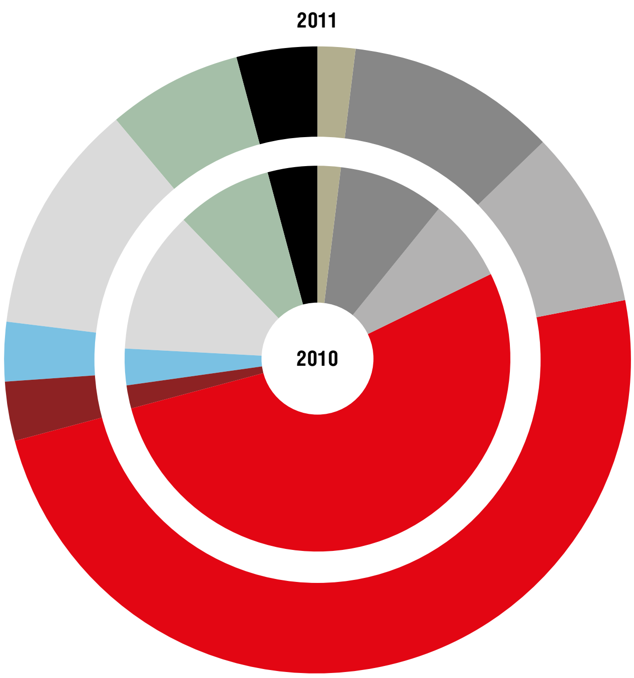
Managing Assets, Liabilities and Capital

The year 2011 saw inconsistent dynamics in UniCredit Bank's loan portfolio, which declined in 1Q 2011 but recouped the losses in subsequent quarters with strong expansion, making it necessary for the Bank to attract long-term financing. To this end, the Bank raised a three-year USD 300 million syndicated loan in August and placed its first mortgage-backed bonds in September 2011 in accordance with Russian Federal Law 152-FZ On Mortgage-backed Securities, dated 11 November 2003; the RUB 5 billion bond issue has a five-year maturity. In December, the Bank issued RUB 5 billion of exchange-traded bonds maturing in three years.

We make special mention of 3Q 2011, when a substantial unexpected increase in corporate client foreign exchange-denominated funds of RUB 95.6 billion caused excess liquidity. The Bank decided to place the excess with international banks with investment-grade rating, including UniCredit banks.

When liquidity became scarce in Russia in 4Q 2011, even as the loan portfolio continued to grow, the Bank stepped up its efforts to attract deposits from corporations and individuals and was an active bidder in the Ministry of Finance's liquidity auctions. As a result, funds raised from legal entities in 2011 increased by 48% to RUB 348.7 billion as of the end of the year, while funds from individuals increased by 25% to RUB 49.7 billion, and liquidity from the Ministry of Finance stood at RUB 53.09 billion.

STRUCTURE OF LIABILITIES AS OF 31 DECEMBER, %



	2010	2011
Syndicated loans	2	2
Group funding	11	9
Finance Ministry deposit	9	7
Funds from non-financial organizations and individuals	49	53
Subordinated loans	3	2
Bond issues	3	3
Equity	12	12
Deposits of other financial organizations	7	8
Other liabilities	4	4

Corporate & Investment Banking

Loan portfolio dynamics in 2011 were determined by market development and were subject to strong competitive pressure. Corporate loans rose by 21%, retaining high diversification across various sectors: the greatest share of any one industry in the portfolio was below 13%. In 2011, the Bank lent actively to borrowers from key sectors such as food processing, metal & mining, oil & gas and chemistry.

The Bank devoted special attention to the promotion and development of new non-loan products, including treasury and transaction instruments in order too meet more sophisticated requirements of the clients. The share of non-loan income in the corporate segment exceeded 40% in 2011. Financial institutions in UniCredit expanded their cooperation in all countries where the Group has a presence. The cross-border customer service model, which allows to offer banking products to customers in several countries at the same time, was developed and expanded substantially. The Bank achieved significant results in RWA-light product sales (e.g. trade finance and hedging instruments), which increased the share of fee income in total corporate segment revenue above 20%. The Bank actively developed its regional business, which now accounts for a third of corporate segment revenue.

In 2011, the Bank was again successful in raising funds from corporate customers: the Bank's funding base increased substantially, owing to the inflow of funds from large and medium-sized corporate clients. The combined balance in corporate accounts with the Bank was RUB 379.97 billion as of 12 December 2011, up RUB 115.17 billion year-on-year, with the loans/deposits ratio falling to 1.03.

In 2012 the Bank will continue its policy of steady growth designed to develop cooperation with existing customers and further expand the client base. The Bank actively promoted not only loans, but also a wide range of non-lending products, capital-raising and liquidity management solutions.

High standards of service quality remain a key priority for UniCredit Bank. In 2011, customers satisfaction surveys became more frequent, and all CEE banks within the UniCredit conducted three studies each during the year. Survey results once again confirmed not only the Bank's positive image in the clients' perception, but also a constantly improving perception of the Bank's corporate relationship managers.

International Companies

The Bank's international corporate segment grew substantially in 2011, increasing its share in the Bank's corporate business. Global Account Management (GAM) continued to be implemented and developed to increase the efficiency of customer service across

“2011 was the year of development and promotion of new non-loan products, including treasury and transaction instruments in order to meet more sophisticated requirements of the clients. The share of non-loan income in the corporate segment exceeded 40% in 2011. The Bank actively developed its regional business, which now accounts for a third of corporate segment revenue.”

Kirill Zhukov-Emelyanov
Member of the Board

Report on the Bank's Activities (Continued)

Corporate & Investment Banking (Continued)

UniCredit. This model makes it possible to provide a full range of services to multinationals in countries where UniCredit has a presence. As a result, revenues in the international segment increased by 23%.

Structured and Project Finance

UniCredit Bank focused on increasing the share of structured finance deals in its corporate loan portfolio in 2011. The Bank relies increasingly on international lending standards, reducing its risks and the cost of finance for borrowers. Structured finance deals are more liquid than loans, allowing the Bank to manage its portfolio.

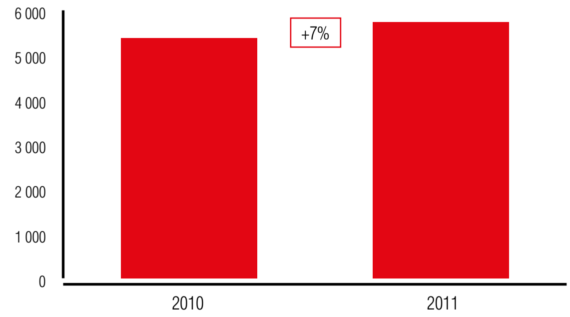
UniCredit Bank is among the most active lenders to Russian corporates and is widely recognized as the structured finance leader in Russia and Central and Eastern Europe (CEE), the number one Mandated Lead Arranger (MLA) of syndicated loans in CEE markets, and a 2011 top-three MLA for syndicated loans in Russia by transaction size. Along with other business units of UniCredit, the Bank won the prestigious "Bank Of The Year – Europe" award in 2011 for arranging and running finance projects for companies in many sectors. UniCredit Bank helped arrange finance for projects by JSC Gazprom, JSC Rosneft, JSC Norilsk Nickel and JSC Uralkali. The Bank was instrumental in successfully closing international debt syndicates for major Russian industrial groups, including Evraz, Mechel, Metalloinvest and UC Rusal.

Four 2011 deals in which UniCredit Bank was involved received Deal of the Year awards from Trade Finance magazine. The magazine's experts made special mention of a USD 1.5 billion pre-export financing deal, a USD 3.1 billion syndicated loan for Lebedinsky GOK and OEMC of Metalloinvest Group, USD 1 billion in pre-export financing for Uralkali, and a syndicated loan for UC Rusal.

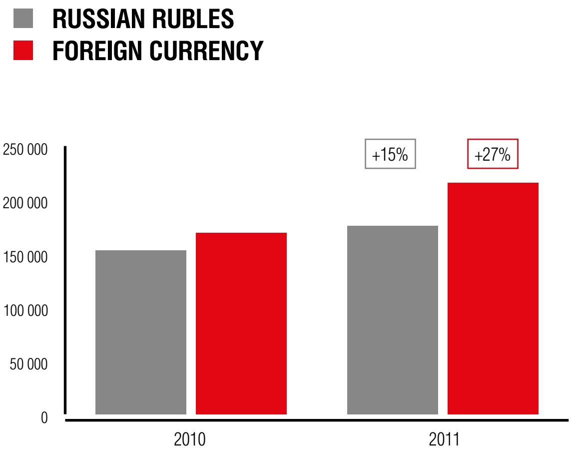
Also in 2011, UniCredit Bank was involved in a major M&A deal on the Russian food retail market, extending RUB 4.5 billion in debt finance to Dixy Group, a major food and consumer retailer, to finance acquisition of 100% in Victoria Group, another large Russian retailer.

The Bank intends to reinforce its position as a leading financial institution in Russia in various ways, in part by increasing the share of structured loans in its loan portfolio and expanding cross-selling to its existing customers.

NUMBER OF CORPORATE CLIENTS



CORPORATE LOAN PORTFOLIO STRUCTURE BY CURRENCY



Factoring

UniCredit Bank is one of the more prominent players on the factoring services market, constantly enhancing its product line to offer customers convenient, flexible, and sometimes unique financial instruments to help improve clients' balance sheets, liquidity and risk coverage ratios. The Russian Association of Factoring Companies ranks the Bank among the top 10 Russian factoring providers, with a 4% share of the Russian factoring market.

The Bank's factoring business had a very successful 2011, achieving substantially improved year-on-year results for most key parameters. The factoring portfolio expanded by more than 40% year-on-year to just under RUB 5 billion (from RUB 3 billion in 2010). Accounts receivable transferred to the Bank under factoring arrangements totalled about RUB 34 billion in 2011 (up from RUB 16 billion in 2010).

The Bank is second among Russian factors in terms of international factoring under the FCI (Factors Chain International) umbrella. The Bank had RUB 2.24 billion in international factoring turnover in 2011.

Zero non-performing debt combined with a growing customer base and expanding amounts of transferred accounts receivable are a testament to the Bank's high quality of service, technologically advanced business processes, and rigorous risk management.

Real Estate Finance

UniCredit Bank substantially increased its real estate portfolio in 2011. The share of real estate financing in the Bank's corporate loan portfolio rose by 6pp, with the growth coming largely from partnership with large international investors. Transactions closed in 2011 were of outstanding quality and extraordinary for the Russian market in terms of real estate asset excellence, structure, risk management and returns.

The Bank joined forces with the US-based Hines investment fund to close the largest deal on the Moscow real estate market in 2011: refinancing the Ducat Place III office building for USD 205 million.

UniCredit Bank found a reliable new business partner in 2011 in the UK-based Raven Russia investment fund, closing a USD 83.3 million deal to refinance a warehousing complex in the Moscow Region.

Continuing its close cooperation with the EBRD and Renaissance Development Group, the Bank signed a loan agreement to finance the construction of Aura Retail and Entertainment Center in Surgut, a major Western Siberian city; this is one of the largest and most promising regional projects and is scheduled to open in 2012-2013.

Financial Markets

UniCredit Bank continued developing its cooperation with clients in financial markets transactions in 2011.

The spot and forward FX business for corporate clients increased by more than 20%. Although growing competition led to somewhat reduced yields on foreign exchange transactions, the number and amount of corporate deposits rose substantially, with revenue from these sources increasing by more than 30% in 2011.

Sales of structured finance products rose in line with the Bank's strategy. The total amount placed in structured deposits reached more than USD 2.5 billion, up more than 100% year-on-year.

Instruments used for hedging interest rates and the foreign exchange risks of the Bank's clients generated substantial revenue. The Bank reached all of its 2011 objectives, the state of the market notwithstanding.

Custody Services

Global Securities Services, Russia (GSS) is part of UniCredit's Global Securities Services division, which comprises 14 markets, including Russia, and is one of the largest securities custody networks in CEE, with uniform standards and procedures across the region. This makes it possible to offer high-quality, dependable service to major international financial institutions, including brokers and dealers, as well as global custodians and investment funds, by leveraging UniCredit's global approach to marketing and customer relations. GSS of UniCredit Bank installed and successfully launched the unified group custody system (BACS) in 2011; this system is widely used in most markets where the UniCredit Global Securities Services division does business.

GSS of UniCredit Bank offers a full range of custody services for transactions in securities, including securities safekeeping and accounting, settlements with securities on free of payment and delivery versus payment terms in Russian rubles and other currencies, performing corporate actions and representing client with securities issuers, supporting deals with pledge of securities and structured deals. GSS of UniCredit Bank handled over USD 800 million in

Report on the Bank's Activities (Continued)

Corporate & Investment Banking (Continued)

structured deals in 2011. It operates on Russian and global securities markets, including stock exchanges and over-the-counter markets.

The year 2011 brought major changes in Russian financial market regulation, including changes to laws regulating custody services: the Central Securities Depository bill was passed into law, the government bond market was liberalized, the concept of an overseas nominee holder was allowed, and many others. Representatives of GSS were actively involved in rewriting the laws and effecting changes in the market practice, representing the Bank in working groups and committees of NSD (National Settlement Depository), DCC (Depository Clearing Company), MICEX-RTS, NSMA (National Securities Market Association) and ROSSWIFT (Russian National SWIFT Association). The head of GSS of UniCredit Bank was part of the Project Group for Improvement of Financial Services Infrastructure and Financial Markets Regulation with the Working Group for Establishment of an International Financial Center (IFC).

The well-deserved strong reputation of GSS of UniCredit Bank among its clients and the high quality of its service once again earned the depository a high place in Global Custodian and Global Investor Magazine's Russian and European customer service ratings.

Correspondent Banking

UniCredit Bank continued to strengthen its position in the clearing service market for correspondent banks in 2011, especially for ruble-denominated transactions.

The essential correspondent-banking infrastructure was put in place to support the launch a new product for the Bank's corporate clients for customs fees payments within the Green Channel project.

In August, the Bank raised a USD 300 million syndicated loan maturing in three years plus one day. The organizers were The Bank of Tokyo-Mitsubishi UFJ, Ltd., Commerzbank Aktiengesellschaft, UniCredit Bank Austria AG, Wells Fargo Bank, National Association and WestLB AG, London. The proceeds were used to develop the Bank's trade finance business and for general corporate purposes.

CORPORATE PORTFOLIO STRUCTURE

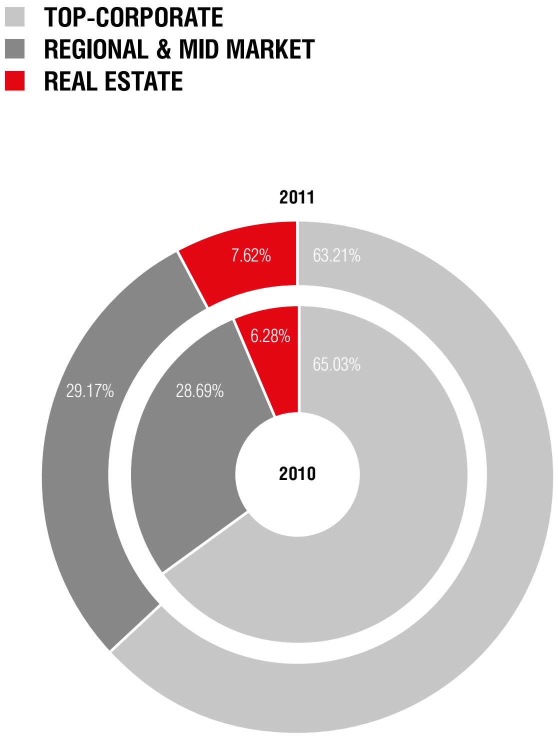
Financial Institutions	13.01%
Wholesale and Retail Trade	12.87%
Metals and Mining	12.30%
Agriculture and Food Processing	11.80%
Gas, oil and petrochemical	10.04%
Chemicals and Fertilizers	9.33%
Other	6.42%
Consumer Goods ans Services	5.82%
Real estate and construction	4.75%
Transport and Infrastructure	3.92%
Telecommunication	3.54%
Pulp and Paper, Timber	2.43%
Machinery and Equipment	2.20%
Energy	1.59%

Trade Finance

The year 2011 saw the continued successful growth of UniCredit Bank's trade finance business. The Bank's results in this segment improved substantially year-on-year: total transaction volume rose by 28.5%, while fee income increased by 40%.

All sub-segments posted increases, but the strongest growth was demonstrated by domestic letters of credit, mostly as a result of sizeable equity transactions and a recovery of the real estate market); guarantees and import letters of credit, which were used increasingly for importing consumer goods; as well as machinery and equipment – a more conventional use of import letters of credit).

CORPORATE LOAN PORTFOLIO STRUCTURE BY SEGMENTS, %



The guarantee business continued to dominate in this segment, as most transactions had to do with domestic trade, including both security of commercial contracts between Russian companies and bank obligations in favor of state bodies, prescribed by the legislation. Overall, the domestic Russian business accounts for more than half of trade finance volume.

As regards the servicing of clients' foreign trade, the successful use of UniCredit's ability to provide the best price for joint letter-of-credit and guarantee service deserves special mention.

The respected Global Finance magazine for the third time selected UniCredit Bank along with other UniCredit CEE Banks as the "Best Trade Finance Provider 2012 for Central and Eastern Europe" based on its 2011 performance.

Cash Management Products

UniCredit Bank reinforced its leadership in transaction services, cash management products, and remote banking systems in 2011. To accomplish this, the Bank worked successfully to expand its product line and increase the efficiency of its products and solutions selling system. The Bank expanded its Cash Management Products Division significantly to support its new strategy.

The Bank actively developed and offered cash management products and solutions to clients in all corporate segments (major corporations, regional and international businesses). Large corporate clients continued to use the full range of services, showing a particularly strong interest in effective cash management solutions for their accounts, integrated eBanking solutions for payment factories, and custom products, specially designed and tailored for specific companies. High-tech solutions needed for operations on the global and/or European markets for international clients were enhanced. The Bank devoted particular attention to promoting its products in Russia's regions, where it sees good potential for growth on strong demand, high margins and reasonable competition in this product segment.

Export Finance

UniCredit Bank's large corporate clients continued to show keen interest in financing against Export Credit Agencies' (ECA) backed financing, reflecting two major economic trends: growing imports of capital goods and a shortage of alternative instruments for financing investment of this kind.

The Bank provided support for client investment needs, entering into a number of transactions insured by top European ECAs (Hermes, SACE, OeKB, EGAP and others) worth a total of EUR 432 million. These transactions were structured as buyer loans against an Export Credit Agency guarantee, with loans extended by UniCredit banks based in Germany, Italy, Austria, the Czech Republic, etc.

The fact that the Bank has financing against ECA guarantees in its product line helps it develop its cooperation with key clients, finding a solution for their needs in long-term financing.

Report on the Bank's Activities (Continued)

Corporate & Investment Banking (Continued)

UniCredit Leasing

UniCredit Leasing S.p.A., Italy (with a 60% stake) and UniCredit Bank, Russia (40%) have been partners in UniCredit Leasing LLC since July 2009.

UniCredit Leasing LLC is a reliable provider of leasing service to UniCredit Bank clients, with the Bank serving as the main sales channel for leasing products according to a strategic decision made at the UniCredit level. Since 2010, UniCredit Leasing has focused its Russian operations on providing financial leasing services to UniCredit Bank clients. Leasing is one of the essential elements of UniCredit's business development strategy for the Russian financial markets.

UniCredit Leasing had a highly successful year in Russia in 2011. The company demonstrated significant growth, improving its position in the ratings and overtaking direct competitors on several metrics. Strong, consistent development resulted in a substantial year-on-year increase in the number of contracts signed. The company is continuing to optimize its business processes and expand its joint programs with major global suppliers of equipment and machinery, and is also developing new promising business segments, including real estate and vehicle leasing.

Private Banking

UniCredit Bank's Private Banking Division focused on capital preservation in 2011 and set as its primary objective creation of a competitive and versatile service package. The division established a convenient platform for effective and flexible service meeting the full range of client needs and adequately addressing the changing macroeconomic environment. During the year, UniCredit implemented several group-wide initiatives that brought significant results. One particularly notable initiative was Capital Diversification Strategy, which offered customers a way to invest their money in 11 different currencies.

The Private Banking line of investment products and services enjoyed strong growth and development in 2011 thanks primarily to the completion of efforts to systematize client transaction services on stock and bond markets, as well as by expanding the range of opportunities giving clients access to international markets. The advantages of working with firms like Pioneer Investments, Franklin Templeton and Schroeders help UniCredit Bank focus on clients' best interests in international diversification of investments. In 2011, the Bank offered clients new investment solutions providing full or partial protection of capital and making active use of intra-group UniCredit Private Banking capabilities in Europe.

A joint project with ERGO Rus insurance company implemented in 2011 opened up optimal solutions meeting the requirements of the most demanding clients. Committed to offering customers access to the best available payment processing solutions, UniCredit Bank launched a collaborative project with Visa Inc., introducing a new card product Visa Infinite. This enabled the Bank to offer higher-quality service to debit card holders while increasing commission fee revenue by 25%. The Private Banking client base expanded by 8% in 2011, and annual segment revenue exceeded budget projections by 40%.

Another key result of the division's work was improved loyalty to UniCredit Bank among Private Banking clients. For the second straight year, the division conducted Private Banking Customer Satisfaction surveys demonstrating strong results by domestic standards and compared to other European countries (TRIM = 90); client satisfaction also increased year-on-year on many metrics.

Retail Banking

In 2011, UniCredit Bank stayed the course, working to raise the quality of service and increase the appeal of its banking products for the clients.

The Retail Division had the following priorities:

- developing products to meet the needs of current and prospective clients and boost client loyalty;
- implementing technological solutions and services, including development of payment processing and client service via remote access channels;
- building long-term, mutually beneficial relationships with clients based on mutual trust and adherence to the highest standards of service.

Work with SMEs

Work continued in 2011 to develop banking services for the small and medium-sized business segment. The Bank expanded the limits of its SME efforts, increasing the number of branches and offices serving the segment in Russian regions from 45 to 80. In addition, the Bank continued to refine its customer service model: introducing the new position of client engagement curator, launching a new sales channel via business partners, and starting a new Bank-wide training program for employees working in the SME segment. Also in 2011, the Bank continued its fruitful cooperation with MSP Bank (formerly known as RosBR) under the government-sponsored SME financial support program which makes it possible to finance SMEs on advantageous terms.

Other improvements included substantial further optimization of the lending process, introduction of better credit product terms and features, and the addition of a new promising product – a commercial mortgage loan. As a result, the Bank issued 1,900 loans worth a total of RUB 3.9 billion in 2011 and added 2,900 new SME clients, bringing the total to 20,000 and expanding the client deposit portfolio in the segment to RUB 29.1 billion.

Savings and Investment Products

UniCredit Bank developed its deposit product line in 2011 to boost growth in its passive funding base by offering competitive interest rates for the whole range of time deposits. As a result of the Bank's actions, individuals' time deposit increase by 49% from the start of the year exceeded overall market growth.

The Bank expanded its retail investment product range, launching sales of investment funds under management of TCB BNP Paribas Investment Partners (JSC), a leader on the global and Russian

“The Bank continued work in 2011 to increase efficiency of every branch and started initiatives to determine the optimal presence level in each region. One of the main results achieved in 2011 was reaching the breakeven level by all Regional Retail Centers and Regional Retail Branch Networks.”

Eduard Issopov
Member of the Board

asset management markets, giving UniCredit Bank's clients access to dynamic sector funds, index funds, and the generally more conservative money-market funds.

To further increase the efficiency of its management of client pension savings plans, UniCredit Bank offered investors the chance to invest the savings portion of their pensions in the Gazfond Private Pension Fund – one of the largest and oldest non-governmental pension funds in Russia.

In March 2011, UniCredit Bank launched a joint project with Allianz ROSNO Life to add to its range of investment and insurance products. Allianz Unique is a new product that allows clients to invest their long-term savings, getting exposure to the RTS Index and the LBMA price of gold while having their principal investment 100% protected against downside.

UniCredit Bank also expanded its services for affluent customers in 2011. In October, the Bank launched a premium Prime package combining the most popular transaction and savings services, insurance products, and premium non-banking services.

Mortgage Lending

Mortgage lending was a key business line for UniCredit Bank's retail division in 2011. The Bank issued more than 3,000 mortgage loans worth almost RUB 8 billion, a more than 60% increase year-on-year.

As part of the effort to develop this business line, the Bank introduced refinancing for mortgage loans – a product that attracted new clients and enabled borrowers to reduce their leverage. The Bank also implemented a way to use parent company capital to underwrite mortgage loans and relaxed some of its requirements for prospective borrowers, enabling it to expand the audience of prospective customers.

Another important avenue of development was expansion of the list of business partners and productive cooperation with real estate brokers and agencies, which played an important role in increasing the amount and number of mortgage loans issued. Joint programs with large domestic and international companies demonstrated once again the Bank's commitment to meeting its customers halfway, offering them appealing terms.

In 2012, UniCredit Bank will continue to develop mortgage lending by expanding the mortgage loan portfolio and offering customers even better terms, as this socially important line of business is one of the highest priorities in the company's development strategy.

Auto Lending

UniCredit Bank maintained its leadership as one of the largest auto loan providers in Russia in 2011. The Bank issued over 70,000 auto loans for a total of RUB 35 billion, making it the fourth-largest provider of new car loans and the fifth-largest provider of auto loans in Russia overall in terms of money lent, according to RBC. Ratings. The Bank launched a Mitsubishi Motors Finance lending program in cooperation with the Russian office of Mitsubishi and substantially relaxed its requirements for borrowers, allowing clients to present just two forms of ID when applying for a loan (passport and driver's license) with a downpayment of 30% or more. The maximum auto loan amount was increased to RUB 6,500,000. Another change benefitting clients was removal of restrictions on full or partial early loan repayment; the loan-arrangement fee was also removed. Joint finance programs with major global automakers (Renault, Nissan, Infiniti, Jaguar Land Rover, VW, Mitsubishi and others) and the state-subsidized lending program accounted for a majority of auto loan sales in 2011; subsidized loans represented 25% of total loans.

Consumer Loans. Credit Cards

Expanding cross-selling programs and creating the most flexible offerings for customers and providing the best terms for reliable borrowers were for consumer lending development priorities again in 2011. Increasing the lending limit to RUB 1 million for borrowers with a good credit rating and introducing new loan pricing models made it possible to expand the range of prospective borrowers, ensuring substantial growth of the loan portfolio without undermining its quality. The Bank provided more than RUB 8 billion in 28,000 cash advance loans in 2011.

Credit cards also remain a priority growth area for the retail business. The Bank issued more than 20,000 cards in 2011 and introduced a co-branded S7 Priority – VISA – UniCreditCard credit card in April 2011 as a joint project with S7 Airlines. This product enjoys high demand from clients, and the Bank has issued more than 11,000 cards of this kind since launching the offer.

In 2011, UniCredit Bank also continued to improve the terms and features of its credit cards to make them more competitive. The Bank launched programs to increase the credit limit automatically, to increase the maximum credit limit, automatically pay off the credit card balance, and increase the maximum cash advance limit on credit cards. The Bank plans to launch new co-branded projects in 2012 and develop credit card package products for different market segments.

Remote Banking Services

In 2011, the Bank continued to expand the functions available via its remote banking service channels.

The number of Enter.UniCredit system users increased by 22%, and the number of payments and documents submitted by customers via Enter.UniCredit online banking rose even more substantially – by 45%.

The Bank implemented recurring funds transfer capability in its Enter.UniCredit online banking system for clients in all Russian regions, introduced a way to buy online additional units in TCB BNP Paribas Investment Partners' investment funds, and improved the way the online banking system handles credit card numbers.

Mobile.UniCredit banking system was significantly enhanced in 2011, making new capabilities available to clients, including ways to pay for various services and subscriptions, and making the system more user-friendly overall.

UniCredit Bank also enhanced the interactive functionality of its website as part of its drive to develop remote banking services.

The list of companies whose services UniCredit Bank customers can pay for via Enter.UniCredit system without an additional commission was expanded to more than 170 names during 2011.

The Bank plans to redesign Enter.UniCredit system in 2012 and further expand its functional capabilities.

Retail Network

The Bank continued work in 2011 to increase efficiency of every branch and started initiatives to determine the optimal presence level in each region. This process allowed the Bank to identify the less efficient branches and offices and slate them for closing down or moving to a new location.

One of the main results achieved in 2011 was reaching the breakeven level by all Regional Retail Centers and Regional Retail Branch Networks. The Bank intends to review its Branch Network Development Program in 2012 to identify the most attractive Russian regions for further development, as well as to decide on a geomarketing approach to developing the Bank in the urban areas.

The Bank also continued work in 2011 to optimize its retail processes and client service technologies to increase service quality and raise the efficiency of sales outlets through optimal use of resources. The Bank tried out several different process organization models at its sales outlets. The Bank tested a way to optimize the process for depositing cash to a client account through the Bank's cash service desk to reduce the time of service and waiting in line. Also in 2011, the Bank started a project to move all cash deposit transactions (mostly for the purposes of loan repayment) to self-serve banking devices (ATMs, payment terminals, payment processing services). The initiative to move customer service operations to remote banking channels is fully in line with the prevailing market trend: most large players strive to reduce the number of service operations at points of sale (retail branches and offices) by promoting distance service channels, while clients get convenient and reliable tools to repay loans, transfer money, convert foreign exchange and do a number of other basic banking transactions in high demand.

In 2011, the Bank completed a large project to automate some of its labour-intensive operations, including early repayment of loans and preparing bank statements and certificates at the client's request at points of sale, which should increase both quality and speed of serving customers at the Bank's branches. In 2012, the Bank will continue to refine its internal processes, and using its practical experience, including that gained during 2011, plans to implement a new, more efficient and more client-oriented process organization model at its points of sale.

Report on the Bank's Activities (Continued)

Risk Management

"In 2011 UniCredit Bank made progress in managing its problem loan portfolio. It is important to note that the process of past-due debt collection became more efficient while the cost of collection process declined. The results and practice of building the collection mechanism in Russia were noted by UniCredit management."

Dmitry Mokhnachev
Member of the Board

The key risks associated with UniCredit Bank's operations include credit risk, liquidity risks, changes in the market situation and exchange rates, and operational risks. The Bank's risk management policy pursues the objectives of risk identification and analysis, assessment of all the risks to which the Bank is exposed, determining the maximum acceptable risk level, monitoring risk levels, and taking prompt and timely action when the need arises.

UniCredit Bank's risk management system is regulated by Russian and European law. The Bank was among the first banks in Russia to implement international risk and capital management standards established by the Basel Committee on Banking Supervision (Basel II requirements). Implementation of cutting-edge international risk management standards involves all key divisions and units of the Bank, including business units and risk sections.

Implementation of Basel II Accord requirements involves refining the Bank's in-house risk assessment procedures, developing and implementing rating models, economic capital evaluation models making management of key risks and the Bank's capital more efficient subject to Component I and Component II of the Basel II Accord. The risk management policy is analyzed on a regular basis in light of changes in market conditions, products and services and introduction of new improved risk management methods

Corporate Credit Risks

Risk assessment in the corporate segment involves comprehensive analysis of borrowers' financial and qualitative parameters giving the Bank a full picture of the client's operations and giving the authorized decision-makers a solid ground for making well-reasoned decisions.

Two rating models are used to estimate the probability of default by a corporate client; the models were developed for specific sub-segments of corporate clients and take into account the specific features of their business. Clients are rated every quarter based on all the available information. These rating models and corresponding rating processes are in compliance with Basel II standards for calculating capital requirements based on Internal Ratings (IRB-F). The Bank is actively working towards joint approval of the IRB-F approach by Bank of Italy and the Central Bank of Russia for calculating capital requirements in the corporate segment.

In order to optimize its corporate risk management, the Bank implemented a sector specialization model that envisages dedicated groups, each of which is responsible for analysing risks affecting specific industries. This model enables the Bank to analyze developments in specific industries quickly and at a high level of quality, adjust its strategies and make informed and well thought-through decisions. Another factor contributing to effective loan portfolio management along with the industry-specific principle is that the Bank has in place a system of regional risk managers capable of accumulating and analyzing information about the situation in the key regions where the Bank has a presence who can manage the loan portfolio effectively along geographic as well as sector-specific lines

The decision-making system for corporate loans was upgraded in 2011 (the system does not apply to lending transactions with problematic and potentially problematic borrowers) by making the level of the lending approval committee dependent not only on the limit of risk associated with a particular loan under consideration, but also on the level of risk (likelihood of default) specific to a client or client group.

The Bank has a dedicated division to monitor risks in the corporate segment, with a system created to detect and evaluate negative signals making it possible to identify potentially problematic borrowers at an early stage and take timely action. In order to make corporate risk management more efficient and reduce the risk of the Bank's potential looses, a new IT platform was introduced in 2010-2011 for recording negative signals, classifying clients, developing and following through on an action plan and a strategy for dealing with potentially problematic borrowers.

In 2011 UniCredit Bank made progress in managing its problem loan portfolio. Building an efficient system for managing problem corporate loans allowed the Bank to reduce past-due corporate debt almost by RUB 10 billion down to RUB 27 billion, cutting the share of problem loans in the Bank's corporate portfolio significantly, from more than 8% at the start of 2011 to 5% as of the end of the year. The process of past-due debt collection became more efficient while the cost of collection process declined. It is important to note that the collection procedures were optimized based on our accumulated experience in dealing with problem loans to companies in various sectors. UniCredit management noted the results and practice of building the collection mechanism in Russia: the Russian experience was actively used in the group-wide project to standardize and refine the system for dealing with problem loans.

Retail Credit Risks

For the retail risk management team, 2011 was a year of "More and Better." The Bank's retail loan portfolio grew by 25% during the year. Changes to the rules for borrower evaluation, improved infrastructure and toolset for making lending decisions made sure this growth went hand in hand with portfolio quality improvement. This improvement was reflected in loan loss provisioning: the expected loss in 2011 was around 0.5% of the loan portfolio, or just 20% of the budgeted level. Changes in the Bank's approach also resulted in a substantially reduced share of foreign currency-denominated loans (from 28% to 16% of the overall portfolio).

The following actions can be described as the most significant in retail credit risk management in 2011:

- separate credit risk management groups for credit risks associated with individuals and those associated with small and medium-sized businesses were combined into one unit – the Retail Credit Risk Department for more efficient management of retail credit risks;
- information exchange with three more credit bureaus was automated (the Bank is currently exchanging borrower information with four major credit bureaus on the market), enabling the Bank to react quickly to changes in the market situation and increase process efficiency by using various business strategies differentiated on the basis of credit history quality;
- borrower rating was introduced for key lending products, taking into account application and behavioural scores, as well as monthly updates to client ratings for the purposes of provisioning and subsequent collection of past-due debt;
- ongoing actions were taken to enhance and develop fraud prevention in both the individuals and SME segment, resulting in a sharp reduction in the Bank's financial losses (more than EUR 3 million), as well as in a substantial improvement in the loan portfolio quality.

The Bank has plans to continue effective development of retail credit risk management during 2012, refining the available toolset and focusing on implementation of a system to automate credit worthiness evaluation, assigning borrower ratings, and making the lending decision.

Market Risks

In the best tradition of the previous years, UniCredit Bank spent the year 2011 boosting its competitive advantage by way of infrastructure development. Uncertainty and changing conditions, as well as declining liquidity on both international and domestic markets, intensifying price competition for customers in the banking industry – all these factors prompted the Bank to continue infrastructure development and refine its approaches to managing risks arising from the Bank's Trading and Banking books, reducing its dependence on market conditions and thereby helping to make the Bank's financial results more consistent and stable.

Report on the Bank's Activities (Continued)

Following UniCredit's liquidity management standards along with the Central Bank of Russia's mandatory requirements enabled the Bank to achieve efficient management of its maturity structure of assets and liabilities. Implementation and subsequent enhancement of the group-wide liquidity stress-testing methodology gave the Bank a tool for qualitative and quantitative evaluation of the Bank's requirements for liquidity reserves, which led the Bank to look for and design new funding sources and, as a result, to diversify the currently available liquidity reserves.

UniCredit Bank implemented the New European Interface Group's technology which represents a uniform standard for data exchange for the purposes of calculating market and credit risks, which resulted in a significant improvement of the VAR/BPV calculation procedure and enabled the Bank to move to a new, more advanced model for calculating the pre-delivery counterparty risk in transactions with derivatives based on the portfolio approach. The Bank is continuing its successful implementation of standards established by the Basel Committee. The combination of risk factors used in market risk assessment models was expanded to include and monitor additional risks associated with changes in the issuer credit ratings. In addition, the Bank started the project to implement Basel III standards in 2011.

Other achievements in market risk management include refinement of the system for calculating the open foreign exchange position making it possible to monitor the position on a daily basis under both RAS and IFRS, and implementation of the portfolio method for accounting for fair value hedging, which went on to become the primary method for hedging accounting for the Bank and significantly improved and systematized the interest rate risk management procedure. UniCredit Bank was the first Russian bank to move to this hedging accounting method.

The Bank consistently strove for excellence in 2011, continuing with upgrades for its group-level and internal methodologies to bring them in line with international standards and make them adequate to new market challenges. Processes making it possible to evaluate and control market and liquidity risks became an integral part of current business processes, reflecting the quest for an optimal balance between adequate risk assessment and essential and timely support of relevant business units.

Operational Risks

The broad range of the Bank's operational risk management initiatives implemented over the previous year defined the main areas of work in 2011: monitoring implementation and improving interaction, analysis and ad-hoc adjustments while the main processes in terms of operational risks were upgraded.

The Bank refined its practice in 2011, among other things standardizing the details of the decentralized process of collecting data about operating losses.

During the year, suggestions were implemented to upgrade the procedure for selling financial derivatives; a financial derivatives policy was designed and implemented that was in line with the Group's requirements, Russian law and the Bank's needs.

In 2011, the Bank established effective cooperation between business units working in adjacent areas to collect and analyze data about events in inter-related sectors and spheres that are relevant for operational, credit and market risks.

The Bank has now introduced the basic mechanisms and processes of operational risk management to smooth the transition to calculating capital for operational risk using the advanced measurement approach (AMA), making it possible to reduce its cost, once we receive the relevant certification from the regulators.

Operations

Organizational Structure

Changes in UniCredit Bank's organizational structure in 2011 were intended to improve the Bank's efficiency and bring its structure into line with UniCredit standards. The purpose of organizational changes was also to define more precisely the functions of components within the Bank's branch network structure to enhance control over their operations and increase productivity of regional offices and branches. As a result of implementing group-wide standards, the retail branch network was reorganized and saw an increase in the efficiency of retail divisions.

At the end of 2011, the new organizational structure was subjected to cross-functional analysis for the purposes of further optimization and streamlining to raise the standard of customer service quality.

The Project Management Office implemented demand management in 2011, enabling the Bank to collect in one place and combine in a portfolio all its project initiatives. The Bank is currently implementing of a large number of initiatives, which are collected from business units and the Group and tested; Group-wide and CEE Division projects are being implemented in constant ongoing collaboration with European colleagues. The Project Management Office ensures maximum flexibility and timeliness of this process, while also providing compliance with current procedures and determining the rules for this collaboration. Of all projects at the Bank level, 25% have been either mandated or initiated by the Group, accounting for almost half of all capital and operating expenses projected for 2012.

Current and future planned projects lie within the realm of initiatives arising from business requirements and serving to increase market share and increase the quality standard of banking service, as well as in the realm of infrastructure projects designed to ensure the Bank's ability to adapt quickly to changing market conditions and rise to the challenges of international and the nationwide domestic financial and banking market. The Bank was chosen as a pilot financial institution by the Central Bank of Russia for implementation of Basel II requirements for capital adequacy, and all associated work is being done within the framework of the overall Basel II project.

UniCredit Bank's project portfolio is well balanced, comprising in equal parts business development projects and projects to build the infrastructure for the Bank's corresponding competency lines, keeping a healthy balance between the number of projects and their aggregate budget. Priorities are defined with an eye to the Bank's and UniCredit's strategic development plans. The Project Management Office meticulously tracks all the Bank's ongoing investment in the projects and promptly directs cash flows just where investment is needed the most at the time.

“In 2011, UniCredit Bank commenced implementation of a large-scale program to upgrade its IT systems. Within the framework of the program, a new five-year IT Strategy was designed targeting the creation of a flexible and efficient IT landscape to support the Bank's expanding business and ensure a higher quality of IT services. The Bank refreshed its portfolio of IT projects to a large extent for the purposes of implementation of the new strategy.”

Luca Rubaga
Member of the Board, Senior Vice-President

Report on the Bank's Activities (Continued)

Information Technology

In 2011, UniCredit Bank commenced implementation of a large-scale program to upgrade its IT systems. Within the framework of the program, a new five-year IT Strategy was designed targeting the creation of a flexible and efficient IT landscape to support the Bank's expanding business and ensure a higher quality of IT services. The Bank refreshed its portfolio of IT projects to a large extent for the purposes of implementation of the new strategy. In 2011, the following projects were started to create:

- A unified data storage facility, which should take data availability and data quality for decision-making to a new level;
- A new online banking system to refine and expand the range of services the Bank makes available to customers via electronic access channels;
- Client relation management systems for both retail and corporate segments.

The Bank expanded integration with its payment agents (such as QIWI) and business partners (such as S7) to enhance the quality of retail service; loan underwriting systems are undergoing continual improvement.

In 2011, the Bank continued to work on increasing the reliability of its IT systems and developing the IT infrastructure. New target architecture was approved for the Bank's Data Processing Center (DPC) and as part of its implementation, construction of the Main DPC second node facility was completed. Development of the network infrastructure should bring the Bank's network structure into line with UniCredit's standards. High adaptability of the network infrastructure made it possible to implement large-scale projects to move the Bank's offices and divisions (a customer service operations center in Stavropol and a large-scale move of operating divisions to Technopark Nagatino i-Land).

The Bank sees IT process efficiency as a key factor for successful development of information technologies. The Bank completed the first phase of implementation of a service-based approach in 2011, implementing an industrial-strength automation solution for main operating processes. The Bank devoted special attention to resource planning and refining project management.

In 2012, the Bank is planning to introduce key components of the future IT landscape: the corporate data storage facility, the new online banking module and CRM systems. Upgrades of payment processing and dealing systems are also in the mill. Work will continue to ensure uninterrupted operation of the Bank's business: rollout of the second node of the DPC and network infrastructure upgrades.

Operations

In 2011, UniCredit Bank's Operations Back Office was running in an environment of increased amount of work on implementation of new technological solutions and work process optimization, with the following activities standing out as the most noteworthy:

- automation of manual checks when processing retail customers' loan applications (the Credit Policy Implementation Project);
- optimization of ATM card transactions – off balance-sheet accounting;
- optimization of handling originals of documents supporting retail loan applications;
- car loans – implementation of a transaction appointment calendar;
- development and implementation of a new retail loan servicing model (using MatLab), to reduce the time needed to make a decision on a loan application;
- back-office reorganization – moving data entry for retail loans from Moscow to Stavropol;
- transition to paperless document management with regard to incoming SWIFT messages, the project is currently under way;
- introducing a new platform for accounting for loan security.

Card Business

UniCredit Bank continued expanding its ATM network in 2011, installing more self-serve terminals with improved functionality that now allows them to perform the same transactions as one of the Bank's ATMs, except for cash withdrawals.

As planned, the Bank completed its PCI DSS certification and is now in full compliance with this security standard for payment processing systems.

The Bank implemented projects to launch Visa Platinum debit cards for Private Banking clients, and MasterCard Unembossed debit cards. In the fall of 2011, the Bank added to its ATMs the capability to process MasterCard chip cards.

The Bank launched its first co-branded credit card project in the spring of 2011 jointly with S7 Airlines.

In 2012, the Bank intends to enable processing of Visa and MasterCard chip cards in the Bank's POS terminals, to continue installation of self-serve terminals and to replace outdated ATMs with new ones. In 1Q 2012, the Bank plans to implement the 3D-Secure project to increase security of online transactions using the Bank's ATM and credit cards.

Also in 2012, UniCredit Bank is planning to issue cards using the PayPass technology, which is currently in the process of certification. Furthermore, the Bank plans to introduce a unified online banking system for retail and corporate clients in 2012.

Real Estate

The Bank's largest real estate management project in 2011 had to do with accommodation of UniCredit Bank Head Office divisions. This project involved developing a concept for consolidating Head Office divisions in one building instead of the current four, searching for a new office building, signing a purchase contract for the new premises, and organizing design and construction work at the site.

Within the framework of UniCredit Bank's program for expanding its sales office network in 2011, the Bank expanded its Omsk sales office and optimized the number and area of its Moscow sales offices. Some operating divisions were moved from the Moscow Head Office to the premises of the Stavropol branch to use the Bank's owned premises more efficiently.

UniCredit Bank took action in 2011 to reduce the cost of renting premises for the Bank's needs, saving more than RUB 203 million overall.

The Bank's 2012 plans include moving some divisions of the Head Office to UniCredit Bank's new building (at Technopark Nagatino i-Land), continued optimization of rental expenses, opening new sales offices, ensuring uninterrupted operation of utilities and amenities in the Bank's buildings and premises.

Report on the Bank's Activities (Continued)

Brand

In the fall of 2011, the Bank launched a new ad concept in Russia: Life is full of ups and downs. We'll be there to support you. Welcome to UniCredit Bank. This concept was developed for the entire UniCredit within the framework of the new brand positioning concept of "Real Life Banking" and is intended to bring home to the client the idea of UniCredit not only a reliable business partner, but also a friend who will be there to share the possible ups and downs with the client, offering him or her a helping hand. UniCredit Bank is a bank which is easy to do business with, which gives straight, specific answers to specific questions, offering the customer a real advantage.

This concept enables the Bank to move away from the cookie-cutter approach to promoting banking service and offers prospective clients a new generation of banking solutions which are not just couched in pretty packaging, but are borne out by their actual contents and actions of every single one of the employees.

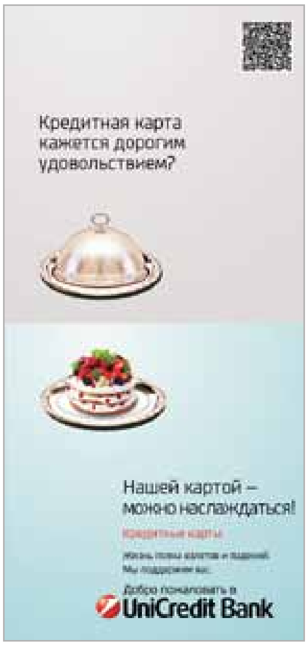
UEFA Champions League Trophy Tour, presented by UniCredit, and associated ad campaigns

The year 2011 saw close cooperation between UniCredit and the UEFA Champions League, with UniCredit as an official sponsor of the League in 2009 through 2015.

In the fall 2011, the Bank ran a large-scale advertising campaign to promote the UEFA Champions League Trophy Tour in Moscow and St. Petersburg in September. In addition, the Bank's branches across Russia were decorated in UEFA Champions League colors, and a special campaign was organized to promote the event on social networking sites and popular radio stations in Moscow and St. Petersburg, with a competition for regional sports reporters. As a result, nearly 50,000 football fans attended events on St. Petersburg's Palace Square, and on Red Square in Moscow, where an iconic red tent was set up to display the UEFA Champions League Trophy. Visitors to the exposition took more than 16,500 photos with the trophy. The event was one of the most successful in the history of this project. Visitors got to see not only the trophy, but also football rarities UEFA has been gathering for the past fifteen years. The Bank also organized, especially for football fans, autograph-signing sessions with Luis Figo and Dmitri Alenichev, who is UniCredit Bank's ambassador to UEFA Champions League Trophy Tour in Russia, and with Cafu (in St. Petersburg) and Davor Suker (in Moscow), official ambassadors for the UEFA Champions League Trophy Tour. UEFA Champions League Trophy Tour is a key element of UniCredit's UEFA Champions League sponsorship, a strategic move designed to increase recognition of the UniCredit brand as a European banking group with a presence in 22 countries.

Another important event in 2011 was the exhibition People and the City: The Best of World Art from UniCredit Art Collection, which was on display in Winzavod Center for Contemporary Art in Moscow from October 21 through December 4, 2011. UniCredit Bank displayed some of the best works of world art from the UniCredit art

The Bank's leaflets created under the new ad concept



collection in Russia for the first time. The Group's collection, which had been displayed in many European countries, is one of the largest and most important corporate art collections in Europe, comprising more than 60,000 pieces. As many as 70 works by photographers and artists from Italy, Germany, Austria, Turkey and Russia from the past two centuries were brought to Moscow, with the common theme of interrelationship between cities, people and art. The composition and selection of images for the exhibition took visitors on an unforgettable journey and immerse them in the atmosphere of cities of different styles and eras, where street scenes and common everyday stories mixed with the worlds of fantasy and imagination. The art show was an important cultural event for Russia and a valuable part of Russia's Italian Culture and Language Year program. The exhibition was yet another link in the chain of exhibition projects the UniCredit has implemented in recent years.

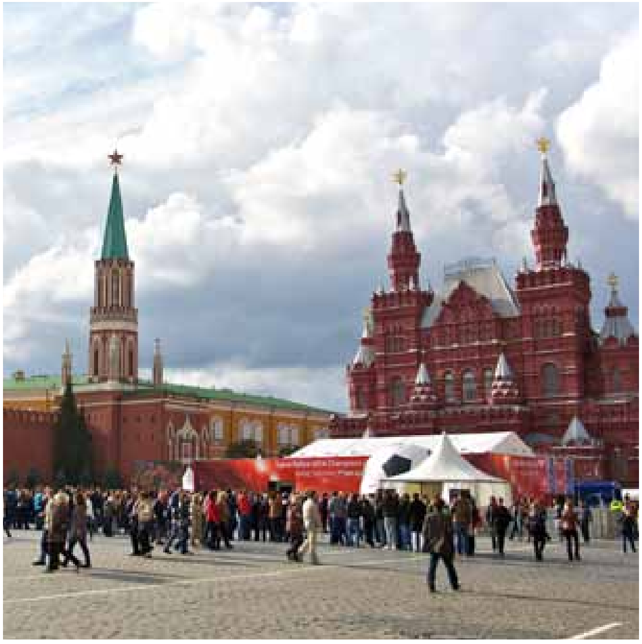
A comprehensive multi-format ad campaign was organized to promote the exhibition; in addition to traditional placement of colourful billboard ads on thoroughfares in central Moscow and on ad pages of print media and the Internet, it included ads on popular social networks, unusual radio commercials, contests for connoisseurs of modern art and other non-standard marketing techniques. As a result, nearly 11,000 people came to see art from the UniCredit collection. Almost every day, collection curators gave interviews, contemporary art schools offered workshops, there were photoshoots, and even a music video shoot. The People and the City exhibition had the best attendance numbers at Winzavod in November 2011.

UniCredit Bank in Social Networks

The value of promoting a corporate brand on social networks is increasing every year, and so 2011 was the year when UniCredit Bank made a successful appearance on social networks. The Bank launched official Facebook and VKontakte groups on February 10, 2011. Over 2011, more than 250,000 users of these networks subscribed to the Bank's pages, which resulted in UniCredit Bank being recognized by Social Media Indicator as one of the most active banks in social networks in 2011, ranked second in the study. The study looked at 40 Russian banks with one or more accounts in social networks.

The Bank is building on this success and is constantly developing its presence in social networks. The official UniCredit Bank YouTube channel was introduced in the summer of 2011, and the Bank intends to launch an official Twitter account in 1Q 2012.

UEFA Champions League Trophy Tour, presented by UniCredit, took place in Moscow and St. Petersburg in September 2011



Report on the Bank's Activities (Continued)

Personnel Management

UniCredit Bank's employee survey in late 2011 demonstrated improvement in employee satisfaction with the available training programs. This result was possible thanks to the development and introduction of new training programs, as well as to development and expansion of the most successful projects launched in previous years. The Banking School, which opened in 2010, was one of these initiatives. The project gave employees the opportunity to discover from specific examples how different divisions and units of the Bank operate. Managers and supervisors had the key role in running the interactive workshops, which, in turn, helped them hone their leadership skills.

Another successful project that saw regular use in 2011 was the recurring Orientation Course for new hires, offered in a new, interactive format. The project is truly international, as a live video conference feed of the Group management's greeting links the countries where UniCredit has a presence.

A number of new training sessions and programs were introduced and developed in 2011, meeting the requirements of corporate and retail business and designed to take employees to a higher professional level in areas such as risk management, compliance and others.

As part of the strategic initiative to develop leadership at the Bank, special attention was devoted in 2011 to a range of leadership programs. Managers at different levels, as well as the "Talents" (future leaders of the Bank) were actively engaged in projects and special training activities at the local and Group levels.

To help unify of personnel management policies, the Bank made a transition in 2011 to a system of distributing non-monetary incentives (benefits) for employees according to standardized levels in the Global Job Model, making the benefit allocation procedure more transparent.

Also for the first time, the Bank picked a supplementary health insurance provider in 2011 through electronic bidding. Even though the Bank's requirements for this service were highly complex and extensive, it was able to leverage electronic trading floor capabilities to get the greatest benefit and ensure the highest possible degree of independence and transparency in its choice of insurance provider.

UniCredit Bank was ranked as the best European employer by CRF Institute during the annual certification in recognition of the Bank's high standard of personnel management.

Social Responsibility

In 2011, UniCredit Bank remained faithful to the ideas of sustainable development and was actively involved in various corporate social responsibility programs. Employee engagement in social corporate events enabled the Bank to start and implement successfully a great number of projects.

Volunteer Work

As part of its corporate social responsibility activities, UniCredit Bank actively developed its corporate volunteer activities. Volunteers made 13 field trips to orphanages and special-education schools (including the Bezhetsky Special Boarding School and Orphanage for orphans and children without parental custody (Type VIII), the Pereslavl-Zalessky Orphanage, the Kolychevsky Boarding School and Orphanage for mentally-disabled orphans, Orphanage-Boarding School No.4 in Pavlovsk). In addition, two bus tours and three walking tours of the Yaroslavsky Region were organized by the Bank's employees for children of the Pereslavl-Zalessky Orphanage. The volunteer activity that saw the highest demand in 2011 was organizing master classes at orphanages. The Bank's employees organized 46 master classes during the year, with an emphasis on crafts and applied skills (handicrafts including needlework, DIY skills, decoration, and home economics), and mental development (learning about different countries, cultures, training for quick thinking and attention). Regular trips by volunteers to children's institutions give children additional opportunities to interact with the world outside the institution – an experience essential to their successful social adaptation as adults – and to build specific skills working with tools which may well be useful for them in adult life.

Our volunteers also collected and delivered to orphanages and boarding schools 10 shipments of clothing, personal items and gifts donated and gathered by Bank employees. UniCredit Bank organized a gift collecting drive ahead of New Year's Eve for children undergoing treatment at Morozovsky Children's Hospital in Moscow.

In August 2011, UniCredit Bank was a technical partner for the charitable bicycle race Red Square for the benefit of children suffering from Down syndrome. UniCredit Bank employees were among the race finishers at Vasilevsky Spusk.

Health Care

Year after year, UniCredit Bank helps hospitals acquire expensive equipment and provides assistance for various rehabilitation programs. In 2011, the Bank purchased a Leica EG1160 Tissue Embedding Station for the Burdenko Neurosurgical Research Institute's Neuropathomorphology Laboratory, which provides treatment for children from all over Russia and the CIS diagnosed with brain tumors. A series of puppet shows and other entertainment were organized for children undergoing treatment at the Moscow Regional Psycho-Neurological Hospital for Children with damaged central neural systems and psychological disorders to distract them from the hospital environment and give them a powerful emotional support to help their recovery. Putting in ramps at a school for disabled children in Krasnodar was another example of the Bank's activities in this field. Additionally, the Bank has for many years been involved in a project to provide relief illustrated books to blind children.

Helping Veterans

UniCredit Bank donates funds on a regular basis to veterans' organizations it has been working with for many years: the Moscow Committee of War Veterans, the Moscow Council for 50th Army Veterans, Khamovniki District Organization of Great Patriotic War Veterans with Disabilities, Inter-Regional Public Organization of People Disabled as a Result of Wars and Military Service in Russia. Traditional clothing donation drives were organized in February and November 2011 for two organizations sponsored by the St. Petersburg Branch of UniCredit Bank: the Regional Public Organization Association of People with Disabilities, Veterans and Siege of Leningrad Survivors and the Warm Home Charitable Foundation.

Report on the Bank's Activities (Continued)

Social Responsibility (Continued)

On September 1, UniCredit Bank donated an 18-seat mini-bus to the students of the Kolychevsky Boarding School and Orphanage

Preserving Historical Heritage

Another key UniCredit Bank cause over the past five years has been the Cherdyn project, launched in 2007 and aimed at restoring the cultural heritage of the Cherdyn Region, training new professionals, and attracting more tourists to the town of Cherdyn, one of the most interesting historical sites in the region. UniCredit Bank works jointly on the project with a client, Solikamskbumprom (paper and pulp), and receives support from the Perm Region government to finance and organize training for students of the Solikamsk Pedagogical Institute's Department of Socio-cultural Service and Tourism in Cherdyn.

Personal Contribution from Your Heart

Many of the projects listed above were implemented as part of Personal Contribution from Your Heart, the Bank's in-house charitable program, which the Bank had had in place since 2004. An internal database accessible by employees contains information about all the charitable projects approved by the Bank's management and open for donations. Employees wishing to take part in the program should pick one or several causes and transfer their personal donations to it. UniCredit Bank doubles the donation amount collected by employees.

You Can Help

For a second consecutive year, UniCredit Bank held the You Can Help competition among employees for the best charitable project idea. When picking the winners, competition judges (the panel included the Bank's senior managers and leading external experts in matters of charity) considered the following factors: the possibility of achieving a specific, measurable, durable long-term result; is the project realistic and how large is its geographic coverage; can Bank employees and business partners be brought in to work on the project. Ultimately, three winning projects were selected:

- In 1st place: the UniColours project. The idea of the project is to use art as therapy for children with weak health living in Building 3 of Pavlovsk Orphanage/Boarding School No. 4. Art therapy would give these children a chance to develop their creative potential, but a way to combat their health conditions.
- In 2nd place: Volunteer Club. This multi-aspect project includes teaching classes to children of the Bezhetsky Special Boarding School and Orphanage and the Pereslavl-Zalessky Orphanage, providing psychological assistance and health care services to individual children, helping alumni find a job, developing children's individual talents and skills, and helping to shape them as self-reliant personalities.
- In 3rd place: restoration of a fresh water spring which serves as the main source of drinking water for 2,000 residents of Korneevka Village in the Bashkortostan Republic. The villagers have gone without clean, fresh drinking water for four years because the water is in a state of bad disrepair. The only viable interim solution for them is a natural spring, but it is buried under snow in winter To solve this problem, a shelter will be built above the spring using Bank funds, and the area around the spring will be cleaned up by volunteers from among the Bank's employees.

Work on these projects began in 2011 and will continue in 2012.

Greeting Cards of Kindness

In 2011, UniCredit Bank's clients and business partners received special and unusual greeting cards along with their New Year's gifts. Each of the cards was hand-crafted by children of the Maloyaroslavetsky, Pokrovsky, Udelny, Bykovsky Orphanages and Vyshegorodky and Petrovsky boarding schools (5,000 greeting cards in all). The children could spend the money they earned making the cards to buy New Year's gifts. This initiative was implemented in cooperation with the Social Metres project, where skilled participants teach children at regional orphanages and boarding schools to make basic gifts that bring the artisans a percentage of the proceeds from their sale. Once a month, the children go to shopping centers to spend their earned cash, helping prepare them for future independent living. Participating in master classes on this project, the children get good working habits, develop their creative ability, and acquire their first job skills and their first skills in handling money.

Keeping careers on track during maternity leave.

In Hungary, our Mum's Portal provides mothers with up-to-date information on what's happening at UniCredit. There is an emphasis on conveying important news and recent developments to colleagues who, being on maternity leave, are temporarily away from their usual duties. This is a concrete answer to ensure Hungarian colleagues a rapid and smoother reintegration at work after their leave ends.

Henrietta Kónya-Halászi, HR office, with her daughter Gréta Kónya

Supplementary Information

Winning awards for green initiatives.

As part of UniCredit's commitment to sustainable development, several hundred of UniCredit Bulbank employees volunteered to participate in the planting of 1,300 shrubs and 1,800 willow branches in Sofia's Vitosha Park. The successful initiative was recognized with an official certificate from the Help Solidarity of Bulgaria Foundation. UniCredit Bulbank also received an award from the Society of Loyalty for its support of important social causes. In 2011, the bank's green initiatives also included the recovery of empty toner cartridges and digitalized account statements, which reduced paper consumption. This is a part of the Group's practical response to protecting the environment and supporting the green economy.

Vitosha Park, Sofia. Girls who plant: Ekaterina Ancheva, Anna Ancheva, Todorova Blagorodka. Photo by Anton Raichev

Management

Supervisory Board (as of January 1, 2012)

Erich Hampel,

Chairman of the Supervisory Board

Age – 60 years. Graduate of University of Economics and Business Administration in Vienna, doctor of social sciences and economics. He has been working in banking business for more than 35 years. From 2004 to 2009 he was Chairman of the Managing Board of Bank Austria Creditanstalt AG. In 2005 he was appointed Head of CEE Division of UniCredito Italiano S.p.A. From 20.02.2007 to 20.12.2007 he was Chairman of the Board of Directors of CJSC International Moscow Bank; from 20.12.2007 till now he is Chairman of the Supervisory Board of ZAO UniCredit Bank. Mr. Hampel is Chairman of the Supervisory Board of UniCredit Bank Austria AG.

Carlo Marini,

Member of the Supervisory Board

Age – 43 years. Graduated from Universit commerciale Luigi Bocconi, Milan (Italy), finished Rotterdam School of Management, Erasmus University. In 1996 he joined UniCredito Italiano S.p.A., Milan, as an analyst of Planning and Control Department, and then held various executive positions at Corporate Department, from 20.02.2007 to 20.12.2007 he was a member of the Supervisory Board of CJSC IMB, from 20.12.2007 he is a member of the Supervisory Board of ZAO UniCredit Bank. From 01.10.2010 he was appointed Executive Vice-President, Deputy General Manager, Head of International Markets Department of UniCredit Leasing S.p.A..

Gianni Franco Papa,

Member of the Supervisory Board

Age – 55 years. Graduate of the Catholic University of Milan. Mr.Papa started his career in 1979 at Credito Italiano. In 1998 and 1999 he was Deputy General Manager at Singapore Branch of Credito Italiano, and then was Director for Asia (ex China) for UniCredit. From 2003 to 2005 Mr. Papa was General Manager of New York Branch and Director for the Americas for UniCredit. From July 2005 to March 2007 he was General Manager and COO of UniBanka a.s., and in this capacity was responsible for integration of UniBanka and HVB Slovakia, and then fulfilled the duties of Vice-Chairman of the Board of Directors and General Manager of UniCredit Bank, Slovakia (April 2007 to January 2008). From February 2008 to November 2010 Gianni Franco Papa was First Deputy Chairman of the Board and General Manager of Ukrsotsbank, and then was appointed Executive Vice President, Head of CEE Corporate and Investment Banking, UniCredit Bank Austria. From December 2010 Mr. Papa was Senior Executive Vice President, Head of CEE Division, UniCredit, and from January 2011 – Deputy Chairman of the Board of UniCredit Bank Austria.

In 2011, Federico Ghizzoni and Dieter Hengl resigned from the Supervisory Board, while Gianni Franco Papa and Karl Guha were appointed to the Supervisory Board.

Roberto Nicastro,

Member of the Supervisory Board

Age – 47 years. Graduate of Universita commerciale Luigi Bocconi, Milan (Italy). In 1997 he joined Credito Italiano and then occupied different positions within UniCredit Group. In July 2007 he was appointed Deputy Chairman of the Board of UniCredit Group. From 11.02.2008 he is a member of the Supervisory Board of ZAO UniCredit Bank. From 01.11.2010 he is General Manager of UniCredit S.p.A.

Paolo Cederle,

Member of the Supervisory Board

Age – 50 years. Graduated from Politecnico di Milano. From 2011 to 2006 Mr. Cederle was Executive Director of i-Faber S.p.A. and in 2007 he became Member of the Board of the company. From 2010 Chairman of UniCredit Business Integrated Solutions, member of the Supervisory Board of Ukrsotsbank Public Company, Ukraine. From 30.04.2010 he is a member of the Supervisory Board of ZAO UniCredit Bank.

Elisabetta Magistretti,

Member of the Supervisory Board

Age – 64 years. Graduate of Universita commerciale Luigi Bocconi, Milan (Italy). She has been working at UniCredit since 2011, and until 2005 was the Head of Administrative Government, and then – from 2006 to 2009 – she was the head of Internal Audit Department. From 30.04.2010 she is a member of the Supervisory Board of ZAO UniCredit Bank.

Karl Guha,

Member of the Supervisory Board

Age – 47 years. He graduated from Boston University with a master's degree in economics and finance. From 1989 to 2008 worked at ABN Amro, where he has served in various capacities in Structured Products, Cross Border Risk Trading, Risk Management and Group Treasury; the geography of his work includes US, UK, Australia and the Netherlands. From 2009 he has been working at UniCredit in the capacity of Risk Management Director, Member of the Executive Committee, Member of the Supervisory Board and Chairman of the Audit Committee, Supervisory Board of UniCredit Bank Austria. Until 2010 he was a member of HVB Supervisory Board.

Speaking the language of our clients.

As a result of expanded international mobility, many citizens who work in Austria do not speak German. These are citizens of other nationalities and cultures, who need to communicate in their own languages when discussing delicate subjects such as banking transactions. Bank Austria's Banking Without Borders programme guarantees that such customers, on any given day, will have access to an employee who speaks his or her own language. Additionally, in Vienna, five branches provide documentation and product literature in several languages other than German. An effective answer to a multicultural society.

Management

Board of Management (as of January 1, 2012)

Mikhail Alekseev,

Chairman of the Management Board

Age – 47 years. Mr. Alekseev, doctor of economics, started he career in the USSR Ministry of Finance. In 1992 he was elected to the Management Board of Mezhkombank. In 1995, he moved to Oneximbank to the position of the Deputy Chairman of the Management Board. From 1999 to 2006 Mikhail Alekseev held the positions of Senior Vice-President and Deputy Chairman of the Management Board of Rosbank and was responsible for strategic development, small and medium business, operations and IT. His next place of employment was Rosprombank (from 2006), where he held the position of President and Chairman of the Board. In July 2008, in accordance with resolution of the Supervisory Board he was appointed Chairman of the Management Board and is responsible for general management of the Bank's operations.

Konrad Kozik,

Member of the Management Board

Age – 41 years. Mr. Kozik started his career in 1999 at UniCredito Italiano Group, where he held different positions, from Deputy Manager of the Foreign Banks Planning Department to executive financial officer at UniCredit Romania. In 2004, Konrad Kozik moved to Kredyt Bank S.A., Warsaw, Poland (owned by KBC Group, Brussels, Belgium), where in 2006 he became Vice-President, Deputy Chairman of the Bank's Management Board. In May 2007 he came back to UniCredit Group and was appointed Chief Financial Officer and Member of the Management Board of UniCredit Bank.

Kirill Zhukov-Emelyanov,

Member of the Management Board

Age – 41 years. Mr. Zhukov-Emelyanov started his career in 1994 with UniCredit Bank (former International Moscow Bank) in the field of corporate finance. From 1999 he managed credit business of Bank Austria Creditanstalt Russia. Following its merger with International Moscow Bank in 2001, he held executive positions at corporate banking division of International Moscow Bank. From 2003, he was responsible for the development of the regional network and corporate business of International Moscow Bank, and then of UniCredit Bank in regions. In December 2008, in accordance with resolution of the Supervisory Board he was appointed Member of the Management Board and is responsible for corporate banking business of UniCredit Bank.

Eduard Issopov,

Member of the Management Board

Age – 45 years. Mr. Issopov started his banking career in 1991 in the position of economist at Vneshtorgbank. He has been working at UniCredit Bank (former International Moscow Bank) since 1993. From 2002 to 2005 Eduard Issopov held the positions of Head of Management Accounting Division, Deputy Chief Accountant at International Moscow Bank. From 2005 to 2006 he was Chief Accountant at International Moscow Bank. In October 2006, in accordance with resolution of the Board of Directors he was appointed Member of the Management Board and headed retail business.

Dmitry Mokhnachev,

Member of the Management Board

Age – 47 years. Mr. Mokhnachev started his career in 1992 at International Moscow Bank (former name of UniCredit Bank) in the field of credit risks, and then he held various positions at International Moscow Bank connected with risk management and corporate business. In 2003 he was appointed Member of the Management Board of International Moscow Bank. In October 2006 Mr. Mokhnachev moved to Uralsib Financial Corporation in the capacity of 1st Vice-President and Member of the Board of Management. From August 2008 to late June 2009 Dmitry Mokhnachev was Director of Credit to private clients, Sberbank of Russia. In September 2009 he became Member of the Management Board of UniCredit Bank. Mr. Mokhnachev's area of responsibilities includes risk management.

Luca Rubaga,

Member of the Management Board,
Senior Vice-President*

Age – 41 years. Luca Rubaga joined UniCredit's team in 2003 in the capacity of Executive Director of Organization Department and Head of Private Banking Project Management Group, UniCredit Bank (UniCredit Group). In 2005, Mr. Rubaga was appointed Executive Vice President, head of the Organization, Logistic and Cost Management Department, YapiKredi Bank (UniCredit Group), Turkey, and in 2011 moved to ZAO UniCredit Bank (Russia).

No shares of ZAO UniCredit Bank are held by any member of the Management Board.

* Appointment became effective on January 10, 2012.

Building a camp for socially impaired children.

In Debeli rtič on the Slovenian coast, a new summer camp for socially impaired children was restored, equipped and decorated by UniCredit Bank Slovenija d.d.employees. Petra Majdič, the famous cross-country skier, joined the bank's volunteers after hearing about the initiative. Completing this camp required more than funding, which is why bank employees and managers volunteered their time, taking action that provided a concrete solution to a real need.
A practical solution that combines the efforts of the Group and individuals to improve kids lives.

Camp for socially impaired children, Debeli rtič, Slovenia. Painting people: Petra Majdič famous cross-country skier and France Arhar, CEO of UniCredit Bank in Slovenia

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Komendantskiy prospekt office

11, Komendantskiy prospekt, St. Petersburg, 197227, Russia

Leninsky prospekt office

8, lit. A, Novatorov boulevard, St. Petersburg, 196191, Russia

Moskovskaya office

193, Moskovsky prospekt, St. Petersburg, 196066, Russia

Park Pobedy Office

192-194, lit. A, Moskovsky Prospekt, St. Petersburg, 196070, Russia

Petrogradskaya Storona Office

48, Bolshoi Prospekt, P.S., St. Petersburg, 197198, Russia

Prospekt Bolshevikov office

3, building 1, Bolshevikov Prospekt, St. Petersburg, 193231, Russia

Prospekt Prosveschеniya Office

34, Prospekt Prosveschеniya, St.Petersburg, 194358, Russia

Prospekt Slavy Office

52, Prospekt Slavy, St. Petersburg, 192241, Russia

Sennaya Ploshchad Office

4A, Efimov Street, St. Petersburg, 190031, Russia

Vasilevsky Ostrov Office

49, Sredny Prospekt, St. Petersburg, 199178, Russia

Zanevskaya ploschad Office

43/17, lit. A,Novocherkassky prospekt, St. Petersburg, 195196, Russia

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31, 40 Let Pobedy Street, Chelyabinsk, 454021, Russia
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6, Gertsen Street, Magnitogorsk, Chelyabinsk Region, 455001, Russia
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20, Prospekt Avtozavodcev, Miass,
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4, Nikonov Street, Ekaterinburg, 620027, Russia
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Palladium Office

10, Khokhryakova Street, Palladium office center,
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Krasnodar full Branch

41, Stavropolskaya Street, Krasnodar, 350033, Russia
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Fax: +7 (861) 210-1045

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64/1, Krasnoarmeyskaya Street, Krasnodar, 350000, Russia
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39, Leitenanta Shmidta Street, Novorossiysk, Krasnodar Territory,
353905, Russia
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26, Maksima Gorkogo Street, Sochi,
Krasnodar Territory, 354000, Russia
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41, Ordzhonikidze Street, Perm, 614045, Russia
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614068, Russia
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Contact Details (Continued)

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Stavropol full Branch

38a, Dovatortsev Street, Stavropol, 355037, Russia
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Ufa full Branch

27, Kirova Street, Ufa, Bashkortostan Republic, 450000, Russia
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37, Prospekt Oktyabrya, Ufa, Bashkortostan Republic, 450058, Russia
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Fax: +7 (3452) 38-9511

Yaroslavl

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Investing in sports at school.

Sports mean healthy lives, especially for young students at the 100 Hungarian schools where UniCredit sponsors sporting events. The objective was to teach children to take care of their bodies and maintain proper health by participating in sports. This successful answer to the real and widespread need to promote physical and mental health is currently in its third year and has been enthusiastically embraced by teachers, children and their families. The programme “Pass it!On” is a concrete example of how UniCredit is close to Hungarian families and understands their needs.

Consolidated Financial Statements

Year ended 31 December 2011

Independent Auditors' Report

ZAO KPMG
10 Presnenskaya Naberezhnaya
Moscow, Russia 123317

Telephone +7 (495) 937 4477
Fax +7 (495) 937 4400/99
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To the Shareholder and Supervisory Board ZAO UniCredit Bank

We have audited the accompanying consolidated financial statements of ZAO UniCredit Bank and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2011, and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and 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 opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated 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
21 February 2012

Consolidated statement of financial position

As at 31 December 2011
(Thousands of Russian Roubles)

	Notes	2011	2010
ASSETS			
Cash and cash balances	6	24 491 991	31 206 636
Trading securities	7	1 938 722	34 933 922
Amounts due from credit institutions	8	200 143 375	93 967 536
Derivative financial assets	9	12 867 079	16 328 391
Derivative financial assets designated for hedging	9	3 776 683	1 898 362
Changes in fair value of portfolio hedged items	9	495 370	–
Loans to customers	10	472 698 094	386 216 232
Investment securities:	11		
- available-for-sale		43 575 124	296 871
- held-to-maturity		311 662	587 347
Investments in associate		929 032	893 054
Fixed assets	12	6 583 910	4 540 234
Intangible assets	13	1 744 158	1 587 045
Deferred income tax assets	14	–	122 415
Other assets	15	2 421 714	2 428 383
Total assets		**771 976 914**	**575 006 428**
LIABILITIES			
Amounts due to credit institutions	16	165 826 669	137 143 630
Derivative financial liabilities	9	12 893 794	15 953 515
Derivative financial liabilities designated for hedging	9	7 273 366	2 683 004
Amounts due to customers	17	462 922 550	330 414 168
Debt securities issued	18	25 833 182	15 433 696
Deferred income tax liabilities	14	2 854 232	–
Current income tax liabilities		297 952	322 234
Other liabilities	15	5 767 025	3 298 878
Total liabilities		**683 668 770**	**505 249 125**
EQUITY	20		
Share capital		31 787 811	28 613 826
Share premium		437 281	437 281
Cash flow hedge reserve		(1 302 369)	(675 847)
Revaluation reserve for available-for-sale securities		7 596 368	(50 339)
Retained earnings		49 789 053	41 432 382
Total equity		**88 308 144**	**69 757 303**
Total equity and liabilities		**771 976 914**	**575 006 428**

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

M. Alekseev Chairman of the Board of Management

21 February 2012

O. Goncharova Chief Accountant

The accompanying notes on pages 75 to 125 are an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income

For the year ended 31 December 2011
(Thousands of Russian Roubles)

	Notes	2011	2010
INTEREST INCOME			
Loans to customers		32 897 534	31 218 414
Amounts due from credit institutions		3 343 096	1 307 622
Trading and investment securities		2 187 918	2 312 388
Other		196 931	389 705
		38 625 479	**35 228 129**
INTEREST EXPENSE			
Amounts due to customers		(10 969 271)	(7 866 449)
Amounts due to credit institutions		(4 632 916)	(4 365 850)
Debt securities issued		(1 251 615)	(222 627)
		(16 853 802)	**(12 454 926)**
Net interest income		**21 771 677**	**22 773 203**
Fee and commission income	23	6 770 315	5 788 029
Fee and commission expense		(661 695)	(483 571)
Net fee and commission income		**6 108 620**	**5 304 458**
Dividend income		23 134	31 909
Gains (losses) on financial assets and liabilities held for trading	22	1 448 708	(355 658)
Fair value adjustments in portfolio hedge accounting		339	–
Gains (losses) on disposal of:			
- loans		184 793	(465 267)
- available-for-sale financial assets		3 248 218	323 778
OPERATING INCOME		**32 785 489**	**27 612 423**
Impairment of loans	10	(2 661 838)	(5 096 471)
NET INCOME FROM FINANCIAL ACTIVITIES		**30 123 651**	**22 515 952**
Personnel expenses	24	(5 248 444)	(4 488 746)
Other administrative expenses	24	(3 979 686)	(3 952 589)
Depreciation of fixed assets	12	(814 281)	(746 124)
Amortization of intangible assets	13	(348 408)	(222 433)
Other provisions		(38 171)	(28 821)
Net other operating income (expense)		140 367	(239 060)
Operating costs		**(10 288 623)**	**(9 677 773)**
Share of gains (losses) of associate		35 978	(95 890)
Losses on disposal of fixed assets		(4 735)	(7 628)
PROFIT BEFORE INCOME TAX EXPENSE		**19 866 271**	**12 734 661**
Income tax expense	14	(4 078 434)	(2 639 759)
PROFIT FOR THE PERIOD		**15 787 837**	**10 094 902**
OTHER COMPREHENSIVE INCOME			
Cash flow hedge reserve – effective portion of changes in fair value	14	(626 522)	(146 796)
Revaluation reserve for available-for-sale securities – net change in fair value	14	7 646 707	(1 261)
Other comprehensive income (loss) for the period, net of tax		**7 020 185**	**(148 057)**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**22 808 022**	**9 946 845**

The accompanying notes on pages 75 to 125 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

For the year ended 31 December 2011
(Thousands of Russian Roubles)

	Share capital	Share premium	Cash flow hedge reserve	Revaluation reserve for available-for-sale securities	Retained earnings	Total equity
1 January 2010	**24 413 838**	**437 281**	**(529 051)**	**(49 078)**	**35 513 802**	**59 786 792**
TOTAL COMPREHENSIVE INCOME						
Profit for the period	–	–	–	–	10 094 902	10 094 902
OTHER COMPREHENSIVE INCOME						
Change in cash flow hedge reserve, net of tax	–	–	(146 796)	–	–	(146 796)
Net change in fair value of available-for-sale assets, net of tax	–	–	–	(1 261)	–	(1 261)
Total other comprehensive income	–	–	(146 796)	(1 261)	–	(148 057)
Total comprehensive income	**-**	**-**	**(146 796)**	**(1 261)**	**10 094 902**	**9 946 845**
TRANSACTIONS WITH OWNER, RECORDED DIRECTLY IN EQUITY						
Increase of share capital (Note 20)	4 199 988	–	–	–	–	4 199 988
Dividends paid on ordinary shares (Note 20)	–	–	–	–	(4 176 322)	(4 176 322)
Total transactions with owners	**4 199 988**	**-**	**-**	**-**	**(4 176 322)**	**23 666**
31 December 2010	**28 613 826**	**437 281**	**(675 847)**	**(50 339)**	**41 432 382**	**69 757 303**
1 January 2011	**28 613 826**	**437 281**	**(675 847)**	**(50 339)**	**41 432 382**	**69 757 303**
TOTAL COMPREHENSIVE INCOME						
Profit for the year	–	–	–	–	15 787 837	15 787 837
OTHER COMPREHENSIVE INCOME						
Change in cash flow hedge reserve, net of tax	–	–	(626 522)	–	–	(626 522)
Net change in fair value of available-for-sale assets, net of tax	–	–	–	7 646 707	–	7 646 707
Total other comprehensive income	–	–	(626 522)	7 646 707	–	7 020 185
Total comprehensive income	**-**	**-**	**(626 522)**	**7 646 707**	**15 787 837**	**22 808 022**
TRANSACTIONS WITH OWNER, RECORDED DIRECTLY IN EQUITY						
Increase of share capital (Note 20)	3 173 985	–	–	–	–	3 173 985
Dividends paid on ordinary shares (Note 20)	–	–	–	–	(7 409 580)	(7 409 580)
Purchase of subsidiary under common control (Note 1)	–	–	–	–	(21 586)	(21 586)
Total transactions with owners	**3 173 985**	**-**	**-**	**-**	**(7 431 166)**	**(4 257 181)**
31 December 2011	**31 787 811**	**437 281**	**(1 302 369)**	**7 596 368**	**49 789 053**	**88 308 144**

The accompanying notes on pages 75 to 125 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows

For the year ended 31 December 2011
(Thousands of Russian Roubles)

	Notes	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest received		39 129 896	35 632 871
Interest paid		(12 437 908)	(18 151 725)
Fees and commissions received		6 750 179	5 738 824
Fees and commissions paid		(661 695)	(483 571)
Net receipts from trading securities		32 405	1 050 971
Net payments from dealing in foreign currencies		(6 230 026)	(2 357 203)
Other income received		2 007 376	2 746 726
Salaries and benefits paid		(4 068 599)	(3 867 940)
Other operating expenses paid		(2 302 750)	(3 535 455)
Cash flows from operating activities before changes in operating assets and liabilities		**22 218 878**	**16 773 498**
Net (increase) decrease in operating assets			
Obligatory reserve with the CBR		(4 913 826)	(1 436 918)
Trading securities		32 600 522	(13 885 041)
Amounts due from credit institutions		(99 263 908)	(23 625 312)
Loans to customers		(69 065 455)	(56 815 371)
Other assets		(203 334)	(914 547)
Net increase (decrease) in operating liabilities			
Amounts due to credit institutions		19 584 530	21 613 593
Amounts due to customers		122 585 626	58 635 511
Promissory notes		289 961	28 726
Other liabilities		732 145	(271 310)
Net cash flows from operating activities before income tax		**24 565 139**	**102 829**
Income tax paid		(2 912 008)	(2 634 941)
Net cash from (used in) operating activities		**21 653 131**	**(2 532 112)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Dividends received		23 134	34 960
Purchase of available-for-sale securities		(30 055 821)	–
Proceeds from redemption of held-to-maturity securities		265 000	90 931
Proceeds from sale of fixed and intangible assets		10 435	4 928
Purchase of fixed and intangible assets		(3 536 053)	(1 279 725)
Net cash used in investing activities		**(33 293 305)**	**(1 148 906)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Purchase of subsidiary under common control	1	(846 000)	–
Proceeds from issuance of bonds	18	10 000 000	15 000 000
Redemption of subordinated debt		(58 707)	(2 936 254)
Increase of share capital	20	3 173 985	4 199 988
Dividends paid	20	(7 409 580)	(4 176 322)
Net cash from financing activities		**4 859 698**	**12 087 412**
Effect of exchange rates changes on cash and cash balances		65 831	(98 869)
Net (decrease) increase in cash and cash balances		**(6 714 645)**	**8 307 525**
Cash and cash balances, beginning		**31 206 636**	**22 899 111**
Cash and cash balances, ending	6	**24 491 991**	**31 206 636**

The accompanying notes on pages 75 to 125 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

(Thousands of Russian Roubles)

1. Principal activities

These consolidated financial statements include the financial statements of ZAO UniCredit Bank (hereinafter – the "Bank"), its subsidiaries and associate. ZAO UniCredit Bank, its subsidiaries and associate are hereinafter collectively referred to as the "Group".

The Bank (the former International Moscow Bank) was established as a closed joint stock company under the laws of the Russian Federation in 1989. The Bank operates under General Banking License No. 1 reissued by the Central Bank of Russia (hereinafter – the "CBR") on 20 December 2007 as well as the CBR license for operations with precious metals issued on 20 December 2007. The Bank also possesses licenses for securities transactions and custody services from the Federal Service for the Securities Market issued on 25 April 2003, the license to act as an exchange broker on transactions with futures and options issued on 27 May 2008 and Russian Federal Customs Service permission to act as a guarantor in relation to customs authorities issued on 1 October 2010. The Bank is a member of the state deposit insurance system in the Russian Federation.

The Bank's registered legal address is 9, Prechistenskaya Embankment, Moscow, Russian Federation, 119034.

As at 31 December 2011 the Bank has 13 branches and 13 representative offices throughout the Russian Federation and one representative office in the Republic of Belarus.

As at 31 December 2011 the Group comprises the Bank, the leading operating entity of the Group, leasing company, LLC UniCredit Leasing Company, and CJSC Bank Sibir. Leasing company, CJSC IMB Leasing, was liquidated in August 2011. Real estate company, LLC B.A.Real Estate, was liquidated in December 2011.

On 15 September 2011 the Group acquired 100% of shares of CJSC Bank Sibir from ATF Bank (Kazakhstan) for a price of RUB 846 000 thousand, which was equal to the net assets of CJSC Bank Sibir determined in accordance with International Financial Reporting Standards as at 31 December 2010. The transaction is accounted for as a transaction under common control since both the Bank and ATF Bank (Kazakhstan) have the same shareholders, with more than 51% holding in both the Bank and ATF Bank (Kazakhstan) before and after transaction. The difference between the consideration paid by the Bank and the book value of the net assets as at the date of acquisition in the amount of RUB 21 586 thousand is recognized as a capital deduction directly in equity.

The primary activities of the Group are deposit taking, lending, providing payments and settlement services, transactions with foreign currencies and securities and providing finance leases.

As at 31 December 2011 the sole shareholder of the Group is UniCredit Bank Austria AG. UniCredit Bank Austria AG, a member of UniCredit Group, is responsible for the commercial banking in Central and Eastern Europe within the UniCredit Group.

2. Basis of preparation

Statement of compliance

These consolidated financial statements are prepared in accordance with International Financial Reporting Standards (hereinafter – "IFRS").

Basis of measurement

These consolidated financial statements are prepared on the historical cost basis except that financial instruments held for trading, available-for-sale assets and derivative financial instruments are stated at fair value.

Presentation currency

These consolidated financial statements are presented in Russian Roubles ("RUB"). Amounts in Russian Roubles are rounded to the nearest thousand.

3. Summary of accounting policies

The following significant accounting policies are applied in the preparation of the consolidated financial statements.

Principles of consolidation

Subsidiaries are those enterprises controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The control is normally evidenced when the Group owns, either directly or indirectly, more than 50% of voting rights of a company's share capital and is able to govern financial and operating policies of an enterprise. 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.

Associates are those enterprises in which the Bank has significant influence, but not control, over the financial and operating policies. The significant influence is normally evidenced when the Group owns, either directly or indirectly, between 20% and 50%. The consolidated financial statements include the Bank's share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence effectively commences until the date that significant influence effectively ceases. When the Bank's share of losses exceeds the Bank's interest in the associate, that interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Bank has incurred obligations in respect of the associate. Intra-group balances and transactions, and any unrealised gains arising from intra-Group transactions, are eliminated in preparing the consolidated financial statements. 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.

Where necessary, accounting policies of subsidiaries and associates are changed to conform with the accounting policies adopted by the Group.

The consolidated financial statements include the following subsidiaries and associates:

Entities	Ownership, % 2011	Ownership, % 2010	Country	Industry
CJSC Bank Sibir	100%	–	Russia	Finance
LLC UniCredit Leasing Company	40%	40%	Russia	Finance

Financial assets

Initial recognition

Financial assets in the scope of International Accounting Standard 39 Financial Instruments: Recognition and Measurement are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets upon 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 at fair value through profit or loss category. Financial assets that would have met the definition of loan and receivables may be reclassified out of the 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 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.

The Group recognises financial assets and liabilities on its consolidated statement of financial position when it becomes a party to the contractual provisions of the instrument. All regular way purchases of financial assets and liabilities are recognised at the settlement date.

Financial instruments at fair value through profit or loss

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 by the Group as at fair value through profit or loss.

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

- the assets or liabilities are managed and evaluated 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.

Gains or losses on financial assets held for trading are recognised in profit or loss.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold them 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.

Held-to-maturity investments are subsequently measured at amortised cost. Gains and losses are recognised in profit or loss when the investments are impaired, as well as through the amortisation process.

Loans and receivables

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.

Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

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

Available-for-sale assets are subsequently measured at fair value. Non-marketable equity instruments, for which it is impracticable to determine fair value, are stated at cost.

Determination of fair value

The fair value for financial instruments traded in an active market at the reporting date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. If a quoted market price is not available, the fair value of the instrument is estimated using valuation techniques with a maximum use of market inputs. Such valuation techniques include reference to recent arm's length market transactions, current market prices of substantially similar instruments, discounted cash flow and option pricing models and other techniques commonly used by market participants to price the instrument.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate at the reporting date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the reporting date.

The fair value of derivatives that are not exchange-traded is estimated at the amount that the Group would receive or pay to terminate the contract at the reporting date taking into account current market conditions and the current creditworthiness of the counterparties.

Offsetting

Financial assets and liabilities are offset and the net amount is 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 to realise the asset and settle the liability simultaneously.

Cash and cash balances

The Group considers cash and nostro accounts with the CBR to be cash and cash balances. The obligatory reserve deposit with the CBR is not considered to be in this category due to restrictions on its availability.

Derivative financial instruments

In the normal course of business, the Group enters into various derivative financial instruments including futures, forwards, foreign exchange and interest rate swaps. Such financial instruments are held for trading and are recorded at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments, except for derivatives designated for hedging, are included in profit or loss as gains or losses on financial assets and liabilities held for trading.

Hedge accounting

In hedge accounting, the Group distinguishes between cash flow hedges and fair value hedges. To qualify for hedge accounting in accordance with IAS 39, hedges must be highly effective. Derivatives used for hedging purposes are measured at fair value in the consolidated statement of financial position.

At inception of the hedge relationship, the Group formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk, the objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship.

Also at the inception of the hedge relationship, a formal assessment is undertaken to ensure the hedging instrument is expected to be highly effective in offsetting the designated risk in the hedged item. Hedges are formally assessed for effectiveness on monthly basis. A hedge is regarded as highly effective if the changes in the fair value of cash flows attributable to the hedged risk are expected to offset in a range of 80% to 125% during the hedging period.

Where a derivative is designated as a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognised as other comprehensive income in equity. The amount recognised in equity is removed and included in profit or loss in the same period as the hedged cash flows affect profit or loss. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss.

If the derivative expires or is sold, terminated, or exercised, or no longer meets the criteria for cash flow hedge accounting, or the designation is revoked, hedge accounting is discontinued and the amount recognised in equity remains in equity until the forecast transaction affects profit or loss. If the forecast transaction is no longer expected to occur, hedge accounting is discontinued and the balance in equity is recognised immediately in profit or loss.

Fair value hedge is defined as a hedge of the exposure to changes in fair value of a recognised asset or liability that is attributable to a particular risk and could affect profit or loss. In a fair value hedge assets or liabilities are hedged against future fair value changes, if those changes affect the Group`s results and are caused by a determinable risk. The hedging instrument is stated at its fair value, and any gains or losses on the hedging instrument are recognised in profit or loss as gains or losses on financial assets and liabilities held for trading. Gains and losses which are attributable to the hedged risk adjust the carrying value of the hedged item. Changes in the fair value of portfolio hedged items are presented separately in the statement of financial position and recognized in the statement of comprehensive income as gains or losses on financial assets and liabilities held for trading.

Repurchase and reverse repurchase agreements and securities lending

Repurchase and reverse repurchase agreements are utilized by the Group as an element of its treasury management and trading business. These agreements are treated as secured financing transactions. Securities sold under repurchase agreements are retained in the consolidated statement of financial position and, in case the transferee has the right by contract or custom to sell or repledge them, reclassified as securities pledged under repurchase agreements. The corresponding liability is presented within amounts due to credit institutions or customers. Securities purchased under agreements to resell ("reverse repo") are recorded as amounts due from credit institutions or loans to customers, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of repurchase agreements using the effective interest method.

Securities lent to counterparties are retained in the consolidated statement of financial position. Securities borrowed are not recorded in the consolidated statement of financial position, unless they are sold to third parties, in which case the purchase and sale are recorded within net gains or losses from trading securities in profit or loss. The obligation to return them is recorded at fair value as a trading liability.

Borrowings

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

If the Group purchases its own debt, it is removed from the statement of financial position and the difference between the carrying amount of the liability and the consideration paid is recognised in profit or loss.

Leases

Operating lease

Where the Group is the lessee in a lease agreement where the lessor does not transfer substantially all of the risks and rewards incidental to ownership of the asset, the arrangement is accounted for as an operating lease. The leased asset is not recognised in the consolidated financial statements, and lease payments are recognised in profit or loss on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Amounts due from credit institutions and loans to customers

For amounts due from credit institutions and loans to customers carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risks characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is an objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to allowance account in profit or loss.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Bank's internal credit grading system that considers credit risk characteristics such as asset type, borrower's financial position, industry, geographical location, collateral type, past-due status and other relevant factors.

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

Held-to-maturity financial investments

For held-to-maturity investments the Group assesses individually whether there is objective evidence of impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss.

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognised, any amounts formerly charged are credited to profit or loss.

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

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 provisions attributable to time value are reflected as a component of interest income.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded in profit or loss. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss.

Renegotiated loans

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an impairment assessment, calculated using the loan's original effective interest rate.

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 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 recognised 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.

Derecognition of financial assets and liabilities

Financial assets

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

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

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

Financial liabilities

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

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

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.

The current income tax expense is calculated in accordance with the regulations of the Russian Federation and of the regions in which the Group has offices, or where its branches, subsidiaries and associates are located. Current tax expense is the expected tax payable on the taxable income 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 income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the reporting date. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefits will be realised.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised.

Russia also has various operating taxes that are assessed on the Group's activities. These taxes are included as a component of other administrative expenses in the consolidated statement of comprehensive income.

Fixed assets

Fixed assets are carried at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any accumulated impairment. Depreciation of an asset begins when it is available for use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	Years
Buildings	20–30
Furniture and fixtures	5
Computer equipment	5
Leasehold improvements	lesser of the useful life of the asset and period of lease
Other fixed assets	3–5

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

Intangible assets including goodwill

Intangible assets other than goodwill include licenses and computer software. Licenses are stated at historical cost net of accumulated amortisation and any accumulated impairment losses. Amortisation is provided so as to write down the cost of an asset on a straight-line basis over its estimated useful economic life. The useful life is currently assessed as not more than 10 years.

Software development costs (relating to the design and testing of new or substantially improved software) are recognised as intangible assets only when the Group can demonstrate the technical feasibility of completing the software so that it will be available for use or sale, its intention to complete and its ability to use the asset, how the asset will generate future economic benefits, the availability of resources to complete and the ability to measure reliably the expenditure during the development. Other software development costs are recognised as an expense as incurred. Computer software development costs recognised as intangible assets, as well as acquired computer software, are initially recorded at historical cost and are subsequently amortised using the straight-line method over their useful lives, but not exceeding a period of three years.

Goodwill is initially measured at cost, being the excess of the cost of an acquisition over the net fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiary or associate at the date of acquisition. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired. For the purpose of impairment testing, goodwill is allocated to the Group's cash-generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than its carrying amount, an impairment loss is recognised.

Negative goodwill arising on an acquisition is recognised immediately in profit or loss.

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.

Other provisions

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

Retirement and other employee benefit obligations

The Group makes contributions to the State pension system of the Russian Federation, which requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged in the period the related salaries are earned.

The Group also provides defined contribution pension coverage for employees. The coverage provided does not represent contributions into a separate legal entity, nor are its assets and liabilities segregated from the assets and liabilities of the Group. Contributions accrued by the Group during the period are included in profit or loss as personnel expenses, and related liabilities to employees are recorded within other liabilities.

Share capital

Ordinary shares are classified as equity. Any excess of the fair value of consideration received over the par value of shares issued is recognised as share premium.

Dividends are recognised as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the financial statements are authorised for issue.

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.

Contingencies

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

Recognition of income and expenses

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

Interest and similar income and expense

For all financial instruments measured at amortised cost and interest bearing securities classified as trading or available-for-sale, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the original effective interest rate applied to the new carrying amount.

Fee and commission income

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

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

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

– *Fee income from providing transaction services*

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

Dividend income

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

Foreign currency translation

Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Management determined the functional currency for all Group entities to be the RUB as it reflects the economic substance of the underlying events and circumstances of the Group. Transactions in foreign currencies are translated to the functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in profit or loss as gains or losses on financial assets and liabilities held for trading. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Differences between the contractual exchange rate of a transaction in a foreign currency and the CBR exchange rate on the date of the transaction are included in gains or losses on financial assets and liabilities held for trading.

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 these pronouncements on its financial statements.

- 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 11 Joint Arrangements will be effective for annual periods beginning on or after 1 January 2013 with retrospective application required. The new standard supersedes IAS 31 Interests in Joint Ventures. The main change introduced by IFRS 11 is that all joint arrangements are classified either as joint operations, which are consolidated on a proportionate basis, or as joint ventures, for which the equity method is applied. The type of arrangement is determined based on the rights and obligations of the parties to the arrangement arising from joint arrangement's structure, legal form, contractual arrangement and other facts and circumstances. When the adoption of IFRS 11 results in a change in the accounting model, the change is accounted for retrospectively from the beginning of the earliest period presented. Under the new standard all parties to a joint arrangement are within the scope of IFRS 11 even if all parties do not participate in the joint control. Early adoption of IFRS 11 is permitted provided the entity also early-adopts IFRS 10, IFRS 12, IAS 27 (2011) and IAS 28 (2011).

- IFRS 12 Disclosure of Interests in Other Entities will be effective for annual periods beginning on or after 1 January 2013. The new standard contains disclosure requirements for entities that have interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. Interests are widely defined as contractual and non-contractual involvement that exposes an entity to variability of returns from the performance of the other entity. The expanded and new disclosure requirements aim to provide information to enable the users to evaluate the nature of risks associated with an entity's interests in other entities and the effects of those interests on the entity's financial position, financial performance and cash flows. Entities may early present some of the IFRS 12 disclosures without a need to early-adopt the other new and amended standards. However, if IFRS 12 is early-adopted in full, then IFRS 10, IFRS 11, IAS 27 (2011) and IAS 28 (2011) must also be early-adopted.

- Amendment to IFRS 7 Disclosures – Transfers of Financial Assets introduces additional disclosure requirements for transfers of financial assets in situations where assets are not derecognised in their entirety or where the assets are derecognised in their entirety but a continuing involvement in the transferred assets is retained. The new disclosure requirements are designated to enable the users of financial statements to better understand the nature of the risks and rewards associated with these assets. The amendment is effective for annual periods beginning on or after 1 July 2011.

3. Summary of accounting policies (Continued)

- IAS 27 (2011) Separate Financial Statements will become effective for annual periods beginning on or after 1 January 2013. The amended standard carries forward the existing accounting and disclosure requirements of IAS 27 (2008) for separate financial statements with some clarifications. The requirements of IAS 28 (2008) and IAS 31 for separate financial statements have been incorporated into IAS 27 (2011). Early adoption of IAS 27 (2011) is permitted provided the entity also early-adopts IFRS 10, IFRS 11, IFRS 12 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.

Reclassifications

With effect from 30 June 2011, the Group presents the foreign currency exchange component related to loan impairment within gains (losses) on financial assets and liabilities held for trading in the consolidated statement of comprehensive income. The Group previously presented the foreign currency exchange component related to loan impairment within loan impairment in the consolidated statement of comprehensive income for the year ended 31 December 2010.

With effect from 31 March 2011, the Group presents expenses related to participation in the state deposit insurance system within other administrative expenses in the consolidated statement of comprehensive income. The Group previously presented expenses related to participation in the state deposit insurance system within interest expense in the consolidated statement of comprehensive income for the year ended 31 December 2010.

The following reclassifications are made to the consolidated statement of comprehensive for the year ended 31 December 2010 to conform to the 2011 presentation:

	As previously reported	Effect of reclassifications	As adjusted
Consolidated statement of comprehensive income for the year ended 31 December 2010			
Loan impairment	(5 085 656)	(10 815)	(5 096 471)
Losses on financial assets and liabilities held for trading	(366 473)	10 815	(355 658)
Interest expense	(12 602 946)	148 020	(12 454 926)
Other administrative expenses	(3 804 569)	(148 020)	(3 952 589)

4. Significant accounting judgements and estimates

Management makes a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these consolidated financial statements in conformity with IFRS. Actual results could differ from those estimates.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies related to loan impairment is described in the Notes 3, 10, 25.

5. Operating segments

For management purposes, the Group has three reporting business segments:

- *Corporate and Investment banking* (hereinafter – "CIB") includes corporate lending, project and commodity and corporate structured finance, corporate sight and term deposit services, securities, foreign currency and derivatives trading and custody services. Starting from the second quarter of 2011, as a result of the divisionalisation process completion, the Corporate banking segment and Markets and Investment banking segment were merged into one reportable segment. Segment information for the prior periods is adjusted to conform with the new segment definitions.

- *Retail banking* comprises private banking services, credit and debit card services, retail sight and term deposit services, retail lending (consumer loans, car loans and mortgages).

- *Other* – represents the Group's funding activities and other unallocated items.

Information about each segment is measured on the same basis as the information used for decision making purposes for allocating resources to segments and assessing segment performance and is prepared on the same basis as the consolidated financial statements.

Transactions between the business segments are on normal commercial terms and conditions. Funds are ordinarily reallocated between segments, resulting in funding cost transfers included in segment revenue. Interest charged for these funds is based on the Group's funds transfer pricing policy.

Segment breakdown of assets and liabilities is set out below:

	31 December 2011	31 December 2010
ASSETS		
CIB	494 536 132	429 213 853
Retail banking	82 245 432	62 053 823
Other	195 195 350	83 738 752
Total assets	**771 976 914**	**575 006 428**
LIABILITIES		
CIB	403 622 397	286 409 887
Retail banking	88 303 350	65 649 937
Other	191 743 023	153 189 301
Total liabilities	**683 668 770**	**505 249 125**

5. Operating segments (Continued)

Segment information for the operating segments for the year ended 31 December 2011 and 2010 is set out below:

	CIB	Retail Banking	Other	Total
Net interest income (expense) from external customers for the year ended 31 December 2011	17 664 940	8 105 730	(3 998 993)	21 771 677
Net interest income (expense) from external customers for the year ended 31 December 2010	18 343 321	6 766 301	(2 336 419)	22 773 203
Inter-segment (expense) income for the year ended 31 December 2011	(4 329 030)	(2 088 920)	6 417 950	–
Inter-segment (expense) income for the year ended 31 December 2010	(2 906 478)	(2 050 414)	4 956 892	–
Net interest income for the year ended 31 December 2011	**13 335 910**	**6 016 810**	**2 418 957**	**21 771 677**
Net interest income for the year ended 31 December 2010	**15 436 843**	**4 715 887**	**2 620 473**	**22 773 203**
Net fee and commission income from external customers for the year ended 31 December 2011	3 604 313	2 561 533	(57 226)	6 108 620
Net fee and commission income from external customers for the year ended 31 December 2010	3 203 372	2 101 086	–	5 304 458
Dividend income for the year ended 31 December 2011	–	–	23 134	23 134
Dividend income for the year ended 31 December 2010	–	–	31 909	31 909
Gains on financial assets and liabilities held for trading for the year ended 31 December 2011:				
- from external customers	1 394 566	–	54 142	1 448 708
(Losses) gains on financial assets and liabilities held for trading for the year ended 31 December 2010:				
- from external customers	(362 390)	–	6 732	(355 658)
- from internal customers	1 460 066	–	(1 460 066)	–
Fair value adjustments in portfolio hedge accounting for the year ended 31 December 2011	–	–	339	339
Gains on disposals of financial assets for the year ended 31 December 2011	217 403	4 342	3 211 266	3 433 011
(Losses) gains on disposals of financial assets for the year ended 31 December 2010	(465 267)	–	323 778	(141 489)
Operating income for the year ended 31 December 2011	**18 552 192**	**8 582 685**	**5 650 612**	**32 785 489**
Operating income for the year ended 31 December 2010	**19 272 624**	**6 816 973**	**1 522 826**	**27 612 423**
Impairment of loans for the year ended 31 December 2011	(2 168 695)	(239 107)	(254 036)	(2 661 838)
Impairment of loans for the year ended 31 December 2010	(4 675 930)	(420 541)	–	(5 096 471)
Net income from financial activities for the year ended 31 December 2011	**16 383 497**	**8 343 578**	**5 396 576**	**30 123 651**
Net income from financial activities for the year ended 31 December 2010	**14 596 694**	**6 396 432**	**1 522 826**	**22 515 952**
Operating costs for the year ended 31 December 2011	(3 092 135)	(7 037 545)	(158 943)	(10 288 623)
Operating costs for the year ended 31 December 2010	(2 807 142)	(6 479 495)	(391 136)	(9 677 773)
Share of gains of associate for the year ended 31 December 2011	–	–	35 978	35 978
Share of losses of associate for the year ended 31 December 2010	–	–	(95 890)	(95 890)
Losses on disposal of fixed assets for the year ended 31 December 2011	–	–	(4 735)	(4 735)
Losses on disposal of fixed assets for the year ended 31 December 2010	–	–	(7 628)	(7 628)
Profit before income tax expense for the year ended 31 December 2011	**13 291 362**	**1 306 033**	**5 268 876**	**19 866 271**
Profit (loss) before income tax expense for the year ended 31 December 2010	**11 789 552**	**(83 063)**	**1 028 172**	**12 734 661**

	CIB	Retail Banking	Other	Total
Income tax expense for the year ended 31 December 2011				(4 078 434)
Income tax expense for the year ended 31 December 2010				(2 639 759)
Profit for the year ended 31 December 2011				**15 787 837**
Profit for the year ended 31 December 2010				**10 094 902**
Cash flow hedge reserve for the year ended 31 December 2011				(626 522)
Cash flow hedge reserve for the year ended 31 December 2010				(146 796)
Revaluation reserve for available-for-sale securities for the year ended 31 December 2011				7 646 707
Revaluation reserve for available-for-sale securities for the year ended 31 December 2010				(1 261)
Total comprehensive income for the year ended 31 December 2011				**22 808 022**
Total comprehensive income for the year ended 31 December 2010				**9 946 845**

Information about major customers and geographical areas

The Group operates in the Russian Federation and foreign countries. In presenting geographical information the allocation of revenue is based on the geographical location of customers and assets.

Geographical information on revenues and assets for 2011 is presented below:

	Revenues	Assets
Russian Federation	39 109 937	554 303 664
OECD countries	6 139 474	192 221 299
Non-OECD countries	1 595 091	25 451 951
Total	**46 844 502**	**771 976 914**

Geographical information on revenues and assets for 2010 is presented below:

	Revenues	Assets
Russian Federation	40 648 704	515 738 061
OECD countries	(637 485)	51 045 607
Non-OECD countries	638 466	8 222 760
Total	**40 649 685**	**575 006 428**

6. Cash and cash balances

Cash and cash balances comprise:

	2011	2010
Cash on hand	7 696 175	6 954 915
Current accounts with the CBR	16 795 816	24 251 721
Cash and cash balances	**24 491 991**	**31 206 636**

Included in cash and cash balances as at 31 December 2011 is amount of RUB 500 000 thousand (31 December 2010: none) pledged as collateral for mortgage-backed bonds issued by the Group in September 2011 (see Note 18 for details).

7. Trading securities

Trading securities comprise:

	2011	2010
USD DENOMINATED		
Corporate bonds	84 555	3 524 988
Russian Government Eurobonds	3 450	933 803
RUB DENOMINATED		
Russian Government Bonds	1 253 984	6 309 968
Corporate bonds	596 733	8 032 978
Central Bank bonds	–	16 084 664
Regional bonds and other domestic securities	–	47 521
Trading securities	**1 938 722**	**34 933 922**

As at 31 December 2011 approximately 80% of trading securities held by the Group were issued by organisations rated not lower than “BBB-“ (31 December 2010: 94%).

Nominal interest rates and maturities of trading securities are as follows:

	2011		2010	
	%	Maturity	%	Maturity
Russian Government Bonds	6.7 – 11.3%	2012 – 2018	6.2 – 12%	2011 – 2016
Russian Government Eurobonds	7.5 – 12.75%	2018, 2028, 2030	7.5 – 11%	2018, 2030
Corporate bonds	7.50 – 8.75%	2014, 2022 – 2023	1.45 – 16.75%	2011 – 2014, 2016, 2017, 2019, 2020
Regional bonds and other domestic securities	–	–	8%	2012
Central Bank bonds	–	–	–	2011

8. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	2011	2010
Current accounts with credit institutions	8 524 623	10 507 790
Time deposits	161 892 332	56 290 955
Reverse repurchase agreements with credit institutions	20 890 670	23 246 867
Obligatory reserve with the CBR	8 835 750	3 921 924
Amounts due from credit institutions	**200 143 375**	**93 967 536**

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

As at 31 December 2011, there are two counterparties with balances that individually exceeded 10% of equity. As at 31 December 2011, the aggregate amount of these balances is RUB 153 857 978 thousand (31 December 2010: three counterparties with aggregate amount of RUB 43 551 880 thousand).

As at 31 December 2011, the Group entered into reverse repurchase agreements with a number of Russian banks. Pledged under these agreements are Russian Government bonds and corporate bonds issued by Russian companies with the total fair value of RUB 22 454 878 thousand (31 December 2010: RUB 24 557 175 thousand).

As at 31 December 2011 approximately 84% (31 December 2010: 34%) of current accounts with credit institutions and term deposits were placed with banks rated not lower than “BBB-“. As at 31 December 2011 approximately 89% (31 December 2010: 95%) of total amount of reverse repurchase agreements with credit institutions were placed with non-rated banks or banks rated lower than “BBB-“ .

As at 31 December 2011 the Group has no term placements with CBR (31 December 2010: RUB 28 503 575 thousand).

9. Derivative financial instruments

The Group enters into derivative financial instruments principally for trading and hedging purposes. The tables below show the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative’s underlying asset or notional amount to which reference rate or index is applied and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are indicative of neither the market risk nor the credit risk.

The Bank values the derivative financial instruments using widely accepted valuation techniques which are based on market interest rates and forward currency rates. Significant changes in these variables could cause the fair value of the derivatives to change materially.

The table below shows the fair value derivative instruments held for trading, recorded as assets or liabilities, together with their notional amounts.

	2011			2010		
		Fair value			Fair value	
	Notional principal	Asset	Liability	Notional principal	Asset	Liability
Cross-currency interest rate swaps	100 384 731	5 258 181	4 061 327	120 442 433	8 125 732	4 769 771
Interest rate swaps	301 725 380	4 143 272	4 729 554	334 476 293	5 246 615	8 384 520
Foreign exchange forwards	177 093 920	3 465 626	4 102 913	272 039 656	2 956 044	2 799 224
Futures on foreign exchange and securities	8 060 000	–	–	23 287 106	–	–
Total derivative assets/liabilities		**12 867 079**	**12 893 794**		**16 328 391**	**15 953 515**

The table below shows the fair values of financial instruments designated for hedging, recorded as assets or liabilities, together with their notional amounts.

	2011			2010		
		Fair value			Fair value	
	Notional principal	Asset	Liability	Notional principal	Asset	Liability
CASH FLOW HEDGE						
Interest rate swaps	80 625 660	1 142 153	16 595	111 846 286	782 926	1 955 016
Cross-currency interest rate swaps	46 919 330	172 679	2 520 389	38 795 722	248 713	727 988
Total cash flow hedge		**1 314 832**	**2 536 984**		**1 031 639**	**2 683 004**
FAIR VALUE HEDGE						
Interest rate swaps	281 538 885	2 461 851	4 736 382	42 210 507	866 723	–
Total fair value hedge		**2 461 851**	**4 736 382**		**866 723**	**-**
Total derivative financial assets/liabilities designated for hedging		**3 776 683**	**7 273 366**		**1 898 362**	**2 683 004**

During 2011 the Group implemented Portfolio Fair Value Hedge Accounting (hereinafter – the “PFVHA”).

PFVHA is a part of interest rate risk hedging strategy of the Group that helps to avoid discrepancies between the economic substance of deals concluded for hedging purposes and their accounting treatment. PFVHA allows managing interest rate risks associated with a portfolio of financial assets or financial liabilities designated as hedged items. The Group designates interest rate swaps as hedging instruments. The hedging instruments are stated at their fair value and changes in fair value are recognized in the statement of comprehensive income.

Some hedging items recognized in PFVHA were transferred from the cash flow hedge and micro fair value hedge categories. New hedging items for the purposes of PFVHA are recognized as well.

Hedging instruments to hedge variability of fair value are measured at fair value with changes in fair value of RUB 495 031 thousand recognised as a loss in the statement of comprehensive income in fair value adjustments in portfolio hedge accounting for the year ended 31 December 2011. The changes in the fair value of hedged items (portfolio of financial assets and financial liabilities) that are attributable to the hedged risk are recognised as gains of RUB 495 370 thousand in the statement of comprehensive income in fair value adjustments in portfolio hedge accounting for the year ended 31 December 2011.

Along with PFVHA the Group continues using the Portfolio Cash Flow hedging.

The Group designates certain interest rate swaps and cross-currency interest rate swaps as hedging instruments to hedge variability in cash flows and fair value resulting from interest rate mismatch of the banking book position. The hedged cash flows are expected to occur and to affect the statement of comprehensive income until 2024 for interest rate swaps. As at 31 December 2011, the effective portion of changes in the fair value of derivative financial instruments designated as hedging instruments recognised as part of other comprehensive income in equity was RUB 1 302 369 thousand (31 December 2010: RUB 675 847 thousand), net of tax RUB 325 593 thousand (31 December 2010: RUB 168 962 thousand).

The Group recognised RUB 196 931 thousand of gains on the cash flows and fair value hedging instrument in other interest income for the year ended 31 December 2011 in relation to the interest rate swaps and cross-currency interest rate swaps (31 December 2010: RUB 389 705 thousand).

10. Loans to customers

Loans to customers comprise:

	2011	2010
Corporate customers	392 480 466	323 918 177
Retail customers	87 323 721	66 591 343
Reverse repurchase agreements with companies	8 122 974	11 022 000
Other	548 242	–
Gross loans to customers	**488 475 403**	**401 531 520**
Allowance for loan impairment	(15 777 309)	(15 315 288)
Loans to customers	**472 698 094**	**386 216 232**

A reconciliation of the provisions for impairment by classes of loans to customers for the year ended 31 December 2011 is as follows:

	Corporate customers	Retail customers	Other	Total
At 1 January 2011	10 417 619	4 897 669	–	**15 315 288**
Acquisition of subsidiary	–	–	116 328	**116 328**
Charge for the year	2 288 248	142 641	230 949	**2 661 838**
Loans sold during the year	(2 115 447)	(3 417)	(149 907)	**(2 268 771)**
Loans written-off during the year	(219 947)	(35 790)	–	**(255 737)**
Effect of exchange rates changes	112 425	95 938	–	**208 363**
At 31 December 2011	**10 482 898**	**5 097 041**	**197 370**	**15 777 309**

A reconciliation of the provisions for impairment by classes of loans to customers for the year ended 31 December 2010 is as follows:

	Corporate customers	Retail customers	Total
At 1 January 2010	10 358 445	4 423 892	**14 782 337**
Charge for the year	4 540 245	556 226	**5 096 471**
Loans sold during the year	(4 356 360)	–	**(4 356 360)**
Loans written-off during the year	(114 731)	(81 614)	**(196 345)**
Effect of exchange rates changes	(9 980)	(835)	**(10 815)**
At 31 December 2010	**10 417 619**	**4 897 669**	**15 315 288**

10. Loans to customers (Continued)

The following table shows gross loans and related impairment as at 31 December 2011:

	Gross loans	Impairment	Net loans
CORPORATE CUSTOMERS			
Loans for which no indications of impairment have been identified on an individual basis, not past due	373 190 313	(1 128 535)	372 061 778
Loans for which no specific impairment is identified, past due			
- Past due 31 – 90 days	4 199	(38)	4 161
Impaired loans			
- Not past due	7 628 049	(849 045)	6 779 004
- Past due less than 31 days	89 627	(49 339)	40 288
- Past due 31 – 90 days	838 080	(564 629)	273 451
- Past due 90 – 180 days	453 694	(281 338)	172 356
- Past due over 180 days	10 276 504	(7 609 974)	2 666 530
Total loans to corporate customers	**392 480 466**	**(10 482 898)**	**381 997 568**
RETAIL CUSTOMERS			
Standard loans, not past due	77 832 941	(287 838)	77 545 103
Standard loans, past due			
- Past due less than 31 days	1 254 445	(88 862)	1 165 583
- Past due 31 – 90 days	637 780	(123 047)	514 733
Impaired loans			
- Not past due	13 832	(3 605)	10 227
- Past due 31 – 90 days	195	(23)	172
- Past due 90 – 180 days	449 722	(139 807)	309 915
- Past due over 180 days	7 134 806	(4 453 859)	2 680 947
Total loans to retail customers	**87 323 721**	**(5 097 041)**	**82 226 680**
REVERSE REPURCHASE AGREEMENTS WITH COMPANIES			
Loans for which no indications of impairment have been identified on an individual basis, not past due	8 122 974	–	8 122 974
OTHER			
Loans for which no indications of impairment have been identified on an individual basis, not past due	234 596	(39 245)	195 351
Impaired loans			
- Not past due	294 192	(142 839)	151 353
- Past due less than 31 days	2 961	(1 184)	1 777
- Past due 31 – 90 days	15 684	(13 293)	2 391
- Past due 90 – 180 days	809	(809)	–
Total other	**548 242**	**(197 370)**	**350 872**
Total loans to customers	**488 475 403**	**(15 777 309)**	**472 698 094**

The following table shows gross loans and related impairment as at 31 December 2010:

	Gross loans	Impairment	Net loans
CORPORATE CUSTOMERS			
Loans for which no indications of impairment have been identified on an individual basis, not past due	302 397 447	(2 482 908)	299 914 539
Impaired loans			
- Not past due	7 737 884	(959 115)	6 778 769
- Past due less than 31 days	1 493 347	(388 846)	1 104 501
- Past due 31 – 90 days	1 068 574	(549 001)	519 573
- Past due 90 – 180 days	1 808 821	(759 974)	1 048 847
- Past due over 180 days	9 412 104	(5 277 775)	4 134 329
Total loans to corporate customers	**323 918 177**	**(10 417 619)**	**313 500 558**
RETAIL CUSTOMERS			
Standard loans, not past due	57 068 347	(493 916)	56 574 431
Standard loans, past due			
- Past due less than 31 days	1 391 020	(197 712)	1 193 308
- Past due 31 – 90 days	699 677	(100 665)	599 012
Impaired loans			
- Not past due	28 959	(5 078)	23 881
- Past due less than 31 days	4 252	(1 791)	2 461
- Past due 31 – 90 days	38 075	(12 787)	25 288
- Past due 90 – 180 days	802 919	(281 753)	521 166
- Past due over 180 days	6 558 094	(3 803 967)	2 754 127
Total loans to retail customers	**66 591 343**	**(4 897 669)**	**61 693 674**
REVERSE REPURCHASE AGREEMENTS WITH COMPANIES			
Loans for which no indications of impairment have been identified on an individual basis, not past due	11 022 000	–	11 022 000
Total loans to customers	**401 531 520**	**(15 315 288)**	**386 216 232**

Key assumptions and judgments for estimating the loan impairment

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:

- a breach of contract, such as a default or delinquency in interest or principal payments;
- significant difficulties in the financial conditions of the borrower;
- deterioration in 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 general key assumptions:

- The principal collateral taken into account in the estimation of future cash flows comprises marketable collateral, mainly real estate. Valuations for real estate have been discounted by 30-40 percent depending on type of the real estate to reflect current market conditions.
- a delay of 12 months in obtaining proceeds from the foreclosure of collateral.

Changes in these estimates could effect the loan impairment provision. 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 3 819 976 thousand lower/higher (2010: RUB 3 135 006 thousand lower/higher).

In determining the collective allowance for impairment of loans to corporate customers, in the third quarter of 2011 management changed the following key assumptions based on analysis of recent internal statistics. The following key assumptions were applied as of 31 December 2011:

- loss given default rate for unsecured part of loans of 60% (previously – 75%);
- loss confirmation period of 6 month (previously – 12 month).

If these assumptions were applied as of 31 December 2010, the impairment allowance for corporate customers would be RUB 1 535 714 thousand lower and profit before income tax expense for the year ended 31 December 2010 would be RUB 1 535 714 thousand higher.

The Group estimates loan impairment for loans to retail customers based on its internal model which takes into account historical loss experience on each type of loan, probability of default and loss given default.

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

- loss given default rate varies from 9% to 100% depending on the risk profile of the portfolio;
- probability of default varies from 0.51% to 100%.

Changes in these estimates could effect the loan impairment provision. For example, to the extent that the net present value of the estimated cash flows differs by plus minus one percent, the impairment allowance on loans to retail customers as at 31 December 2011 would be RUB 822 267 thousand lower/higher (2010: RUB 616 937 thousand).

Impaired loans

Accrued interest income on impaired loans as at 31 December 2011 comprised RUB 718 461 thousand (31 December 2010: RUB 1 190 273 thousand). As at 31 December 2011, impaired loans with a gross value of RUB 16 805 916 thousand (31 December 2010: RUB 18 315 526 thousand) are secured by real estate, motor vehicles and securities with a fair value of RUB 5 567 146 thousand (31 December 2010: RUB 5 419 809 thousand). In addition, these impaired loans are secured by other collateral for which it is impracticable to determine fair value. For the remaining impaired loans of RUB 10 392 239 thousand (31 December 2010: RUB 10 637 503 thousand) it is also impracticable to determine the fair value of collateral.

Collateral and other credit enhancements

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

The main types of collateral obtained are as follows:

- for reverse repurchase transactions, securities;
- for commercial lending to corporate customers, pledge over real estate properties, inventories and trade receivables;
- for retail lending, mortgages over residential properties and motor vehicles.

The primary purpose of collateral arrangements is to reduce the potential credit loss in case of a workout of the credit exposure. Estimates of value are based on the value of collateral assessed at the time of borrowing.

The following table provides the analysis of the loan portfolio, net of impairment, by type of collateral as at 31 December 2011:

	Securities	Real estate	Motor vehicles	Guarantees	Other collateral	No collateral	Total
Corporate customers	5 501 038	41 804 911	5 882 776	7 408 787	157 481 221	163 918 835	381 997 568
Retail customers	–	24 750 689	34 148 129	247 921	1 485 661	21 594 280	82 226 680
Reverse repurchase agreements with companies	8 122 974	–	–	–	–	–	8 122 974
Other	–	189 315			15 362	146 195	350 872
Total	**13 624 012**	**66 744 915**	**40 030 905**	**7 656 708**	**158 982 244**	**185 659 310**	**472 698 094**

The following table provides the analysis of the loan portfolio, net of impairment, by type of collateral as at 31 December 2010:

	Securities	Real estate	Motor vehicles	Guarantees	Other collateral	No collateral	Total
Corporate customers	11 571 312	32 272 559	3 630 629	8 305 590	158 901 356	98 819 112	313 500 558
Retail customers	–	21 415 993	24 545 100	–	980 081	14 752 500	61 693 674
Reverse repurchase agreements with companies	11 022 000	–	–	–	–	–	11 022 000
Total	**22 593 312**	**53 688 552**	**28 175 729**	**8 305 590**	**159 881 437**	**113 571 612**	**386 216 232**

Other collateral mainly consists of goods in turnover, equipment, land lease rights and trademarks.

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

During the year ended 31 December 2011 the Group did not obtain any assets by taking control of collateral securing loans to customers (31 December 2010: nil)

When lending to the legal entities belonging to one economic group, the Group normally also obtains guarantees from other group members.

Included in retail loans as at 31 December 2011 are mortgage loans with gross amount of RUB 5 147 035 thousand (31 December 2010: none) pledged as collateral for mortgage-backed bonds issued by the Group in September 2011 (see Note 18 for details).

Reverse repurchase agreements

As at 31 December 2011 and 2010, the Group entered into reverse repurchase agreements with a number of Russian companies. Pledged under these agreements are Russian Government bonds, municipal bonds and corporate bonds issued by Russian companies with the total fair value of RUB 8 597 773 thousand (31 December 2010: RUB 11 605 730 thousand).

Concentration of loans to customers

As at 31 December 2011, the Group had RUB 79 549 149 thousand due from the ten largest borrowers (16% of gross loan portfolio) (31 December 2010: RUB 49 501 783 thousand or 12%). An allowance of RUB 105 541 thousand was recognised against these loans (31 December 2010: RUB 227 074 thousand).

As at 31 December 2011, the Group had two borrowers with aggregate loan amounts that individually exceeded 10% of equity (31 December 2010: one borrower). As at 31 December 2011, the aggregate amount of these loans is RUB 29 460 038 thousand (31 December 2010: RUB 7 621 595 thousand).

10. Loans to customers (Continued)

Loans to customers are made principally within Russia in the following industry sectors:

	2011	2010
Mining and metallurgy	69 995 713	47 804 656
Trade	52 728 107	36 997 123
Energy	44 047 754	38 781 443
Agriculture and food	43 956 013	41 874 393
Chemicals	39 254 950	28 479 753
Finance	32 396 351	24 431 556
Other manufacturing	28 306 960	25 293 076
Real estate and construction	23 003 292	22 317 749
Transportation	19 175 889	17 117 819
Telecommunications	15 269 916	19 768 539
Machinery construction	14 149 468	16 607 593
Timber processing	9 220 145	9 591 617
Other	12 186 695	7 736 424
	403 691 253	**336 801 741**
Loans to individuals	84 784 150	64 729 779
Gross loans to customers	**488 475 403**	**401 531 520**

11. Investment securities

Available-for-sale investment securities comprise:

	2011	2010
DEBT AND OTHER FIXED INCOME INVESTMENTS AVAILABLE-FOR-SALE		
USD denominated		
Corporate Eurobonds	1 540 504	–
RUB denominated		
Russian Government Bonds	25 576 848	–
Corporate bonds	3 183 792	–
Total debt and other fixed income investments available-for-sale	**30 301 144**	**–**
EQUITY INVESTMENTS AVAILABLE-FOR-SALE		
RUB denominated		
Equity investments in financial institutions	13 272 949	295 840
EUR denominated		
Equity investments in financial institutions	1 031	1 031
Total equity investments available-for-sale	**13 273 980**	**296 871**
Total available-for-sale investment securities	**43 575 124**	**296 871**

Nominal interest rates and maturities of these securities are as follows:

	2011		2010	
	%	Maturity	%	Maturity
Russian Government Bonds	6.7 – 12%	2012 – 2015	–	–
Corporate bonds	6.41 – 9.4%	2012 – 2014	–	–
Corporate Eurobonds	7.88 – 9.63%	2012 – 2013	–	–

As at 31 December 2011 approximately 99% of debt and other fixed income investments available-for-sale were issued by organisations rated not lower than “BBB-“.

As at 31 December 2011 included in debt and other fixed income investments available-for-sale are bonds blocked as collateral for “overnight” loans with the CBR in the amount of RUB 18 460 096 thousand.

In 2011 the Group revalued its equity investment in MICEX-RTS Open Joint Stock Company (hereinafter – “OJSC MICEX-RTS”) based on the results of an independent appraisal. The respective revaluation reserve in the amount of RUB 7 762 185 thousand net of deferred tax is recognized in other comprehensive income. This equity investment was not quoted on an active market and previously was stated at cost because its fair value could not be measured reliably. In 2009 Moscow Interbank Currency Exchange Closed Joint Stock Company (hereinafter – “CJSC MICEX”) started its reorganization which was completed in 2011. In addition, by the end of 2011 the merger between CJSC MICEX and Stock Exchange RTS Open Joint Stock Company was completed. As a result, the structure of MICEX-RTS Group became more transparent and management determined that as at 31 December 2011 the fair value of the equity investment in OJSC MICEX-RTS can be measured reliably.

As at 31 December 2011 the investment in OJSC MICEX-RTS was revalued based on the results of an independent appraisal.

The basis used for the value analysis was a discounted cash flow (hereinafter – “DCF”) method under the income approach.

The following key assumptions were used in applying the DCF method:
- the value analysis was performed for OJSC MICEX-RTS on consolidated level, i.e. considering cash flows from entities within MICEX-RTS Group;
- cash flows were projected over a period from 2012 to 2015;
- cash flows were discounted to present value using an after-tax rate of 13.7%;
- terminal values were estimated using a terminal growth rate of 3.5%.

The values assigned to the key assumptions represent management’s best estimate of future business trends reflected in the business plan of the MICEX-RTS Group and are based on both external sources and internal sources of information.

Changes in the assumptions above could affect the value of the investments. For example, if the discount rate changes by 1%, the valuation as at 31 December 2011 would be RUB 1 343 300/1 640 745 thousand lower/higher.

Held-to-maturity investment securities comprise:

	2011		2010	
	Nominal value	**Carrying value**	**Nominal value**	**Carrying value**
Corporate bonds	300 000	311 662	565 000	587 347
Held-to-maturity investment securities		**311 662**		**587 347**

Nominal interest rates and maturities of these securities are as follows:

	2011		2010	
	%	**Maturity**	**%**	**Maturity**
Corporate bonds	14%	2014	7.95%, 14%	2011, 2014

12. Fixed assets

The movements in fixed assets were as follows:

	Buildings	Computers and equipment	Other fixed assets	Leasehold improvements	Total
COST					
1 January 2011	**4 214 454**	**2 758 283**	**628 535**	**769 962**	**8 371 234**
Acquisition of subsidiary	282 660	16 527	4 747	–	303 934
Additions	2 102 135	628 900	50 985	3 557	2 785 577
Disposals	(272 456)	(77 579)	(42 170)	–	(392 205)
31 December 2011	**6 326 793**	**3 326 131**	**642 097**	**773 519**	**11 068 540**
ACCUMULATED DEPRECIATION					
1 January 2011	**(814 355)**	**(2 008 443)**	**(477 968)**	**(530 234)**	**(3 831 000)**
Acquisition of subsidiary	(19 248)	(12 793)	(2 696)	–	(34 737)
Depreciation charge	(234 158)	(402 599)	(70 397)	(107 127)	(814 281)
Disposals	92 762	61 779	40 847	–	195 388
31 December 2011	**(974 999)**	**(2 362 056)**	**(510 214)**	**(637 361)**	**(4 484 630)**
NET BOOK VALUE:					
31 December 2011	**5 351 794**	**964 075**	**131 883**	**136 158**	**6 583 910**

	Buildings	Computers and equipment	Other fixed assets	Leasehold improvements	Total
COST					
1 January 2010	**3 744 270**	**2 580 511**	**624 623**	**787 157**	**7 736 561**
Additions	470 184	219 009	25 118	9 273	723 584
Disposals	–	(41 237)	(21 206)	(26 468)	(88 911)
31 December 2010	**4 214 454**	**2 758 283**	**628 535**	**769 962**	**8 371 234**
ACCUMULATED DEPRECIATION					
1 January 2010	**(707 955)**	**(1 648 629)**	**(416 242)**	**(369 587)**	**(3 142 413)**
Depreciation charge	(106 400)	(395 904)	(78 344)	(165 476)	(746 124)
Disposals	–	36 090	16 618	4 829	57 537
31 December 2010	**(814 355)**	**(2 008 443)**	**(477 968)**	**(530 234)**	**(3 831 000)**
NET BOOK VALUE:					
31 December 2010	**3 400 099**	**749 840**	**150 567**	**239 728**	**4 540 234**

13. Intangible assets

The movements in intangible assets and goodwill were as follows:

	Intangible assets	Goodwill	Total
COST			
1 January 2011	**2 147 541**	**389 911**	**2 537 452**
Acquisition of subsidiary	18 099	–	18 099
Additions	494 598	–	494 598
Disposals	(18 190)	–	(18 190)
31 December 2011	**2 642 048**	**389 911**	**3 031 959**
ACCUMULATED AMORTISATION			
1 January 2011	**(950 407)**	**–**	**(950 407)**
Acquisition of subsidiary	(7 176)	–	(7 176)
Amortisation charge	(348 408)	–	(348 408)
Disposals	18 190	–	18 190
31 December 2011	**(1 287 801)**	**–**	**(1 287 801)**
NET BOOK VALUE:			
31 December 2011	**1 354 247**	**389 911**	**1 744 158**

	Intangible assets	Goodwill	Total
COST			
1 January 2010	**1 487 948**	**389 911**	**1 877 859**
Additions	659 598	–	659 598
Disposals	(5)	–	(5)
31 December 2010	**2 147 541**	**389 911**	**2 537 452**
ACCUMULATED AMORTISATION			
1 January 2010	**(727 979)**	**–**	**(727 979)**
Amortisation charge	(222 433)	–	(222 433)
Disposals	5	–	5
31 December 2010	**(950 407)**	**–**	**(950 407)**
NET BOOK VALUE:			
31 December 2010	**1 197 134**	**389 911**	**1 587 045**

14. Taxation

The corporate income tax expense comprises:

	2011	2010
Current tax charge	2 856 832	2 960 804
Deferred tax (reversal) charge – origination of temporary differences	1 221 602	(321 045)
Income tax expense	**4 078 434**	**2 639 759**

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

The effective income tax rate differs from the statutory income tax rates. A reconciliation of the effective income tax rate and the statutory income tax rate is as follows:

	2011	2010
Profit before tax	**19 866 271**	**12 734 661**
Statutory tax rate	20%	20%
Theoretical income tax expense at the statutory rate	**3 973 254**	**2 546 932**
Effect of income taxed at lower tax rates	(88 285)	(76 855)
Non-deductible costs and non-taxable income	199 145	185 417
Tax refund	(5 680)	(15 735)
Income tax expense	**4 078 434**	**2 639 759**

Deferred tax assets and liabilities as at 31 December 2011 and 2010 comprise:

	Assets		Liabilities		Net	
	2011	2010	2011	2010	2011	2010
Fixed and intangible assets	349 006	313 864	(1 043 213)	(598 559)	**(694 207)**	**(284 695)**
Trading securities and derivatives	2 427 709	3 311 119	(2 410 475)	(2 944 761)	**17 234**	**366 358**
Available-for-sale securities	–	–	(2 566 879)	–	**(2 566 879)**	**-**
Loan impairment and credit related commitments	720 363	253 864	(1 549 132)	(796 293)	**(828 769)**	**(542 429)**
Deferred revenue	430 019	264 010	–	–	**430 019**	**264 010**
Other items	908 349	328 693	(119 979)	(9 522)	**788 370**	**319 171**
Total deferred tax assets/(liabilities)	**4 835 446**	**4 471 550**	**(7 689 678)**	**(4 349 135)**	**(2 854 232)**	**122 415**

Movement in deferred tax assets and liabilities during the year ended 31 December 2011 is presented in the table below:

	1 January 2011	Recognised in profit or loss	Recognised in other comprehensive income	31 December 2011
Fixed and intangible assets	(284 695)	(409 512)	–	**(694 207)**
Trading securities and derivatives	366 358	(505 755)	156 631	**17 234**
Available-for-sale securities	–	(655 203)	(1 911 676)	**(2 566 879)**
Loan impairment and credit related commitments	(542 429)	(286 340)	–	**(828 769)**
Deferred revenue	264 010	166 009	–	**430 019**
Other items	319 171	469 199	–	**788 370**
	122 415	**(1 221 602)**	**(1 755 045)**	**(2 854 232)**

Movement in deferred tax assets and liabilities during the year ended 31 December 2010 is presented in the table below:

	1 January 2010	Recognised in profit or loss	Recognised in other comprehensive income	31 December 2010
Fixed and intangible assets	(140 748)	(143 947)	–	**(284 695)**
Securities, derivatives and money market deposits	306 524	22 820	37 014	**366 358**
Loan impairment and credit related commitments	(772 152)	229 723	–	**(542 429)**
Deferred revenue	219 296	44 714	–	**264 010**
Other items	151 436	167 735	–	**319 171**
	(235 644)	**321 045**	**37 014**	**122 415**

Tax effect relating to components of other comprehensive income comprise:

	2011			2010		
	Amount before tax	Tax expense	Amount net-of-tax	Amount before tax	Tax expense	Amount net-of-tax
Cash flow hedge reserve	(783 153)	156 631	(626 522)	(183 495)	36 699	(146 796)
Revaluation reserve for available-for-sale securities	9 558 383	(1 911 676)	7 646 707	(1 576)	315	(1 261)
Other comprehensive income	**8 775 230**	**(1 755 045)**	**7 020 185**	**(185 071)**	**37 014**	**(148 057)**

15. Other assets and liabilities

Other assets comprise:

	2011	2010
Advances, prepayments and deferred expenses	1 525 579	1 583 799
Settlements with derivatives clearers	435 658	571 958
Other	460 477	272 626
Other assets	**2 421 714**	**2 428 383**

Other liabilities comprise:

	2011	2010
Accrued compensation expense	2 094 652	1 855 919
Liability arising on initial designation of fair value macro hedge	2 002 315	–
Accounts payable	606 961	565 641
Deferred income	574 548	558 428
Transit accounts	190 963	113 673
Taxes payables	156 922	105 269
Other provisions	66 991	28 821
Other	73 673	71 127
Other liabilities	**5 767 025**	**3 298 878**

16. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	2011	2010
Current accounts	5 526 661	7 826 703
Time deposits and loans	142 646 788	112 425 096
Subordinated debt (Note 19)	17 653 220	16 891 831
Amounts due to credit institutions	**165 826 669**	**137 143 630**

As at 31 December 2011, the ten largest deposits (excluding subordinated debt) represented 94% of total amounts due to credit institutions (31 December 2010: 81%).

As at 31 December 2011, the Group had two counterparties with aggregate balances that individually exceeded 10% of equity (31 December 2010: two counterparties). As at 31 December 2011, the aggregate amount of these balances is RUB 105 970 692 thousand (31 December 2010: RUB 80 607 865 thousand).

17. Amounts due to customers

The amounts due to customers include the following:

	2011	2010
Current accounts	83 133 578	82 214 897
Time deposits	379 574 924	247 930 720
Subordinated debt (Note 19)	214 048	268 551
Amounts due to customers	**462 922 550**	**330 414 168**

As at 31 December 2011, approximately 62% of total amounts due to customers (excluding subordinated debt) was placed with the Group by its ten largest customers (31 December 2010: 54%).

Analysis of customer accounts by type of customer is as follows:

	2011	2010
CORPORATE		
Current accounts	25 898 985	35 439 384
Time deposits	353 854 069	229 086 788
Subordinated debt	214 048	268 551
Total corporate accounts	**379 967 102**	**264 794 723**
RETAIL		
Current accounts	57 234 593	46 775 513
Time deposits	25 720 855	18 843 932
Total retail accounts	**82 955 448**	**65 619 445**
Amounts due to customers	**462 922 550**	**330 414 168**

Included in retail time deposits are deposits of individuals in the amount of RUB 17 522 930 thousand (31 December 2010: RUB 12 645 519 thousand). In accordance with the Russian Civil Code, the Group is obliged to repay such deposits upon demand of the depositor. In case a term deposit is repaid upon demand of the depositor prior to maturity, the related interest rate on it is paid based on the interest rate for demand deposits, unless a different interest rate is specified in the contract. The remaining part of retail time deposits in the amount of RUB 8 197 925 thousand (31 December 2010: RUB 6 198 413 thousand) is represented by deposits placed by small business enterprises.

18. Debt securities issued

Debt securities issued consisted of the following:

	2011	2010
Bonds issued	25 320 325	15 204 452
Promissory notes	512 857	229 244
Debt securities issued	**25 833 182**	**15 433 696**

On 14 September 2011 the Group placed RUB 5 000 000 thousand mortgage-backed bonds issue with a five-year maturity. The bonds each have a face value of RUB one thousand and carry ten semi-annual interest coupons fixed at 8.2%. As at 31 December 2011 these mortgage-backed bonds with the carrying value of RUB 5 121 315 are secured by a pool of mortgage loans with the carrying value of RUB 5 147 035 thousand and by cash in amount of RUB 500 000 thousand (see Note 6 and Note 10 for details).

On 14 December 2011 the Group placed RUB 5 000 000 thousand bonds issue with a three-year maturity. The bonds each have a face value of RUB one thousand and carry six semi-annual interest coupons. The coupon rate was set as 9% for the first four semi-annual periods. In June 2014 the coupon rate will be set for the remaining two semi-annual periods. The issuer has an obligation to buy the bonds back at their nominal value upon the bonds' holders request just before the end of the forth semi-annual period.

19. Subordinated debt

	2011	2010
UNICREDIT BANK AUSTRIA AG, VIENNA		
USD 30 000 thousand, semi-annual interest payment, maturing November 2012, LIBOR+2.5% p.a.;		
USD 50 000 thousand, semi-annual interest payment, maturing November 2013, LIBOR+1.43%p.a.;		
USD 100 000 thousand, semi-annual interest payment, maturing June 2014, LIBOR+1.43%p.a.;		
EUR 100 000 thousand, semi-annual interest payment, maturing November 2017, EURIBOR+1.83% p.a.;		
EUR 100 000 thousand, semi-annual interest payment, maturing February 2018, EURIBOR+2.15% p.a.	14 214 639	13 621 564
UNICREDIT BANK AG		
USD 30 000 thousand, semi-annual interest payment, maturing February 2013, LIBOR+2.3% p.a.;		
USD 50 000 thousand, semi-annual interest payment, maturing August 2013, LIBOR+1.5%p.a.	2 582 390	2 444 330
DEUTSCHE INVESTITIONS-UND ENTWICKLUNGSGESELLSCHAFT (DEG)		
EUR 20 000 thousand, semi-annual interest payment, maturing January 2012, EURIBOR+4% p.a.	856 191	825 937
FINNISH FUND FOR INDUSTRIAL COOPERATION LTD., HELSINKI		
EUR 5 000 thousand, semi-annual interest payment, maturing January 2012, EURIBOR+4% p.a.	214 048	268 551
Subordinated Debt	**17 867 268**	**17 160 382**

20. Shareholder's equity

As at 31 December 2011, the authorised, issued and outstanding share capital comprises 1 809 651 ordinary shares (31 December 2010: 1 620 948 ordinary shares) with a par value of RUB 16 820 each. During 2011, 188 703 ordinary shares were issued at their nominal value (2010: 249 702 ordinary shares).

During 2011, the Bank paid dividends in respect of the year ended 31 December 2010, in the amount of RUB 4 571.14 per one share totalling RUB 7 409 580 thousand (2010: RUB 3 045.64 per one share totalling to RUB 4 176 322 thousand).

21. Commitments and contingencies

Credit related commitments

	2011	2010
Undrawn loan commitments	147 427 274	75 665 896
Guarantees issued	65 018 063	45 590 428
Undrawn commitments to issue documentary instruments	53 556 850	44 185 979
Letters of credit	15 646 415	12 989 001
Total undrawn commitments, guarantees and letters of credit	**281 648 602**	**178 431 304**

The Group issues guarantees and letters of credit for its customers. These instruments bear a credit risk similar to that of loans granted. With respect to the documentary instruments shown above, as at 31 December 2011, collateral deposits of RUB 5 528 605 thousand were held by the Group (31 December 2010: RUB 3 846 638 thousand).

Operating lease commitments

	2011	2010
Not later than 1 year	660 807	1 225 117
Later than 1 year but not later than 5 years	842 623	1 830 258
Later than 5 years	79 148	137 020
	1 582 578	**3 192 395**

Operating 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.

Taxation

The taxation system in the Russian Federation continues to evolve and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes 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.

Based on the facts available, no provision for potential tax liabilities is made in these consolidated financial statements, as management believes that it is not likely that an outflow of funds will be required to settle such obligations.

22. Gains (losses) on financial assets and liabilities held for trading

Gains (losses) on financial assets and liabilities held for trading comprise:

	2011	2010
Net gains from trading securities	32 206	1 060 676
Net (losses) gains from foreign exchange and interest based derivatives		
- spot and derivative instruments	(1 140 829)	(2 144 817)
- translation of other foreign currency assets and liabilities	2 557 331	728 483
Gains (losses) on financial assets and liabilities held for trading	**1 448 708**	**(355 658)**

23. Fee and commission income

Fee and commission income comprises:

	2011	2010
Customer foreign exchange commissions	2 163 401	2 073 522
Retail services	1 568 321	1 250 466
Customer accounts handling and settlements	1 550 919	1 149 174
Documentary business	1 177 172	789 324
Loan fees that are not part of the effective interest rate	293 653	458 009
Other	16 849	67 534
Fee and commission income	**6 770 315**	**5 788 029**

24. Personnel and other administrative expenses

Personnel and other administrative expenses comprise:

	2011	2010
Salaries and bonuses	4 057 689	3 721 281
Social security costs	334 067	330 523
Other compensation expenses	195 941	66 120
Other employment taxes	660 747	370 822
Personnel expenses	**5 248 444**	**4 488 746**
Rent, repairs and maintenance	1 397 999	1 592 441
Advertising and marketing	632 005	367 495
Communication and information services	579 302	553 978
Security expenses	261 667	199 477
Legal, audit and other professional services	204 953	191 587
Other taxes	129 304	106 723
Insurance	50 515	55 900
Other	723 941	884 988
Other administrative expenses	**3 979 686**	**3 952 589**

25. Risk management

Management of risk is fundamental to the banking business and is an essential element of the Group's operations. The Group has exposure to risks, which include credit, market, foreign exchange, liquidity, and operational risks. The Group's aim is to maintain an appropriate balance between risks and return and to minimise potential adverse effect on the Group's financial performance.

Risk management structure

The Group's risk management policies aim to identify, analyse, measure and manage the risks taken by the Group, to establish appropriate risk limits and methods of monitoring, and to continuously monitor risk levels and compliance with the established limits. Risk management policies and procedures are reviewed regularly to reflect changes in market conditions, products and services offered and emerging best practice in risk management.

The operational risk management functions are aimed at developing and ensuring proper functioning of internal processes and procedures that minimise the Group's exposure to internal and external risk factors.

The Supervisory Board of the Bank has overall responsibility for the oversight of the risk management framework, overseeing the management of key risks.

The Board of Management has overall responsibility for monitoring and implementation of risk mitigation measures and making sure that the Bank operates within the established risk parameters.

The Chief Risk Officer (hereinafter – "CRO") is responsible for the overall risk management function, ensuring the implementation of common principles and methods for identifying, underwriting, measuring, managing and risk reporting for both financial and non-financial risks. The CRO is the Member of the Board of Management of the Bank.

Credit, market and liquidity risks, both at portfolio and transactional levels, are managed through a system of Credit Approval Authorities as well as an Asset and Liability Management Committee. In order to facilitate efficient decision-making, the Bank has established a hierarchy of Credit Approval Authorities, which includes four Credit Committees, including Large Credit Committee, Small Credit Committee, Special Credit Committee and Credit Committee of the Small and Medium Enterprises and several levels of joint and single personal approval authority, depending on amount of exposure, type and risk associated with a customer.

Credit risk policies and underwriting guidelines are under the CRO's responsibility. Internal local policies, rules, guidelines and operational instructions for lending to individuals are in line with Group Credit Policies and agreed with CRO and approved by the Board of Management of the Bank (excluding operational instructions which are approved by the Head of responsible Unit). The four-eyes principle is applied for the credit decision-making process. Credit approval authority is exercised through the submission and approval of a credit application. For standardized products in retail segment decision-making is done by Operations Function, to which CRO Function delegates authority through respective underwriting guidelines and rules and/or implementation of credit scoring. All deviations/exceptions from standardized products have to be approved by the CRO.

The Group's risk underwriting, assessment, reporting and control procedures vary by risk type, but share a common principle to be concentrated under the supervision of the CRO.

Credit risk

Credit risk is the risk of financial loss occurring as a result of default by a borrower or counterparty on their obligation to the Group and arises principally from the Group's loans to customers and credit institutions and other unrecognised credit exposures.

For risk management purposes, credit risk arising from positions in trading securities is managed and reported on a daily basis.

Credit risk governance

Credit risk management policies, procedures and manuals are approved by the Board of Management of the Bank.

The following Credit Committees are responsible for approving corporate and retail credit risk exposures:
- The Large Credit Committee reviews and approves all loan/credit applications from customers and issuers above EUR 10 million or equivalent in other currencies. It is chaired by President of the Board of Management and meets on a weekly basis;
- The Small Credit Committee reviews and approves all loan/credit applications from customers in the amount up to EUR 10 million or equivalent in other currencies. It is chaired by the Head of Credit Underwriting Department and meets on a weekly basis;
- The Credit Committee of the Small and Medium Enterprises is responsible for approval of the loan applications of small and medium enterprises in the amount up to EUR 1 million or equivalent in other currencies. The Committee meets once in a two-week period;
- The Special Credit Committee is responsible for considerations of the applications related to restructuring/refinancing of problem debts.

The Bank also has a system of personal credit approval authorities with the four-eyes principle in place – approval is done jointly by representatives from both business and risk functions.

All credit exposures above EUR 30 million or equivalent in other currencies as well as restructuring/refinancing applications above EUR 15 million have to be approved by the UniCredit Group (by the authorized members of Supervisory Board).

The Group limits concentrations of exposure to individual customers, counterparties and issuers (for securities), as well as groups of related customers. Exposure to credit risk is managed through regular analysis of the borrower's creditworthiness and by changing/adjusting lending limits where appropriate.

The Group's credit policies and product guidelines establish:
- procedures for approval and review of loan/credit applications;
- methodology for the credit assessment of borrowers (corporate, 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.

The relevant relationship managers and Corporate Lending Department originate corporate loan/credit applications jointly. The application could be solely prepared by relationship managers, depending on the respective authority granted to a given relationship manager. The credit applications consist of a structured analysis focusing on the customer's business and financial performance. The loan/credit applications are then independently reviewed by the Credit Underwriting and a second opinion is given accompanied by a check that credit policy requirements have been met. The relevant Approval Authority reviews the loan/credit application accompanied by the Credit Underwriting opinion.

In order to provide better assessment of customers' creditworthiness, separate units specialising on analysis of different industries were created within the Credit Underwriting department. This business model allows the Bank to quickly and thoroughly analyse changes in various industries, adjust strategies and take adequate decisions. Along with the industry divisioning there is also a set of regional risk managers that monitor the situation in the main regions of Bank's operations. This allows the Bank to manage its credit portfolio both on industry and regional levels.

Credit portfolio diversification by client types (large corporate clients, small and medium enterprises, individual clients) and industries allows the Bank to maintain high credit portfolio quality. In order to provide an adequate risk assessment, the Bank uses various internal rating models which take into account specifics of different client segments, provides effective differentiation of clients by credit risk level and precise assessment of their probability of default in accordance with Basel II principles. Internal ratings are used in credit decision-making, pricing, capital allocation and risk management processes.

All existing credit deals/approved limits for corporate clients are subject to annual review according to the procedure similar to that for the approval of the credit application.

The Bank 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 Bank. As the result of the review, the borrower's internal credit rating may be changed. The Bank monitors concentrations of credit risk by industry/sector and by the exposure to top 10, 50 and 100 borrowers.

Retail loan applications are approved according to internal local policies, rules, guidelines and operational instructions for lending to individuals. Information is obtained on every customer. The extent of the information required and frequency of its update depend on the regulatory requirements, the customer category, creditworthiness of the customer and type of a transaction. The business unit obtains and analyzes the information from different sources (information from the customer, on-site visits, internal/external sources).

In order to reduce the risk of potential losses in the Bank's credit transactions a Monitoring Unit was established. The Unit implements procedures for systematic identification and assessment of negative signals, analysis and situation monitoring as well as strategies and action plans for potentially troubled corporate borrowers.

The Group continues active work to manage and decrease the problem loan portfolio. During 2011 the Restructuring Department of the Bank further developed and improved the systemic approach for handling problem loans. Under Watch List procedures monitoring of corporate customers and warning signals were applied on a daily basis.

Settlement risk

The Group's activities may give rise to settlement risk at the time of settlement of transactions. Settlement risk is the risk of loss due to the failure of counterparty to honour its obligations to deliver cash, securities or other assets as contractually agreed.

For certain types of transactions the Group mitigates this risk by conducting settlements through settlement/clearing agents to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations. Acceptance of settlement risk on free settlement transactions requires transaction specific and/or counterparty specific settlement limits that form part of the counterparty limit approval/monitoring process described above.

The table below shows the maximum exposure to credit risk for the components of the statement of financial position, including derivatives. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements.

	Notes	Maximum gross exposure 31 December 2011	Maximum gross exposure 31 December 2010
Cash and cash balances (excluding cash on hand)	6	16 795 816	24 251 721
Trading securities	7	1 938 722	34 933 922
Amounts due from credit institutions	8	200 143 375	93 967 536
Derivative financial assets	9	12 867 079	16 328 391
Derivative financial assets designated for hedging	9	3 776 683	1 898 362
Loans to customers	10	472 698 094	386 216 232
Available-for-sale securities	11	43 575 124	296 871
Held-to-maturity investment securities	11	311 662	587 347
Investments in associate		929 032	893 054
Other assets	15	1 961 237	2 155 757
		754 996 824	**561 529 193**
Financial commitments and contingencies	21	281 648 602	178 431 304
Total credit risk exposure		**1 036 645 426**	**739 960 497**

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

The credit quality of financial assets is managed by the Bank using internal credit ratings. The table below shows the credit quality by class of asset for statement of financial position items, based on the Bank's credit rating system as at 31 December 2011 and 2010:

		Neither past due nor impaired			
	Notes	High grade	Standard	Past due or impaired	Total 2011
Cash and cash balances (excluding cash on hand)	6	16 795 816	–	–	**16 795 816**
Trading securities	7	1 938 722	–	–	**1 938 722**
Amounts due from credit institutions	8	200 143 375	–	–	**200 143 375**
Derivative financial assets	9	12 867 079	–	–	**12 867 079**
Derivative financial assets designated for hedging	9	3 776 683	–	–	**3 776 683**
Loans to customers	10				
Corporate customers		356 422 748	15 639 030	9 935 790	**381 997 568**
Retail customers		75 047 870	2 497 233	4 681 577	**82 226 680**
Reverse repurchase agreements with companies		8 122 974	–	–	**8 122 974**
Other		–	195 351	155 521	**350 872**
Available-for-sale securities	11	43 575 124	–	–	**43 575 124**
Held-to-maturity investment securities	11	311 662	–	–	**311 662**
Total		**719 002 053**	**18 331 614**	**14 772 888**	**752 106 555**

25. Risk management (Continued)

		Neither past due nor impaired			
	Notes	High grade	Standard	Past due or impaired	Total 2010
Cash and cash balances (excluding cash on hand)	6	24 251 721	–	–	**24 251 721**
Trading securities	7	34 933 922	–	–	**34 933 922**
Amounts due from credit institutions	8	93 967 536	–	–	**93 967 536**
Derivative financial assets	9	16 328 391	–	–	**16 328 391**
Derivative financial assets designated for hedging	9	1 898 362	–	–	**1 898 362**
Loans to customers	10				
Corporate customers		200 716 834	99 197 705	13 586 019	**313 500 558**
Retail customers		55 121 119	1 453 312	5 119 243	**61 693 674**
Reverse repurchase agreements with companies		11 022 000	–	–	**11 022 000**
Available-for-sale securities	11	296 871	–	–	**296 871**
Held-to-maturity investment securities	11	587 347	–	–	**587 347**
Total		**439 124 103**	**100 651 017**	**18 705 262**	**558 480 382**

Liquidity risk and funding management

Liquidity risk refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments associated with financial instruments as they actually fall due. 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 the management of financial institutions. It is unusual for financial institutions ever to be completely matched since a lot of business transactions are of uncertain term and different types. An unmatched position could potentially enhance profitability, but also could increase the risk of failure to meet obligations.

The approach to liquidity management is to ensure, as far as possible, that the Group always has sufficient liquidity to meet its obligations, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group reputation.

Assets and Liabilities Committee (hereinafter – "ALCO") is responsible for management of liquidity risk of the Bank. ALCO delegates to the Assets and Liabilities Management Department the responsibility to monitor and maintain within limits set the Bank's liquidity profile on a daily basis. At the same time Market Risk Unit controls compliance with liquidity limits and informs ALCO in case of limits breaches. Both Assets and Liabilities Management Department and Market Risk Unit report to local and to the UniCredit Group ALCO on a weekly basis.

According to the liquidity management policy:

1. The approach to funding and structural liquidity is described in the annual funding plan, which is based on annual budget data. On a quarterly basis, the funding plan is updated taking into account the current recognised and unrecognised positions, changes in the assets and liabilities mismatches of the Bank, available funding sources and market analysis. The Bank has adopted contingency funding plan, the UniCredit Group standard risk management instrument, which describes potential funding sources in case of crisis situation. The contingency funding plan is updated in the event of crisis, but at least once a year by ALCO, after annual funding plan approval.

2. Structural liquidity of the Bank is analysed using the liquidity gap approach and reported to local ALCO and to the UniCredit Group on a weekly basis. Liquidity limits and requirements both established by the UniCredit Group and the CBR are taken into account.

3. Short-term liquidity is monitored on the basis of cash flow models in total and separately by major currencies:
   - Scenarios (going concern, market crisis, foreign exchange market crisis scenario, etc.) are assessed to forecast future cash flows and corresponding liquidity needs for the nearest three months. Market crisis scenario includes "haircuts" to liquid securities positions, failure of Bank's counterparties to meet their obligations with regard to money market deals, run on retail deposits, inability to make swaps at reasonable prices, etc. Decisions with regard to switches between going-concern and crisis scenarios are taken by ALCO;
   - ALCO sets limits on cash flow positions that depend on available liquidity sources and level of liquid assets (portfolio of assets that can be quickly liquidated to meet obligations without significant price decline).

4. Starting from the beginning of 2010 a more conservative approach to structural and short-term liquidity management was established by the Group. Separate cash flows in each currency as well as asset and liability term structures are thoroughly monitored.

5. Funding structure concentration is monitored and managed on a constant basis:
   - ALCO sets an internal limit on the maximum volume of borrowings from a single group of clients;
   - Reports on customers' funds concentration are reported to management and analyzed on a weekly basis.

6. Liquidity ratios in line with regulatory requirements (the CBR) are to be monitored and met:
   - On daily basis Assets and Liabilities Management Department evaluates N2 and calculates projects of N3 and N4 ratios for one month horizon:
     - Instant liquidity Ratio (N2) is the ratio of liquid assets to sight and overnight liabilities;
     - Current liquidity ratio (N3) is the ratio of liquid assets to liabilities maturing within 30 calendar days;
     - Long-term liquidity ratio (N4) is the ratio of assets maturing after one year to the sum of capital and liabilities maturing after one year.

As at 31 December 2011 and 2010, these ratios were as follows:

	2011, %	**2010, %**
N2 "Instant liquidity Ratio" (minimum 15%)	108.9	103.1
N3 "Current Liquidity Ratio" (minimum 50%)	66.4	69.7
N4 "Long-Term Liquidity Ratio" (maximum 120%)	98.5	95.3

The following table shows the liquidity gap profile as at 31 December 2011. This information is prepared using the internal Assets and Liabilities Management system according to the approved internal approach. The mapping approach is compliant with the requirements of the UniCredit Group liquidity policy. This information is used internally for risk management purposes and differs from financial statements amounts.

The information presented below relates to assets and liabilities of the Bank only prepared using statutory accounting methods. The table below presents the liquidity gap profile according to the approved internal approach as at 31 December 2011:

	2011							
	Less than 1 month	1 month to 3 months	3 months to 6 months	6 months to 1 year	1 year to 3 years	More than 3 years	No stated maturity	Total
ASSETS								
Cash and cash balances	24 468 219	–	–	–	–	–	–	**24 468 219**
Trading securities	1 536 718	–	240 000	162 004	–	–	–	**1 938 722**
Amounts due from credit institutions	88 864 121	1 054 433	5 070 000	8 164 231	96 508 909	149 119	–	**199 810 813**
Loans to customers	18 625 579	24 710 798	46 858 279	93 141 957	196 212 739	92 258 403	–	**471 807 755**
Investment securities								
- available-for-sale	26 732 310	–	1 268 221	2 300 612	–	–	13 273 230	**43 574 373**
- held-to-maturity	–	–	–	–	311 964	–	–	**311 964**
Fixed assets	–	–	–	–	–	–	6 583 910	**6 583 910**
Other assets	10 676	–	–	4 663 127	–	–	–	**4 673 803**
Total assets	**160 237 623**	**25 765 231**	**53 436 500**	**108 431 931**	**293 033 612**	**92 407 522**	**19 857 140**	**753 169 559**
LIABILITIES								
Amounts due to credit institutions	55 455 024	39 835 575	10 854 806	6 690 612	35 751 622	18 076 406	–	**166 664 045**
Amounts due to customers								
- current accounts	48 925 782	3 785 124	3 683 502	7 047 308	697 343	18 881 860	–	**83 020 919**
- time deposits	181 916 404	14 603 865	10 298 981	15 764 778	152 805 942	3 947 163	–	**379 337 133**
Debt securities issued	–	–	–	10 832 852	10 000 000	5 000 330	–	**25 833 182**
Other liabilities	98 142	–	–	9 081 390	–	10 899	–	**9 190 431**
Equity	–	–	–	–	–	–	89 123 849	**89 123 849**
Total equity and liabilities	**286 395 352**	**58 224 564**	**24 837 289**	**49 416 940**	**199 254 907**	**45 916 658**	**89 123 849**	**753 169 559**
Net position	**(126 157 729)**	**(32 459 333)**	**28 599 211**	**59 014 991**	**93 778 705**	**46 490 864**	**(69 266 709)**	**-**
Accumulated gap	**(126 157 729)**	**(158 617 062)**	**(130 017 851)**	**(71 002 860)**	**22 775 845**	**69 266 709**	**-**	

The Group estimates that the negative accumulated gap in 1 month to 1 year periods will be sufficiently covered by the Group’s money market daily borrowing capacity, issue of unsecured bonds and secured refinancing with the CBR.

The table below presents the liquidity gap profile according to the approved internal approach as at 31 December 2010:

	2010							
	Less than 1 month	1 month to 3 months	3 months to 6 months	6 months to 1 year	1 year to 3 years	More than 3 years	No stated maturity	Total
ASSETS								
Cash and cash balances	31 205 629	–	–	–	–	–	–	**31 205 629**
Trading securities	30 237 028	–	1 663 584	2 691 801	–	–	–	**34 592 413**
Amounts due from credit institutions	86 273 536	981 779	650 000	3 382 385	2 508 152	150 000	–	**93 945 852**
Loans to customers	20 830 875	27 670 064	43 067 797	76 929 757	160 783 451	55 402 768	–	**384 684 712**
Investment securities								
- available-for-sale	–	–	–	–	–	–	354 963	**354 963**
- held-to-maturity	–	–	–	265 000	300 000	–	–	**565 000**
Fixed assets	–	–	–	–	–	–	4 665 892	**4 665 892**
Other assets	–	–	–	7 098 419	–	–	–	**7 098 419**
Total assets	**168 547 068**	**28 651 843**	**45 381 381**	**90 367 362**	**163 591 603**	**55 552 768**	**5 020 855**	**557 112 880**
LIABILITIES								
Amounts due to credit institutions	42 365 412	8 497 006	4 832 198	38 589 802	27 304 489	15 276 836	–	**136 865 743**
Amounts due to customers								
- current accounts	47 372 076	4 143 717	4 143 717	6 448 816	4 470 549	16 275 344	–	**82 854 219**
- time deposits	154 554 851	8 771 604	3 345 563	22 311 278	53 487 772	2 481 998	–	**244 953 066**
Debt securities issued	–	–	–	–	15 215 077	–	–	**15 215 077**
Other liabilities	–	–	–	7 467 472	–	–	–	**7 467 472**
Equity	–	–	–	–	–	–	69 757 303	**69 757 303**
Total equity and liabilities	**244 292 339**	**21 412 327**	**12 321 478**	**74 817 368**	**100 477 887**	**34 034 178**	**69 757 303**	**557 112 880**
Net position	**(75 745 271)**	**7 239 516**	**33 059 903**	**15 549 994**	**63 113 716**	**21 518 590**	**(64 736 448)**	**-**
Accumulated gap	**(75 745 271)**	**(68 505 755)**	**(35 445 852)**	**(19 895 858)**	**43 217 858**	**64 736 448**	**-**	

25. Risk management (Continued)

Analysis of financial liabilities by remaining contractual maturities

The tables below summarise the maturity profile of financial assets and liabilities at 31 December 2011 and the financial liabilities as at 31 December 2010 based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Group expects that many customers will not request repayment on the earliest date the Group could be required to pay. The tables do not reflect the expected cash flows indicated by the Bank's deposit retention history.

	Less than 1 month	1 month to 3 months	3 months to 6 months	6 to 12 months	1 year to 3 years	More than 3 years	Total
FINANCIAL ASSETS AS AT 31 DECEMBER 2011							
Cash and cash balances	24 491 991	–	–	–	–	–	**24 491 991**
Trading securities	1 938 722	–	–	–	–	–	**1 938 722**
Amounts due from credit institutions	84 674 771	1 394 240	6 201 494	7 875 431	103 955 217	425 638	**204 526 791**
Derivative financial assets:							
- Contractual amounts payable	(20 558 804)	(48 908 164)	(21 790 105)	(14 374 831)	(31 706 405)	(1 958 600)	**(139 296 909)**
- Contractual amounts receivable	21 553 464	50 628 919	24 714 093	14 454 930	34 676 049	3 875 693	**149 903 148**
Derivative financial assets designated for hedging:							
- Contractual amounts payable	(432 352)	(147 704)	(656 827)	(2 741 464)	(8 695 574)	(819 422)	**(13 493 343)**
- Contractual amounts receivable	1 935 003	328 180	1 356 116	1 685 371	10 649 625	2 060 099	**18 014 394**
Loans to customers	7 970 509	36 145 997	48 383 167	82 782 092	173 771 346	215 526 269	**564 579 380**
Investment securities							
- available-for-sale	149 495	921 118	351 986	5 693 867	26 888 006	191 172	**34 195 644**
- held-to-maturity	11 892	–	–	11 892	347 568	–	**371 352**
Total undiscounted financial assets	**121 734 691**	**40 362 586**	**58 559 924**	**95 387 288**	**309 885 832**	**219 300 849**	**845 231 170**
FINANCIAL LIABILITIES AS AT 31 DECEMBER 2011							
Amounts due to credit institutions	56 388 107	40 904 349	11 474 287	9 470 902	30 544 383	22 865 838	**171 647 866**
Derivative financial liabilities:							
- Contractual amounts payable	15 109 864	46 329 106	35 069 123	14 514 437	35 842 318	7 841 600	**154 706 448**
- Contractual amounts receivable	(15 159 367)	(44 631 956)	(31 755 840)	(13 593 471)	(31 898 513)	(1 786 818)	**(138 825 965)**
Derivative financial liabilities designated for hedging:							
- Contractual amounts payable	193 188	3 897 728	7 211 299	4 187 099	29 978 722	15 270 544	**60 738 580**
- Contractual amounts receivable	(228 842)	(2 997 167)	(6 165 108)	(3 435 386)	(27 865 008)	(11 662 090)	**(52 353 601)**
Amounts due to customers	265 808 874	13 987 752	11 215 806	10 493 214	169 667 564	1 419 049	**472 592 259**
Debt securities issued	–	392 040	572 238	1 509 825	8 107 951	22 614 973	**33 197 027**
Total undiscounted financial liabilities	**322 111 824**	**57 881 852**	**27 621 805**	**23 146 620**	**214 377 417**	**56 563 096**	**701 702 614**

The maturity profile of the financial assets and liabilities at 31 December 2010 was the following:

	Less than 1 month	1 month to 3 months	3 months to 6 months	6 to 12 months	1 year to 3 years	More than 3 years	Total
FINANCIAL ASSETS AS AT 31 DECEMBER 2010							
Cash and cash balances	31 206 636	–	–	–	–	–	**31 206 636**
Trading securities	34 933 922	–	–	–	–	–	**34 933 922**
Amounts due from credit institutions	84 795 925	1 165 095	768 240	3 950 293	3 562 628	407 028	**94 649 209**
Derivative financial assets:							
- Contractual amounts payable	(38 739 215)	(48 761 843)	(31 570 962)	(36 641 264)	(24 684 235)	(8 173 606)	**(188 571 125)**
- Contractual amounts receivable	39 793 952	51 907 452	35 345 591	39 212 817	31 221 583	9 024 829	**206 506 224**
Derivative financial assets designated for hedging:							
- Contractual amounts payable	(8 954)	(17 404)	(95 026)	(140 161)	(2 061 777)	(13 904 449)	**(16 227 771)**
- Contractual amounts receivable	18 435	191 705	100 955	971 433	2 884 068	15 163 184	**19 329 780**
Loans to customers	24 868 163	39 941 056	53 674 360	80 508 690	171 090 627	68 515 632	**438 598 528**
Investment securities							
- held-to-maturity	11 892	18 500	–	295 392	59 460	311 892	**697 136**
Total undiscounted financial assets	**176 880 756**	**44 444 561**	**58 223 158**	**88 157 200**	**182 072 354**	**71 344 510**	**621 122 539**
FINANCIAL LIABILITIES AS AT 31 DECEMBER 2010							
Amounts due to credit institutions	42 516 545	9 101 458	19 246 981	25 851 612	25 731 874	19 890 917	**142 339 387**
Derivative financial liabilities:							
- Contractual amounts payable	40 135 390	69 399 346	51 037 798	32 016 658	26 743 930	5 544 683	**224 877 805**
- Contractual amounts receivable	(39 340 885)	(67 150 264)	(48 062 668)	(28 758 563)	(20 773 334)	(4 200 310)	**(208 286 024)**
Derivative financial liabilities designated for hedging:							
- Contractual amounts payable	27 038	10 587	46 521	182 877	9 395 216	17 167 436	**26 829 675**
- Contractual amounts receivable	(14 983)	(38 563)	(79 196)	(201 619)	(8 463 134)	(15 592 956)	**(24 390 451)**
Amounts due to customers	232 904 181	11 295 914	6 296 936	23 904 286	61 303 974	1 333 804	**337 039 095**
Debt securities issued	15 357	243 410	447 154	603 979	16 448 973	-	**17 758 873**
Total undiscounted financial liabilities	**276 242 643**	**22 861 888**	**28 933 526**	**53 599 230**	**110 387 499**	**24 143 574**	**516 168 360**

The maturity analysis does not reflect the historical pattern of stable balances on current accounts. Withdrawals of current accounts historically are taking place over a longer period than indicated in the tables above. These balances are included in amounts due in less than one month in the tables above.

Included in due to customers are term deposits of individuals. In accordance with the Russian legislation, the Group is obliged to repay such deposits upon demand (please refer to Note 17).

The table below shows the contractual expiry by maturity of financial commitments and contingencies.

	Less than 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 3 years	More than 3 years	Total
2011	15 380 469	18 205 359	65 628 186	106 183 338	48 333 676	27 917 574	**281 648 602**
2010	4 029 813	11 475 446	29 630 588	77 571 270	39 056 144	16 668 044	**178 431 305**

The Group expects that not all of the contingent liabilities or commitments will be drawn before expiry of the commitments.

Market risk

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

The Group distinguishes four market risk categories:
1. Interest Rate Risk is the risk that changes in interest rates will affect future cash flows or fair values of financial instruments.
2. Currency Risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates.
3. Spread Risk is the risk that changes in credit spreads will affect bond prices.
4. Residual Risk is the risk that a price of a particular instrument will change due to its specific characteristics.

On a daily basis the Group assesses interest rate and currency risks for both the trading portfolio and banking book. Moreover, spread and residual risks are calculated for fixed income positions.

The Group applies a Value-at-Risk (hereinafter – "VAR") methodology for the measuring of all risks mentioned above. VAR measure adopted by the Group estimates the potential negative change in the market value of a portfolio at a 99 % confidence level over a 1-day horizon. The Group distinguishes the following types of VAR:
1. Total VAR is calculated for all risk factors taken in aggregate;
2. Interest Rate VAR is originated from interest rate risk exposure of the portfolio;
3. Foreign exchange VAR is originated from currency risk exposure of the portfolio;
4. Spread VAR is originated from spread risk exposure of the bond portfolio;
5. Residual VAR is originated from other factors exposure of the bond portfolio.

The Group also started to calculate Incremental Risk Charge (hereinafter – "IRC") that complements additional standards being applied to VAR modelling framework according to amendments to Basel II. IRC is an estimate of the default and migration risks of unsecured credit products over a one year capital horizon at 99.9% confidence level.

For interest rate risk management and control the Group also uses a Basis Point Value (hereinafter – "BPV") measure, which shows a change of present value of the Group's position if interest rate changes by one basis point. The measure is calculated for all currencies in which the Group has interest rate exposures. In addition, for bonds the Group established Credit Point Value (hereinafter – "CPV") measure that reflects a change of the bond position present value in case of credit spread changes by one basis point.

Since monitoring of VAR, BPV and CPV is an integral part of the risk management procedures, VAR, CPV and BPV limits have been established and exposures are reviewed daily against the limits by Market Risk Unit (hereinafter – "MRU").

The Group has adopted the following limits:
- Total VAR limit for whole portfolio;
- IRC limit for total bond position;
- Total BPV limit for whole portfolio;
- BPV limit split by currencies;
- Open foreign exchange position limits;
- CPV limit for total bond position.

Usage of VAR enables management of a position taking into consideration complex relationships and interdependencies between different risk factors. Typically MRU analyses VAR figures and sets BPV limits which help traders and the Asset and Liability Management Department to optimize risk profiles in volatile market environments. On a monthly basis MRU provides stress-testing of all four market risk categories, in other words, the estimation of total portfolio present value change according to several predefined scenarios of market risk factors' movements. In addition, the MRU monitors on a daily basis the financial result of the trading operations and thoroughly investigates any significant variances.

All limits violations are analyzed by the MRU on a daily basis, and all limits breaches are escalated and reported to local ALCO and to UniCredit Bank Austria AG.

In 2011 MRU significantly improved methods and procedures for calculation and monitoring of open foreign currency position both according to IFRS and RAS that currently is performed on a daily basis.

Interest rate risk management of the banking book

The Bank uses the active interest rate risk management concept, which aims to minimize the net interest income volatility of the banking book.

It is worth noting that in banking book interest rate risk position there is a discrepancy between economic (behavioural) and contractual maturities of financial instruments. It concerns both instruments with fixed contractual maturities (loans and time deposits) and instruments without contractual maturities (current accounts, capital). Based on historical observation the Bank developed models that allowed applying behavioural approach to such kinds of banking book items for construction of interest rate risk position with the aim of better interest rate risk management by means of preventing over-hedging and encouraging self-hedging. The Bank applies behavioural models to current accounts, short-term customers' time deposits and time deposits with auto-rollover option as well as to capital. Moreover, recently the Bank has developed prepayment model for retail loans and implemented it in interest rate risk position. For avoiding accounting discrepancy between hedged items of banking book calculated on accrual basis and hedging instruments calculated on mark-to-market basis and, as a result, to stabilize net interest income the Bank uses hedge accounting methodology. Starting from Micro Cash Flow Hedge at the end of 2008 the Bank implemented Macro Cash Flow hedge approach in 2009 and Micro Fair Value hedge approach in the middle of 2010. Finally since 31 August 2011 Portfolio Fair Value Hedge Accounting Approach was implemented in the Bank that led to even more accurate and efficient interest rate risk management.

Objectives and limitation of VAR methodology

Starting 2011 the Group uses a Basel II compliant VAR methodology based on historical simulations. Historical simulation is a method that allows to calculate VAR without making any assumptions about the a priori statistical distribution of the portfolio value movements. This approach involves the construction of the hypothetical distribution of the yields (profit and losses) of a portfolio of financial instruments directly by means of the historical fluctuations of the market prices. Once the hypothetical distribution has been calculated, the VAR is given by the percentile evaluation with the 99% confidence interval.

The VAR methodology described above replaces the previous approach based on historical and Monte-Carlo simulations, where 1000 scenarios of joint risk factors behaviour are modelled. The portfolios were revalued according to the scenarios set. The VAR measure resulted as the 99% quantile of the above distribution. Interest and exchange rates were modelled on a historical data basis. Bonds credit spread changes were modelled using the Student 5 distribution.

VAR estimates are based on historical data and therefore have some limitations. The volatility of interest and exchange rates observed in the past might not match the current market conditions, which could lead to underestimation of the future losses. The VAR measure does not account for any losses that may occur beyond the 99% confidence level.

The adequacy of the models used by the Group is controlled using a back-testing method, which compares VAR measures with realized mark-to-market revaluation for traded instruments and mark-to-model revaluation for non-traded instruments. This analysis is provided by MRU on a monthly basis.

Computational results

Implementation of the new model of calculating VAR has led to the changes in figures and corresponding limits, simultaneously making comparison with 2010 inadequate.

The following table shows estimation of the potential losses that could occur on all risk positions as a result of movements in market rates and prices by one BPV:

	2011	2010
Total VAR	199 286	114 351
Interest Rate VAR	161 371	96 524
Spread VAR	137 748	28 318
Foreign exchange VAR	16 897	36 258

The banking book includes corporate and retail loans and bonds from the investment portfolio on the asset side and deposits on the liability side offset by internal interest rate swaps to transfer interest rate risk to the trading book. A new prepayment model for retail loans has been implemented in 2011.

The following table shows estimation of the potential losses that could occur on banking book risk positions as a result of movements in market rates and prices by one BPV:

	2011	2010
Total VAR	56 261	60 438
Interest Rate VAR	58 693	59 112
Spread -VAR [1]	2 972	2 027
Foreign exchange VAR [2]	–	–

[1] Spread risk in the banking book arises from bonds comprising investment portfolio.

[2] Foreign exchange risk is defined as the risk arising from the net open position of the Bank and allocated to the trading book. The foreign exchange risk component of the banking book is therefore considered to be zero.

The following table shows estimation of the potential losses that could occur on trading book risk positions as a result of movements in market rates and prices by one BPV:

	2011	2010
Total VAR	184 490	108 655
Interest Rate VAR	146 319	88 787
Spread VAR	135 651	28 295
Foreign exchange VAR	16 897	36 259

The following table shows estimation of the potential losses that could occur on trading bond portfolio position as a result of movements in market rates and prices by one BPV:

	2011	2010
Total VAR	213 487	47 468
Interest Rate VAR	130 518	31 635
Spread VAR	136 723	28 318

Operational risk

Group-Wide Operational Risk Management Framework

The UniCredit Group defines as "operational" the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

The definition of Operational Risk includes legal risk but excludes strategic and reputation risk. Legal risk includes but is not limited to exposure to fines, penalties or punitive damages resulting from supervisory actions as well as private settlements.

The fundamental operational risk management principles are:
- involvement of corporate governing bodies;
- independence of operational risk management function from the risk taking functions;
- different control levels (line, second level and third level);
- involvement of operational risk management function in evaluation the risks of new products, process and markets;
- efficient escalation/decision-making and disclosure/reporting process.

The Bank's Operational Risk Management Framework

The Bank is fully compliant with the UniCredit Group's operational risk management framework in its guiding standards and principles.

The Management Board of the Bank holds the responsibility for the establishment, governance and monitoring of the effective and efficient operational risk management system. The Management Board establishes the general policies of the Bank's operational risk management system and has control over its due implementation and its actual operations including but not limiting to:

- approval of the operational risk framework and any essential changes to it as well as all internal normative documents of the Bank guiding the operational risk management system;
- establishment of an operational risk management function being of appropriate independence of judgement and having the adequate personnel and other resources;
- assurance that the tasks and responsibilities of the functions involved in the operational risk management system are assigned in a clear and appropriate manner with special regard to avoidance of conflicts of interest;
- establishment of informing and reporting system providing accurate, complete and timely information on operational risk exposure and other significant operational risk management issues.

The Bank's Operational Risk Management Unit (hereinafter – "ORM Unit") performing the second level controls is fully independent from risk taking functions performing the line level controls. The ORM's main tools and activities to manage and mitigate operational risks are focused on but not limited to:

- loss data collection;
- key operational risk indicators;
- scenario analysis;
- general ledger analysis and accounts reconciliation;
- transitory and suspense accounts monitoring;
- operational risk limits control;
- insurance coverage;
- outsourcing activities analysis;
- capital at risk allocation according to the Basel II Standardized Approach;
- new products/processes analysis from the operational risk impact perspective;
- credit bureaus cooperation;
- reporting and escalating any of the essential operational risk issues to the Management Board, Internal Audit Department and competent UniCredit Group functions.

The Internal Audit Department performing the third level controls cooperates with the ORM Unit in terms of setting, development, implementation and maintenance of the operational risk management system, operational risk identification and the inherent internal validation process.

26. Fair values of financial instruments

The following disclosure of the estimated fair value of financial instruments is made in accordance with the requirements of IFRS 7 Financial Instruments: Disclosures. Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties on arm's length conditions, other than in forced sale or liquidation. As no readily available market exists for a significant part of the Group's financial instruments, judgment is necessary in arriving at fair value, based on current economic conditions and the specific risks attributable to the instrument. The estimates presented herein are not necessarily indicative of the amounts the Group could realise in a market exchange from the sale of its full holdings of a particular instrument.

The estimated fair values of trading securities, bonds issued, and liquid investment securities are based on quoted market prices at the reporting date without any deduction for transaction costs. For securities and derivative financial instruments not traded in an active market, the fair value is estimated by using valuation techniques that include the use of recent arm's length transactions and discounted cash flow analysis.

The estimated fair values of all other financial assets and liabilities are calculated using discounted cash flow techniques based on estimated future cash flows.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates, applicable forward rates or interest rate indexes, and the discount rate is a market-based rate for a similar instrument at the reporting date.

26. Fair values of financial instruments (Continued)

The following table summarises the carrying amounts and fair values of those financial assets and liabilities not presented in the consolidated statement of financial position at fair value.

	2011		2010	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Amounts due from credit institutions	200 143 375	200 143 375	93 967 536	93 967 536
Loans to customers	472 698 094	468 924 332	386 216 232	389 760 122
Investment securities held-to-maturity	311 662	311 697	587 347	589 007
Financial liabilities				
Amounts due to credit institutions	165 826 669	165 826 669	137 143 630	137 143 630
Amounts due to customers	462 922 550	463 908 528	330 414 168	331 688 379
Debt securities issued	25 833 182	24 715 781	15 433 696	15 373 696

Financial instruments recorded at fair value

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:

	Level 1	Level 2	Level 3	Total 2011
FINANCIAL ASSETS				
Trading securities	1 646 189	292 533	–	**1 938 722**
Available-for-sale securities	28 242 821	2 058 323	13 267 115	**43 568 259**
Derivative financial assets	–	12 867 079	–	**12 867 079**
Derivative financial assets designated for hedging	–	3 776 683	–	**3 776 683**
	29 889 010	**18 994 618**	**13 267 115**	**62 150 743**
FINANCIAL LIABILITIES				
Derivative financial liabilities	–	12 893 794	–	**12 893 794**
Derivative financial liabilities designated for hedging	–	7 273 366	–	**7 273 366**
	–	**20 167 160**	**–**	**20 167 160**

During 2011 there were no significant transfers between financial instruments of Level 1 and Level 2.

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:

	Level 1	Level 2	Total 2010
FINANCIAL ASSETS			
Trading securities	30 587 680	4 346 242	**34 933 922**
Derivative financial assets	–	16 328 391	**16 328 391**
Derivative financial assets designated for hedging	–	1 898 362	**1 898 362**
	30 587 680	**22 572 995**	**53 160 675**
FINANCIAL LIABILITIES			
Derivative financial liabilities	–	15 953 515	**15 953 515**
Derivative financial liabilities designated for hedging	–	2 683 004	**2 683 004**
	–	**18 636 519**	**18 636 519**

Financial instruments of Level 3 represent equity investment in OJSC MICEX-RTS which is not quoted on an active market and was revalued in 2011. The investment previously was stated at cost.

The following table shows a reconciliation for the years ended 31 December 2011 and 2010 for fair value measurements in Level 3 of the fair value hierarchy:

	2011	2010
	Equity investments available-for-sale	Debt and other fixed income trading instruments
Balance at beginning of the year	–	67 272
Total gains or losses:		
– in profit or loss	3 211 266	(67 272)
– in other comprehensive income	9 702 731	–
Transfers into level 3	353 118	–
Total capital	**13 267 115**	**–**

Gain on financial instruments of Level 3 of RUB 3 211 266 is presented in profit or loss within gains on disposal of available-for-sale financial assets. Gain on financial instruments of Level 3 of RUB 9 702 731 is presented in other comprehensive income within revaluation reserve for available-for-sale securities.

27. Related party disclosures

The Bank's ultimate parent is the UniCredit Group. The Bank's immediate parent is UniCredit Bank Austria AG. Both entities produce publicly available financial statements.

In accordance with IAS 24 Related Party Disclosures, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

Balances and transactions with UniCredit Bank Austria AG (the immediate parent) and more senior parents within the UniCredit Group were as follows:

	31 December 2011	Average interest rate, %	31 December 2010	Average interest rate, %
Amounts due from credit institutions				
- In Russian Roubles	7 313 510	6.8%	250 000	12.1%
- In EUR	143 482 611	2.8%	947 789	0.0%
- In USD	3 061 857	0.4%	6 861 056	0.4%
Derivative financial assets	–		215 776	
Other assets	85 450		45 772	
Amounts due to credit institutions				
- In Russian Roubles	23 736 953	7.3%	49 089 047	4.6%
- In EUR	37 592 789	2.0%	9 446 305	2.7%
- In USD	25 684 219	2.0%	21 792 913	1.7%
Derivative financial liabilities	–		211 182	
Debt securities issued	1 004 192	9.0%	–	
Other liabilities	94 216		5 176	
Commitments and guarantees issued	2 276 613		1 636 274	
Commitments and guarantees received	1 189 686		411 359	

	2011	2010
Interest income	1 977 662	441 908
Interest expense	(2 805 220)	(2 743 888)
Fee and commission income	12 264	16 258
Fee and commission expense	(22 323)	(7 971)
Gains (losses) on financial assets and liabilities held for trading	595 691	(2 214 575)
Personnel expenses	(29 782)	(19 503)

Balances and transactions with other companies controlled by the UniCredit Group are as follows:

	31 December 2011	Average interest rate, %	31 December 2010	Average interest rate, %
Amounts due from credit institutions				
- In EUR	567 409	0.0%	1 186 694	6.4%
- In other currencies	20 129	0.0%	–	
Derivative financial assets	3 537 856		6 677 599	
Derivative financial assets designated for hedging	3 573 532		1 839 650	
Loans to customers				
- In Russian Roubles	600 216	6.6%	840 099	3.4%
Other assets	626 152		14 827	
Amounts due to credit institutions				
- In Russian Roubles	821 587	0.0%	457 291	0.2%
- In EUR	602 489	3.3%	839 411	2.5%
- In USD	5 824 153	2.4%	5 967 569	2.2%
Derivative financial liabilities	5 023 326		8 934 975	
Derivative financial liabilities designated for hedging	5 904 556		2 582 530	
Amounts due to customers				
- In Russian Roubles	519 989	2.2%	225 022	0.9%
- In EUR	251 961	1.6%	33 057	0.0%
- In USD	486 478	1.2%	80 872	0.0%
Debt securities issued	3 873 877	7.0%	3 873 141	7.0%
Other liabilities	69 221		62 584	
Commitments and guarantees issued	16 267 095		11 531 068	
Commitments and guarantees received	1 356 662		631 814	

	2011	2010
Interest income	3 586 040	1 753 937
Interest expense	(2 890 527)	(1 547 223)
Fee and commission income	27 474	15 519
Fee and commission expense	(9 535)	(19 631)
(Losses) gains on financial assets and liabilities held for trading	(2 297 332)	3 211 008
Other income	398	2 280
Personnel expenses	(7 504)	(4 890)
Other administrative expenses	(16 117)	(46 020)

Subordinated loans from the members of the UniCredit Group were as follows for 2011 and 2010:

	2011		2010	
	UniCredit Bank Austria AG and more senior parents within the UniCredit Group	Other companies controlled by the UniCredit Group	UniCredit Bank Austria AG and more senior parents within the UniCredit Group	Other companies controlled by the UniCredit Group
Subordinated loans at the beginning of the year	13 621 564	2 444 330	15 568 079	2 425 696
Subordinated debts repaid during the year	–	–	(1 388 444)	–
Accrual of interest, net of interest paid	15 959	524	11 083	18
Effect of exchange rates changes	577 116	137 536	(569 154)	18 616
Subordinated loans at the end of the year	**14 214 639**	**2 582 390**	**13 621 564**	**2 444 330**

Total compensation of the key management personnel included in personnel expenses for the years ended 31 December 2011 and 2010 comprised short-term benefits in the amount of RUB 85 269 thousand and other long-term benefits in the amount of RUB 75 996 thousand (2010: RUB 84 968 thousand and RUB 27 529 thousand, respectively) and post-employment benefits in the amount of RUB 1 232 thousand (2010: RUB 10 928 thousand).

The outstanding balances and average interest rates as at 31 December 2011 and 2010 for transactions with the key management personnel are as follows:

	2011	Average interest rate, %	2010	Average interest rate, %
Loans outstanding at 31 December, gross	**7 718**	**9.5%**	**11 062**	**9.5%**
Less loan impairment at 31 December	(8)		(45)	
Loans outstanding at 31 December, net	**7 710**		**11 017**	

28. Capital

The Group maintains an actively managed capital base to cover risks inherent in the business. The adequacy of capital is monitored using, among other measures, the ratios established by the Basel Capital Accord 1988 and the ratios established by the CBR.

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

CBR capital adequacy ratio

The CBR requires banks to maintain a capital adequacy ratio of 10% of risk-weighted assets, computed using amounts in statutory financial statements prepared in accordance with Russian accounting legislation. As at 31 December 2011 and 2010, the Bank's capital adequacy ratio on this basis was as follows:

	2011	2010
Main capital	66 437 322	55 128 543
Additional capital	19 984 356	22 422 751
Subordinated loans granted	(486 071)	–
Total capital	**85 935 607**	**77 551 294**
Risk weighted assets	**691 840 524**	**484 092 400**
Capital adequacy ratio	12.4%	16.0%

Main capital comprises share capital, share premium, reserve fund and retained earnings including current year profit confirmed by external auditors. Additional capital includes subordinated debt, preferred shares, current year profit not included in the main capital and revaluation reserves.

Capital adequacy ratio under the Basel II requirements

Starting from the reporting period 1 January 2009 the Group calculates risk weighted assets under Basel II requirements following UniCredit Bank Austria AG internal policies.

The capital adequacy ratio, computed in accordance with the Basel II requirements, as at 31 December 2011 and 2010, was as follows (unaudited):

	2011	2010
Tier 1 capital	74 581 168	55 462 552
Tier 2 capital	10 427 076	11 657 402
Tier 3 capital	2 377 603	1 748 170
Total capital	**87 385 847**	**68 868 124**
Risk weighted assets	**683 406 886**	**475 737 258**
Tier 1 capital ratio	10.9%	11.7%
Total capital ratio	12.8%	14.5%

During 2011 and 2010 the Group complied with all external capital requirements.

29. Subsequent events

In January 2012 the following subordinated loans were paid according to contractual maturity:

a) to “Deutsche Investitions-und Entwicklungsgesellschaft (DEG)”, in the amount of EUR 20 000 thousand, contractual maturity January 2012;

b) to “Finnish Fund for Industrial Cooperation Ltd.”, Helsinki in the amount of EUR 5 000 thousand, contractual maturity January 2012.

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