Company Registration Number : 02760617

EASTLINK LANKER PLC

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

Hazlems Fenton LLP
Chartered Accountants
Palladium House
1-4 Argyll Street
London W1F 7LD

COMPANY INFORMATION AND PROFESSIONAL ADVISORS

Directors	D Korotkov-Koganovich D Pashov
Company secretary	D Korotkov-Koganovich
Registered office	Palladium House 1 – 4 Argyll Street London W1F 7LD
Auditors	Hazlems Fenton LLP Palladium House 1 – 4 Argyll Street London W1F 7LD
Bankers	National Westminster Plc Charing Cross London Branch PO Box 133 Cavell House 2a Charing Cross Road London WC2H 0PD GarantiBank International N V Keizersgracht 569-575 PO Box 17650 1001 JN Amsterdam The Netherlands Bermuda Commercial Bank Limited PO Box HM1748 Hamilton Bermuda HMGX ING Belgium Brussels Geneva Branch Rue Petitot 6 PO Box 5613 CH -1211 Geneva 11 CJSC JSCB Alef Bank 21/33, BLD 1, Krzhizhanovskogo Str, Moscow 117218 Russia

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EASTLINK LANKER PLC

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2011

The directors present their report and the audited financial statements of the Group and the Company for the year ended 31 December 2011

Principal activities and review of the business
The directors are presenting the consolidated financial statements for the group under International Financial Reporting Standards (IFRSs) as adopted for use by the European Union

The principal activity of the Group during the year was that of trading in import and export of metal equipment and industrial chemicals through the parent company and that of providing retail and commercial banking activities in the Russian Federation through its wholly-owned subsidiary, CJSC JSCB Alef-Bank (Alef Bank)

The trading side of the business suffered a drop in revenue of 8% from US$ 60,993,000 in 2010 to US$ 56,105,000 in 2011 This was due mainly to lower demand resulting from the poor economic climate However the profit in the year increased to US$ 105,000 from a profit of US$ 76,000 in 2010 due to higher margins achieved on the existing clients which compensated for the fall in the trading revenue

The banking side of the business fared slightly better than the previous year as its net interest income increased from US$ 16,359,000 in 2010 to US$ 16,942,000 in 2011 This was due to the overall positive performance of the Russian economy where the Group's banking operations take place The Russian government continues to stimulate consumer demands in the economy through economic reforms, fiscal and monetary measures However, these positive measures have been offset to a large degree by high volatility in world markets and economic instability in the developed countries burdened with substantial national debts and minimal or negatives rates of growth This resulted in the profit of the banking operation to fall from US$ 7,836,000 in 2010 to US$ 4,895,000 in 2011

Overall the Group recorded an increase in revenue from US$ 81,149,000 in 2010 to US$ 82,721,000 in 2011 however the gross profit fell from 23% in 2010 to 14% in 2011 due to the lower profit achieved by the banking operations in the current year

Key performance indicators
The following are the key performance indicators used by the Group

Trading of iron and metallurgy products
- Revenue in year
- Gross profit for the year
- Profit before tax
- Net assets
- Number of contracts gained and lost in the year

Banking and retail operations

- Net interest income
- Profit before tax
- Recoverability of loans and advances
- Impairment of financial assets
- Net assets
- Number of clients
- Gross deposits from customers and corporate clients

Key risks and uncertainties
The current economic climate will continue to have an adverse effect on the level of demand for iron and metallurgy products

As for the banking operations, the state of the Russian economy, strength of the Russian Rouble, volatility in the financial markets and the continued intervention of the Russian Central Bank will influence the lending activities of the Bank and as a result the financial performance of the Group

Future developments
The Group is very focused on its business and operations Change provides opportunities and as the Group operates across Europe, USA and Asia, it is determined to take up any opportunity which adds to the value of the Group

Results and dividends
The results for the year are set out on page 7

The directors do not recommend payment of an ordinary or preference dividend

Directors
The following directors have held office since 1 January 2011

D Korotkov-Koganovich
D Pashov

Creditor payment policy
The company's current policy concerning the payment of trade payables is to

- settle the terms of payment with suppliers when agreeing the terms of each transaction,
- ensure that suppliers are made aware of the terms of payment by inclusion of the relevant terms in contracts, and
- pay in accordance with the company's contractual and other legal obligations

On average, trade payables at the year end represented 3 day's purchases (2010 2)

Auditors
The auditors, Hazlems Fenton LLP, are deemed to be reappointed under section 487(2) of the Companies Act 2006

Going concern
After making appropriate enquiries, the Directors consider that the Group has adequate resources to continue in operational existence for the foreseeable future For this reason they continue to adopt the going concern basis in preparing the financial statements

Financial risk management
The directors constantly monitor the financial risks and uncertainties facing the Group with particular reference to the exposure of interest rate, foreign currency, credit, liquidity and cash flow risk They are confident that suitable policies are in place and that all material financial risks have been considered More detail is given in Note 27 to the financial statements

Post balance sheet events
In the directors' opinion, there were no events after the reporting period that require to be disclosed

Statement of directors' responsibilities
The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year Under that law the directors have elected to prepare the Group and parent company financial statements in accordance with International Financial Reporting Standards(IFRSs) as adopted by the European Union Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and the Group and enable them to ensure that the financial statements comply with the Companies Act 2006 They are also responsible for safeguarding the assets of the company and that of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

Statement of disclosure to auditors
So far as the directors are aware, there is no relevant audit information of which the company's auditors are unaware Additionally, the directors have taken all the necessary steps that they ought to have

EASTLINK LANKER PLC

DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2011

taken as directors in order to make themselves aware of all relevant audit information and to establish that the company's auditors are aware of that information

On behalf of the board

D Korotkov-Koganovich
Director

Date 29 06 2012

INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF EASTLINK LANKER PLC

We have audited the financial statements of Eastlink Lanker PLC for the year ended 31 December 2011 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated and Parent Company Statements of Financial Position, the Consolidated and Parent Company Statements of Cash Flow, the Consolidated and Parent Company Statement of Changes in Equity and the related notes The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of the directors and auditors
As explained more fully in the Directors' Responsibilities Statement, set out on page 3, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements In addition we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

Opinion on financial statements
In our opinion

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2011 and of the group's profit for the year then ended,
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union,
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006, and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006

INDEPENDENT AUDITORS' REPORT (CONTINUED)
TO THE MEMBERS OF EASTLINK LANKER PLC

Opinion on other matters prescribed by the Companies Act 2006
In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us, or
- the parent company financial statements are not in agreement with the accounting records or returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

Hazlems Fenton LLP

Michael Krieger FCA (Senior Statutory Auditor)
For and on behalf of Hazlems Fenton LLP

29th June 2012

Chartered Accountants
Statutory Auditor

Palladium House
1 –4 Argyll Street
London
W1F 7LD

EASTLINK LANKER PLC

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2011

	Notes	2011 US$000	2010 US$000
Continuing activities			
Revenue	**3**	**82,721**	**81,149**
Cost of sales	**4**	(71,380)	(62,554)
Gross profit		**11,341**	**18,595**
Administrative expenses		(6,358)	(11,575)
Other income		4,451	4,134
Net (losses) on financial instruments at fair value		(760)	(332)
Change in other provisions		(1,800)	(1,026)
Operating profit	**5**	**6,874**	**9,796**
Net finance income		2	-
Profit for the year before income tax		**6,876**	**9,796**
Income tax expense	**7**	(1,876)	(1,368)
Profit for the year		**5,000**	**8,428**
Other comprehensive Income:			
Gains arising from financial assets available-for-sale		35	10
Gains/(losses) from foreign currency translation		(5,149)	(525)
Total comprehensive (deficit)/income		**(114)**	**7,913**
Profit for the year attributable to owners of the parent		**5,000**	**8,428**
Total comprehensive (deficit)/income attributable to owners of the parent		**(114)**	**7,913**

The notes on pages 14 to 67 are an integral part of these consolidated financial statements

EASTLINK LANKER PLC

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 31 DECEMBER 2011

	Notes	2011 US$000	2010 US$000
Assets			
Non-current assets			
Property, plant and equipment	9	760	916
Total non-current assets		**760**	**916**
Current assets			
Trade and other receivables	11	199,797	132,260
Financial assets available-for-sale	12	37,565	19,513
Financial assets at fair value through profit & loss	13	25,843	42,880
Cash and cash equivalents	14	90,411	48,051
		353,616	242,704
Assets from disposal group classified as "held for trading"		-	381
Total current assets		**353,616**	**243,085**
Total assets		**354,376**	**244,001**
Equity and liabilities			
Equity attributable to owners of the parent			
Ordinary shares	17	51,327	51,327
Preference shares	17	14,699	14,699
Other reserves	19	5,306	10,420
Retained earnings	18	28,014	23,014
Total equity		**99,346**	**99,460**
Liabilities			
Non-current liabilities			
Deferred income tax liabilities	16	3,232	2,775
Current liabilities			
Trade and other payables	15	251,675	141,703
Current income tax liabilities		123	63
Total liabilities		**255,030**	**144,541**
Total equity and liabilities		**354,376**	**244,001**

The financial statements were approved and authorised for issue by the Board on 29/06/2012 and signed on its behalf by

D Korotkov-Koganovich
Director
Company Registration Number . 02760617

The notes on pages 14 to 67 are an integral part of these consolidated financial statements

EASTLINK LANKER PLC

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2011

	Notes	Ordinary shares US$000	Preference shares US$000	Other reserves US$000	Retained earnings US$000	Total US$000
Balance as at 1 January 2010		**51,327**	**14,699**	**10,935**	**14,586**	**91,547**
Comprehensive income						
Profit for year	18	-	-	-	8,428	8,428
Other comprehensive income						
Gains on available-for-sale assets	19	-	-	10	-	10
Foreign currency translation difference	19	-	-	(525)	-	(525)
Balance as at 31 December 2010 and 1 January 2011		**51,327**	**14,699**	**10,420**	**23,014**	**99,460**
Comprehensive income						
Profit for year	18	-	-	-	5,000	5,000
Other comprehensive income						
Gains on available-for-sale assets	19	-	-	35	-	35
Foreign currency translation difference	19	-	-	(5,149)	-	(5,149)
Balance as at 31 December 2011		**51,327**	**14,699**	**5,306**	**28,014**	**99,346**

Ordinary & preference share capital
The amount subscribed for shares at nominal value

Other reserves
Included in other reserves is an amount of US$ 45,000 relating to gains on available-for-sale financial assets The balance of other reserves relates to the effect of changes in exchange rates arising from translating the financial statements of the subsidiary undertaking into the Group's reporting currency (Refer to Note 19)

Retained earnings
Cumulative realised profits less losses and distributions attributable to owners of the parent

The notes on pages 14 to 67 are an integral part of these consolidated financial statements

EASTLINK LANKER PLC

COMPANY STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 31 DECEMBER 2011

	Notes	2011 US$000	2010 US$000
Assets			
Non-current assets			
Property, plant and equipment	9a	298	273
Investments in subsidiary	10	68,901	68,901
Total non-current assets		**69,199**	**69,174**
Current assets			
Trade and other receivables	11a	4,377	2,557
Cash and cash equivalents	14a	658	2,233
Total current assets		**5,035**	**4,790**
Total assets		**74,234**	**73,964**
Equity and liabilities			
Equity attributable to owners of the parent			
Ordinary shares	17	51,327	51,327
Preference shares	17	14,699	14,699
Retained earnings	18a	7,558	7,453
Total equity		**73,584**	**73,479**
Liabilities			
Current liabilities			
Trade and other payables	15a	612	466
Current income tax liabilities		38	19
Total liabilities		**650**	**485**
Total equity and liabilities		**74,234**	**73,964**

The financial statements were approved and authorised for issue by the Board on 29/06/2012 and signed on its behalf by

D Korotkov-Koganovich
Director
Company Registration Number . 02760617

The notes on pages 14 to 67 are an integral part of these consolidated financial statements

EASTLINK LANKER PLC

COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2011

	Notes	Ordinary Shares US$000	Preference shares US$000	Retained earnings US$000	Total US$000
Balance as at 1 January 2010		**51,327**	**14,699**	**7,377**	**73,403**
Comprehensive income					
Profit for year	**18a**	-	-	76	76
Balance as at 31 December 2010 and at 1 January 2011		**51,327**	**14,699**	**7,453**	**73,479**
Comprehensive income					
Profit for year	**18a**	-	-	105	105
Balance as at 31 December 2011		**51,327**	**14,699**	**7,558**	**73,584**

Ordinary & preference share capital
The amount subscribed for shares at nominal value

Retained earnings
Cumulative realised profits less losses and distributions attributable to owners of the parent

The notes on pages 14 to 67 are an integral part of these consolidated financial statements

EASTLINK LANKER PLC

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2011

	Notes	2011 US$000	2010 US$000
Cash flows from operating activities			
Cash generated/(used) from operations		43,702	(51,543)
Income tax paid		(1,105)	(103)
Net cash generated/(used) from operating activities		**42,597**	**(51,646)**
Cash flows from investing activities			
Purchases of property, plant and equipment (PPE)	9	(294)	(399)
Proceeds from sales of PPE		26	(55)
Loans made in the year to other banks		(1,064)	(1,905)
Loans made in the year to customers		(94,821)	(7,481)
Purchases of available-for-sale investments		(19,064)	(11,178)
Interest received		2	-
Net cash used in investing activities		**(115,215)**	**(21,018)**
Cash flows from financing activities			
Borrowings from other banks		1,456	17,315
Deposits from customers		84,934	32,556
Borrowings through debts securities issued		28,841	2,717
Net cash generated from financing activities		**115,231**	**52,588**
Net (decrease)/increase in cash and cash equivalents		42,613	(20,076)
Cash, cash equivalents at beginning of year	**14**	48,051	69,290
Exchange gains/(losses) on cash and cash equivalents		(253)	(163)
Cash and cash equivalents at end of year	**14**	**90,411**	**48,051**

	2011 US$000	2010 US$000
Cash flows from operations		
Operating profit	6,874	9,796
Adjustments for		
Depreciation	264	279
Loss on disposal	128	99
Foreign exchange losses on operations	(4,569)	(1,312)
Fair value losses on assets through profit & loss	760	332
Change in other provisions	1,800	1,026
Changes in working capital		
Trade and other receivables	21,390	(24,512)
Financial assets through profit & loss	14,737	(35,169)
Trade and other payables	2,318	(2,082)
	43,702	(51,543)

The notes on pages 14 to 67 are an integral part of these consolidated financial statements

EASTLINK LANKER PLC

COMPANY STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2011

	Notes	2011 US$000	2010 US$000
Cash flows from operating activities			
Cash generated/(used) from operations		(2,487)	62
Income tax paid		(25)	(74)
Net cash used from operating activities		**(2,512)**	**(12)**
Cash flows from investing activities			
Purchases of property, plant and equipment	**9a**	(83)	(30)
Interest received		1,020	1,357
Net cash generated from investing activities		**937**	**1,327**
Net (decrease)/increase in cash and cash equivalents		(1,575)	1,315
Cash and cash equivalents at beginning of year	**14a**	2,233	918
Cash and cash equivalents at end of year	**14a**	**658**	**2,233**
Cash flows from operations			
Operating (loss) before income tax		(873)	(1,262)
Adjustments for			
Depreciation		60	74
Changes in working capital			
Trade and other receivables		(1,820)	4,036
Trade and other payables		146	(2,786)
		(2,487)	62

The notes on pages 14 to 67 are an integral part of these consolidated financial statements

1. Corporate information

Eastlink Lanker PLC is a public limited company which is incorporated in the UK Its registered office is located at Palladium House, 1-4 Argyll Street, London, W1F 7LD

The principal activities of the Group is that of import and export of metal equipment and industrial chemicals and that of commercial and retail banking services in the Russian Federation through its wholly-owned subsidiary CJSC JSCB Alef-Bank

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below These policies have been consistently applied to all the years presented, unless otherwise stated

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRSs) and those parts of the Companies Act 2006 applicable to companies reporting under IFRSs IFRSs comprises standards issued by the International Accounting Standards Board (IASB) and the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) as adopted by the European Union (EU)

The consolidated financial statements comprise the consolidated statement of comprehensive income as a single statement, the consolidated statement of financial position, the consolidated statement of changes in equity, the consolidated statement of cash flow and the notes

The consolidated financial statements have been prepared under the historical cost convention, except for available-for-sale financial assets and financial assets held at fair value through profit or loss which have been measured at fair value

The Group's functional currencies are Russian Roubles and United States Dollars However it has chosen to present the consolidated financial statements in US dollars (US$) as this currency has wider recognition The figures shown in the consolidated financial statements are stated to the nearest thousand (US$000), except where otherwise indicated

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates It also requires management to exercise its judgement in the process of applying the Group's accounting policies Changes in assumptions may have a significant impact on the financial statements in the period the assumptions changed Management believes that the underlying assumptions are appropriate and that the Group's financial statements therefore present the financial position and results fairly The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 2 22 *a) New and amended standards adopted by the Group*

The Group has adopted the following new and amended IFRSs as of 1 January 2011

There are no IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning on or after 1 January 2011 that would be expected to have a material impact on the Group

b) Standards, interpretations and amendments to published standards that are not yet effective

The following new standards, amendments to standards and interpretations have been issued, but are not effective for the financial year beginning 1 January 2011 and have not been adopted early

- IFRS 7, 'Financial Instruments Disclosures'(amendments) introduces additional disclosures, designed to allow users of financial statements to improve their understanding of transfer transactions of financial assets (for example, securitisations), including understanding the possible effects of any risks that may remain with the entity that transferred the assets The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period The Group intends to adopt this requirement no later than the accounting period beginning on or after 1 January 2012

- IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities IFRS 9 was issued in November 2009 and October 2010 It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments IFRS 9 requires financial assets to be classified into two measurement categories those measured as at fair value and those measured at amortised cost The determination is made at initial recognition The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument For financial liabilities, the standard retains most of the IAS 39 requirements The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch The Group is yet to assess IFRS 9's full impact and intends to adopt IFRS 9 no later than the accounting period beginning on or after 1 January 2013

- IFRS 10, 'Consolidated financial statements' builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company The standard provides additional guidance to assist in the determination of control where this is difficult to assess The Group is yet to assess IFRS 10's full impact and intends to adopt IFRS 10 no later than the accounting period beginning on or after 1 January 2013

- IFRS 12, 'Disclosures of interests in other entities' includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles The Group is yet to assess IFRS 12's full impact and intends to adopt IFRS 12 no later than the accounting period beginning on or after 1 January 2013

- IFRS 13, 'Fair value measurement' aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs The Group intends to adopt this requirement no later than the accounting period beginning on or after 1 January 2013

- IAS 1, 'Financial statement presentation' (amendments) introduces the requirement for entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments) The amendments do not address which items are presented in OCI The Group intends to adopt this requirement no later than the accounting period beginning on or after 1 January 2013

- IAS 27, 'Separate financial statements' (revised) includes the provisions on separate financial statements that are left after the control provisions of IAS 27 which have been included in the new IFRS 10 The Group is yet to assess the impact of the revision to IAS 27 and intends to adopt the revised IAS 27 no later than the accounting period beginning on or after 1 January 2013

- IAS 32, 'Financial Instruments Presentation' (amendments) clarifies certain aspects because of diversity in application of the requirement on offsetting, focused on four main areas the meaning of 'currently has a legally enforceable right of set-off', the application of simultaneous realisation and settlement, the offsetting of collateral amounts, the unit of account for applying the offsetting requirements The Group intends to adopt this requirement no later than the accounting period beginning on or after 1 January 2014

2.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of the company and its subsidiary as at 31 December 2011

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction If the Group loses control over a subsidiary, it

- Derecognises the assets (including goodwill) and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interest
- Derecognises the cumulative translation differences, recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate

2.3 Business combinations and goodwill

Business combinations are accounted for using the acquisition method The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets Acquisition costs incurred are expensed and included in administrative expenses

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss

After initial recognition, goodwill is measured at cost less any accumulated impairment losses For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units

Goodwill is tested annually as well as whenever a trigger event has been observed for impairment by comparing the present value of the expected future cash flows from a cash generating unit with the carrying value of its net assets, including attributable goodwill and carried at cost less accumulated impairment losses Impairment losses on goodwill are not reversed

2.4 Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency')

a) Transactions and balances

Transactions in foreign currencies are initially recorded by the Group entities at their respective functional currency rates prevailing at the date of the transaction

Monetary items denominated in foreign currency are translated with the closing rate as at the reporting date If several exchange rates are available, the forward rate is used at which the future cash flows represented by the transaction or balance could have been settled if those cash flows had occurred Non-monetary items measured at historical cost denominated in a foreign currency are translated with the exchange rate as at the date of initial recognition, non-monetary items in a foreign currency that are measured at fair value are translated using the exchange rates at the date when the fair value was determined

Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement, except when deferred in equity as gains or losses from qualifying cash flow hedging instruments or qualifying net investment hedging instruments

All foreign exchange gains and losses recognised in the income statement are presented net in the consolidated income statement within the corresponding item Foreign exchange gains and losses on other comprehensive income items are presented in other comprehensive income within the corresponding item

In the case of changes in the fair value of monetary assets denominated in foreign currency classified as available for sale, a distinction is made between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security

Translation differences related to changes in the amortised cost are recognised in profit or loss, and other changes in the carrying amount, except impairment, are recognised in equity

Translation differences on non-monetary financial instruments, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss Translation differences on non-monetary financial instruments, such as equities classified as available-for sale financial assets, are included in the fair value reserve in equity

b) Group companies

The results and financial position of all the Group's entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows

- Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position,
- Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions), and
- All resulting exchange differences are recognised in other comprehensive income

Exchange differences arising from the above process are reported in shareholders' equity as 'Currency translation differences'

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to 'Other comprehensive income' When a foreign operation is disposed of, or partially disposed of, such exchange differences are recognised in the consolidated income statement as part of the gain or loss on sale

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate

2.5 Financial assets and liabilities

In accordance with IAS 39, all financial assets and liabilities have to be recognised in the consolidated statement of financial position and measured in accordance with their assigned category

2.5.1 Financial assets

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

a) Financial assets at fair value through profit or loss

This category comprises two sub-categories financial assets classified as held for trading, and financial assets designated by the Group as at fair value through profit or loss upon initial recognition

A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is 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 Financial assets held for trading consist of debt instruments, including money-market paper, traded corporate and bank loans, and equity instruments They are recognised in the consolidated statement of financial position as 'Financial assets held for trading'

Financial instruments included in this category are recognised initially at fair value, transaction costs are taken directly to the consolidated income statement Gains and losses arising from changes in fair value are included directly in the consolidated income statement Interest income and expenses and dividend income and expenses on financial assets held for trading are included in 'Net interest income' or 'Dividend income', respectively Dividend income is included within other Other Operating Income The instruments are derecognised when the rights to receive cash flows have expired or the Group has transferred substantially all the risks and rewards of ownership and the transfer qualifies for derecognising

The Group designates certain financial assets upon initial recognition as at fair value through profit or loss (fair value option) This designation cannot subsequently be changed According to IAS 39, the fair value option is only applied when the following conditions are met

• the application of the fair value option reduces or eliminates an accounting mismatch that would otherwise arise or
• the financial assets are part of a portfolio of financial instruments which is risk managed and reported to senior management on a fair value basis

The Group classifies quoted and unquoted securities (under the legislation of the Russian Federation) in this category of financial assets if there are intentions to sell them within six months (180 calendar days) from the moment of purchase

The Group classifies debt and share quoted securities (under the legislation of the Russian Federation) in the given category of financial assets except for debt securities where there are intentions to hold to maturity (such securities are a subject to classification in a category "financial assets available for sale "or" financial assets held to maturity")

All purchases and sales of financial instruments classified as fair value via profits or losses that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date that the Group commits to purchase or sell the asset

b) 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

(i) those that the Group intends to sell immediately or in the short term, which are classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss,
(ii) those that the Group upon initial recognition designates as available for sale, or
(iii) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration

Loans and receivables are initially recognised at fair value – which is the cash consideration to originate or purchase the loan including any transaction costs – and measured subsequently at amortised cost using the effective interest rate method, less provision for loan impairment Interest on loans is included in the consolidated income statement and is reported as 'Interest and similar income' In the case of an impairment, the impairment loss is reported as a deduction from the carrying value of the loan and recognised in the consolidated income statement as 'Loan impairment charges'

Amortised cost is based on the fair value of cash consideration given to originate those loans determinable by reference to market prices at origination date Third party expenses, such as legal fees incurred in securing a loan are treated as part of the cost of the transaction

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

Loans originated at interest rates different from market rates are remeasured at origination to their fair value, being future interest payments and principal repayment(s) discounted at market interest rates for similar loans The difference between the fair value and the nominal value at origination is credited or charged to the statement of income as gains on origination of assets at rates above market or losses on origination of assets at rates below market Subsequently, the carrying amount of such loans is adjusted for amortisation of the gains/losses on origination and the related income is recorded as interest income within the statement of income using the effective interest method

A credit risk provision for loan impairment is established if there is objective evidence that the Group will not be able to collect the amounts due according to original contractual terms The amount of the provision is the difference between the carrying amount and estimated recoverable amount, calculated as the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted at the instrument's original effective interest rate

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

When a loan is uncollectable, it is written off against the related provision for loan impairment Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined

Subsequent recoveries of amounts previously written off are credited to the provision for loan impairment in the statement of income If the amount of the provision for loan impairment subsequently decreases due to an event occurring after the writedown, the release of the provision is credited to the provision for loan impairment in the statement of income

c) Available-for-sale financial assets

Available-for-sale investments are financial assets that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices or that are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss

Available-for-sale financial assets are initially recognised at fair value, which is the cash consideration including any transaction costs, and measured subsequently at fair value with gains and losses being recognised in other comprehensive income, except for impairment losses and foreign exchange gains and losses, until the financial asset is derecognised If an available-for-sale financial asset is determined to be impaired, the cumulative gain or loss previously recognised in other comprehensive income is recognised in the consolidated income statement However, interest is calculated using the effective interest method, and foreign currency gains and losses on monetary assets classified as available for sale are recognised in the consolidated income statement Dividends on available-for-sale equity instruments are recognised in the consolidated income statement in 'Dividend income' when the Group's right to receive payment is established

All regular purchases and sales of available for sale financial instruments are recorded at trade date, which is the date that the Group commits to purchase or sell the asset

d) Cash and cash equivalents

The Group considers cash and cash equivalents as cash in hand and cash held at bank Cash equivalents represents short-term highly-liquid investments easily convertible into cash and where the exposure to risk of their price change is very minimal All short-term interbank deposits, excluding "overnight", are recognised in "Deposits with other banks"

e) Mandatory balances held with the Central Bank of Russia

Cash balances held by the Group with the Central Bank of Russia in relation to its commercial banking operations in the Russian Federation, are carried at amortised cost These represent non-interest bearing mandatory reserve deposits which are not available to finance the Group's day to day operations For the purposes of the consolidated statement of financial position, these are included within Cash and cash equivalents as disclosed by Note 14

f) Deposits with other banks

These are balances which the Group advances to counterparty banks through its subsidiary bank with no intention of trading These balances are due on fixed or determinable dates and are carried at amortised cost

Deposits with other banks are recognised on placement of deposits At initial recognition current loans and deposits are carried at fair value and subsequently they are carried at amortised cost less allowance for impairment Amortised cost is based on fair value of the issued loan or placed deposit which is calculated using actual market interest rates at the time of issue/placement Difference between fair value and nominal value of a loan/deposit is recognised in the comprehensive income statement

g) Derecognition

Financial assets are derecognised when the contractual rights to receive the cash flows from these assets have ceased to exist or the assets have been transferred and substantially all the risks and rewards of ownership of the assets are also transferred (that is, if substantially all the risks and rewards have not been transferred, the Group tests control to ensure that continuing involvement on the basis of any retained powers of control does not prevent derecognition) Financial liabilities are derecognised when they have been redeemed or otherwise extinguished

2.5.2 Reclassification of financial assets

The Group may choose to reclassify a non-derivative financial asset held for trading out of the held-for-trading category if the financial asset is no longer held for the purpose of selling it in the near-term Financial assets other than loans and receivables are permitted to be reclassified out of the held for trading category only in rare circumstances arising from a single event that is unusual and highly unlikely to recur in the near-term In addition, the Group may choose to reclassify financial assets that would meet the definition of loans and receivables out of the held-for-trading or available-for-sale categories if the Group has the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification

Reclassifications are made at fair value as of the reclassification date Fair value becomes the new cost or amortised cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made Effective interest rates for financial assets reclassified to loans and receivables and held-to-maturity categories are determined at the reclassification date Further increases in estimates of cash flows adjust effective interest rates prospectively

2 5 3 Financial liabilities

Financial liabilities are measured at amortised cost The Group's financial liabilities measured at amortised cost are deposits from banks or customers, debt securities in issue for which the fair value option is not applied, convertible bonds and subordinated debts *a) Determination of fair value*

For financial instruments traded in active markets, the determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations This includes listed equity securities and quoted debt instruments on major exchanges (for example, FTSE, NYSE) and broker quotes from Bloomberg and Reuters

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis If the above criteria are not met, the market is regarded as being inactive Indications that a market is inactive are when there is a wide bid-offer spread or significant increase in the bid-offer spread or there are few recent transactions

For all other financial instruments, fair value is determined using valuation techniques In these techniques, fair values are estimated from observable data in respect of similar financial instruments, using models to estimate the present value of expected future cash flows or other valuation techniques, using inputs (for example, LIBOR yield curve, FX rates, volatilities and counterparty spreads) existing at the dates of the consolidated statement of financial position

The Group uses widely recognised valuation models for determining fair values of non standardised financial instruments of lower complexity, such as options or interest rate and currency swaps For these financial instruments, inputs into models are generally market-observable

2.6 Offsetting financial instruments

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

2.7 Revenue

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts, returns and VAT The Group recognises revenue when the amount of revenue can be reliably measured, when it is probable that future economic benefits will flow to the entity, and when specific criteria have been met for each of the Group's activities, as described below The Group bases its estimate of return on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement

a) Sales of goods

The Group trades in the import and export of ferrous products Sales are recognised when the Group has delivered the goods to the customer Delivery does not occur until the products have been shipped to the specified location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed or the Group has objective evidence that all criteria for acceptance have been satisified

b) Revenue from banking activities

Revenue from banking activities consists of interest income and is recognised as detailed in Note 2 8

2.8 Interest income and expense

Interest income and expense for all interest-bearing financial instruments are recognised within 'interest income' and 'interest expense' in the consolidated income statement using the effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts

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

2.9 Other income

Other income consists predominatly of fees and commissions These are generally recognised on an accruals basis when the service has been provided Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan Loan syndication fees are recognised as revenue when the syndication has been completed and the Group has retained no part of the loan package for itself or has retained a part at the same effective interest rate as the other participants. Commission and 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

Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-apportioned basis Asset management fees related to investment funds are recognised over the period in which the service is provided The same principle is applied for wealth management, financial planning and custody services that are continuously provided over an extended period of time

Performance-linked fees or fee components are recognised when the performance criteria are fulfilled

2.10 Employee benefits

a) Pension obligations

The Group operates various pension schemes The schemes are generally funded through payments to insurance companies or trustee-administered funds, determined by periodic acturarial calculations The group has defined contributions plans A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods

The Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis The Group has no further payment obligations once the contributions have been paid The contributions are recognised as an employee benefit expense when they are due Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available

2.11 Impairment of financial assets

a) Assets carried at amortised cost

At each reporting date the Group assesses whether there is objective evidence that a financial asset or group of financial assets is impaired A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include

(i) significant financial difficulty of the issuer or obligor,

(ii) a breach of contract, such as a default in interest or principal payments,

(iii) the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider,

(iv) it becomes probable that the borrower will enter bankruptcy or other financial reorganisation,

(v) the disappearance of an active market for that financial asset because of financial difficulties, or

(vi) observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including
- adverse changes in the payment status of borrowers in the portfolio, and
- national or local economic conditions that correlate with defaults on the assets in the portfolio

The estimated period between a loss occurring and its identification is determined by local management for each identified portfolio In general, the periods used vary between three months and twelve months, in exceptional cases, longer periods are warranted

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually 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 risk 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

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 (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the consolidated income statement If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (that is, on the basis of the Group's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors) Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Group and 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 period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the Group and their magnitude) The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience

When a loan is uncollectible, it is written off against the related allowance for loan impairment Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account The amount of the reversal is recognised in the consolidated income statement

b) Assets classified as available for sale

The Group assesses at each date of the consolidated statement of financial position whether there is objective evidence that a financial asset or a group of financial assets is impaired In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is objective evidence of impairment resulting in the recognition of an impairment loss If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the consolidated income statement Impairment losses recognised in the consolidated income statement on equity instruments are not reversed through the consolidated income statement If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the consolidated income statement

2.12 Impairment of non-financial assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount The recoverable amount is the higher of an asset's fair value less costs to sell and value in use For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash-generating units) The impairment test also can be performed on a single asset when the fair value less cost to sell or the value in use can be determined reliably Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date

2.13 Property, plant and equipment

Leasehold land and buildings comprise mainly branches and offices All property, plant and equipment used by the parent or its subsidiary is stated at historical cost less depreciation Historical cost includes expenditure that is directly attributable to the acquisition of the items Subsequent expenditures are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably The carrying amount of the replaced part is derecognised All other repair and maintenance costs are charged to administrative expenses during the financial period in which they are incurred Land is not depreciated Depreciation of other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows

Leasehold land and buildings	-	Lease term
Motor vehicles	-	10 - 30%
Fixtures, fittings and equipment	-	5 - 50%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each date of the consolidated statement of financial position Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount The recoverable amount is the higher of the asset's fair value less costs to sell and value in use No property, plant and equipment was impaired as at 31 December 2011 (2010 nil)

Gains and losses on disposals are determined by comparing proceeds with carrying amount These are included in other operating expenses in the consolidated income statement

2.14 Leases

Leases are accounted for in accordance with IAS 17 and IFRIC 4 They are divided into finance leases and operating leases

a) Operating lease

Leases in which a significant portion of the risks and rewards of ownership are retained by another party, the lessor, are classified as operating leases Payments, including prepayments, made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease

b) Finance lease

Leases of assets where the Group has substantially all the risks and rewards of ownership are classified as finance leases Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding The corresponding rental obligations, net of finance charges, are included in deposits from banks or deposits from customers depending on the counter party The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period

2.15 Borrowings

Borrowings include deposits from customers, other banks and other liabilities

Borrowings are recorded initially at cost, being their issue proceeds (fair value of consideration received) net of transaction costs incurred Subsequently, borrowings are stated at amortised cost and any difference between net proceeds and the redemption value is recorded in the statement of income over the period of the borrowings using the effective interest method

Borrowings that originated at interest rates different from market rates are remeasured at origination to their fair value, being future interest payments and principal repayment(s) discounted at market interest rates for similar borrowings The difference between the fair value and the nominal value at origination is credited or charged to the statement of income as gains on origination of liabilities at rates below market or losses on origination of liabilities at rates above market Subsequently, the carrying amount of such borrowings is adjusted for amortisation of the gains/losses on origination and the related expense is recorded as interest expense within the statement of income using the effective interest method

2.16 Debt securities issued

Debt securities issued include promissory notes and certificates of deposit issued by the Group Debt securities issued are initially recognised at fair value of proceeds received less transaction costs Subsequently, they are stated at amortised cost through profit or loss using the effective interest method If the Group purchases its own debt securities in issue, they are removed from the consolidated balance sheet and the difference between the carrying amount of the liability and the consideration paid is included in the consolidated income statement

2.17 Payments to counterparties and other accounts payable

Accounts payable are recognised by the Group after the counterparty has fulfilled its obligations and recorded at amortised cost

2.18 Credit related commitments

As part of the normal activities of the Group through Alef Bank, it undertakes credit related commitments, including guarantees, letters of credit and loan commitments Provisions for credit related commitments are made by the Group when there is a reasonable estimate of future loss The provisions are initially recognised at fair value less transaction costs Subsequently they are stated at historical cost less accumulated amortisation and impairment

2 19 Provisions for liabilities

Provisions for restructuring costs and legal claims are recognised when the Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated The Group recognises no provisions for future operating losses

Where there is a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation The increase in the provision due to passage of time is recognised as interest expense

2.20 Share capital

Incremental costs directly attributable to the issue of new shares or options or to the acquisition of a business are shown in equity as a deduction, net of tax, from the proceeds

2.21 Income tax

a) Current income tax

Income tax payable (receivable) is calculated on the basis of the applicable tax law in the respective jurisdiction and is recognised as an expense (income) for the period except to the extent that current tax related to items that are charged or credited in other comprehensive income or directly to equity In these circumstances, current tax is charged or credit to other comprehensive income or to equity (for example, current tax on of available-for-sale investment)

Where the Group has tax losses that can be relieved against a tax liability for a previous year, it recognises those losses as an asset, because the tax relief is recoverable by refund of tax previously paid This asset is offset against an existing current tax balance

Where tax losses can be relieved only by carry-forward against taxable profits of future periods, a deductible temporary difference arises Those losses carried forward are set off against deferred tax liabilities carried in the consolidated statement of financial position

The Group does not offset income tax liablies and current income tax assets

b) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the date of the consolidated statement of financial position and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled

The principal temporary differences arise from depreciation of property, plant and equipment, revaluation of certain financial assets and liabilities including provisions for pensions and other post-retirement benefits and carry-forwards, and, in relation to acquisitions, on the difference between the fair values of the net assets acquired and their tax base However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss

Deferred tax assets are recognised when it is probable that future taxable profit will be available against which these temporary differences can be utilised

Deferred income tax is provided on temporary differences arising from investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the difference will not reverse in the foreseeable future

The tax effects of carry-forwards of unused losses or unused tax credits are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised

Deferred tax related to fair value re-measurement of available-for-sale investments and cash flow hedges, which are recognised in other comprehensive income, is also recognised in other comprehensive income and subsequently in the consolidated income statement together with the deferred gain or loss

2.22 Critical accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances

The Group makes estimates and assumptions concerning the future Actual results could differ from those estimates The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next year are discussed below

a) Impairment losses on loans and advances

The Group reviews its loan portfolios to assess impairment on a regular basis In determining whether an impairment loss should be recorded in the consolidated income statement, the Group makes judgements as to whether there is any observable data indicating an impairment trigger followed by measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with that portfolio This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the Group Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience

b) Impairment of available-for-sale equity investments

The Group determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost This determination of what is significant or prolonged requires judgement In making this judgement, the Group evaluates among other factors, the volatility in share price In addition, objective evidence of impairment may be deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows

c) Income taxes

Judgement is involved in determining the provision for income taxes There are certain transactions and computations for which the ultimate tax determination is uncertain during the ordinary course of business The Group recognises liabilities for tax matters based on estimates of whether additional taxes will be due If the final outcome of these tax matters result in a difference in the amounts initially recognised, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made *d) Fair value of financial instruments*

The fair value of financial instruments where no active market exists or where quoted prices are not otherwise available are determined by using valuation techniques In these cases, the fair values are estimated from observable data in respect of similar financial instruments or using models Where market observable inputs are not available, they are estimated based on appropriate assumptions Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of those that sourced them All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices To the extent which is practical, models use only observable data, however, areas such as credit risk (both own credit risk and counterparty risk), volatilities and correlations require management to make estimates Changes in assumptions about these factors could affect the reported fair value of financial instruments

e) Timing and certainty of cash flows of financial instruments

Coupon payments for bonds normally remain constant over the term of the financial instruments However changes in the rate of interest and other economic variables can bring about changes in the market value of the financial instruements which can have a knock-on effect on the certainty of the cash flows of the financial instruments

f) Capital adequacy

Capital adequacy of the Group in relation to its subsidiary undertaking, Alef Bank, is valued in accordance with the standards of International convergence of capital measurement and capital adequacy (or "Basel agreements") These standards assume different interpretations while valuing the capital reserves

3.	**Revenue**	**2011**	**2010**
	Group	**US$000**	**US$000**
	Income from sales of ferrous products	56,105	60,993
	Interest income from retail and commercial banking	26,616	20,156
		82,721	81,149

3.1	**Interest income from banking activities**	**2011**	**2010**
	Group	**US$000**	**US$000**
	Loans and advances to customers	16,514	14,103
	Financial assets at fair value through profit or loss	6,334	4,319
	Financial assets held for trading	3,338	1,482
	Overnignt and due from other banks	429	251
	Other	1	1
		26,616	20,156

4.	**Cost of sales**	**2011**	**2010**
	Group	**US$000**	**US$000**
	Purchases and direct costs of ferrous products	54,780	60,278
	Interest expenses from retail and commercial banking	16,600	2,276
		71,380	62,554

4.1	**Interest expense from banking activities**	**2011**	**2010**
	Group	**US$000**	**US$000**
	Customers accounts	3,302	1,870
	Due to other banks	1,877	566
	Debts securities in issue	3,475	4
	Change in provision	7,946	(164)
		16,600	2,276

5.	**Expenses by nature**	**2011**	**2010**
	Group	**US$000**	**US$000**
	Purchases and direct costs of ferrous products	54,780	60,278
	Interest expenses from retail and commercial banking	16,600	2,276
	Legal and professional fees	511	332
	Office expenses	986	973
	Employee expenses	6,379	5,243
	Operating lease payments	1,480	1,435
	Depreciation of PPE	264	279
	Disposal of PPE	128	99
	Irrecoverable debts	-	(79)
	(Profit) on foreign exchange	(4,569)	(227)
	Other	1,179	3,520
	Total cost of sales and administrative expenses	77,738	74,129

5.1	**Auditors' remuneration**	**2011**	**2010**
		US$000	**US$000**
	Fees payable to the company's auditor for the audit of the audit of the parent company and consolidated financial statements	54	41
	Provision of non – audit services	13	13
		67	54

6.	**Directors' remuneration**	**2011**	**2010**
		US$000	**US$000**
	Remuneration for qualifying services	236	192
	Company pension contributions to defined contribution schemes	17	20
		253	212

The number of directors for whom retirement benefits are accruing under defined contribution schemes amounted to 2 (2010 2)

Highest paid director included in the above	152	116
Company pension contributions	11	12

6.1 Employees

Average number of employees in year	**2011**	**2010**
Management	9	13
Operations and transactions	104	96
Administration	42	39
Internal control	6	5
IT and finance	14	22
	175	175

Employment costs	**2011 US$000**	**2010 US$000**
Staff costs including pensions and social security costs	6,379	5,243
	6,379	5,243

7. Income tax expense

Group	**2011 US$000**	**2010 US$000**
Current tax		
Current tax on profits for year	1,161	63
Prior year adjustment to tax	6	-
Total current tax	1,167	63
Deferred tax		
Origination and reversal of temporary differences	709	1,305
Total deferred tax	709	1,305
Income tax expense	1,876	1,368
Factors affecting the tax charge for the year		
Profit on ordinary activities before taxation	6,876	9,796
Tax calculated at domestic tax rates applicable to profits in the respective countries	1,375	1,959
Effects of:		
Non deductible expenses	4	2
Depreciation add back	17	15

Capital allowances	(12)	(13)
Other tax adjustments	(223)	(1,900)
Current tax charge for the year	1,161	63

8 **Profit for the year**

As permitted by section 408(3) of the Companies Act 2006, the Statement of Comprehensive Income of the Company is not presented as part of these financial statements The profit for the year is made up as follows

	2011 US$000	2010 US$000
Company's profit for the year	105	76

9. **Property, plant and equipment**

Group	Land and buildings leasehold US$000	Motor Vehicles US$000	Fixtures, fittings & equipment US$000	Total US$000
Cost				
At 1 January 2010	256	166	1,842	2,264
Additions	-	270	129	399
Disposal	-	(124)	(28)	(152)
At 31 December 2010	256	312	1,943	2,511
Additions	-	72	222	294
Disposal	-	(188)	(201)	(389)
Exchange differences	-	(18)	(123)	(141)
At 31 December 2011	256	178	1,841	2,275
Depreciation				
At 1 January 2010	26	90	1,306	1,422
Charge for the year	12	49	220	281
Disposal	-	(86)	(22)	(108)
At 31 December 2010	38	53	1,504	1,595
Charge for the year	13	59	170	242
Disposal	-	(45)	(190)	(235)
Exchange differences	-	(9)	(78)	(87)
At 31 December 2011	51	58	1,406	1,515
Net book value				
At 31 December 2011	205	120	435	760
At 31 December 2010	218	259	439	916

9a. Property, plant and equipment

Company	Land and buildings leasehold US$000	Computer equipment US$000	Fixtures, fittings & equipment US$000	Total US$000
Cost				
At 1 January 2010	256	477	218	951
Additions	-	30	-	30
At 31 December 2010	256	507	218	981
Additions	-	83	-	83
At 31 December 2011	256	590	218	1,064
Depreciation				
At 1 January 2010	26	436	172	634
Charge for the year	12	51	11	74
At 31 December 2010	38	487	183	708
Charge for the year	13	37	8	58
At 31 December 2011	51	524	181	766
Net book value				
At 31 December 2011	205	66	27	298
At 31 December 2010	218	20	35	273

10. Investments in subsidiary

Company	Shares in group undertakings US$000	Loans to group undertakings US$000	Total US$000
Cost			
At 1 January 2011	51,901	17,000	68,901
At 31 December 2011	51,901	17,000	68,901
Net book value			
At 1 January 2011	51,901	17,000	68,901
At 31 December 2011	51,901	17,000	68,901

Investments in group undertakings are recorded at cost, which is the fair value of the consideration paid

Holdings of more than 20%

The company holds more than 20% of the share capital of the following companies

Company	Country of incorporation	Class	Shares held %
Subsidiary undertakings			
CJSC JSCB Alef Bank	Russian Federation	Ordinary	100 00

11. Trade and other receivables

Group	**2011 US$000**	**2010 US$000**
Trade receivables	241	287
Loans to related parties	670	1,235
Other receivables	3,265	830
Loans and advances to banks	19,177	19,139
Loans and advances to customers	171,264	80,777
Other assets	4,979	29,787
Prepayments and accrued income	201	205
	199,797	132,260

Trade receivables
The fair value of trade receivables approximates its carrying value The ageing analysis of trade receivables is up to three months of the invoice date for both 2011 and 2010 There is no allowance for impairment of trade receivables made as the carrying amount is recoverable The maximum exposure to credit risk at the reporting date is the carrying amount

Loans to related parties
The fair value of loans to related parties approximates its carrying value This amount relates to Lanker Enterprises Limited, the immediate parent company The maximum exposure to credit risk at the reporting date is the carrying amount

Other receivables
The fair value of other receivables approximates its carrying value There is no allowance for impairment of other receivables made The maximum exposure to credit risk at the reporting date is the carrying amount

11.1 Loans and advances to banks

	2011 US$000	**2010 US$000**
Placements with other banks	17,457	14,425
Claims on letters of credit in foreign currencies	1,720	4,714
	19,177	19,139

The fair value of loans and advances to banks approximates the carrying value This balance relates to the placements and deposits held by the subsidiary Alef Bank with other banks The maximum exposure to credit risk at the reporting date is the carrying amount

There is no allowance for impairment at the reporting date At the reporting date, Alef Bank had 2 accounts with banks (2010 1) whose balance exceeded 10% of the total placements held The gross value of this exposure at the reporting date is US$ 14,616,000 (2010 US$ 2,800,000)

11 2 Loans and advances to customers

	2011 US$000	2010 US$000
Corporate loans	178,913	97,389
Retail loans (individuals)	16,253	4,075
Mortgages (individuals)	3,593	2,293
	198,759	103,757
Less allowance for impairment	(29,992)	(23,678)
Net loans and to corporates and individuals	168,767	80,079
Claims and factoring	2,916	1,489
Less allowance for impairment	(419)	(791)
Net claims and factoring	2,497	698
Net loans and advances to customers	171,264	80,777

Corporate loans refer to loans made by Alef Bank to corporate entities Loans made under this category are for a term of up to 3 years This includes overdrafts, facilities for imports and exports, general working capital requirements and acquisition of capital expenditure amongst others

Retail loans refer to loans made to individuals including overdrafts and personal loans amongst others These exclude loans taken out for the acquisition of real estate properties

Mortgages are long term secured loans to individuals for the purchase of real estates

The maximum exposure to credit risk at the reporting date is the carrying amount

11.2.1 Credit quality of loans and advances to customers

The credit quality of loans and advances that are not impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates

The following is an analysis of credit quality as of 31 December 2011

	Corporate loans US$000	Retail loans (individuals) US$000	Mortgages (individuals) US$000	Total US$000
Gross loans and advances				
Subject to collective impairment allowance				
Group 1	5,471	2,052	422	7,945
Group 2	114,287	692	1	114,890
Group 3	43,067	13,181	1,626	57,874
Group 4	15,729	323	1,357	17,409
Group 5	171	-	-	171
	178,725	16,248	3,406	198,379
Subject to specific impairment allowance	188	5	187	380
Total gross loans and advances before impairment allowance	178,913	16,253	3,593	198,759
Impairment allowances				
Collective	(28,212)	(1,400)	-	(29,612)
Specific	(188)	(5)	(187)	(380)
	(28,400)	(1,405)	(187)	(29,992)
Net loans and advances after impairment allowance	150,513	14,848	3,406	168,767
Claims on cessation contracts				
Amounts due	359	201	-	560
Impairment	(359)	(60)	-	(419)
Factoring				
Amounts due	2,356	-	-	2,356
Impairment	-	-	-	-
	2,356	141	-	2,497
Total loans and advances after impairment allowances	152,869	14,989	3,406	171,264

The following is an analysis of credit quality as of 31 December 2010

	Corporate loans US$000	Retail loans (individuals) US$000	Mortgages (individuals) US$000	Total US$000
Gross loans and advances				
Subject to collective impairment allowance				
Group 1	3,407	1,224	447	5,078
Group 2	35,225	33	525	35,783
Group 3	58,396	1,941	581	60,918
Group 4	-	685	740	1,425
	97,028	3,883	2,293	103,204
Subject to specific impairment allowance	361	192	-	553
Total gross loans and advances before impairment allowance	97,389	4,075	2,293	103,757
Impairment allowances				
Collective	(21,636)	(1,490)	-	(23,126)
Specific	(360)	(192)	-	(552)
	(21,996)	(1,682)	-	(23,678)
Net loans and advances after impairment allowance	75,393	2,393	2,293	80,079
Claims on cessation contracts				
Amounts due	403	837	-	1,240
Impairment	(383)	(388)	-	(771)
Factoring				
Amounts due	249	-	-	249
Impairment	(20)	-	-	(20)
	249	449	-	698
Total loans and advances after impairment allowances	75,642	2,842	2,293	80,777

The assessment of the credit worthiness of counterparties through historical information is carried out through the use of credit history, financial position, goodwill and transparancy of assets and liabilities amongst others This results in their categorisation between five groups as follows

Group 1 – This represents the most credit worthy counterparty (both corporate and individual) It is characterised by high liquidity, profitability and capital adequacy ratios with low risk of default

Group 2 – This represents counterparties with moderate liquidity, profitability and capital adequacy ratios The possibility of default is medium

Group 3 – This represents counterparties with satisfactory levels of liquidity, profitability and capital adequacy ratios The possibility of default is higher than medium

Group 4 - This represents counterparties with lower than satisfactory levels of liquidity, profitability and capital adequacy ratios The possibility of default is higher than that of Group 3 above

Group 5 - This represents counterparties with lower than Group 4 levels of liquidity, profitability and capital adequacy ratios The possibility of default is higher than that of Group 4 above

Loans and advances to customers past due but not impaired

The following is an analysis of the gross amount of loans and advances by class of customers that were past due but not impaired

At 31.12.2011	**Corporates US$000**	**Individuals US$000**	**Total US$000**
Past due up to 30 days	154	-	154
Past due 31-90 days	1	5	6
Past due 91-180 days	1,415	-	1,415
Past due over 180 days	856	321	1,177
	2,426	326	2,752

At 31.12.2010	**Corporates US$000**	**Individuals US$000**	**Total US$000**
Past due up to 30 days	60	-	60
Past due 31-90 days	-	-	-
Past due 91-180 days	-	33	33
Past due over 180 days	684	396	1,080
	744	429	1,173

The Group separates individually impaired loans to a designated group which is subject to specific impairment allowance This designated group consists of loans where there is a significant probability of default of the counterparty such as bad financial position and unsatisfactory servicing of a loan This group contains loans which are past due over 90 days As at the reporting date, there were US$ 2,592,000 (2010 US$ 1,113,000) in this designated group

Reconciliation of impairment allowance for loans and advances to customers for 2011

	Corporate loans	Retail loans (individuals)	Mortgages (individuals)	Total
Balance at 1 January 2011	22,399	2,070	-	24,469
Reversal of impairment	-	(1,081)	-	(1,081)
Increase in impairment	6,360	476	187	7,023
At 31 December 2011	28,759	988	187	30,411

Reconciliation of impairment allowance for loans and advances to customers for 2010

	Corporate loans	Retail loans (individuals)	Mortgages (Individuals)	Total
Balance at 1 January 2010	23,748	1,058	-	24,806
Reversal of impairment	(1,349)	(66)	-	(1,415)
Increase in impairment	-	1,078	-	1,078
At 31 December 2010	22,399	2,070	-	24,469

Impairment losses and reversals of impairment losses are recognised in "Cost of sales" in the statement of comprehensive income

Renegotiated loans and advances

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments Restructuring policies and practices are based on indicators or criteria that, in the judgement of local management, indicate that payment will most likely continue These policies are kept under continuous review Restructuring is most commonly applied to term loans – in particular, customer finance loans In the majority of cases, restructuring results in the asset continuing to be impaired

	Corporate loans US$000	Retail loans (individuals) US$000	Mortgage (individuals) US$000	Total US$000
Loans with revised conditions at 31 12 2011	624	13	10	665
Loans with revised conditions at 31 12 2010	651	8	6	665

11.2.2 Fair value of collateral of loans and advances to customers

The Group employs a range of policies and practices to mitigate credit risk The most traditional of these is the taking of security for funds advances, which is common practice The Group implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation The principal collateral types for loans and advances are

- Mortgages over residential properties
- Charges over business assets such as premises, inventory and accounts receivable
- Charges over financial instruments such as debt securities and equities

Longer-term finance and lending to corporate entities are generally secured In addition, in order to minimise the credit loss the Group will seek additional collateral from the counterparty as soon as impairment indicators are identified for the relevant individual loans and advances

According to the Group's estimates, the fair value of collateral for loans and advances valued collectively exceed the carrying amount of these loans as shown below

Fair value of collateral for loans measured collectively at 31 December 2011

	Corporate loans	Retail loans (individuals)	Mortgages (individuals)	Total
	US$000	US$000	US$000	US$000
Marketable securities	-	911	-	911
Realty	63,503	106,250	2,047	171,800
Machinery/Transport	14,269	470	13	14,752
Goods in circulation	11,293	-	-	11,293
Guarantees including banking guarantees	81,627	92,201	474	174,302
Other assets	12,485	-	-	12,485
	183,177	199,832	2,534	385,543

Fair value of collateral for loans measured collectively at 31 December 2010

	Corporate loans	Retail loans (individuals)	Mortgages (individuals)	Total
	US$000	US$000	US$000	US$000
Realty	36,302	-	2,236	38,538
Machinery/Transport	7,158	-	20	7,178
Goods in circulation	11,251	-	-	11,251
Guarantees including banking guarantees	110,612	4,152	585	115,349
Other assets	19,714	3,611	-	23,325
	185,037	7,763	2,841	195,641

The fair value of collateral for individually valued loans and advances was nil at the reporting date (2010 nil)

During the Group did not take possession of any collateral it holds as security

11.2.3 Concentration of credit risks of loans and advances to customers

Industry sectors

The following table breaks down the Group's credit exposure at carrying amounts (without taking into account any collateral held or other credit support), as categorised by the industry sectors of the Group's counterparties

	2011 Amount US$000	2011 %	2010 Amount US$000	2010 %
Finance	71,057	35%	15,078	14%
Ferrous metallurgy	-	-	12,881	12%
Mining	-	-	-	-
Processing industry	19,912	10%	37,062	36%
Trading	19,004	9%	17,800	17%
Realty	10,209	5%	10,881	10%
Chemical industry	-	-	-	-
Construction	1,863	1%	-	-
Other	59,583	30%	10,707	10%
Individuals	20,047	10%	837	1%
Total	201,675	100%	105,246	100%

11.2.4 Geographical analysis of credit risks

The following table breaks down the Group's credit exposure at their carrying amounts (without taking into account any collateral held or other credit support), as categorised by geographical region as of 31 December 2011 For this table, the Group has allocated exposures to regions based on the country of domicile of its counterparties

Assets at 31 December 2011	Russian Federation US$000	Other countries US$000	Total US$000
Property, plant and equipment	462	298	760
Trade and other receivables	133,221	66,576	199,797
Financial assets available for sale	37,220	345	37,565
Financial assets at fair value through profit and loss	25,842	1	25,843
Cash and cash equivalents	7,039	83,372	90,411
	203,784	150,592	354,376

Liabilities at 31 December 2011	Russian Federation US$000	Other countries US$000	Total US$000
Deferred income tax liabilities	3,232	-	3,232
Trade and other payables	233,185	18,490	251,675
Current tax liabilities	85	38	123
	236,502	18,528	255,030
Net financial position	(32,718)	132,064	99,346
Credit commitments	30,525	-	30,525

Assets at 31 December 2010	Russian Federation US$000	Other countries US$000	Total US$000
Property, plant and equipment	643	273	916
Trade and other receivables	124,291	7,969	132,260
Financial assets available for sale	19,511	2	19,513
Financial assets at fair value through profit and loss	42,880	-	42,880
Cash and cash equivalents	33,645	14,406	48,051
Assets from disposal group	381	-	381
	221,351	22,650	244,001
Liabilities at 31 December 2010			
Deferred income tax liabilities	2,775	-	2,775
Trade and other payables	111,467	30,236	141,703
Current tax liabilities	44	19	63
	114,286	30,255	144,541
Net financial position	107,065	(7,605)	99,460
Credit commitments	31,286	-	31,286

11.3 Other assets

	2011 US$000	2010 US$000
Other financial assets		
Cash in settlements	4,063	28,579
Other	11	10
Other non-financial assets		
Receivables and advances	91	89
Tax settlements	142	29
Held-for-trading assets	-	-
Deferred expense	124	145
Other	548	935
	4,979	29,787

The fair value of other assets approximates the carrying value The maximum exposure to credit risk at the reporting date is the carrying amount

11a. Trade and other receivables

Company	**2011 US$000**	**2010 US$000**
Trade receivables	241	287
Loans to related parties	670	1,235
Other receivables	3,265	830
Prepayments and accrued income	201	205
	4,377	2,557

Trade receivables
The fair value of trade receivables approximates its carrying value The ageing analysis of trade receivables is up to three months of the invoice date for both 2011 and 2010 There is no allowance for impairment of trade receivables made as the carrying amount is recoverable The maximum exposure to credit risk at the reporting date is the carrying amount

Loans to related parties
The fair value of loans to related parties approximates its carrying value This amount relates to Lanker Enterprises Limited, the immediate parent company The maximum exposure to credit risk at the reporting date is the carrying amount

Other receivables
The fair value of other receivables approximates its carrying value There is no allowance for impairment of other receivables made The maximum exposure to credit risk at the reporting date is the carrying amount

12. Finanical assets available-for-sale

Group	**2011 US$000**	**2010 US$000**
Banking promissory notes	30,849	16,609
Commercial promissory notes	-	640
Unquoted bonds	6,714	2,262
Unquoted shares	2	2
Total financial assets available-for-sale	37,565	19,513

The financial assets available-for-sale are held at fair value The maximum exposure to credit risk at the reporting date is the carrying value of the assets

None of these financial assets are either past due or impaired

In respect of the unquoted shares, there is no fixed date of maturity as Alef Bank is required to hold these shares as part of its membership to SWIFT

13.	**Financial assets at fair value through profit or loss**	**2011**	**2010**
	Group	**US$000**	**US$000**
	Federal debt securities of the Russian Federation	-	3,285
	Regional debt securities of the Russian Federation	2,157	4,463
	Corporate debt securities	22,859	34,369
	Corporate shares	827	763
	Total financial assets at fair value through profit or loss	25,843	42,880

All of the financial assets at fair value through profit or loss are part of Alef Bank's trading portfolio and they are held at fair value using active market prices They are not tested for impairment as changes in the fair values are recorded in the income statement

An analysis of the credit quality of the financial assets at fair value through profit or loss is provided below

	Investment rating	**Speculative rating**	**Total**
	US$000	**US$000**	**US$000**
Federal debt securities of RF	-	-	-
Regional debt securities of RF	-	2,157	2,157
Corporate debt securities	-	22,859	22,859
Corporate shares	827	-	827
Total securities at 31 December 2011	827	25,016	25,843

	Investment rating	**Speculative rating**	**Total**
	US$000	**US$000**	**US$000**
Federal debt securities of RF	3,285	-	3,285
Regional debt securities of RF	-	4,463	4,463
Corporate debt securities	-	34,369	34,369
Corporate shares	763	-	763
Total securities at 31 December 2010	4,048	38,832	42,880

The categorisation of the above has been made on the basis of the rating scales provided by international rating agencies

There was no collateral in respect of any of the above

The maximum exposure to credit risk at the reporting date is the carrying amount

14.	**Cash and cash equivalents**	**2011**	**2010**
	Group	**US$000**	**US$000**
	Cash in hand and at bank	6,578	9,246
	Cash balances with the Russian Central Bank (exc mandatory bal)	10,535	21,972
	Placement with other Russian Federation banks	3,744	2,366
	Placement with foreign banks	66,066	12,173
	Settlement balances with Stock Exchanges	-	-
	Settlement balances with Non-Credit Organisations	962	1,373
		87,885	47,130
	Mandatory reserves with Russian Central Bank	2,526	921
	Total cash and cash equivalents	**90,411**	**48,051**

Cash and cash equivalents are highly liquid assets with less than three months' maturity and apart from Mandatory reserves with Russian Central Bank do not have any restraints over their use

As of 31 December 2011, the Group had accounts with 2 banks (2010 2) whose balance exceeded 10% of the total cash and cash equivalents The gross value of this exposure as of 31 December 2011 was US$ 60,284,000 (2010 US$ 23,380,000)

As of 31 December 2011, there were no indicators of impairment on cash and cash equivalents The fair value of cash and cash equivalents approximates its carrying value

14a.	**Cash and cash equivalents**	**2011**	**2010**
	Company	**US$000**	**US$000**
	Cash at bank	658	2,233
	Total cash and cash equivalents	**658**	**2,233**

Cash and cash equivalents are highly liquid assets with less than three months' maturity and do not have any restraints over their use

15.	**Trade and other payables**	**2011**	**2010**
	Group	**US$000**	**US$000**
	Deposits from banks	18,961	18,497
	Deposits from customers	196,343	117,725
	Debt securities in issue	31,517	2,828
	Other payables	4,854	2,653
	Total trade and other payables	**251,675**	**141,703**

15.1	**Deposits from banks**	**2011**	**2010**
	Group	**US$000**	**US$000**
	Corresponding accounts of other banks	806	1,325
	Deposits from other banks	8,328	12,142
	Other attached funds	9,827	5,030
	Total deposits from banks	**18,961**	**18,497**

Deposits from banks only include financial instruments classified as liabilities at amortised cost As of 31 December 2011, there were 2 exposures (2010 6) which individually comprised 95 22 % (2010 92 71%) of deposits and balances from banks The gross value of these accounts as of 31 December 2011 was US$ 18,055,000 (2010 US$ 17,142,000) The carrying value approximates the fair value

15.2	**Deposits from customers**	**2011**	**2010**
	Group	**US$000**	**US$000**
	Corporate customers		
	- Current/settlement accounts	121,077	93,911
	- Term deposits	34,430	2,412
	Retail customers		
	- Current/settlement accounts	7,624	6,532
	- Term deposits	33,212	14,870
	Total deposits from customers	**196,343**	**117,725**

Deposits from customers only include financial instruments classified as liabilities at amortised cost As of 31 December 2011, there were 3 counterparties (2010 3) which individually comprised more than 10% (2010 10%) of current accounts and term deposits from customers The value of these accounts as of 31 December 2011 was US$ 111,741,000 (2010 US$ 49,948,000)

The Group's liabilities to customers are not secured other than the overall guarantee given to deposits by virtue of the mandatory reserves held by Alef Bank with the Central Bank of Russia The carrying value approximates the fair value

15.3	**Debt securities in issue**	**2011**	**2010**
	Group	**US$000**	**US$000**
	Promissory notes	38	2,828
	Bonds	31,479	-
		31,517	**2,828**

Debt securities issued consist of bonds with a maturity date of 11 February 2014 and promissory notes denominated originally in Russian Roubles All of the issued promissory notes are discounted with maturity period between 69 to 94 days and are actively traded on the Russian financial markets The carrying value approximates the fair value

15.4	**Other payables**	**2011**	**2010**
	Group	**US$000**	**US$000**
	Cash in settlements	139	-
	Accruals	81	194
	Other payables	544	25
	Trade payables	513	395
	Social security and other taxes	32	32
	Loss allowance for credit related commitments	3,543	2,007
		4,854	**2,653**

The fair value of other liabilities approximates its carrying value

15a.	**Trade and other payables**	**2011**	**2010**
	Company	**US$000**	**US$000**
	Trade payables	495	328
	Other payables	2	2
	Social security and other taxes	34	32
	Accrued expenses	81	104
	Total trade and other payables	**612**	**466**

16. Deferred income tax

Group

The analysis of deferred tax assets and deferred tax liabilities is as follows

	2011	2010
	US$000	**US$000**
Deferred tax assets		
– To be recovered after more than 12 months	895	465
– To be recovered within 12 months	-	-
	895	465
Deferred tax liabilities		
– To be recovered after more than 12 months	4,127	3,240
– To be recovered within 12 months	-	-
	4,127	3,240
Deferred tax liabilities (net)	3,232	2,775

The gross movement on the deferred income tax account is as follows

	2011	2010
	US$000	**US$000**
At 1 January	2,775	1,837
Exchange differences	(252)	(367)
Income statement charge	709	1,305
At 31 December	3,232	2,775

The movement in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows

Deferred tax liabilities	**Provisions**	**Impairment losses**	**Other**	**Total**
	US$000	**US$000**	**US$000**	**US$000**
At 1 January 2010	1,276	1	621	1,898
Charged to the income statement	886	1	824	1,711
Charged to other comprehensive income	(14)	-	(355)	(369)
At 31 December 2010	2,148	2	1,090	3,240
Charged to the income statement	1,399	133	(326)	1,206
Charged to other comprehensive income	(237)	(12)	(70)	(319)
At 31 December 2011	3,310	123	694	4,127

Deferred tax assets	**Accelerated tax depreciation**	**Fair value gains**	**Other**	**Total**
	US$000	**US$000**	**US$000**	**US$000**
At 1 January 2010	1	4	56	61
Charged to the income statement	8	28	370	406
Charged to other comprehensive income	-	-	(2)	(2)
At 31 December 2010	9	32	424	465
Charged to the income statement	1	39	457	497
Charged to other comprehensive income	-	(5)	(62)	(67)
At 31 December 2011	10	66	819	895

17. Share capital

	2011	**2010**
Allotted, called up and fully paid	**US$**	**US$**
30,000,000 Ordinary shares of £1 each	51,327,075	51,327,075
10,000,000 Zero coupon preference shares of £1 each	14,698,680	14,698,680
	66,025,755	66,025,755

The preference shares do not hold any voting rights but rank ahead of the ordinary shares on a winding-up of the company

18. Retained earnings

Group	**2011** **US$000**	**2010** **US$000**
Balance at beginning of the year	23,014	14,586
Profit for the year	5,000	8,428
Balance at end of the year	28,014	23,014

18a. Retained earnings

Company	2011 US$000	2010 US$000
Balance at beginning of the year	7,453	7,377
Profit for the year	105	76
Balance at end of the year	7,558	7,453

19. Other reserves

Group	Available for sale investments US$000	Foreign exchange reserve US$000	Total US$000
At 1 January 2010	-	10,935	10,935
Revaluation	10	-	10
Currency translation differences	-	(525)	(525)
At 31 December 2010	10	10,410	10,420
Revaluation	35	-	35
Currency translation differences	-	(5,149)	(5,149)
At 31 December 2011	45	5,261	5,306

20. Segmental analysis

	2011 US$000	2010 US$000
Turnover by class of business		
Income from sales of ferrous products	56,105	60,993
Interest income from retail and commercial banking	26,616	20,156
	82,721	81,149
Turnover by geographical location		
Russia	27,869	21,054
United Kingdom	7,688	184
Rest of the world	47,164	59,911
	82,721	81,149

However, the Group has not presented a segmental analysis of the operations as required by IFRS 8 – Operating Segments as its securities are not traded in a quoted market

21. Contingent liabilities

The Group has no contingent liabilities in respect of legal claims arising from the ordinary course of business

The Group has a contingent liability of up to the value of US$ 3,942,486 pursuant to a rent deposit deed in respect of rent due under the operating lease agreements

The Group has the following credit related commitments that are outstanding at the reporting date in relation to the operation of its banking division through Alef Bank

	2011 US$000	2010 US$000
Guarantees issued	19,101	22,603
Letters of credit	-	5,275
Undrawn overdraft limits	12,842	3,792
Undrawn loan commitments	2,124	692
Less allowance for losses on credit related commitments	(3,543)	(1,076)
	30,524	**31,286**

The total amount of contractual amount of credit related commitments outstanding does not represent the total amount of future financial obligations of the Group as these credit commitments are contingent upon certain specific credit standards being met These standards may or may not be met by the counterparties

As at the reporting date, the Group did not have any outstanding derivative financial instruments

22. Capital commitments

There was no capital expenditure contracted for at the end of the reporting period but not yet provided

23. Financial commitments

The group leases offices under non-cancellable operating lease agreements The lease terms are 20 years and the majority of lease agreements are renewable at the end of the lease period at market rate

The future aggregate minimum lease payments under non-cancellable operating leases are as follows

	Land and buildings 2011 US$000	Land and buildings 2010 US$000
Operating leases which expire		
In over five years	9,895	10,645

24. Related party transactions
Group

The following transactions were carried out with related parties

	2011 US$000	2010 US$000
a) Expenses recharged		
– Immediate parent	366	363
	366	363

b) Key management compensation

– Salaries and other short-term employee benefits	1,031	819
– Post-employment benefits	17	20
	1,048	839

Key management includes directors

c) Year-end balances arising from sales and purchases of goods and services

– Receivables from immediate parent	670	1,235
	670	1,235

The receivables from the immediate parent are unsecured in nature and bear no interest No provisions are held against receivables from related parties (2010 nil)

24a. Related party transactions
Company

The following transactions were carried out with related parties

	2011 US$000	2010 US$000
a) Key management compensation		
– Salaries and other short-term employee benefits	236	192
– Post-employment benefits	17	20
	253	212

Key management includes directors

b) Year-end balances on held on deposit

– Receivable from subsidiary	355	281
	355	281

The amount receivable from the subsidiary arises from cash and cash equivalents held in the form of bank current account by the company with the subsidiary The amount receivable is unsecured and there are no provision made at the year end balance

c) Loans to related parties

Loans to subsidiary

– At 1 January	17,000	17,000
– Interest charged	1,020	1,357
– Interest received	(1,020)	(1,357)
– At 31 December	17,000	17,000

The loans to subsidiary are due in over 5 years The effective interest rates of the loans is 6% (2010 8%)

25. Controlling party

The immediate and ultimate parent company is Lanker Enterprises Limited, a company registered in the British Virgin Islands

As far as the directors are aware, there is no single ultimate controlling party of the company

This is the smallest and largest group of which this company is a member of that produces group accounts

26. Events after the reporting period

There were no events after the reporting period that require to be disclosed

27. Financial risk management

The Group's activities expose it to a variety of financial risks credit risk, market risk including interest rate risk, currency risk and liquidity risk The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance The sector of the Group which is more sensitive to financial risks is the banking activities of Alef Bank

27.1 Credit risk

Credit risk is the risk of suffering financial loss, should any of the Group's customers, clients or market counterparties fail to fulfil their contractual obligations to the Group Credit risk arises mainly from trade receivables and commercial and consumer loans and advances, and loan commitments arising from such lending activities but can also arise from credit related commitments provided, such as financial guarantees, letters of credit, endorsements and acceptances

Credit risk is one of the more significant risks for the Group's business, management therefore carefully manages its exposure to credit risk The credit risk management and control are centralised in a credit risk management team, which reports to the Board of Directors and head of each business unit regularly

The Group manages, limits and controls concentrations of credit risk wherever they are identified - in particular, to individual counterparties and groups, and to industries and countries

The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments Such risks are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary Limits on the level of credit risk by product, industry sector and country are approved quarterly by the Board of Directors

Actual exposures against limits are monitored daily Lending limits are reviewed in the light of changing market and economic conditions and periodic credit reviews and assessments of probability of default

The Group also makes use of collateral as an additional measure of managing credit risks Refer to Note 11 2 2 on Fair Value of Collaterisation of Financial Assets

27.2 Market risk

The Group takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads, foreign exchange rates and equity prices

27.2.1 Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks Interest margins may increase as a result of such changes but may reduce losses in the event that unexpected movements arise

The main objective of interest rate risk management to the Group is to minimise the effect of changes in interest rate on net interest income from the banking operations As part of the interest risk management techniques, the Group sets limits for maximum interest rates for funds placed from customers and the minimum interest rates it requires for placements and loans advanced to third parties

A sensitivity analysis is provided below which seeks to measure the extent of a change in reported profits/(losses) if interest rates fluctatuate by 100 basis points

Analysis of sensitivity of interest rates	**2011**	**2010**
	US$000	**US$000**
Increase in interest rates by 100 basis points	664	15
Decrease in interest rates by 100 basis points	(664)	(15)

The sensitivity analysis above assumes side-by-side change in yield curve for all positions sensitive to changes in interest rates i e interest rates for all remaining periods to maturity were changed by the same rate

The table below shows an analysis of the effective interest rates of the different currencies used by the Group and the main financial instruments These interest rates are an approximation of the yields to maturity of these assets and liabilities

	Carrying amount 2011 US$000	Average effective interest rates 2011	Carrying amount 2010 US$000	Average effective interest rates 2010
Interest bearing assets				
Cash and cash equivalents				
- Russian Roubles (RUR)	18,046	-	2,834	-
- US Dollars (US$)	35,599	1 32%	35,470	-
- Euros (EUR)	34,071	-	8,465	-
- Other currencies	169	-	361	-
Mandatory reserves with Central Bank				
- Russian Roubles (RUR)	2,526	-	921	-
	90,411		48,051	
Loans and advances to banks				
- Russian Roubles (RUR)	15,132	0 24%	7,300	0 70%
- US Dollars (US$)	1,549	6 53%	8,563	0 30%
- Euros (EUR)	2,496	-	3,276	-
	19,177		19,139	
Financial assets at fair value through profit & loss				
- Russian Roubles (RUR)	24,771	8 97%	42,880	9 90%
- US Dollars (US$)	1,072	-	-	-
	25,843		42,880	
Loans and advances to customers				
- Russian Roubles (RUR)	111,389	17 63%	23,687	14 00%
- US Dollars (US$)	59,085	16 22%	40,867	8 00%
- Euros (EUR)	790	12 55%	16,223	13 00%
	171,264		80,777	
Financial assets available-for-sale				
- Russian Roubles (RUR)	31,192	8 85%	19,513	8 30%
- US Dollars (US$)	6,373	9 63%	-	-
	37,565		19,513	
Interest bearing liabilities				
Deposits from banks				
- Russian Roubles (RUR)	18,973	5 53%	18,442	5 60%
- US Dollars (US$)	17	3 57%	24	3 00%
- Euros (EUR)	1	-	31	-
	18,961		18,497	
Deposits from customers				
- Russian Roubles (RUR)	131,532	9 26%	93,336	1 5-3 7%
- US Dollars (US$)	42,785	4 70%	17,879	3%-8%
- Euros (EUR)	20484	3 75%	6,498	1 50%
- Other currency	1,542	-	12	-
	196,343		117,725	

Debts securities in issue				
- Russian Roubles (RUR)	31,517	2 50%		-
- US Dollars (US$)	-	-	2,828	7 50%
	31,517		2,828	

The table below shows the Group's book fair value exposure to interest rate risks as at 31 December 2011 It includes the Group's financial instruments at carrying amounts categorised by the earlier of contractual repricing

	Up to 1 month US$000	Between 1 to 6 months US$000	Between 6 to 12 months US$000
Assets sensitive to interest change fluctuation	25,731	64,707	52,376
Liabilities sensitive to interest change fluctuation	(154,948)	(34,075)	(18,522)
Spread sensitive to interest change fluctuation	(129,217)	30,632	33,854
Net balance on financial instruments	(129,217)	(98,585)	(64,731)
Spread coefficient	16 61%	47 84%	68 81%
Time coefficient	0 958	0 708	0 250
Change in % interest rate (basis points)	100	100	100
Change in net interest income	(12,383)	2,170	846
Change in % interest rate (basis points)	(100)	(100)	(100)
Change in net interest income	12,383	(2,170)	(846)

The table below shows the Group's book fair value exposure to interest rate risks as at 31 December 2010 It includes the Group's financial instruments at carrying amounts catogorised by the earlier of contractual repricing

	Up to 1 month US$000	Between 1 to 6 months US$000	Between 6 to 12 months US$000
Assets sensitive to interest change fluctuation	32,177	8,878	23,308
Liabilities sensitive to interest change fluctuation	(110,817)	(1,755)	(3,934)
Spread sensitive to interest change fluctuation	(78,640)	7,123	19,374
Net balance on financial instruments	(78,640)	(71,517)	(52,143)
Spread coefficient	27 02%	34 49%	53 33%
Time coefficient	0 959	0 712	0 252
Change in % interest rate (basis points)	100	100	100
Change in net interest income	(7,798)	510	491
Change in % interest rate (basis points)	(100)	(100)	(100)
Change in net interest income	7,798	(510)	(491)

27.2.2 Equity price risk

The Group is exposed to equity securities price risk because of investments held by the Group and classified on the consolidated statement of financial position at fair value The Group is not exposed to commodity price risk To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio Diversification of the portfolio is carried out in accordance with the limits set by the Group

27.2.3 Foreign exchange risk

The Group takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows The Board sets limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored daily The table below summarises the Group's exposure to foreign currency exchange rate risk at 31 December 2011 Included in the table are the Group's financial instruments at carrying amounts, categorised by currency

Assets at 31 December 2011	**USD**	**RUR**	**EUR**	**Others**	**Total**
	US$000	**US$000**	**US$000**	**US$000**	**US$000**
Property, plant and equipment	-	462	-	298	760
Trade and other receivables	63,850	131,081	4,178	688	199,797
Financial assets available for sale	6,373	31,192	-	-	37,565
Financial assets at fair value through profit and loss	1,072	24,771	-	-	25,843
Cash and cash equivalents	35,599	20,572	34,071	169	90,411
Assets from disposal group	-	-	-	-	-
	106,894	208,078	38,249	1,155	354,376
Liabilities at 31 December 2011					
Deferred income tax liabilities	-	3,232	-	-	3,232
Trade and other payables	42,796	186,240	20,980	1,659	251,675
Current tax liabilities	-	85	-	38	123
	42,796	189,557	20,980	1,697	255,030
Net financial position	64,098	18,521	17,269	(542)	99,346
Credit commitments	30,525				30,525

Assets at 31 December 2010	**USD**	**RUR**	**EUR**	**Others**	**Total**
	US$000	**US$000**	**US$000**	**US$000**	**US$000**
Property, plant and equipment	-	643	-	273	916
Trade and other receivables	38,920	73,189	19,941	210	132,260
Financial assets available for sale	2,266	17,244	3	-	19,513
Financial assets at fair value through profit and loss	-	42,880	-	-	42,880
Cash and cash equivalents	35,470	3,755	8,465	361	48,051
Assets from disposal group	-	381	-	-	381
	76,656	138,092	28,409	844	244,001
Liabilities at 31 December 2011					
Deferred income tax liabilities	-	2,775	-	-	2,775

Trade and other payables	22,516	112,254	6,827	106	141,703
Current tax liabilities	-	44	-	19	63
	22,516	115,073	6,827	125	144,541
Net financial position	54,140	23,018	21,582	719	99,460
Credit commitments	-	31,286	-	-	31,286

The analysis below shows the Group's sensitivity to fluctuation in foreign exchange rates as of 31 December 2011

	Effect on profit/(loss) USD$000	Effect on net assets USD$000
Appreciation of RUR by 5%	882	882
Depreciation of RUR by 5%	(975)	(975)
Appreciation of EUR by 5%	822	822
Depreciation of EUR by 5%	(909)	(909)
Appreciation of other currencies by 5%	(26)	(26)
Depreciation of other currencies by 5%	29	29

The analysis below shows the Group's sensitivity to fluctuation in foreign exchange rates as of 31 December 2010

	Effect on profit/(loss) USD$000	Effect on net assets USD$000
Appreciation of USD by 5%	617	617
Depreciation of USD by 5%	(617)	(617)
Appreciation of EUR by 5%	797	797
Depreciation of EUR by 5%	(797)	(797)
Appreciation of other currencies by 5%	8	8
Depreciation of other currencies by 5%	(8)	(8)

27.3 Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its obligations when they fall due as a result of customer deposits being withdrawn, cash requirements from contractual commitments, or other cash outflows, such as debt maturities Such outflows would deplete available cash resources for client lending, trading activities and investments In extreme circumstances, lack of liquidity could result in reductions in the consolidated statement of financial position and sales of assets, or potentially an inability to fulfil lending commitments The risk that the Group will be unable to do so is inherent in all banking operations and can be affected by a range of institution-specific and market-wide events including, but not limited to, credit events, merger and acquisition activity, systemic shocks and natural disasters

The Group's liquidity management process, as carried out within the Group and monitored by a separate team in Group Treasury, includes

- Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met This includes replenishment of funds as they mature or are borrowed by customers The Group maintains an active presence in global money markets to enable this to happen,

- maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow,
- monitoring the liquidity ratios of the consolidated statement of financial position against internal and regulatory requirements, and
- managing the concentration and profile of debt maturities

Monitoring and reporting take the form of cash flow measurement and projections for the next day, week and month respectively, as these are key periods for liquidity management The starting point for these projections is an analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets

The Group also monitors unmatched medium-term assets, the level and type of undrawn lending commitments, the usage of overdraft facilities and the impact of contingent liabilities such as standby letters of credit and guarantees

The table below presents the cash flows payable by the Group under non-derivative financial liabilities and assets held for managing liquidity risk by remaining contractual maturities at the date of the consolidated statement of financial position

As at 31 December 2011	Up to 1 month US$000	1 to 6 months US$000	6 to 12 months US$000	Over 12 months US$000	No stated maturity US$000	Total US$000
Assets						
Property, plant and equipment	462	-	-	298	-	760
Trade and other receivables	30,799	64,645	56,424	47,929	-	199,797
Available for sale assets	15,953	21,610	-	-	2	37,565
Financial assets at fair value through profit and loss	25,843	-	-	-	-	25,843
Cash and cash equivalents	90,411	-	-	-	-	90,411
	163,468	86,255	56,424	48,227	2	354,376
Liabilities						
Deferred tax liabilities	3,232	-	-	-	-	3,232
Trade and other payables	159,227	35,010	18,523	38,915	-	251,675
Current tax liabilities	85	-	38	-	-	123
	162,544	35,010	18,561	38,915	-	255,030
Net financial position	924	51,245	37,863	9,312	2	99,346
Credit commitments	-	-	-	-	30,525	30,525

As at 31 December 2010	Up to 1 month US$000	1 to 6 months US$000	6 to 12 months US$000	Over 12 months US$000	No stated maturity US$000	Total US$000
Assets						
Property, plant and equipment	-	-	-	-	916	916
Trade and other receivables	59,731	9,370	25,010	37,471	678	132,260
Available for sale assets	19,511	-	-	-	2	19,513
Financial assets at fair value through profit and loss	42,880	-	-	-	-	42,880
Cash and cash equivalents	44,897	-	-	-	3,154	48,051
Assets from disposal group	-	-	-	-	381	381
	167,019	9,370	25,010	37,471	5,131	244,001
Liabilities						
Deferred tax liabilities	2,775	-	-	-	-	2,775
Trade and other payables	113,079	1,899	3,899	22,826	-	141,703
Current tax liabilities	-	-	63	-	-	63
	115,854	1,899	3,962	22,826	-	144,541
Net financial position	51,165	7,471	21,048	14,645	5,131	99,460
Credit commitments	-	-	-	-	31,286	31,286

28 Capital management

The Group's objectives when managing capital, which is a broader concept than the 'equity' on the face of the consolidated statement of financial position, are

- to comply with the capital requirements set by the regulators of the banking markets where the entities within the Group operate,
- to safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders, and
- to maintain a strong capital base to support the development of its business

Capital adequacy and the use of regulatory capital are monitored daily by the Group's management, employing techniques based on the guidelines developed by the Basel Committee and the European Community Directives, as implemented by the Central Bank of Russia (CBR) for supervisory purposes The required information is filed with the CBR on a monthly basis

The Group maintains a ratio of total regulatory capital to its risk-weighted assets (the 'Basel ratio') above a minimum level (10%) agreed with the CBR which takes into account the risk profile of the Group

The regulatory capital requirements are strictly observed when managing economic capital The Group's regulatory capital is managed by its central Group Treasury and comprises two tiers

- Tier 1 capital share capital (net of any book values of the treasury shares), general bank reserve, statutory reserve, non-controlling interests arising on consolidation from interests in permanent shareholders' equity, retained earnings and reserves created by appropriations of retained earnings

- Tier 2 capital qualifying subordinated loan capital, collective impairment allowances and unrealised gains arsing on the fair valuation of equity instruments held as available for sale

The table below summarises the composition of regulatory capital and the ratios of Alef Bank for the years ended 31 December 2011 and 2010 During these two years, Alef Bank has complied with all of the externally imposed capital requirements to which it is subject to

	2011 US$000	2010 US$000
Tier 1 capital		
Share capital	64,177	67,823
Retained earnings	13,484	9,494
Total qualifying Tier 1 capital	77,661	77,317
Tier 2 capital		
Subordinated Loans	16,994	17,000
Total qualifying Tier 2 capital	16,994	17,000
Total regulatory capital	**94,655**	**94,317**
Risk-weighted assets	**161,205**	**170,865**
Basel ratio	**64.29%**	**55%**

29. Fair value of financial assets and liabilities

The fair value for each class of financial assets and liabilities that is carried at other than fair value is disclosed in the corresponding note to the accounts of the financial instruments The carrying values of those financial instruments are a reasonable approximation to their corresponding fair value

Fair value hierarchy

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable Observable inputs reflect market data obtained from independent sources, unobservable inputs reflect the Group's market assumptions These two types of inputs have created the following fair value hierarchy

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities This level includes listed equity securities and debt instruments on exchanges (for example, London Stock Exchange, New York Stock Exchange and FS MICEX – Financial Stock Exchange of Moscow Interbank Currency Exchange)

- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) This level includes traded loans and issued structured debt The sources of input parameters like LIBOR yield curve or counterparty credit risk are Bloomberg and Reuters

- Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs) This level includes equity investments and debt instruments with significant unobservable components This hierarchy requires the use of observable market data when available The Group considers relevant and observable market prices in its valuations where possible

29 1 Assets measured at fair value

At 31 12.2011	Level 1 US$000	Level 2 US$000	Level 3 US$000	Total US$000
Financial assets at fair value (FVPL).				
Federal debt securities of Russian Fed	-	-	-	-
Regional debt securities of Russian Fed	2,157	-	-	2,157
Debts investments	22,668	-	191	22,859
Equity securities	827	-	-	827
	25,652	-	191	25,843
Available-for-sale assets at fair value:				
Banking promissory notes	-	28,920	1,929	30,849
Commercial promissory notes	-	-	-	-
Quoted bonds	6,714	-	-	6,714
Unquoted equity	-	-	2	2
	6,714	28,920	1,931	37,565

At 31.12.2010	Level 1 US$000	Level 2 US$000	Level 3 US$000	Total US$000
Financial assets at fair value (FVPL).				
Federal debt securities of Russian Fed	3,287	-	-	3,287
Regional debt securities of Russian Fed	4,458	-	-	4,458
Debts investments	32,215	1,144	1,013	34,372
Equity securities	763	-	-	763
	40,723	1,144	1,013	42,880
Available-for-sale assets at fair value.				
Banking promissory notes	-	-	16,609	16,609
Commercial promissory notes	-	-	640	640

Unquoted bonds	-	-	2,262	2,262
Unquoted equity	-	-	2	2
	-	-	19,513	19,513

29.2 Reconciliation of Level 3 items

	Financial assets at FVPL	Financial assets available-for-sale				Total
	Debt investments	Banking promissory notes	Commercial promissory notes	Unquoted bonds	Unquoted equity	
	US$000	US$000	US$000	US$000	US$000	US$000
At 1 January 2011	1,013	16,609	640	2,262	2	20,526
Purchases	-	2,112	-	-	-	2,112
Settlements	(1,013)	(16,792)	(640)	(2,262)	-	(20,707)
Transfers into or out of Level 3	191	-	-	-	-	191
At 31 December 2011	191	1,929	-	-	2	2,122