

JSC “AIKB “Tatfondbank”

**Consolidated Financial Statements
For the Year Ended 31 December 2011**

Contents

Independent Auditors' Report	2
Consolidated Statement of Financial Position.....	3
Consolidated Statement of Comprehensive Income.....	4
Consolidated Statement of Changes in Equity.....	5
Consolidated Statement of Cash Flows	6

Notes to the Consolidated Financial Statements

1	Introduction.....	7
2	Operating environment of the Group	8
3	Basis of preparation.....	8
4	Summary of significant accounting policies	9
5	Cash and cash equivalents.....	22
6	Due from banks	22
7	Financial instruments at fair value through profit or loss.....	23
8	Loans to customers	25
9	Investments available-for-sale	33
10	Investments in associates.....	34
11	Investment property.....	35
12	Non-current assets held for sale.....	36
13	Property and equipment	36
14	Other assets	38
15	Due to banks	39
16	Customer accounts.....	39
17	Debt securities in issue.....	40
18	Eurobonds issued	41
19	Other liabilities	41
20	Subordinated borrowings.....	41
21	Changes in non-controlling interests.....	41
22	Share capital.....	42
23	Interest income and expense.....	42
24	Fee and commission income and expense.....	43
25	Impairment losses.....	43
26	Administrative and other operating expenses.....	44
27	Income tax expense.....	44
28	Segment analysis	47
29	Financial risk management.....	49
30	Management of capital	63
31	Contingencies and commitments.....	64
32	Fair value of financial instruments	66
33	Related party transactions	69
34	Subsequent events.....	72



ZAO KPMG
10 Presnenskaya Naberezhnaya
Moscow, Russia 123317

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

Independent Auditors' Report

To the Board of Directors
Joint Stock Company "Joint stock investment commercial Bank "Tatfondbank" (JSC "AIKB "Tatfondbank")

We have audited the accompanying consolidated financial statements of Joint Stock Company "Joint stock investment commercial Bank "Tatfondbank" and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2011, and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

ZAO KPMG

ZAO KPMG
21 May 2012

JSC "AIKB "Tatfondbank"**Consolidated Statement of Financial Position as at 31 December 2011***(expressed in thousands of Russian Rubles)*

	Notes	31 December 2011	31 December 2010 (restated)
ASSETS			
Cash and cash equivalents	5	6 019 192	4 103 923
Mandatory cash balances with the Central Bank of the Russian Federation		684 902	339 706
Due from banks	6	144 711	44 198
Financial instruments at fair value through profit or loss:			
- Held by the Group	7	3 775 824	4 191 089
- Pledged as collateral under sale and repurchase agreements	7	2 480 556	-
Loans to customers	8	51 807 769	39 549 309
Investments available-for-sale:			
- Held by the Group	9	3 845 453	2 694 969
- Pledged as collateral under sale and repurchase agreements	9	360 491	-
Investments held-to-maturity		13 471	-
Investments in associates	10	117 907	-
Investment property	11	7 097 853	7 003 680
Non-current assets held for sale	12	590 025	7 802
Property and equipment	13	795 810	698 804
Deferred tax asset	27	108 910	59 296
Other assets	14	1 030 670	1 357 086
TOTAL ASSETS		78 873 544	60 049 862
LIABILITIES			
Due to the Central Bank of the Russian Federation		3 637 669	116 764
Due to banks	15	4 336 014	1 686 083
Customer accounts	16	39 891 809	30 450 928
Debt securities in issue	17	11 676 156	9 263 605
Eurobonds issued	18	7 022 156	6 907 290
Other liabilities	19	583 343	216 269
Subordinated borrowings	20	2 099 993	2 099 990
Non-controlling interests	21	3 185 818	2 761 132
TOTAL LIABILITIES		72 432 958	53 502 061
EQUITY			
Share capital	22	7 811 618	7 811 618
Revaluation reserve for investments available-for-sale		(145 009)	(14 862)
Revaluation reserve for buildings		106 012	108 285
Accumulated deficit		(1 332 035)	(1 357 240)
TOTAL EQUITY		6 440 586	6 547 801
TOTAL LIABILITIES AND EQUITY		78 873 544	60 049 862

Approved for issue and signed on behalf of the Executive Board on 21 May 2012.


 R.R. Musin
 Chairman of the Board




 S.G. Korchagina
 Chief Accountant

JSC "AIKB "Tatfondbank"**Consolidated Statement of Comprehensive Income for the Year Ended 31 December 2011**
(expressed in thousands of Russian Rubles)

	Notes	2011	2010 (restated)
Interest income	23	6 170 307	5 967 612
Interest expense	23	(4 490 721)	(4 704 312)
Net interest income		1 679 586	1 263 300
Fee and commission income	24	587 316	342 439
Fee and commission expense	24	(170 198)	(178 567)
Net fee and commission income		417 118	163 872
Net (losses) gains from financial instruments at fair value through profit or loss		(596 488)	363 248
Net foreign exchange (losses) gains		(40 802)	978
Net (losses) gains from disposal of investments available-for-sale		(12 059)	164 572
Net gains from precious metals		3 269	4 673
Net gains from financial derivatives		45 973	3 884
Net gains from investment property	11	1 155 521	3 230 728
Other operating income		96 989	79 001
Impairment losses	25	(898 411)	(1 674 502)
Administrative and other operating expenses	26	(1 827 108)	(1 512 249)
Share in net losses after taxation of associates	10	(1 492)	-
Profit before tax and changes in non-controlling interests		22 096	2 087 505
Share of non-controlling interests in net loss (profit)	21	6 641	(1 681 397)
Profit before tax		28 737	406 108
Income tax expense	27	(5 805)	(81 702)
Profit attributable to equity holders of the Bank before other comprehensive income		22 932	324 406
Other comprehensive income			
Investments available-for-sale:			
Net change in fair value		(137 093)	(9 610)
Net change in fair value transferred to profit or loss		6 946	(2 797)
Revaluation of buildings		-	42 055
Other comprehensive (loss) income, net of tax		(130 147)	29 648
Total comprehensive (loss) income		(107 215)	354 054

JSC "AIKB "Tatfondbank"**Consolidated Statement of Changes in Equity for the Year Ended 31 December 2011***(expressed in thousands of Russian Rubles)*

	Share capital	Revaluation reserve for investments available-for-sale	Revaluation reserve for buildings	Accumulated deficit	Total equity
Balance at 1 January 2010	7 811 618	(2 455)	67 662	(1 683 078)	6 193 747
Profit attributable to equity holders of the Bank before other comprehensive income	-	-	-	324 406	324 406
Other comprehensive income					
Net change in fair value of investments available-for-sale, net of tax	-	(9 610)	-	-	(9 610)
Disposal of investments available-for-sale, net of tax	-	(2 797)	-	-	(2 797)
Revaluation of buildings, net of tax	-	-	42 055	-	42 055
Total other comprehensive income, net of tax	-	(12 407)	42 055	-	29 648
Total comprehensive (loss) income	-	(12 407)	42 055	324 406	354 054
Transfer of revaluation of buildings	-	-	(1 432)	1 432	-
Balance at 31 December 2010	7 811 618	(14 862)	108 285	(1 357 240)	6 547 801
Profit attributable to equity holders of the Bank before other comprehensive income	-	-	-	22 932	22 932
Other comprehensive income					
Net change in fair value of investments available-for-sale, net of tax	-	(137 093)	-	-	(137 093)
Disposal of investments available-for-sale, net of tax	-	6 946	-	-	6 946
Total other comprehensive loss, net of tax	-	(130 147)	-	-	(130 147)
Total comprehensive (loss) income	-	(130 147)	-	22 932	(107 215)
Transfer of revaluation of buildings	-	-	(2 273)	2 273	-
Balance at 31 December 2011	7 811 618	(145 009)	106 012	(1 332 035)	6 440 586

JSC "AIKB "Tatfondbank"
Consolidated Statement of Cash Flows for the Year Ended 31 December 2011
(expressed in thousands of Russian Rubles)

	Notes	2011	2010 (restated)
Cash flows from operating activities			
Interest receipts		5 993 051	5 735 788
Interest payments excluding interest payments on debt securities issued		(2 738 819)	(3 131 942)
Fee and commission receipts		574 626	341 908
Fee and commission payments		(114 163)	(128 901)
Net (payments) receipts on financial instruments at fair value through profit or loss		(287 247)	56 277
Net receipts from foreign exchange		97 344	7 831
Net receipts from financial derivatives		7 252	2 089
Net receipts from precious metals		13 941	39 662
Other operating receipts		26 473	62 539
Staff costs payments		(828 910)	(730 437)
Other administrative and operating payments		(869 508)	(727 023)
Income tax paid		(15 040)	(83 217)
Cash flows from operating activities before changes in operating assets and liabilities		1 859 000	1 444 574
Changes in operating assets and liabilities			
Increase in mandatory cash balances with the Central Bank of the Russian Federation		(345 196)	(151 881)
(Increase) Decrease in due from banks		(98 776)	2 932 941
Increase in financial instruments at fair value through profit or loss		(1 975 020)	(1 269 251)
Increase in loans to customers		(12 388 459)	(4 924 598)
Purchase of non-current assets held for sale		(579 162)	-
Decrease (Increase) in other assets		693 503	(9 739)
Increase (Decrease) in due to the Central Bank of the Russian Federation		3 517 343	(5 327 118)
Increase (Decrease) in due to banks		2 663 562	(1 241 348)
Increase in customer accounts		9 459 436	7 507 550
Increase (Decrease) in promissory notes issued		375 102	(107 017)
Decrease in other liabilities		(51 289)	(16 044)
Net cash from (used in) operating activities		3 130 044	(1 161 931)
Cash flows from investing activities			
Acquisition of investments available-for-sale		(2 644 333)	(1 356 513)
Proceeds from sale of investments available-for-sale		887 275	165 116
Proceeds from redemption of investment securities held-to-maturity		1 259	-
Acquisition of property and equipment	13	(186 993)	(153 867)
Proceeds from sale of property and equipment		5 847	7 694
Acquisition of investment property	11	(54 977)	(87 421)
Investments in associates	10	(119 399)	-
Proceeds from sale of non-current assets held for sale		11 620	-
Dividend income received		20 709	1 505
Net cash used in investing activities		(2 078 992)	(1 423 486)
Cash flows from financing activities			
Purchase of non-controlling interest		-	(5 162 989)
Proceeds from sale of non-controlling interest		1 003 008	2 070 103
Proceeds from issue of Eurobonds		-	6 682 770
Repayment / repurchase of Eurobonds		(567 991)	(5 973 158)
Proceeds from issue of bonds		5 305 861	4 024 687
Repayment of bonds		(3 288 246)	(423 060)
Proceeds from subordinated borrowings	20	-	2 100 000
Interest paid on debt securities issued		(1 630 296)	(1 322 674)
Net cash from financing activities		822 336	1 995 679
Effect of exchange rate changes on cash and cash equivalents		41 881	(31 805)
Net increase (decrease) in cash and cash equivalents		1 915 269	(621 543)
Cash and cash equivalents at the beginning of the year		4 103 923	4 725 466
Cash and cash equivalents at the end of the year	5	6 019 192	4 103 923

JSC "AIKB "Tatfondbank"

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2011
(expressed in thousands of Russian Rubles)

1 Introduction

These consolidated financial statements are prepared as at and for the year ended 31 December 2011 for Joint Stock Company "Joint stock investment commercial Bank "Tatfondbank" (the Bank) and its subsidiaries (together referred to as the Group).

The Group comprises the Bank, the parent and the lead operating entity of the Group, an asset management company, a securities trading company, a financial intermediation company, an SPE, and a number of closed mutual investment funds, investing in real estate and securities.

The Bank is an open joint stock company incorporated in accordance with Russian regulations in the Russian Federation (RF).

The Bank's principal business activity is commercial and retail banking operations within the Russian Federation. The Bank operates under a general banking license issued by the Central Bank of the Russian Federation (CBR) since 1994. The Bank participates in the State deposit insurance scheme.

The Bank is licensed by the Federal Service on Financial Markets of the Russian Federation for trading in securities.

As at 31 December 2011 the Bank has 11 branches, 10 operational offices, 86 additional offices and 2 operational cash desks in the Russian Federation (31 December 2010: 12 branches, 74 additional offices and 4 operational cash desks).

The Bank's registered address is Chernyshevskogo Street, 43/2, Kazan, Tatarstan Republic (RT), Russian Federation, 420111.

As at 31 December 2011 and 2010 the principal subsidiaries and associate of the Bank comprise:

Entity	Principal activities	Place of registration	Percentage holding	
			2011	2010
IK TFB-Finance LLC	Asset management	RF, Kazan	100.00%	100.00%
ZAO TFB Aktiv	Securities trading and financial intermediation	RF, Kazan	100.00%	100.00%
LLC TFB-Zaim	Financial intermediation	RF, Kazan	90.00%	-
TFB Finance Limited	Issue Eurobonds	Ireland, Dublin	-	-
OJSC NCB "Radiotechbank"	Banking	RF, N. Novgorod	29.85%	-

The Group owns controlling stakes in a number of closed mutual investment funds. These funds are unincorporated subsidiaries. The assets of the funds are composed of investments available-for-sale, loans, investment property, assets held for sale and other assets. Assets held by these funds are included in these consolidated financial statements.

As at 31 December 2011 and 2010 the unincorporated subsidiaries of the Bank comprise:

Entity	Principal activities	Place of registration	Percentage holding	
			2011	2010
Closed mutual fund of real estate "TFB-Activ"	Investment	RF, Kazan	72.99%	72.99%
Closed mutual fund of combined investments "TFB-Dalnovidny"	Investment	RF, Kazan	100.00%	100.00%
Closed mutual fund of real estate "TFB-Investitziorny"	Investment	RF, Kazan	89.62%	88.92%
Closed mutual fund of credit facilities "Kreditnye investitzii"	Investment	RF, Kazan	100.00%	100.00%
Closed rental mutual fund "TFB-Rentnyi Investitziorny Fond"	Investment	RF, Kazan	50.35%	57.34%
Closed mutual fund of credit facilities "Tekhnologii Investitziy" (ex-Closed mutual fund of credit facilities "Ak Bars Creditny Capital")	Investment	RF, Kazan	100.00%	100.00%
Closed mutual fund of direct investments "Professional"	Investment	RF, Kazan	100.00%	100.00%
Closed mutual fund of real estate "Nash Novy Dom"	Investment	RF, Kazan	100.00%	-

2 Operating environment of the Group

Operating environment of the Group. The Group operates primarily in the Russian Federation.

The Russian Federation is experiencing political and economic change that has affected, and may continue to affect, the activities of enterprises operating in this environment. Consequently, operations in the Russian Federation involve risks that do not typically exist in other markets. In addition, the recent contraction in the capital and credit markets and general economic downturn has further increased the level of economic uncertainty in the environment.

The accompanying consolidated financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

Deteriorating operating conditions for borrowers may have an impact on management's cash flow forecasts and assessment of the impairment of financial and non-financial assets. To the extent that information is available, management has properly reflected revised estimates of expected future cash flows in its impairment assessments.

The amount of loan impairment allowance is based on management's appraisals of such loans at the reporting date after taking into consideration the cash flows that may result from foreclosure less costs for obtaining and selling the collateral. The market in the Russian Federation for many types of collateral, especially real estate, has been affected by the volatility in global financial markets and general economic downturn resulting in there being a low level of liquidity for certain types of assets. As a result, the actual realizable value on foreclosure may differ from the value ascribed in estimating allowances for impairment.

The fair values of quoted investments in active markets are based on current bid prices (financial assets) or offer prices (financial liabilities). As a result of the recent volatility in financial markets there are no longer regularly occurring transactions on an arm's length basis for some financial instruments and, as such, in the opinion of management some financial instruments are no longer being quoted in an active market. If there is no active market for a financial instrument, the Group establishes fair value using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. The objective of the valuation technique is to establish what the transaction price would have been on the reporting date in an arm's length exchange motivated by normal business considerations. The valuation models reflect current market conditions at the measurement date which may not be representative of market conditions either before or after the measurement date. As at the reporting date management has reviewed its models to ensure they appropriately reflect current market conditions, including the relative liquidity of the market and credit spreads.

Management is unable to reliably determine the effects on the Group's future financial position of any further deterioration in the liquidity of the financial markets and the increased volatility in the currency and equity markets and economic uncertainties. Management believes it is taking all the necessary measures to support the sustainability and growth of business in the current circumstances.

3 Basis of preparation

Statement of compliance. These consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS).

Basis of measurement. These consolidated financial statements are prepared on the historical cost basis except that buildings are stated at revalued amounts, and financial instruments at fair value through profit or loss, certain investments available-for-sale and investment property are stated at fair values.

Functional and presentation currency. The functional currency of the Bank and its subsidiaries is Russian Rubles, as, being national currency of the Russian Federation it best reflects the nature of most of operations and related conditions, having an impact on the Group's activities.

These consolidated financial statements are presented in Russian Rubles (RUB), rounded to the nearest thousand.

3 Basis of preparation (continued)

Use of estimates and judgments. The preparation of financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Management prepared these consolidated financial statements on a going concern basis. In making this judgement management considered the financial position, current intentions, profitability of operations, access to financial resources and analysed the impact of the recent financial crisis on future operations of the Group. Refer to note 29 for analysis of the liquidity position as at 31 December 2011.

Information about significant areas of estimation uncertainty and critical judgments made by management in the application of IFRSs that have a significant effect on the amounts recognized in these consolidated financial statements are described in the following notes:

- note 8 "Loans to customers" in respect of loan impairment allowance
- note 9 "Investments available-for-sale" in respect of valuation of financial instruments
- note 11 "Investment property" in respect of valuation of investment property.

4 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies are consistently applied to all the periods presented, except as explained at the end of this note, which addresses changes in accounting policies.

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

Special purpose entities. Special purpose entities (SPEs) are entities that are created to accomplish a narrow and well-defined objective such as the securitisation of particular assets, or the execution of a specific borrowing or lending transaction. An SPE is consolidated if, based on an evaluation of the substance of its relationship with the Group and the SPE's risks and rewards, the Group concludes that it controls the SPE.

Investments in mutual funds. The Group has controlling stakes in closed mutual funds not constituting businesses. The assets of the funds mainly comprise investment property. The Group consolidates mutual investment funds controlled by the Group.

Funds management. The Group manages and administers assets held in unit trusts and other investment vehicles on behalf of investors. The financial statements of these entities are not included in these consolidated financial statements except when the Group controls the entity.

Non-controlling interests. Non-controlling interests are the stakes in a subsidiary not attributable, directly or indirectly, to the Bank.

4 Summary of significant accounting policies (continued)

Non-controlling interests in mutual funds consolidated by the Group are presented as a liability as the Group has an obligation to repurchase these non-controlling interests in certain cases. The Group accounts for the acquisitions and disposals of non-controlling interests as transactions with creditors. Results from transactions with non-controlling interests and changes in non-controlling interests due to changes in net assets of the funds are recognised as income or expense in profit or loss.

Associates. Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Group's share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence effectively commences until the date that significant influence effectively ceases. When the Group's share of losses exceeds the Group's interest (including long-term loans) in the associate, that interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred obligations in respect of the associate.

Transactions eliminated on consolidation. Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

Unrealised gains arising from transactions with associates are eliminated to the extent of the Group's interest in the enterprise. Unrealised gains resulting from transactions with associates are eliminated against the investment in the associate.

Unrealised losses are eliminated in the same way as unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment.

Foreign currency transactions. Transactions in foreign currencies are translated to the respective functional currencies of the Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date.

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

As at 31 December 2011 the principal rates of exchange used for translating foreign currency balances are 32.1961 RUB to USD 1 and 41.6714 RUB to EUR 1 for US Dollar and Euro, respectively (31 December 2010: RUB 30.4769 to USD 1 and RUB 40.3331 to 1 EUR for US Dollar and Euro, respectively).

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

Classification of financial assets and liabilities. Financial assets and liabilities are classified as follows:

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

- acquired or incurred principally for the purpose of selling or repurchasing in the near term
- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking
- derivative financial instruments (except for derivative financial instruments that are designated and effective hedging instruments) or,
- upon initial recognition, designated as at fair value through profit or loss.

4 Summary of significant accounting policies (continued)

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

- the assets or liabilities are managed, evaluated and reported internally on a fair value basis
- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise or,
- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

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

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

- intends to sell immediately or in the near term
- upon initial recognition designates as at fair value through profit or loss
- upon initial recognition designates as available-for-sale or,
- may not recover substantially all of its initial investment, other than because of credit deterioration.

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

- the Group upon initial recognition designates as at fair value through profit or loss
- the Group designates as available-for-sale or,
- meet the definition of loans and receivables.

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

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

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

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

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

- loans and receivables which are measured at amortized cost using the effective interest method
- held-to-maturity investments that are measured at amortized cost using the effective interest method
- investments in equity instruments that do not have a quoted market price in an active market and whose fair value can not be reliably measured which are measured at cost.

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

4 Summary of significant accounting policies (continued)

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

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

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

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

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

Gains and losses on subsequent measurement. A gain or loss arising from a change in the fair value of a financial asset or liability is recognized as follows:

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

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

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

4 Summary of significant accounting policies (continued)

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

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

In transfers where control over the asset is retained, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred assets. If the Group purchases its own debt, it is removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from early retirement of debt.

The Group writes off assets deemed to be uncollectible.

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

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

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

Derivative financial instruments. Derivative financial instruments include swaps, forwards, futures, spot transactions and options in interest rates, foreign exchanges, precious metals and stock markets, and any combinations of these instruments.

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Changes in the fair value of derivatives are recognised immediately in profit or loss.

Derivatives may be embedded in another contractual arrangement (a host contract). An embedded derivative is separated from the host contract and is accounted for as a derivative if, and only if the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the combined instrument is not measured at fair value with changes in fair value recognised in profit or loss. Derivatives embedded in financial assets or financial liabilities at fair value through profit or loss are not separated.

Although the Group trades in derivative instruments for risk hedging purposes, these instruments do not qualify for hedge accounting.

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

4 Summary of significant accounting policies (continued)

Precious metals. Precious metals are stated at the lower of net realizable value and cost. The net realizable value of precious metals is estimated based on quoted market prices. The cost of precious metals is assigned using the first-in, first-out cost formula.

Impairment of financial assets carried at amortized cost. Financial assets carried at amortized cost consist principally of loans and other receivables (loans and receivables). The Group reviews its loans and receivables to assess impairment on a regular basis. A loan or receivable is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the loan or receivable and that event (or events) has had an impact on the estimated future cash flows of the loan that can be reliably estimated. Objective evidence that financial assets are impaired can include default or delinquency by a borrower, breach of loan covenants or conditions, restructuring of a loan or advance on terms that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, deterioration in the value of collateral, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers in the group, or economic conditions that correlate with defaults in the group.

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

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

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

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

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

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

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

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

4 Summary of significant accounting policies (continued)

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

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

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

Cash and cash equivalents include notes and coins on hand, unrestricted balances (nostro accounts) held with the CBR and other banks, and highly liquid financial assets with original maturities of less than one month, which are subject to insignificant risk of changes in their fair value, and are used by the Group in the management of short-term commitments. The mandatory reserve deposit with the CBR is not considered to be a cash equivalent due to restrictions on its withdrawability. Cash and cash equivalents are carried at amortised cost in the consolidated statement of financial position.

Amounts due from banks are recorded when the Group advances funds to counterparty banks with no intention of trading with the resulting unquoted non-derivative instruments. Amounts due from banks are due on fixed or determinable dates and are carried at amortized cost.

Due to banks. Amounts due to banks are recognized when funds or other assets are advanced to the Group by counterparty banks. The non-derivative liability is carried at amortized cost.

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

Debt securities issued. Debt securities in issue include promissory noted, bonds and credit linked notes issued by the Group. Debt securities are stated at amortized cost.

Eurobonds issued. Eurobonds issued represent issued debt securities offered on foreign markets. Eurobonds are carried at amortized cost.

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

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

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

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

Loan commitments are not recognised, except for the following:

- loan commitments that the Group designates as financial liabilities at fair value through profit or loss
- if the Group has a past practice of selling the assets resulting from its loan commitments shortly after origination, then the loan commitments in the same class are treated as derivative instruments
- loan commitments that can be settled net in cash or by delivering or issuing another financial instrument
- commitments to provide a loan at a below-market interest rate.

4 Summary of significant accounting policies (continued)

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

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

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

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

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

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

Buildings	50 years
Equipment	5 years

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

Intangible assets. All of intangible assets have a definite useful life and primarily include capitalized computer software.

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

Non-current assets held for sale. Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. Immediately before classification as held for sale, the assets, or components of a disposal group, are remeasured in accordance with the Group's accounting policies. Thereafter generally, the assets, or disposal group, are measured at the lower of their carrying amount and fair value less cost to sell.

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

4 Summary of significant accounting policies (continued)

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

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

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

Share capital. Ordinary shares and preference shares, which are non-redeemable and for which dividends are declared at the shareholders' discretion, are classified as equity. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

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

Dividends. Dividends in relation to ordinary or preference shares recognised as equity are reflected as an appropriation of retained earnings in the period in which they are declared. Any dividends declared after the reporting date and before the consolidated financial statements are authorised for issue are disclosed in the subsequent events note. The statutory accounting reports of the Bank are the basis for profit distribution and other appropriations.

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

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

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

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

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

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

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

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

JSC "AIKB "Tatfondbank"

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2011
(expressed in thousands of Russian Rubles)

4 Summary of significant accounting policies (continued)

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

Segment reporting. An operating segment is a component of a Group that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same Group); whose operating results are regularly reviewed by the chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Comparative information. Comparative information for segment reporting is reclassified to conform to changes in presentation in the current year, resulting from changes in the organizational structure of the Bank.

	2010		As restated
	As previously reported	Effect of restatement	
Total segment assets, including:	58 938 721	1 834 479	60 773 200
-Corporate banking transactions	38 207 758	(15 277)	38 192 481
-Retail banking transactions	3 504 191	-	3 504 191
-Investment banking transactions	15 663 916	2 558 608	18 222 524
-Non-distributed	1 562 856	(708 852)	854 004
Total segment liabilities, including:	52 124 529	-	52 124 529
-Corporate banking transactions	5 390 615	4 530 759	9 921 374
-Retail banking transactions	23 556 035	47 084	23 603 119
-Investment banking transactions	22 424 028	(4 520 395)	17 903 633
-Non-distributed	753 851	(57 448)	696 403

Changes in accounting policy. The accounting policies used in preparing this consolidated financial statements are consistent with those disclosed in the annual consolidated financial statements of the Group for the year ended 31 December 2010, except for changes described below.

With effect from 1 January 2011, the Group changed its accounting policy in respect of accounting for non-controlling interests in mutual investment funds.

The Group has controlling stakes in closed mutual funds not constituting businesses. The assets of the funds mainly comprise investment property. Previously this investment property was recognized in the consolidated financial statements on a basis proportionate to the Group's share in the funds with no recognition of non-controlling interests.

From 1 January 2011 non-controlling interests in these mutual investment funds are recognised at the appropriate share of the carrying amount of net assets of the funds attributable to other investors. Non-controlling interests in mutual investment funds are presented as a liability as the Group has an obligation to repurchase these non-controlling interests in certain cases. Results from transactions with non-controlling interests and changes in non-controlling interests due to changes in net assets of the funds are recognised as income or expense in profit or loss. Management believes that this approach results in a better presentation of the investments in mutual investment funds.

JSC "AIKB "Tatfondbank"

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2011
(expressed in thousands of Russian Rubles)

4 Summary of significant accounting policies (continued)

As a result the consolidation financial statements for the year ended 31 December 2010 were restated. The effect of restatement is shown below.

	As previously reported	Effect of restatement	As restated
Consolidated statement of financial position as at 31 December 2010			
Investment property	4 242 548	2 761 132	7 003 680
Total assets	57 288 730	2 761 132	60 049 862
Non-controlling interests	-	2 761 132	2 761 132
Total liabilities	50 740 929	2 761 132	53 502 061
Consolidated statement of comprehensive income for 2010			
Net gains from investment property	1 549 331	1 681 397	3 230 728
Profit before tax and changes in non-controlling interests	406 108	1 681 397	2 087 505
Result from change in non-controlling interests	-	(1 681 397)	(1 681 397)

Management of the Group decided not to present a statement of financial position as at 31 December 2009.

As at 1 January 2011, the Group adopted IAS 24 *Related Party Disclosures*. The standard was revised to simplify some of the presentation guidance that was previously non-reciprocal. As a result, the group is exempt from the basic disclosure requirements in relation to related party disclosures and outstanding balances, including commitments, for government-related entities. The change in accounting policy is applied retrospectively and had no impact on profit or loss in the current period.

Improvements to IFRSs resulting from the International Accounting Standards Board's annual improvements project were dealt with on a standard-by-standard basis.

With effect from 1 January 2011, the Group retrospectively applied limited amendments to IFRS 7 *Financial Instruments: Disclosures* issued as part of Improvements to IFRSs 2010. These amendments mainly relate to disclosures on collateral and other credit enhancements, as well as to renegotiated assets that would otherwise be past due or impaired.

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

IAS 27 (2011) *Separate Financial Statements* will become effective for annual periods beginning on or after 1 January 2013. The amended standard carries forward the existing accounting and disclosure requirements of IAS 27 (2008) for separate financial statements with some clarifications. The requirements of IAS 28 (2008) and IAS 31 for separate financial statements have been incorporated into IAS 27 (2011). Early adoption of IAS 27 (2011) is permitted provided the entity also early-adopts IFRS 10, IFRS 11, IFRS 12 and IAS 28 (2011). The Group has not yet analysed the likely impact of the standard on its financial position or performance.

IAS 28 (2011) *Investments in Associates and Joint Ventures* combines the requirements in IAS 28 (2008) and IAS 31 that were carried forward but not incorporated into IFRS 11 and IFRS 12. The amended standard will become effective for annual periods beginning of or after 1 January 2013 with retrospective application required. Early adoption of IAS 28 (2011) is permitted provided the entity also early-adopts IFRS 10, IFRS 11, IFRS 12 and IAS 27 (2011). The Group has not yet analysed the likely impact of the standard on its financial position or performance.

4 Summary of significant accounting policies (continued)

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

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

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

IFRS 12 *Disclosure of Interests in Other Entities* will be effective for annual periods beginning on or after 1 January 2013. The new standard contains disclosure requirements for entities that have interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. Interests are widely defined as contractual and non-contractual involvement that exposes an entity to variability of returns from the performance of the other entity. The expanded and new disclosure requirements aim to provide information to enable the users to evaluate the nature of risks associated with an entity's interests in other entities and the effects of those interests on the entity's financial position, financial performance and cash flows. Entities may early present some of the IFRS 12 disclosures without a need to early-adopt the other new and amended standards. However, if IFRS 12 is early-adopted in full, then IFRS 10, IFRS 11, IAS 27 (2011) and IAS 28 (2011) must also be early-adopted. The Group has not yet analysed the likely impact of the improvements on its financial position or performance.

4 Summary of significant accounting policies (continued)

IFRS 13 *Fair Value Measurement* will be effective for annual periods beginning on or after 1 January 2013. The new standard replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It provides a revised definition of fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. IFRS 13 does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurement that currently exist in certain standards. The standard is applied prospectively with early adoption permitted. Comparative disclosure information is not required for periods before the date of initial application. The Group has not yet analysed the likely impact of the improvements on its financial position or performance.

Amendment to IAS 1 *Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income*. The amendment requires that an entity present separately items of other comprehensive income that may be reclassified to profit or loss in the future from those that will never be reclassified to profit or loss. Additionally, the amendment changes the title of the statement of comprehensive income to statement of profit or loss and other comprehensive income. However, the use of other titles is permitted. The amendment shall be applied retrospectively from 1 July 2012 and early adoption is permitted. The Group has not yet analysed the likely impact of the standard on its financial position or performance.

Amendment to IAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets*. The amendment introduces an exception to the current measurement principles for deferred tax assets and liabilities arising from investment property measured using the fair value model in accordance with IAS 40 *Investment Property*. The exception also applies to investment property acquired in a business combination accounted for in accordance with IFRS 3 *Business Combinations* provided the acquirer subsequently measures the assets using the fair value model. In these specified circumstances the measurement of deferred tax liabilities and deferred tax assets should reflect a rebuttable presumption that the carrying amount of the underlying asset will be recovered entirely by sale unless the asset is depreciated or the business model is to consume substantially all the asset. The amendment is effective for periods beginning on or after 1 January 2012 and is applied retrospectively. The Group has not yet analysed the likely impact of the improvements on its financial position or performance.

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

Various *Improvements to IFRSs* have been dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect not earlier than 1 January 2012. The Group has not yet analysed the likely impact of the improvements on its financial position or performance.

The Group is considering the implications of the standards and the amendments to standards, their impact, and the timing of adoption.

JSC "AIKB "Tatfondbank"

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2011
(expressed in thousands of Russian Rubles)

5 Cash and cash equivalents

	31 December 2011	31 December 2010
Cash on hand	2 078 086	1 509 024
Nostro accounts with the CBR	2 194 209	1 239 033
Short-term placements with other banks	797 986	810 837
Settlement accounts with trading systems	726 707	14 104
Nostro accounts and overnight placements with other banks	222 204	332 874
Reverse sale and repurchase agreements with other banks	-	198 051
Total cash and cash equivalents	6 019 192	4 103 923

As at 31 December 2011 the Group has no banks whose balances individually exceed 10% of total cash and cash equivalents (31 December 2010: one bank). The gross value of these balances as at 31 December 2010 is RUB 621 842 thousand.

Analysis by credit quality of amounts on correspondent accounts with other banks, short-term placements with other banks and reverse sale and repurchase agreements with other banks is as follows:

	31 December 2011	31 December 2010
Nostro accounts and overnight placements with other banks	222 204	332 874
- Large OECD banks	106 512	218 065
- Other Russian banks	63 259	49 201
- Top 20 Russian banks	52 426	65 601
- Banks of the Republic of Tatarstan	7	7
Short term placement with other banks	797 986	810 837
- Top 20 Russian banks	598 439	3 353
- Other Russian banks	-	200 000
- Large OECD banks	199 547	607 484
Reverse sale and repurchase agreements with other banks	-	198 051
- Other Russian banks	-	198 051
Total cash and cash equivalents held at other banks	1 020 190	1 341 762

6 Due from banks

	31 December 2011	31 December 2010
Loans and deposits with other banks	144 711	44 198
Total due from banks	144 711	44 198

As at 31 December 2011 the Group has one bank whose balances individually exceed 10% of total due from banks (31 December 2010: two banks). The gross value of these balances as of 31 December 2011 are RUB 126 994 thousand (31 December 2010: RUB 38 103 thousand).

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

	31 December 2011	31 December 2010
Placements with other banks	144 711	44 198
- Top 20 Russian banks	138 272	10 674
- Large OECD banks	6 439	33 524
Total due from banks	144 711	44 198

JSC "AIKB "Tatfondbank"

*Notes to the Consolidated Financial Statements for the Year Ended 31 December 2011
(expressed in thousands of Russian Rubles)*

7 Financial instruments at fair value through profit or loss

	31 December 2011	31 December 2010
Held by the Group		
Russian Government Federal Bonds (OFZ)	1 700 786	339 448
Corporate bonds	1 092 832	2 896 235
Municipal bonds	464 081	59 624
Corporate Eurobonds	-	173 806
Total debt securities	3 257 699	3 469 113
Corporate shares – quoted in an active market	518 125	721 976
Total equity securities	518 125	721 976
Total financial instruments at fair value through profit or loss held by the Group	3 775 824	4 191 089
Pledged as collateral under sale and repurchase agreements		
Corporate bonds	1 051 539	-
Municipal bonds	28 889	-
Total debt securities	1 080 428	-
Corporate shares – quoted in an active market	1 400 128	-
Total equity securities	1 400 128	-
Total financial instruments at fair value through profit or loss, pledged as collateral under sale and repurchase agreements	2 480 556	-
Total financial instruments at fair value through profit or loss	6 256 380	4 191 089

Russian Government Federal Bonds (OFZ) are government securities denominated in Russian Rubles issued by the Ministry of Finance of the Russian Federation. At 31 December 2011 these bonds have maturity dates from August 2012 to August 2018 (31 December 2010: from August 2012 to August 2018), coupon rates from 7% to 12% p.a. (31 December 2010: from 7% to 12% p.a.).

Corporate bonds are interest-bearing securities denominated in Russian Rubles issued by Russian companies and banks. At 31 December 2011 these bonds have maturity dates from February 2012 to June 2016 (31 December 2010: from March 2011 to November 2015) and coupon rates from 6% to 13% p.a. (31 December 2010: from 7% to 15% p.a.).

Municipal bonds are securities denominated in Russian Rubles issued by the municipal administration of Moscow and Samara regions. As at 31 December 2011 these bonds have maturity dates from May 2013 to June 2014 (31 December 2010: June 2014), and the coupon rates from 14% to 15% p.a. (31 December 2010: 15% p.a.).

Equity securities are shares of Russian companies and banks.

JSC "AIKB "Tatfondbank"

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2011
(expressed in thousands of Russian Rubles)

7 Financial instruments at fair value through profit or loss (continued)

Financial instruments at fair value through profit or loss pledged as collateral under reverse sale and repurchase agreements can be sold or repledged by the counterparty in accordance with the contract or established practice. Reverse sale and repurchase agreements have a maturity date in January 2012. Related liabilities are recognised in the consolidated statement of financial position.

Analysis by credit quality of debt securities at fair value through profit or loss outstanding at 31 December 2011 is as follows:

	OFZ	Municipal bonds	Corporate bonds	Total
Held by the Group				
Russian government	1 700 786	-	-	1 700 786
Russian municipal administration	-	464 081	-	464 081
Top 20 Russian banks	-	-	50 358	50 358
Other Russian banks	-	-	816 468	816 468
Other Russian companies	-	-	226 006	226 006
Total debt securities at fair value through profit or loss held by the Group	1 700 786	464 081	1 092 832	3 257 699

Pledged as collateral under sale and repurchase agreements

Russian municipal administration	-	28 889	-	28 889
Top 20 Russian banks	-	-	242 991	242 991
Other Russian banks	-	-	461 882	461 882
Other Russian companies	-	-	346 666	346 666

Total debt securities at fair value through profit or loss pledged as collateral under sale and repurchase agreements

	-	28 889	1 051 539	1 080 428
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Total debt securities at fair value through profit or loss

	1 700 786	492 970	2 144 371	4 338 127
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Analysis by credit quality of debt securities at fair value through profit or loss outstanding at 31 December 2010 is as follows:

	OFZ	Municipal bonds	Corporate bonds	Corporate Eurobonds	Total
Russian government	339 448	-	-	-	339 448
Russian municipal administration	-	59 624	-	-	59 624
Top 20 Russian banks	-	-	330 352	-	330 352
Other Russian banks	-	-	1 944 512	-	1 944 512
Other Russian companies	-	-	621 371	173 806	795 177
Total debt securities at fair value through profit or loss	339 448	59 624	2 896 235	173 806	3 469 113

JSC "AIKB "Tatfondbank"

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2011
(expressed in thousands of Russian Rubles)

8 Loans to customers

	31 December 2011	31 December 2010
<i>Loans to corporate entities</i>	49 804 611	41 509 842
Corporate loans	47 280 563	38 814 539
Loans to small and medium enterprises (SME)	2 524 048	2 600 043
Reverse sale and repurchase agreements	-	95 260
<i>Loans to individuals</i>	8 394 595	3 641 110
Consumer loans	6 317 833	2 570 539
Mortgage loans	1 363 817	729 045
Car loans	712 945	341 526
Total gross loans to customers	58 199 206	45 150 952
Allowance for loan impairment	(6 391 437)	(5 601 643)
Total net loans to customers	51 807 769	39 549 309

Corporate entities are classified as SME based on their revenues and the number of employees. As at 31 December 2011 loans to customers with a total loan of less than RUB 150 000 thousand are usually loans to SME (31 December 2010: less than RUB 150 000 thousand).

Movements in the allowance for loan impairment during 2011 are as follows:

	Corporate loans	SME	Consumer loans	Car loans	Mortgage loans	Total
Balance at 1 January 2011	4 141 792	772 173	518 679	74 222	94 777	5 601 643
Loan impairment losses (recovery of impairment)	1 045 217	(116 852)	(56 903)	(10 637)	(26 327)	834 498
Loans written off as uncollectible	(1 168)	(42 887)	(649)	-	-	(44 704)
Balance at 31 December 2011	5 185 841	612 434	461 127	63 585	68 450	6 391 437

Movements in the allowance for loan impairment during 2010 are as follows:

	Corporate loans	SME	Consumer loans	Car loans	Mortgage loans	Total
Balance at 1 January 2010	3 061 681	567 324	293 628	92 219	103 141	4 117 993
Loan impairment losses (recovery of impairment)	1 090 179	216 685	225 051	(17 997)	(8 364)	1 505 554
Loans written off as uncollectible	(10 068)	(11 836)	-	-	-	(21 904)
Balance at 31 December 2010	4 141 792	772 173	518 679	74 222	94 777	5 601 643

JSC "AIKB "Tatfondbank"

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2011
(expressed in thousands of Russian Rubles)

8 Loans to customers (continued)

Analysis of loans to corporate entities by credit quality at 31 December 2011 is as follows:

	Gross loans	Allowance for loan impairment	Net loans	Allowance for loan impairment to gross loans (%)
Corporate loans				
<i>Loans without individual signs of impairment:</i>	35 423 666	(1 640 332)	33 783 334	4.6
- Individually significant	33 332 752	(1 543 510)	31 789 242	4.6
- Not individually significant	2 090 914	(96 822)	1 994 092	4.6
<i>Impaired loans:</i>	11 856 897	(3 545 509)	8 311 388	29.9
- Not overdue	10 237 417	(2 720 859)	7 516 558	26.6
- Overdue less than 31 days	752	(35)	717	4.7
- Overdue 31 to 90 days	6 283	(4 827)	1 456	76.8
- Overdue 91 to 180 days	303 350	(63 123)	240 227	20.8
- Overdue 181 to 365 days	341 289	(241 045)	100 244	70.6
- Overdue more than 365 days	967 806	(515 620)	452 186	53.3
Total corporate loans	47 280 563	(5 185 841)	42 094 722	11.0
Loans to SME				
<i>Loans without individual signs of impairment:</i>	1 960 960	(90 804)	1 870 156	4.6
- Not individually significant	1 960 960	(90 804)	1 870 156	4.6
<i>Impaired loans:</i>	563 088	(521 630)	41 458	92.6
- Not overdue	25 057	(5 012)	20 045	20.0
- Overdue less than 31 days	3 546	(633)	2 913	17.9
- Overdue 31 to 90 days	4	(3)	1	75.0
- Overdue 91 to 180 days	92 494	(73 995)	18 499	80.0
- Overdue more than 365 days	441 987	(441 987)	-	100.0
Total loans to SME	2 524 048	(612 434)	1 911 614	24.3
Total loans to corporate entities	49 804 611	(5 798 275)	44 006 336	11.6

JSC "AIKB "Tatfondbank"

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2011
(expressed in thousands of Russian Rubles)

8 Loans to customers (continued)

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

	Gross loans	Allowance for loan impairment	Net loans	Allowance for loan impairment to gross loans (%)
Consumer loans				
- Not overdue	5 591 152	(18 332)	5 572 820	0.3
- Overdue less than 31 days	82 393	(5 799)	76 594	7.0
- Overdue 31 to 90 days	56 655	(12 628)	44 027	22.3
- Overdue 91 to 180 days	77 431	(34 112)	43 319	44.1
- Overdue 181 to 365 days	28 799	(21 530)	7 269	74.8
- Overdue more than 365 days	481 403	(368 726)	112 677	76.6
Total consumer loans	6 317 833	(461 127)	5 856 706	7.3
Car loans				
- Not overdue	609 603	(1 555)	608 048	0.3
- Overdue less than 31 days	17 157	(580)	16 577	3.4
- Overdue 31 to 90 days	7 502	(735)	6 767	9.8
- Overdue 91 to 180 days	16 929	(3 887)	13 042	23.0
- Overdue 181 to 365 days	8 775	(3 849)	4 926	43.9
- Overdue more than 365 days	52 979	(52 979)	-	100.0
Total car loans	712 945	(63 585)	649 360	8.9
Mortgage loans				
- Not overdue	1 238 113	(911)	1 237 202	0.1
- Overdue less than 31 days	22 976	(85)	22 891	0.4
- Overdue 31 to 90 days	9 025	(200)	8 825	2.2
- Overdue 91 to 180 days	22 652	(988)	21 664	4.4
- Overdue 181 to 365 days	7 023	(2 238)	4 785	31.9
- Overdue more than 365 days	64 028	(64 028)	-	100.0
Total mortgage loans	1 363 817	(68 450)	1 295 367	5.0
Total loans to individuals	8 394 595	(593 162)	7 801 433	7.1

Management uses its experience and judgment to estimate the amount of impairment allowance for loans to corporate customers. Management estimates loan impairment allowance for loans to corporate customers based on an analysis of the future cash flows for impaired loans and based on its past loss experience for portfolios of loans for which no indications of impairment are identified on an individual basis. In determining the impairment allowance for loans for which no specific indications of impairment have been identified, management makes estimates of losses incurred using the past historic losses, adjusted as necessary for the current economic environment.

When the collateral is used to estimate the expected future cash flows, the estimated value of collateral is discounted by 20-30 percent to reflect current market conditions, and the expected time of collateral realization is from 1 to 2 years.

JSC "AIKB "Tatfondbank"

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2011
(expressed in thousands of Russian Rubles)

8 Loans to customers (continued)

For loans to individuals management estimates loan impairment based on its past historical loss experience on these types of loans.

The significant assumptions used by management in determining the provision for impairment for loans to individuals is that loss migration rates are constant and can be estimated based on the historic loss migration pattern for the past 12 months.

Changes in these estimates could affect the allowance for loan impairment. For example, to the extent that the net present value of the estimated cash flows differs by one percent, the loan impairment allowance for loans to corporate entities as at 31 December 2011 would be RUB 440 063 thousand and the loan impairment allowance for loans to individuals as at 31 December 2011 would be RUB 78 014 thousand higher/lower, respectively (31 December 2010: RUB 365 006 thousand and RUB 29 534 thousand, respectively).

Should actual repayments be less than the management estimated, the Group would be required to record additional loan impairment losses.

During the year ended 31 December 2011 the Group renegotiated loans to corporate entities and individuals that would otherwise be past due or impaired of RUB 5 838 919 thousand and RUB 192 067 thousand, respectively (31 December 2010: RUB 3 782 271 thousand and RUB 175 868 thousand, respectively). Such restructuring activity is aimed at managing customer relationships and maximising collection opportunities. These loans are classified as not overdue.

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

	Gross loans	Allowance for loan impairment	Net loans	Allowance for loan impairment to gross loans (%)
Corporate loans				
<i>Loans without individual signs of impairment:</i>	31 331 351	(1 651 500)	29 679 851	5.3
- Individually significant	30 311 246	(1 597 729)	28 713 517	5.3
- Not individually significant	1 020 105	(53 771)	966 334	5.3
<i>Impaired loans:</i>	7 483 188	(2 490 292)	4 992 896	33.3
- Not overdue	6 630 907	(1 816 482)	4 814 425	27.4
- Overdue less than 31 days	72 981	(14 596)	58 385	20.0
- Overdue 31 to 90 days	71 951	(25 286)	46 665	35.1
- Overdue more than 180 days	707 349	(633 928)	73 421	89.6
Total corporate loans	38 814 539	(4 141 792)	34 672 747	10.7
Loans to SME				
<i>Loans without individual signs of impairment:</i>	1 733 812	(91 391)	1 642 421	5.3
- Not individually significant	1 733 812	(91 391)	1 642 421	5.3
<i>Impaired loans:</i>	866 231	(680 782)	185 449	78.6
- Not overdue	182 772	(37 490)	145 282	20.5
- Overdue 31 to 90 days	35 747	(28 597)	7 150	80.0
- Overdue 91 to 180 days	101 471	(81 177)	20 294	80.0
- Overdue more than 180 days	546 241	(533 518)	12 723	97.7
Total loans to SME	2 600 043	(772 173)	1 827 870	29.7
Total loans to corporate entities	41 414 582	(4 913 965)	36 500 617	11.9

JSC "AIKB "Tatfondbank"

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2011
(expressed in thousands of Russian Rubles)

8 Loans to customers (continued)

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

	Gross loans	Allowance for loan impairment	Net loans	Allowance for loan impairment to gross loans (%)
Consumer loans				
- Not overdue	1 834 677	(11 233)	1 823 444	0.6
- Overdue less than 31 days	43 904	(4 020)	39 884	9.2
- Overdue 31 to 90 days	25 041	(6 230)	18 811	24.9
- Overdue 91 to 180 days	86 665	(21 963)	64 702	25.3
- Overdue more than 180 days	580 252	(475 233)	105 019	81.9
Total consumer loans	2 570 539	(518 679)	2 051 860	20.2
Car loans				
- Not overdue	246 466	(994)	245 472	0.4
- Overdue less than 31 days	11 146	(582)	10 564	5.2
- Overdue 31 to 90 days	5 535	(1 139)	4 396	20.6
- Overdue 91 to 180 days	6 312	(2 135)	4 177	33.8
- Overdue more than 180 days	72 067	(69 372)	2 695	96.3
Total car loans	341 526	(74 222)	267 304	21.7
Mortgage loans				
- Not overdue	576 884	(1 483)	575 401	0.3
- Overdue less than 31 days	26 390	(372)	26 018	1.4
- Overdue 31 to 90 days	9 762	(726)	9 036	7.4
- Overdue 91 to 180 days	8 601	(1 533)	7 068	17.8
- Overdue more than 180 days	107 408	(90 663)	16 745	84.4
Total mortgage loans	729 045	(94 777)	634 268	13.0
Total loans to individuals	3 641 110	(687 678)	2 953 432	18.9

JSC "AIKB "Tatfondbank"

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2011
(expressed in thousands of Russian Rubles)

8 Loans to customers (continued)

The Group accepts bank deposits, real estate, traded securities, motor vehicles, inventories, equipment and other assets as collateral. The structure of the gross loan portfolio by type of collateral as at 31 December 2011 is as follows:

	Corporate loans	SME	Consumer loans	Car loans	Mortgage loans	Total
Loans without individual signs of impairment	35 423 666	1 960 960	5 591 152	609 603	1 238 113	44 823 494
<i>Secured loans</i>	<i>20 644 262</i>	<i>1 194 407</i>	<i>123 944</i>	<i>609 603</i>	<i>1 238 113</i>	<i>23 810 329</i>
- cash deposit	-	20 011	15 870	-	-	35 881
- not actively traded securities	6 039 811	-	-	-	-	6 039 811
- real estate	4 135 478	789 333	47 381	-	327 110	5 299 302
- motor vehicles	29 083	104 190	15 084	609 147	-	757 504
- equipment	1 163 616	103 086	762	-	-	1 267 464
- biological assets	466 552	4 629	-	-	-	471 181
- inventories	3 076 837	91 648	6 050	-	-	3 174 535
- other assets	1 924 284	12 039	28 232	-	909 786	2 874 341
- partially unsecured	3 808 601	69 471	10 565	456	1 217	3 890 310
<i>Unsecured loans</i>	<i>14 779 404</i>	<i>766 553</i>	<i>5 467 208</i>	<i>-</i>	<i>-</i>	<i>21 013 165</i>
Impaired loans	11 856 897	563 088	726 681	103 342	125 704	13 375 712
<i>Secured loans</i>	<i>8 910 067</i>	<i>328 546</i>	<i>281 569</i>	<i>103 342</i>	<i>125 704</i>	<i>9 749 228</i>
- cash deposit	50 730	-	102	-	-	50 832
- not actively traded securities	977 799	-	-	-	-	977 799
- real estate	4 715 615	161 040	9 270	-	88 189	4 974 114
- motor vehicles	48 486	23 393	12 409	97 213	279	181 780
- equipment	437 699	38 346	65	-	-	476 110
- biological assets	523 060	4 619	-	-	-	527 679
- inventories	719 980	52 294	10 260	-	-	782 534
- other assets	14 805	3 556	232 450	343	36 097	287 251
- partially unsecured	1 421 893	45 298	17 013	5 786	1 139	1 491 129
<i>Unsecured loans</i>	<i>2 946 830</i>	<i>234 542</i>	<i>445 112</i>	<i>-</i>	<i>-</i>	<i>3 626 484</i>
Total gross loans to customers	47 280 563	2 524 048	6 317 833	712 945	1 363 817	58 199 206

JSC "AIKB "Tatfondbank"

*Notes to the Consolidated Financial Statements for the Year Ended 31 December 2011
(expressed in thousands of Russian Rubles)*

8 Loans to customers (continued)

The structure of gross loan portfolio by type of collateral as at 31 December 2010 is as follows:

	Corporate loans	SME	Consumer loans	Car loans	Mortgage loans	Total
Loans without individual signs of impairment	31 331 351	1 733 812	1 834 677	246 466	576 884	35 723 190
<i>Secured loans</i>	<i>19 319 272</i>	<i>1 263 479</i>	<i>169 284</i>	<i>246 466</i>	<i>576 884</i>	<i>21 575 385</i>
- cash deposit	166 502	14 992	15 276	-	-	196 770
- not actively traded securities	3 092 616	-	-	-	-	3 092 616
- real estate	5 440 355	692 347	84 600	-	563 142	6 780 444
- motor vehicles	78 006	51 328	25 168	241 922	-	396 424
- equipment	882 388	158 783	794	-	-	1 041 965
- biological assets	1 047 538	47 924	-	-	-	1 095 462
- inventories	3 549 719	81 263	7 080	-	-	3 638 062
- other assets	1 808 326	97 470	26 901	23	9 334	1 942 054
- partially unsecured	3 253 822	119 372	9 465	4 521	4 408	3 391 588
<i>Unsecured loans</i>	<i>12 012 079</i>	<i>470 333</i>	<i>1 665 393</i>	<i>-</i>	<i>-</i>	<i>14 147 805</i>
Impaired loans	7 483 188	866 231	735 862	95 060	152 161	9 332 502
<i>Secured loans</i>	<i>4 027 260</i>	<i>568 133</i>	<i>318 000</i>	<i>95 060</i>	<i>152 161</i>	<i>5 160 614</i>
- cash deposit	47 657	1 554	-	-	-	49 211
- not actively traded securities	30 771	-	-	-	-	30 771
- real estate	2 087 624	261 859	12 339	-	145 453	2 507 275
- motor vehicles	24 741	50 972	16 523	91 565	279	184 080
- equipment	196 684	47 224	73	-	-	243 981
- biological assets	430 197	7 299	-	-	-	437 496
- inventories	549 708	78 865	10 458	-	-	639 031
- other assets	14 804	3 849	256 722	1 127	5 534	282 036
- partially unsecured	645 074	116 511	21 885	2 368	895	786 733
<i>Unsecured loans</i>	<i>3 455 928</i>	<i>298 098</i>	<i>417 862</i>	<i>-</i>	<i>-</i>	<i>4 171 888</i>
Total gross loans to customers	38 814 539	2 600 043	2 570 539	341 526	729 045	45 055 692

The above tables do not include reverse sale and repurchase agreements. At 31 December 2010 loans of RUB 95 260 thousand are effectively collateralised by securities purchased under reverse sale and repurchase agreements with a fair value of RUB 99 235 thousand. The Group has the right to sell or repledge these securities. As at 31 December 2011 the Group has no such transactions.

The table above represents carrying amount of the loan to the extent covered by collateral (excluding overcollateralization) and may not reflect the fair value of collateral at the reporting date. The fair value of collateral was estimated at the inception of the loans and was adjusted for subsequent changes in accordance with the Group's internal guidance approved by management. Depending on type of collateral the Group applies certain discounts when estimating the value of collateral as at the reporting date.

Partially unsecured loans represent a portion of the loan which is not covered by collateral.

Mortgage loans are secured by the underlying real estate and property rights. Car loans are secured by the underlying cars. The Group's policy is that fair value of collateral generally should exceed the loan amount for at least 15% for mortgage loans and 15% for car loans.

JSC "AIKB "Tatfondbank"

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2011
(expressed in thousands of Russian Rubles)

8 Loans to customers (continued)

The value of residential real estate at the reporting date was estimated by indexing the values determined at the loan inception for the average changes in the residential real estate prices in the relevant city or region. The value of other real estate and other assets is determined by the credit department using internal guidelines.

Mortgage loans in relation to construction in progress are secured by related rights on property under construction. These loans are shown as loans secured by other assets in the above table.

Industry analysis of the loans portfolio as at 31 December 2011 and 2010 is as follows:

	31 December 2011		31 December 2010	
	Amount	%	Amount	%
Trade	11 517 644	20	10 747 274	23
Real estate	8 990 486	15	5 383 968	12
Individuals	8 394 595	14	3 641 110	8
Agriculture	7 945 166	14	6 784 593	15
Finance	6 994 527	12	6 944 198	15
Food industry	6 511 007	11	5 437 791	12
Construction and manufacturing	3 278 923	6	1 734 689	4
Light industry	980 933	2	677 993	2
Leasing	722 375	1	678 652	2
Transport	642 043	1	870 218	2
Other	2 221 507	4	2 250 466	5
Total gross loans to customers	58 199 206	100	45 150 952	100

At 31 December 2011, the Group has 33 borrowers (31 December 2010: 27 borrowers) with aggregated loan amounts above RUB 500 000 thousand. The total aggregate amount of these loans is RUB 37 025 381 thousand (31 December 2010: RUB 29 939 620 thousand) or 64% of the gross loans to customers (31 December 2010: 66%).

As at 31 December 2011, the Group has loans of RUB 6 129 410 thousand (net of impairment provision of RUB 865 117 thousand) and receivables of RUB 442 089 thousand (Note 11) due from financial companies, investing in various financial and non-financial assets, including not actively traded stakes in other entities, bonds, units in non-quoted mutual funds and receivables from other financial companies. These loans are secured by collateral with a total recoverable amount of RUB 4 758 439 thousand and including various not actively traded investments and other assets and by a guarantee. Management believes that loans to financial companies will be repaid out of cash flows received by borrowers from disposal of their underlying investments and that these expected cash flows are sufficient to recover the loans to financial companies. Included in this amount are loans and receivables to financial companies of RUB 4 536 209 thousand (net of impairment provision of RUB 237 251 thousand) that are related to the Group (Note 33). In addition, loans of RUB 2 035 290 thousand (net of impairment provision of RUB 627 866 thousand) are made to companies that are not related to the Group but for which the Group is one the largest lenders, and as such the Group has the ability to monitor operating activities of these borrowers and exercise a certain level of influence over the operations of the borrowers.

As at 31 December 2011, loans to customers of RUB 4 909 407 thousand (31 December 2010: RUB 463 044 thousand) are pledged as collateral for term deposits received from the CBR of RUB 2 635 559 thousand (31 December 2010: RUB 116 764 thousand).

JSC "AIKB "Tatfondbank"

*Notes to the Consolidated Financial Statements for the Year Ended 31 December 2011
(expressed in thousands of Russian Rubles)*

9 Investments available-for-sale

	31 December 2011	31 December 2010
Held by the Group		
Corporate bonds	2 600 464	2 089 281
Total debt securities	2 600 464	2 089 281
Corporate shares – quoted in an active market	693 552	-
Corporate shares – unquoted in an active market	551 437	605 688
Total equity securities	1 244 989	605 688
Total investments available-for-sale held by the Group	3 845 453	2 694 969
Pledged as collateral under sale and repurchase agreements		
Corporate shares – quoted in an active market	360 491	-
Total investments available-for sale pledged as collateral under sale and repurchase agreements	360 491	-
Total investments available-for sale	4 205 944	2 694 969

Corporate bonds are interest-bearing securities denominated in Russian Rubles issued by Russian companies. As at 31 December 2011 these bonds have maturity dates from March 2012 to May 2014 (31 December 2010: from March 2011 to July 2013), and coupon rates from 11% to 14% p.a. (31 December 2010: from 15% to 18% p.a.).

Equity securities are ordinary shares of Russian companies and banks, units in mutual fund, and shares in an index fund traded in the international stock exchange.

Investments available-for-sale pledged as collateral under reverse sale and repurchase agreements can be sold or repledged by the counterparty in compliance with the contractual terms and established practice. Reverse sale and repurchase agreements have a maturity date in January 2012. Related liabilities are recognized in the consolidated statement of financial position.

Debt securities outstanding at 31 December 2011 and 2010 are as follows:

	31 December 2011	31 December 2010
<i>Current and not impaired</i>		
- corporate bonds of companies located in other Russian Federation regions traded in an active market	9 788	69 407
- corporate bonds of companies located in Tatarstan Republic not traded in an active market	1 997 547	1 292 956
<i>Impaired</i>		
- corporate bonds of companies located in Tatarstan Republic not traded in the active market	593 129	726 918
Total net debt securities available-for-sale	2 600 464	2 089 281

JSC "AIKB "Tatfondbank"

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2011
(expressed in thousands of Russian Rubles)

9 Investments available-for-sale (continued)

Movements in impairment of investments available-for-sale are as follows:

	2011	2010
At 1 January	254 412	254 025
Impairment losses (Note 25)	54 014	387
At 31 December	308 426	254 412

The fair value of quoted debt securities available-for-sale is based upon prices in the active market. If the fair value of debt securities available-for-sale cannot be determined on the basis of market quotations it is determined with the use of discounted cash flow models. Cash flows are discounted at market discount rates consisting of base (risk-free) rates and corporate risk premiums. The base (risk-free) discount rate for debt instruments is the market yield to maturity for risk-free instruments with corresponding maturity. A corporate risk premium is determined in accordance with a methodology of counterparty creditworthiness evaluation approved by management. For discount rates refer to note 29, section Interest rate risk and note 32.

Equity investments available-for-sale as at 31 December 2011 not traded in an active market comprise the following:

- shares of RUB 367 491 thousand stated at cost as their fair value cannot be reliable determined (31 December 2010: RUB 605 688 thousand), and
- units in a mutual fund of RUB 183 946 thousand that are stated at fair value determined based on the value of the underlying assets.

Changes in the estimates could affect the value of investments available-for-sale. For example, to the extent that the net present value of the estimated cash flows differs by plus minus ten percent, the value of unquoted investments available-for-sale as of 31 December 2011 would be RUB 315 190 thousand higher/lower (31 December 2010: RUB 269 497 thousand).

10 Investments in associates

During 2011 the Group increased its stakes in OJSC NCB "Radiotechbank" resulting in significant influence over this entity.

The table below shows movements investments in associates.

	2011
At 1 January	-
Acquisition of the associate	119 399
Group's share in losses of the associate	(1 492)
At 31 December	117 907

The following table shows summarised financial information of the associate:

	2011
Total assets	1 806 679
Total liabilities	(1 328 985)
Equity	477 694
Interest income and fee and commission income	195 399
Loss for the year	(8 072)

JSC "AIKB "Tatfondbank"

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2011
(expressed in thousands of Russian Rubles)

11 Investment property

	Land plots	Premises	Total
Fair value at 1 January 2010	2 445 878	494 919	2 940 797
Acquisition	4 107	83 314	87 421
Revaluation	3 953 123	22 339	3 975 462
Fair value at 31 December 2010	6 403 108	600 572	7 003 680
Acquisition	17 998	36 979	54 977
Revaluation	(5 227)	44 423	39 196
Fair value at 31 December 2011	6 415 879	681 974	7 097 853

The Group has units in closed mutual fund of real estate "TFB-Aktiv", closed mutual fund of real estate "TFB-Investitziionny" and closed rental mutual fund "TFB-Rentnyi Investitziionny Fond". The assets of the funds comprise retail trade premises, residential buildings and land plots. The Group recognizes assets held by the funds as investment property held to benefit from appreciation in its value.

Investment properties are valued by management based on the results of appraisals performed by independent, professionally qualified valuers who have recent experience in valuing similar properties.

There is no active market for properties of similar size and quality and as such there is a lack of comparative market data.

The basis used for the appraisal is a valuation model based on the following key assumptions:

- average price of 1 hectare of land is RUB 411 thousand for agricultural zoned land
- average price of 1 hectare of land is RUB 7 513 thousand for residential zoned land
- the time period during which development of land is expected to be completed is 3 years.

Changes in the estimates above could affect the value of land. For example, to the extent that the value of 1 hectare of residential land differs by minus/plus RUB 3 000 thousand, the net book value of the investment properties as at 31 December 2011 would be RUB 1 806 755 thousand lower/higher.

The main driver for the increase in investment property value during 2010 is the change in zoning status of some land plots from agricultural to residential in March 2010. In 2011 the Group continued the efforts on changes in zoning of additional agricultural land plots to the residential status. The Group did not recognise a change in the fair value of these land plots as at 31 December 2011 as a state registration of the zoning change was not completed.

In 2010 the Group performed a number of transactions with units in closed rental mutual fund "TFB-Rentnyi Investitziionny Fond"; the assets of the fund comprise land plots in the Laishevsky region of the Tatarstan Republic. The result of these transactions was a receivable with a fair value of RUB 969 858 thousand as at 31 December 2010. A portion of this receivable was repaid in 2011 and the recoverable amount of the outstanding balance of this receivable is RUB 442 089 thousand as at 31 December 2011. A change in the recoverable amount of the receivable related to investment property is recognized as income from investment property.

In addition, during 2011 the Group sold the units in closed rental mutual fund "TFB-Rentnyi Investitziionny Fond" at a price above its carrying value, resulting in a gain of RUB 573 886 thousand (2010: RUB 254 008 thousand), that is recognized in the income from investment property.

Income from investment property recognized in profit comprises:

	2011	2010
Revaluation gain	39 196	3 975 462
Remeasurement of recoverable amount of receivables	542 439	(998 742)
Gain on disposal	573 886	254 008
Total	1 155 521	3 230 728

JSC "AIKB "Tatfondbank"

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2011
(expressed in thousands of Russian Rubles)

12 Non-current assets held for sale

In 2011 the Group acquired units it closed mutual fund of real estate "Nash Novy Dom"; the assets of the fund mainly comprise flats in Kazan, Tatarstan Republic, of RUB 579 162 thousand.

The remaining amount of assets held for sale totalling RUB 10 863 thousand (31 December 2010: RUB 7 802 thousand) represents repossessed collateral obtained by the Group from its non-performing debtors for the settlement of overdue loans.

Management intends to sell non-current assets held for sale within one year. The property is offered in the market at the amount comparable to its fair value. The Group engages in marketing activities to sell these assets and expects to complete the sales by the end of 2012.

13 Property and equipment

The following table provides information on the changes in property and equipment for the year ended 31 December 2011:

	Buildings	Office and computer equipment	Construction in progress and equipment not put into use	Total
Cost/revalued amount				
At 1 January 2011	525 181	556 687	12 090	1 093 958
Additions	8 616	153 651	24 726	186 993
Disposals	-	(13 962)	-	(13 962)
At 31 December 2011	533 797	696 376	36 816	1 266 989
Depreciation				
At 1 January 2011	-	(395 154)	-	(395 154)
Depreciation charge	(10 508)	(77 221)	-	(87 729)
Disposals	-	11 704	-	11 704
At 31 December 2011	(10 508)	(460 671)	-	(471 179)
Carrying value				
At 31 December 2011	523 289	235 705	36 816	795 810

JSC "AIKB "Tatfondbank"

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2011
(expressed in thousands of Russian Rubles)

13 Property and equipment (continued)

The following table provides information on the changes in property and equipment for the year ended 31 December 2010:

	Buildings	Office and computer equipment	Construction in progress and equipment not put into use	Total
Cost/revalued amount				
At 1 January 2010	394 662	565 425	13 635	973 722
Additions	95 578	58 289	-	153 867
Disposals	-	(67 027)	(1 545)	(68 572)
Revaluation	34 941	-	-	34 941
At 31 December 2010	525 181	556 687	12 090	1 093 958
Depreciation				
At 1 January 2010	(14 218)	(366 111)	-	(380 329)
Depreciation charge	(8 089)	(89 921)	-	(98 010)
Disposals	-	60 878	-	60 878
Depreciation recovery due to revaluation	22 307	-	-	22 307
At 31 December 2010	-	(395 154)	-	(395 154)
Carrying value				
At 31 December 2010	525 181	161 533	12 090	698 804

At 31 December 2011, included in office and computer equipment are items fully depreciated of RUB 241 375 thousand (31 December 2010: RUB 69 712 thousand).

Buildings were valued by an independent firm of appraisers at 31 December 2010. Market values were estimated by appropriate valuation techniques using a combination of comparative sales and income valuation methods. There was no revaluation in 2011 as management believes that there were no significant movements in fair value of the buildings in 2011.

The primary basis used for the appraisal is the income capitalization approach. The income capitalization approach considers income and expense data relating to the building being valued and estimates fair value through a capitalization process. The market approach is used to assess the reasonableness of the results of the income capitalization approach. The market approach is based upon an analysis of the results of comparable sales of similar premises.

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

- annual cash flows are projected based on estimated rental income net of operating and maintenance expenses based on current market rental rates and actual average operating and maintenance expenses
- discount rates of 13.4% to 15.8% are applied to capitalise annual cash flows depending on region and location of premises.

Changes in the estimates could affect the value of the premises. For example, to the extent that the net present value of the estimated cash flows differs by plus/minus ten percent, the buildings valuation as of 31 December 2011 would be RUB 52 329 thousand higher/lower (31 December 2010: RUB 52 518 thousand).

Included in the carrying amount of buildings is RUB 123 066 thousand (31 December 2010: RUB 125 339 thousand) representing revaluation surplus. As at 31 December 2011 the carrying amount of buildings and land would have been RUB 352 322 thousand (31 December 2010: RUB 351 941 thousand) had the assets been carried at cost less depreciation.

JSC "AIKB "Tatfondbank"

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2011
(expressed in thousands of Russian Rubles)

13 Property and equipment (continued)

Construction in progress consists mainly of construction and refurbishment of branch premises. Equipment not put in use represents office and computer equipment which the Group has not yet started to use. Upon completion/putting into operation, these assets are transferred to the corresponding category of fixed assets.

14 Other assets

	31 December 2011	31 December 2010
Other financial assets		
Unsettled transactions	446 612	1 035 881
Receivables from sale of commemorative coins	118 727	14 646
Trade receivables	77 079	31 749
Plastic cards receivables	65 312	10 012
Financial derivatives transactions	46 210	2 319
Settlements on transactions with securities	22 381	6 269
Receivables on money transfers	2 563	1 184
Other	58 590	91 018
Allowance for impairment of other financial assets	(22 937)	-
Total other financial assets	814 537	1 193 078
Other non-financial assets		
Capitalised software development costs	276 490	275 506
Precious metals	60 362	59 631
Intangible assets	58 153	38 481
Prepaid income taxes	36 844	44 687
Inventories	33 530	12 455
Other	27 244	8 754
Allowance for impairment of software development costs	(276 490)	(275 506)
Total other non-financial assets	216 133	164 008
Total other assets	1 030 670	1 357 086

Movements in the allowance for impairment of other assets during the year ended 31 December 2011 and 2010 are as follows:

	2011	2010
At 1 January	275 506	102 266
Impairment of other financial assets	22 937	-
Impairment of other non-financial assets	984	173 240
At 31 December	299 427	275 506

JSC "AIKB "Tatfondbank"

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2011
(expressed in thousands of Russian Rubles)

15 Due to banks

	31 December 2011	31 December 2010
Term deposits of other banks	3 320 415	1 685 970
Sale and repurchase agreements with other banks	1 002 531	-
Vostro accounts and overnight placements of other banks	13 068	113
Total due to banks	4 336 014	1 686 083

As at 31 December 2011, term deposits of banks include liabilities from three banks (31 December 2010: three banks) whose balances individually exceed 10% of total due to banks. The gross value of these balances as at 31 December 2011 amounts to RUB 2 238 680 thousand (31 December 2010: RUB 1 381 183 thousand).

At 31 December 2011, term deposits of banks include RUB 835 824 thousand (31 December 2010: RUB 611 104 thousand), or 19.3% (31 December 2010: 36.2%) of the total amount due to banks, received from OJSC "Russian Bank for Small and Medium Enterprises Support". These term deposits have maturity dates from 20 July 2012 to 30 September 2016 (31 December 2010: from February 2011 to October 2015) and interest rates from 7.5% to 12.5% p.a. (31 December 2010: 7.5% to 12.5% p.a.).

As at 31 December 2011, liabilities under sale and repurchase agreements of RUB 1 002 531 thousand are secured by securities pledged with a fair value of RUB 1 080 428 thousand.

16 Customer accounts

	31 December 2011	31 December 2010
Corporate entities	10 557 062	6 769 982
- Current/settlement accounts	6 376 497	4 269 961
- Term deposits	2 773 271	2 500 021
- Sale and repurchase agreements	1 407 294	-
Individuals	29 334 747	23 680 946
- Term deposits	24 652 367	20 065 454
- Current/demand accounts	4 682 380	3 615 492
Total customer accounts	39 891 809	30 450 928

As at 31 December 2011, liabilities under sale and repurchase agreements of RUB 1 407 294 thousand are secured by securities pledged with a fair value of RUB 1 760 619 thousand.

Economic sector concentrations within customer accounts are as follows:

	31 December 2011		31 December 2010	
	Amount	%	Amount	%
Individuals	29 334 747	74	23 680 946	78
Construction and production	4 220 484	11	1 953 049	6
Trade and finance	2 725 684	7	1 298 390	4
Transport	509 774	1	280 734	1
Agriculture	192 929	-	935 223	3
State owned organisations	86 832	-	87 359	1
Oil industry	10 284	-	4 530	-
Other	2 811 075	7	2 210 697	7
Total customer accounts	39 891 809	100	30 450 928	100

At 31 December 2011 the Group has one customer (31 December 2010: no customers) with balances above RUB 500 000 thousand. The gross value of these balances amounts to RUB 2 467 291 thousand or 6% of total customer accounts.

JSC "AIKB "Tatfondbank"

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2011
(expressed in thousands of Russian Rubles)

17 Debt securities in issue

	31 December 2011	31 December 2010
Russian Ruble denominated bonds	10 267 519	8 222 314
Russian Ruble denominated promissory notes	1 408 637	1 041 291
Total debt securities in issue	11 676 156	9 263 605

As at 31 December 2011 bonds denominated in Russian Rubles represent interest-bearing securities traded on the Moscow Interbank Currency Exchange (MICEX).

	Carrying value	Nominal value	Date of issue	Final maturity date	Coupon rate, %	Date of early redemption option as at 31 December 2011
Fifth issue	2 029 921	2 000 000	25.03.2009	21.03.2012	8.50	-
Sixth issue	2 030 100	2 000 000	02.03.2010	26.02.2013	8.75	05.03.2012
Seventh issue	173 561	1 000 000	18.12.2009	14.12.2012	10.00	-
Exchange-traded bonds of first issue	1 995 518	2 000 000	30.12.2010	26.12.2013	9.50	04.07.2012
Exchange-traded bonds of second issue	2 023 385	2 000 000	21.04.2011	17.04.2014	8.75	24.10.2012
Exchange-traded bonds of third issue	2 015 034	2 000 000	01.12.2011	27.11.2014	12.25	06.12.2012
Total Russian Ruble denominated bonds	10 267 519					

As at 31 December 2010, bonds denominated in Russian Rubles represent interest-bearing securities traded on the Moscow Interbank Currency Exchange (MICEX).

	Carrying value	Nominal value	Date of issue	Final maturity date	Coupon rate, %	Date of early redemption option as at 31 December 2010
Fourth issue	1 516 465	1 500 000	04.06.2008	01.06.2011	13.00	-
Fifth issue	2 025 706	2 000 000	25.03.2009	21.03.2012	11.00	29.03.2011
Sixth issue	2 059 153	2 000 000	02.03.2010	26.02.2013	11.20	05.03.2011
Seventh issue	628 380	1 000 000	18.12.2009	14.12.2012	8.75	22.12.2011
Exchange-traded bonds of first issue	1 992 610	2 000 000	30.12.2010	26.12.2013	9.50	04.07.2012
Total Russian Ruble denominated bonds	8 222 314					

Promissory notes denominated in Russian Rubles include discount and interest-bearing securities issued by the Group. These promissory notes have maturity dates from February 2012 to April 2015 (31 December 2010: from January to November 2011) and effective interest rates from 6.43% to 10.75% p.a. (31 December 2010: from 6.95% to 14.51% p.a.).

JSC "AIKB "Tatfondbank"

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2011
(expressed in thousands of Russian Rubles)

18 Eurobonds issued

On 2 February 2010 the Group attracted financing of USD 225 million in the form of Eurobonds maturing in February 2012. The Eurobonds were placed by TFB Finance Limited (Ireland) in the form of credit linked notes issued for the sole purpose of financing a loan to the Group. The coupon rate on these Eurobonds is 12% p.a. paid semi-annually.

19 Other liabilities

Other liabilities comprise the following:

	31 December 2011	31 December 2010
Other financial liabilities		
Settlements on transactions with financial instruments	521 527	117 010
Advance interest payments on loans	3 920	5 950
Plastic cards payables	1 322	1 339
Payables on money transfers	1 191	1 104
Other	16 019	13 124
Total other financial liabilities	543 979	138 527
Other non-financial liabilities		
Bonuses accrued	23 405	53 761
Other taxes payable	15 959	23 981
Total other non-financial liabilities	39 364	77 742
Total other liabilities	583 343	216 269

20 Subordinated borrowings

Subordinated borrowings of RUB 2 100 000 thousand were received on 21 December 2010 and mature in January 2016. Subordinated borrowings carry an annual interest rate of 8.0% p.a., and an effective interest rate of 8.3% p.a. In case of bankruptcy, the repayment of the subordinated borrowings will be made after repayment in full of all other liabilities of the Group.

21 Changes in non-controlling interests

Changes in non-controlling interests are as follows:

	2011	2010
At 1 January	2 761 132	873 440
Share in net (loss) profit	(6 641)	1 681 397
Changes of shares in unit funds held by the Group	431 327	206 295
At 31 December	3 185 818	2 761 132

JSC "AIKB "Tatfondbank"

*Notes to the Consolidated Financial Statements for the Year Ended 31 December 2011
(expressed in thousands of Russian Rubles)*

22 Share capital

The nominal registered amount of issued share capital, prior to restatement of capital contributions made before 1 January 2003 to the purchasing power of the Russian Rubles, at 31 December 2011 is RUB 7 300 000 thousand (31 December 2010: RUB 7 300 000 thousand). Authorised share capital comprises 1 597 000 000 ordinary shares with a nominal value of RUB 10 per share. Issued share capital comprises 730 000 000 ordinary shares (31 December 2010: 730 000 000 ordinary shares) with a nominal value of RUB 10 per share. All ordinary shares rank equally and carry one vote.

As at 31 December 2011, the amount of paid up and adjusted for inflation share capital is RUB 7 811 618 thousand (31 December 2010: RUB 7 811 618 thousand).

Dividends payable are restricted to the maximum retained earnings of the Bank determined according to the legislation of the Russian Federation. In accordance with the legislation of the Russian Federation as at 31 December 2011 funds available for distribution amount to RUB 1 600 048 thousand (31 December 2010: RUB 1 348 676 thousand) (unaudited).

No dividends for 2011 and 2010 were declared.

23 Interest income and expense

	2011	2010
Interest income		
Loans to customers	4 352 849	4 337 060
Interest income on impaired loans to customers	1 208 810	813 704
Debt investments available-for-sale	353 055	348 762
Debt financial instruments at fair value through profit or loss	238 043	283 575
Due from banks	8 667	179 727
Receivables under sale and repurchase agreements	8 176	-
Other	707	4 784
Total interest income	6 170 307	5 967 612
Interest expense		
Customer accounts	2 202 553	2 581 965
Debt securities in issue	1 009 581	839 140
Eurobonds issued	856 882	917 675
Due to banks	254 622	360 538
Subordinated debt	167 083	4 593
Finance lease liabilities	-	401
Total interest expense	4 490 721	4 704 312
Net interest income	1 679 586	1 263 300

JSC "AIKB "Tatfondbank"

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2011
(expressed in thousands of Russian Rubles)

24 Fee and commission income and expense

	2011	2010
Fee and commission income		
Settlement transactions	307 872	131 842
Transactions with plastic cards	109 290	85 803
Cash transactions	95 843	74 726
Currency operations	28 635	12 970
Transactions with securities	26 093	25 097
Guarantees and letters of credit issued	11 519	6 518
Fiduciary activities	3 855	4 923
Custody operations	459	427
Other	3 750	133
Total fee and commission income	587 316	342 439
Fee and commission expense		
Trust management transactions	74 447	106 187
Transactions with plastic cards	25 770	19 974
Cash collection	24 302	20 931
Transactions with securities	18 661	13 157
Settlement transactions	18 386	17 287
Cash transactions	3 826	335
Other	4 806	696
Total fee and commission expense	170 198	178 567
Net fee and commission income	417 118	163 872

25 Impairment losses

	2011	2010
Loans to customers	(834 498)	(1 505 554)
Investments held-to-maturity	14 022	-
Investments available-for-sale	(54 014)	(387)
Property and equipment	-	4 679
Other assets	(23 921)	(173 240)
Total impairment losses	(898 411)	(1 674 502)

JSC "AIKB "Tatfondbank"

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2011
(expressed in thousands of Russian Rubles)

26 Administrative and other operating expenses

	2011	2010
Staff costs	852 315	730 437
Rent	173 577	101 868
Repairs and maintenance	110 066	78 924
Deposit insurance expenses	100 966	82 925
Stationery and communication services	87 913	54 634
Depreciation of property and equipment	87 729	98 010
Taxes other than on income	82 560	65 328
Charity	55 210	57 631
Software support expense	45 287	22 577
Advertising and marketing services	39 906	40 412
Security expenses	36 254	33 483
Software licences	31 423	28 938
Professional services	19 528	24 335
Other	104 374	92 747
Total administrative and other operating expenses	1 827 108	1 512 249

Included in staff costs are statutory social security and pension contributions (unified social tax) of RUB 177 963 thousand (2010: RUB 132 371 thousand).

27 Income tax expense

Income tax expense comprises the following:

	2011	2010
Current tax	22 883	6 920
Deferred tax	(17 078)	74 782
Income tax expense	5 805	81 702

In the context of the Group's current structure and the Russian tax legislation, tax losses and current tax assets of different companies of the Group may not be offset against current tax liabilities and taxable profits of other companies of the Group and, accordingly, taxes may accrue even where there is a consolidated tax loss. Therefore, deferred tax assets and liabilities are offset only when they relate to the same taxable entity and the same taxation authority.

The income tax rate applicable to the majority of the Group's income is 20% (2010: 20%). The reconciliation between the expected and the actual taxation charge is provided below:

	2011	2010
Profit before taxation	28 737	406 108
Theoretical tax charge at statutory rate	5 747	81 222
Income that is exempt from taxation	(8 171)	(14 688)
Non deductible expenses	25 913	29 451
Income taxed at lower rates	(2 771)	(1 708)
Unrecognised net deferred tax asset movement	(14 913)	(12 575)
Income tax expense	5 805	81 702

JSC "AIKB "Tatfondbank"

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2011
(expressed in thousands of Russian Rubles)

27 Income tax expense (continued)

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax assets as at 31 December 2011 and 2010.

Movements in temporary differences for the year ended 31 December 2011 are as follows:

	1 January 2011	Recognised in profit or loss	Recognised in other comprehensive income	31 December 2011
Tax effect of deductible (taxable) temporary differences				
Allowance for loan impairment	252 831	6 427	-	259 258
Revaluation of securities at fair value through profit or loss	161 979	(103 039)	-	58 940
Revaluation of investments available-for-sale	3 716	-	32 536	36 252
Property and equipment: cost	(32 653)	-	-	(32 653)
Property and equipment: depreciation	23 956	(1 409)	-	22 547
Property and equipment: revaluation	(24 108)	568	-	(23 540)
Impairment of other assets	86 711	4 784	-	91 495
Impairment of securities	993	(2 602)	-	(1 609)
Investment property	(9 672)	(7 839)	-	(17 511)
Accruals	(195 995)	27 788	-	(168 207)
Other	141 647	77 487	-	219 134
Gross deferred tax asset	409 405	2 165	32 536	444 106
Non-recognised deferred tax assets	(350 109)	14 913	-	(335 196)
Net deferred tax asset	59 296	17 078	32 536	108 910

JSC "AIKB "Tatfondbank"

*Notes to the Consolidated Financial Statements for the Year Ended 31 December 2011
(expressed in thousands of Russian Rubles)*

27 Income tax expense (continued)

Movements in temporary differences for the year ended 31 December 2010 are as follows:

	1 January 2010	Recognised in profit or loss	Recognised in other comprehensive income	31 December 2010
Tax effect of deductible (taxable) temporary differences				
Allowance for loan impairment	68 767	184 064	-	252 831
Revaluation of securities at fair value through profit or loss	108 942	53 037	-	161 979
Revaluation of investments available-for-sale	614	-	3 102	3 716
Property and equipment: cost	(32 653)	-	-	(32 653)
Property and equipment: depreciation	20 763	3 193	-	23 956
Property and equipment: revaluation	(13 952)	358	(10 514)	(24 108)
Impairment of other assets	55 861	30 850	-	86 711
Impairment of securities	12 977	(11 984)	-	993
Investment property	300 194	(309 866)	-	(9 672)
Accruals	(95 511)	(100 484)	-	(195 995)
Other	78 172	63 475	-	141 647
Gross deferred tax asset	504 174	(87 357)	(7 412)	409 405
Non-recognised deferred tax assets	(362 684)	12 575	-	(350 109)
Net deferred tax asset	141 490	(74 782)	(7 412)	59 296

The deferred tax asset represents income taxes recoverable through future deductions from taxable profits and is recorded in the consolidated statement of financial position. Deferred tax assets are recorded to the extent that realisation of the related tax benefit is probable.

As at 31 December 2011 the Group did not recognise deferred tax assets of RUB 335 196 thousand (31 December 2010: RUB 350 109 thousand) as management does not believe that the Group will be able to recover the related benefits.

The tax effects relating to components of other comprehensive income comprise:

	2011			2010		
	Amount before tax	Tax expense	Amount net of tax	Amount before tax	Tax expense	Amount net of tax
Net change in fair value of investments available-for-sale	(171 366)	34 273	(137 093)	(12 013)	2 403	(9 610)
Net change in fair value of investments available-for-sale transferred to profit or loss	8 683	(1 737)	6 946	(3 496)	699	(2 797)
Revaluation of buildings	-	-	-	52 569	(10 514)	42 055
Other comprehensive income	(162 683)	32 536	(130 147)	37 060	(7 412)	29 648

JSC "AIKB "Tatfondbank"

*Notes to the Consolidated Financial Statements for the Year Ended 31 December 2011
(expressed in thousands of Russian Rubles)*

28 Segment analysis

The Group is organized into three main reportable operating segments. The segments are identified on the basis of organizational structure and types of clients. Each operating segment involves areas of business that are under control and responsibility of one of the Management Board members. The following summary describes the operations in each of the reportable segments:

- Corporate banking – current accounts, deposits, overdrafts, loan and other credit facilities, foreign currency operations, derivative products and other transactions with corporate customers
- Retail banking – banking services to individuals, private customer current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages
- Investment banking – financial instruments trading, structured financing, operations with derivatives, corporate leasing.

The Group does not allocate equity between segments.

The Management Board evaluates the profitability of the operating segments based on financial information prepared using the accounting data maintained in accordance with the Russian Accounting Principles.

The operating segment accounting policies are based on the Russian Accounting Principles for the Bank only and thus differ significantly from the accounting policies described in these consolidated financial statements. Information regarding the results of each reportable segment is presented below. Performance is measured based on segment profit before income tax, as included in the internal management reports that are reviewed by the Management Board. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of segments relative to other entities that operate within the industry.

The Group does not allocate the net book value of property and equipment between the segments to determine segment assets. These captions are included in "Unallocated" category in the reconciliation of the total segment assets to total assets of the Group.

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

	Corporate banking	Retail banking	Investment banking	Unallocated	Total
For the year ended					
31 December 2011					
Total revenues comprise:					
- Interest income	4 414 618	672 519	1 572 592	-	6 659 729
- Fee and commission income	238 111	435 460	23 637	103	697 311
- Other operating income	141 464	96 099	172 404	19 361	429 328
Total external revenues	4 794 193	1 204 078	1 768 633	19 464	7 786 368
Intersegment revenue	783 693	2 466 452	2 336 771	-	5 586 916
Segment result	1 289 232	62 361	182 113	(1 224 485)	309 221
31 December 2011					
Segment assets	45 538 497	8 217 680	21 706 227	2 967 837	78 430 241
Segment liabilities	12 593 164	29 343 385	26 840 772	752 871	69 530 192

JSC "AIKB "Tatfondbank"

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2011
(expressed in thousands of Russian Rubles)

28 Segment analysis (continued)

Segment information for the main reportable operating segments for the year ended 31 December 2010 is set out below. Comparative information on the assets by segments is reclassified to conform to changes in the current year presentation, resulting from changes in the organizational structure of the Bank on which segments identification is based in 2011.

	Corporate banking	Retail banking	Investment banking	Unallocated	Total
For the year ended 31 December 2010					
Total revenues comprise:					
- Interest income	4 567 236	482 585	1 267 310	47 929	6 365 060
- Fee and commission income	73 758	255 965	16 044	713	346 480
- Other operating income	23 078	277 677	88 007	193 862	582 624
Total external revenues	4 664 072	1 016 227	1 371 361	242 504	7 294 164
Intersegment revenue	159 944	2 912 192	2 745 081	481	5 817 698
Segment result	363 991	8 291	316 796	(400 807)	288 271
31 December 2010					
Segment assets	38 192 481	3 504 191	18 222 524	854 004	60 773 200
Segment liabilities	9 921 374	23 603 119	17 903 633	696 403	52 124 529

Administrative and other operating expenses are reallocated between segments for the purposes of segment analysis based on cost drivers, the main one of which is the number of employees.

A reconciliation of profit before income tax expense as measured in the management accounting to profit before income tax expense as presented in these IFRS consolidated financial statements for the year ended 31 December is provided below:

	2011	2010
Profit before tax per management accounting	309 221	288 271
Adjustments for impairment losses	452 926	(1 186 831)
Consolidation and fair value adjustments	(511 138)	2 031 128
Other adjustments	(222 272)	(726 460)
Profit before tax per IFRS consolidated financial statements	28 737	406 108

JSC "AIKB "Tatfondbank"

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2011
(expressed in thousands of Russian Rubles)

28 Segment analysis (continued)

A reconciliation of total segmental assets/liabilities as measured in the management accounting to total assets/liabilities as presented in these IFRS consolidated financial statements is provided below:

	31 December 2011		31 December 2010	
	Assets	Liabilities	Assets	Liabilities
Total assets/liabilities per management accounting	78 430 241	69 530 192	60 773 200	52 124 529
Adjustments for impairment losses	(1 350 655)	-	(1 803 581)	-
Consolidation and fair value adjustments	2 394 170	3 709 057	735 261	1 539 010
Other adjustments	(600 212)	(806 291)	344 982	(161 478)
Total assets/liabilities per IFRS consolidated financial statements	78 873 544	72 432 958	60 049 862	53 502 061

Information about major customers. Substantially all revenues from external customers are generated from transactions within the Tatarstan Republic and with counterparties located in the Tatarstan Republic. The total amount of revenues from each single external customer or group of external customers known to be under common control does not exceed 10 per cent of revenues. Substantially all non-current assets are located in the Russian Federation.

29 Financial risk management

The risk management function within the Group is carried out in respect of financial risks (credit, liquidity, interest rate, currency and price) and functional risks (operational risk, legal risk, and reputational risk). The primary objective of the financial risk management function is to establish risk limits, and then ensure that exposure to risks stays within these limits. Functional risk management should ensure proper compliance with internal regulations and procedures to minimize operational and legal risks and continuous monitoring of reputational risk.

Risk management functions are divided between the bodies responsible for establishment of the risk management policies and procedures including limits and those whose functions include implementation of these policies and procedures, including control over risks and limits on a continuous basis.

The Board of Directors, the Audit and Risk Committee of the Board of Directors and the Executive Board set the risk management policy of the Bank.

- *The Board of Directors* is authorised to approve the principal risk management procedures and develop a strategy for risk management and control. The Board of Directors also approves certain significant transactions. The Board of Directors approves the risk management policy, aggregate risk limits and frequency of limits review, approves the risk mitigation policies for all transactions, specifies types of banking and other transactions that require preliminary approval, and controls the executive bodies in the area of risk management. The Board of Directors is ultimately responsible to the Bank's owners for ensuring a complete and adequate understanding of risks and potential losses as well as for ensuring that the Executive Board takes all necessary steps to maintain the systems of risk management and control.
- *The Audit and Risk Committee of the Board of Directors* is a special permanent body created by the Board of Directors for analysis of the most critical issues within its competence. The objective of creating the Committee is to enhance development of an effective risk management system and to assist the Board of Directors to perform its supervisory functions. The Committee acts in the interests of the shareholders, the Bank and its investors and ensures the involvement of the members of the Board of Directors in general management and monitoring of activities associated with banking risk management and their personal awareness of the Bank's activities in this area.

29 Financial risk management (continued)

- *The Executive Board* is responsible for implementation of the risk management policy established and approved by the Board of Directors. The Executive Board approves internal guidance for units involved in risk management, establishes the main risk management principles, coordinates management of risks, sets the limits for market, operational and liquidity risks as well as the procedures for their monitoring. The Executive Board approves the credit policy, appoints the Credit Committees and approves decisions within their authority.

The Financial Committee, the Credit Committees, the Treasury, the Internal Control Function, the Compliance Control Department, the Securities Market Controller, the Risk Management Department and the Resource Committee implement the risk management policy.

- *Financial Committee* is responsible for management of risks associated with certain counterparties (within the scope of its authorities approved by the Executive Board) and also for the general implementation of the budgeting policy, the asset and liability structure, investment policy, capital and limits policies.
- *Credit Committees* take decisions on the transactions with the counterparties in order to mitigate the risk of their failure to perform on obligations to the Bank (credit risks) as well as to maximise economic efficiency of these transactions.
- *Treasury* is primarily responsible for management of short-term and current liquidity within the established requirements and limits. It is also responsible for monitoring of compliance with the approved limits, participates in the development of the liquidity risk mitigation policy and procedures and also the standards and procedures of banking transactions.
- *Internal Control Function* is responsible for the compliance with all applicable legislation and internal rules and decisions, including the credit policy. The Internal Control Function participates in the development of risk mitigation policy and procedures and the standards and procedures of banking transactions. The Internal Control Function reports directly to the Board of Directors.
- *Compliance Control Department* was created to increase the effectiveness of the internal control system and management of compliance risk (legal, damage to business reputation or significant losses). The department is responsible for compliance of the internal documents to the legal requirements. It develops procedures designed to reduce the compliance risk and performs on-line and preliminary control over transactions.
- *Securities Market Controller* conducts continuous control over the compliance with the risk management policy by staff and units and participates in financial risk management with respect to the operations in the securities market.
- *Risk Management Department* reviews the financial position of the counterparties, evaluates the data and calculates the limits for major risks, prepares proposals on risk mitigation and (in accordance with the approved limits) proposes on limits for certain transactions and/or counterparties.
- *Resource Committee* takes management decisions on efficiency of structure of assets and liabilities of the Group. These decisions should comply with the established limits (for counterparties, structural divisions of the Group, financial instruments, industries and geographical regions) set by the Executive Board, the Financial Committee, and the Credit Committees. In case of liquidity shortage the Committee is authorized to decrease the amount of the transaction or suspend it, and postpone lending transactions approved by the Credit Committees.

The Board of Directors approves the Regulations on Risk Evaluation and Management that establish the principal policies of banking risk management and evaluation.

There were no significant changes in the Group's objectives, policies and processes for managing the risk and the methods used to measure the risk.

29 Financial risk management (continued)

Credit risk. Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

The following management bodies and structural units are involved in credit risk management: the Executive Board, the Financial Committee, the Credit Committees, the Risk Management Department, the Internal Control Function, the Collateral Department, and the Security Department.

The maximum exposure to credit risk is reflected in the carrying amounts of financial assets in the consolidated statement of financial position. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant. For guarantees and commitments to extend credit, the maximum exposure to credit risk is the amount of the commitment.

In accordance with the Regulations on Limit Policy the Group controls 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. Limits on the level of credit risk by product and industry sector are approved regularly by management. Such risks are monitored on a revolving basis and subject to an annual or more frequent review.

The Group established several credit committees, which are permanently operating bodies established to deal with the process of issuing loans to legal entities and individuals.

Credit Committees include:

- Credit Committee for lending to legal entities and individual entrepreneurs without establishing a legal entity
- Credit Committee for lending to individuals
- Small Credit Committee for lending to legal entities and individual entrepreneurs
- Small Credit Committee for lending to individuals.

Loan applications originated by the relevant client relationship managers are passed on to the relevant credit committee for approval of credit limits. Exposure to credit risk is also managed, in part, by obtaining collateral and corporate and personal guarantees.

In order to monitor credit risk exposures, regular reports are produced by the credit departments' officers based on a structured analysis focusing on the customer's business and financial performance. Any significant exposures to customers with deteriorating creditworthiness are reported to and reviewed by the Credit Committees and the Executive Board.

Authority limits for the Credit Committees are established by the Financial Committee or the Executive Board in accordance with internal regulations. Authority limits of the Financial Committee are determined by the collegial decision of the Executive Board and are documented in the Minutes of the Executive Board.

The limits of authority of collegial bodies are determined on the basis of reasonableness, materiality and required promptness of decision taking.

The collateral service unit evaluates collateral when issuing a loan, in case of deterioration of the borrower's financial position, and also in case of identification (in the course of checking the availability and state of collateral) of facts affecting the liquidity and market value of collateral.

The Group uses formalised internal credit ratings to monitor credit risk.

The credit rating of a legal entity includes an evaluation of the counterparty's financial position (profitability, liquidity, coverage and turnover ratios, etc.) using a scoring system and its position against business risk (management quality, ownership structure, industry competition, dependence on vendors and customers, etc.). Each counterparty is assigned a credit rating depending upon its total score and the Credit Committee, Financial Committee or the Executive Board (depending upon the loan amount under consideration) approve or reject the transaction and its terms.

29 Financial risk management (continued)

For the purpose of determining the risks associated with the SME portfolio, the counterparty's financial position (business profitability indicators, debt load on business, coverage of loan repayment with business revenues and other) and its position against business risk (the period of business activity, ownership structure, credit history quality and other) are analysed. A credit rating for an individual counterparty is assigned on the basis of its total score.

The credit rating for a credit institution is determined on the basis of evaluation of its solvency, asset quality, operations and business efficiency. Limits for credit institutions also depend on their current liquidity and equity position. Final decisions on the exposure amount are taken on a collegial basis by the Financial Committee or the Executive Board.

Credit rating of an insurance company is determined on the basis of its financial position assessment, takes into account its financial position, position against business risk (degree of regional and industry risk diversification, specialization of the company, history of business, management quality, ownership structure and other).

For the purposes of credit risk assessment the loans provided to individuals are classified into collateralised loan (mortgage, car loans) portfolio and other customer loan portfolio.

Loan applications are processed by Retail department specialists using scoring models and procedures of data verification developed in cooperation with the Risk Management Department.

The analysis and evaluation of counterparties' financial position are conducted by those departments that are involved in lending as well as by the Risk Management Department.

The credit department reviews the ageing analysis of outstanding loans and follows up on past due balances. Management is provided with the ageing and other information on credit risk as disclosed in note 8.

Credit risk for credit related commitments is defined as the possibility of sustaining a loss as a result of another party to a financial instrument failing to perform in accordance with the terms of the contract. The Group uses the same credit policies in making conditional obligations as it does for financial instruments recognised in the consolidated statement of financial position through established credit approval risk control limits and monitoring procedures.

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

The Group maintains liquidity management with the objective of ensuring that funds will be available at all times to honour all cash flow obligations as they become due.

The liquidity policy is reviewed and approved by the Board of Directors.

Operational information on liquidity risk (gap analysis) is provided to management on a weekly basis. Liquidity risk for management purposes is evaluated by the Risk Management Department at the end of each month. The objective is to determine a net liquidity gap and a negative uncovered liquidity gap and compare the gaps with available funding facilities.

As a part of its liquidity evaluation process, the Group estimates the nature of its liabilities and the expected timing of their withdrawals, performs stress testings and evaluates its ability to refinance debt from customer and financial markets.

The liquidity position is considered to be at the normal level if the negative liquidity gap is lower than, or comparable to, the possible amount of funding from the financial markets (acceptable negative liquidity gap). The liquidity position is critical if a negative liquidity gap exceeds the maximum possible funding from financial markets.

JSC "AIKB "Tatfondbank"

*Notes to the Consolidated Financial Statements for the Year Ended 31 December 2011
(expressed in thousands of Russian Rubles)*

29 Financial risk management (continued)

The Treasury monitors limits opened for the Bank by other counterparty banks in order to evaluate possibilities for attracting additional resources from the financial markets.

The liquidity management comprises maintaining the appropriate level of liquid assets necessary to settle obligations as they fall due; maintaining access to a range of funding sources; maintaining funding contingency plans; and monitoring liquidity ratios against regulatory requirements. The Group seeks to maintain a stable funding base comprising primarily amounts due to banks, corporate and retail customer deposits and debt securities and invest the funds in diversified portfolios of liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The Bank calculates liquidity ratios on a daily basis in accordance with the requirement of the Central Bank of Russia. These ratios are:

- Instant liquidity ratio (N2), which is calculated as the ratio of highly-liquid assets to liabilities payable on demand
- Current liquidity ratio (N3), which is calculated as the ratio of liquid assets to liabilities maturing within 30 calendar days
- Long-term liquidity ratio (N4), which is calculated as the ratio of assets maturing after one year to regulatory capital and liabilities maturing after one year.

The Treasury Department receives information about the liquidity profile of the financial assets and liabilities and it is responsible for monitoring of the daily liquidity position. The Department for Active Operations in the Securities Market provides for an adequate portfolio of short-term liquid assets, largely made up of short-term liquid trading securities, deposits with banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity and exposure to changes in interest and exchange rates.

The following tables show financial liabilities by remaining contractual maturity dates as at 31 December 2011 and 2010. The amounts disclosed in the following tables are the contractual undiscounted cash flows. Such undiscounted cash flows differ from the amounts included in the consolidated statement of financial position because these amounts are based on discounted cash flows.

When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the reporting date. Foreign currency payments are translated using the spot exchange rate at the reporting date.

The undiscounted maturity analysis of financial liabilities at 31 December 2011 is as follows:

	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Total
Financial liabilities					
Due to the Central Bank of the Russian Federation	395 603	3 314 702	-	-	3 710 305
Due to banks	3 000 078	349 822	177 174	1 046 098	4 573 172
Customer accounts	15 730 260	12 429 496	10 274 588	2 866 055	41 300 399
Debt securities in issue	-	5 631 316	6 515 953	221 887	12 369 156
Eurobonds issued	-	7 678 770	-	-	7 678 770
Subordinated borrowings	-	83 770	70 422	2 627 474	2 781 666
Other financial liabilities	536 213	7 041	1	724	543 979
Total financial liabilities	19 662 154	29 494 917	17 038 138	6 762 238	72 957 447
Total commitments	1 853 560	699 221	171 809	424 893	3 149 483

JSC "AIKB "Tatfondbank"

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2011
(expressed in thousands of Russian Rubles)

29 Financial risk management (continued)

The undiscounted maturity analysis of financial liabilities at 31 December 2010 is as follows:

	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Total
Financial liabilities					
Due to the Central Bank of the Russian Federation	865	117 271	-	-	118 136
Due to banks	233 449	640 279	283 946	681 267	1 838 941
Customer accounts	11 314 132	12 305 379	6 916 591	791 670	31 327 772
Debt securities in issue	40 000	6 334 917	1 443 886	2 097 863	9 916 666
Eurobonds issued	-	400 430	400 430	7 074 261	7 875 121
Subordinated borrowings	-	83 310	84 690	2 781 666	2 949 666
Other financial liabilities	123 575	7 412	-	7 540	138 527
Total financial liabilities	11 712 021	19 888 998	9 129 543	13 434 267	54 164 829
Total commitments	841 968	51 703	116 850	35 494	1 046 015

In accordance with the Russian legislation individuals have the right to withdraw their deposits, including term deposits, at any point of time before maturity, usually with a loss of accrued interest income. These deposits are presented by contractual maturity dates. As at 31 December 2011 term deposits of individuals with maturity more than one month comprises RUB 22 170 146 thousand (31 December 2010: RUB 17 365 797 thousand).

Management believes that in spite of a substantial portion of customer accounts being on demand (current/settlement accounts), diversification of these deposits by number and type, and the past experience of the Group, would indicate that these deposits provide a long-term and stable source of funding. According to the Group's estimates, as of 31 December 2011 and 2010 withdrawals of "Demand and less than 1 month" customer accounts will occur in the following periods:

	31 December 2011	31 December 2010
Demand and less than 1 month	10 109 421	7 002 858
More than 1 year	5 620 839	4 311 274

In accordance with the terms of certain bonds issued by the Group bondholders have right to present bonds for redemption on certain dates before final maturity. Undiscounted cash flows for these bonds are presented based on the earliest option dates.

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Group does not generally expect the counterparty to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

The following table shows the assets and liabilities by remaining contractual maturity dates as at 31 December 2011 and 2010. Due to the fact that as at 31 December 2011 and 2010 substantially all the financial instruments are fixed rate contracts, remaining contractual maturity dates also represents the contractual interest rate repricing dates.

JSC "AIKB "Tatfondbank"

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2011
(expressed in thousands of Russian Rubles)

29 Financial risk management (continued)

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

- Financial instruments at fair value through profit or loss:
 - management holds a portfolio of securities that are included in the CBR Lombard List or rated higher than BBB that can be used to meet outflows of financial liabilities. Cash flows from these securities, totaling RUB 5 109 928 thousand (31 December 2010: RUB 3 053 278 thousand) are included in the demand and less than 1 month category.
- Investments available-for-sale:
 - management holds a portfolio of securities that are included in the CBR Lombard List or rated higher than BBB that can be used to meet outflows of financial liabilities. Cash flows from these securities, totaling RUB 1 053 993 thousand (31 December 2010: nil), are included in the demand and less than 1 month category.

The table below summarises the analysis of the liquidity position as at 31 December 2011:

	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	Over 12 months	No stated maturity/ overdue	Total
Financial assets						
Cash and cash equivalents	6 019 192	-	-	-	-	6 019 192
Mandatory cash balances with the Central Bank of the Russian Federation	684 902	-	-	-	-	684 902
Due from banks	133 433	11 278	-	-	-	144 711
Financial instruments at fair value through profit or loss	6 028 848	-	52 167	161 509	13 856	6 256 380
Loans to customers	712 590	13 610 989	19 252 591	17 031 993	1 199 606	51 807 769
Investments available-for-sale	1 053 993	1 997 547	593 129	9 788	551 487	4 205 944
Investments held-to-maturity	-	-	-	13 471	-	13 471
Other financial assets	250 856	85 649	451 294	24 280	2 458	814 537
Total financial assets	14 883 814	15 705 463	20 349 181	17 241 041	1 767 407	69 946 906
Financial liabilities						
Due to the Central Bank of the Russian Federation	381 269	3 256 400	-	-	-	3 637 669
Due to banks	2 987 574	316 047	144 804	887 589	-	4 336 014
Customer accounts	15 719 710	12 154 474	9 589 829	2 427 796	-	39 891 809
Debt securities in issue	-	5 187 983	6 313 325	174 848	-	11 676 156
Eurobonds issued	-	7 022 156	-	-	-	7 022 156
Subordinated borrowings	-	-	-	2 099 993	-	2 099 993
Other financial liabilities	536 213	7 041	1	724	-	543 979
Total financial liabilities	19 624 766	27 944 101	16 047 959	5 590 950	-	69 207 776
Net gap	(4 740 952)	(12 238 638)	4 301 222	11 650 091	1 767 407	739 130
Cumulative gap at 31 December 2011	(4 740 952)	(16 979 590)	(12 678 368)	(1 028 277)	739 130	

JSC "AIKB "Tatfondbank"

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2011
(expressed in thousands of Russian Rubles)

29 Financial risk management (continued)

The existing liquidity gap as at 31 December 2011 in the less than 12 months period is due to a concentration of liabilities to settle Eurobonds of USD 225 million, bonds of the fifth issue of RUB 2 000 million, and liabilities under the earlier redemption option of bonds of the sixth issue of RUB 2 000 million. The Group timely and fully settled these obligations (Note 34).

The table below summarises the analysis of the liquidity position as at 31 December 2010:

	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	Over 12 months	No stated maturity/ overdue	Total
Financial assets						
Cash and cash equivalents	4 103 923	-	-	-	-	4 103 923
Mandatory cash balances with the Central Bank of the Russian Federation	339 706	-	-	-	-	339 706
Due from banks	16 769	-	27 429	-	-	44 198
Financial instruments at fair value through profit or loss	3 053 278	148 446	132 798	743 514	113 053	4 191 089
Loans to customers	908 680	16 782 484	11 677 613	9 652 777	527 755	39 549 309
Investments available-for-sale	-	2 089 281	-	-	605 688	2 694 969
Other financial assets	70 683	22 498	1 036 117	4 797	58 983	1 193 078
Total financial assets	8 493 039	19 042 709	12 873 957	10 401 088	1 305 479	52 116 272
Financial liabilities						
Due to the Central Bank of the Russian Federation	307	116 457	-	-	-	116 764
Due to banks	225 751	609 095	245 798	605 439	-	1 686 083
Customer accounts	11 300 360	11 999 661	6 459 105	691 802	-	30 450 928
Debt securities in issue	39 601	5 977 352	1 254 042	1 992 610	-	9 263 605
Eurobonds issued	-	-	-	6 907 290	-	6 907 290
Subordinated borrowings	-	-	-	2 099 990	-	2 099 990
Other financial liabilities	123 575	7 412	-	7 540	-	138 527
Total financial liabilities	11 689 594	18 709 977	7 958 945	12 304 671	-	50 663 187
Net gap	(3 196 555)	332 732	4 915 012	(1 903 583)	1 305 479	1 453 085
Cumulative gap at 31 December 2010	(3 196 555)	(2 863 823)	2 051 189	147 606	1 453 085	

The Group has debt securities and eurobonds issued of approximately RUB 12 billion maturing in 2012. As at 31 December 2011 liabilities maturing within 12 months after the reporting date exceeded assets maturing in the same period by RUB 12.7 billion. The ability of the Group to continue operations depends on its ability to refinance its debts as they fall due. The management believes that the Group will be able to refinance its debt using open credit facilities with other banks and by borrowing from the CBR.

The Group also owns securities of approximately RUB 5.1 billion as at 31 December 2011, that are included in the CBR Lombard List, and other assets eligible for use as collateral for collateralized borrowings from the CBR. Management also believes that, if required, it can attract uncollateralized loans from the CBR. As at 31 December 2011 the total amount of unused credit limits opened for the Bank by Russian banks is approximately RUB 9.1 billion.

29 Financial risk management (continued)

To secure funding, current liquidity maintenance and ensure timely compliance with the covenants under the borrowing arrangements, the Group takes the following steps:

- in February and April 2012 the Group attracted additional funds by placement of exchange-traded bonds maturing in three years (Note 34)
- increase loans eligible to be used as collateral for secured borrowings from the CBR
- short-term financial liabilities will be replaced with liabilities of longer maturity
- the shareholders and the ultimate owners of the Group committed to provide financial assistance to the Group, if necessary, to maintain liquidity and capital position.

In addition, the shareholders and ultimate beneficiaries of the Group believe, based on discussion held in October 2011 with regional government representatives and relevant documents received from the government authorities, that the Bank and the Group will get sufficient support, if needed, from the Government of the Tatarstan Republic and other regional authorities. The Government of the Tatarstan Republic made a share capital injection in the Bank of RUB 2 billion in 2008 and granted a subordinated loan of RUB 2.1 billion in 2010. Management expects that Government of the Tatarstan Republic will continue to support the Bank and the Group in case of necessity.

As such, management, the shareholders and ultimate beneficiaries of the Group concluded that the Group will be able to meet all liquidity requirements during the next 12 months.

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

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

Interest rate risk. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise.

Interest rate risk for management purposes is calculated by the Risk Management Department at the end of each month.

The interest rate risk management functions of the Executive Board include:

- approval of interest rates for various types of transactions
- management decisions on asset and liability portfolios in relation to their maturity or interest rate structure.

The Risk Management Department calculates interest rate risk on a monthly basis using the three following methods:

- a GAP analysis
- a duration method; this method applies certain weighting coefficients, which are based on duration of assets and liabilities, to each time interval where these financial instruments are categorized depending on maturity
- an assessment of volatility of interest rates for interest-earning assets and liabilities. This calculation is based upon statistical data on interest rates for the three recent years.

JSC "AIKB "Tatfondbank"

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2011
(expressed in thousands of Russian Rubles)

29 Financial risk management (continued)

The following table presents the sensitivity of financial results and equity to changes in interest rates by 200 basis points (bp) applied to the positions existing at the reporting date, with all other variables held constant (assuming no asymmetrical movement in yield curves and not taking into consideration the effect of such changes on fair values of financial instruments) is as follows:

	31 December 2011		31 December 2010	
	Profit	Equity	Profit	Equity
200 bp rise	(369 139)	(369 139)	(121 529)	(121 529)
200 bp fall	369 139	369 139	121 529	121 529

Sensitivity of debt securities at fair value through profit or loss and traded investments available-for-sale to the yield curve risk is calculated using a duration method. Under this method future cash flows and average effective interest rates for the portfolios of debt instruments are determined and then a change in the fair value of securities portfolio from a shift in the yield curve by 200 bp is assessed.

The following table presents sensitivities of profit or loss and equity to a shift in the yield curve by 200 basis points applied to the positions of interest-bearing assets and liabilities existing at the reporting date, with all other variables held constant:

	31 December 2011		31 December 2010	
	Profit	Equity	Profit	Equity
200 bp rise	(162 890)	(174 052)	(98 787)	(105 392)
200 bp fall	170 992	181 264	103 357	109 250

The Group monitors interest rates for its financial instruments. The table below summarises the effective interest rates based on the reports reviewed by key management personnel:

% p.a.	31 December 2011		31 December 2010	
	RUB	Other	RUB	Other
Financial assets				
Cash and cash equivalents	0.5	0.0	0.6	0.0
Due from banks	0.0	1.2	0.0	0.2
Financial instruments at fair value through profit or loss	8.0	-	8.2	11.1
Financial instruments at fair value through profit or loss pledged under reverse purchase agreements	9.0	-	0.0	-
Loans to customers	11.4	11.2	10.6	12.3
Investments available-for-sale	15.0	-	15.1	-
Liabilities				
Due to the Central Bank of the Russian Federation	7.2	-	8.7	-
Due to banks				
- term deposits	7.2	5.7	8.5	6.2
- sale and repurchase of agreements	7.0	-	-	-
Customer accounts				
- current and settlement accounts	0.0	0.0	0.0	0.0
- term deposits	8.0	6.8	9.2	5.0
- sale and repurchase of agreements	10.0	-	-	-
Promissory notes	8.7	-	9.2	-
Russian Ruble denominated bonds	11.0	-	11.9	-
Eurobonds in issue	-	13.8	-	13.9
Subordinated borrowings	8.3	-	8.3	-

JSC "AIKB "Tatfondbank"

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2011
(expressed in thousands of Russian Rubles)

29 Financial risk management (continued)

Currency risk. There are assets and liabilities in different foreign currencies.

Currency risk is the risk of losses as a result of unfavourable changes in foreign currency exchange rates.

Management sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily on the basis of statutory accounts data.

The Group does not take into account its subsidiaries in calculation of currency risk since the volume of foreign currency operations and balances are not significant and thus the subsidiaries are not exposed to significant currency risk.

The table below summarises the exposure to foreign currency exchange rate risk at 31 December 2011:

	RUB	USD	EUR	Other	Precious metals	Total
Financial assets						
Cash and cash equivalents	5 348 741	443 914	218 105	7	8 425	6 019 192
Mandatory cash balances with the Central Bank of the Russian Federation	684 902	-	-	-	-	684 902
Due from banks	75 876	68 835	-	-	-	144 711
Financial instruments at fair value through profit or loss	6 256 380	-	-	-	-	6 256 380
Loans to customers	45 531 479	6 244 104	32 186	-	-	51 807 769
Investments available-for-sale	4 205 894	50	-	-	-	4 205 944
Investments held-to-maturity	13 471	-	-	-	-	13 471
Other financial assets	764 586	44 783	3 217	-	1 951	814 537
Total financial assets	62 881 329	6 801 686	253 508	7	10 376	69 946 906
Financial liabilities						
Due to the Central Bank of the Russian Federation	3 637 669	-	-	-	-	3 637 669
Due to banks	3 892 130	394 903	48 981	-	-	4 336 014
Customer accounts	37 335 037	1 611 277	718 551	-	226 944	39 891 809
Debt securities in issue	11 676 156	-	-	-	-	11 676 156
Eurobonds issued	-	7 022 156	-	-	-	7 022 156
Subordinated borrowings	2 099 993	-	-	-	-	2 099 993
Other financial liabilities	540 339	2 324	108	-	1 208	543 979
Total financial liabilities	59 181 324	9 030 660	767 640	-	228 152	69 207 776
Net recognised position	3 700 005	(2 228 974)	(514 132)	7	(217 776)	739 130
Effect of foreign exchange derivatives	(2 125 354)	1 582 899	333 371	-	209 084	-
Net position	1 574 651	(646 075)	(180 761)	7	(8 692)	739 130

JSC "AIKB "Tatfondbank"

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2011
(expressed in thousands of Russian Rubles)

29 Financial risk management (continued)

The table below summarises the exposure to foreign currency exchange rate risk at 31 December 2010:

	RUB	USD	EUR	Other	Precious metals	Total
Financial assets						
Cash and cash equivalents	2 933 278	705 201	457 847	101	7 496	4 103 923
Mandatory cash balances with the Central Bank of the Russian Federation	339 706	-	-	-	-	339 706
Due from banks	-	44 198	-	-	-	44 198
Financial instruments at fair value through profit or loss	4 017 284	173 805	-	-	-	4 191 089
Loans to customers	33 343 179	6 117 079	89 051	-	-	39 549 309
Investments available-for-sale	2 694 969	-	-	-	-	2 694 969
Other financial assets	1 188 927	3 277	874	-	-	1 193 078
Total financial assets	44 517 343	7 043 560	547 772	101	7 496	52 116 272
Financial liabilities						
Due to the Central Bank of the Russian Federation	116 764	-	-	-	-	116 764
Due to banks	1 137 101	470 115	78 867	-	-	1 686 083
Customer accounts	29 248 950	533 225	520 114	-	148 639	30 450 928
Debt securities in issue	9 263 605	-	-	-	-	9 263 605
Eurobonds issued	-	6 907 290	-	-	-	6 907 290
Subordinated borrowings	2 099 990	-	-	-	-	2 099 990
Other financial liabilities	135 559	2 645	105	-	218	138 527
Total financial liabilities	42 001 969	7 913 275	599 086	-	148 857	50 663 187
Net recognised position	2 515 374	(869 715)	(51 314)	101	(141 361)	1 453 085
Effect of foreign exchange derivatives	(599 147)	454 835	-	-	144 312	-
Net position	1 916 227	(414 880)	(51 314)	101	2 951	1 453 085

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

Other price risk management is exercised in the range of approved limits:

- general limit of open position for instruments exposed to price risk (approved as part of limits on investments in securities by the Management Board)
- limit of open position for individual financial instruments (limits on issuers of debt securities).

Approved limits are reviewed following changes in amounts of assets and liabilities, financial and liquidity positions, risk assessment of investments and changes in the legislation of the Russian Federation.

Value at Risk (VaR) estimates. The Group uses Value at Risk method (VaR) to measure its exposures to market risks.

VaR is a technique that estimates the potential losses that could occur on risk positions as a result of movements in market rates and prices over a specified time horizon and to a given level of confidence.

The VaR model used by the Group is based upon a 99% confidence level.

JSC "AIKB "Tatfondbank"

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2011
(expressed in thousands of Russian Rubles)

29 Financial risk management (continued)

Although VaR is a valuable tool in measuring market risk exposures, it has a number of limitations, especially in less liquid markets as follows:

- the use of historical data as a basis for determining future events may not encompass all possible scenarios, particularly those that are of an extreme nature
- a holding period assumes that all positions can be liquidated or hedged within that period. This is considered to be a realistic assumption in almost all cases but may not be the case in situations in which there is severe market illiquidity for a prolonged period
- the use of a 99% confidence level does not take into account losses that may occur beyond this level. There is a one percent probability that the loss could exceed the VaR estimate
- VaR is only calculated on the end-of-day balances and does not necessarily reflect exposures that may arise on positions during the trading day
- the VaR measure is dependent upon the position and the volatility of market prices. The VaR of an unchanged position reduces if market volatility declines and vice versa.

Currency risk VaR for management accounting purposes is estimated by the Risk Management Department at the end of each month on the basis of the open currency positions (OCP) data under the statutory accounting reports for the Bank only. OCP is the difference between the amounts of assets and of liabilities denominated in foreign currencies. The forecast horizon for calculation of currency risk is twenty days. As these calculations are not based on IFRS amounts they do not necessarily reflect currency risk exposures of the Group under IFRS.

The currency risk VaR amounts with a twenty day forecast horizon at 31 December 2011 and 2010 are as follows:

	31 December 2011	31 December 2010
VaR value	45 355	11 876

The potential impact on profit or loss from currency risk based on VaR for the year ended 31 December is shown below:

	2011		2010	
	VaR value	Date	VaR value	Date
Minimum VaR value	21 897	At 1 August 2011	16 017	At 1 December 2010
Average VaR value	41 294		32 494	
Maximum VaR value	69 718	At 1 December 2011	52 235	At 1 January 2010

Price risk VaR for management accounting purposes is determined on the basis of 1-day and 20-day forecast horizons. The statistical calculations cover a 6-month period (not less than 120 trading days), use the variation-covariation method and the assumption that changes in securities price are close to normal distribution. In 2010 and 2011 price risk VaR calculation included the portfolio of LLC "IK "TFB-Finance".

The potential impact on profit or loss from price risk based on VaR as at 31 December 2011 and 2010 is shown below:

	31 December 2011	31 December 2010
VAR 1-day	245 320	122 502
VAR 20-day	889 470	228 463

JSC "AIKB "Tatfondbank"

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2011
(expressed in thousands of Russian Rubles)

29 Financial risk management (continued)

The table below shows the analysis of the price risk VaR amounts the years ended 31 December 2011 and 2010:

	2011		2010	
	VaR value	Date	VaR value	Date
Minimum VaR value	230 381	At 1 May 2011	94 796	At 1 April 2010
Average VaR value	531 878		198 839	
Maximum VaR value	973 097	At 1 December 2011	388 752	At 1 November 2010

Geographical risk concentrations. The geographical concentration of the financial assets and liabilities at 31 December 2011 is set out below:

	Tatarstan Republic	Other regions of Russia	Other countries	Total
Financial assets				
Cash and cash equivalents	4 347 030	1 366 103	306 059	6 019 192
Mandatory cash balances with the Central Bank of the Russian Federation	684 902	-	-	684 902
Due from banks	-	138 272	6 439	144 711
Financial instruments at fair value through profit or loss	41 961	6 214 419	-	6 256 380
Loans to customers	46 159 236	5 249 387	399 146	51 807 769
Investments available-for-sale	3 142 113	1 063 781	50	4 205 944
Investments held-to-maturity	-	13 471	-	13 471
Other financial assets	640 818	171 668	2 051	814 537
Total financial assets	55 016 060	14 217 101	713 745	69 946 906
Financial liabilities				
Due to the Central Bank of the Russian Federation	-	3 637 669	-	3 637 669
Due to banks	175 378	3 716 898	443 738	4 336 014
Customer accounts	33 597 654	6 272 219	21 936	39 891 809
Debt securities in issue	1 408 637	10 267 519	-	11 676 156
Eurobonds issued	-	-	7 022 156	7 022 156
Subordinated borrowings	2 099 993	-	-	2 099 993
Other financial liabilities	513 642	30 231	106	543 979
Total financial liabilities	37 795 304	23 924 536	7 487 936	69 207 776
Net position	17 220 756	(9 707 435)	(6 774 191)	739 130
Total commitments	2 358 351	791 132	-	3 149 483

JSC "AIKB "Tatfondbank"

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2011
(expressed in thousands of Russian Rubles)

29 Financial risk management (continued)

The geographical concentration of the financial assets and liabilities at 31 December 2010 is set out below:

	Tatarstan Republic	Other regions of Russia	Other countries	Total
Financial assets				
Cash and cash equivalents	2 689 803	588 570	825 550	4 103 923
Mandatory cash balances with the Central Bank of the Russian Federation	339 706	-	-	339 706
Due from banks	-	10 674	33 524	44 198
Financial instruments at fair value through profit or loss	-	4 017 283	173 806	4 191 089
Loans to customers	32 780 224	6 683 865	85 220	39 549 309
Investments available-for-sale	2 572 615	122 354	-	2 694 969
Other financial assets	1 159 933	32 489	656	1 193 078
Total financial assets	39 542 281	11 455 235	1 118 756	52 116 272
Financial liabilities				
Due to the Central Bank of the Russian Federation	-	116 764	-	116 764
Due to banks	42	1 137 121	548 920	1 686 083
Customer accounts	26 721 295	3 720 323	9 310	30 450 928
Debt securities in issue	1 041 291	8 222 314	-	9 263 605
Eurobonds issued	-	-	6 907 290	6 907 290
Subordinated borrowings	2 099 990	-	-	2 099 990
Other financial liabilities	101 710	36 716	101	138 527
Total financial liabilities	29 964 328	13 233 238	7 465 621	50 663 187
Net position	9 577 953	(1 778 003)	(6 346 865)	1 453 085
Total commitments	985 066	28 881	32 068	1 046 015

30 Management of capital

The Bank defines as capital those items defined by statutory regulation as capital for credit institutions.

The objectives when managing capital are (i) to comply with the capital requirements set by the Central Bank of the Russian Federation, (ii) to safeguard the ability to continue as a going concern, (iii) to maximize the return on risk-adjusted capital, and (iv) to maintain a sufficient capital base to achieve a capital adequacy ratio based on the Basel Accord as defined in the International Convergence of Capital Measurement and Capital Standards (updated April 1998) and Amendment to the Capital Accord to incorporate market risks (updated November 2005). Compliance with the capital adequacy ratio set by the CBR is monitored monthly and reports outlining the calculation are reviewed and signed by the Chief Executive Officer and Chief Accountant.

The Group and the Bank are also subject to minimum capital requirements established by covenants stated in the loan agreements, including capital adequacy levels calculated in accordance with the requirements of the Basel Accord.

The capital adequacy ratio under the Basle Agreement is calculated by the Reporting Department. Forecast for the capital adequacy ratio calculation is performed by the Reporting Department at least twice a year.

JSC "AIKB "Tatfondbank"

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2011
(expressed in thousands of Russian Rubles)

30 Management of capital (continued)

The table below shows the components of the capital calculated in accordance with the Basel Capital Accord as at 31 December 2011 and 2010:

	2011	2010
Tier 1 capital		
Share capital	7 811 618	7 811 618
Accumulated deficit	(1 332 035)	(1 357 240)
Total tier 1 capital	6 479 583	6 454 378
Tier 2 capital		
Revaluation reserve for buildings	106 012	108 285
Revaluation reserve for investments available-for-sale	(145 009)	(14 862)
Subordinated borrowings	1 784 992	2 099 990
Total tier 2 capital	1 745 995	2 193 413
Total capital	8 225 578	8 647 791

The table below shows the capital adequacy ratios as at 31 December 2011 and 2010 calculated in accordance with the Basel Capital Accord adjusted for non-controlling interests. For the purpose of capital adequacy ratio calculation the Group excludes non-controlling interest from the Group's assets.

	31 December 2011	31 December 2010
Basic capital adequacy ratio (tier 1 capital)	9.42%	12.03%
Total capital adequacy ratio (tier 1 and 2)	11.96%	16.11%

Compliance with covenants. The Group is subject to certain covenants related primarily to issued Eurobonds. The Bank has to maintain the Total Basel capital adequacy ratio at the level of at least 12%. Failure to meet this covenant may have negative consequences for the Group including early repayment of the borrowed funds.

On 1 February 2012 the Bank executed in full its liabilities to settle Eurobonds issued on 2 February 2010 in the amount of USD 225 million and paid all interest due on the Eurobonds (Note 34).

31 Contingencies and commitments

Legal proceedings. From time to time and in the normal course of business, claims against the Group may be received. On the basis of its own estimates and submissions made by internal professional advisors management is of the opinion that no material losses will be incurred in respect of such claims and accordingly no provision is made in these consolidated financial statements.

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

JSC "AIKB "Tatfondbank"

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2011
(expressed in thousands of Russian Rubles)

31 Contingencies and commitments (continued)

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

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

Capital expenditure commitments. At 31 December 2011, the Group has contractual capital expenditure commitments in respect of property and equipment totalling RUB 5 870 thousand (31 December 2010: RUB 3 021 thousand).

Operating lease commitments. Where the Group is the lessee, the future minimum lease payments under non-cancellable operating leases are as follows:

	2011	2010
Not later than 1 year	174 332	65 344
Due between 1 and 5 years	312 063	23 170
More than 5 years	91 400	24
Total operating lease commitments	577 795	88 538

At 31 December 2011, total future lease payments receivable under non-cancellable operating leases is RUB 5 810 thousand (31 December 2010: RUB 12 306 thousand).

Credit related commitments. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to losses in the amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit related commitments because long-term commitments generally have a greater degree of credit risk than shorter-term commitments.

The total outstanding contractual amount of undrawn credit lines and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded.

Outstanding credit related commitments are as follows:

	31 December 2011	31 December 2010
Guarantees issued	872 685	117 937
Undrawn credit lines	1 693 133	836 519
Total credit related commitments	2 565 818	954 456

JSC "AIKB "Tatfondbank"

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2011
(expressed in thousands of Russian Rubles)

31 Contingencies and commitments (continued)

Credit related commitments are denominated in currencies as follows:

	31 December 2011	31 December 2010
RUB	2 254 660	905 755
USD	308 939	40 361
EUR	2 219	8 340
Total	2 565 818	954 456

Assets pledged and restricted. At 31 December 2011 and 2010, the Group has the following assets pledged as collateral:

	31 December 2011		31 December 2010	
	Asset pledged	Related liability	Asset pledged	Related liability
Loans to customers pledged under financing received from the CBR	4 909 407	2 635 559	463 044	116 764
Securities pledged as collateral under sale and repurchase agreements with other banks	1 080 428	1 002 531	-	-
Securities pledged as collateral under sale and repurchase agreements with customers	1 760 619	1 407 294	-	-
Total	7 750 454	5 045 384	463 044	116 764

As at 31 December 2011, mandatory cash balances with the CBR of RUB 684 902 thousand (31 December 2010: RUB 339 706 thousand) represent mandatory reserve deposits which are not available to finance the Group's day to day operations.

32 Fair value of financial instruments

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

Financial instruments at fair value through profit or loss and investments available-for-sale (other than unquoted equity securities for which it is impracticable to determine fair value) are carried in the consolidated statement of financial position at their fair value. Fair values were determined based on quoted prices from active markets except for those securities for which there were no available external independent reliable market price quotations.

Valuation methods for unquoted securities and shares not traded in the active market required certain assumptions that are not supported by observable market data. An active market is a market which satisfies the following conditions: items traded in the market are homogenous; willing sellers and buyers are generally available at any time; information on prices is publicly available. Indicators of abnormal market conditions (i.e. of an inactive market) can be large spreads between the purchase price and the selling price or a relatively small number of bids.

The estimated fair value of all other financial instruments represents the discounted amount of estimated future cash flows expected to be received or paid.

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

JSC "AIKB "Tatfondbank"

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2011
(expressed in thousands of Russian Rubles)

32 Fair value of financial instruments (continued)

The fair value of floating rate instruments is their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

Discount rates used depend on currency, maturity of the instrument and credit risk of the counterparty and are as follows:

	31 December 2011	31 December 2010
Due from banks		
Short-term placements with banks in rubles	4.7%-6.8% p.a.	1.2%-3.9% p.a.
Short-term placements with banks in USD	0.5%-1.3% p.a.	0.4%-1.0% p.a.
Loans to customers		
Corporate loans in rubles	8.8%-12.6% p.a.	9.5% - 16.0% p.a.
Corporate loans in USD	9.0%-14.0% p.a.	10.0% - 14.0% p.a.
Corporate loans in EUR	8.3% p.a.	8.3% p.a.
Loans to individuals in rubles	15.5%-18.5% p.a.	12.3% - 18.1% p.a.
Loans to individuals in Euro	12.0% p.a.	-
Due to banks		
Term placements of other banks in rubles	5.9%-9.6% p.a.	3.0%-10.8% p.a.
Term placements of other banks in USD	1.0% p.a.	1.0%-6.5% p.a.
Customer accounts		
Term deposits of individuals in rubles	3.8%-9.4% p.a.	3.8%-9.2% p.a.
Term deposits of individuals in USD	0.2%-3.5% p.a.	0.01%-4.6% p.a.
Term deposits of individuals in EUR	0.4%-4.3% p.a.	-
Term deposits of corporate entities in rubles	0.3%-8.5% p.a.	0.3%-8.1% p.a.
Eurobonds issued	12.0% p.a.	12.0% p.a.
Subordinated borrowings	8.0% p.a.	8.0% p.a.

The estimated fair values of all financial instruments, except for unquoted equity investments available-for-sale stated at cost, approximate their carrying values.

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

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

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

JSC "AIKB "Tatfondbank"

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2011
(expressed in thousands of Russian Rubles)

32 Fair value of financial instruments (continued)

The following table shows an analysis of financial instruments recorded at fair value, classified using the fair value hierarchy as at 31 December 2011:

	Level 1	Level 2	Level 3	Total
Financial assets				
Financial instruments at fair value through profit or loss	6 256 380	-	-	6 256 380
Investments available-for-sale	1 063 831	-	2 774 622	3 838 453

The following table shows an analysis of financial instruments recorded at fair value, classified using the fair value hierarchy as at 31 December 2010:

	Level 1	Level 2	Level 3	Total
Financial assets				
Financial instruments at fair value through profit or loss	4 191 089	-	-	4 191 089
Investments available-for-sale	69 407	-	2 019 874	2 089 281

Unquoted equity investments available-for-sale are stated at cost except for units in mutual funds that are stated according to the underlying net assets of the fund. As of 31 December 2011 equity investments available-for-sale stated at cost amounts to RUB 367 491 thousand (31 December 2010: RUB 605 688 thousand).

The following table shows a reconciliation for fair value measurements in Level 3 of the fair value hierarchy:

	2011	2010
At 1 January	2 019 874	-
Total gains or losses:		
in profit or loss	(81 833)	(12 224)
in other comprehensive income	(15 643)	1 259
Purchases	1 383 996	891 231
Repayments / Sales	(726 918)	(83 844)
Transfers into level 3	195 146	1 223 452
At 31 December	2 774 622	2 019 874

Although the Group believes that its estimates of fair value are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair value. For fair value measurements in Level 3, changing one or more of the assumptions used to reasonably possible alternative assumptions would have the following effects as at 31 December 2011:

	Effect on profit or loss		Effect on equity	
	Favourable	Unfavourable	Favourable	Unfavourable
Investments available-for-sale	59 313	(59 313)	277 462	(277 462)
Total	59 313	(59 313)	277 462	(277 462)

JSC "AIKB "Tatfondbank"

*Notes to the Consolidated Financial Statements for the Year Ended 31 December 2011
(expressed in thousands of Russian Rubles)*

32 Fair value of financial instruments (continued)

For fair value measurements in Level 3, changing one or more of the assumptions used to reasonably possible alternative assumptions would have the following effects as at 31 December 2010:

	Effect on profit or loss		Effect on equity	
	Favourable	Unfavourable	Favourable	Unfavourable
Investments available-for-sale	72 692	(72 692)	201 987	(201 987)
Total	72 692	(72 692)	201 987	(201 987)

The favourable and unfavourable effects of using reasonably possible alternative assumptions are calculated by recalibrating the model values using expected losses and risk-adjusted discount rates based on averages of the upper and lower quartiles of the Group's ranges of possible estimates. Key inputs and assumptions used to calculate favourable and unfavourable changes include:

- changing the estimated risk-free rate from 4% to 7% (31 December 2010: 4% to 7%) depending on duration of bonds
- changing the risk premium from 5% to 30% (31 December 2010: 6% to 22%) depending on credit quality of the issuer.

33 Related party transactions

Parties are generally considered to be related if the parties are under common control or one party has the ability to control the other party or can exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

The Bank is a part of a group of related companies. These related companies are controlled by individuals, none of whom holds a controlling share of any entity within this group of related companies. This group includes different trading, manufacturing and financial companies. The entities in this group of related companies are closely interrelated and there is no dominant parent company.

Transactions with members of this group of related companies are disclosed in the table below as transactions with other related parties.

Banking transactions are entered into with significant shareholders, directors and other related parties. These transactions include settlements, loans, deposit taking, trade finance and foreign currency transactions.

The Group is under state significant influence, and in the ordinary course of business operates with various state controlled companies. These transactions with state controlled companies include loans, current accounts and deposits, subordinated borrowings.

JSC "AIKB "Tatfondbank"

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2011
(expressed in thousands of Russian Rubles)

33 Related party transactions (continued)

At 31 December 2011, the outstanding balances with related parties are as follows:

	Shareholders with significant influence	Key management	Other related parties	Related parties controlled by the Government of RT	Total related parties
Cash and cash equivalents (interest rate: 0%)	-	-	-	634	634
Loans to customers, gross (interest rate: 6.8% - 15.3%)	484 578	2 837	4 306 282	296 117	5 089 814
Allowance for impairment on loans to customers	(21 780)	(7)	(236 089)	(13 712)	(271 588)
Investments available-for-sale (interest rate: 14%)	497 028	-	-	-	497 028
Investments in associates	-	-	117 907	-	117 907
Other assets	3	1	463 922	-	463 926
Due to banks (interest rate: 0%)	-	-	(148)	-	(148)
Customer accounts:					
- current accounts and settlement (interest rate: 0%)	(4 198)	(2 830)	(9 396)	(8 272)	(24 696)
- term deposits (interest rate: 4% - 11.5%)	(34 395)	(62 115)	-	-	(96 510)
Other liabilities	-	-	(10 029)	-	(10 029)
Subordinated borrowings (interest rate: 8%)	-	-	-	(2 099 993)	(2 099 993)
Non-controlling interest	-	-	(725 882)	-	(725 882)
Guarantee and collateral obtained	1 478 993	-	-	-	1 478 993

As at 31 December 2011, loans issued to related parties include unsecured and partially secured loans (net of impairment) of RUB 3 414 383 thousand (31 December 2010: RUB 3 540 969 thousand).

As at 31 December 2011, loans and receivable of RUB 4 536 209 thousand (net of impairment provision of RUB 237 251 thousand) were issued to financial companies that are related to the Group, as these financial companies are under control or significant influence of the Group's significant shareholders or key management personnel (Note 8). These loans are secured by collateral with a total recoverable amount of RUB 2 854 184 thousand of various not actively traded investments and other assets and by a guarantee.

The income and expense items with related parties for 2011 are as follows:

	Shareholders with significant influence	Key management	Other related parties	Related parties controlled by the Government of RT	Total related parties
Interest income	135 595	815	282 549	46 042	465 001
Interest expense	(3 240)	(4 610)	(13)	(171 262)	(179 125)
Commission income	269	161	3 149	562	4 141
Commission expense	-	-	(74 295)	-	(74 295)
Gains less losses from trading in foreign currencies	18	20	199	-	237
Losses less gains from operations with securities	-	-	(113)	-	(113)
Income from investment property	-	-	542 439	-	542 439
Operating income	483	-	411	-	894
Administrative and other operating expenses	(3 458)	(44 190)	(1 827)	-	(49 475)

JSC "AIKB "Tatfondbank"

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2011
(expressed in thousands of Russian Rubles)

33 Related party transactions (continued)

Aggregate amounts lent to and repaid by related parties in 2011 were as follows:

	Shareholders with significant influence	Key management	Other related parties	Related parties controlled by the Government of RT	Total related parties
Amounts lent to related parties	127 624	6 942	4 333 141	87 000	4 554 707
Amounts repaid by related parties	3 255 239	14 573	1 361 978	342 171	4 973 961

In 2011 the Group acquired units of mutual investment fund of real estate from a related party for RUB 630 449 thousand. The assets of the fund mainly comprise real estate. The Group accounted this real estate as non-current assets held for sale as the Group has an intention to sell it in 2012.

At 31 December 2010 the outstanding balances with related parties are as follows:

	Shareholders with significant influence	Key management	Other related parties	Related parties controlled by the Government of RT	Total related parties
Cash and cash equivalents (interest rate: 0%)	-	-	-	650	650
Loans to customers, gross (interest rate: 5.8%-16.5%)	3 612 193	10 468	1 335 119	551 288	5 509 068
Allowance for impairment on loans to customers	(189 669)	(33)	(123 566)	(29 059)	(342 327)
Investments available-for-sale:					
- corporate bonds (interest rate: 16%)	481 051	-	-	-	481 051
- corporate shares	-	-	52 946	-	52 946
Other assets	3	1	1 035 903	-	1 035 907
Due to banks (interest rate: 0%)	-	-	(1)	-	(1)
Customer accounts:					
- current and settlement accounts (interest rate: 0%)	(7 023)	(1 720)	(23 643)	(8 066)	(40 452)
- term deposits (interest rate: 7.5%)	(20 026)	(5 280)	-	-	(25 306)
Debt securities in issue (interest rate: 7%)	(48 445)	-	-	-	(48 445)
Other liabilities	-	-	(7 960)	-	(7 960)
Subordinated borrowings (interest rate: 8%)	-	-	-	(2 099 990)	(2 099 990)
Non-controlling interests	-	-	(969 827)	-	(969 827)

JSC "AIKB "Tatfondbank"

*Notes to the Consolidated Financial Statements for the Year Ended 31 December 2011
(expressed in thousands of Russian Rubles)*

33 Related party transactions (continued)

The income and expense items with related parties for 2010 are as follows:

	Shareholders with significant influence	Key management	Other related parties	Related parties controlled by the Government of RT	Total related parties
Interest income	233 432	1 286	124 646	96 460	455 824
Interest expense	(8 079)	(917)	-	(4 603)	(13 599)
Commission income	76	59	4 823	138	5 096
Commission expense	-	-	(99 420)	-	(99 420)
Gains less losses from trading in foreign currencies	12	1	92	-	105
Gains less losses from operations with securities	-	-	173 618	-	173 618
Gains from investment property	-	-	254 008	-	254 008
Operating income	692	5	327	1	1 025
Administrative and other operating expenses	(4)	(41 418)	(964)	-	(42 386)

As at 31 December 2011 other assets with related parties of RUB 442 089 thousand (31 December 2010: RUB 969 858 thousand) comprises deferred consideration related to transactions with investment property.

Aggregate amounts lent to and repaid by related parties in 2010 were as follows:

	Shareholders with significant influence	Key management	Other related parties	Related parties controlled by the Government of RT	Total related parties
Amounts lent to related parties	3 600 940	58 427	5 597 291	550 310	9 806 968
Amounts repaid by related parties	3 495 287	53 835	5 950 585	39 251	9 538 958

Key management compensation is presented below:

	2011	2010
Salaries	31 144	22 740
Short-term bonuses	12 647	18 330
Total	43 791	41 070

34 Subsequent events

On 1 February 2012 the Group repaid Eurobonds issued on 2 February 2010 of USD 225 million.

On 21 February 2012 the Group placed by public subscription exchange-traded bonds of the fourth issue with a nominal value of RUB 3 billion maturing in three years. The issue is marketed at the first coupon rate of 11.5-12% p.a., yield to maturity is 11.8-12.33% p.a. These bonds have an early redemption option on 26 February 2013.

On 5 March 2012 the Group in accordance with the early-repurchase option was required by bondholders to repurchase a portion of the sixth bond issue B series of RUB 1 111 million (or 55.6% of total volume of the sixth issue). Subsequent to the reporting date the Group sold the repurchased bonds of RUB 445 million on the market.

On 21 March 2012 the Group repaid the fifth issue bond issued on 25 March 2009 of RUB 2 billion.

On 10 April 2012 the Group placed by public subscription exchange-traded bonds of the fifth issue with a nominal value of RUB 2 billion maturing in three years. The first coupon rate is 11% p.a., yield to maturity is 11.3% p.a. These bonds have an early redemption option on 15 April 2013.