

Open Joint-Stock Company
“NOMOS-BANK”

Consolidated Financial Statements
For the Year Ended 31 December 2012

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OPEN JOINT-STOCK COMPANY "NOMOS-BANK"

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

Management is responsible for the preparation of the consolidated financial statements that presents fairly the financial position of Open Joint-Stock Company "NOMOS-BANK" (the "Bank") and its subsidiaries (the "Group") as at 31 December 2012 and the consolidated results of its operations, cash flows and changes in shareholders' equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

In preparing the consolidated financial statements, management is responsible for:

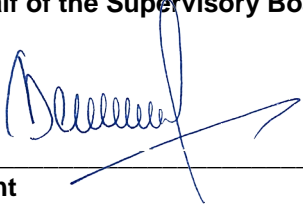
- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's consolidated financial position and financial performance;
- Stating whether IFRS has been followed, subject to any material departures disclosed and explained in the consolidated financial statements; and
- Making an assessment of the Group's ability to continue as a going concern.

Management is also responsible for:

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

The consolidated financial statements of the Group for the year ended 31 December 2012 were authorized for issue by the Supervisory Board of the Bank on 28 March 2013.

On behalf of the Supervisory Board



President
28 March 2013
Moscow



Chief Accountant
28 March 2013
Moscow

INDEPENDENT AUDITORS' REPORT

To: Shareholders and the Board of Directors of Open Joint-Stock Company "NOMOS-BANK"

We have audited the accompanying consolidated financial statements of Open Joint-Stock Company "NOMOS-BANK" and its subsidiaries (collectively – the "Group"), which comprise the consolidated statement of financial position as at 31 December 2012 and the related consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and 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 the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2012 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Deloitte & Touche

28 March 2013
Moscow, Russian Federation

Svetlana P. Stalova, Partner (licence no. 01-000596)
ZAO Deloitte & Touche CIS



The Entity: OPEN JOINT-STOCK COMPANY "NOMOS-BANK"

Certificate of state registration № 2209 dated 15.12.1992.

Certificate of registration in the Unified State Register for legal entities registered before 1 July 2002 № 1027739019208, of 26.07.2002, issued by Moscow Interdistrict Inspectorate of the Russian Ministry of Taxation № 39.

Address: Russia, 109240, Moscow, Verkhnyaya Radishevskaya 3, bid. 1

Independent Auditor: ZAO "Deloitte & Touche CIS"

Certificate of state registration № 018.482, issued by the Moscow Registration Chamber on 30.10.1992.


Certificate of registration in the Unified State Register № 1027700425444 of 13.11.2002, issued by Moscow Interdistrict Inspectorate of the Russian Ministry of Taxation № 39.

Certificate of membership in «NP «Audit Chamber of Russia» (auditors' SRO) of 20.05.2009 № 3026, ORNZ 10201017407.

**CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2012
(in million of Russian Roubles)**

	Notes	Year ended 31 December 2012	Year ended 31 December 2011
Interest income	6,37	66,650	52,358
Interest expense	6,37	(35,244)	(24,302)
NET INTEREST INCOME BEFORE GAIN ON REMEASUREMENT OF CASH FLOWS AND PROVISION FOR IMPAIRMENT LOSSES ON INTEREST BEARING ASSETS	6	31,406	28,056
Gain on remeasurement of cash flows on interest bearing assets acquired in business combination	3,37	925	4,543
Provision for impairment losses on interest bearing assets	18,20,37	(5,886)	(8,374)
NET INTEREST INCOME		26,445	24,225
Trading income/(loss):	7,37	2,681	2,063
Securities		1,335	(966)
Foreign currency		1,013	2,249
Precious metals		365	760
Other derivatives		(32)	20
Net fee and commission income	8,37	7,941	6,129
Fee and commission income	8,37	10,895	8,100
Fee and commission expense	8,37	(2,954)	(1,971)
Net gain on investments available-for-sale		593	343
Net gain on investments held to maturity		-	7
Net gain on disposal of loans	18	1,259	181
(Provision) for impairment losses on other transactions	24,29	(111)	(176)
Impairment of investments available-for-sale		-	(38)
Loss from revaluation of investment property	23	(28)	(509)
Other income	9,37	754	523
NET NON-INTEREST INCOME		13,089	8,523
OPERATING INCOME		39,534	32,748
OPERATING EXPENSES	10,37	(21,381)	(17,260)
Recovery / (impairment) of buildings and constructions	21	101	45
OPERATING PROFIT BEFORE INCOME TAX		18,254	15,533
Income tax expense	11	(3,239)	(3,399)
NET PROFIT		15,015	12,134
Attributable to:			
Equity holders of the parent		12,574	10,003
Non-controlling interest		2,441	2,131
EARNINGS PER SHARE attributable to equity holders of the parent, basic and diluted, in Roubles	12	136.05	110.97

On behalf of the Supervisory Board



President
28 March 2013
Moscow



Chief Accountant
28 March 2013
Moscow

The notes on pages 10-97 form an integral part of the consolidated financial statements.

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2012
(in million of Russian Roubles)**

	Notes	Year ended 31 December 2012	Year ended 31 December 2011
NET PROFIT		15,015	12,134
OTHER COMPREHENSIVE INCOME			
Net change in fair value of investments available-for-sale:		(273)	(69)
-change in fair value of investments available-for-sale		42	55
-disposal of investments available-for-sale		(315)	(124)
deferred income tax effect	11	55	14
Revaluation of property, plant and equipment		368	569
deferred income tax effect	11	(73)	(114)
TOTAL OTHER COMPREHENSIVE INCOME, NET OF TAX		77	400
TOTAL COMPREHENSIVE INCOME		15,092	12,534
Attributable to:			
Equity holders of the parent		12,610	10,318
Non-controlling interest	5	2,482	2,216

On behalf of the Supervisory Board


President
28 March 2013
Moscow


Chief Accountant
28 March 2013
Moscow

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2012
(in million of Russian Roubles)

	Notes	31 December 2012	31 December 2011
ASSETS			
Cash and balances with the Central Bank of the Russian Federation	13	51,148	33,959
Minimum reserve deposits with the Central Bank of the Russian Federation		6,932	6,124
Precious metals	14	6,402	9,398
Financial assets at fair value through profit or loss	15, 16, 37	104,254	77,969
Loans and advances to banks and other financial institutions	17, 37	111,586	53,691
Loans to customers	18, 37	590,564	447,905
Investments available-for-sale	19	4,919	9,690
Investments held to maturity	20	201	548
Property, plant and equipment	21	11,117	10,990
Goodwill	4	809	809
Intangible assets	22	2,481	2,627
Investment property	23	4,761	3,759
Other assets	24	4,729	4,675
TOTAL ASSETS		899,903	662,144
LIABILITIES AND EQUITY			
LIABILITIES:			
Financial liabilities at fair value through profit or loss	16,37	3,191	4,525
Due to banks and the Central Bank of the Russian Federation	25, 37	213,510	106,647
Customer accounts	26, 37	471,727	382,445
Bonds and Eurobonds	27	42,618	40,266
Promissory notes issued	28	21,145	18,907
Deferred income tax liabilities	11	1,690	2,885
Other liabilities	29, 37	4,788	3,394
Subordinated debt	30, 37	50,873	27,365
TOTAL LIABILITIES		809,542	586,434
EQUITY:			
Equity attributable to equity holders of the parent:			
Share capital		6,504	6,504
Treasury preference shares		(605)	(605)
Share premium	31	20,898	20,898
Property, plant and equipment revaluation reserve		1,302	1,073
Revaluation of investments available-for-sale		(230)	(35)
Retained earnings		46,811	34,462
Total equity attributable to equity holders of the parent		74,680	62,297
Non-controlling interest	5	15,681	13,413
Total equity		90,361	75,710
TOTAL LIABILITIES AND EQUITY		899,903	662,144

On behalf of the Supervisory Board



President
28 March 2013
Moscow


Chief Accountant
28 March 2013
Moscow

The notes on pages 10-97 form an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2012
(in million of Russian Roubles)

Note	Share capital	Treasury preference shares	Share premium	Property, plant and equipment revaluation reserve	Revaluation of investments available-for-sale	Retained earnings	Total equity attributable to equity holders of the parent company	Non-controlling interest	Total equity
31 December 2010	6,225	(484)	15,859	717	6	24,560	46,883	11,052	57,935
Net profit for the year	-	-	-	-	-	10,003	10,003	2,131	12,134
Total other comprehensive income for the period, net of tax	-	-	-	356	(41)	-	315	85	400
Share capital increase (issue of ordinary shares)	279	-	5,039	-	-	-	5,318	-	5,318
Purchase of treasury preference shares	-	(121)	-	-	-	(40)	(161)	-	(161)
Acquisition of subsidiaries	5	-	-	-	-	-	-	163	163
Effect of increase of the Group's shareholding in subsidiaries	4,5	-	-	-	-	(61)	(61)	(18)	(79)
31 December 2011	6,504	(605)	20,898	1,073	(35)	34,462	62,297	13,413	75,710
Net profit for the year	-	-	-	-	-	12,574	12,574	2,441	15,015
Total other comprehensive income for the period, net of tax	-	-	-	233	(197)	-	36	41	77
Sale of subsidiaries	4,5	-	-	-	-	182	182	(112)	70
Effect of increase/ (decrease) of the Group's shareholding in subsidiaries	4,5	-	-	(4)	2	(407)	(409)	(63)	(472)
Dividends paid	-	-	-	-	-	-	-	(39)	(39)
31 December 2012	6,504	(605)	20,898	1,302	(230)	46,811	74,680	15,681	90,361

On behalf of the Supervisory Board



 President
28 March 2013
Moscow


 Chief Accountant
28 March 2013
Moscow

The notes on pages 10-97 form an integral part of the consolidated financial statements.

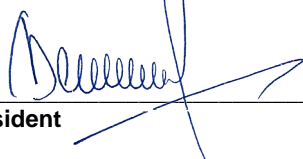
**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2012
(in million of Russian Roubles)**

	Note	Year ended 31 December 2012	Year ended 31 December 2011
Cash flows from operating activities:			
Interest received		65,909	49,902
Interest paid		(31,621)	(21,861)
Cash received from prepayment of loans acquired in business combination in excess of carrying value	3	467	2,404
Cash received on dealing with securities		1,419	1,184
Cash received on dealing with precious metals		358	1,923
Cash received on dealing with foreign currencies		385	2,001
Cash paid on dealing with other derivatives		(116)	(142)
Fees and commissions received		10,718	8,112
Fees and commissions paid		(3,068)	(1,858)
Other operating income received		690	672
Operating expenses paid		(18,995)	(15,568)
Cash flows from operating activities before changes in operating assets and liabilities		26,146	26,769
Cash Increase/(decrease) from operating assets and liabilities			
Minimum reserve deposits with the Central Bank of the Russian Federation		(821)	(3,308)
Precious metals		2,974	(3,672)
Financial assets and liabilities at fair value through profit or loss		(26,256)	(23,748)
Loans and advances to banks and other financial institutions		(62,357)	(3,500)
Loans to customers		(153,631)	(107,537)
Other assets		(360)	963
Due to banks and the Central Bank of the Russian Federation		109,632	44,189
Customer accounts		92,094	63,166
Bonds and Eurobonds, net		3,375	7,124
Promissory notes issued/(redeemed), net		2,002	(14,625)
Other liabilities		246	508
Net cash (used in)/from operating activities before income tax		(6,956)	(13,671)
Income taxes paid		(3,536)	(3,026)
Net cash (used in)/from operating activities		(10,492)	(16,697)
Cash flows from investing activities:			
Proceeds on investments held to maturity repayment		325	539
Acquisition of subsidiaries net of cash acquired	4	-	(323)
Purchase of property, plant and equipment		(771)	(1,231)
Proceeds from sale of plant and equipment		85	258
Purchase of intangible assets		(769)	(518)
Purchase of available-for-sale financial assets		(418)	(9,915)
Proceeds from sale of available-for-sale financial assets		4,747	26,328
Purchase of investment property		(1,072)	(1,348)
Proceeds from sale of investment property		250	85
Dividends received		6	33
Disposal of subsidiaries		462	-
Proceeds from sale of non-current assets held-for-sale		-	2
Net cash from/(used in) investing activities		2,845	13,910
Cash flows from financing activities:			
Issuance of shares	31	-	279
Share premium	31	-	5,039
Purchase of treasury preference shares	31	-	(161)
Redemption of bonds and Eurobonds		(334)	(3,360)
Raising of finance by issuing bonds and Eurobonds		-	844
Subordinated debt received		24,318	6,000
Subordinated debt repaid		(35)	(5,952)
Purchase of shares from non-controlling shareholders		(447)	(78)
Net cash from/(used in) financing activities		23,502	2,611
Effect of exchange rate changes on cash and cash equivalents		(300)	222
Net increase in cash and cash equivalents		15,555	46
Cash and cash equivalents, beginning of the period	13	55,306	55,260
Cash and cash equivalents, ending of the period	13	70,861	55,306

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2012
(in million of Russian Roubles)

During the years ended 31 December 2012 and 2011 the Group obtained non-cash settlement for uncollectible loans to customers, previously originated and net assets acquired and purchase adjustments in bank acquisition. These non-cash settlements were excluded from the consolidated cash flow and presented separately below:

	Notes	Year ended 31 December 2012	Year ended 31 December 2011
NON-CASH TRANSACTION:			
Loans to customers settled by means of collateral repossession:	18	(343)	(1,876)
Investment property	18	-	1,270
Other assets (obtained through repossession of collateral on uncollectible loans to customers):			
Property received as a collateral	18	343	606
Net assets acquired and purchase adjustments in bank acquisition		-	275

On behalf of the Supervisory Board


President

 28 March 2013
 Moscow



Chief Accountant

 28 March 2013
 Moscow

The notes on pages 10-97 form an integral part of these consolidated financial statements.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012
(in million of Russian Roubles)**

1. ORGANISATION

OJSC "NOMOS-BANK" (the "Bank") is a joint-stock bank incorporated in the Russian Federation in 1992. The Bank is regulated by the Central Bank of the Russian Federation (the "CBR") and conducts its business under general license number 2209. The Bank's primary business consists of commercial activities, trading with securities, foreign currencies and derivative instruments, providing loans and guarantees.

The registered office of the Bank is located at 3, Verhnaya Radishevskaya st., Moscow, 109240, Russia.

As at 31 December 2012 the Bank had 30 branches operating in the Russian Federation and 1 representative office abroad.

The accompanying consolidated financial statements comprise the accounts of Open Joint Stock Company "NOMOS-BANK" and its subsidiaries (together the "Group"). The consolidated financial statements include the following incorporated subsidiaries:

Name	Country of incorporation	The Bank's ownership interest/control (*)		Type of activity
		31 December 2012 %	31 December 2011 %	
OJSC "NOMOS-BANK"	Russian Federation	Parent company	Parent company	Banking activity
OJSC "NOMOS-REGIOBANK"	Russian Federation	100/100	100/100	Banking activity
OJSC "NOMOS Siberia"	Russian Federation	100/100	100/100	Banking activity
LLC "Inbank"	Russian Federation	-/-	74.15/74.15	Banking activity
OJSC "Khanty-Mansiysk Bank"	Russian Federation	51.29/51.29 (contractual agreement)	51.29/51.29 (contractual agreement)	Banking activity
BKM Finance Limited	Ireland			Issue of securities
LLC "Yugra-Leasing"	Russian Federation	51.29/100	51.29/100	Finance lease of equipment
LLC "Group of Project Finance"	Russian Federation	51.29/100	51.29/100	Construction
OJSC "Novosibirsk Municipal Bank"	Russian Federation	86.98/86.98	52.31/97.98	Banking activity
LLC "NM-Expert"	Russian Federation	19.90/100	19.90/100	Construction
LLC "Promgazkomplekt"	Russian Federation	100/100	100/100	Office building ownership
OJSC "Promestate"	Russian Federation	100/100	100/100	Office building ownership
CJSC "Sovfintrast"	Russian Federation	100/100	100/100	Investment management
CJSC "Upravlyaushaya kompania aktivami"	Russian Federation	99.9/99.9 (contractual agreement)	99.9/99.9 (contractual agreement)	Asset management
Nomos Capital Plc.	Ireland			Issue of Eurobonds
CJSC "Erada"	Russian Federation	100/100	100/100	Office building ownership
LLC "NM-Garant"	Russian Federation	100/100	100/100	Investment management
LLC "Leasing-Project"	Russian Federation	100/100	100/100	Finance lease of equipment
LLC "BFK-Invest"	Russian Federation	100/100	100/100	Office building ownership
LLC "Baltaktiv"	Russian Federation	-/-	100/100	Wholesale commerce
LLC "Attenium"	Russian Federation	100/100	51/100	Investment management
LLC NKO "Payment System "Rapida"	Russian Federation	100/100	51/100	Payment system
LLC "Processing centre "Rapida"	Russian Federation	100/100	51/100	Processing centre
LLC "Gikor"	Russian Federation	100/100	51/100	Asset management
LLC "Upravlyaushaya kompania NOMOS BANK"	Russian Federation	100/100	100/100	Asset management
LLC "KN-Estate"	Russian Federation	100/100	100/100	Office building ownership
LLC "Nedvizhimost Primorya"	Russian Federation	100/100	100/100	Real estate rent activity
LLC "Invest-Trading"	Russian Federation	100/100	100/100	Investment management
LLC "Vostok-Capital"	Russian Federation	100/100	100/100	Investment management
CJSC "Mortgage Agent Nomos"(**)	Russian Federation	(contractual agreement)	-	Issue of mortgage-backed bonds

(*) The Ownership and control represent the following:

- Ownership represents the effective ownership interest in the subsidiary by the ultimate parent company – OJSC Nomos Bank;
- Control represents the total % of shares controlled, either directly or indirectly, by the entities of the Group;

(**) In December 2012, the Group issued bonds with an aggregate amortized cost of RUB 5,009 million as part of a securitisation transaction. The bonds were issued by Closed Joint-Stock Company Mortgage Agent Nomos, a consolidated special purpose company (see notes 17,18,27).

Additionally, the Group consolidates the following investment funds, as the Group exercises control over them as contractually stipulated:

Name	31 December 2012 %	31 December 2011 %
ZPIF "Universal fund of mixed investments"	100	100
ZPIFRE "Universal – Real estate fund"	100	100
ZPIF "KhMB-Capital"	100	100
ZPIF "Strategiya Razvitiya"	100	-

As at 31 December 2012 the Group also had holdings (50%) in ZAO PK HESCARD, an entity that does not conduct active operations and is insignificant in terms of the Group's financial statements.

As at 31 December 2012 and 2011 the Group had 10,999 employees and 10,429 employees, respectively.

The Group also operates a number of network supplementary offices and currency exchange offices within the Russian Federation. As at 31 December 2012 and 2011 the Group had respectively 297 and 292 points of sale including branches, supplementary offices and currency exchange offices.

The information about acquisitions and disposals of subsidiaries during the year ended 31 December 2012 and 2011 is presented in Note 4.

In August 2012 the composition of shareholders of the Bank has changed. "Russia Finance Corporation B.V." has sold its share in the Bank to FC "Otkritie".

As at 31 December 2012 and 2011 the following shareholders owned the issued shares of the Bank:

Shareholders	31 December 2012, %	31 December 2011, %
Shareholders of the Bank (Shareholders of the first level):		
Custodian for Global Depository Receipts on London Stock Exchange*	20.46	22.70
LLC "Otkritie N"	19.90	-
"Vitalpeake Cyprus Limited"	17.70	13.21
"Lordline Cyprus Limited"	15.99	13.82
"Arrowzone Cyprus Limited"	7.95	7.95
"Viewrock Cyprus Limited"	7.11	0.18
"Belfanto Investments Ltd"	4.99	-
"Oviresto Investments Ltd"	4.91	-
"Russia Finance Corporation B.V."	-	26.53
"Crisandra holdings Ltd"	-	4.12
Other	0.99	11.49
Total	100.00	100.00

Shareholders	31 December 2012, %	31 December 2011, %
Ultimate shareholders of the Bank:		
Custodian for Global Depository Receipts on London Stock Exchange*	20.46	22.70
Mr. Nesis A.N.	17.70	13.21
Mr. Gudaytis A.A.	15.90	15.88
Mr. Belyaev V.S.	7.85	-
Mr. Dobrinov N.I.	7.11	2.24
Mr. Mamut A.L.	4.99	-
Mr. Malis O.A.	5.01	-
Mr. Minz B.I.	2.50	-
Mr. Finogenov I.V.	3.90	3.90
Mr. Sokolov D.V.	3.90	3.90
Mr. Kellner P.	-	26.53
Other	10.68	11.64
Total	100.00	100.00

(*)GDRs are not included in the calculation of stake in the total voting shares since the information on the holders of GDRs is undisclosed and as such GDRs are recognized as not-voting. Holders of GDRs have the option to disclose their information at any time. On disclosure of their information the holders of GDRs have the right to participate in voting.

As at 31 December 2012 and 2011 the following company owned the outstanding preference shares of the Bank:

Shareholder of treasury preference shares	31 December 2012, %	31 December 2011, %
Shareholder of treasury preference shares of the Bank (Shareholder of the first level): LLC "KN-Estate" (subsidiary company)	<u>100.00</u>	<u>100.00</u>
Total	<u>100.00</u>	<u>100.00</u>

2. BASIS OF PRESENTATION

Accounting basis

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

The consolidated financial statements have been prepared on a historical cost basis, except for available-for-sale investments, derivative financial instruments, other financial assets and liabilities held for trading, and financial assets and liabilities designated at fair value through profit or loss, land, buildings and investment property which have all been measured at fair value.

These consolidated financial statements have been prepared on the assumption that the Group is a going concern and will continue in operation for the foreseeable future. The management and shareholders have the intention to further develop the business of the Group in the Russian Federation both in corporate and retail segments. The management believes that the going concern assumption is appropriate for the Group due to its sufficient capital adequacy and based on historical experience that short-term obligations will be refinanced in the normal course of business. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on the going concern basis.

Functional currency

The functional currency of a majority of the entities within the Group is Russian Roubles ("RUB"). Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. The presentational currency of the consolidated financial statements of the Group is RUB. All values are rounded to the nearest million Roubles, except when otherwise indicated.

Offsetting

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expense are not offset in the consolidated income statement unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

These consolidated financial statements incorporate the financial statements of the Bank and entities (including special purpose entities) controlled by the Bank (its subsidiaries). Control is achieved where the Bank has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities. The ownership interest of the Bank and/or the proportion of voting power of the Bank in the significant subsidiaries as at 31 December 2012 and 2011 are presented in Note 1.

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate. Total comprehensive income of subsidiaries is attributed to the owners of the Bank and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group.

All significant intra-group transactions, balances, income and expenses are eliminated on consolidation.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. From 1 January 2010, acquisition-related costs are recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the Group's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. In a business combination achieved in stages, the previously held equity interest is remeasured at the acquisition-date fair value with the resulting gain or loss recognised in the consolidated income statement. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

Changes in a parent's ownership interest in a subsidiary that do not result in a loss of control are treated as transactions between equity holders and are reported in equity.

Entities that are controlled by the Group are consolidated until the date that control ceases.

From 1 January 2010, the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IAS 39, or IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

Recognition of income and expense

Recognition of interest income and expense

Interest income and expense are recognized on an accrual basis using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial instrument, or (where appropriate) a shorter period, to the net carrying amount. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument but excluding future credit losses.

If the Group revises its estimates of payments or receipts, the Group adjusts the carrying amount of the financial asset or financial liability (or group of financial instruments) to reflect actual and revised estimated cash flows. The Group recalculates the carrying amount by computing the present value of estimated future cash flows at the financial instrument's original effective interest rate. The adjustment is recognised in profit or loss as interest income or interest expense for loans originated by the Group (the gain/loss related to loans acquired in business combinations are separately reported in the consolidated income statement within "Gain on remeasurement of cash flows on interest bearing assets acquired in business combination"). If a financial asset is reclassified and the Group subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognised as an adjustment to the effective interest rate from the date of the change in estimate rather than as an adjustment to the carrying amount of the asset at the date of the change in estimate.

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

Interest earned and paid on assets and liabilities at fair value is classified within interest income and interest expense, respectively.

Recognition of fee and commission income and expense

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

Recognition of income on repurchase and reverse repurchase agreements

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

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

Financial instruments

The Group recognizes financial assets and liabilities in its consolidated statement of financial position when it becomes a party to the contractual obligations of the instrument. Regular purchases and sales of financial assets and liabilities are recognized using settlement date accounting. Regular purchases of financial instruments that will be subsequently measured at fair value between trade date and settlement date are accounted for in the same way as for acquired instruments.

Financial assets and liabilities are initially recognized at fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to acquisition or issue of the financial asset or financial liability. The accounting policies for subsequent re-measurement of these items are disclosed in the respective accounting policies set out below.

Financial assets

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

Financial assets at fair value through profit or loss

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

A financial asset is classified as held for trading if:

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

A financial asset (other than a financial asset held for trading) may also be designated as at fair value through profit or loss upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial asset or liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- It forms part of a contract containing one or more embedded derivatives, and IAS 39 "Financial Instruments: Recognition and Measurement" permits the entire combined contract to be designated as at fair value through profit or loss.

Financial assets at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any interest earned on the financial asset or interest paid on the financial liability, which are included in the interest income or interest expense in the consolidated income statement.

Reclassification of financial assets

Non-derivative financial assets (other than those designated at fair value through profit or loss upon initial recognition) may be reclassified out of the fair value through profit or loss category in the following circumstances:

- Financial assets that would have met the definition of loans and receivables at initial recognition (if the financial asset had not been required to be classified as held for trading) may be reclassified out of the fair value through profit or loss category if there is the intention and ability to hold the financial asset for the foreseeable future or until maturity; and
- Financial assets (except financial assets that would have met the definition of loans and receivables at initial recognition) may be reclassified out of the fair value through profit or loss category and into another category in rare circumstances.

When a financial asset is reclassified as described in the above circumstances, the financial asset is reclassified at its fair value on the date of reclassification. Any gain or loss already recognised in the income statement is not reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortized cost, as applicable.

Investments held to maturity

Debt securities with fixed or determinable payments and fixed maturity dates that the Group has positive intent and ability to hold to maturity are classified as held to maturity investments. Held to maturity investments are measured at amortised cost using the effective interest method less any impairment.

If the Group were to sell or reclassify more than an insignificant amount of held to maturity investments before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as available-for-sale. Furthermore, the Group would be prohibited from classifying any financial asset as held to maturity during the following two years.

Investments available-for-sale

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

Debt and equity investments held by the Group that are traded in an active market are classified as available-for-sale and are stated at fair value. The Group also has investments in unlisted shares that are not traded in an active market but that are also classified as available-for-sale financial assets because the management of the Group considers that fair value can be reliably measured. Gains and losses arising from changes in fair value are recorded in other comprehensive income and accumulated in the revaluation of the investments available-for-sale reserve, with the exception of the impairment losses, interest calculated using the effective interest method, and foreign exchange gains and losses on monetary assets, which are recognized in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the revaluation of the investments available-for-sale reserve is reclassified to the profit or loss.

With the exception of equity investments available-for-sale, if, in subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized. In respect of equity investments available-for-sale, impairment loss previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in consolidated other comprehensive income.

Dividends on available-for-sale equity instruments are recognized in profit or loss in other income when the Group's right to receive the dividends is established.

Loans and advances to banks and other financial institutions

In the normal course of business, the Group maintains advances and deposits for various periods of time with other banks and other financial institutions. Loans and advances to banks and other financial institutions are initially recognized at fair value, plus incremental direct transactions costs. Loans and advances to banks and other financial institutions are subsequently measured at amortized cost using the effective interest method. Amounts of loans and advances to banks and other financial institutions are carried net of any allowance for impairment losses.

Loans to customers

Loans to customers are non-derivative assets with fixed or determinable payments that are not quoted in an active market, other than those classified in other categories of financial assets.

Loans to customers granted by the Group are initially recognized at fair value plus related transaction costs that directly relate to acquisition or creation of such financial assets. Where the fair value of consideration given does not equal the fair value of the loan, for example where the loan is issued at lower than market rates, the difference between the fair value of consideration given and the fair value of the loan is recognized as a loss on initial recognition of the loan and included in the consolidated income statement according to nature of the losses. Subsequently, loans are carried at amortized cost using the effective interest method. Loans to customers are carried net of any allowance for impairment losses.

Securities repurchase and reverse repurchase agreements

In the normal course of business, the Group enters into financial assets sale and repurchase agreements ("repos") and financial asset purchase and sellback agreements ("reverse repos"). Repos and reverse repos are utilized by the Group as an element of its treasury management.

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

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

The Group enters into securities repurchase agreements and securities reverse repurchase agreements under which it receives or transfers collateral in accordance with normal market practice. Under standard terms for repurchase transactions in the Russian Federation and other Commonwealth of Independent States ("CIS"), the recipient of collateral has the right to sell or repledge the collateral, subject to returning equivalent securities on settlement of the transaction.

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. The Group accounts for impairment of financial assets not recorded at fair value when there is an objective evidence of impairment of a financial asset or a group of financial assets as a result of one or more events that occurred after the initial recognition of the financial asset and that loss event (or events) has an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

For listed and unlisted equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment. For available-for-sale securities, objective evidence of impairment could include significant financial difficulty of the issuer or counterparty; or default or delinquency in interest or principal payments; or it becoming probable that the borrower will enter bankruptcy or financial re-organisation. The impairment of available-for-sale financial assets represents a difference between the carrying value of the asset and its current fair value.

Once an impairment loss has been recognised on an available-for-sale financial asset, the subsequent accounting treatment for changes in the fair value of that asset differs depending on the nature of the available-for-sale financial asset concerned:

- For an available-for-sale debt security, a subsequent decline in the fair value of the instrument is recognised in the consolidated income statement when there is further objective evidence of impairment as a result of further decreases in the estimated future cash flows of the financial asset. Where there is no further objective evidence of impairment, the decline in the fair value of the financial asset is recognised in other comprehensive income. If the fair value of a debt security increases in a subsequent period, and the increase can be objectively related to an event occurring after the impairment loss was recognised in the consolidated income statement, the impairment loss is reversed through the consolidated income statement to the extent of the increase in fair value;
- For an available-for-sale equity security, all subsequent increases in the fair value of the instrument are treated as a revaluation and are recognised in other comprehensive income. Impairment losses recognised on the equity security are not reversed through the consolidated income statement. Subsequent decreases in the fair value of the available-for-sale equity security are recognised in the consolidated income statement, to the extent that further cumulative impairment losses have been incurred in relation to the acquisition cost of the equity security.

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

For financial assets carried at amortized cost, the impairment is calculated based on the analysis of assets subject to risks and reflects the amount sufficient, in the opinion of the management, to cover relevant losses. The allowances for impairment are created as a result of either an individual evaluation of assets subject to risks for the financial assets being individually material or on the basis of an individual or joint evaluation of financial assets not being material individually. Collectively assessed corporate financial assets, including those that have been determined as unimpaired on individual basis, are grouped based on similar credit risk characteristics and retail financial assets are grouped by type of products.

The change in the impairment is included into consolidated income statement using the provision account (financial assets measured at amortized cost) or by a direct write-off (financial assets measured at cost). Assets recognized in the consolidated statement of financial position are reduced by the amount of the impairment. The factors the Group evaluates in determining the presence of objective evidence of occurrence of an impairment loss include information on liquidity of the debtor or issuer, their solvency, business risks and financial risks, levels and tendencies of default on obligations on similar financial assets, national and local economic tendencies and conditions, and fair value of the security and guarantees. These and other factors individually or in the aggregate represent, to a great extent, an objective evidence of recognition of the impairment loss on the financial asset or group of financial assets. Cash recoveries of loans previously written off are recorded as "other income".

Renegotiated loans

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

Write off of loans and advances

Loans and advances are written off against the allowance for impairment losses when deemed uncollectible. Loans and advances are written off after management has exercised all possibilities available to collect amounts due to the Group and after the Group has sold all available collateral. Subsequent recoveries of amounts previously written off are reflected as an offset to the charge for impairment of financial assets in the consolidated income statement in the period of recovery.

Derecognition of financial assets

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

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

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in profit or loss.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, unrestricted balances on correspondent and time deposit accounts with the Central Bank of the Russian Federation and correspondent accounts with banks.

Minimum reserve deposits with the Central Bank of the Russian Federation

Minimum reserve deposits with the Central Bank of the Russian Federation (CBR) represent the amount of obligatory reserves deposited with the Central Bank of the Russian Federation in accordance with requirements established by the Central Bank of the Russian Federation which are subject to restrictions on its availability. Therefore the minimum reserve deposit required by the Central Bank of the Russian Federation is not included as a cash equivalent.

Precious metals

Assets and liabilities denominated in precious metals are translated into Roubles at the current rate computed based on the second fixing of the London Metal Exchange rates, using the RUB/USD exchange rate effective at the date. Changes in the bid prices are recorded in net (loss)/gain on operations with precious metals.

Financial liabilities and equity instruments issued

Classification as debt or equity

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

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

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

Financial liabilities

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if:

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

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- It forms part of a contract containing one or more embedded derivatives, and IAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the 'other gains and losses' line item in the consolidated income statement.

Other financial liabilities

Due to banks, customer accounts, debt securities issued and subordinated debt

Due to banks, customer accounts, debt securities issued and subordinated debt are initially recognized at fair value. Subsequently, amounts due are stated at amortized cost and any difference between net proceeds and the redemption value is recognized in the consolidated income statement over the period of the borrowings, using the effective interest method.

Derivative financial instruments

The Group enters into variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange risk, including forwards, swaps and options on foreign currency, precious metals and securities. Derivative financial instruments entered by the Group are not designated as hedges and do not qualify for hedge accounting.

Derivatives are initially recognized at fair value at the date a derivative contract is entered into and are subsequently stated at their fair value at each reporting date. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Derivatives are included in financial assets and liabilities at fair value through profit or loss in the consolidated statement of financial position. Gains and losses resulting from these instruments are included in net gain (loss) on financial assets and liabilities at fair value through profit or loss in the consolidated income statement.

Derivative instruments embedded in other financial instruments or other host contracts are treated as separate derivatives if their risks and characteristics are not closely related to those of the host contracts and the host contracts are not carried at fair value through profit or loss. An embedded derivative is a component of a hybrid financial instrument that includes both the embedded derivative and the underlying host.

Finance leases

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

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

The Group as a lessor

The Group as a lessor presents finance leases as loans and initially measures them at an amount equal to the net investment in the lease. Subsequently, the recognition of finance income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment in the finance lease.

Before commencement date property, plant and equipment purchased for future transfer to finance lease is recognized in the consolidated financial statements as property, plant and equipment purchased to transfer to finance lease at cost.

The Group as a lessee

At the commencement of the lease term, the Group as a lessee recognizes finance leases as assets and liabilities in its consolidated statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present values of the minimum lease payments. Subsequently, the minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability so as to produce a constant periodic rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Group's general policy on borrowing costs. Operating lease payments are recognized as an expense on a straight-line basis over the lease term. Contingent rents are charged as expenses in the periods in which they are incurred. Depreciation of the lease property is charged in accordance with depreciation policy that is applied to property owned by the Group.

Operating leases

Operating lease payments are recognized as an expense on a straight-line basis over the lease term. Contingent rents are charged as expenses in the periods in which they are incurred. Depreciation of the lease property is charged in accordance with depreciation policy that is applied to property owned by the Group.

Property, plant and equipment and intangible assets

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

Depreciation is charged on the carrying value of property, plant and equipment and is designed to write off assets (less their residual value) over their useful economic lives. Depreciation is calculated on a straight line basis at the following annual prescribed rates:

Buildings and constructions	2%-2.63%
Furniture and equipment	20%
Other property, plant and equipment	20%-25%
Intangible assets	16%-25%

Leasehold improvements are amortized over the life of the related leased asset or the lease period whichever is shorter.

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

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

Land, buildings and constructions held for use in supply of services, or for administrative purposes, are stated in the consolidated statement of financial position at their revalued amounts, being the fair value at the date of revaluation, determined from market-based evidence by appraisal undertaken by professional independent appraisers, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the reporting date.

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

Depreciation on revalued buildings is charged to the consolidated income statement. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the property, plant and equipment revaluation reserve is transferred directly to retained earnings.

Market value of property is assessed using three methods:

- The comparable sales method which involves analysis of market sales prices for similar real estate property;
- The income-based method which assumes a direct relationship between revenues generated by the property and its market value;
- The costs method, which presumes the value of property to be equal to its recoverable amount less any depreciation charges.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

The amortization period for intangible assets vary from 5 to 6 years.

Derecognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of 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 which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Taxation

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

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

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

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

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

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

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

Current and deferred tax are recognised as an expense or income in profit or loss, except when they relate to items that are recognised outside profit or loss (whether in other comprehensive income or directly in equity), in which case the tax is also recognised outside profit or loss, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is included in the accounting for the business combination.

The Russian Federation and Ireland also have various other taxes not based on income, which are assessed on the Group's activities. These taxes are included as a component of operating expenses in the consolidated income statement.

Non-current assets held for sale

Non-current assets held for sale represent repossessed collateral for overdue loans to customers.

A non-current asset is classified as held for sale if it is highly probable that the asset's carrying amount will be recovered through a sale transaction rather than through continuing use and the asset (or disposal group) is available for immediate sale in its present condition and the sale is highly probable. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification of an asset as held for sale.

Non-current assets held for sale are measured at the lower of its carrying amount and fair value less costs to sell. If the fair value less costs to sell of an asset held for sale is lower than its carrying amount, an impairment loss is recognized in the consolidated income statement as loss from non-current assets held for sale. Any subsequent increase in an asset's fair value less costs to sell is recognized to the extent of the cumulative impairment loss that was previously recognized in relation to that specific asset.

Investment property

Investment property, comprising office and commercial buildings, is held to earn future rentals or for capital appreciation. Investment property is initially measured at cost, including transactions costs. Subsequent to initial recognition, investment property is measured at the fair value amount, determined from market-based evidence by appraisal undertaken by professional independent appraisers. Gains and losses arising from changes in the fair value of investment property are included in income statement in the period in which they arise.

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

Provisions

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

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Financial guarantee contracts issued and letters of credit

Financial guarantee contracts and letters of credit issued by the Group provide for specified payments to be made in order to reimburse the holder for a loss incurred such that payments are made when a specified debtor fails to make payment when due under the original or modified terms of a debt instrument. Such financial guarantee contracts and letters of credit issued are initially recognized at fair value. Subsequently, financial guarantee liabilities are measured at the higher of the initial fair value, less cumulative amortisation, and the best estimate of the expenditure required to settle the obligations.

In order to determine the value of provisions for guarantees and other off-balance sheet commitments the Group performs the analysis of historical trends based on collected statistical information on collective basis. Based on the statistics on actual loss incurred by the Group during previous periods the calculation of estimated future losses is performed.

Contingencies

Contingent liabilities, which include certain guarantees, letters of credit and commitments loans and unused credit lines, are possible obligations that arise from past events whose existence will be confirmed only by the occurrence, or non-occurrence, of one or more uncertain future events not wholly within the control of the Group; or are present obligations that have arisen from past events but are not recognised because it is not probable that settlement will require the outflow of economic benefits, or because the amount of the obligations cannot be reliably measured. Contingent liabilities are not recognised in the consolidated financial statements but are disclosed unless the probability of settlement is remote.

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

Share capital and share premium

Share capital and share premium amounts received before 1 January 2003 are recognized at the amount received restated for inflation and after 1 January 2003 are recognized at the amount received. Share premium represents the excess of the amount received over the nominal value of the shares issued.

Costs directly attributable to the issue of new shares, other than on a business combination, are deducted from equity net of any related income taxes.

Holders of preference shares with non-fixed rate dividend income are entitled to participate in the General Meeting of shareholders with voting rights addressing issues of reorganization and liquidation of the Bank and addressing issues on introducing amendments and additions to the Charter restricting the rights of holders of preferred shares. Each preference share entitles the holder to receive dividends on an equal basis with holders of ordinary shares.

Dividends on ordinary shares and preference shares classified as equity are recognized, as a distribution of equity in the period in which they are approved by shareholders.

Goodwill

The goodwill represents the excess of the cost of an acquisition over the fair value of the acquirer's share of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiary or associate at the date of exchange. Goodwill on acquisitions of associates is included in the investment in associates. Goodwill on acquisitions of subsidiaries is disclosed on face of the consolidated statement of financial position.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the directors to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value.

As at 31 December 2012 and 2011 the carrying amount of goodwill at the end of the reporting period was RUB 809 million.

As the goodwill that forms part of the carrying amount of an investment in an associate is not separately recognized, it is not tested for impairment separately. Instead, the entire carrying amount of the investment is tested for impairment as a single asset, by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount when there are indicators that the investment is impaired. An impairment loss recognized is not allocated to any asset, including goodwill. Any reversal of impairment loss is recognized to the extent that the recoverable amount of the investment subsequently increases. The recoverable amount of an investment in an associate is assessed for each associate, unless the associate does not generate cash inflows from continuing use that are largely independent of those from other assets of the Group.

Retirement and other benefit obligations

In accordance with the requirements of the Russian Federation legislation, pension payments are calculated by an employer as certain percentages of salary expenses and transferred to the Pension fund of the Russian Federation, which transfers them to pension funds selected by employees. The Group does not have obligation to transfer pension payments directly to pension funds selected by employees. This expense is charged to profit or loss in the period in which the related salaries are earned. Upon retirement, all retirement benefit payments are made by the pension funds selected by employees. The Group provides its employees with post-employment benefits in the form of defined contribution plans. The contributions to the defined contribution plan are included in staff costs on accrual basis. In addition, the Group has no post-retirement benefits or other significant compensated benefits requiring accrual.

Foreign currency translation

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies, including any related valuation allowances, are translated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Foreign currency and precious metals transactions are accounted for at the foreign exchange rates prevailing at the date of the transaction. Profits and losses arising from the translations are included in net gains on foreign exchange transactions and net gains on transactions with precious metals.

Rates of exchange

The exchange rates used by the Group to translate foreign currency balances and balances denominated in precious metals are as follows:

	<u>31 December 2012</u>	<u>31 December 2011</u>
RUB/1 US Dollar	30.3727	32.1961
RUB/1 Euro	40.2286	41.6714
RUB/Gold bullion (1 ounce)	50,540.17	50,692.76

Fiduciary activities

The Group also provides depository services to its customers, which include transactions with securities on their depository accounts. Assets accepted and liabilities incurred under the fiduciary activities are not included in the Group's consolidated financial statements. The Group accepts the operational risk on these activities, but the Group's customers bear the credit and market risks associated with such operations.

Segment reporting

Operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance.

The Group measures information about operating segments in accordance with IFRS.

Areas of significant management judgment and sources of estimation uncertainty

The preparation of the Group's consolidated financial statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities at the reporting date and the reported amount of income and expenses during the period ended. Management evaluates its estimates and judgments on an ongoing basis. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The following estimates and judgments are considered key significant judgments and estimation uncertainty in relation to the financial position and performance of the Group:

	<u>31 December 2012</u>	<u>31 December 2011</u>
Allowance for impairment losses on loans to customers	21,902	20,382
Allowance for impairment losses for other assets	470	588
Land, buildings and constructions at revalued amount	8,975	8,877
Investment property	4,761	3,759
Provision for financial guarantees and other off-balance sheet commitments	362	381

Fair value estimates were considered as critical accounting policies of the Group's consolidated financial statements.

Allowance for impairment of loans

Impairment losses are recognized as the difference between the carrying value of the loan and the discounted value of management's best estimate of future cash repayments and proceeds from any collateral held. These estimates take into account the strength of the client's financial solvency and liquidity as well as their historic loan servicing, general business risks and national and local economic tendencies and conditions, all of which may be affected by future economic conditions.

For loans to legal entities 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.

The Group estimates the impairment allowance for loans to individuals based on its past loss experience for these types of loans. The significant assumptions used in determining the impairment allowance for loans to individuals are as follows:

- Management assumes that loss migration rates can be estimated based on historic loss migration pattern using historical data;
- Management adjusts its past historical loss experience taking into account the current economic situation and the impact of the economic crisis on the quality of the loan portfolio.

The Group considers accounting estimates related to provisions for loans key sources of estimation uncertainty because: (i) they are highly susceptible to change from period to period as the assumptions about future default rates and valuation of losses relating to impaired loans and advances are based on recent performance experience, and (ii) any significant difference between the Group's estimated losses (as reflected in the provisions) and actual losses will require the Group to take provisions which, if significantly different, could have a material impact on its future consolidated income statement and its consolidated statement of financial position. The Group's assumptions about estimated losses are based on past performance, past customer behaviour, the credit quality of recent underwritten business and general economic conditions, which are not necessarily an indication of future losses.

Allowance for impairment losses for other assets

The impairment for other assets is calculated based on the analysis of assets subject to risks and reflects the amount sufficient, in the opinion of the management, to cover relevant losses. The provisions are created as a result of an individual evaluation of assets subject to risks regarding other assets being material individually and on the basis of an individual or joint evaluation of other assets not being material individually.

Valuation of land, buildings and investment property

The Group uses the valuation performed by its external appraisers as the fair value of its land, buildings and investment properties.

The valuation of the Group's property portfolio is inherently subjective due to, among other factors, the individual nature of each property, its location and the expected future rental revenues from that particular property. As a result, the valuations the Group places on its property portfolio are subject to a degree of uncertainty and are made on the basis of assumptions which may not prove to be accurate, particularly in periods of volatility or low transaction flow in the commercial property market.

The investment property valuation contains a number of assumptions upon which the external appraisers has based its valuation of the Group's properties. Those assumptions include, but are not limited to, matters such as ground conditions at the properties, structural condition of the properties, prevailing market yields and comparable market transactions, inflation rate, tenure and tenancy details for the properties. These assumptions are market standard: however, if any assumptions made by the property appraiser prove to be false, this may mean that the value of the Group's properties differs from their valuation, which could have a material effect on the Group's financial condition.

Provision for guarantees and other off-balance sheet commitments

The accounting estimates and judgments related to the provision for off-balance sheet commitments is an area of significant management judgment because the underlying assumptions used for both the individually and collectively assessed impairment can change from period to period and may significantly affect the Group's results of operations.

Fair value estimates

Certain of the Group's financial instruments are carried at fair value with changes in fair value recognized in consolidated income statement.

Fair value is defined as the price at which an asset or liability could be exchanged in a current transaction between knowledgeable, willing parties, other than in a forced or liquidation sale.

In reaching estimates of fair value management judgment needs to be exercised. The areas requiring significant management judgment are identified, documented and reported to senior management as part of the valuation control framework and the standard monthly reporting cycle.

The level of management judgment required in establishing fair value of financial instruments for which there is a quoted price in an active market is minimal. Similarly there is little subjectivity or judgment required for instruments valued using valuation models that are standard across the industry and where all parameter inputs are quoted in active markets.

The level of subjectivity and degree of management judgment required is more significant for those instruments valued using specialized and sophisticated models and those where some or all of the parameter inputs are not observable. Management judgment is required in the selection and application of appropriate parameters, assumptions and modelling techniques. In particular, where data are obtained from infrequent market transactions extrapolation and interpolation techniques must be applied. In addition, where no market data are available parameter inputs are determined by assessing other relevant sources of information such as historical data, fundamental analysis of the economics of the transaction and proxy information from similar transactions with appropriate adjustments to reflect the terms of the actual instrument being valued and current market conditions. Where different valuation techniques indicate a range of possible fair values for an instrument, management has to establish what point within the range of estimates best represents fair value.

Adoption of new and revised standards

Amendments to IFRSs affecting amounts reported in the financial statements

The following amendments to IFRSs have been applied in the current year and have affected the amounts reported in these financial statements.

Amendments to IAS 12 Income Taxes "Deferred tax: Recovery of Underlying Assets"

The Group has applied the amendments to IAS 12 *Income taxes* "Deferred tax: Recovery of Underlying Assets" in the current year. Under the amendments, investment properties that are measured using the fair value model in accordance with IAS 40 *Investment Property* are presumed to be recovered entirely through sale for the purposes of measuring deferred taxes unless the presumption is rebutted. An application of the amendments to IAS 12 *Income taxes* "Deferred tax: Recovery of Underlying Assets" did not have an effect on the Group's consolidated financial statements.

New and revised IFRSs in issue but not yet effective

The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective:

- IFRS 9 *Financial Instruments*³;
- IFRS 10 *Consolidated Financial Statements*²;
- IFRS 11 *Joint Arrangements*²;
- IFRS 12 *Disclosure of Interest in Other Entities*²;
- IFRS 13 *Fair Value Measurement*¹;
- Amendments to IFRS 7 *Financial Instruments: Disclosures* – "Disclosures – Offsetting Financial Assets and Financial Liabilities"¹;
- Amendments to IFRS 9 *Financial Instruments* and IFRS 7 *Financial Instruments: Disclosures* – "Mandatory Effective Date of IFRS 9 and Transition Disclosures"³;

- Amendments to IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interest in Other Entities* – “Consolidated Financial statements, Joint Arrangements and Disclosure of Interest in Other Entities: Transition Guidance”¹;
- IAS 1 *Presentation of Financial Statements*
- IAS 19 (as revised in 2011) *Employee Benefits*¹;
- IAS 27 (as revised in 2011) *Separate Financial Statements*²;
- IAS 28 (as revised in 2011) *Investments in Associates and Joint Ventures*²;
- Amendments to IAS 32 *Financial Instruments: Presentation* – “Offsetting Financial Assets and Financial Liabilities”⁴;
- Amendments to IFRSs – *Annual Improvements to IFRSs 2009-2011 cycle except for the amendment to IAS 1 (see above)*¹.

¹ Effective for annual periods beginning on or after January 1, 2013, with earlier application permitted.

² Each of the five standards becomes effective for annual periods beginning on or after January 1, 2013, with earlier application permitted if all the other standards in the ‘package of five’ are also early applied (except for IFRS 12 that can be applied earlier on its own).

³ Effective for annual periods beginning on or after January 1, 2015, with earlier application permitted.

⁴ Effective for annual periods beginning on or after January 1, 2014, with earlier application permitted.

IFRS 9 Financial Instruments

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

Key requirements of IFRS 9:

- All recognised financial assets that are within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods. In addition, under IFRS 9 *Financial Instruments*, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 *Financial Instruments* requires that the amount of change in the fair value of the financial liability, that is attributable to changes in the credit risk of that liability, is presented in other comprehensive income, unless the recognition of the effects of changes in the liability’s credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability’s credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39 *Financial Instruments: Recognition and Measurement*, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was recognised in profit or loss.

The Group management anticipates that IFRS 9 *Financial Instruments* in the future may have a significant impact on amounts reported in respect of the Group’s financial assets and financial liabilities (e.g. the Group’s investments in redeemable notes that are currently classified as available-for-sale investments will have to be measured at fair value at the end of subsequent reporting periods, with changes in the fair value being recognised in profit or loss). However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 *Financial Instruments* until a detailed review has been completed.

New and revised Standards on consolidation, joint arrangements, associates and disclosures

In May 2011, a package of five Standards on consolidation, joint arrangements, associates and disclosures was issued, including IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, IFRS 12 *Disclosure of Interest in Other Entities*, IAS 27 (as revised in 2011) *Separate Financial Statements* and IAS 28 (as revised in 2011) *Investments in Associates and Joint Ventures*.

Key requirements of these five Standards are described below.

IFRS 10 Consolidated Financial Statements replaces the parts of IAS 27 *Consolidated and Separate Financial Statements* that deal with consolidated financial statements. SIC-12 *Consolidation – Special Purpose Entities* will be withdrawn upon the effective date of IFRS 10 *Consolidated Financial Statements*. Under IFRS 10 *Consolidated Financial Statements*, there is only one basis for consolidation, that is, control. In addition, IFRS 10 *Consolidated Financial Statements* includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's return. Extensive guidance has been added in IFRS 10 *Consolidated Financial Statements* to deal with complex scenarios.

IFRS 11 Joint Arrangements replaces IAS 31 *Interests in Joint Ventures*. IFRS 11 *Joint Arrangements* deals with how a joint arrangement of which two or more parties have joint control should be classified. SIC-13 *Jointly Controlled Entities – Non-monetary Contributions by Venturers* will be withdrawn upon the effective date of IFRS 11 *Joint Arrangements*. Under IFRS 11 *Joint Arrangements*, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In addition, joint ventures under IFRS 11 *Joint Arrangements* are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under IAS 31 *Interests in Joint Ventures* can be accounted for using the equity method of accounting or proportional consolidation.

IFRS 12 Disclosure of Interests in Other Entities is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in IFRS 12 are more extensive than those in the current standards.

In June 2012, the amendments to IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, and IFRS 12 *Disclosure of Interest in Other Entities* were issued to clarify certain transitional guidance on the application of these IFRSs for the first time.

The Group considered the adoption of these new standards. The adoption would have no effect on consolidation.

IFRS 13 Fair Value Measurement

IFRS 13 *Fair Value Measurement* establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The Standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of IFRS 13 *Fair Value Measurement* is broad; it applies to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures amount fair value measurements, except in specified circumstances. In general, the disclosure requirements in IFRS 13 *Fair Value Measurement* are more extensive than those required in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under IFRS 7 *Financial Instruments: Disclosures* will be extended by IFRS 13 *Fair Value Measurement* to cover all assets and liabilities within its scope.

The Group management anticipates that the application of the new Standard may affect certain amounts reported in the financial statements and result in more extensive disclosures in the financial statements.

Amendments to IFRS 7 Financial Instruments: Disclosures and IAS 32 Financial Instruments: Presentation – “Offsetting Financial Assets and Financial Liabilities and the related disclosures”

The amendments to IAS 32 *Financial Instruments: Presentation* clarify existing application issues relating to the offset of financial assets and financial liabilities requirements. Specifically, the amendments clarify the meaning of ‘currently has a legally enforceable right of set-off’ and ‘simultaneous realization and settlement’.

The amendments to IFRS 7 *Financial Instruments: Disclosures* require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.

The disclosures should be provided retrospectively for all comparative periods.

The Group management anticipates that the application of these amendments to IAS 32 and IFRS 7 may result in more disclosures being made with regards to offsetting financial assets and financial liabilities in the future.

IAS 1 Presentation of Items of Other Comprehensive Income

The amendments to IAS 1 *Presentation of Items of Other Comprehensive Income* introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to IAS 1 *Presentation of Items of Other Comprehensive Income*, the ‘statement of comprehensive income’ is renamed the ‘statement of profit or loss and other comprehensive income’ and the ‘income statement’ is renamed the ‘statement of profit or loss’. The amendments to IAS 1 *Presentation of Items of Other Comprehensive Income* retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to IAS 1 require items of other comprehensive income to be grouped into two categories in the other comprehensive income section: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes. Other than the above mentioned presentation changes, the application of the amendments to IAS 1 *Presentation of Items of Other Comprehensive Income* does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

**IAS 1 Presentation of Financial Statements
(as part of the Annual improvements to IFRSs 2009-2011 Cycle issued in May 2012)**

IAS 1 *Presentation of Financial Statements* requires an entity that changes accounting policies retrospectively, or makes a retrospective restatement or reclassification to present a statement of financial position as at the beginning of the preceding period (third statement of financial position). The amendments to IAS 1 *Presentation of Financial Statements* clarify that an entity is required to present a third statement of financial position only when the retrospective application, restatement or reclassification has a material effect on the information in the third statement of financial position and that related notes are not required to accompany the third statement of financial position.

IAS 19 Employee Benefits

The amendments to IAS 19 *Employee Benefits* change the accounting for defined benefit plans and termination benefits and a definition of short-term benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in fair value of plan assets when they occur and hence eliminate the ‘corridor approach’ permitted under the previous version of IAS 19 *Employee Benefits* and accelerate the recognition of past service costs. The amendments require all actuarial gains and losses to be recognised immediately through other comprehensive income in order for the net pension asset or liability recognised in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus. Furthermore, the interest cost and expected return on plan assets used in the previous version of IAS 19 *Employee Benefits* are replaced with a ‘net-interest’ amount, which is calculated by applying the discount rate to the net defined benefit liability or asset.

The amendments to IAS 19 *Employee Benefits* require retrospective application. The Group management does not anticipate that the revision of IAS 19 *Employee Benefits* will have a significant effect on the Group's consolidated financial statements as the Group has not defined benefit plans.

Annual Improvements to IFRSs 2009-2011 Cycle issued in May 2012

The Annual Improvements to IFRSs 2009-2011 Cycle include a number of amendments to various IFRSs. Amendments to IFRSs include:

Amendments to IAS 32 *Financial Instruments: Presentation*

The amendments to IAS 32 *Financial Instruments: Presentation* clarify that income tax relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction should be accounted for in accordance with IAS 12 *Income Taxes*. The Group management anticipates that the amendments to IAS 32 *Financial Instruments: Presentation* will have no effect on the Group's consolidated financial statements as the Group has already adopted this treatment.

Gain/loss on remeasurement of cash flows and prepayments on interest bearing assets comprises

	<u>Year ended 31 December 2012</u>	<u>Year ended 31 December 2011</u>
Re-assessment of the expected cash flows	458	2,139
Repayment on maturity and/or prepayment of loans to customers	467	2,404
Total	<u>925</u>	<u>4,543</u>

Change in significant accounting estimates

Starting from 1 January 2012 certain refinements to the estimation of impairment allowance for loans to legal entities were adopted by the Group which improved the data used to identify the latent losses incurred in the portfolio.

Adoption of these amendments did not have a material effect on the impairment allowance for loans to legal entities.

In December 2012 the Group introduced some changes to the calculation of allowance for impairment losses for loans to individuals. These changes affected the probability of continuous migration of loans in the state of default. Besides, the management has made the calculation of Loss-given-default on historical data. Estimation of Probability of Default is now calculated on the basis of the vintage roll-rates methodology for each sub-portfolio when rounded to the last three actual months. Previously roll-rates were calculated without the use of vintage method. Adoption of these amendments did not have a material effect on comparative figures of the previous period.

In December 2012 the Group adopted the improvement to the calculation of allowance for impairment losses for small business loans. The Group started to use the historical data on recovery of overdue loans in calculation of impairment losses for the small business loans portfolio. Adoption of this improvement did not have a material effect on the amount of impairment allowance.

Reclassifications

Pursuant to the Group's initiative to enhance the transparency of its financial statements, the Group has tabulated below the following conforming reclassification and disaggregation of line items to the consolidated financial statements as at 31 December 2011 in line with the 2012 presentation:

Nature of reclassification	Amount for the year ended 31 December 2011	Consolidated income statement line as per the previous report	Consolidated income statement line as per current report
Reclassification of Insurance broker commission income from other income into fee and commission income	40	Other income	Fee and commission income
Disaggregation of non-administrative expenses from operating expenses into other income	135	Operating expenses	Other income

Since the reclassifications regarding presentation made to the consolidated financial statements as at 31 December 2011 to conform to the presentation as at 31 December 2012 does not have material effect, no restatement of the consolidated financial statements were performed.

4. ACQUISITIONS AND DISPOSALS

Acquisitions and disposal during the year ended 31 December 2012

In March 2012 the Group has founded a new investment fund ZPIF "Strategiya Razvitiya", which is wholly-owned by the Group as at 31 December 2012. The amount of investments in this investment fund is RUB 25 million.

In September 2012 the Group has sold 11% shares of OJSC "Novosibirsk Municipal Bank" to minority shareholders and decreased its control from 97.98% as at 31 December 2011 to 86.98% as at 31 December 2012.

In October 2012 the Group acquired 49% share in LLC "Attenium" and increased its share from 51.00% as at 31 December 2011 to 100.00% as at 31 December 2012, as a result share in LLC NKO "Payment System "Rapida", LLC "Processing centre "Rapida", LLC "Gikor" increased from 51% to 100%.

In November 2012 the Group has sold for RUB 500 million RUB its share in LLC "Baltaktiv" and LLC "Inbank" to ICT Group.

Acquisitions and disposal during the year ended 31 December 2011

In August 2011 the Group has founded a new subsidiary company LLC "Invest-Trading". The company is 100% controlled by the Group.

In June 2011 the Group has founded a new subsidiary company LLC "Nedvizhimost Primorya". The company is 100% controlled by the Group.

In March 2011 the Group has purchased 51% shares of LLC "Attenium" with its wholly-owned subsidiaries – LLC "PS Rapida", LLC "PC Rapida", LLC "Gikor".

The fair value of assets and liabilities acquired are based on discounted cash flow models and other valuation techniques and were determined by an independent appraiser. The cash outflow relating to the acquisition of shares amounted to RUB 380 million. The goodwill as at acquisition date amounted to RUB 211 million.

The amount of estimated revenue and net profit is immaterial to disclose had this business combination been effected as at 1 January 2011.

The fair value of the net assets of the company as at the acquisition date is presented below.

	<u>LLC "Attenium"</u>
Assets	
Cash and balances with the Central Bank of the Russian Federation	57
Loans and advances to banks and other financial institutions	468
Investments available-for-sale	3
Property, plant and equipment	12
Intangible assets	291
Other assets	24
Total assets	855
Due to banks and the Central Bank of the Russian Federation	100
Customer accounts	99
Deferred income tax liability	58
Other liabilities	266
Total liabilities	523
Net assets	332
Parent company's ownership interest (%)	51%
Parent company's ownership interest	169
Consideration paid	380
Goodwill	211

5. NON-CONTROLLING INTEREST

Non-controlling interest comprises:

	OJSC "Novosibirsk Municipal Bank"	CJSC "Mortgage Agent Nomos"	LLC "Inbank"	OJSC "KHANTY- MANSIYSK BANK"	LLC "Attenium"	Total
31 December 2010	32	-	108	10,912	-	11,052
Effect of (increase)/decrease in share of subsidiaries (purchased from)/ sold to non-controlling interest	(18)	-	-		163	145
Property, plant and equipment revaluation reserve to non-controlling interest	1	-	-	98	-	99
Revaluation of investments available-for-sale attributable to non-controlling interest	(2)	-	-	(11)	-	(13)
(Loss) / profit attributable to non-controlling interest	59	-	(1)	2,051	21	2,130
31 December 2011	72	-	107	13,050	184	13,413
Effect of (increase)/decrease in share of subsidiaries (purchased from)/ sold to non-controlling interest	95	-	-		(158)	(63)
Property, plant and equipment revaluation reserve to non-controlling interest	1	-	-	61	-	62
Revaluation of investments available-for-sale attributable to non-controlling interest	(2)	-	-	(19)	-	(21)
Disposal of non-controlling share in connection with the sale of the subsidiary	-	-	(112)	-	-	(112)
Dividends paid	-	-	-	-	(39)	(39)
Profit attributable to non-controlling interest	10	26	5	2,387	13	2,441
31 December 2012	176	26	-	15,479	-	15,681

6. NET INTEREST INCOME BEFORE GAIN ON REMEASUREMENT OF CASH FLOW AND PROVISION FOR IMPAIRMENT LOSSES ON INTEREST BEARING ASSETS

Net interest income comprises:

	Year ended 31 December 2012	Year ended 31 December 2011
Interest income comprises:		
Interest income on assets recorded at amortized cost	60,969	46,943
Interest income on assets at fair value through profit or loss	5,407	3,913
Interest income on investments available-for-sale	274	1,502
Total interest income	66,650	52,358
Interest income on assets recorded at amortized cost:		
Interest income on loans to customers	56,201	41,989
Interest income on reverse repurchase transactions	3,881	3,275
Interest income on loans and advances to banks and other financial institutions	857	1,611
Interest on investments held to maturity	30	68
Total interest income on assets recorded at amortized cost	60,969	46,943
Interest expense comprises:		
Interest expense on liabilities recorded at amortized cost	35,244	24,302
Total interest expense	35,244	24,302
Interest expense on liabilities recorded at amortized cost comprise:		
Interest expense on customer accounts	20,785	14,167
Interest expense on Bonds and Eurobonds issued	3,280	2,703
Interest expense on due to banks and the Central Bank of the Russian Federation	4,183	2,587
Interest expense on subordinated debt	3,647	2,347
Interest expense on promissory notes issued	1,726	1,868
Interest expense on repurchase transactions	1,623	630
Total interest expense on financial liabilities recorded at amortized cost	35,244	24,302
Net interest income before gain on remeasurement of cash flows and provision for impairment losses on interest bearing assets	31,406	28,056

7. TRADING INCOME

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

	<u>Year ended 31 December 2012</u>	<u>Year ended 31 December 2011</u>
First to default credit-linked notes recognized at fair value through profit or loss	15	73
Financial assets at fair value through profit or loss	<u>1,320</u>	<u>(1,039)</u>
Securities	<u>1,335</u>	<u>(966)</u>
Derivatives on foreign currency contracts	635	(530)
Net gain on foreign currency operations	<u>378</u>	<u>2,779</u>
Foreign currency	<u>1,013</u>	<u>2,249</u>
Derivatives on precious metals contracts	325	1,606
Net gain/(loss) on precious metals	<u>40</u>	<u>(846)</u>
Precious metals	<u>365</u>	<u>760</u>
Other derivatives contracts	<u>(32)</u>	<u>20</u>
Other derivatives	<u>(32)</u>	<u>20</u>
Total trading income	<u>2,681</u>	<u>2,063</u>

The analysis of trading income is based on how the business is organised and the underlying risks managed. Trading income comprises gains and losses on financial instruments at fair value through profit and loss, both realized and unrealized.

The types of instruments include:

- Securities: operations with trading securities, trading security forward contracts and futures contracts;
- Foreign currency: foreign currency operations, foreign exchange forward contracts and currency options, impacts of the foreign exchange gains and losses on the allowance on loan losses on foreign currency denominated loans;
- Precious metals: precious metals operations and precious metals forward contracts;
- Other derivatives: interest rate swap contracts.

8. NET FEE AND COMMISSION INCOME

Net fee and commission income comprise:

	Year ended 31 December 2012	Year ended 31 December 2011
Fee and commission income:		
Settlements	5,613	4,268
Documentary operations	2,398	1,727
Cash operations	1,351	1,251
Brokerage operations	543	118
Insurance broker commission	475	40
Foreign currency conversion operations	232	216
Operations with precious metals	107	99
Operations related to underwriting	27	23
Depository services	5	6
Other	144	352
Total fee and commission income	10,895	8,100
Fee and commission expense:		
Settlements	2,464	1,531
Cash operations	214	139
Documentary operations	102	58
Securities operations	34	44
Depository services	17	17
Other	123	182
Total fee and commission expense	2,954	1,971
Net fee and commission income	7,941	6,129

9. OTHER INCOME/(EXPENSES)

Other income/(expenses) comprises:

	Year ended 31 December 2012	Year ended 31 December 2011
Penalties received	241	190
Rental income	192	119
Gain on disposal of property, plant and equipment	75	49
Gain from trust operations	41	48
Income on early deposits withdrawal	32	25
Income/(expense) from operations with debt securities issued	28	(22)
Gain on construction operations	21	18
Gain from sale of transport cards on leasehold equipment	13	17
Gain from remeasurement of other assets	8	51
Dividends received	6	33
Other	97	(5)
Total other income	754	523

10. OPERATING EXPENSES

Operating expenses comprise:

	Year ended 31 December 2012	Year ended 31 December 2011
Payroll and bonuses	11,658	8,917
Unified social tax	2,296	1,470
Amortization of intangible assets	914	784
Stationery and other office expenses	839	667
Depreciation of property plant and equipment	796	763
Taxes other than income tax	786	749
Rent expenses	699	604
Property, plant and equipment maintenance	548	530
Payments to the Deposit Insurance Fund	541	462
Professional services	521	369
Advertising expenses	451	455
Telecommunications	359	307
Security expenses	278	302
Representation expenses	170	169
Charity expense	149	176
Insurance expenses	89	132
Other expenses	287	404
Total operating expenses	21,381	17,260

The majority of employees have fixed and variable compensation components, which, together with other benefits, represent their total compensation. The goal is to achieve a sound balance between the variable and the fixed components. Variable compensation is tied to the employee's performance and the Group's total result. This is a way to harmonise the interests of employees and shareholders and motivate long-term value creation in the Group.

In April 2011 the Group has performed the initial public offering (IPO) of its shares, followed by issuance of new shares via closed subscription by the existing shareholders. The Group has recognized transaction costs related to the issuance of new shares which are accounted for as a deduction from share premium (see Note 31) and were transaction costs related to the listing of the existing shares (RUB 215 million) were recorded within operating expenses in the consolidated income statement. Transaction costs specifically affected the following operating expenses: payroll, professional services, stationery and office expenses and other expenses.

11. INCOME TAX

The Group provides for taxes based on the statutory tax accounts maintained and prepared in accordance with the statutory tax regulations, which may differ from International Financial Reporting Standards.

The tax rate used for the reconciliations below is the corporate tax rate of 20% payable by corporate entities in the Russian Federation on taxable profits (as defined) under tax law in that jurisdiction.

Deferred taxes on temporary differences as at 31 December 2012 and 2011 comprise:

	Allowances	Revaluation of financial assets and liabilities	Amor-tisation of commis-sions	Revaluation of fixed assets, investment property and assets available-for-sale	Revaluation of accounts in precious metals and foreign currencies	Other	Tax losses carried forward	Total
As at 31 December 2010	(466)	5	(282)	(463)	291	(325)	72	(1,168)
(Charge)/credit to profit or loss	(1,425)	283	119	127	(738)	183	(60)	(1,511)
(Charge)/credit to other comprehensive income	-	14	-	(114)	-	-	-	(100)
Acquisition of subsidiary	-	-	-	-	-	(58)	-	(58)
Change in deferred tax asset not recognized	(2)	18	-	(47)	-	-	-	(31)
As at 31 December 2011	(1,893)	320	(163)	(497)	(447)	(200)	12	(2,868)
(Charge)/credit to profit or loss	1,050	(645)	(142)	24	485	419	18	1,209
(Charge)/credit to other comprehensive income	-	55	-	(73)	-	-	-	(18)
Disposal of subsidiary	5	-	-	9	-	(1)	-	13
Change in deferred tax asset not recognized	(8)	16	9	1	-	-	-	18
As at 31 December 2012	(846)	(254)	(296)	(536)	38	218	30	(1,646)

The effective tax rate reconciliation for the years ended 31 December 2012 and 2011 is explained as follows:

	Year ended 31 December 2012	Year ended 31 December 2011
Profit before income tax	18,254	15,533
Statutory tax rate	20%	20%
Tax at the statutory tax rate	3,651	3,107
Tax effect due to different tax rates	(79)	(42)
Change in unrecognized deferred tax assets	(18)	31
Tax paid in foreign countries and compensated in RF in future	(67)	55
Tax refund related to revised valuation	(665)	-
Additional tax charge/(reimbursement) related to prior year	65	(71)
Tax loss carried-forward	-	(65)
Permanent tax differences	352	384
Income tax expense	3,239	3,399

The permanent tax differences for the years ended 31 December 2012 and 2011 comprises:

	Year ended 31 December 2012	Year ended 31 December 2011
Non-deductable expenses		
Interest expense on deposits	159	86
Effect of intergroup sale of subsidiary	98	-
Charity expenses	36	37
Property expenses	18	38
Employee payments	16	11
Administrative expenses	8	76
Investment funds loss	-	60
Sale of securities at price less than minimal	-	82
Cession of loans	-	6
Other	33	9
Total non-deductable expenses	368	405
Non-taxable income		
Income on transaction of property	(10)	(15)
Profit fund covering losses of previous years	(4)	-
Other	(1)	-
Dividends	(1)	(6)
Total non-taxable income	(16)	(21)
Total permanent differences	352	384

The corporate income tax expense for the years ended 31 December 2012 and 2011 comprises:

	Year ended 31 December 2012	Year ended 31 December 2011
Current income tax expense	5,066	1,928
Deferred tax (benefit)/expense	(1,227)	1,542
Tax refund related to revised valuation	(665)	-
Additional tax charge/(reimbursement) related to prior years	65	(71)
Income tax expense	3,239	3,399

Movement in deferred tax assets for the years ended 31 December 2012 and 2011 comprises:

	Year ended 31 December 2012	Year ended 31 December 2011
Deferred income tax assets		
At the beginning of the period	17	14
Change in deferred income tax asset recorded in other comprehensive income	47	-
Change in deferred income tax asset recorded in income statement	(20)	3
At the end of the period	44	17

Movement in the tax loss carried-forward for the years ended 31 December 2012 and 2011 comprises:

	Year ended 31 December 2012	Year ended 31 December 2011
Tax loss carried-forward		
Tax loss at the beginning of the period	63	361
Increase of tax loss for the period	152	28
Tax loss used in the current period	(61)	(326)
Tax loss at the end of the period	154	63

There were no losses expiring in the current year. The tax loss expires in 2022.

Movement in deferred tax asset not recognized for the years ended 31 December 2012 and 2011 comprises:

	Year ended 31 December 2012	Year ended 31 December 2011
Deferred tax asset not recognized		
At the beginning of the period	189	158
(Decrease) / increase in deferred tax asset not recognized for the period	<u>(18)</u>	<u>31</u>
At the end of the period	<u>171</u>	<u>189</u>

12. EARNINGS PER SHARE AND EARNINGS PER GDR

Earnings per share are presented as follows:

	Year ended 31 December 2012	Year ended 31 December 2011
Earnings per share related to continuing operations:		
Profit:		
Net profit for the year	15,015	12,134
Less:		
Loss on redemption of preference shares	-	(40)
Non-controlling interest	<u>(2,441)</u>	<u>(2,131)</u>
Net earnings attributable to ordinary equity holders	<u>12,574</u>	<u>9,963</u>
Weighted average number of ordinary shares for basic and diluted earnings per share	<u>92,422,370</u>	<u>89,779,311</u>
Earnings per share from continuing operations – basic and diluted	<u>136.05</u>	<u>110.97</u>
Weighted average number of GDR's for basic and diluted earnings per GDR ¹	<u>184,844,740</u>	<u>179,558,662</u>
Earnings per GDR from continuing operations – basic and diluted	<u>68.02</u>	<u>55.49</u>

13. CASH AND BALANCES WITH THE CENTRAL BANK OF THE RUSSIAN FEDERATION

Cash and balances with the Central Bank of the Russian Federation are presented as follows:

	31 December 2012	31 December 2011
Cash on hand	13,707	11,628
Balances with the Central Bank of the Russian Federation	<u>37,441</u>	<u>22,331</u>
Total cash and balances with the Central Bank of the Russian Federation	<u>51,148</u>	<u>33,959</u>

For the purpose of consolidated statement of cash flows statement preparation cash and cash equivalents comprise of the following components:

	31 December 2012	31 December 2011
Cash and balances with the Central Bank of the Russian Federation	51,148	33,959
Correspondent accounts with banks (Note 17)	<u>19,713</u>	<u>21,347</u>
Total cash and cash equivalents	<u>70,861</u>	<u>55,306</u>

¹ The number of GDRs was calculated assuming that two GDRs represent an interest in one ordinary share.

14. PRECIOUS METALS

Precious metals are presented as follows:

	31 December 2012	31 December 2011
Gold in vault	5,804	8,173
Gold in transit	1	686
Silver in transit	323	344
Silver in vault	168	104
Other precious metals in vault	106	91
Total precious metals	6,402	9,398

15. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets at fair value through profit or loss are presented as follows:

	31 December 2012	31 December 2011
Financial assets at fair value through profit or loss:		
Debt securities	100,247	69,859
Equity securities	30	1,799
	100,277	71,658
First to default credit-linked notes recognized at fair value through profit or loss	-	311
Derivative financial instruments (Note 16)	3,977	6,000
Total financial assets at fair value through profit or loss	104,254	77,969

As at 31 December 2012 financial assets at fair value through profit or loss comprise:

	31 December 2012	Interest rate to nominal	Maturity date
Bonds and Eurobonds issued by banks	34,302	0.00-13.9%	February 2013-June 2035
Corporate bonds and Eurobonds	34,023	6.5-19.0%	March 2013- January 2044
OFZ bonds	19,191	6.0-12.0%	February 2013-February 2036
Promissory notes of credit institutions	6,833	-	September 2013-March 2014
RF Government Eurobonds	2,231	7.5%	March 2030
Municipal bonds	3,667	8.0%-13%	April 2014-November 2017
Corporate shares	30	-	-
Total financial assets at fair value through profit or loss	100,277		

	31 December 2012	Pledged as collateral with CBR	Pledged under repurchase agreements with banks	Pledged under repurchase agreements with customers	Total collateral
Bonds and Eurobonds issued by banks	34,302	15,630	3,851	-	19,481
Corporate bonds and Eurobonds	34,023	5,611	9,080	-	14,691
OFZ bonds	19,191	15,074	5,036	-	20,110
Promissory notes of credit institutions	6,833	-	6,541	-	6,541
RF Government Eurobonds	2,231	-	-	-	-
Municipal bonds	3,667	153	1,977	-	2,130
Corporate shares	30	-	31,859	2,296	34,155
Total financial assets at fair value through profit or loss	100,277	36,468	58,344	2,296	97,108

Included in the table above is the information with regards to assets pledged under repurchase agreements. Included in the amounts are the assets obtained as a result of reverse repurchase agreements with banks and Central Bank of Russian Federation in the amount of RUB 37,409 million discussed in Note 25 and assets pledged under reverse repurchase agreements with customers in the amount of RUB 2,296 million as discussed in Note 26.

As at 31 December 2011 financial assets at fair value through profit or loss comprise:

	31 December 2011	Interest rate to nominal	Maturity date
Bonds and Eurobonds issued by banks	27,506	4.2-12.7%	May 2012-June 2035
Corporate bonds and Eurobonds	21,033	5.2-13.5%	January 2012-December 2036
OFZ bonds	17,182	6.5-12.0%	February 2013-January 2036
Promissory notes of credit institutions	2,877	-	January 2012-March 2014
RF Government Eurobonds	1,110	7.5%	March 2030
Municipal bonds	151	8.0%	April 2014
Corporate shares	1,799	-	-
Total financial assets at fair value through profit or loss	<u>71,658</u>		

	31 December 2011	Pledged as collateral with CBR	Pledged under repurchase agreements with banks	Pledged under repurchase agreements with customers	Total collateral
Bonds and Eurobonds issued by banks	27,506	5,466	4,931	-	10,397
Corporate bonds and Eurobonds	21,033	397	5,239	-	5,636
OFZ bonds	17,182	-	5,839	-	5,839
Promissory notes of credit institutions	2,877	-	-	-	-
RF Government Eurobonds	1,110	-	1,110	-	1,110
Municipal bonds	151	-	-	-	-
Corporate shares	1,799	1,816	2,690	232	4,738
Total financial assets at fair value through profit or loss	<u>71,658</u>	<u>7,679</u>	<u>19,809</u>	<u>232</u>	<u>27,720</u>

Included in the table above is the information with regards to assets pledged under repurchase agreements. Included in the amounts are the assets obtained as a result of reverse repurchase agreements with banks and Central Bank of Russian Federation in the amount of RUB 3,801 million discussed in Note 25 and assets pledged under reverse repurchase agreements with customers in the amount of RUB 232 million as discussed in Note 26.

As at 31 December 2012 and 2011 bonds and Eurobonds issued by banks are represented by bonds issued by Russian banks.

Corporate bonds and Eurobonds are represented by bonds of Russian companies.

Promissory notes are represented by promissory notes issued by Russian banks.

Russian State Bonds (OFZ bonds) are Rouble-denominated government securities guaranteed by the Ministry of Finance of the Russian Federation.

RF Government Eurobonds are securities issued by the Ministry of Finance of the Russian Federation, and are freely tradable internationally.

Municipal bonds are bonds issued by local authorities of the Russian Federation.

Corporate shares are actively traded shares in the open market issued by Russian companies.

First to default credit-linked notes are USD denominated floating coupon notes issued by major international financial institutions, repayment of which is dependent on certain Russian corporate bonds being repaid by their issuers in full (the "reference bonds"). In case of default of any of the reference bonds, the major international financial institutions have the right to transfer to the Group defaulted bonds with a nominal amount equal to the nominal amount of first to default credit-linked notes held by the Group without any further payments to the Group for these notes.

As at 31 December 2012 there were no first to default credit-linked notes.

As at 31 December 2011 first to default credit-linked notes were as follows:

Nominal amount and margin calls		Maturity date	Coupon rate	Reference bonds	31 December 2011 Carrying amount
Nominal currency	Rouble equivalent				
USD 10 million	322	20 November 2012	LIBOR+ 12.5% per annum	AK Alrosa OAO TNK-BP OAO Evrazholding OAO Mobile Telecommunication Systems OAO Rosneft	311
					311

16. DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments are presented as follows:

The following table provides information on derivative financial instruments as at 31 December 2012:

	Nominal amount	31 December 2012	
		Fair value	
		Asset	Liability
Derivative financial instruments:			
Foreign currency contracts			
Forwards	(189,764)	3,786	(1,829)
Futures contracts		-	-
Options		32	(32)
Precious metals contracts			
Forwards	(8,481)	92	(19)
Dealing security contracts			
Futures contracts		3	(7)
Other derivative instruments			
Swaps	-	62	(168)
Forwards		2	-
Total derivative financial instruments		3,977	(2,055)

As at 31 December 2012 financial liabilities at fair value through profit or loss comprise derivative financial instruments in the amount of RUB 2,055 million and other financial liabilities at fair value through profit or loss in the amount of RUB 1,136 million.

The following table provides information on derivative financial instruments as at 31 December 2011:

	31 December 2011		
	Nominal amount	Fair value	
		Asset	Liability
Derivative financial instruments:			
Foreign currency contracts			
Forwards	(283,185)	5,823	(3,027)
Futures contracts	(8,768)	-	(1,103)
Options	-	49	(49)
Precious metals contracts			
Forwards	(17,389)	47	(184)
Dealing security contracts			
Forwards	(2,488)	12	-
Futures contracts	-	-	(2)
Other derivative instruments			
Swaps	-	69	(157)
Total derivative financial instruments		6,000	(4,522)

As at 31 December 2011 financial liabilities at fair value through profit or loss comprise derivative financial instruments in the amount of RUB 4,522 million and other financial liabilities at fair value through profit or loss in the amount of RUB 3 million.

The primary purpose of the derivatives used by the Group is to reduce currency risk and the interest rate risks. Such derivatives have the same term to maturity as the underlying assets.

Forwards and futures

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

Futures contracts are transacted in standardised amounts on regulated exchanges and are subject to daily cash margin requirements. The main differences in the risk associated with forward and futures contracts are credit risk and liquidity risk.

The Group has credit exposure to the counterparties of forward contracts. The credit risk related to future contracts is considered minimal because the cash margin requirements of the exchange help ensure that these contracts are always honoured.

Swaps

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

Interest rate swaps relate to contracts taken out by the Group with other financial institutions in which the Group either receives or pays a floating rate of interest in return for paying or receiving, respectively, a fixed rate of interest. The payment flows are usually net, with the difference being paid by one party to the other.

Interest rate swaps are used for interest rate risks management and presented as the exchange of interest payments for nominal amount, amortized during the time and nominated in RUB, EUR and USD. The Group uses interest rate swaps for exchange of fixed interest rate for floating interest rate and vice versa. The floating interest rate is tied to basic interest rate LIBOR on the different terms basis.

Interest rate swaps are subject to price risk associated with a change in the price of an underlying asset and credit risk, related to the possibility of violating the terms of the transaction by the counterparty of the deal.

Options

Options are contractual agreements that convey the right, but not the obligation, for the purchaser either to buy or sell a specific amount of a financial instrument at a fixed price, either at a fixed future date or at any time within a specified period. The Group purchases and sells options through regulated exchanges and in the over-the-counter markets.

Options purchased by the Group provide the Group with the opportunity to purchase (call options) or sell (put options) the underlying asset at an agreed-upon value either on or before the expiration of the option. The Group is exposed to credit risk on purchased options only to the extent of their carrying amount, which is their fair value.

17. LOANS AND ADVANCES TO BANKS AND OTHER FINANCIAL INSTITUTIONS

Loans and advances to banks and other financial institutions comprise:

	<u>31 December 2012</u>	<u>31 December 2011</u>
Loans to banks	86,566	25,399
Correspondent accounts with banks	19,713	21,347
Loans under reverse repurchase agreements	<u>5,307</u>	<u>6,945</u>
Total loans and advances to banks and other financial institutions	<u>111,586</u>	<u>53,691</u>

Fair value of assets pledged and carrying value of loans under reverse repurchase agreements as at 31 December 2012 and 2011 are presented as follows:

	<u>31 December 2012</u>		<u>31 December 2011</u>	
	<u>Carrying value of loans</u>	<u>Fair value of collateral</u>	<u>Carrying value of loans</u>	<u>Fair value of collateral</u>
Corporate bonds and Eurobonds	1,098	1,367	3,741	5,043
Municipal bonds	1,371	1,707	2,821	3,527
Bonds and Eurobonds issued by banks	400	443	283	366
OFZ bonds	<u>2,438</u>	<u>2,891</u>	<u>100</u>	<u>111</u>
Total	<u>5,307</u>	<u>6,408</u>	<u>6,945</u>	<u>9,047</u>

As at 31 December 2012 and 2011 included in loans and advances to banks and other financial institutions are guarantee deposits placed by the Group for its operations with plastic cards in the amount of RUB 702 million and RUB 719 million, respectively.

18. LOANS TO CUSTOMERS

Loans to customers comprise:

	<u>31 December 2012</u>	<u>31 December 2011</u>
Loans to legal entities		
Corporate loans	425,468	327,817
Loans under reverse repurchase agreements	49,290	46,346
Small business loans to corporates	39,397	31,297
Net investments in finance lease	5,025	2,707
Lease contracts to individual entrepreneurs	381	448
Total loans to legal entities	519,561	408,615
Loans to individuals		
Consumer loans	49,571	27,335
Mortgage loans	38,247	28,829
Car loans	3,875	2,998
Loans to individual entrepreneurs	1,212	501
Other	-	9
Total loans to individuals	92,905	59,672
Gross loans to customers	612,466	468,287
Less – Allowance for impairment losses	<u>(21,902)</u>	<u>(20,382)</u>
Total loans to customers	590,564	447,905

The credit quality of loans to customers can be defined based on the Group internal credit quality assessment system which reflects the probability of default of an obligor, i.e. the likelihood that counterparty fails to pay interest, principal and other financial obligations to the Group.

As at 31 December 2012 and 2011 interest income on impaired loans to customers, including loans impaired collectively, amounted to RUB 49,875 million and RUB 30,199 million, respectively.

As at 31 December 2012 and 2011 interest income on collectively impaired loans to customers, amounted to RUB 44,826 million and RUB 16,893 million, respectively.

Starting from January 1st 2012, the Group implemented certain refinements to the methodology for loan loss assessment to improve its overall risk management capabilities. The introduction of the refinements had a negligible impact on the required level of impairment allowance as demonstrated in the following tables. The main changes introduced can be summarized as follows. First of all, a more detailed list of impairment criteria was adopted and applied automatically against the entire Group corporate loan portfolio to provide a more thorough and objective approach to loan loss assessment. Secondly, the internal credit quality classification which shows the probability of default of an obligor, i.e. the likelihood that counterparty fails to pay interest, principal and other financial obligations to the Group, was improved by introducing the following four categories:

- **Standard loans**, representing loans without any indications of impairment and thus representing the best level of credit quality;
- **Watch list loans**, representing loans with some **minor indicators of deterioration** in credit quality **not yet resulting in the impairment** of the loan. Such indicators may include minor breaches of loan covenants, some factors of deterioration of financial position of the borrower etc., not yet affecting the ability of the borrower to repay the amounts in due course. Watch list loans are subject to stricter monitoring of financial position, collateral and other enhanced credit risk management tools.
- **Substandard loans**, representing loans with **certain minor indicators of impairment**, which potentially can affect the ability of the borrower to repay the amounts in due course. Such indicators may include deterioration of financial position of the borrower, minor breaches of payment discipline; numerous loan renegotiating. Substandard loans are subject to stricter monitoring of dynamics in financial position, sufficiency of collateral and other instruments of credit risk reduction and other enhanced credit risk management tools.
- **Doubtful loans**, representing loans with **significant indicators of impairment**. Such loans are treated on a case by case basis so as to minimize potential losses for the Group.

Loan loss provision for substandard and doubtful loans is assessed based on the expected level of recovery.

When one or more contractual payments are overdue the entire loan is accounted as overdue.

The following tables provide an analysis of the credit quality and distribution of loans granted to legal entities by the Group's internal credit quality categories, as at 31 December 2012:

	Gross loans	Impairment allowance	Net loans	Impairment allowance to gross loans, %
Corporate loans				
Standard loans	436,029	4,167	431,862	0.96%
Watch list loans	6,546	181	6,365	2.77%
Substandard loans	22,262	4,526	17,736	20.33%
Doubtful loans, including	14,946	9,403	5,543	62.91%
- not overdue	4,888	2,275	2,613	46.54%
- overdue less than 90 days	1,384	803	581	58.02%
- overdue more than 90 days and less than 1 year	5,002	3,730	1,272	74.57%
- overdue more than 1 year	3,672	2,595	1,077	70.67%
Total corporate loans	479,783	18,277	461,506	3.81%
Small business loans to corporates				
Standard loans	37,223	238	36,985	0.64%
Watch list loans	51	1	50	1.96%
Substandard loans	58	2	56	3.45%
Doubtful loans, including	2,446	1,797	649	73.47%
- not overdue	188	141	47	75.00%
- overdue less than 90 days	583	273	310	46.83%
- overdue more than 90 days and less than 1 year	776	581	195	74.87%
- overdue more than 1 year	899	802	97	89.21%
Total small business loans	39,778	2,038	37,740	5.12%
Total loans to legal entities	519,561	20,315	499,246	3.91%

The refinements were introduced in 2012 therefore the breakdown of classification of loans according to this model is not available for the comparative periods and is not presented.

The following tables provide an analysis of the credit quality and distribution of loans granted to legal entities by the Group's internal credit quality categories, as at 31 December 2011:

	<u>Gross loans</u>	<u>Impairment allowance</u>	<u>Net loans</u>	<u>Impairment allowance to gross loans, %</u>
Corporate loans				
Loans without individual indicators of impairment:				
- standard loans not overdue	353,415	6,534	346,881	1.85%
- watch list loans	10,660	835	9,825	7.83%
Total loans without individual indicators of impairment	<u>364,075</u>	<u>7,369</u>	<u>356,706</u>	<u>2.02%</u>
Loans with individual indicators of impairment:				
- not past due	2,946	2,242	704	76.10%
- overdue less than 90 days	2,342	1,712	630	73.10%
- overdue more than 90 days and less than 1 year	1,725	1,541	184	89.33%
- overdue more than 1 year	5,782	4,185	1,597	72.38%
Total loans with individual indicators of impairment	<u>12,795</u>	<u>9,680</u>	<u>3,115</u>	<u>75.65%</u>
Total corporate loans	<u>376,870</u>	<u>17,049</u>	<u>359,821</u>	<u>4.52%</u>
Small business loans to corporates				
Loans without individual indicators of impairment:				
- standard loans not overdue	28,859	562	28,297	1.95%
- watch list loans	1,008	12	996	1.19%
Total loans without individual indicators of impairment	<u>29,867</u>	<u>574</u>	<u>29,293</u>	<u>1.92%</u>
Loans with individual indicators of impairment:				
- not past due	685	663	22	96.79%
- overdue less than 90 days	152	108	44	71.05%
- overdue more than 90 days and less than 1 year	354	252	102	71.19%
- overdue more than 1 year	687	672	15	97.82%
Total loans with individual indicators of impairment	<u>1,878</u>	<u>1,695</u>	<u>183</u>	<u>90.26%</u>
Total small business loans to corporates	<u>31,745</u>	<u>2,269</u>	<u>29,476</u>	<u>7.15%</u>
Total loans to legal entities	<u>408,615</u>	<u>19,318</u>	<u>389,297</u>	<u>4.73%</u>

The following table provides information on loans to individuals as at 31 December 2012:

	<u>Gross Loans</u>	<u>Impairment allowance</u>	<u>Net Loans</u>	<u>Impairment allowance to gross loans, %</u>
Consumer Loans				
- Not past due	47,787	72	47,715	0.15%
- Overdue less than 30 days	548	48	500	8.76%
- Overdue 30-90 days	297	122	175	41.08%
- Overdue 91-180 days	289	218	71	75.43%
- Overdue 181-365 days	395	331	64	83.80%
- Overdue more than 365 days	255	249	6	97.65%
Total consumer loans	49,571	1,040	48,531	2.10%
Mortgage Loans				
- Not past due	37,243	3	37,240	0.01%
- Overdue less than 30 days	317	3	314	0.95%
- Overdue 30-90 days	58	20	38	34.48%
- Overdue 91-180 days	29	13	16	44.83%
- Overdue 181-365 days	71	44	27	61.97%
- Overdue more than 365 days	529	418	111	79.02%
Total mortgage loans	38,247	501	37,746	1.31%
Car Loans				
- Not past due	3,754	1	3,753	0.03%
- Overdue less than 30 days	37	1	36	2.70%
- Overdue 30-90 days	31	2	29	6.45%
- Overdue 91-180 days	17	4	13	23.53%
- Overdue 181-365 days	17	14	3	82.35%
- Overdue more than 365 days	19	18	1	94.74%
Total car loans	3,875	40	3,835	1.03%
Loans to individual entrepreneurs				
- Not past due	1,203	2	1,201	0.17%
- Overdue less than 30 days	5	1	4	20.00%
- Overdue 30-90 days	3	2	1	66.67%
- Overdue 91-180 days	1	1	-	100.00%
- Overdue 181-365 days	-	-	-	0.00%
- Overdue more than 365 days	-	-	-	0.00%
Total loans to individual entrepreneurs	1,212	6	1,206	0.50%
Other				
- Not past due	-	-	-	0.00%
- Overdue less than 30 days	-	-	-	0.00%
- Overdue 30-90 days	-	-	-	0.00%
- Overdue 91-180 days	-	-	-	0.00%
- Overdue 181-365 days	-	-	-	0.00%
- Overdue more than 365 days	-	-	-	0.00%
Total other loans to individuals	-	-	-	0.00%
Total loans to individuals	92,905	1,587	91,318	1.71%

The following table provides information on loans to individuals as at 31 December 2011:

	<u>Gross Loans</u>	<u>Impairment allowance</u>	<u>Net Loans</u>	<u>Impairment allowance to gross loans, %</u>
Consumer loans				
- Not past due	26,608	24	26,584	0.09%
- Overdue less than 30 days	290	20	270	6.90%
- Overdue 30-90 days	169	40	129	23.67%
- Overdue 91-180 days	118	69	49	58.47%
- Overdue 181-365 days	61	61	-	100.00%
- Overdue more than 365 days	89	89	-	100.00%
Total consumer loans	27,335	303	27,032	1.11%
Mortgage loans				
- Not past due	27,725	12	27,713	0.04%
- Overdue less than 30 days	292	8	284	2.74%
- Overdue 30-90 days	64	9	55	14.06%
- Overdue 91-180 days	68	32	36	47.06%
- Overdue 181-365 days	125	124	1	99.20%
- Overdue more than 365 days	555	551	4	99.28%
Total mortgage loans	28,829	736	28,093	2.55%
Car loans				
- Not past due	2,924	1	2,923	0.03%
- Overdue less than 30 days	32	1	31	3.13%
- Overdue 30-90 days	22	1	21	4.55%
- Overdue 91-180 days	6	2	4	33.33%
- Overdue 181-365 days	8	8	-	100.00%
- Overdue more than 365 days	6	6	-	100.00%
Total car loans	2,998	19	2,979	0.63%
Loans to individual entrepreneurs				
- Not past due	499	6	493	1.20%
- Overdue less than 30 days	2	-	2	0.00%
- Overdue 30-90 days	-	-	-	0.00%
- Overdue 91-180 days	-	-	-	0.00%
- Overdue 181-365 days	-	-	-	0.00%
- Overdue more than 365 days	-	-	-	0.00%
Total loans to individual entrepreneurs	501	6	495	1.20%
Other				
- Not past due	9	-	9	0.00%
- Overdue less than 30 days	-	-	-	0.00%
- Overdue 30-90 days	-	-	-	0.00%
- Overdue 91-180 days	-	-	-	0.00%
- Overdue 181-365 days	-	-	-	0.00%
- Overdue more than 365 days	-	-	-	0.00%
Total other loans to individuals	9	-	9	0.00%
Total loans to individuals	59,672	1,064	58,608	1.78%

Mortgage loans include mortgage loans of RUB 4,732 million securitised in December 2012. The transferred assets are the collateral for the bonds issued. The Bank's management determined that the Group had not transferred credit risks with respect to the transferred assets, and, consequently, such transfer was not the ground for their derecognition. As at 31 December 2012 the carrying value of those mortgage loans equals their amortized cost (see Note 27).

Below is the fair value of the transferred assets, associated liabilities and net position as at 31 December 2012:

	<u>Fair value</u>
Fair value of transferred assets	4,731
Fair value of associated liabilities	3,758
Net position	973

Movements in allowances for impairment losses for the years ended 31 December 2012 and 2011 were as follows.

	For the years ended 31 December	
	2012	2011
As of 1 January	20,382	15,558
Provision charge/release	5,886	8,383
Recovery of bad debt written-off	373	275
Foreign currency revaluation effect	(196)	174
Disposal of loans	(1,530)	(1,410)
Bad debt written-off	(3,011)	(2,598)
Disposal of subsidiary	(2)	-
As of 31 December	21,902	20,382

Loans are issued principally within Russia in the following industry sectors:

	31 December 2012	31 December 2011
Analysis by industry sector:		
Individuals	92,905	59,672
Industrial manufacturing	72,370	67,799
Wholesale trade	66,086	49,160
Services	52,869	23,955
Brokerage and dealing in securities	49,290	46,346
Operations with real estate	49,094	43,962
Construction of industrial real estate	38,865	27,173
Mining	32,603	22,115
Housing construction	28,799	21,149
Leasing	25,997	22,819
Retail trade	23,755	19,711
Transport and communication	22,400	17,723
Construction of commercial real estate	14,111	13,029
Energy	3,814	2,453
Agriculture	3,388	4,020
Government finance	3,152	1,392
Precious metals extraction	2,002	1,150
Other	30,966	24,659
Gross loans to customers	612,466	468,287
Less – Allowance for impairment losses	(21,902)	(20,382)
Total loans to customers	590,564	447,905

The table below summarizes the amount of loans to corporate customers secured by collateral, rather than the fair value of the collateral itself:

	31 December 2012	31 December 2011
Loans collateralized by guarantees of enterprises and banks	142,260	100,272
Loans collateralized by pledge of real estate	100,877	84,946
Loans collateralized by pledge of securities	82,398	83,141
Loans collateralized by pledge of contract proceeds	45,698	32,778
Loans collateralized by pledge of property	37,966	26,538
Loans collateralized by pledge of the Bank's own securities	699	82
Unsecured loans	109,663	80,858
Gross loans to corporate customers	519,561	408,615
Less – Allowance for impairment losses	(20,315)	(19,318)
Total loans to corporate customers	499,246	389,297

The table below summarizes the amount of loans to individuals secured by collateral, rather than the fair value of the collateral itself:

	<u>31 December 2012</u>	<u>31 December 2011</u>
Loans collateralized by pledge of real estate	29,853	22,760
Loans collateralized by guarantees of enterprises	9,751	10,078
Loans collateralized by pledge of vehicles and other property	4,800	3,296
Loans collateralized by pledge of contract proceeds	4,397	1,432
Loans collateralized by pledge of securities	3	83
Loans collateralized by pledge of the Bank's own securities	2	3
Unsecured loans	44,099	22,020
Gross loans to individuals	92,905	59,672
Less – Allowance for impairment losses	(1,587)	(1,064)
Total loans to individuals	91,318	58,608

As at 31 December 2012 and 2011 the Group granted loans to five and five corporate borrowers totalling RUB 58,409 million and RUB 54,894 million, respectively, which individually exceeded 10% of the Group's equity. Borrowers individually exceeding 10% of the Group equity have good credit history and the loans provided to them are performing within standard loans.

As at 31 December 2012 and 2011 renegotiated loans amounted to RUB 5,572 million and RUB 6,739 million respectively, which would be past due or impaired if not renegotiated. Renegotiated loans mainly involve extending of the payment arrangements of the loan agreements, rather than interest rate modification or other enhancements in favour of the borrower.

As at 31 December 2012 and 2011 the loans under reverse repurchase agreements to customers have contractual maturities from January 2013 to November 2013 and January 2012 to March 2012, respectively.

Carrying value of loans under reverse repurchase agreements and fair value of assets pledged as at 31 December 2012 and 2011 are presented as follows:

	<u>31 December 2012</u>		<u>31 December 2011</u>	
	<u>Carrying value of loans</u>	<u>Fair value of collateral</u>	<u>Carrying value of loans</u>	<u>Fair value of collateral</u>
Corporate shares	27,870	37,840	39,248	46,244
PIF	12,065	19,328	-	-
Corporate bonds and Eurobonds	6,360	7,042	7,098	7,483
OFZ	1,712	1,854	-	-
Bonds and Eurobonds issued by banks	1,209	1,238	-	-
Municipal bonds	61	77	-	-
Shares of banks	13	13	-	-
Total	49,290	67,392	46,346	53,727

The components of net investment in finance lease as at 31 December 2012 and 2011 are as follows:

	<u>31 December 2012</u>	<u>31 December 2011</u>
Less than one year	2,667	1,917
From one year to five years	3,736	2,058
More than five years	1,082	68
Minimum lease payments	7,485	4,043
Less: unearned finance income	(2,079)	(888)
Net investment in finance lease	5,406	3,155
Current portion	1,874	1,446
Long-term portion	3,532	1,709
Net investment in finance lease	5,406	3,155

As at 31 December 2012 and 2011 the Group provided loans to customers in the amount of RUB 7,598 million and of RUB 6,703 million which were secured by deposits made by the Deposit Insurance Agency ("DIA") in the amount of RUB 6,160 million and RUB 6,263 million, respectively (see Note 26).

During the years ended 31 December 2012 and 2011 the Bank sold certain loans to third parties at a discount to nominal value with no recourse and without any service obligations associated with the loans.

Net gain on disposal of loans is represented by:

	Year ended 31 December 2012	Year ended 31 December 2011
Fair value of the consideration received	5,724	7,320
Carrying amount net of provisions	<u>(4,465)</u>	<u>(7,139)</u>
Net gain on disposal of loans	<u>1,259</u>	<u>181</u>

19. INVESTMENTS AVAILABLE-FOR-SALE

Investments available-for-sale comprise:

	31 December 2012	Interest rate to nominal	Maturity date
Corporate bonds and Eurobonds	3,888	7.1-15.0%	March 2014- March 2020
Bonds and Eurobonds issued by banks	542	0.0-9.3%	February 2013-November 2018
Corporate shares	469	-	-
Units of investment funds	19	-	-
Share participation in limited liability companies	<u>1</u>	-	-
Total investments available-for-sale	<u>4,919</u>		

	31 December 2012	Pledged under repurchase agreements with banks
Corporate bonds and Eurobonds	3,888	-
Bonds and Eurobonds issued by banks	542	-
Corporate shares	469	-
Units of investment funds	19	-
Share participation in limited liability companies	<u>1</u>	-
Total investments available-for-sale	<u>4,919</u>	<u>-</u>

As at 31 December 2011 investments available-for-sale comprise:

	31 December 2011	Interest rate to nominal	Maturity date
Units of investment funds	5,676	-	-
Bonds issued by CIS	1,977	8.7-8.9%	August 2015-January 2018
Corporate bonds and Eurobonds	942	5.9-20.0%	March 2012-December 2016
Bonds and Eurobonds issued by banks	507	7.7-9.2%	May 2012-December 2017
Corporate shares	421	-	-
OFZ bonds	161	8.0%	November 2021
Promissory notes of credit institutions	5	-	January 2012
Share participation in limited liability companies	1	-	-
Total investments available-for-sale	9,690		

	31 December 2011	Pledged under repurchase agreements with banks
Units of investment funds	5,676	-
Bonds issued by CIS	1,977	-
Corporate bonds and Eurobonds	942	826
Bonds and Eurobonds issued by banks	507	-
Corporate shares	421	-
OFZ bonds	161	-
Promissory notes of credit institutions	5	-
Share participation in limited liability companies	1	-
Total investments available-for-sale	9,690	826

Units of investment funds included in financial assets available-for-sale as at 31 December 2012 and 2011 are presented below:

	31 December 2012	31 December 2011
OPIF "NOMOS – Fund of bonds"	10	10
OPIF "NOMOS – Fund of shares"	9	8
ZPIF Rusnedra	-	5,651
OPIF of shares "Troika-Dialog – Dobrynya Nikitich"	-	7
Total units of investment funds	19	5,676

Closed unit investment fund of private equity investments ZPIF Rusnedra is managed by OOO Managing Company Fleming Family & Partners and created with the purpose of investing into shares (units) of companies engaged in the production and exploration and holding oil and gas production licenses.

For units in ZPIF Rusnedra, which have no quoted prices in the active market, the Group applies a discounted cash flow method ("DCF Method"). "DCF Method" is a method within the income approach whereby the present value of future expected free cash flows is calculated using a discount rate which reflects the degree of perceived risk associated with achieving the projected results.

The valuation of ZPIF Rusnedra has been derived by projecting free cash flows derived from normalized historical data, internal long-term performance forecast, as well as benchmarking of long-term growth in the industry and the economy. The key variables in the projection included assumptions with respect to future prices, production volumes, extraction costs, operating taxes, depreciation, capital expenditures and working capital investments. Resulting cash flows have been discounted at the rates determined based on market, country, industry and small cap premiums as well as company specific risk factors to arrive at the valuation as of respective reporting dates.

As at 31 December 2012 and 31 December 2011 financial assets available-for-sale are mainly presented by investments issued by Ministry of Finance, local authorities, banks and companies of the Russian Federation.

20. INVESTMENTS HELD TO MATURITY

Investments held to maturity are presented as follows:

	<u>Interest rate to nominal</u>	<u>31 December 2012</u>	<u>Pledged as collateral with CBR</u>	<u>Interest rate to nominal</u>	<u>31 December 2011</u>
Municipal bonds	9.0%	201	-	9.0%	523
OFZ bonds	-	-	-	6.9%	25
Total investments held to maturity		<u>201</u>	<u>-</u>		<u>548</u>

Movements in allowances for impairment losses for the years ended 31 December 2012 and 2011 were as follows.

	<u>For the years ended 31 December</u>	
	<u>2012</u>	<u>2011</u>
As of 1 January	-	1,129
Provision (release)	-	(9)
Disposal of investments	-	(1,120)
As of 31 December	<u>-</u>	<u>-</u>

21. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment comprise:

	Land	Buildings and construc- tions	Furniture and equipment	Other	Total
At initial/indexed/revalued cost	365	8,536	2,154	1,181	12,236
31 December 2010					
Acquisition of subsidiaries	-	-	12	-	12
Revaluation recorded in equity	97	472	-	-	569
Impairment losses recorded in income statement	16	29	-	-	45
Movement in cost related to revaluation	-	(194)	-	-	(194)
Additions	6	487	577	160	1,230
Disposals	(22)	(911)	(39)	(160)	(1,132)
31 December 2011	462	8,419	2,704	1,181	12,766
Reclasses	-	(157)	205	(256)	(208)
Revaluation recorded in equity	6	358	-	-	364
Revaluation recorded in income statement	15	86	-	-	101
Movement in cost related to revaluation	-	(206)	-	-	(206)
Additions	-	5	110	656	771
Disposals	-	(10)	(142)	(117)	(269)
Disposals of subsidiaries	-	-	(28)	-	(28)
31 December 2012	483	8,495	2,849	1,464	13,291
Accumulated depreciation					
31 December 2010	-	-	913	347	1,260
Movement in cost related to revaluation	-	(194)	-	-	(194)
Charge for the period	-	199	438	126	763
Write-off on disposal	-	(1)	(25)	(27)	(53)
31 December 2011	-	4	1,326	446	1,776
Movement in cost related to revaluation	-	(204)	-	-	(204)
Charge for the period	-	203	466	127	796
Write-off on disposal	-	-	(123)	(57)	(180)
Write-off on disposal of subsidiaries	-	-	(14)	-	(14)
31 December 2012	-	3	1,655	516	2,174
Net book value					
31 December 2011	462	8,415	1,378	735	10,990
31 December 2012	483	8,492	1,194	948	11,117

As at 31 December 2012 and 2011 land, buildings and constructions owned by the Group were revalued to market prices according to the report of an independent appraiser as described below. As a result, carrying value of these land, buildings and constructions amounted to RUB 8,979 million and RUB 8,877 million, respectively. If land, buildings and constructions were accounted at historical cost restated according to inflation indices less accumulated depreciation and impairment losses, their carrying value would have been RUB 7,485 million and RUB 7,804 million, respectively.

Land, buildings and constructions owned by the Group were revalued by independent appraisers as at 31 December 2012 and 2011. The following methods were used for the estimation of their fair value: discounted cash flow method (income approach), integrated cost estimation method (cost based method), method of sales comparison (comparative approach). For the estimation of the final value, certain weights were assigned to the results obtained using different approaches, depending on the degree to which the estimates met the following characteristics: reliability and completeness of the information, specifies the estimated property and other.

During the years ended 31 December 2012 and 2011 the Group carried out a review of the recoverable amount of its land, buildings and constructions. The review led to the recognition of an revaluation gain of RUB 101 million for the year ended 31 December 2012 and RUB 45 million for the year ended 31 December 2011 due to increase in the average level of market prices and the level of business activity as well, which has been recognised in consolidated income statement. The recoverable amount of the relevant assets has been determined on the basis of their fair value. The recovery of impairment losses and impairment losses have been presented in the separate line in the consolidated income statement.

As at 31 December 2012 and 2011 included in property, plant and equipment were fully depreciated assets amounted to RUB 897 million and RUB 971 million, respectively.

22. INTANGIBLE ASSETS

Intangible assets are presented as follows:

	<u>31 December 2012</u>	<u>31 December 2011</u>
Software	1,192	962
Customer-related intangible assets	593	963
Trademark	349	323
Licences	346	378
Other	1	1
Total intangible assets	<u>2,481</u>	<u>2,627</u>

As at 31 December 2012 customer related intangible assets include core deposit intangible in the amount of RUB 184 million and client relationship in the amount of RUB 409 million.

As at 31 December 2011 customer related intangible assets include core deposit intangible in the amount of RUB 293 million and client relationship in the amount of RUB 670 million.

Movement in intangible assets is presented in the table below:

	<u>Intangible assets</u>
Net book value as at 31 December 2010	2,602
Aquisitions of subsidiaries	291
Additions	518
Amortization for the year	<u>(784)</u>
Net book value as at 31 December 2011	2,627
Additions	768
Amortization for the year	<u>(914)</u>
Net book value as at 31 December 2012	<u>2,481</u>

23. INVESTMENT PROPERTY

Investment property comprises:

	31 December 2012	31 December 2011
As at January 1	3,759	922
Acquisitions	1,072	2,538
Disposals	(250)	(85)
Transferred from property and equipment	208	893
Loss on property revaluation	(28)	(509)
As at December 31	4,761	3,759

Included into operating income is investment property rental income for the years ended 31 December 2012 and 2011 totaled RUB 135 million and RUB 87 million, respectively.

Operating expenses arising from the investment property during the years ended 31 December 2012 and 2011 totaled RUB 32 million and RUB 22 million, respectively.

The fair value of the Group's investment property as at 31 December 2012 and 2011 has been arrived at on the basis of a valuation carried out at that date by independent appraisers that are not related to the Group. The Group has determined the fair value of the investment property at on the basis of a valuation carried out at that date by independent appraisers on the basis of market data at the price of transactions with similar real estate objects.

As at 31 December 2012 and 2011 the Group made an assessment of carrying value of investment property. This assessment resulted in recognition of impairment loss in the consolidated income statement amounting to RUB 28 million and RUB 509 million due to decline in market prices. Decrease of the carrying value of buildings and other real estate is recognized in the consolidated income statement.

24. OTHER ASSETS

Other assets are presented as follows:

	31 December 2012	31 December 2011
Other financial assets:		
Accounts receivable	874	761
Debtors on operations with securities	104	413
Receivables on operations with coins	40	36
Debtors on spot deals with currency and precious metals	34	42
Settlements on transfer of financial assets	-	387
Prepayments on operations with precious metals	-	21
Total other financial assets before allowance for impairment losses	1,052	1,660
Less – Allowance for impairment losses	(182)	(389)
	870	1,271
Other non-financial assets:		
Prepayments of capital investments	877	222
Non-current assets held for sale	666	681
Current income tax assets	565	1,195
Rights on claims against property	498	454
Taxes other than income tax recoverable	477	358
Stationery and inventory	215	176
Deferred tax assets (Note 11)	44	17
Property for finance lease	-	5
Other	805	495
Total other non-financial assets before allowance for impairment losses	4,147	3,603
Less – Allowance for impairment losses	(288)	(199)
	3,859	3,404
Total other assets	4,729	4,675

Movements in allowances for impairment losses of other assets for the years ended 31 December 2012 and 2011 were as follows.

	For the years ended 31 December	
	2012	2011
As of 1 January	588	399
Provision charge	84	199
Recovery of bad debt written-off	3	10
Bad debt written-off	(194)	(20)
Disposal	(11)	-
As of 31 December	470	588

25. DUE TO BANKS AND THE CENTRAL BANK OF THE RUSSIAN FEDERATION

Due to banks and the Central Bank of the Russian Federation comprises:

	31 December 2012	31 December 2011
Deposits from banks	128,166	72,290
Loans under repurchase agreements	67,834	17,406
Correspondent accounts of other banks	17,510	10,644
Syndicated loans	-	6,307
Total due to banks and the Central Bank of the Russian Federation	213,510	106,647

As at 31 December 2011 carrying value of syndicated loans received by the Group comprised RUB 6,307 million from Russian, OECD and non-OECD banks. The contractual maturity of syndicated loan is October 2012, and the interest rate is tied to six-month LIBOR plus 1.9% margin.

As at 31 December 2012 and 2011 the Group had deposits from five and three banks amounting to RUB 131,259 million and RUB 40,583 million, respectively, which individually and in aggregate exceeded 10% of the Group's equity.

As at 31 December 2012 and 2011 the Group had deposit from two and one banks amounting to RUB 4,208 million and RUB 1,220 million, respectively, which were collateralized with the rights of claim with respect to loans to customers totaling RUB 4,790 million and RUB 1,592 million, respectively.

Carrying value of loans under repurchase agreements and fair value of assets pledged as at 31 December 2012 and 2011 are presented as follows:

	31 December 2012		31 December 2011	
	Carrying value of loans	Fair value of collateral	Carrying value of loans	Fair value of collateral
Corporate shares	20,797	31,860	1,697	2,690
OFZ bonds	19,370	19,804	5,712	5,839
Corporate bonds and Eurobonds	12,089	14,066	4,969	6,065
Bonds and Eurobonds issued by banks	7,025	8,493	4,203	4,931
Promissory notes of credit institutions	6,545	6,541	-	-
Municipal bonds	2,008	2,130	-	-
RF Government Eurobonds	-	-	825	1,110
Total	67,834	82,894	17,406	20,635

26. CUSTOMER ACCOUNTS

Customer accounts comprise:

	<u>31 December 2012</u>	<u>31 December 2011</u>
Term deposits	358,748	273,261
Current accounts	105,790	102,764
Term deposits from Deposit Insurance Agency	6,160	6,263
Loans under repurchase agreements	<u>1,029</u>	<u>157</u>
Total customer accounts	<u>471,727</u>	<u>382,445</u>

As at 31 December 2012 and 2011 the Group received funds from seven and four customers amounting to RUB 115,862 million and RUB 40,258 million, respectively, which individually exceeded 10% of the Group's equity.

As at 31 December 2012 and 2011 demand deposits denominated in units of precious metal which have the alternative to be settled in cash or in precious metals were included in customer accounts. The breakdown is presented below:

	<u>31 December 2012</u>	<u>31 December 2011</u>
Gold	6,366	5,636
Silver	613	921
Palladium	68	93
Platinum	<u>46</u>	<u>51</u>
Total customer accounts denominated in precious metals	<u>7,093</u>	<u>6,701</u>

As at 31 December 2012 and 2011 customer accounts amounting to RUB 2,487 million and RUB 2,670 million, respectively, were held as security against other financial transactions by the Group (see Note 32).

As at 31 December 2012 and 2011 the Group provided loans to customers in the amount of RUB 7,598 million and of RUB 6,703 million which were secured by deposits made by the Deposit Insurance Agency ("DIA") in the amount of RUB 6,160 million and RUB 6,263 million, respectively (see Note 18).

Analysis of customer accounts by economic sector is presented below:

	<u>31 December 2012</u>	<u>31 December 2011</u>
Individuals	157,082	130,375
Investment and asset management companies	121,241	59,297
Wholesale trade	27,807	24,703
Industrial manufacturing	27,686	28,506
Services	21,660	35,445
Operations with real estate	21,367	8,451
Regional and local budgets funds	21,034	20,747
Insurance	17,094	12,669
Construction of industrial real estate	15,429	21,330
Precious metals extraction	7,493	5,697
Science	6,960	5,659
Construction of commercial real estate	4,801	2,117
Transport and communication	4,541	6,190
Retail trade	4,295	3,861
Energy	3,074	4,951
Leasing	1,346	3,189
Brokerage and dealing in securities	1,029	157
Agriculture	625	610
Housing construction	374	145
Other	<u>6,789</u>	<u>8,346</u>
Total customer accounts	<u>471,727</u>	<u>382,445</u>

Carrying value of loans under repurchase agreements and fair value of assets pledged as at 31 December 2012 and 2011 are presented as follows:

	31 December 2012		31 December 2011	
	Carrying value of loans	Fair value of collateral	Carrying value of loans	Fair value of collateral
Corporate shares	1,025	2,292	157	232
Shares of banks	4	4	-	-
Total	1,029	2,296	157	232

27. BONDS AND EUROBONDS

Bonds and Eurobonds comprise:

	31 December 2012	31 December 2011
Bonds issued in local market	30,851	22,592
Eurobonds due in 2013	11,767	11,865
Eurobonds due in 2012	-	5,809
Total Bonds and Eurobonds issued	42,618	40,266

Bonds and Eurobonds as at 31 December 2012 comprise:

	Currency	Start date (year)	Maturity date (year)	Nominal interest rate %	31 December 2012
Bonds issued					
NOMOS, BO-03	Roubles	2012	2015	9.15%	5,180
NOMOS, 12th issue	Roubles	2010	2017	8.50%	5,150
NOMOS, BO-02	Roubles	2011	2014	8.00%	5,078
NOMOS, 9th issue	Roubles	2008	2013	8.75%	4,280
NOMOS, 11th issue	Roubles	2009	2014	9.50%	3,858
Mortgage-Backed bonds	Roubles	2012	2045	8.75%	3,758
NOMOS, BO-01	Roubles	2011	2014	9.10%	3,337
2 nd issue	Roubles	2010	2013	9.25%	210
Total bonds issued					30,851
Eurobonds					
NOMOS Eurobonds due in 2013	US Dollars	2010	2013	6.50%	11,767
Total Eurobonds issued					11,767
Total bonds and Eurobonds issued					42,618

Bonds and Eurobonds as at 31 December 2011 comprise:

	<u>Currency</u>	<u>Start date (year)</u>	<u>Maturity date (year)</u>	<u>Nominal interest rate %</u>	<u>31 December 2011</u>
Bonds issued					
NOMOS, 12th issue	Roubles	2010	2017	8.50%	5,149
NOMOS, BO-01	Roubles	2011	2014	7.00%	4,971
NOMOS, 11th issue	Roubles	2009	2014	7.40%	4,895
NOMOS, 9th issue	Roubles	2008	2013	6.25%	4,614
NOMOS, BO-02	Roubles	2011	2014	8.00%	2,610
2 nd issue	Roubles	2010	2013	6.25%	353
Total bonds issued					22,592
Eurobonds					
NOMOS Eurobonds due in 2013	US Dollars	2010	2013	6.50%	11,865
NOMOS Eurobonds due in 2012	US Dollars	2009	2012	9.25%	5,809
Total Eurobonds issued					17,674
Total bonds and Eurobonds issued					40,266

The Group is obliged to comply with financial covenants in relation to Eurobonds due in 2013.

In accordance with the terms of the covenants the Group should not permit its consolidated total capital ratio as calculated in accordance with the recommendations of the Basel Committee on Banking Regulations and Supervisory Practices (as at the date hereof) to fall below 10%. These recommendations were provided in Committee's paper entitled "International Convergence of Capital Measurement and Capital Standards" dated July 1988, as amended in November 1991, and together with any further amendments, guidelines or clarifications up to the date hereof. This calculation should be made by reference to the latest annual consolidated audited accounts of the Group prepared in accordance with IFRS. The Group should also comply with the minimum capital adequacy ratio established by the Central Bank of Russian Federation. The Group has not breached any of these covenants at the end of each quarter in the years ended 31 December 2012 and 2011.

In December 2012, the Group issued bonds with an aggregate amortized cost of RUB 5,009 million as part of a securitisation transaction. The bonds were issued by CJSC "Mortgage Agent Nomos", a consolidated special purpose company. Class A notes in the carrying amount of RUB 3,758 million were placed through open subscription on OJSC "Moscow Exchange MICEX-RTS" and Class B notes in the amount of RUB 1,251 million were bought out by the Group and, therefore, were not shown in these consolidated financial statements. The international rating agency Moody's issued the Baa3 credit rating to Class A notes. Class A notes have a fixed coupon rate of 8.75%. Class A notes with the carrying value of RUB 3,758 million should be fully repaid on 7 November 2045.

28. PROMISSORY NOTES ISSUED

Promissory notes issued comprise:

	<u>Interest rate to nominal</u>	<u>31 December 2012</u>	<u>Interest rate to nominal</u>	<u>31 December 2011</u>
Discount bearing promissory notes	-	18,154	-	15,489
Interest bearing promissory notes	0.8-10.5%	2,006	0.8-11.5%	2,599
Certificates of deposit	8.2-11.6%	644	6.6-9.4%	417
Settlement promissory notes	-	341	-	402
Total promissory notes issued		21,145		18,907

Settlement promissory notes are promissory notes sold at face value.

29. OTHER LIABILITIES

Other liabilities comprise:

	<u>31 December 2012</u>	<u>31 December 2011</u>
Other financial liabilities:		
Payable to employees and accrued bonuses	1,837	1,147
Payables on settlement operations	620	621
Accrued expenses	556	324
Financial guarantees	362	352
Creditors on sale of precious metals	261	284
Creditors on operations with securities	17	30
Payables on spot operations with currency, precious metals and securities	<u>17</u>	<u>2</u>
Creditors on operations with foreign currency	-	69
Total other financial liabilities	<u>3,670</u>	<u>2,829</u>
Other non-financial liabilities:		
Taxes payable, other than income tax	515	282
Current income tax liabilities	361	58
Provisions for other off-balance sheet commitments	-	29
Other liabilities	<u>242</u>	<u>196</u>
Total other non-financial liabilities	<u>1,118</u>	<u>565</u>
Total other liabilities	<u>4,788</u>	<u>3,394</u>

Movements in financial guarantees and provisions for other off-balance sheet commitments for the years ended 31 December 2012 and 2011 were as follows.

	<u>For the years ended 31 December</u>	
	<u>2012</u>	<u>2011</u>
As of 1 January	381	456
Provision charge/(release)	27	(23)
Amortisation of accrued commissions on guarantees	<u>(46)</u>	<u>(52)</u>
As of 31 December	<u>362</u>	<u>381</u>

30. SUBORDINATED DEBT

Subordinated debt is presented as follows:

The following table provides information on subordinated debt as at 31 December 2012:

	<u>Currency</u>	<u>Start date (year)</u>	<u>Maturity date (year)</u>	<u>Nominal interest rate %</u>	<u>31 December 2012</u>
Subordinated bonds	US Dollars	2012	2019	10.00%	15,321
Subordinated bonds	US Dollars	2010	2015	8.75%	10,751
Subordinated bonds	US Dollars	2012	2019	10.00%	8,997
Subordinated loan	Roubles	2011	2021	12.00%	6,000
Subordinated loan	Roubles	2009	2019	6.50%	4,902
Subordinated bonds	US Dollars	2007	2018	11.00%	3,198
Subordinated loan	Roubles	2009	2019	6.50%	1,605
Subordinated loan	Roubles	2010	2016	6.00%	60
Subordinated loan	Roubles	2010	2016	8.00%	<u>39</u>
					<u>50,873</u>

The following table provides information on subordinated debt as at 31 December 2011:

	Currency	Start date (year)	Maturity date (year)	Nominal interest rate %	31 December 2011
Subordinated bonds	US Dollars	2010	2015	8.75%	11,374
Subordinated loan	Roubles	2011	2021	12.00%	6,000
Subordinated loan	Roubles	2009	2019	6.50%	4,901
Subordinated bonds	US Dollars	2007	2018	11.00%	3,407
Subordinated loan	Roubles	2009	2019	6.50%	1,549
Subordinated loan	Roubles	2010	2016	6.00%	60
Subordinated loan	Roubles	2010	2016	8.00%	39
Subordinated loan	Roubles	2009	2016	11.30%	35
					27,365

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

31. SHARE CAPITAL AND SHARE PREMIUM

The table below provides a breakdown of the Bank's issued and fully paid ordinary and preference shares:

	Ordinary shares (Number)	Nominal amount (RUB million)	Preference shares (Number)	Nominal amount (RUB million)
Issued and fully paid				
31 December 2010	86,845,973	4,342	2,420,000	121
Reacquired	-	-	(2,420,000)	(121)
Issued	5,576,397	279	-	-
31 December 2011	92,422,370	4,621	-	-
31 December 2012	92,422,370	4,621	-	-

There are no issued ordinary and preference shares that have not been fully paid. Par value per ordinary and preference share is RUB 50 each.

Each ordinary share entitles the holder to cast one vote on all matters within its competence stipulated by the Charter of the Group, to receive non-fixed rate dividend income and to receive property belonging to the Group in the event of liquidation. When shares are issued, each holder of shares shall have pre-emptive right, in proportion to the aggregate amount of their shares.

In the event of the dissolution and liquidation of the Bank, the assets remaining after payment of all debts will be distributed to the holders of ordinary shares on a pro-rata basis.

The table below provides a breakdown of the Bank's authorized ordinary and preference shares:

	Ordinary shares (Number)	Nominal amount (RUB million)	Preference shares (Number)	Nominal amount (RUB million)
Authorized				
31 December 2010	172,954,027	8,648	48,100,000	2,405
Issued	(5,576,397)	(279)	-	-
31 December 2011	167,377,630	8,369	48,100,000	2,405
31 December 2012	167,377,630	8,369	48,100,000	2,405

Holders of preference shares with non-fixed rate dividend income are entitled to: participate in the General Meeting of shareholders with voting rights addressing issues of reorganization and liquidation of the Bank and addressing issues on introducing amendments and additions to the Charter restricting the rights of holders of preferred shares. Each preference share entitles the holder to receive dividends on an equal basis with holders of ordinary shares.

Dividends on ordinary shares and preference shares classified as equity are recognized, as a distribution of equity in the period in which they are approved by shareholders.

Share premium represents the excess of contributions received over the nominal value of shares issued or sold.

The Group's reserves distributable among shareholders are limited to the amount of its reserves as disclosed in its statutory accounts. Non-distributable reserves are represented by a reserve fund, which is created as required by the statutory regulations, in respect of general banking risks, including future losses and other unforeseen risks or contingencies.

32. COMMITMENTS AND CONTINGENCIES

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

The Group's maximum exposure to credit risk under contingent liabilities and commitments to extend credit, in the event of non-performance by the other party where all counterclaims, collateral or security prove valueless, is represented by the contractual amounts of those instruments.

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

As at 31 December 2012 and 2011 allowances for guarantees and other off-balance sheet commitments were RUB 362 million and RUB 381 million, respectively. The risk-weighted amount is obtained by applying credit conversion factor and counterparty risk weightings according to the principles employed by the Basel Committee on Banking Supervision (Basel I).

As at 31 December 2012 and 2011 the nominal or contract amounts and risk-weighted amounts were:

	31 December 2012		31 December 2011	
	Nominal amount	Risk-weighted amount	Nominal amount	Risk-weighted amount
Contingent liabilities and credit commitments				
Guarantees issued and similar commitments	154,645	154,310	100,356	65,078
Commitments on loans and unused credit lines	116,582	3,140	87,202	1,366
Letters of credit and other contingent commitments related to settlement operations	6,848	2,181	9,972	3,651
Total contingent liabilities and credit commitments	278,075	159,631	197,530	70,095

As at 31 December 2012 and 2011 letters of credit of RUB 2,487 million and RUB 2,670 million, respectively, were secured by cash deposited in customer accounts (see Note 26).

Operating leases – The Group's future minimum rental payments under non-cancellable operating leases of office premises in effect as at 31 December 2012 and 2011 are presented in the table below.

	<u>31 December 2012</u>	<u>31 December 2011</u>
Not later than 1 year	574	834
Later than 1 year and not later than 5 years	1,076	1,019
Later than 5 years	<u>42</u>	<u>3</u>
Total operating lease	<u>1,692</u>	<u>1,856</u>

Fiduciary activities – The Group provides depository services to its customers. As at 31 December 2012 and 2011 the Group had customers' securities of 13,631,420,928 items, and 14,999,522,154 items, respectively, in its nominal holder's accounts.

As at 31 December 2012 and 2011 the Group kept in its vault 3,587 kg of gold bullion, 5,661 kg of silver bullion, 88 kg of palladium bullion, 31 kg of platinum bullion, and 5,006 kg of gold bullion, 3,236 kg of silver bullion, 82 kg of palladium bullion, 26 kg of platinum bullion respectively, owned by the Group's customers.

As at 31 December 2012 and 2011 the Group has obligation to provide funding for operations on precious metals extraction in the amount of RUB 28,824 million and RUB 35,029 million, respectively, which are not recognized in the consolidated statement of financial position as the conditions of extraction and customer delivery have not yet occurred.

Legal proceedings – From time to time and in the normal course of business, claims against the Group are received from customers and counterparties. Management is of the opinion that no material unaccrued losses will be incurred and accordingly no provision has been made in these consolidated financial statements.

Taxation – Commercial legislation of the RF and countries where the Group operates, including tax legislation, may allow more than one interpretation. In addition, there is a risk of tax authorities making arbitrary judgments of business activities. If a particular treatment, based on management's judgment of the Group's business activities, was to be challenged by the tax authorities, the Group may be assessed additional taxes, penalties and interest.

Such uncertainty may relate to the valuation of financial instruments, valuation of provision for impairment losses and the market pricing of deals. Additionally such uncertainty may relate to the valuation of temporary differences on the provision and recovery of the provision for impairment losses on loans to customers and receivables, as an underestimation of the taxable profit. The management of the Group believes that it has accrued all tax amounts due and therefore no provision has been made in the consolidated financial statements.

Russian transfer pricing legislation was amended starting from January 1, 2012 to introduce additional reporting and documentation requirements. The new legislation allows the tax authorities to impose additional tax liabilities in respect of certain transactions, including but not limited to transactions with related parties, if they consider transaction to be priced not at arm's length. As the practice of implementation of the new transfer pricing rules has not yet developed and wording of some clauses of the rules is unclear, the impact of challenge of the Group's transfer pricing positions by the tax authorities cannot be reliably estimated.

Pensions and retirement plans – Employees receive pension benefits according to the laws and regulations of the Russian Federation. The Group provides its employees with post-employment benefits in the form of defined contribution plans. The Group makes monthly payments to a non-government pension fund for its employees, who in turn will receive a future benefit from the fund. The contributions to the defined contribution plan are included in staff costs on an accrual basis. During the year ended 31 December 2012 and 2011 the Group made payments to the non-government pension fund of RUB 5 million and RUB 4 million, respectively. Once the payments to the pension fund are made the Group has no further obligations.

Operating Environment – Emerging markets such as Russia are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in Russia continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations. The future economic direction of Russia is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

Because Russia produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market.

33. SEGMENT REPORTING

The reportable segments comprise of:

- Corporate banking – full range of banking services provided to large and medium-sized corporate customers, including, among others, direct debt facilities, current accounts, deposits, overdrafts, loan and other credit facilities and a variety of settlement and transactional services.
- Small business – banking services provided to small businesses and individual entrepreneurs, including direct debt facilities, current accounts, deposits, overdrafts, loan and other credit facilities and settlement and transaction services.
- Investment banking – representing trading of fixed income and equity products, foreign exchange, precious metals and derivatives on such products, money market operations, repo, brokerage services and asset management and other investment banking services.
- Retail banking (including private banking) – full range of banking services to mass, affluent and wealthy individuals, including customer current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages.
- Treasury and asset-liability unit – treasury, which lends and borrows funds of money market, undertakes the Group's funding through issue of debt securities and attraction of subordinated facilities and conducts foreign exchange operations for internal hedging purposes. This segment is also responsible for accumulation and further redistribution of all funds attracted by other segments.
- Unallocated – balances and/or income and expense items not allocated to any of the Group's business segments in the internal management reporting systems, as they are not initiated by any of the business units and represent part of the Group's routine headquarter activities

The President of the Bank is the chief operating decision maker. Operating results are reviewed regularly by the entity's chief operating decision maker to consider the way resources to be allocated to the segment and assess its performance.

Internal charges and transfer pricing adjustments have been reflected in the performance of each segment. Revenue sharing agreements are used to allocate external customer revenues to a business segment on a reasonable basis.

Segment information about these businesses is presented below:

	Corporate banking	Small business	Retail banking	Investment banking	Treasury and asset-liability management unit	Unallocated	Year ended 31 December 2012
External interest income	41,118	5,187	10,664	9,562	119	-	66,650
External interest expense	(13,035)	(525)	(8,019)	(7,903)	(5,762)	-	(35,244)
Internal funding costs/revenues from Central treasury	(11,848)	(1,212)	4,902	1,057	7,101	-	-
Net interest income before gain on remeasurement of cash flows and provision for impairment losses on interest bearing assets	16,235	3,450	7,547	2,716	1,458	-	31,406
Gain on remeasurement of cash flows and provision for impairment losses on interest bearing assets	(4,889)	253	(325)	-	-	-	(4,961)
Net interest income	11,346	3,703	7,222	2,716	1,458	-	26,445
Fee and commission income	3,436	1,372	5,636	449	-	2	10,895
Fee and commission expense	(163)	(45)	(2,474)	(177)	(93)	(2)	(2,954)
Trading and foreign exchange results	1,026	35	305	3,004	(1,098)	2	3,274
Other operating income	1,283	82	210	227	37	174	2,013
Net result from other segments*	(109)	(30)	83	188	(132)	-	-
Total operating income before impairment losses and provision	16,819	5,117	10,982	6,407	172	176	39,673
Impairment losses of investments available-for-sale and investment property and provisions on other transactions	(189)	5	(31)	84	-	(8)	(139)
Operating expenses	(5,432)	(2,860)	(8,184)	(1,497)	(329)	(2,978)	(21,280)
Profit before taxation	11,198	2,262	2,767	4,994	(157)	(2,810)	18,254
Income tax	-	-	-	-	-	(3,239)	(3,239)
Profit for the period	11,198	2,262	2,767	4,994	(157)	(6,049)	15,015
Depreciation and amortization expense	(415)	(217)	(773)	(92)	(17)	(196)	(1,710)
Capital expenditures	394	210	635	100	22	179	1,540

* Represents results from revenue sharing agreements between segments used to allocate certain external revenues between business segments jointly participating in revenue generating activities

	Corporate banking	Small business	Retail banking	Investment banking	Treasury and asset-liability management unit	Unallocated	31 December 2012 Total
ASSETS							
Cash and balances with the Central Bank of the Russian Federation	-	-	15,482	9,502	26,164	-	51,148
Minimum reserve deposits with the Central Bank of the Russian Federation	-	-	-	-	6,932	-	6,932
Precious metals	6,390	-	12	-	-	-	6,402
Financial assets at fair value through profit or loss	92	-	-	104,162	-	-	104,254
Loans and advances to banks and other financial institutions	98	1	3,390	88,899	19,198	-	111,586
Loans to customers	422,035	38,947	90,112	39,420	-	50	590,564
Investments available-for-sale	-	-	-	4,895	24	-	4,919
Investments held to maturity	-	-	-	201	-	-	201
Property, plant and equipment	2,567	1,434	4,715	641	610	1,150	11,117
Intangible assets	365	172	1,412	43	-	489	2,481
Goodwill	-	-	-	-	-	809	809
Investment property	2,279	-	-	1,445	-	1,037	4,761
Other assets	1,062	466	218	302	25	2,656	4,729
TOTAL ASSETS	434,888	41,020	115,341	249,510	52,953	6,191	899,903
LIABILITIES							
Financial liabilities at fair value through profit or loss	19	-	-	3,172	-	-	3,191
Due to banks and the Central Bank of the Russian Federation	6,365	4,091	8,548	190,904	3,602	-	213,510
Customer accounts	267,557	28,009	157,275	4,559	14,327	-	471,727
Bonds and Eurobonds	-	-	3,765	27,085	11,768	-	42,618
Promissory notes issued	7,496	644	21	12,694	290	-	21,145
Deferred income tax liabilities	-	-	-	-	-	1,690	1,690
Other liabilities	842	45	749	125	156	2,871	4,788
Subordinated debt	-	-	-	-	50,873	-	50,873
TOTAL LIABILITIES	282,279	32,789	170,358	238,539	81,016	4,561	809,542

	Corporate banking	Small business	Retail banking	Investment banking	Treasury and asset-liability management unit	Unallocated	Year ended 31 December 2011
External interest income	32,946	3,334	6,723	9,144	211	-	52,358
External interest expense	(8,060)	(425)	(6,221)	(4,809)	(4,787)	-	(24,302)
Internal funding costs/revenues from Central treasury	(9,404)	(332)	4,581	(311)	5,458	8	-
Net interest income before gain on remeasurement of cash flows and provision for impairment losses on interest bearing assets	15,482	2,577	5,083	4,024	882	8	28,056
Gain on remeasurement of cash flows and provision for impairment losses on interest bearing assets	(3,409)	(436)	(23)	37	-	-	(3,831)
Net interest income	12,073	2,141	5,060	4,061	882	8	24,225
Fee and commission income	2,749	1,247	3,644	440	19	1	8,100
Fee and commission expense	(137)	(28)	(1,449)	(203)	(154)	-	(1,971)
Trading and foreign exchange results	940	88	332	701	352	-	2,413
Other operating income	243	132	184	27	3	115	704
Net result from other segments*	(166)	(17)	41	213	(71)	-	-
Total operating income before impairment losses and provision	15,702	3,563	7,812	5,239	1,031	124	33,471
Impairment losses of investments available-for-sale and investment property and provisions on other transactions	(320)	4	(87)	(195)	1	(126)	(723)
Operating expenses	(4,099)	(2,357)	(6,175)	(1,220)	(298)	(3,066)	(17,215)
Profit before taxation	11,283	1,210	1,550	3,824	734	(3,068)	15,533
Income tax	-	-	-	-	-	(3,399)	(3,399)
Profit for the period	11,283	1,210	1,550	3,824	734	(6,467)	12,134
Depreciation and amortization expense	(359)	(211)	(690)	(67)	(19)	(202)	(1,548)
Capital expenditures	424	250	747	84	25	248	1,778

* Represents results from revenue sharing agreements between segments used to allocate certain external revenues between business segments jointly participating in revenue generating activities

	Corporate banking	Small business	Retail banking	Investment banking	Treasury and asset-liability management unit	Unallocated	31 December 2011 Total
ASSETS							
Cash and balances with the Central Bank of the Russian Federation	-	-	12,939	5,013	15,998	9	33,959
Minimum reserve deposits with the Central Bank of the Russian Federation	-	-	-	-	6,124	-	6,124
Precious metals	9,373	-	25	-	-	-	9,398
Financial assets at fair value through profit or loss	47	-	-	77,922	-	-	77,969
Loans and advances to banks and other financial institutions	435	-	2,110	35,778	15,368	-	53,691
Loans to customers	320,870	29,930	58,114	38,952	9	30	447,905
Investments available-for-sale	5,651	-	-	4,016	23	-	9,690
Investments held to maturity	-	-	-	548	-	-	548
Property, plant and equipment	2,475	1,456	4,560	477	599	1,423	10,990
Goodwill	-	-	-	-	-	809	809
Intangible assets	434	246	1,414	58	21	454	2,627
Investment property	2,218	-	-	728	-	813	3,759
Other assets	685	306	565	237	57	2,825	4,675
TOTAL ASSETS	342,188	31,938	79,727	163,729	38,199	6,363	662,144
LIABILITIES							
Financial liabilities at fair value through profit or loss	104	-	-	4,421	-	-	4,525
Due to banks and the Central Bank of the Russian Federation	10,979	3,713	6,440	79,208	6,307	-	106,647
Customer accounts	213,096	24,250	130,636	2,895	11,568	-	382,445
Bonds and Eurobonds	-	-	-	22,592	17,674	-	40,266
Promissory notes issued	6,481	239	84	12,103	-	-	18,907
Deferred income tax liabilities	-	-	-	-	-	2,885	2,885
Other liabilities	700	41	777	183	51	1,642	3,394
Subordinated debt	-	-	-	-	27,365	-	27,365
TOTAL LIABILITIES	231,360	28,243	137,937	121,402	62,965	4,527	586,434

34. FAIR VALUE OF FINANCIAL INSTRUMENTS

Valuation techniques

The Group uses a number of methodologies to determine the fair values of financial instruments for which observable prices in active markets for identical instruments are not available. These techniques include: relative value methodologies based on observable prices for similar instruments; present value approaches where future cash flows from the asset or liability are estimated and then discounted using a risk-adjusted interest rate.

The principal inputs to these valuation techniques are listed below. Values between and beyond available data points are obtained by interpolation and extrapolation. When utilising valuation techniques, the fair value can be significantly affected by the choice of valuation model and by underlying assumptions concerning factors such as the amounts and timing of cash flows, discount rates and credit risk.

Bond prices – quoted prices are generally available for government bonds, certain corporate securities and some mortgage-related products.

Interest rates – these are principally benchmark interest rates or internal Bank rates effective as at reporting date and quoted interest rates in the swap, bond and futures markets.

Foreign currency exchange rates – there are observable markets both for spot and forward contracts and futures in the world's major currencies.

Equity and equity index prices – quoted prices are generally readily available for equity shares listed on the world's major stock exchanges and for major indices on such shares.

Commodity prices – many commodities are actively traded in spot and forward contracts and futures on exchanges in London, New York and other commercial centres.

In order to determine a reliable fair value, where appropriate, management applies valuation adjustments to the pricing information gathered from the above sources. Furthermore, on an ongoing basis, the Group assesses the appropriateness of any model used.

Financial assets and liabilities

The following methods and significant assumptions have been applied to estimate the fair values of following financial instruments:

- Cash and balances with the CBR and minimum reserve deposits with the CBR, due to the short-term environment of these types of assets, the carrying amount is assumed to be reasonable estimate of their fair value.
- The estimated fair value of quoted trading securities and derivative financial instruments, comprising financial assets at fair value through profit or loss category, is determined based on quoted active market prices at the reporting date.
- The fair value of loans and advanced to banks and loans to customers for loans provided during the period of one month to the reporting date is assumed to be fair value amount for them. The fair value of the other loans is estimated by application of market interest rates when the loans were originated with the year-end market rates offered on similar deposits with the deduction of the allowances for credit losses from the calculated fair value amounts
- The estimated fair value of promissory notes and bonds comprising investments available-for-sale category is determined based on the quoted market prices. Investments in equity instruments, which do not have quoted market prices in an active market are measured at cost, as their fair value can not be measured reliably.
- The fair value of units of investment funds, which have quoted prices on the active market, is determined based on the quoted market prices. For shares in investment funds, which have no quoted prices on the active market the Group uses an independent appraiser's valuation for determining the fair value of such shares in the investment funds. The fair value of the assets of the investment funds is determined by the use of different approaches (income approach, comparative approach and cost approach) and methods (income capitalization method, company-analogue method, discounted cash flows method, liquidation value method).

- Investments held to maturity is determined based on quoted active market prices at the reporting date.
- Other financial assets and liabilities is mainly represented by short-term receivables and payables, therefore the carrying amount is assumed to be reasonable estimate of their fair value.
- The fair value of term deposits (included in customer accounts and deposits from banks) for term deposits placed during the period of one month to the reporting date is assumed to be fair value amount for them. The fair value of the other term deposits is estimated by application of market interest rates when the deposits were placed with the year-end market rates offered on similar deposits. The carrying amount of current customer accounts is assumed to be reasonable estimate of their fair value due to the short-term environment and availability requirements of these types of liability.
- The fair value of issued bonds, Eurobonds, promissory notes and subordinated liabilities is based on quoted prices. Where these are not available, fair value is based on expected cash flows discounted using market interest rates for similar securities or funds whose market rates are quoted.

The valuation techniques have been consistently applied by the Group across the years.

The following table compares the carrying amount of financial assets and liabilities to their estimated fair values:

	31 December 2012		31 December 2011	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
Cash and balances with the Central Bank of the Russian Federation	51,148	51,148	33,959	33,959
Minimum reserve deposits with the Central Bank of the Russian Federation	6,932	6,932	6,124	6,124
Financial assets at fair value through profit or loss	104,254	104,254	77,969	77,969
Loans and advances to banks and other financial institutions	111,586	111,586	53,691	56,041
Loans to customers	590,564	657,455	447,905	454,798
Investments available-for-sale	4,919	4,919	9,690	9,690
Investments held to maturity	201	201	548	545
Other financial assets	870	870	1,271	1,271
Financial liabilities				
Financial liabilities at fair value through profit or loss	3,191	3,191	4,525	4,525
Due to banks and the Central Bank of the Russian Federation	213,510	228,530	106,647	109,692
Customer accounts	471,727	476,493	382,445	384,506
Bonds and Eurobonds	42,618	43,480	40,266	40,988
Promissory notes issued	21,145	21,298	18,907	18,830
Other financial liabilities	3,670	3,670	2,829	2,829
Subordinated debt	50,873	51,996	27,365	27,685

Valuation hierarchy

The tables below show the financial instruments carried at fair value by hierarchy – level 1, level 2 and level 3. The valuation techniques, main assumptions used in the valuation of these instruments and reasonably possible increases or decreases in fair value based on reasonably possible alternative assumptions for level 3 financial instruments are set out below.

Quoted prices in an active market (Level 1): Valuations based on quoted prices in active markets that the Group has the ability to access for identical assets or liabilities. Valuation adjustments and block discounts are not applied to these financial instruments. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuations of these products does not entail a significant amount of judgment.

Valuation techniques using observable inputs (Level 2) – Valuations based on inputs for which all significant inputs are observable, either directly or indirectly and valuations based on one or more observable quoted prices for orderly transactions in markets that are not considered active.

Valuation techniques incorporating information other than observable market data (Level 3) – Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

There were no significant transfers to or from Level 1, Level 2 or Level 3 of the fair value hierarchy during the period.

The Group's valuation approach and fair value hierarchy categorisation for certain significant classes of financial instruments recognised at fair value is as follows:

	31 December 2012			
	Quoted prices in active market (Level 1)	Valuation techniques based on observable market data (Level 2)	Valuation techniques incorporating information other than observable market data (Level 3)	Total
Bonds and Eurobonds issued by banks	34,302	-	-	34,302
Corporate bonds and Eurobonds	34,023	-	-	34,023
OFZ bonds	19,191	-	-	19,191
Promissory notes of credit institutions	-	6,833	-	6,833
RF Government Eurobonds	2,231	-	-	2,231
Municipal bonds	3,667	-	-	3,667
Corporate shares	30	-	-	30
Financial assets at fair value through profit or loss	93,444	6,833	-	100,277
Foreign currency forwards	3,786	-	-	3,786
Foreign currency option	-	32	-	32
Precious metals forwards	92	-	-	92
Dealing security forwards	3	-	-	3
Oil forwards	2	-	-	2
Swap	-	62	-	62
Derivative financial instruments	3,883	94	-	3,977
Corporate bonds and Eurobonds	3,778	110	-	3,888
Bonds and Eurobonds issued by banks	542	-	-	542
Corporate shares	55	-	-	55
Units of investment funds	19	-	-	19
Investments available-for-sale	4,394	110	-	4,504
Foreign currency forwards	(1,829)	-	-	(1,829)
Foreign currency option	-	(32)	-	(32)
Precious metals forwards	(19)	-	-	(19)
Dealing security futures contracts	(7)	-	-	(7)
Swap	-	(168)	-	(168)
Other financial liabilities at fair value through profit and loss	(1,136)	-	-	(1,136)
Financial liabilities at fair value through profit or loss	(2,991)	(200)	-	(3,191)

31 December 2011				
	Quoted prices in active market (Level 1)	Valuation techniques based on observable market data (Level 2)	Valuation techniques incorporating information other than observable market data (Level 3)	Total
Bonds and Eurobonds issued by banks	27,506	-	-	27,506
Corporate bonds and Eurobonds	21,033	-	-	21,033
OFZ bonds	17,182	-	-	17,182
Promissory notes of credit institutions	-	2,877	-	2,877
RF Government Eurobonds	1,110	-	-	1,110
Municipal bonds	151	-	-	151
Corporate shares	1,799	-	-	1,799
Financial assets at fair value through profit or loss	68,781	2,877	-	71,658
First to default credit-linked notes recognized at fair value through profit or loss	-	311	-	311
Foreign currency forwards	5,823	-	-	5,823
Foreign currency option	-	49	-	49
Precious metals forwards	47	-	-	47
Dealing security forwards	12	-	-	12
Swap	-	69	-	69
Derivative financial instruments	5,882	118	-	6,000
Units of investment funds	25	-	5,651	5,676
Bonds issued by CIS	1,977	-	-	1,977
Corporate bonds and Eurobonds	914	28	-	942
Bonds and Eurobonds issued by banks	507	-	-	507
OFZ bonds	161	-	-	161
Corporate shares	8	-	-	8
Promissory notes of credit institutions	-	5	-	5
Investments available-for-sale	3,592	33	5,651	9,276
Foreign currency forwards	(3,027)	-	-	(3,027)
Foreign currency futures contracts	(1,103)	-	-	(1,103)
Foreign currency option	-	(49)	-	(49)
Precious metals forwards	(184)	-	-	(184)
Dealing security futures contracts	(2)	-	-	(2)
Swap	-	(157)	-	(157)
Other financial liabilities at fair value through profit and loss	(3)	-	-	(3)
Financial liabilities at fair value through profit or loss	(4,319)	(206)	-	(4,525)

Excluded from the table above were investments in equity securities of unlisted entities classified as available-for-sale securities. The fair value of such securities is not readily measurable accordingly such investments are carried at the acquisition cost.

As at 31 December 2012 and 2011 the value of such investments amounted RUB 415 million and RUB 414 million, respectively.

The Group invests in certain investment funds where as a result of general market conditions and illiquidity of the bond markets the valuation is based upon inputs other than those readily observable in the market place (Level 3). The following table provides a detail of the activity with respect to the fair value measurement during the period ending 31 December 2012 and 31 December 2011.

	<u>31 December 2012</u>	<u>31 December 2011</u>
As at January	5,651	5,226
Purchase of shares	16	-
Disposal of shares	(5,655)	-
(Loss)/gains recognized in other comprehensive income	<u>(12)</u>	<u>425</u>
As at 31 December	<u><u>-</u></u>	<u><u>5,651</u></u>

35. CAPITAL MANAGEMENT

For Basel I ratio calculation purposes, two tiers of capital are distinguished:

Tier I capital is “core” bank capital and includes paid share capital (less the carrying value of treasury shares), minority interests in the equity of subsidiaries and retained earnings (including their allocations to reserves), less certain deductions, such as goodwill.

Tier II capital is “supplementary” bank capital that includes subordinated debt, hybrid instruments with characteristics of both capital and certain revaluation reserves, such as unrealized gains on the revaluation of financial instruments classified as available-for-sale and property revaluation surplus.

The table below presents the composition of capital complying with Basel and discloses the capital - adequacy ratio for the reporting periods ended 31 December 2012 and 2011:

	<u>31 December 2012</u>	<u>31 December 2011</u>
Tier 1 capital	88,481	73,864
Tier 2 capital	<u>45,310</u>	<u>25,384</u>
Total regulatory capital	<u><u>133,791</u></u>	<u><u>99,248</u></u>
Risk-weighted assets:		
Credit risks	733,989	550,142
Market risks	<u>87,033</u>	<u>64,381</u>
Total risk-weighted assets	<u><u>821,022</u></u>	<u><u>614,523</u></u>
Basel ratio	16.30%	16.15%
Tier 1	<u>10.78%</u>	<u>12.02%</u>

As at 31 December 2012 and 2011 the Group included the subordinated debt received in the computation of total capital, limited to 50% of Tier 1 capital. In the event of bankruptcy or liquidation of the Group repayment of these loans is subordinate to the repayment of the Group’s liabilities to all other creditors.

The capital adequacy ratios exceeded the minimum ratio of 8% recommended by the 1988 Basel Capital Accord 1988. As at 31 December 2012 and 2011, the Group complied with Basel capital requirements.

The Bank’s overall capital management policy is aimed at the dynamic optimization of capital required for the Bank’s expansion and maintenance of sufficient capital adequacy to protect the Bank from unfavorable changes in market conditions and minimize liquidity risk. The capital management policy supports the shareholders’ vision and strategy of long-term Bank development.

36. RISK MANAGEMENT POLICY

Risk management system

Management of risks is fundamental to the Group's business. The risk management functions include:

- Organizational structure of risk management – a structure of the Group's bodies and departments involved in risk management activities;
- Structure of risk identification and assessment;
- Risk monitoring and minimizing system;
- Internal control structure.

In the Group the Supervisory Board, Management Board, Financial Committee, credit committee, Risk management department, Treasury department and Operating risk department of the Group are responsible for managing the risks.

The Supervisory Board is responsible for general control over the risk management system and determines the strategy of its development. The Management Board is responsible for development of risk management policy including tactical issues. The Financial Committee performs current monitoring of liquidity and market risks. Operating monitoring of credit risk level is performed by a system of credit committees. Direct risk management including assessment and reporting, is performed by:

- Risk management department – in relation to credit risks;
- Treasury department – in relation to the liquidity, interest rate, currency and price risks;
- Operating risk department – in relation to operational risks.

The Group's priority is to reduce the exposure to risks by collegial decision making. Strict segregation of duties between departments and officials of the Group, accurately specified instructions and procedures, and determination of competences and authorities of the bodies and their leaders are also essential areas for risk limitation. Appropriate methodologies are used to assess the risk level. Instructions, procedures and methodologies are revised by the Group on a regular basis and updated reflecting the changed market conditions, influence of new products and services proposed by the Group, and improvement of risk managements methods used in banking practice.

Risk monitoring structure includes:

- Setting the limits for risk acceptance on the basis of assessment of acceptance of the respective risk level;
- Control over the Group's exposure to the risks by:
 - Following the limits;
 - Assessment of the Group's exposure to risks on a regular basis;
 - Compliance control;
 - Meeting the requirements of the Central Bank of the Russian Federation in regard of covering the risks with sufficient equity;
 - Internal audit of risk management systems.

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

- Credit risk;
- Operational risk;
- Liquidity risk;
- Market risk;

There have been no significant changes to the Group's risk management policies from those disclosed in the consolidated financial statements for the year ended 31 December 2011. The Group presents the following information in relation to its risk management policies as at 31 December 2012.

Credit risk

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

The Credit Committee approves new loans and changes and amendments to loan agreements. The Credit Department performs current monitoring.

Credit risk for off-balance sheet financial instruments is defined as the possibility of sustaining a loss because any other party to a financial instrument fails to perform in accordance with the terms of the contract. The Group uses the same credit policies in making conditional obligation as it does for on balance sheet financial instruments through established credit approvals, risk control limits and monitoring procedures.

Maximum Exposure

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

The following table presents the maximum exposure to credit risk of financial assets and contingent liabilities. For financial assets the maximum exposure equals to a carrying value of those assets prior to any offset or collateral. For financial guarantees and other contingent liabilities the maximum exposure to credit risk is the maximum amount the Group would have to pay if the guarantee was called on or in the case of commitments, if the loan amount was called on.

The contractual collateral structure as at 31 December 2012 and 2011 is set out below. The fair value of collateral may differ from the contractual value.

	31 December 2012			
	Maximum exposure	Offset	Net exposure after offset	Collateral pledged
Balances with the Central Bank of the Russian Federation	37,441	-	37,441	-
Minimum reserve deposits with the Central Bank of the Russian Federation	6,932	-	6,932	-
Financial assets at fair value through profit or loss, excluding equity securities	104,254	-	104,254	-
Loans and advances to banks and other financial institutions	111,586	-	111,586	5,307
Loans to customers	590,564	-	590,564	438,339
Investments available-for-sale, excluding equity securities and units in investment funds	4,430	-	4,430	-
Investments held to maturity	201	-	201	-
Other financial assets	870	-	870	-
Commitments on loans and unused credit lines	116,582	-	116,582	-
Guarantees issued and similar commitments	154,337	-	154,337	-
Letters of credit and other contingent commitments related to settlement operations	6,827	-	6,827	2,487

	31 December 2011			
	Maximum exposure	Offset	Net exposure after offset	Collateral pledged
Balances with the Central Bank of the Russian Federation	22,331	-	22,331	-
Minimum reserve deposits with the Central Bank of the Russian Federation	6,124	-	6,124	-
Financial assets at fair value through profit or loss, excluding equity securities	76,170	-	76,170	-
Loans and advances to banks and other financial institutions	53,691	-	53,691	6,945
Loans to customers	447,905	85	447,820	365,324
Investments available-for-sale, excluding equity securities and units of investment funds	3,592	-	3,592	-
Investments held to maturity	548	-	548	-
Other financial assets	1,271	-	1,271	-
Commitments on loans and unused credit lines	87,202	-	87,202	-
Guarantees issued and similar commitments	100,004	-	100,004	-
Letters of credit and other contingent commitments related to settlement operations	9,972	-	9,972	2,670

Financial assets are graded according to the current credit rating they have been issued by an internationally regarded agency. The highest possible rating is AAA. Investment grade financial assets have ratings from AAA to BBB. Financial assets which have ratings lower than BBB are classed as speculative grade.

The following table details the credit ratings of unimpaired financial assets(*), excluding loans to customers, held by the Group. Credit ratings for loans to customers are presented in Note 18.

	31 December 2012						Total
	AAA	AA	A	BBB	<BBB	Not rated	
Balances with the Central Bank of the Russian Federation	-	-	-	37,441	-	-	37,441
Minimum reserve deposits with the Central Bank of the Russian Federation	-	-	-	6,932	-	-	6,932
Financial assets at fair value through profit or loss	-	80	1,660	57,311	36,786	8,417	104,254
Loans and advances to banks and other financial institutions	-	661	31,556	38,433	23,366	17,570	111,586
Investments available-for-sale	-	-	54	66	3,785	1,014	4,919
Investments held to maturity	-	-	-	-	201	-	201
Other financial assets	-	-	5	17	56	767	845

	31 December 2011						Total
	AAA	AA	A	BBB	<BBB	Not rated	
Balances with the Central Bank of the Russian Federation	-	-	-	22,331	-	-	22,331
Minimum reserve deposits with the Central Bank of the Russian Federation	-	-	-	6,124	-	-	6,124
Financial assets at fair value through profit or loss	-	700	1,428	49,531	19,366	6,944	77,969
Loans and advances to banks and other financial institutions	143	388	13,814	9,079	17,625	12,642	53,691
Investments available-for-sale	-	-	-	237	2,868	6,576	9,681
Investments held to maturity	-	-	-	25	523	-	548
Other financial assets	-	66	1	32	37	1,132	1,268

(*)The above unimpaired financial assets are classified based on the information provided by the international credit rating agencies – “Moody’s”, “Fitch”, “Standard & Poor’s”.

The banking industry is generally exposed to credit risk through its financial assets and contingent liabilities. Credit risk exposure of the Group is concentrated within the Russian Federation. The exposure is monitored on a regular basis to ensure that the credit limits and credit worthiness guidelines established by the Group’s risk management policy are not breached.

The Group enters into numerous transactions where the counterparties are not rated by international rating agencies. The Group has developed internal models, which allow it to determine the rating of counterparties, which are comparable to rating of international rating agencies.

A methodology to determine credit ratings of borrowers has been developed in the Group to assess corporate borrowers. This method allows for calculation and assignment/confirmation of a borrower’s rating and rating of collateral for a loan. The system is based on a rating model depending on key performance indicators of the borrower with the possibility of insignificant expert adjustments in case of insufficient objectivity of the benchmark. The method provides for the rating assignment on the basis of the following criteria groups: market indicators of the borrower, goodwill, credit history, transparency and reliability of information, information on business and business environment, relations of the Group and the borrower, financial situation of the borrower, business activity, and collateral provided. The financial situation and business activity are the most important criteria. Therefore, the rating model provides for overall assessment of the borrower and the loan.

Currently the rating model is applied only for initial credit application assessment. For credit monitoring purposes the bank classifies performing loans into “standard” and “watch-list” categories, based on the range of financial and other quantitative and qualitative indicators of borrowers’ performance.

A model of the borrower’s scoring assessment has been developed in the Group to assess and decide on loans to small and medium-size businesses. The scoring model is developed relating to standard loan products and includes key performance indicators of borrowers: financial situation, relations with the borrower, management quality, target use, location, credit history, collateral, etc.

The scoring assessment based on the borrower’s parameters is one of the main factors for the decision-making process relating to loans.

A methodology of evaluation of borrowers-individuals is based on following criteria: education, occupancy, financial position, credit history, property owned by the borrower. Based on information obtained the maximum limit of a loan is calculated. The loan maximum limit is calculated with the use of the borrower’s debt load ratio.

The Group applies internal methodologies to specific corporate loans and groups of retail loans. The scoring methodologies are tailor-made for specific products and are applied at various stages over the life of the loan. As a result, it is not possible to make a cross-product score comparison which would agree to the outstanding balance of loans to customers per the consolidated balance sheet. As such, more detailed information is not being presented.

Geographical concentration

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

	Russia	Non-OECD countries	OECD countries	31 December 2012 Total
ASSETS				
Cash and balances with the Central Bank of the Russian Federation	51,148	-	-	51,148
Minimum reserve deposits with the Central Bank of the Russian Federation	6,932	-	-	6,932
Financial assets at fair value through profit or loss	99,110	3,127	2,017	104,254
Loans and advances to banks and other financial institutions	50,629	12,208	48,749	111,586
Loans to customers	540,875	48,841	848	590,564
Investments available-for-sale	630	-	4,289	4,919
Investments held to maturity	201	-	-	201
Other financial assets	846	9	15	870
TOTAL FINANCIAL ASSETS	750,371	64,185	55,918	870,474
Precious metals	6,402	-	-	6,402
Property, plant and equipment	11,117	-	-	11,117
Goodwill	809	-	-	809
Intangible assets	2,481	-	-	2,481
Investment property	4,761	-	-	4,761
Other non-financial assets	3,854	5	-	3,859
TOTAL NON-FINANCIAL ASSETS	29,424	5	-	29,429
TOTAL ASSETS	779,795	64,190	55,918	899,903
LIABILITIES				
Financial liabilities at fair value through profit or loss	1,487	520	1,184	3,191
Due to banks and the Central Bank of the Russian Federation	142,595	20,878	50,037	213,510
Customer accounts	460,839	8,431	2,457	471,727
Bonds and Eurobonds	30,851	-	11,767	42,618
Promissory notes issued	21,145	-	-	21,145
Other financial liabilities	3,507	2	153	3,662
Subordinated debt	6,606	6,000	38,267	50,873
TOTAL FINANCIAL LIABILITIES	667,030	35,831	103,865	806,726
Deferred income tax liabilities	1,690	-	-	1,690
Other non-financial liabilities	1,126	-	-	1,126
TOTAL NON-FINANCIAL LIABILITIES	2,816	-	-	2,816
TOTAL LIABILITIES	669,846	35,831	103,865	809,542
OPEN POSITION	109,949	28,359	(47,947)	

	Russia	Non-OECD countries	OECD countries	31 December 2011 Total
ASSETS				
Cash and balances with the Central Bank of the Russian Federation	33,959	-	-	33,959
Minimum reserve deposits the Central Bank of the Russian Federation	6,124	-	-	6,124
Financial assets at fair value through profit or loss	68,866	3,967	5,136	77,969
Loans and advances to banks and other financial institutions	23,240	12,637	17,814	53,691
Loans to customers	371,930	75,891	84	447,905
Investments available-for-sale	7,243	1,977	470	9,690
Investments held to maturity	548	-	-	548
Other financial assets	1,150	13	108	1,271
TOTAL FINANCIAL ASSETS	513,060	94,485	23,612	631,157
Precious metals	9,398	-	-	9,398
Property, plant and equipment	10,990	-	-	10,990
Goodwill	809	-	-	809
Intangible assets	2,627	-	-	2,627
Investment property	3,759	-	-	3,759
Other non-financial assets	3,399	4	1	3,404
TOTAL NON-FINANCIAL ASSETS	30,982	4	1	30,987
TOTAL ASSETS	544,042	94,489	23,613	662,144
LIABILITIES				
Financial liabilities at fair value through profit or loss	901	270	3,354	4,525
Due to banks and the Central Bank of the Russian Federation	55,565	14,546	36,536	106,647
Customer accounts	373,669	7,382	1,394	382,445
Bonds and Eurobonds	22,592	-	17,674	40,266
Promissory notes issued	18,803	-	104	18,907
Other financial liabilities	2,829	-	-	2,829
Subordinated debt	6,583	-	20,782	27,365
TOTAL FINANCIAL LIABILITIES	480,942	22,198	79,844	582,984
Deferred income tax liabilities	2,885	-	-	2,885
Other non-financial liabilities	548	1	16	565
TOTAL NON-FINANCIAL LIABILITIES	3,433	1	16	3,450
TOTAL LIABILITIES	484,375	22,199	79,860	586,434
OPEN POSITION	59,667	72,290	(56,247)	

Market risk

Market risk is the risk that the Group will incur losses due to the unfavorable fluctuations in the market value of financial instruments (including derivatives), foreign exchange rates, prices of precious metals and interest rates.

Market risk includes securities price risk, currency risk and interest rate risk. The Group is exposed to currency risk because of its open positions in currencies and precious metals. The source for interest rate and securities price risks are open positions in interest rate and equity instruments which are subject to general and specific market fluctuations.

Day-to-day market risk management is performed by the Financial Market Operations Department, the Precious Metals Operations Department and the Treasury Directorate. The Market and Operational Risk Department evaluates the Group's exposure to securities price risk and currency risk and estimates sensitivity of the Group's position to interest rates changes. The Treasury Directorate sets guidelines for the interest rate risks. Financial Market Operations Department manages the open positions within the set of limits on a daily basis to increase the Group's profit.

Methodology adopted by the Group for market risk measurement purposes

The Group applies Value-at-Risk (VaR) methodology to assess its exposure to currency and securities price risk. VaR provides an estimate (the value) of the maximum level of the Group's losses in the following sense: during a given period of time the loss for the concerned position in financial instrument/currency/precious metal or particular portfolio with a given probability will not exceed VaR.

The Group uses 99% confidence level and 10-day time horizon in its VaR calculation process. VaR is estimated with regard to the Group's currency position in terms of key currencies and gold and the Group's securities portfolios (equity, except for non quoted instruments, financial securities derivatives and fixed-income securities except for promissory notes). The Group applies historical and parametric methods for VaR calculation. The latter implies two options: the one assuming constant volatility of returns and another incorporating change in volatility captured by the recent market information.

The choice of an appropriate approach for VaR estimation is based on statistical analysis of the dynamics of financial instruments' fair values (defined by the Group's IFRS accounting policy) and official prices of currencies and precious metals set by the Bank of Russia. The sampling period used by the Group for simulation purposes depends on the instrument type: 259 days – for currencies and gold, 69-259 days – for financial instruments.

To control the accuracy of VaR estimates the Group performs regular backtesting that allows determining the extent to which risk assessment model corresponds to the real market situation.

Total data on the VaR assessment in respect for currency and securities price risks accepted by the Group as of 31 December 2012 and 2011 are the following:

RUB million	Year ended 31 December 2012			
	Minimum	Average	Maximum	Year end
Currency risk	31	317	890	890
Fixed income securities price risk	552	979	2 560	756
Equity securities price risk	5	43	390	6

RUB million	Year ended 31 December 2011			
	Minimum	Average	Maximum	Year end
Currency risk	22	104	479	68
Fixed income securities price risk	377	876	2,460	2,460
Equity securities price risk	201	343	692	369

Although VaR is an industry standard for market risk estimation it has some limitations:

- VaR-based analysis is correct in case of preservation of the current market trends: use of historical data to assess future events fails to take into account all the scenarios possible, especially extraordinary ones;
- VaR estimates are sensitive to the liquidity of the market for a particular instrument, its illiquidity may lead to biased volatility estimation;
- Use of 99% confidence level disregards losses that may occur outside of this confidence range;
- 10-day time horizon implies that the Group's whole position could have been closed or hedged during that period. This assumption can be violated in case of the tightening market liquidity;
- VaR calculation based on business day results disregards fluctuations that could have taken place throughout the day.

In view of the above, the Group applies other risk measurement methods as well: gap analysis for interest rate risk, and net interest income sensitivity analysis.

Interest rate risk

Fair value interest rate risk arises from the possibility that changes in interest rates will affect the value of the financial instruments. Interest rate sensitivity is the relationship between market interest rates and net interest income resulting from the repricing characteristics of assets and liabilities. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise.

Cash flow interest rate risk arises from the possibility that future cash flow of a financial instrument will fluctuate because of changes in market interest rates.

The Group is exposed to interest rate risk, principally as a result of lending at fixed interest rates in amounts and for periods which differ from those of term borrowings at fixed interest rates. In practice, interest rates are generally fixed on a short-term basis. Also, interest rates that are contractually fixed on both assets and liabilities are usually renegotiated to reflect current market conditions.

The Group manages interest risk by balancing interest bearing assets and liabilities, balancing the structure of assets and liabilities, implementing controls over risks of fund withdrawals and loan prepayments prior to maturity and controls over interest rate changes. The tools used by Financial Committee include stress-testing and setting maximum and minimum rates.

The following table presents a breakdown of weighted average effective interest rates in force as at 31 December 2012 and 2011 and thus the potential of the Group for gain or loss. Effective average interest rates are analyzed by categories of financial assets and liabilities to determine interest rate exposure and effectiveness of the interest rate policy used by the Group.

	31 December 2012		
	RUB	USD	Other currencies
ASSETS:			
Financial assets at fair value through profit or loss	8.35%	5.58%	-
Loans and advances to banks and other financial institutions	5.99%	1.46%	0.68%
Loans to customers	12.03%	9.08%	9.48%
Investments available-for-sale	7.83%	-	-
Investments held to maturity	9.00%	-	-
LIABILITIES:			
Due from banks and the Central Bank of the Russian Federation	6.97%	1.79%	1.61%
Customer accounts	8.36%	3.94%	4.22%
Bonds and Eurobonds	8.80%	6.50%	-
Promissory notes issued	8.69%	5.02%	3.27%
Subordinated debt	9.35%	9.76%	-

	31 December 2011		
	RUB	USD	Other currencies
ASSETS:			
Financial assets at fair value through profit or loss	7.54%	7.01%	4.25%
Loans and advances to banks and other financial institutions	7.11%	1.20%	8.03%
Loans to customers	12.58%	9.18%	9.63%
Investments available-for-sale	7.25%	9.86%	6.07%
Investments held to maturity	8.90%	-	-
LIABILITIES:			
Due from banks and the Central Bank of the Russian Federation	5.62%	3.14%	2.26%
Customer accounts	7.27%	3.67%	4.23%
Bonds and Eurobonds	7.35%	7.41%	-
Promissory notes issued	7.56%	4.85%	4.37%
Subordinated debt	9.37%	9.14%	-

Interest rate risk is the risk that the interest income of the Group will decrease or it will incur losses in a result of adverse changes in market interest rates.

The following table presents financial assets/liabilities maturity based on projected repricing dates for floating rate instruments and expected maturity for fixed rate instruments. These repricing dates are determined by management and are contained within the risk reports provided to key management personnel.

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Financial assets and liabilities not sensitive to interest rate fluctuations	31 December 2012 Total
ASSETS							
Cash and balances with the Central Bank of the Russian Federation	37,873	-	-	-	-	13,275	51,148
Minimum reserve deposits with the Central Bank of the Russian Federation	-	-	-	-	-	6,932	6,932
Precious metals	6,402	-	-	-	-	-	6,402
Financial assets at fair value through profit or loss	165	9,254	32,271	49,620	9,000	3,944	104,254
Loans and advances to banks and other financial institutions	93,747	3,027	233	9,222	-	5,357	111,586
Loans to customers	56,635	64,241	195,131	211,404	63,153	-	590,564
Investments available-for-sale	250	-	-	3,788	437	444	4,919
Investments held to maturity	-	-	201	-	-	-	201
Property, plant and equipment	-	-	-	-	-	11,117	11,117
Goodwill	-	-	-	-	-	809	809
Intangible assets	-	-	-	-	-	2,481	2,481
Investment property	-	-	-	-	-	4,761	4,761
Other assets	-	-	-	-	-	4,729	4,729
TOTAL ASSETS	195,072	76,522	227,836	274,034	72,590	53,849	899,903
LIABILITIES							
Financial liabilities at fair value through profit or loss	-	1	109	58	-	3,023	3,191
Due to banks and the Central Bank of the Russian Federation	125,482	39,917	42,866	4,023	-	1,222	213,510
Customer accounts	144,347	67,013	173,747	32,778	55	53,787	471,727
Bonds and Eurobonds	174	650	15,312	22,732	3750	-	42,618
Promissory notes issued	5,504	8,244	5,426	1,624	-	347	21,145
Deferred income tax liabilities	-	-	-	-	-	1,690	1,690
Other liabilities	-	-	-	-	-	4,788	4,788
Subordinated debt	2	1	3,740	10,624	36,506	-	50,873
TOTAL LIABILITIES	275,509	115,826	241,200	71,839	40,311	64,857	809,542
Interest gap based on projected repricing dates	(80,437)	(39,304)	(13,364)	202,195	32,279		
Interest based derivative financial instruments based on projected repricing dates	25,551	8,029	16,226	79,219	-		
Interest gap, based on projected repricing dates including interest-based derivative financial instruments	(54,886)	(31,275)	2,862	281,414	32,279		

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Financial assets and liabilities not sensitive to interest rate fluctuations	31 December 2011 Total
ASSETS							
Cash and balances with the Central Bank of the Russian Federation	23,869	-	-	-	-	10,090	33,959
Minimum reserve deposits with the Central Bank of the Russian Federation	-	-	-	-	-	6,124	6,124
Precious metals	9,398	-	-	-	-	-	9,398
Financial assets at fair value through profit or loss	2,469	2,893	12,830	40,562	11,497	7,718	77,969
Loans and advances to banks and other financial institutions	41,391	914	3,849	3,222	-	4,315	53,691
Loans to customers	52,355	48,469	168,229	153,318	25,534	-	447,905
Investments available-for-sale	64	662	271	627	1,967	6,099	9,690
Investments held to maturity	-	-	-	523	25	-	548
Property, plant and equipment	-	-	-	-	-	10,990	10,990
Goodwill	-	-	-	-	-	809	809
Intangible assets	-	-	-	-	-	2,627	2,627
Investment property	-	-	-	-	-	3,759	3,759
Other assets	-	-	-	-	-	4,675	4,675
TOTAL ASSETS	129,546	52,938	185,179	198,252	39,023	57,206	662,144
LIABILITIES							
Financial liabilities at fair value through profit or loss	97	1	2	57	-	4,368	4,525
Due to banks and the Central Bank of the Russian Federation	45,034	22,668	24,944	12,843	139	1,019	106,647
Customer accounts	110,280	82,413	99,587	27,412	28	62,725	382,445
Bonds and Eurobonds	170	5,121	15,760	19,215	-	-	40,266
Promissory notes issued	4,537	5,770	7,196	1,404	-	-	18,907
Deferred income tax liabilities	-	-	-	-	-	2,885	2,885
Other liabilities	-	-	-	-	-	3,394	3,394
Subordinated debt	1	-	228	14,510	12,626	-	27,365
TOTAL LIABILITIES	160,119	115,973	147,717	75,441	12,793	74,391	586,434
Interest gap based on projected repricing dates	(30,573)	(63,035)	37,462	122,811	26,230		
Interest based derivative financial instruments based on projected repricing dates	2,102	-	-	(2,102)	-		
Interest gap, based on projected repricing dates including interest-based derivative financial instruments	(28,471)	(63,035)	37,462	120,709	26,230		

Sensitivity analysis

The first portion of this calculation is based on the assumption that market interest rates will rise (fall) by two percentage points. The sensitivity analysis applied to the profit and equity as a result of potential changes in the market interest rates as described below is for twelve months ended 31 December 2012 and 2011.

The calculation refers to the immediate effect on consolidated income statement of each scenario for the Group's interest rate positions on floating rate instruments.

The second portion is entitled "changes in value" and calculates the equivalent effect for debt securities in the assets at fair value through profit or loss and available-for-sale category.

	31 December 2012		31 December 2011		
	Equity	Net profit	Equity	Net profit	
Net interest income for the reporting period					
Increased interest rates	+ 2%	338	338	(64)	(64)
Decreased interest rates	-2%	(338)	(338)	64	64
Change in value					
Market interest rate	+ 2%	(3,107)	(2,857)	(2,807)	(2,788)
Market interest rate	-2%	24	22	3,264	3,241

Foreign currency risk

Currency risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group is exposed to effects of fluctuation in the prevailing foreign currency exchange rates on its financial position and cash flows.

The Group's exposure to foreign currency exchange rate risk as at 31 December 2012 and 2011 presented in the table below:

	RUB	USD 1 USD = RUB 30.3727	Euro 1 EUR = RUB 40.2286	Gold 1 ounce = RUB 50,540.17	Other	31 December 2012 Total
ASSETS						
Cash and balances with the Central Bank of the Russian Federation	49,882	624	632	-	10	51,148
Minimum reserve deposits with the Central Bank of the Russian Federation	6,932	-	-	-	-	6,932
Financial assets at fair value through profit or loss	85,948	18,242	38	5	21	104,254
Loans and advances to banks and other financial institutions	47,459	41,373	9,694	12,381	679	111,586
Loans to customers	473,730	102,253	14,542	-	39	590,564
Investments available-for-sale	4,397	520	2	-	-	4,919
Investments held to maturity	201	-	-	-	-	201
Other financial assets	817	49	4	-	-	870
TOTAL FINANCIAL ASSETS	669,366	163,061	24,912	12,386	749	870,474
Precious metals	-	-	-	5,806	596	6,402
Property, plant and equipment	11,117	-	-	-	-	11,117
Goodwill	809	-	-	-	-	809
Intangible assets	2,481	-	-	-	-	2,481
Investment property	4,761	-	-	-	-	4,761
Other non-financial assets	3,738	2	10	29	80	3,859
TOTAL NON-FINANCIAL ASSETS	22,906	2	10	5,835	676	29,429
TOTAL ASSETS	692,272	163,063	24,922	18,221	1,425	899,903
LIABILITIES						
Financial liabilities at fair value through profit or loss	2,906	132	130	3	20	3,191
Due to banks and the Central Bank of the Russian Federation	133,505	48,326	17,066	13,846	767	213,510
Customer accounts	407,635	41,873	14,222	6,366	1,631	471,727
Bonds and Eurobonds	30,851	11,767	-	-	-	42,618
Promissory notes issued	20,856	209	65	-	15	21,145
Other financial liabilities	3,200	176	21	265	-	3,662
Subordinated debt	12,606	38,267	-	-	-	50,873
TOTAL FINANCIAL LIABILITIES	611,559	140,750	31,504	20,480	2,433	806,726
Deferred income tax liabilities	1,690	-	-	-	-	1,690
Other non-financial liabilities	1,126	-	-	-	-	1,126
TOTAL NON-FINANCIAL LIABILITIES	2,816	-	-	-	-	2,816
TOTAL LIABILITIES	614,375	140,750	31,504	20,480	2,433	809,542
OPEN BALANCE SHEET POSITION	77,897	22,313	(6,582)	(2,259)	(1,008)	
Fair value of derivative financial instruments and spot deals						
Payables under forward deals	(69,534)	(109,263)	(15,776)	(2,788)	(884)	(198,245)
Receivables under forward deals	85,282	84,658	20,786	5,260	2,259	198,245
Payables under spot deals	(3,654)	(4,992)	(3,673)	-	-	(12,319)
Receivables under spot deals	2,191	6,442	3,685	-	1	12,319
NET POSITION FOR DERIVATIVE FINANCIAL INSTRUMENTS AND SPOT DEALS	14,285	(23,155)	5,022	2,472	1,376	
TOTAL OPEN POSITION	92,182	(842)	(1,560)	213	368	
CREDIT CONTINGENT LIABILITIES	256,762	13,236	7,999	-	78	

	RUB	USD 1 USD = RUB 32.1961	Euro 1 EUR = RUB 41.6714	Gold 1 ounce = RUB 50,692.76	Other	31 December 2011 Total
ASSETS						
Cash and balances with the Central Bank of the Russian Federation	32,373	801	773	-	12	33,959
Minimum reserve deposits with the Central Bank of the Russian Federation	6,124	-	-	-	-	6,124
Financial assets at fair value through profit or loss	50,660	26,979	317	-	13	77,969
Loans and advances to banks and other financial institutions	17,847	27,878	6,390	836	740	53,691
Loans to customers	307,301	123,998	16,490	-	116	447,905
Investments available-for-sale	6,350	3,273	67	-	-	9,690
Investments held to maturity	548	-	-	-	-	548
Other financial assets	1,108	36	127	-	-	1,271
TOTAL FINANCIAL ASSETS	422,311	182,965	24,164	836	881	631,157
Precious metals	-	-	-	8,859	539	9,398
Property, plant and equipment	10,990	-	-	-	-	10,990
Goodwill	809	-	-	-	-	809
Intangible assets	2,627	-	-	-	-	2,627
Investment property	3,759	-	-	-	-	3,759
Other non-financial assets	3,285	15	10	22	72	3,404
TOTAL NON-FINANCIAL ASSETS	21,470	15	10	8,881	611	30,987
TOTAL ASSETS	443,781	182,980	24,174	9,717	1,492	662,144
LIABILITIES						
Financial liabilities at fair value through profit or loss	299	3,943	169	93	21	4,525
Due to banks and the Central Bank of the Russian Federation	43,465	32,106	19,495	10,942	639	106,647
Customer accounts	308,448	49,723	17,003	5,636	1,635	382,445
Bonds and Eurobonds	22,592	17,674	-	-	-	40,266
Promissory notes issued	17,316	296	1,284	-	11	18,907
Other financial liabilities	2,790	16	23	-	-	2,829
Subordinated debt	12,584	14,781	-	-	-	27,365
TOTAL FINANCIAL LIABILITIES	407,494	118,539	37,974	16,671	2,306	582,984
Deferred income tax liabilities	2,885	-	-	-	-	2,885
Other non-financial liabilities	545	3	17	-	-	565
TOTAL NON-FINANCIAL LIABILITIES	3,430	3	17	-	-	3,450
TOTAL LIABILITIES	410,924	118,542	37,991	16,671	2,306	586,434
OPEN BALANCE SHEET POSITION	32,857	64,438	(13,817)	(6,954)	(814)	
Fair value of derivative financial instruments and spot deals						
Payables under forward deals	(115,409)	(161,959)	(20,001)	(4,351)	(1,342)	(303,062)
Receivables under forward deals	144,732	111,163	33,141	11,699	2,327	303,062
Payables under spot deals	(2,259)	(14,831)	(7,174)	-	(10)	(24,274)
Receivables under spot deals	6,567	9,373	8,324	-	10	24,274
Payables under futures contracts	-	(8,768)	-	-	-	(8,768)
Receivables under futures contracts	8,768	-	-	-	-	8,768
NET POSITION FOR DERIVATIVE FINANCIAL INSTRUMENTS AND SPOT DEALS	42,399	(65,022)	14,290	7,348	985	
TOTAL OPEN POSITION	75,256	(584)	473	394	171	
CREDIT CONTINGENT LIABILITIES	168,411	20,957	8,100	-	62	

The Group's principal cash flows (revenues, operating expenses) are largely generated in Russian Roubles. As a result, future movements in the exchange rate between the Russian Rouble and US dollar/Euro will affect the carrying value of the Group's monetary assets and liabilities. Such changes may also affect the Group's ability to invest in non-monetary assets as measured in US dollars in these consolidated financial statements.

Operational risk

Operational risk is defined as the risk of losses resulting from inappropriate management and control procedures, fraud, poor business decisions, system errors relating to employee mistakes and abuse by employees of their positions, technical failures, settlement errors, natural disasters and misuse of the Group's property.

The Management Board also generally oversees the implementation of risk management processes, including relevant internal policies, adopts internal regulations on risk management, determines limits for monitoring operational risks and allocates duties among various bodies responsible for operational risk management.

The Operational Risk Department monitors and controls operational risks and reports to the Supervisory Board. Regular monitoring activities allow to detect in time and to correct deficiencies in the policies and procedures designed to manage operational risk, which can reduce the potential frequency and/or severity of a loss event. In order to minimise operational risk, the Group strives to continuous improvement of its business processes and organisation structure as well as incentivise the staff.

Liquidity risk

Liquidity risk refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments associated with financial instruments as they actually fall due. The liquidity and cash flow risks arise in the case of maturity gap.

The liquidity risk is defined as a mismatch of asset and liability maturity periods. The liquidity risk is managed by the Financial Committee of the Group.

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Group. It is unusual for banks to be completely matched due to the variety of Group's lending and funding operations. An unmatched position potentially enhances profitability, but can also increase the risk of losses. 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 of the Group and its exposure to changes in interest and exchange rates. Currently, a considerable part of customer deposits are repayable on demand. However, the fact that these deposits are diversified by the number and type of customers and the Group's previous experience indicate that these deposits are a relatively stable and long-term source of finance for the Group.

The data presented below on term deposits of individuals are based on the terms of contracts. However, individuals may withdraw deposits at any time.

Long-term credits and overdraft facilities are generally not available in Russia. However, in the Russian marketplace, many short-term credits are granted with the expectation of renewing the loans at maturity. As such, the ultimate maturity of assets may be different from the analysis presented above.

While financial assets at fair value through profit or loss are shown as less than one month, realizing such assets upon demand is dependent upon financial market conditions.

Substantially all of the Group's interest bearing assets and interest bearing liabilities are at fixed rates of interest.

Interest bearing assets and liabilities generally have relatively short maturities and interest rates are reprised only at maturity.

In order to manage liquidity risk, the Group performs daily monitoring of future expected cash flows on clients' and banking operations, which is a part of assets/liabilities management process. The Finance Committee of the Bank sets limits on the minimum proportion of maturing funds available to meet deposit withdrawals and on the minimum level on interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

The following table presents an analysis of liquidity risk as managed by the Group based on contractual maturities and carrying value of assets and liabilities.

The following table presents an analysis of liquidity risk based on carrying value of assets and liabilities.

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	31 December 2012 Total
ASSETS							
Cash and balances with the Central Bank of the Russian Federation	51,148	-	-	-	-	-	51,148
Minimum reserve deposits with the Central Bank of the Russian Federation	-	-	-	-	-	6,932	6,932
Precious metals	6,402	-	-	-	-	-	6,402
Financial assets at fair value through profit or loss	100,756	155	3,174	169	-	-	104,254
Loans and advances to banks and other financial institutions	99,104	3,027	233	9,222	-	-	111,586
Loans to customers	40,809	67,400	198,821	218,741	64,793	-	590,564
Investments available-for-sale	250	-	-	4,232	437	-	4,919
Investments held to maturity	-	-	201	-	-	-	201
Property, plant and equipment	-	-	-	-	-	11,117	11,117
Goodwill	-	-	-	-	-	809	809
Intangible assets	-	-	-	-	-	2,481	2,481
Investment property	10	-	-	4,751	-	-	4,761
Other assets	1,315	461	2,890	17	16	30	4,729
TOTAL ASSETS	299,794	71,043	205,319	237,132	65,246	21,369	899,903
LIABILITIES							
Financial liabilities at fair value through profit or loss	1,961	91	876	263	-	-	3,191
Due to banks and the Central Bank of the Russian Federation	122,139	30,540	43,110	17,709	12	-	213,510
Customer accounts	198,134	67,012	173,747	32,779	55	-	471,727
Bonds and Eurobonds	173	443	16,346	21,906	3,750	-	42,618
Promissory notes issued	5,851	8,244	5,426	1,624	-	-	21,145
Deferred income tax liabilities	-	-	-	-	-	1,690	1,690
Other liabilities	1,867	1,406	1,327	188	-	-	4,788
Subordinated debt	2	1	552	10,624	39,694	-	50,873
TOTAL LIABILITIES	330,127	107,737	241,384	85,093	43,511	1,690	809,542
Liquidity gap	(30,333)	(36,694)	(36,065)	152,039	21,735	-	-
Stable sources of funding (1)	99,938	18,153	56,301	(174,392)	-	-	-
Adjusted liquidity gap (1)	69,419	(18,618)	20,236	(25,926)	21,735	-	-

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	31 December 2011 Total
ASSETS							
Cash and balances with the Central Bank of the Russian Federation	33,959	-	-	-	-	-	33,959
Minimum reserve deposits with the Central Bank of the Russian Federation	-	-	-	-	-	6,124	6,124
Precious metals	9,398	-	-	-	-	-	9,398
Financial assets at fair value through profit or loss	72,382	1,370	1,764	2,453	-	-	77,969
Loans and advances to banks and other financial institutions	45,707	914	3,849	3,221	-	-	53,691
Loans to customers	44,397	46,874	169,974	156,934	29,726	-	447,905
Investments available-for-sale	64	662	247	6,748	1,969	-	9,690
Investments held to maturity	-	-	-	523	25	-	548
Property, plant and equipment	-	-	-	-	-	10,990	10,990
Goodwill	-	-	-	-	-	809	809
Intangible assets	-	-	-	-	-	2,627	2,627
Investment property	-	-	-	3,759	-	-	3,759
Other assets	1,421	1,414	1,667	154	19	-	4,675
TOTAL ASSETS	207,328	51,234	177,501	173,792	31,739	20,550	662,144
LIABILITIES							
Financial liabilities at fair value through profit or loss	1,024	770	1,450	1,281	-	-	4,525
Due to banks and the Central Bank of the Russian Federation	46,401	17,920	21,034	19,111	2,181	-	106,647
Customer accounts	172,969	82,414	99,622	27,412	28	-	382,445
Bonds and Eurobonds	171	274	6,081	28,741	4,999	-	40,266
Promissory notes issued	4,537	5,770	7,196	1,404	-	-	18,907
Deferred income tax liabilities	-	-	-	-	-	2,885	2,885
Other liabilities	1,978	398	1,008	8	2	-	3,394
Subordinated debt	1	-	228	11,290	15,846	-	27,365
TOTAL LIABILITIES	227,081	107,546	136,619	89,247	23,056	2,885	586,434
Liquidity gap	(19,753)	(56,312)	40,882	84,545	8,683	-	-
Stable sources of funding (1)	77,605	15,368	45,591	(138,564)	-	-	-
Adjusted liquidity gap (1)	57,852	(40, 944)	86,473	(54,019)	8,683	-	-

- (1) For liability risk management purposes, the Group monitors the mismatch between asset and liability contractual maturities. In addition, the Group identifies certain financial instruments which represent a relatively stable source of funds, despite its contractually short maturities. These instruments are correspondent accounts of banks included within Due to banks and the Central Bank of the Russian Federation and customer accounts.

These financial instruments are split into homogeneous groups with similar statistical characteristics so that management can estimate the portion of these balances which are not subject to significant risk of reduction in outstanding balances. Large customers with the highest volatility are separated from the groups and pooled together so that management can use a stochastic model that better describes these large customers behaviour on a pool basis. The stable portion is estimated with a preset level of reliability and revised regularly, at least once a quarter.

Although management believes that these components of the correspondent and customer accounts are a stable source of funding, the Group considers that customer accounts related to small, homogeneous deposits will mature in three years while all other stable sources of funding will mature in one year from the balance sheet dates.

The following tables show undiscounted cash flows (the gross outflow) of the Group's financial liabilities and off-balance sheet commitments on the basis of their earliest possible contractual maturity. The Group's expected cash flows on these financial liabilities and off-balance sheet commitments may vary significantly from this analysis.

The gross undiscounted cash flows of the Group as at 31 December 2012 and 2011 were as follows:

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	31 December 2012 Total
LIABILITIES							
Financial liabilities at fair value through profit or loss	25	14	110	139	-	-	288
Due to banks and the Central Bank of the Russian Federation	105,248	28,839	44,466	12,455	-	-	191,008
Customer accounts	92,876	68,042	181,566	37,111	536	-	380,131
Bonds and Eurobonds	237	559	18,662	27,034	12,869	-	59,361
Promissory notes issued	5,840	8,469	5,949	1,447	12	-	21,717
Subordinated debt	2	148	6,159	18,599	60,200	-	85,108
Total interest bearing liabilities at fixed rates	204,228	106,071	256,912	96,785	73,617	-	737,613
Due to banks and the Central Bank of the Russian Federation	66	2,961	4,850	14,550	12	-	22,439
Total interest bearing liabilities at variable rates	66	2,961	4,850	14,550	12	-	22,439
Total interest bearing liabilities	204,294	109,032	261,762	111,335	73,629	-	760,052
Financial liabilities at fair value through profit or loss	1,961	91	876	263	-	-	3,191
Due to banks and the Central Bank of the Russian Federation	17,510	-	-	-	-	-	17,510
Customer accounts	105,790	-	-	-	-	-	105,790
Promissory notes issued	39	6	8	290	-	-	343
Other liabilities	1,399	930	1,153	188	-	-	3,670
TOTAL FINANCIAL LIABILITIES	330,993	110,059	263,799	112,076	73,629	-	890,556
Contingent liabilities and other commitments	278,075	-	-	-	-	-	278,075

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	31 December 2011 Total
LIABILITIES							
Financial liabilities at fair value through profit or loss	5	17	47	120	-	-	189
Due to banks and the Central Bank of the Russian Federation	36,306	17,563	11,017	8,607	142	-	73,635
Customer accounts	71,237	83,999	102,857	29,125	39	-	287,257
Bonds and Eurobonds	184	287	9,304	34,561	5,426	-	49,762
Promissory notes issued	4,454	5,829	7,440	1,369	-	-	19,092
Subordinated debt	-	294	2,229	20,565	21,408	-	44,496
Total interest bearing liabilities at fixed rates	112,186	107,989	132,894	94,347	27,015	-	474,431
Due to banks and the Central Bank of the Russian Federation	517	1,275	11,052	12,419	2,102	-	27,365
Total interest bearing liabilities at variable rates	517	1,275	11,052	12,419	2,102	-	27,365
Total interest bearing liabilities	112,703	109,264	143,946	106,766	29,117	-	501,796
Financial liabilities at fair value through profit or loss	1,207	838	1,527	1,224	-	-	4,796
Due to banks and the Central Bank of the Russian Federation	10,644	-	-	-	-	-	10,644
Customer accounts	102,764	-	-	-	-	-	102,764
Promissory notes issued	106	2	-	294	-	-	402
Other liabilities	1,614	282	925	9	2	-	2,832
TOTAL FINANCIAL LIABILITIES	229,038	110,386	146,398	108,293	29,119	-	623,234
Contingent liabilities and other commitments	197,530	-	-	-	-	-	197,530

37. TRANSACTIONS WITH RELATED PARTIES

Details of transactions between the Group and other related parties are disclosed below:

The Group had the following transactions outstanding as at 31 December 2012 and 2011 with related parties:

	31 December 2012			31 December 2011		
	Related party transactions	Average effective interest %	Total category as per consolidated financial statements caption	Related party transactions	Average effective interest %	Total category as per consolidated financial statements caption
Financial assets at fair value through profit or loss	24		104,254	3,860		77,969
Debt securities						
- companies controlled by shareholders	-	-		2,118	5.77%	
Equity securities and derivative financial instruments						
- companies controlled by shareholders	24			1,742		
Loans and advances to banks and other financial institutions	-		111,586	17		53,691
Correspondent accounts with banks						
- companies controlled by shareholders	-			17		
Loans to customers, gross	32,425		612,466	25,711		468,287
- entities under common control	-			-		
- companies controlled by shareholders	32,425	9.28%		25,711	8.93%	
Allowance for impairment of loans to customers	(43)		(21,902)	(629)		(20,382)
- companies controlled by shareholders	(43)			(629)		
Investments available-for-sale	3,766		4,919	-		-
- companies controlled by shareholders	3,766	9.00%		-		
Other assets	17		4,729	-		-
- companies controlled by shareholders	17			-		
Financial liabilities at fair value through profit or loss	17		3,191	2		4,525
- companies controlled by shareholders	17			2		
Due to banks and the Central Bank of the Russian Federation:	36		213,510	5,203		106,647
Deposits from banks						
- companies controlled by shareholders	-			5,200	4.04%	
Correspondent accounts of other banks						
- companies controlled by shareholders	36			3		
Customer accounts	4,280		471,727	29,871		382,445
Term deposits						
- shareholders of the Group	1,029	4.16%		208	4.04%	
- companies controlled by shareholders	2,855	6.83%		26,980	5.87%	
Current accounts						
- shareholders of the Group	1			1		
- entities under common control	2			-		
- companies controlled by shareholders	393			2,682		
Other liabilities	101		4,788	260		3,394
- key management personnel	100			256		
- companies controlled by shareholders	1			4		
Subordinated debt	-		50,873	6,000		27,365
- shareholders of the Group	-			6,000	12.00%	
Commitments on loans and unused credit lines	5,700		116,582	5,157		87,202
- shareholders of the Group	7			-		
- companies controlled by shareholders	5,693			5,157		
Letters of credit and other contingent commitments	13		6,848	-		9,972
- companies controlled by shareholders	13			-		
Guarantees issued and similar commitments	1,381		154,645	342		100,356
- companies controlled by shareholders	1,381			342		

	Year ended 31 December 2012		Year ended 31 December 2011	
	Key management personnel	Total for the Group	Key management personnel	Total for the Group
Key management personnel compensation:				
- salary	262		277	
- bonuses	413		670	
- representation expenses	5		12	
- contribution to non-government pension fund	4		1	
	684		960	
		11,658		8,917
	Year ended 31 December 2012		Year ended 31 December 2011	
	Related party transactions	Total for the Group	Related party transactions	Total for the Group
Interest income		66,650		52,358
- entities under common control	-		628	
- companies controlled by shareholders	3,420		2,130	
Interest expense		(35,244)		(24,302)
- shareholders of the Group	(436)		(285)	
- entities under common control	-		-	
- companies controlled by shareholders	(760)		(749)	
Gain on remeasurement of cash flows on interest bearing assets acquired in business combination		925		4,543
- entities under common control	-		197	
- companies controlled by shareholders	3		1,156	
Provision for impairment losses on interest bearing assets		(5,886)		(8,374)
- companies controlled by shareholders	(387)		(546)	
Trading income/(loss)		2,681		2,063
- shareholders of the Group	7		1	
- companies controlled by shareholders	285		136	
Net gain on investments available-for-sale;		593		343
- companies controlled by shareholders	58		-	
Fees and commission income		10,895		8,100
- shareholders of the Group	1		1	
- companies controlled by shareholders	409		144	
Fees and commission expense		(2,954)		(1,971)
- entities under common control	-		(7)	
Other income		754		523
- companies controlled by shareholders	7		37	
Operating expenses		(21,381)		(17,260)
- entities under common control	(1)		-	
- key management personnel	(721)		(960)	
- companies controlled by shareholders	(49)		(103)	

38. SUBSEQUENT EVENTS

In August 2012 FC "Otkritie" has acquired 19.9% of ordinary shares in Nomos Bank and declared the plans to consolidate up to 100% of the shares in it.

Agreements have already been reached with the owners of 58.65% of Nomos Bank ordinary shares. The aim of the deal is to create a new type universal financial group that offers private, corporate and institutional clients the full spectrum of banking, investment, insurance and pension services.

In February 2013 as a result of execution of the offer to GDR owners, NomGDR Limited bought out 29.7 mln. GDRs, which equal about 16% of the Bank's voting shares.

FC "Otkritie" has the option to purchase control share of NomGDR Limited.

Taking into account the GDRs acquired by NomGDR Limited as a result of the offer execution, FC "Otkritie" will be able to consolidate up to 94.62% of ordinary shares in case of the approval by the Central Bank of Russia.

During the period from 31 December 2012 to the date of approval of the financial statements the Supervisory Board of the Bank has decided to transform subsidiaries of the Bank OJSC "NOMOS-REGIOBANK" and OJSC "NOMOS Siberia" into its branches during the year ended 31 December 2013. The transformation will take place in the form of accession and the Bank will become the full legal successor of all the assets and liabilities of OJSC "NOMOS-REGIOBANK" and OJSC "NOMOS Siberia". It is expected that there will be no significant changes in the business activities, accounting policies and key personnel of the Bank in connection with the planned reorganization.