JOINT-STOCK COMMERCIAL BANK "AGROPROMCREDIT" (Open Joint-Stock Company)

Financial Statements
as at and for the year ended
31 December 2012

Contents

ZAO KPMG
10 Presnenskaya Naberezhnaya
Moscow, Russia 123317

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

Auditors' Report

To the shareholders and the Board of Directors of JOINT-STOCK COMMERCIAL BANK "AGROPROMCREDIT" (Open Joint-Stock Company)

We have audited the accompanying financial statements of JOINT-STOCK COMMERCIAL BANK "AGROPROMCREDIT" (Open Joint Stock Company) (the Bank), which comprise the statement of financial position as at 31 December 2012, and the statements of comprehensive income, changes in equity and cash flows for 2012, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on the fair presentation of these 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to express an opinion on the fair presentation of these financial statements.

Opinion

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

Lukashova N.V.
Director
power of attorney dated 1 October 2010 No. 41/10
license No. 01-000456
ZAO KPMG
Moscow, Russian Federation
27 May 2013

	Notes	2012 RUB'000	2011 RUB'000
Interest income	4	1 966 187	1 523 615
Interest expense	4	(1 078 160)	(1 036 977)
Net interest income		**888 027**	**486 638**
Charge for impairment on loans to customers	10	(39 529)	(75 416)
Net interest income after charge for impairment on loans to customers		**848 498**	**411 222**
Fee and commission income	5	285 726	283 195
Fee and commission expense	6	(41 374)	(36 560)
Net fee and commission income		**244 352**	**246 635**
Net gain (loss) on financial instruments at fair value through profit or loss	7	19 951	(53 265)
Net foreign exchange income	8	19 508	41 125
Net gain (loss) on available-for-sale financial assets		30	(23 661)
Income from revaluation of investment property		907 880	-
Other operating income	9	370 233	764 721
Operating income		**2 410 452**	**1 386 777**
General administrative expenses	11	(1 582 753)	(1 293 208)
Profit before income tax		**827 699**	**93 569**
Income tax expense	12	(258 922)	(36 796)
Net profit for the period		**568 777**	**56 773**
Other comprehensive income (loss), net of income tax			
Revaluation reserve for available-for-sale financial assets:			
- net change in fair value, net of deferred tax		18 274	(21 029)
- net change in fair value transferred to profit or loss, net of income tax		(24)	18 929
Other comprehensive income (loss), net of income tax		**18 250**	**(2 100)**
Total comprehensive income for the period		**587 027**	**54 673**

The financial statements were approved by management on 27 May 2013 and were signed on its behalf by:

Kornev Vasiliy Aleksandrovich
Chairman of the Management Board

Khmeleva Svetlana Aleksandrovna
Chief Accountant

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

	Notes	2012 RUB'000	2011 RUB'000
ASSETS			
Cash and cash equivalents	13	3 140 823	1 817 243
Mandatory reserve deposit in the Central Bank of the Russian Federation		248 783	195 828
Loans to banks	14	1 439 237	1 316 763
Financial instruments at fair value through profit or loss			
- Held by the Bank	15	1 584 661	5 733 486
- Pledged under sale and repurchase agreements	15, 17	2 543 569	-
Loans to customers	16	13 523 057	9 700 764
Available-for-sale financial assets			
- Held by the Bank	18	819 510	932 079
- Pledged under sale and repurchase agreements	17, 18	200 513	-
Property, equipment and intangible assets	19	247 828	282 042
Investment property	19	2 007 136	-
Assets held-for-sale	19	33 637	1 152 292
Current tax assets		41 732	42 173
Other assets	20	103 947	94 045
Total assets		**25 934 433**	**21 266 715**
LIABILITIES			
Deposits and balances from banks	21	2 345 564	1 451
Current accounts and deposits from customers	22	18 478 801	16 953 831
Promissory notes		464 473	488 153
Other borrowed funds	23	773 066	773 066
Deferred tax liabilities	12	252 798	7 804
Other liabilities	24	16 454	26 160
Total liabilities		**22 331 156**	**18 250 465**
EQUITY			
Share capital	25	1 890 000	1 890 000
Revaluation reserve for available-for-sale financial assets		(9 217)	(27 467)
Retained earnings		1 722 494	1 153 717
Total equity		**3 603 277**	**3 016 250**
Total liabilities and equity		**25 934 433**	**21 266 715**

Kornev Vasiliy Aleksandrovich
Chairman of the Management Board

Khmeleva Svetlana Aleksandrovna
Chief Accountant

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

	Notes	2012 RUB'000	2011 RUB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest receipts		2 072 707	1 427 497
Interest payments		(961 033)	(1 100 795)
Net receipts (payments) on financial instruments at fair value through profit or loss		47 965	(18 018)
Net receipts from foreign exchange		3 659	59 059
Net receipts (payments) on available-for-sale financial assets		30	(23 661)
Fee and commission receipts		299 803	281 992
Fee and commission payments		(39 143)	(33 731)
Other receipts		370 253	764 721
Other general administrative expenses payments		(1 533 641)	(1 269 810)
(Increase) decrease in operating assets			
Mandatory reserve deposit in the Central Bank of the Russian Federation		(52 955)	(84 313)
Loans to banks		728 692	1 224 784
Financial instruments at fair value through profit or loss		571 748	(175 510)
Loans to customers		(3 936 948)	(3 838 390)
Other assets		(15 589)	443 279
Increase (decrease) in operating liabilities			
Deposits and balances from banks		2 342 590	(10 418)
Current accounts and deposits from customers		1 660 947	1 350 606
Promissory notes		(45 537)	(314 064)
Other liabilities		(12 273)	312
Cash provided from (used in) operating activities before income tax paid		**1 501 275**	**(1 316 460)**
Income tax (paid) received		(18 049)	23 052
Cash flows provided from (used in) operations		**1 483 226**	**(1 293 408)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Net (purchases) sales of financial assets available-for-sale		(69 694)	405 633
Net sales of assets held-for-sale		32 841	44 044
Net purchases of property and equipment		(27 869)	(9 945)
Cash flows (used in) provided from investing activities		**(64 722)**	**439 732**
Net increase (decrease) in cash and cash equivalents		**1 418 504**	**(853 676)**
Effect of changes in exchange rates on cash and cash equivalents		(94 924)	(2 782)
Cash and cash equivalents as at the beginning of the period		1 817 243	2 673 701
Cash and cash equivalents as at the end of the period	13	**3 140 823**	**1 817 243**

Kornev Vasiliy Aleksandrovich
Chairman of the Management Board

Khmeleva Svetlana Aleksandrovna
Chief Accountant

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

	Share capital RUB'000	Revaluation reserve for available-for-sale financial assets RUB'000	Retained earnings RUB'000	Total equity RUB'000
Balance as at 1 January 2011	**1 890 000**	**(25 367)**	**1 096 944**	**2 961 577**
Total comprehensive income				
Net profit for the period	-	-	56 773	56 773
Other comprehensive loss				
Net change in fair value of available-for-sale financial assets, net of deferred tax RUB 5 257 thousand (note 12)	-	(21 029)	-	(21 029)
Net change in fair value of available-for-sale financial assets transferred to profit or loss, net of income tax RUB 4 732 thousand (note 12)	-	18 929	-	18 929
Total other comprehensive loss	-	(2 100)	-	(2 100)
Total comprehensive income	**-**	**(2 100)**	**56 773**	**54 673**
Balance as at 31 December 2011	**1 890 000**	**(27 467)**	**1 153 717**	**3 016 250**
Balance as at 1 January 2012	**1 890 000**	**(27 467)**	**1 153 717**	**3 016 250**
Total comprehensive income				
Net profit for the period	-	-	568 777	568 777
Other comprehensive income				
Net change in fair value of available-for-sale financial assets, net of deferred tax RUB 4 568 thousand (note 12)	-	18 274	-	18 274
Net change in fair value of available-for-sale financial assets transferred to profit or loss, net of income tax RUB 6 thousand (note 12)	-	(24)	-	(24)
Total other comprehensive income	-	18 250	-	18 250
Total comprehensive income	**-**	**18 250**	**568 777**	**587 027**
Balance as at 31 December 2012	**1 890 000**	**(9 217)**	**1 722 494**	**3 603 277**

Kornev Vasiliy Aleksandrovich
Chairman of the Management Board

Khmeleva Svetlana Aleksandrovna
Chief Accountant

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

1 Background

Organisation and operations

Joint-Stock Commercial bank "Agropromcredit" (the Bank) was established by the decision of the participants on 7 July 1993 (Protocol No. 1 as of 7 July 1993) as a Limited Liability Partnership. In accordance with the decision of the general meeting of participants of the Bank dated 8 October 1998 (Protocol No. 23 as of 8 October 1998) the name and the legal structure of the Bank was changed from a Limited Liability Partnership into a Limited Liability Company. In accordance with the decision of the general meeting of participants of the Bank dated 14 August 2009, the legal structure was changed from a Limited Liability Company into an Open Joint-Stock Company (note 25). The Bank conducts its business on the basis of general banking license № 2880 issued by the Central Bank of the Russian Federation (the CBR). The activities of the Bank are regulated by the CBR. The Bank became a member of the state deposit insurance system for individuals in the Russian Federation in September 2005.

The principal activities of the Bank are deposit taking and customer accounts maintenance, lending and issuing guarantees, cash and settlement operations and operations with securities and foreign exchange.

As at 31 December 2012, the Bank has 11 branches and 30 representative offices in the Russian Federation. The Bank's extensive branch network is located in the key regions of the Russian Federation, including the following cities: Tyumen, Surgut, Orenburg, St. Petersburg, Barnaul and others.

The average number of the employees during 2012 is 309 - in the head office and 966 - in total (2011: 299 - in the head office and 951 - in total).

The majority of the Bank's assets and liabilities are located in the Russian Federation.

The Bank's registered office is: Building 13, Block 2, district 5, Lytkarino, Moscow region, 140083.

Shareholders

As at 31 December the shareholders of the Bank are:

Name	2012	2011
LLC "Blaucent"	20.0%	20.0%
LLC "Denciborg"	20.0%	20.0%
LLC "Kinlaut"	20.0%	20.0%
LLC "Avtotransbureau"	20.0%	20.0%
CJSC "Predpriyatie proektnogo finansirovaniya"	20.0%	20.0%
	100.0%	**100.0%**

The Bank does not have a single ultimate controlling party.

Russian business environment

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

2 Basis of preparation

Statement of compliance

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

Basis of measurement

The financial statements are prepared on the historical cost basis except that financial instruments at fair value through profit or loss, available-for-sale financial assets are stated at fair value and investment property at revalued amount.

Functional and presentation currency

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

The RUB is also the Bank's presentation currency for the purposes of these financial statements.

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

Use of estimates and judgments

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

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

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

- loan impairment estimates - note 16;

- investment property revaluation estimates - note 19.

Changes in accounting policies and presentation

With effect from 1 January 2012, the Bank changed its accounting policies in the following areas:

- Amendment to IFRS 7 - *Disclosures - Transfers of financial assets.* The amendment introduced additional disclosure requirements for transfers of financial assets in situations where assets are not derecognised in their entirety or where the assets are derecognised in their entirety but a continuing involvement in the transferred assets is retained. The new disclosure requirements are designated to enable the users of financial statements to better understand the nature of the risks and rewards associated with these assets.

- Amendment to IAS 12 - *Deferred Tax: Recovery of underlying assets.* The amendment introduced an exception to the current measurement principles for deferred tax assets and liabilities arising from investment property measured using the fair value model in accordance with IAS 40 *Investment Property*. The exception also applies to investment property acquired in a business combination accounted for in accordance with IFRS 3 *Business Combinations* provided the acquirer subsequently measures the assets using the fair value model. In these specified circumstances the measurement of deferred tax liabilities and deferred tax assets should reflect a rebuttable presumption that the carrying amount of the underlying asset will be recovered entirely by sale unless the asset is depreciated or the business model is to consume substantially all the asset.

3 Significant accounting policies

The accounting policies set out below are applied consistently by the Bank to all periods presented in these financial statements, except as explained in note 2, which addresses changes in accounting policies.

Foreign currency

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

As at 31 December 2012, the official CBR foreign exchange rates used for translation of balances in foreign currencies were 30,3727 RUB/USD and 40,2286 RUB/EUR (31 December 2011: 32,1961 RUB/USD and 41,6714 RUB/EUR). Exchange restrictions and controls exist relating to converting Russian Rubles into other currencies. At present, the Russian Ruble is not a freely convertible currency outside of the Russian Federation.

Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances (nostro accounts) held with the CBR and other banks. The mandatory reserve deposit with the CBR is not considered to be a cash equivalent due to restrictions on its withdrawability. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

Financial instruments

Classification

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

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

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

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

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

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

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

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

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

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

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

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

- intends to sell immediately or in the near term

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

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

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

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

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

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

- meet the definition of loans and receivables.

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

Recognition

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

Measurement

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

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

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

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

- investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured which are measured at cost. These instruments are recognized in the financial statements at cost.

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

Amortized cost

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

Fair value measurement principles

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

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

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

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

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

Gains and losses on subsequent measurement

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

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

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

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

Derecognition

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

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

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

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

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

The Bank writes off assets deemed to be uncollectible.

Repurchase and reverse repurchase agreements

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

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

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

Offsetting

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

Property and equipment

Owned assets

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses.

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

Property and equipment and intangible assets acquired prior to 1 January 2003 were stated at cost adjusted for inflation less accumulated depreciation and impairment losses, where required.

Leased assets

Where the Bank is the lessee, the total lease payments are charged to profit or loss on a straight-line basis over the period of the lease.

Where a lease is cancelled prior to its maturity, any payment due to the lessor as a penalty is carried through profit or loss of the period in which the operating lease is cancelled.

Depreciation

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

Depreciation is calculated using the following rates.

	Depreciation rate
buildings	2%
motor vehicles	25%
computers	20%-25%
office equipment	10%-20%
other equipment	20%
intangible assets	25%-55%
leasehold improvements	10%-25%

Expenses related to repairs and renewals are charged to profit or loss when incurred and included in profit or loss as other administrative and operating expenses unless they qualify for capitalization.

Investment property

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

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

Assets held-for-sale

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

Impairment

Financial assets carried at amortized cost

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

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

The Bank 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 Bank 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 Bank uses its experience and judgement to estimate the amount of any impairment loss.

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

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

Financial assets carried at cost

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

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

Available-for-sale financial assets

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

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

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

Non financial assets

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

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

Provisions

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

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

Credit related commitments

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

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

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

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

Loan commitments are not recognized, except for the followings:

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

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

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

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

Share capital

Ordinary shares

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

Repurchase of share capital

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

Dividends

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

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

Taxation

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

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

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

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

Income and expense recognition

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

Net gain on financial instruments at fair value through profit or loss includes gains and losses arising from disposals and changes in the fair value of financial assets and liabilities at fair value through profit or loss.

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

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

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

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

Fiduciary assets

Assets held by the Bank in its own name, but on the account of third parties, are not reported in the statement of financial position. Commissions received from such business are shown in fee and commission income within profit or loss.

Hyperinflation accounting

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

New standards and interpretations not yet adopted

The following new standards, amendments to standards and interpretations are not yet effective as at 31 December 2012, and are not applied in preparing these financial statements. Of these pronouncements, potentially the following will have an impact on the financial position and performance. The Bank has not analysed the likely impact of these pronouncements on its financial statements. The Bank plans to adopt these pronouncements when they become effective.

- IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2015. The new standard is to be issued in phases and is intended ultimately to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement*. The first phase of IFRS 9 was issued in November 2009 and relates to the classification and measurement of financial assets. The second phase regarding classification and measurement of financial liabilities was published in October 2010. The remaining parts of the standard are expected to be issued during 2013. The Bank recognizes that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on the financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued. The Bank does not intend to adopt this standard early.

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

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

- Amendment to IAS 1 *Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income*. The amendment requires that an entity present separately items of other comprehensive income that may be reclassified to profit or loss in the future from those that will never be reclassified to profit or loss. Additionally, the amendment changes the title of the statement of comprehensive income to statement of profit or loss and other comprehensive income. However, the use of other titles is permitted. The amendment shall be applied retrospectively for periods beginning on or after 1 July 2012 and early adoption is permitted.

- Amendments to IFRS 7 *Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities* contain new disclosure requirements for financial assets and liabilities that are offset in the statement of financial position or subject to master netting arrangements or similar agreements. The amendments are effective for annual periods beginning on or after 1 January 2013, and are to be applied retrospectively.
- Amendments to IAS 32 *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities* do not introduce new rules for offsetting financial assets and liabilities; rather they clarify the offsetting criteria to address inconsistencies in their application. The amendments specify that an entity currently has a legally enforceable right to set-off if that right is not contingent on a future event; and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties. The amendments are effective for annual periods beginning on or after 1 January 2014, and are to be applied retrospectively.

Various *Improvements to IFRSs* have been dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect not earlier than 1 January 2013. The Bank has not yet analysed the likely impact of the improvements on its financial position or performance.

4 Interest income and interest expense

	2012 RUB'000	**2011 RUB'000**
Interest income		
Loans to customers	1 484 979	981 244
Financial instruments at fair value through profit or loss	356 753	442 750
Loans to banks	76 494	20 859
Available-for-sale financial assets	47 961	78 762
	1 966 187	**1 523 615**
Interest expense		
Current accounts and deposits from customers	903 724	928 136
Deposits and balances from banks	72 505	5 876
Other borrowed funds	68 386	68 386
Promissory notes	33 545	34 579
	1 078 160	**1 036 977**

Included within various line items under interest income for the year ended 31 December 2012 is a total of RUB 38 287 thousand (2011: RUB 38 180 thousand) accrued on impaired financial assets.

5 Fee and commission income

	2012 RUB'000	**2011 RUB'000**
Settlement operations	145 473	136 285
Cash operations	102 420	83 542
Guarantees issuance	22 111	44 924
Cash transportation	10 628	1 024
Other	5 094	17 420
	285 726	**283 195**

6 Fee and commission expense

	2012 RUB'000	2011 RUB'000
Settlement operations	18 586	16 364
Cash transportation	10 308	8 383
Cash operations	8 632	8 857
Other	3 848	2 956
	41 374	**36 560**

7 Net gain (loss) on financial instruments at fair value through profit or loss

	2012 RUB'000	2011 RUB'000
Debt instruments	19 951	(53 265)
	19 951	**(53 265)**

8 Net foreign exchange income

	2012 RUB'000	2011 RUB'000
Gain on spot transactions and derivatives	3 659	59 059
Gain (loss) from revaluation of financial assets and liabilities	15 849	(17 934)
	19 508	**41 125**

9 Other operating income

	2012 RUB'000	2011 RUB'000
Penalties and charges received	341 765	112 209
Income on sale of loans	9 168	-
Income from rent	6 849	11 477
Income from recovery of previously written-off loans	-	620 279
Other	12 451	20 756
	370 233	**764 721**

The most significant part of income received from recovery of previously written-off loans in 2011 represents the recovery of RUB 615,000 thousand, including accrued penalties and charges, of a corporate loan as a result of legal proceedings.

10 Charge for impairment allowance for loans to customers

	2012 RUB'000	2011 RUB'000
Charge for impairment allowance		
Loans to customers (note 16)	(39 529)	(75 416)
	(39 529)	**(75 416)**

11 General administrative expenses

	2012 RUB'000	2011 RUB'000
Employee compensation	948 388	817 536
Operating lease expenses	138 611	131 190
Penalties	98 061	-
Taxes other than income tax	55 552	49 562
Communications and information services	48 909	46 553
Depreciation and amortization	48 641	49 125
Repairs and maintenance	44 662	35 641
Insurance	40 647	41 349
Advertising and marketing	32 852	32 312
Charity	28 298	-
Security	28 279	29 775
Impairment of fixed assets	16 356	-
Materials and supplies	12 632	12 464
Representation expenses	6 451	3 898
Disposal of assets	5 444	1 377
Professional services	5 201	4 764
Stationary expenses	4 230	4 654
Travel expenses	4 164	3 622
Other	15 375	29 386
	1 582 753	**1 293 208**

12 Income tax expense

	2012 RUB'000	2011 RUB'000
Current year tax expense	18 490	18 395
Deferred taxation movement due to origination and reversal of temporary differences	240 432	18 401
Income tax expense for the year	**258 922**	**36 796**

The applicable tax rate for current and deferred tax in 2012 is 20% (2011: 20%), except for coupon income from government securities which is taxed at 15% (2011: 15%).

Reconciliation of effective tax rate

	2012 RUB'000	%	2011 RUB'000	%
Profit before tax	827 699		93 569	
Income tax at the applicable tax rate	165 540	20.00%	18 714	20.00%
Non-deductible costs and other permanent differences	99 545	12.02%	24 191	25.85%
Income on government securities taxed at lower rates	(6 163)	(0.74%)	(6 109)	(6.53%)
	258 922	**31.28%**	**36 796**	**39.32%**

Deferred tax assets and liabilities

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to deferred tax liabilities as at 31 December 2012 and 2011.

The above deductible temporary differences do not expire under current tax legislation. As at 31 December 2012 and 2011 the deferred tax is calculated at the tax rate of 20%.

Movements in temporary differences during the years ended 31 December 2012 and 2011 are presented as follows.

RUB'000	Balance 1 January 2012	Recognised in profit or loss	Recognised in other comprehensive income	Balance 31 December 2012
Financial instruments at fair value through profit or loss	5 172	(12 435)	-	(7 263)
Loans to customers	(18 797)	(154 476)	-	(173 273)
Available-for-sale financial assets	6 868	-	(4 562)	2 306
Property, equipment and intangible assets	(5 089)	(6 163)	-	(11 252)
Investment property	-	(179 943)	-	(179 943)
Other assets	28	392	-	420
Tax loss carry-forward	-	111 864	-	111 864
Promissory notes	1 567	2 521	-	4 088
Other liabilities	2 447	(2 192)	-	255
Net deferred tax liabilities	**(7 804)**	**(240 432)**	**(4 562)**	**(252 798)**

RUB'000	Balance 1 January 2011	Recognised in profit or loss	Recognised in other comprehensive income	Balance 31 December 2011
Loans to banks	(85)	85	-	-
Financial instruments at fair value through profit or loss	1 890	3 282	-	5 172
Loans to customers	7 183	(25 980)	-	(18 797)
Available-for-sale financial assets	6 343	-	525	6 868
Property, equipment and intangible assets	(2 388)	(2 701)	-	(5 089)
Other assets	(15 147)	15 175	-	28
Promissory notes	8 465	(6 898)	-	1 567
Other liabilities	3 811	(1 364)	-	2 447
Net deferred tax asset (liability)	**10 072**	**(18 401)**	**525**	**(7 804)**

Income tax recognised in other comprehensive income (loss)

The tax effects relating to components of other comprehensive income (loss) for the year ended 31 December comprise:

	2012		
RUB'000	**Amount before tax**	**Income tax expense**	**Amount net-of-tax**
Net change in fair value of available-for-sale financial assets	22 842	(4 568)	18 274
Net change in fair value of available-for-sale financial assets transferred to profit or loss	(30)	6	(24)
Other comprehensive income	**22 812**	**(4 562)**	**18 250**

	2011		
RUB'000	**Amount before tax**	**Income tax benefit**	**Amount net-of-tax**
Net change in fair value of available-for-sale financial assets	(26 286)	5 257	(21 029)
Net change in fair value of available-for-sale financial assets transferred to profit or loss	23 661	(4 732)	18 929
Other comprehensive loss	**(2 625)**	**525**	**(2 100)**

13 Cash and cash equivalents

	2012 RUB'000	**2011 RUB'000**
Cash on hand	**802 806**	**857 019**
Nostro accounts with the CBR	**310 076**	**416 499**
Cash in Visa International	**53 213**	**56 298**
Nostro accounts with other banks:		
- rated from A- to A+	1 270 734	223 784
- rated from BBB- to BBB+	425 299	55 253
- rated B+ and below B+	28 736	29 548
- not rated	5 626	94 366
Total nostro accounts with other banks	**1 730 395**	**402 951**
Settlement accounts with currency exchanges	**244 333**	**84 476**
Total cash and cash equivalents	**3 140 823**	**1 817 243**

Ratings of banks are defined in accordance with standards of international rating agency Standard & Poor's.

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

Concentration of cash and cash equivalents

As at 31 December 2012, the Bank has two counterparties (31 December 2011: two counterparties), whose balances individually exceed 10% of total cash and cash equivalents. The gross value of these balances as at 31 December 2021 is RUB 1 645 154 thousand (31 December 2011: RUB 640 283 thousand).

14 Loans to banks

	2012 RUB'000	2011 RUB'000
Nostro accounts with banks (restricted balances)		
- rated B+ and below B+	104	2 769
Total nostro accounts with banks	**104**	**2 769**
Loans to banks		
- the CBR	-	470 052
- rated from BBB- to BBB+	1 000 622	650 313
- rated from BB- to BB+	293 344	-
- rated from B- to B+	145 167	-
Total loans to banks	**1 439 133**	**1 120 365**
Amounts receivable under reverse repurchase agreements	**-**	**193 629**
Total loans to banks	**1 439 237**	**1 316 763**

Ratings of banks are defined in accordance with standards of international rating agency Standard & Poor's.

None of loans to banks are impaired or past due.

Collateral accepted as security for assets

At 31 December 2012, the Bank has no reverse repurchase agreements. At 31 December 2011, fair value of financial assets collateralizing reverse repurchase agreements that the Bank is permitted to sell or repledge in the absence of default was RUB 204 038 thousand.

Concentration of loans and advances to banks

As at 31 December 2012, the Bank has five counterparties (31 December 2011: four counterparties), whose balances individually exceed 10% of total loans to banks. The gross value of these balances as at 31 December 2012 is RUB 1 439 133 thousand (31 December 2011: RUB 1 313 934 thousand).

15 Financial instruments at fair value through profit or loss

	2012 RUB'000	2011 RUB'000
Held by the Bank		
Debt and other fixed-income instruments		
- Government and municipal bonds		
- Russian Government Federal bonds (OFZ)	571 189	921 680
Total government and municipal bonds	**571 189**	**921 680**
- Corporate bonds		
- rated from BBB- to BBB+	219 592	281 270
- rated from BB- to BB+*	391 486	1 281 098
- rated from B- to B+*	261 274	770 407
- not rated	141 120	928 880
Total corporate bonds	**1 013 472**	**3 261 655**
- Banks' promissory notes		
- rated from BBB- to BBB+	-	745 739
- rated from BB- to BB+	-	455 747
- rated from B- to B+	-	249 440
- not rated	-	99 225
Total banks' promissory notes	**-**	**1 550 151**
Total financial assets at fair value through profit or loss held by the Bank	**1 584 661**	**5 733 486**
Pledged under sale and repurchase agreements		
Debt and other fixed-income instruments		
- Government and municipal bonds		
- Russian Government Federal bonds (OFZ)	331 890	-
Total government and municipal bonds	**331 890**	**-**
- Corporate bonds		
- rated from BBB- to BBB+	943 701	-
- rated from BB- to BB+	1 063 657	-
- rated from B- to B+	204 321	-
Total corporate bonds	**2 211 679**	**-**
Total financial assets at fair value through profit or loss pledged under sale and repurchase agreements	**2 543 579**	**-**
Total financial assets at fair value through profit or loss	**4 128 230**	**5 733 486**

*Corporate bonds include eurobonds denominated in USD.

Financial instruments at fair value through profit or loss comprise financial instruments held for trading.

Ratings of issuers are defined in accordance with standards of international rating agency Standard & Poor's.

None of financial assets at fair value through profit or loss are past due or impaired.

Reclassifications out of securities held for trading

Pursuant to the amendments to IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7 *Financial Instruments: Disclosures*, in 2008 the Bank reclassified certain quoted securities out of the financial instruments at fair value through profit or loss to held-to-maturity investments. The Bank identified securities eligible under the amendments for which it had changed its intent such that it no longer held these securities for the purpose of selling in the short term. For those quoted securities identified for reclassification, the Bank determined that the deterioration of the financial markets during the third quarter of 2008 constituted rare circumstances that permit reclassification out of the financial instruments at fair value through profit or loss.

Under IAS 39 *Financial Instruments: Recognition and Measurement* as amended, the reclassifications were made with effect from 1 August 2008 at fair value at that date of reclassification. Securities reclassified to held-to-maturity investments as at 1 August 2008, were subsequently reclassified into available-for-sale financial assets due to sale of certain securities prior to their contractual maturity dates.

	2012 RUB'000		**2011 RUB'000**	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Held-to-maturity financial instruments reclassified to available-for-sale financial assets due to breach of requirements	420 023	420 023	932 079	932 079
	420 023	**420 023**	**932 079**	**932 079**

The table below sets out the amounts that would have been recognized in the periods following reclassification during 2008, if the reclassifications had not been made, as well as the actual amounts of gain, loss, income and expense recognized in profit or loss with respect to financial assets reclassified out of securities held for trading:

	2012 RUB'000		2011 RUB'000		2010 RUB'000		2009 RUB'000		2008 RUB'000	
	Recognized for reclassified assets	**Would have been recognized if the reclassifications were not made**	**Recognized for reclassified assets**	**Would have been recognized if the reclassifications were not made**	**Recognized for reclassified assets**	**Would have been recognized if the reclassifications were not made**	**Recognized for reclassified assets**	**Would have been recognized if the reclassifications were not made**	**Recognized for reclassified assets**	**Would have been recognized if the reclassifications were not made**
Interest income	47 961	47 961	78 762	78 762	111 267	111 267	125 937	125 937	129 845	129 845
Net gain (loss) on financial instruments at fair value through profit or loss	-	22 842	-	(26 286)	-	77 896	-	(95 899)	(62 657)	(213 964)
Net gain (loss) on available-for-sale financial assets	30	-	(23 661)	-	(2 843)	-	16 549	-	-	-
Total recognised in profit or loss for the period (before tax)	**47 991**	**70 803**	**55 101**	**52 476**	**108 424**	**189 163**	**142 486**	**30 038**	**67 188**	**(84 119)**
Net change in fair value of available-for-sale financial assets	22 812	-	(2 625)	-	80 739	-	(112 448)	-	-	-
Total amount recognized in the statement of comprehensive income for the period (before tax)	**70 803**	**70 803**	**52 476**	**52 476**	**189 163**	**189 163**	**30 038**	**30 038**	**67 188**	**(84 119)**

At 1 August 2008, the effective interest rate on trading assets reclassified to held-to-maturity investments was 7.1% with expected recoverable cash flows of RUB 1 759 824 thousand.

16 Loans to customers

	2012 RUB'000	2011 RUB'000
Loans to corporate customers		
Loans to large corporates	6 971 633	4 283 440
Loans to small and medium size companies	2 396 901	3 115 222
Total loans to corporate customers	**9 368 534**	**7 398 662**
Loans to retail customers		
Consumer loans without collateral	2 474 029	1 227 440
Consumer loans with collateral	1 082 654	689 493
Auto loans	322 617	491 425
Mortgage loans	278 405	309 583
Loans to individual entrepreneurs	42 514	155 612
Overdrafts	219 533	60 055
Other loans to individuals	354 576	183 608
Total loans to retail customers	**4 774 328**	**3 117 216**
Gross loans to customers	**14 142 862**	**10 515 878**
Impairment allowance	(619 805)	(815 114)
Net loans to customers	**13 523 057**	**9 700 764**

As at 31 December 2012, there were no loans to corporate customers under reverse repurchase agreements included in the loan portfolio (31 December 2011: RUB 412 111 thousand).

Movements in the impairment allowance by classes of loans to customers for the year ended 31 December 2012 are as follows:

	Loans to corporate customers RUB'000	Loans to retail customers RUB'000	Total RUB'000
Balance as at 1 January	(217 124)	(597 990)	(815 114)
Net (charge) recovery	(155 036)	115 507	(39 529)
Sold loans	-	234 838	234 838
Balance as at 31 December	**(372 160)**	**(247 645)**	**(619 805)**

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

	Loans to corporate customers RUB'000	Loans to retail customers RUB'000	Total RUB'000
Balance as at 1 January	(153 361)	(613 298)	(766 659)
Net (charge) recovery	(89 270)	13 854	(75 416)
Sold loans	19 109	-	19 109
Write-offs	6 398	1 454	7 852
Balance as at 31 December	**(217 124)**	**(597 990)**	**(815 114)**

Credit quality of loans to customers

The following table provides information on the credit quality of loans to customers as at 31 December 2012:

	Gross loans RUB'000	Impairment allowance RUB'000	Net loans RUB'000	Impairment allowance to gross loans, %
Loans to corporate customers				
Loans to large corporates				
Loans for which no impairment has been identified:				
- standard loans	4 532 208	(65 627)	4 466 581	1.45%
- watch list loans	1 862 145	(26 950)	1 835 195	1.45%
Total loans for which no impairment has been identified	6 394 353	(92 577)	6 301 776	1.45%
Impaired loans:				
- not overdue	574 000	(143 500)	430 500	25.00%
- overdue more than 1 year	3 280	(3 280)	-	100.00%
Total impaired loans	577 280	(146 780)	430 500	25.43%
Total loans to large corporates	**6 971 633**	**(239 357)**	**6 732 276**	**3.43%**
Loans to small and medium size companies				
Loans for which no impairment has been identified:				
- standard loans	691 301	(10 197)	681 104	1.48%
- watch list loans	1 606 771	(23 777)	1 582 994	1.48%
Total loans for which no impairment has been identified	2 298 072	(33 974)	2 264 098	1.48%
Impaired loans:				
- not overdue	13 717	(13 717)	-	100.00%
- overdue more than 1 year	85 112	(85 112)	-	100.00%
Total impaired loans	98 829	(98 829)	-	100.00%
Total loans to small and medium size companies	**2 396 901**	**(132 803)**	**2 264 098**	**5.54%**
Total loans to corporate customers	**9 368 534**	**(372 160)**	**8 996 374**	**3.97%**

	Gross loans RUB'000	Impairment allowance RUB'000	Net loans RUB'000	Impairment allowance to gross loans, %
Loans to retail customers				
Consumer loans without collateral				
- not overdue	2 390 904	(6 516)	2 384 388	0.28%
- overdue less than 30 days	23 710	(7 785)	15 925	32.84%
- overdue 31-60 days	9 865	(6 286)	3 579	63.72%
- overdue 61-90 days	10 756	(8 259)	2 497	76.79%
- overdue more than 90 days	38 794	(36 579)	2 215	94.29%
Total consumer loans without collateral	**2 474 029**	**(65 425)**	**2 408 604**	**2.65%**
Consumer loans with collateral				
- not overdue	1 015 829	(2 041)	1 013 788	0.20%
- overdue less than 30 days	11 955	(668)	11 287	5.59%
- overdue 31-60 days	838	(158)	680	18.86%
- overdue 61-90 days	2 081	(842)	1 239	40.47%
- overdue more than 90 days	51 951	(49 210)	2 741	94.73%
Total consumer loans with collateral	**1 082 654**	**(52 919)**	**1 029 735**	**4.89%**
Auto loans				
- not overdue	298 021	(1 701)	296 320	0.57%
- overdue less than 30 days	5 155	(583)	4 572	11.31%
- overdue 31-60 days	1 066	(246)	820	23.08%
- overdue 61-90 days	514	(277)	237	53.90%
- overdue more than 90 days	17 861	(17 575)	286	98.40%
Total auto loans	**322 617**	**(20 382)**	**302 235**	**6.32%**
Mortgage loans				
- not overdue	252 897	(219)	252 678	0.09%
- overdue 31-60 days	664	(52)	612	7.84%
- overdue 61-90 days	5 277	(1 021)	4 256	19.35%
- overdue more than 90 days	19 567	(19 567)	-	100.00%
Total mortgage loans	**278 405**	**(20 859)**	**257 546**	**7.50%**
Loans to individual entrepreneurs				
- not overdue	3 544	(81)	3 463	2.29%
- overdue more than 90 days	38 970	(38 970)	-	100.00%
Total loans to individual entrepreneurs	**42 514**	**(39 051)**	**3 463**	**91.86%**
Overdrafts				
- not overdue	199 058	(117)	198 941	0.06%
- overdue less than 30 days	3 374	(82)	3 292	2.43%
- overdue 31-60 days	844	(72)	772	8.53%
- overdue 61-90 days	1 459	(333)	1 126	22.83%
- overdue more than 90 days	14 798	(14 420)	378	97.45%
Total overdrafts	**219 533**	**(15 024)**	**204 509**	**6.85%**
Other loans to individuals				
- not overdue	321 819	(1 228)	320 591	0.39%
- overdue more than 90 days	32 757	(32 757)	-	100.00%
Total other loans to individuals	**354 576**	**(33 985)**	**320 591**	**9.59%**
Total loans to retail customers	**4 774 328**	**(247 645)**	**4 526 683**	**5.19%**
Total loans to customers	**14 142 862**	**(619 805)**	**13 523 057**	**4.38%**

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

	Gross loans RUB'000	Impairment allowance RUB'000	Net loans RUB'000	Impairment allowance to gross loans, %
Loans to corporate customers				
Loans to large corporates				
Loans for which no impairment has been identified:				
- standard loans	3 207 705	(43 082)	3 164 623	1.34%
- watch list loans	1 038 236	(15 353)	1 022 883	1.48%
Total loans for which no impairment has been identified	4 245 941	(58 435)	4 187 506	1.38%
Impaired loans:				
- overdue more than 1 year	37 499	(27 900)	9 599	74.40%
Total impaired loans	37 499	(27 900)	9 599	74.40%
Total loans to large corporates	**4 283 440**	**(86 335)**	**4 197 105**	**2.02%**
Loans to small and medium size companies				
Loans for which no impairment has been identified:				
- standard loans	2 317 995	(35 212)	2 282 783	1.52%
- watch list loans	712 362	(10 712)	701 650	1.50%
Total loans for which no impairment has been identified	3 030 357	(45 924)	2 984 433	1.52%
Impaired loans:				
- overdue less than 90 days	1 364	(1 364)	-	100.00%
- overdue more than 90 days and less than 1 year	37 911	(37 911)	-	100.00%
- overdue more than 1 year	45 590	(45 590)	-	100.00%
Total impaired loans	84 865	(84 865)	-	100.00%
Total loans to small and medium size companies	**3 115 222**	**(130 789)**	**2 984 433**	**4.20%**
Total loans to corporate customers	**7 398 662**	**(217 124)**	**7 181 538**	**2.93%**

	Gross loans RUB'000	Impairment allowance RUB'000	Net loans RUB'000	Impairment allowance to gross loans, %
Loans to retail customers				
Consumer loans without collateral				
- not overdue	1 083 101	-	1 083 101	0.00%
- overdue less than 30 days	3 265	(2)	3 263	0.06%
- overdue 31-60 days	628	(66)	562	10.51%
- overdue 61-90 days	744	(201)	543	27.02%
- overdue more than 90 days	139 702	(139 238)	464	99.67%
Total consumer loans without collateral	**1 227 440**	**(139 507)**	**1 087 933**	**11.37%**
Consumer loans with collateral				
- not overdue	606 341	-	606 341	0.00%
- overdue less than 30 days	6 230	(17)	6 213	0.27%
- overdue 31-60 days	3 780	(224)	3 556	5.93%
- overdue 61-90 days	2 605	(492)	2 113	18.90%
- overdue more than 90 days	70 537	(70 138)	399	99.43%
Total consumer loans with collateral	**689 493**	**(70 871)**	**618 622**	**10.28%**
Auto loans				
- not overdue	311 131	-	311 131	0.00%
- overdue less than 30 days	6 533	(24)	6 509	0.37%
- overdue 31-60 days	4 161	(275)	3 886	6.61%
- overdue 61-90 days	4 621	(673)	3 948	14.56%
- overdue more than 90 days	164 979	(163 778)	1 201	99.27%
Total auto loans	**491 425**	**(164 750)**	**326 675**	**33.52%**
Mortgage loans				
- not overdue	263 582	-	263 582	0.00%
- overdue less than 30 days	1 180	(2)	1 178	0.17%
- overdue 31-60 days	2 835	(26)	2 809	0.92%
- overdue more than 90 days	41 986	(40 398)	1 588	96.22%
Total mortgage loans	**309 583**	**(40 426)**	**269 157**	**13.06%**
Loans to individual entrepreneurs				
- not overdue	37 635	-	37 635	0.00%
- overdue 61-90 days	61	(14)	47	22.95%
- overdue more than 90 days	117 916	(117 916)	-	100.00%
Total loans to individual entrepreneurs	**155 612**	**(117 930)**	**37 682**	**75.78%**
Overdrafts				
- not overdue	30 932	-	30 932	0.00%
- overdue less than 30 days	138	-	138	0.00%
- overdue 31-60 days	39	(32)	7	82.05%
- overdue 61-90 days	74	(66)	8	89.19%
- overdue more than 90 days	28 872	(28 872)	-	100.00%
Total overdrafts	**60 055**	**(28 970)**	**31 085**	**48.24%**
Other loans to individuals				
- not overdue	130 684	-	130 684	0.00%
- overdue more than 90 days	52 924	(35 536)	17 388	67.15%
Total other loans to individuals	**183 608**	**(35 536)**	**148 072**	**19.35%**
Total loans to retail customers	**3 117 216**	**(597 990)**	**2 519 226**	**19.18%**
Total loans to customers	**10 515 878**	**(815 114)**	**9 700 764**	**7.75%**

During the years ended 31 December 2012 and 2011 the Bank did not renegotiate loans to customers that would otherwise be impaired.

Key assumptions and judgments for estimating the loan impairment

Loans to corporate customers

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

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

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

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

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

- historic annual loss rate of approximately 1.45% adjusted for current economic environment and industry of a borrower
- a discount of between 25%-50% to the originally appraised value if the property pledged is sold
- a delay of 24 to 36 months in obtaining proceeds from the foreclosure of collateral.

Changes in these estimates could affect the loan impairment allowance. For example, to the extent that the net present value of the estimated cash flows differs by one percent, the impairment allowance for loans to corporate customers as at 31 December 2012 would be RUB 89 964 thousand lower/higher (31 December 2011: RUB 71 815 thousand).

Loans to retail customers

The Bank estimates the impairment allowance for loans to retail customers based on the statistical data on overdue loans for the past 24 months adjusted for current market conditions. In determining the impairment losses for the portfolio of loans to retail customers for which no impairment has been identified, management assumes loss rates derived from historic losses, adjusted for the current economic environment.

Other significant assumptions used by management in determining the impairment losses for loans to retail customers include, in respect of mortgage loans, a delay of 12 months in obtaining proceeds from the foreclosure of collateral and a discount of 25% to the originally appraised value if the property pledged is sold through court procedures.

Changes in these estimates could affect the loan impairment allowance. For example, to the extent that the net present value of the estimated cash flows differs by three percent, the impairment allowance for loans to retail customers as at 31 December 2012 would be RUB 135 800 thousand lower/higher (31 December 2011: RUB 75 577 thousand).

Analysis of collateral and other credit enhancements

Loans to corporate customers

The following tables provides fair value information on collateral and other credit enhancements securing loans to corporate customers, net of impairment, by types of collateral, excluding the effect of overcollateralisation:

	2012 RUB’000	2011 RUB’000
Loans without individual signs of impairment		
Guarantees	2 578 088	2 837 068
Real estate	1 731 256	1 038 968
Motor vehicles	845 981	669 781
Goods in turnover	230 617	133 000
Securities	209 365	611 002
Equipment	80 429	101 680
Other collateral	727 791	431 390
No collateral or other credit enhancement	2 162 347	1 349 050
Total loans without individual signs of impairment	**8 565 874**	**7 171 939**
Impaired loans		
Guarantees	112 500	
Securities	-	9 599
No collateral or other credit enhancement	318 000	-
Total impaired loans	**430 500**	**9 599**
Total loans to corporate customers	**8 996 374**	**7 181 538**

Management estimates that the collateral for loans to corporate customers does not impact the impairment allowance as at 31 December 2012.

As at 31 December 2011, the impairment allowance on loans to corporate customers would have been RUB 9 599 thousand higher without any collateral.

Collateral obtained

During the years ended 31 December 2011 and 2012 the Bank did not obtain any assets by taking possession of collateral securing loans to corporate customers.

Loans to retail customers

Loans to retail customers are secured by the underlying housing real estate, vehicles, and sureties of individuals.

The following tables provide fair value information on collateral and other credit enhancements securing loans to retail customers, net of impairment, by types of collateral, excluding the effect of overcollateralisation:

	2012 RUB’000	2011 RUB’000
Real estate	1 055 752	839 194
Motor vehicles	307 222	345 656
Cash	176 650	187 863
Guarantees	25 810	172 462
Other collateral	2 050	66 663
No collateral or other credit enhancement	2 959 199	907 388
Total loans to retail customers	**4 526 683**	**2 519 226**

Collateral obtained

During the year ended 31 December 2012, the Bank obtained certain assets by taking possession of collateral for loans to retail customers. As at 31 December 2012, the carrying amount of such assets was RUB 33 637 thousand (31 December 2011: RUB 34 295 thousand). The Bank's policy is to sell these assets as soon as it is practicable.

Analysis of movements in the impairment allowance

Loans to corporate customers

Movements in the loan impairment allowance by classes of loans to corporate customers for the year ended 31 December 2012 are as follows:

	Loans to large corporates RUB'000	Loans to small and medium size companies RUB'000	Total RUB'000
Balance as at 1 January	(86 335)	(130 789)	(217 124)
Net charge	(153 022)	(2 014)	(155 036)
Balance as at 31 December	**(239 357)**	**(132 803)**	**(372 160)**

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

	Loans to large corporates RUB'000	Loans to small and medium size companies RUB'000	Total RUB'000
Balance as at 1 January	(35 723)	(117 638)	(153 361)
Net charge	(76 119)	(13 151)	(89 270)
Sold loans	19 109	-	19 109
Write-offs	6 398	-	6 398
Balance as at 31 December	**(86 335)**	**(130 789)**	**(217 124)**

Loans to retail customers

Movements in the loan impairment allowance by classes of loans to retail customers for the year ended 31 December 2012 are as follows:

RUB'000	**Consumer loans without collateral**	**Consumer loans with collateral**	**Auto loans**	**Mortgage loans**	**Loans to individual entrepreneurs**	**Overdrafts**	**Other loans to individuals**	**Total**
Balance as at 1 January	(139 507)	(70 871)	(164 750)	(40 426)	(117 930)	(28 970)	(35 536)	(597 990)
Net recovery (charge)	40 837	3 444	35 768	5 631	17 876	13 946	(1 995)	115 507
Sold loans	33 245	14 508	108 600	13 936	61 003	-	3 546	234 838
Balance as at 31 December	**(65 425)**	**(52 919)**	**(20 382)**	**(20 859)**	**(39 051)**	**(15 024)**	**(33 985)**	**(247 645)**

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

RUB'000	**Consumer loans without collateral**	**Consumer loans with collateral**	**Auto loans**	**Mortgage loans**	**Loans to individual entrepreneurs**	**Overdrafts**	**Other loans to individuals**	**Total**
Balance as at 1 January	(61 536)	(89 500)	(170 566)	(34 900)	(116 277)	(13 246)	(127 273)	(613 298)
Net (charge) recovery	(79 425)	18 629	5 816	(5 526)	(1 653)	(15 724)	91 737	13 854
Write-offs	1 454	-	-	-	-	-	-	1 454
Balance as at 31 December	**(139 507)**	**(70 871)**	**(164 750)**	**(40 426)**	**(117 930)**	**(28 970)**	**(35 536)**	**(597 990)**

Industry and geographical analysis of the loan portfolio

Loans to customers as at 31 December 2012 and 2011 were issued primarily to customers located within the Russian Federation who operate in the following economic sectors (net of impairment allowance):

	2012 RUB'000	2011 RUB'000
Retail customers	4 526 683	2 519 226
Trade	2 922 856	1 652 391
Energy, mining and metallurgy	2 645 849	1 991 521
Finance and investment companies	792 735	748 889
Manufacturing	749 223	42 341
Restaurants	578 801	590 088
Construction	358 441	633 679
Repair and installation work	296 335	822 576
Telecommunications	246 845	-
Rent	188 442	513 952
Food industry	133 334	70 063
Transport	16 058	26 622
Other	67 455	89 416
Total loans to customers	**13 523 057**	**9 700 764**

Significant credit exposures

As at 31 December 2012 and 2011, the Bank had no borrowers or groups of related borrowers whose loan balances individually exceeded 10% of total loans to customers.

Loan maturities

The maturity of the loan portfolio is presented in note 26, which shows the remaining periods from the reporting date to the contractual maturities of the loans. Due to the short-term nature of the majority of loans to corporate customers issued by the Bank, it is likely that many of the loans will be prolonged at maturity. Accordingly, the effective maturity of the loan portfolio may be significantly longer than the classification based on contractual terms.

Sale of loans

In 2012 the Bank sold loans to corporate customers for RUB 145 167 thousand (2011: RUB 53 880 thousand). The gross value of the loans sold, including principal amount, accrued interest and penalties totaled to RUB 135 999 thousand (2011: RUB 72 989 thousand).

In 2012 the Bank sold overdue loans to retail customers for RUB 470 000 thousand (2011: nil). The gross value of the loans sold, including principal amount, accrued interest and penalties totaled to RUB 704 838 thousand.

17 Transfers of financial assets

Transferred financial assets that are not derecognised in their entirety

2012	**Financial assets at fair value through profit or loss RUB'000**	**Financial assets available-for-sale RUB'000**
Carrying amount of assets	2 543 570	200 513
Carrying amount of associated liabilities (note 21)	2 180 454	165 099
2011		
Carrying amount of assets	-	-
Carrying amount of associated liabilities	-	-

Securities

The Bank has transactions to lend securities and to sell securities under agreements to repurchase and to purchase securities under agreements to resell.

The securities lent or sold under agreements to repurchase are transferred to a third party and the Bank receives cash in exchange. These financial assets may be repledged or resold by counterparties in the absence of default by the Bank, but the counterparty has an obligation to return the securities at the maturity of the contract. The Bank has determined that it retains substantially all the risks and rewards of these securities and therefore has not derecognised them. These securities are presented as "pledged under sale and repurchase agreements" in notes 15 and 18. In addition, the Bank recognizes a financial liability for cash received as collateral included in deposits and balances from banks (note 21).

These transactions are conducted under terms that are usual and customary to standard lending, and securities borrowing and lending activities, as well as requirements determined by exchanges where the Bank acts as intermediary.

18 Available-for-sale financial assets

	2012 RUB'000	2011 RUB'000
Held by the Bank		
Debt and other fixed-income instruments		
- Government and municipal bonds		
- Russian Government Federal bonds (OFZ)	201 123	730 190
- Regional authorities and municipal bonds	6 821	94 758
Total government and municipal bonds	**207 944**	**824 948**
- Corporate bonds		
- rated from B- to B+	11 566	107 131
Total corporate bonds	**11 566**	**107 131**
Equity instruments		
- Corporate shares		
- OJSC "Kurganskaya Generiruyshaya Kompaniya"	600 000	-
- CJSC Bureau of Credit History "National Credit Bureau"	4 410	4 410
- Impairment allowance	(4 410)	(4 410)
Total corporate shares	**600 000**	**-**
Total available-for-sale financial assets held by the Bank	**819 510**	**932 079**
Pledged under sale and repurchase agreements		
Debt and other fixed-income instruments		
- Government and municipal bonds		
- Regional authorities and municipal bonds	93 823	-
Total government and municipal bonds	**93 823**	**-**
- Corporate bonds		
- rated from B- to B+	106 690	-
Total corporate bonds	**106 690**	**-**
Total available-for-sale financial assets pledged under sale and repurchase agreements	**200 513**	**-**
Total available-for-sale financial assets	**1 020 023**	**932 079**

Ratings of issuers are defined in accordance with standards of international rating agency Standard & Poor's.

19 Property and equipment, intangible assets, investment property and assets held-for-sale

RUB'000	Land and buildings	Motor vehicles	Computers	Office equipment	Intangible assets	Other equipment	Construction in progress	Leasehold improvements	Total
Cost									
Balance at 1 January 2012	206 795	31 094	45 666	133 953	42 910	90 404	1 547	75 848	628 217
Additions	1 214	1 223	10 553	2 931	8 643	4 676	-	-	29 240
Disposals	-	(3 623)	(1 643)	(3 434)	-	(5 356)	-	-	(14 056)
Transfers	1 831	-	-	-	-	-	(1 547)	1 547	1 831
Impairment	(16 356)	-	-	-	-	-	-	-	(16 356)
Balance at 31 December 2012	**193 484**	**28 694**	**54 576**	**133 450**	**51 553**	**89 724**	**-**	**77 395**	**628 876**
Depreciation									
Balance at 1 January 2012	(29 426)	(26 174)	(38 852)	(80 694)	(35 051)	(83 291)	-	(52 687)	(346 175)
Depreciation for the year	(4 140)	(3 956)	(3 185)	(12 785)	(8 577)	(5 494)	-	(10 504)	(48 641)
Disposals	-	3 343	1 643	3 434	-	5 348	-	-	13 768
Balance at 31 December 2012	**(33 566)**	**(26 787)**	**(40 394)**	**(90 045)**	**(43 628)**	**(83 437)**	**-**	**(63 191)**	**(381 048)**
Carrying amount									
Balance at 31 December 2012	**159 918**	**1 907**	**14 182**	**43 405**	**7 925**	**6 287**	**-**	**14 204**	**247 828**

RUB'000	Land and buildings	Motor vehicles	Computers	Office equipment	Intangible assets	Other equipment	Construction in progress	Leasehold improvements	Total
Cost									
Balance at 1 January 2011	206 795	33 915	45 606	136 757	48 167	90 536	3 701	75 848	641 325
Additions	-	1 482	60	5 489	6 071	2 360	-	-	15 462
Disposals	-	(4 303)	-	(8 293)	(11 328)	(2 492)	(2 154)	-	(28 570)
Balance at 31 December 2011	**206 795**	**31 094**	**45 666**	**133 953**	**42 910**	**90 404**	**1 547**	**75 848**	**628 217**
Depreciation									
Balance at 1 January 2011	(25 256)	(25 092)	(36 189)	(70 525)	(35 049)	(85 594)	-	(42 397)	(320 102)
Depreciation for the year	(4 170)	(4 633)	(2 663)	(15 850)	(11 330)	(189)	-	(10 290)	(49 125)
Disposals	-	3 551	-	5 681	11 328	2 492	-	-	23 052
Balance at 31 December 2011	**(29 426)**	**(26 174)**	**(38 852)**	**(80 694)**	**(35 051)**	**(83 291)**	**-**	**(52 687)**	**(346 175)**
Carrying amount									
Balance at 31 December 2011	**177 369**	**4 920**	**6 814**	**53 259**	**7 859**	**7 113**	**1 547**	**23 161**	**282 042**

As at 31 December 2012 and 2011, the Bank had fully depreciated fixed assets which were still in use. The gross values of these balances as at 31 December 2012 is RUB 144 993 thousand (31 December 2011: RUB 135 112 thousand).

During 2012 management changed intentions in respect of assets held-for-sale in amount of RUB 1 831 thousand and transferred them into fixed assets.

Investment property

During 2012 management of the Bank changed its intention in respect of certain assets with the view of capital appreciation and reclassified them into investment property. These assets are represented by land plots. At 31 December 2012, investment property was revalued based on the results of independent appraisals performed by OJSC "Auditorskaya i konsaltingovaya firma "Top-audit". The appraisal is based on the analysis of the results of comparable sales of similar land plots.

The following key assumptions are used in applying the market approach:

- comparability of objects based on the size, location and the availability of communications
- comparables are adjusted by the bargain discount up to 16% depending on the type of property.

Changes in the estimates above could affect the value of the investment property. For example, to the extent that the price of comparables used in the market approach differs by one percent, the investment property value as at 31 December 2012 would be RUB 14 020 thousand lower/higher.

Movement in balance value is represented in table below:

	2012 RUB'000	2011 RUB'000
Balance at the beginning of the period	-	-
Transfer from assets held-for-sale	1 099 256	-
Revaluation	907 880	-
Balance at the end of the period	**2 007 136**	**-**

Assets held-for-sale

Assets held-for-sale include assets obtained by taking possession of collateral for loans (note 16).

20 Other assets

	2012 RUB'000	2011 RUB'000
Other financial assets		
Settlements on brokerage operations	3 583	6 646
Total other financial assets	**3 583**	**6 646**
Other non-financial assets		
Trade debtors and prepayments	44 816	34 605
Materials and supplies	32 182	25 025
Other	23 366	27 769
Total other non-financial assets	**100 364**	**87 399**
Total other assets	**103 947**	**94 045**

21 Deposits and balances from banks

	2012 RUB'000	2011 RUB'000
Vostro accounts	11	11
Term deposits	2 345 553	1 440
	2 345 564	**1 451**

As at 31 December 2012, deposits and balances from banks included sale and repurchase agreements balances in amount of RUB 2 345 553 thousand. As at 31 December 2011, the Bank had no balances under sale and repurchase agreements included in the deposits and balances from banks.

Concentration of deposits and balances from banks

As at 31 December 2012, the Bank has one bank (31 December 2011: one bank), whose balances exceed 10% of total deposits and balances from banks. The gross value of these balances as of 31 December 2012 is RUB 2 345 553 thousand (31 December 2011: RUB 1 440 thousand).

22 Current accounts and deposits from customers

	2012 RUB'000	2011 RUB'000
Current accounts and demand deposits		
- Individuals	785 435	885 555
- Legal entities	2 441 230	4 714 059
Term deposits		
- Individuals	10 220 267	9 219 407
- Legal entities	5 031 869	2 134 810
	18 478 801	**16 953 831**

Concentration of current accounts and deposits from customers

As at 31 December 2012 and 2011, the Bank has no customers whose balances individually exceed 10% of total current accounts and deposits from customers.

23 Other borrowed funds

	2012 RUB'000	2011 RUB'000
Subordinated borrowings	773 066	773 066
	773 066	**773 066**

As at 31 December 2012 and 2011, subordinated borrowings comprise loans received from a third party maturing in 2020 and carry an annual interest rate of 8.85%. In case of bankruptcy, the repayment of the subordinated borrowings will be made after repayment in full of all other liabilities of the Bank.

24 Other liabilities

	2012 RUB'000	2011 RUB'000
Other financial liabilities		
Settlement obligations	4 832	8 849
Consulting expenses	238	4 778
Total other financial liabilities	**5 070**	**13 627**
Other non-financial liabilities		
Taxes other than income tax	5 657	6 272
Unused vacations	4 985	4 604
Other	742	1 657
Total other non-financial liabilities	**11 384**	**12 533**
Total other liabilities	**16 454**	**26 160**

25 Share capital

Issued capital

In accordance with the decision of the general meeting of participants of the Bank dated 14 August 2009, the legal structure was changed from a Limited Liability Company into an Open Joint Stock Company. As a result 1 000 000 000 ordinary shares were issued. All shares have a nominal value of RUB 1. The units in the charter capital were exchanged into the equal number of ordinary shares.

On 29 January 2010 share capital was increased from RUB 1 000 000 thousand to RUB 1 890 000 thousand by an increase of each share's nominal value from RUB 1 to RUB 1.89. The share capital was increased with the use of retained earnings which amounts to RUB 890 000 thousand.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at annual and general meetings of the Bank.

Dividends

Dividends payable are restricted to the maximum retained earnings of the Bank, which are determined according to legislation of the Russian Federation. In accordance with the requirements of the legislation of the Russian Federation as of the reporting date the amount available for distribution to shareholders constituted RUB 231 992 thousand (31 December 2011: RUB 193 748 thousand).

26 Risk management

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

Risk management policies and procedures

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

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

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

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

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

Market risk

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

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

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

The Bank manages its market risk by setting open position limits in relation to financial instrument, interest rate maturity and currency positions and stop-loss limits which are monitored on a regular basis and reviewed and approved by the Management Board.

In addition, the Bank uses a wide range of stress tests to model the financial impact of a variety of exceptional market scenarios on individual trading portfolios and overall position. Stress tests provide an indication of the potential size of losses that could arise in extreme conditions. The stress tests carried out by the Bank include: risk factor stress testing, where stress movements are applied to each risk category and ad hoc stress testing, which includes applying possible stress events to specific positions.

The management of interest rates risk by monitoring interest rate gap is supplemented by monitoring the sensitivity of the net interest margin to various standard and non-standard interest rate scenarios.

Interest rate risk

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

Interest rate risk arises when the actual or forecasted assets of a given maturity period are either greater or less than the actual or forecasted liabilities in that maturity period.

Average interest rates

The table below displays average effective interest rates for interest bearing assets and liabilities as at 31 December 2012 and 2011. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	2012 Average effective interest rate, %			**2011 Average effective interest rate, %**		
	RUB	**USD**	**Other currencies**	**RUB**	**USD**	**Other currencies**
Interest bearing assets						
Loans to bank	3.78%	-	-	5.41%	-	-
Financial instruments at fair value through profit or loss	8.04%	7.92%	-	8.63%	8.14%	3.71%
Loans to customers	13.82%	8.93%	8.07%	12.12%	8.91%	10.23%
Available-for-sale financial assets	7.11%	-	-	6.62%	-	-
Interest bearing liabilities						
Deposits and balances from banks						
- Term deposits	5.61%	-	-	-	-	-
Current accounts and deposits from customers						
- Term deposits	8.94%	5.43%	4.99%	8.44%	5.61%	5.32%
Promissory notes	5.86%	4.77%	-	8.12%	6.01%	-
Other borrowed funds	8.85%	-	-	8.85%	-	-

Interest rate sensitivity analysis

The management of interest rate risk based on interest rate gap analysis is supplemented by monitoring the sensitivity of financial assets and liabilities. An analysis of sensitivity of profit or loss and equity (net of taxes) to changes in interest rates (repricing risk) based on a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves and positions of interest bearing assets and liabilities existing as at 31 December 2012 and 2011 is as follows:

	2012		**2011**	
	Profit or loss RUB'000	**Equity RUB'000**	**Profit or loss RUB'000**	**Equity RUB'000**
100 bp parallel fall	(21 685)	(21 685)	(15 551)	(15 551)
100 bp parallel rise	21 685	21 685	15 551	15 551

An analysis of sensitivity of profit or loss and equity (net of taxes) as a result of changes in the fair value of financial instruments at fair value though profit or loss and financial assets available-for-sale due to changes in the interest rates based on positions existing as at 31 December 2012 and 2011 and a simplified scenario of a 100 bp symmetrical fall or rise in all yield curves is as follows:

	2012		**2011**	
	Profit or loss RUB'000	**Equity RUB'000**	**Profit or loss RUB'000**	**Equity RUB'000**
100 bp parallel fall	42 009	45 528	47 438	55 885
100 bp parallel rise	(43 693)	(47 359)	(45 609)	(53 809)

Currency risk

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

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign currency exchange rates.

The following table shows the currency structure of assets and liabilities as at 31 December 2012:

RUB'000	RUB	USD	EUR	Other currencies	Total
ASSETS					
Cash and cash equivalents	1 092 110	547 811	1 500 409	493	3 140 823
Mandatory reserve deposit in the Central Bank of the Russian Federation	248 783	-	-	-	248 783
Loans to banks	1 439 237	-	-	-	1 439 237
Financial instruments at fair value through profit or loss	3 938 477	189 753	-	-	4 128 230
Loans to customers	12 272 449	1 030 535	220 073	-	13 523 057
Available-for-sale financial assets	1 020 023	-	-	-	1 020 023
Property, equipment and intangible assets	247 828	-	-	-	247 828
Investment property	2 007 136	-	-	-	2 007 136
Assets held-for-sale	33 637	-	-	-	33 637
Current tax assets	41 732	-	-	-	41 732
Other assets	102 898	679	370	-	103 947
Total assets	**22 444 310**	**1 768 778**	**1 720 852**	**493**	**25 934 433**
LIABILITIES					
Deposits and balances from banks	2 345 564	-	-	-	2 345 564
Current accounts and deposits from customers	14 461 804	2 281 262	1 733 926	1 809	18 478 801
Promissory notes	342 933	121 540	-	-	464 473
Other borrowed funds	773 066	-	-	-	773 066
Deferred tax liabilities	252 798	-	-	-	252 798
Other liabilities	13 870	1 409	1 175	-	16 454
Total liabilities	**18 190 035**	**2 404 211**	**1 735 101**	**1 809**	**22 331 156**
Net position	**4 254 275**	**(635 433)**	**(14 249)**	**(1 316)**	**3 603 277**
The effect of spot transactions held for risk management	**(623 626)**	**619 603**	**4 023**	**-**	**-**
Net position after spot transactions held for risk management purposes	**3 630 649**	**(15 830)**	**(10 226)**	**(1 316)**	**3 603 277**

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

RUB'000	RUB	USD	EUR	Other currencies	Total
ASSETS					
Cash and cash equivalents	1 270 714	184 589	358 360	3 580	1 817 243
Mandatory reserve deposit in the Central Bank of the Russian Federation	195 828	-	-	-	195 828
Loans to banks	1 314 094	2 254	415	-	1 316 763
Financial instruments at fair value through profit or loss	5 189 887	296 734	246 865	-	5 733 486
Loans to customers	8 432 590	986 036	282 138	-	9 700 764
Available-for-sale financial assets	932 079	-	-	-	932 079
Property, equipment and intangible assets	282 042	-	-	-	282 042
Assets held-for-sale	1 152 292	-	-	-	1 152 292
Current tax assets	42 173	-	-	-	42 173
Other assets	94 045	-	-	-	94 045
Total assets	**18 905 744**	**1 469 613**	**887 778**	**3 580**	**21 266 715**
LIABILITIES					
Deposits and balances from banks	1 451	-	-	-	1 451
Current accounts and deposits from customers	14 938 878	1 111 977	886 706	16 270	16 953 831
Promissory notes	360 937	127 216	-	-	488 153
Other borrowed funds	773 066	-	-	-	773 066
Deferred tax liabilities	7 804	-	-	-	7 804
Other liabilities	25 040	1 118	2	-	26 160
Total liabilities	**16 107 176**	**1 240 311**	**886 708**	**16 270**	**18 250 465**
Net position	**2 798 568**	**229 302**	**1 070**	**(12 690)**	**3 016 250**
The effect of spot transactions held for risk management	**139 519**	**(139 519)**	**-**	**-**	**-**
Net position after spot transactions held for risk management purposes	**2 938 087**	**89 783**	**1 070**	**(12 690)**	**3 016 250**

Strengthening of the RUB, as indicated below, against the following currencies at 31 December 2012 and 2011 would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis is on net of tax basis and is based on foreign currency exchange rate variances that the Bank considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

	2012		**2011**	
	Profit or loss RUB'000	**Equity RUB'000**	**Profit or loss RUB'000**	**Equity RUB'000**
10% appreciation of RUB against USD	1 266	1 266	(7 182)	(7 182)
10% appreciation of RUB against EUR	818	818	(86)	(86)

Weakening of the RUB against the above currencies at 31 December 2012 and 2011 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

Equity price risk

Equity price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or factors affecting all instruments traded in the market. Equity price risk arises when the Bank takes a long or short position in an equity financial instrument.

An analysis of sensitivity of profit or loss and equity (net of taxes) to changes in equity securities prices based on positions existing as at 31 December 2012 and 2011 and a simplified scenario of a 10% change in securities prices is as follows:

	2011		**2010**	
	Net profit RUB’000	**Equity RUB’000**	**Net profit RUB’000**	**Equity RUB’000**
10% increase in equity securities prices	-	48 000	-	-
10% decrease in equity securities prices	-	(48 000)	-	-

Credit risk

Credit risk is the risk of financial loss occurring as a result of default by a borrower or counterparty on their obligation to the Bank. The Bank has policies and procedures for the management of credit exposures (both for recognised financial assets and unrecognised contractual commitments), including guidelines to limit portfolio concentration and the establishment of Credit Committees, which actively monitor credit risk. The credit policy is reviewed and approved by the Management Board.

The credit policy establishes:

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

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

The Bank continuously monitors the performance of individual credit exposures and regularly reassesses the creditworthiness of its borrowers. The review is based on the borrower’s most recent financial statements and other information submitted by the borrower, or otherwise obtained by the Bank.

Retail loan applications are reviewed by the Retail Lending Department through the use of scoring models and application data verification procedures developed together with the Risk Department. Apart from individual borrower analysis, the credit portfolio is assessed by the Risk Department with regard to credit concentration and market risks.

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

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

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

	2012 RUB'000	2011 RUB'000
ASSETS		
Cash and cash equivalents	2 338 017	960 224
Mandatory reserve deposit in the Central Bank of the Russian Federation	248 783	195 828
Loans to banks	1 439 237	1 316 763
Financial instruments at fair value through profit or loss	4 128 230	5 733 486
Loans to customers	13 523 057	9 700 764
Available-for-sale financial assets	420 023	932 079
Other financial assets	3 583	6 646
Total maximum exposure	**22 100 930**	**18 845 790**

The Bank holds collateral against loans to customers in the form of real estate, other assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired.

Collateral generally is not held against claims under derivative financial instruments, investments in securities, and loans to banks, except when securities are held as part of reverse repurchase agreements.

The maximum exposure to credit risk from financial instruments, not reflected in the statement of financial position, at the reporting date is presented in note 28.

The Bank monitors concentrations of credit risk by industry/sector and by geographic location. For the analysis of concentration of credit risk in respect of loans to customers refer to note 16.

As at 31 December 2012, the Bank has no debtors or groups of related debtors (2011: no debtors), credit risk exposure to whom individually exceeds 10% of maximum credit risk exposure.

Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in raising funds to meet its commitments. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to liquidity management. It is unusual for financial institutions ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

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

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

The liquidity management policy requires:

- projecting cash flows by major currencies and considering the level of liquid assets necessary in relation thereto
- maintaining a diverse range of funding sources

- managing the concentration and profile of debts
- maintaining debt financing plans
- maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any interruption to cash flow
- maintaining liquidity and funding contingency plans
- monitoring liquidity ratios against regulatory requirements.

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

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

The Bank locally also calculates mandatory liquidity ratios on a daily basis in accordance with the requirement of the CBR. The Bank was in compliance with these ratios during the years ended 31 December 2011 and 2012.

The following tables show the undiscounted cash flows on financial liabilities and credit-related commitments on the basis of their earliest possible contractual maturity. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee can be called.

In accordance with Russian legislation, individuals can withdraw their term deposits at any time, forfeiting in most of the cases the accrued interest. Accordingly, these deposits, are shown in the category of "Demand and less than 1 month". The amount of such deposits, by each time band, is as follows:

	2012 **RUB'000**	**2011** **RUB'000**
Less than 1 month	1 195 329	1 065 998
From 1 to 3 months	737 600	1 823 441
From 3 to 6 months	2 176 791	588 598
From 6 to 12 months	2 482 917	1 706 212
More than 1 year	3 627 630	4 035 158
	10 220 267	**9 219 407**

The maturity analysis for financial liabilities as at 31 December 2012 is as follows:

RUB'000	Demand and less than1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Total gross amount outflow	Carrying amount
Financial liabilities						
Deposits and balances from banks	2 348 804	-	-	-	2 348 804	2 345 564
Current accounts and deposits from customers	14 209 378	1 835 786	2 322 249	1 460 379	19 827 792	18 478 801
Promissory notes	9 737	114 209	37 455	354 765	516 166	464 473
Other borrowed funds	-	34 099	34 474	1 936 190	2 004 763	773 066
Other financial liabilities	3 947	238	885	-	5 070	5 070
Total financial liabilities	**16 571 866**	**19 845 332**	**2 395 063**	**3 751 334**	**24 702 595**	**22 066 974**
Credit related commitments	**2 805 983**	**-**	**-**	**-**	**2 805 983**	**2 805 983**

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

RUB'000	Demand and less than1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Total gross amount outflow	Carrying amount
Financial liabilities						
Deposits and balances from banks	11	1 440	-	-	1 451	1 451
Current accounts and deposits from customers	15 243 087	614 179	1 061 174	432 990	17 351 430	16 953 831
Promissory notes	130 625	14 538	44 312	356 661	546 136	488 153
Other borrowed funds	-	34 287	34 192	1 231 697	2 073 242	773 066
Other financial liabilities	8 849	4 778	-	-	13 627	13 627
Total financial liabilities	**15 382 572**	**669 222**	**1 139 678**	**2 021 348**	**19 985 886**	**18 230 128**
Credit related commitments	**2 314 639**	**-**	**-**	**-**	**2 314 639**	**2 314 639**

The table below shows an analysis, by expected maturities, of the amounts recognised in the statement of financial position as at 31 December 2012:

RUB'000	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	No maturity/ Overdue	Total
ASSETS						
Cash and cash equivalents	3 140 823	-	-	-	-	3 140 823
Mandatory reserve deposit in the Central Bank of the Russian Federation	29 097	70 943	60 439	88 304	-	248 783
Loans to banks	1 000 723	293 344	-	145 170	-	1 439 237
Financial instruments at fair value through profit or loss	4 128 230	-	-	-	-	4 128 230
Loans to customers	759 628	3 136 934	839 926	8 763 465	23 104	13 523 057
Available-for-sale financial assets	-	118 254	-	301 769	600 000	1 020 023
Property, equipment and intangible assets	-	-	-	-	247 828	247 828
Investment property	-	-	-	-	2 007 136	2 007 136
Assets held-for-sale	-	-	33 637	-	-	33 637
Current tax assets	-	41 732	-	-	-	41 732
Other assets	61 734	32 356	929	8 928	-	103 947
Total assets	**9 120 235**	**3 693 563**	**934 931**	**9 307 636**	**2 878 068**	**25 934 433**
LIABILITIES						
Deposits and balances from banks	2 345 564	-	-	-	-	2 345 564
Current accounts and deposits from customers	5 099 255	4 407 718	4 449 352	4 522 476	-	18 478 801
Promissory notes	7 538	103 417	21 555	331 963	-	464 473
Other borrowed funds	-	-	-	773 066	-	773 066
Deferred tax liabilities	-	-	-	-	252 798	252 798
Other liabilities	4 838	10 344	885	387	-	16 454
Total liabilities	**7 457 195**	**4 521 479**	**4 471 792**	**5 627 892**	**252 798**	**22 331 156**
Net position	**1 663 040**	**(827 916)**	**(3 536 861)**	**3 679 744**	**2 625 270**	**3 603 277**

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

RUB'000	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	No maturity/ Overdue	Total
ASSETS						
Cash and cash equivalents	1 817 243	-	-	-	-	1 817 243
Mandatory reserve deposit in the Central Bank of the Russian Federation	22 643	51 244	36 241	85 710	-	195 828
Loans to banks	1 316 763	-	-	-	-	1 316 763
Financial instruments at fair value through profit or loss	5 733 486	-	-	-	-	5 733 486
Loans to customers	637 874	3 499 880	1 641 971	3 865 219	55 820	9 700 764
Available-for-sale financial assets	-	-	539 501	392 578	-	932 079
Property, equipment and intangible assets	-	-	-	-	282 042	282 042
Assets held-for-sale	-	-	1 152 292	-	-	1 152 292
Current tax assets	-	42 173	-	-	-	42 173
Other assets	12 893	75 576	2 763	2 813	-	94 045
Total assets	**9 540 902**	**3 668 863**	**3 372 768**	**4 346 320**	**337 862**	**21 266 715**
LIABILITIES						
Deposits and balances from banks	11	1 440	-	-	-	1 451
Current accounts and deposits from customers	7 086 003	2 976 361	2 470 366	4 421 101	-	16 953 831
Promissory notes	128 241	6 920	20 561	332 431	-	488 153
Other borrowed funds	-	-	-	773 066	-	773 066
Deferred tax liabilities	-	-	-	-	7 804	7 804
Other liabilities	13 363	12 362	376	59	-	26 160
Total liabilities	**7 227 618**	**2 997 083**	**2 491 303**	**5 526 657**	**7 804**	**18 250 465**
Net position	**2 313 284**	**671 780**	**881 465**	**(1 180 337)**	**330 058**	**3 016 250**

Financial instruments at fair value through profit or loss are classified into the category "Demand and less than 1 month", as these financial instruments are trading in nature and in management's opinion this approach best reflects the position of the Bank on liquidity.

As at 31 December 2012, the contractual maturities of financial instruments at fair value through profit or loss are as follows: RUB 683 438 thousand - "From 1 to 6 months"; RUB 859 669 thousand - "From 6 to 12 months"; and RUB 2 585 123 thousand - "More than 1 year".

As at 31 December 2011, the contractual maturities of financial instruments at fair value through profit or loss are as follows: RUB 1 093 889 thousand - "Demand and less than 1 month", RUB 463 202 thousand - "From 1 to 6 months"; RUB 297 412 thousand - "From 6 to 12 months"; and RUB 3 878 983 thousand - "More than 1 year".

As basic liquidity risk management tool, the Bank calculates mandatory liquidity ratios in accordance with the requirements of the CBR. These ratios include:

- instant liquidity ratio (N2), which is calculated as the ratio of highly liquid assets to liabilities payable on demand
- current liquidity ratio (N3), which is calculated as the ratio of liquid assets to liabilities maturing within 30 calendar days
- long-term liquidity ratio (N4), which is calculated as the ratio of assets maturing after 1 year to the equity and liabilities maturing after 1 year.

The Bank was in compliance with these ratios during the years ended 31 December 2012 and 2011. The following table shows the mandatory liquidity ratios calculated as at 31 December 2012 and 2011.

	2012	**2011**
Instant liquidity ratio (N2) (not less than 15%)	117.16%	67.05%
Current liquidity ratio (N3) (not less than 50%)	135.44%	121.60%
Long-term liquidity ratio (N4) (not more than 120%)	79.88%	38.57%

27 Capital management

The CBR sets and monitors capital requirements for the Bank.

The Bank defines as capital those items defined by statutory regulation as capital for credit institutions. Under the current capital requirements set by the CBR, banks have to maintain a ratio of capital to risk weighted assets (statutory capital ratio) above the prescribed minimum level. As at 31 December 2012, this minimum level is 10%.

The Bank is in compliance with the statutory capital ratio during the years ended 31 December 2012 and 2011.

	2012 RUB'000	**2011 RUB'000**
Primary capital	2 323 619	2 295 219
Additional capital	773 066	773 066
Total capital	**3 096 685**	**3 068 285**
Capital adequacy ratio (%)	**11.92%**	**16.36%**

28 Commitments

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

The Bank provides financial guarantees to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to three years.

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

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

	2012 RUB’000	2011 RUB’000
Contracted amount		
Unused loans and overdrafts	2 307 611	590 616
Guarantees issued	498 372	1 724 023
Total credit related commitments	**2 805 983**	**2 314 639**

The total outstanding contractual commitments above do not necessarily represent future cash requirements, as these commitments may expire or terminate without being funded. The majority of loan and credit line commitments do not represent an unconditional commitment by the Bank.

29 Operating leases

Leases as lessee

Non-cancelable operating lease rentals as at 31 December are payable as follows:

	2012 RUB’000	2011 RUB’000
Less than 1 year	147 565	139 666
Between 1 and 5 years	318 521	369 763
	466 086	**509 429**

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

During 2012 RUB 138 611 thousand is recognised as an expense in profit or loss in respect of operating leases (2011: RUB 131 190 thousand).

30 Contingencies

Insurance

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

Litigation

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

Taxation contingencies

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

Starting from 1 January 2012 new transfer pricing rules came into force in Russia. They provide the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controllable transactions if their prices deviate from the market interval or profitability range. According to the provisions of transfer pricing rules, the taxpayer should sequentially apply 5 methods of market price determination prescribed by the Tax Code.

Controlled transactions between two individual related entities, one within the Russian Federation and one in an overseas jurisdiction are only subject to the transfer pricing legislation if the aggregate activity between the two entities (determined based on arm's length prices) exceeds RUB 100 million for 2012, RUB 80 million for 2013, and all transactions despite their volume for the subsequent years. The definition of a foreign entity includes a Russian branch or representative office of a foreign company.

Tax liabilities arising from transactions between companies are determined using actual transaction prices. It is possible with the evolution of the interpretation of the transfer pricing rules in the Russian Federation and the changes in the approach of the Russian tax authorities, that such transfer prices could be challenged.

Given the short period since the current Russian transfer pricing rules became effective, the impact of any such challenge cannot be reliably estimated; management believes that it should not significantly affect the financial position and/or the overall operations of the Bank.

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

31 Related party transactions

Control relationships

Banking transactions are entered into in the normal course of business with the shareholders of the Bank, members of the Board of Directors and the Management Board, entities that are under common control with the Bank, and other entities that are significantly influenced by the Bank's shareholders, members of the Board of Directors and the Management Board. These transactions include settlements, loans and deposits taking. The outstanding balances and average effective interest rates as of 31 December 2012 and 2011 as well as related income and expenses on transactions with the related parties are as follows:

	2012 RUB'000				2011 RUB'000			
	Members of the Board of Directors and the Management Board	**Average effective interest rate**	**Other entities**	**Average effective interest rate**	**Members of the Board of Directors and the Management Board**	**Average effective interest rate**	**Other entities**	**Average effective interest rate**
Statement of financial position								
ASSETS								
Loans to customers								
Gross loans to customers	164	21.00%	214 138	10.85%	705	18.50%	904 735	9.93%
Impairment allowance	-	-	(3 102)	-	(117)	-	(13 433)	-
LIABILITIES								
Current accounts and deposits from customers								
Current accounts	9 565	0.00%	35 129	0.00%	10 042	0.0%	53 682	0.0%
Term deposits	1 344 243	5.39%	-	-	893 817	6.70%	53 222	5.90%
Statement of comprehensive income								
Interest income	-	-	63 119	-	524	-	47 624	-
Interest expense	(71 632)	-	(20)	-	(68 433)	-	(826)	-
Recovery of (charge for) impairment on loans to customers	117	-	10 331	-	(117)	-	(12 131)	-
Commission income	1 771	-	7 455	-	-	-	-	-

In 2012 and 2011 the total remuneration of the members of the Board of Directors and the Management Board of the Bank amounted to RUB 164 745 thousand and RUB 146 953 thousand, respectively.

Loans issued to related parties are in Russian Roubles and have the following maturities:

	2012 RUB'000	**2011 RUB'000**
Less than 1 month	11 283	10 169
From 1 to 6 months	146 541	825 324
From 6 to 12 months	1 167	-
More than 1 year	55 311	69 947
	214 302	**905 440**

Loans issued to related parties are collateralized by pledge of vehicles and real estate.

32 Financial assets and liabilities: fair values and accounting classifications

Accounting classifications and fair values

The Bank has performed an assessment of its financial instruments, as required by IFRS 7 *Financial Instruments: Disclosures*.

The estimated fair values of financial instruments at fair value through profit or loss and quoted available-for-sale financial assets, are based on quoted market prices at the reporting date without any deduction for transaction costs.

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

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

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2012 and 31 December 2011:

	2012		**2011**	
	Fair value RUB'000	**Carrying amount RUB'000**	**Fair value RUB'000**	**Carrying amount RUB'000**
ASSETS				
Cash and cash equivalents	3 140 823	3 140 823	1 817 243	1 817 243
Mandatory reserve deposit in the Central Bank of the Russian Federation	248 783	248 783	195 828	195 828
Loans to banks	1 439 237	1 439 237	1 316 763	1 316 763
Financial instruments at fair value through profit or loss	4 128 230	4 128 230	5 733 486	5 733 486
Loans to customers	13 100 185	13 523 057	9 252 453	9 700 764
Available-for-sale financial assets	1 020 023	1 020 023	932 079	932 079
Other financial assets	3 583	3 583	6 646	6 646
LIABILITIES				
Deposits and balances from banks	2 345 564	2 345 564	1 451	1 451
Current accounts and deposits from customers	19 444 547	18 478 801	17 243 741	16 953 831
Promissory notes	464 473	464 473	488 153	488 153
Other borrowed funds	773 066	773 066	773 066	773 066
Other financial liabilities	10 727	10 727	19 899	19 899

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premium used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

Significant assumptions in valuation of loans to customer and current accounts and deposits from customers relate to average effective discount rates. Average effective discount rates for loans to customers as at 31 December 2012 and 2011 comprised 13.43% and 12.05%, respectively. Average effective discount rates for current accounts and deposits from customers as at 31 December 2012 and 2011 comprised 8.14% and 8.42%, respectively.

For more complex instruments, the Bank uses own valuation models and/or estimation are based on models of independent appraisal companies.

Fair value hierarchy

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

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

The table below analyses financial instruments measured at fair value at 31 December 2012, by the level in the fair value hierarchy into which the fair value measurement is categorised:

	Level 1	**Level 2**	**Total**
Financial instruments at fair value through profit or loss	4 128 230	-	4 128 230
Available-for-sale financial assets	1 020 023	-	1 020 023
Total financial instruments	**5 148 253**	**-**	**5 148 253**

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

	Level 1	**Level 2**	**Total**
Financial instruments at fair value through profit or loss	4 183 335	1 550 151	5 733 486
Available-for-sale financial assets	932 079	-	932 079
Total financial instruments	**5 115 414**	**1 550 151**	**6 665 565**

Kornev Vasiliy Aleksandrovich
Chairman of the Management Board

Khmeleva Svetlana Aleksandrovna
Chief Accountant