GROUP OF JOINT-STOCK COMMERCIAL BANK TRANSCAPITALBANK (CLOSED JOINT STOCK COMPANY)

International Financial Reporting Standards Consolidated Financial Statements and Independent Auditor's Report

31 December 2012

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CONSOLIDATED FINANCIAL STATEMENTS

Independent Auditor's Report

To the Shareholders and Board of Directors of Joint-Stock Commercial Bank "Transcapitalbank" (Closed Joint Stock Company):

We have audited the accompanying consolidated financial statements of Joint-Stock Commercial Bank "Transcapitalbank" and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2012 and the consolidated 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 Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

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Opinion

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

ZAO PricewaterhouseCoopers

17 April 2013

Moscow, Russian Federation

O. Kucherova, Director (licence no. 01-000397), ZAO PricewaterhouseCoopers Audit

Audited entity: Joint-Stock Commercial Bank "Transcapitalbank".

State registration certificate № 2210, issued by the Central Bank of the Russian Federation on 24 December 1992.

27/35 Vorontsovskaya Str., 109147 Moscow, Russian Federation.

Independent auditor: ZAO PricewaterhouseCoopers Audit
State registration certificate № 008.890, issued by the Moscow Registration Chamber on 28 February 1992

Certificate of inclusion in the Unified State Register of Legal Entities issued on 22 August 2002 under registration № 1027700148431

Certificate of membership in self regulated organisation non-profit partnership "Audit Chamber of Russia" № 870. ORNZ 10201003683 in the register of auditors and audit organizations

In thousands of Russian Roubles	Note	31 December 2012	31 December 2011
Assets			
Cash and cash equivalents	7	10 479 733	11 337 912
Mandatory cash balances with CBRF		1 060 146	898 088
Due from other banks		150 795	152 825
Trading securities	8	10 115 748	12 489 951
Repurchase receivables related to trading securities	8	1 336 840	-
Loans and advances to customers	9	90 553 197	75 358 115
Investment in associate	10	69 718	96 882
Current tax prepayment		-	93 077
Deferred tax asset	20	229 730	270 982
Intangible assets	11	170 292	136 912
Premises and equipment	11	932 108	915 214
Other financial assets		55 768	234 900
Other assets		440 830	261 263
Total assets		**115 594 905**	**102 246 121**
Liabilities			
Due to other banks	12	21 932 653	16 429 513
Customer accounts	13	65 580 171	61 818 208
Debt securities in issue	14	7 415 678	7 704 966
Current tax liability		47 303	-
Deferred tax liability	20	77 984	79 826
Other financial liabilities		211 370	74 907
Other liabilities		268 191	199 726
Subordinated debt	15	6 846 770	4 806 630
Total liabilities		**102 380 120**	**91 113 776**
EQUITY			
Share capital	16	2 448 128	2 444 642
Share premium	16	4 012 406	4 012 406
Translation reserve		(5 520)	(2 424)
Retained earnings		6 759 771	4 677 142
Net assets attributable to the Bank's equity holders		**13 214 785**	**11 131 766**
Non-controlling interest		**-**	**579**
Total equity		**13 214 785**	**11 132 345**
Total liabilities and equity		**115 594 905**	**102 246 121**

Approved for issue and signed on 17 April 2013.

O.V.Gryadovaya
Chairperson of the Board

S.M.Golovanova
Chief Accountant

In thousands of Russian Roubles	Note	2012	2011
Interest income	17	11 142 891	8 511 288
Interest expense	17	(5 462 101)	(4 063 808)
Net interest income		**5 680 790**	**4 447 480**
Provision for loan impairment	9	(777 867)	(2 085 467)
Net interest income after provision for loan impairment		**4 902 923**	**2 362 013**
Fee and commission income	18	1 540 310	1 451 395
Fee and commission expense	18	(289 246)	(230 416)
Gains less losses from trading securities		252 048	(181 436)
Gains less losses from trading in foreign currencies		476 385	492 168
Gain less losses from financial derivatives		(707 746)	(72 047)
Foreign exchange translation gains less losses		24 275	(207 079)
Provision for credit related commitments	24	(600)	500
Other provisions		(37 761)	(58 308)
Other operating income		98 131	132 494
Administrative and other operating expenses	19	(3 649 505)	(3 001 572)
Profit before tax		**2 609 214**	**687 712**
Income tax expense		(526 458)	(141 507)
Profit for the year		**2 082 756**	**546 205**
Other comprehensive income:			
Exchange differences on translation to the presentation currency	10	(3 870)	3 590
Income tax recorded directly in other comprehensive income	20	774	(718)
Other comprehensive income for the year	**20**	**(3 096)**	**2 872**
Total comprehensive income for the year		**2 079 660**	**549 077**
Profit is attributable to:			
- Owners of the Bank		2 082 756	550 782
- Non-controlling interest		-	(4 577)
Profit for the year		**2 082 756**	**546 205**
Total comprehensive income is attributable to:			
- Owners of the Bank		2 079 660	553 654
- Non-controlling interest		-	(4 577)
Total comprehensive income for the year		**2 079 660**	**549 077**

In thousands of Russian Roubles	**Share capital**	**Share premium**	**Retained earnings**	**Translation reserve**	**Total**	**Non-controlling interest**	**Total equity**
Balance at 1 January 2011	**2 174 336**	**2 282 718**	**4 126 360**	**(5 296)**	**8 578 118**	**5 156**	**8 583 274**
Profit for the year	-	-	550 782	-	550 782	(4 577)	546 205
Other comprehensive income	-	-	-	2 872	2 872	-	2 872
Total comprehensive income for the year	-	-	550 782	2 872	553 654	(4 577)	549 077
Share issue	270 306	1 729 688	-	-	1 999 994	-	1 999 994
Balance at 1 January 2012	**2 444 642**	**4 012 406**	**4 677 142**	**(2 424)**	**11 131 766**	**579**	**11 132 345**
Profit for the year	-	-	2 082 756	-	2 082 756	-	2 082 756
Other comprehensive income	-	-	-	(3 096)	(3 096)	-	(3 096)
Total comprehensive income for the year	-	-	2 082 756	(3 096)	2 079 660	-	2 079 660
Disposal of subsidiary	-	-	(127)	-	(127)	(579)	(706)
Acquisition of treasury shares	(4 600)	-	-	-	(4 600)	-	(4 600)
Sale of treasury shares	8 086	-	-	-	8 086	-	8 086
Balance at 31 December 2012	**2 448 128**	**4 012 406**	**6 759 771**	**(5 520)**	**13 214 785**	**-**	**13 214 785**

In thousands of Russian Roubles	**Note**	**2012**	**2011**
Cash flow from operating activities			
Interest received		11 150 913	8 443 773
Interest paid		(5 522 421)	(3 686 266)
Fees and commissions received		1 643 816	1 446 023
Fees and commissions paid		(287 429)	(228 089)
Income received from trading in trading securities		(49 976)	(1 842)
Income received from trading in foreign currencies		476 385	492 168
Losses less gains from financial derivativs		(617 840)	(142 116)
Other operating income received		96 480	97 445
Administrative and other operating expenses paid		(3 433 204)	(2 801 070)
Income tax paid		(345 894)	(340 782)
Cash flows from operating activities before changes in operating assets and liabilities		**3 110 830**	**3 279 244**
Net (increase)/decrease in:			
- mandatory cash balances with the CBR		(162 058)	(524 910)
- trading securities and repurachaise receivables related to trading securities		1 271 087	(1 922 026)
- due from other banks		(984)	(130 993)
- loans and advances to customers		(16 565 058)	(23 650 367)
- other assets		(30 134)	218 605
Net increase/(decrease) in:			
- due to other banks		5 615 162	3 177 086
- customer accounts		4 308 865	18 842 663
- debt securities in issue		(250 811)	1 429 338
- other liabilities		(20 494)	(50 167)
Net (used in)/ cash from operating activities		**(2 723 595)**	**668 473**
Cash flows used in investing activities			
Acquisition of premises, equipment and intangible assets	11	(237 814)	(256 654)
Proceeds from disposal of premises and equipment		1 296	468
Net cash used in investing activities		**(236 518)**	**(256 186)**
Cash flows from financing activities			
Proceeds from subordinated debt		2 250 201	226 255
Repayment of subordinated debt		-	-
Issue of ordinary shares	16	-	1 999 994
Disposal of subsidiary		(705)	-
Acquisition of treasury shares	16	(4 600)	-
Sale of treasury shares	16	8 086	-
Net cash from financing activities		**2 252 982**	**2 226 249**
Effect of exchange rate changes on cash and cash equivalents		(151 048)	212 667
Net (decrease)/ increase in cash and cash equivalents		**(858 179)**	**2 851 203**
Cash and cash equivalents at beginning of the year	7	**11 337 912**	**8 486 709**
Cash and cash equivalents as at 31 December 2012	7	**10 479 733**	**11 337 912**

1 Introduction

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) for the year ended 31 December 2012 for Join-Stock Commercial Bank “Transcapitalbank” (the “Bank”) and its subsidiaries (together referred to as the “Group”).

The Bank was incorporated and is domiciled in the Russian Federation. The Bank is a joint stock company limited by shares and was set up in accordance with Russian regulations.

As at 31 December 2012 and 31 December 2011 the following shareholders owned more than 5% of the outstanding shares:

Shareholder	31 December 2012	31 December 2011
European Bank for Reconstruction and Development	28.59%	28.59%
Olga Viktorovna Gryadovaya	21.85%	21.85%
Leonid Nikolaevich Ivanovsky	12.16%	12.16%
Deutsche Investitions und Entwicklungsgesells	9.14%	9.14%
International Finance Corporation	7.72%	7.72%
Other (less than 5% individually)	20.54%	20.54%
Total	**100.00%**	**100.00%**

Principal activity. The Group’s principal business activity is banking operations within the Russian Federation. The Bank has operated under a full banking licence issued by the Central Bank of the Russian Federation (“CBRF”) since 1992. The Bank operates under license number 2210. The Bank participates in the state deposit insurance scheme, which was introduced by Federal Law №177-FZ “Deposits of individuals insurance in Russian Federation” dated 23 December 2003. The State Deposit Insurance Agency guarantees repayment of 100% of individual deposits up to RR 700 thousand per individual in the case of the withdrawal of a licence of a bank or a CBRF imposed moratorium on payments.

As at 31 December 2012 the Bank had 19 (2011: 18) branches within the Russian Federation. The number of the Group’s employees as at 31 December 2012 was 2 248 (2011: 2 056).

Registered address and place of business. The Bank’s registered address is: Russian Federation, 109147 Moscow, 27/35 Vorontsovskaya Str. The Bank’s main place of business is: Russian Federation 105062 Moscow, 24/2 Pokrovka Str.

Presentation currency. These consolidated financial statements are presented in Russian Roubles ("RR"), unless otherwise stated.

2 Operating Environment of the Group

Russian Federation. The Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to varying interpretation. Refer to Note 24.

The ongoing uncertainty and volatility of the financial markets, in particular in Europe, and other risks could have significant negative effects on the Russian financial and corporate sectors. Management determined loan impairment provisions using the ‘incurred loss’ model required by the applicable accounting standards. These standards require recognition of impairment losses that arose from past events and prohibit recognition of impairment losses that could arise from future events, including future changes in the economic environment, no matter how likely those future events are. Thus final impairment losses from financial assets could differ significantly from the current level of provisions. Refer to Note 4.

3 Summary of Significant Accounting Policies

Basis of preparation. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value, and by the revaluation of available-for-sale financial assets, and financial instruments categorised at fair value through profit or loss. The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated (refer to Note 4).

Consolidated financial statements. Subsidiaries are those companies and other entities (including special purpose entities) in which the Group, directly or indirectly, has an interest of more than one half of the voting rights, or otherwise has power to govern the financial and operating policies so as to obtain benefits. The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Group, and are deconsolidated from the date on which control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

The Group measures non-controlling interest that represents present ownership interest and entitles the holder to a proportionate share of net assets in the event of liquidation on a transaction by transaction basis, either at: (a) fair value, or (b) the non-controlling interest's proportionate share of net assets of the acquiree. Non-controlling interests that are not present ownership interests are measured at fair value.

Goodwill is measured by deducting the net assets of the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount (“negative goodwill”) is recognised in profit or loss, after management reassesses whether it identified all the assets acquired and all liabilities and contingent liabilities assumed, and reviews appropriateness of their measurement.

The consideration transferred for the acquiree is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed, including fair value of assets or liabilities from contingent consideration arrangements, but excludes acquisition related costs such as advisory, legal, valuation and similar professional services. Transaction costs incurred for issuing equity instruments are deducted from equity; transaction costs incurred for issuing debt are deducted from its carrying amount and all other transaction costs associated with the acquisition are expensed.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Bank and all of its subsidiaries use uniform accounting policies consistent with the Group’s policies.

Non-controlling interest is that part of the net results and of the equity of a subsidiary attributable to interests which are not owned, directly or indirectly, by the Bank. Non-controlling interest forms a separate component of the Group’s equity.

3 Summary of Significant Accounting Policies (Continued)

Associates. Associates are entities over which the Group has significant influence (directly or indirectly), but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights. Investments in associates are accounted for using the equity method of accounting, and are initially recognised at cost. The carrying amount of associates includes goodwill identified on acquisition less accumulated impairment losses, if any. Dividends received from associates reduce the carrying value of the investment in associates. Other post-acquisition changes in Group's share of net assets of an associate are recognised as follows: (i) the Group's share of profits or losses of associates is recorded in the consolidated profit or loss for the year as share of result of associates, (ii) the Group's share of other comprehensive income is recognised in other comprehensive income and presented separately, (iii); all other changes in the Group's share of the carrying value of net assets of associates are recognised in profit or loss within the share of result of associates. However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Disposals of subsidiaries, associates or joint ventures. When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity, are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are recycled to profit or loss.

Financial instruments - key measurement terms. Depending on their classification financial instruments are carried at fair value or amortised cost as described below.

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. Fair value is the current bid price for financial assets and the current asking price for financial liabilities which are quoted in an active market. For assets and liabilities with offsetting market risks, the Group may use mid-market prices as a basis for establishing fair values for the offsetting risk positions, and apply the bid or asking price to the net open position as appropriate. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange or other institution, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees, are used to measure at fair value certain financial instruments for which external market pricing information is not available. Valuation techniques may require assumptions not supported by observable market data. Disclosures are made in these financial statements if changing any such assumptions to a reasonably possible alternative would result in significantly different profit, income, total assets or total liabilities.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the statement of financial position.

3 Summary of Significant Accounting Policies (Continued)

The effective interest method is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

Initial recognition of financial instruments. Trading securities, derivative financial instruments and other securities at fair value through profit and loss are initially recorded at fair value. All other financial instruments are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date on which the Group commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

Derecognition of financial assets. The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership, but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose restrictions on the sale.

Cash and cash equivalents. Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents include all interbank with original maturities of less than three months. Funds restricted for a period of more than three months on origination are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortised cost.

Mandatory cash balances with the Central Bank of the Russian Federation ("CBRF"). Mandatory cash balances with the CBRF are carried at amortised cost and represent non-interest bearing mandatory reserve deposits which are not available to finance the Group's day to day operations and hence are not considered as part of cash and cash equivalents for the purposes of the consolidated statement of cash flows.

Trading securities. Trading securities are financial assets which are either acquired for generating a profit from short-term fluctuations in price or trader's margin, or are securities included in a portfolio in which a pattern of short-term trading exists. The Group classifies securities into trading securities if it has an intention to sell them within a short period after purchase, i.e. within six months Trading securities are not reclassified out of this category even when the Group's intentions subsequently change. The Group may choose to reclassify a non-derivative trading financial asset out of the fair value through the profit or loss category if the asset is no longer held for the purpose of selling it in the near term. Financial assets other than loans and receivables are permitted to be reclassified out of fair value through the profit or loss category only in rare circumstances arising from a single event that is unusual and highly unlikely to reoccur in the near term. Financial assets that would meet the definition of loans and receivables may be reclassified if the Group has the intention and ability to hold these financial assets for the foreseeable future, or until maturity.

3 Summary of Significant Accounting Policies (Continued)

Trading securities are carried at fair value. Interest earned on trading securities calculated using the effective interest method is presented in profit or loss for the year as interest income. Dividends are included in dividend income within when the Group's right to receive the dividend payment is established, and it is probable that the dividends will be collected. All other elements of the changes in the fair value and gains or losses on derecognition are recorded in profit or loss for the year as gains less losses from trading securities in the period in which they arise.

Due from other banks. Amounts due from other banks are recorded when the Group advances money to counterparty banks with no intention of trading the resulting unquoted non-derivative receivable due on fixed or determinable dates. Amounts due from other banks are carried at amortised cost.

Loans and advances to customers. Loans and advances to customers are recorded when the Group advances money to purchase or originate an unquoted non-derivative receivable from a customer due on fixed or determinable dates, and has no intention of trading the receivable. Loans and advances to customers are carried at amortised cost.

Impairment of financial assets carried at amortised cost. Impairment losses are recognised in profit or loss for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Group determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics, and collectively assesses them for impairment. The primary factors that the Group considers in determining whether a financial asset is impaired are its overdue status and realisability of related collateral, if any.

The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred:

- any instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the borrower experiences a significant financial difficulty as evidenced by the borrower's financial information that the Group obtains;
- the borrower considers bankruptcy or a financial reorganisation;
- there is an adverse change in the payment status of the borrower as a result of changes in the national or local economic conditions that impact the borrower; or
- the value of collateral significantly decreases as a result of deteriorating market conditions.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment, are estimated on the basis of the contractual cash flows of the assets and the experience of management in respect of the extent to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods, and to remove the effects of past conditions that do not exist currently.

If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the borrower or issuer, impairment is measured using the original effective interest rate before the modification of terms. The renegotiated asset is then derecognized and a new asset is recognized at its fair value only if the risks and rewards of the asset substantially changed.

This is normally evidenced by a substantial difference between the present values of the original cash flows and the new expected cash flows.

3 Summary of Significant Accounting Policies (Continued)

Impairment losses are always recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss for the year.

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to impairment loss account in profit or loss for the year.

Credit related commitments. The Group issues financial guarantees and commitments to provide loans. Financial guarantees represent irrevocable assurances to make payments in the event that a customer cannot meet its obligations to third parties, and carry the same credit risk as loans. Financial guarantees and commitments to provide a loan are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitment, except for commitments to originate loans if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination; such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition. At the end of each reporting period, the commitments are measured at the higher of (i) the remaining unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at the end of each reporting period. The principal criteria used to determine that there is objective evidence that expenditure to settle the commitment is required are the same to those principal criteria used to determine that there is objective evidence that an impairment loss has occurred for financial assets carried at amortised cost.

Sale and repurchase agreements. Sale and repurchase agreements ("repo agreements"), which effectively provide a lender's return to the counterparty, are treated as secured financing transactions. Securities sold under such sale and repurchase agreements are not derecognised. The securities are not reclassified in the statement of financial position unless the transferee has the right by contract or custom to sell or repledge the securities, in which case they are reclassified as repurchase receivables. The corresponding liability is presented within amounts due to other banks.

Securities purchased under agreements to resell ("reverse repo agreements"), which effectively provide a lender's return to the Group, are recorded as due from other banks or loans and advances to customers, as appropriate. The difference between the sale and repurchase price, adjusted by interest and dividend income collected by the counterparty, is treated as interest income and accrued over the life of repo agreements using the effective interest method.

Premises and equipment. Premises and equipment are stated at cost less accumulated depreciation and provision for impairment where required. The cost of premises and equipment of acquired subsidiaries is the estimated fair value at the date of acquisition.

All other items of premises and equipment are stated at cost less accumulated depreciation and impairment losses, where required.

Costs of minor repairs and maintenance are expensed when incurred. Costs of replacing major parts or components of premises and equipment items are capitalised, and the replaced part is retired.

3 Summary of Significant Accounting Policies (Continued)

At the end of each reporting period management assesses whether there is any indication of impairment of premises and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit or loss for the year. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss for the year (within other operating income or expenses).

Depreciation. Land and construction in progress are not depreciated. Depreciation on other items of premises and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives as follows:

	Useful lives in years
Premises	50
Office and computer equipment	3-10

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Construction in progress is carried at cost less provision for impairment where required. Upon completion, assets are transferred to premises and equipment at their carrying amount. Construction in progress is not depreciated until the asset is available for use.

Intangible assets. The Group's intangible assets other than goodwill have a definite useful life and primarily include licences for capitalised computer software.

Development costs that are directly associated with identifiable and unique software controlled by the Group are recorded as intangible assets if an inflow of incremental economic benefits exceeding costs is probable. Capitalised costs include staff costs of the software development team and an appropriate portion of relevant overheads. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred. Capitalised computer software is amortised on a straight line basis over expected useful lives of 1 to 5 years.

Operating leases. Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments are charged to profit or loss for the year (rental expense) on a straight-line basis over the period of the lease.

Leases embedded in other agreements are separated if (a) fulfilment of the arrangement is dependent on the use of a specific asset or assets and (b) the arrangement conveys a right to use the asset.

Finance lease receivables. Where the Group is a lessor in a lease which transfers substantially all the risks and rewards incidental to ownership to the lessee, the assets leased out are presented as a finance lease receivable and carried at the present value of the future lease payments. Finance lease receivables are initially recognised at commencement (when the lease term begins) using a discount rate determined at inception (the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease).

3 Summary of Significant Accounting Policies (Continued)

The difference between the gross receivable and the present value represents unearned finance income. This income is recognised over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return. Incremental costs directly attributable to negotiating and arranging the lease are included in the initial measurement of the finance lease receivable and reduce the amount of income recognised over the lease term. Finance income from leases is recorded in profit or loss for the year.

Impairment losses are recognised in profit or loss for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of finance lease receivables. The Group uses the same principal criteria to determine whether there is objective evidence that an impairment loss has occurred, as for loans carried at amortised cost. Impairment losses are recognised through an allowance account to write down the receivables' net carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred), discounted at the interest rates implicit in the finance leases. The estimated future cash flows reflect the cash flows that may result from obtaining and selling the assets subject to the lease.

Due to other banks. Amounts due to other banks are recorded when money or other assets are advanced to the Group by counterparty banks. The non-derivative liability is carried at amortised cost. If the Group purchases its own debt, the liability is removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from retirement of debt.

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

Debt securities in issue*.* Debt securities in issue include promissory notes, bonds, certificates of deposit and debentures issued by the Group. Debt securities are stated at amortised cost. If the Group purchases its own debt securities in issue, they are removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains arising from retirement of debt.

Subordinated debt. Subordinated debt is debt which ranks after other debts should a Bank fall into receivership or be closed. Subordinated debt is carried at amortized cost.

Derivative financial instruments. Derivative financial instruments, including foreign exchange contracts, interest rate futures, forward rate agreements, currency and interest rate swaps, and currency and interest rate options are carried at their fair value.

All derivative instruments are carried as assets when fair value is positive, and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss for the year (gains less losses on derivatives). The Group does not apply hedge accounting.

Income taxes. Income taxes have been provided for in the financial statements in accordance with legislation enacted or substantively enacted by the end of the reporting period. The income tax charge comprises current tax and deferred tax and is recognised in profit or loss for the year, except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to, or recovered from, the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if the financial statements are authorised prior to filing relevant tax returns. Taxes other than on income are recorded within administrative and other operating expenses.

3 Summary of Significant Accounting Policies (Continued)

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period, which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group.

Deferred income tax is not recognised on post acquisition retained earnings and other post acquisition movements in reserves of subsidiaries where the Group controls the subsidiary's dividend policy, and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable future.

Uncertain tax positions. The Group's uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period, and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period.

Provisions for liabilities and charges. Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Trade and other payables. Trade payables are accrued when the counterparty has performed its obligations under the contract and are carried at amortised cost.

Share capital. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

Treasury shares. Where the Bank or its subsidiaries purchase the Bank's equity instruments, the consideration paid, including any directly attributable incremental external costs, net of income taxes, is deducted from equity attributable to the owners of the Bank until the equity instruments are reissued, disposed of or cancelled. Where such shares are subsequently disposed of or reissued, any consideration received is included in equity.

Dividends. Dividends are recorded in equity in the period in which they are declared. Any dividends declared after the end of the reporting period and before the financial statements are authorised for issue, are disclosed in the subsequent events note. The statutory accounting reports of the Bank are the basis for profit distribution and other appropriations. Russian legislation identifies the basis of distribution as the current year net profit.

Income and expense recognition. Interest income and expense are recorded for all debt instruments on an accrual basis using the effective interest method. This method defers, as part of interest income or expense, all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

3 Summary of Significant Accounting Policies (Continued)

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents. Commitment fees received by the Group to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. The Group does not designate loan commitments as financial liabilities at fair value through profit or loss.

When loans and other debt instruments become doubtful of collection, they are written down to the present value of expected cash inflows and interest income is thereafter recorded for the unwinding of the present value discount based on the asset's effective interest rate which was used to measure the impairment loss.

All other fees, commissions and other income and expense items are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided. Loan syndication fees are recognised as income when the syndication has been completed and the Group retains no part of the loan package for itself, or retains a part at the same effective interest rate as for the other participants.

Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, and which are earned on execution of the underlying transaction, are recorded on its completion.

Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-proportion basis. Asset management fees relating to investment funds are recorded rateably over the period that the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continually provided over an extended period of time.

Foreign currency translation. The functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. The functional currency of the Bank and its subsidiaries, and the Group's presentation currency, is the national currency of the Russian Federation, Russian Roubles ("RR").

Monetary assets and liabilities are translated into each entity's functional currency at the official exchange rate of the CBRF at the end of the respective reporting period. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities into each entity's functional currency at year-end official exchange rates of the CBRF, are recognised in profit or loss for the year (as foreign exchange translation gains less losses). Translation at year-end rates does not apply to non-monetary items that are measured at historical cost. Non-monetary items measured at fair value in a foreign currency, including equity investments, are translated using the exchange rates at the date when the fair value was determined.

Effects of exchange rate changes on non-monetary items measured at fair value in a foreign currency are recorded as part of the fair value gain or loss.

Loans between group entities and related foreign exchange gains or losses are eliminated upon consolidation. However, where the loan is between group entities that have different functional currencies, the foreign exchange gain or loss cannot be eliminated in full and is recognized in the consolidated profit or loss, unless the loan is not expected to be settled in the foreseeable future and thus forms part of the net investment in foreign operation. In such a case, the foreign exchange gain or loss is recognized in other comprehensive income.

3 Summary of Significant Accounting Policies (Continued)

The results and financial position of each group entity are translated into the presentation currency as follows:

(i) assets and liabilities for each statement of financial position presented are translated at the closing rate at the end of the respective reporting period;

(ii) income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions);

(iii) components of equity are translated at the historic rate; and

(iv) all resulting exchange differences are recognised in other comprehensive income.

When control over a foreign operation is lost, the exchange differences previously recognised in other comprehensive income are reclassified to profit or loss for the year as part of the gain or loss on disposal. On partial disposal of a subsidiary without loss of control, the related portion of accumulated currency translation differences is reclassified to non-controlling interest within equity.

When control over a foreign operation is lost, the previously recognised exchange differences on translation to a different presentation currency are reclassified from other comprehensive income to profit or loss for the year (as gains or losses on disposal of a subsidiary).

At 31 December 2012, the principal rate of exchange used for translating foreign currency balances was USD 1 = RR 30.3727 (2011: USD 1 = RR 32.1961)), EUR 1 = RR 40.2286 (2011: EUR 1 = RR 41.6714).

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

Staff costs and related contributions. Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the Group. The Group has no legal or constructive obligation to make pension or similar benefit payments beyond the payments to the statutory defined contribution scheme

***Segment reporting*.** Segments are reported in a manner consistent with the internal reporting provided to the Group’s chief operating decision maker. Segments whose revenue, result or assets are ten percent or more of all the segments are reported separately.

Amendments of the financial statements after issue. The Board of Directors the power to amend the financial statements after issue.

Changes in presentation of consolidated statement of cash flow. During the year ended 31 December 2012 the management reviewed Group’s consolidated statement of cash flow. As the result of the review the Group revised presentation of consolidated statement of cash flow using direct method to conform to existing best practices for presentation of cash flow statements by financial institutions.

This change in presentation of consolidated cash flow statement had no impact on total comprehensive income and consolidated statement of financial position of the Group as of and for year ended 31 December 2011. Accordingly the Group does not present a third consolidated statement of financial position.

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies

The Group makes estimates and assumptions that affect the amounts recognised in the financial statements, and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Impairment losses on loans and advances. The Group regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in profit or loss for the year, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. A 10% increase or decrease in actual loss experience compared to the loss estimates used would result in an increase or decrease in loan impairment losses of RR 749 187 thousand (2011: RR 777 810 thousand), respectively. Impairment losses for individually significant loans are based on estimates of discounted future cash flows of the individual loans, taking into account repayments and realisation of any assets held as collateral against the loans. A 10% increase or decrease in the actual loss experience compared to the estimated future discounted cash flows from individually significant loans, which could arise from differences in amounts and timing of the cash flows, would result in an increase or decrease in loan impairment losses of RR 207 757 thousand (2011: RR 129 058 thousand), respectively.

5 Adoption of New or Revised Standards and Interpretations

The following new standards and interpretations became effective for the Group from 1 January 2012:

"Disclosures—Transfers of Financial Assets" – Amendments to IFRS 7 (issued in October 2010 and effective for annual periods beginning on or after 1 July 2011). The amendment requires additional disclosures in respect of risk exposures arising from transferred financial assets. The amendment includes a requirement to disclose by class of asset the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party, yet remain on the entity's balance sheet. Disclosures are also required to enable a user to understand the amount of any associated liabilities, and the relationship between the financial assets and associated liabilities. Where financial assets have been derecognised, but the entity is still exposed to certain risks and rewards associated with the transferred asset, additional disclosure is required to enable the effects of those risks to be understood. The standard requires these new disclosures to be presented in a separate note. Refer to Note 25.

Other revised standards and interpretations: The amendments to IFRS 1 "First-time adoption of IFRS", relating to severe hyperinflation and eliminating references to fixed dates for certain exceptions and exemptions, did not have any impact on these financial statements. The amendment to IAS 12 "Income taxes", which introduced a rebuttable presumption that an investment property carried at fair value is recovered entirely through sale, did not have a material impact on these financial statements.

6 New Accounting Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2013 or later, and which the Group has not early adopted.

IFRS 10 "Consolidated Financial Statements" (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), replaces all of the guidance on control and consolidation in IAS 27 "Consolidated and separate financial statements" and SIC-12 "Consolidation – special purpose entities". IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control. This definition is supported by extensive application guidance. The Group is currently assessing the impact of the amended standard on its consolidated financial statements.

IFRS 11 "Joint Arrangements", (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), replaces IAS 31 "Interests in Joint Ventures" and SIC-13 "Jointly Controlled Entities - Non-Monetary Contributions by Venturers". Changes in the definitions have reduced the number of types of joint arrangements to two: joint operations and joint ventures. The existing policy choice of proportionate consolidation for jointly controlled entities has been eliminated. Equity accounting is mandatory for participants in joint ventures. The Group is currently assessing the impact of the new standard on its consolidated financial statements.

IFRS 12 "Disclosure of Interests in Other Entities", (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. It replaces the disclosure requirements currently found in IAS 28 "Investments in associates". IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. To meet these objectives, the new standard requires disclosures in a number of areas, including significant judgements and assumptions made in determining whether an entity controls, jointly controls, or significantly influences its interests in other entities, extended disclosures on share of non-controlling interests in group activities and cash flows, summarised financial information of subsidiaries with material non-controlling interests, and detailed disclosures of interests in unconsolidated structured entities. The Group is currently assessing the impact of the new standard on its consolidated financial statements.

IFRS 13 "Fair Value Measurement", (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), aims to improve consistency and reduce complexity by providing a revised definition of fair value, and a single source of fair value measurement and disclosure requirements for use across IFRSs. The Group is currently assessing the impact of the standard on its consolidated financial statements.

IAS 27 "Separate Financial Statements", (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013), was changed and its objective is now to prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The guidance on control and consolidated financial statements was replaced by IFRS 10 "Consolidated Financial Statements". The Group is currently assessing the impact of the amended standard on its consolidated financial statements.

IAS 28 "Investments in Associates and Joint Ventures", (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013). The amendment of IAS 28 resulted from the Board's project on joint ventures. When discussing that project, the Board decided to incorporate the accounting for joint ventures using the equity method into IAS 28 because this method is applicable to both joint ventures and associates. With this exception, other guidance remained unchanged. The Group is currently assessing the impact of the amended standard on its consolidated financial statements.

Amendments to IAS 1 "Presentation of Financial Statements" (issued in June 2011, effective for annual periods beginning on or after 1 July 2012), changes the disclosure of items presented in other comprehensive income. The amendments require entities to separate items presented in other comprehensive income into two groups, based on whether or not they may be reclassified to profit or loss in the future. The suggested title used by IAS 1 has changed to 'statement of profit or loss and other comprehensive income'. The Group expects the amended standard to change presentation of its consolidated financial statements, but have no impact on measurement of transactions and balances.

6 New Accounting Pronouncements (Continued)

Amended IAS 19 "Employee Benefits" (issued in June 2011, effective for periods beginning on or after 1 January 2013), makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. The standard requires recognition of all changes in the net defined benefit liability (asset) when they occur, as follows: (i) service cost and net interest in profit or loss; and (ii) remeasurements in other comprehensive income. The Group is currently assessing the impact of the amended standard on its consolidated financial statements.

"Disclosures – Offsetting Financial Assets and Financial Liabilities"– Amendments to IFRS 7 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2013). The amendment requires disclosures that will enable users of an entity's consolidated financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off. The amendment will have an impact on disclosures but will have no effect on measurement and recognition of financial instruments.

Improvements to International Financial Reporting Standards (issued in May 2012 and effective for annual periods beginning 1 January 2013). The improvements consist of changes to five standards. IFRS 1 was amended to (i) clarify that an entity that resumes preparing its IFRS financial statements may either repeatedly apply IFRS 1 or apply all IFRSs retrospectively as if it had never stopped applying them, and (ii) to add an exemption from applying IAS 23 "Borrowing costs", retrospectively by first-time adopters. IAS 1 was amended to clarify that explanatory notes are not required to support the third balance sheet presented at the beginning of the preceding period when it is provided because it was materially impacted by a retrospective restatement, changes in accounting policies or reclassifications for presentation purposes, while explanatory notes will be required when an entity voluntarily decides to provide additional comparative statements. IAS 16 was amended to clarify that servicing equipment that is used for more than one period is classified as property, plant and equipment rather than inventory. IAS 32 was amended to clarify that certain tax consequences of distributions to owners should be accounted for in the income statement as was always required by IAS 12. IAS 34 was amended to bring its requirements in line with IFRS 8. IAS 34 will require disclosure of a measure of total assets and liabilities for an operating segment only if such information is regularly provided to chief operating decision maker and there has been a material change in those measures since the last annual consolidated financial statements. The Group is currently assessing the impact of the amendments on its consolidated financial statements.

Transition Guidance Amendments to IFRS 10, IFRS 11 and IFRS 12 (issued in June 2012 and effective for annual periods beginning 1 January 2013). The amendments clarify the transition guidance in IFRS 10 "Consolidated Financial Statements". Entities adopting IFRS 10 should assess control at the first day of the annual period in which IFRS 10 is adopted, and if the consolidation conclusion under IFRS 10 differs from IAS 27 and SIC 12, the immediately preceding comparative period (that is, year 2012 for a calendar year-end entity that adopts IFRS 10 in 2013) is restated, unless impracticable. The amendments also provide additional transition relief in IFRS 10, IFRS 11 "Joint Arrangements" and IFRS 12 "Disclosure of Interests in Other Entities", by limiting the requirement to provide adjusted comparative information only for the immediately preceding comparative period. Further, the amendments will remove the requirement to present comparative information for disclosures related to unconsolidated structured entities for periods before IFRS 12 is first applied. The Group is currently assessing the impact of the amendments on its consolidated financial statements.

Amendments to IFRS 1 "First-time adoption of International Financial Reporting Standards – Government Loans" (issued in March 2012 and effective for annual periods beginning 1 January 2013). The amendments, dealing with loans received from governments at a below market rate of interest, give first-time adopters of IFRSs relief from full retrospective application of IFRSs when accounting for these loans on transition. This will give first-time adopters the same relief as existing preparers. The Group is currently assessing the impact of the amended standard on its consolidated financial statements.

Other revised standards and interpretations: IFRIC 20 "Stripping Costs in the Production Phase of a Surface Mine", considers when and how to account for the benefits arising from the stripping activity in mining industry. The interpretation will not have an impact on the Group's consolidated financial statements.

6 New Accounting Pronouncements (Continued)

Other pronouncements issued by the IASB but not adopted in Russia:

IFRS 9 "Financial Instruments Part 1: Classification and Measurement". IFRS 9, issued in November 2010, replaces those parts of IAS 39 relating to the classification and measurement of financial assets. IFRS 9 was further amended in October 2010 to address the classification and measurement of financial liabilities and in December 2011 to (i) change its effective date to annual periods beginning on or after 1 January 2015 and (ii) add transition disclosures. Key features of the standard are as follows:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent payments of principal and interest only (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.
- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

While adoption of IFRS 9 is mandatory from 1 January 2015, earlier adoption is permitted. The Group is currently assessing the impact of the new standard on its consolidated financial statements.

Amendments to IFRS 10, IFRS 12 and IAS 27 – Investment entities (issued on 31 October 2012 and effective for annual periods beginning 1 January 2014). The amendment introduced a definition of an investment entity as an entity that (i) obtains funds from investors for the purpose of providing them with investment management services, (ii) commits to its investors that its business purpose is to invest funds solely for capital appreciation or investment income and (iii) measures and evaluates its investments on a fair value basis. An investment entity will be required to account for its subsidiaries at fair value through profit or loss, and to consolidate only those subsidiaries that provide services that are related to the entity's investment activities. IFRS 12 was amended to introduce new disclosures, including any significant judgements made in determining whether an entity is an investment entity and information about financial or other support to an unconsolidated subsidiary, whether intended or already provided to the subsidiary. The Group is currently assessing the impact of the amendments on its consolidated financial statements.

"Offsetting Financial Assets and Financial Liabilities" – Amendments to IAS 32 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2014). The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to net settlement. The Group is considering the implications of the amendment, the impact on the Group and the timing of its adoption by the Group.

Unless otherwise described above, the new standards and interpretations are not expected to affect signifycantly the Group's consolidated financial statements.

7 Cash and Cash Equivalents

In thousands of Russian Roubles	31 December 2012	31 December 2011
Cash in hand	2 311 696	1 957 359
Cash balances with the CBRF (other than mandatory reserve deposits)	4 425 874	5 148 764
Correspondent accounts and overnight placements with other banks	1 082 912	2 926 040
Short-term settlements with settlement centers and brokers	1 558 841	658 316
Placements with other banks with original maturities of less than three months	1 100 410	647 433
Total cash equivalents	**10 479 733**	**11 337 912**

The credit quality of cash equivalents balances may be summarised as follows at 31 December 2012:

In thousands of Russian Roubles	Cash balances with the CBRF, excluding mandatory reserves	Correspon-dent accounts and overnight placements	Short-term settlements with settlement centers and brokers	Placements with other banks	Total
Neither past due nor impaired					
- CBRF	4 425 874	-	-	-	4 425 874
- AA- to AA+ rated	-	16 927	-	-	16 927
- A- to A+ rated	-	470 770	-	-	470 770
- BBB- to BBB+ rated	-	73 088	1 540 397	1 000 164	2 613 649
- BB- to BB+ rated	-	366 616	-	-	366 616
- B- to B+ rated	-	1 530	-	-	1 530
- Unrated	-	153 981	18 444	100 246	272 671
Total cash equivalents	**4 425 874**	**1 082 912**	**1 558 841**	**1 100 410**	**8 168 037**

The credit quality of cash equivalents balances at 31 December 2011 is as follows:

In thousands of Russian Roubles	Balances with the CBRF, including mandatory reserves	Correspon-dent accounts and overnight placements	Short-term settlements with settlement centers and brokers	Placements with other banks	Total
Neither past due nor impaired					
- CBRF	5 148 764	-	-	-	5 148 764
- AA- to AA+ rated	-	148 929	-	-	148 929
- A- to A+ rated	-	138 185	-	-	138 185
- BBB- to BBB+ rated	-	39 599	-	-	39 599
- BB- to BB+ rated	-	460 723	-	-	460 723
- B- to B+ rated	-	1 090	-	454 178	455 268
- Unrated	-	2 137 514	658 316	193 255	2 989 085
Total cash and cashequivalents	**5 148 764**	**2 926 040**	**658 316**	**647 433**	**9 380 553**

As of 31 December 2012 short-term settlements with settlement centers and brokers included balances with the National Clearing Centre in the amount of RR 1 540 397 thousand (31 December 2011: RR 548 374 thousand).

7 Cash and Cash Equivalents (Continued)

Operating transactions that did not require the use of cash and cash equivalents and were excluded from the consolidated statement of cash flows are as follows:

In thousands of Russian Roubles	2012	2011
Non-cash operating activities		
Acquisition of repossessed collateral in exchange for loans and advances to customers	69 225	16 717

The repossessed collateral is recognised as other assets.

Geographical, currency, interest rate and maturity analyses of cash and cash equivalents are detailed in Note 22.

8 Trading securities and repurchase receivables related to trading securities

In thousands of Russian Roubles	31 December 2012	31 December 2011
Russian government bonds	9 346 019	12 053 338
Corporate bonds	769 729	367 205
Total debt securities	**10 115 748**	**12 420 543**
Corporate shares	-	69 408
Total trading securities	**10 115 748**	**12 489 951**
Repurchase receivables related to trading securities		
Corporate bonds	1 336 840	-
Total repurchase receivables related to trading securities	**1 336 840**	**-**
Total trading securities and repurchase receivables related to trading securities.	**11 452 588**	**12 489 951**

Trading securities and repurchase receivables related to trading securities are carried at fair value which also reflects any credit risk related write-downs. As trading securities and repurchase receivables related to trading securities are carried at their fair values based on observable market data using bid prices from the Moscow Exchange, the Group does not analyse or monitor impairment indicators.

Analysis by credit quality of debt trading securities and repurchase receivables related to debt trading securities is as follows at 31 December 2012:

In thousands of Russian Roubles	Russian government bonds	Corporate bonds	Total
Neither past due nor impaired (at fair value)			
- BBB- to BBB+ rated	9 346 019	2 085 435	11 431 454
- Lower than BB- rated	-	21 134	21 134
Total debt trading securities and repurchase receivables related to debt trading securities	**9 346 019**	**2 106 569**	**11 452 588**

8 Trading securities and repurchase receivables related to trading securities (Continued)

Analysis by credit quality of debt trading securities and repurchase receivables related to debt trading securities is as follows at 31 December 2011:

In thousands of Russian Roubles	**Russian government bonds**	**Corporate bonds**	**Total**
Neither past due nor impaired (at fair value)			
- BBB- to BBB+ rated	12 053 338	367 205	12 420 543
Total debt trading securities and repurchase receivables related to debt trading securities	**12 053 338**	**367 205**	**12 420 543**

The credit ratings are based on Standard & Poor`s ratings where available or Moody`s or Fitch Rating converted to the nearest equivalent on the Standard & Poor`s rating scale.

The Bank is licensed by the Federal Commission on Securities Markets for trading in securities.

Repurchase receivables related to trading securities represent securities sold under sale and repurchase agreements which the counterparty has the right, by contract or custom, to sell or re-pledge. The repurchase agreements were short-term in nature and matured in January 2013. At 31 December 2012 included in trading securities are securities effectively pledged under sale and repurchase agreements whose fair value is RR 1 336 840 thousand (2011: nil). Refer to Notes 12, 24.

Geographical, maturity and interest rate analysis of trading securities and repurchase receivables are disclosed in Note 22.

9 Loans and Advances to Customers

In thousands of Russian Roubles	**31 December 2012**	**31 December 2011**
Loans to legal entities:		
- Corporate loans	35 431 841	33 171 467
- Small and medium-sized entities	45 259 919	38 431 851
Loans to individuals:		
- Mortgage loans	11 611 276	5 424 505
- Consumer loans	4 325 878	5 023 115
- Car loans	1 070 813	972 381
- Other	345 344	112 897
Total gross loans and advances to customers	**98 045 071**	**83 136 216**
Less: Provision for loan impairment	(7 491 874)	(7 778 101)
Total loans and advances to customers	**90 553 197**	**75 358 115**

Under small and medium-sized entities the Group considers entities, which employ less than 250 employees with annual turnover not exceeding RR 1 800 000 thousand.

9 Loans and Advances to Customers (Continued)

Movements in the provision for loan impairment during 2012 are as follows:

In thousands of Russian Roubles	Loans to large corporate customers	Loans to small and medium-sized entities	Consumer loans	Mortgage loans	Car loans	Other loans to individuals	Total
Provision for loan impairment at 1 January 2012	**1 115 153**	**5 978 078**	**385 791**	**139 628**	**114 502**	**44 949**	**7 778 101**
Provision for impairment during the year	395 836	187 274	150 752	45 461	1 632	(3 088)	777 867
Amounts written off during the year as uncollectible	(95 411)	(708 759)	(6 144)	-	(4 514)	(16 046)	(830 874)
Disposal of loans	(43 996)	(149 127)	(775)	(20 599)	(9 817)	-	(224 314)
Disposal of subsidiary	-	(8 906)	-	-	-	-	(8 906)
Provision for loan impairment at 31 December 2012	**1 371 582**	**5 298 560**	**529 624**	**164 490**	**101 803**	**25 815**	**7 491 874**

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

In thousands of Russian Roubles	Loans to large corporate customers	Loans to small and medium-sized entities	Consumer loans	Mortgage loans	Car loans	Other loans to individuals	Total
Provision for loan impairment at 1 January 2011	**1 232 787**	**4 090 632**	**386 033**	**99 778**	**123 589**	**34 308**	**5 967 127**
Provision for impairment during the year	(117 634)	2 101 236	41 977	49 077	170	10 641	2 085 467
Amounts written off during the year as uncollectible	-	(91 090)	-	(7 905)	(4 738)	-	(103 733)
Disposal of loans	-	(122 700)	(42 219)	(1 322)	(4 519)	-	(170 760)
Provision for loan impairment at 31 December 2011	**1 115 153**	**5 978 078**	**385 791**	**139 628**	**114 502**	**44 949**	**7 778 101**

During the year 2012 the Bank disposed of loans and advances to customers under cession agreements with the total gross value of RR 1 036 960 thousand (2011: RR 886 484 thousand) with cash proceeds of RR 773 122 thousand (2011: RR 714 908 thousand), receivable cash proceeds of RR 39 524 thousand (2011: RR 816 thousand). The net financial result of a loan disposal was a loss of RR 224 314 thousand (2011: loss of RR 170 760 thousand). The loans were disposed of by transferring the contractual rights to receive the cash flows to other banks, collection agencies, other legal entities.

9 Loans and Advances to Customers (Continued)

Economic sector risk concentrations within the customer loan portfolio are as follows:

In thousands of Russian Roubles	31 December 2012 Amount	%	31 December 2011 Amount	%
Trade	28 255 830	29	26 229 935	32
Individuals	17 353 311	18	11 532 898	14
Industry	7 450 332	8	8 055 256	10
Autodealing, repair and servicing	6 928 294	7	4 854 161	6
Food industry	6 670 949	7	5 269 077	6
Construction	5 568 760	6	2 674 752	3
Energy	5 537 626	6	3 985 737	5
Machine building industry	4 792 676	5	4 739 500	6
Real estate	4 561 194	5	5 901 556	7
Service companies	2 373 484	2	1 049 442	1
Transport and communications	2 080 642	2	818 026	1
Construction of infrastructural objects	1 848 935	2	1 502 213	2
Leasing companies	1 803 405	1	1 827 727	2
Investment and insurance companies	1 283 234	1	3 260 249	4
Agricultural	1 220 019	1	1 039 428	1
Other	316 380	0	396 259	0
Total loans and advances to customers (gross)	**98 045 071**	**100**	**83 136 216**	**100**

Trade segment is represented primarily by food products trade, consumer products trade (cosmetics, clothes, furniture), oil products and fuel, computer equipment, automobiles and components.

Industrial sector is represented by metal product manufacturing and processing enterprises, chemical and textile industry enterprises.

At 31 December 2012, the Group had no borrowers (2011: 2 borrowers) with aggregated loan amounts above 10% of the Group's total capital in accordance with the requirements of the Basel Accord as disclosed in Note 23. The total aggregate amount of these loans as at 31 December 2011 is RR 4 437 193 thousand, or 5.3% of the gross loan portfolio.

At 31 December 2012 the Group has loans amounting to RR 2 082 568 thousand (2011: RR 2 053 612 thousand) put up as collateral in the Open Joint-Stock Company «Russian Bank for Small and Medium Enterprises Support» (SME Bank) under the Government SME Lending Support Program; also loans of RR 554 142 thousand (2011: RR 502 531 thousand) collateralized under the Mortgage Agreement with Deutsche Investitions und Entwicklungsgesells and European Bank for Reconstruction and Development.

Information about collateral at 31 December 2012 is as follows:

In thousands of Russian Roubles	Loans to large corporate customers	Loans to small and medium-sized entities	Consumer loans	Mortgage loans	Car loans	Other loans to individuals	Total
Unsecured loans	8 391 633	9 631 714	1 593 124	1 050 474	20 495	209 412	20 896 852
Loans collateralised by:							
- real estate	8 491 665	14 840 479	459 831	10 492 082	-	19 648	34 303 705
- goods in turnover	8 103 425	5 953 185	14 000	-	-	9 608	14 080 218
- corporate guarantees	5 290 413	6 425 815	732 881	68 720	-	8 974	12 526 803
- equipment	1 755 304	4 347 957	106 843	-	1 049 391	19 670	7 279 165
- receivables	2 722 754	2 672 772	235 000	-	-	-	5 630 526
- other securities	621 679	429 064	1 143 684	-	525	78 032	2 272 984
- Group's debt securities	54 968	902 299	10 579	-	-	-	967 846
- cash deposits	-	56 634	29 936	-	402	-	86 972
Total loans and advances to customers (gross)	**35 431 841**	**45 259 919**	**4 325 878**	**11 611 276**	**1 070 813**	**345 344**	**98 045 071**

9 Loans and Advances to Customers (Continued)

Information about collateral at 31 December 2011 is as follows:

In thousands of Russian Roubles	**Loans to large corporate customers**	**Loans to small and medium-sized entities**	**Consumer loans**	**Mortgage loans**	**Car loans**	**Other loans to indivi-duals**	**Total**
Unsecured loans	9 177 055	10 455 402	1 217 561	534 722	13 583	96 045	21 494 368
Loans collateralised by:							
- real estate	7 348 052	12 716 100	217 370	4 809 624	501	1 201	25 092 848
- goods in turnover	6 502 205	5 443 145	21 000	-	-	10 521	11 976 871
- corporate guarantees	5 343 623	3 809 149	625 396	79 911	-	1 765	9 859 844
- equipment	1 467 132	3 639 638	85 104	248	956 239	3 365	6 151 726
- receivables	3 127 040	1 012 210	248 355	-	-	-	4 387 605
- other securities	176 360	1 083 188	2 548 460	-	1 338	-	3 809 346
- cash deposits	-	242 000	49 080	-	720	-	291 800
- Group's debt securities	30 000	31 019	10 789	-	-	-	71 808
Total loans and advances to customers (gross)	**33 171 467**	**38 431 851**	**5 023 115**	**5 424 505**	**972 381**	**112 897**	**83 136 216**

The disclosure above represents the lower of the carrying value of the loan or collateral taken; the remaining part is disclosed within the unsecured exposures. The carrying value of loans was allocated based on liquidity of the assets taken as collateral.

The Group estimates its loan loss provision using a Methodology for determining the borrower's credit rating. Credit rating is a complex estimate of a borrower's financial stability and solvency and is expressed as scores assigned to creditworthiness based on assessed factors. Such factors include: estimate of the borrower's financial situation on the basis of indicators derived from financial statements, assessment of the borrower's business risk (reputation and market data on the borrower's business); estimate of movement on settlement/current accounts of the borrower with the Bank (cash flow adequacy); evaluation of the shareholder (founder) structure; statistics of repayment of the previously issued loans (credit history).

Creditworthiness rating of a corporate customer determines the amount of estimated loan loss provision and the credit risk rating category.

In accordance with the Methodology the following ratings are assigned:

Rating	**Description of Rating**
A1	Credit risk is practically non-existent
A2	Minimal risk: the most reliable borrowers
A3	Low risk: reliable borrowers
B1	Low risk: good borrowers
B2	Moderate risk: fairly reliable borrowers
B3	Medium risk: average borrowers
B4	Acceptable risk: borrowers with creditworthiness below average
B5	Maximum acceptable risk: fairly good borrowers
C1	High risk: borrowers with unsatisfactory creditworthiness
C2	Very high risk: sub-standard loans
C3	Loans with expected default
D	Default

The estimated loan loss provision is adjusted for collateral based on the application of various discount factors to the assessed fair value of collateral and depending on collateral liquidity and quality.

9 Loans and Advances to Customers (Continued)

Analysis of credit quality of loans outstanding at 31 December 2012 based on internal ratings methodology is as follows:

In thousands of Russian Roubles	**Loans to large corporates**	**Loans to small and medium-sized entities**	**Consumer loans**	**Mortgage loans**	**Car loans**	**Other loans to individuals**	**Total**
Neither past due nor impaired loans							
A1	-	1 678	-	-	-	-	1 678
A2	-	53 100	-	-	-	-	53 100
A3	20 170 361	18 127 070	3 140 548	10 781 529	912 732	291 039	53 423 279
B1	10 923 010	13 887 989	528 259	238 916	40 913	19 165	25 638 252
B2	2 948 223	5 211 745	-	-	-	-	8 159 968
B3	16 820	822 350	5 711	102 405	127	5 075	952 488
C1	-	254 582	1 156	-	306	-	256 044
C2	-	64 104	-	-	-	-	64 104
Total neither past - due nor impaired loans (gross)	**34 058 414**	**38 422 618**	**3 675 674**	**11 122 850**	**954 078**	**315 279**	**88 548 913**
Past due, but not impaired loans							
- less than 30 days - overdue	-	92 554	1 010	41 147	-	276	134 987
- 31 to 90 days overdue	-	1 854	187	35 838	5 957	1 275	45 111
- 91 to 180 days overdue	-	268 451	1 765	77 890	353	106	348 565
Total past due, but not impaired loans (gross)	**-**	**362 859**	**2 962**	**154 875**	**6 310**	**1 657**	**528 663**
Loans individually / collectively determined to be impaired							
- Impaired but not past due	802 709	1 719 940	146 880	42 759	5 211	1 275	2 718 774
- less than 30 days overdue	-	-	-	-	396		396
- 31 to 90 days overdue	-	10 453	167	11 193	1 669	53	23 535
- 91 to 180 days overdue	-	16 904	20 052	50 957	4 670	1 439	94 022
- 181 to 360 days overdue	203 847	2 172 578	134 637	147 483	8 465	4 059	2 671 069
- over 360 days overdue	366 871	2 554 567	345 506	81 159	90 014	21 582	3 459 699
Total impaired loans (gross)	**1 373 427**	**6 474 442**	**647 242**	**333 551**	**110 425**	**28 408**	**8 967 495**
Total loans and advances to customers (gross)	**35 431 841**	**45 259 919**	**4 325 878**	**11 611 276**	**1 070 813**	**345 344**	**98 045 071**
Less impairment provision	(1 371 582)	(5 298 560)	(529 624)	(164 490)	(101 803)	(25 815)	(7 491 874)
Total loans and advances to customers	**34 060 259**	**39 961 359**	**3 796 254**	**11 446 786**	**969 010**	**319 529**	**90 553 197**

9 Loans and Advances to Customers (Continued)

Analysis of credit quality of loans outstanding at 31 December 2011 based on internal ratings methodology is as follows:

In thousands of Russian Roubles	**Loans to large corporates**	**Loans to small and medium-sized entities**	**Consumer loans**	**Mortgage loans**	**Car loans**	**Other loans to individuals**	**Total**
Neither past due nor impaired loans							
A1	-	54 447	-	-	-	-	54 447
A2	1 260 420	595 281	-	-	-	-	1 855 701
A3	22 019 638	15 772 477	3 428 760	2 470 884	200 609	3 862	43 896 230
B1	5 135 010	6 691 985	864 010	2 589 545	644 799	60 436	15 985 785
B2	2 640 436	4 524 225	-	-	-	-	7 164 661
B3	575 000	631 207	209 722	53 749	593	-	1 470 271
B4	-	735 299	-	-	-	-	735 299
C1	-	280 000	543	-	-	-	280 543
Total neither past due nor impaired loans (gross)	**31 630 504**	**29 284 921**	**4 503 035**	**5 114 178**	**846 001**	**64 298**	**71 442 937**
Past due, but not impaired loans							
- 31 to 90 days overdue	-	-	-	3 020	-	-	3 020
- 91 to 180 days overdue	-	-	-	-	278	-	278
- over 360 days overdue	-	-	-	92 704	-	-	92 704
Total past due, but not impaired loans (gross)	**-**	**-**	**-**	**95 724**	**278**	**-**	**96 002**
Loans individually / collectively determined to be impaired							
- Impaired but not past due	1 029 673	5 013 712	153 875	66 774	9 371	3 306	6 276 711
- less than 30 days overdue	-	2 469	-	-	-	1 512	3 981
- 31 to 90 days overdue	225 373	88 579	1 801	58 879	3 889	1 755	380 276
- 91 to 180 days overdue	-	1 616 533	394	2 464	1 478	79	1 620 948
- 181 to 360 days overdue	-	272 292	54 088	20 049	2 425	1 821	350 675
- over 360 days overdue	285 917	2 153 345	309 922	66 437	108 939	40 126	2 964 686
Total impaired loans (gross)	**1 540 963**	**9 146 930**	**520 080**	**214 603**	**126 102**	**48 599**	**11 597 277**
Total loans and advances to customers (gross)	**33 171 467**	**38 431 851**	**5 023 115**	**5 424 505**	**972 381**	**112 897**	**83 136 216**
Less impairment provision	(1 115 153)	(5 978 078)	(385 791)	(139 628)	(114 502)	(44 949)	(7 778 101)
Total loans and advances to customers	**32 056 314**	**32 453 773**	**4 637 324**	**5 284 877**	**857 879**	**67 948**	**75 358 115**

9 Loans and Advances to Customers (Continued)

The primary factors that the Group considers in determining whether a loan is impaired are its overdue status and realisability of related collateral, if any. As a result, the Group presents above an ageing analysis of loans that are determined to be impaired.

Past due, but not impaired, loans primarily include collateralised loans where the fair value of collateral covers the overdue interest and principal repayments. The amount reported as past due but not impaired is the whole balance of such loans, not only the individual instalments that are past due.

For the purpose of credit quality analysis, loans to individuals are grouped by type of credit products into homogeneous sub-portfolios with similar risk characteristics. The Group analyses each portfolio by the ageing of past due debts.

The financial effect of collateral is presented by disclosing impact of collateral and other credit enhancements on impairment provisions recognised at the end of the reporting period. Without holding collateral and other credit enhancements, the impairment provisions would be higher by the following amounts:

In thousands of Russian Roubles	**31 December 2012**	**31 December 2011**
Loans to legal entities:		
- Corporate loans	498 025	366 680
- Loans to small and medium-sized entities	2 182 035	1 402 512
Loans to individuals:		
- Consumer loans	1 789	42 197
- Mortgage loans	52 624	60 223
- Car loans	148	183
- Other	1 069	-
Total effect of collateral on provision	**2 735 690**	**1 871 795**

Loans and advances to legal entities include:

In thousands of Russian Roubles	**31 December 2012**	**31 December 2011**
Originated loans	96 654 371	82 228 419
Finance lease receivables	1 390 700	907 797
Less: Provision for loan impairment	(7 491 874)	(7 778 101)
Total loans and advances to customers	**90 553 197**	**75 358 115**

The components of finance lease receivables as of 31 December 2012 and 2011 are as follows*:*

In thousands of Russian Roubles	**31 December 2012**	**31 December 2011**
Total future minimum lease payments	1 803 685	1 188 578
Less: unearned finance income	(412 985)	(280 781)
Finance lease receivables	**1 390 700**	**907 797**
Current portion	606 078	479 614
Long-term portion	784 622	428 183
Finance lease receivables	**1 390 700**	**907 797**

9 Loans and Advances to Customers (Continued)

The total future minimum lease payments due from customers under finance lease as of 31 December 2012 and 2011 are as follows:

In thousands of Russian Roubles	**31 December 2012**	**31 December 2011**
Not later than one year	836 008	633 088
Later than one year not later than five years	921 378	546 596
Later than five years	46 299	8 894
Total future minimum lease payments	**1 803 685**	**1 188 578**

Refer to Note 27 for the estimated fair value of each class of loans and advances to customers. Geographical, maturity and interest rate analysis of loans and advances to customers is disclosed in Note 22. Information on related party balances is disclosed in Note 29.

10 Investment in Associate

In November 2009 the Group created a new company CIS Factors Holding B.V., incorporated in the Netherlands, with the aim to serve as an investment vehicle for a factoring company.

As of 31 December 2012 investment in associate is represented by 40 % interest in CIS Factors Holding B.V. (2011: 40%). Other shareholders as of 31 December 2012 are the FIMBank Group - 40% (2011: 40%) and International Financial Corporation (IFC) - 20 % (2011: 20%).

The table below summarises the movements in the carrying amount of the Group’s investment in associate:

In thousands of Russian Roubles	**31 December 2012**	**31 December 2011**
Carrying amount at 1 January	**96 882**	**102 959**
Share of result of associate	(23 294)	(9 667)
Translation to presentation currency	(3 870)	3 590
Carrying amount at 31 December	**69 718**	**96 882**

The table below represents summarised financial information of the associate.

In thousands of Russian Roubles	**2012**	**2011**
Assets	1 195 310	1 015 237
Liabilities	1 021 004	800 625
Revenue	141 005	61 371
Net losses	(37 520)	(24 168)

11 Premises, Equipment and Intangible Assets

In thousands of Russian Roubles	**Premises**	**Equipment**	**Construc-tion in progress**	**Land**	**Total premises and equipment**	**Intangible assets**
At cost						
At 1 January 2011	**686 672**	**613 496**	**38 530**	**1 032**	**1 339 730**	**214 311**
Additions	-	136 493	34 869	-	171 362	85 292
Put into operation	36 787	1 239	(38 026)	-	-	-
Disposals	-	(19 472)	-	-	(19 472)	-
At 31 December 2011	**723 459**	**731 756**	**35 373**	**1 032**	**1 491 620**	**299 603**
Additions	34 656	99 596	14 196	-	148 448	89 366
Put into operation	-	34 881	(34 881)	-	-	-
Disposals	-	(37 469)	-	-	(37 469)	(4 207)
At 31 December 2012	**758 115**	**828 764**	**14 688**	**1 032**	**1 602 599**	**384 762**
Accumulated depreciation, amortization						
At 1 January 2011	**44 014**	**427 794**	**-**	**-**	**471 808**	**114 585**
Charge for the period	14 237	109 356	-	-	123 593	48 106
Disposals	-	(18 995)	-	-	(18 995)	-
At 31 December 2011	**58 251**	**518 155**	**-**	**-**	**576 406**	**162 691**
Charge for the period	14 609	116 581	-	-	131 190	55 147
Disposals	-	(37 105)	-	-	(37 105)	(3 368)
At 31 December 2012	**72 860**	**597 631**	**-**	**-**	**670 491**	**214 470**
Carrying amount						
At 31 December 2011	**665 208**	**213 601**	**35 373**	**1 032**	**915 214**	**136 912**
At 31 December 2012	**685 255**	**231 133**	**14 688**	**1 032**	**932 108**	**170 292**

Construction in progress consists of construction and refurbishment of branch premises and equipment. Upon completion, assets are transferred to premises and equipment.

The Group tested its own premises for impairment and identified no indication of impairment of premises.

12 Due to Other Banks

In thousands of Russian Roubles	**31 December 2012**	**31 December 2011**
Term placements of other banks	20 603 057	16 351 892
Sale and repurchase agreements with other banks	1 184 603	-
Correspondent accounts and overnight placements of other banks	144 993	77 621
Total due to other banks	**21 932 653**	**16 429 513**

At 31 December 2012, included in amounts due to other banks are liabilities of RR 1 184 603 thousand (2011: nil) from sale and repurchase agreements. Refer to Note 8.

Refer to Note 27 for the disclosure of the fair value of each class of amounts due to other banks. Interest rate analysis of due to other banks is disclosed in Note 22. Information on related party balances is disclosed in Note 29.

13 Customer Accounts

In thousands of Russian Roubles	**31 December 2012**	**31 December 2011**
Other legal entities		
- Current/settlement accounts	20 686 833	20 478 459
- Term deposits	18 461 987	20 375 093
Individuals		
- Current/demand accounts	2 130 565	2 128 048
- Term deposits	24 300 786	18 836 608
Total customer accounts	**65 580 171**	**61 818 208**

13 Customer Accounts (Continued)

Economic sector concentrations within customer accounts are as follows:

	31 December 2012		31 December 2011	
In thousands of Russian Roubles	**Amount**	**%**	**Amount**	**%**
Individuals	26 431 351	40	20 964 656	34
Trade	9 467 420	14	11 276 285	18
Construction and real estate	8 783 250	13	9 575 444	15
Finance and insurance	6 781 844	10	5 400 853	9
Services	3 147 003	5	2 581 513	4
Science, education, medicine	2 797 184	4	2 476 448	4
Machine building	2 772 499	4	1 466 231	2
Agriculture, food and timber industry	2 157 200	3	1 560 023	3
Energy and petrochemical sectors	1 411 618	2	4 885 961	8
Transport and communications	737 461	2	562 862	1
Metallurgy and coal industry	372 656	1	396 036	1
Financial lease	145 758	1	29 715	
Other	574 927	1	642 181	1
Total customer accounts	**65 580 171**	**100**	**61 818 208**	**100**

At 31 December 2012, the Group had 24 customers (2011: 21 customers) with balances above RR 300000 thousand. The aggregate balance of these customers was RR 13 033 388 thousand (2011: RR 17 893 618 thousand) or 19.9 % (2011: 28.9 %) of total customer accounts.

Refer to Note 27 for the disclosure of the fair value of each class of customer accounts. Interest rate analysis of customer accounts is disclosed in Note 22. Information on related party balances is disclosed in Note 29.

14 Debt securities in issue

In thousands of Russian Roubles	**2012**	**2011**
Promissory notes	5 593 425	5 331 189
Bonds issued on domestic market	1 807 226	1 832 952
Deposit certificates	15 027	540 825
Total debt securities in issue	**7 415 678**	**7 704 966**

At 31 December 2012 the Group had debt securities in issue held by 7 counterparties (2011: 5 counterparties) with balances above RR 300 000 thousand. The aggregate balance of these balances was RR 3 734 275 thousand (2011: RR 3 511 439 thousand) or 51.7% (2011: 45.6%) of total debt securities in issue.

In 2011 the Bank issued on the Moscow Exchange a tranche of 1 800 000 RR denominated non-convertible bonds with a nominal amount of RR 1 thousand each and a coupon rate of 8.15% per annum for 1-3 coupon period and 10.25% per annum for 4-5 coupon period. The holders of these bonds have a right to require the Bank to repurchase these bonds at nominal amount at the end of third coupon period and at the end of fifth coupon period. On 25 September 2012 at official offer the Bank redeemed bonds in the amount of RR 229 898 thousand of this tranche at par value and resold RR187 507 thousand at the end of 2012 and RR 42 391 thousand at the beginning of 2013.

Refer to Note 27 for the disclosure of the fair value of each class of debt securities in issue. Interest rate analyses of debt securities in issue are disclosed in Note 22.

15 Subordinated Debt

Name	Currency	Maturity date (year)	Interest rate, %	31 December 2012	31 December 2011
Eurobonds issued	USD	2017	7.74%	3 105 837	3 292 530
Bonds issued on domestic market	RUR	2018	13.00%	1 006 770	-
Vnesheconombank	RUR	2019	6.50%	987 098	986 924
European Bank for Reconstruction and Development	RUR	2022	13.93%	574 118	-
INRS International servises	EUR	2017	9.00%	402 286	-
Dolmiano Investments Limited	USD	2018	7.50%	151 864	-
Diolon Shipping Limited	USD	2016	6.60%	128 969	136 715
Dolmiano Investments Limited	USD	2016	6.60%	121 491	128 784
Dolmiano Investments Limited	USD	2017	9.00%	121 491	-
Dolmiano Investments Limited	USD	2017	8.60%	92 424	97 977
Diolon Shipping Limited	USD	2016	8.30%	92 379	97 928
Dolmiano Investments Limited	USD	2016	8.50%	62 043	65 772
Total subordinated debt				**6 846 770**	**4 806 630**

Subordinated debt ranks after all other creditors in case of liquidation.

Refer to Note 27 for the disclosure of the fair value of subordinated debt. Interest rate analysis of subordinated debt is disclosed in Note 22. Information on related party balances is disclosed in Note 29.

16 Share Capital

In thousands of Russian Roubles except for number of shares	Number of outstanding shares	Ordinary shares	Share premium	Total
At 1 January 2011	**1 816 852**	**2 174 336**	**2 282 718**	**4 457 054**
New shares issued	270 306	270 306	1 729 688	1 999 994
At 31 December 2011	**2 087 158**	**2 444 642**	**4 012 406**	**6 457 048**
Acquisition of treasury shares	(1 224)	(4 600)	-	(4 600)
Sale of treasury shares	1 224	8 086	-	8 086
At 31 December 2012	**2 087 158**	**2 448 128**	**4 012 406**	**6 460 534**

In September 2011 the CBRF registered an additional issue of 270 306 common shares of the Bank with a par value of RR 1 000 each (the price of share was RR 7 399 each).

As of 31 December 2012 the total authorised number of ordinary shares is 2 561 046 thousand shares (2011: 2 616 852 thousand shares), with a par value of RR 1000 per share (2011: RR 1000 per share). As at 31 December 2012 2 087 158 issued ordinary shares are fully paid (2011: 2 087 158). Each ordinary share carries one vote.

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

In accordance with Russian legislation, the Bank distributes profits as dividends or transfers them to reserves on the basis of financial statements prepared in accordance with Russian Accounting Rules. The Bank’s reserves under Russian Accounting Rules at 31 December 2012 amount to RR 4 347 729 thousand (2011: RR 4 335 688 thousand).

17 Interest Income and Expense

In thousands of Russian Roubles	2012	2011
Interest income		
Loans and advances to customers	10 292 443	7 678 704
Debt trading securities and repurchaise receivables related to debt trading securities	773 003	782 254
Due from other banks	58 955	40 594
Correspondent accounts with other banks	18 490	9 736
Total interest income	**11 142 891**	**8 511 288**
Interest expense		
Term deposits of individuals	1 714 928	1 323 456
Term deposits of legal entities	1 520 809	876 822
Term placements of other banks	1 100 253	747 257
Debt securities in issue	552 397	596 342
Subordinated debt	496 935	404 724
Current/settlement accounts	76 508	114 658
Correspondent accounts of other banks	271	549
Total interest expense	**5 462 101**	**4 063 808**
Net interest income	**5 680 790**	**4 447 480**

As at 31 December 2012 and 2011 interest income on impaired loans to customers amounted to RR 356 953 thousand and RR 700 040 thousand respectively.

18 Fee and Commission Income and Expense

In thousands of Russian Roubles	2012	2011
Fee and commission income		
Guarantees issued	578 687	632 968
Settlement transactions	319 636	301 570
Plastic cards	295 786	201 605
Cash transactions	212 157	184 674
Currency control	95 702	67 461
Cash collection	19 238	16 890
Banknote transactions and operations with precious coins	12 637	20 154
Other	6 467	26 073
Total fee and commission income	**1 540 310**	**1 451 395**
Fee and commission expense		
Plastic cards	173 913	119 022
Guarantees received	55 381	24 296
Settlement transactions	41 699	61 023
Banknote transactions	11 214	6 504
Cash collection	6 586	6 033
Other	453	13 538
Total fee and commission expense	**289 246**	**230 416**
Net fee and commission income	**1 251 064**	**1 220 979**

19 Administrative and Other Operating Expenses

In thousands of Russian Roubles	Note	2012	2011
Staff costs		1 798 977	1 464 966
Social security tax		367 396	263 608
Office rent		241 825	204 717
Insurance expenses on transportation of valuables		228 598	149 612
Maintenance		143 721	150 065
Depreciation of premises and equipment	11	131 190	123 593
Taxes other than on income		130 895	106 146
Communication expenses		130 429	129 835
Professional services		117 412	105 284
Deposit insurance program charge		93 321	69 278
Other insurance expenses		56 306	50 772
Amortisation of intangible assets	11	55 147	48 106
Advertising and other business development expenses		32 144	31 250
Other		122 144	104 340
Total administrative and other operating expenses		**3 649 505**	**3 001 572**

Included in social security tax are social security and pension contributions of RR 283 464 thousand (2011: RR 201 079 thousand).

20 Income Taxes

(a) Components of income tax expense / (benefit)

Income tax expense recorded in profit and loss for the year comprises the following:

In thousands of Russian Roubles	2012	2011
Current tax	486 274	255 898
Deferred tax	40 184	(114 391)
Income tax expense for the year	**526 458**	**141 507**

(b) Reconciliation between the tax expense and profit or loss multiplied by applicable tax rate

The income tax rate applicable to the majority of the Group's 2012 income is 20% (2011: 20%). A reconciliation between the expected and the actual taxation charge is provided below.

In thousands of Russian Roubles	2012	2011
Profit before tax	**2 609 214**	**687 712**
Theoretical tax charge at statutory rate (2012: 20%; 2011: 20%)	521 843	137 542
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Non-deductible expenses	38 847	32 244
- Income on government securities taxed at different rates	(34 232)	(28 279)
Income tax expense for the year	**526 458**	**141 507**

20 Income Taxes (Continued)

(c) Deferred taxes analysed by type of temporary difference

Differences between IFRS and statutory taxation regulations in Russia give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below, and is recorded at the rate of 20% (2011: 20%).

In thousands of Russian Roubles	**1 January 2012**	**Credited/ (charged) to profit or loss**	**Credited/ (charged) to other comprehen-sive income**	**31 December 2012**
Tax effect of deductible/(taxable) temporary differences				
Premises and equipment:	(17 210)	1 373	-	(15 837)
Loan impairment provision	11 317	(116 008)	-	(104 691)
Fair valuation of trading securities	36 490	(60 406)	-	(23 916)
Translation reserve	606	-	774	1 380
Other provisions	18 347	6 715	-	25 062
Accrued interest on loans and advances to customers	171 744	69 023	-	240 767
Other accruals	42 734	58 221	-	100 955
Other	6 954	(944)	-	6 010
Deferred tax asset	**270 982**	**(42 026)**	**774**	**229 730**
Tax effect of taxable temporary differences				
Premises and equipment	(79 826)	1 842	-	(77 984)
Deferred tax liability	**(79 826)**	**1 842**	**-**	**(77 984)**

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

20 Income Taxes (Continued)

In thousands of Russian Roubles	1 January 2011	Credited/ (charged) to profit or loss	Credited/ (charged) to other comprehen-sive income	31 December 2011
Tax effect of deductible/(taxable) temporary differences				
Premises and equipment:	(12 481)	(4 729)	-	(17 210)
Loan impairment provision	56 624	(45 307)	-	11 317
Fair valuation of trading securities	571	35 919	-	36 490
Fair valuation of investment securities available for sale	-	-	-	-
Translation reserve	1 324		(718)	606
Other provisions	5 955	12 392	-	18 347
Accrued interest on loans and advances to customers	98 439	73 305	-	171 744
Other accruals	(2 824)	45 558	-	42 734
Other	11 562	(4 608)	-	6 954
Deferred tax asset	**159 170**	**112 531**	**(718)**	**270 982**
Tax effect of taxable temporary differences				
Premises and equipment	(81 686)	1 860	-	(79 826)
Deferred tax liability	**(81 686)**	**1 860**	**-**	**(79 826)**

(d) Current and deferred tax effects relating to each component of other comprehensive income

Current and deferred tax effects relating to each component of other comprehensive income are as follows:

	2012			2011		
In thousands of Russian Roubles	Before-tax amount	Income tax benefit	Net-of-tax amount	Before-tax amount	Income tax expense	Net-of-tax amount
- Exchange differences on translation to presentation currency	(3 870)	774	(3 096)	3 590	(718)	2 872
Other comprehensive income	**(3 870)**	**774**	**(3 096)**	**3 590**	**(718)**	**2 872**

21 Segment Analysis

Operating segments are components that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision maker (CODM), and for which discrete financial information is available. The CODM is the person - or group of persons - who allocates resources and assesses the performance for the entity. The functions of the CODM are performed by the Chairperson of the Management Board of the Bank. As of 31 December 2012 the Group has changed segment reporting format and analyses Retail and Corporate banking instead of Moscow and Regional network in accordance with the strategy anticipating increase of retail business share.

(a) Description of products and services from which each reportable segment derives its revenue

The Group is organised on the basis of five main business segments:

- **Treasury** – includes money market operations, brokerage and custody services, transactions with securities and foreign currency, REPO agreements and operations with derivative financial instruments.

- **International financing** – raising funds on international capital markets.

- **Overall Management** – this segment performs the centralized risk management, and is responsible for infrastructure maintenance and development.

- **Retail banking** – representing private banking services, private customer current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages;

- **Corporate banking** – representing direct debit facilities, current accounts, deposits, overdrafts, loan and other credit facilities, foreign currency and derivative products;

(b) Factors that management used to identify the reportable segments

The Group's segments are strategic business units that focus on different customers. They are managed separately because each business unit requires different marketing strategies and service level.

(c) Measurement of operating segment profit or loss, assets and liabilities

The CODM reviews financial information prepared based on Russian accounting standards adjusted to meet the requirements of internal reporting. Such financial information differs in certain aspects from International Financial Reporting Standards:

(i) the fair value changes in available for sale securities are reported within the segments' profits or losses rather than in other comprehensive income The securities presented in the portfolio "securities available for sale" and "trading securities" are subject to revaluation at average market quotes, rather than at the last bid price;

(ii) the depreciation rates of fixed assets differ from the depreciation rates applied under IFRS; the value of the fixed assets purchased before 1 January 2003 is not adjusted for inflation;

(iii) income taxes are not allocated to segments;

(iv) loan provisions are recognised based on management judgement and availability of information, rather than based on the incurred loss model prescribed in IAS 39;

(v) commission income relating to lending is recognised immediately rather than deferred using the effective interest method; and

21 Segment Analysis (Continued)

(vi) the segmental financial reporting, analyzed by the CODM, does not include operating results of the subsidiaries; the operating results analysis is delegated on a regular basis to the subsidiaries' management. The information about operating results of the subsidiaries is quarterly reported to the Chairperson of the Bank's Management Board.

The Group calculates the volume of allocated and raised resources within the segments. This calculation is based on the ratio of allocated and raised resources with regard to liquidity and types of foreign currencies (roubles, dollars, euro) for each accounting period. Internal allocation and funding rates are equal and are based on average market borrowing rates.

Expenses, which can not be directly charged to a segment, are allocated. The principles of allocation are selected in accordance with the objective expense allocation basis such as: salary fund, staff number, occupied working area.

When defining profit or loss of an operational segment, the Bank allocates amortization costs within its operational segments. However, this principle is not applied to book value of fixed assets.

The CODM estimates the segment results based on profit before income tax.

(d) Information about reportable segment profit or loss, assets and liabilities

Segment information for the reportable segments for the year ended 31 December 2012 is set out below:

In thousands of Russian Roubles	**31 December 2012**	**31 December 2011**
Assets		
Treasury	15 070 752	16 575 146
Corporate banking	79 796 526	71 339 086
Retail banking	18 493 524	12 692 058
International financing	137 321	106 494
Overall management	1 350 313	1 312 679
Total reportable segment assets	**114 848 436**	**102 025 463**
Liabilities		
Treasury	14 623 818	7 467 367
International financing	18 421 431	15 941 718
Corporate banking	42 876 610	47 132 580
Retail banking	26 572 662	21 055 507
Overall management	57 332	17 994
Total reportable segment liabilities	**102 551 853**	**91 615 166**

21 Segment Analysis (Continued)

In thousands of Russian Roubles	**Treasury**	**Interna-tional financing**	**Corporate banking**	**Retail banking**	**Overall manage-ment**	**Total**
2012						
External revenues:						
- Interest income	95 078	-	8 150 032	1 936 968	-	10 182 078
- Fee and commission income	3 831	-	1 291 234	346 446	-	1 641 511
- Other operating income	-	-	58 147	49 007	-	107 154
Total revenues	**98 909**	**-**	**9 499 413**	**2 332 421**	**-**	**11 930 743**
Interest expense	(1 303 798)	(894 274)	(1 854 088)	(1 711 073)	-	(5 763 233)
Provision for loan impairment	(20 086)	-	(995 671)	(201 532)	-	(1 217 289)
Provision for credit related commitments	-	-	49 762	(8 443)	-	41 319
Fee and commission expense	(25 998)	(204 145)	(74 888)	(195 925)	-	(500 956)
Gains less losses from trading securities	975 407	-	41 269	-	-	1 016 676
Gains less losses from trading in foreign currencies	350 662	-	(4 823)	-	-	345 839
Administrative and other operating expenses	(91 971)	(36 580)	(1 541 757)	(699 369)	(1 061 840)	(3 431 517)
Depreciation	(2 851)	(1 134)	(48 198)	(18 956)	(32 918)	(104 057)
Results of operations between segments	502 493	1 169 089	(4 542 700)	577 829	2 293 289	-
Segment result	**482 767**	**32 956**	**528 319**	**74 952**	**1 198 531**	**2 317 525**

21 Segment Analysis (Continued)

In thousands of Russian Roubles	Treasury	International financing	Corporate banking	Retail banking	Overall manage-ment	Total
2011						
External revenues:						
- Interest income	157 243	-	6 440 410	1 153 415	-	7 751 068
- Fee and commission income	2 687	-	1 191 029	243 913	-	1 437 629
- Other operating income	-	-	62 623	70 986	-	133 609
Total revenues	**159 930**	**-**	**7 694 062**	**1 468 314**	**-**	**9 322 306**
Interest expense	(596 872)	(709 419)	(1 442 957)	(1 321 252)	-	(4 070 500)
Provision for loan impairment	(15 750)	-	(2 321 857)	(69 264)	-	(2 406 871)
Provision for credit related commitments	-	-	175 526	1 689	-	177 215
Fee and commission expense	(12 713)	(190 516)	(56 008)	(120 154)	-	(379 391)
Gains less losses from trading securities	613 032	-	32 889	-	-	645 921
Gains less losses from trading in foreign currencies	389 553	-	(47 600)	-	-	341 953
Administrative and other operating expenses	(66 999)	(39 097)	(1 198 480)	(575 932)	(923 845)	(2 804 353)
Depreciation	(1 454)	(182)	(37 419)	(16 203)	(31 134)	(86 392)
Results of operations between segments	109 911	967 225	(3 291 714)	668 789	1 545 789	-
Segment result	**578 638**	**28 011**	**(493 558)**	**35 987**	**590 810**	**739 888**

(e) Reconciliation of reportable segment revenues, profit or loss, assets and liabilities

Total consolidated revenues comprise interest income, fee and commission income and other operating income.

21 Segment Analysis (Continued)

In thousands of Russian Roubles	2012	2011
Total revenues for reportable segments	**11 930 743**	**9 322 306**
(a) interest income on securities	773 002	782 254
(b) interest income on leasing operations	232 236	199 449
(c) intergroup adjustments	(93 853)	(79 891)
other adjustments	(60 796)	(128 941)
Total consolidated revenues	**12 781 332**	**10 095 177**

(a) Interest income on securities is included within gains less losses from trading seruties in the segment reporting.

(b) Interest income on leasing operations is rising from the leasing subsidiary for the Bank. Financial results from subsidiaries are excluded from the segment reporting results.

(c) Interest income from subsidiaries of the Bank is not eliminated from the total interest income of the Bank for the segment reporting results.

In thousands of Russian Roubles	2012	2011
Total reportable segment result	**2 317 525**	**739 888**
(d) provisions for loans impairment	439 422	321 404
(e) provisions for credit related commitments	(41 919)	(235 023)
(f) other comprehensive income	(3 096)	2 872
other adjustments	(102 718)	(141 429)
Profit or loss before tax	**2 609 214**	**687 712**

(d) Provision for loan impairment in segment reporting is based on the statutory provision methodology of the Bank, which is different from the provision methodlogy applied by the Group in these consolidated financial statements.

(e) Provisions for credit related commitments impairment in segment reporting is based on the statutory provision methodology of the Bank, which is different from the provision methodlogy applied by the Group in these consolidated financial statements.

(f) Other comprehensive income includes results from associate, which are excluded from segment reporting results.

(f) Analysis of revenues by products and services

The Group's revenues are analysed by products and services in Notes 17 (interest income), Note 18 (fee and commission income).

(g) Geographical information

The Group operates in the Russian Federation. All revenues of the Group were received mainly from counterparties that conduct their business in the Russian Federation.

(h) Major customers

The Group has no clients whose revenues represent 10% or more of the total revenues.

22 Financial Risk Management

The risk management function within the Group is carried out in respect of financial risks, operational risks and legal risks. Financial risk comprises market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures, in order to minimise operational and legal risks.

Credit risk. The Group takes on exposure to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of the Group's lending and other transactions with counterparties giving rise to financial assets. The primary objective of credit risk management is to generate maximum profitability subject to the level of assumed credit risk. This objective is achieved due to setting up a system of effective tools allowing minimization of likelihood of default on principal amount and interest on loans issued. The main instrument of credit risk management is administration of loans, including a set of sequential actions performed at different stages of transactions exposed to credit risk. The principal instrument for credit risk regulation is setting limits for financial instruments on borrowers and counterparties, assessment of the borrowers' and counterparties' financial position in order to set loan loss provisions and assessment of collateral quality.

The Group's maximum exposure to credit risk is reflected in the carrying amounts of financial assets on the consolidated statement of financial position. For guarantees and commitments to extend credit, the maximum exposure to credit risk is the amount of the commitment. Refer to Note 24.

The risk evaluation and decision making processes are strictly regulated. The Group has separated the functions of credit risk management and issue of loans. The Group has established efficiently functioning collegial bodies responsible for setting limits on counterparties and making credit and investment decisions.

The Credit Committee is authorised to develop and implement the Bank's current and longterm credit policy and performs the following principal functions:

– makes decisions on issue (renewal) of loans;

– makes decisions on formation of the loan portfolio structure;

– makes decisions on bad debts and loans issued to borrowers with declining financial position;

– makes decisions on sale of collateral;

– makes decisions on issuing loans to borrowers in the Bank's branches.

22 Financial Risk Management (Continued)

Small Credit Committees and Credit Commissions are established in the Bank's Head Office and those branches, where the Credit Committee is already functioning. Credit Commissions are established in separate structural divisions (branches and additional offices) where no Credit Committee is functioning. Committees and commissions make decisions regarding a limited range of transactions within the framework of specific programs for provision of credit products to legal entities and individuals (the “lending programs”). Committees and commissions review credit transactions within their limits and authorities. Credit limits within which the committees and commissions make decisions are set by the Bank’s Executive Board.

Risk Management Committee carries out the following functions:

– approves limits for different types of risks;

– makes decisions related to changes in the structure of portfolio investments, attraction and allocation of resources;

– monitors the effect of current fluctuations of market prices on financial instruments and makes decisions on formation or reduction of relevant financial instruments portfolios;

– monitors changes in currency positions in the event of unfavourable fluctuations of foreign exchange rates;

– reviews and provides recommendations on changes in interest rates for assets and liabilities in the event of changes in the money market situation.

The Limits Committee performs the following main functions:

– sets limits on counterparties in the interbank lending market and on issuers in the securities market;

– sets individual limits on employees of the Bank’s Treasury.

For the purpose of mitigation of its credit risk level, the Group has developed a system of limits allowing to limit exposure to credit risk. The Bank’s credit policy sets portfolio limits on its loan portfolio. The Bank’s Executive Board sets limits on lending by branches. The Credit Committee sets limits on credit products for borrowers and counterparties. Decisions on transactions of the Bank's related parties (not more than 3% of the Bank’s equity per related borrower) and insiders (not more than 2% of the Bank’s equity per insider) are made by the Credit Committee and in other cases by the Board of Directors. The Risk Management Committee sets limits on industry diversification of loan portfolio and limits on concentration of major loans. Limits on financial instruments on counterparty banks and issuers of securities are set by the Limits Committee. Limits are monitored on a regular basis and revised as required, but not less than once a year.

Credit limits directly depend on financial performance of borrower and on credit rating being an integral estimation of the borrower’s financial stability and solvency. Internal credit rating is expressed as scores assigned to creditworthiness based on estimated factors:

– borrower’s financial position;

– review of the borrower’s business reputation and information of its operations;

– estimation of turnover on the borrower’s accounts with the Bank (stability of cash flows);

– assessment of the shareholding (foundation) structure;

– credit history.

22 Financial Risk Management (Continued)

Setting credit limits is possible only for first class borrowers with high creditworthiness and for borrowers of the second class, lending to which requires a weighted approach. For third class borrowers, lending to which is related to higher risk, and in the event of the borrower's default no limit is set.

Loans are usually issued against a liquid collateral, including costs on sale of the collateral and sufficient coverage of the loan principal and interest. The most relevant indicators of the collateral analysis are sufficiency and liquidity of the security. The Group actively applies collateral insurance. Credit quality and status of collateral are monitored on a continuing basis.

The Group diversifies its loan portfolio by risk groups, industries and regions in accordance with set limits.

The Group's divisions involved in lending transactions perform ageing analysis of outstanding loans and follow up past due balances. Management therefore considers it appropriate to provide ageing and other information about credit risk as disclosed in Note 9.

The Group's maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets on the Statement of Financial Position unless otherwise stated in these financial statements. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

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

Market risk. The Group takes on exposure to market risks. Market risks arise from open positions in (a) currency, (b) interest rates and (c) equity products, all of which are exposed to general and specific market movements. Components of the market risk include sensitivity of the Group's assets and liabilities to fluctuations in interest rates, foreign exchange rates, market value of securities and other financial instruments. The instruments of market risk regulation are:

– setting personal limits of open positions per dealers;
– setting limits on financial instruments;
– setting stoploss limits on traded instruments;
– gap management to maintain the risk within the Group's general policy.

Management sets limits on the value of risk that may be accepted, which is monitored on a daily basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

Currency risk.

Currency risk results from fluctuations in the prevailing foreign currency exchange rates. The Group is exposed to foreign currency exchange risk on open positions (mainly USD/RR and EUR/RR exchange rate fluctuations).

The Bank`s Treasury undertakes daily aggregation of the currency position of the Group and takes measures for minimizing of the Group's currency risk exposure. The Group uses swaps, forwards and USD futures contracts tradable on Moscow Exchange as the main instruments for risk management.

As part of managing foreign exchange risk the Group sets limits for open foreign exchange positions. Limits are defined both for each currency and for aggregate positions in all currencies.

22 Financial Risk Management (Continued)

For the purpose of currency risk analysis, the following actions are taken in respect of each currency in which the Group holds an open currency position:

– dynamic of fluctuation of the exchange rate of currency is analysed;

– factors impacting exchange rate of the relevant currency are analysed;

– feasibility of setting long (short) position is determined;

– aggregate amount of profit/loss arising from revaluation of the position is determined;

– ratio between the calculated aggregate amount of income (losses) and equity is determined.

Based on the performed currency risk analysis:

– the maximum amount of currency position is determined (limiting of the currency position); and

– the maximum amount of ratio of losses from position revaluation is set (limiting of losses: stoploss and stopout).

In respect of currency risk, management sets limits on the level of exposure by currency and in total for both overnight and intraday positions, which are monitored daily.

The table below summarises the Group's exposure to foreign currency exchange rate risk at the end of the reporting period:

In thousands of Russian Roubles	**Russian Roubles**	**US Dollars**	**Euros**	**Other**	**Total**
At 31 December 2012					
Monetary financial assets	96 624 944	12 234 670	4 769 595	123 018	113 752 227
Monetary financial liabilities	72 419 767	19 240 355	10 244 209	82 311	101 986 642
Less fair value of currency deriveatives	29 581	(1 721)	524	-	28 384
Currency derivatives	(12 865 934)	7 531 800	5 305 750	-	(28 384)
Net position including currency derivatives	**11 368 824**	**524 394**	**(168 340)**	**40 707**	**11 765 585**
At 31 December 2011					
Monetary financial assets	80 478 515	13 262 636	6 588 450	142 190	100 471 791
Monetary financial liabilities	62 727 347	23 206 760	4 785 658	114 459	90 834 224
Less fair value of currency deriveatives	2 142	(84 159)	20 494	-	(61 523)
Currency derivatives	(7 822 507)	9 834 832	(1 950 802)	-	61 523
Net position including currency derivatives	**9 930 803**	**(193 451)**	**(127 516)**	**27 731**	**9 637 567**

Derivatives presented above are monetary financial assets or monetary financial liabilities, but are presented separately in order to show the Group's gross exposure.

Amounts disclosed in respect of derivatives represent the fair value, at the end of the reporting period, of the respective currency that the Group agreed to buy (positive amount) or sell (negative amount) before netting of positions and payments with the counterparty. The amounts by currency are presented gross as stated in Note 26. The net total represents the fair value of the currency derivatives. The above analysis includes only monetary assets and liabilities. Investments in equities and non-monetary assets are not considered to give rise to any material currency risk.

22 Financial Risk Management (Continued)

The following table presents sensitivities of profit or loss and equity to reasonably possible changes in exchange rates applied at the end of the reporting date, with all other variables held constant: period relative to the functional currency of the respective Group entities, with all other variables held constant:

	31 December 2012		31 December 2011	
In thousands of Russian Roubles	**Impact on profit or loss**	**Impact on equity**	**Impact on profit or loss**	**Impact on equity**
US Dollar strengthening by 20% (2011: strengthening by 15%)	95 609	95 609	(18 457)	(18 457)
US Dollar weakening by 20% (2011: weakening by 15%)	(117 015)	(117 015)	22 590	22 590
Euro strengthening by 20% (2011: strengthening by 15%)	(14 986)	(14 986)	(1 353)	(1 353)
Euro weakening by 20% (2011: weakening by 15%)	18 341	18 341	1 656	1 656

The exposure was calculated only for monetary balances denominated in currencies other than the functional currency of the respective entity of the Group.

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

Losses arising from interest risk are measured as follows:

– likely reduction of difference between interest received and paid;

– likely decrease of fair value of the Group's assets estimated based on future cash flows formed as a difference between interest paid and received.

Interest rate risk management covers all assets and liabilities of the Bank, as well as offbalance sheet accounts related to arising of interest rate risk. In order to determine the potential exposure of the Group to interest rate risk, gap analysis and duration method are applied. For gap analysis, the level of asset and liability gap sensitive to changes in interest rates is applied as the main indicator measuring the interest rate risk. For duration method analysis, the amount of interest rate risk giving rise to decrease of the Bank's economic value by more than 20% of equity is treated as critical.

In order to minimise the interest rate risk, loan agreements provide for periodic revision of interest rates depending on changes in the market interest rates.

Management monitors on a daily basis and sets limits on the level of mismatch of interest rate repricing that may be undertaken.

The table below summarises the Group's exposure to interest rate risks. The table presents the aggregated amounts of the Group's interest bearing financial assets and liabilities at carrying amounts, categorised by the earlier of contractual interest repricing or maturity dates:

22 Financial Risk Management (Continued)

In thousands of Russian Roubles	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	More than 1 year	Total
31 December 2012					
Total financial assets	22 868 052	16 350 987	35 184 690	29 315 437	103 719 166
Total financial liabilities	12 755 479	7 433 801	41 899 255	18 611 776	80 700 311
Net interest sensitivity gap at 31 December 2012	**10 112 573**	**8 917 186**	**(6 714 565)**	**10 703 661**	**23 018 855**
31 December 2011					
Total financial assets	19 428 128	16 835 021	31 883 553	22 777 839	90 924 541
Total financial liabilities	15 553 760	10 900 875	31 504 602	11 454 765	69 414 002
Net interest sensitivity gap at 31 December 2011	**3 874 368**	**5 934 146**	**378 951**	**11 323 074**	**21 510 539**

At 31 December 2012, if interest rates at that date had been 200 basis points lower (2011: 200 basis points lower) with all other variables held constant, profit for the year would have been RR 1 072 722 thousand (2011: RR 539 764 thousand) higher, mainly as a result of lower interest expense on variable interest liabilities.

If interest rates had been 200 basis points higher (2011: 200 basis points higher), with all other variables held constant, profit would have been RR 1 072 722 thousand (2011: RR 539 764 thousand) lower, mainly as a result of higher interest expense on variable interest liabilities.

The Group monitors interest rates for its financial instruments. The table below summarises interest rates at the respective reporting date based on reports reviewed by key management personnel. For securities, the interest rates represent yields to maturity based on market quotations at the reporting date:

	31 December 2012				31 December 2011			
In % p.a.	RR	USD	Euro	Other	RR	USD	Euro	Other
Assets								
Correspondent accounts	0.0	0.0	0.0	0.0	0.0	0.0	1.4	0.0
Placements with maturities less than three months	3.5	-	-	-	5.5	0.6	-	-
Due from other banks	-	9.1	8.1	-	8.9	8.4	-	-
Debt trading securities and repurchase receivables related to debt trading securities	6.4	1.1	-	-	7.5	7.5	-	-
Loans and advances to customers:								
- legal entities	11.4	7.5	5.9	7.9	10.8	8.4	8.8	8.6
- individuals	13.8	13.6	11.2	-	13.5	14.5	11.3	-
- finance lease	25.8	-	17.4	-	28.0	-	23.0	-
Liabilities								
Due to other banks	7.8	2.9	2.6	2.8	6.5	3.8	1.8	3.5
Customer accounts								
- term deposits of individuals	9.8	5.6	5.3	-	9.3	6.6	5.8	-
- term deposits of legal entities	7.9	5.7	4.9	-	6.9	3.8	3.3	-
Debt securities in issue	8.8	5.1	1.7	-	7.6	3.6	3.3	-
Subordinated debt	10.7	7.7	9.0	-	6.5	10.5	-	-

22 Financial Risk Management (Continued)

The sign “-“ in the table above means that the Group does not have the respective assets or liabilities in the corresponding currency.

Other price risk. The Group has exposure to equity price risk. The principal methods of equity risk management applied by the Group are:

– estimation of the issuer’s financial position;
– setting limits per issuers of securities;
– setting limits on transactions with securities;
– setting period for investments in financial instruments.

When equity risk is measured, the level of change in the price of this security within the set period of time is estimated. The following factors are taken into consideration:

– retrospective date on price fluctuations;
– issuer’s nature.
– market liquidity of this securityRatings assigned by recognised rating agencies to these securities and their description as financial instruments;
– level of concentration of the Group’s position in securities of one issuer or in a range of its issues.

As at 31 December 2011, if the Moscow Exchange index had been 20% different, with all other variables held constant, the value of equity portfolio at current fair value through profit or loss would have been RR 14 052 thousand lower if the MICEX index had decreased, and RR 14 052 higher if the MICEX index had increased.

In order to minimise the level of equity risk, the Risk Management Committee sets nominal limits by types of financial instruments determining the amount of current position thereon as at the end of the day. These limits are applied for control over trading operations.

To ensure an integral control over risks, limits on issuers are applied in dealing with securities. All transactions with securities and financial derivatives on securities are carried out within set limits on issuers.

Transactions in equity products are monitored and authorised by the Group’s Treasury Department.

Prepayment risk. The Group is exposed to prepayment risk through providing fixed or variable rate loans, including mortgages, which give the borrower the right to early repay the loans. The Group’s current year financial result and equity at the current reporting date would not have been significantly impacted by changes in prepayment rates because such loans are carried at amortised cost and the prepayment right is at or close to the amortised cost of the loans and advances to customers (2010: no material impact).

22 Financial Risk Management (Continued)

Geographical risk concentrations.

The geographical concentration of the Group's financial assets and liabilities at 31 December 2012 is set out below:

In thousands of Russian Roubles	The Russian Federation	Non-OECD	OECD	Total
Assets				
Cash and cash equivalents	9 870 121	1 966	607 646	10 479 733
Mandatory cash balances with CBRF	1 060 146	-	-	1 060 146
Due form other banks	150 795	-	-	150 795
Loans and advances to customers	88 437 911	1 348 691	766 595	90 553 197
Trading securities	10 115 748	-	-	10 115 748
Repurchase receivables	1 336 840			1 336 840
Other financial assets	55 635	-	133	55 768
Total financial assets	**111 027 196**	**1 350 657**	**1 374 374**	**113 752 227**
Liabilities				
Due to other banks	8 724 339	21 728	13 186 586	21 932 653
Customer accounts	65 062 797	82 584	434 790	65 580 171
Debt securities in issue	7 415 678	-	-	7 415 678
Subordinated debt	1 993 869	1 172 946	3 679 955	6 846 770
Other financial liabilities	190 181	674	20 515	211 370
Total fiancial liabilities	**83 386 864**	**1 277 932**	**17 321 846**	**101 986 642**
Net balance sheet position	**27 640 332**	**72 725**	**(15 947 472)**	**11 765 585**
Credit related commitments (Note 24)	**31 621 746**	**199 614**	**319 240**	**32 140 600**

The geographical concentration of the Group's financial assets and liabilities at 31 December 2011 is set out below:

In thousands of Russian Roubles	The Russian Federation	Non-OECD	OECD	Total
Assets				
Cash and cash equivalents	8 938 267	1 379	2 398 266	11 337 912
Mandatory cash balances with CBRF	898 088	-	-	898 088
Due from other banks	152 825	-	-	152 825
Trading securities	12 489 951	-	-	12 489 951
Loans and advances to customers	73 063 981	1 687 863	606 271	75 358 115
Other financial assets	215 460	-	19 440	234 900
Total financial assets	**95 758 572**	**1 689 242**	**3 023 977**	**100 471 791**
Liabilities				
Due to other banks	4 601 478	139	11 827 896	16 429 513
Customer accounts	61 261 014	103 165	454 029	61 818 208
Debt securities in issue	7 704 966	-	-	7 704 966
Subordinated debt	986 924	527 176	3 292 530	4 806 630
Other financial liabilities	74 851	-	56	74 907
Total financial liabilities	**74 629 233**	**630 480**	**15 574 511**	**90 834 224**
Net balance sheet position	**21 129 339**	**1 058 762**	**(12 550 534)**	**9 637 567**
Credit related commitments (Note 24)	**24 317 606**	**605 193**	**263 274**	**25 186 073**

22 Financial Risk Management (Continued)

Other risk concentrations. Management monitors and discloses concentrations of credit risk by obtaining reports listing exposures to borrowers with aggregated loan balances in excess of 10% of the Group's total capital in accordance with the requirements of the Basel Accord. Refer to Note 9.

Liquidity risk. Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Group is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw-downs, guarantees and from margin and other calls on cash-settled derivative instruments. The Group does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. Liquidity risk is managed by of the Group.

The Group seeks to maintain a stable funding base primarily consisting of amounts due to other banks, corporate and retail customer deposits and. The Group invests the funds in diversified portfolios of liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

Liquidity risk is managed by the Group's Risk Management Committee. Current liquidity is managed by the Treasury Department which carries out transactions in the money markets to maintain current liquidity and optimise cash flows. The Bank's Liquidity Division is operating within the Treasury Department and carrying out planning and management of instant and shortterm liquidity, as well as calculations and analysis of mediumterm and longterm liquidity. The Treasury Department receives information on financial assets and liabilities and then provides for an adequate portfolio of shortterm liquid assets, largely made up of shortterm liquid trading securities, deposits with banks and other interbank facilities, to ensure that sufficient liquidity is maintained within the Group 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 Treasury Department.

An instrument for projecting short term liquidity is the calendar of payments representing the schedule of projected cash flows both for actual balance sheet data and for projected data received from business units.

GAPanalysis is an instrument for projecting structural liquidity allowing to make a conclusion on the level of structural matching of the balance sheet assets and liabilities.

The Group seeks to maintain a stable funding base primarily consisting of amounts due to other banks, corporate and retail customer deposits and debt securities. The Group invests the funds in diversified portfolios of liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The liquidity management of the Group requires considersation of the level of liquid assets necessary to settle obligations as they fall due; maintaining access to a range of funding sources; maintaining funding contingency plans; and monitoring liquidity ratios against regulatory requirements. The Bank calculates liquidity ratios on a daily basis in accordance with the requirement of the Central Bank of Russia. These ratios are:

- Instant liquidity ratio (N2, min 15%), which is calculated as the ratio of highly-liquid assets to liabilities payable on demand. The ratio was 60.4% at 31 December 2012 (2011: 83.5 %);

- Current liquidity ratio (N3, min 50%), which is calculated as the ratio of liquid assets to liabilities maturing within 30 calendar days. The ratio was 66% at 31 December 2012 (2011: 81.9%);

- Long-term liquidity ratio (N4, max 120%), which is calculated as the ratio of assets maturing after one year to regulatory capital and liabilities maturing after one year. The ratio was 100.3% at 31 December 2012 (2011: 88.9%).

In order to minimise the risk of liquidity loss, the Group's dependency on interbank transactions is analysed, as well as transactions of major clients and concentration of credit risks.

22 Financial Risk Management (Continued)

The table below shows liabilities at 31 December 2012 by their remaining contractual maturity. The amounts of liabilities disclosed in the maturity table are the contractual undiscounted cash flows, including gross finance lease obligations (before deducting future finance charges), gross loan commitments and financial guarantees. Such undiscounted cash flows differ from the amount included in the statement of financial position because the amount in the statement of financial position is based on discounted cash flows. Net settled derivatives are included at the net amounts expected to be paid.

Financial derivatives are included at the contractual amounts to be paid or received, unless the Group expects to close the derivative position before its maturity date in which case the derivatives are included based on the expected cash flows. For the purposes of the maturity analysis, embedded derivatives are not separated from hybrid (combined) financial instruments.

The table below shows the maturity analysis of non-derivative financial assets at their carrying amounts and based on their contractual maturities, except for assets that are readily saleable if it should be necessary to meet cash outflows on financial liabilities. Such financial assets are included in the maturity analysis based on their expected date of disposal. Impaired loans are included at their carrying amounts net of impairment provisions, and based on the expected timing of cash inflows. Derivatives are presented based on their.

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

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

In thousands of Russian Roubles	**Less than 1 month**	**From 1 to 3 months**	**From 3 months to 1 year**	**From 1 to 5 years**	**Over 5 years**	**Total**
UNDISCOUNTED FINANCIAL LIABILITIES						
Due to other banks	4 340 774	1 711 967	11 863 829	5 409 029	929 990	24 255 589
Customer accounts	28 968 852	5 644 629	27 036 350	6 114 469	-	67 764 300
Debt securities in issue	384 868	634 504	4 202 302	2 194 005	-	7 415 679
Subordinated debt	11 821	720 936	394 995	6 061 215	2 332 266	9 521 233
Financial liabilities	33 828	8 215	115 825	53 502	-	211 370
Gross settled derivative financial instruments:						
- inflow	(12 284 488)	-	(671 518)	(455 591)	-	(13 411 597)
- outflow	12 294 564	-	669 317	465 600	-	13 429 481
Financial and other guarantees issued	5 714 137	3 255 745	11 543 266	10 095 509	23 365	30 632 022
Letters of credit	74 605	26 357	522 184	885 432	-	1 508 578
Undrawn revocable credit lines	20 445 577	-	-	-	-	20 445 577

The table below represents maturity analysis of non-financial assets and liabilities:

In thousands of Russian Roubles	**Current**	**Non-current**	**Total**
At 31 December 2012			
Other assets	367 839	72 991	440 830
Other liabilities	266 841	1 350	268 191
At 31 December 2011			
Other assets	201 684	59 579	261 263
Other liabilities	199 317	409	199 726

22 Financial Risk Management (Continued)

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

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

In thousands of Russian Roubles	**Less than 1 month**	**From 1 to 3 months**	**From 3 months to 1 year**	**From 1 to 5 years**	**Over 5 years**	**Total**
Due to other banks	8 585 768	2 891 223	3 367 208	2 272 775	1 714	17 118 688
Customer accounts	27 658 558	7 452 238	23 947 852	4 523 158	-	63 581 806
Debt securities in issue	557 922	1 026 711	5 707 521	776 962	-	8 069 116
Subordinated debt	6 013	188 796	258 815	1 852 142	4 886 247	7 192 013
Financial liabilities	25 886	-	49 021	-	-	74 907
Gross settled derivative financial instruments:						
- inflow	(11 207 510)	-	(257 459)	(499 017)	-	(11 963 986)
- outflow	11 158 708	-	266 545	499 530	-	11 924 783
Financial and other guarantees issued	3 390 938	3 911 835	9 461 815	7 505 672	326 880	24 597 140
Letters of credit	48 294	-	416 926	123 713	-	588 933
Undrawn revocable credit lines	16 793 190	-	-	-	-	16 793 190

Customer accounts are classified in the above analysis based on contractual maturities. However, in accordance with Russian Civil Code, individuals have a right to withdraw their deposits prior to maturity if they forfeit their right to accrued interest.

22 Financial Risk Management (Continued)

The Group does not use the above undiscounted maturity analysis to manage liquidity. Instead, the Group monitors expected maturities of financial assets and financial liabilities, which may be summarised as follows at 31 December 2012:

In thousands of Russian Roubles	**Less than 1 month**	**From 1 to 3 months**	**From 3 months to 1 year**	**From 1 to 5 years**	**Over 5 years**	**Total**
ASSETS						
Cash and cash equivalents	10 479 733	-	-	-	-	10 479 733
Manadatory cash balances with CBRF	465 907	85 683	417 991	90 565	-	1 060 146
Due from other banks	-	-	88 480	62 315	-	150 795
Loans and advances to customers	9 824 650	16 350 994	35 123 153	20 379 909	8 874 491	90 553 197
Trading securities	10 115 748	-	-	-	-	10 115 748
Repurchase receivables related to trading securities	1 336 840	-	-	-	-	1 336 840
Other financial assets	29 500	20	26 115	133	-	55 768
Total financial assets	**32 252 378**	**16 436 697**	**35 655 739**	**20 532 922**	**8 874 491**	**113 752 227**
LIABILITIES						
Due to other banks	4 356 135	1 602 191	11 350 545	4 532 854	90 928	21 932 653
Customer accounts	28 820 776	5 300 338	25 856 766	5 602 291	-	65 580 171
Debt securities in issue	384 867	634 504	4 202 302	2 194 005	-	7 415 678
Subordinated debt	-	77 617	577 456	4 053 086	2 138 611	6 846 770
Other financial liabilities	33 828	8 215	115 825	53 502	-	211 370
Total financial liabilities	**33 595 606**	**7 622 865**	**42 102 894**	**16 435 738**	**2 229 539**	**101 986 642**
Net liquidity gap	**(1 343 228)**	**8 813 832**	**(6 447 155)**	**4 097 184**	**6 644 952**	**11 765 585**
Cumulative liquidity gap	**(1 343 228)**	**7 470 604**	**1 023 449**	**5 120 633**	**11 765 585**	

The entire portfolio of trading securities is therefore classified within demand and less than one month based on management's assessment of the portfolio's realisability.

22 Financial Risk Management (Continued)

The expected maturities are as follows at 31 December 2011:

In thousands of Russian Roubles	**Less than 1 month**	**From 1 to 3 months**	**From 3 months to 1 year**	**From 1 to 5 years**	**Over 5 years**	**Total**
ASSETS						
Cash and cash equivalents	11 337 912	-	-	-	-	11 337 912
Manadatory cash balances with CBRF					898 088	898 088
Due from other banks	-	106	59 279	93 440	-	152 825
Loans and advances to customers	4 014 527	16 834 915	31 824 274	19 202 871	3 481 528	75 358 115
Trading securities	12 489 951	-	-	-	-	12 489 951
Other financial assets	98 646	44 710	86 697	4 847	-	234 900
Total financial assets	**27 941 036**	**16 879 731**	**31 970 250**	**19 301 158**	**4 379 616**	**100 471 791**
LIABILITIES						
Deposits from banks	8 518 594	2 838 048	3 187 523	1 883 748	1 600	16 429 513
Customer accounts	27 578 130	7 189 409	22 900 728	4 149 941	-	61 818 208
Debt securities issued	524 478	935 842	5 516 378	728 268	-	7 704 966
Subordinated debt	-	113 866	1 556	264 008	4 427 200	4 806 630
Other financial liabilities	25 886	-	49 021	-	-	74 907
Total financial liabilities	**36 647 088**	**11 077 165**	**31 655 206**	**7 025 965**	**4 428 800**	**90 834 224**
Net liquidity gap	**(8 706 052)**	**5 802 566**	**315 044**	**12 275 193**	**(49 184)**	**9 637 567**
Cumulative liquidity gap	**(8 706 052)**	**(2 903 486)**	**(2 588 442)**	**9 686 751**	**9 637 567**	

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Group. It is unusual for banks 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 maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Group and its exposure to changes in interest and exchange rates.

Management believes that in spite of a substantial portion of customer accounts being on demand, diversification of these deposits by number and type of depositors, and the past experience of the Group would indicate that these customer accounts provide a long-term and stable source of funding for the Group.

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

23 Management of Capital

The Group’s objectives when managing capital are to ensure that all Group entities continue as a going concern in the foreseeable future while maximising the return to shareholders through the optimisation of the debt and equity balance.

The Group’s Board of Directors reviews capital structure on a regular basis, at least quarterly. Within the scope of this review the Board considers the cost of capital and the risks inherent to each class of capital. On the basis of the Board’s recommendations the Group maintains capital adequacy and balances overall capital structure by additional share issue and receipt of subordinated loans.

Under the capital requirements set by the CBRF banks have to maintain a ratio of regulatory capital to risk weighted assets (“statutory capital ratio”) above a prescribed minimum level. As at 31 December 2012, this minimum level is 10%. During 2012 and 2011 financial years and as of 31 December 2012 and 2011 the Bank was in compliance with the statutory capital adequacy ratio.

Under the current capital requirements set by the Central Bank of Russia, banks have to maintain a ratio of regulatory capital to risk weighted assets (“statutory capital ratio”) above a prescribed minimum level. Regulatory capital is based on the Bank’s reports prepared under Russian accounting standards and comprises:

In thousands of Russian Roubles	**31 December 2012**	**31 December 2011**
Net assets under Russian GAAP	11 452 753	9 636 136
Less intangible assets	(785)	(70)
Plus subordinated debt	6 304 089	4 689 943
Total regulatory capital	**17 756 057**	**14 326 009**

The Group also monitors capital adequacy calculated in accordance with the requirements of the Basel Accord, as defined in the International Convergence of Capital Measurement and Capital Standards (updated April 1998) and Amendment to the Capital Accord to incorporate market risks.

The table below shows the Group’s capital structure and calculation of capital adequacy ratio in accordance with requirements of the Basel Accord as at 31 December 2012 and 2011:

In thousands of Russian Roubles	**31 December 2012**	**31 December 2011**
Tier 1 capital:		
Share capital	2 448 128	2 444 642
Share premium	4 012 406	4 012 406
Retained earnings	6 759 771	4 677 142
Non-controlling interest	-	579
Translation reserve	(5 520)	(2 424)
Goodwill	(47 476)	(47 476)
Total tier 1 capital	**13 167 309**	**11 084 869**
Tier 2 capital		
Subordinated debt	6 360 330	4 689 943
Total tier 2 capital	**6 360 330**	**4 689 943**
Total capital	**19 527 639**	**15 774 812**
Risk weighted assets	**132 257 787**	**111 806 013**
Capital expressed as a percentage of risk-weighted assets	**14.8%**	**14.1%**
Tier 1 capital expressed as a percentage of risk-weighted assets	**10.0%**	**9.9%**

23 Management of Capital (Continued)

The Group is subject to minimum capital adequacy requirements calculated in accordance with the Basel Accord established by covenants under liabilities incurred by the Group. Under these covenants the Group has to maintain the total capital ratio at a level not less then 12%. As of 31 December 2012, as of 31 December 2011 and during respective financial years the Group has complied with these capital requirements.

24 Contingencies and Commitments

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

Tax contingencies. Russian tax legislation which was enacted or substantively enacted at the end of the reporting period, is subject to varying interpretations when being applied to the transactions and activities of the Group. Consequently, tax positions taken by management and the formal documentation supporting the tax positions may be successfully challenged by relevant authorities. Russian tax administration is gradually strengthening, including the fact that there is a higher risk of review of tax transactions without a clear business purpose or with tax incompliant counterparties. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

Amended Russian transfer pricing legislation took effect from 1 January 2012. The new transfer pricing rules appear to be more technically elaborate and, to a certain extent, better aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development (OECD). The new legislation provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controlled transactions (transactions with related parties and some types of transactions with unrelated parties), provided that the transaction price is not arm's length.

Management believes that it's pricing policy is arm's length and it has implemented internal controls to be in compliance with the new transfer pricing legislation.

Given that the practice of implementation of the new Russian transfer pricing rules has not yet developed, the impact of any challenge of the Bank's transfer prices cannot be reliably estimated; however, it may be significant to the financial conditions and/or the overall operations of the Bank.

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, that such transfer prices could be challenged. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the entity.

The Group includes companies incorporated outside of Russia. The tax liabilities of the Group are determined on the assumption that these companies are not subject to Russian profits tax, because they do not have a permanent establishment in Russia. This interpretation of relevant legislation may be challenged but the impact of any such challenge cannot be reliably estimated currently; however, it may be significant to the financial position and/or the overall operations of the entity.

As Russian tax legislation does not provide definitive guidance in certain areas, the Group adopts, from time to time, interpretations of such uncertain areas that reduce the overall tax rate of the Group. While management currently estimates that the tax positions and interpretations that it has taken can probably be sustained, there is a possible risk that outflow of resources will be required should such tax positions and interpretations be challenged by the relevant authorities. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the Group.

24 Contingencies and Commitments (Continued)

Capital expenditure commitments.

The Group had no contractual capital expenditure commitments as at 31 December 2012 and as at 31 December 2011.

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

In thousands of Russian Roubles	**2012**	**2011**
Not later than 1 year	216 566	199 884
Later than 1 year and not later than 5 years	450 465	423 989
Later than 5 years	8 236	75 605
Total operating lease commitments	**675 267**	**699 478**

Compliance with covenants. The Group is subject to certain covenants related primarily to its borrowings. Non-compliance with such covenants may result in negative consequences for the Group including. Management believes that the Group was in compliance with covenants at 31 December 2012 and 31 December 2011.

Credit related commitments. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate or cash deposits and, therefore, carry less risk than a direct borrowing.

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

24 Contingencies and Commitments (Continued)

In thousands of Russian Roubles	31 December 2012	31 December 2011
Financial and other guarantees issued	30 632 022	24 597 140
Letters of credit	1 508 578	588 933
Total credit-related commitments before provision	**32 140 600**	**25 186 073**
Less: Provision for credit related commitments	(600)	-
Total credit-related commitments	**32 140 000**	**25 186 073**

Credit related commitments are irrevocable or are revocable only in response to a material adverse change.

The total outstanding contractual amount of undrawn credit lines, letters of credit, and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded. The fair value of credit related commitments was RR 101 845 thousand at 31 December 2012 (2011: RR 48 371 thousand). Credit related commitments are denominated in currencies as follows:

In thousands of Russian Roubles	2012	2011
Russian Roubles	27 835 700	22 833 775
US Dollars	2 544 851	1 768 195
Euros	1 689 207	584 103
Other	70 842	-
Total	**32 140 600**	**25 186 073**

Movements in provisions for credit related commitments are as follows:

In thousands of Russian Roubles	2012	2011
Carrying amount at 1 January	**-**	**500**
Provision / (Recovery of provision) for credit related commitments	600	(500)
Carrying amount at 31 December	**600**	**-**

Assets pledged and restricted. Mandatory cash balances with the Bank of Russia in the amount of RR 1 060 146 thousand (2011: RR 898 088 thousand) represent mandatory reserve deposits, which are not available to finance the Group's day-to-day operations.

24 Contingencies and Commitments (Continued)

The Group had assets pledged as collateral with the following carrying value:

In thousands of Russian Roubles	Note	31 December 2012 Asset pledged	31 December 2012 Related liability	31 December 2011 Asset pledged	31 December 2011 Related liability
Repurchase receivables related to trading securities	8, 12	1 336 840	1 184 603	-	-
Total		**1 336 840**	**1 184 603**	**-**	**-**

25 Transfers of Financial Assets

(a) Transfers that did not qualify for derecognition of the financial asset in its entirety.

The Group transferred financial assets in transactions that did not qualify for derecognition in the current and prior periods.

Sale and repurchase transactions. At 31 December 2012, the Group has trading securities represented by corporate bonds of RR 1 336 840 thousand (Note 8) that are subject to obligation to repurchase the securities for a pre-determined price. Refer to Note 12 for the carrying value of obligations from these sale and repurchase transactions. As the transfer did not meet criteria for derecognition of the securities, at 31 December 2012 the sale proceeds of RR 1 184 603 thousand were recognised as borrowings and are presented in Note 12.

(b) Transfers that qualified for derecognition of the financial asset in its entirety.

At 31 December 2012 the Group disposed of loans to customers with the total gross value of RR 1 036 960 thousand (2011: RR 886 484 thousand) under cession agreements to unrelated third party. Refer to Note 9.

26 Derivative Financial Instruments

The table below sets out fair values, at the end of the reporting period, of currencies receivable or payable under foreign exchange forward and swap contracts entered into by the Group. The table reflects gross positions before the netting of any counterparty positions (and payments) and covers the contracts with settlement dates after the end of the respective reporting period. The contracts are short term in nature;

In thousands of Russian Roubles	2012 Contracts with positive fair value	2012 Contracts with negative fair value	2011 Contracts with positive fair value	2011 Contracts with negative fair value
Foreign exchange forwards, futures and swaps: fair values, at the end of the reporting period, of				
- USD receivable on settlement (+)	5 321 562	494 383	5 752 237	3 490 058
- USD payable on settlement (-)	(471 556)	(880 808)	-	-
- Euros receivable on settlement (+)	120 686	5 652 117	416 714	-
- Euros payable on settlement (-)	(265 911)	(201 143)	-	(2 346 100)
- RR receivable on settlement (+)	448 340	918 918	-	2 324 684
- RR payable on settlement (-)	(5 132 311)	(6 032 661)	(6 083 870)	(3 492 200)
Net fair value of foreign exchange forwards and swaps	**20 810**	**(49 194)**	**85 081**	**(23 558)**

26. Derivative Financial Instruments (Continued)

Foreign exchange derivative financial instruments entered into by the Group are generally traded in an over-the-counter market with professional market counterparties on standardised contractual terms and conditions. Derivatives have potentially favourable (assets) or unfavourable (liabilities) conditions as a result of fluctuations in market interest rates, foreign exchange rates or other variables relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

The Group had outstanding obligations to deliver shares with fair value, at the end of the reporting period, of RR nil thousand (2011: RR 69 408 thousand). Margins on these futures are settled in cash daily and therefore are not recognized in the consolidated statement of financial position as an asset or a liability.

27 Fair Value of Financial Instruments

(a) Fair values of financial instruments carried at amortised cost.

Fair values of financial instruments carried at amortised cost are as follows:

In thousands of Russian Roubles	31 December 2012 Carrying amount	31 December 2012 Fair value	31 December 2011 Carrying amount	31 December 2011 Fair value
FINANCIAL ASSETS				
Cash and cash equivalents				
- Cash in hand	2 311 696	2 311 696	1 957 359	1 957 359
- Cash balances with the CBRF (other than mandatory reserve deposits)	4 425 874	4 425 874	5 148 764	5 148 764
- Correspondent accounts and overnight placements with other banks	1 082 912	1 082 912	2 926 040	2 926 040
- Short-term settlements with settlement centers and brokers	1 558 841	1 558 841	658 316	658 316
- Placements with other banks with original maturities of less than three months	1 100 410	1 100 410	647 433	647 433
Mandatory cash balances with CBRF	1 060 146	1 060 146	898 088	898 088
Due from other banks	150 795	150 795	152 825	152 825
Loans and advances to customers				
- Corporate loans	34 060 259	34 060 259	32 056 314	32 056 314
- Small and medium-sized entities	39 961 359	39 961 359	32 453 773	32 453 773
- Mortgage loans	3 796 254	3 796 254	4 637 324	4 637 324
- Consumer loans	11 446 786	11 446 786	5 284 877	5 284 877
- Car loans	969 010	969 010	857 879	857 879
- Other	319 529	319 529	67 948	67 948
Other financial assets	34 361	34 361	31 694	31 694
TOTAL FINANCIAL ASSETS CARRIED AT AMORTISED COST	**102 278 232**	**102 278 232**	**87 778 634**	**87 778 634**
FINANCIAL LIABILITIES				
Due to other banks				
- Term placements of other banks	20 603 057	20 603 057	16 351 892	16 351 892
- Sale and repurchase agreements with other banks	1 184 603	1 184 603	-	-
- Correspondent accounts and overnight placements of other banks	144 993	144 993	77 621	77 621
Customer accounts				
- Current/settlement accounts of legal entities	20 686 833	20 686 833	20 478 459	20 478 459
- Term deposits of legal entities	18 461 987	18 461 987	20 375 093	20 375 093
- Current/demand accounts of individuals	2 130 565	2 130 565	2 128 048	2 128 048
- Term deposits of individuals	24 300 786	24 300 786	18 836 608	18 836 608
Debt securities in issue				
- Promissory notes	5 593 425	5 593 425	5 331 189	5 331 189
- Bonds issued on domestic market	1 807 226	1 807 226	1 832 952	1 832 952
- Deposit certificates	15 027	15 027	540 825	540 825
Other financial liabilities	162 176	162 176	51 349	51 349
Subordinated debt	6 846 770	6 641 753	4 806 630	4 629 552
TOTAL FINANCIAL LIABILITIES CARRIED AT AMORTISED COST	**101 937 448**	**101 732 431**	**90 810 666**	**90 633 588**

27 Fair Value of Financial Instruments (Continued)

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price.

(b) Analysis by fair value hierarchy of financial instruments carried at fair value. For financial instruments carried at fair value, the level in the fair value hierarchy into which the fair values are categorised are as follows:

	31 December 2012		**31 December 2011**	
In thousands of Russian Roubles	**Quoted price in an active mar ket (Level 1)**	**Valuation technique with inputs obser-vable in mar-kets (Level 2)**	**Quoted price in an active market (Level 1)**	**Valuation technique with inputs obser-vable in mar-kets(Level 2)**
FINANCIAL ASSETS				
Trading securities	10 115 748	-	12 489 951	-
Repurchase receivables related to trading securities	1 336 840	-	-	-
Other financial assets		-	-	-
- Precious coins	-	-	118 110	-
- Derivative financial instruments	20 810	-	65 641	19 440
- Securities and other assets	597	-	15	-
TOTAL FINANCIAL ASSETS CARRIED AT FAIR VALUE	**11 473 995**	**-**	**12 673 717**	**19 440**
FINANCIAL LIABILITIES				
Other financial liabilities				
- Derivative financial instruments	28 685	20 509	23 559	-
TOTAL FINANCIAL LIABILITIES CARRIED AT FAIR VALUE	**28 685**	**20 509**	**23 559**	**-**

28 Presentation of Financial Instruments by Measurement Category

For the purposes of measurement, IAS 39 "Financial Instruments: Recognition and Measurement", classifies financial assets into the following categories: (a) loans and receivables; (b) available-for-sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit or loss ("FVTPL"). Financial assets at fair value through profit or loss have two sub-categories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading. In addition, finance lease receivables form a separate category. The following table provides a reconciliation of financial assets with these measurement categories as of 31 December 2012:

In thousands of Russian Roubles	**Loans and receivables**	**Finance lease receivables**	**Available-for-sale assets**	**Trading assets**	**Assets desig-nated at FVTPL**	**Total**
Assets						
Cash and cash equivalents	10 479 733	-	-	-	-	10 479 733
Mandatory cash balances with CBRF	1 060 146	-	-	-	-	1 060 146
Trading securities and repurchaise receivables related to trading securities	-	-	-	10 115 748	-	10 115 748
Due from other banks	150 795	-	-	-	-	150 795
Loans and advances to customers						
- Loans to legal entities	72 679 754	1 341 864	-	-	-	74 021 618
- Loans to individuals	16 531 579	-	-	-	-	16 531 579
Repurchase receivables	-	-	-	1 336 840	-	1 336 840
Other financial assets	34 362	-	147	-	21 259	55 768
Total financial assets	**100 936 369**	**1 341 864**	**147**	**11 452 588**	**21 259**	**113 752 227**

28. Presentation of Financial Instruments by Measurement Category (Continued)

As of 31 December 2012 and 31 December 2011 all of the Group's financial liabilities except for derivatives were carried at amortised cost. Derivatives belong to the fair value through profit or loss measurement category.

The following table provides a reconciliation of financial assets with measurement categories at 31 December 2011:

In thousands of Russian Roubles	**Loans and receivables**	**Finance lease receivables**	**Available-for sale assets**	**Trading assets**	**Assets designated at FVTPL**	**Total**
Assets						
Cash and cash equivalents	11 337 912	-	-	-	-	11 337 912
Mandatory cash balances with CBRF	898 088	-	-	-	-	898 088
Trading securities	-	-	-	12 489 951	-	12 489 951
Due from other banks	152 825	-	-	-	-	152 825
Loans and advances to customers						
- Loans to legal entities	63 646 636	863 449	-	-	-	64 510 085
- Loans to individuals	10 848 030	-	-	-	-	10 848 030
Other financial assets	31 694	-	15	-	203 191	234 900
Total financial assets	**86 915 185**	**863 449**	**15**	**12 489 951**	**203 191**	**100 471 791**

29 Related Party Transactions

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

At 31 December 2012, the outstanding balances with related parties were as follows:

In thousands of Russian Roubles	**Shareholders with significant influence**	**Key management personnel**	**Associate**	**Other related parties**
Gross amount of loans and advances to customers (contractual interest rate: 10%-12.0%)	38 221	-	500 000	-
Due to other banks (contractual interest rate: 2.8% -6.1%)	3 233 618	-	-	124 299
Customer accounts (contractual interest rate: 2.8- 13.8%)	933 559	46 197	3 847	2 544
Subordinated debt (13.9%)	579 402	-	-	-
Commitments on credit lines	17 403	1 500	-	-

29 Related Party Transactions (Continued)

The income and expense items with related parties for 2012 were as follows:

In thousands of Russian Roubles	**Shareholders with significant influence**	**Key management personnel**	**Associate**	**Other related parties**
Interest income	4 129	15	50 381	-
Interest expense	433 998	657	-	11 517
Fee and commission income	67	21	512	51
Fee and commission expense	-	-	59	3
Administrative and other operating expenses:				
- salary	100 017	23 350	-	-
- rent	-	-	-	69 712
- social security tax	10 816	2 673		
- professional services	8 320	-	-	-

Aggregate amounts lent to and repaid by related parties during 2012 were:

In thousands of Russian Roubles	**Shareholders with significant influence**	**Key management personnel**	**Associate**	**Other related parties**
Amounts lent to related parties during the period	-	-	1 649 000	-
Amounts repaid by related parties during the period	4 373	506	1 508 000	-

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

In thousands of Russian Roubles	**Shareholders with significant influence**	**Key management personnel**	**Associate**	**Other related parties**
Gross amount of loans and advances to customers (contractual interest rate: 10%-12.0%)	42 594	506	359 000	-
Due to other banks (contractual interest rate: 3.4 -5.8%)	4 004 728	-	-	219 607
Customer accounts (contractual interest rate: 3.5- 13.8%)	939 694	983	7 500	14 505
Commitments on credit lines	13 842	1 500	141 000	-

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

In thousands of Russian Roubles	**Shareholders with significant influence**	**Key management personnel**	**Associate**	**Other related parties**
Interest income	4 476	99	17 340	-
Interest expense	255 163	-	-	16 992
Fee and commission income	41	9	815	58
Fee and commission expense	-	-	29	4
Administrative and other operating expenses:				
- salary	75 103	14 370	-	-
- rent	-	-	-	58 094
- social security tax	1 095	480		
- professional services	5 303	-	-	-

29 Related Party Transactions (Continued)

Included in “other related parties” are balances and transactions with companies controlled by the shareholders with significant influence on the Group.

Aggregate amounts lent to and repaid by related parties during 2011 were:

In thousands of Russian Roubles	**Shareholders with significant influence**	**Key management personnel**	**Associate**	**Other related parties**
Amounts lent to related parties during the period	42 594	900	927 000	-
Amounts repaid by related parties during the period	-	1 391	568 000	274

Key management compensation is presented below:

In thousands of Russian Roubles	**2012 Expense**	**2011 Expense**
Short-term benefits:		
- Salaries	83 784	71 377
- Short-term bonuses	39 583	18 096
Total	**123 367**	**89 473**

Short-term bonuses fall due wholly within twelve months after the end of the period in which management rendered the related services.

Other related parties are represented by parent company of one of key shareholders and company owned by one of key management personnel.

30 Events after the End of the Reporting Period

In February 2013 the CBRF registered an additional issue of 85 224 common shares of the Bank with a par value of RR 1 000 each (the price of share is RR 7 500). As a result the Tier 1 capital increased by RR 639 180 thousand. There were no changes in the share percentage of EBRD, DEG and IFC in Transcapitalbank’s capital.

O. Kucherova, Director

ZAO PricewaterhouseCoopers Audit

17 April 2013

70 (seventy) pages are numbered, bound and sealed