Joint Stock Company
“The Ural Bank for Reconstruction and Development”

Consolidated Financial Statements in accordance with International Financial Reporting Standards and Auditors’ Report

31 December 2012

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Auditors' Report

To the Shareholders and the Board of Directors

Joint Stock Company "The Ural Bank for Reconstruction and Development"

We have audited the accompanying consolidated financial statements of Joint Stock Company "The Ural Bank for Reconstruction and Development" and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2012, the consolidated income statement 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.

Auditors' 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 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.

Audited entity: Joint Stock Company "The Ural Bank for Reconstruction and Development"

Registered by the Central Bank of the Russian Federation on 16 August 2012 Registration № 429.

Registered in the Unified State Register of Legal Entities on 23 August 2002 by Department of the Ministry for Taxes and Duties of Sverdlovsk region, Registration No. 1026600000350, Certificate series 66 No. 003024035.

Address of audited entity:
67, Sakko and Vancetti st., Yekaterinburg, Russia 620014.

Independent auditor: ZAO KPMG, a company incorporated under the Laws of the Russian Federation, a part of the KPMG Europe LLP group, and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Registered by the Moscow Registration Chamber on 25 May 1992, Registration No. 011.585.

Entered in the Unified State Register of Legal Entities on 13 August 2002 by the Moscow Inter-Regional Tax Inspectorate No.39 of the Ministry for Taxes and Duties of the Russian Federation, Registration No. 1027700125628, Certificate series 77 No. 005721432.

Member of the Non-commercial Partnership "Chamber of Auditors of Russia". The Principal Registration Number of the Entry in the State Register of Auditors and Audit Organisations: No.10301000804.

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.

Kolosov A.E.
Director
power of attorney dated 3 October 2011 No. 37/11
licence No. 01-000130

ZAO KPMG
16 April 2013
Moscow, Russian Federation

In thousands of Russian Roubles	Notes	31 December 2012	31 December 2011
ASSETS			
Cash and cash equivalents	6	16 165 390	13 372 036
Mandatory cash balances with the Central Bank of the Russian Federation		1 140 186	874 345
Trading securities	7	191 998	129 955
Other securities at fair value through profit or loss	8	27 231 288	23 847 034
Securities available-for-sale	9	55 872	303 706
Investment securities held to maturity	10	8 237 047	-
Due from other banks	11	84 431	64 391
Loans and advances to customers	12	72 415 124	44 962 190
Finance lease receivables	13	839 354	689 440
Goodwill		162 122	162 122
Property and equipment	14	4 824 699	4 989 139
Intangible assets	15	181 911	147 029
Investment property	16	5 955 205	6 047 875
Advances to real estate developers	17	2 572 622	2 730 523
Current income tax asset		17 705	11 243
Deferred tax asset	30	564 512	446 099
Other assets	18	3 030 872	1 181 468
Assets held for sale	19	246 605	36 814
TOTAL ASSETS		**143 916 943**	**99 995 409**
LIABILITIES			
Due to other banks	20	26 692 854	15 798 922
Customer accounts	21	95 645 302	69 503 461
Debt securities in issue	22	8 939 999	5 052 182
Current income tax liability		89 541	172 820
Deferred tax liability	30	300 822	351 967
Other liabilities	23	389 669	416 250
Subordinated debt	24	2 468 741	1 646 691
TOTAL LIABILITIES		**134 526 928**	**92 942 293**
EQUITY			
Share capital	25	3 634 812	2 634 812
Share premium	25	1 581 956	581 956
Additional capital	25	2 379 203	2 379 203
Revaluation reserve for land and premises		1 378 827	1 387 612
Revaluation reserve for securities available-for-sale		1 236	597
Cumulative translation reserve		(8 544)	(29 026)
Retained earnings		422 525	97 962
TOTAL EQUITY		**9 390 015**	**7 053 116**
TOTAL LIABILITIES AND EQUITY		**143 916 943**	**99 995 409**

These consolidated financial statements were approved for issue and signed on behalf of the Board of Directors on 16 April 2013.

Solovjev A.U.
President

Sirazov M.R.
Chief Accountant

Joint Stock Company "The Ural Bank for Reconstruction and Development"
Consolidated income statement

In thousands of Russian Roubles	**Notes**	**2012**	**2011**
Interest income	27	13 530 680	10 085 711
Interest expense	27	(7 570 417)	(5 335 177)
Net interest income		**5 960 263**	**4 750 534**
(Provision) for/ recovery of impairment:			
Loans and advances to customers	12	(2 103 329)	(1 524 801)
Finance lease receivables	13	(1 358)	32 764
Net interest income after provision for impairment		**3 855 576**	**3 258 497**
Fee and commission income	28	2 304 608	1 102 770
Fee and commission expense	28	(280 245)	(179 394)
Income/(loss) from trading securities		3 645	(54 976)
Loss from other securities at fair value through profit or loss		(267 645)	(270 301)
Income from securities available-for-sale		1 227	2 478
Loss from trading in foreign currencies		(274 547)	(376 305)
Income from trading in precious metals		59 614	40 329
Foreign exchange translation income		291 323	636 926
Rental income		16 639	61 896
Loss from revaluation of land and premises	14	(8 153)	-
Loss from investment property	16	(150 825)	(25 726)
Loss from assignment of loans		(4 558)	(220 467)
Other operating income		25 585	41 708
Loss from termination of lease agreements		(41 125)	(13 986)
Administrative and other operating expenses	29	(4 519 916)	(3 375 199)
Profit before tax		**1 011 203**	**628 250**
Income tax expense	30	(164 771)	(123 424)
Profit		**846 432**	**504 826**

Solovjev A.U.
President

Sirazov M.R.
Chief Accountant

In thousands of Russian Roubles	Notes	2012	2011
Profit		**846 432**	**504 826**
Other comprehensive income/(loss) for the year			
Revaluation of securities available-for-sale		1 020	(6 142)
Realised revaluation reserve for securities available-for-sale		(221)	(6 228)
Revaluation of land and premises	14	88 037	-
Foreign currency translation difference		25 603	(23 571)
Deferred income tax recorded in other comprehensive (loss)/income	30	(22 889)	7 188
Other comprehensive income/(loss)		**91 550**	**(28 753)**
Comprehensive income		**937 982**	**476 073**

Solovjev A.U.
President

Sirazov M.R.
Chief Accountant

Joint Stock Company "The Ural Bank for Reconstruction and Development"
Consolidated statement of changes in equity

In thousands of Russian Roubles	Notes	Share capital	Share premium	Additional capital	Revaluation reserve for land and premises	Revaluation reserve for securities available-for-sale	Cumulative translation reserve	Retained earnings/ (Accumulated losses)	Total equity
Balance as at 1 January 2011		**2 634 812**	**581 956**	**524 203**	**1 469 825**	**10 493**	**(10 169)**	**(489 077)**	**4 722 043**
Securities available-for-sale:									
- revaluation		-	-	-	-	(6 142)	-	-	(6 142)
- realised revaluation reserve		-	-	-	-	(6 228)	-	-	(6 228)
Premises:									
- realised revaluation reserve		-	-	-	(102 766)	-	-	102 766	-
Foreign currency translation difference		-	-	-	-	-	(23 571)	-	(23 571)
Deferred income tax recorded in other comprehensive income	30	-	-	-	20 553	2 474	4 714	(20 553)	7 188
Other comprehensive (loss)/income		-		-	**(82 213)**	**(9 896)**	**(18 857)**	**82 213**	**(28 753)**
Profit		-		-	-	-	-	504 826	504 826
Comprehensive (loss)/income		-		-	**(82 213)**	**(9 896)**	**(18 857)**	**587 039**	**476 073**
Transactions with owners recognized directly in equity									
Additional funding from the controlling shareholder	25	-		1 855 000	-	-	-	-	1 855 000
Balance as at 31 December 2011		**2 634 812**	**581 956**	**2 379 203**	**1 387 612**	**597**	**(29 026)**	**97 962**	**7 053 116**

The notes on pages 12-80 form an integral part of these consolidated financial statements.

In thousands of Russian Roubles	Notes	Share capital	Share premium	Additional capital	Revaluation reserve for land and premises	Revaluation reserve for securities available-for-sale	Cumulative translation reserve	Retained earnings/ (Accumulated losses)	Total equity
Securities available-for-sale:									
- revaluation		-	-	-	-	1 020	-	-	1 020
- realised revaluation reserve		-	-	-	-	(221)	-	-	(221)
Premises:									
- revaluation	14	-	-	-	88 037	-	-	-	88 037
- realised revaluation reserve		-	-	-	(99 018)	-	-	99 018	-
Foreign currency translation difference		-	-	-	-	-	25 603	-	25 603
Deferred income tax recorded in other comprehensive income	30	-	-	-	2 196	(160)	(5 121)	(19 804)	(22 889)
Other comprehensive (loss)/income		**-**	**-**	**-**	**(8 785)**	**639**	**20 482**	**79 214**	**91 550**
Profit		-	-	-	-	-	-	846 432	846 432
Comprehensive (loss)/income		**-**	**-**	**-**	**(8 785)**	**639**	**20 482**	**925 646**	**937 982**
Transactions with owners, recorded directly in equity									
Dividends declared	26	-	-	-	-	-	-	(601 090)	(601 090)
Dividends recovered	26	-	-	-	-	-	-	7	7
Issue of shares	25	1 000 000	1 000 000	-	-	-	-	-	2 000 000
Balance as at 31 December 2012		**3 634 812**	**1 581 956**	**2 379 203**	**1 378 827**	**1 236**	**(8 544)**	**422 525**	**9 390 015**

Solovjev A.U.
President

Sirazov M.R.
Chief accountant

In thousands of Russian Roubles	Notes	2012	2011
Cash flows from operating activities			
Interest received		12 898 165	10 029 545
Interest paid		(7 230 116)	(5 558 454)
Fees and commissions received		2 320 755	1 101 687
Fees and commissions paid		(289 354)	(174 264)
Receipts/(payments) from trading securities		9 165	(45 983)
Payments from other securities at fair value through profit or loss		(159 891)	(207 628)
Receipts from securities available-for-sale		1 006	2 478
Payments from foreign currencies		(278 623)	(425 471)
Receipts from precious metals		43 851	187 184
Administrative and other operating expenses paid		(4 536 809)	(3 098 474)
Income tax paid		(446 959)	(115 127)
Other operating income received		145 167	102 480
Cash flows from operating activities before changes in operating assets and liabilities		**2 476 357**	**1 797 973**
(Increase)/decrease in operating assets			
Mandatory cash balances with the Central Bank of the Russian Federation		(265 841)	(459 196)
Trading securities		(67 563)	(125 568)
Other securities at fair value through profit or loss		(3 301 778)	(3 391 572)
Securities available-for-sale		246 732	663 452
Due from other banks		(24 144)	1 339
Loans and advances to customers		(29 553 957)	(12 425 770)
Finance lease receivables		(151 272)	(375 675)
Advances to real estate developers		210 333	(1 029 135)
Other assets		(1 614 003)	(126 743)
Assets held for sale		17 941	135 149
Increase/(decrease) in operating liabilities			
Due to other banks		10 916 103	1 799 345
Customer accounts		26 435 756	15 067 103
Promissory notes in issue (included in debt securities in issue)		1 373 858	2 853 466
Other liabilities		110 516	229 398
Subordinated debt		931 116	3 777
Net cash from operating activities		**7 740 154**	**4 617 343**
Cash flows from investing activities			
Acquisition of investment securities held to maturity		(8 237 047)	-
Acquisition of property and equipment		(642 750)	(370 797)
Proceeds from disposal of property and equipment		10 731	39 517
Acquisition of intangible assets	15	(63 968)	(36 354)
Acquisition of investment property		(312 542)	(3 132 946)
Proceeds from disposal of investment property		660 170	-
Net cash used in investing activities		**(8 585 406)**	**(3 500 580)**
Cash flows from financing activities			
Proceeds from additional share issue	25	2 000 000	-
Dividends paid		(598 114)	-
Additional funding from the controlling shareholder	25	-	1 855 000
Proceeds from bonds issued on domestic market (included in debt securities in issue)		2 497 697	1 502 303
Net cash from financing activities		**3 899 583**	**3 357 303**

In thousands of Russian Roubles	Notes	2012	2011
Effect of exchange rate changes on cash and cash equivalents		**(260 977)**	**463 263**
Net increase in cash and cash equivalents		**2 793 354**	**4 937 329**
Cash and cash equivalents at the beginning of the year		13 372 036	8 434 707
Cash and cash equivalents at the end of the year	**6**	**16 165 390**	**13 372 036**

Solovjev A.U.
President

Sirazov M.R.
Chief Accountant

1 Introduction

These consolidated financial statements of Joint Stock Company "The Ural Bank for Reconstruction and Development" (the Bank) and its subsidiaries, special purpose entities and mutual investment funds (together referred to as the Group) are prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2012.

The Bank was incorporated and is domiciled in the Russian Federation. The Bank is an open joint-stock company set up in accordance with regulations of the Russian Federation.

Principal activity. The Bank's principal business activity is commercial and retail banking operations within the Russian Federation. The Bank operates under a general banking license issued by the Central Bank of the Russian Federation (the CBRF) on 16 August 2012. The Bank is a member of the state deposit insurance system, which was introduced by the Federal Law #177-FZ "Deposits of individuals insurance in Russian Federation" dated 23 December 2003 (as in force on 3 December 2011). The State Deposit Insurance System guarantees repayment of 100% of individual deposits up to RUB 700 thousand per individual in case of the withdrawal of a license of a bank or the CBRF imposed moratorium on payments.

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

As at 31 December 2012 and 2011 the Group has the following consolidated subsidiaries, special purpose entities and mutual investment funds:

Name	Country of incorporation	Nature of business	% of ownership	
			2012	2011
Subsidiaries				
OOO "UBRiR-Finance"	Russian Federation	securities management	100	100
OOO "UBRiR-leasing"	Russian Federation	leasing company	100	100
OOO "Fininvest K"	Russian Federation	ownership of property and equipment	100	100
OOO "Investleasing"	Russian Federation	leasing company	100	100
Special purpose entities				
Sebright Finance Limited	United Kingdom	ownership of property and equipment	-	-
OOO "Invest Techno"	Russian Federation	ownership of property and equipment	-	-
OOO "Uralstroyinvestservice"	Russian Federation	ownership of property and equipment	-	-
OOO UK "Invest-Ural"	Russian Federation	investment funds management	-	-
OOO "FinTrust"	Russian Federation	financial intermediation	-	-

1 Introduction (continued)

Name	Country of incorporation	Nature of business	% of ownership 2012	% of ownership 2011
Mutual investment funds				
Closed unit investment fund "UBRR -Nedvizhimost"	Russian Federation	ownership of property and equipment	100	100
Closed unit investment fund "Invest-Ural Kommercheskaya nedvizhimost"	Russian Federation	ownership of property and equipment	100	100
Closed unit investment fund "Antey"	Russian Federation	ownership of the Group investment property	100	100
Closed unit investment fund "NIKS"	Russian Federation	ownership of the Group investment property	100	100
Open unit investment fund "Aktivnye investitsii"	Russian Federation	investment in securities	100	100
Open unit investment fund "Alternativniy protsent"	Russian Federation	investment in securities	100	100
Open unit investment fund "Bazovye otrasli"	Russian Federation	investment in securities	100	100
Open unit investment fund "Lombardniy spisok"	Russian Federation	investment in securities	100	100
Open unit investment fund "Mobilniy capital"	Russian Federation	investment in securities	100	-

In 2012 the Group established Open unit investment funds "Mobilniy capital" in the amount of RUB 10 thousand for the purpose of investment in securities.

In 2011 the Group established Open unit investment funds "Aktivnye investitsii", "Alternativniy protsent", "Bazovye otrasli" and "Lombardniy spisok" in the amount of RUB 10 thousand each. In return for shares the Group transferred cash. The purpose of these mutual investment funds is investments in securities.

Also in 2011 the Group established Closed unit investment funds "Invest-Ural Kommercheskaya nedvizhimost", "Antey" and "NIKS" in the amount of RUB 630 000 thousand, RUB 2 895 159 thousand and RUB 3 100 668 thousand, respectively. In return for shares the Group transferred property and equipment and cash. The purpose of these mutual investment funds is earning income from operational leasing of investment property.

As at 31 December 2012 all mutual investment funds are managed by LCC UK "Invest-Ural" (in 2011 managing company LCC UK "Standart-Invest" was changed to managing company LCC UK "Invest-Ural").

As at 31 December 2012 the main shareholder of the Bank, Mr. I.A. Altushkin, affiliated with ZAO "Russian Copper Company", ultimately controls 85.31% (31 December 2011: 77.99%) of the share capital of the Bank.

The Bank has 13 (2011: 10) branches and 289 (2011:181) additional and operational offices in the Russian Federation.

The average number of employees during 2012 is 4 454 (2011: 3 392).

Registered address and place of business. The Bank's registered address and place of business is 620014, 67, Sakko and Vancetti st., Yekaterinburg, Russian Federation.

Presentation currency. These consolidated financial statements are presented in thousands of Russian Roubles (RUB thousand).

2 Operating environment

The Russian Federation is experiencing political and economic change that has affected, and may continue to affect, the activities of enterprises operating in this environment. The Government continues economic reforms together with legal, tax and regulatory developments. Current measures undertaken by the Government are aimed to improve working efficiency and output quality as well as increase the share of science intensive industries. Consequently, operations in the Russian Federation involve risks that typically do not exist in other markets. The future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government.

In 2012 the Russian economy was characterized by slowing of both investment and consumer demand against a background of the negative trends in the global economy and weakening external demand. At the same time the main factor of economic growth in 2012 remained the domestic demand for goods and services supported by the growth of real wages, bank lending and an increase in employment. Against the background of the growing structural deficit liquidity, mainly due to cash withdrawals on budgetary channels, credit organizations had an increased demand for refinancing from the CBRF. To reduce inflation the CBRF raised the refinancing rate in September, which has resulted in a slowdown in loans to enterprises and reduced investment demand, which caused a significant outflow of capital. In 2012 the dynamics of consumer demand also slowed down due to lack of growth of final consumption expenditure of government. The growth in the global stock markets, high oil prices and the ruble strengthening supported the Russian stock market in 2012. Despite this the Russian stock indexes performed worse less than the indexes of developed and developing countries this unfavorable situation was related to the debt crisis in the Eurozone. In 2012 total loans to non-financial organizations and the population significantly increased. At the same time a distinctive feature of 2012 was a significant excess in the rate of growth of lending compared to the real sector.

In spite of the recovery signs in the economy mentioned above, there is still uncertainty over future growth and over the ability of the Group and its counterparties to attract new borrowings on acceptable terms, which in turn can affect the Group's financial position, results of operations and further development. The economy of the Russian Federation is very susceptible to negative developments on the financial markets, and the risk of volatility in Russian financial markets still exists. In spite of this management believes it is taking all the necessary measures to support the sustainability and growth of business in the current circumstances. The negative factors mentioned above can have an adverse impact on business activity of the Group. These consolidated financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

3 Summary of significant accounting policies

Basis of preparation. These consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) under the historical cost convention, except that premises, financial instruments at fair value through profit or loss and securities available-for-sale are stated at fair value. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies are consistently applied to all the periods presented, unless otherwise stated.

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 (acquisition date) and are de-consolidated from the date that control ceases.

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group.

3 Summary of significant accounting policies (continued)

The Group measures goodwill as the fair value of the consideration transferred (including the fair value of any previously-held equity interest in the acquiree) and the recognised amount of any non-controlling interest in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as at the acquisition date. When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The Group elects on transaction-by-transaction basis whether to measure non-controlling interests at fair value, or at their proportionate share of the recognsied amount of the identifiable net assets of the acquiree, at the acquisition date. Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

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.

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 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.

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 of assets and liabilities.

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 of instrument. 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 (refer to income and expense recognition policy).

3 Summary of significant accounting policies (continued)

Initial recognition of financial instruments. Trading securities, derivatives and other financial instruments at fair value through profit or 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 that the Group commits to deliver a financial asset. All other purchases and sales are recognised on the settlement date with the change in value between the commitment date and settlement date not recognised for assets carried at cost or amortised cost and recognised in profit or loss for trading securities, derivatives and other financial assets at fair value through profit or loss.

Cash and cash equivalents. Cash and cash equivalents comprise cash, correspondent accounts with CBRF and other banks as well as short-term highly liquid investments, which are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value these include interbank placements and receivables on repurchase agreements with other banks with initial 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 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 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 securities, 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 used for short-term trading. The Group classifies securities into trading securities if it has an intention to sell them within a short period after purchase. Trading securities are carried at fair value.

Other securities at fair value through profit or loss. Other securities at fair value through profit or loss are securities designated, at initial recognition, into this category. Management designates securities into this category only if (a) such classification eliminates or significantly reduces an accounting mismatch that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or (b) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy. Recognition and measurement of this category of financial assets is consistent with the above policy for trading securities.

Securities available-for-sale. This category comprises financial assets defined as available-for-sale and not classified as loans and receivables, investment securities held-to-maturity or other securities at fair value through profit or loss. Securities available-for-sale are carried at fair value.

Investment securities held to maturity. Investment securities held to maturity comprise quoted non-derivative financial assets with fixed or determinable payments and fixed maturities that according to intention and ability of the Group will be held to maturity. Management determines the classification of investment securities held to maturity at the time of initial recognition. Investment securities held to maturity are carried at amortized cost.

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.

3 Summary of significant accounting policies (continued)

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. When financial assets are renegotiated and the renegotiated terms and conditions differ substantially from the previous terms, the new asset is initially recognised at its fair value.

Impairment of financial assets carried at amortised cost. Impairment losses are recognised in profit or loss 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 following principal criteria are also used to determine that there is objective evidence that an impairment loss has occurred:

- any instalment of principal or interest is overdue
- 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 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
- 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 have influence on the current period.

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, the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss. Uncollectible assets are written off against the related impairment allowance after all the necessary procedures to recover the asset, partly or in full, have been completed and the amount of the loss has been determined.

3 Summary of significant accounting policies (continued)

Credit related commitments. The Group enters into credit related commitments, including letters of credit and financial guarantees. 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.

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. Securities acquired under repo agreements are classified as receivables under reverse repo agreements or due from other banks. The corresponding liabilities are presented within amounts due to other banks.

Promissory notes purchased. Promissory notes purchased are included in trading securities, or in due from other banks or in loans and advances to customers, depending on their substance and are subsequently remeasured and accounted for in accordance with the accounting policies for these categories of assets.

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 expire 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 the 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 imposing additional restrictions on the sale.

Goodwill. Goodwill represents the excess of the cost of an acquisition over the fair value of the acquirer's share of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiary or associate at the date of exchange. Goodwill from acquisitions of subsidiaries is presented separately in the consolidated statement of financial position. Goodwill is carried at cost less accumulated impairment losses, if any.

The Group tests goodwill for impairment at least annually and whenever there are indications that goodwill may be impaired. Goodwill is allocated to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the business combination. Such units or group of units represent the lowest level at which the Group monitors goodwill and are not larger than a reporting segment. Gains or losses on disposal of an operation within a cash generating unit to which goodwill has been allocated include the carrying amount of goodwill associated with the operation disposed of, generally measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit which is retained.

Property and equipment. Property and equipment are stated at cost, restated to the equivalent purchasing power of the Russian Rouble at 31 December 2002 for assets acquired prior to 1 January 2003, or revalued amounts, as described below, less accumulated depreciation and provision for impairment, where required.

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

Construction in progress is carried at cost. Cost includes borrowing costs incurred on specific or general funds borrowed to finance construction of qualifying assets. Upon completion, assets are transferred to property and equipment at their carrying amount. Construction in progress is not depreciated until the asset is available for use.

3 Summary of significant accounting policies (continued)

All other items of property and equipment are stated at cost less accumulated depreciation and impairment losses, if any.

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

If impaired, property and equipment are written down to the higher of their value in use and fair value less costs to sell.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss.

Depreciation. Land is not depreciated. Depreciation on other items of property and equipment is calculated using the straight-line method to allocate their cost or revalued amounts to their carrying amounts at the following annual rates:

Premises	1.3 - 2.5%
Equipment	11.8 – 33.3%

Intangible assets. All intangible assets (except for goodwill) have a definite useful life and primarily include capitalised computer software. Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Development costs that are directly associated with identifiable and unique software controlled by the Group are recorded as intangible assets if the 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 its expected useful life of 4 years.

Investment property. Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in normal course of business, or for the use in production or supply of goods or services or for administrative purposes. Investment property is recognized in the financial statements at cost less accumulated depreciation and impairment losses, if any. When the use of a property changes such that it is reclassified as property and equipment, its carrying value at the date of reclassification becomes its cost for subsequent accounting. Depreciation method is and rates of depreciation on investment properties are similar to the method and rates of depreciation on premises described above.

Advances to real estate developers. Advances to real estate developers are prepayments advanced under construction contracts whereby the Group is entitled to receive real estate items upon completion of construction. Investments in the real estate property are carried at cost (being the amount of prepayments made under the terms of the contract) less impairment where required. Upon completion the real estate items are included in investment property or assets held for resale, depending on the Group's intentions in respect of these items.

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 on a straight-line basis over the period of the lease.

Finance leases. 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 within interest income in profit or loss. Impairment losses are recognised in profit or loss when incurred as a result of one or more loss events that occurred after the initial recognition of finance lease receivables. The Group uses the same principal criteria to determine that there is objective evidence that an impairment loss has occurred as described above for loans carried at amortised cost.

Assets held for sale. Assets held for sale represent assets that are expected to be recovered primarily through sale within 12 months after the reporting date. These assets are measured at the lower of their cost and fair value less cost to sell as at the reclassification date. Assets held for sale are not depreciated.

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.

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 and bonds 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 early retirement of debt.

Subordinated debt. Subordinated debt is carried on the statement of financial position at amortised cost. Obligations to repay interest are recorded through profit or loss. Subordinated debt rank after all other creditors in case of liquidation.

Derivative financial instruments. Derivative financial instruments are carried at their fair value. All derivative instruments are recognised 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. The Group does not apply hedge accounting.

Term deals with precious metals. Term deals with precious metals include forward contracts for purchase/sale of precious metals settled in cash. Balances on these transactions are measured at fair value through profit or loss and the result is recorded in the gain less losses/ (losses less gains) arising from precious metals.

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

Income taxes are provided for in the consolidated financial statements in accordance with the legislation of the Russian Federation enacted or substantively enacted by the reporting date. 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 consolidated financial statements are authorised prior to filing relevant tax returns. Taxes other than income tax are recorded within administrative and other operating expenses.

3 Summary of significant accounting policies (continued)

Deferred income tax is provided for 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 reporting date 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 tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Deferred income tax is provided on post acquisition retained earnings of subsidiaries, except 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.

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

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 premium. When shares are issued, the excess of contributions received, net of transaction costs, over the nominal value of the shares issued is recorded as share premium in equity.

Other reserves. Other reserves of the Group comprise revaluation reserve for land and premises, revaluation reserve for securities available-for-sale and cumulative translation reserve. The revaluation reserve for land and premises included in other comprehensive income is transferred directly to retained earnings when the surplus is realised, i.e. either on the retirement or disposal of the asset, or as the asset is used by the Group; in the latter case, the amount of the surplus realised is the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost. Revaluation reserve for securities available-for-sale is transferred to profit or loss in case it is disposed through sale or repayment of securities. In case of a subsidiary or special purpose entity disposal, the functional currency of which differs from the presentation currency of these consolidated financial statements, foreign currency differences, previously recognised in cumulative translation reserve, are reclassified to profit or loss for the period.

Dividends. Dividends are recorded in equity in the period in which they are declared. Dividends declared after the reporting date and before the financial statements are authorised for issue are disclosed in the subsequent events note. The statutory accounting reports are the basis for profit distribution and other appropriations. Russian legislation identifies the basis of distribution as the current year net profit calculated in accordance with Russian Accounting Rules.

Income and expense recognition. Interest income and expense are recorded in profit or loss for all financial instruments on an accrual basis. This method includes, 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.

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.

3 Summary of significant accounting policies (continued)

The Group does not designate loan commitments as financial liabilities at fair value through profit or 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.

Foreign currency translation. The functional currency of each consolidated entity is the currency of the primary economic environment in which the entity operates. The Bank’s functional currency and the Group’s presentation currency is the national currency of the Russian Federation, the Russian Rouble. Transactions in foreign currencies are translated to the respective functional currencies of the Group entities at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments, which are recognised in other comprehensive income, and differences recognized in the cumulative translation reserve. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising on retranslation of balances in the statement of financial position and profit and loss accounts of a subsidiary or SPE from its functional currency to presentation currency of these consolidated financial statements are recognised in cumulative translation reserve in other comprehensive income.

At 31 December 2012 the principal rate of exchange used for translating monetary foreign currency balances is USD 1 = RUB 30.3727 (31 December 2011: USD 1 = RUB 32.1961).

Fiduciary assets. Assets held by the Group in its own name, but on the account of third parties, are not reported in the consolidated statement of financial position. Commissions received from fiduciary activities are shown as fee and commission income in profit or loss.

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.

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

3 Summary of significant accounting policies (continued)

Changes in accounting policies and comparative information. Certain comparative figures have been reclassified to conform changes in presentation in consolidated financial statements in current year.

The following changes were made in order to improve transparency of information in the consolidated financial statements:

- in the consolidated statement of financial position the amount of share premium is included in a separate line "Share premium" (previously this amount was included in the line "Share Capital");

- in the consolidated income statement financial results from operations with investment property is included in separate line (previously this amount was included in the lines "Income from property operating leases" and "Administrative and other operating expenses").

Due to the significant increase of assets and liabilities of the Group new limits were set in disclosures of risks concentration:

- for loans and advances to customers (Note 12) the number of borrowers with total loans exceeding RUB 500 000 thousand is disclosed (previous threshold was RUB 250 000 thousand);

- for customer accounts and debt securities in issue (Notes 21 and 22) the number of counterparties with a total debt to them exceeding RUB 300 000 thousand is disclosed (previous threshold was 150 000 thousand).

4 Critical accounting estimates and judgements in applying accounting policies

Management makes a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these consolidated financial statements in conformity with IFRS. Actual results could differ from those estimates. Estimates and assumptions that affect significantly the amounts recognised in the consolidated financial statements include:

Revaluation of premises. Over 14% (31 December 2011: 19%) of equity is represented by revaluation reserve for land and premises. Based on decision of management the fair value of fixed assets is assessed by an independent professional appraiser as at 1 December 2012 (refer to note 14).

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, 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 and leases before the decrease can be identified with an individual loan or lease 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 (refer to note 12).

Special purpose entities. Judgement is also required to determine whether the substance of the relationship between the Group and a special purpose entity (SPE) indicates that the SPE is controlled by the Group. The Group uses the following criteria: ability to control financial and operating policies of SPE, whether the activities of the SPE are being conducted on behalf of the Group according to its specific business needs so that the Group obtains benefits from the SPE's operation, whether the Group has the decision-making powers to obtain the majority of the benefits of the activities of the SPE or, by setting up an 'autopilot' mechanism, the Group has delegated these decision-making powers and extent of exposure to risks and rewards related to activities of the SPE.

5 New or revised standards and interpretations

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

Amendments to IFRS 7 *Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities* contain new disclosure requirements for financial assets and liabilities that are offset in the statement of financial position or subject to master netting arrangements or similar agreements. The amendments are effective for annual periods beginning on or after 1 January 2013, and are to be applied retrospectively.

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

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

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

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

5 New or revised standards and interpretations (continued)

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

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

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

6 Cash and cash equivalents

In thousands of Russian Roubles	**2012**	**2011**
Cash and balances with the CBRF (other than mandatory cash balances)	4 546 346	1 324 694
Cash on hand	4 388 683	2 910 323
Placements with other banks with original maturities of less than three months	2 109 869	3 811 914
Correspondent accounts and overnight placements with banks:		
- Russian Federation	745 388	277 753
- other countries	4 344 189	4 908 839
Settlement accounts with trading systems	30 859	138 513
Agreements for purchase and re-sale of the securities to other banks with original maturities of less than three months	56	-
Total	**16 165 390**	**13 372 036**

Correspondent accounts, overnight placements and placements with other banks with original maturities of less than three months are placed with large Russian and OECD banks.

Geographical, currency, maturity and interest rate analyses of cash and cash equivalents are disclosed in note 32.

7 Trading securities

In thousands of Russian Roubles	**2012**	**2011**
Corporate shares	191 998	129 955
Total	**191 998**	**129 955**

As at 31 December 2012 and 2011 corporate shares are represented by shares of Russian regional energy, mining and smelting and oil companies traded in the domestic market.

7 Trading securities (continued)

Analysis by credit quality of trading securities as at 31 December 2012 and 2011 is as follows:

In thousands of Russian Roubles	2012	2011
- Rated BBB	5 125	125 731
- Rated from BB- to BB+	100 618	2 531
- Rated from B- to B+	84 336	-
- Not rated	1 919	1 693
Total	**191 998**	**129 955**

Ratings are based on Standart & Poor's or the equivalent ratings assigned by Fitch Rating and Moody's.

As at 31 December 2012 and 2011 the Group had no trading securities pledged under sale and repurchase agreements.

Geographical, currency, maturity and interest rate analyses of trading securities are disclosed in note 32.

8 Other securities at fair value through profit or loss

In thousands of Russian Roubles	2012	2011
Corporate bonds	27 014 657	23 370 379
Russian government bonds	212 830	178 022
Municipal bonds	3 801	298 633
Total	**27 231 288**	**23 847 034**

The Group irrevocably classified these securities, which are not a part of the trading portfolio, as securities at fair value through profit or loss. These securities meet the requirements for classification as carried at fair value through profit or loss due to the fact that management evaluates results from these of investments based on their fair value in accordance with a documented strategy.

As at 31 December 2012 corporate bonds are represented by Russian Rouble denominated securities issued by Russian banks, a mortgage lending agency, industrial and construction companies. These bonds have maturity dates ranging from February 2013 to April 2021, coupon rates ranging from 6.45% to 11.50% p.a. and yields to maturity as at 31 December 2012 ranging from 4.48% to 9.43 % p.a. depending on the type of bond issue.

As at 31 December 2012 Russian government bonds are represented by Rouble denominated securities issued by the Ministry of Finance of the Russian Federation. These bonds mature in October 2018 with a coupon rate of 6.50% p.a. and yield to maturity as at 31 December 2012 of 6.45% p.a.

As at 31 December 2012 municipal bonds are represented by Russian Rouble denominated securities issued by the regional administration of the Tver region. These bonds mature to December 2013 with a coupon rate of 15.00% p.a. and yield to maturity as at 31 December 2012 of 8.52% p.a.

As at 31 December 2011 corporate bonds are represented by Russian Rouble denominated securities issued by Russian banks, a mortgage lending agency, industrial and construction and retail companies. These bonds have maturity dates ranging from January 2012 to September 2028, coupon rates ranging from 6.45% to 19.00% p.a. and yields to maturity as at 31 December 2011 ranging from 1.14% to 22.48 % p.a. depending on the type of bond issue.

8 Other securities at fair value through profit or loss (continued)

As at 31 December 2011 municipal bonds are represented by Russian Rouble denominated securities issued by the governments of the Sakha Republic, and the regional administrations of Samara, Krasnoyarsk, Udmurtia and Tver regions. These bonds mature from November 2012 to December 2013 with coupon rates ranging from 7.95% to 10.89% p.a. and yields to maturity as at 31 December 2011 ranging from 6.92% to 11.54% p.a. depending on the type of bond issue.

As at 31 December 2011 Russian government bonds are represented by Rouble denominated securities issued by the Ministry of Finance of the Russian Federation. These bonds mature in October 2018 with a coupon rate of 7% p.a. and yield to maturity as at 31 December 2011 of 6.31% p.a.

Analysis by credit quality of other securities at fair value through profit or loss outstanding at 31 December 2012 is as follows:

In thousands of Russian Roubles	**Corporate bonds**	**Russian government bonds**	**Municipal bonds**	**Total**
- Rated from A- to A+	1 080 778	-	-	1 080 778
- Rated BBB	22 932 206	212 830	-	23 145 036
- Rated from BB- to BB+	2 363 820	-	-	2 363 820
- Rated from B- to B+	637 853	-	3 801	641 654
Total	**27 014 657**	**212 830**	**3 801**	**27 231 288**

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

In thousands of Russian Roubles	**Corporate bonds**	**Russian government bonds**	**Municipal bonds**	**Total**
- Rated BBB	11 326 637	178 022	-	11 504 659
- Rated from BB- to BB+	8 379 813	-	293 704	8 673 517
- Rated from B- to B+	3 663 929	-	4 929	3 668 858
Total	**23 370 379**	**178 022**	**298 633**	**23 847 034**

Ratings are based on Standart & Poor’s or the equivalent ratings assigned by Fitch Rating and Moody’s.

The table below shows carrying amount of other securities at fair value through profit or loss pledged under sale and repurchase agreements as at 31 December 2012 and 2011.

In thousands of Russian Roubles	**2012**	**2011**
Corporate bonds	16 363 178	15 667 314
Municipal bonds	-	97 650
Total	**16 363 178**	**15 764 964**

Geographical, currency, maturity and interest rate and analyses of other securities at fair value through profit and loss are disclosed in note 32.

9 Securities available-for-sale

In thousands of Russian Roubles	2012	2011
Municipal bonds	55 872	303 706
Total	**55 872**	**303 706**

As at 31 December 2012 municipal bonds are represented by Russian Rouble denominated securities issued by the government of the Sakha Republic, and the regional administration of the Samara region. These bonds mature from April 2013 to December 2013 with coupon rates ranging from 7.95% to 9.30% p.a. and yields to maturity as at 31 December 2012 ranging from 7.07% to 7.75% p.a. depending on the type of bond issue.

As at 31 December 2011 municipal bonds are represented by Russian Rouble denominated securities issued by the government of the Sakha Republic, and the regional administrations of the Samara and Nizhniy Nivgorod regions. These bonds mature from June 2012 to December 2013 with coupon rates ranging from 6.98% to 9.30% p.a. and yields to maturity as at 31 December 2011 ranging from 6.57% to 8.19% p.a. depending on the type of bond issue.

Analysis by credit quality of securities available-for-sale outstanding at 31 December 2012 and 2011 is as follows:

In thousands of Russian Roubles	2012	2011
- Rated BBB	50 818	-
- Rated from BB- to BB+	5 054	296 852
- Rated from B- to B+	-	6 854
Total	**55 872**	**303 706**

Ratings are based on Standart & Poor's or the equivalent ratings assigned by Fitch Rating and Moody's.

The table below shows carrying amount of securities available-for-sale pledged under sale and repurchase agreements as at 31 December 2012 and 2011.

In thousands of Russian Roubles	2012	2011
Municipal bonds	-	144 273
Total	**-**	**144 273**

Geographical, currency, maturity and interest rate analyses of securities available for sale are disclosed in note 32.

10 Investment securities held to maturity

In thousands of Russian Roubles	2012	2011
Corporate bonds	5 028 599	-
Municipal bonds	3 208 448	-
Total	**8 237 047**	**-**

10 Investment securities held to maturity (continued)

As at 31 December 2012 corporate bonds are represented by Russian Rouble denominated securities issued by a mortgage lending agency and the State Corporation engaged in scientific research and development in natural and engineering science. These bonds have maturity dates ranging from December 2013 to September 2028, coupon rates ranging from 8.60% to 10.50% p.a. and yields to maturity as at 31 December 2012 ranging from 7.42% to 8.12 % p.a. depending on the type of bond issue.

As at 31 December 2012 municipal bonds are represented by Russian Rouble denominated securities issued by the governments of the Sakha Republic (Yakutia), Khanty-Mansi Autonomous District - Yugra, and the regional administrations of Krasnoyarsk, Samara, Nizhniy Nivgorod and Tver regions. These bonds mature from April 2013 to December 2017 with coupon rates ranging from 7.49% to 15.00% p.a. and yields to maturity as at 31 December 2012 ranging from 7.07% to 9.14% p.a

Analysis by credit quality of investment securities held to maturity outstanding at 31 December 2012 is as follows:

In thousands of Russian Roubles	**Corporate bonds**	**Municipal bonds**	**Total**
- Rated BBB	4 525 524	824 962	5 350 486
- Rated from BB- to BB+	503 075	2 294 465	2 797 540
- Rated from B- to B+	-	89 021	89 021
Total	**5 028 599**	**3 208 448**	**8 237 047**

Ratings are based on Standart & Poor’s or the equivalent ratings assigned by Fitch Rating and Moody’s.

The table below shows carrying amount of investment securities held to maturity pledged under sale and repurchase agreements as at 31 December 2012 and 2011.

In thousands of Russian Roubles	**2012**	**2011**
Corporate bonds	5 028 599	-
Municipal bonds	2 980 708	-
Total	**8 009 307**	**-**

Geographical, currency, maturity and interest rate analyses of investment securities held to maturity are disclosed in note 32.

11 Due from other banks

In thousands of Russian Roubles	**2012**	**2011**
Short-term placements with other banks with original maturities of more than three months	89 184	69 144
Allowance for impairment	(4 753)	(4 753)
Total	**84 431**	**64 391**

At 31 December 2012 and 2011 due from other banks are represented by Russian Rouble denominated current term deposits and promissory notes of other banks placed in the Russian Federation.

11 Due from other banks (continued)

An analysis by credit quality of due from other banks (before allowance for impairment) as at 31 December 2012 and 2011 is as follows:

In thousands of Russian Roubles	**2012**	**2011**
- Rated BBB	75 930	64 390
- Rated from BB- to BB+	4 000	-
- Rated from B- to B+	4 500	-
- Not rated	4 754	4 754
Total before allowance for impairment	**89 184**	**69 144**

Ratings are based on Standart & Poor's or the equivalent ratings assigned by Fitch Rating and Moody's.

Due from other banks are not collateralized.

Geographical, currency, maturity and interest rate analyses of due from other banks are disclosed in note 32.

12 Loans and advances to customers

In thousands of Russian Roubles	**2012**	**2011**
Loans to legal entities		
- Related parties	12 874 812	9 607 269
- Corporate loans	23 564 061	16 108 569
- Small and medium size businesses	4 587 390	2 383 111
Total loans to legal entities	**41 026 263**	**28 098 949**
Loans to individuals		
- Express loans	9 656 980	7 339 811
- Loans to employees participating in payroll projects	4 824 373	2 744 326
- Unsecured consumer loans	18 579 226	8 260 788
- Collateralised consumer loans	2 376 550	1 189 063
Total loans to individuals	**35 437 129**	**19 533 988**
Total loans and advances to customers before allowance for impairment	**76 463 392**	**47 632 937**
Allowance for impairment	(4 048 268)	(2 670 747)
Total	**72 415 124**	**44 962 190**

In 2012 the main strategy of the Group related to retail loans was focused on lending to loyal and low-risk borrowers. Following this strategy, the Group increased its portfolio of loans to individuals in 2012 mainly to these categories of customers which have credit history in the Bank.

12 Loans and advances to customers (continued)

Movements in the allowance for impairment for loans to legal entities during the year 2012 are as follows:

In thousands of Russian Roubles	Related parties	Corporate loans	Small and medium size businesses	Total
Allowance for impairment as at 1 January 2012	**17 484**	**408 394**	**112 005**	**537 883**
Charge of provision	12 186	87 258	192 020	291 464
Write offs	-	(3 032)	(20 719)	(23 751)
Allowance for impairment as at 31 December 2012	**29 670**	**492 620**	**283 306**	**805 596**

Movements in the allowance for impairment for loans to individuals during the year 2012 are as follows:

In thousands of Russian Roubles	Express loans	Loans to employees participating in payroll projects	Unsecured consumer loans	Collateralised consumer loans	Total
Allowance for impairment as at 1 January 2012	**1 715 007**	**48 656**	**311 731**	**57 470**	**2 132 864**
Charge of provision	1 157 353	44 819	538 831	70 862	1 811 865
Write offs	(574 922)	(47)	(112 644)	(14 444)	(702 057)
Allowance for impairment as at 31 December 2012	**2 297 438**	**93 428**	**737 918**	**113 888**	**3 242 672**

Movements in the allowance for impairment for loans to legal entities during the year 2011 are as follows:

In thousands of Russian Roubles	Related parties	Corporate loans	Small and medium size businesses	Total
Allowance for impairment as at 1 January 2011	**23 910**	**350 763**	**119 504**	**494 177**
(Recovery)/Charge of provision	(6 426)	68 370	10 102	72 046
Write offs	-	(10 739)	(17 601)	(28 340)
Allowance for impairment as at 31 December 2011	**17 484**	**408 394**	**112 005**	**537 883**

Movements in the allowance for impairment for loans to individuals during the year 2011 are as follows:

In thousands of Russian Roubles	Express loans	Loans to employees participating in payroll projects	Unsecured consumer loans	Collateralised consumer loans	Total
Allowance for impairment as at 1 January 2011	**2 025 739**	**172 737**	**546 538**	**79 930**	**2 824 944**
Charge of provision	903 279	91 252	429 551	28 673	1 452 755
Write offs	(1 214 011)	(215 333)	(664 358)	(51 133)	(2 144 835)
Allowance for impairment as at 31 December 2011	**1 715 007**	**48 656**	**311 731**	**57 470**	**2 132 864**

12 Loans and advances to customers (continued)

Key assumptions and judgments for estimating the loan impairment

Loans to legal entities

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

The objective indicators of loan impairment for loans to legal entities include the following:

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

The Group has estimated loan impairment for loans to legal entities based on an analysis of the future cash flows for impaired loans and based on its past loss experience for portfolios of loans for which no indications of impairment have been identified.

In determining the impairment allowance for loans legal entities, management makes following key assumptions:

- the principal collateral taken into account in the estimation of future cash flows comprises mainly real estate, equipment and vehicles. For loans not assessed on an individual basis valuations for real estate are estimated at market value with discount rates from 0.2 to 0.4;
- the historic actual recovery rate of loans overdue more than 90 days is taken into account when estimating future recoveries on overdue loans;
- the value of real estate, equipment and vehicle collateral used in discounted future cash flows for the calculation of the allowance on individually assessed impaired loans is based on the valuation prepared by an independent appraiser or by the Risk management department of the Bank without any discount rate.

Changes in these estimates could effect the loan impairment allowance. For example, to the extent that the net present value of the estimated cash flows differs by plus/minus one percent, the loan impairment allowance on loans to legal entities as at 31 December 2012 would be RUB 402 207 thousand lower/higher (31 December 2011: RUB 275 611 thousand).

Loans to individuals

The Group estimates loan impairment for loans to individuals based on its past historical loss experience on each type of loan.

The significant assumptions used by management in determining the impairment losses for loans to individuals include:

- loss migration rates are constant and estimated based on historic loss migration pattern for the past 12 months;
- the historic actual recovery rate of overdue loans has been taken into account when estimating future recoveries on overdue loans.

Changes in these estimates could effect the loan impairment allowance. For example, to the extent that the net present value of the estimated cash flows differs by plus/minus one percent, the loan impairment allowance on loans to individuals as at 31 December 2012 would be RUB 321 945 thousand lower/higher (31 December 2011: RUB 174 011 thousand).

12 Loans and advances to customers (continued)

The loan portfolio structure as at 31 December by economic sectors is as follows:

	2012		2011	
In thousands of Russian Roubles	**Amount**	**%**	**Amount**	**%**
Individuals	35 437 129	46.3	19 533 988	41.0
Metallurgy and metals trade	13 042 453	17.1	10 411 818	21.9
Trade	8 892 940	11.6	6 195 600	13.0
Services	7 144 862	9.3	4 256 172	8.9
Manufacturing	2 663 734	3.5	3 639 281	7.6
Construction	2 533 399	3.3	1 972 765	4.1
Other	6 748 875	8.9	1 623 313	3.5
Total loans and advances to customers before allowance for impairment	**76 463 392**	**100.0**	**47 632 937**	**100.0**

As at 31 December 2012 the Group had a significant credit risk concentration in respect of one group of related borrowers, which are also considered as related parties. The aggregate amount of these loans is RUB 12 845 142 thousand, or 18% of the gross loan portfolio (31 December 2011: RUB 9 589 785 thousand, or 21% of the gross loan portfolio).

At 31 December 2012 the Group has 14 borrowers (31 December 2011: 12 borrowers) with aggregated loan amounts above RUB 500 000 thousand. The total aggregate amount of these loans is RUB 25 541 684 thousand (31 December 2011: RUB 16 771 179), or 33% (31 December 2011: 35%) of the gross loan portfolio.

12 Loans and advances to customers (continued)

Analysis by credit quality of loans outstanding at 31 December 2012 is as follows:

In thousands of Russian Roubles	**Express loans**	**Loans to employees participating in payroll projects**	**Unsecured consumer loans**	**Collateralised consumer loans**	**Total loans to individuals**
Loans to individuals					
Current and not past due:	5 108 388	4 617 934	16 862 314	2 198 712	28 787 348
- with credit history of less than 90 days	2 313 323	1 127 582	5 731 463	906 132	10 078 500
- with credit history of more than 90 days	2 795 065	3 490 352	11 130 851	1 292 580	18 708 848
Past due:	4 548 592	206 439	1 716 912	177 838	6 649 781
- loans past due less than 30 days	721 271	80 833	471 286	26 242	1 299 632
- loans past due 31 to 90 days	687 204	33 779	328 987	23 102	1 073 072
- loans past due 91 to 210 days	846 612	28 348	371 832	8 416	1 255 208
- loans past due 211 to 360 days	634 884	19 572	250 343	5 344	910 143
- loans past due over 360 days	1 658 621	43 907	294 464	114 734	2 111 726
Total loans to individuals before allowance for impairment	**9 656 980**	**4 824 373**	**18 579 226**	**2 376 550**	**35 437 129**
Allowance for impairment	(2 297 438)	(93 428)	(737 918)	(113 888)	(3 242 672)
Total	**7 359 542**	**4 730 945**	**17 841 308**	**2 262 662**	**32 194 457**
Allowance for impairment to gross loans, %	23.79	1.94	3.97	4.79	9.15

In thousands of Russian Roubles	**Related parties**	**Corporate loans**	**Small and medium size businesses**	**Total loans to legal entities**
Loans to legal entities				
Current and individually not impaired	12 874 812	22 627 586	4 100 138	39 602 536
Past due:	-	936 475	487 252	1 423 727
- loans past due less than 30 days	-	168	90 168	90 336
- loans past due 31 to 90 days	-	2 990	73 028	76 018
- loans past due 91 to 180 days	-	-	127 393	127 393
- loans past due 181 to 360 days	-	161 271	90 527	251 798
- loans past due over 360 days	-	772 046	106 136	878 182
Total loans to legal entities before allowance for impairment	**12 874 812**	**23 564 061**	**4 587 390**	**41 026 263**
Allowance for impairment	(29 670)	(492 620)	(283 306)	(805 596)
Total	**12 845 142**	**23 071 441**	**4 304 084**	**40 220 667**
Allowance for impairment to gross loans, %	0.23	2.09	6.18	1.96

12 Loans and advances to customers (continued)

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

In thousands of Russian Roubles	Express loans	Loans to employees participating in payroll projects	Unsecured consumer loans	Collateralised consumer loans	Total loans to individuals
Loans to individuals					
Current and not past due:	3 858 372	2 623 519	7 493 265	1 079 056	15 054 212
- with credit history of less than 90 days	705 302	566 968	2 314 975	276 747	3 863 992
- with credit history of more than 90 days	3 153 070	2 056 551	5 178 290	802 309	11 190 220
Past due:	3 481 439	120 807	767 523	110 007	4 479 776
- loans past due less than 30 days	507 471	54 752	270 337	6 022	838 582
- loans past due 31 to 90 days	371 665	16 766	122 368	300	511 099
- loans past due 91 to 210 days	621 983	19 694	138 836	1 722	782 235
- loans past due 211 to 360 days	968 620	16 564	102 293	101 963	1 189 440
- loans past due over 360 days	1 011 700	13 031	133 689	-	1 158 420
Total loans to individuals before allowance for impairment	**7 339 811**	**2 744 326**	**8 260 788**	**1 189 063**	**19 533 988**
Allowance for impairment	(1 715 007)	(48 656)	(311 731)	(57 470)	(2 132 864)
Total	**5 624 804**	**2 695 670**	**7 949 057**	**1 131 593**	**17 401 124**
Allowance for impairment to gross loans, %	23.37	1.77	3.77	4.83	10.92

In thousands of Russian Roubles	Related parties	Corporate loans	Small and medium size businesses	Total loans to legal entities
Loans to legal entities				
Current and individually not impaired	9 607 269	15 320 712	2 194 754	27 122 735
Past due:	-	787 857	188 357	976 214
- loans past due less than 30 days	-	23 612	26 290	49 902
- loans past due 31 to 90 days	-	13 190	25 895	39 085
- loans past due 91 to 180 days	-	-	12 016	12 016
- loans past due 181 to 360 days	-	11 668	13 568	25 236
- loans past due over 360 days	-	739 387	110 588	849 975
Total loans to legal entities before allowance for impairment	**9 607 269**	**16 108 569**	**2 383 111**	**28 098 949**
Allowance for impairment	(17 484)	(408 394)	(112 005)	(537 883)
Total	**9 589 785**	**15 700 175**	**2 271 106**	**27 561 066**
Allowance for impairment to gross loans, %	0.18	2.54	4.70	1.91

12 Loans and advances to customers (continued)

As at 31 December 2012 interest and commission accrued on impaired loans amount to RUB 569 055 thousand (31 December 2011: RUB 423 038 thousand).

The loans to individuals are mostly represented by express loans and unsecured consumer loans. Express loans are loans issued to individuals at points-of-sale with minimum credit requirements. Unsecured consumer loans are issued to individuals in banking offices after a scoring review. Management structures the credit analysis procedures with the aim to minimise the credit risk on unsecured consumer loans. Differences in credit quality of these products are reflected in higher interest rates on express loans.

The Group assesses the loans to individuals as current and not impaired if there was no overdue amount as at the reporting date, and no evidence that individuals will not be able to meet their obligations to repay of the loans in full and on time.

The Group assesses the credit quality of current and not impaired corporate loans by analyzing the following factors:

- there are no delays in repayment of principal and interest due to the financial insolvency of the borrower;

- financial statements and other financial information of the borrowers are submitted to the Group timely and in accordance with the terms of the loan agreements, and that information is transparent and allows analysis of the financial position of the borrower;

- the borrower is not sued for improper servicing of loans granted by other credit institutions;

- the loan is secured by liquid collateral, the fair value of which covers the outstanding loan amount.

Current and individually not impaired corporate loans are mostly represented by loans issued to large corporate entities which have a long credit history with the Group.

The amount reported as past due under loan agreements of legal entities and individuals is the outstanding balance of such loans, not only the individual instalments that are past due.

Analysis of collateral

The Group performs a valuation of fair value of real estate, vehicles and equipment pledged under loans to corporate customers every six months. Also the Group monitors the market value of properties on a regular basis and adjusts the fair value of collateral if significant changes in market prices are observed. The fair value of the collateral is determined by the Risk Department of the Bank based on market data and internal guidelines of the Group. As part of the assessment the comparative method is mainly used. The fair value of commodities in circulation is determined on the date of the loan by the Risk Department of the Bank and is not subsequently updated.

The fair value of collateral in respect of loans to legal entities as at 31 December 2012 is as follows.

Loans without collateral and unsecured portions of partially secured exposures are presented in the category "No collateral or other credit enhancement".

Corporate guarantees represented in the tables below are unrated.

12 Loans and advances to customers (continued)

In thousands of Russian Roubles	Carrying amount of loans to customers	Fair value of collateral - for collateral assessed as of reporting date	Fair value of collateral – for collateral assessed as of loan inception date
Current and individually not impaired			
Real estate	5 892 670	5 464 755	427 915
Motor vehicles	960 366	659 249	301 117
Equipment	684 218	274 988	409 230
Finished goods and inventories	798 814	140 147	658 667
Securities	13 794 470	13 794 470	-
Corporate guarantees	5 016 096	-	-
Guarantees of individuals	3 016 660	-	-
No collateral or other credit enhancement	9 315 729	-	-
Total	**39 479 023**	**20 333 609**	**1 796 929**
Past due			
Real estate	325 960	298 828	27 132
Motor vehicles	22 511	12 018	10 493
Equipment	107 574	100 850	6 724
Finished goods and inventories	40 203	37 821	2 382
Corporate guarantees	8 342	-	-
Guarantees of individuals	87 439	-	-
No collateral or other credit enhancement	149 615	-	-
Total	**741 644**	**449 517**	**46 731**
Total loans to legal entities before allowance for impairment	**40 220 667**	**20 783 126**	**1 843 660**

12 Loans and advances to customers (continued)

The fair value of collateral in respect of loans to corporate customers as at 31 December 2011 is as follows:

In thousands of Russian Roubles	**Carrying amount of loans to customers**	**Fair value of collateral - for collateral assessed as of reporting date**	**Fair value of collateral – for collateral assessed as of loan inception date**
Current and individually not impaired			
Real estate	4 361 417	4 080 055	281 362
Motor vehicles	362 403	223 457	138 946
Equipment	401 893	246 671	155 222
Finished goods and inventories	1 169 736	528 402	641 334
Securities	7 759 193	7 759 193	-
Corporate guarantees	2 623 679	-	-
Guarantees of individuals	1 670 879	-	-
No collateral or other credit enhancement	8 685 377	-	-
Total	**27 034 577**	**12 837 778**	**1 216 864**
Past due			
Real estate	190 804	111 620	79 184
Motor vehicles	20 330	8 215	12 115
Equipment	126 414	116 241	10 173
Finished goods and inventories	56 975	56 464	511
Securities	9 081	9 081	-
Corporate guarantees	4 105	-	-
Guarantees of individuals	15 788	-	-
No collateral or other credit enhancement	102 992	-	-
Total	**526 489**	**301 621**	**101 983**
Total loans to legal entities before allowance for impairment	**27 561 066**	**13 139 399**	**1 318 847**

The tables above exclude the effects of overcollateralization.

The recoverability of current and individually not impaired loans is primarily dependent on the creditworthiness of the borrowers rather than the value of collateral, and the current value of the collateral does not impact the impairment assessment.

Loans to retail customers are mainly pledged by real estate, vehicles, guarantees and sureties. The fair value of collateral is estimated at inception of the loans. Subsequently the Group monitors market prices every six months and adjusts the fair value of collateral if significant changes in market prices are observed. The Group performs a valuation of the fair value of collateral for impaired loans to retail customers also every six months, using the same methods as for corporate loans. Loans to retail customers secured by real estate are mainly represented by mortgage loans and loans with a pledge of property and included in "Collateralised consumer loans".

12 Loans and advances to customers (continued)

The analysis of the fair value of collateral in respect of loans to individuals past due more than 30 days as at 31 December 2012 and 2011 is as follows:

In thousands of Russian Roubles	2012	2011
Real estate	13 446	19 259
Motor vehicles	17 600	18 054
Total	**31 046**	**37 313**

As at 31 December 2012, for collateralized consumer loans that are neither past due or overdue less than 30 days management estimates that the fair value of collateral is at least equal to their carrying amounts. The recoverability of these loans is primarily dependent on the creditworthiness of the borrowers rather than the value of collateral, and the current value of the collateral does not impact the impairment assessment.

In accordance with amendments to IFRS 7 *Financial Instruments: Disclosures* the tables above show the fair value of collateral excluding the effects of overcollateralisation.

The actual net realizable value of the collateral on loans to legal entities and individuals can significantly differ from the amounts disclosed in the table above due to possible unforeseeable difficulties in obtaining ownership rights over the borrower's property.

Geographical, currency, maturity and interest rate analyses of loans and advances to customers are disclosed in note 32. Information on related party transactions is disclosed in note 37.

13 Finance lease receivables

Finance lease receivables as at 31 December 2012 of RUB 665 877 thousand (2011: RUB 540 187 thousand), RUB 421 612 thousand (31 December 2011: RUB 398 528 thousand) and RUB 34 574 thousand (31 December 2011: RUB 18 997 thousand) are represented by leases of motor vehicles, equipment and premises, respectively.

Finance lease payments receivable (gross investment in the leases) and their present values at 31 December 2012 and 2011 are as follows:

In thousands of Russian Roubles	Less than 1 year	From 1 to 5 years	More than 5 years	Total
Finance lease payments receivable at 31 December 2012	**454 799**	**641 657**	**25 607**	**1 122 063**
Unearned finance income	(43 188)	(213 548)	(12 834)	(269 570)
Allowance for impairment	(6 589)	(6 434)	(116)	(13 139)
Present value as at 31 December 2012	**405 022**	**421 675**	**12 657**	**839 354**
Finance lease payments receivable at 31 December 2011	**346 059**	**544 398**	**67 255**	**957 712**
Unearned finance income	(33 530)	(186 990)	(35 971)	(256 491)
Allowance for impairment	(3 895)	(6 910)	(976)	(11 781)
Present value as at 31 December 2011	**308 634**	**350 498**	**30 308**	**689 440**

13 Finance lease receivables (continued)

Analysis of changes in the allowance for impairment of finance lease receivables is as follows:

In thousands of Russian Roubles	2012	2011
Allowance for impairment as at 1 January	**11 781**	**48 381**
Charge/(recovery) of provision	1 358	(32 764)
Write-offs	-	(3 836)
Allowance for impairment as at 31 December	**13 139**	**11 781**

Analysis by credit quality of finance lease receivables outstanding at 31 December 2012 is as follows:

In thousands of Russian Roubles	Before allowance for impairment	Allowance for impairment	Net amount
Not overdue	825 890	(8 200)	817 690
Overdue:	26 603	(4 939)	21 664
- overdue less than 30 days	18 448	-	18 448
- overdue 91-210 days	2 275	-	2 275
- overdue 211-360 days	5 880	(4 939)	941
Total	**852 493**	**(13 139)**	**839 354**

Analysis by credit quality of finance lease receivables outstanding at 31 December 2011 is as follows:

In thousands of Russian Roubles	Before allowance for impairment	Allowance for impairment	Net amount
Not overdue	675 517	(7 312)	668 205
Overdue:	25 704	(4 469)	21 235
- overdue less than 30 days	7 425	(206)	7 219
- overdue 31-90 days	12 769	(3 239)	9 530
- overdue 91-210 days	5 189	(1 024)	4 165
- overdue 211-360 days	321	-	321
Total	**701 221**	**(11 781)**	**689 440**

Information about the fair value of collateral is as follows:

In thousands of Russian Roubles	31 December 2012	31 December 2011
Motor vehicles	488 435	376 497
Equipment	333 626	305 264
Premises	23 339	14 240
Total	**845 400**	**696 001**

In accordance with amendments to IFRS 7 *Financial Instruments: Disclosures* in the table above reflects the fair value of collateral excluding the effects of overcollateralization.

The fair value of collateral as at 31 December 2012 and 2011 is estimated by the Bank's Risk department based on current market prices.

Geographical, currency, maturity and interest rate analyses of finance lease receivables are disclosed in note 32.

14 Property and equipment

In thousands of Russian Roubles	Notes	Land and premises	Office and computer equipment	Construction in progress	Total
Cost or valuation as at 1 January 2011		4 902 443	1 207 075	94 286	6 203 804
Accumulated depreciation		(666 382)	(640 012)	-	(1 306 394)
Carrying amount as at 1 January 2011		**4 236 061**	**567 063**	**94 286**	**4 897 410**
Additions		41 512	245 485	113 411	400 408
Transfers		12 747	27 302	(40 049)	-
Disposals – cost		(50 719)	(44 131)	-	(94 850)
Disposals - accumulated depreciation		4 147	29 351	-	33 498
Depreciation charge	29	(120 458)	(126 869)	-	(247 327)
Carrying amount as at 31 December 2011		**4 123 290**	**698 201**	**167 648**	**4 989 139**
Cost or valuation as at 31 December 2011		4 905 983	1 435 731	167 648	6 509 362
Accumulated depreciation		(782 693)	(737 530)	-	(1 520 223)
Carrying amount as at 31 December 2011		**4 123 290**	**698 201**	**167 648**	**4 989 139**
Additions		37 875	282 611	229 915	550 401
Transfers		44 713	86 556	(131 269)	-
Transfer to "Investment Property"		(501 025)	(4 649)	-	(505 674)
Disposals – cost		(10 641)	(132 867)	-	(143 508)
Disposals - accumulated depreciation		1 602	124 606	-	126 208
Depreciation charge	29	(115 820)	(155 931)	-	(271 751)
Revaluation recognized in profit or loss for the period		(8 153)	-	-	(8 153)
Revaluation recognized in other comprehensive income		88 037	-	-	88 037
Carrying amount as at 31 December 2012		**3 659 878**	**898 527**	**266 294**	**4 824 699**
Cost or valuation as at 31 December 2012		3 688 315	1 648 274	266 294	5 602 883
Accumulated depreciation		(28 437)	(749 747)	-	(778 184)
Carrying amount as at 31 December 2012		**3 659 878**	**898 527**	**266 294**	**4 824 699**

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

14 Property and equipment (continued)

Premises were revalued as at 1 December 2012 by an independent appraiser LCC "SRG-Appraisal" with appropriate professional qualification background and recent experience in appraisal of similar objects of property.

The basis used for the appraisal is the combination of market and income approaches weighted on 50%/50% basis.

The market approach is based upon an analysis of the results of comparable sales or offers of similar buildings. Adjustments were applied for location, size, condition, design, bargain discount, date of offer, and parking.

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

- the rental rates applied by the Appraiser were calculated based on the analysis of comparable properties' rental rates;
- the vacancy rate of 9.1% was assumed for the properties located in Ekaterinburg, the vacancy rate of 4.8% was assumed for the properties located in other regions;
- the capitalization rate from 8.4% to 13.3% was assumed depending on size and location of property.

The values assigned to the key assumptions represent management's assessment of future business trends and are based on both external sources and internal sources of information.

Changes in the estimates above could effect the value of the buildings. For example, to the extent that the net present value of the estimated cash flows differs by plus minus three percent, the building valuation as at 31 December 2012 would be RUB 108 024 thousand lower/higher (2011: RUB 122 840 thousand).

Based on valuation results the carrying amount of property and equipment was increased by RUB 88 037 thousand recognized in revaluation reserve for land and premises.

As at 31 December 2012 an increase in deferred tax liability of RUB 17 608 thousand is recognised in other comprehensive income in respect of the revaluation.

As at 31 December 2011 revaluation of land and buildings was not carried out due to insignificant change of fair value of real estate in 2011.

At 31 December 2012, the carrying amount of land and premises would have been RUB 2 652 169 thousand (31 December 2011: RUB 3 101 096 thousand) had the assets been carried at cost less depreciation and impairment losses.

15 Intangible assets

In thousands of Russian Roubles	**Notes**	**Software licenses**
Cost as at 1 January 2011		169 848
Accumulated amortisation		(39 344)
Carrying amount as at 1 January 2011		**130 504**
Additions		36 354
Disposals - cost		(5 202)
Disposals - accumulated amortisation		4 889
Amortisation charge	29	(19 516)
Carrying amount as at 31 December 2011		**147 029**
Cost as at 31 December 2011		201 000
Accumulated amortisation		(53 971)
Carrying amount as at 31 December 2011		**147 029**
Additions		63 968
Disposals – cost		(1 134)
Disposals - accumulated amortisation		1 134
Amortisation charge	29	(29 086)
Carrying amount as at 31 December 2012		**181 911**
Cost as at 31 December 2012		263 834
Accumulated amortisation		(81 923)
Carrying amount as at 31 December 2012		**181 911**

Additions to intangible assets represent capitalised software and license costs related to a centralised operational banking system which is used as a basis for decision making and control of financial and operating activities at all management levels of the Group.

16 Investment property

In thousands of Russian Roubles	Buildings and land
Cost as at 1 January 2011	-
Accumulated depreciation	-
Carrying amount as at 1 January 2011	**-**
Transfer from "Advances to real estate developers"	2 924 386
Additions	3 132 946
Depreciation charge	(9 457)
Carrying amount as at 31 December 2011	**6 047 875**
Cost as at 31 December 2011	6 057 332
Accumulated depreciation	(9 457)
Carrying amount as at 31 December 2011	**6 047 875**
Transfer from "Property and equipment"	505 674
Additions	114 036
Disposals – cost	(629 225)
Disposals - accumulated depreciation	2 984
Depreciation charge	(86 139)
Carrying amount as at 31 December 2012	**5 955 205**
Cost as at 31 December 2012	6 047 817
Accumulated depreciation	(92 612)
Carrying amount as at 31 December 2012	**5 955 205**

The fair value of investment property as of 31 December 2012 is RUR 7 001 914 thousand (31 December 2011: RUR 6 109 899 thousand). Fair values are estimated based on actual market data by an independent appraiser with appropriate professional qualification background and recent experience in appraisal of similar objects of investment property.

16 Investment property (continued)

The following table shows profit and losses from operations with investment property for years ended 31 December 2012 and 2011.

In thousands of Russian Roubles	2012	2011
Income		
Rental income	103 602	-
Income from disposal	101 239	-
Total	**204 841**	**-**
Expenses		
Property tax	120 466	16 269
Depreciation	86 139	9 457
Expenses from disposal	67 311	-
Utility costs and repairs	66 543	-
Advertising and marketing services	15 171	-
Insurance	36	-
Total	**355 666**	**25 726**
Loss from operation with investment property	**150 825**	**25 726**

17 Advances to real estate developers

Advances to real estate developers represent investments in investment contracts for construction of apartment buildings, business centres, hotels and other properties in Moscow, Ekaterinburg and Sochi. Upon completion of construction the Group is contractually entitled to receive the real estate property. The Group generally intends to sell the majority of these investments close to completion stage. However in 2011 the Group obtained possession of certain projects and now includes them in investment property. The Group receives income from the amounts advanced to developers at imputed rates of interest. The income is received in the legal form of penalties payable by the developers for breaches of various terms of the contracts, which is recognised as interest income. The consolidated income statement for the year ended 31 December 2012 includes interest income of RUB 54 024 thousand (31 December 2011: RUB 232 198 thousand) relative to the above mentioned investments.

Advances to real estate developers are neither past due or impaired as of 31 December 2012 and 2011. These investments are secured by the underlying real estate. Management of the Group believes that the fair value of collateral is at least equal to the carrying amount of each investment contract at the reporting date.

Geographical, currency, maturity and interest rate analyses of advances to real estate developers are disclosed in note 32.

18 Other assets

In thousands of Russian Roubles	Notes	2012	2011
Settlements on transactions with securities and precious metals		606 638	167 905
Credit and debit cards receivables		140 041	80 837
Settlements on cash and other operations		87 030	83 844
Precious metals forward contracts	35	37 529	28 720
Foreign exchange forward contracts	35	34 054	22 588
Deferred expenses on other raised funds		29 335	-
Other		9 232	8 489
Total other financial assets		**943 859**	**392 383**
Prepayments for administrative services		1 666 165	585 358
Prepayments for construction in progress		203 188	38 356
Prepaid taxes other than income tax		66 049	53 199
Precious metals		49 634	30 943
Equipment purchased for finance leases		22 053	7 251
Deferred expenses		13 470	6 357
Other non-financial receivables		66 454	67 621
Total other non-financial assets		**2 087 013**	**789 085**
Total		**3 030 872**	**1 181 468**

As at 31 December 2012 the amount of RUB 933 767 thousand included in prepayments for administrative services is represented by advances given on supplying agreements of equipment for further resale (31 December 2011: nil).

Geographical, currency and maturity analyses of other assets are disclosed in note 32. The information on related party transactions is disclosed in note 37.

19 Assets held for sale

In thousands of Russian Roubles	2012	2011
Premises and land	243 594	33 159
Motor vehicles	2 744	3 156
Other property	267	499
Total	**246 605**	**36 814**

Included in assets held for sale is property obtained from borrowers as settlement for loans.

Management estimates that the fair value of assets held for sale as at 31 December 2012 and 2011 exceeds their carrying value.

In accordance with the requirements of IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* these assets are accounted for in these consolidated financial statements at the lower of their carrying amount and fair value less costs to sale as at 31 December 2012 and 2011. These assets are expected to be sold within 1 year.

20 Due to other banks

In thousands of Russian Roubles	2012	2011
Sale and repurchase agreements on securities	21 957 382	13 731 226
Short-term deposits	4 080 951	1 556 551
Correspondent accounts and overnight placements	654 521	511 145
Total	**26 692 854**	**15 798 922**

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

The securities lent or sold under agreements to repurchase are transferred to a third party and the Group receives cash in exchange. These financial assets may be repledged or resold by counterparties in the absence of default by the Group, but the counterparty has an obligation to return the securities at the maturity of the contract. The Group has determined that it retains substantially all the risks and rewards of these securities and therefore has not derecognised them. These securities are presented as "pledged under sale and repurchase agreements" in notes 7-10. In addition, the Group recognises a financial liability for cash received as collateral included in deposits and balances from banks. As at 31 December 2012 the obligations under direct repurchase agreements amounted to RUB 21 957 382 thousand (31 December 2011: RUB 13 731 226 thousand), including obligations under direct repurchase agreements with the CBRF of RUB 19 355 043 thousand. (31 December 2011: RUB 9 572 592 thousands).

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

Geographical, currency, maturity and interest rate of due to other banks are disclosed in note 32.

21 Customer accounts

In thousands of Russian Roubles	2012	2011
State and public organisations		
- Current/settlement accounts	5 450	8
- Term deposits	1 000 000	-
Other legal entities		
- Current/settlement accounts	12 714 653	7 909 099
- Term deposits	15 105 340	11 935 496
Individuals		
- Current/demand accounts	6 060 467	4 694 027
- Term deposits	60 759 392	44 964 831
Total	**95 645 302**	**69 503 461**

State and public organisations exclude government owned profit oriented businesses.

At 31 December 2012 the Group has 12 customers (31 December 2011: 9 customers) with balances above RUB 300 000 thousand. The aggregate balances from these customers are RUB 10 989 449 thousand (31 December 2011: RUB 6 493 708 thousand), or 11% (31 December 2011: 9%) of total customer accounts.

At 31 December 2012 in customer accounts included deposits of RUB 1 926 028 thousand (31 December 2011: RUB 322 985 thousand) held as collateral for irrevocable commitments under import letters of credit.

21 Customer accounts (continued)

The economic sector concentrations as at 31 December within customer accounts are as follows:

In thousands of Russian Roubles	Amount	%	Amount	%
Individuals	66 819 859	69.9	49 658 858	71.4
Services	8 996 966	9.4	6 286 214	9.0
Trade	7 291 526	7.6	3 901 955	5.6
Manufacturing	3 138 123	3.3	2 613 480	3.8
Construction	2 964 220	3.1	1 800 460	2.6
Government	1 000 000	1.0	-	-
Other	5 434 608	5.7	5 242 494	7.6
Total	**95 645 302**	**100.0**	**69 503 461**	**100.0**

Geographical, currency, maturity and interest rate analyses of customer accounts are disclosed in note 32. The information on related parties transactions is disclosed in note 37.

22 Debt securities in issue

In thousands of Russian Roubles	2012	2011
Promissory notes	4 852 500	3 529 992
Bonds issued on the domestic market	4 087 499	1 522 190
Total	**8 939 999**	**5 052 182**

As at 31 December 2012 debt securities in issue are represented by Russian Rouble denominated bonds in amount of RUB 4 087 499 thousand (31 December 2011: RUB 1 522 190 thousand) issued by the Group.

The following table provides information about the bonds:

Series	02	БО-1
Emissions, thousand rubles	2 000 000	2 000 000
Nominal value,rubles	1 000	1 000
Date of adding	April 2011	October 2012
Maturity	May 2014	September 2015
The rate of the first three coupons, % p.a.	9.5	12.5
Coupon period, days	183	182

In 2011 the Group bought back bonds issued with the carrying value of RUB 506 069 thousand as of 31 December 2011 to manage the debt.

At 31 December 2012 the Group has 4 customers (31 December 2011: 2 customers) with balances above RUB 300 000 thousand. The aggregate balances of promissory notes issued to these customers are RUB 3 491 375 thousand (31 December 2011: RUB 2 669 937 thousand), or 39% (31 December 2011: 53%) of total debt securities in issue.

As at 31 December 2012 and 2011 the estimated fair values of debt securities in issue approximate their carrying values.

Geographical, currency, maturity and interest rate analyses of debt securities in issue are disclosed in note 32. The information on related parties transactions is disclosed in note 37.

23 Other liabilities

In thousands of Russian Roubles	Notes	2012	2011
Trade payables		83 279	42 893
Payables for mandatory insurance of deposits		61 519	45 126
Precious metals forward contracts	35	35 330	43 067
Foreign currency forward contracts	35	10 217	628
Settlements on plastic cards		3 206	1 210
Payables for construction of investment property		-	208 756
Other		49 804	8 402
Total other financial liabilities		**243 355**	**350 082**
Taxes other than income tax payable		72 054	53 454
Advance payments under lease agreements		36 201	-
Provision for financial guaranties contracts		33 538	11 214
Other		4 521	1 500
Total other non-financial liabilities		**146 314**	**66 168**
Total		**389 669**	**416 250**

Geographical, currency and maturity analyses of other financial liabilities are disclosed in note 32. The information on transactions with related parties is disclosed in note 37.

24 Subordinated debt

On 27 December 2012 the Group attracted a non-secured subordinated debt of USD 30 million for 6 years. The loan was granted by Singapore company XANGBO GLOBAL MARKETS PTE LTD at a contractual interest rate of 8.25% p.a. As at 31 December 2012 this subordinated debt was accounted for at amortised cost of RUB 912 000 thousand.

On 27 December 2007 the Group attracted a non-secured subordinated debt of USD 50 million for 10 years. The loan was granted by The Royal Bank of Scotland (previous name - ABN AMRO BANK N.V.) at a contractual interest rate of Libor plus 8.0% p.a. As at 31 December 2012 this subordinated debt was accounted for at amortised cost of RUB 1 556 741 thousand (31 December 2011: RUB 1 646 691 thousand).

In the event of the Bank's liquidation the creditors under this subordinated debt would be the last ones entitled to receive repayment.

Geographical, currency, maturity and interest rate of subordinated debt are disclosed in note 32.

25 Share capital, share premium and additional capital

In thousands of Russian Roubles	Number of outstanding shares	Ordinary shares
At 1 January 2011	668 121 000	2 634 812
At 31 December 2011	668 121 000	2 634 812
At 31 December 2012	1 001 454 334	3 634 812

On 29 June 2012 the CBRF registered the Bank's issue of shares in the amount of RUB 1 000 000 thousand. The issue comprises placements of 333 333 334 ordinary uncertificated registered shares with the nominal value of RUB 3. The share capital after the issue in accordance with Russian accounting amounts to RUB 3 004 363 thousand. As a result of the additional issue share premium amount recognized in equity increased by RUB 1 000 000 thousand and as at 31 December 2012 amounted to RUB 1 581 956 rubles (31 December 2011: RUB 581 956 thousand).

Share capital contributions made before 1 January 2003, are adjusted by RUB 630 449 thousand according to changes in general purchasing power of the Russian Rouble as defined by IAS 29 *Financial Reporting in Hyperinflationary Economies*.

As at 31 December 2012 and 2011 all outstanding shares were authorised, issued and fully paid in.

As at 31 December 2012 all ordinary shares have a nominal value of RUB 3 per share (31 December 2011: RUB 3 per share). Each share carries one vote.

Share premium is the amount by which the contributions to share capital exceeded the nominal value of the shares issued.

During 2011 additional capital was increased by RUB 1 855 000 thousand represented by cash contributions made by the controlling shareholder. As at 31 December 2012 additional capital amounts to RUB 2 379 203 thousand (31 December 2011: RUB 2 379 203 thousand).

26 Dividends

In accordance with the legislation of the Russian Federation, the Bank distributes profits as dividends or transfers them to reserves (fund accounts) on the basis of the statutory accounting reports. The reserves under Russian Accounting Rules at 31 December 2012 are RUB 4 303 313 thousand (31 December 2011: RUB 2 096 320 thousand) (calculation of the reserves under Russian Accounting Rules is unaudited by ZAO KPMG).

On 20 April 2012 at a meeting of the Board of Directors on the results of 2011 dividends were declared at the rate of RUB 0.45 to one issued ordinary share of the Bank. The total amount was RUB 300 654 thousand.

On 9 November 2012 at a meeting of the Board of Directors on the results for the first 9 months of 2012 dividends were declared at the rate of RUB 00.30 to one issued ordinary share of the Bank. The total amount of dividends was RUB 300 436 thousand.

On 1 June 2012 dividends declared before 2006 were restored to retained earnings in the amount of RUB 7 thousand due to the expiration of the claim for payment of declared dividends.

27 Interest income and expense

In thousands of Russian Roubles	2012	2011
Interest income		
Loans and advances to customers	10 169 478	7 600 375
Other securities at fair value through profit or loss	2 495 417	2 051 394
Investment securities held to maturity	525 122	-
Finance lease receivables	143 399	96 305
Correspondent accounts with other banks	97 702	23 074
Advances to real estate developers	54 024	232 198
Securities available-for-sale	27 603	68 999
Due from other banks	17 935	13 171
Receivables under reverse repo agreements	-	195
Total	**13 530 680**	**10 085 711**
Interest expense		
Term deposits of individuals	4 440 914	3 657 079
Sale and repurchase agreements	1 286 795	638 351
Term placements of legal entities	845 717	483 726
Debt securities in issue	486 349	253 726
Term placements of other banks	186 323	93 338
Current/settlement accounts	171 974	62 756
Subordinated debt	143 362	127 575
Correspondent accounts of other banks	8 983	5 941
Other	-	12 685
Total	**7 570 417**	**5 335 177**
Net interest income	**5 960 263**	**4 750 534**

The information on transactions with related parties is disclosed in note 37.

28 Fee and commission income and expense

In thousands of Russian Roubles	2012	2011
Fee and commission income		
Transactions with plastic cards and cheques	1 578 053	538 615
Settlement transactions	417 904	352 936
Cash transactions	106 714	104 047
Guarantees issued	56 303	14 815
Letters of credit	42 569	22 808
Cash collection	20 137	11 923
Transactions with securities	3 842	6 669
Fiduciary activities	1 403	2 096
Other	77 683	48 861
Total	**2 304 608**	**1 102 770**
Fee and commission expense		
Transactions with plastic cards and cheques	108 212	61 678
Settlement transactions	49 465	46 288
Cash collection	53 940	43 524
Letters of credit	44 398	7 966
Transactions with securities	8 225	4 334
Trade finance transaction	7 878	12 574
Transactions with precious metals	2 635	3 030
Other	5 492	-
Total	**280 245**	**179 394**
Net fee and commission income	**2 024 363**	**923 376**

The information on transactions with related parties is disclosed in note 37.

29 Administrative and other operating expenses

In thousands of Russian Roubles	Notes	2012	2011
Staff costs		2 545 420	1 828 573
Operating lease expense for property and equipment		287 453	152 939
Depreciation of property and equipment	14	271 751	247 327
Advertising and marketing services		252 740	309 642
Professional services		235 804	102 655
Contributions to State deposit insurance system		221 319	176 432
Acquisition of fittings and materials		140 842	70 528
Other costs of property and equipment		109 165	133 245
Taxes other than income tax		103 903	115 280
Security services		84 659	40 559
Information and communication services		49 199	59 338
Insurance of employees and business property		37 643	14 353
Computer software maintenance		37 534	24 433
Amortisation of intangible assets	15	29 086	19 516
Other		113 398	80 379
Total		**4 519 916**	**3 375 199**

Included in staff costs are statutory social security and pension contributions of RUB 507 087 thousand (2011: RUB 343 955 thousand).

30 Income tax expense

Income tax expense comprises the following:

In thousands of Russian Roubles	2012	2011
Current tax	356 956	275 003
Income tax under (over) provided in prior years	262	(11 004)
Deferred tax	(192 447)	(140 575)
Income tax expense for the year	**164 771**	**123 424**

The income tax rate applicable to the majority of income is 20% (2011: 20%). A reconciliation between the expected and the actual tax expense is provided below.

In thousands of Russian Roubles	2012	2011
Profit before tax	**1 011 203**	**628 250**
Theoretical tax at applicable rate	202 241	125 650
Non-deductible costs	3 990	14 610
Income on state securities taxed at lower tax rates	(22 244)	(5 339)
Income tax under (over) provided in prior years	262	(11 004)
Other differences	(19 478)	(493)
Income tax expense	**164 771**	**123 424**

As at 31 December 2012 an increase in deferred tax liability of RUB 22 889 thousand (31 December 2011: a decrease of RUB 7 188 thousand) is recorded directly in other comprehensive income in respect of the revaluation of property, securities available-for-sale and cumulative translation reserve (refer to note 9 and 14).

Differences between IFRS and Russian statutory taxation regulations 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%).

30 Income tax expense (continued)

In thousands of Russian Roubles	Deferred tax asset 2012	Deferred tax asset 2011	Deferred tax liability 2012	Deferred tax liability 2011	Net position 2012	Net position 2011
Trading and other securities at fair value through profit or loss	16 350	3 831	(21)	(33 590)	16 329	(29 759)
Securities available-for-sale	-	-	(309)	(149)	(309)	(149)
Investment securities held to maturity	10 530	-	-	-	10 530	-
Due from other banks	961	961	-	-	961	961
Loans and advances to customers	287 179	288 943	-	-	287 179	288 943
Finance lease receivables	4 930	2 641	(13 522)	(5 499)	(8 592)	(2 858)
Property and equipment	10 444	59 338	(261 212)	(230 468)	(250 768)	(171 130)
Intangible assets	-	-	(30 136)	(28 303)	(30 136)	(28 303)
Investment property	225 013	24 704	-	-	225 013	24 704
Advances to real estate developers	-	-	(51 870)	(41 384)	(51 870)	(41 384)
Customer accounts	3 424	1 833	-	-	3 424	1 833
Debt securities in issue	12 430	9 534	-	-	12 430	9 534
Subordinated debt	-	-	(2 091)	(2 538)	(2 091)	(2 538)
Tax losses carry-forward	106 592	84 650	-	-	106 592	84 650
Foreign currency translation difference	2 135	7 256	-	-	2 135	7 256
Other	2 559	13 923	(59 696)	(61 551)	(57 137)	(47 628)
Total	**682 547**	**497 614**	**(418 857)**	**(403 482)**	**263 690**	**94 132**
Including:						
Deferred tax asset					**564 512**	**446 099**
Deferred tax liability					**(300 822)**	**(351 967)**

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

In thousands of Russian Roubles	31 December 2011	Recognised in profit or loss	Recognised in other comprehensive income	31 December 2012
Trading and other securities at fair value through profit or loss	(29 759)	46 088	-	16 329
Securities available-for-sale	(149)	-	(160)	(309)
Investment securities held to maturity	-	10 530	-	10 530
Due from other banks	961	-	-	961
Loans and advances to customers	288 943	(1 764)	-	287 179
Finance lease receivables	(2 858)	(5 734)	-	(8 592)
Property and equipment	(171 130)	(62 030)	(17 608)	(250 768)
Intangible assets	(28 303)	(1 833)	-	(30 136)
Investment property	24 704	200 309	-	225 013
Advances to real estate developers	(41 384)	(10 486)	-	(51 870)
Customer accounts	1 833	1 591	-	3 424
Debt securities in issue	9 534	2 896	-	12 430
Subordinated debt	(2 538)	447	-	(2 091)
Tax losses carry-forward	84 650	21 942	-	106 592
Foreign currency translation difference	7 256	-	(5 121)	2 135
Other	(47 628)	(9 509)	-	(57 137)
Total	**94 132**	**192 447**	**(22 889)**	**263 690**

30 Income tax expense (continued)

In thousands of Russian Roubles	31 December 2010	Recognised in profit or loss	Recognised in other comprehensive income	31 December 2011
Trading and other securities at fair value through profit or loss	47 453	(77 212)	-	(29 759)
Securities available-for-sale	(71 137)	68 514	2 474	(149)
Due from other banks	1 033	(72)	-	961
Loans and advances to customers	226 732	62 211	-	288 943
Finance lease receivables	10 872	(13 730)	-	(2 858)
Property and equipment	(292 157)	121 027	-	(171 130)
Intangible assets	(10 113)	(18 190)	-	(28 303)
Investment property	-	24 704	-	24 704
Advances to real estate developers	(100 087)	58 703	-	(41 384)
Customer accounts	561	1 272	-	1 833
Debt securities in issue	7 289	2 245	-	9 534
Subordinated debt	(2 901)	363	-	(2 538)
Tax losses carry-forward	100 350	(15 700)	-	84 650
Foreign currency translation difference	2 542	-	4 714	7 256
Other	25 932	(73 560)	-	(47 628)
Total	**(53 631)**	**140 575**	**7 188**	**94 132**

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 tax authority.

31 Segment analysis

The Group has three reportable segments, which are represented by separate business units. The business units offer different products and services, and are managed separately because they require different technology and marketing strategies. The Assets and Liabilities Management Committee reviews internal management reports on each business unit on at least a twice a month basis, analyses and monitors the efficiency and quality of performance, and insures coordination of business units in liquidity and profit management. The following summary describes the operations in each of the reportable segments.

- 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.

- Financial markets – representing financial instrument trading, loans and deposits in the interbank market, dealing in foreign exchange, precious metals and derivative financial instruments.

Information regarding the results of each reportable segment is presented below. Performance is measured based on segment profit before income tax as included in the internal management reports based on the accounting data received in accordance with the Russian Accounting Rules (with adjustment of certain entries by economic substance) reviewed by the Assets and Liabilities Management Committee. Segment profit is used to measure its performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within this industry.

31 Segment analysis (continued)

Administrative and other operating expenses in the tables below are allocated on the basis of the percentage of staff employed by each segment. Property and equipment is not allocated to segments in managemment accounts. Gains/(losses) from transactions with other segments represent income and expense from lending and borrowing between segments and are determined by using a transfer rate defined by management. Inter-segment pricing is determined on an arm's length basis.

Segment information for the reportable segments as at and for the year ended 31 December 2012 is set out below.

In thousands of Russian Roubles	**Retail banking**	**Corporate banking**	**Financial markets**	**Total**
Interest income from external operations	5 479 888	4 530 711	3 117 352	13 127 951
Interest expense	(4 441 615)	(1 296 273)	(1 920 887)	(7 658 775)
Gains/(losses) from transactions with other segments	2 552 957	(996 943)	317 471	1 873 485
Fee and commission income	1 580 843	597 556	(3 538)	2 174 861
Loss from transactions with securities	-	-	(225 390)	(225 390)
Gain/(loss) from transactions with foreign currencies and precious metals	54 746	138 640	(31 333)	162 053
Other operating income	165 106	21 399	-	186 505
Administrative and other operating expenses	(2 214 960)	(679 352)	(33 627)	(2 927 939)
Profit before tax	**3 176 965**	**2 315 738**	**1 220 048**	**6 712 751**
Segment assets	**38 090 975**	**51 127 470**	**36 360 604**	**125 579 049**
Segment liabilities	**66 447 668**	**34 007 325**	**31 347 223**	**131 802 216**

Segment information for the main reportable segments as at and for the year ended 31 December 2011 is set out below.

In thousands of Russian Roubles	**Retail banking**	**Corporate banking**	**Financial markets**	**Total**
Interest income from external operations	4 165 081	3 217 290	2 127 495	9 509 866
Interest expense	(3 652 087)	(707 912)	(960 334)	(5 320 333)
Gains/(losses) from transactions with other segments	2 303 572	(719 113)	139 356	1 723 815
Fee and commission income	574 833	436 568	6 677	1 018 078
Loss from transactions with securities	-	-	(382 085)	(382 085)
Gain from transactions with foreign currencies and precious metals	41 018	67 326	192 330	300 674
Other operating income	142 436	435 487	-	577 923
Administrative and other operating expenses	(1 486 573)	(506 470)	(31 025)	(2 024 068)
Profit before tax	**2 088 280**	**2 223 176**	**1 092 414**	**5 403 870**
Segment assets	**20 275 951**	**39 540 863**	**27 753 339**	**87 570 153**
Segment liabilities	**49 298 828**	**24 864 010**	**19 605 956**	**93 768 794**

31 Segment analysis (continued)

Reconciliations of reportable segment profit or loss, assets and liabilities as at and for the years ended 31 December 2012 and 2011 are as follows:

In thousands of Russian Roubles	2012	2011
Segment profit before tax	**6 712 751**	**5 403 870**
Elimination of revenues on transactions with other segments	(1 873 485)	(1 723 815)
Other revenues	42 847	79 710
Allowance for impairment of loans and advances to customers per management accounts	(1 741 015)	(1 444 838)
Unallocated administrative and other operating expenses	(1 655 316)	(1 393 403)
IFRS accounting policy adjustments:		
- elimination of profit from transactions with subsidiaries, SPE and unit investment funds	(281 964)	(350 062)
- (loss)/profit of subsidiaries, SPE and unit investment funds from transactions with third parties	(130 771)	80 944
- allowance for impairment of loans, advances to customers, finance lease receivables and due from other banks	(363 672)	(47 199)
- interest income on loans and advances to customers	332 196	59 337
- administrative and other operating expenses on accrual basis	111 302	4 708
- securities at amortized cost	(52 068)	-
- depreciation and financial result from realization of property, investment property and intangible assets	(45 796)	(61 598)
- securities at fair value	(39 274)	39 244
- loss from revaluation of property and equipment	(8 153)	-
- other adjustments	3 621	(18 648)
Consolidated profit before tax	**1 011 203**	**628 250**
Segment assets	**125 579 049**	**87 570 153**
Unallocated assets	24 947 003	19 594 424
Allowance for impairment of loans and advances to customers per management accounts	(8 053 118)	(5 769 498)
IFRS accounting policy adjustments:		
- elimination of balances with subsidiaries, SPE and unit investment funds	(12 716 380)	(12 233 344)
- assets of subsidiaries, SPE and unit investment funds from transactions with third parties	13 505 591	11 322 396
- allowance for impairment of loans, advances to customers, finance lease receivables and due from other banks	3 986 958	3 082 217
- write-offs of loans and advances to customers	(2 666 419)	(2 090 365)
- interest income on loans and advances to customers	(1 290 105)	(1 478 432)
- deferred income tax asset	564 512	446 099
- securities at fair value	529 366	162 862
- revaluation and depreciation of property and equipment, investment property and intangible assets	(422 591)	(405 422)
- goodwill	162 122	162 122
- administrative and other operating expenses on accrual basis	(102 174)	(195 282)
- derivatives at fair value	12 213	60 088
- other adjustments	(119 084)	(232 609)
Consolidated assets	**143 916 943**	**99 995 409**
Segment liabilities	**131 802 216**	**93 768 794**
Unallocated liabilities	20 618	6 648
IFRS accounting policy adjustments:		
- elimination of balances with subsidiaries, SPE and unit investment funds	(325 102)	(1 419 748)
- liabilities of subsidiaries, SPE and unit investment funds from transactions with third parties	2 792 378	305 444
- deferred tax liabilities	300 822	351 967
- administrative and other operating expenses on accrual basis	75 256	68 173
- derivatives at fair value	8 736	43 695
- other adjustments	(147 996)	(182 680)
Consolidated liabilities	**134 526 928**	**92 942 293**

31 Segment analysis (continued)

Geographical segments. The Group operates in the Russian Federation and foreign countires. Segment information for the main geographical segments is set out below for the years ended 31 December 2012 and 2011.

In thousands of Russian Roubles	Russia	Other countries	Total
2012			
Segment assets	101 434 435	24 144 614	125 579 049
External revenues	15 050 679	438 638	15 489 317
Credit related commitments	10 870 619	2 294 585	13 165 204
2011			
Segment assets	75 147 267	12 422 886	87 570 153
External revenues	10 624 688	481 179	11 105 867
Credit related commitments	4 403 529	482 941	4 886 470

In presenting geographical information the allocation of external revenues and assets and credit related commitments is based on the geographical location of counterparties. Cash on hand, precious metals, property and equipment and capital expenditure are allocated based on the country in which they are physically held.

32 Financial risk management

The risk management function is carried out in respect of financial risks (credit, market, geographical, currency, liquidity and interest rate), operational risks and legal risks. The primary objective of the financial risk management is 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 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 lending and other transactions with counterparties giving rise to financial assets.

The maximum exposure to credit risk is reflected in the carrying amounts of financial assets in 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 34.

The Group controls credit risk by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Limits on the level of credit risk by product and type of customer are approved regularly by management as part of current and strategic planning.

Such risks are monitored on a regular basis and are subject to an annual or more frequent review. The financial model is annually approved by the Budget Committee and has a target structure of the corporate customer portfolio (by type of customers) and the individual customer portfolio (by type of products).

Thereby, the Group sets limits that are monitored by the Credit Committee (as part of credit risk management) and the Assets and Liabilities Management Committee (as part of loan yield management).

32 Financial risk management (continued)

Issuing loans to corporate customers

Credit limits for borrowers are approved at the following two decision-making levels:

- Board of Directors approves credit limits for customers related to the Russian Copper Company group;
- Credit Committee considers and approves credit limits for all other customers.

Loan applications from client relationship managers are considered by the Legal Department and Security Service, and subsequently evaluated by the Risk Department and transferred to the Credit Committee for setting credit limits. Exposure to credit risk is also managed, in part, by obtaining collateral and corporate and personal guarantees.

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

Work-out of problem corporate loans

The Group ensures the maximum possible repayment of corporate loans. The Group classifies loans as a problem loan on the basis of the following criteria:

- the borrower has one delay in principal payment (under the loan agreement) exceeding 15 calendar days;
- the borrower has one delay in interest payment exceeding 15 calendar days;
- the payment is more than 15 calendar days overdue upon maturity of the loan agreement;
- availability of reliable information that the pledge has been withdrawn or disposed of without the Group's consent;
- a failure to fulfill, within 15 calendar days, the requirement to make accelerated repayment of the loan and interest in cases provided for by the loan agreement;
- two consecutive delays in contractual lease payments;
- violation of contractual requirements on the use of leased property;
- facts confirming that the outstanding amount will not be duly repaid upon maturity (through a direct refusal to repay or impossibility to contact the borrower, or otherwise).

The Group applies two methods for collecting problem corporate loans: voluntary and compulsory.

Voluntary repayment of loan by problem borrowers stipulates the following actions on the part of the responsible staff when contacting the borrower during a certain period of time is possible. If the loan is classified as a problem loan the Group performs the following actions in respect of the borrower:

- contacting the problem borrower, negotiating;
- reviewing the reasons for overdue balances (default);
- discussing payment options (methods, terms), check different types of collateral, property of the problem borrower (third parties) that may be provided to the Group for repayment of the loan, issuing an act on review of collateral;
- collecting and reviewing information on third parties (in respect of which information was previously unavailable), including through inquiries to Security Service units;
- in case of deteriorating repayment probability, the problem borrower is requested to voluntarily hand over collateral or other property to the Group for repayment of the overdue loan;

32 Financial risk management (continued)

- organising transportation and removal of the problem borrower's property to the Group;
- reviewing and evaluating the likelihood of voluntary repayment, searching for interested parties (problem borrower's creditors and collateral providers) for selling the debt.

In case it is not possible to contact with the problem borrower (guarantor) the Group initiates litigation against the problem borrower.

Issuing loans to individuals

One of the main principles of managing consumer lending risks is management of the risk/reward ratio in respect of each credit product. The Group evaluates its credit products using the following two methods:

- on the basis of a review of the relationship of net operating income (interest, commission), received from gross loan placements, and forecasted losses (overdue amount without consideration of the recovery coefficient after the completion of all claims procedures) caused by overdue amount;

- on the basis of a review of the relationship of net operating income received from gross loan placements, and actual losses (past due amounts with consideration of the recovery coefficient).

The process of issuing loans to individuals is carried out via a system of consumer loan support.

The system includes the following three basic elements (software modules/automated work stations (AWS)): "Point of sales" (AWS "PS"), "Risk Manager" (AWS "RM") and "Claims Group" (AWS "CG").

- AWS "PS" is the place of input and storage of personal client data. Personal client data is entered by employees at points of sales on the basis of information provided by the client.

- AWS "RM" is a module of evaluation of individual loan applications on the basis of programme codes. The module comprises all information received as a result of application of client evaluation methods, evaluation results and limits.

- AWS "CG" is a working module of the services in charge of security and problem loan management. The module reflects the flow of loan applications considered by the Security Service staff who provides an opinion on these applications.

In case of a positive decision from the Security Service and a non-zero limit in AWS "RM" on the basis of evaluation of the loan application, loan issue is automatically confirmed in AWS "PS". Then the employee of the point of sale can generate all necessary documents for issuance of the loan from AWS "PS".

Individual clients are evaluated on the basis of scoring models developed with the help of special software on the basis of accumulated statistical data. These methods include procedures for calculation of scoring rates on the basis of personal data as a separate borrower evaluation factor.

The application is rejected or approved on the basis of automatic comparison of the borrower's scores and the established cut-off level.

The Group applies the system of monitoring of the individual loan portfolio. The Risk Department evaluates problem loan trends for the portfolio in general and for each product, evaluates the effectiviness of various scoring models and changes in borrower profile by product, etc. The Credit Committee makes decisions relating to monitoring, modification of methodologies and terms of individual credit products on a monthly basis.

Problem loan recovery is based on two strategies depending on the type of the lending product: 1) the express loan strategy; and 2) the consumer loan strategy (above RUB 100 thousand).

Work with problem express loan recovery comprises the following three stages.

32 Financial risk management (continued)

1. In case of overdue mandatory payments (commission, interest, principal) the borrower is contacted by phone in an automatic regime (auto dial) until he/she pays the overdue amount (the delay should not exceed 30 calendar days).

2. If the payment is overdue by more than 30 days all procedures are passed to the Department for Problem Individual Loans:

- during 60 calendar days from the date of receipt of the problem loan agreement the issue is handled by the operative Response Unit of the Department. Responsible staff identifies problem borrowers, clarifies contact details and groups the borrowers for subsequent work on the basis of individual scenarios for each group, tries to settle the problem with the borrowers by means of primary negotiations. Management is provided monthly reports based on the results of this work.

- during subsequent 120 days problem loans are handled by the Department of Long-term Past Due Loans with participation of the Legal Department. Work with problem borrowers comprises the entire set of measures from telephone calls to visits and court proceedings.

3. Write-off of uncollectible loans.

Problem consumer loans recovery comprises the following three stages.

1. In case of overdue mandatory payments (commission, interest, principal) the borrower is contacted by phone in an automatic regime (auto dial) until he/she pays the overdue amount (the delay should not exceed 7 calendar days).

2. If the payment is overdue by more than 7 days all procedures are passed to the Group for Overdue Consumer Loans of the Department for Problem Individual Loans.

- during 60 calendar days from the date of transfer of the problem loan, responsible staff identifies problem borrowers, clarifies contact details and groups the borrowers for subsequent work on the basis of individual scenarios for each group, tries to settle the problem with the borrowers by means of primary negotiations. Management is provided monthly reports based on the results of this work.

- if the Group for Overdue Consumer Loans concludes that the loan cannot be collected on the basis of out-the-court procedures, all materials on the borrower are passed to the Legal Department for collecting the debt by judicial means.

3. Write-off of uncollectible loans.

The Risk Department performs an ageing analysis of outstanding loans and follows up past due balances. Management is provided with information on ageing analysis and other information relating to credit risk. The information on credit risk for loans is provided in note 12.

Credit risk for unrecognised financial instruments is defined as the possibility of sustaining a loss as a result of another party to a financial instrument failing to perform in accordance with the terms of the contract. The Group uses the same credit policies in assessment impairment as it does for recognised 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 currency, interest rate and equity products, all of which are exposed to general and specific market movements. The Assets and Liabilities Management Committee sets capital drawdown limits and allocates funds for forming a portfolio of operations exposed to market risk.

32 Financial risk management (continued)

The Treasury chooses an optimal portfolio structure and develops portfolio management regulations on the basis of the set limits. The Investment Committee together with representatives of the Risk Department and the Treasury approve the structure of the portfolio by instrument and position entry/exit rules. The Risk Department and the Treasury monitor limits set by the committees and financial results on a daily basis. If the decrease in capital, allocated for operations exposed to market risks, is 50% of the threshold level, limits on positions are automatically decreased by three times and the Investment Committee convenes in order to change the current portfolio management procedures.

Currency risk. Management sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. The table below summarises exposure to foreign currency exchange rate risk at 31 December 2012.

In thousands of Russian Roubles	RUB	USD	Euro	Precious metals	Other	Total
ASSETS						
Cash and cash equivalents	9 449 895	5 859 490	816 916	12 948	26 141	16 165 390
Mandatory cash balances with the CBRF	1 140 186	-	-	-	-	1 140 186
Trading securities	191 998	-	-	-	-	191 998
Other securities at fair value through profit or loss	27 231 288	-	-	-	-	27 231 288
Securities available-for-sale	55 872	-	-	-	-	55 872
Investment securities held to maturity	8 237 047	-	-	-	-	8 237 047
Due from other banks	8 500	75 931	-	-	-	84 431
Loans and advances to customers	62 010 360	10 328 692	76 072	-	-	72 415 124
Finance lease receivables	839 354	-	-	-	-	839 354
Advances to real estate developers	1 964 623	607 999	-	-	-	2 572 622
Other financial assets	841 888	19 112	11 271	-	5	872 276
Total monetary assets	**111 971 011**	**16 891 224**	**904 259**	**12 948**	**26 146**	**129 805 588**
LIABILITIES						
Due to other banks	24 839 178	881 736	971 940	-	-	26 692 854
Customer accounts	85 020 346	7 422 719	2 798 441	339 439	64 357	95 645 302
Debt securities in issue	8 346 708	301 210	292 081	-	-	8 939 999
Subordinated debt	-	2 468 741	-	-	-	2 468 741
Other financial liabilities	197 808	-	-	-	-	197 808
Total monetary liabilities	**118 404 040**	**11 074 406**	**4 062 462**	**339 439**	**64 357**	**133 944 704**
Net position	**(6 433 029)**	**5 816 818**	**(3 158 203)**	**(326 491)**	**(38 211)**	**(4 139 116)**
Derivative financial instruments	**3 316 022**	**(6 338 226)**	**3 141 854**	**(129 847)**	**36 233**	**26 036**
Net position including derivative instruments	**(3 117 007)**	**(521 408)**	**(16 349)**	**(456 338)**	**(1 978)**	**(4 113 080)**

32 Financial risk management (continued)

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

In thousands of Russian Roubles	RUB	USD	Euro	Precious metals	Other	Total
ASSETS						
Cash and cash equivalents	4 354 657	8 488 624	448 981	71 716	8 058	13 372 036
Mandatory cash balances with the CBRF	874 345	-	-	-	-	874 345
Trading securities	129 955	-	-	-	-	129 955
Other securities at fair value through profit or loss	23 847 034	-	-	-	-	23 847 034
Securities available-for-sale	303 706	-	-	-	-	303 706
Due from other banks	-	64 391	-	-	-	64 391
Loans and advances to customers	43 869 922	1 057 840	34 428	-	-	44 962 190
Finance lease receivables	689 440	-	-	-	-	689 440
Advances to real estate developers	2 093 126	637 397	-	-	-	2 730 523
Other financial assets	332 643	8 415	12	-	5	341 075
Total monetary assets	**76 494 828**	**10 256 667**	**483 421**	**71 716**	**8 063**	**87 314 695**
LIABILITIES						
Due to other banks	14 627 770	1 146 553	24 599	-	-	15 798 922
Customer accounts	60 964 573	5 742 138	2 403 958	328 707	64 085	69 503 461
Debt securities in issue	4 853 958	127 556	70 668	-	-	5 052 182
Subordinated debt	-	1 646 691	-	-	-	1 646 691
Other financial liabilities	306 387	-	-	-	-	306 387
Total monetary liabilities	**80 752 688**	**8 662 938**	**2 499 225**	**328 707**	**64 085**	**92 307 643**
Net position	**(4 257 860)**	**1 593 729**	**(2 015 804)**	**(256 991)**	**(56 022)**	**(4 992 948)**
Derivative financial instruments	**(1 672 791)**	**(617 544)**	**2 018 980**	**224 505**	**54 463**	**7 613**
Net position including derivative instruments	**(5 930 651)**	**976 185**	**3 176**	**(32 486)**	**(1 559)**	**(4 985 335)**

Derivatives in each column represent the fair value at the reporting date of the respective currency that the Group agreed to buy (positive amount) or sell (negative amount) with the counterparty. 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.

An analysis of sensitivity of profit or loss and equity to changes in the foreign currency exchange rates based on positions existing as at 31 December 2012 and 2011 and a simplified scenario of a 10% change in USD, euro and precious metals to Russian Rouble exchange rates is as follows.

32 Financial risk management (continued)

	2012		2011	
In thousands of Russian Roubles	**Profit or loss**	**Equity**	**Profit or loss**	**Equity**
10% appreciation of USD against RUB	(41 713)	(41 713)	78 095	78 095
10% depreciation of USD against RUB	41 713	41 713	(78 095)	(78 095)
10% appreciation of precious metals against RUB	(36 507)	(36 507)	(2 599)	(2 599)
10% depreciation of precious metals against RUB	36 507	36 507	2 599	2 599
10% appreciation of Euro against RUB	(1 308)	(1 308)	254	254
10% depreciation of Euro against RUB	1 308	1 308	(254)	(254)

Other price risk. The Group has limited exposure to equity price risk. Price risk inherent in trading operations with shares is managed through setting of a capital reduction threshold and also a threshold for possible deviations in the portfolio's value (30-day value at risk (VaR) with a 95% probability, given that the maximum period of holding the position does not exceed 30 days). In terms set by the Assets and Liabilities Management Committee for capital reduction thresholds, the Treasury develops and the Investment Committee approves equity portfolio management rules. The Risk Department monitors the financial result from trading in shares on a daily basis and, if capital decreases by more than 50% from a maximum set level, reduces limits by three times, after which the Investment Committee holds a meeting for the purpose of changing the equity portfolio management rules.

The below table represents model limits and actual exposure for the year ended 31 December for the equity trading portfolio and potential exposure on profit or loss:

In thousands of Russian Roubles	**Exposure during 2012**	**Exposure during 2011**
Capital drawdown – limit	320 000	225 000
Capital drawdown – fact	99 078	113 957
30-day 95% VaR on portfolio (limits)	119 065	120 328

Interest rate risk. The bond portfolio's fair value is exposed to changes in interest rate. The Group manages the bond portfolio's value as a result of changes in market rates (bond yield) by limiting the bond portfolio's duration. The Assets and Liabilities Management Committee sets portfolio duration limits at least annually on the basis of the overall possible change in the portfolio's value in case of a 100 b.p. increase in rates. The Investment Committee approves the portfolio structure by instrument and the portfolio management strategy. The Treasury is in charge of direct portfolio management, supports its target structure and ensures compliance with the strategy for transactions with instruments in the portfolio. The Risk Department is in charge of regular monitoring of the level of possible losses of the portfolio in case of a negative change of market rates.

The table below reflects the bond portfolio's sensitivity for the year ended 31 December 2012 due to changes in interest rates.

	Exposure during 2012	
In thousands of Russian Roubles	**Profit or loss**	**Equity**
Changes in portfolio's value in case of a 100 b.p. increase in rates at year end	(163 149)	(163 285)

The table below reflects the bond portfolio's sensitivity for the year ended 31 December 2011 due to changes in interest rates.

	Exposure during 2011	
In thousands of Russian Roubles	**Profit or loss**	**Equity**
Changes in portfolio's value in case of a 100 b.p. increase in rates at year end	(122 474)	(123 918)

32 Financial risk management (continued)

The sensitivity of financial assets and liabilities to changes in interest rates for financial assets and liabilities outstanding as at 31 December is as follows.

In thousands of Russian Roubles	2012 Profit or loss	2012 Equity	2011 Profit or loss	2011 Equity
100 bp parallel rise	(21 473)	(21 473)	(49 278)	(49 278)
100 bp parallel fall	21 473	21 473	49 278	49 278

The Group manages interest rate risk associated with changes in the margin through medium and long term planning. The main source of this risk is the excess of the rate of change in the rate on liabilities over the rate of change in the asset yield. The Group does not have any assets and liabilities with floating rates, except subordinated debt, which limits the function of interest rate risk management to managing and maximising the level of margin subject to complying with adequate liquidity requirements. Rates on short-term funds are considered in interest rate calculations as the cost of coverage of liquidity gaps. To manage the margin, management develops scenario-based models for a term of up to one year by month. Reviewing the planned figures on a monthly basis enables the Group to promptly respond to external and internal changes and implement additional scenario-based modelling in case of serious deviations.

The table below displays analysis of effective interest rates for major financial instruments. The analysis is performed based on effective interest rates as at the year end used for amortisation of the relevant assets and liabilities.

	2012				2011			
% p.a.	**RUB**	**USD**	**Euro**	**Other currencies**	**RUB**	**USD**	**Euro**	**Other currencies**
ASSETS								
Cash and cash equivalents	1.24	1.02	1.00	-	0.93	1.69	0.05	-
Other securities at fair value through profit or loss	8.85	-	-	-	9.43	-	-	-
Debt securities available-for-sale	8.85	-	-	-	9.43	-	-	-
Investment securities held to maturity	8.58	-	-	-	-	-	-	-
Loans and advances to customers	19.46	7.87	8.64	-	16.05	9.68	10.26	-
Finance lease receivables	23.05	-	-	-	22.00	-	-	-
Advances to real estate developers	2.10	-	-	-	8.50	-	-	-
LIABILITIES								
Due to other banks	5.68	0.85	6.28	-	4.80	2.00	2.00	-
Customer accounts								
- current and settlement accounts	1.42	0.31	0.31	-	1.03	0.03	0.03	-
- term deposits	9.85	5.36	5.18	4.07	8.42	6.74	5.88	4.15
Debt securities in issue								
- promissory notes	7.41	2.38	3.19	-	5.43	3.32	4.44	-
- bonds issued on domestic market	11.00	-	-	-	9.50	-	-	-
Subordinated debt	-	8.72	-	-	-	8.46	-	-

32 Financial risk management (continued)

Geographical risk concentrations. The geographical concentration of assets and liabilities at 31 December 2012 is set out below.

In thousands of Russian Roubles	Russia	Other countries	Total
ASSETS			
Cash and cash equivalents	10 135 342	6 030 048	16 165 390
Mandatory cash balances with the CBRF	1 140 186	-	1 140 186
Trading securities	191 998	-	191 998
Other securities at fair value through profit or loss	27 231 288	-	27 231 288
Securities available-for-sale	55 872	-	55 872
Investment securities held to maturity	8 237 047	-	8 237 047
Due from other banks	8 500	75 931	84 431
Loans and advances to customers	54 433 420	17 981 704	72 415 124
Finance lease receivables	839 354	-	839 354
Advances to real estate developers	2 572 622	-	2 572 622
Other financial assets	886 928	56 931	943 859
Total financial assets	**105 732 557**	**24 144 614**	**129 877 171**
Total non-financial assets	**14 039 772**	**-**	**14 039 772**
TOTAL	**119 772 329**	**24 144 614**	**143 916 943**
LIABILITIES			
Due to other banks	26 419 471	273 383	26 692 854
Customer accounts	92 790 334	2 854 968	95 645 302
Debt securities in issue	8 939 999	-	8 939 999
Subordinated debt	-	2 468 741	2 468 741
Other financial liabilities	235 184	8 171	243 355
Total financial liabilities	**128 384 988**	**5 605 263**	**133 990 251**
Total non-financial liabilities	**536 677**	**-**	**536 677**
TOTAL	**128 921 665**	**5 605 263**	**134 526 928**
Net position	**(9 149 336)**	**18 539 351**	**9 390 015**
Credit related commitments	**10 870 619**	**2 294 585**	**13 165 204**

32 Financial risk management (continued)

The geographical concentration of assets and liabilities at 31 December 2011 is set out below.

In thousands of Russian Roubles	**Russia**	**Other countries**	**Total**
ASSETS			
Cash and cash equivalents	4 926 050	8 445 986	13 372 036
Mandatory cash balances with the CBRF	874 345	-	874 345
Trading securities	129 955	-	129 955
Other securities at fair value through profit or loss	23 847 034	-	23 847 034
Securities available-for-sale	303 706	-	303 706
Due from other banks	-	64 391	64 391
Loans and advances to customers	41 071 027	3 891 163	44 962 190
Finance lease receivables	689 440	-	689 440
Advances to real estate developers	2 730 523	-	2 730 523
Other financial assets	371 037	21 346	392 383
Total financial assets	**74 943 117**	**12 422 886**	**87 366 003**
Total non-financial assets	**12 629 406**	**-**	**12 629 406**
TOTAL	**87 572 523**	**12 422 886**	**99 995 409**
LIABILITIES			
Due to other banks	15 798 922	-	15 798 922
Customer accounts	68 997 577	505 884	69 503 461
Debt securities in issue	5 043 359	8 823	5 052 182
Subordinated debt	-	1 646 691	1 646 691
Other financial liabilities	331 573	18 509	350 082
Total financial liabilities	**90 171 431**	**2 179 907**	**92 351 338**
Total non-financial liabilities	**590 955**	**-**	**590 955**
TOTAL	**90 762 386**	**2 179 907**	**92 942 293**
Net position	**(3 189 863)**	**10 242 979**	**7 053 116**
Credit related commitments	**4 403 529**	**482 941**	**4 886 470**

Assets, liabilities and credit related commitments are based mainly on the country in which the counterparty is located. Balances with Russian counterparties actually outstanding to/from off-shore companies of these Russian counterparties are allocated to the caption "Russia". Cash on hand, precious metals and property and equipment are allocated based on the country in which they are physically held.

Liquidity risk. Liquidity risk is defined as the risk that the Group 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.

32 Financial risk management (continued)

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. The Group manages liquidity risk at two levels: the first level is the Assets and Liabilities Management Committee; the second level is the Treasury and the Asset and Liability Department.

The Assets and Liabilities Management Committee determines the type of liquidity management strategy for up to one year with possible revision in response to certain events. The Treasury manages instant liquidity (up to three days) by forming liquid asset provisions in accordance with requirements of the Assets and Liabilities Management Committee. The Asset and Liability Department monitors 90-day transactions planned for execution, performs stress testing of liquidity and provides analytical support to the Assets and Liabilities Management Committee.

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

The liquidity management process includes performing daily calculations of liquid assets necessary for covering resource base risks, reviewing the level and structure of liquid assets and available liquidity forming instruments, providing access to different finance sources, maintaining liquidity contingency plans and monitoring compliance with legal requirements to balance liquidity ratios.

Information on the required level and structure of liquid assets by age is provided to the Treasury. The Treasury provides for an adequate portfolio of liquid assets, largely made up of bonds available for sale and for sale and repurchase transactions, liquid trading securities, deposits with banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole.

The Treasury Department is responsible for monitoring of the daily liquidity position. The Asset and Liability Department regularly carries out stress tests on the level of liquidity on the basis of various scenarios that cover both standard and more unfavourable market conditions.

The Group maintains liquidity management when the bond portfolio, composed of liquid securities of issuers which have high credit quality, is used as an instrument for regulation of cash liquidity gaps and can be converted into cash within 1 month. Therefore other securities at fair value through profit or loss as well as securities available for sale as at 31 December 2012 and 2011 are classified as “Demand and less than 1 month” in the table below. The fair value of securities which are classified in this category with maturity more than 12 months amounts to RUB 20 684 987 thousand (31 December 2011: RUB 20 838 838 thousand).

32 Financial risk management (continued)

The following table shows financial assets and liabilities by remaining contractual maturity dates as at 31 December 2012, except of described above for other securities at fair value through profit or loss and securities available-for-sale and except for term deposits from individuals, which are shown by expected maturity dates.

In thousands of Russian Roubles	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 3 years	Over 3 years	Total
ASSETS						
Cash and cash equivalents	16 165 390	-	-	-	-	16 165 390
Mandatory cash balances with the CBRF	256 817	42 431	104 688	91 137	645 113	1 140 186
Trading securities	191 998	-	-	-	-	191 998
Other securities at fair value through profit or loss	27 231 288	-	-	-	-	27 231 288
Securities available-for-sale	55 872	-	-	-	-	55 872
Investment securities held to maturity	-	-	2 252 899	312 567	5 671 581	8 237 047
Due from other banks	-	-	4 500	79 931	-	84 431
Loans and advances to customers	1 546 202	3 661 550	15 784 414	26 106 523	25 316 435	72 415 124
Finance lease receivables	45 220	77 318	282 485	349 499	84 832	839 354
Advances to real estate developers	-	-	382 908	2 189 714	-	2 572 622
Other financial assets	906 668	-	27 959	-	9 232	943 859
Total financial assets	**46 399 455**	**3 781 299**	**18 839 853**	**29 129 371**	**31 727 193**	**129 877 171**
LIABILITIES						
Due to other banks	24 205 169	947 626	685 621	366 274	488 164	26 692 854
Customer accounts	21 543 355	3 559 328	8 781 817	7 645 074	54 115 728	95 645 302
Debt securities in issue	673 773	3 461 037	1 042 685	3 752 327	10 177	8 939 999
Subordinated debt	-	66 870	134 860	356 533	1 910 478	2 468 741
Other financial liabilities	243 355	-	-	-	-	243 355
Total financial liabilities	**46 665 652**	**8 034 861**	**10 644 983**	**12 120 208**	**56 524 547**	**133 990 251**
Net liquidity gap as at 31 December 2012	**(266 197)**	**(4 253 562)**	**8 194 870**	**17 009 163**	**(24 797 354)**	**(4 113 080)**
Cumulative liquidity gap as at 31 December 2012	**(266 197)**	**(4 519 759)**	**3 675 111**	**20 684 274**	**(4 113 080)**	

32 Financial risk management (continued)

The following table shows financial assets and liabilities by remaining contractual maturity dates as at 31 December 2011, except of described above for other securities at fair value through profit or loss and securities available-for-sale and except for term deposits from individuals, which are shown by expected maturity dates.

In thousands of Russian Roubles	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 3 years	Over 3 years	Total
ASSETS						
Cash and cash equivalents	13 372 036	-	-	-	-	13 372 036
Mandatory cash balances with the CBRF	164 390	8 455	51 183	125 218	525 099	874 345
Trading securities	129 955	-	-	-	-	129 955
Other securities at fair value through profit or loss	23 847 034	-	-	-	-	23 847 034
Securities available-for-sale	303 706	-	-	-	-	303 706
Due from other banks	-	-	-	64 391	-	64 391
Loans and advances to customers	1 166 510	2 028 868	10 919 550	19 405 728	11 441 534	44 962 190
Finance lease receivables	35 921	60 717	211 996	262 430	118 376	689 440
Advances to real estate developers	-	-	418 149	2 312 374	-	2 730 523
Other financial assets	383 894	-	-	-	8 489	392 383
Total financial assets	**39 403 446**	**2 098 040**	**11 600 878**	**22 170 141**	**12 093 498**	**87 366 003**
LIABILITIES						
Due to other banks	14 504 822	711 100	45 723	63 707	473 570	15 798 922
Customer accounts	13 067 707	672 114	4 068 623	9 953 798	41 741 219	69 503 461
Debt securities in issue	408 537	1 627 278	477 017	2 539 350	-	5 052 182
Subordinated debt	-	68 831	65 380	237 159	1 275 321	1 646 691
Other financial liabilities	350 082	-	-	-	-	350 082
Total financial liabilities	**28 331 148**	**3 079 323**	**4 656 743**	**12 794 014**	**43 490 110**	**92 351 338**
Net liquidity gap as at 31 December 2011	**11 072 298**	**(981 283)**	**6 944 135**	**9 376 127**	**(31 396 612)**	**(4 985 335)**
Cumulative liquidity gap as at 31 December 2011	**11 072 298**	**10 091 015**	**17 035 150**	**26 411 277**	**(4 985 335)**	

The amounts disclosed in the tables below, except term deposits from individuals, are the contractual undiscounted cash flows, including amounts of assets, finance lease, amounts at prices specified in deliverable forward agreements to purchase financial assets for cash, contractual amounts to be exchanged under a gross settled currency swaps, and gross loan commitments.

32 Financial risk management (continued)

The analysis of financial liabilities and commitments taking into account undiscounted cash flows by maturity as at 31 December 2012 is as follows.

In thousands of Russian Roubles	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 3 years	Over 3 years	Total
LIABILITIES						
Due to other banks	24 233 534	960 243	722 725	416 675	643 045	26 976 222
Customer accounts,	21 566 597	3 682 123	9 798 478	9 848 338	56 983 157	101 878 693
including term deposits from individuals	6 611 788	1 339 281	4 678 515	1 693 827	56 981 773	71 305 184
Debt securities in issue	675 321	3 499 047	1 100 830	4 739 234	15 907	10 030 339
Subordinated debt	-	67 670	142 782	420 904	2 972 381	3 603 737
Derivative financial instrument liabilities	16 933 659	-	-	-	-	16 933 659
Operating lease commitments	30 871	58 616	230 623	131 042	82 454	533 606
Guarantees issued	661 255	156 441	1 536 683	598 463	166 022	3 118 864
Import letters of credit issued	475 100	221 627	2 678 662	-	-	3 375 389
Unused commitments to extend credit	6 670 951	-	-	-	-	6 670 951
Other financial liabilities	243 355	-	-	-	-	243 355
Total financial and contingent liabilities	**71 490 643**	**8 645 767**	**16 210 783**	**16 154 656**	**60 862 966**	**173 364 815**

The analysis of financial liabilities and commitments taking into account undiscounted cash flows by maturity as at 31 December 2011 is as follows.

In thousands of Russian Roubles	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 3 years	Over 3 years	Total
LIABILITIES						
Due to other banks	14 526 318	717 450	46 717	72 030	616 605	15 979 120
Customer accounts,	13 072 259	698 572	4 104 710	11 824 905	44 351 069	74 051 515
including term deposits from individuals	4 830 168	348 584	2 166 152	1 532 446	44 282 995	53 160 345
Debt securities in issue	408 538	1 627 278	486 730	2 977 676	-	5 500 222
Subordinated debt	-	69 632	68 875	276 258	2 070 740	2 485 505
Derivative financial instrument liabilities	4 932 239	-	-	-	-	4 932 239
Operating lease commitments	12 251	23 285	75 988	44 889	20 390	176 803
Guarantees issued	69 528	70 187	906 890	4 491	89 618	1 140 714
Import letters of credit issued	43 722	89 240	701 345	-	-	834 307
Unused commitments to extend credit	2 911 449	-	-	-	-	2 911 449
Other financial liabilities	350 082	-	-	-	-	350 082
Total financial and contingent liabilities	**36 326 386**	**3 295 644**	**6 391 255**	**15 200 249**	**47 148 422**	**108 361 956**

32 Financial risk management (continued)

Management expects that contractual maturity dates of term deposits from individuals are not representative for analysis of liquidity position, as based on analysis of internal statistics, 80% of agreements are prolonged and based on past experience this ratio has never gone lower than this limit. Accordingly, 80% of term deposits from individuals in categories "On demand and less than 1 month", "From 1 to 3 month", "From 3 to 12 months" and "From 1 to 3 years" are classified in the category "Over 3 years" to present more accurately expected cash flows. However in accordance with Russian legislation, individuals can withdraw their term deposits at any time, losing in most cases the accrued interest.

The table below shows analysis of term deposits from individuals as at 31 December 2012 and 2011 on the basis of possible contractual maturity.

In thousands of Russian Roubles	**2012**	**2011**
On demand and less than 1 month	2 703 108	671 279
From 1 to 3 month	6 238 687	1 637 046
From 3 to 12 months	19 180 215	8 777 165
From 1 to 3 years	5 191 620	5 073 786
Over 3 years	27 445 762	28 805 555
Total	**60 759 392**	**44 964 831**

Management believes 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 and its exposure to changes in interest and exchange rates.

Management believes that in spite of a substantial portion of customers 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.

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.

33 Capital management

The Group's objectives when managing capital are (i) to comply with capital requirements set by the CBRF, (ii) to safeguard the Group's ability to continue as a going concern, and (iii) to obtain return on capital on a long term basis. Compliance with capital adequacy ratios set by the CBRF is monitored monthly with reports outlining their calculation reviewed and signed by the President and Chief Accountant. Other objectives of capital management are evaluated quarterly.

Under the current capital requirements set by the CBRF, banks have to maintain a ratio of capital to risk weighted assets (statutory capital ratio) above the prescribed minimum level. As at 31 December 2012, this minimum level is 10.0% (31 December 2011: 10.0%). As at 31 December 2012 statutory capital ratio calculated based on requirements set by the CBR is 11.01% (31 December 2011: 11.37%) (calculation of this ratio is unaudited by ZAO KPMG).

33 Capital management (continued)

The Group also monitors its capital adequacy levels calculated in accordance with the requirements of the Basle Accord, as defined in the International Convergence of Capital Measurement and Capital Standards (updated April 1998) and Amendment to the Capital Accord to incorporate market risks (updated November 2007), commonly known as Basel I.

The following table shows the composition of the capital position calculated in accordance with the requirements of the Basle Accord as at 31 December 2012 and 2011:

In thousands of Russian Roubles	**31 December 2012**	**31 December 2011**
Tier 1 capital		
Share capital	3 634 812	2 634 812
Share premium	1 581 956	581 956
Additional capital	2 379 203	2 379 203
Retained earnings	422 525	97 962
Less goodwill	(162 122)	(162 122)
Total Tier 1 capital	**7 856 374**	**5 531 811**
Tier 2 capital		
Revaluation reserve for property and equipment	1 378 827	1 387 612
Revaluation reserve for securities available-for-sale	1 236	597
Cumulative translation reserve	(8 544)	(29 026)
Qualifying subordinated debt	2 468 741	1 646 691
Total Tier 2 capital	**3 840 260**	**3 005 874**
Total capital	**11 696 634**	**8 537 685**
Capital adequacy ratio		
Risk weighted average of assets	124 313 467	89 908 064
Total capital	11 696 634	8 537 685
Tier 1 capital ratio	6.3	6.2
Tier 2 capital ratio	9.4	9.5

Revaluation reserve for property and equipment and for securities available-for-sale, cumulative translation reserve and long-term subordinated debt are included in calculation of capital adequacy ratios within limits set for tier 2 capital.

The risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the nature of – and reflecting an estimate of credit, market and other risks associated with – each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for unrecognized exposures, with some adjustments to reflect the more contingent nature of the potential losses.

34 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 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 consolidated financial statements.

34 Contingencies and commitments (continued)

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

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

From 1 January 2012 the new transfer pricing legislation came into force, which significantly changed the transfer pricing rules, bring them closer to the principles of the OECD, but also creates additional uncertainty due to the practical application of tax laws in some cases.

New transfer pricing rules require taxpayers to provide documentation of controlled transactions and defines new principles and tools for additional taxes and interest, if prices in controlled transactions differ from the market.

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

In thousands of Russian Roubles	**2012**	**2011**
Less than 1 year	320 110	111 524
From 1 to 5 years	207 337	56 687
More than 5 years	6 159	8 592
Total	**533 606**	**176 803**

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. 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.

34 Contingencies and commitments (continued)

Outstanding credit related commitments as at 31 December are as follows:

In thousands of Russian Roubles	2012	2011
Commitments to extend credit	4 451 013	1 341 153
Import letters of credit	3 375 389	834 307
Guarantees issued	3 118 864	1 140 714
Unused limits on overdraft loans	2 219 938	1 570 296
Total	**13 165 204**	**4 886 470**

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.

Credit related commitments as at 31 December are denominated in the following currencies:

In thousands of Russian Roubles	2012	2011
Russian Roubles	9 485 781	3 794 915
USD	2 816 886	1 025 400
Euro	862 537	66 155
Total	**13 165 204**	**4 886 470**

Funds management and trust activities. The Group provides trust services to individuals, trusts, retirement benefit plans and other institutions, whereby it holds and manages assets or invests funds received in various financial instruments at the direction of the customer. The Group receives fee income for providing these services. Trust assets are not assets of the Group and are not recognised in the consolidated statement of financial position. The Group is not exposed to any credit risk relating to such placements as it does not guarantee these investments.

Custody activities. The Group provides custody services to its customers, whereby it holds securities on behalf of customers and receives fee income for providing these services. These securities are not assets of the Group and are not recognised in the consolidated statement of financial position.

35 Derivative financial instruments and operations with precious metals

Foreign exchange and other 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 table below sets out fair values of currencies receivable or payable under foreign exchange forward contracts entered into by the Group as at 31 December 2012 and 2011. The table reflects gross positions before the netting of any counterparty positions and covers the contracts with settlement dates after the respective reporting date. The contracts are short term in nature.

35 Derivative financial instruments and operations with precious metals (continued)

	2012		2011	
In thousands of Russian Roubles	**Contracts with positive fair value**	**Contracts with negative fair value**	**Contracts with positive fair value**	**Contracts with negative fair value**
Foreign exchange forwards: fair values, at the reporting date, of				
- USD receivable on settlement	2 912 742	803 321	1 448 825	160 981
- USD payable on settlement	(4 694 163)	(5 092 394)	(1 949 724)	(38 774)
- Euro receivable on settlement	2 816 002	1 130 424	2 060 651	-
- Euro payable on settlement	-	(804 572)	-	(41 671)
- RUB receivable on settlement	1 905 348	3 917 136	-	41 280
- RUB payable on settlement	(2 905 875)	(365)	(1 552 913)	(161 158)
- Other currencies receivable on settlement	-	36 233	15 749	38 714
Net fair value of foreign exchange forwards	**34 054**	**(10 217)**	**22 588**	**(628)**
Forwards with precious metals: fair values, at the reporting date, of				
- USD receivable on settlement	1 403 112	-	488 907	-
- USD payable on settlement	(151 624)	(1 519 220)	(114 386)	(613 373)
- Precious metals receivable on settlement	151 709	1 483 890	114 439	570 306
- Precious metals payable on settlement	(1 765 446)	-	(460 240)	-
- Receivable on settlement in rubles	399 778	-	-	-
Net fair value of forwards with precious metals	**37 529**	**(35 330)**	**28 720**	**(43 067)**

Geographical, currency and maturity analyses of derivative financial instruments are disclosed in note 32. Information on related party transactions is disclosed in note 37.

36 Fair value of financial instruments

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.

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

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

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.

36 Fair value of financial instruments (continued)

- Level 2: Valuation techniques based on observable inputs, either directly (i.e, as prices) or indirectly (i.e, derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

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

In thousands of Russian Roubles	**Level 1**	**Level 2**	**Total**
Financial instruments at fair value through profit or loss:			
- debt fixed income instruments	27 231 288	-	27 231 288
- equity investments	191 998	-	191 998
- derivative assets	-	16 959 695	16 959 695
- derivative liabilities	-	(16 933 659)	(16 933 659)
Available-for-sale financial assets:			
- debt fixed income instruments	55 872	-	55 872
Total	**27 479 158**	**26 036**	**27 505 194**

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

In thousands of Russian Roubles	**Level 1**	**Level 2**	**Total**
Financial instruments at fair value through profit or loss:			
- debt fixed income instruments	23 847 034	-	23 847 034
- equity investments	129 955	-	129 955
- derivative assets	-	4 939 852	4 939 852
- derivative liabilities	-	(4 932 239)	(4 932 239)
Available-for-sale financial assets:			
- debt fixed income instruments	303 706	-	303 706
Total	**24 280 695**	**7 613**	**24 288 308**

For more detailed information by types of financial instruments measured at fair value, please, refer to notes 7, 8, 9 and 35.

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

36 Fair value of financial instruments (continued)

Loans and receivables carried at amortised cost and investment securities held to maturity. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity.The estimated fair values of loans and receivables carried at amortised cost approximate their carrying values. To discount the future cash flows for loans to corporate customers and small and medium businesses the discount rate used was 10.80% and 18.93%, respectively (31 December 2011: 10.49% and 19.64%). To discount the future cash flows for loans to individuals discount rate used was 29.93% (31 December 2011: 28.15%).

The fair value of investment securities held to maturity as at 31 December 2012 is RUB 8 255 345 thousand (31 December 2011: nil).

Liabilities carried at amortised cost. The fair value is based on quoted market prices where available. The estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, is estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

The fair value of liabilities repayable on demand or after a notice period is estimated as the amount payable on demand, discounted from the first date that the amount could be required to be paid. The estimated fair values of liabilities carried at amortised cost approximate their carrying values. To discount the future cash flows of short-term deposits of legal entities the Group used a discount rate of 8.03% (31 December 2011: 6.97%).

Derivative financial instruments. All derivative financial instruments are carried at fair value as assets when the fair value is positive and as liabilities when the fair value is negative. Their fair values are based on observable market prices (refer to note 35).

Estimates of fair value are intended to approximate the amount at which the instrument could be exchanged between knowledgeable, willing independent parties. However, the fair value cannot be considered as the amount at which the immediate sale of assets or settlement of liabilities may be concluded due to the uncertainties and subjective judgment.

37 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 are as follows:

In thousands of Russian Roubles	**Shareholders**	**Companies under common control**	**Other related parties**
Gross amount of loans and advances to customers (contractual interest rates: 3%-18%)	182 433	12 874 812	28 214
Allowance for impairment of loans and advances to customers	(703)	(29 670)	(109)
Other assets	-	468 118	944
Customer accounts (contractual interest rates: 0%-11.25%)	201 908	2 909 729	130 277
Foreign exchange forward contracts	-	17 147	-
Other liabilities	-	63 444	-

37 Related party transactions (continued)

The income and expense with related parties for the year ended 31 December 2012 are as follows:

In thousands of Russian Roubles	Shareholders	Companies under common control	Other related parties
Interest income	11 486	1 190 243	946
Interest expense	(8 419)	(61 928)	(9 040)
Fee and commission income	720	240 867	170
Income from trading in foreign currencies	-	54 778	24
Income from trading in precious metals	-	120 508	-
Other operating income	9	2 017	4

At 31 December 2012 the other commitments with related parties are as follows:

In thousands of Russian Roubles	Shareholders	Companies under common control	Other related parties
Guarantees issued	-	397 554	-

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

In thousands of Russian Roubles	Shareholders	Companies under common control	Other related parties
Gross amount of loans and advances to customers (contractual interest rates: 5.4%-13%)	201 038	9 607 269	9 510
Allowance for impairment of loans and advances to customers	(820)	(17 484)	(39)
Other assets	-	95	2 319
Customer accounts (contractual interest rates: 0%-8.5%)	350 641	2 595 116	102 790
Debt securities in issue (contractual interest rates: 10%)	-	8 823	-
Foreign exchange forward contracts	-	(17 003)	-
Other liabilities	-	17 158	-

The income and expense with related parties for the year ended 31 December 2011 year were as follows:

In thousands of Russian Roubles	Shareholders	Companies under common control	Other related parties
Interest income	13 956	835 069	697
Interest expense	(9 076)	(98 812)	(10 053)
Fee and commission income	502	90 211	117
Income from trading in foreign currencies	-	178 696	32
Income from trading in precious metals	-	275 750	-
Other operating income	8	1 005	-

37 Related party transactions (continued)

At 31 December 2011 the other commitments with related parties are as follows:

In thousands of Russian Roubles	Shareholders	Companies under common control	Other related parties
Guarantees issued	-	260 039	-

Other related parties represent eight members of the Management Board and five members of the Board of Directors of the Bank. In 2012 the remuneration of management comprises salaries, discretionary bonuses and other short-term benefits amounting to RUB 132 381 thousand (2011: RUB 121 987 thousand). Social security costs amount to RUB 14 057 thousand (2011: RUB 1 259 thousand) of the total remuneration of management. Short term bonuses were fully paid during the year ended 31 December 2012.

38 Events after reporting date

On 7 February 2013 the Group issued USD 50 million euro commercial securities maturing in August 2013, the country of registration – Ireland. On 15 January 2013 to raise funds from international capital markets the Group acquired the Irish company UBRD Finance Ltd to meet the requirements of the European regulator.

On 25 February 2012 the group sold non-performing loans under a cession agreement for a total nominal value of RUB 7 901 821 thousand. Previously, these loans had been written off as uncollectible.

On 28 February 2013 the Group attracted a non-secured subordinated debt of USD 20 million for 6 years. The loan was granted by Singapore Company XANGBO GLOBAL MARKETS PTE LTD at a contractual interest rate of 8.25% p.a.

On 29 March 2013 bonds of series BO-05 are included in the list of securities admitted to trading on the MICEX stock exchange. The amount of the issue is RUB 2 billion and nominal the value of one bond is RUB 1 thousand. The issue will have 14 semi-annual coupon periods. There are early redemption options at the holders' request and at the discretion of the issuer at the nominal value. "PSB" and OJSC "NOMOS BANK" are appointed the organizers of the issue. Placement of bonds planned till the end of April 2013.