

Open Joint Stock Company NK Bank

Auditor's Report

on the Financial Statements for 2012

**OPEN JOINT STOCK COMPANY
NK Bank**

TABLE OF CONTENTS

	Page
STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2012	1
INDEPENDENT AUDITORS' REPORT	2-3
FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2012:	
Financial income statement	4
Financial statement of comprehensive income	5
Statement of financial position	6
Financial statement of changes in equity	7
Financial statement of cash flows	8-9
Notes to the financial statements	10-39

OJSC NK BANK

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

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

In preparing the financial statements, management is responsible for:

- Selecting suitable accounting policies and applying them consistently;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Bank's financial position and financial performance;
- Making an assessment of the Bank's ability to continue as a going concern.

Management is also responsible for:

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

The financial statements for the year ended 31 December 2012 were approved by the Bank's Management Board on 16 April 2013.

On behalf of the Management Board:


Chairman of the Management Board
S.N. Smirnov

16 April 2013
Moscow




Chief Accountant
E.M. Merkulova

16 April 2013
Moscow

INDEPENDENT AUDITORS' REPORT

To: Shareholders and the Board of Directors of Open Joint-Stock Company NK Bank:

We have audited the accompanying financial statements of Open Joint Stock Company NK Bank (the "Bank"), which comprise the statement of financial position as at 31 December 2012, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Deloitte & Touche

30 April 2013

Moscow, Russian Federation

Ploutalova
Ploutalova Svetlana Yevgenyevna, Partner
(Qualification certificate No 01-000596 dated 19 March 2012)
ZAO Deloitte & Touche CIS



The Entity: Open Joint Stock Company NK Bank

Certificate of state registration №2755, issued by the Moscow Registration Chamber by 18.03.1994.

Certificate № 1027739028536 of registration in the Unified State Register of 30.07.2002., issued by Moscow Interdistrict Inspectorate of the Russian Ministry of Taxation № 39.

Address: 2, Miusskaya square, Moscow, Russia.

Independent Auditor: ZAO "Deloitte & Touche CIS"

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

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

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

Financial income statement for the year ended 31 December 2012
(in thousands of Russian Rubles)

	Note	Year ended 31 December 2012	Year ended 31 December 2011
Continuing operations			
Interest income	4, 30	1 377 716	1 237 596
Interest expense	4, 30	(551 473)	(552 789)
Net interest income before provision for impairment losses on interest bearing financial assets		826 243	684 807
Provision for impairment losses on interest bearing assets	5, 30	(19 425)	(243 228)
NET INTEREST INCOME		806 818	441 579
Net loss on financial assets at fair value through profit or loss	6	(4 129)	(14 868)
Net gain on foreign exchange operations	7, 30	118 747	270 761
Net gain/(loss) on financial assets available-for-sale	30	7 220	(1 911)
Fee and commission income	8, 30	71 797	67 142
Fee and commission expense	8	(13 314)	(14 328)
(Provision)/ recovery of provision for impairment of assets on other transactions	5	(102)	5 857
Net gain on sale of assets held-for-sale	13	-	35 337
Dividends received	9, 30	1 362	628
Other income	10	7 330	16 682
NET NON-INTEREST INCOME		188 911	365 300
OPERATING INCOME		995 729	806 879
OPERATING EXPENSES	11, 30	(663 596)	(645 475)
PROFIT BEFORE INCOME TAX		332 133	161 404
Income tax expense	14	(57 328)	(57 720)
PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS		274 805	103 684
Discontinued operations			
Profit for the period from discontinued operations	12	-	117 044
NET INCOME FOR THE PERIOD		274 805	220 728

Approved by and signed on behalf of the Management Board

Chairman of the Management Board

S.N. Smirnov

Chief Accountant

E.M. Merkulova

16 April 2013
Moscow

The notes on pages 10-39 form an integral part of these financial statements.

Financial statement of comprehensive income for the year ended 31 December 2012
(in thousands of Russian Rubles)

	Note	31 December 2012	31 December 2011
NET INCOME		274 805	220 728
OTHER COMPREHENSIVE INCOME			
Net change in fair value of financial assets available-for-sale		19 752	(11 501)
Income tax effect attributable to other components of comprehensive income		(1 756)	-
OTHER COMPREHENSIVE INCOME AFTER INCOME TAX		17 996	(11 501)
TOTAL COMPREHENSIVE INCOME		292 801	209 227

Approved by and signed on behalf of the Management Board

Chairman of the Management Board

S.N. Smirnov

Chief Accountant

E.M. Merkulova

17 APR 2013
Moscow

The notes on pages 30-39 comprise an integral part of these financial statements.

Statement of financial position as at 31 December 2012

(in thousands of Russian Rubles)

	Note	31 December 2012	31 December 2011
ASSETS			
Cash and balances with the Central Bank of the Russian Federation	15	938 697	281 833
Precious metals	16	19 984	143 598
Financial assets at fair value through profit or loss	17	569 720	499 991
Due from banks and other financial institutions	18	705 977	1 275 237
Loans to customers	19, 30	7 245 432	7 715 426
Financial assets available-for-sale	20	87 274	229 123
Property and equipment and intangible assets	21	26 938	36 805
Other assets	22	8 042	11 552
Total assets		9 602 064	10 193 565
LIABILITIES			
Due to banks and other financial institutions	23	904 979	1 114 576
Customer accounts	24, 30	5 146 824	5 762 101
Debt securities issued	25	1 500 066	1 451 418
Subordinated debt	27	148 727	148 500
Other liabilities	26	33 193	43 862
Current income tax liabilities		13 078	1 368
Deferred income tax liabilities	14	1 756	-
Total liabilities		7 748 823	8 521 825
EQUITY			
Share capital	28	679 277	679 277
Share premium	28	449 358	449 358
Investments available-for-sale revaluation reserve		7 022	(10 974)
Retained earnings		717 784	554 079
Total equity		1 853 441	1 671 740
Total liabilities and equity		9 602 064	10 193 565

Approved by and signed on behalf of the Management Board

Chairman of the Management Board

S.N. Smimov

Chief Accountant

E.M. Merkulova

15 April 2013
Moscow

The notes on pages 10-39 comprise an integral part of these financial statements.

Financial statement of changes in equity for the year ended 31 December 2012
(in thousands of Russian Rubles)

	Note	Share capital	Share premium	investments revaluation reserve	Retained earnings	Total equity
Balance at 1 January 2011		679 277	449 358	527	455 561	1 584 723
Other comprehensive income for the year		-	-	(11 501)	220 728	209 227
Dividends paid	28	-	-	-	(122 210)	(122 210)
Balance at 1 January 2011		679 277	449 358	(10 974)	554 079	1 671 740
Other comprehensive income for the year		-	-	17 996	274 805	292 801
Dividends paid	28	-	-	-	(111 100)	(111 100)
Balance at 31 December 2012		679 277	449 358	7 022	717 784	1 853 441

Approved by and signed on behalf of the Management Board

Chairman of the Management Board

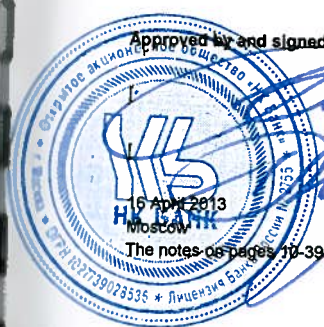
S.N. Smirnov

Chief Accountant

E.M. Merkulova

16 April 2013
Moscow

The notes on pages 10-39 comprise an integral part of these financial statements.



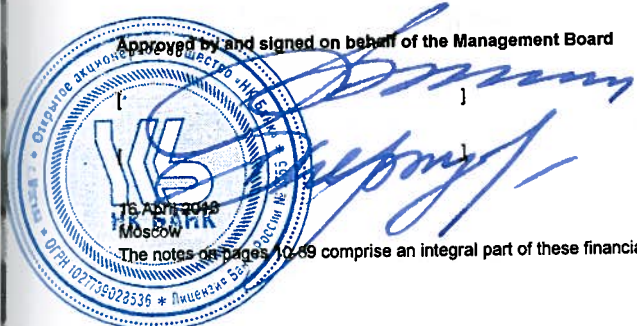
Financial statement of cash flows for the year ended 31 December 2012

	Note	Year ended 31 December 2012	Year ended 31 December 2011
CASH FLOWS FROM OPERATING ACTIVITIES:			
Gain from continuing operations before income tax		332 133	161 404
Adjustments for non-cash items:			
Provision for impairment losses on interest bearing assets		19 425	243 228
(Provision)/ recovery of provision for impairment of assets on other transactions		102	(5 857)
Net change in fair value of financial assets at fair value through profit or loss		(5 932)	7 282
(Gain)/loss on financial assets available-for-sale		(7 220)	1 911
Gain on disposal of assets held-for-sale		-	(35 337)
Depreciation and amortization expense		13 697	12 546
Loss on disposal of property, equipment and intangible assets		140	713
Dividends received		(1 362)	(628)
Net change in interest accruals		257 773	30 463
Loss from revaluation of foreign currency accounts and precious metals		117 948	33 901
Cash inflow from operating activities before changes in operating assets and liabilities from continuing operations		726 704	449 626
Increase/ (decrease) of net cash flows from operating assets and liabilities			
Changes in operating assets and liabilities			
(Increase)/decrease in operating assets:			
Minimum reserve deposits with the Central Bank of the Russian Federation		(10 912)	(48 556)
Precious metals		122 851	(107 529)
Financial assets at fair value through profit or loss		(56 776)	240 711
Due from banks and other financial institutions		4 832	9 368
Loans to customers		99 230	(1 516 501)
Other assets		3 408	14 282
Increase/(decrease) in operating liabilities:			
Due to banks and other financial institutions		(209 594)	35 392
Customer accounts		(579 663)	1 021 320
Other liabilities		(10 669)	(19 465)
Cash inflow from continuing operating activities before taxation		89 411	78 648
Income tax from continuing operations paid		(45 618)	(47 804)
Cash outflow from discontinued operations		-	(418 461)
Net cash inflow/(outflow) from operating activities		43 793	(387 617)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Acquisition of property, equipment and intangible assets		(4 200)	(9 477)
Proceeds on disposal of property, equipment and intangible assets		230	2 175
Dividends received		1 362	628
Purchase of financial assets available-for-sale		(879 130)	(324 287)
Proceeds from sale of financial assets available-for-sale		1 047 260	385 273
Purchase of financial assets held-to-maturity		(271 117)	(50 000)
Proceeds from repayment of financial assets held-to-maturity		281 566	51 587
Proceeds on sale of assets held-for-sale		-	220 004
Proceeds from sale of shares in a subsidiary	12	-	17 510
Cash inflow from continuing investing activities		175 971	293 413
Cash inflows from discontinued investing activities		-	418 459
Net cash inflow from investing activities		175 971	711 872
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from placement of debt securities issued		5 074 303	3 315 723
Repayment of debt securities issued		(5 097 701)	(3 053 728)
Dividends paid on ordinary shares		(111 100)	(122 210)
Net cash (outflow)/inflow from continuing financing activities		(134 498)	139 785

Effect of changes in foreign exchange rate fluctuations on cash and cash equivalents	(3 799)	261
Net increase in cash and cash equivalents	81 467	464 301
Cash and cash equivalents as at the beginning of the reporting year	15	1 462 181
Cash and cash equivalents at the end of the reporting period	15	1 543 648
		997 880
		1 462 181

Interest received and paid by the Bank during the year ended 31 December 2012 amounted to RUB 1,592,235 thousand and RUB 509,977 thousand, respectively.

Interest received and paid by the Bank during the year ended 31 December 2011 amounted to RUB 1,140,298 thousand and RUB 467,844 thousand, respectively.



Approved by and signed on behalf of the Management Board

Chairman of the Management Board

S.N. Smirnov

Chief Accountant

E.M. Merkulova

The notes on pages 10-89 comprise an integral part of these financial statements.

Notes to the financial statements

(in thousands of Russian Rubles, unless otherwise indicated)

1 Organization

Open Joint Stock Company NK Bank (the "Bank") is an joint-stock bank which was incorporated in the Russian Federation in 1993. The Bank is regulated by the Central Bank of the Russian Federation (the "CBR") and conducts its business under general license for banking operations number 2755. The Bank's primary business consists of commercial activities, trading with securities, foreign currencies, originating loans and guarantees.

The registered office of the Bank is located at: 2, Miusskaya square, Moscow, Russia.

The Bank has an additional office "Ochakovo" located at: building 14, block 6, Generala Dorokhova St., Moscow.

Since March 2011, after the sale of 100% shares in its subsidiary, OJSC "Inkor-Trading" (100% of the share capital – 19 500 shares), the Bank has ceased to be a member of a consolidated group. As at 31 December 2011 the financial statements of OJSC "Inkor-Trading" were consolidated with the Bank's financial statements until the date when the Bank lost control over it (Note 12).

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

	31 December 2012	31 December 2011
Viktor Evgenyevich Grigoriev	90,00%	90,00%
Larisa Leonidovna Drozdova	7,00%	4,00%
Dmitry Alexandrovich Drozdov	3,00%	3,00%
Svetlana Alexandrovna Vikhrova	-	3,00%
	<u>100,00%</u>	<u>100,00%</u>

These financial statements were authorized for issue by the Bank's Management Board on 16 April 2013..

2 Basis of presentation

Statement of compliance

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

Other basis of presentation criteria

These financial statements have been prepared on the assumption that the Bank is a going concern and will continue to operate for the foreseeable future.

These financial statements are presented in thousands of Russian rubles ("RUB thousand"), unless otherwise indicated. These financial statements of the Bank have been prepared on the historical cost basis except for certain financial instruments that are measured at revalued amounts or fair values, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The Bank maintains its accounting records in accordance with Russian Accounting Standards ("RAS"). These financial statements have been prepared from the statutory accounting records and have been adjusted to conform with IFRS.

The Bank presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the statement of financial position date (current) and more than 12 months after the statement of financial position date (non-current) is presented in Note 34..

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

3 Significant accounting policies

Changes in the Bank's ownership interests in subsidiaries

When the Bank loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognized in other comprehensive income and accumulated in equity, the amounts previously recognized in other comprehensive income and accumulated in equity are accounted for as if the Bank had directly disposed of the relevant assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 "Financial Instruments: Recognition and Measurement" or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

Recognition of interest income and expense

Interest income and expense are recognized on an accrual basis using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on a debt instrument paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Income is recognized on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

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

Interest earned on assets at fair value is classified within interest income.

Recognition of income on repurchase and reverse repurchase agreements

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

Recognition of revenue – other

Recognition of fee and commission income

Loan origination fees (material) are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the loan. Where it is probable that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the resulting loan. Where it is unlikely that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are recognized in profit or loss over the remaining period of the loan commitment.

Where a loan commitment expires without resulting in a loan, the loan commitment fee is recognized in profit or loss on expiry. Loan servicing fees are recognized as revenue as the services are provided. Loan syndication fees are recognized in profit or loss when the syndication has been completed. All other commissions are recognized as services are rendered.

Recognition of dividend income

Dividend income is recognized on the date when the issuer declares interest payment (provided that it is probable that the economic benefits will flow to the Bank and the amount of income can be measured reliably).

Financial Instruments

The Bank recognizes financial assets and liabilities in its statement of financial position when it becomes a party to the contractual obligations of the instrument. Regular way purchases and sales of financial assets and liabilities are recognized using settlement date accounting.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Financial assets

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

Financial assets at FVTPL

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

A financial asset is classified as held for trading if:

- acquired principally for the purpose of selling them in the near future;
- which are a part of portfolio of identified financial instruments that are managed together and for which there is evidence of a recent and actual pattern of short-term profit taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

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

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

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. Net gain or loss includes dividends and interest received on the financial asset. Fair value is determined in the manner described in Note 31.

Held-to-maturity financial assets

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Bank has the positive intent and ability to hold to maturity. Held to maturity financial assets are measured at amortized cost using the effective interest method less any impairment.

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

Financial assets available-for-sale

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

Listed shares and listed redeemable notes that are traded in an active market are classified as AFS and are stated at fair value. Fair value is determined in the manner described in Note 31. Gains and losses arising from changes in fair value are recognized in other comprehensive income and accumulated in the investments revaluation reserve, with the exception of other-than-temporary impairment losses, interest calculated using the effective interest method, and foreign exchange gains and losses, which are recognized in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

The fair value of AFS monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period. The foreign exchange gains and losses that are recognized in profit or loss are determined based on the amortized cost of the monetary asset. Other foreign exchange gains and losses are recognized in other comprehensive income.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of each reporting period.

Loans and accounts receivable

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as "loans and receivables". Loans and receivables are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Securities repurchase and reverse repurchase agreements and securities lending transactions

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

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

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

The Bank enters into securities repurchase agreements and securities lending transactions under which it receives or transfers collateral in accordance with normal market practice. Under standard terms for repurchase transactions in the RF, the recipient of collateral has the right to sell or repledge the collateral, subject to returning equivalent securities on settlement of the transaction.

The transfer of securities to counterparties is only reflected on the statement of financial position if the risks and rewards of ownership are also transferred.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For listed and unlisted equity investments classified as AFS, a significant or prolonged decline in the fair value of the security below its cost is considered to be an objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty;
- breach of contract, such as default or delinquency in interest or principal payments;
- default or delinquency in interest or principal payments; or
- it is probable that the borrower will enter bankruptcy or financial re-organization; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Bank's past experience of collecting payments, an increase in the number of delayed payments in the portfolio, as well as observable changes in national or local economic conditions that correlate with default on receivables.

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

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of receivables, where the carrying amount is reduced through the use of a provision account. When a receivable is considered uncollectible, it is written off against the provision account. Subsequent recoveries of amounts previously written off are credited against the provision account. Changes in the carrying amount of the provision account are recognized in profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period.

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 recognized, the previously recognized impairment loss is reversed through the profit and loss account. The carrying value of financial assets as of the date of reversal of impairment loss cannot exceed the carrying amount, which should have been recorded if impairment had not been recognized.

In respect of AFS equity securities, impairment losses previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income and accumulated under the heading of investments revaluation reserve. In respect of AFS debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Renegotiated loans

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

Write-off of loans to customers

Loans to customers are written off against the provision for impairment losses when deemed uncollectible, including through repossession of collateral. Loans to customers are written off after management has exercised all possibilities available to collect amounts due to the Bank and after the Bank has sold all available collateral. Subsequent recoveries of amounts previously written off are reflected as an offset to the charge for impairment of financial assets in the statement of profit and loss (the statement of comprehensive income) in the period of recovery.

Derecognition of financial assets

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

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

A financial asset is derecognized when it has been transferred and the transfer qualifies for derecognition. A transfer required that the Bank either (a) transfers the contractual rights to receive the asset's cash flows; or (b) retains the right to receive the asset's cash flows but assumes a contractual obligation to pay those cash flows to a third party. After a transfer, the Bank reassesses the extent to which it has retained the risks and rewards of ownership of the transferred asset. If substantially all the risks and rewards have been retained, the asset remains on the balance sheet. If substantially all of the risks and rewards have been transferred, the asset is derecognized. If substantially all the risks and rewards have been neither retained nor transferred, the Bank assesses whether or not it has retained control of the asset. If it has not retained control, the asset is derecognized. Where the Bank retained control of the asset, it continues to recognize the asset to the extent of its continuing involvement.

Financial liabilities and equity instruments issued

Classification as debt or equity

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

Equity instruments

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

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

Other financial liabilities

Other financial liabilities, including depository instruments with the Central Bank of the Russian Federation, deposits by banks and customers, debt securities issued, other borrowed funds and other liabilities, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortized cost. Interest expense is calculated using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Derecognition of financial liabilities

The Bank derecognizes financial liabilities when, and only when, the Bank's obligations are discharged, cancelled or they expire. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit and loss.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantee contracts issued by the Bank are initially measured at their fair values and, if not designated by Management as at FVTPL, are subsequently measured at the higher of:

- the amount of the obligation under the contract, as determined in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets";
- the amount initially recognized less, where appropriate, cumulative amortization recognized in accordance with the revenue recognition policies.

Derivative financial instruments

The Bank enters into a variety of derivative financial instruments to manage its exposure to foreign exchange rate risk, including foreign exchange forward contracts and cross currency swaps.

Derivatives are initially recognized at fair value at the date the derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. Gains and losses arising from that are immediately recognized through financial results, except derivatives designated and effective as a hedging instrument.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Bank as lessor

Amounts due from lessees under finance leases are recognized as receivables at the amount of the Bank's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Bank's net investment outstanding in respect of the leases.

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

The Bank as lessee

Assets held under finance leases are initially recognized as assets of the Bank at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Financial expenses are recognized in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Bank's general policy on borrowing costs. Contingent rentals are recognized as expenses in the periods in which they are incurred in accordance with the Bank's policy. Contingent rentals arising under finance leases are recognized as expenses in the periods in which they are incurred.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Property and equipment

Fixtures and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is recognized so as to write off the cost or valuation of assets less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis at the following annual rates:

Buildings	2%
Office and computer equipment	10 - 25%
Cars and other equipment	20 - 25%
Other	33%

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives are carried at cost less accumulated impairment losses.

Actual cost of intangible assets is derecognized at the following annual rates:

Intangible assets	30 - 100%
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Derecognition of intangible assets

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

Impairment of property, equipment and intangible assets other than goodwill

At the end of each reporting period, the Bank reviews the carrying amounts of its property, equipment and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

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

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

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

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

Precious metals

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

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, unrestricted balances on corresponded and term deposits with the Central Bank of the Russian Federation ("CBR") with original maturity of less or equal to 90 days and amounts with original maturity of less or equal to 30 days due from:

- banks in the countries included into the Organization for Economic Co-operation and Development ("OECD");
- central banks of the countries ranked highest according to classifications of Expert Credit Agencies;
- non-resident banks in the countries outside OECD, but with a minimum international credit rank Ba3/BB-;
- resident banks that have a stable financial position according to the Bank's assessment.

The minimum reserve deposits with the CBR are subject to restrictions to its availability and therefore are not included in cash and cash equivalents.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current income tax expense

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

Deferred tax

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

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

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

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

Current and deferred tax for the year

Current and deferred taxes are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case the current and deferred tax are also recognized in other comprehensive income or directly in equity, respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Operating taxes

The Russian Federation also has various other taxes, which are assessed on the Bank's activities. These taxes are included as a component of operating expenses in the statement of profit and loss.

Provisions

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

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

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

Contingencies

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

Fiduciary activities

The Bank provides depositary services to its customers which include transactions with securities on their depositary accounts. Assets accepted and liabilities incurred under the fiduciary activities are not included in the Bank's financial statements. The Bank accepts the operational risk on these activities, but the Bank's customers bear the credit and market risks associated with such operations. Revenue for provision of trustee services is recognized as services are provided.

Foreign currencies

In preparing the financial statements of the Bank, transactions in currencies other than the functional currency ("foreign currencies") are recorded at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognized in profit or loss in the period in which they arise. The exchange rates used by the Bank in the preparation of the financial statements as at year-end are as follows:

	31 December 2012	31 December 2011
RUB/USD	30,3727	32,1961
RUB/ EUR	40,2286	41,6714
RUB/BYR 10,000	35,3376	38,5582
RUB/Gold bullion (1 ounce)	50 540,17	50 692,76

Collateral

The Bank obtains collateral in respect of customer liabilities where this is considered appropriate. The collateral normally takes the form of a lien over the customer's assets and gives the Bank a claim on these assets for both existing and future customer liabilities.

Equity reserves

The reserves recorded in equity (other comprehensive income) on the Bank's statement of financial position include investments available-for-sale revaluation reserve which comprises changes in the fair value of available-for-sale investments.

Assets classified as held-for-sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Bank is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Bank will retain a non-controlling interest in its former subsidiary after the sale.

Non-current assets (and disposal groups) classified as held-for-sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

Critical accounting judgments and key sources of estimation uncertainties

In the application of the Bank's accounting policies the directors are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

Impairment for receivables

The Bank regularly reviews its receivables to assess for impairment. The Bank's impairment provisions are established to recognize incurred impairment losses in its portfolio of receivables. The Bank considers accounting estimates related to provision for impairment of receivables a key source of estimation uncertainty because (i) they are highly susceptible to change from period to period as the assumptions about future default rates and valuation of potential losses relating to impaired receivables are based on recent performance experience, and (ii) any significant difference between the Bank's estimated losses and actual losses would require the Bank to record provisions which could have a material impact on its financial statements in future periods.

The provisions for impairment of financial assets in the financial statements have been determined on the basis of existing economic and political conditions. The Bank is not in a position to predict what changes in conditions will take place in the Russian Federation and what effect such changes might have on the adequacy of the provisions for impairment of financial assets in future periods.

Valuation of financial instruments

As described in Note 31, the Bank uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of certain types of financial instruments. Note 31 provides detailed information about the key assumptions used in the determination of the fair value of financial instruments. The directors believe that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments.

Adoption of new and revised standards

Adoption of new standards

Amendments to IFRSs affecting presentation and disclosure only

The Bank has adopted the following new or revised standards and interpretations issued by International Accounting Standards Board and the International Financial Reporting Interpretations Committee ("IFRIC") which became effective for the Bank's annual financial statement for the year ended 31 December 2012:

Amendments to IFRS 7 "Disclosures – Transfers of Financial Assets"

The Bank has applied the amendments to IFRS 7 "Disclosures – Transfers of Financial Assets" in the current year. The amendments increase the disclosure requirements for transactions involving the transfer of financial assets in order to provide greater transparency around risk exposures when financial assets are transferred.

Amendments to IAS 1 "Presentation of Items of Other Comprehensive Income"

The Bank has applied the amendments to IAS 1 "Presentation of Items of Other Comprehensive Income" in advance of the effective date (annual periods beginning on or after 1 July 2012). The amendments introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to IAS 1 "Presentation of Items of Other Comprehensive Income", the "statement of comprehensive income" is renamed the "statement of profit or loss and other comprehensive income" and the "income statement" is renamed the "statement of profit or loss". The amendments to IAS 1 "Presentation of Items of Other Comprehensive Income" retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to IAS 1 require items of other comprehensive income to be grouped into two categories in the other comprehensive income section: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The application of the amendments to IAS 1 "Presentation of Items of Other Comprehensive Income" does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

Standards and interpretations issued but not yet adopted

The Bank did not apply the following standards and interpretations issued but not yet adopted:

IFRS 9 "Financial Instruments"

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

Key requirements of IFRS 9:

- all recognized financial assets that are within the scope of IAS 39 "Financial Instruments: Recognition and Measurement" to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods. In addition, under IFRS 9 "Financial Instruments", entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in profit or loss.

- with regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 "Financial Instruments" requires that the amount of change in the fair value of the financial liability, that is attributable to changes in the credit risk of that liability, is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39 "Financial Instruments: Recognition and Measurement", the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was recognized in profit or loss.

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

IFRS 13 "Fair Value Measurement"

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

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

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

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

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

The disclosures should be provided retrospectively for all comparative periods.

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

4 Net interest income

	Year ended 31 December 2012	Year ended 31 December 2011
Interest income		
Interest income on financial assets recorded at amortized cost comprises:		
Interest on impaired financial assets	876 276	916 792
Interest on unimpaired financial assets	356 913	242 851
Interest income on financial assets at fair value	144 527	77 953
Total Interest Income	1 377 716	1 237 596
<i>Interest income on assets recorded at amortized cost comprises:</i>		
Interest income on loans to customers	1 191 322	1 151 509
Interest income on deposits with banks	31 452	8 089
Interest on financial assets held-to-maturity	10 415	45
Total Interest Income on financial assets recorded at amortized cost	1 233 189	1 159 643
<i>Interest income on financial assets at fair value comprises:</i>		
Interest on financial assets held for trading	130 747	67 297
Interest income on financial assets available-for-sale	13 780	10 656
Total Interest Income on financial assets at fair value	144 527	77 953
Interest expense		
Interest expense on liabilities recorded at amortized cost	(551 473)	(552 789)
Total Interest expense	(551 473)	(552 789)
<i>Interest expense on financial liabilities recorded at amortized cost comprises:</i>		
Interest expenses on customer accounts	(345 246)	(309 924)
Interest on debt securities issued	(118 591)	(141 085)
Interest expenses on balances due to banks and other financial institutions	(75 756)	(89 933)
Interest expenses on subordinated debt	(11 880)	(11 847)
Total Interest expense on financial liabilities recorded at amortized cost	(551 473)	(552 789)
Net interest income before provision for impairment losses on interest bearing assets	826 243	684 807

5 Provisions for impairment losses

The movements in provision for impairment losses on interest bearing assets were as follows:

	Balance at 31 December 2011	Bad debts written off	Provisions	Balance at 31 December 2012
Change in provision for impairment losses on interest bearing assets				
On loans to customers	955 719	(33 044)	19 425	942 100
Total change in provision for impairment losses on interest bearing assets	955 719	(33 044)	19 425	942 100

	Balance at 31 December 2010	Bad debts written off	Provisions	Balance at 31 December 2011
Change in provision for impairment losses on interest bearing assets				
On loans to customers	905 103	(192 612)	243 228	955 719
Total change in provision for impairment losses on interest bearing assets	905 103	(192 612)	243 228	955 719

The movements in provision for other assets were as follows:

	Balance at 31 December 2011	Bad debts written off	Provisions	Balance at 31 December 2012
Change in provision for other losses				
Provision for impairment on other operations	-	(102)	102	-
Total change in provision for other assets	-	(102)	102	-

	Balance at 31 December 2010	Recovery of provisions	Balance at 31 December 2011
Change in provision for other losses			
Provision for impairment on other operations	5 857	(5 857)	-
Total change in provision for other assets	5 857	(5 857)	-

For the year ended 31 December 2012 outstanding amounts in respect of the following loans and other assets were written off against the provision:

- in connection with termination of execution proceedings and expiration of the limitation period for collecting a debt from a legal entity on the basis of a bailiff's decision of 18 December 2012, the Bank wrote off uncollectible debt of RUB 29,592 thousand (the amount of principal and interest for the loan period) and expenses on paying a state duty (legal fees) of RUB 102 thousand against previously accrued provision.

- in connection with termination of execution proceedings and expiration of the limitation period for collecting a debt from an individual on the basis of a bailiff's decision of 13 November 2012, the Bank wrote off uncollectible debt of RUB 3,327 thousand (the amount of principal and interest for the loan period) against previously accrued provision.

- in connection expiration of the limitation period for collecting a debt from an individual on the basis of Decision of the Management Board of the Bank of 25 December 2012, the Bank wrote off uncollectible debt of RUB 125 thousand (the amount of principal and interest for the loan period) against previously accrued provision.

For the year ended 31 December 2011 outstanding amounts in respect of the following loans were written off against the provision:

- in connection with winding up of the borrower, being a legal entity, on the basis of Resolution of the court on completion of bankruptcy proceedings of 18 October 2012, the Bank wrote off the debt that had remained outstanding after bankruptcy proceedings of RUB 192,612 thousand (the amount of principal and interest for the loan period) against previously accrued provision.

6 Net loss on financial assets at fair value through profit or loss

	31 December 2012			31 December 2011		
	Fair value adjustment	Realized trading income	Total	Fair value adjustment	Realized trading income	Total
Net gain/(loss) on financial assets initially designated at fair value through profit or loss	5 932	(10 061)	(4 129)	(7 279)	(7 586)	(14 865)
Expenses on operations with derivative instruments	-	-	-	(3)	-	(3)
Total net loss on financial assets at fair value through profit or loss	5 932	(10 061)	(4 129)	(7 282)	(7 586)	(14 868)

7 Net gain on foreign exchange operations

Net gain on foreign exchange operations comprises:

	Year ended 31 December 2012	Year ended 31 December 2011
Dealing, net	137 735	283 256
Foreign exchange gains and losses, net	(18 988)	(12 495)
Total net gain on foreign exchange operations	118 747	270 761

8 Fee and commission income and expense

Fee and commission income and expense comprise:

	Year ended 31 December 2012	Year ended 31 December 2011
Fee and commission income		
Settlements	27 203	24 861
Currency control	16 312	15 365
Cash operations and cash collection	16 193	20 068
Guarantees issued	5 402	4 427
Brokerage services	3 955	1 157
Providing of loans	1 096	601
Other	1 636	663
Total commission income	71 797	67 142
Fee and commission expense		
Settlements	(12 806)	(13 837)
Cash operations and cash collection	(118)	(170)
Other	(390)	(321)
Total fee and commission expense	(13 314)	(14 328)

9 Dividends received

Dividends received for the year ended 31 December 2012 and 2011 were as follows:

	Year ended 31 December 2012	Year ended 31 December 2011
OJSC "Ufa Engine Industrial Association"	1 034	-
CJSC "International Energy Center"	-	382
OJSC MEUZ "Yuvelirprom"	328	246
Total dividends received	1 362	628

10 Other Income

	Year ended 31 December 2012	Year ended 31 December 2011
Income from precious metal operations, net	5 708	15 053
Lease of safe deposit boxes	751	1 138
Other	871	491
Total other Income	7 330	16 682

11 Operating expenses

Operating expenses include:

	Year ended 31 December 2012	Year ended 31 December 2011
Staff costs	409 490	444 658
Operating leases	83 640	60 225
Insurance contributions	60 348	26 814
Payments to the Deposit Insurance Fund	14 032	12 626
Depreciation and amortization expense	13 697	12 546
Security expenses	12 180	11 030
Non-exclusive right to use software	11 737	7 843
Taxes, other than income tax	11 068	18 089
Telecommunications	11 054	10 091
Property and equipment maintenance	6 987	8 634
Professional services	4 163	4 123
Advertising	2 766	2 658
Purchase of stationery	2 168	1 844
Software product support	2 008	1 672
Rating assignment services	1 483	1 369
Banking system support	1 436	1 348
Property insurance	944	1 036
Sale of property and equipment	140	713
Other	14 255	18 156
Total operating expenses	663 596	645 475

12 Profit for the period from discontinued operations

In accordance with Resolution of the Board of Directors, on 14 March 2011 the Bank closed the sale of 100% shares in its subsidiary, OJSC "Inkor-Trading", to a Russian company (100% of the share capital - 19 500 shares) for a consideration of RUB 17,510 thousand. In 2011 OJSC "Inkor-Trading" was classified as discontinued operations.

Total results on discontinuing operations of the subsidiary included in consolidated statement of profit and loss for the year ended 31 December 2011 are represented below:

	Year ended 31 December 2011
Interest income	4 751
Interest expense	(9 885)
NET INTEREST COST	(5 134)
Net gain on foreign exchange operations	21 335
Fee and commission expense	(20)
Other income	11 554
NET NON-INTEREST INCOME	32 869
OPERATING EXPENSES	27 735
Profit for the period	(8 110)
Gain on disposal of the subsidiary	19 625
Profit for the period from discontinued operations	97 419
	117 044

Assets and liabilities attributable to disposal of the subsidiary as at 14 March 2011 are represented below:

	14 March 2011
Cash and cash equivalents	11 297
Property, plant and equipment	338 150
Investments	302 790
Other assets	5 653
Total assets	657 890

Due to banks	735 723
Other liabilities	2 076
Total liabilities	737 799
Net assets	(79 909)

Gain on disposal of the subsidiary is presented below:

	Year ended 31 December 2011
Consideration received	17 510
Net assets	(79 909)
Gain on disposal of the subsidiary	97 419

13 Net gain on sale of assets held-for-sale

Financial result from sale of assets held for sale for the year ended 31 December 2011 comprised the following:

	Year ended 31 December 2011
Financial result from the sale of land plots	29 828
Financial result from the sale of premises and land plot leasehold	5 509
Total net gain on sale of assets held-for-sale	35 337

In 2009 under an amicable agreement the Bank received land plots (Moscow Region, Odintsovsky District) as a substitute for the performance of obligations under a loan agreement. The Bank classified these assets as held-for-sale. Under the amicable agreement the value of land plots was equal to the amount of debt under the loan agreement, plus interest and forfeit for late payment of interest - RUB 143,907 thousand, depreciation of these assets comprised RUB 28,734 thousand. The Bank sold these assets on 27 May 2011. Disposal gain totaled RUB 29,828 thousand.

In June 2011 within the scope of bankruptcy proceedings the Bank received premises and land plot leasehold (Moscow, Rublevskoe shosse) as a substitute for the performance of obligations under a loan agreement. The bank classified these assets as held-for-sale. Basing on the resolution on transfer of unsold property of the borrower the value of these assets comprised RUB 69,494 thousand. The Bank sold these assets in August-September 2011. Gain on disposal RUB 5,509 thousand.

14 Income tax

The Bank provides for income taxes based on the tax accounts maintained and prepared in accordance with the tax regulations of RF which may differ from IFRS.

The Bank is subject to certain permanent tax differences due to the non-tax deductibility of certain expenses and certain income being treated as non-taxable for tax purposes.

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences at 31 December 2012 and 2011 relate mostly to different methods of income and expense recognition as well as to recorded values of certain assets.

Temporary differences as at 31 December 2012 and 2011 comprise:

	31 December 2012	31 December 2011
Deductible temporary differences:		
Other liabilities	31 414	38 979
Loans to customers	1 400	101 552
Property and equipment and intangible assets	-	1 233
Other assets	2 196	627
Total deductible temporary differences	35 010	142 391
Taxable temporary differences:		
Financial assets at fair value through profit or loss and available-for-sale	19 140	13 067
Property and equipment and intangible assets	341	-
Debt securities issued	5 211	1 573
Precious metals	5 194	2 534
Taxable temporary differences	29 886	17 174
Net deferred assets	5 124	125 217
Net deferred assets at the rate of 20%	1 025	25 043
Less unrecognized deferred tax asset	(1 025)	(25 043)
Net deferred tax liabilities	-	-

Relationships between income tax expenses and accounting profit for the years ended 31 December 2012 and 2011 are explained below:

	Year ended 31 December 2012	Year ended 31 December 2011
Profit before income tax	332 133	278 448
Tax at the statutory tax rate (20%)	66 427	55 690
Tax effect of change in unrecognized deferred tax asset	(17 974)	10 132
Unrecognized loss carried forward	12	240
Effect of tax rate, different from the rate of 20%	(939)	(781)
Tax effect of permanent difference	9 802	(7 561)
Current income tax expense	57 328	57 720
Income tax expense for the year	57 328	57 720

Deferred income tax liabilities

	31 December 2012	31 December 2011
Beginning of the period	-	132
Change in deferred income tax for the period charged to equity	1 756	(132)
End of the period	1 756	-

15 Cash and balances with the Central Bank of the Russian Federation

	31 December 2012	31 December 2011
Balances with the Central Bank of the Russian Federation	727 437	140 892
Cash on hand	211 260	140 941
Total cash and balances with the Central Bank of the Russian Federation	938 697	281 833

The balances with the Central Bank of the Russian Federation as at 31 December 2012 and 2011 include RUB 97,154 thousand and RUB 86,242 thousand, respectively, which represent the obligatory minimum reserve deposits with the Central Bank of the Russian Federation. The Bank is required to maintain the minimum reserve deposit with the CBR at the constant basis.

Cash and cash equivalents presented in the statement of cash flows comprise:

	31 December 2012	31 December 2011
Cash and balances with the Central Bank of the Russian Federation	938 697	281 833
Term interbank loans with maturity within 30 days	170 052	-
Correspondent accounts with resident banks	70 755	66 085
Correspondent accounts with OECD banks	461 298	1 200 505
Total	1 640 802	1 548 423
Less minimum reserve deposits with the Central Bank of the Russian Federation	(97 154)	(86 242)
Total cash and cash equivalents	1 543 648	1 462 181

16 Precious metals

As at 31 December 2012 and 2011 precious metals included gold in the Bank's vault with the carrying amount of RUB 19,984 thousand and RUB 143,598 thousand, respectively.

17 Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss comprise:

	31 December 2012	31 December 2011
Financial assets held for trading		
Debt securities	569 720	499 991
Total financial assets at fair value through profit or loss	569 720	499 991

Held for trading (HFT) financial assets include:

Debt securities:	Interest to nominal %	31 December 2012	Interest to nominal %	31 December 2011
Bonds issued by Russian banks	8.5%-13.9%	339 247	7.75%-14%	299 256
Russian State Bonds (OFZ)	7.15%-11.2%	168 015	11.2%-11.3%	170 179
Russian corporate bonds	8.25%-10.25%	62 458	11.85%	30 556
Total debt securities		569 720		499 991

As at 31 December 2012 bonds issued by Russian banks included bonds denominated in Russian Rubles with maturities from November 2013 through December 2017. These bonds include a put option exercisable during 2013-2014.

As at 31 December 2011 bonds issued by Russian banks included promissory notes denominated in Russian Rubles with maturities from April 2012 through November 2014.

Russian State Bonds (OFZ) are ruble denominated state securities issued with a discount to nominal cost and guaranteed by the Ministry of Finance of the Russian Federation. OFZs include short and medium-term bonds.

As at 31 December 2012 and 2011 corporate bonds issued by Russian companies comprised ruble denominated bonds with maturities from September 2017 through February 2021 and in October 2013, respectively.

18 Due from banks and other financial institutions

	31 December 2012	31 December 2011
Correspondent accounts of banks and overnight deposits	534 808	1 266 719
Term interbank loans and deposits	170 052	-
Other accounts with financial institutions	1 117	8 518
Total due from banks and other financial institutions	705 977	1 275 237

As at 31 December 2012 and 2011 the Bank had amounts due from DEUTSCHE BANK group which exceeded 10% of the Bank's equity, of RUB 453,045 thousand and RUB 1,191,877 thousand, respectively.

19 Loans to customers

	31 December 2012	31 December 2011
Loans to customers	8 187 532	8 671 145
Less provision for impairment losses	(942 100)	(955 719)
Total loans to customers	7 245 432	7 715 426

The Bank provides loans to small and medium businesses, including at the expense of target resources of Open Joint Stock Company "Russian Bank for Small and Medium Enterprises Support" within the program of rendering financial support to small and medium businesses. As at 31 December 2012 and 2011 loans to customers issued under this program amounted to RUB 826,784 thousand and RUB 1,041,085 thousand, respectively (Note 23).

As at 31 December 2012 and 2011 loans to customers amounting to RUB 826,784 thousand and RUB 1,336,085 thousand, respectively, were used as a collateral for borrowed funds of Open Joint Stock Company "Russian Bank for Small and Medium Enterprises Support" (Note 23).

Movements in provisions for impairment losses on loans to customers for the years ended 31 December 2012 and 2011 are disclosed in Note 5.

The table below summarizes the amount of loans analyzed by type of collateral, rather than the fair value of the collateral itself:

	31 December 2012	31 December 2011
Loans collateralized by pledge of real estate	1 252 966	1 546 517
Loans collateralized by rights of demand	997 658	562 867
Loans collateralized by the Bank's promissory notes	653 308	295 934
Loans collateralized by pledge of equipment	462 481	425 998
Loans collateralized by pledge of securities	225 605	220 318
Loans collateralized by goods	137 932	16 044
Loans collateralized by corporate guarantees	54 914	108 944
Loans collateralized by deposits	-	138 706
Unsecured loans	4 402 668	5 355 817
	8 187 532	8 671 145
Less provision for impairment losses	(942 100)	(955 719)
Total loans to customers	7 245 432	7 715 426

Risk concentrations on customer loan portfolio by industries are as follows:

	31 December 2012	31 December 2011
Wholesale	2 048 123	1 904 389
Financial activities	1 799 527	2 149 139
Individuals	1 412 934	2 106 754
Real estate operations	809 692	923 385
Construction	656 121	11 284
Machinery construction	429 490	402 188
Transport and communication	401 392	396 000
Light industry	284 000	350 000
Tourism	168 302	67 353
Hotels and restaurants	112 599	55 382
Retail trading	55 501	221 292
Electric power engineering	-	60 000
Metallurgy	-	20 037
Other	9 851	3 942
	8 187 532	8 671 145
Less provision for impairment losses	(942 100)	(955 719)
Total loans to customers	7 245 432	7 715 426

As at 31 December 2012 and 2011 the Bank issued loans to 13 and 14 borrowers totaling RUB 3,703,401 thousand and RUB 4,230,368 thousand, respectively, which individually exceeded 10% of the Bank's equity.

As at 31 December 2012 and 2011 loans to customers were grouped into the following classes according to their features and nature of disclosure:

	31 December 2012			31 December 2011		
	Loans to customers	Provision	Net loans to customers	Loans to customers	Provision	Net loans to customers
Classes of loans to legal entities	6 774 599	792 048	5 982 551	6 564 390	721 613	5 842 777
Loans for current operations	5 963 231	671 963	5 291 268	6 128 054	648 890	5 479 164
Investment loans	456 475	78 826	377 649	107 096	-	107 096
Loans "against turnover"	354 893	41 259	313 634	329 240	72 723	256 517
Classes of loans to individuals	1 412 933	150 052	1 262 881	2 106 755	234 106	1 872 649
Targeted loans to individuals	1 002 166	98 823	903 343	1 882 542	174 848	1 707 694
Consumer loans	406 230	49 931	356 299	220 722	57 531	163 191
Plastic cards overdrafts	4 537	1 298	3 239	3 491	1 727	1 764
Total loans to customers	8 187 532	942 100	7 245 432	8 671 145	955 719	7 715 426

The table below summarizes an analysis of loans to customers by impairment:

	31 December 2012			31 December 2011		
	Loans to customers	Provision	Net loans to customers	Loans to customers	Provision	Net loans to customers
Loans impaired individually	5 217 364	939 659	4 277 705	6 508 108	948 313	5 559 795
Loans impaired collectively	38 493	2 441	36 052	74 018	7 406	66 612
Unimpaired loans	2 931 675	-	2 931 675	2 089 019	-	2 089 019
Total loans to customers	8 187 532	942 100	7 245 432	8 671 145	955 719	7 715 426

The following table provides information on the loans that would have been past due or impaired if they had not been renegotiated:

	31 December 2012			31 December 2011		
	Loans to customers	Provision	Net loans to customers	Loans to customers	Provision	Net loans to customers
Classes of loans to legal entities	756 019	117 141	638 878	1 118 298	72 305	1 045 993
Other loans for current operations	745 626	116 494	629 132	1 010 289	72 042	938 247
Investment loans	-	-	-	107 096	-	107 096
Loans "against turnover"	10 393	647	9 746	913	263	650
Classes of loans to individuals	514 399	12 059	502 340	1 057 793	157 138	900 655
Targeted loans to individuals	496 626	11 170	485 456	1 014 762	114 718	900 044
Consumer loans	17 773	889	16 884	43 031	42 420	611
Total loans to customers	1 270 418	129 200	1 141 218	2 176 091	229 443	1 946 648

20 Financial assets available-for-sale

Financial assets available-for-sale comprise:

	31 December 2012	31 December 2011
Debt securities	79 689	172 715
Equity securities	7 585	56 408
Total financial assets available-for-sale	87 274	229 123

Financial assets available-for-sale include:

Debt securities:

Title	Interest to nominal %	31 December 2012	Interest to nominal %	31 December 2011
Eurobonds, issued by companies	8.25%	79 689	8.25%-12%	172 715
Total debt securities		79 689		172 715

Equity securities:

Title	Ownership Interest, %	31 December 2012	Ownership Interest, %	31 December 2011
Corporate shares:				
Shares issued by OJSC MEUZ "Yuvelirprom"	0.69%	7 585	0.69%	7 585
Shares issued by OJSC "Ufa Engine Industrial Association"	-	-	1.01%	48 823
Total equity securities		7 585		56 408

As at 31 December 2012 the Bank's portfolio included Eurobonds of CBOM Finance P.L.C. that are traded in international markets. The coupon income on these securities is payable twice a year. The securities mature in August 2014.

As at 31 December 2011 the Bank's portfolio included Eurobonds of CBOM Finance P.L.C. and TFB Finance Limited that are traded in international markets. The coupon income on these securities is payable twice a year. These securities mature in August 2014 and February 2012, respectively.

21 Property and equipment and Intangible assets

	Office and computer equipment	Cars and other equipment	Intangible assets	Other	Total
Net book value at 1 January 2012	12 496	16 729	7 580	-	36 805
Balance at beginning of the year	25 586	25 149	22 870	-	73 605
Additions	1 146	1 266	1 722	66	4 200
Disposals	(835)	(1 138)	(3 324)	-	(5 297)
Balance at the end of the period	25 897	25 277	21 268	66	72 508
Accumulated depreciation at the beginning of the year	(13 090)	(8 420)	(15 290)	-	(36 800)
Depreciation charge	(3 877)	(5 222)	(4 598)	-	(13 697)
Disposals	835	1 114	2 978	-	4 927
Accumulated depreciation at the end of the year	(16 132)	(12 528)	(16 910)	-	(45 570)
Net book value at 31 December 2012	9 765	12 749	4 358	66	26 938

	Buildings	Office and computer equipment	Cars and other equipment	Capital investments	Intangible assets	Other	Total
Net book value at 1 January 2011	307 918	46 188	16 958	2 539	10 019	124	383 746
Balance at beginning of the year	310 782	59 404	25 842	2 539	28 348	128	427 043
Additions	-	808	5 019	-	3 650	-	9 477
Disposals	-	(3 703)	(5 712)	-	(9 128)	-	(18 543)
Disposals of property and equipment in discontinued operations	(310 782)	(30 923)	-	(2 539)	-	(128)	(344 372)
Balance at the end of the period	-	25 586	25 149	-	22 870	-	73 605
Accumulated depreciation at the beginning of the year	(2 864)	(13 216)	(8 884)	-	(18 329)	(4)	(43 297)
Depreciation charge	-	(3 993)	(5 059)	-	(3 494)	-	(12 546)
Depreciation charge in discontinuing operations	(1 796)	(1 031)	-	-	-	(7)	(2 834)
Disposals	-	3 599	5 523	-	6 533	-	15 655
Disposals in discontinued operations	4 660	1 551	-	-	-	11	6 222
Accumulated depreciation at the end of the year	-	(13 090)	(8 420)	-	(15 290)	-	(36 800)
Net book value at 31 December 2011	-	12 496	16 729	-	7 580	-	36 805

As at 31 December 2012 and 2011 included in property, plant and equipment was fully depreciated office and computer equipment totaling RUB 9,638 thousand and RUB 8,903 thousand, respectively.

Intangible assets include trademark, software, patents and licenses.

22 Other Assets

	31 December 2012	31 December 2011
Other financial assets		
Settlements on conversion and term transactions	269	-
Receivables on other transactions	85	163
Total other financial assets	354	163
Other non-financial assets		
Advance payments	6 617	6 193
Taxes receivable, other than income tax	1 071	5 196
Total other assets	8 042	11 552

23 Due to banks and other financial institutions

	31 December 2012	31 December 2011
Term loans and deposits from other banks	900 761	1 110 062
Correspondent accounts and overnight deposits of other banks	4 218	4 514
Total due to banks and other financial institutions	904 979	1 114 576

Borrowings on interbank market are caused by the Bank's cooperation with the state bank for development - Open Joint Stock Company "Russian Bank for Small and Medium Enterprises Support" - on the program for support of small and medium business. As at 31 December 2012 and 2011 loans to customers issued under this program amounted to RUB 826,784 thousand and RUB 1,041,085 thousand, respectively (Note 19).

As at 31 December 2012 and 2011 the funds borrowed from banks include a loan obtained from Open Joint Stock Company "Russian Bank for Small and Medium Enterprises Support" of RUB 900,761 thousand and RUB 1,080,059 thousand, collateralized by pledge of loans to the customers in the amount of RUB 826,784 thousand and RUB 1,336,085 thousand, respectively (Note 19).

24 Customer accounts

	31 December 2012	31 December 2011
Commercial entities	1 622 968	2 397 302
Current and settlement accounts	1 215 146	1 751 368
Term deposits	407 822	645 934
Individuals	3 523 856	3 364 799
Term deposits	2 967 398	3 102 515
Current accounts and demand deposits	533 049	262 284
Letters of credit payable	23 409	-
Total customer accounts	5 146 824	5 762 101

The breakdown of customer accounts by economy sectors was as follows:

	31 December 2012	%	31 December 2011	%
Trade	398 331	7.7%	306 001	5.3%
Financial activities	345 355	6.7%	68 458	1.2%
Chemical	203 764	4.0%	406 881	7.1%
Science and education	188 749	3.7%	27 862	0.5%
Real estate operations	122 935	2.4%	253 233	4.4%
Services	96 006	1.9%	91 100	1.6%
Construction	91 745	1.8%	62 341	1.1%
Transport and communication	46 816	0.9%	904 815	15.7%
Health	42 088	0.8%	74 775	1.3%
Culture and art	34 721	0.7%	45 175	0.8%
Information and computing services	23 251	0.5%	15 884	0.3%
Hotels and restaurants	13 389	0.3%	10 500	0.2%
Machinery construction	3 239	0.1%	26 309	0.5%
Other production	2 807	0.1%	1 920	0.0%
Equipment manufacturing	2 316	0.0%	68 924	1.2%
Tourism	1 715	0.0%	3 440	0.1%
Electric power engineering	1 309	0.0%	1 759	0.0%
Agriculture	1 017	0.0%	1 193	0.0%
Light industry	1 012	0.0%	4 727	0.1%
Food industry	925	0.0%	614	0.0%
Printing industry	707	0.0%	1 202	0.0%
Other	653	0.0%	570	0.0%
Metallurgy (ore extraction)	95	0.0%	8 059	0.1%
Metallurgical production	23	0.0%	11 560	0.2%
Individuals	3 523 856	68.5%	3 364 799	58.4%
Total customer accounts	5 146 824		5 762 101	

As at 31 December 2011 customer accounts of commercial entities of RUB 869,295 thousand, which constituted 15,1% of the total amount of the customer accounts, were due to 1 customer, which represents significant concentration.

25 Debt securities issued

	31 December 2012	31 December 2011
Discounted promissory notes	1 500 066	1 380 099
Settlement promissory notes	-	71 319
Total debt securities issued	1 500 066	1 451 418

As at 31 December 2012 and 2011 the Bank issued debt securities were purchased by the client - a commercial entity of RUB 771,960 thousand and RUB 389,924 thousand, respectively. Concentration of 10% and 4,6% of the aggregate amount of the Bank's liabilities and the current balance sheet date is significant.

26 Other liabilities

	31 December 2012	31 December 2011
Other financial liabilities:		
Payable to employees	24 030	29 775
Settlements on conversion and term transactions	-	5 548
Other liabilities	4 490	3 536
Total other financial liabilities	28 520	38 859
Other non-financial liabilities		
Taxes payable other than income tax	4 673	5 003
Total other liabilities	33 193	43 862

27 Subordinated debt

	Currency	Maturity year	Interest rate %	31 December 2012	31 December 2011
Subordinated loan from LLC "Polikom-Vest"	RUB	2019	8	148 727	148 500
TOTAL				148 727	148 500

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

28 Share capital

As at 31 December 2012 and 2011, the Bank's share capital was as follows:

31 December 2012				31 December 2011			
Number of shares	Par value of share, RUB thousand	Par value, RUB thousand	Amount adjusted for inflation, RUB thousand	Number of shares	Par value of share, RUB thousand	Par value, RUB thousand	Amount adjusted for inflation, RUB thousand
Ordinary shares	555 500	1	555 500	679 277	555 500	1	555 500
Total share capital	555 500		555 500	679 277	555 500		679 277

As of 31 December 2012 and 2011 the Bank's announced share capital consisted of 749,600 ordinary shares with a nominal value of RUB 1,000 each. As of 31 December 2012 and 2011 the Bank's issued and fully paid share capital consisted of 555,500 ordinary shares with a nominal value of RUB 1,000 each. All shares are ranked and have the right to one vote. Share premium represents the excess of contributions received over the nominal value of shares issued.

During the period ended 31 December 2012 the Bank announced and paid dividends based on the results of its operations in 2011 of RUB 111,100 thousand.

During the period ended 31 December 2011 the Bank announced and paid dividends based on the results of its operations during prior years of RUB 122,210 thousand.

The Bank's reserves distributable among shareholders are limited to the amount of its reserves as disclosed in its statutory accounts. Non-distributable reserves are represented by a reserve fund, which is created, as required by the statutory regulations, in respect of general banking risks, including future losses and other unforeseen risks or contingencies. The reserve has been created in accordance with the Bank's statute that provides for the creation of a reserve for these purposes of not less than 5% of the Bank's share capital reported in statutory books.

29 Financial commitments and contingencies

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

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

The Bank applies the same credit policy to the contingent liabilities as it does to the balance sheet financial instruments.

The risk-weighted amount is obtained by applying a credit conversion factor and counterparty risk weightings according to principles employed by the Basle Committee on Banking Supervision.

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

	31 December 2012		31 December 2011	
	Nominal amount	Risk-weighted amount	Nominal amount	Risk-weighted amount
Commitments on loans and unused credit lines				
Guarantees issued	965 087	85 153	225 079	5 187
Letters of credit and other transaction related contingent obligations	344 795	344 795	143 196	143 196
	23 409	23 409	-	-
Total loan commitments	1 333 291	453 357	368 275	148 383

Extension of loans to customers within credit line limits is approved by the Bank on a case-by-case basis and depends on borrowers' financial performance, debt service and other conditions. As at 31 December 2012 and 2011 liabilities under such unused credit lines amounted to RUB 111,366 thousand and RUB 71,119 thousand, respectively.

Operating lease commitments – Buildings operating leases that the Bank had entered into as at 31 December 2012 and 2011 are cancellable.

Fiduciary activities – The Bank provides depositary services to its customers. As at 31 December 2012 and 2011, the Bank had customer securities totaling 60,512,473 items and 94,874,906 items, respectively, in its nominal holder accounts.

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

Taxation – Provisions of the Russian tax legislation are sometimes inconsistent and may have more than one interpretation, which allows the Russian tax authorities to take decisions based on their own arbitrary interpretation of these provisions. In practice, the RF tax authorities often interpret the tax legislation not in favor of the taxpayers, who have to resort to court proceeding to defend their position against the tax authorities. It should be noted that the RF tax authorities can use the clarifications issued by the judicial bodies that have introduced the concept of "unjustified tax benefit", "primary commercial goal of transaction" and the criteria of "commercial purpose (substance) of transaction".

Such uncertainty could, in particular, be attributed to tax treatment of financial instruments/derivatives and determination of market price of transactions for transfer pricing purposes. It could also lead to temporary taxable differences occurred due to loan impairment provisions and income tax liabilities being treated by the tax authorities as understatement of the tax base. The management of the Bank is confident that applicable taxes have all been accrued and, consequently, creation of respective provisions is not required.

Generally, taxpayers are subject to tax audits with respect to the three calendar years preceding the year of the audit. However, completed audits do not exclude the possibility of subsequent additional tax audits performed by upper-level tax inspectorates reviewing the results of tax audits of their subordinate tax inspectorates. Also according to the clarification of the Russian Constitutional Court the statute of limitation for tax liabilities may be extended beyond the three year term set forth in the tax legislation, if a court determines that the taxpayers has obstructed or hindered a tax inspection.

Russia's transfer pricing legislation was amended effective 1 January 2012. The above amendments introduce additional requirements with respect to the accounting for and documenting transactions. Under the amended legislation Russian tax authorities can impose additional taxes with respect to a number of transactions, including those with related parties, if they believe that the transaction price differs from the market price. In view of the absence of application practice for the new transfer pricing rules and the uncertainty of wording of a number of their provisions, the likelihood of challenge by tax authorities of the Banks position with respect to application of those rules cannot be assessed reliably.

In 2010 tax authorities held an audit for 2007-2009, as a result of which Moscow Interdistrict tax inspectorate No. 50 issued a decision that there are income tax arrears totalling RUB 4,994 thousand (offset of the amount of the arrears at the expense of income tax overpayment). As at 31 December 2011 the Bank considered the amount of assessed additional income tax of RUB 4,839 thousand as a contingent liability with low risk of realisation. In 2012 the decisions taken by Interdistrict Inspectorate of the Federal Tax Service No. 50 for Moscow on income tax arrears were completely invalidated by the Decision of the Federal Arbitration Court of the Moscow region.

Economic situation – Although in recent years there has been a general improvement in economic conditions in the Russian Federation, it continues to display certain characteristics of an emerging market. These include, but are not limited to, currency controls and convertibility restrictions, relatively high level of inflation and continuing efforts by the government to implement structural reforms.

As a result laws and regulations affecting businesses continue to change rapidly. Tax, currency and customs legislation within Russia is subject to varying interpretations, and other legal and fiscal impediments contribute to the challenges faced by entities currently operating in Russia. The future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory, and political developments.

Operating environment – Financial markets (both Russian and global) are exposed to various risks including economic, political and social, and legal and legislative risks. As has happened in the past, actual or perceived financial problems or an increase in the perceived risks could adversely affect the investment climate in Russia and the country's economy in general.

As a result, laws and regulations affecting businesses in the Russian Federation continue to change rapidly. Tax, currency and customs legislation within the RF is subject to varying interpretations, and other legal and fiscal impediments contribute to the challenges faced by banks currently operating in the RF. The future economic direction of Russia is largely dependent upon economic, fiscal and monetary measures undertaken by the government, together with legal, regulatory, and political developments.

Year 2012 was characterized by continued economic growth and stabilization of global and Russian economies. However economic uncertainties remain. Adverse changes arising from systemic risks in global financial systems, including any tightening of the credit environment or decline in the oil and gas prices could slow or disrupt the Russian economy, adversely affect the Bank's access to capital and cost of capital for the Bank and, more generally, its business, results of operations, financial condition and prospects.

For the years ended 31 December 2012 and 2011 inflation in Russia (according to the government's statistical data) amounted to 6.6% and 6.1%, respectively.

30 Related party transactions

Related parties or transactions with related parties, as defined by IAS 24 "Related Party Disclosures", represent:

- (a) Parties that directly, or indirectly through one or more intermediaries: control, or are controlled by, or are under common control with, the Bank (this includes parents, subsidiaries and fellow subsidiaries); have an interest in the Bank that gives then significant influence over the Bank; and that have joint control over the Bank;
- (b) Associates – enterprises on which the Bank has significant influence and which is neither a subsidiary nor a joint venture of the investor;
- (c) Joint ventures in which the Bank is a venturer;

(d) Members of key management personnel of the Bank or its parent;

(e) Close members of the family of any individuals referred to in (a) or (d);

(f) Parties that are entities controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e);

(g) Post-employment benefit plans for the benefit of employees of the Bank, or of any entity that is a related party of the Bank.

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. The Bank had the following transactions outstanding with related parties:

	31 December 2012		31 December 2011	
	Related party transactions	Total category as per the financial statements caption	Related party transactions	Total category as per the financial statements caption
Loans to customers				
key management personnel of the Bank	2 433		969	
other related parties	22 512		21 714	
Total loans to customers	24 945	8 187 532	22 683	8 671 145
Provision for impairment losses on loans to customers				
key management personnel of the Bank	(13)		(5)	
other related parties	(37)		(37)	
Total provision for impairment losses on loans to customers	(50)	(942 100)	(42)	(955 719)
Customer accounts				
entities with joint control or significant influence over the Bank	(3 840)		(83 388)	
key management personnel of the Bank	(87 120)		(39 610)	
other related parties	(196 427)		(40 650)	
Total customer accounts	(287 387)	(5 146 824)	(163 648)	(5 762 101)

The following amounts arising due to transactions with related parties were included in the income statement for the years ended 31 December 2012 and 2011:

	Year ended 31 December 2012		Year ended 31 December 2011	
	Related party transactions	Total category as per the financial statements caption	Related party transactions	Total category as per the financial statements caption
Interest income				
entities with joint control or significant influence over the Bank	141		-	
key management personnel of the Bank	215		359	
other related parties	3 472		1 945	
Total interest income	3 828	1 377 716	2 304	1 237 596
Interest expense				
entities with joint control or significant influence over the Bank	(1 088)		(8 800)	
key management personnel of the Bank	(3 025)		(3 252)	
other related parties	(4 463)		(1 810)	
Total interest expense	(8 576)	(551 473)	(13 862)	(552 789)
Provision for impairment losses on interest bearing assets				
key management personnel of the Bank	(8)		(4)	
other related parties	-		1 545	
Total provision for impairment losses on interest bearing assets	(8)	(19 425)	1 541	(243 228)
Fee and commission income				
entities with joint control or significant influence over the Bank	537		854	
key management personnel of the Bank	574		454	
other related parties	1 501		762	
Total fee and commission income	2 612	71 797	2 070	67 142
Dividends received				
Bank's investments	-		382	
Total dividends received	-	1 362	382	628

Net gain/(loss) on financial assets available-for-sale				
Bank's investments	-		1 485	
Total net gain/(loss) on financial assets available-for-sale	-	7 220	1 485	(1 911)
Net gain on foreign exchange operations				
entities with joint control or significant influence over the Bank	2 063		1 651	
key management personnel of the Bank	544		726	
other related parties	1 461		1 661	
Total net gain on foreign exchange operations	4 068	118 747	4 038	270 761
Operating expenses				
entities with joint control or significant influence over the Bank	-		(65)	
key management personnel of the Bank	(4 168)		(156)	
other related parties	(64 807)		(68)	
Total operating expenses	(68 975)	(663 596)	(289)	(645 475)
Key management personnel compensation:				
Payroll	(97 597)		(92 892)	
Insurance contributions	(10 888)		(2 290)	
Total key management personnel compensation	(108 486)	(467 829)	(95 182)	(469 365)

31 Fair value of financial instruments

Fair value is defined as the amount at which the financial instrument could be acquired in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in forced or liquidation sale. The estimates presented herein are not necessarily indicative of the amounts the Bank could realize in a market exchange from the sale of its full holdings of a particular instrument.

Estimated fair value of the Bank's financial instruments approximates their carrying amount.

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

- Cash and balances with the CBR and mandatory reserve deposits with the CBR, due to the short term environment and availability restriction of these types of assets, the carrying amount is assumed to be reasonable estimate of their fair value.
- The estimated fair value of quoted trading securities and derivative financial instruments, comprising financial assets at fair value through profit or loss category, is determined based on quoted active market prices at the reporting date.
- The fair value of advances to banks provided during the period of one month to the reporting date is assumed to be fair value amount for them.
- The fair value of the loans to customers is estimated by application of market interest rates when the loans were originated with the year-end market rates offered on similar deposits with the deduction of the provisions for credit losses from the calculated fair value amounts.
- The estimated fair value of promissory notes and bonds comprising investments available-for-sale category is determined based on the quoted market prices. Investments in equity instruments, which do not have quoted market prices in an active market are measured at cost, as their fair value can not be measured reliably.
- Other financial assets and liabilities are mainly represented by short-term receivables and payables, therefore the carrying amount is assumed to be reasonable estimate of their fair value.
- The fair value of term deposits (included in customer accounts and due to banks) for term deposits placed during the period of one month to the reporting date is assumed to be fair value amount for them. The carrying amount of current customer accounts is assumed to be reasonable estimate of their fair value due to the short-term environment and availability requirements of these types of liability.
- The fair value of issued promissory notes is based on expected cash flows discounted using market interest rates.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value based on the fair value hierarchy. The fair value levels reflect direct fair value measurements based on market data:

Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets.

Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable in the market for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset that are not based on observable market data (unobservable inputs).

31 December 2012			
	Quoted prices in active market (Level 1)	Valuation techniques based on observable market data (Level 2)	Valuation techniques incorporating information other than observable market data (Level 3)
Financial assets at fair value through profit or loss	569 720	-	-
Financial assets available-for-sale	79 689	-	-

31 December 2011

	Quoted prices in active market (Level 1)	Valuation techniques based on observable market data (Level 2)	Valuation techniques incorporating information other than observable market data (Level 3)
Financial assets at fair value through profit or loss	499 991	-	-
Financial assets available-for-sale:	221 538	-	-

There were no transfers between Level 1, 2 and 3 during the period.

32 Regulatory matters

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (provided in the table) of total (8%) and tier 1 capital (4%) to risk weighted assets.

The ratio was calculated according to the principles employed by the Basel Committee.

As at 31 December 2012 the Bank's total capital amount for capital adequacy purposes was RUB 2,001,941 thousand and tier 1 capital amount was RUB 1,846,419 thousand with ratios 22.53% and 20.78%, respectively.

As at 31 December 2011 the Bank's total capital amount for capital adequacy purposes was RUB 1,820,240 thousand and tier 1 capital amount was RUB 1,682,714 thousand with ratios 19.48% and 18.01%, respectively.

As of 31 December 2012 and 2011 the Bank included in the computation of Total capital for Capital adequacy purposes the subordinated debt received, limited to 50% of Tier 1 capital. In the event of bankruptcy or liquidation of the Bank, repayment of this debt is subordinate to the repayment of the Bank's liabilities to all other creditors.

33 Capital management

The Bank's capital is managed in order to comply with the capital adequacy requirements established by the Central Bank of the Russian Federation, ensure the Bank's capability and maintain the amount of the capital meeting the recommendations of the Basel Committee on Banking Supervision as provided in New Basel Capital Accord (Basel I).

The Bank also manages its capital to ensure that the Bank will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance.

According to the requirements of the Central Bank of the Russian Federation the minimal capital adequacy rate comprises 10% of the amount of the risk-weighted assets estimated according to Russian Accounting Standards. As at 31 December 2012 the Bank's capital adequacy rate comprised 17.54% (unaudited by ZAO Deloitte and Touche CIS).

The capital structure of the Bank consists of debt, which includes subordinated debt disclosed in Note 27, and equity, comprising share capital, provisions and retained earnings as disclosed in the statement of changes in equity.

The Management Board reviews the capital structure on a semi-annual basis. As part of this review, the Management Board considers the cost of capital and the risks associated with each class of capital.

The Bank's overall capital risk management policy remains unchanged from 2011.

34 Risk management policies

Risk management is fundamental to the Bank's banking business. The main risks inherent to the Bank's operations are those related to:

- credit risk;
- liquidity risk;
- market risk;
- operational risk.

The risk management responsibilities in the Bank are distributed among the following managements bodies and structural entities:

- The Bank's Board of Directors defines the banking risk management strategy and policies; sets forth comprehensive banking risk limits; evaluates the effectiveness of the Bank's activities on implementation of the approved banking risk management strategy and policies and on control of the risk level.
- The Management Board is responsible for the implementation of the banking risk management strategy and policy as approved by the Board of Directors. The competence of the Management Board also includes the following: analyzing the quality of banking risk management, setting the limits for particular transactions of the Bank and ensuring control over compliance, approval of internal regulations as part of the general policy on risk management organization approved by the Board of Directors, introducing restrictions to (imposing moratorium on) operations;

Within his competence, the Chairman of the Management Board: organizes and ensures effectiveness of the banking risk management system, including organization of risk monitoring and measurement systems; organization of complete and reliable reporting on banking risk management; determines the Bank's organizational structure (including authorities and responsibility of structural divisions and/or responsible persons) to ensure effective risk management; organizes activities to improve the skills of the Bank's staff engaged in banking risk management;

The Bank's Credit Committee: performs assessment and management of risks the bank undertakes when granting loans, issuing guarantee, investing in third party promissory notes, purchasing receivables, providing funds against assignment of monetary claims; takes measures to minimize and reduce concentration of credit and other banking risks (provision of loans to related borrowers, selected industries, regions, etc.);

- The Bank's Asset and Liabilities Management Committee manages liquidity risk, interest risk, stock market risk and currency risk, as well as the Bank's balance sheet structure.

- The Bank's Technological Committee ensures effectiveness of and decrease in the risk level of the Bank's activities through optimization, regulation and automation of the current and planned business processes.

The Risk Analysis and Assessment Department ("RAAD") is the key structural unit charged with risk assessment and analysis. RAAD's competence includes the following key matters: realization of banking risk management policy; risk assessment and monitoring on an ongoing basis; control over compliance with the acceptable levels of banking risks; reporting identified risks to the Bank's management bodies; preparation of management reporting in accordance with stipulated risk management procedures in respect of specific risks; development of proposals and measures to mitigate risks; participation in discussions of risk management quality with the Management Board and the Board of Directors;

The Bank's key structural division functions on banking risk management include: organizing control over the factors affecting banking risks according to the approved internal documents; timely notification of RAAD on the factors affecting the risk level; control over implementation of appropriate changes into internal documents and procedures of the Bank in case of changes in the terms of banking operation (transaction) performance; participation in the development of and proposing changes to the Bank's internal documents regarding the structural division's activity.

The Bank has set the tasks and objectives for the banking risk management system, and identified key stages and methods of banking risk management.

Credit risk

The Bank is exposed to credit risk which is the risk that the Bank will incur losses if the debtor fails to discharge a contractual financial obligation to the Bank.

Credit risk is managed in accordance with the established competencies by the Bank's Management Board, Credit Committee and Risk Analysis and Assessment Department.

To mitigate credit risk, the Bank reduces excessive concentration of assets by setting limits on counterparties and groups of related counterparties. Requests for limits are initiated by respective business units.

The analysis of the borrower's financial situation and the assessment of the credit risk level is carried out by the Risk Analysis and Assessment Department.

Limits are set by the Credit Committee or the Management Board (for financial institutions and issuers) or the Chairman of the Management Board or an authorized employee (for small limits prescribed by the Bank's Credit Policy).

Limits for borrowers and counterparties are set as requests are received and then monitored and revised on an ongoing basis. Limits of lending "against turnover" are revised at least once a month.

Credit risk is assessed using methods set out in the Bank's internal documents.

A counterparty financial analysis includes analysis of the borrower's business, financial position, credit history, nature of the financed transaction and purpose of the loan. The financial position of legal entity borrowers is analyzed on a quarterly basis, counterparty banks are monitored monthly. The solvency of individual borrowers is analyzed on a quarterly basis according to a special technique.

To reduce the level of credit risk the Bank accepts various types of security for loans (pledge, guarantees, sureties, etc.) The Bank evaluates security givers. The security assessment is carried out by independent appraisals. The Bank requires the real estate, equipment and goods accepted as a collateral to be insured.

It is impossible to obtain pledge or guarantee on some loans. Such loans are continuously monitored.

Commitments to extend credit represent unused portions of credit in the form of loans, guarantees or letters of credit. The credit risk on off-balance sheet financial instruments is defined as a probability of losses due to the inability of a counterparty to comply with the contractual terms and conditions. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to a loss in an amount equal to the total unused commitments. However, the likely amount of the loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank applies the same credit policy to the contingent liabilities as it does to the balance sheet financial instruments, i.e. the one based on the procedures for approving the grant of loans, using limits to mitigate the risk, and current monitoring.

Maximum credit risk exposure

The Bank's maximum exposure to credit risk varies significantly and is dependent on the level of risks inherent in respective assets.

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

31 December 2012		
	Maximum credit risk exposure	Collateral
Balances with the Central Bank of the Russian Federation	727 437	-
Financial assets at fair value through profit or loss	569 720	-
Due from banks and other financial institutions	705 977	-
Loans to customers	7 245 432	(3 784 864)
Financial assets available-for-sale	79 689	-
Other financial assets	354	-
Commitments on loans and unused credit lines	965 087	-
Letters of credit to be paid	23 409	-
Guarantees issued	344 795	-
31 December 2011		
	Maximum credit risk exposure	Collateral
Balances with the Central Bank of the Russian Federation	140 892	-
Financial assets at fair value through profit or loss	499 991	-
Due from banks and other financial institutions	1 275 237	-
Loans to customers	7 715 426	(3 404 355)
Financial assets available-for-sale	172 715	-
Other financial assets	163	-
Commitments on loans and unused credit lines	225 079	-
Guarantees issued	143 196	-

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

As at 31 December 2012 and 2011 the balances with the CBR included RUB 727,437 thousand and RUB 140,892 thousand, respectively. The credit rating of the Russian Federation according to the international rating agencies corresponded to investment level BBB.

The following table details credit ratings of financial assets held by the Bank that are neither past due nor impaired:

31 December 2012					
	A	BBB	<BBB	Not rated	Total equity
Financial assets at fair value through profit or loss	-	168 015	371 484	30 221	569 720
Due from banks and other financial institutions	453 045	191 085	61 552	295	705 977
Loans to customers	-	-	-	2 931 675	2 931 675
Financial assets available-for-sale	-	-	79 689	7 585	87 274
Other financial assets	-	-	-	354	354

31 December 2011					
	A	BBB	<BBB	Not rated	Total equity
Financial assets at fair value through profit or loss	-	170 179	299 256	30 556	499 991
Due from banks and other financial institutions	1 192 237	8 810	64 087	10 103	1 275 237
Loans to customers	-	-	-	2 089 019	2 089 019
Financial assets available-for-sale	-	-	172 715	56 408	229 123
Other financial assets	-	-	-	163	163

The Bank classifies loans to customers in the category of financial assets according to internal ratings:

Rating 1

Analysis of production, finance and business activities of the borrower and other borrower data, including data on external circumstances, indicate to the stability of the production, positive net assets, profitability and solvency; there are no negative conditions (tendencies) that can affect the borrower's financial stability in the long term. Such negative conditions (tendencies) include material decrease in the production growth rates, profitability ratios, material increase in payables and (or) receivables and other circumstances that are not related to seasonal factors.

Rating 2

Analysis of production, finance and business activities of the borrower and (or) other borrower data indicate that there is no direct threats to the current financial position, though there are negative circumstances (tendencies) in the borrower's activity that can cause financial difficulties in the foreseeable future (a year or less) if the borrower fails to take measures to improve the situation.

Rating 3

Analysis of production, finance and business activities of the borrower and (or) other borrower data indicate that there are threatening negative circumstances (tendencies) in the borrower's activities and they can cause insolvency of the borrower. Threatening negative circumstances (tendencies) in the borrower's activity can include: loss-making activity, negative or materially decreased net assets, material reduction of the production volume, substantial growth of payables and (or) receivables.

As at 31 December 2012 and 2011 the internal rating assessment technique involves a point-based system based on the borrower's financial performance and other factors.

The data on the ratings assigned by the Bank to the provided loans is given below:

	31 December 2012	31 December 2011
Rating 1	1 018 377	1 262 729
Rating 2	5 706 581	5 674 767
Rating 3	520 474	777 930
Total loans to customers	7 245 432	7 715 426

The banking industry is generally exposed to credit risk through its financial assets and contingent liabilities. The exposure is monitored on a regular basis to ensure that the credit limits and credit worthiness guidelines established by the Bank's risk management policy are not breached.

Geographical concentration

The Bank has a country risk, i.e. the risk that the Bank may incur losses due to the failure of foreign counterparties (legal entities, individuals) to fulfill their obligations due to economic, political or social changes, as well as due to the fact that currency of a monetary liability may be inaccessible to a counterparty due to specific provisions of national legislation and for other country specific reasons (regardless of the financial position of this counterparty).

The Bank operates in the Russian Federation. The Bank's customer base the services to which generate income and resources is also located in Russia.

The Bank's foreign assets subject to country risk include loans issued to non-resident legal entities and individuals, as well as balances on correspondent accounts of non-resident banks with the absolute majority of such non-residents located in jurisdictions with the best country rates according to classification of Export Credit Agencies participating in the Agreement of Country Members of the Organization for Economic Cooperation and Development ("OECD") "On the basic principles of provision and utilization of officially supported export credits".

Geographical analysis of the Bank's assets and liabilities as at 31 December 2012 and 2011 is provided below:

31 December 2012

	RF	OECD countries	Other non-OECD countries	Total
FINANCIAL ASSETS				
Cash and balances with the Central Bank of the Russian Federation	938 697	-	-	938 697
Financial assets at fair value through profit or loss	569 720	-	-	569 720
Due from banks and other financial institutions	244 659	461 298	20	705 977
Loans to customers	6 684 374	253 310	307 748	7 245 432
Financial assets available-for-sale	87 274	-	-	87 274
Other financial assets	354	-	-	354
Total financial assets	8 525 078	714 608	307 768	9 547 454
FINANCIAL LIABILITIES				
Due to banks and other financial institutions	903 760	-	1 219	904 979
Customer accounts	5 095 891	41 651	9 282	5 146 824
Debt securities issued	549 345	771 960	178 761	1 500 066
Other financial liabilities	28 518	-	2	28 520
Subordinated debt	148 727	-	-	148 727
Total financial liabilities	6 726 241	813 611	189 264	7 729 116
Net position	1 798 837	(99 003)	118 504	

31 December 2011

	RF	OECD countries	Other non-OECD countries	Total
FINANCIAL ASSETS				
Cash and balances with the Central Bank of the Russian Federation	281 833	-	-	281 833
Financial assets at fair value through profit or loss	499 991	-	-	499 991
Due from banks and other financial institutions	74 603	1 200 505	129	1 275 237
Loans to customers	6 659 279	379 037	677 110	7 715 426
Financial assets available-for-sale	229 123	-	-	229 123
Other financial assets	163	-	-	163
Total financial assets	7 744 992	1 579 542	677 239	10 001 773
FINANCIAL LIABILITIES				
Due to banks and other financial institutions	1 114 567	-	9	1 114 576
Customer accounts	5 740 671	12 937	8 493	5 762 101
Debt securities issued	869 996	389 924	191 498	1 451 418
Other financial liabilities	38 859	-	-	38 859
Subordinated debt	148 500	-	-	148 500
Total financial liabilities	7 912 593	402 861	200 000	8 515 454
Net position	(167 601)	1 176 681	477 239	

Market risk

Market risk is a risk that the Bank may incur losses due to adverse changes in the value of trading financial instruments and derivatives of the Bank, as well as foreign exchange rates and (or) precious metals rates. Therefore, market risks include stock market risk, currency risk and interest risks.

The main objective of market risk management is to minimize losses due to adverse changes in market prices of equity instruments; and to take measures to keep the market risk at a level which would not threaten the Bank's financial stability and interests of its creditors and depositors.

Methods aimed at market risk mitigation include diversification; hedging of open positions; ongoing monitoring of investments; non-performance of operations with unreasonably volatile positions; setting limits on financial instruments and securities issuers and control of compliance; setting stop-loss limits; setting limits on net positions; assessment of risks in accordance with internal documents developed on the basis of the Bank of Russia regulations; forecasting net currency positions values in foreign currencies and precious metals and control of compliance with the limits; distribution of authorities in decision-making in the Bank's operations.

Interest rate risk

Interest risk is a risk of financial losses resulting from adverse changes in the interest rates on the assets, liabilities, and off-balance sheet instruments of the Bank. The objective of interest rate risk management is to maintain the risk accepted by the Bank at a level determined by the Bank in accordance with its strategic tasks. The Bank's priority is to ensure maximum safety of assets and equity on the basis of decrease (elimination) of possible losses and lost profit on the Bank's investments in financial instruments. The Bank has established a list of financial instruments sensitive to interest rate fluctuations for the purpose of identification and assessment of interest risk indicators. Changing this list can imply changes/occurrence of additional factors affecting the level of new interest risk accepted by the Bank. To estimate the interest rate risk the Bank uses the following methods: interest margin calculation and gap analysis, which cover all the material sources of interest rate risk inherent in the operations and transactions conducted by the Bank.

The table below provides a general analysis of the Bank's interest rate risk prepared on the basis of weighted average interest rates at year end.

	31 December 2012			31 December 2011		
	RUB	USD	EUR	RUB	USD	EUR
FINANCIAL ASSETS						
Financial assets at fair value through profit or loss	10,28%	-	-	10,16%	-	-
Financial assets available-for-sale	-	8,25%	-	-	9,65%	-
Due from banks and other financial institutions	4,67%	0,02%	0,10%	3,00%	0,50%	0,25%
Loans to customers	14,00%	12,62%	13,63%	14,78%	13,26%	14,77%
FINANCIAL LIABILITIES						
Due to banks and other financial institutions	7,69%	-	-	8,18%	-	-
Customer accounts	8,84%	7,69%	5,89%	8,73%	7,65%	6,10%
Debt securities issued	7,47%	10,57%	10,75%	8,18%	9,42%	12,42%

The following table presents a sensitivity analysis of interest rate risk, which has been determined based on "reasonably possible changes in the risk variable". The level of these changes is determined by management and is contained within the risk reports provided to key management personnel.

	31 December 2012		31 December 2011	
	Interest rate +3%	Interest rate -3%	Interest rate +2%	Interest rate -2%
Impact on profit before tax:				
FINANCIAL ASSETS				
Financial assets at fair value through profit or loss	17 092	(17 092)	10 000	(10 000)
Due from banks and other financial institutions	17 696	(17 696)	267	(267)
Loans to customers	217 363	(217 363)	154 309	(154 309)
Financial assets available-for-sale	2 391	(2 391)	3 454	(3 454)
FINANCIAL LIABILITIES				
Due to banks and other financial institutions	(27 023)	27 023	(22 201)	22 201
Customer accounts	(101 257)	101 257	(74 970)	74 970
Debt securities issued	(45 002)	45 002	(27 602)	27 602
Net Impact on profit before tax	81 260	(81 260)	43 257	(43 257)
Impact on equity:				
	Interest rate +3%	Interest rate -3%	Interest rate +2%	Interest rate -2%
FINANCIAL ASSETS				
Financial assets at fair value through profit or loss	13 673	(13 673)	8 000	(8 000)
Due from banks and other financial institutions	14 157	(14 157)	214	(214)
Loans to customers	173 890	(173 890)	123 447	(123 447)
Financial assets available-for-sale	1 913	(1 913)	2 763	(2 763)
FINANCIAL LIABILITIES				
Due to banks and other financial institutions	(21 618)	21 618	(17 761)	17 761
Customer accounts	(81 005)	81 005	(59 976)	59 976
Debt securities issued	(36 002)	36 002	(22 082)	22 082
Net Impact on equity	65 008	(65 008)	34 606	(34 606)

Currency risk

Currency risk is the risk of losses due to adverse change of foreign exchange and (or) precious metals rates on the Bank's open positions in foreign currencies and (or) precious metals. The objectives of currency risk management include minimizing the Bank's losses when building assets and liabilities with the use of foreign currencies; preventing noncompliance with the Russian currency legislation and foreign currency control regulations when conducting foreign currency operations and performing foreign currency control agent functions.

The main methods of currency risk management used by the Bank include: calculation of net currency position values and compliance with the established limits; limiting of operations with instruments denominated in a foreign currency and precious metals; forecasting of rates; hedging; diversification; insurance (selection by the Bank of the currency for the contract price as a method of currency risk insurance). The objective is to set the contract price in such a currency of which the fluctuations will be favorable; to structurally balance assets and liabilities, accounts receivable and payable.

The Treasury Department of the Bank performs daily monitoring of the Bank's open currency position to ensure its compliance with the requirements of the CBR; compliance with these requirements is monitored by the Risk Analysis and Assessment Department.

As at 31 December 2012 the Bank's currency positions were as follows:

	RUB	USD	EUR	Gold	Other currency	Total
FINANCIAL ASSETS						
Cash and balances with the Central Bank of the Russian Federation	779 192	122 171	37 334	-	-	938 697
Financial assets at fair value through profit or loss	569 720	-	-	-	-	569 720
Due from banks and other financial institutions	218 605	423 064	64 287	-	21	705 977
Loans to customers	4 488 141	2 246 832	510 459	-	-	7 245 432
Financial assets available-for-sale	7 585	79 689	-	-	-	87 274
Other financial assets	354	-	-	-	-	354
Total financial assets	6 063 597	2 871 756	612 080	-	21	9 547 454
FINANCIAL LIABILITIES						
Due to banks and other financial institutions	904 935	28	16	-	-	904 979
Customer accounts	2 576 369	2 175 786	386 646	8 015	8	5 146 824
Debt securities issued	492 641	935 666	71 759	-	-	1 500 066
Other financial liabilities	28 520	-	-	-	-	28 520
Subordinated debt	148 727	-	-	-	-	148 727
Total financial liabilities	4 151 192	3 111 480	458 421	8 015	8	7 729 116
Open position	1 912 405	(239 724)	153 659	(8 015)	13	-
Liability on spot deals						
	RUB	USD	EUR	Gold	Other currency	Total
Assets on spot deals	(91 101)	(121 491)	-	-	-	(212 592)
Net position on derivative forward and spot transactions	30 390	(30 390)	-	-	-	212 592
TOTAL OPEN POSITION	1 942 795	(270 114)	153 659	(8 015)	13	-

As at 31 December 2011 the Bank's currency positions were as follows:

	RUB	USD	EUR	Gold	Other currency	Total
FINANCIAL ASSETS						
Cash and balances with the Central Bank of the Russian Federation	186 319	27 202	68 312	-	-	281 833
Financial assets at fair value through profit or loss	499 991	-	-	-	-	499 991
Due from banks and other financial institutions	45 601	1 206 030	23 477	-	129	1 275 237
Loans to customers	4 920 100	2 179 133	616 193	-	-	7 715 426
Financial assets available-for-sale	56 408	172 715	-	-	-	229 123
Other financial assets	163	-	-	-	-	163
Total financial assets	5 708 582	3 585 080	707 982	-	129	10 001 773
FINANCIAL LIABILITIES						
Due to banks and other financial institutions	1 114 530	29	17	-	-	1 114 576
Customer accounts	2 451 671	2 723 624	578 727	8 071	8	5 762 101
Debt securities issued	233 264	1 109 292	108 862	-	-	1 451 418
Other financial liabilities	38 856	3	-	-	-	38 859
Subordinated debt	148 500	-	-	-	-	148 500
Total financial liabilities	3 986 821	3 832 948	687 606	8 071	8	8 515 454
Open position	1 721 761	(247 868)	20 376	(8 071)	121	-

Currency risk sensitivity

The following table details the Bank's sensitivity to an increase and decrease in the USD and the EUR exchange rates against the RUB. As at 31 December 2012, the ranges from +7% to -5% for USD and from +4% to -4% for EUR represent the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign currency exchange rates on the basis of assessment of internal and external factors (balance of payments, situation in Euro zone, Forex market and oil prices). The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the period for a respective change in foreign currency rates. The sensitivity analysis includes external loans as well as loans to foreign operations within the Bank where the denomination of the loan is in a currency other than the currency of the lender or the borrower.

	31 December 2012		31 December 2011	
	RUB/USD +7%	RUB/USD -5%	RUB/USD -2%	RUB/USD -16%
Impact on profit before tax				
Impact on equity	15 942	(14 225)	16 229	13 910
	12,754	(11 380)	12 983	11 128
	RUB/EUR +4%		RUB/EUR -2%	
	RUB/EUR +4%	RUB/EUR -4%	RUB/EUR -2%	RUB/EUR -11%
Impact on profit before tax				
Impact on equity	224	(205)	186	168
Limitations of sensitivity analysis	179	(164)	149	134

The above tables demonstrate the effect of a change in a key assumption while other assumptions remain unchanged. In reality, there is a correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear, and larger or smaller impacts should not be interpolated or extrapolated from these results.

The sensitivity analyzes do not take into consideration that the Bank's assets and liabilities are actively managed. Additionally, the financial position of the Bank may vary at the time that any actual market movement occurs. For example, the Bank's financial risk management strategy aims to manage the exposure to market fluctuations. As investment markets move past various trigger levels, management actions could include selling investments, changing investment portfolio allocation and taking other protective action. Consequently, the actual impact of a change in the assumptions may not have any impact on the liabilities, whereas assets are held at market value on the balance sheet. In these circumstances, the different measurement bases for liabilities and assets may lead to volatility in stockholder equity.

Other limitations in the above sensitivity analyzes include the use of hypothetical market movements to demonstrate potential risk that only represent the Bank's view of possible near-term market changes that cannot be predicted with any certainty; and the assumption that all interest rates move in an identical fashion.

Stock market risk

The Bank's security portfolio is exposed to stock market risk, i.e. the risk that losses may be incurred due to adverse changes in market prices of equity instruments of the trade portfolio and derivatives under the influence of factors related both to the issuer of equity instruments and to general fluctuations of market prices of financial instruments.

The main methods of stock market risk management used by the Bank include: setting limits (per securities issuers; market; dealer; stop-loss, etc.); hedging; diversification; forecasting; technical stock market analysis; assessment of the financial market situation; analysis of economic and financial market indicators; assessment of an issuer's financial position; setting limits on the duration of investments in financial instruments.

As at 31 December 2012 and 2011 the Bank's security portfolio consisted primarily of debt securities.

The table below represents an analysis of sensitivity to price risk based on the balance sheet position for investments in securities at the reporting date.

If equity prices had been higher/lower:

	31 December 2012		31 December 2011	
	Increase by 5%	Decrease by 5%	Increase by 5%	Decrease by 5%
Impact on equity				
Financial assets available-for-sale				
Total impact on equity	379	(379)	2 820	(2 820)
Liquidity risk	379	(379)	2 820	(2 820)

Liquidity risk is a risk that the bank may incur losses due to the failure to perform its obligations in full.

The key elements of liquidity management and assessment include:

- the procedure of managing current (daily) payment position (daily payment position is managed by the Treasury via transactions in the domestic and external financial markets with a view to maximize the efficiency of the use of the Bank's funds while complying with all its obligations);
- analysis of the risk of loss of liquidity due to gaps in the maturities of assets and liabilities (management of assets and liabilities depending on maturities, calculation of the excess (deficit) of liquidity, and the ratio of excess (deficit) of liquidity). RAAD analyzes the liquidity risk on a continuous basis with respect to the aggregate value of national currency exposure as a result of all the transactions entered and performs a preliminary analysis of the impact of planned major transactions on the level of liquidity.
- daily monitoring of future expected cash flows on clients' and banking operations, which is a part of assets/liabilities management process.

An analysis of the balance sheet interest rate risk and liquidity risk at 31 December 2012 is presented below:

	On demand and less than 1 month	1 to 3 months	3 months to 1 year	From 12 months to 5 years	More than 5 years	Maturity undefined	Total
FINANCIAL ASSETS							
Financial assets at fair value through profit or loss	569 720	-	-	-	-	-	569 720
Due from banks and other financial institutions	589 865	-	-	-	-	-	589 865
Loans to customers	1 018 125	798 100	3 524 772	1 774 774	129 661	-	7 245 432
Financial assets available-for- sale	-	-	-	79 689	-	-	79 689
Total interest bearing financial assets	2 177 710	798 100	3 524 772	1 854 463	129 661	-	8 484 706
Cash and balances with the Central Bank of the Russian Federation	841 543	-	-	-	-	97 154	938 697
Due from banks and other financial institutions	116 112	-	-	-	-	-	116 112
Financial assets available-for- sale	-	-	-	7 585	-	-	7 585
Other financial assets	354	-	-	-	-	-	354
Total financial assets	3 135 719	798 100	3 524 772	1 862 048	129 661	97 154	9 547 454
FINANCIAL LIABILITIES							
Due to banks and other financial institutions	13 151	32 177	414 734	290 699	150 000	-	900 761
Customer accounts	470 493	679 648	1 779 082	438 209	7 788	-	3 375 220
Debt securities issued	-	64 746	671 272	764 048	-	-	1 500 066
Subordinated debt	-	-	227	-	148 500	-	148 727
Total interest bearing financial liabilities	483 644	776 571	2 865 315	1 492 956	306 288	-	5 924 774
Due to banks and other financial institutions	4 218	-	-	-	-	-	4 218
Customer accounts	1 771 604	-	-	-	-	-	1 771 604
Other financial liabilities	25 243	-	3 277	-	-	-	28 520
Total financial liabilities	2 284 709	776 571	2 868 592	1 492 956	306 288	-	7 729 116
Liquidity gap on financial assets and liabilities	851 010	21 529	656 180	369 092	(176 627)	97 154	
Interest sensitivity gap on financial assets and liabilities	1 694 066	21 529	659 457	361 507	(176 627)	-	
Cumulative interest sensitivity gap on financial assets and liabilities	1 694 066	1 715 595	2 375 052	2 736 559	2 559 932	2 559 932	
Cumulative interest sensitivity gap as a percentage of total assets	18%	18%	25%	29%	27%	27%	

An analysis of the balance sheet interest rate risk and liquidity risk at 31 December 2011 is presented below:

	On demand and less than 1 month	1 to 3 months	3 months to 1 year	From 12 months to 5 years	More than 5 years	Maturity undefined	Total
FINANCIAL ASSETS							
Financial assets at fair value through profit or loss	499 991	-	-	-	-	-	499 991
Due from banks and other financial institutions	13 372	-	-	-	-	-	13 372
Loans to customers	439 523	1 231 948	2 640 520	3 224 412	179 023	-	7 715 426
Financial assets available-for- sale	-	67 553	-	105 162	-	-	172 715
Total interest bearing financial assets	952 886	1 299 501	2 640 520	3 329 574	179 023	-	8 401 504
Cash and balances with the Central Bank of the Russian Federation	195 591	-	-	-	-	86 242	281 833
Due from banks and other financial institutions	1 261 865	-	-	-	-	-	1 261 865
Financial assets available-for- sale	-	-	48 823	7 585	-	-	56 408
Other financial assets	163	-	-	-	-	-	163
Total financial assets	2 410 505	1 299 501	2 689 343	3 337 159	179 023	86 242	10 001 773

FINANCIAL LIABILITIES

Due to banks and other financial institutions	30 003	26 321	119 407	884 331	50 000	-	1 110 062
Customer accounts	162 923	834 773	2 614 304	130 947	5 537	-	3 748 484
Debt securities issued	25 882	777 356	576 861	-	-	-	1 380 099
Subordinated debt	-	-	-	-	148 500	-	148 500
Total interest bearing financial liabilities	218 808	1 638 450	3 310 572	1 015 278	204 037	-	6 387 145
Due to banks and other financial institutions	4 514	-	-	-	-	-	4 514
Customer accounts	2 013 617	-	-	-	-	-	2 013 617
Debt securities issued	71 319	-	-	-	-	-	71 319
Other financial liabilities	35 812	-	3 047	-	-	-	38 859
Total financial liabilities	2 344 070	1 638 450	3 313 619	1 015 278	204 037	-	8 515 454
Liquidity gap on financial assets and liabilities	66 435	(338 949)	(624 276)	2 321 881	(25 014)	86 242	-
Interest sensitivity gap on financial assets and liabilities	734 078	(338 949)	(670 052)	2 314 296	(25 014)	-	-
Cumulative interest sensitivity gap on financial assets and liabilities	734 078	395 129	(274 923)	2 039 373	2 014 359	2 014 359	-
Cumulative interest sensitivity gap as a percentage of total assets	7%	4%	-3%	20%	20%	20%	-

Term deposits of individuals are presented on the basis of contractual maturities. However, such deposits may be withdrawn by customers on demand. Long-term credits and overdraft facilities are generally not available in Russia. However, in the Russian marketplace many short-term loans are granted with the expectation of renewing the loans at maturity. As such, the ultimate maturity of assets may be different from the analysis presented above.

The following table presents an allocation of undiscounted cash flows of the Bank's financial liabilities (both interest and principal cash flows) and the Bank's unrecognized credit commitments on the basis of their earliest possible contractual maturity as at 31 December 2012 and 31 December 2011. The total nominal amount of cash outflows presented in the table represents undiscounted contractual cash flows on financial liabilities or contingent commitments. The cash flows expected by the Bank from these financial liabilities and unrecognized credit commitments may differ from the analysis below:

	On demand and less than 1 month	1 to 3 months	3 months to 1 year	From 1 year to 5 years	More than 5 years	Total as at 31 December 2012
FINANCIAL LIABILITIES						
Due to banks and other financial institutions	13 151	48 696	446 910	367 490	155 257	1 031 504
Customer accounts	471 807	688 146	1 882 244	489 406	15 109	3 546 712
Debt securities issued	-	65 364	710 098	942 835	-	1 718 297
Subordinated debt	-	-	12 107	47 520	172 097	231 724
Total interest bearing financial liabilities	484 958	802 206	3 051 359	1 847 251	342 463	6 528 237
Due to banks and other financial institutions	4 218	-	-	-	-	4 218
Customer accounts	1 771 603	-	-	-	-	1 771 603
Other financial liabilities	25 243	-	3 277	-	-	28 520
Total financial liabilities	2 286 022	802 206	3 054 636	1 847 251	342 463	8 332 578
Loan related commitments	13 110	60 885	1 075 790	183 506	-	1 333 291

	On demand and less than 1 month	1 to 3 months	3 months to 1 year	From 1 year to 5 years	More than 5 years	Total as at 31 December 2011
FINANCIAL LIABILITIES						
Due to banks and other financial institutions	30 036	50 171	191 527	977 023	54 876	1 303 633
Customer accounts	163 337	845 830	2 775 970	148 846	11 353	3 945 336
Debt securities issued	25 966	789 928	615 267	-	-	1 431 161
Subordinated debt	-	-	11 880	47 520	184 010	243 410
Total interest bearing financial liabilities	219 339	1 685 929	3 594 644	1 173 389	250 239	6 923 540
Due to banks and other financial institutions	4 514	-	-	-	-	4 514
Customer accounts	2 013 617	-	-	-	-	2 013 617
Debt securities issued	71 319	-	-	-	-	71 319
Other financial liabilities	35 812	-	3 047	-	-	38 859
Total financial liabilities	2 344 601	1 685 929	3 597 691	1 173 389	250 239	9 051 849
Contingent liabilities	16 244	104 048	219 754	28 229	-	368 275

Operational risk

Operational risk is connected with the possibility of loss resulting from the fact that the Bank's internal rules and procedures for banking and other transactions are inadequate to the nature and scope of its business and/or the legislative requirements; from failure by the Bank's employees or other persons to comply with such internal rules and procedures (through unintentional or deliberate action, or omission); from inadequacy/insufficiency of the operational features/characteristics of informational, technical and other systems used by the Bank and/or their failures/breakdowns; and from external impacts.

The Bank regularly monitors and assesses operational risk. As part of operational risk management system, the Bank identifies and assesses operational risk with regard to all current operations, banking products, processes and systems. New operations, banking products, processes and technologies are checked for operational risk exposure.

The main method of mitigation for the operational risk is the development of the organizational structure of the Bank, internal rules and procedures for banking and other transactions. A special focus is placed on compliance with the principle of the segregation of powers, procedures of approval (agreement), accountability for and control over banking operations and other transactions.

The Bank uses the following methods to mitigate the operational risk:

- day-to-day control over the compliance with the limits for operations and control over distribution of authorities when performing banking transactions exceeding the established limits;
- regular reconciliations between the data received from internal accounting for transactions and accounting and depository accounting data;
- segregation of access rights to information and other resources;
- provision of personalized access to the Bank's information resources for the employees by using unique personal identification code and confidential passwords;
- control over compliance with the document flow rules;
- entering into contracts providing for full financial liability;
- property insurance.

To reduce the probability of losses arising from computer system failures the following measures are taken:

- automatic information duplication and back up;
- emergency action plans and disaster recovery plans are developed and updated;
- drills are held to train the steps to be taken in case of breakdown of different automated systems.

A special focus is placed on technological risks and risks associated with the implementation of new technologies within the risk management framework. For this purpose, project solutions and quality of their implementation, organization of technological processes, information flows and management processes, vulnerability to technological and technical risks are examined and assessed.

The Bank assesses operational risk level using basic indicator approach. The Bank performs data collection with regard to operational risks and losses, has created internal data base on operational losses, as well as regularly monitors its operational risks and material exposure to loss per types of operational risk and business lines.

Approved by and signed on behalf of the Management Board



Chairman of the Management Board

S.N. Smirnov

Chief Accountant

E.M. Merkulova