Financial statements

Development Capital Bank

(Open Joint Stock Company)

for the year ended 31 December 2012

with Independent auditor's report

Contents

Ernst & Young LLC
Sadovnicheskaya Nab., 77, bld. 1
Moscow, 115035, Russia
Tel: +7 (495) 705 9700
+7 (495) 755 9700
Fax: +7 (495) 755 9701
www.ey.com

ООО «Эрнст энд Янг»
Россия, 115035, Москва
Садовническая наб., 77, стр. 1
Тел: +7 (495) 705 9700
+7 (495) 755 9700
Факс: +7 (495) 755 9701
ОКПО: 59002827

Independent auditor's report

To the shareholders and Board of Directors of OJSC Development Capital Bank

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

Audited entity's responsibility for the financial statements

Management of the audited entity 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 the fairness of 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 audit procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The audit procedures selected depend on our 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 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 of the audited entity, 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 OJSC Development Capital Bank as at 31 December 2012, and its financial performance and cash flows for the year 2012 in accordance with International Financial Reporting Standards.

G.A. Shinin
Partner
Ernst & Young LLC

11 June 2013

Details of the audited entity

Name: Development Capital Bank (Open joint stock company)
Entered into the State Register of Legal Entities Concerning a Legal Entity under registration number 1027739067861 on 14 August 2002.
Address: Pozharsky per., 13, Moscow, Russia 119034.

Details of the auditor

Name: Ernst & Young LLC
Main State Registration Number 1027739707203.
Address: Russia 115035, Moscow, Sadovnicheskaya naberezhnaya, 77, building 1.
Ernst & Young LLC is a member of Non Profit partnership "Russian Audit Chamber" ("NP APR").
Ernst & Young LLC is registered in the register of auditors and audit organizations of NP APR, number 3028, and also included in the control copy of the register of auditors and audit organizations, main registration number 10201017420.

Statement of financial position

As at 31 December 2012

(Thousands of Russian rubles)

	Notes	*2012*	*2011*
Assets			
Cash and cash equivalents	5	5,052,900	3,525,874
Trading securities	6	1,662,865	1,627,339
Amounts due from credit institutions	7	300,044	66,650
Derivative financial assets	13	26	241
Available-for-sale investment securities		5	5
Investments in associates		138	143
Loans to customers	8	11,010,447	9,108,100
Property and equipment	9	50,017	58,150
Current income tax assets		343	756
Other assets	11	5,660	4,322
Total assets		**18,082,445**	**14,391,580**
Liabilities			
Amounts due to credit institutions	12	4,648,798	3,255,907
Derivative financial liabilities	13	1,799	29,970
Amounts due to customers	14	7,032,090	5,817,763
Debt securities issued	15	1,120,196	358,295
Deferred income tax liabilities	10	503,567	443,927
Other liabilities	11	14,193	22,325
Total liabilities		**13,320,643**	**9,928,187**
Equity			
Share capital	16	3,053,865	3,053,865
General reserve		307,243	307,243
Retained earnings		1,400,694	1,102,285
Total equity		**4,761,802**	**4,463,393**
Total equity and liabilities		**18,082,445**	**14,391,580**

Signed and authorized for release on behalf of the Management Board of the Bank

Alexey A. Farberov — Chairman of the Management Board

Tatiana V. Dorovskikh — Chief Accountant

11 June 2013

ОТКРЫТОЕ АКЦИОНЕРНОЕ ОБЩЕСТВО Банк «Развитие-Столица» ОГРН 1027739... МОСКВА
БАНК
Развитие-Столица

The accompanying notes are an integral part of these financial statements.

Statement of comprehensive income

For the year ended 31 December 2012

(Thousands of Russian rubles)

	Notes	*2012*	*2011*
Interest income			
Loans to customers		1,362,784	1,037,879
Amounts due from credit institutions		120,938	68,544
		1,483,722	**1,106,423**
Trading securities		144,415	208,934
		1,628,137	**1,315,357**
Interest expense			
Amounts due to credit institutions		(222,387)	(118,032)
Amounts due to customers		(112,522)	(63,822)
Debt securities issued		(42,502)	(28,002)
		(377,411)	**(209,856)**
Net interest income		**1,250,726**	**1,105,501**
(Allowance)/reversal of allowance for loan impairment	8	(133,892)	(161,635)
Net interest income after allowance for loan impairment		**1,116,834**	**943,866**
Net fee and commission income	18	42,051	27,068
Net gains/(losses) from revaluation and operations with financial assets at fair value through profit or loss	19	1,046	(179,460)
Net losses from translation of assets and liabilities denominated in foreign currencies and from dealing with foreign currencies:			
- dealing		(325,061)	(319,254)
- translation differences		(89,877)	21,942
Other income	20	8,713	5,309
Non-interest income less expense		**(363,128)**	**(444,395)**
Personnel expenses	21	(209,877)	(203,470)
Other administrative and operating expenses	21	(147,658)	(141,249)
Depreciation and amortization	9	(10,013)	(11,200)
Profit before income tax expense		**386,158**	**143,552**
Income tax expense	10	(87,749)	(30,382)
Profit for the year		**298,409**	**113,170**
Other comprehensive income for the year, net of tax		–	–
Total comprehensive income for the year		**298,409**	**113,170**

The accompanying notes are an integral part of these financial statements.

Statement of changes in equity

For the year ended 31 December 2012

(Thousands of Russian rubles)

	Notes	*Share capital*	*General reserve*	*Retained earnings*	*Total equity*
31 December 2010		**3,053,865**	**307,243**	**1,029,959**	**4,391,067**
Total comprehensive income for the year		–	–	113,170	113,170
Expenses incurred on behalf of the Shareholder	9	–	–	(40,844)	(40,844)
31 December 2011		**3,053,865**	**307,243**	**1,102,285**	**4,463,393**
Total comprehensive income for the year		–	–	298,409	298,409
31 December 2012		**3,053,865**	**307,243**	**1,400,694**	**4,761,802**

The accompanying notes are an integral part of these financial statements.

Cash flow statement

For the year ended 31 December 2012

(Thousands of Russian rubles)

	Notes	2012	2011
Cash flows from operating activities			
Interest received		1,605,906	1,344,982
Interest paid		(356,355)	(193,669)
Fees and commissions received	18	69,515	59,690
Fees and commissions paid	18	(27,464)	(32,622)
Gains less losses from trading securities		(57,451)	(25,527)
Realized gains less losses from dealing in foreign currencies		(353,017)	(295,392)
Other income received		8,713	5,309
Personnel expenses paid		(217,770)	(189,551)
Other operating expenses paid		(148,113)	(138,391)
Cash flows from operating activities before changes in operating assets and liabilities		**523,964**	**534,829**
Net (increase)/decrease in operating assets			
Trading securities		8,356	722,137
Amounts due from credit institutions		(240,137)	(27,378)
Loans to customers		(2,122,137)	(3,129,351)
Other assets		(1,197)	(534)
Net increase/(decrease) in operating liabilities			
Amounts due to credit institutions		1,398,826	1,852,185
Amounts due to customers		1,258,225	953,940
Promissory notes issued		750,756	320,846
Other liabilities		108	(35,738)
Net cash flows from/(used in) operating activities before income tax		**1,576,764**	**1,190,936**
Income tax paid		(27,696)	(43,470)
Net cash from/(used in) operating activities		**1,549,068**	**1,147,466**
Cash flows from investing activities			
Purchase of property and equipment	9	(1,991)	(571)
Net cash used in investing activities		**(1,991)**	**(571)**
Effect of exchange rates changes on cash and cash equivalents		(20,051)	3,402
Net increase/(decrease) in cash and cash equivalents		**1,527,026**	**1,150,297**
Cash and cash equivalents, beginning		**3,525,874**	**2,375,577**
Cash and cash equivalents, ending	5	**5,052,900**	**3,525,874**

The accompanying notes are an integral part of these financial statements.

(Thousands of Russian rubles)

1. Principal activities

Development Capital Bank (the "Bank") was formed on 3 August 1994 as Vizavi Bank, changed its name to Development Capital Bank in 2007 and operates as an open joint stock company under the laws of the Russian Federation. The Bank operates under a banking license issued by the Central Bank of Russia ("CBR") on 26 March 2012, as well as licenses of a professional securities market participant for brokerage, dealing and custody operations and a license for stock agency issued by the Federal Service for the Securities Market.

The Bank extends loans, transfers payments in Russia and abroad, exchanges currencies and provides other banking services to its commercial and retail customers. Its head office is in Moscow. The Bank's registered legal address is Pozharsky per., 13, Moscow, Russia.

The Bank is a member of the obligatory deposit insurance system since 26 November 2008. The system operates under the federal laws and regulations and is governed by the State Corporation "Agency for Deposits Insurance". Insurance covers Bank's liabilities to individual depositors for the amount up to RUB 700 for each individual in case of business failure and revocation of the CBR banking license.

As at 31 December, the following shareholders owned more than 5% of the outstanding shares.

Shareholders	***2012, %***	***2011, %***
Rustem M. Teregulov	39.01	39.01
OOO "Softservice-R"	20.00	20.00
OOO "Student-service"	19.66	19.66
OOO "Spectr-2001"	19.33	19.33
Other	2.00	2.00
Total	**100.00**	**100.00**

The Bank is ultimately controlled by an individual, Mr. Rustem M. Teregulov.

2. Basis of preparation

General

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The Bank is required to maintain its records and prepare its financial statements for regulatory purposes in accordance with Russian accounting and banking legislation and related instructions ("RAL"). These financial statements are based on these RAL accounting records and financial statements, as adjusted and reclassified in order to comply with IFRS.

The financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below. For example, trading and available-for-sale securities, derivative financial instruments have been measured at fair value.

These financial statements are presented in thousands of Russian rubles ("RUB"), unless otherwise indicated.

Inflation accounting

The Russian economy was considered hyperinflationary until 31 December 2002. As such, the Bank applied IAS 29 *Financial Reporting in Hyperinflationary Economies*. The effect of applying IAS 29 is that non-monetary items, including components of equity, were restated to the measuring units current at 31 December 2002 by applying the relevant inflation indices to the historical cost, and that these restated values were used as a basis for accounting in subsequent periods.

Going concern

The Bank's management prepared these financial statements based on the assumption that the Bank will operate as a going concern in the foreseeable future and that it neither intends nor has to liquidate or significantly curtail its activities, and, therefore, its liabilities will be duly discharged.

(Thousands of Russian rubles)

3. Summary of accounting policies

Changes in accounting policies

The Bank has adopted the following amended IFRS during the year:

Amendments to IFRS 7 Financial Instruments: Disclosures

The Amendments were issued in October 2010 and are effective for annual periods beginning on or after 1 July 2011. The amendment requires additional disclosure about financial assets that have been transferred to enable the users of the Bank's financial statements to evaluate the risk exposures relating to those assets. The amendment affects disclosure only and has no impact on the Bank's financial position or performance.

Other amendments resulting from Improvements to the following standards did not have any impact on the accounting policies, financial position or performance of the Bank:

- IAS 12 *Income Taxes (amendment) – Deferred Taxes: Recovery of Underlying Assets*;
- IFRS 1 *First-Time Adoption of International Financial Reporting Standards (amendment) – Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopter*.

Financial assets

Initial recognition

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. When financial assets are recognized initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Bank determines the classification of its financial assets upon initial recognition, and subsequently can reclassify financial assets in certain cases as described below.

Date of recognition

All regular way purchases and sales of financial assets are recognized on the trade date, i.e. the date that the Bank commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category "financial assets at fair value through profit or loss". Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated and effective hedging instruments. Gains or losses on financial assets held for trading are recognized in the income statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as trading securities or designated as investment securities available-for-sale. Such assets are carried at amortized cost using the effective interest method. Gains and losses are recognized in the income statement when the loans and receivables are derecognized or impaired, as well as through the amortization process.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition available-for sale financial assets are measured at fair value with gains or losses being recognized in other comprehensive income until the investment is derecognized or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in other comprehensive income is reclassified to the income statement. However, interest calculated using the effective interest method is recognized in the income statement.

Determination of fair value

The fair value for financial instruments traded in active market at the reporting date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

(Thousands of Russian rubles)

3. Summary of accounting policies (continued)

Financial assets (continued)

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, options pricing models and other relevant valuation models.

Offsetting

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to set off the recognized amounts, and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the statement of financial position.

A financial asset classified as available for sale that would have met the definition of loans and receivables may be reclassified to loans and receivables category if the Bank has the intention and ability to hold it for the foreseeable future or until maturity.

Financial assets are reclassified at their fair value on the date of reclassification. Any gain or loss already recognized in profit or loss is not reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortized cost, as applicable.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, amounts due from the CBR, excluding obligatory reserves, and amounts due from credit and clearing institutions that mature within ninety days of the date of origination and are free from contractual encumbrances.

Repurchase and reverse repurchase agreements and securities lending

Sale and repurchase agreements (“repos”) are treated as secured financing transactions. Securities sold under sale and repurchase agreements are retained in the statement of financial position and, in case the transferee has the right by contract or custom to sell or repledge them, reclassified as securities pledged under sale and repurchase agreements. The corresponding liability is presented within amounts due to credit institutions or customers. Securities purchased under agreements to resell (“reverse repo”) are recorded as amounts due from credit institutions or loans to customers as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective yield method.

Securities lent to counterparties are retained in the statement of financial position. Securities borrowed are not recorded in the statement of financial position, unless these are sold to third parties, in which case the purchase and sale are recorded within gains less losses from trading securities in the income statement. The obligation to return them is recorded at fair value as a trading liability.

Derivative financial instruments

In the normal course of business, the Bank enters into various derivative financial instruments, including forwards, in the foreign exchange and capital markets. Such financial instruments are held for trading and are initially recorded at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in the income statement as net gains / (losses) from trading securities or net gains/(losses) from foreign currencies dealing, depending on the nature of the instrument.

Derivatives embedded in other financial instruments are treated as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contract, and the host contract is not itself held for trading or designated at fair value through profit or loss. The embedded derivatives separated from the host are carried at fair value on the trading portfolio with changes in fair value recognized in the income statement.

Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include amounts due to credit institutions, amounts due to customers and debt securities issued. After initial recognition, borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in the income statement when the borrowings are derecognized as well as through the amortization process.

(Thousands of Russian rubles)

3. Summary of accounting policies (continued)

Leases

Operating − Bank as lessee

Leases of assets under which the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognized as expenses on a straight-line basis over the lease term and included into other operating expenses.

Impairment of financial assets

The Bank assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Amounts due from credit institutions and loans to customers

For amounts due from credit institutions and loans to customers carried at amortized cost, the Bank first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risks characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If there is an objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the income statement. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the income statement.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Bank's internal credit grading system that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the Bank or their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(Thousands of Russian rubles)

3. Summary of accounting policies (continued)

Impairment of financial assets (continued)

Available-for-sale financial investments

For available-for-sale financial investments, the Bank assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in the income statement – is reclassified from other comprehensive income to the income statement. Impairment losses on equity investments are not reversed through the income statement; increases in their fair value after impairment are recognized in other comprehensive income.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded in the income statement. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the income statement, the impairment loss is reversed through the income statement.

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, the loan is no longer considered past due. Management continuously 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.

Derecognition of financial assets and liabilities

Financial assets

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

- the rights to receive cash flows from the asset have expired;
- the Bank has transferred its rights to receive cash flows from the asset, or has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; and
- 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.

Where the Bank has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Bank's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the income statement.

Financial guarantees

In the ordinary course of business, the Bank issues financial guarantees. Financial guarantees are initially recognized in the financial statements at fair value, in "Other liabilities", being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amortized premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the income statement. The premium received is recognized in the income statement on a straight-line basis over the life of the guarantee.

(Thousands of Russian rubles)

3. Summary of accounting policies (continued)

Taxation

The current income tax expense is calculated in accordance with the regulations of the Russian Federation and the city of Moscow.

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Russia also has various operating taxes that are assessed on the Bank's activities. These taxes are included as a component of other operating expenses.

Property and equipment

Property and equipment is carried at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any accumulated impairment. Such cost includes the cost of replacing part of equipment when that cost is incurred if the recognition criteria are met.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Depreciation of an asset begins when it is available for use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	Years
Buildings	25-30
Leasehold improvements	15
Furniture and fixtures	2-5
Computers and office equipment	5
Motor vehicles	4

The asset's residual values, useful lives and methods are reviewed, and adjusted as appropriate, at each financial year-end.

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

Provisions

Provisions are recognized when the Bank has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of obligation can be made.

Retirement and other employee benefit obligations

The Bank does not have any pension arrangements separate from the State pension system of the Russian Federation, which requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged in the period the related salaries are earned. In addition, the Bank has no significant post-retirement benefits.

(Thousands of Russian rubles)

3. Summary of accounting policies (continued)

Share capital

Share capital

Ordinary shares and non-redeemable preference shares with discretionary dividends are both classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. Any excess of the fair value of consideration received over the par value of shares issued is recognized as additional paid-in capital.

Treasury shares

Where the Bank or its subsidiaries purchases the Bank's shares, the consideration paid, including any attributable transaction costs, net of income taxes, is deducted from total equity as treasury shares until they are cancelled or reissued. Where such shares are subsequently sold or reissued, any consideration received is included in equity. Treasury shares are stated at weighted average cost.

Dividends

Dividends are recognized as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the financial statements are authorized for issue.

Contingencies

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

Recognition of income and expenses

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

Interest and similar income and expense

For all financial instruments measured at amortized cost and interest bearing securities classified as trading or available-for-sale, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognized using the original effective interest rate applied to the new carrying amount.

Fee and commission income

The Bank earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

- *Fee income earned from services that are provided over a certain period of time*

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income, fees for cash and settlement operations, acquiring, money transfers, etc. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognized as an adjustment to the effective interest rate on the loan.

- *Fee income from providing transaction services*

Fees arising from negotiating or participating in the negotiation of a transaction for a third party – such as the arrangement of the acquisition of shares or other securities – are recognized on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognized after fulfilling the corresponding criteria.

(Thousands of Russian rubles)

3. Summary of accounting policies (continued)

Recognition of income and expenses (continued)

Dividend income

Revenue is recognized when the Bank's right to receive the payment is established.

Foreign currency translation

The financial statements are presented in Russian rubles, which is the Bank's functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognized in the income statement as gains less losses from foreign currencies − translation differences. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Differences between the contractual exchange rate of a transaction in a foreign currency and the Central Bank exchange rate on the date of the transaction are included in gains less losses from dealing in foreign currencies. The official CBR exchange rates at 31 December 2012 and 31 December 2011 were 30.3727 rubles and 32.1961 rubles to 1 USD, respectively.

Future changes in accounting policies

Standards and interpretations issued but not yet effective

IFRS 9 Financial Instruments

IFRS 9, as issued, reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after 1 January 2013, but Amendments to IFRS 9 *Mandatory Effective Date of IFRS 9 and Transition Disclosures*, issued in December 2011, moved the mandatory effective date to 1 January 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The Bank will quantify the effect of the adoption of the first phase of IFRS 9 in conjunction with the other phases, when issued, to present a comprehensive picture.

IFRS 10 Consolidated Financial Statements

IFRS 10 *Consolidated Financial Statements* establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27. In addition IFRS 10 introduces specific application guidance for agency relationships. The standard also contains accounting requirements and consolidation procedures, which are carried over unchanged from IAS 27. IFRS 10 replaces consolidation requirements in SIC-12 *Consolidation − Special Purpose Entities* and IAS 27 *Consolidated and Separate Financial Statements* and is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. The adoption of this standard will not have any impact on the financial position or performance of the Bank.

IFRS 11 Joint Arrangements

IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. IFRS 11 supersedes IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly Controlled Entities − Non-monetary Contributions by Venturers* and is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. The adoption of this standard will not have any impact on the financial position or performance of the Bank.

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 is effective for annual periods beginning on or after 1 January 2013. IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. The standard will have no impact on Bank's financial position or performance.

(Thousands of Russian rubles)

3. Summary of accounting policies (continued)

Future changes in accounting policies (continued)

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. IFRS 13 is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. The adoption of the IFRS 13 may have effect on the measurement of the Bank's assets and liabilities accounted for at fair value. Currently the Bank evaluates possible effect of the adoption of IFRS 13 on its financial position and performance.

IAS 27 Separate Financial Statements (as revised in 2011)

As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The amendment becomes effective for annual periods beginning on or after 1 January 2013. The amendment will have no impact on the Bank's financial position or performance.

IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)

As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed IAS 28 *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after 1 January 2013. The amendment will have no impact on the Bank's financial position or performance.

Amendments to IAS 19 Employee Benefits

The amendment to IAS 19 becomes effective for annual periods beginning on or after 1 January 2013. The amendment introduces significant changes to the accounting for employee benefits, including the removal of the option for deferred recognition of changes in pension plan assets and liabilities (known as the “corridor approach”). In addition, these amendments will limit the changes in the net pension asset (liability) recognized in profit or loss to net interest income (expense) and service costs. The amendment will have no impact on the Bank's financial position or performance.

Amendments to IAS 1 Changes to the Presentation of Other Comprehensive Income

The amendments change the grouping of items presented in other comprehensive income. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, net losses or gains on available-for-sale financial assets) would be presented separately from items that will never be reclassified (for example, revaluation of buildings). The amendment affects presentation only and has no impact on the Bank’s financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012.

Amendments to IFRS 7 Disclosures – Offsetting Financial assets and Financial Liabilities

These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity’s financial position. The new disclosures are required for all recognized financial instruments that are set off in accordance with IAS 32 *Financial Instruments: Presentation*. The disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or similar agreements, irrespective of whether they are set off in accordance with IAS 32. These amendments will not impact the Bank's financial position or performance and will become effective for annual periods beginning on or after 1 January 2013.

Amendments to IAS 32 – Offsetting Financial Assets and Financial Liabilities

These amendments clarify the meaning of “currently has a legally enforceable right to set-off”. It will be necessary to assess the impact to the Bank by reviewing settlement procedures and legal documentation to ensure that offsetting is still possible in cases where it has been achieved in the past. In certain cases, offsetting may no longer be achieved. In other cases, contracts may have to be renegotiated. The requirement that the right of set-off be available for all counterparties to the netting agreement may prove to be a challenge for contracts where only one party has the right to offset in the event of default.

The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. While many settlement systems are expected to meet the new criteria, some may not. As the impact of the adoption depends on the Bank’s examination of the operational procedures applied by the central clearing houses and settlement systems it deals with to determine if they meet the new criteria, it is not practical to quantify the effects.

These amendments become effective for annual periods beginning on or after 1 January 2014.

(Thousands of Russian rubles)

3. Summary of accounting policies (continued)

Future changes in accounting policies (continued)

Amendment to IFRS 1 – Government Loans

These amendments require first-time adopters to apply the requirements of IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*, prospectively to government loans existing at the date of transition to IFRS. The amendment will have no impact on the Bank.

Improvements to IFRS

The amendments are effective for annual periods beginning on or after 1 January 2013. They will not have an impact on the Bank:

IFRS 1 First-time Adoption of International Financial Reporting Standards. This improvement clarifies that an entity that stopped applying IFRS in the past and chooses, or is required, to apply IFRS, has the option to re-apply IFRS 1. If IFRS 1 is not re-applied, an entity must retrospectively restate its financial statements as if it had never stopped applying IFRS.

IAS 1 Presentation of Financial Statements. This improvement clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative information is the previous period.

IAS 16 Property, Plant and Equipment. This improvement clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.

IAS 32 Financial Instruments, Presentation. This improvement clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 *Income Taxes*.

IAS 34 Interim Financial Reporting. The amendment aligns the disclosure requirements for total segment assets with total segment liabilities in interim financial statements. This clarification also ensures that interim disclosures are aligned with annual disclosures.

4. Significant accounting judgments and estimates

Estimation uncertainty

In the process of applying the Bank's accounting policies, management has used its judgments and made estimates in determining the amounts recognized in the financial statements. The most significant use of judgments and estimates are as follows:

Allowance for loan impairment

The Bank regularly reviews its loans and receivables to assess impairment. The Bank uses its experienced judgment to estimate the amount of any impairment loss in cases where a borrower is in financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Bank estimates changes in future cash flows based on the observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the loans and receivables. The Bank uses its experienced judgment to adjust observable data for a group of loans or receivables to reflect current circumstances.

(Thousands of Russian rubles)

5. Cash and cash equivalents

Cash and cash equivalents comprise:

	2012	*2011*
Cash on hand	558,328	172,588
Cash balances with CBR	386,495	98,007
Funds on clearing accounts	280,322	452,830
Current accounts with other credit institutions	1,870,517	510,446
Reverse repurchase agreements with credit institutions up to 90 days	–	118,136
Time deposits with CBR up to 90 days	200,000	200,000
Time deposits with credit institutions up to 90 days	1,757,238	1,973,867
Cash and cash equivalents	**5,052,900**	**3,525,874**

Current accounts with the Central Bank include amounts deposited with the CBR related to daily settlements and other activities.

As of 31 December 2012, RUB 280,322 were placed on the account with a clearing institution which is the main counterparty of the Bank in performing currency transactions (2011: RUB 452,830).

As of 31 December 2011, the Bank entered into reverse repurchase agreements with three resident banks. The subject of these agreements was shares issued by Russian companies with a fair value of RUB 139,145.

As of 31 December 2012, time deposits included amounts denominated in rubles of RUB 1,300,000 placed with a resident bank and amounts denominated in US dollars of RUB 457,238 placed with a non-resident bank (2011: RUB 1,850,000 placed with three resident banks).

6. Trading securities

Trading securities owned comprise:

	2012	*2011*
Corporate bonds	1,310,122	1,153,614
Corporate shares	197,226	313,870
Corporate Eurobonds	155,517	133,669
Treasury bills of the Ministry of Finance of Russian Federation	–	26,186
Trading securities	**1,662,865**	**1,627,339**
Including		
Corporate bonds pledged under repurchase agreements	1,021,603	–

As at 31 December 2012, corporate bonds included securities issued mainly by Russian banks. The bonds are denominated in RUB, with maturities from 1 to 5 years and bearing interest ranging from 7.8% to 12.75%.

As at 31 December 2011, bonds included securities issued mainly by Russian banks. The bonds were denominated in RUB, with maturities from 2 to 9 years and bearing interest ranging from 7.25% to 12.75%.

Corporate shares are mainly represented by ordinary and privileged shares of major Russian companies.

As at 31 December 2012 and 2011, corporate Eurobonds comprised securities issued by a Russian company. The Eurobonds are denominated in US dollars, mature in October 2015 and bear interest 8.75%.

As of 31 December 2012, corporate bonds of RUB 1,021,603 were pledged as a collateral for loans received from the CBR under repurchase agreements (2011: nil) (refer to Notes 12, 25).

(Thousands of Russian rubles)

7. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	2012	*2011*
Obligatory reserve with the Central Bank	78,903	49,775
Other amounts	221,141	16,875
Amounts due from credit institutions	**300,044**	**66,650**

Credit institutions are required to maintain a non-interest earning cash deposit (obligatory reserve) with the CBR, the amount of which depends on the level of funds attracted by the credit institution. The Bank's ability to withdraw such deposit is significantly restricted by the statutory legislation.

As of 31 December 2012 and 2011, the Bank had no time deposits with maturity over 90 days.

Other amounts are mainly presented by security deposits held with counterparty banks to effect settlements on plastic cards.

8. Loans to customers

Loans to customers comprise:

	2012	*2011*
Corporate lending	8,942,140	7,784,368
Consumer lending	2,620,611	1,721,655
Small business lending	52,989	83,735
Gross loans to customers	**11,615,740**	**9,589,758**
Less – allowance for impairment	(605,293)	(481,658)
Loans to customers	**11,010,447**	**9,108,100**

Allowance for impairment of loans to customers

A reconciliation of the allowance for impairment of loans to customers by class is as follows:

	Corporate lending 2012	*Consumer lending 2012*	*Small business lending 2012*	*Total 2012*
At 1 January 2012	**366,822**	**88,849**	**25,987**	**481,658**
Charge/(reversal) for the year	(54,147)	211,068	(23,029)	133,892
Amounts written off	–	(7,600)	(2,657)	(10,257)
31 December 2012	**312,675**	**292,317**	**301**	**605,293**
Collectively assessed impairment allowances	217,160	79,342	301	296,803
Individually assessed impairment allowances	95,515	212,975	–	308,490
	312,675	**292,317**	**301**	**605,293**
Gross amount of individually assessed loans with signs of impairment	**2,192,950**	**860,264**	**–**	**3,053,214**

(Thousands of Russian rubles)

8. Loans to customers (continued)

Allowance for impairment of loans to customers (continued)

	Corporate lending 2011	*Consumer lending 2011*	*Small business lending 2011*	*Total 2011*
At 1 January 2011	**203,482**	**86,657**	**29,884**	**320,023**
Charge/(reversal) for the year	163,340	2,192	(3,897)	161,635
31 December 2011	**366,822**	**88,849**	**25,987**	**481,658**
Collectively assessed impairment allowances	279,980	85,509	25,987	391,476
Individually assessed impairment allowances	86,842	3,340	–	90,182
	366,822	**88,849**	**25,987**	**481,658**
Gross amount of individually assessed loans with signs of impairment	**2,246,061**	**376,800**	**12,194**	**2,635,055**

Individually assessed loans with signs of impairment

As of 31 December 2012, individually assessed loans with signs of impairment include loans of RUB 913,022 (31 December 2011: RUB 846,139) with the present value of estimated future cash flows (taking into account the collateral) deemed not to be less than the carrying value of the loans.

According to the Bank's estimates, the fair value of collateral under individually assessed loans with signs of impairment at 31 December 2012 comprised RUB 1,294,489 (31 December 2011: RUB 1,979,327). In accordance with the CBR requirements, loans may only be written off with the approval of the Board of Directors and, in certain cases, with the respective decision of the Court.

Interest income accrued on individually assessed loans with signs of impairment for the year ended 31 December 2012 comprised RUB 445,644 (2011: RUB 281,812).

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- For securities lending and reverse repurchase transactions, cash or securities;
- For commercial lending, charges over real estate, properties, inventory and trade receivables;
- For retail lending, mortgages over residential properties.

The Bank also obtains guarantees from parent companies for loans to their subsidiaries.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for loan impairment.

Concentration of loans to customers

As at 31 December 2012, the Bank had RUB 5,282,526 loans, or 45% of gross loan portfolio (2011: RUB 4,830,903, or 50% of gross loan portfolio), due from ten largest third party entities. An allowance of RUB 200,236 (2011: RUB 206,418) was recognized against these loans.

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

	2012	*2011*
Operations with investment property (rentals)	2,988,344	2,627,699
Individuals	2,620,611	1,721,655
Finance	1,962,662	2,485,056
Real estate construction	1,689,875	1,825,071
Trading enterprises	1,667,563	924,826
Other	686,685	5,451
	11,615,740	**9,589,758**

(Thousands of Russian rubles)

9. Property and equipment

The movements in property and equipment were as follows:

	Buildings	*Furniture and fixtures*	*Computers and office equipment*	*Motor vehicles*	*Leasehold improvements*	*Total*
Cost						
31 December 2010	**1,012**	**28,214**	**18,284**	**2,088**	**93,859**	**143,457**
Additions	233	74	264	–	–	571
Disposals	–	(614)	(1,954)	–	(46,634)	(49,202)
31 December 2011	**1,245**	**27,674**	**16,594**	**2,088**	**47,225**	**94,826**
Additions	–	554	637	800	–	1,991
Disposals	–	(1,140)	(1,755)	–	–	(2,895)
31 December 2012	**1,245**	**27,088**	**15,476**	**2,888**	**47,225**	**93,922**
Accumulated depreciation						
31 December 2010	**382**	**9,047**	**15,063**	**2,088**	**6,257**	**32,837**
Depreciation charge	112	4,322	1,545	–	5,221	11,200
Disposals	–	(464)	(1,716)	–	(5,181)	(7,361)
31 December 2011	**494**	**12,905**	**14,892**	**2,088**	**6,297**	**36,676**
Depreciation charge	48	4,455	1,979	33	3,498	10,013
Disposals	–	(1,108)	(1,676)	–	–	(2,784)
31 December 2012	**542**	**16,252**	**15,195**	**2,121**	**9,795**	**43,905**
Net book value						
31 December 2010	**630**	**19,167**	**3,221**	**–**	**87,602**	**110,620**
31 December 2011	**751**	**14,769**	**1,702**	**–**	**40,928**	**58,150**
31 December 2012	**703**	**10,836**	**281**	**767**	**37,430**	**50,017**

In 2009-2011, the Bank leased premises from its Shareholder. The costs related to repairs of the premises were capitalized. In 2011, the Bank disposed part of the premises in favor of the Shareholder. Related capital investments in leased property and equipment were disclosed in the Bank's statement of changes in equity as expenses incurred on behalf of the Shareholder.

As of 31 December 2012, the value of fully depreciated property and equipment in use was RUB 15,161 (31 December 2011: RUB 10,566).

10. Taxation

The corporate income tax expense comprises:

	2012	*2011*
Current tax charge	28,109	44,111
Deferred tax expense:		
Movement in deferred tax liability	59,640	(13,729)
Income tax expense	**87,749**	**30,382**

Russian legal entities must file individual tax declarations. The tax rate for banks for profits other than on state securities was 20% for 2012 and 2011.

The tax rate for interest income on state securities was 15% and 9% for Federal taxes.

The effective income tax rate differs from the statutory income tax rates. A reconciliation of the income tax expense based on statutory rates with actual is as follows:

	2012	*2011*
Profit before tax	**386,158**	**143,552**
Statutory tax rate	20%	20%
Theoretical income tax expense at the statutory rate	**77,232**	**28,710**
Tax effect of non-taxable income	(1,277)	(223)
Tax effect of non-deductible expenses	816	1,002
Income on state securities taxed at different rates	(1,012)	–
Other	11,990	893
Income tax expense	**87,749**	**30,382**

(Thousands of Russian rubles)

10. Taxation (continued)

Differences between IFRS and Russian statutory taxation regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities under IFRS and their value for tax purposes. The tax effect on the movement on these temporary differences is recorded as deferred tax.

		Origination and reversal of temporary differences		*Origination and reversal of temporary differences*	
	2010	*In the income statement*	*2011*	*In the income statement*	*2012*
Tax effect of deductible temporary differences					
Other liabilities	5,522	(4,702)	820	1,691	2,511
Derivative financial liabilities	1,287	4,707	5,994	(5,634)	360
Property and equipment	432	(1,184)	(752)	872	120
Other	205	122	327	342	669
Deferred tax assets	**7,446**	**(1,057)**	**6,389**	**(2,729)**	**3,660**
Tax effect of taxable temporary differences					
Loans to customers	451,438	900	452,338	54,289	506,627
Trading securities	13,664	(15,733)	(2,069),	2,664	595
Derivative financial assets	–	47	47	(42)	5
Deferred tax liability	**465,102**	**(14,786)**	**450,316**	**56,911**	**507,227**
Deferred tax liability, net	**457,656**	**(13,729)**	**443,927**	**59,640**	**503,567**

11. Other assets and liabilities

Other assets comprise:

	2012	*2011*
Settlements with suppliers	3,983	2,481
Prepaid operating taxes	448	687
Settlements on operations with plastic cards	621	642
Intangible assets	263	288
Other	345	224
Other assets	**5,660**	**4,322**

Other liabilities comprise:

	2012	*2011*
Settlements with employees	6,026	14,143
Settlements with non-budget funds	1,206	2,287
Settlements on operating taxes	2,944	1,890
Accrued expenses	2,379	1,500
Other	1,638	2,505
Other liabilities	**14,193**	**22,325**

12. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	2012	*2011*
Current accounts	14,055	5,367
Time deposits and loans	3,821,472	3,250,540
Repurchase agreements with CBR	813,271	–
Amounts due to credit institutions	**4,648,798**	**3,255,907**

As of 31 December 2012, the balance on current accounts with three Russian banks amounted to RUB 11,711, or 83% of total current accounts.

(Thousands of Russian rubles)

12. Amounts due to credit institutions (continued)

As of 31 December 2011, the balance on current accounts with two Russian banks amounted to RUB 4,659, or 87% of total current accounts.

As of 31 December 2012, the Bank received RUB-denominated loans from ten Russian banks in the amount equivalent to RUB 3,375,324; the loans mature in January-March 2013 and bear interest at rates ranging from 6.20% to 7.50% p.a. Also, as of 31 December 2012, the Bank received a USD-denominated loan from a Russian bank in the amount equivalent to RUB 446,148; the loan matures in October 2013 and bears interest at the rate of 2% p.a.

As of 31 December 2011, the Bank received loans from eight Russian banks in the amount equivalent to RUB 3,250,540. The loans were issued in rubles, mature in January-March 2012 and bear interest at rates ranging from 3.85% to 7.5% p. a.

As of 31 December 2012, the Bank received loans from the CBR collateralized by securities pledged under repurchase agreements for a total of RUB 813,271; the loans mature in January 2013 and bear interest at the rate of 5.66%. The fair value of securities provided as collateral for the loans amounted to RUB 1,021,603 (refer to Notes 6, 25).

13. Derivative financial liabilities

The Bank enters into derivative financial instruments for trading purposes. The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are not indicative of the credit risk.

	2012			***2011***		
	Notional principal	***Fair value***		***Notional principal***	***Fair value***	
		Asset	***Liability***		***Asset***	***Liability***
Foreign exchange contracts						
Forwards – domestic	3,721,093	26	1,799	3,217,211	–	29,970
Forwards – foreign	–	–	–	333,371	241	–
Total derivative assets/liabilities	**3,721,093**	**26**	**1,799**	**3,550,582**	**241**	**29,970**

Note: domestic and foreign in the table above stand for counterparties, where domestic means Russian entities and foreign means non-Russian entities.

As of 31 December 2012 and 31 December 2011, the Bank had positions only in foreign exchange forwards. These forward contracts are contractual agreements to buy or sell a certain amount of currency at a specific price and date in the future.

14. Amounts due to customers

Amounts due to customers include the following:

	2012	***2011***
Current accounts	**4,248,908**	**3,764,873**
Private enterprises	3,007,944	3,324,960
Individuals	1,230,699	431,491
Employees	10,265	8,422
Time deposits	**2,783,182**	**2,052,890**
Private companies	1,280,553	868,477
Individuals	1,432,693	1,119,447
Employees	69,936	64,966
Total amounts due to customers	**7,032,090**	**5,817,763**

As of 31 December 2012 and 2011, amounts due to the ten largest customers equaled to RUB 2,030,943 and RUB 2,504,754, or 29% and 43% of the total amounts due to customers, respectively.

Included in time deposits are deposits of individuals in the amount of RUB 1,502,629 (2011: RUB 1,184,413). In accordance with the Russian Civil Code, the Bank is obliged to repay such deposits upon demand of a depositor. In case a time deposit is repaid upon demand of the depositor prior to maturity, interest on it is paid based on the interest rate for demand deposits, unless a different interest rate is specified in the agreement.

(Thousands of Russian rubles)

15. Debt securities issued

Debt securities issued comprise promissory notes:

	2012		*2011*	
	Nominal amount	***Carrying value***	***Nominal amount***	***Carrying value***
Interest-bearing debt securities issued that have not become due	1,064,960	1,023,809	257,462	255,848
Promissory notes that have become due but have not been presented for redemption	96,387	96,387	102,447	102,447
Debt securities issued	**1,161,347**	**1,120,196**	**359,909**	**358,295**

As of 31 December 2012, promissory notes issued were denominated in Russian rubles with interest rates ranging from 3% to 10% p.a. Also, the Bank issued a USD-denominated promissory note with an interest rate of 5.76% p.a.

As of 31 December 2011, promissory notes issued were denominated in Russian rubles with interest rates ranging from 3% to 7% p.a.

16. Equity

Movements in shares outstanding, issued and fully paid were as follows:

	Number of ordinary shares	***Nominal amount***	***Inflation adjustment***	***Total***
31 December 2012 and 2011	**1,500,000**	**1,500,000**	**1,553,865**	**3,053,865**

As at 31 December 2012, 1,500,000 shares were issued, fully paid and registered (2011: 1,500,000).

The share capital of the Bank was contributed by the shareholders in Russian rubles and they are entitled to dividends and any capital distribution in Russian rubles.

The Bank's reserves are represented by a general reserve fund in respect of general banking risks, including future losses and other unforeseen risks or contingencies.

17. Commitments and contingencies

Operating environment

Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

The Russian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. The global financial crisis has resulted in uncertainty regarding further economic growth, availability of financing and cost of capital, which could negatively affect the Bank's future financial position, results of operations and business prospects. Management believes it is taking appropriate measures to support the sustainability of the Bank's business.

Legal

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

Where a provision and a contingent liability arise from the same set of circumstances, Bank makes the disclosures in a way that shows the link between the provision and the contingent liability.

(Thousands of Russian rubles)

17. Commitments and contingencies (continued)

Taxation

The Bank's business activity is carried out in the Russian Federation. Russian tax, currency and customs legislation as currently in effect is vaguely drafted and is subject to varying interpretations, selective and inconsistent application and changes, which can occur frequently, at short notice and may apply retrospectively. Management's interpretation of such legislation as applied to the transactions and activity of the Bank may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in their interpretation and application of this legislation and assessments. It is therefore possible that transactions and activities of the Bank that have not been challenged in the past may be challenged at any time in the future. As a result, significant additional taxes, penalties and interest may be assessed by the relevant authorities.

Fiscal periods remain open and subject to review by the tax authorities for a period of three calendar years immediately preceding the year in which the decision to conduct a tax review is taken. Under certain circumstances tax reviews may cover longer periods.

As of 31 December 2012, management believes that its interpretation of the relevant legislation is appropriate and that the Bank's tax, currency and customs positions will be sustained.

Commitments and contingencies

As at 31 December, the Bank's commitments and contingencies comprised the following:

	2012	*2011*
Credit-related commitments		
Guarantees	10,215	164,778
Undrawn loan commitments	119,634	59,695
	129,849	**224,473**
Operating lease commitments		
Not later than 1 year	3,129	1,747
Later than 1 year and but not later than 5 years	271,296	271,296
More than 5 years	1,622,124	1,689,948
	1,896,549	**1,962,991**
	2,026,398	**2,187,464**

As collateral against guarantees issued, the Bank accepts real estate property and personal guarantees.

The Bank has the right to change loan terms or refuse to extent a loan under undrawn loan commitments in case of changing economic conditions.

In November 2010, the Bank concluded a 30-year rent agreement of office premises with entities related to the major shareholder of the Bank; the monthly rent payment under the agreement was RUB 2,000. In August 2011, the agreement was amended; the monthly rent was changed to RUB 5,652. The agreement is classified as operating lease under IAS 17 *Leases*.

18. Net fee and commission income

Net fee and commission income comprises:

	2012	*2011*
Settlement operations	55,011	50,337
Guarantees and letters of credit	11,450	8,360
Brokerage operations	579	681
Cash collection	112	188
Currency conversion operations	2,363	124
Fee and commission income	**69,515**	**59,690**
Cash operations	(17,438)	(15,320)
Currency conversion operations	(2,892)	(5,204)
Settlement operations	(4,161)	(3,959)
Securities operations	(1,016)	(1,054)
Other	(1,957)	(7,085)
Fee and commission expense	**(27,464)**	**(32,622)**
Net fee and commission income	**42,051**	**27,068**

(Thousands of Russian rubles)

19. Net gains/(losses) from revaluation and operations with financial assets at fair value through profit or loss

Gains less losses from operations with investment securities carried at fair value through profit or loss and available for sale recognized in the income statement comprise:

Net gains/(losses) from revaluation and operations with financial assets at fair value through profit or loss

	2012	*2011*
Revaluation at fair value	58,497	(153,835)
Trading and redemption	(57,451)	(25,625)
Total	**1,046**	**(179,460)**

20. Other income

Other income comprises:

	2012	*2011*
Dividend income	6,372	1,117
Rent of safe boxes	1,530	1,311
Penalties received	27	2,478
Property disposal	–	33
Other	784	370
Total other income	**8,713**	**5,309**

21. Personnel and other operating expenses

Personnel expenses, other employee benefits and other operating expenses comprise:

	2012	*2011*
Salaries and bonuses	174,475	173,801
Social security costs	35,402	29,669
Personnel expenses	**209,877**	**203,470**
Occupancy and rent	96,011	85,285
Legal and consultancy	8,991	10,236
Communications	8,148	8,834
Insurance	7,020	4,823
Software support	5,235	4,572
Security	4,938	4,838
Repair and maintenance of property and equipment	4,271	4,045
Penalties incurred	4,080	–
Entertainment expenses	3,482	3,434
Marketing and advertising	2,583	3,143
Operating taxes	1,725	9,708
Charity	705	1,000
Other	469	1,331
Other operating expenses	**147,658**	**141,249**

(Thousands of Russian rubles)

22. Risk management

Introduction

Risk is inherent in the Bank's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. It is also subject to operating risks.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Bank's strategic planning process.

Risk management structure

The Board of Directors is ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks. The Bank has Risk Management Unit which includes Department for Market Risk Management and Department for Counterparty Risk Management.

Board of Directors

The Board of Directors is responsible for the overall risk management approach and for approving the risk strategies and principles.

Management Board

The Management Board has the responsibility to monitor the overall risk process within the Bank. The Management Board has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits. It is responsible for the fundamental risk issues and manages and monitors relevant risk decisions.

Risk Management Unit

The Risk Management Unit includes Department for Market Risk Management and Department for Counterparty Risk Management. Risk Management Unit is responsible for complying with risk management policies and procedures, setting adequate and objective risk limits by business process area, and maintaining the limit of aggregate risk inherent in banking activities including with respect to the equity.

Each business unit has an officer in charge of control functions, including risk control, which comprises monitoring the risk of exposures against limits and assessment of risks of new products and structured transactions.

Risk Management Unit accumulates the entire amount of information concerning the size and types of risks assumed by the Bank for subsequent analysis and reporting.

Bank Treasury

Bank Treasury is responsible for managing assets and liabilities and the overall financial structure. It is also primarily responsible for the liquidity risks and funding management.

Internal control

Risk management processes implemented in the Bank are tested annually by Department for Control over Risk Management System Operation, which is an independent structural subdivision within the Internal Control function. The testing covers compliance with the complete set of procedures required for objective analysis of banking risks. Upon completion of testing, all findings, conclusions and recommendations are communicated by the Internal Control function to the Bank's management and the Board of Directors.

Risk measurement and reporting systems

The Bank's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Bank also runs worse case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

Monitoring and controlling risks is primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept, with additional emphasis on selected business process areas and operations. In addition the Bank monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risks types and activities.

(Thousands of Russian rubles)

22. Risk management (continued)

Introduction (continued)

Risk mitigation

The Bank actively uses collateral to reduce its credit risks (see below for more detail).

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risks, the Bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

Credit risk

Credit risk is the risk that the Bank will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations. The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process allows the Bank to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

Derivative financial instruments

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the statement of financial position.

Credit-related commitments risks

The Bank makes available to its customers guarantees which may require that the Bank make payments on their behalf. Such payments are collected from customers based on the terms of the letter of credit. They expose the Bank to similar risks to loans and these are mitigated by the same control processes and policies.

The maximum exposure to credit risk for the components of the statement of financial position, including derivatives, before the effect of mitigation through the use of master netting and collateral agreements, is best represented by their carrying amounts.

Where financial instruments are recorded at fair value, the carrying value represents the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

(Thousands of Russian rubles)

22. Risk management (continued)

Credit risk (continued)

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Bank's internal credit ratings. The table below shows the credit quality by class of asset for loan-related statement of financial position lines, based on the Bank's credit rating system.

In the table below loans to banks and customers of high grade are those having a minimal level of credit risk. Other borrowers with good financial position and good debt service are included in the standard grade. Sub-standard grade comprises loans below standard grade but not individually impaired.

		Neither past due nor impaired					
	Notes	*High grade 2012*	*Standard grade 2012*	*Sub-standard grade 2012*	*Past due but not individually impaired 2012*	*Individually assessed with signs of impairment 2012*	*Total 2012*
Amounts due from credit institutions	7	300,044	–	–	–	–	300,044
Loans to customers	8						
Corporate lending		2,624,529	1,464,969	2,659,692	–	2,192,950	8,942,140
Consumer lending		–	–	1,636,819	123,528	860,264	2,620,611
Small business lending		–	52,989	–	–	–	52,989
		2,624,529	**1,517,958**	**4,296,511**	**123,528**	**3,053,214**	**11,615,740**
Total		**2,924,573**	**1,517,958**	**4,296,511**	**123,528**	**3,053,214**	**11,915,784**

		Neither past due nor impaired					
	Notes	*High grade 2011*	*Standard grade 2011*	*Sub-standard grade 2011*	*Past due but not individually impaired 2011*	*Individually assessed with signs of impairment 2011*	*Total 2011*
Amounts due from credit institutions	7	66,650	–	–	–	–	66,650
Loans to customers	8						
Corporate lending		1,004,223	2,235,182	2,298,902	–	2,246,061	7,784,368
Consumer lending		–	1,300,701	–	44,154	376,800	1,721,655
Small business lending		–	–	71,541	–	12,194	83,735
		1,004,223	**3,535,883**	**2,370,443**	**44,154**	**2,635,055**	**9,589,758**
Total		**1,070,873**	**3,535,883**	**2,370,443**	**44,154**	**2,635,055**	**9,656,408**

An analysis of past due but non impaired loans, by age, is provided below:

	Less than 30 days 2012	*31 to 60 days 2012*	*61 to 90 days 2012*	*Total 2012*
Loans to customers				
Corporate lending	–	–	–	–
Small business lending	–	–	–	–
Consumer lending	59,758	37,599	26,171	123,528
Total	**59,758**	**37,599**	**26,171**	**123,528**

	Less than 30 days 2011	*31 to 60 days 2011*	*61 to 90 days 2011*	*Total 2011*
Loans to customers				
Corporate lending	–	–	–	–
Small business lending	–	–	–	–
Consumer lending	18,378	6,499	19,277	44,154
Total	**18,378**	**6,499**	**19,277**	**44,154**

See Note 8 for more detailed information with respect to the allowance for impairment of loans to customers.

(Thousands of Russian rubles)

22. Risk management (continued)

Credit risk (continued)

For credit enhancement purposes, the Bank accepts collateral. The main types of collateral that the Bank holds relating to loans provided to customers are real estate property and personal guarantees.

Carrying amount per class of financial assets whose terms have been renegotiated

The table below shows the carrying amount for renegotiated financial assets, by class.

	2012	*2011*
Loans to customers		
Corporate lending	2,483,549	989,798
Consumer lending	602,718	380,210
Small business lending	–	30,829
Total	**3,086,267**	**1,400,837**

Impairment assessment

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than 90 days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Bank addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

Individually assessed allowances

The Bank determines the allowances appropriate for each individually significant loan on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of other financial support and the realizable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Collectively assessed allowances

Allowances are assessed collectively for losses on loans to customers that are not individually significant (including unsecured consumer lending) and for individually significant loans where there is not yet objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is no yet objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration of the following information: historical losses on the portfolio, current economic conditions, the appropriate delay between the time a loss is likely to have been uncured and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired. Local management is responsible for deciding the length of this period which can extend for as long as one year. The impairment allowance is then reviewed by credit management to ensure alignment with the Bank's overall policy.

Financial guarantees are assessed and provision is made in a similar manner as for loans.

(Thousands of Russian rubles)

22. Risk management (continued)

Credit risk (continued)

The geographical concentration of Bank's monetary assets and liabilities is set out below:

	2012			
	Russia	***OECD***	***CIS and other foreign countries***	***Total***
Assets				
Cash and cash equivalents	2,728,896	1,864,940	459,064	5,052,900
Trading securities	1,662,865	–	–	1,662,865
Amounts due from credit institutions	98,900	201,144	–	300,044
Derivative financial assets	26	–	–	26
Available-for-sale securities	5	–	–	5
Loans to customers	10,234,667	–	775,780	11,010,447
Other assets	5,397	–	–	5,397
	14,730,756	**2,066,084**	**1,234,844**	**18,031,684**
Liabilities				
Amounts due to credit institutions	4,648,798	–	–	4,648,798
Derivative financial liabilities	1,799	–	–	1,799
Amounts due to customers	6,926,874	46,388	58,828	7,032,090
Debt securities issued	1,120,196	–	–	1,120,196
Other liabilities	14,193	–	–	14,193
	12,711,860	**46,388,**	**58,828**	**12,817,076**
Net statement of financial position	**2,018,896**	**2,019,696**	**1,176,016**	**5,214,608**

	2011			
	Russia	***OECD***	***CIS and other foreign countries***	***Total***
Assets				
Cash and cash equivalents	3,066,264	455,760	3,850	3,525,874
Trading securities	1,627,339	–	–	1,627,339
Amounts due from credit institutions	66,650	–	–	66,650
Derivative financial assets	–	–	241	241
Available-for-sale securities	5	–	–	5
Loans to customers	8,206,019	–	902,081	9,108,100
Other assets	3,347	–	–	3,347
	12,969,624	**455,760**	**906,172**	**14,331,556**
Liabilities				
Amounts due to credit institutions	3,255,907	–	–	3,255,907
Derivative financial liabilities	29,970	–	–	29,970
Amounts due to customers	5,629,930	38,023	149,810	5,817,763
Debt securities issued	358,295	–	–	358,295
Other liabilities	22,325	–	–	22,325
	9,296,427	**38,023**	**149,810**	**9,484,260**
Net statement of financial position	**3,673,197**	**417,737**	**756,362**	**4,847,296**

Liquidity risk and funding management

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The Bank maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The Bank also has committed lines of credit that it can access to meet liquidity needs. In addition, the Bank maintains a cash deposit (obligatory reserve) with the CBR, the amount of which depends on the level of customer funds attracted.

(Thousands of Russian rubles)

22. Risk management (continued)

Liquidity risk and funding management (continued)

The liquidity position is assessed and managed by the Bank primarily on a standalone basis, based on certain liquidity ratios established by the CBR. As at 31 December, these ratios were as follows:

		Actual ratio	
	Statutory ratio	***2012, %***	***2011, %***
N2 "Instant Liquidity Ratio" (assets receivable or realizable within one day / liabilities repayable on demand) (min)	Min 15.0	68.48	24.04
N3 "Current Liquidity Ratio" (assets receivable or realizable within 30 days / liabilities repayable within 30 days) (min)	Min 50.0	91.71	85.47
N4 "Long-Term Liquidity Ratio" (assets receivable in more than one year / sum of capital and liabilities repayable in more than one year) (max)	Max 120.0	89.58	108.29

Analysis of financial liabilities by remaining contractual maturities

The table below summarizes the maturity profile of the Bank's financial liabilities at 31 December based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

Financial liabilities as at 31 December 2012	***Expired maturity***	***Less than 3 months***	***3 to 12 months***	***1 to 5 years***	***Total***
Amounts due to credit institutions	–	4,235,781	453,228	–	4,689,009
Derivative financial liabilities	–	1,799	–	–	1,799
Amounts due to customers	–	5,870,704	1,220,553	–	7,091,257
Debt securities issued	96,378	581,485	273,456	210,019	1,161,338
Other liabilities	–	14,193	–	–	14,193
Total undiscounted financial liabilities	**96,378**	**10,703,962**	**1,947,237**	**210,019**	**12,957,596**

Financial liabilities as at 31 December 2011	***Expired maturity***	***Less than 3 months***	***3 to 12 months***	***1 to 5 years***	***Total***
Amounts due to credit institutions	–	3,287,349	–	–	3,287,349
Derivative financial liabilities	–	29,970	–	–	29,970
Amounts due to customers	–	5,084,557	727,051	31,667	5,843,275
Debt securities issued	102,447	256,612	850	–	359,909
Other liabilities	–	22,325	–	–	22,325
Total undiscounted financial liabilities	**102,447**	**8,680,813**	**727,901**	**31,667**	**9,542,828**

The table below shows the contractual expiry by maturity of the Bank's financial commitments and contingencies. Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

	Less than 3 months	***3 to 12 months***	***1 to 5 years***	***Over 5 years***	***Total***
2012	70,417	5,200	322,944	1,627,837	2,026,398
2011	10,346	170,874	45,000	1,985,924	2,212,144

The Bank expects that not all of the contingent liabilities or commitments will be drawn before expiry of the commitments.

Included in due to customers are term deposits of individuals. In accordance with the Russian legislation, the Bank is obliged to repay such deposits upon demand of a depositor. Refer to Note 14.

(Thousands of Russian rubles)

22. Risk management (continued)

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchanges, and equity prices. The Bank classifies exposures to market risk into either trading or non-trading portfolios. The market risk for the trading and non-trading portfolios is managed and monitored using other sensitivity analysis. Except for the concentrations within foreign currency, the Bank has no significant concentration of market risk.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Bank's income statement.

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the net gains from trading securities for one year based on the fixed rate trading securities held at 31 December 2011.

Currency	*Increase in basis points 2012*	*Sensitivity of profit before tax 2012*
RUB	2.60%	(36,723)
USD	0.05%	(207)

Currency	*Decrease in basis points 2012*	*Sensitivity of profit before tax 2012*
RUB	-1.04%	14,717
USD	-0.05%	207

Currency	*Increase in basis points 2011*	*Sensitivity of profit before tax 2011*
RUB	5.51%	(132,661)
USD	0.55%	(2,419)

Currency	*Decrease in basis points 2011*	*Sensitivity of profit before tax 2011*
RUB	-2.00%	48,125
USD	-0.15%	655

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Management Board has set limits on positions by currency based on the CBR regulations. Positions are monitored on a daily basis.

The tables below indicate the currencies to which the Bank had significant exposure at 31 December 2011 on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the ruble, with all other variables held constant on the income statement (due to the fair value of currency sensitive non-trading monetary assets and liabilities). The effect on equity does not differ from the effect on the income statement. A negative amount in the table reflects a potential net reduction in income statement or equity, while a positive amount reflects a net potential increase.

Currency	*Increase in currency rate in % 2012*	*Effect on profit before tax 2012*	*Increase in currency rate in % 2011*	*Effect on profit before tax 2011*
USD	10.72%	25,054	12.50%	396,580
EUR	9.49%	(4,397)	11.77%	1,781

(Thousands of Russian rubles)

22. Risk management (continued)

Market risk (continued)

Currency	*Decrease in currency rate in % 2012*	*Effect on profit before tax 2012*	*Decrease in currency rate in % 2011*	*Effect on profit before tax 2011*
USD	-10.72%	(25,054)	-12.50%	(396,580)
EUR	-9.49%	4,397	-11.77%	(1,781)

Equity price risk

Equity price risk is the risk that the fair values of equities decrease as the result of changes in the levels of equity indices and the value of individual shares. The trading equity price risk exposure arises from the Bank's trading portfolio.

The effect on profit before tax (as a result of a change in the fair value of equity instruments held as trading at 31 December) due to a reasonably possible change in equity indices, with all other variables held constant, is as follows:

Market index	*Increase in equity price 2012*	*Effect on profit before tax 2012*	*Increase in equity price 2011*	*Effect on profit before tax 2011*
MICEX index	25.64%	35,660	48.22%	122,787

Market index	*Decrease in equity price 2012*	*Effect on profit before tax 2012*	*Decrease in equity price 2011*	*Effect on profit before tax 2011*
MICEX index	-25.64%	(35,660)	-48.22%	(122,787)

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but a control framework and monitoring and responding to potential risks could be effective tools to manage the risks. Controls should include effective segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

23. Fair values of financial instruments

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly;
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The Bank's financial instruments recorded at fair value are limited by trading securities available-for-sale investment securities, which are included in Level 1 of the fair value hierarchy.

(Thousands of Russian rubles)

23. Fair values of financial instruments (continued)

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

31 December 2012	***Level 1***	***Level 2***	***Level 3***	***Total***
Financial assets				
Trading securities	1,662,865	–	–	1,662,865
Derivative financial assets	–	26	–	26
Available-for-sale investment securities	–	–	5	5
	1,662,865	**26**	**5**	**1,662,896**
Financial liabilities				
Derivative financial instruments	–	1,774	–	1,774
	–	**1,774**	**–**	**1,774**

31 December 2011	***Level 1***	***Level 2***	***Level 3***	***Total***
Financial assets				
Trading securities	1,627,339	–	–	1,627,339
Derivative financial assets	–	241	–	241
Available-for-sale investment securities	–	–	5	5
	1,627,339	**241**	**5**	**1,627,585**
Financial liabilities				
Derivative financial instruments	–	29,970	–	29,970
	–	**29,970**	**–**	**29,970**

Trading securities and available-for-sale investment securities

Trading securities and investment securities available-for-sale valued using a valuation technique or pricing models primarily consist of unquoted equity and debt securities. These securities are valued using models which sometimes only incorporate data observable in the market and at other times use both observable and non-observable data. The non-observable inputs to the models include assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry and geographical jurisdiction in which the investee operates.

Financial instruments not carried at fair value in the statement of financial position

Set out below is a comparison by class of the carrying amounts and fair values of the Bank's financial instruments that are not carried at fair value in the statement of financial position. The table does not include the fair values of non-financial assets and non-financial liabilities.

	Carrying value 2012	***Fair value 2012***	***Unrecognized gain/(loss) 2012***	***Carrying value 2011***	***Fair value 2011***	***Unrecognized gain/(loss) 2011***
Financial assets						
Cash and cash equivalents	5,052,900	5,052,900	–	3,525,874	3,525,874	–
Amounts due from credit institutions	300,044	300,044	–	66,650	66,650	–
Loans to customers	11,010,447	11,102,788	92,341	9,108,100	8,809,360	(298,740)
Financial liabilities						
Amounts due to credit institutions	4,648,798	4,648,798	–	3,255,907	3,255,907	–
Amounts due to customers	7,032,090	7,038,101	(6,011)	5,817,763	5,815,658	2,105
Debt securities issued	1,120,196	1,120,196	–	358,295	358,295	–

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements.

(Thousands of Russian rubles)

23. Fair values of financial instruments (continued)

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or having a short term maturity (less than three months) it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits, savings accounts without a specific maturity and variable rate financial instruments.

Fixed rate financial instruments

The fair value of fixed rate financial assets and liabilities carried at amortized cost are estimated by comparing market interest rates when they were first recognized with current market rates offered for similar financial instruments. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and maturity. For quoted debt issued the fair values are calculated based on quoted market prices. For those notes issued where quoted market prices are not available, a discounted cash flow model is used based on a current interest rate yield curve appropriate for the remaining term to maturity.

Financial instruments recorded at fair value

The financial instruments recorded at fair value are measured based on quoted market price.

24. Maturity analysis of financial assets and financial liabilities

The table below shows an analysis of financial assets and liabilities according to when they are expected to be recovered or settled. See Note 22 “Risk management” for the Bank's contractual undiscounted repayment obligations.

	2012		
	Within one year	***More than one year***	***Total***
Financial assets			
Cash and cash equivalents	5,052,900	–	5,052,900
Trading securities	1,662,865	–	1,662,865
Amounts due from credit institutions	300,044	–	300,044
Derivative financial assets	26	–	26
Available-for-sale investment securities	5	–	5
Loans to customers	6,802,676,	4,207,771	11,010,447
Other assets	5,660	–	5,660
Total	**13,824,176**	**4,207,771**	**18,031,947**
Financial liabilities			
Amounts due to credit institutions	4,648,798	–	4,648,798
Derivative financial liabilities	1,799	–	1,799
Amounts due to customers	7,032,090	–	7,032,090
Debt securities issued	675,643	444,553	1,120,196
Other liabilities	14,193	–	14,193
Total	**12,372,523**	**444,553**	**12,817,076**
Net	**1,451,653**	**3,763,218**	**5,214,871**

(Thousands of Russian rubles)

24. Maturity analysis of financial assets and financial liabilities (continued)

	2011		
	Within one year	*More than one year*	*Total*
Financial assets			
Cash and cash equivalents	3,525,874	–	3,525,874
Trading securities	1,627,339	–	1,627,339
Amounts due from credit institutions	66,650	–	66,650
Derivative financial assets	241	–	241
Available-for-sale investment securities	5	–	5
Loans to customers	4,460,910	4,647,190	9,108,100
Other assets	5,078	–	5,078
Total	**9,686,097**	**4,647,190**	**14,333,287**
Financial liabilities			
Amounts due to credit institutions	3,255,907	–	3,255,907
Derivative financial liabilities	29,970	–	29,970
Amounts due to customers	5,786,112	31,651	5,817,763
Debt securities issued	358,295	–	358,295
Other liabilities	22,325	–	22,325
Total	**9,452,609**	**31,651**	**9,484,260**
Net	**233,488**	**4,615,539**	**4,849,027**

25. Transferred financial assets and assets held or pledged as collateral

The following table provides a summary of financial assets which have been transferred in such a way that part or all of the transferred financial assets do not qualify for derecognition as of 31 December 2012 (31 December 2011: none):

	Debt securities of Russian companies and banks in the trading portfolio
Carrying value of assets transferred under repurchase agreements with the CBR	1,021,603
Amounts received under repurchase agreements with the CBR	813,271

The securities sold under repurchase agreements are transferred to a third party and the Bank receives cash in exchange, or other financial assets. If the securities increase or decrease in value, the Bank may, in certain circumstances, require, or be required, to pay additional cash collateral. The Bank has determined that it retains substantially all the risks and rewards of these securities, which includes credit risk, market risk, country risk and operational risk, and therefore has not derecognized them. In addition, it recognizes a financial liability for cash received.

26. Related party disclosures

In accordance with IAS 24 *Related Party Disclosures*, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

(Thousands of Russian rubles)

26. Related party disclosures (continued)

The volumes of related party transactions, outstanding balances at the year end, and related expense and income for the year are as follows:

	2012				
	Shareholders	*Entities under common control*	*Key management personnel*	*Other*	*Total*
Loans outstanding at 1 January, gross	–	60,000	12,212	4,710	76,922
Loans outstanding at 31 December, gross	**19**	**541,860**	**25,274**	**3,830**	**570,983**
Less: allowance for impairment at 31 December	0	14,881	182	28	15,091
Loans outstanding at 31 December, net	**19**	**526,979**	**25,092**	**3,802**	**555,892**
Interest income on loans	9	10,180	179	573	10,941
Impairment of loans					
Deposits at 1 January	–	–	182,668	15,767	198,435
Deposits at 31 December	**300,007**	**–**	**196,811**	**15,192**	**512,010**
Interest expense on deposits	221	–	12,860	1,054	14,135
Customers' current accounts	9,930	293,010	10,682	1,385	315,007
Other liabilities	–	4,308	7	1	4,316
Net fee and commission income	135	16	–	29	180
Net gains/(losses) from foreign currencies:					
- dealing	(3,124)	–	–	642	(2,482)
Other administrative and operating expenses					
(occupancy and rent)	34,958	–	–	–	34,958

	2011				
	Shareholders	*Entities under common control*	*Key management personnel*	*Other*	*Total*
Loans outstanding at 1 January, gross	30,533	165,000	786	80	196,399
Loans outstanding at 31 December, gross	**–**	**60,000**	**12,212**	**4,710**	**76,922**
Less: allowance for impairment at 31 December	–	3,270	4,492	426	8,188
Loans outstanding at 31 December, net	**–**	**56,730**	**7,720**	**4,284**	**68,734**
Interest income on loans	187	–	1,303	120	1,610
Impairment of loans					
Deposits at 1 January	150	–	136,941	76,829	213,920
Deposits at 31 December	**–**	**–**	**182,668**	**15,767**	**198,435**
Interest expense on deposits	148	–	11,311	918	12,377
Customers' current accounts	104,499	297	12,007	1,511	118,314
Other liabilities			6	3	9
Net fee and commission income	214		243	48	505
Net gains/(losses) from foreign currencies:					
- dealing	(1,912)	–	(8,745)	(574)	(11,231)
Other administrative and operating expenses					
(occupancy and rent)	34,761	–	2	34,761	69,524

Loans granted to related parties as of 31 December 2012 had interest rates from 11% to 15% (2011: from 11% to 13%), loans were extended from 8 months to 6 years (2011: from 1 month to 3 years). Interest rates on deposits received from related parties as at 31 December 2012 ranged from 4.5% to 9% (2011: from 4.5% to 9%), the deposits were accepted for the period from 1 month to 1 year (2011 6 months to 1 year).

Compensation to key management personnel comprises the following:

	2012	*2011*
Salaries and other short-term benefits	42,007	42,369
Social security costs	4,700	714
Total key management personnel compensation	**46,707**	**43,083**

(Thousands of Russian rubles)

27. Capital adequacy

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the ratios established by the Basel Capital Accord 1988 and the ratios established by the CBR in supervising the Bank.

During the past year, the Bank had complied in full with all its externally imposed capital requirements.

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholders' value.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

CBR capital adequacy ratio

The CBR requires banks to maintain a capital adequacy ratio of 10% of risk-weighted assets, computed based on RAL. As at 31 December 2012 and 2011, the Bank's capital adequacy ratio on this basis was as follows:

	2012	***2011***
Main capital	2,699,015	2,627,142
Additional capital	22,482	72,115
Amounts deducted from capital	(189,776)	(132,259)
Total capital	**2,531,721**	**2,566,998**
Risk-weighted assets	**16,328,701**	**12,158,400**
Capital adequacy ratio	15.50%	21.11%

Capital adequacy ratio under Basel Capital Accord 1988

The Bank's capital adequacy ratio, computed in accordance with the Basel Capital Accord 1988, with subsequent amendments including the amendment to incorporate market risks, as at 31 December 2012 and 2011, comprised:

	2012	***2011***
Tier 1 capital	4,761,802	4,463,393
Tier 2 capital	–	–
Total capital	**4,761,802**	**4,463,393**
Risk-weighted assets	**15,095,128**	**14,138,123**
Total capital ratio	31.55%	31.57%