Sovcombank Group

Consolidated financial statements

for the year ended 31 December 2012

Contents

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Independent auditors' report

To the shareholders and Board of Directors of Sovcombank (LLC)

We have audited the accompanying consolidated financial statements of SovcomBank (LLC) and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as of 31 December 2012, and the consolidated statement of comprehensive income, consolidated statement of changes in net assets attributable to participants and consolidated 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 consolidated financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on the fairness of these consolidated financial statements based on our audit.

We conducted our audit in accordance with the Federal Standards on Auditing effective in the Russian Federation and 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 consolidated financial statements are free from material misstatement.

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

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

Opinion

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

Andrey Sorokin
Partner
Ernst & Young LLC

20 March 2013

Details of the audited entity

Name: Sovcombank ICB LLC
Information about the State Register of Legal Entities: Main State Registration number 1024400001779, date of the certificate 9 August 2002.
Address: Russia 156000, Kostroma, prospect Tekstilschikov, 46.

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

Consolidated statement of comprehensive income
for the year ended 31 December 2012

	Notes	2012 RUR'000	2011 RUR'000
Interest income	5	12,913,222	9,324,471
Interest expense	5	(5,393,684)	(3,619,062)
Net interest income		**7,519,538**	**5,705,409**
Provision for loan impairment	10	(3,744,425)	(1,556,488)
Net interest income after allowances for loan impairment		**3,775,113**	**4,148,921**
Fee and commission income	6	6,436,131	4,311,001
Fee and commission expense	7	(172,681)	(111,539)
Net fee and commission income		**6,263,450**	**4,199,462**
Net gains/(losses) on financial instruments at fair value through profit or loss		186,146	(47,531)
Net foreign exchange gain	8	60,118	70,299
Other impairment and provisions	14	(130,255)	(146,431)
Other operating income	9	108,253	122,547
Operating income		**10,262,825**	**8,347,267**
Revaluation of buildings and investment property	11	281,123	25,517
Personnel expenses	12	(2,753,704)	(2,022,759)
Other general administrative expenses	13	(3,317,331)	(2,134,304)
Profit before income tax expense		**4,472,913**	**4,215,721**
Income tax expense	15	(957,478)	(894,358)
Profit for the year		**3,515,435**	**3,321,363**
Other comprehensive income			
Revaluation of buildings, net of tax		46,276	(9,764)
Other comprehensive income/(loss), net of tax		**46,276**	**(9,764)**
Total comprehensive income		**3,561,711**	**3,311,599**

The consolidated financial statements as set out on pages 1 to 53 were approved by the Board of Directors on 20 March 2013.

Mr. Khotimsky S.V.
Chief Executive Officer

Mr. Savoschenko D.N.
Chief Financial Officer

The consolidated statement of comprehensive income is to be read in conjunction with the notes 1 to 40, and forming part of, the consolidated financial statements.

Consolidated statement of financial position

as of 31 December 2012

	Notes	*2012 RUR'000*	*2011 RUR'000*
Assets			
Cash and cash equivalents	16	9,426,033	4,338,044
Mandatory cash balances with the Central Bank of the Russian Federation		776,562	523,088
Placements with banks		16,456	75,014
Financial instruments at fair value through profit or loss			
- Held by the Group	17	9,502,650	9,954,669
- Pledged under repurchase agreements and borrowings from the CBR	17	21,297,296	4,392,817
Loans to customers	18	49,280,738	34,782,936
Investment in associates		5,880	5,880
Investment property	20	1,679,713	110,765
Property, equipment and intangible assets	21	2,157,371	2,094,734
Goodwill	38	389,051	450,587
Deferred tax asset	29	70,968	73,232
Other assets	22	574,714	509,778
Total assets		**95,177,432**	**57,311,544**
Liabilities			
Amounts due to the CBR	24	17,934,364	3,055,507
Deposits and balances from banks	25	768,557	1,242,465
Current accounts and deposits from customers	23	62,625,466	42,618,037
Promissory notes	26	1,753,040	1,647,496
Subordinated debt	27	1,828,499	868,567
Deferred tax liability	29	238,883	207,030
Other liabilities	28	824,133	498,957
Total liabilities		**85,972,942**	**50,138,059**
Net assets attributable to participants			
Charter capital	30	1,906,004	2,242,358
Other capital contributions		2,736,614	2,428,960
Revaluation reserve for buildings		60,846	14,570
Retained earnings		4,501,026	2,487,597
Total net assets attributable to participants		**9,204,490**	**7,173,485**
Total liabilities		**95,177,432**	**57,311,544**

The consolidated statement of financial position is to be read in conjunction with the notes 1 to 40, and forming part of, the consolidated financial statements.

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

	Notes	2012 RUR'000	2011 RUR'000
Cash flows from operating activities			
Interest and fee and commission received		18,612,408	13,464,058
Interest and fee and commission paid		(4,491,936)	(3,069,062)
Net realised gain on financial instruments at fair value through profit or loss		189,605	78,643
Net realised gain/(loss) foreign currencies		(92,822)	64,343
Other operating income received		108,253	122,547
Personnel expenses and other general administrative expenses paid		(5,692,885)	(4,070,066)
Cash flows from operating activities before changes in operating assets and liabilities		**8,632,623**	**6,590,463**
(Increase)/decrease in operating assets			
Mandatory cash balances with the Central Bank of the Russian Federation		(253,474)	(302,907)
Placements with banks		58,558	25,599
Financial instruments at fair value through profit or loss		(16,295,274)	(266,880)
Loans to customers		(18,237,800)	(14,175,456)
Other assets		(132,979)	55,000
Increase/(decrease) in operating liabilities			
Current accounts and deposits from customers		19,434,694	10,883,371
Deposits and balances from CBR and other banks		14,399,609	(760,454)
Promissory notes		128,776	(352,784)
Other liabilities		(55,985)	(57,216)
Net cash flows from operating activities before income taxes		**7,678,748**	**1,638,736**
Income tax paid		(714,871)	(568,780)
Cash flows from operating activities		**6,963,877**	**1,069,956**
Cash flows from investing activities			
Sale of share in subsidiary	34	307,653	–
Purchase of property, equipment and intangible assets		(2,148,736)	(1,470,399)
Proceeds from repayment of advance for construction in progress		1,001,960	–
Proceeds from disposal of property, equipment and intangible assets		7,962	23,201
Cash flows from investing activities		**(831,161)**	**(1,447,198)**
Cash flows from financing activities			
Subordinated debt received/(repayment)		930,167	(71,061)
Extinguishment of participant's share	30	(961,619)	–
Distributions to participants	30	(876,741)	(585,065)
Cash flows from financing activities		**(908,193)**	**(656,126)**
Net increase/(decrease) in cash and cash equivalents		**5,224,523**	**(1,033,368)**
Effect of changes in exchange rates on cash and cash equivalents		(136,534)	53,091
Cash and cash equivalents at the beginning of the year	16	4,338,044	5,318,321
Cash and cash equivalents at the end of the year	16	**9,426,033**	**4,338,044**

The consolidated statement of cash flows is to be read in conjunction with the notes 1 to 40, and forming part of, the consolidated financial statements.

Consolidated statement of changes in net assets attributable to participants for the year ended 31 December 2012

	Attributable to participants				
	Charter capital RUR'000	***Other capital contributions RUR'000***	***Revaluation reserve for buildings RUR'000***	***Retained earnings RUR'000***	***Total net assets RUR'000***
Balance as of 1 January 2011	**1,097,561**	**2,428,960**	**24,334**	**896,096**	**4,446,951**
Total comprehensive income	**–**	**–**	**(9,764)**	**3,321,363**	**3,311,599**
Transfer from retained earnings to charter capital	1,144,797	–	–	(1,144,797)	–
Distributions to participants	–	–	–	(585,065)	**(585,065)**
Balance as of 31 December 2011	**2,242,358**	**2,428,960**	**14,570**	**2,487,597**	**7,173,485**
Total comprehensive income	–	–	**46,276**	**3,515,435**	**3,561,711**
Extinguishment of participant's share (Note 30)	(336,354)	–	–	(625,265)	**(961,619)**
Distributions to participants (Note 30)	–	–	–	(876,741)	**(876,741)**
Contributions by participants (Note 30)	–	307,654	–	–	**307,654**
Balance as of 31 December 2012	**1,906,004**	**2,736,614**	**60,846**	**4,501,026**	**9,204,490**

The consolidated statement of changes in equity is to be read in conjunction with the notes 1 to 40, and forming part of, the consolidated financial statements.

(In thousands of Russian Rubles, unless otherwise indicated)

1. Background

Principal activities

These consolidated financial statements include the financial statements of Sovcombank (LLC) (the "Bank" or "Sovcombank") and its subsidiaries (together referred to as the "Group" or "Sovcombank Group"). The list of principal consolidated subsidiaries of Sovcombank Group is disclosed in Note 40.

Sovcombank, the parent company of the Group, was originally established in Kostroma as a limited liability company in 1990. The Bank's registered legal address is 156000, Kostroma, Russia, 46 prospect Tekstilschikov. The Bank operates under general banking licence № 963 issued by the Central Bank of the Russian Federation (the "CBRF"). The Bank also has licences for operations with securities and custody services issued by the Federal Securities Market Commission (the "FSMC") on 7 February 2006. The Bank is a member of the state deposit insurance system in the Russian Federation.

The Bank accepts deposits from the public and extends credit, transfers payments in Russia and abroad, exchanges currencies and provides other banking services to its commercial and retail customers. The Group is headquartered in Kostroma and has a network of branches in the Central, Ural, Siberian, South and Far East Federal Districts. The Group operates in 30 regions and more than 260 cities of the Russian Federation. The Group had 5,191 employees as of 31 December 2012 (as of 31 December 2011: 3,916).

Shareholders

As of 31 December 2012 and 31 December 2011, the Group's ownership was as follows:

	Ownership % ***31 December 2012***	***Ownership %*** ***31 December 2011***
SovCo Capital Partners B.V.	100.0000%	50.0000%
TBIF Financial Services B.V.	–	50.0000%

There is no single ultimate entity or individual that exercises control over the Group as of 31 December 2012 and 31 December 2011 (Note 30).

Sovco Capital Partners B.V. is the participant of the Group since 2003. Sovco Capital Partners B.V. is controlled by the group of Russian businessmen and entrepreneurs, including key members of Sovcombank management.

Russian business 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 Group's future financial position, results of operations and business prospects. Management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances.

2. Basis of preparation

General

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

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

The consolidated financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below.

These consolidated financial statements are presented in thousands of Russian Rubles ("RUR") unless otherwise indicated.

(In thousands of Russian Rubles, unless otherwise indicated)

2. Basis of preparation (continued)

Inflation accounting

The Russian economy was considered hyperinflationary until 31 December 2002. As such, the Group 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 as of 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.

3. Significant accounting policies

Changes in accounting policies

The Group 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 Group's financial statements to evaluate the risk exposures relating to those assets. The amendment affects disclosure only and has no impact on the Group'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 Group:

- 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*

Basis of consolidation

Subsidiaries, which are those entities in which the Group has an interest of more than one half of the voting rights, or otherwise has power to exercise control over their operations, are consolidated. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. All intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated in full; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction. Losses are attributed to the non-controlling interests even if that results in a deficit balance.

If the Group looses control over a subsidiary, it derecognises the assets (including goodwill) and liabilities of the subsidiary, the carrying amount of any non-controlling interests, the cumulative translation differences, recorded in equity; recognises the fair value of the consideration received, the fair value of any investment retained and any surplus or deficit in profit or loss and reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss.

Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the acquirer measures the non-controlling interests in the acquiree that are present ownership interests either at fair value or at the proportionate share of the acquiree's identifiable net assets and other components of non-controlling interests at their acquisition date fair value. Acquisition costs incurred are expensed.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as of the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as of the acquisition date through profit or loss.

(In thousands of Russian Rubles, unless otherwise indicated)

3. Significant accounting policies (continued)

Business combinations (continued)

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognised in accordance with IAS 39 either in profit or loss or as change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the consideration transferred over the Group’s net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group’s cash generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Acquisition of subsidiaries from parties under common control

Acquisitions of subsidiaries from parties under common control are accounted for using the uniting of interests method.

The assets and liabilities of the subsidiary transferred under common control are recorded in these consolidated financial statements at the carrying amounts of the transferring entity (the Predecessor) at the date of the transfer. Related goodwill inherent in the Predecessor's original acquisition is also recorded in these consolidated financial statements. Any difference between the total book value of net assets, including the Predecessor's goodwill, and the consideration paid is accounted for in these consolidated financial statements as an adjustment to the net assets attributable to participants.

These consolidated financial statements, including corresponding figures, are presented as if the subsidiary had been acquired by the Group on the date it was originally acquired by the Predecessor.

Investments in associates

Associates are entities in which the Group generally has between 20% and 50% of the voting rights, or is otherwise able to exercise significant influence, but which it does not control or jointly control. Investments in associates are accounted for under the equity method and are initially recognised at cost, including goodwill. Subsequent changes in the carrying value reflect the post-acquisition changes in the Group’s share of net assets of the associate. The Group’s share of its associates’ profits or losses is recognised in the consolidated income statement, and its share of movements in reserves is recognised in other comprehensive income. However, when the Group’s share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless the Group is obliged to make further payments to, or on behalf of, the associate.

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

3 Significant accounting policies (continued)

Investments in jointly controlled entities

Jointly controlled entitis are joint ventures that involves the establishment of a corporation, partnership or other entity in which each venturer has an interest. The entity operates in the same way as other entities, except that a contractual arrangement between the venturers establishes joint control over the economic activity of the entity. A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. A venturer shall recognise its interest in a jointly controlled entity using proportionate consolidation. The application of proportionate consolidation means that the statement of financial position of the venturer includes its share of the assets that it controls jointly and its share of the liabilities for which it is jointly responsible. The statement of comprehensive income of the venturer includes its share of the income and expenses of the jointly controlled entity. The venturer combines its share of each of the assets, liabilities, income and expenses of the jointly controlled entity with the similar items, line by line, in its financial statements. Many of the procedures appropriate for the application of proportionate consolidation are similar to the procedures for the consolidation of investments in subsidiaries. When a venturer contributes or sells assets to a joint venture, recognition of any portion of a gain or loss from the transaction shall reflect the substance of the transaction. While the assets are retained by the joint venture, and provided the venturer has transferred the significant risks and rewards of ownership, the venturer shall recognise only that portion of the gain or loss that is attributable to the interests of the other venturers. The venturer shall recognise the full amount of any loss when the contribution or sale provides evidence of a reduction in the net realisable value of current assets or an impairment loss.

Cash and cash equivalents

The Group includes cash, nostro accounts with the CBRF and other banks, placements with other banks and other credit institutions with an original maturity less than 90 days in cash and cash equivalents. The minimum mandatory reserve deposit with the CBRF is not considered to be a cash equivalent due to restrictions on its withdrawnability.

Financial instruments

Classification

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

- acquired or incurred principally for the purpose of selling or repurchasing in the near term
- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking
- derivative financial instruments (except for derivative financial instruments that are designated and effective hedging instruments) or,
- upon initial recognition, designated as at fair value through profit or loss.

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

- the assets or liabilities are managed and evaluated on a fair value basis
- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise or,
- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

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

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

- intends to sell immediately or in the near term
- upon initial recognition designates as at fair value through profit or loss
- upon initial recognition designates as available-for-sale or,
- may not recover substantially all of its initial investment, other than because of credit deterioration.

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

- the Group upon initial recognition designates as at fair value through profit or loss
- the Group designates as available-for-sale or,
- meet the definition of loans and receivables.

(In thousands of Russian Rubles, unless otherwise indicated)

3 Significant accounting policies (continued)

Financial instruments (continued)

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

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

Recognition

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

Measurement

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

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

- loans and receivables which are measured at amortized cost using the effective interest method;
- held-to-maturity investments that are measured at amortized cost using the effective interest method; and
- investments in equity instruments that do not have a quoted market price in an active market and whose fair value can not be reliably measured which are measured at cost.

All financial liabilities, other than those designated at fair value through profit or loss and financial liabilities that arise when a transfer of a financial asset carried at fair value does not qualify for derecognition, are measured at amortized cost. Amortized cost is calculated using the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortized based on the effective interest rate of the instrument.

Where a valuation based on observable market data indicates a fair value gain or loss on initial recognition of an asset or liability, the gain or loss is recognised immediately in profit or loss. Where an initial gain or loss is not based entirely on observable market data, it is deferred and recognised over the life of the asset or liability on an appropriate basis, or when prices become observable, or on disposal of the asset or liability.

Fair value measurement principles

The fair value of financial instruments is based on their quoted market price at the reporting date without any deduction for transaction costs. Where a quoted market price is not available, fair value is determined using valuation techniques with a maximum use of market inputs. Such valuation techniques include reference to recent arm's length market transactions, current market prices of substantially similar instruments, discounted cash flow and option pricing models and other techniques commonly used by market participants to price the instrument.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate at the reporting date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the reporting date.

The fair value of derivatives that are not exchange-traded is estimated at the amount that the Group would receive or pay to terminate the contract at the reporting date taking into account current market conditions and the current creditworthiness of the counterparties and own credit risk.

(In thousands of Russian Rubles, unless otherwise indicated)

3 Significant accounting policies (continued)

Financial instruments (continued)

Gains and losses on subsequent measurement

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

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

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

Derecognition

A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire or when the Group transfers substantially all the risks and rewards of ownership of the financial asset. Any rights or obligations created or retained in the transfer are recognized separately as assets or liabilities. A financial liability is derecognised when it is extinguished.

The Group also derecognises certain assets when it writes off balances pertaining to the assets deemed to be uncollectible.

Repurchase and reverse repurchase agreements

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

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

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

Derivative financial instruments

In the normal course of business, the Group enters into various derivative financial instruments including futures, forwards, swaps and options in the foreign exchange and capital markets. Such financial instruments are held for trading and are 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 consolidated 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 on the trading portfolio with changes in fair value recognised in the consolidated income statement.

Offsetting

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

(In thousands of Russian Rubles, unless otherwise indicated)

3 Significant accounting policies (continued)

Property, equipment and intangible assets

Owned assets

Items of property, equipment and intangible assets are stated at cost less accumulated depreciation and impairment losses, except for buildings which are stated at revalued amounts as described below.

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

Leased assets

Leases under which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Equipment acquired by way of finance lease is stated at the amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

Revaluation

Buildings of the Group are measured at revalued amounts. The frequency of revaluation depends on the movements in fair values of the buildings being revalued. A revaluation increase on an item of building is recognised directly in other comprehensive income (in equity) except to the extent that it reverses a previous revaluation decrease recognised in profit or loss, in which case it is recognised in profit or loss. A revaluation decrease on an item of building is recognised in profit or loss except to the extent that it reverses a previous revaluation increase recognised as other comprehensive income directly in equity, in which case it is recognised directly in other comprehensive income (in equity).

Depreciation

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

Buildings	20-50 years
Computers and ATMs	2-5 years
Motor vehicles	3-5 years
Furniture and equipment	3-7 years
Intangible assets	2-10 years

Intangible assets

Intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and impairment losses.

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Investment property

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

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

Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the consideration transferred over the Group's net identifiable assets acquired and liabilities assumed. Goodwill on an acquisition of a subsidiary and joint venture is included in goodwill and other intangible assets. Goodwill on an acquisition of an associate is included in the investments in associates. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired.

(In thousands of Russian Rubles, unless otherwise indicated)

3 Significant accounting policies (continued)

Goodwill (continued)

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than the operating segment as defined in IFRS 8 *Operating Segments* before aggregation

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

Repossessed assets

The assets repossessed by the Group following legal proceedings for recovery of amounts due under loans and held for sale in the near term to cover losses arising from lending activities are classified as inventories in accordance with IAS 2. In accordance with IAS 2, the Group measures these assets at the lower of cost and net realizable value.

Leases

i. Finance – Group as lessee

The Group recognises finance leases as assets and liabilities in the consolidated statement of financial position at the date of commencement of the lease term at amounts equal to the fair value of the leased property or, if lower, at the present value of the minimum lease payments. In calculating the present value of the minimum lease payments the discount factor used is the interest rate implicit in the lease, when it is practicable to determine; otherwise, the Group's incremental borrowing rate is used. Initial direct costs incurred are included as part of the asset. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to periods during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The costs identified as directly attributable to activities performed by the lessee for a finance lease, are included as part of the amount recognised as an asset under the lease.

ii. Finance – Group as lessor

The Group recognises lease receivables at value equal to the net investment in the lease, starting from the date of commencement of the lease term. Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding. Initial direct costs are included in the initial measurement of the lease receivables.

iii. Operating – Group 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 recognised as expenses on a straight-line basis over the lease term and included into other operating expenses.

iv. Operating – Group as lessor

The Group presents assets subject to operating leases in the consolidated statement of financial position according to the nature of the asset. Lease income from operating leases is recognised in the consolidated income statement on a straight-line basis over the lease term as other income. The aggregate cost of incentives provided to lessees is recognised as a reduction of rental income over the lease term on a straight-line basis. Initial direct costs incurred specifically to earn revenues from an operating lease are added to the carrying amount of the leased asset.

Promissory notes

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

(In thousands of Russian Rubles, unless otherwise indicated)

3 Significant accounting policies (continued)

Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Group 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 current accounts and deposits from customers, deposits and balanced from banks, promissory notes, subordinated debts. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the consolidated income statement when the borrowings are derecognised as well as through the amortisation process.

Impairment

Financial assets carried at amortized cost

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

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

The Group first assesses whether objective evidence of impairment exists individually for loans and receivables that are individually significant, and individually or collectively for loans and receivables that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed loan or receivable, whether significant or not, it includes the loan in a group of loans and receivables with similar credit risk characteristics and collectively assesses them for impairment. Loans and receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Group’s internal credit grading system that mainly considers credit risk characteristics such as asset type, industry, past-due status.

If there is objective evidence that an impairment loss on a loan or receivable has been incurred, the amount of the loss is measured as the difference between the carrying amount of the loan or receivable and the present value of estimated future cash flows including amounts recoverable from guarantees and collateral discounted at the loan or receivable’s original effective interest rate. Contractual cash flows and historical loss experience adjusted on the basis of relevant observable data that reflect current economic conditions provide the basis for estimating expected cash flows.

In some cases the observable data required to estimate the amount of an impairment loss on a loan or receivable may be limited or no longer fully relevant to current circumstances. This may be the case when a borrower is in financial difficulties and there is little available historical data relating to similar borrowers. In such cases, the Group uses its experience and judgement to estimate the amount of any impairment loss.

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

When a loan is uncollectable, it is written off against the related allowance for loan impairment. The Group writes off a loan balance (and any related allowances for loan losses) when the Group’s management determines that the loans are uncollectible and when all necessary steps to collect the loan are completed. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised 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 consolidated income statement.

Financial assets carried at cost

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

(In thousands of Russian Rubles, unless otherwise indicated)

3 Significant accounting policies (continued)

Impairment (continued)

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

Where the transaction price in a non-active market is different to the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets, the Group immediately recognises the difference between the transaction price and fair value (a 'Day 1' profit) in the consolidated income statement. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognised in the consolidated income statement when the inputs become observable, or when the instrument is derecognised.

Available-for-sale assets

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

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

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

Non financial assets

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

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

Renegotiated loans

Where possible, the Group 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.

The accounting treatment of such restructuring is as follows:

- If the currency of the loan has been changed the old loan is derecognised and the new loan is recognised.
- If the loan restructuring is not caused by the financial difficulties of the borrower the Group uses the same approach as for financial liabilities described below.
- If the loan restructuring is due to the financial difficulties of the borrower and the loan is impaired after restructuring, the Group recognizes the difference between the present value of the new cash flows discounted using the original effective interest rate and the carrying amount before restructuring in the provision charges for the period. In case loan is not impaired after restructuring the Group recalculates the effective interest rate.

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 or current effective interest rate.

(In thousands of Russian Rubles, unless otherwise indicated)

3 Significant accounting policies (continued)

Provisions

Provisions are recognised when the Group 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.

Credit related commitments

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

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

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

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

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

Net assets attributable to participants

In accordance with organization charter Participants of the Group, limited liability company, have the unilateral right to withdraw their capital from the company and receive their share of the company’s net assets within six months after the end of the year of the withdrawal. As a result, charter capital and other reserves attributable to participants of the Group are recorded as liabilities.

Distributions to participants

Distributions to participants are recognized in the period in which they are declared. The Group distributes profits to participants on the basis of financial statements prepared in accordance with Russian Accounting Rules.

Taxation

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

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

Deferred tax is provided using the balance sheet liability method for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and temporary differences related to investments in subsidiaries, associates and joint ventures where the parent is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the reporting date.

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

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

(In thousands of Russian Rubles, unless otherwise indicated)

3 Significant accounting policies (continued)

Taxation (continued)

Recognition of income and expenses

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

Interest and similar income and expense

For all financial instruments measured at amortised 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 Group 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 recognised 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 and asset management, custody and other management and advisory fees. 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 recognised 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 or the purchase or sale of businesses – are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

Dividend income

Revenue is recognised when the Groups’ right to receive the payment is established.

Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of the Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments or qualifying cash flow hedges, which are recognised in other comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

(In thousands of Russian Rubles, unless otherwise indicated)

3 Significant accounting policies (continued)

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 Group 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 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 judgement 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. IFRS 10 replaces the portion of IAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 *Consolidation – Special Purpose Entities*. It is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. Currently the Group evaluates possible effect of the adoption of IFRS 10 on its financial position and performance.

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 Group expects that adoption of IFRS 11 will have no effect on its financial position and performance.

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. In particular, the Group will need to disclose more information about the consolidated and unconsolidated structured entities with which it is involved or which it has sponsored. However, the standard will have no impact on Group's financial position or performance.

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 Group's assets and liabilities accounted for at fair value. Currently the Group 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.

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.

Amendments to IAS 19 Employee Benefits
The IASB has published amendments to IAS 19 *Employee Benefits*, effective for annual periods beginning on or after 1 January 2013, which involve major 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) recognised in profit or loss to net interest income (expense) and service costs. The Group expects that these amendments will have no impact on the Group's financial position.

(In thousands of Russian Rubles, unless otherwise indicated)

3 Significant accounting policies (continued)

Standards and interpretations issued but not yet effective (continued)

Amendments to IAS 1 Changes to the Presentation of Other Comprehensive Income
The amendments to IAS 1 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 Group'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 recognised 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 Group'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 Group 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 Group'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.

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 Group.

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 Group.

- *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.

(In thousands of Russian Rubles, unless otherwise indicated)

4. Significant accounting judgments and estimates

Judgments

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimates, which have the most significant effect on the amounts recognised in the consolidated financial statements:

Consolidation of a subsidiary where ownership percentage is 50% or less.

Group controls subsidiaries through combination of direct ownership and by virtue of an agreement with other investors.

Estimation uncertainty

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

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values.

Allowance for loan impairment

The Group regularly reviews its loans and receivables to assess impairment. The Group 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 Group 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 group of loans and receivables. The Group uses its experienced judgment to adjust observable data for a group of loans or receivables to reflect current circumstances.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill as of 31 December 2012 was RUR 389,051 thousand (2011: RUR 450,587 thousand). More details are provided in Note 38.

Revaluation of buildings and investment property

The Group regularly reviews the value of its buildings and investment property in case of significant difference between the fair value of the relevant asset and its carrying amount. The Group performs revaluation using special valuation techniques and information about real estate transactions entered into in the local market.

(In thousands of Russian Rubles, unless otherwise indicated)

4 Significant accounting judgments and estimates (continued)

Changes in judgments

In 2012 the Group amended the methodology for classification of loans to customers between loan products. The new methodology for classification of loans is based on the definition of purpose of the loan.

There is no effect on overdue grouping due to changes in segmentation.

	2012 Before applying new methodology		**Effect on loan products**		**2012 After applying new methodology**	
	Gross loans RUR'000	***Impairment RUR'000***	***Gross loans RUR'000***	***Impairment RUR'000***	***Gross loans RUR'000***	***Impairment RUR'000***
Small and medium size companies	117,504	(8,481)	(117,504)	8,481	–	–
Mortgage loans	28,322	(719)	(28,322)	719	–	–
Car loans	323	(5)	(323)	5	–	–
Other loans to individuals	–	–	85,963	(8,283)	85,963	(8,283)
Corporate	–	–	60,186	(922)	60,186	(922)
Total	**146,149**	**(9,205)**	**–**	**–**	**146,149**	**(9,205)**

5. Net interest income

	2012 RUR'000	***2011 RUR'000***
Interest income		
Loans to individuals	9,785,193	6,262,851
Financial instruments at fair value through profit or loss	1,657,098	1,362,839
Loans to corporate entities and finance lease receivables	1,451,296	1,677,103
Placements with banks	19,635	21,678
	12,913,222	**9,324,471**
Interest expense		
Current accounts and deposits from customers	(4,564,269)	(3,033,736)
Deposits and balances from banks	(574,036)	(319,422)
Subordinated debt	(131,911)	(88,162)
Promissory notes	(123,468)	(177,742)
	(5,393,684)	**(3,619,062)**
Net interest income	**7,519,538**	**5,705,409**

(In thousands of Russian Rubles, unless otherwise indicated)

6. Fee and commission income

	2012 RUR'000	2011 RUR'000
Insurance agencies fees	5,721,316	3,939,348
Plastic cards	473,645	164,921
Settlement operations	92,029	83,595
Guarantee issuance	47,520	22,775
Cash withdrawal	44,215	31,568
Foreign exchange operations	23,703	26,173
Security operations	14,167	29,134
Cash transfer	5,216	6,635
Other	14,320	6,852
	6,436,131	**4,311,001**

7. Fee and commission expense

	2012 RUR'000	2011 RUR'000
Plastic cards	(86,233)	(42,944)
Settlement operations	(19,293)	(22,143)
Agency services	(19,219)	(2,135)
Depository services	(17,334)	(23,409)
Cash transactions	(17,064)	(10,873)
Guarantees received	(12,500)	–
Borrowings	(679)	(293)
Other	(359)	(9,742)
	(172,681)	**(111,539)**

8. Net foreign exchange gain

	2012 RUR'000	2011 RUR'000
Dealing	(91,839)	69,144
Translation differences	151,957	1,155
	60,118	**70,299**

Dealing represents gains and losses from spot contracts in foreign currency which the Group made to manage currency positions and to comply with requirements of the Central Bank of Russia in terms of open currency position.

9. Other operating income

	2012 RUR'000	2011 RUR'000
Disposal of foreclosed property	78,350	88,402
Income from operating sublease	14,713	13,412
Operating lease (Note 20)	4,773	5,905
Penalties received	2,651	579
Disposal of fixed assets	2,200	2,096
Other	5,566	12,153
	108,253	**122,547**

(In thousands of Russian Rubles, unless otherwise indicated)

10. Provision for loan impairment

	2012 RUR'000	*2011 RUR'000*
Loans to individuals (Note 18)	(3,729,803)	(827,121)
Loans to corporate entities and finance lease receivables (Note 18)	(14,622)	(729,367)
	(3,744,425)	**(1,556,488)**

11. Revaluation of buildings and investment property

	2012 RUR'000	*2011 RUR'000*
Investment property (Note 20)	272,141	(2,752)
Buildings (Note 21)	8,982	28,269
	281,123	**25,517**

12. Personnel expenses

	2012 RUR'000	*2011 RUR'000*
Employee compensation, including bonuses	(2,177,110)	(1,623,299)
Payroll related taxes	(576,594)	(399,460)
	(2,753,704)	**(2,022,759)**

13. Other general administrative expenses

	2012 RUR'000	*2011 RUR'000*
Advertising and marketing	(930,940)	(580,137)
Occupancy	(584,451)	(318,393)
Professional and encashment services	(273,941)	(177,289)
Depreciation and amortization (Note 21)	(255,328)	(201,054)
Office stationary	(228,352)	(154,315)
Communications and information services	(184,043)	(137,241)
Obligatory deposit insurance	(176,328)	(112,507)
Maintenance	(146,592)	(87,664)
Security	(134,503)	(95,178)
Transport	(94,780)	(60,040)
IT supporting payments	(76,039)	(81,317)
Taxes other than on income	(67,033)	(39,527)
Premises Insurance	(31,278)	(14,826)
Other	(133,723)	(74,816)
	(3,317,331)	**(2,134,304)**

14. Other impairment and provisions

	2012 RUR'000	*2011 RUR'000*
Provision under litigation cases (Note 19)	(66,775)	(89,629)
Goodwill impairment (Note 38)	(61,536)	–
Foreclosed assets (Note 22)	(4,086)	(38,018)
Other assets (Note 19)	2,142	(18,784)
	(130,255)	**(146,431)**

(In thousands of Russian Rubles, unless otherwise indicated)

15. Income tax expense

	2012 *RUR'000*	*2011* *RUR'000*
Current tax expense	(934,929)	(519,818)
Deferred tax charge – origination of temporary differences (Note 29)	(22,549)	(374,540)
Total income tax expense	**(957,478)**	**(894,358)**

Deferred tax related to items charged or credited to other comprehensive income during the year is as follows:

	2012 *RUR'000*	*2011* *RUR'000*
Revaluation of buildings	(11,568)	2,440
Income tax charged to other comprehensive income (Note 29)	**(11,568)**	**2,440**

Russian legal entities have to file individual corporate income tax declarations. Standard corporate income tax rate for companies (including banks) comprised 20% for 2012 and 2011. Corporate income tax rate applicable to interest (coupon) income on state and mortgage-backed bonds in 2012 and 2011 was 15% while corporate income tax rate applicable to interest (coupon) income on municipal bonds in 2012 and 2011 was 9%. Dividends are taxed at the standard corporate income tax rate of 9%, which could be reduced to 0% subject to certain criteria.

Reconciliation of effective tax rate

	2012 *RUR'000*	*2011* *RUR'000*
Income before tax	**4,472,913**	**4,215,721**
Income tax (expense) at the applicable tax rate	(894,583)	(843,144)
Effect of non-deductible expenses	(25,025)	(22,652)
Income on state securities taxed at different rates	4,823	7,052
Other	(42,693)	(35,614)
	(957,478)	**(894,358)**

16. Cash and cash equivalents

	2012 *RUR'000*	*2011* *RUR'000*
Nostro accounts with OECD banks	4,326,001	204,359
Cash on hand	3,206,815	2,703,387
Due from the CBR	1,250,288	537,128
Nostro accounts with Russian banks	524,215	390,710
Short-term placements and reverse REPO deals less than 90 days with Russian banks	118,714	502,460
	9,426,033	**4,338,044**

(In thousands of Russian Rubles, unless otherwise indicated)

17. Financial instruments at fair value through profit or loss

	2012 RUR'000	*2011 RUR'000*
Held by the Group		
Bonds of companies with state participation	3,011,755	1,471,286
Corporate bonds	2,316,381	6,624,046
Government and municipal bonds	2,244,079	577,982
Promissory notes	1,930,435	1,281,355
Total financial instruments at fair value through profit or loss held by the Group	**9,502,650**	**9,954,669**
Financial instruments at fair value through profit or loss pledged under sale and repurchase agreements and borrowings from CBR		
Corporate bonds	12,748,622	2,713,851
Bonds of companies with state participation	7,317,479	1,304,505
Government and municipal bonds	1,231,195	374,461
Total financial instruments at fair value through profit or loss pledged under sale and repurchase agreements and borrowings from CBR	**21,297,296**	**4,392,817**
Total financial instruments at fair value through profit or loss	**30,799,946**	**14,347,486**

As of 31 December 2012, total amount of corporate bonds and bonds of companies with state participation amounted to RUR 25,394,237 thousand and comprised securities issued by Russian banks and financial companies (72.4%), energy sector (6.2%), iron industry (5.0%), post service (6.9%), communication service (2.9%), oil-producing and oil-refining (2.1%) and other sectors accounting for less than 4.7% of the portfolio value, with maturity ranging from April 2013 to February 2041 and coupon rates of 6.9% – 20.0%. The most significant share of the issuer amounted to 8.6% in the total portfolio of corporate bonds and bonds of companies with state participation maturing in December 2013 – February 2041 and bearing coupon rate of 7.6% – 10.8%.

As of 31 December 2011, total amount of corporate bonds and bonds of companies with state participation amounted to RUR 12,113,688 thousand and comprised securities issued by Russian banks and financial companies (85.8%), oil-producing and oil-refining (7.0%), non-Russian banks and financial companies (0.7%) and other sectors accounting for less than 6.5% of the portfolio value, with maturity ranging from April 2012 to February 2041 and coupon rates of 7.6% – 20.0%. The most significant share of the issuer amounted to 18.2% in the total portfolio of corporate bonds and bonds of companies with state participation maturing in December 2013 – February 2041 and bearing coupon rate of 7.6% – 10.8%.

As of 31 December 2012 the Group pledged securities as collateral under sale and repurchase agreements and Lombard loans included in amounts due to CBR in the amount of RUR 17,433,124 thousand (Note 24) (as of 31 December 2011: RUR 3,055,507 thousand), deposits and balances from banks - RUR 125,062 thousand (Note 25) and deposits from customers - RUR 393,554 thousand (Note 23) (as of 31 December 2011: RUR 318,623 thousand and RUR 317,759 thousand, respectively).

18. Loans to customers

	2012 RUR'000	*2011 RUR'000*
Loans to individuals		
Consumer loans	41,724,042	22,851,392
Credit cards	3,532,545	827,973
Mortgage loans	223,106	425,286
Car loans	4,227	23,518
Other	154,855	50,526
Total loans to individuals	**45,638,775**	**24,178,695**
Loans to legal entities and finance lease receivables		
Loans to corporate entities	6,024,447	9,763,253
Loans to small and medium size companies	579,795	1,365,604
Finance lease receivables	1,152,303	882,544
Total loans to legal entities and finance lease receivables	**7,756,545**	**12,011,401**
Gross loans to customers	**53,395,320**	**36,190,096**
Less: provision for loan impairment	(4,114,582)	(1,407,160)
Net loans to customers	**49,280,738**	**34,782,936**

(In thousands of Russian Rubles, unless otherwise indicated)

18. Loans to customers (continued)

As of 31 December 2012 and 31 December 2011, the Group had a concentration of loans represented by RUR 4,557,334 thousand and RUR 6,812,996 thousand, respectively, due from ten largest borrowers, which accounts for 8,5% and 18,8% of the total amount of loans to customers, respectively. As of 31 December 2012 and 31 December 2011, an allowance of RUR 56,464 thousand and RUR 81,536 thousand, respectively, was recognized against these loans. As of 31 December 2012 and 31 December 2011, total loan balances due from the ten largest borrowers accounted for 4.8% and 11.9% of total assets of the Group, respectively.

Industry analysis of the loans to corporate entities

Loans to corporate entities were issued primarily to entities located in the Russian Federation, which operate in the following economic sectors:

	2012 RUR'000	*2011 RUR'000*
Commercial estate property rent	3,879,050	4,870,062
Manufacturing	695,802	1,698,775
Insurance	395,708	–
Construction	386,310	1,556,081
Other activity with real estate	140,461	546,778
Finance	134,575	624,330
Agriculture	125,000	125,000
Hotel industry	107,619	112,385
Public sector	80,612	79,830
Leasing	53,403	59,349
Trade	14,333	62,565
Other	11,574	28,098
	6,024,447	**9,763,253**

As of 31 December 2012 the loans granted to corporate entities operating in the insurance sector in a total amount of RUR 395,708 thousand were consisted of repurchase agreements concluded with the one third party.

Movements in the loan impairment provision for the years ended 31 December 2012 and 31 December 2011 are as follows:

	Loans to corporate entities	*Loans to small and medium size companies*	*Finance lease receivables*	*Consumer loans*	*Credit cards*	*Mortgage loans*	*Car loans*	*Other loans to individuals*	*Total*
As of 1 January 2012	(355,484)	(92,030)	(82,465)	(831,132)	(16,541)	(16,845)	(9,651)	(3,012)	**(1,407,160)**
Charge for the year	(11,939)	(33,826)	31,143	(3,229,349)	(502,407)	8,975	17	(7,039)	**(3,744,425)**
Recoveries	–	(42,662)	–	(83,629)	–	(14,067)	(7,842)	(1,840)	**(150,040)**
Loans written off as uncollectible	83,917	97,547	6,119	940,315	28,964	14,117	13,719	2,345	**1,187,043**
As of 31 December 2012	**(283,506)**	**(70,971)**	**(45,203)**	**(3,203,795)**	**(489,984)**	**(7,820)**	**(3,757)**	**(9,546)**	**(4,114,582)**
Individual impairment	(218,592)	–	(4,268)	–	–	–	–	–	**(222,860)**
Collective impairment	(64,914)	(70,971)	(40,935)	(3,203,795)	(489,984)	(7,820)	(3,757)	(9,546)	**(3,891,722)**
	(283,506)	**(70,971)**	**(45,203)**	**(3,203,795)**	**(489,984)**	**(7,820)**	**(3,757)**	**(9,546)**	**(4,114,582)**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**339,134**	–	**13,885**	–	–	–	–	–	**353,019**

(In thousands of Russian Rubles, unless otherwise indicated)

18. Loans to customers (continued)

	Loans to corporate entities	*Loans to small and medium size companies*	*Finance lease receivables*	*Consumer loans*	*Credit cards*	*Mortgage loans*	*Car loans*	*Other loans to individuals*	*Total*
As of 1 January 2011	(167,083)	(311,525)	(82,603)	(649,002)	–	(29,657)	(5,975)	(5,482)	**(1,251,327)**
Charge for the year	(646,140)	(41,513)	(41,714)	(763,909)	(16,541)	(60,260)	7,633	5,956	**(1,556,488)**
Recoveries	–	(24,289)	–	(138,452)	–	(10,688)	(11,309)	(3,486)	**(188,224)**
Loans written off as uncollectible	457,739	285,297	41,852	720,231	–	83,760	–	–	**1,588,879**
As of 31 December 2011	**(355,484)**	**(92,030)**	**(82,465)**	**(831,132)**	**(16,541)**	**(16,845)**	**(9,651)**	**(3,012)**	**(1,407,160)**
Individual impairment	(263,679)	–	(35,828)	–	–	–	–	–	**(299,507)**
Collective impairment	(91,805)	(92,030)	(46,637)	(831,132)	(16,541)	(16,845)	(9,651)	(3,012)	**(1,107,653)**
	(355,484)	**(92,030)**	**(82,465)**	**(831,132)**	**(16,541)**	**(16,845)**	**(9,651)**	**(3,012)**	**(1,407,160)**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**882,453**	–	**79,209**	–	–	–	–	–	**961,662**

Interest income accrued on loans, for which individual impairment allowances have been recognized, for the year ended 31 December 2012, comprised RUR 56,350 thousand (2011 – RUR 75,744 thousand).

Analysis of collateral

The following table provides the analysis of loans to customers, net of impairment, by types of collateral as of 31 December 2012:

	Loans to corporate entities	*Loans to small and medium size companies*	*Finance lease receivables*	*Consumer loans*	*Credit cards*	*Mortgage loans*	*Car loans*	*Other loans to individuals*	*Total*
Real estate	4,258,741	432,997	–	–	–	205,470	–	75,422	**4,972,630**
Motor vehicles	11,157	6,548	919,850	–	–	–	432	3,818	**941,805**
Goods and materials	–	–	187,250	–	–	–	–	–	**187,250**
Securities and equity investments	855,967	39,958	–	–	–	–	–	11,883	**907,808**
Other collateral	167,478	21,744	–	–	–	2,815	10	4,319	**196,366**
No collateral	447,598	7,577	–	38,520,247	3,042,561	7,001	28	49,867	**42,074,879**
Total loans to customers	**5,740,941**	**508,824**	**1,107,100**	**38,520,247**	**3,042,561**	**215,286**	**470**	**145,309**	**49,280,738**

As of 31 December 2012 and 31 December 2011 the group of loans with other collateral mainly represents loans secured by guarantees issued by third parties.

(In thousands of Russian Rubles, unless otherwise indicated)

18. Loans to customers (continued)

Analysis of collateral (continued)

The following table provides the analysis of loans to customers, net of impairment, by types of collateral as of 31 December 2011:

RUR'000	*Loans to corporate entities*	*Loans to small and medium size companies*	*Finance lease receivables*	*Consumer loans*	*Credit cards*	*Mortgage loans*	*Car loans*	*Other loans to individuals*	*Total*
Real estate	5,528,836	556,569	–	–	–	408,441	–	4,424	**6,498,270**
Motor vehicles	14,123	51,566	562,197	–	–	–	13,867	2,020	**643,773**
Goods and materials	–	83,787	237,882	–	–	–	–	–	**321,669**
Securities and equity investments	1,633,855	151,571	–	–	–	–	–	752	**1,786,178**
Other collateral	1,905,765	280,277	–	–	–	–	–	4,821	**2,190,863**
No collateral	325,190	149,804	–	22,020,260	811,432	–	–	35,497	**23,342,183**
Total loans to customers	**9,407,769**	**1,273,574**	**800,079**	**22,020,260**	**811,432**	**408,441**	**13,867**	**47,514**	**34,782,936**

The amounts shown in the tables above represent the carrying value of the loans, and do not necessarily represent the fair value of the collateral.

Finance lease receivables

The analysis of finance lease receivables as of 31 December 2012 is as follows:

	Not later than 1 year	*Later than 1 year and not later than 5 years*	*Total*
Gross investment in finance leases	858,438	577,782	**1,436,220**
Unearned future finance income on finance leases	(78,614)	(205,303)	**(283,917)**
Net investment in finance leases	**779,824**	**372,479**	**1,152,303**

The analysis of finance lease receivables as of 31 December 2011 is as follows:

	Not later than 1 year	*Later than 1 year and not later than 5 years*	*Total*
Gross investment in finance leases	621,900	484,767	**1,106,667**
Unearned future finance income on finance leases	(55,216)	(168,907)	**(224,123)**
Net investment in finance leases	**566,684**	**315,860**	**882,544**

19. Movements in other impairment and provisions

The movements in other impairment allowances and provisions were as follows:

	Other assets (Note 22)	*Provision (Note 28)*	*Total*
31 December 2010	**39,563**	**49,031**	**88,594**
Charge (Note 14)	18,784	89,629	**108,413**
Write-offs	(25,162)	–	**(25,162)**
Redemption of obligations	–	(91,101)	**(91,101)**
31 December 2011	**33,185**	**47,559**	**80,744**
(Reversal)/Charge (Note 14)	(2,142)	66,775	**64,633**
Write-offs	(1,611)	–	**(1,611)**
Redemption of obligations	–	(70,970)	**(70,970)**
31 December 2012	**29,432**	**43,364**	**72,796**

As of 31 December 2012 and 31 December 2011 the Group created provision under litigation cases against the Group in accordance with IAS 37 in the amount of RUR 43,364 thousand and RUR 47,559 thousand, respectively.

(In thousands of Russian Rubles, unless otherwise indicated)

20. Investment property

	2012 RUR'000	*2011 RUR'000*
Fair value at the beginning of the year	110,765	119,951
Disposals	(8,800)	–
Transfer from/to property and equipment (Note 21)	1,305,607	(6,434)
Revaluation (Note 11)	272,141	(2,752)
Fair value at the end of the year	**1,679,713**	**110,765**

During 2012 the Group recognized rental income in relation to investment property in the amount of RUR 4,773 thousand (31 December 2011: RUR 5,905 thousand) (Note 9).

The Management of the Group estimated fair value of investment property based on the results of independent appraisal.

21. Property, equipment and intangible assets

	Land and buildings RUR'000	*Leasehold improvements RUR'000*	*Computers RUR'000*	*ATMs RUR'000*	*Motor vehicles RUR'000*	*Furniture and equipment RUR'000*	*Construction in progress RUR'000*	*Intangible assets RUR'000*	*Total RUR'000*
Cost/revalued amount									
As of 1 January 2012	523,754	70,758	204,371	384,379	61,801	203,255	1,023,642	180,835	**2,652,795**
Additions	1,700	353	20,123	300,289	28,619	56,965	2,160,158	44,535	**2,612,742**
Disposals	(19,547)	(19,320)	(42,232)	(4,548)	(23,176)	(42,547)	(1,023,642)	–	**(1,175,012)**
Transfer to investment property (Note 20)	–	–	–	–	–	–	(1,305,607)	–	**(1,305,607)**
Transfer	854,551	–	–	–	–	–	(854,551)	–	
Revaluation	66,826	–	–	–	–	–	–	–	**66,826**
Elimination of accumulated depreciation of revalued assets	(8,210)	–	–	–	–	–	–	–	**(8,210)**
As of 31 December 2012	**1,419,074**	**51,791**	**182,262**	**680,120**	**67,244**	**217,673**	**-**	**225,370**	**2,843,534**
Depreciation									
As of 1 January 2012	–	(67,418)	(145,155)	(90,941)	(26,602)	(143,208)	–	(84,737)	**(558,061)**
Depreciation charge	(12,556)	(1,694)	(28,764)	(119,329)	(15,768)	(33,014)	–	(44,203)	**(255,328)**
Disposals	4,345	19,320	38,717	3,184	17,615	35,834	–	–	**119,015**
Revaluation	8,211	–	–	–	–	–	–	–	**8,211**
As of 31 December 2012	–	**(49,792)**	**(135,202)**	**(207,086)**	**(24,755)**	**(140,388)**	–	**(128,940)**	**(686,163)**
Carrying value as of 31 December 2012	**1,419,074**	**1,999**	**47,060**	**473,034**	**42,489**	**77,285**	–	**96,430**	**2,157,371**
Carrying value as of 31 December 2011	**523,754**	**3,340**	**59,216**	**293,438**	**35,199**	**60,047**	**1,023,642**	**96,098**	**2,094,734**

	Land and buildings RUR'000	*Leasehold improvements RUR'000*	*Computers RUR'000*	*ATMs RUR'000*	*Motor vehicles RUR'000*	*Furniture and equipment RUR'000*	*Construction in progress RUR'000*	*Intangible assets RUR'000*	*Total RUR'000*
Cost/revalued amount									
As of 1 January 2011	513,114	67,939	173,956	126,418	37,587	177,285		122,360	**1,218,659**
Additions	24,649	2,819	41,311	258,127	32,485	28,595	1,023,642	58,771	**1,470,399**
Disposals	(24,654)	–	(10,896)	(166)	(8,271)	(2,625)	–	(296)	**(46,908)**
Transfer from investment property (Note 20)	6,434	–	–	–	–	–	–	–	**6,434**
Revaluation	16,067	–	–	–	–	–	–	–	**16,067**
Elimination of accumulated depreciation of revalued assets	(11,856)	–	–	–	–	–	–	–	**(11,856)**
As of 31 December 2011	**523,754**	**70,758**	**204,371**	**384,379**	**61,801**	**203,255**	**1,023,642**	**180,835**	**2,652,795**
Depreciation									
As of 1 January 2011	–	(53,374)	(116,709)	(36,869)	(19,804)	(108,453)	–	(52,145)	**(387,354)**
Depreciation charge	(13,670)	(14,044)	(38,787)	(54,127)	(10,850)	(36,927)	–	(32,649)	**(201,054)**
Disposals	1,814	–	10,341	55	4,052	2,172	–	57	**18,491**
Revaluation	11,856	–	–	–	–	–	–	–	**11,856**
As of 31 December 2011	**–**	**(67,418)**	**(145,155)**	**(90,941)**	**(26,602)**	**(143,208)**	**–**	**(84,737)**	**(558,061)**
Carrying value as of 31 December 2011	**523,754**	**3,340**	**59,216**	**293,438**	**35,199**	**60,047**	**1,023,642**	**96,098**	**2,094,734**
Carrying value as of 31 December 2010	**513,114**	**14,565**	**57,247**	**89,549**	**17,783**	**68,832**	**–**	**70,215**	**831,305**

(In thousands of Russian Rubles, unless otherwise indicated)

21. Property, equipment and intangible assets (continued)

Revalued assets

As of 31 December 2012 buildings were revalued by Management of the Group based on the results of independent appraisal. The revalued cost of the buildings as of 31 December 2012 increased by RUR 66,826 thousand (as of 31 December 2011: increased by RUR 16,067 thousand), which represents a positive revaluation of the Group's buildings that was recognised as positive revaluation in the profit and loss (Note 11) in the amount of RUR 8,982 thousand (as of 31 December 2011: as positive revaluation in the profit and loss in the amount of RUR 28,269 thousand) and as positive revaluation through other comprehensive income and revaluation reserve in the amount of RUR 57,844 thousand (as of 31 December 2011: as negative revaluation through other comprehensive income and revaluation reserve in the amount of RUR 12,202 thousand).

The carrying value of land and buildings as of 31 December 2012, if the land and buildings would not have been revalued, would be RUR 1,458,873 thousand (as of 31 December 2011: RUR 630,380 thousand).

22. Other assets

	2012 RUR'000	***2011 RUR'000***
Advances to suppliers	180,012	235,066
VAT receivables on non-Banking operations	177,704	–
VAT receivables on leasing operations	65,646	69,280
Foreclosed assets	60,842	23,054
Security deposit placed in MasterCard Europe	60,745	48,294
Receivables for settlement services	14,176	18,941
Current income tax assets	6,970	109,433
Receivables on cash transfer transactions	6,129	3,742
Settlements with personnel	2,550	4,417
Advances for taxes other than VAT and income tax	1,885	4,490
Other	27,487	26,246
	604,146	**542,963**
Impairment allowance in respect of advances to suppliers (Note 19)	(29,432)	(33,185)
	574,714	**509,778**

As a result of collection efforts on defaulted loans, the Group foreclosed real estate property and other assets. Such assets are classified as inventory according to IAS 2, and are measured at the lower of cost and net realizable value.

Following IAS 2 considerations in order to value foreclosed assets the Group recognized decrease in its value in the amount of RUR 4,086 thousand for the residential property for the year ended 31 December 2012 (for the year ended 31 December 2011: RUR 38,018 thousand) (Note 14).

23. Current accounts and deposits from customers

	2012 RUR'000	***2011 RUR'000***
Individuals		
Current accounts and demand deposits	1,224,513	959,854
Term deposits	54,934,678	34,854,228
Legal entities		
Current accounts and demand deposits	4,181,229	4,660,194
Term deposits	1,891,492	1,826,002
Amounts payable under repurchase agreements	393,554	317,759
	62,625,466	**42,618,037**

As of 31 December 2012 and 31 December 2011 amounts due to customers of RUR 3,713,674 thousand and RUR 4,162,423 thousand, respectively, were due to ten largest customers that represented 5.9% and 9.8% of the total amount of current accounts and deposits from customers, respectively.

As of 31 December 2012 and 31 December 2011 the Group did not have customers whose balance exceeded 10% of the total amount of current accounts and deposits from customers.

(In thousands of Russian Rubles, unless otherwise indicated)

23. Current accounts and deposits from customers (continued)

Included in time deposits are deposits of individuals in the amount of RUR 54,934,678 thousand (2011 – RUR 34,854,228 thousand). In accordance with the Russian Civil Code, the Group is obliged to repay such deposits upon demand of a depositor. In case a term 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.

As of 31 December 2012, the Bank had pledged corporate bonds, bonds of companies with state participation, government and municipal bonds (as of 31 December 2011: government and municipal bonds) as collateral under sale and repurchase agreements with the corporate entities in the amount of RUR 459,432 thousand (2011 RUR 374,461 thousand) (Note 17).

24. Amounts due to the CBR

	2012 RUR'000	*2011 RUR'000*
Sale and repurchase agreements	16,931,746	2,055,057
Lombard loans	501,378	1,000,450
Loans secured by guarantee	501,240	–
	17,934,364	**3,055,507**

As of 31 December 2012 the Bank pledged corporate bonds, bonds of companies with state participation, government and municipal bonds (as of 31 December 2011: corporate bonds) as collateral under sale and repurchase agreements and borrowings from CBR in the amount of RUR 20,691,121 thousand (as of 31 December 2011: RUR 3,682,037 thousand) (Note 17).

25. Deposits and balances from banks

	2012 RUR'000	*2011 RUR'000*
Deposits from banks	624,033	285,691
Repurchase agreements with other banks	125,062	318,623
Loro accounts of banks	18,374	630,768
Other borrowed funds	1,088	7,383
	768,557	**1,242,465**

As of 31 December 2012 the Group had four counterparties (as of 31 December 2011: two counterparties), whose aggregated balances exceeded 10% of total deposits and balances from banks. The total amount of these balances as of 31 December 2012 was RUR 637,061 thousand or 82.9% of deposits and balances from banks (as of 31 December 2011: RUR 890,032 thousand or 71.6% of deposits and balances from banks).

As of 31 December 2012 the Bank had pledged government and municipal bonds (as of 31 December 2011: corporate bonds) as collateral under sale and repurchase agreements with other banks in the amount of RUR 146,743 thousand (as of 31 December 2011: RUR 336,320 thousand) (Note 17).

26. Promissory notes

As of 31 December 2012, the Group issued interest bearing promissory notes for the total amount of RUR 1,751,444 thousand (as of 31 December 2011: RUR 1,195,058 thousand), which mainly represented settlement promissory notes maturing within 365 days (as of 31 December 2011: maturing within 365 days). As of 31 December 2012, other discount promissory notes in the total amount of RUR 1,596 thousand (as of 31 December 2011: RUR 452,438 thousand) were issued by the Group.

(In thousands of Russian Rubles, unless otherwise indicated)

27. Subordinated debt

During twelve-months period ended 31 December 2012, the Group received four subordinated loans of USD 33,000 thousand from a related party to the Group. One of these subordinated loans of USD 16,000 thousand bears interest rate of 6.4% p.a. before 1 January 2013 and 15% p.a. after 1 January 2013.

Principal' 000	***Currency***	***Counterparty***	***Interest rate***	***Issue date***	***Maturity date***	***2012 RUR'000***	***2011 RUR'000***
25,000	USD	Nederlandse Financierings-Maatschappijvoor Ontwikkelingslanden N.V.(FMO)	Libor 3m+ 4.5%*	24.10.2008 22.01.2009	15.10.2018	814,138	868,567
16,000	USD	Sovco Capital Partners B. V.	6.4%	29.05.2012	29.05.2022	489,419	–
5,000	USD	Sovco Capital Partners B. V.	15.0%	26.07.2012	26.07.2022	154,395	–
5,000	USD	Sovco Capital Partners B. V.	15.0%	04.07.2012	04.07.2022	154,395	–
7,000	USD	Sovco Capital Partners B. V.	15.0%	15.08.2012	15.08.2022	216,152	–
						1,828,499	**868,567**

*Libor 3m+4.5%+premium, calculated in accordance with terms of agreements.

As of 31 December 2012, the Group accrued additional fees in the amount of RUR 51,979 thousand (as of 31 December 2011: RUR 61,237 thousand) payable to FMO in accordance with terms of agreements which were accounted for as part of effective interest rate on subordinated debt. In accordance with terms of agreement additional fees are calculated based on the financial result of the Group before tax and paid since the Group accumulated profit for the period.

28. Other liabilities

	2012 RUR'000	***2011 RUR'000***
Payables to personnel	311,570	172,266
Payables to suppliers	130,626	94,371
Income taxes payable	117,595	–
Taxes payable other than VAT and income tax	82,332	52,827
Accrued expenses on obligatory deposit insurance	75,921	87,770
Provision for legal claims and contingent liabilities (Note 19)	43,364	47,559
Obligations under lease payments	27,080	28,260
VAT payable	1,290	3,648
Other	34,355	12,256
	824,133	**498,957**

(In thousands of Russian Rubles, unless otherwise indicated)

29. Deferred tax

Movement in temporary differences during the year ended 31 December 2012 and 31 December 2011:

		Origination and reversal of temporary differences			*Origination and reversal of temporary differences*		
	2010	*In the income statement*	*In other compre-hensive income*	*2011*	*In the income statement*	*In other compre-hensive income*	*2012*
Tax effect of deductible temporary differences:							
Other liabilities	7,002	29,224	–	36,226	21,163	–	57,389
Other assets	41,030	(4,921)	–	36,109	(29,148)	–	6,961
Deferred tax asset	**48,032**	**24,303**	**–**	**72,335**	**(7,985)**	**–**	**64,350**
Tax effect of taxable temporary differences:							
Loans to customers	272,683	(412,346)	–	(139,663)	124,413	–	(15,250)
Financial instruments at fair value through profit or loss	(53,336)	7,129	–	(46,207)	14,433	–	(31,774)
Investment property	(6,831)	(750)	–	(7,581)	(2,719)	–	(10,300)
Property, equipment and intangible assets	(20,120)	3,841	2,440	(13,839)	(143,167)	(11,568)	(168,574)
Promissory notes	(878)	3,194	–	2,316	(7,679)	–	(5,363)
Subordinated debt	(1,248)	89	–	(1,159)	155	–	(1,004)
Deferred tax liability	**191,148**	**(402,037)**	**2,440**	**(206,133)**	**(14,564)**	**(11,568)**	**(232,265)**
Deferred tax asset	**243,008**	**(169,776)**	**–**	**73,232**	**(2,264)**	**–**	**70,968**
Deferred tax liability	**(4,706)**	**(204,764)**	**2,440**	**(207,030)**	**(20,285)**	**(11,568)**	**(238,883)**

30. Charter capital and other capital contributions

As of 31 December 2012 and 31 December 2011 charter capital totalled RUR 1,906,004 thousand and RUR 2,242,358 thousand, respectively.

On 11 January 2012, 24 January 2012, 20 February 2012 and 29 March 2012 at the extraordinary General meetings of participants it was decided to make distributions to participants from the net profit earned in 2011. The total amount of distributions to participants was RUR 876,741 thousand and made in proportion to units of participants. Distributions to participants were fully paid in March 2012.

In accordance with the Bank's LLC charter, participants may unilaterally withdraw their interests. In such cases the Bank will be obliged to pay the withdrawing participant's share of net assets of the Bank, determined on the basis of statutory accounting reports for the year of withdrawal, in cash or, subject to consent of the participant, by in-kind transfer of assets. The payment should be made no later than six months after the end of the year of the withdrawal.

On 30 May 2012 TBIF Financial Services B.V. announced its withdrawal from the participation in the Bank. 35% of net assets previously owned by TBIF Financial Services B.V. (nominal value of RUR 784,825 thousand) were purchased by SovCo Capital Partners B.V. As a result of that transaction SovCo Capital Partners B.V. became the ultimate parent of the Group. The remaining 15% of net assets (nominal value of RUR 336,354 thousand) were redeemed by the Bank for a total amount of RUR 961,619 thousand.

As of 31 December 2012 the Group recognized its rights under call option with related party in the amount of RUR 307,654 thousand as other capital contributions into Bank's net assets attributable to participants. Refer to Note 34.

31. Commitments

At any time the Group has outstanding commitments to extend loans. These commitments take the form of approved loans and credit card limits and overdraft facilities.

The Group provides financial guarantees to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to five years. The Group also provides guarantees by acting as settlement agent in securities borrowing and lending transactions.

(In thousands of Russian Rubles, unless otherwise indicated)

31. Commitments (continued)

The contractual amounts of commitments are set out in the following table by category. The amounts reflected in the table for commitments assume that amounts are fully advanced.

Contracted amount	*2012 RUR'000*	*2011 RUR'000*
Guarantees	1,453,498	1,042,387
Loan and credit line commitments	2,230,980	1,421,798
	3,684,478	**2,464,185**

The total outstanding contractual commitments to extend credit indicated above does not necessarily represent future cash requirements, as these commitments may expire or terminate without being funded.

The Group does not have any non-cancellable operating leases as of 31 December 2012 and 31 December 2011.

32. Contingencies

Litigation

In the ordinary course of business, the Group 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 Group, except for actions on up-front lending commissions.

The Group is subject to legal actions raised by the borrowers regarding the compensation of up-front lending commission charged by the Group at loan origination. As of 31 December 2012 the total amount of claims against the Group amounted RUR 172 million for the years 2011-2012, of which the Group settled RUR 135 million. As of 31 December 2011 the total amount of claims against the Group compounded RUR 114 million, of which the Group settled RUR 63 million. The Group created provisions for legal claims for unsettled amounts as of 31 December 2012 and 31 December 2011(Note 14). The amount of potential future claims against the Group cannot be measured with sufficient reliability.

The Bank has cancelled up-front comissions for all consumer finance products starting from January 1, 2011. Nevertheless, the Bank expects new legal claims for loans originated before 31 December 2010. The Group estimated the amount of such claims to be aproximately 1% of interest income on loans for the 2013 year.

Taxation contingencies

Russian tax 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 Group may be challenged by the relevant regional and federal tax authorities. In particular, the tax authorities may try to challenge the VAT treatment of certain commission income that might require the Group to defend its position in court.

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 Group 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.

The new Russian transfer pricing legislation, which came into force on 1 January 2012, allows the tax Russian authority to apply transfer pricing adjustments and impose additional profits tax liabilities in respect of all "controlled" transactions if the transaction price differs from the market price. The list of "controlled" transactions includes transactions performed with related parties and certain types of cross-border transactions. The current Russian transfer pricing rules have considerably increased the compliance burden for the taxpayers compared to the transfer pricing rules which were in effect before 2012 due to, inter alia, shifting the burden of proof from the Russian tax authorities to the taxpayers. These rules are applicable not only to the transactions taking place in 2012 but also to the prior transactions with related parties if related income and expenses were recognized in 2012. The new provisions apply for both cross-border and domestic transactions. For domestic transactions the transfer pricing rules apply only if the amount of all transaction with related party exceeds RUR 3 billion in 2012. In cases where the domestic transaction resulted in an accrual of additional tax liabilities for one party to the transaction, another party could correspondingly adjust its profit tax liabilities. Special transfer pricing rules apply to transactions with securities and derivatives.

(In thousands of Russian Rubles, unless otherwise indicated)

32. Contingencies (continued)

Taxation contingencies (continued)

In 2012 the Group determined its tax liabilities arising from "controlled" transactions using actual transaction prices.

Due to the uncertainty and absence of current practice of application of the current Russian transfer pricing legislation the Russian tax authorities may challenge the level of prices applied by the Group under the "controlled" transactions and accrue additional tax liabilities unless the Group is able to demonstrate the use of market prices with respect to the "controlled" transactions, and that there has been proper reporting to the Russian tax authorities, supported by appropriate available transfer pricing documentation.

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

33. Risk management

Management of risk is fundamental to the business of banking and is an essential element of the Group's operations. The major risks faced by the Group are those related to market risk, which includes price, interest rate and currency risks, credit risk and liquidity risk.

Risk management policies and procedures

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

The Board of Directors of the Group has overall responsibility for the oversight of the risk management framework, overseeing the management of key risks and reviewing its risk management policies and procedures as well as approving significantly large exposures. Application of risk management policies is subject to regular review by the Internal Audit department.

The Management Board of the Group is responsible for monitoring and implementation of risk mitigation measures and making sure that the Group operates within the established risk parameters.

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

Both external and internal risk factors are identified and managed throughout the Group's organisational structure. Apart from the standard credit and market risk analysis, the Risk Department implemented a system of identification and quantification of operational risks.

Market risk

Market risk is the risk that movements in market prices, including foreign exchange rates, interest rates, credit spreads and equity prices will affect the Group's income or the value of its portfolios. Market risks comprise currency risk, interest rate risk and other price risk. Market risk arises from open positions in interest rate, currency and equity financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices.

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

Overall authority for market risk is vested in the Asset and Liability Committee (ALCO), chaired by the First Deputy Chairman of the Management Board of the Group. Market risk limits are approved by ALCO based on recommendations of the Risk Department.

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

(In thousands of Russian Rubles, unless otherwise indicated)

33. Risk management (continued)

Market risk (continued)

Interest rate risk

The market risk for the trading portfolio is managed and monitored using sensitivity analysis. Interest rate risk arises from the possibility that changes in interest rates will affect the fair value of the financial instruments or the future cash flows on financial instruments. The Group's interest rate policy is reviewed and approved by the Group's Assets and Liabilities Committee. The Group sets limits on the level of mismatch of interest rate repricing that may be undertaken. The sensitivity of the fair value of such instruments includes the effect of the reasonably possible changes in risk-free interest rates on the fair value for one year. The above parameter is measured by reference to the effect of the fair value of such fixed-rate instruments held as of 31 December 2012 and 31 December 2011. Such measurement envisages applying the assumption of a parallel shift of the yield curve.

Currency	*Increase in basis points 2012*	*Sensitivity of net interest income 2012*	*Sensitivity of equity 2012*	*Increase in basis points 2011*	*Sensitivity of net interest income 2011*	*Sensitivity of equity 2011*
RUR	100	(886,945)	(886,945)	50	(168,764)	(168,764)
USD	100	(11,345)	(11,345)	50	(14,220)	(14,220)
EUR	100	–	–	50	(1,379)	(1,379)

Currency	*Decrease in basis points 2012*	*Sensitivity of net interest income 2012*	*Sensitivity of equity 2012*	*Decrease in basis points 2011*	*Sensitivity of net interest income 2011*	*Sensitivity of equity 2011*
RUR	100	886,945	886,945	50	168,764	168,764
USD	100	11,345	11,345	50	14,220	14,220
EUR	100	–	–	50	1,379	1,379

The table below analyses the Group's interest rate risk exposure on non-trading financial assets and liabilities. The Group's assets and liabilities are included at carrying amount and categorised by the earlier of contractual re-pricing or maturity dates.

The position as of 31 December 2012 is as follows:

	Less than 1 month RUR'000	*1 to 3 months RUR'000*	*3 months to 1 year RUR'000*	*1 to 5 years RUR'000*	*More than 5 years RUR'000*	*Non-interest bearing RUR'000*	*Overdue RUR'000*	*Total RUR'000*
Assets								
Cash and cash equivalents	56,864	–	–	–	–	9,369,169	–	**9,426,033**
Mandatory cash balances with the Central Bank of the Russian Federation	–	–	–	–	–	776,562	–	**776,562**
Placements with banks	1,728	3,283	10,826	286	–	–	333	**16,456**
Loans to customers	2,562,878	3,890,454	14,545,977	26,495,143	131,592	–	1,654,694	**49,280,738**
Investment in associates	–	–	–	–	–	5,880	–	**5,880**
Investment property	–	–	–	–	–	1,679,713	–	**1,679,713**
Property, equipment and intangible assets	–	–	–	–	–	2,157,371	–	**2,157,371**
Goodwill	–	–	–	–	–	389,051	–	**389,051**
Deferred tax asset	–	–	–	–	–	70,968	–	**70,968**
Other assets	–	–	–	–	–	574,714	–	**574,714**
Total assets	**2,621,470**	**3,893,737**	**14,556,803**	**26,495,429**	**131,592**	**15,023,428**	**1,655,027**	**64,377,486**
Liabilities								
Amounts due to the CBR	17,433,124	–	501,240	–	–	–	–	**17,934,364**
Deposits and balances from banks	221,575	47,336	310,226	189,420	–	–	–	**768,557**
Current accounts and deposits from customers	4,860,227	3,657,951	8,244,290	41,681,731	38	4,181,229	–	**62,625,466**
Promissory notes	–	160,415	1,091,602	487,944	13,079	–	–	**1,753,040**
Subordinated debt	–	1,303,557	–	–	524,942	–	–	**1,828,499**
Deferred tax liabilities	–	–	–	–	–	238,883	–	**238,883**
Other liabilities	–	–	–	–	–	824,133	–	**824,133**
Total liabilities	**22,514,926**	**5,169,259**	**10,147,358**	**42,359,095**	**538,059**	**5,244,245**	**–**	**85,972,942**
Net position as of 31 December 2012	**(19,893,456)**	**(1,275,522)**	**4,409,445**	**(15,863,666)**	**(406,467)**	**9,779,183**	**1,655,027**	**(21,595,456)**

(In thousands of Russian Rubles, unless otherwise indicated)

33. Risk management (continued)

The position as of 31 December 2011 is as follows:

	Less than 1 month RUR'000	*1 to 3 months RUR'000*	*3 months to 1 year RUR'000*	*1 to 5 years RUR'000*	*More than 5 years RUR'000*	*Non-interest bearing RUR'000*	*Overdue RUR'000*	*Total RUR'000*
Assets								
Cash and cash equivalents	502,460	–	–	–	–	3,835,584	–	**4,338,044**
Mandatory cash balances with the Central Bank of the Russian Federation	–	–	–	–	–	523,088	–	**523,088**
Placements with banks	4,602	8,498	34,786	27,128				**75,014**
Loans to customers	1,943,776	3,430,604	13,024,879	15,199,226	167,927		1,016,524	**34,782,936**
Investment in associates	–	–	–	–	–	5,880	–	**5,880**
Investment property	–	–	–	–	–	110,765	–	**110,765**
Property, equipment and intangible assets	–	–	–	–	–	2,094,734	–	**2,094,734**
Goodwill	–	–	–	–	–	450,587	–	**450,587**
Deferred tax asset	–	–	–	–	–	73,232	–	**73,232**
Other assets	–	–	–	–	–	509,778	–	**509,778**
Total assets	**2,450,838**	**3,439,102**	**13,059,665**	**15,226,354**	**167,927**	**7,603,648**	**1,016,524**	**42,964,058**
Liabilities								
Amounts due to the CBR	3,055,507	–	–	–	–	–	–	**3,055,507**
Deposits and balances from banks	996,780	11,470	90,726	143,489	–	–	–	**1,242,465**
Current accounts and deposits from customers	4,840,180	4,732,644	5,911,494	22,473,525	–	4,660,194	–	**42,618,037**
Promissory notes	175,433	106,295	734,321	629,941	1,506	–	–	**1,647,496**
Subordinated debt	–	868,567	–	–	–	–	–	**868,567**
Deferred tax liabilities	–	–	–	–	–	207,030	–	**207,030**
Other liabilities	–	–	–	–	–	498,957	–	**498,957**
Total liabilities	**9,067,900**	**5,718,976**	**6,736,541**	**23,246,955**	**1,506**	**5,366,181**	**–**	**50,138,059**
Net position as of 31 December 2011	**(6,617,062)**	**(2,279,874)**	**6,323,124**	**(8,020,601)**	**166,421**	**2,237,467**	**1,016,524**	**(7,174,001)**

Currency risk

The Group has assets and liabilities denominated in several foreign currencies. Foreign currency risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liabilities in that currency. The Group's policy requires that total currency risk exposure should not exceed 10% of equity.

An analysis of sensitivity of the Group's profit or loss for the year and equity to participants to changes in the foreign currency exchange rates based on positions existing as of 31 December 2012 and 31 December 2011 and a simplified scenario of a 10% and 5%, respectively, change in exchange rates of major currencies is as follows:

	2012			***2011***	
	Profit or loss RUR'000	***Equity RUR'000***		***Profit or loss RUR'000***	***Equity RUR'000***
10% appreciation of USD against RUR	2,235	2,235	5% appreciation of USD against RUR	(8,136)	(8,136)
10% depreciation of USD against RUR	(2,235)	(2,235)	5% depreciation of USD against RUR	8,136	8,136
10% appreciation of EUR against RUR	(2,097)	(2,097)	5% appreciation of EUR against RUR	(84)	(84)
10% depreciation of EUR against RUR	2,097	2,097	5% depreciation of EUR against RUR	84	84

(In thousands of Russian Rubles, unless otherwise indicated)

33. Risk management (continued)

Currency risk (continued)

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

	RUR RUR'000	*USD RUR'000*	*EUR RUR'000*	*Other RUR'000*	*Total RUR'000*
Assets					
Cash and cash equivalents	4,447,993	2,199,827	2,778,213	–	**9,426,033**
Mandatory cash balances with the Central Bank of the Russian Federation	776,562	–	–	–	**776,562**
Placements with banks	16,456	–	–	–	**16,456**
Financial instruments at fair value through profit or loss					
- Held by the Group	9,185,381	317,269	–	–	**9,502,650**
- Pledged under sale and repurchase agreements	21,297,296	–	–	–	**21,297,296**
Loans to customers	46,826,344	2,453,780	614	–	**49,280,738**
Investment in associates	5,880	–	–	–	**5,880**
Investment property	1,679,713	–	–	–	**1,679,713**
Property, equipment and intangible assets	2,157,371	–	–	–	**2,157,371**
Goodwill	389,051	–	–	–	**389,051**
Deferred tax asset	70,968	–	–	–	**70,968**
Other assets	512,662	62,044	8	–	**574,714**
Total assets	**87,365,677**	**5,032,920**	**2,778,835**	**–**	**95,177,432**
Liabilities					
Amounts due to the CBR	17,934,364	–	–	–	**17,934,364**
Deposits and balances from banks	731,869	21,888	14,800	–	**768,557**
Current accounts and deposits from customers	54,954,827	4,982,618	2,683,616	4,405	**62,625,466**
Promissory notes	696,523	825,632	230,885		**1,753,040**
Subordinated debt	–	1,828,499	–	–	**1,828,499**
Deferred tax liability	238,883	–	–	–	**238,883**
Other liabilities	823,762	371	–	–	**824,133**
Total liabilities, other than net assets attributable to participants	**75,380,228**	**7,659,008**	**2,929,301**	**4,405**	**85,972,942**
Net balance sheet position as of 31 December 2012	**11,985,449**	**(2,626,088)**	**(150,466)**	**(4,405)**	**9,204,490**
Net off-balance sheet position as of 31 December 2012	**(2,777,929)**	**2,648,433**	**129,496**	**–**	**–**
Net position as of 31 December 2012	**9,207,520**	**22,345**	**(20,970)**	**(4,405)**	**9,204,490**
Credit related commitments	**3,578,271**	**84,841**	**21,366**	–	**3,684,478**

(In thousands of Russian Rubles, unless otherwise indicated)

33. Risk management (continued)

Currency risk (continued)

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

	RUR RUR'000	*USD RUR'000*	*EUR RUR'000*	*Other RUR'000*	*Total RUR'000*
Assets					
Cash and cash equivalents	3,468,192	510,856	358,996	–	**4,338,044**
Mandatory cash balances with the Central Bank of the Russian Federation	523,088	–	–	–	**523,088**
Placements with banks	75,014	–	–	–	**75,014**
Financial instruments at fair value through profit or loss					
- Held by the Group	9,615,882	255,167	83,620	–	**9,954,669**
- Pledged under sale and repurchase agreements	3,733,849	658,968	–	–	**4,392,817**
Loans to customers	30,386,042	3,895,534	501,360	–	**34,782,936**
Investment in associates	5,880	–	–	–	**5,880**
Investment property	110,765	–	–	–	**110,765**
Property, equipment and intangible assets	2,094,734	–	–	–	**2,094,734**
Goodwill	450,587	–	–	–	**450,587**
Deferred tax asset	73,232	–	–	–	**73,232**
Other assets	460,158	49,603	17	–	**509,778**
Total assets	**50,997,423**	**5,370,128**	**943,993**	–	**57,311,544**
Liabilities					
Amounts due to the CBR	3,055,507	–	–	–	**3,055,507**
Deposits and balances from banks	1,211,111	30,716	638	–	**1,242,465**
Current accounts and deposits from customers	36,528,931	3,427,957	2,655,988	5,161	**42,618,037**
Promissory notes	1,149,418	294,821	203,257	–	**1,647,496**
Subordinated debt	–	868,567	–	–	**868,567**
Deferred tax liability	207,030	–	–	–	**207,030**
Other liabilities	497,716	1,240	1	–	**498,957**
Total liabilities, other than net assets attributable to participants	**42,649,713**	**4,623,301**	**2,859,884**	**5,161**	**50,138,059**
Net balance sheet position as of 31 December 2011	**8,347,710**	**746,827**	**(1,915,891)**	**(5,161)**	**7,173,485**
Net off-balance sheet position as of 31 December 2011	**(1,004,678)**	**(909,543)**	**1,914,221**	–	**–**
Net position as of 31 December 2011	**7,343,032**	**(162,716)**	**(1,670)**	**(5,161)**	**7,173,485**
Credit related commitments	**2,348,981**	**94,043**	**21,161**	–	**2,464,185**

Prepayment risk

Prepayment risk is the risk that the Group will incur a financial loss because its customers and counterparties repay or request repayment earlier or later than expected, such as fixed rate mortgages when interest rates fall.

The Group identifies the prepayment risk for consumer loans. During 2012 the amount of consumer loans repaid prior to maturity composed RUR 7,428,288 thousand or 31.4% of expected payments (during 2011 the amount of consumer loans repaid prior to maturity composed RUR 4,765,260 thousand or 29.8% of expected payments).

(In thousands of Russian Rubles, unless otherwise indicated)

33. Risk management (continued)

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 Group 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, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

Credit risk

Credit risk is the risk of financial loss occurring as a result of default by a borrower or counterparty on their obligation to the Group. The Group has developed policies and procedures for the management of credit exposures (both for on balance sheet and off balance sheet exposures), including guidelines to limit portfolio concentration and the establishment of a Credit Committee, which actively monitors the Group's credit risk. The Group's credit policy is reviewed and approved by the Management Board.

The Group's credit policy establishes:

- Procedures for review and approval process of different kinds of credit products;
- Methodology for the credit assessment of lessees under leasing contracts;
- Methodology for the credit assessment of borrowers (commercial and retail);
- Methodology for the credit assessment of issuers and insurance companies;
- Methodology for the evaluation and monitoring of collateral;
- Procedures for the ongoing monitoring of loans and other credit exposures;
- Procedures for collection process for different borrowers and lessees.

Relevant client manager produce commercial loan/credit applications which are then passed on to the Loans Department. The latter is responsible for the Group's commercial loans portflio. Reports produced by the department's credit analysts are based on structured analysis focusing on the customer's business and financial performance. The loan/credit application and the report are then independently reviewed by the Risk Department's Credit Risk Management Division and Economic security department. A second opinion is given accompanied by a check that credit policy requirements have been met. The credit application should be approved by the appropriate Credit Committee depending on the exposure and the borrower. The Credit Committee reviews the loan/credit application on the basis of submissions by the Loan Department and the Risk Department. Individual transactions are also reviewed by the Group's Legal department and pending final approval of the Credit Committee.

The Group continuously monitors the performance of individual credit exposures and regularly reassesses the creditworthiness of its customers. The review is based on the customer's most recent financial statements and other information submitted by the borrower, or otherwise obtained by the Group. The current market value of collateral is regularly assessed by either independent appraisal companies or the Group's specialists, and in the event of negative movements in market prices the borrower is usually requested to put up additional security.

Retail loan/credit applications are reviewed by the Group's Retail Lending Division through the behavioural check and application data verification procedures developed together with the Risk Department. Some retail loan application are subject to additional verification conducted by Economic Security Department. All underwriting procedures are approved by the Risk Committee.

Retail loan portfolio is subject to continuous monitoring by the Risk Management Department. Portfolio quality analysis and fraud prevention procedures are conducted on a regular basis.

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

The Group's maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets on the balance sheet and off balance sheet credit related commitments. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

(In thousands of Russian Rubles, unless otherwise indicated)

33. Risk management (continued)

Credit risk (continued)

The table below shows the maximum exposure to credit risk for the components of the consolidated statement of financial position, including derivatives. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements.

	Notes	*Maximum exposure 2012*	*Maximum exposure 2011*
Cash and cash equivalents (excluding cash on hand)	16	6,219,218	1,634,657
Placements with banks		16,456	75,014
Financial instruments at fair value through profit or loss	17	30,799,946	14,347,486
Loans to customers	18	49,280,738	34,782,936
Other assets (less settlements with tax authorities)	22	322,509	326,575
		86,638,867	**51,166,668**
Credit related commitments	31	3,684,478	2,464,185
Total credit risk exposure		**90,323,345**	**53,630,853**

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

For more detail on the maximum exposure to credit risk for each class of financial instrument references shall be made to the specific notes. The effect of collateral and other risk mitigation techniques is shown in Note 18.

Credit quality of loans to individuals

The credit quality of loans to individuals and loans to corporate entities portfolio are managed by the Group based on overdue group. The tables below show the credit quality of loans to individuals based on allocation of loans depending on overdue days as of 31 December 2012 and 31 December 2011.

(In thousands of Russian Rubles, unless otherwise indicated)

33. Risk management (continued)

Credit quality of loans to individuals (continued)

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

	Gross loans RUR'000	*Allowance for impairment RUR'000*	*Net loans RUR'000*	*Impairment to gross loans, %*
Consumer loans				
Not past due	36,231,367	(283,200)	35,948,167	0.78%
Overdue less than 30 days	1,498,256	(194,928)	1,303,328	13.01%
Overdue 30-89 days	994,321	(444,198)	550,123	44.67%
Overdue 90-179 days	1,134,733	(759,734)	374,999	66.95%
Overdue 180-360 days	1,865,365	(1,521,735)	343,630	81.58%
Total consumer loans	**41,724,042**	**(3,203,795)**	**38,520,247**	**7.68%**
Credit cards				
Not past due	2,693,019	(23,373)	2,669,646	0.87%
Overdue less than 30 days	236,175	(36,507)	199,668	15.46%
Overdue 30-89 days	177,326	(91,287)	86,039	51.48%
Overdue 90-179 days	173,287	(126,847)	46,440	73.20%
Overdue 180-360 days	252,738	(211,970)	40,768	83.87%
Total credit cards	**3,532,545**	**(489,984)**	**3,042,561**	**13.87%**
Mortgage loans				
Not past due	199,390	(1,993)	197,397	1.00%
Overdue less than 30 days	7,049	(352)	6,697	4.99%
Overdue 30-89 days	3,113	(311)	2,802	9.99%
Overdue 90-179 days	134	(27)	107	20.15%
Overdue 180-360 days	7,850	(2,352)	5,498	29.96%
Overdue more than 360 days	5,570	(2,785)	2,785	50.00%
Total mortgage loans	**223,106**	**(7,820)**	**215,286**	**3.51%**
Car loans				
Not past due	383	(4)	379	1.04%
Overdue 30-89 days	39	(16)	23	41.03%
Overdue 90-179 days	170	(102)	68	60.00%
Overdue 180-360 days	3,635	(3,635)	–	100.00%
Total car loans	**4,227**	**(3,757)**	**470**	**88.88%**
Other loans to individuals				
Not past due	117,573	(2,151)	115,422	1.83%
Overdue less than 30 days	24,863	(1,220)	23,643	4.91%
Overdue 30-89 days	368	(37)	331	10.05%
Overdue 90-179 days	1,038	(311)	727	29.96%
Overdue 180-360 days	10,423	(5,237)	5,186	50.24%
Overdue more than 360 days	590	(590)	–	100.00%
Total other loans to individuals	**154,855**	**(9,546)**	**145,309**	**6.16%**
Total loans to individuals	**45,638,775**	**(3,714,902)**	**41,923,873**	**8.14%**

(In thousands of Russian Rubles, unless otherwise indicated)

33. Risk management (continued)

Credit quality of loans to individuals (continued)

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

	Gross loans RUR'000	*Allowance for impairment RUR'000*	*Net loans RUR'000*	*Impairment to gross loans, %*
Consumer loans				
Not past due	21,000,320	(85,728)	20,914,592	0.41%
Overdue less than 30 days	666,272	(46,568)	619,704	6.99%
Overdue 30-89 days	353,670	(117,709)	235,961	33.28%
Overdue 90-179 days	344,699	(184,043)	160,656	53.39%
Overdue 180-360 days	486,431	(397,084)	89,347	81.63%
Total consumer loans	**22,851,392**	**(831,132)**	**22,020,260**	**3.64%**
Credit cards				
Not past due	762,163	(3,458)	758,705	0.45%
Overdue less than 30 days	44,967	(4,567)	40,400	10.16%
Overdue 30-89 days	19,058	(7,465)	11,593	39.17%
Overdue 90-179 days	1,785	(1,051)	734	58.88%
Total credit cards	**827,973**	**(16,541)**	**811,432**	**2.00%**
Mortgage loans				
Not past due	367,122	(3,660)	363,462	1.00%
Overdue less than 30 days	21,649	(1,082)	20,567	5.00%
Overdue 30-89 days	4,381	(435)	3,946	9.93%
Overdue 90-179 days	5,610	(1,122)	4,488	20.00%
Overdue 180-360 days	13,541	(4,056)	9,485	29.95%
Overdue more than 360 days	12,983	(6,490)	6,493	49.99%
Total mortgage loans	**425,286**	**(16,845)**	**408,441**	**3.96%**
Car loans				
Not past due	10,745	(107)	10,638	1.00%
Overdue less than 30 days	2,775	(416)	2,359	14.99%
Overdue 30-89 days	798	(319)	479	39.97%
Overdue 90-179 days	978	(587)	391	60.02%
Overdue 180-360 days	8,222	(8,222)	–	100.00%
Total car loans	**23,518**	**(9,651)**	**13,867**	**41.03%**
Other loans to individuals				
Not past due	47,620	(1,665)	45,955	3.50%
Overdue less than 30 days	1,154	(115)	1,039	9.97%
Overdue 30-89 days	188	(75)	113	39.89%
Overdue 90-179 days	472	(283)	189	59.96%
Overdue 180-360 days	1,092	(874)	218	80.04%
Total other loans to individuals	**50,526**	**(3,012)**	**47,514**	**5.96%**
Total loans to individuals	**24,178,695**	**(877,181)**	**23,301,514**	**3.63%**

(In thousands of Russian Rubles, unless otherwise indicated)

33. Risk management (continued)

Credit quality of loans to corporate entities

The following table provides information on the credit quality of the loans to legal entities and finance lease receivables as of 31 December 2012:

	Gross loans RUR'000	*Impairment RUR'000*	*Net loans RUR'000*	*Impairment to gross loans %*
Loans to legal entities and finance lease receivables				
Unimpaired loans and finance lease receivables	**6,946,361**	**(82,080)**	**6,864,281**	**1.18%**
Impaired loans and finance lease receivables:				
Overdue less than 90 days	485,859	(72,300)	413,559	14.88%
Overdue more than 90 days and less than 1 year	89,614	(46,456)	43,158	51.84%
Overdue more than 1 year	234,711	(198,844)	35,867	84.72%
Total impaired loans and finance lease receivables	**810,184**	**(317,600)**	**492,584**	**39.20%**
Individual impairment	353,019	(222,860)	130,159	63.13%
Collective impairment	457,165	(94,740)	362,425	20.72%
Total loans to legal entities and finance lease receivables	**7,756,545**	**(399,680)**	**7,356,865**	**5.15%**

The majority of loans to legal entities are represented by loans issued to small and medium size companies.

The following table provides information on the credit quality of the loans to legal entities and finance lease receivables as of 31 December 2011:

	Gross loans RUR'000	*Impairment RUR'000*	*Net loans RUR'000*	*Impairment to gross loans %*
Loans to legal entities and finance lease receivables				
Unimpaired loans and finance lease receivables	**10,813,289**	**(178,868)**	**10,634,421**	**1.65%**
Impaired loans and finance lease receivables:				
Overdue less than 90 days	419,865	(144,481)	275,384	34.41%
Overdue more than 90 days and less than 1 year	515,658	(92,388)	423,270	17.92%
Overdue more than 1 year	262,589	(114,242)	148,347	43.51%
Total impaired loans and finance lease receivables	**1,198,112**	**(351,111)**	**847,001**	**29.31%**
Individual impairment	961,662	(299,507)	662,155	31.14%
Collective impairment	236,450	(51,604)	184,846	21.82%
Total loans to legal entities and finance lease receivables	**12,011,401**	**(529,979)**	**11,481,422**	**4.41%**

Impairment assessment

Collectively assessed allowances

Allowances are assessed collectively for losses on loans to customers that are not individually significant (including car loans, mortgage loans, consumer loans, and loans to corporate entities and finance lease receivables) 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 Group has estimated loan impairment for loans to individuals based on its past historical loss experience and in some cases peer group experience for comparable loan groups. The Group estimated loan impairment for loans to legal entities based on an analysis of the future cash flows for impaired loans and based on its past loss experience for portfolios of loans for which no indications of impairment has been identified.

(In thousands of Russian Rubles, unless otherwise indicated)

33. Risk management (continued)

Credit quality of loans to corporate entities (continued)

Loan impairment results from one or more events that occurred after the initial recognition of the loan and that have an impact on the estimated future cash flows associated with the loan, and which can be reliably estimated.

The objective indicators of loan impairment include the following:

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

Individually assessed allowances

The Group determines the allowances appropriate for each individually significant loan or advance 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 payout should bankruptcy occur, 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.

Liquidity risk

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

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

The Group seeks to actively support a diversified and stable funding base comprising longterm and shortterm loans from other banks, core corporate and retail customer deposits, accompanied by diversified portfolios of highly liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The liquidity management policy of the Group requires:

- ► projecting cash flows by major currencies and considering the level of liquid assets necessary in relation thereto;
- ► maintaining a diverse range of funding sources;
- ► managing the concentration and profile of debts;
- ► maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any interruption to cash flow;
- ► maintaining liquidity and funding contingency plans;
- ► monitoring balance sheet liquidity ratios against regulatory requirements.

The Treasury Department receives information from business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. The Treasury Department then provides for an adequate portfolio of shortterm liquid assets to be maintained, largely made up of shortterm liquid trading securities, loans to banks and other interbank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole.

The daily liquidity position is monitored and regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions is performed by the Treasury Department. Decisions on the Group's liquidity management are made by the Asset and Liability Management Committee and implemented by the Treasury Department.

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

(In thousands of Russian Rubles, unless otherwise indicated)

33. Risk management (continued)

Liquidity risk (continued)

The following tables show the undiscounted cash flows on the Group's financial liabilities, guarantees and unrecognized loan commitments on the basis of their earliest possible contractual maturity. The total gross inflow and outflow disclosed in the table is the contractual, undiscounted cash flow on the financial asset, liability or commitment. The Group's expected cash flows on these financial liabilities and unrecognized loan commitments may vary significantly from this analysis:

Financial liabilities As of 31 December 2012	***Demand and less than 1 month***	***From 1 to 3 months***	***From 3 months to 1 year***	***From 1 to 5 years***	***More than 5 years***	***Total gross amount outflow***	***Carrying amount***
Amounts due to the CBR	17,458,212	–	538,760	–	–	**17,996,972**	17,934,364
Deposits and balances from banks	224,066	54,578	339,343	202,821	–	**820,808**	768,557
Current accounts and deposits from customers	9,052,411	3,702,300	8,642,992	51,021,301	39	**72,419,043**	62,625,466
Promissory notes	–	161,530	1,155,043	586,571	23,247	**1,926,391**	1,753,040
Subordinated debt	22,805	525,275	84,679	565,819	1,592,478	**2,791,056**	1,828,499
Other liabilities	77,719	746,414	–	–	–	**824,133**	824,133
Total financial liabilities	**26,835,213**	**5,190,097**	**10,760,817**	**52,376,512**	**1,615,764**	**96,778,403**	**85,734,059**
Credit related commitments	**1,596,939**	**565,663**	**764,075**	**757,801**	**–**	**3,684,478**	**3,684,478**

Financial liabilities As of 31 December 2011	***Demand and less than 1 month***	***From 1 to 3 months***	***From 3 months to 1 year***	***From 1 to 5 years***	***More than 5 years***	***Total gross amount outflow***	***Carrying amount***
Amounts due to the CBR	3,060,517	–	–	–	–	**3,060,517**	3,055,507
Deposits and balances from banks	998,159	11,992	98,077	161,084	–	**1,269,312**	1,242,465
Current accounts and deposits from customers	9,517,261	4,830,755	6,222,981	27,313,046	–	**47,884,043**	42,618,037
Promissory notes	176,432	107,701	784,988	800,114	3,000	**1,872,235**	1,647,496
Subordinated debt	11,408	6,372	28,675	152,931	873,334	**1,072,720**	868,567
Other liabilities	59,815	439,142	–	–	–	**498,957**	498,957
Total financial liabilities	**13,823,592**	**5,395,962**	**7,134,721**	**28,427,175**	**876,334**	**55,657,784**	**49,931,029**
Credit related commitments	**450,353**	**492,706**	**823,147**	**697,979**	–	**2,464,186**	**2,464,185**

(In thousands of Russian Rubles, unless otherwise indicated)

33. Risk management (continued)

Liquidity risk (continued)

The following table shows monetary assets and liabilities by remaining contractual maturity dates as of 31 December 2012:

	Less than 1 month RUR'000	*1 to 3 months RUR'000*	*3 months to 1 year RUR'000*	*Subtotal Less than 1 year RUR'000*	*1 to 5 years RUR'000*	*More than 5 years RUR'000*	*Subtotal More than 1 year RUR'000*	*No maturity and overdue RUR'000*	*Total RUR'000*
Assets									
Cash and cash equivalents	9,426,033	–	–	9,426,033	–	–	–	–	**9,426,033**
Mandatory cash balances with the Central Bank of the Russian Federation	776,562	–	–	776,562	–	–	–	–	**776,562**
Placements with banks and other financial institutions	1,728	3,283	10 826	15,837	286	–	286	333	**16,456**
Financial instruments at fair value through profit or loss									
Held by the Group	9,502,650	–	–	9,502,650	–	–	–	–	**9,502,650**
Pledged under sale and repurchase agreements	21,297,296	–	–	21,297,296	–	–	–	–	**21,297,296**
Loans to customers	2,562,878	3,890,454	14,545,977	20,999,309	26,495 143	131,592	26,626,735	1,654,694	**49,280,738**
Investment in associates	–	–	–	–	–	–	–	5,880	**5,880**
Other assets	274,716	54,626	166,710	496,052	78,662	–	78,662	–	**574,714**
Total assets	**43,841,863**	**3,948,363**	**14,723,513**	**62,513,739**	**26,574,091**	**131,592**	**26,705,683**	**1,660,907**	**90,880,329**
Liabilities									
Amounts due to the CBR	17,433,124	–	501,240	17,934,364	–	–	–	–	**17,934,364**
Deposits and balances from banks	221,575	47,336	310,226	579,137	189,420	–	189,420	–	**768,557**
Current accounts and deposits from customers	9,041,456	3,657,951	8,244,290	20,943,697	41,681,731	38	41,681,769	–	**62,625,466**
Promissory notes	–	160,415	1,091,602	1,252,017	487,944	13,079	501,023	–	**1,753,040**
Subordinated debt	–	489,419	–	489,419	–	1,339,080	1,339,080	–	**1,828,499**
Other liabilities	77,719	746,414	–	824,133	–	–	–	–	**824,133**
Total liabilities	**26,773,874**	**5,101,535**	**10,147,358**	**42,022,767**	**42,359,095**	**1,352,197**	**43,711,292**	**–**	**85,734,059**
Net position as of 31 December 2012	**17,067,989**	**(1,153,172)**	**4,576,155**	**20,490,972**	**(15,785,004)**	**(1,220,605)**	**(17,005,609)**	**1,660,907**	**5,146,270**
Cumulative gap as of 31 December 2012	**17,067,989**	**15,914,817**	**20,490,972**	**20,490,972**	**4,705,968**	**3,485,363**	**3,485,363**	**5,146,270**	
Credit related commitments	**–**	**2,162,602**	**764,075**	**2,926,677**	**757,801**	**–**	**757,801**	**–**	**3,684,478**

(In thousands of Russian Rubles, unless otherwise indicated)

33. Risk management (continued)

Liquidity risk (continued)

The following table shows monetary assets and liabilities by remaining contractual maturity dates as of 31 December 2011:

	Less than 1 month RUR'000	*1 to 3 months RUR'000*	*3 months to 1 year RUR'000*	*Subtotal Less than 1 year RUR'000*	*1 to 5 years RUR'000*	*More than 5 years RUR'000*	*Subtotal More than 1 year RUR'000*	*No maturity and overdue RUR'000*	*Total RUR'000*
Assets									
Cash and cash equivalents	4,338,044	–	–	4,338,044	–	–	–	–	**4,338,044**
Mandatory cash balances with the Central Bank of the Russian Federation	523,088	–	–	523,088	–	–	–	–	**523,088**
Placements with banks	4,602	8,498	34,786	47,886	27,128	–	27,128	–	**75,014**
Financial instruments at fair value through profit or loss									
Held by the Group	9,954,669	–	–	9,954,669	–	–	–	–	**9,954,669**
Pledged under sale and repurchase agreements	4,392,817	–	–	4,392,817	–	–	–	–	**4,392,817**
Loans to customers	1,943,776	3,430,604	13,024,879	18,399,259	15,199,226	167,927	15,367,153	1,016,524	**34,782,936**
Investment in associates	–	–	–			–		5,880	**5,880**
Other assets	419,591	13,699	51,693	484,983	24,795	–	24,795		**509,778**
Total assets	**21,576,587**	**3,452,801**	**13,111,358**	**38,140,746**	**15,251,149**	**167,927**	**15,419,076**	**1,022,404**	**54,582,226**
Liabilities									
Amounts due to the CBR	3,055,507	–	–	3,055,507	–	–	–	–	**3,055,507**
Deposits and balances from banks	996,780	11,470	90,726	1,098,976	143,489	–	143,489	–	**1,242,465**
Current accounts and deposits from customers	9,500,374	4,732,644	5,911,494	20,144,512	22,473,525	–	22,473,525	–	**42,618,037**
Promissory notes	175,433	106,295	734,321	1,016,049	629,941	1,506	631,447	–	**1,647,496**
Subordinated debt	–	–	–	–	–	868,567	868,567	–	**868,567**
Other liabilities	59,815	439,142	–	498,957	–	–	–	–	**498,957**
Total liabilities	**13,787,909**	**5,289,551**	**6,736,541**	**25,814,001**	**23,246,955**	**870,073**	**24,117,028**	**–**	**49,931,029**
Net position as of 31 December 2011	**7,788,678**	**(1,836,750)**	**6,374,817**	**12,326,745**	**(7,995,806)**	**(702,146)**	**(8,697,952)**	**1,022,404**	**4,651,197**
Cumulative gap as of 31 December 2011	**7,788,678**	**5,951,928**	**12,326,745**	**12,326,745**	**4,330,939**	**3,628,793**	**3,628,793**	**4,651,197**	**–**
Credit related commitments	**450,353**	**492,706**	**823,147**	**1,766,207**	**697,979**	**–**	**697,979**	**–**	**2,464,185**

The amounts in the tables above represent carrying amounts of the assets and liabilities as of the reporting date and do not include future interest payments.

The above table shows assets and liabilities of the Group by their remaining contractual maturity as of 31 December 2012 and 31 December 2011, with the exception of securities included into financial instruments at fair value through profit or loss as of 31 December 2012 and 31 December 2011. As of 31 December 2012 and 31 December 2011 securities included into financial instruments at fair value through profit or loss are shown in the category "Less than 1 month", because as of that date the Group's management believed that all of these financial instruments could be sold within one month in the normal course of business or were able to be used as collateral for loans from the CBR.

In accordance with Russian legislation, term deposits of individuals may be withdrawn before maturity. However Management believes that in spite of this early withdrawal option and the fact that a substantial portion of customer accounts are on demand, diversification of these customer accounts and deposits by number and type of depositors, and the past experience of the Group indicates that these customer accounts provide a long-term and stable source of funding for the Group.

The Group has undrawn lines of credit with the CBR. Accordingly, the Group in its liquidity forecasts estimates that the liquidity gaps in the table below will be sufficiently covered by the continued retention of current accounts and deposits from customers, as well as the undrawn credit line facilities from the CBR.

(In thousands of Russian Rubles, unless otherwise indicated)

34. Related party transactions

For the purposes of these consolidated financial statements, 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 as defined by International Financial Reporting Standard IAS 24 *Related Party Disclosures*. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Total remuneration included in employee compensation (refer Note 12):

	2012 RUR'000	*2011 RUR'000*
Members of the Board of Directors	23,304	96,523
Management Board	46,279	48,832
	69,583	**145,355**

The outstanding balances as of 31 December 2012 with related parties are as follows:

	Participants of Parent Group RUR'000	*Key management personnel RUR'000*	*Other related parties RUR'000*	*Total RUR'000*
Loans outstanding as of 1 January, gross	**500,057**	**61,791**	**400,222**	**962,070**
Loans issued during the year	–	107,491	449,410	**556,901**
Loan repayments during the year	(500,057)	(72,798)	(240,680)	**(813,535)**
Other movements	–	(29)	(227,814)	**(227,843)**
Loans outstanding as of 31 December, gross	–	**96,455**	**381,138**	**477,593**
Less: allowance for impairment as of 31 December	–	(1,199)	(5,402)	**(6,601)**
Loans outstanding as of 31 December, net	–	**95,256**	**375,736**	**470,992**
Deposits as of 1 January	316,894	45,239	247,019	**609,152**
Deposits received during the year	1,229,884	74,595	28,656	**1,333,135**
Deposits repaid during the year	(1,491,644)	(41,449)	(223,665)	**(1,756,758)**
Other movements	(37,985)	(1,919)	82,633	**42,729**
Deposits as of 31 December	**17,149**	**76,466**	**134,643**	**228,258**
Current accounts as of 31 December	**518**	**26,295**	**51,709**	**78,522**
Subordinated debt as of 31 December	**1,014,360**	–	–	**1,014,360**
Guarantees received	–	36,648	1,935,577	**1,972,225**

The outstanding balances as of 31 December 2011 with related parties are as follows:

	Participants of Parent Group RUR'000	*Key management personnel RUR'000*	*Other related parties RUR'000*	*Total RUR'000*
Loans outstanding as of 1 January, gross	**483,997**	**63,897**	**64,020**	**611,914**
Loans issued during the year	786,096	280,476	607,515	**1,674,087**
Loan repayments during the year	(770,036)	(290,698)	(462,471)	**(1,523,205)**
Other movements	–	8,116	191,158	**199,274**
Loans outstanding as of 31 December, gross	**500,057**	**61,791**	**400,222**	**962,070**
Less: allowance for impairment as of 31 December	–	(1,490)	(3,061)	**(4,551)**
Loans outstanding as of 31 December, net	**500,057**	**60,301**	**397,161**	**957,519**
Deposits as of 1 January	**288,365**	**9,777**	**210,780**	**508,922**
Deposits received during the year	557,976	40,071	7,045	**605,092**
Deposits repaid during the year	(585,114)	(5,993)	–	**(591,107)**
Other movements	55,667	1,384	29,194	**86,245**
Deposits as of 31 December	**316,894**	**45,239**	**247,019**	**609,152**
Current accounts as of 31 December	**136**	**12,363**	**27,719**	**40,218**
Guarantees received	–	659,612	2,433,024	**3,092,636**

(In thousands of Russian Rubles, unless otherwise indicated)

34. Related party transactions (continued)

In April and May 2012 the Group sold a controlling stake in one of it's subsidiaries to a related party and bought non-controlling stake in non-related entity from a third party for a cash consideration of RUR 307,653 thousand. Under the call option agreement concluded with the same related party just after the sale-purchase the Group is able to buy back the stake in sold subsidiary at any time for the consideration of non-controlling stake in other entity.

In August 2012 the Group amended the call option with a related party according to which the Bank obtained the right to require the related party to sell controlling stake in subsidiary with the nominal value of RUR 307,654 thousand for one Euro (1 EUR) to the Bank.

As a result of these transactions, the Group retained control over it's subsidiary and continued it's consolidation. Refer to Note 3.

Amounts included in the consolidated income statement for 2012 in relation to transactions with the related parties are as follows:

	Participants RUR'000	*Key management personnel RUR'000*	*Other RUR'000*	*Total RUR'000*
Interest income	24,818	9,605	86,531	**120,954**
Interest expense on deposits	(23,224)	(4,402)	(38,629)	**(66,255)**
Interest expense on subordinated debt	(48,924)	–	–	**(48,924)**
Provision for loans impairment	–	291	(2,341)	**(2,050)**
Fee and commission income	94	702	563	**1,359**
Other income	4,533	–	1,868	**6,401**
General administrative expenses	(6,464)	(919)	(2,559)	**(9,942)**

Amounts included in the consolidated income statement for 2011 in relation to transactions with the related parties are as follows:

	Participants RUR'000	*Key management personnel RUR'000*	*Other RUR'000*	*Total RUR'000*
Interest income	35,695	4,703	44,511	**84,909**
Interest expense on deposits	(30,922)	(2,379)	(15,102)	**(48,403)**
Provision for loans impairment	–	(1,290)	(2,293)	**(3,583)**
Fee and commission income	46	752	426	**1,224**
Other income	–	1	56	**57**
General administrative expenses	(3,077)	(185)	–	**(3,262)**

35. Fair value of financial instruments

The following disclosure of the estimated fair value of financial instruments is made in accordance with the requirements of IFRS 7 *Financial Instruments: Disclosures*. Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction other than in forced sale or liquidation. As no readily available market exists for a large part of the Group's financial instruments (specifically extended loans) at which such financial assets would be traded on a regular basis, judgment is necessary in arriving at fair value based on current economic conditions and the specific risks attributable to a given instrument. The estimates presented herein are not necessarily indicative of the amounts the Group could realize in a market exchange from the sale of its full holdings of a particular instrument.

The Group 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; and
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

(In thousands of Russian Rubles, unless otherwise indicated)

35. Fair value of financial instruments (continued)

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

As of 31 December 2012	*Level 1*	*Level 2*	*Level 3*	*Total*
Financial assets				
Financial instruments at fair value through profit or loss	28,552,242	2,247,704	–	**30,799,946**
	28,552,242	**2,247,704**	**–**	**30,799,946**

As of 31 December 2011	*Level 1*	*Level 2*	*Level 3*	*Total*
Financial assets				
Financial instruments at fair value through profit or loss	12,068,376	2,195,490	83,620	**14,347,486**
	12,068,376	**2,195,490**	**83,620**	**14,347,486**

Financial instruments recorded at fair value

The following is a description of the determination of fair value for financial instruments which are recorded at fair value using valuation techniques. These incorporate the Bank's estimate of assumptions that a market participant would make when valuing the instruments.

Financial assets at fair value through profit or loss

Trading securities 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 nonobservable 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.

Movements in level 3 financial instruments measured at fair value

The following tables show a reconciliation of the opening and closing amount of Level 3 financial assets which are recorded at fair value:

	As of 1 January 2012	*Total gain/(loss) recorded in profit or loss*	*Total gains/ (losses) recorded in other comprehensive income*	*Business combination*	*Purchases*	*Sales*	*Settlements*	*Transfers to level 2*	*As of 31 December 2012*
Financial assets									
Financial instruments at fair value through profit or loss	83,620	5,258	–	–	–	(88,878)	–	–	–
Total level 3 financial assets	**83,620**	**5,258**	**–**	**–**	**–**	**(88,878)**	**–**	**–**	**–**

During the year ended 31 December 2012 and 31 December 2011, the Group had no transfers of financial instruments from level 1 and level 2 to level 3 of the fair value hierarchy.

During the year ended 31 December 2011, the Group transferred certain financial instruments from level 3 to level 2 of the fair value hierarchy. The carrying amount of the total assets transferred was RUB 305,127 thousand. The cumulative unrealised loss at the time of transfer was RUB 29,731 thousand. The securities were transferred from level 3 to level 2 based on occurrence of recent arm's length transactions with these securities which were used to estimate their fair value.

(In thousands of Russian Rubles, unless otherwise indicated)

35. Fair value of financial instruments (continued)

Financial assets at fair value through profit or loss (continued)

Fair value of financial assets and liabilities not carried at fair value

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

	2012 RUR'000 Carrying value	*2012 RUR'000 Fair value*	*2012 RUR'000 Unrecognised gain/(loss)*	*2011 RUR'000 Carrying value*	*2011 RUR'000 Fair value*	*2011 RUR'000 Unrecognised gain/(loss)*
Assets						
Cash and cash equivalents	9,426,033	9,426,033	–	4,338,044	4,338,044	–
Mandatory reserves with the Central Bank of the Russian Federation	776,562	776,562	–	523,088	523,088	–
Placements with banks and other financial institutions	16,456	16,456	–	75,014	75,014	–
Loans to customers	49,280,738	49,489,092	208,354	34,782,936	35,183,551	400,615
Other assets	574,714	574,714	–	509,778	509,778	–
Liabilities						
Amounts due to the CBR	17,934,364	17,934,364	–	3,055,507	3,055,507	–
Deposits and balances from banks	768,557	768,557	–	1,242,465	1,242,465	–
Current accounts and deposits from customers	62,625,466	61,874,451	751,015	42,618,037	42,558,959	59,078
Promissory notes	1,753,040	1,753,040	–	1,647,496	1,647,496	–
Subordinated debt	1,828,499	1,828,499	–	868,567	868,567	–
Other liabilities	824,133	824,133	–	498,957	498,957	–
			959,369			**459,693**

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.

The following methods and assumptions are used by the Group to estimate the fair value of these financial instruments:

Cash and accounts with the Central Bank of Russia

The carrying value of cash and accounts with the CBR approximates their fair value due to relatively shortterm maturity of these financial instruments.

Amounts due from and to credit institutions

For financial assets and financial liabilities that are liquid or having a short term maturity (less than three month) it is assumed that the carrying amounts approximate to their fair value.

Loans and advances to customers

The estimate was made by discounting of scheduled future cash flows of the individual loans through the estimated maturity using prevailing market rates as of the respective year end.

Debt securities issued

Fair value of debt securities issued is assed based on the available market quotes of bonds issued at the year end.

Due to customers

The estimate was made by discounting of scheduled future cash flows of the term deposits through the estimated maturity using prevailing market rates as of the respective year end.

(In thousands of Russian Rubles, unless otherwise indicated)

36. Events subsequent to the balance sheet date

On 20 February 2013 the Group repaid prior to maturity one subordinated loan amounted to USD 16,000 thousand, borrowed from Sovco Capital Partners B. V.

37. Business combination and disposal of subsidiaries

Disposal of "ARKA" Group

During 2010 LLC ARKA, subsidiary of SovcomBank made the decision to decrease its charter capital without dilution of participants' shares and SovcomBank received buildings in the amount of RUR 307,275 thousand as exchange of investments in LLC ARKA in respect of this decision.

In April 2010 the Group announced its withdrawal from participation in LLC "ARKA". At the same time the Bank possessed an option to purchase 100% of LLC "ARKA", so the Group retained control of the Company and consolidated the company as of 31 December 2010. At 30 September 2011 the Group signed additional agreement confirming their intention not to use its option, thus the Group lost its control and deconsolidated the Company as of 31 December 2011.

LLC ARKA had the following assets and liabilities at the date of disposal:

	Carrying amount at date of disposal RUR'000
Assets	
Cash and cash equivalents	7,406
Other assets	6,256
Total assets	**13,662**
Liabilities	
Other liabilities	9,902
Total liabilities	**9,902**
Net identifiable assets and liabilities	**3,760**

	Consideration received RUR'000	*Cash outflow RUR'000*
Cash and cash equivalents	–	(7,406)
Total assets	**–**	**(7,406)**

38. Goodwill

Goodwill acquired through business combinations with indefinite lives have been allocated to two individual cash-generating units for impairment testing as follows:

- Retail Banking; and
- Retail Leasing.

The carrying amount and movements of goodwill allocated to each of the cash-generating units is as follows:

	Retail banking RUR'000	*Retail leasing RUR'000*	*Total RUR'000*
Goodwill as of 31 December 2011	407,478	43,109	**450,587**
Impairment	(61,536)	–	(61,536)
Goodwill as of 31 December 2012	**345,942**	**43,109**	**389,051**

Management performed an impairment assessment in respect of the goodwill and concluded there was an impairment in the amount of RUR 61,536 thousand. A value in use assessment was performed by management to assess for impairment. Projected cash flows are based on management approved budgets over an eighteen months period and a 16% discount rate is used.

(In thousands of Russian Rubles, unless otherwise indicated)

39. Capital adequacy

The Group maintains and actively manages capital base to cover risks inherent in the business. The adequacy of the Group'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 Group.

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

In accordance with the Basel Capital Accord 1988 regulatory capital consist of Tier 1 capital, which comprises charter capital, retained earnings, including current year profit, less goodwill. The other component of regulatory capital is Tier 2 capital, which includes subordinated long term debt.

The Group 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 Group may adjust the amount of distributions to participants, return capital to participants. 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 of 31 December 2012 and 31 December 2011, the Bank's capital adequacy ratio on this basis was as follows:

	2012	***2011***
Main capital	6,229,610	3,485,458
Additional capital	2,962,224	2,598,913
Total capital	**9,191,834**	**6,084,371**
Risk weighted assets	**80,310,992**	**52,109,617**
Capital adequacy ratio	11.4%	11.7%

Capital adequacy ratio under Basel Capital Accord 1988

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

	2012	***2011***
Tier 1 capital	8,815,439	6,722,898
Tier 2 capital	1,828,499	868,567
Total capital	10,643,938	7,591,465
Risk weighted assets	**65,999,598**	**42,482,702**
Tier 1 capital ratio	13.4%	15.8%
Total capital ratio	16.1%	17.9%

40. Principal consolidated subsidiaries

Included in the table below is the list of the principal consolidated subsidiaries and joint ventures of the Group as of 31 December 2012 and 31 December 2011:

		Voting rights	
	Relationship	***2012***	***2011***
LLC "Leasing Company Razvitie"	Subsidiary	100.00%	100.00%
LLC "Regionalnaya Lisingovaya Compania"	Subsidiary	100.00%	100.00%
LLC "BKA"	Subsidiary	100.00%	100.00%
LLC "Investicii v nedvizhimost"	Subsidiary	100.00%	100.00%
LLC "Sollers-Finance"	Joint venture	50.00%	50.00%
LLC "Avtozaim"	Special purpose entity	100.00%	100.00%
OJSC "Kostromskoy ipotechniy operator"	Associate	49.00%	49.00%