Absolut Bank Group
Consolidated financial statements

Year ended 31 December 2012
Together with independent auditors' report

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Independent auditor's report

To the Shareholders and Board of Directors of Absolut Bank

We have audited the accompanying consolidated financial statements of Absolut Bank and its subsidiaries (together the "Group"), which comprise the consolidated statement of financial position as at 31 December 2012, and the consolidated statement of comprehensive income, consolidated statement of changes in equity 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 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.

Ernst & Young

Opinion

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

Important facts

Without qualifying our opinion, we draw attention to Notes 1 and 32 to the consolidated financial statements which describe the significance of Group's financing provided by its parent.

Sergei Taskaev
Partner
Ernst & Young LLC

27 February 2013

Details of the audited entity

Name: Commercial bank "Absolut Bank" (ZAO)

Information about the State Register of Legal Entities Concerning a Legal Entity (number – 1027700024560; date – 12 July 2002)

Address: Russia 127051, Moscow, Tsvetnoy boulevard, 18.

Details of the auditor

Name: Ernst & Young LLC

Main State Registration Number 1027739707203.

Address: Russia 115035, Moscow, Sadovnicheskaya naberezhnaya, 77, building 1.

Ernst & Young LLC is a member of Non Profit partnership "Russian Audit Chamber" ("NP APR"). Ernst & Young LLC is registered in the register of auditors and audit organizations of NP APR, number 3028, and also included in the control copy of the register of auditors and audit organizations, main registration number 10201017420.

Consolidated statement of financial position

As of 31 December 2012

(Millions of Russian Rubles)

	Notes	31 December 2012	31 December 2011
Assets			
Cash and cash equivalents	7	15 628	18 659
Mandatory cash balances with the Central Bank of the Russian Federation		619	549
Trading securities	8	1 977	1 973
Due from other banks	9	6 376	12 147
Derivative financial assets	10	35	39
Loans to customers	11	68 765	68 866
Investment securities available for sale	12	7 407	5 054
Property and equipment	13	2 690	2 902
Other assets	14	2 967	2 648
Total assets		**106 464**	**112 837**
Liabilities			
Due to other banks	15	26 574	44 340
Derivative financial liabilities	10	43	125
Customer accounts	16	47 309	40 839
Debt securities issued	17	11 554	2 551
Subordinated debt	18	1 928	7 410
Other liabilities	19	1 309	1 013
Total liabilities		**88 717**	**96 278**
Equity			
Share capital	20	2 455	2 455
Share premium	20	14 341	14 341
Retained earnings/(Accumulated deficit)		950	(232)
Revaluation surplus/(deficit) of investment securities available for sale		1	(5)
Total equity		**17 747**	**16 559**
Total equity and liabilities		**106 464**	**112 837**

Approved for issue and signed on behalf of the Management Board on 27 February 2013

Nikolay Sidorov
Chairman of the Board, CEO

Andrey Larkin
Deputy Chairman of the Board, CFO

The accompanying notes from 1 to 33 are an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income

For the year ended 31 December 2012

(Millions of Russian Rubles)

	Notes	*2012*	*2011*
Interest income	22	9 084	9 348
Interest expense	22	(4 868)	(4 438)
Net interest income		**4 216**	**4 910**
Reversal of allowance for loan impairment	11	682	1 685
Net interest income after allowance for loan impairment		**4 898**	**6 595**
Fee and commission income	23	1 020	943
Fee and commission expense	23	(147)	(129)
Net losses from operations with securities	24	(8)	(52)
Net (losses)/gains from operations with derivatives	25	(107)	451
Net gains from trading in foreign currencies		171	293
Net foreign exchange translation differences		335	(678)
Reversal of provision for losses from credit related commitments	19, 21	37	7
Other income	26	56	82
Non-interest income		**1 357**	**917**
Personnel expenses	27	(3 632)	(3 085)
Administrative and other operating expenses	27	(1 873)	(1 881)
Non-interest expense		**(5 505)**	**(4 966)**
Profit before income tax expense		**750**	**2 546**
Income tax benefit/(expense)	28	432	(49)
Profit for the year		**1 182**	**2 497**
Other comprehensive income			
Losses on investment securities available for sale arising during the year		(3)	(8)
Less: Reclassification adjustments for losses included in profit or loss		9	38
Other comprehensive income for the year		**6**	**30**
Total comprehensive income for the year		**1 188**	**2 527**

The accompanying notes from 1 to 33 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

For the year ended 31 December 2012

(Millions of Russian Rubles)

	Share capital	*Share premium*	*Retained earnings/ (accumulated deficit)*	*Revaluation surplus/ (deficit) of investment securities available for sale*	*Total shareholders equity*
31 December 2010	**2 455**	**13 340**	**(2 729)**	**(35)**	**13 031**
Additional paid in capital (Note 20)	–	1 001	–	–	1 001
Total comprehensive income for the year	–	–	2 497	30	2 527
31 December 2011	**2 455**	**14 341**	**(232)**	**(5)**	**16 559**
Total comprehensive income for the year	–	–	1 182	6	1 188
31 December 2012	**2 455**	**14 341**	**950**	**1**	**17 747**

The accompanying notes from 1 to 33 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows

For the year ended 31 December 2012

(Millions of Russian Rubles)

	Notes	*2012*	*2011*
Cash flows from operating activities			
Interest received		8 976	9 455
Interest paid		(4 522)	(5 183)
Fees and commissions received		1 045	922
Fees and commissions paid		(147)	(129)
Losses incurred on operations with securities		(2)	(20)
(Losses incurred) / income received on operations with derivatives		(185)	517
Income received from operations in foreign currencies		255	36
Other operating income received		56	82
Personnel expenses paid		(3 201)	(3 088)
Other operating expenses paid		(1 447)	(1 369)
Income tax paid		(81)	(27)
Cash flows from operating activities before changes in operating assets and liabilities		**747**	**1 196**
Net (increase)/decrease in operating assets			
Mandatory cash balances with the Central Bank of the Russian Federation		(70)	1 224
Trading securities		(4)	(340)
Due from other banks		5 742	(1 269)
Loans to customers		261	4 596
Other assets		141	23
Net increase/(decrease) in operating liabilities			
Due to other banks		(17 076)	(6 030)
Customer accounts		6 320	3 468
Promissory notes issued		837	(712)
Other liabilities		(105)	78
Net cash from operating activities		**(3 207)**	**2 234**
Cash flows from investing activities			
Purchase of investment securities available for sale		(7 113)	(4 844)
Acquisition of software		(168)	(157)
Purchase of property and equipment		(61)	(65)
Purchase (subsequent expenditures) of investment properties		(4)	(78)
Proceeds from sale and redemption of investment securities available for sale		4 771	3 785
Proceeds from sale of investment properties		51	–
Proceeds from sale of property and equipment		3	7
Net cash used in investing activities		**(2 521)**	**(1 352)**
Cash flows from financing activities			
Issue of bonds		7 993	1 800
Repayment of subordinated loans		(5 206)	–
Additional paid in capital		–	1 001
Net cash from financing activities		**2 787**	**2 801**
Effect of exchange rates changes on cash and cash equivalents		(90)	93
Net increase in cash and cash equivalents		**(3 031)**	**3 776**
Cash and cash equivalents, beginning	7	**18 659**	**14 883**
Cash and cash equivalents, ending	7	**15 628**	**18 659**

The accompanying notes from 1 to 33 are an integral part of these consolidated financial statements.

(Millions of Russian Rubles)

1. Principal activities

These consolidated financial statements comprise the accounts of Absolut Bank (the "Bank") and its subsidiaries (together the "Group"). The Bank is the parent company in the Group. The Bank was incorporated and is domiciled in the Russian Federation. The Bank is a joint stock company limited by shares and was set up in accordance with Russian regulations.

The Bank's principal business activity is commercial and retail banking operations within the Russian Federation. The Bank is operating under a full banking license issued by the Central Bank of the Russian Federation ("CBRF") since 1993. The Bank participates in the state deposit insurance scheme, which was introduced by the Federal Law #177-FZ "Deposits of individuals insurance in Russian Federation" dated 23 December 2003.

The Bank has 13 (31 December 2011: 13) branches within the Russian Federation.

The Bank's registered address is: Tsvetnoy boulevard 18, Moscow, 127051, Russian Federation.

As of 31 December, there were the following shareholders of the Bank.

Shareholder	*2012 %*	*2011 %*
KBC Bank NV	99	99
International Finance Corporation (IFC)	1	1
Total	**100**	**100**

KBC Bank NV as a member of KBC Group (hereinafter – "KBC") which owns 99% shares of the Bank.

KBC has developed the strategic plan which was the basis for a restructuring plan as requested by the European Commission. This plan considers subsidiaries in some countries, including Russia, as "non-core", which means that the Bank is subject to divestment. As of 31 December 2012 KBC provided the Bank with the financial support by placing its funds on the Bank's deposit accounts (Refer to Note 15) and providing subordinated loan (Refer to Note 18).

In December 2012, KBC announced that it found a potential buyer for the Bank. As a result, KBC has decided to sell its shares in the Bank to a group of Russian companies, which manage the assets of the Non-State Pension Fund Blagosostoyanie (hereinafter – "Blagosostoyanie"). The transaction is still subject to regulatory approvals. Following the above announcement, Blagosostoyanie has substituted a portion of the Bank's parental funding by funds under its management (Refer to Note 16). The parties also agreed on a schedule in line with which the Bank's parental funding will be fully replaced.

Subsidiaries

As of 31 December 2012 and 2011 the consolidated financial statements include the following major subsidiaries:

Subsidiary	*Ownership, %*	*Country of operation*	*Type of operation*
LLC "Absolut Leasing"	100	Russian Federation	Finance lease
LLC Leasing company "Absolut"	100	Russian Federation	Finance lease

2. Basis of preparation

General

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

The Bank and its subsidiaries are required to maintain its accounting records and prepare financial statements for regulatory purposes in accordance with Russian accounting and banking legislation and related instructions ("RAL"). These consolidated financial statements are based on these RAL accounting records and financial statements, 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. For example, trading and available-for-sale securities, derivative financial instruments have been measured at fair value.

These consolidated financial statements are presented in millions of Russian Rubles ("RUB"), unless otherwise indicated.

(Millions of Russian Rubles)

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 at 31 December 2002 by applying the relevant inflation indices to the historical cost, and that these restated values were used as a basis for accounting in subsequent periods.

3. Summary of accounting policies

Changes in accounting policies

The Group has adopted the following amended IFRS during the year. The principal effects of these changes are as follows:

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*

Subsidiaries

Subsidiaries are those companies and other entities (including special purpose entities) in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies so as to obtain benefits.

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

Initial recognition of financial instruments

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

Date of recognition

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at settlement date, which is the date that the Group delivers a financial asset. All other purchases and sales are recognised on the settlement date with the change in value between the commitment date and settlement date not recognised for assets carried at cost or amortised cost; recognised in profit or loss for trading securities, derivatives and other financial assets at fair value through profit or loss.

Cash and cash equivalents

Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. All short-term placements beyond overnight placements are included in due from other banks. Amounts which relate to funds that are of a restricted nature are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortised cost.

(Millions of Russian Rubles)

3. Summary of accounting policies (continued)

Mandatory cash balances with the Central Bank of the Russian Federation

Mandatory cash balances with the CBRF are carried at amortised cost and represent non-interest bearing mandatory reserve deposits amount of which depends on the level of funds attracted by the credit institution which are not available to finance the Group's day to day operations and hence are not considered as part of cash and cash equivalents.

Trading securities

Trading securities are securities, which are either acquired for generating a profit from short-term fluctuations in price or trader's margin, or are securities included in a portfolio in which a pattern of short-term trading exists. The Group classifies securities into trading securities if it has an intention to sell them within a short period after purchase, i.e. within one to three months. Trading securities are not reclassified out of this category even when the Group's intentions subsequently change, except for rare circumstances (Refer to Note 8).

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

Financial assets held to maturity

A financial asset is classified as being held to maturity if the Group intends and is able to hold the investment to maturity. Only investments with a fixed maturity and fixed or determinable payments will be classified as held to maturity.

The held to maturity category is a typical category for bonds and other interest-bearing securities that fulfil the general requirements to be classified as held to maturity.

At the time of purchase, bonds and other interest-bearing securities are recorded at acquisition cost, including transaction costs and less subscription fees. The acquisition cost of securities purchased within the context of a public or private issue is equal to the issue price less any issue, placing and acquisition fees.

Subsequently, bonds and other interest-bearing securities are measured at amortized cost. The difference between the acquisition value and the redemption value is regarded as interest and is recorded on an accruals basis in the statement of comprehensive income over the remaining term to maturity. This incorporation into the result occurs on the basis of actuarial yield, the starting-point being the effective rate of return on acquisition. Calculation of the actuarial return is based on the acquisition price, the redemption price, accrued interest and the coupons to final maturity.

Loans and receivables

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

Securities classified as loans and receivables are initially measured at fair value, including transaction costs. They are subsequently measured at amortised cost. The difference between the acquisition cost and the redemption value is recognised as interest and recorded in the consolidated statement of comprehensive income on an accruals basis over the remaining term to maturity. It is recognised in the consolidated statement of comprehensive income, based on the effective rate of interest. Individual impairment losses for securities classified as loans and receivables are recognized – according to the same method as is used for amounts receivable as described below in this note – if there is evidence of impairment at reporting date.

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 statement of comprehensive income.

(Millions of Russian Rubles)

3. Summary of accounting policies (continued)

Available for sale financial assets

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

Investment property

Real estate held to earn rentals or for capital appreciation is classified as investment property. Certain properties include a portion that is held to earn rentals or for capital appreciation or operational leasing purposes and another portion that is held for use in the supply of services or for administrative purposes. If the portions cannot be sold separately, the property is investment property only if an insignificant portion is held to be used in the supply of services or for administrative purposes.

Investment property is recognized only when it is probable that future economic benefits associated with the investment property will flow to the enterprise and the cost of the investment property can be measured reliably.

The investment property is measured initially at cost, including transaction costs. Investment property is subsequently measured at cost less any accumulated depreciation and any accumulated impairment losses. It is depreciated according to the straight-line method over the economic life of the investment property concerned (i.e. 3% on a yearly basis for real estate). Depreciable leased assets are depreciated according to the normal depreciation policy for similar assets. Subsequent expenditure relating to investment property that has already been recognized is added to the carrying amount of the investment property when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing investment property, will flow to the enterprise. All other subsequent expenditure should be recognized as an expense in the period in which it is incurred.

Assets classified as held for sale

The Group classifies a non-current asset as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the non-current asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets and its sale must be highly probable.

The sale qualifies as highly probable if the Bank's management is committed to a plan to sell the non-current asset and an active program to locate a buyer and complete the plan must have been initiated. Further, the non-current asset must have been actively marketed for a sale at price that is reasonable in relation to its current fair value and in addition the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification of the non-current asset as held for sale.

The Group measures an asset classified as held for sale at the lower of its carrying amount and fair value less costs to sell. The Group recognises an impairment loss for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell if events or changes in circumstance indicate that their carrying amount may be impaired.

Impairment of financial assets

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

(Millions of Russian Rubles)

3. Summary of accounting policies (continued)

Impairment of financial assets (continued)

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

- any instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems or any other reasonable factors preventing the borrower from effecting a regular payment;
- the borrower experiences a significant financial difficulty as evidenced by borrower's financial information that the Group obtains (overdue interest/principal payments on loans to other banks, unreasonable loan renegotiation requests on the part of the borrower);
- the borrower considers bankruptcy or a financial reorganisation or the Group has information on existence of the facts which may result in the borrower's bankruptcy (effective court rulings, considerable losses, negative cash inflows, force majeure events);
- there is an adverse change in the payment status of the borrower as a result of changes in the national or local economic conditions that impact the borrower (changes in effective legislation that may result in shrinking of the borrower's market or increase tax burden, imposition of discriminating measures in respect of the borrower, or regulatory restriction on margin level);
- the value of collateral significantly decreases as a result of deteriorating market conditions or the borrower has partially/completely lost the collateral uncovered by insurance or insurance company refuses to pay.

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

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

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

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

Uncollectible assets are written off against the related impairment loss provision in the following cases:

- after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. The procedures include those prescribed by the law, arising out of normal course of business or agreements concluded;
- the recovery of the indebtedness is not economically feasible due to its insignificance.

Determination of fair value

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

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

(Millions of Russian Rubles)

3. Summary of accounting policies (continued)

Reclassification of financial assets

If a non-derivative financial asset classified as held for trading is no longer held for the purpose of selling in the near term, it may be reclassified out of the fair value through profit or loss category in one of the following cases:

- a financial asset that would have met the definition of loans and receivables above may be reclassified to loans and receivables category if the Group has the intention and ability to hold it for the foreseeable future or until maturity;
- other financial assets may be reclassified to available for sale or held to maturity categories only in rare circumstances.

Financial assets are reclassified at their fair value on the date of reclassification. Any gain or loss already recognized in profit or loss is not reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortised cost, as applicable (Refer to Note 8).

Promissory notes

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

Property and equipment

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

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

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

If impaired, property and equipment are written down to the higher of their value in use and fair value less costs to sell. The decrease in carrying amount is charged to profit or loss. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

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

Depreciation on other items of premises and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives as follows:

	% per year
Premises	2-3%
Equipment and vehicles	3-33%
Leasehold improvements	over the term of the underlying lease

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

Intangible assets

All of the Group's intangible assets have definite useful life and primarily include capitalised computer software. Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Development costs that are directly associated with identifiable and unique software controlled by the Group are recorded as intangible assets if the inflow of incremental economic benefits exceeding costs is probable.

Capitalised costs include staff costs of the software development team and cost of services received which are incremental to the software development. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred. Capitalised computer software is amortised on a straight line basis over expected useful live.

(Millions of Russian Rubles)

3. Summary of accounting policies (continued)

Repurchase agreements

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

Due to other banks

Amounts due to other banks are recorded when money or other assets are advanced to the Group by counterparty banks. The non-derivative liability is carried at amortised cost.

Customer accounts

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

Debt securities in issue

Debt securities in issue include promissory notes, loan participation or other notes, and bonds issued by the Group. Debt securities are stated at amortised cost. If the Group purchases its own debt securities in issue, they are removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is recorded in the consolidated statement of comprehensive income.

Subordinated debt

Subordinated debt ranks behind all other creditors in case of liquidation. Subordinated debt is carried at amortised cost.

Leases

i. Finance – Group as lessor

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

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

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

ii. Operating – Group as lessee

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

(Millions of Russian Rubles)

3. Summary of accounting policies (continued)

Leases (continued)

iii. 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 statement of comprehensive income 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.

Derecognition of financial assets and liabilities

Financial assets

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

Financial liabilities

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

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

Credit related commitments

The Group enters into credit related commitments, including letters of credit and financial guarantees. Financial guarantees represent irrevocable assurances to make payments in the event that a customer cannot meet its obligations to third parties and carry the same credit risk as loans. Financial guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitment. At each reporting date, the guarantees are measured at the higher of (i) the unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at the reporting date. Fees received are amortised to income on a straight line basis over the life of the guarantee. Management uses best estimates of the expenditures required to settle the obligations arising at the reporting date. The estimates of outcome and financial effect are determined based on experience of similar transactions, supplemented by the judgment of Management.

Taxation

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

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

Deferred income tax is provided using the statement of financial position liability method for temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax balances are measured at tax rates enacted or substantively enacted at the reporting date which are expected to apply to the period when the temporary differences will reverse. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

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.

(Millions of Russian Rubles)

3. Summary of accounting policies (continued)

Retirement and other employee benefit obligations

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

Share capital and share premium

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. Any excess of the fair value of consideration received over the par value of shares issued is recognised as share premium in equity. Contributions paid by the shareholders as the additional paid in capital are recognized as share premium in equity.

Fiduciary assets

Assets held by the Group in its own name, but on the account of third parties, are not reported on the consolidated statement of financial position. For the purpose of disclosure fiduciary activities do not encompass safe custody functions. Commissions received from fiduciary activities are shown in fee and commission income.

Segment reporting

The Group's segmental reporting is based on the following operating segments: Retail banking, Corporate banking and Financial markets.

Recognition of income and expenses

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

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for considering loan applications, opening and servicing loan account, valuation and processing transaction documents. The Group does not designate loan commitments as financial liabilities at fair value through profit or loss.

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

All other fees, commissions and other income and expense items are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

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

Foreign currency translation

The functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. The Bank's and the subsidiaries' functional currency and the Group's presentation currency is the national currency of the Russian Federation, Russian Rubles.

Monetary assets and liabilities are translated into each entity's functional currency at the official exchange rate of the CBRF at the respective reporting dates. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities into each entity's functional currency at year-end official exchange rates of the CBRF are recognised in profit or loss. Translation at year-end rates does not apply to non-monetary items, including equity investments. Effects of exchange rate changes on the fair value of equity securities are recorded as part of the fair value gain or loss.

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

(Millions of Russian Rubles)

3. Summary of accounting policies (continued)

Future changes in accounting policies

Standards and interpretations issued but not yet effective

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

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.

(Millions of Russian Rubles)

3. Summary of accounting policies (continued)

Future changes in accounting policies (continued)

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 ot 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.

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.

- *IAS 1 Presentation of Financial Statements*: This improvement clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative information is the previous period.
- *IAS 16 Property Plant and Equipment*: This improvement clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.
- *IAS 32 Financial Instruments, Presentation*: This improvement clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 *Income Taxes*.
- *IAS 34 Interim Financial Reporting*: The amendment aligns the disclosure requirements for total segment assets with total segment liabilities in interim financial statements. This clarification also ensures that interim disclosures are aligned with annual disclosures.

4. Significant accounting judgements and estimates

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

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.

Impairment losses on loans and advances

The Group regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in the statement of comprehensive income, the Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The Group uses its experienced judgment to adjust observable data for a group of loans or receivables to reflect current circumstances.

(Millions of Russian Rubles)

4. Significant accounting judgements and estimates (continued)

Segment reporting

The Group does not allocate its premises, equipment and software balances as well as capital expenditure between the operating segments. The Group provides services for the retail and corporate customers within the same premises and the Group believes that currently there is no reasonable basis for allocation of premises, equipment, software as well as capital expenditure.

5. Changes in presentation

Certain reclassifications have been made to the financial statements as at 31 December 2011 and for the year then ended to conform to the presentation as at 31 December 2012 and for the year then ended as current year presentation leads to a more appropriate presentation of the underlying transactions in the consolidated statement of comprehensive income.

Nature of reclassification	*Amount*	*Line as per the previous report*	*Line as per current report*
Consolidated statement of comprehensive income			
Safe deposit rental income	40	Other income	Fee and commission income

6. Segment information

For management purposes, the Group is organised into three operating segments based on products and services as follows:

- Corporate – comprises corporate lending including sales and repurchase agreements, corporate deposit services and placement of promissory notes among corporate clients, trade finance operations, leasing services, issuing of guarantees, foreign currency exchange transactions and other transactions with corporate customers.
- Financial markets – comprises securities trading, debt capital markets services (interbank and other borrowings, placement of promissory notes and bonds on money market, raising finance on loro accounts), foreign currency exchange and derivatives transactions on stock exchange and over the counter market.
- Retail – comprises retail services of opening and maintenance of settlement accounts, raising finance in the forms of promissory notes and retail deposits, debit and credit cards servicing, lending and foreign exchange transactions with individuals, individual entrepreneurs and small and medium size entities.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance, as explained in the table below, is measured differently from profit or loss in the consolidated financial statements.

The Group allocates revenues and expenses between segments depending on the contractual counterparty and type of transaction.

The Group allocates in its internal management accounting system major part of the Group's assets and liabilities as well as income and expenses between the segments. Certain types of assets and liabilities, income and expenses that were not allocated have been presented as "unallocated" in the table below.

"Interest income from other segments" and "Interest expense relating to transactions with other segments" are defined on the basis of transfer pricing policy. According to the existing transfer pricing system, approved by the Board, funds are transferred between segments at historical market rate. Choice of market rate for each interest asset or liability depends on the currency and contractual maturity of this asset or liability.

Segment results are based on the direct and allocated revenues ("Interest income from other segments") attributable to the assets of the segment as well as on the direct and allocated expenses ("Interest expense relating to transactions with other segments") attributable to the liabilities of the segment.

The Group allocates administrative and other operating expenses between segments using the following principles of allocation: the major part of administrative and other operating expenses represents direct expenses attributable to cost centres which activities correspond to segment activities. The remaining part is allocated between the segments in the same proportion as the direct operating expenses are allocated.

(Millions of Russian Rubles)

6. Segment information (continued)

The following table presents income and profit and certain asset and liability information regarding the Group's operating segments for the year ended 31 December 2012:

	Retail Banking	*Corporate Banking*	*Financial Markets*	*Total*
Revenues comprise				
External interest income	5 065	3 210	809	9 084
Interest income from other segments	1 744	527	5 889	8 160
Fee and commission income	717	297	6	1 020
Reversal of allowance for loan impairment	227	455	–	682
Net dealing and other operating income	202	123	118	443
Total revenues	**7 955**	**4 612**	**6 822**	**19 389**
Expenses comprise				
Interest expense from other segments	(3 915)	(1 974)	(2 271)	(8 160)
External interest expense	(1 373)	(353)	(3 142)	(4 868)
Personnel expenses	(2 058)	(954)	(180)	(3 192)
Administrative and other operating expenses	(1 253)	(491)	(95)	(1 839)
Fee and commission expense	(102)	(20)	(16)	(138)
Total expenses	**(8 701)**	**(3 792)**	**(5 704)**	**(18 197)**
Segment results	**(746)**	**820**	**1 118**	**1 192**
Unallocated revenues				41
Unallocated expenses				(483)
Profit before tax				**750**
Income tax expense				432
Profit for the year				**1 182**
Assets and liabilities				
Segment assets	45 646	27 547	27 615	100 808
Unallocated assets				5 656
Total assets				**106 464**
Segment liabilities	(35 933)	(11 058)	(40 429)	(87 420)
Unallocated liabilities				(1 297)
Total liabilities				**(88 717)**
Other segment information				
Depreciation and amortisation	(241)	(84)	(27)	(352)
Other provisions	9	28	–	37

The following table presents net dealing and other operating income/(loss) information regarding the Group's operating segments for the year ended 31 December 2012:

	Retail Banking	*Corporate Banking*	*Financial Markets*	*Total*
Net dealing and other operating income/(loss)comprise				
Net foreign exchange translation differences	–	–	335	335
Net gains/(losses) from trading in foreign currencies	185	89	(103)	171
Recovery of provision for losses on credit related commitments	9	28	–	37
Net losses from operations with securities	–	(1)	(7)	(8)
Net losses from operations with derivatives	–	–	(107)	(107)
Other income	8	7	–	15
Total net dealing and other operating income	**202**	**123**	**118**	**443**
Unallocated expenses comprise				
Personnel expenses				(440)
Administrative and other operating expenses				(34)
Fee and commission expense				(9)

(Millions of Russian Rubles)

6. Segment information (continued)

The following table presents income and profit and certain asset and liability information regarding the Group's operating segments for the year ended 31 December 2011:

	Retail Banking	*Corporate Banking*	*Financial Markets*	*Total*
Revenues comprise				
External interest income	5 036	3 732	580	9 348
Interest income from other segments	980	385	5 700	7 065
Reversal of allowance for loan impairment	181	1 504	–	1 685
Fee and commission income	655	285	3	943
Net dealing and other operating income/(loss)	188	91	(222)	57
Total revenues	**7 040**	**5 997**	**6 061**	**19 098**
Expenses comprise				
Interest expense from other segments	(3 719)	(1 981)	(1 365)	(7 065)
External interest expense	(855)	(284)	(3 299)	(4 438)
Personnel expenses	(1 730)	(1 195)	(160)	(3 085)
Administrative and other operating expenses	(1 061)	(521)	(52)	(1 634)
Fee and commission expense	(91)	(15)	(14)	(120)
Total expenses	**(7 456)**	**(3 996)**	**(4 890)**	**(16 342)**
Segment results	**(416)**	**2 001**	**1 171**	**2 756**
Unallocated revenues				46
Unallocated expenses				(256)
Profit before tax				**2 546**
Income tax expense				(49)
Profit for the year				**2 497**
Assets and liabilities				
Segment assets	41 039	28 699	29 100	98 838
Unallocated assets				13 999
Total assets				**112 837**
Segment liabilities	(26 772)	(12 312)	(56 279)	(95 363)
Unallocated liabilities				(915)
Total liabilities				**(96 278)**
Other segment information				
Depreciation and amortisation	(275)	(141)	(13)	(429)
Other provisions	22	(15)	–	7

The following table presents net dealing and other operating income/(loss) information regarding the Group's operating segments for the year ended 31 December 2011:

	Retail Banking	*Corporate Banking*	*Financial Markets*	*Total*
Net dealing and other operating income/(loss)comprise				
Net gains from operations with derivatives	–	–	451	451
Net gains from trading in foreign currencies	140	96	57	293
Recovery of provision for losses on credit related commitments	22	(15)	–	7
Net losses from operations with securities	–	–	(52)	(52)
Net foreign exchange translation differences	–	–	(678)	(678)
Other income	26	10	–	36
Total net dealing and other operating income/(loss)	**188**	**91**	**(222)**	**57**
Unallocated expenses comprise				
Administrative and other operating expenses				(247)
Fee and commission expense				(9)

(Millions of Russian Rubles)

7. Cash and cash equivalents

	31 December 2012	*31 December 2011*
Overnight placements with other banks	5 787	8 602
Current accounts with the CBRF	4 342	3 931
Cash on hand	3 875	4 037
Current accounts with other banks	1 261	961
Settlement accounts with trading systems	363	1 128
Cash and cash equivalents	**15 628**	**18 659**

8. Trading securities

	31 December 2012	*31 December 2011*
Promissory notes	514	594
Corporate bonds	85	815
	599	**1 409**
Corporate bonds pledged under repurchase agreements	1 378	564
Trading securities	**1 977**	**1 973**

As of 31 December 2012 and 2011 corporate bonds were represented by Russian Ruble and US Dollars denominated securities issued by top Russian companies and banks.

As of 31 December 2012 and 2011 promissory notes represent Russian Ruble denominated securities issued by top Russian banks with a discount to face value. These securities are traded over-the-counter.

Following the amendments to IAS 39 and IFRS 7, *Reclassification of Financial Assets*, the Group reclassified certain financial assets out of held for trading category as they were no longer held for the purpose of selling or repurchasing them in the near term. The reclassification was made with effect from 30 September 2008 at fair value at that date. The impact of reclassification is as follows:

	Trading securities were reclassified to	
	Loans and receivables	*Available for sale financial assets*
Carrying amount as at 31 December 2012	–	–
Fair value as at 31 December 2012	6	–
Gain, income recognized after reclassification in profit or loss for the year ended 31 December 2012:		
- Interest income	20	11
- Net gains from operations with debt securities classified as loans	(1)	–
Carrying amount as at 31 December 2011	107	160
Fair value as at 31 December 2011	115	160
Fair value gain that would have been recognized on the reclassified assets for the year ended 31 December 2011 if the reclassification had not been made	4	1
Gain, income recognized after reclassification in profit or loss for the year ended 31 December 2011:		
- Interest income	35	10
- Net gains from operations with debt securities classified as loans	2	–

Financial assets were reclassified from financial assets held for trading to loans and receivables and available for sale financial assets due to the deterioration of Russian and international markets that has occurred during the third quarter of 2008.

The geographical concentration, analysis by credit quality, currency and interest rate risks analysis are disclosed in Note 29. Maturity analysis of trading securities is disclosed in Note 31.

(Millions of Russian Rubles)

9. Due from other banks

As of 31 December 2012 and 2011 due from other banks comprised time deposits with other banks in the amount of RUB 6 376 million and RUB 12 147 million respectively. As of 31 December 2012 time deposits with other banks included balances with the Parent with the total aggregate amount of RUB 3 416 million or 54% of the total amount due from other banks (31 December 2011: RUB 7 081 million or 58%). These loans mature in January 2013 (31 December 2011: mature from January till March 2012).

The geographical concentration, analysis by credit quality, currency and interest rate risks analysis are disclosed in Note 29. Information about fair value of due from other banks is disclosed in Note 30. Maturity analysis of due from other banks is disclosed in Note 31. The information on related party balances is disclosed in Note 32.

10. Derivative financial instruments

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

	31 December 2012			*31 December 2011*		
	Notional principal	*Fair values*		*Notional principal*	*Fair value*	
		Asset	*Liability*		*Asset*	*Liability*
Interest rate contracts						
Swaps – foreign counterparty	405	–	(23)	644	–	(47)
Equity contracts						
Equity warrants	53	–	–	56	1	–
Foreign exchange contracts						
Swaps – foreign counterparty	1 572	4	–	3 919	36	(22)
Swaps – domestic counterparty	8 258	18	(20)	3 029	–	(38)
Forwards – domestic counterparty	604	13	–	862	2	(18)
Total derivative assets/liabilities		**35**	**(43)**		**39**	**(125)**

Foreign and domestic counterparty in the table above stand for counterparties where foreign means non-Russian entities and domestic means Russian entities.

As of 31 December 2012 and 2011, the Group has positions in the following types of derivatives:

Forwards

Forwards contracts are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over-the-counter market.

Swaps

Swaps are contractual agreements between two parties to exchange movements in interest and foreign currency rates and equity indices, and (in the case of credit default swaps) to make payments with respect to defined credit events based on specified notional amounts.

During 2007 in order to hedge interest rate gap between fixed interest rate loans and advances to customers and floating interest rate interbank liabilities the Group entered into several interest rate swaps with a foreign bank. The derivatives mature in 2014.

(Millions of Russian Rubles)

11. Loans to customers

Loans to customers by class comprise:

	31 December 2012	*31 December 2011*
Loans to legal entities:		
Corporate loans	26 300	31 266
SME loans	2 003	2 082
Trade finance	2 342	1 498
Finance lease receivables	1 255	1 277
Corporate bonds	158	275
Loans to individuals:		
Mortgage loans	33 720	32 504
Car loans	4 663	5 397
SME loans	1 869	1 310
Credit cards	445	461
Cash loans	10	–
Gross loans to customers	**72 765**	**76 070**
Less – Allowance for impairment	(4 000)	(7 204)
Loans to customers	**68 765**	**68 866**

As of 31 December 2012 corporate bonds in the amount RUB 158 million represent debt securities reclassified in 2008 out from trading securities portfolio (31 December 2011: RUB 275 million). Refer to Note 8.

Allowance for impairment of loans to customers

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

	At 1 January 2012	*Reversal for the year*	*Interest accrued on impaired loans*	*Allowance for disposed loans*	*Amounts written off*	*At 31 December 2012*
Loans to legal entities:						
Corporate loans	4 259	(277)	(361)	(1 971)	–	1 650
Trade finance	1 162	(143)	–	–	–	1 019
SME loans	350	(78)	–	–	(108)	164
Corporate bonds	168	(10)	–	–	–	158
Finance lease receivables	99	(25)	(8)	–	(4)	62
Loans to individuals:						
Mortgage loans	641	(93)	–	(25)	(6)	517
Car loans	233	(40)	–	–	(12)	181
Credit cards	168	(4)	–	–	(8)	156
SME loans	124	(12)	–	(3)	(16)	93
Total	**7 204**	**(682)**	**(369)**	**(1 999)**	**(154)**	**4 000**

	At 1 January 2011	*Charge for the year/ (reversal)*	*Interest accrued on impaired loans*	*Allowance for disposed loans*	*Amounts written off*	*At 31 December 2011*
Loans to legal entities:						
Corporate loans	7 069	(1 190)	(602)	(1 018)	–	4 259
Trade finance	1 466	(321)	17	–	–	1 162
SME loans	500	(34)	–	(89)	(26)	350
Corporate bonds	168	–	–	–	–	168
Finance lease receivables	100	7	(8)	–	–	99
Loans to individuals:						
Mortgage loans	777	(38)	–	(88)	(10)	641
Car loans	568	(68)	–	(237)	(30)	233
Credit cards	191	(9)	–	(10)	(4)	168
SME loans	209	(32)	–	(44)	(9)	124
Total	**11 048**	**(1 685)**	**(593)**	**(1 486)**	**(79)**	**7 204**

(Millions of Russian Rubles)

11. Loans to customers (continued)

Allowance for impairment of loans to customers (continued)

The table below distinguishes between loans and advances to customers assessed for impairment individually and on portfolio basis:

	31 December 2012	*31 December 2011*
Loans assessed for impairment on portfolio basis	66 735	64 511
Individually determined to be impaired	5 581	10 861
Past due but not impaired	449	698
Gross loans to customers	**72 765**	**76 070**
Less – Allowance for impairment of loans assessed for impairment on portfolio basis (including past due but not impaired)	(383)	(644)
Less – Allowance for impairment of loans individually determined to be impaired	(3 617)	(6 560)
Loans to customers	**68 765**	**68 866**

Concentration of loans to customers

As of 31 December 2012 the Group had a concentration of loans represented by RUB 8 343 million due from the ten largest third party borrowers (11.5% of gross loan portfolio) (2011 – RUB 9 321 million or 12.3%). An allowance of RUB 970 million (2011 – RUB 1 142 million) was recognised against these loans.

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

	31 December 2012	*31 December 2011*
Individuals	40 707	39 672
Trade	12 950	16 434
Manufacturing	12 001	9 908
Real estate	2 789	5 257
Services	2 354	2 085
Construction	373	1 078
Finance	299	352
Agriculture	–	24
Other	1 292	1 260
Gross loans to customers	**72 765**	**76 070**

During 2012 the Group sold corporate loans carried at RUB 409 million and retail loans carried at RUB 79 million net of allowance (2011: RUB 2 473 million and RUB 2 321 million), to third parties for a payment of RUB 410 million and RUB 82 million respectively (2011: RUB 2 470 million and RUB 2 290 million). The Group has determined that substantially all risks and rewards of the respective loans have been transferred therefore these loans were derecognised. The respective financial result has been recognized in the consolidated statement of comprehensive income.

Finance lease receivables

Included in corporate lending portfolio are finance lease receivables. The analysis of finance lease receivables at 31 December 2012 is as follows:

	Not later than 1 year	*Later than 1 year and not later than 5 years*	*Total*
Gross investments in finance lease	674	854	1 528
Unearned future finance income on finance lease	(106)	(167)	(273)
	568	**687**	**1 255**
Less – Allowance for impairment	(8)	(54)	(62)
Net investments in finance lease	**560**	**633**	**1 193**

(Millions of Russian Rubles)

11. Loans to customers (continued)

Finance lease receivables (continued)

Included in corporate lending portfolio are finance lease receivables. The analysis of finance lease receivables at 31 December 2011 is as follows:

	Not later than 1 year	*Later than 1 year and not later than 5 years*	*Total*
Gross investments in finance lease	597	989	1 586
Unearned future finance income on finance lease	(106)	(203)	(309)
	491	**786**	**1 277**
Less – Allowance for impairment	(33)	(66)	(99)
Net investments in finance lease	**458**	**720**	**1 178**

Net investments in finance lease generally comprise lease contracts on various types of equipment and vehicles.

The geographical concentration, analysis by credit quality, currency and interest rate risks analysis are disclosed in Note 29. Information about fair value of loans to customers is disclosed in Note 30. Maturity analysis of loans to customers is disclosed in Note 31. The information on related party balances is disclosed in Note 32.

12. Investment securities available for sale

	31 December 2012	*31 December 2011*
Federal loan bonds (OFZ)	5 775	3 544
Corporate bonds	1 377	1 510
Municipal bonds	255	–
Investment securities available for sale	**7 407**	**5 054**

As of 31 December 2012 and 2011 corporate bonds were represented by Russian Ruble denominated securities issued by top Russian companies and banks.

As of 31 December 2011 federal loan bonds (OFZ) in the amount RUB 160 million represent securities reclassified out from trading securities portfolio in 2008 (Refer to Note 8).

13. Property and equipment

The movements in property and equipment for the year ended 31 December 2012 were as follows:

	Premises	*Leasehold improvement*	*Computers and office equipment*	*Total*
Cost				
31 December 2011	**2 891**	**61**	**1 331**	**4 283**
Additions	–	2	59	61
Reclassifications to investment property	(41)	–	–	(41)
Disposals	–	–	(80)	(80)
31 December 2012	**2 850**	**63**	**1 310**	**4 223**
Accumulated depreciation				
31 December 2011	**332**	**55**	**994**	**1 381**
Depreciation charge	72	4	147	223
Disposals	–	–	(67)	(67)
Reclassifications to investment property	(4)	–	–	(4)
31 December 2012	**400**	**59**	**1 074**	**1 533**
Net book value				
31 December 2011	**2 559**	**6**	**337**	**2 902**
31 December 2012	**2 450**	**4**	**236**	**2 690**

(Millions of Russian Rubles)

13. Property and equipment (continued)

The movements in property and equipment for the year ended 31 December 2011 were as follows:

	Premises	*Leasehold improvement*	*Computers and office equipment*	*Total*
Cost				
31 December 2010	**3 561**	**90**	**1 341**	**4 992**
Additions	3	–	62	65
Reclassifications to investment property	(673)	–	–	(673)
Disposals	–	(29)	(72)	(101)
31 December 2011	**2 891**	**61**	**1 331**	**4 283**
Accumulated depreciation				
31 December 2010	**303**	**68**	**807**	**1 178**
Depreciation charge	81	8	234	323
Disposals	–	(21)	(47)	(68)
Reclassifications to investment property	(52)	–	–	(52)
31 December 2011	**332**	**55**	**994**	**1 381**
Net book value				
31 December 2010	**3 258**	**22**	**534**	**3 814**
31 December 2011	**2 559**	**6**	**337**	**2 902**

As of 31 December 2012 premises and equipment contain fully depreciated assets in the amount of RUB 745 million (31 December 2011: RUB 618 million).

During 2012 and 2011 premises of closed branches in the carrying amount of RUB 41 million and RUB 496 million respectively were rented out and reclassified into Investment property category.

14. Other assets

	31 December 2012	*31 December 2011*
Investment property	948	1 062
Deferred income tax asset	514	–
Software	495	456
Precious coins	267	282
Prepayments	267	195
Foreclosed assets	152	120
Settlements	66	58
Property to transfer to leasing	48	26
VAT on leasing operations	45	81
Current income tax asset	45	46
Non-current assets held for sale	35	243
Restricted cash	12	12
Accrued income	5	5
Prepayments to suppliers for equipment to be leased	2	1
Due from employees	1	1
Other	65	60
Other assets	**2 967**	**2 648**

As of 31 December 2012 and 2011 the fair value of investment property amounted to RUB 950 million and RUB 1 126 million, respectively, which has been determined based on valuations performed by accredited independent valuers. The Group engaged an independent appraiser to determine the fair value of its buildings. Fair value is determined by reference to market-based evidence.

(Millions of Russian Rubles)

14. Other assets (continued)

The movements in investment property and software for the year ended 31 December 2012 were as follows:

	Investment property	*Software*
Cost		
31 December 2011	**1 126**	**645**
Additions (subsequent expenditure)	4	168
Reclassifications from property and equipment	41	–
Impairment	(45)	–
Disposals	(89)	(50)
31 December 2012	**1 037**	**763**
Accumulated depreciation		
31 December 2011	**64**	**189**
Depreciation/Amortisation charge	23	129
Reclassifications from property and equipment	4	–
Disposals	(2)	(50)
31 December 2012	**89**	**268**
Net book value		
31 December 2011	**1 062**	**456**
31 December 2012	**948**	**495**

The movements in investment property and software for the year ended 31 December 2011 were as follows:

	Investment property	*Software*
Cost		
31 December 2010	**–**	**584**
Additions (subsequent expenditure)	78	157
Reclassifications from property and equipment and foreclosed assets	1 048	–
Disposals	–	(96)
31 December 2011	**1 126**	**645**
Accumulated depreciation		
31 December 2010	**–**	**151**
Depreciation/Amortisation charge	12	106
Reclassifications from property and equipment	52	–
Disposals	–	(68)
31 December 2011	**64**	**189**
Net book value		
31 December 2010	**–**	**433**
31 December 2011	**1 062**	**456**

15. Due to other banks

	31 December 2012	*31 December 2011*
Time deposits and loans	24 316	43 181
Repurchase agreements	1 185	478
Current accounts and overnight placements of other banks	767	3
Trade finance	211	425
Special purpose finance	95	253
Due to other banks	**26 574**	**44 340**

(Millions of Russian Rubles)

15. Due to other banks (continued)

As of 31 December 2012 and 2011 due to banks were to a considerable extent (86% and 88% respectively) funded by Group's parent (Refer to Note 32).

Trade finance represents funds received from foreign financial institutions either directly by the Group or by the beneficiaries under documentary operations if there is a lending arrangement between the Group and the financing bank, under which the Group is liable for the funds' repayment. Funds mature from 2013 to 2015 and have interest rates from 0.97% to 1.60% per annum (31 December 2011: from 1.04% to 2.66% per annum).

As of 31 December 2012 special purpose finance represents loans from one foreign bank (31 December 2011: 2), granted to the Group under credit line facility agreement for the special purposes, such as mortgage lending programs and programs for development of small business in the private sector in the Russian Federation. Loans mature from 2013 to 2014 and have effective interest rates from 7.32% to 7.91% per annum (31 December 2011: from 7.32% to 9.4% per annum).

The Group is obliged to comply with financial covenants in relation to special purpose finance disclosed above. These covenants include capital adequacy ratios and various other financial performance ratios.

The geographical concentration, currency and interest rate risks analysis are disclosed in Note 29. Information about fair value of due to other banks is disclosed in Note 30. Maturity analysis of due to other banks is disclosed in Note 31. The information on related party balances is disclosed in Note 32.

16. Customer accounts

	31 December 2012	***31 December 2011***
State and public organisations		
Current accounts	6	46
Term deposits	–	2 583
Legal entities		
Current accounts	11 975	12 100
Term deposits	8 655	7 511
Individuals		
Current accounts	3 813	3 542
Term deposits	22 860	15 057
Customer accounts	**47 309**	**40 839**

As of 31 December 2012 customer accounts of RUB 7 013 million or 14.8% (of total customer accounts) were due to the ten largest third party customers (31 December 2011: RUB 7 559 million or 18.5%).

In December 2012 one of the asset management companies, which manages part of the assets of the Blagosostoyanie, placed a 1.5 year deposit in the amount of RUB 2 000 million. The deposit matures in 2014 and has effective interest rate 10.5% per anum.

An analysis of customer accounts by economic sector follows:

	31 December 2012	***31 December 2011***
Individuals	26 673	18 599
Trade	6 771	6 400
Services	3 169	4 200
Financial services	3 160	3 559
Construction / real estate	2 813	2 750
Manufacturing	1 950	2 552
Insurance	545	811
Transport	799	628
Telecom	222	228
Oil and gas	71	78
Agriculture	76	75
Other	1 060	959
Customer accounts	**47 309**	**40 839**

(Millions of Russian Rubles)

16. Customer accounts (continued)

Included in time deposits are deposits of individuals in the amount of RUB 22 860 million (2011 – RUB 15 057 million). 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.

The geographical concentration, currency and interest rate risks analysis are disclosed in Note 29. Information about fair value of customer accounts is disclosed in Note 30. Maturity analysis of customer accounts is disclosed in Note 31. The information on related party balances is disclosed in Note 32.

17. Debt securities issued

	31 December 2012	*31 December 2011*
Domestic bonds issued	9 924	1 853
Promissory notes	1 630	698
Debt securities issued	**11 554**	**2 551**

During 2012 the Group issued two tranches of the market bonds on the Russian stock exchange with the nominal amount of RUB 8 000 million. Bonds mature in 2015 and have effective interest rate from 9.25% to 10.78% per annum.

In August 2011 the Group issued bonds on the Russian stock exchange with the nominal amount of RUB 1 800 million. Bonds mature in 2016 and have effective interest rate 8.25% per annum.

Promissory notes are represented by debt securities issued by the Group with a discount to face value in Russian Rubles and foreign currencies.

The geographical concentration, currency and interest rate risks analysis are disclosed in Note 29. Information about fair value of debt securities issued is disclosed in Note 30. Maturity analysis of debt securities issued is disclosed in Note 31. The information on related party balances is disclosed in Note 32.

18. Subordinated debt

	31 December 2012	*31 December 2011*
USD 50 million subordinated loan	1 518	1 611
USD 20 million subordinated loan	410	665
USD 100 million subordinated loan	–	3 340
USD 55 million subordinated loan	–	1 794
Subordinated debt	**1 928**	**7 410**

In August 2006 the Group entered into a subordinated loan agreement with a foreign financial institution for the amount of USD 20 million. The loan is repayable in 6 semi-annual installments starting from 15 February 2012 and has a floating interest rate of six-months LIBOR + 3.95% per annum (31 December 2011: six-months LIBOR + 3.95%). The interest rate at 31 December 2012 was 4.67% per annum (31 December 2011: 9.35% per annum).

In June, September and November 2007 the Group attracted three subordinated loans in the amount of USD 100 million, USD 55 million, USD 50 million for the period of 10 years from the Group's Parent. For the first five years the rates were fixed at 8.03, 6.34 and 5.81% per annum respectively, subsequently floating interest rate of six-month LIBOR + 3.75%, six-month LIBOR + 2.75%, six-month LIBOR + 2.75% per annum respectively were set. However during 2012 the Group exercised its right to repay USD 100 million and USD 55 million loans before the floating rates started to apply. The effective interest rate at 31 December 2012 was 3.27% per annum (31 December 2011: 8.03, 6.34 and 5.81% per annum respectively).

Interest rate analysis of subordinated debt is disclosed in Note 29. Information about fair value of subordinated debt is disclosed in Note 30. The information on related party balances is disclosed in Note 32.

(Millions of Russian Rubles)

19. Other liabilities

	31 December 2012	*31 December 2011*
Accrued bonuses and unused vacations including social security costs	891	460
Accounts payable	139	269
Finance lease payments received in advance	84	62
Taxes payable other than income	60	78
Provisions for guarantees and commitments	55	92
Other accrued expenses	45	42
Deferred income	31	6
Provision for legal claims	4	4
Other liabilities	**1 309**	**1 013**

The movements in provisions were as follows:

	Legal claims	*Guarantees and commitments*
31 December 2010	**2**	**99**
Utilization	(2)	–
Charge/(Reversal)	4	(7)
31 December 2011	**4**	**92**
Utilization	(4)	–
Charge/(Reversal)	4	(37)
31 December 2012	**4**	**55**

20. Equity

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

	Number of shares (in millions)	*Ordinary shares (nominal value)*	*Ordinary shares (inflation adjustment)*	*Total*
31 December 2010, 2011, 2012	**184**	**1 845**	**610**	**2 455**

All ordinary shares have a nominal value of RUB 10 per share and rank equally. Each share carries one vote. All shares have been fully paid in.

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

In March 2011 KBC Bank N.V. granted EUR 25 million (RUB 1 001 million) to the Group as additional paid in capital without issue of new shares.

In accordance with Russian legislation, dividends may only be declared to the shareholders of the Bank from accumulated undistributed and unreserved earnings as shown in the Bank's financial statements prepared in accordance with RAL.

21. Commitments and contingencies

Operating environment

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

The Russian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. The global financial crisis has resulted in uncertainty regarding further economic growth, availability of financing and cost of capital, which could negatively affect the 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.

(Millions of Russian Rubles)

21. Commitments and contingencies (continued)

Legal

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.

As of 31 December 2012, the Group was engaged in number of litigation proceedings. Provision of RUB 4 million has been made as it is likely that such an amount of loss will occur (Refer to Note 19).

Taxation

Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently, unexpectedly and with retroactive effect. Further, the provisions of Russian tax law applicable to financial instruments are subject to significant uncertainty and lack interpretive guidance. 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 authorities. Trends within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation of the legislation and assessments and, as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. As such, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

In accordance with tax legislation input VAT on leasing operations is subject to recovery either through offset against output VAT, or offset against other federal tax liabilities or cash refund (Refer to Note 14). The excess input VAT is to be offset automatically against output VAT within three months from the end of the tax period (in-house tax audit shall be initiated by tax authorities) when the excess input VAT was declared, i.e. when the respective VAT declaration was submitted. Under certain circumstances the audit may be longer. Upon the expiration of the three month period and receipt of confirmation of the VAT reimbursable from tax authorities the VAT amount is to be refunded to the taxpayer in cash upon its written claim or the taxpayer is eligible to apply the alternative method of VAT recovery (offset against other taxes).

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 transactions 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 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 at 31 December 2012 Management of the Group believes that its interpretation of the relevant legislation is appropriate and that the Group's tax, currency and customs positions will be sustained.

Capital expenditure commitments

As of 31 December 2012 the Group had no contractual capital expenditure commitments in respect of premises and equipment (31 December 2011: RUB 2 million) and investment property (31 December 2011: RUB 1 million).

(Millions of Russian Rubles)

21. Commitments and contingencies (continued)

Operating lease commitments

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

	31 December 2012	*31 December 2011*
Not later than 1 year	64	70
Later than 1 year and not later than 5 years	114	124
Later than 5 years	103	82
Total operating lease commitments	**281**	**276**

Credit related commitments

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

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

Outstanding credit related commitments are as follows:

	31 December 2012	*31 December 2011*
Undrawn credit lines	20 603	16 149
Guarantees issued	7 878	6 480
Import letters of credit	1 381	1 373
	29 862	**24 002**
Less – Provisions	(55)	(92)
Total credit related commitments	**29 807**	**23 910**

Fiduciary assets

The Group provides depositary services to its customers. These assets are not included in the Group's consolidated statement of financial position as they are not assets of the Group.

Trust activities of the Group

The assets under management are not reported on the Group's consolidated statement of financial position as they are not assets of the Group. They represent assets transferred to the Group for the management under individual asset management agreements or under collective investment programmes. The assets managed by the Group are disclosed at their fair value and fall into the following categories:

	31 December 2012	*31 December 2011*
Corporate bonds	314	547
Corporate shares	97	192
Cash at brokers	41	65
Futures, long position	–	5
Total assets under management	**452**	**809**

(Millions of Russian Rubles)

22. Interest income and expense

	2012	2011
Interest income		
Loans to customers	8 275	8 768
Investment securities available for sale	469	262
Due from other banks	186	174
Current accounts with other banks	2	2
Investment securities held to maturity	–	13
	8 932	**9 219**
Debt trading securities	152	129
Interest income	**9 084**	**9 348**
Interest expense		
Term placements of other banks	2 414	2 711
Term deposits of individuals	1 305	841
Debt securities issued	495	159
Subordinated debt	316	459
Term deposits of legal entities	315	246
Interest component on derivatives	22	19
Current accounts of other banks	1	3
Interest expense	**4 868**	**4 438**

Interest income accrued on loans, for which individual impairment allowances have been recognized, for the year ended 31 December 2012, comprised RUB 369 million (2011 – RUB 593 million). Refer to Note 11.

23. Fee and commission income and expense

	2012	2011
Settlement transactions	350	304
Commission on plastic cards settlements	186	164
Cash transactions	175	185
Acting as currency control agent	105	92
Guarantees issued	94	77
Safe deposits rental income	39	40
Letters of credit	35	39
Asset management	10	17
Commission on cash collection	9	10
Brokerage	–	2
Transactions with securities	–	1
Other	17	12
Fee and commission income	**1 020**	**943**
Plastic card	74	67
Settlement transactions	42	37
Cash transaction	15	13
Guarantees	5	2
Transactions with securities	3	3
Letters of credit	2	1
Currency conversion operations	–	2
Other	6	4
Fee and commission expense	**147**	**129**

24. Net losses from operations with securities

	2012	2011
Investment securities available for sale:		
- Government bonds	–	1
- Corporate bonds	(9)	(39)
Debt securities classified as loans	(1)	2
Trading securities:		
- Promissory notes	(1)	(4)
- Corporate bonds	3	(12)
Net losses from operations with securities	**(8)**	**(52)**

(Millions of Russian Rubles)

25. Net (losses)/gains from operations with derivatives

	2012	*2011*
Net (losses)/gains from operations with swaps and forwards on foreign currency	(250)	441
Net gains from operations with interest rate swaps	144	9
Net (losses)/gains from operations with interest rate options	(1)	1
Net (losses)/gains from operations with derivatives	**(107)**	**451**

26. Other income

	2012	*2011*
Rental income	41	46
Income from operations with precious coins	5	27
Other	10	9
Other income	**56**	**82**

Rental income received from investment property for the year ended 31 December 2012 amounted to RUB 38 million (2011: RUB 16 million).

27. Personnel and other operating expenses

	2012	*2011*
Fixed wages and salaries, bonuses and unused vacations	2 998	2 533
Social security costs	575	471
Other employee benefits	40	41
Severance payments	19	40
Personnel expenses	**3 632**	**3 085**
Depreciation of premises and equipment	223	323
Taxes other than on income	231	234
Advertising and marketing services	209	169
Other expenses related to premises and equipment	185	255
IT expenses	183	166
Amortisation of software	129	106
Rent	100	112
Contribution to state deposit insurance system	88	64
Communication expenses	80	93
Professional services	70	105
Provision for impairment of investment property and other non-current assets	59	–
Net losses from operations with foreclosed assets	52	5
Security services	48	50
Personnel related expenses	43	42
Net losses from sales of investment property	39	–
Business trip expenses	28	26
Depreciation of investment property	23	12
Net losses from disposals of property and equipment	12	7
Mailing and postal services	9	20
Provision for legal claims	4	4
Charity	1	1
Net loss from disposal of loans	–	34
Other	57	53
Administrative and other operating expenses	**1 873**	**1 881**

(Millions of Russian Rubles)

28. Taxation

The corporate income tax (benefit)/expense comprises:

	2012	*2011*
Current tax charge	75	49
Deferred tax credit – origination and reversal of temporary differences	(514)	–
Less: deferred tax recognised in other comprehensive income	7	–
Income tax (benefit)/expense	**(432)**	**49**

Russian legal entities must file individual tax declarations. The tax rate for banks for profits other than on state securities was 20% for 2012 and 2011. The tax rate for companies other than banks was also 20% for 2012 and 2011. The tax rate for interest income on state securities was 15% for Federal taxes.

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

	2012	*2011*
Profit before tax	**750**	**2 546**
Statutory tax rate	20%	20%
Theoretical income tax expense at the statutory rate	**150**	**509**
Change in unrecognised deferred tax assets	(591)	(486)
Income on state securities taxed at different rates	(23)	(11)
Non-deductible expenditures	22	18
Underpaid current tax for prior periods	3	9
Other non-temporary differences	7	10
Income tax (benefit)/expense	**(432)**	**49**

Deferred tax assets and liabilities as of 31 December and their movements for the respective years comprise:

		Origination and reversal of temporary differences			*Origination and reversal of temporary differences*		
	31 December 2010	*In the profit or loss*	*In other compre-hensive income*	*31 December 2011*	*In the profit or loss*	*In other compre-hensive income*	*31 December 2012*
Tax effect of deductible temporary differences:							
Unutilised tax losses (begin to expire in 2018)	1 815	(1 114)	–	701	(256)	–	445
Deferred income/accrued expenses	340	–	–	340	16	–	356
Effective interest rate accrual	170	(9)	–	161	(53)	–	108
Derivatives	2	13	–	15	(15)	–	–
Deferred tax asset	**2 327**			**1 217**			**909**
Tax effect of taxable temporary differences:							
Property and equipment	(96)	(7)	–	(103)	12	–	(91)
Allowance for loan impairment and other provisions	(918)	641	–	(277)	205	–	(72)
Securities	(4)	(6)	(4)	(14)	7	7	–
Deferred tax liability	**(1 018)**			**(394)**			**(163)**
Unrecognised deferred tax asset	**(1 309)**			**(823)**			**(232)**
Deferred tax asset, net	**–**			**–**			**514**

As of 31 December 2012 the Group has available RUB 445 million of tax losses carried forwards which begin to expire in 2018, if not utilized (31 December 2011: RUB 701 million).

(Millions of Russian Rubles)

29. Risk management

Introduction

Risk is inherent in the Group's activity but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing soundness and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities. The Group is exposed to credit risk, liquidity risk, market risk (both trading and non-trading) and operational risk.

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

Risk management structure

Board of Directors

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

Management Board

The Management Board has the responsibility to monitor the overall risk process within the Group.

Risk Committees

The Risk Committees have the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits. They are responsible for the fundamental risk issues and manage and monitor relevant risk decisions. The Risk Committees of the Group include:

- Assets and Liabilities committee (combined ALCO / Trading risk committee);
- Credit risk committee;
- Credit committees;
- Operational risk committee.

Risk Management

The Value and Risk Management Department (VRM) is responsible for implementing and maintaining risk related procedures to ensure an independent control process.

Compliance

Compliance function in the Group is particularly dedicated to comprehensive control in the meaning of identification, assessment and analysis of the risks linked to the following domains:

- Anti-money laundering and counter – terrorism financing;
- Investor protection, i.e. market abuse (insider trading and market manipulation), transactions with financial instruments including personal transactions and incompatibility of mandates, conflicts of interests, interests of borrowers;
- Data protection, including personal data, banking secrecy, duty of confidentiality etc.;
- Ethics and anti-fraud fighting.

Credit Product Factory

Credit Product Factory is an independent (from business) unit, managing counterparty risk (legal entities and individuals) on a transactional level. At the same time this unit is responsible for:

- Management of the lending processes of the Bank end-to-end;
- Development of transactional counterparty risk assessment models;
- IFRS provisioning methodology, calculation and reporting.

Asset and Liability Management Department

Asset and Liability Management Department is responsible for managing the Group's assets and liabilities and the overall financial structure. It is also primarily responsible for the funding and liquidity risks of the Group.

(Millions of Russian Rubles)

29. Risk management (continued)

Risk management structure (continued)

Audit Committee

The Audit Committee assists the Board of Directors. It does this by supervising, on behalf of the Board, the integrity, efficiency and effectiveness of the internal control measures and the risk management in place, paying special attention to correct financial reporting. The Audit Committee also oversees the company's processes to comply with laws and regulations.

Internal Audit

Risk management processes throughout the Group are audited annually by the internal audit function that examines both the adequacy of the procedures and the Group's compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Audit Committee.

Risk Measurement

The Group's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models.

The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Group also runs worst case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

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

For the purposes of managing market risk (both trading and non-trading) the Group's statement of financial position was virtually split into two parts: the Banking Book and the Trading Book.

Trading book – includes the Group's proprietary positions in financial instruments which are intentionally held for short-term resale and/or which are taken on by the Group with the intention of benefiting in the short term from actual and/or expected differences between their buying and selling prices.

Banking book – includes everything, except for the assets and liabilities of the Trading book, both financial assets and liabilities and financial commitments and contingencies,

The split of the books reflects not only the split of the items in statement of financial position, but also the risks and the limits for them. Within the Banking book all the market risks are minimised.

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. On a monthly basis this information is presented to the Management Board and the Risk Committees. Audit Committee receives a comprehensive risk report once a quarter which is designed to provide all the necessary information to assess and conclude on on all relevant risks of the Group.

For all levels throughout the Group, specifically tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, necessary and up-to-date information.

Risk Mitigation

As part of its overall risk management, the Group uses derivatives and other instruments to manage exposures resulting from changes in interest rates and foreign currencies rates.

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

Excessive Risk Concentration

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

(Millions of Russian Rubles)

29. Risk management (continued)

Risk management structure (continued)

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

Credit risk

The Group takes on exposure to credit risk which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of the Group's lending and other transactions with counterparties giving rise to financial assets.

The Group uses a two-level approach towards credit risk management: Credit departments are responsible for structuring the levels of credit risk by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers. Value and Risk management department is responsible for the oversight of the credit portfolio concentrations (on the level of credit risk by product and/or industry sector). General policies and decisions related to credit risk management are the responsibility of the Risk and Capital Oversight Committee. Meetings of the Risk and Capital Oversight Committee are held twice per month.

Individual credit limits (per borrower, or groups of borrowers) are set in the Group by the Credit committees (collegial bodies) in accordance with the approved powers.

In 2012 the Group had the following committees whose competence included setting individual credit risk limits:

- Main Credit Committee (regular meetings are held at least twice a week, areas of competence cover review and approval of any credit limits and approval of limits for transactions with banking counterparties)
- Operative Credit Committee (regular meetings are held at least once a week, major areas of competence cover review and approval of credit limits from 2.5 million EUR to 7.5 million EUR (depending on internal rating of the Client);
- SME Credit Committee (major areas of competence cover review and approval of credit limits up to 1 million EUR for SME clients);
- Credit Committee of Retail business (areas of competence cover review and approval of all credit limits within amounts of standard programs, up to 0.75 million EUR for non-secured non-standard transactions with Retail clients, up to 1.25 million EUR for secured non-standard transactions with Retail clients);
- Small Credit Committee of Retail business (areas of competence cover review and approval of standard credit limits up to 0.4 million EUR (plastic cards), up to 0.75 million EUR (Mortgage loans), up to 0.15 million EUR (Car loans) for transactions with Retail clients).

All the committees operate at the Head office of the Group except for sub-sections of the Small Credit Committee which are organised at branches and take decisions on granting retail loans and loans to SMEs.

A decision on credit risk limits is taken on the basis of analysing financial and non-financial information (both financial and management reporting information is used for the analysis) on the borrower's business. During the analysis special attention is paid to financial indicators of the business, including the analysis of assets and liabilities, equity, revenues and profit – both static and dynamic. When analysing financial position of individuals, the Group pays special attention to confirmation of the borrower's claimed income and availability of assets owned by the borrower, which could serve as the evidence of the solid financial position. The main goal of the analysis is to determine opportunities and sources for repayment of loans. All information on material risks relating to the customers whose credit status is deteriorating is timely analysed by the management.

Credit risk monitoring includes control of all the terms and conditions identified when the limit was set, in particular, intended purpose, account turnovers, credit portfolio, financial position and performance, etc. Corporate borrowers are monitored on quarterly basis whereas individuals are reviewed annually.

The Group accepts the following assets for pledge as collateral: residential and non-residential properties, land, construction in progress assets, production and trading equipment, vehicles and production machinery, goods (finished products), raw materials, inventories, securities, other assets. Guarantees of the business owners or the Group's revenue generating or asset holding companies are accepted as additional collateral for loans. The Group usually uses a combination of different types of collateral and applies certain discounts to the value of collateral pledged. Mortgage pledge under a risk of loss or damage is insured by one of the insurance companies accredited by the Group.

(Millions of Russian Rubles)

29. Risk management (continued)

Credit risk (continued)

Lending is performed in accordance with the provisions and principles of the Lending policy of the Group. Lending process implies a set of thoroughly regulated procedures, which establish the order of work with a borrower.

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

As the Group is a member of KBC Group it implements on a revolving basis methodological principles and procedures focused on credit risk measurement, controlling and risk mitigation.

Credit quality per class of financial assets

The Group analyses the credit quality of debt investment securities available for sale, debt trading securities and due from other banks on the basis of international ratings of the issuers. As Fitch and Standard & Poor's international rating scales are in general consistent in credit risk characteristics that they assign to particular ratings, the Group gathers and uses for the purpose of credit quality analysis ratings by either Fitch or Standard & Poor's as being complementary.

AAA – the highest credit rating assigned. The obligor's capacity to meet its financial commitment on the obligation is extremely strong.

AA – differs from the highest-rated obligations only to a small degree. The obligor's capacity to meet its financial commitment on the obligation is very strong.

A – more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher-rated categories. However, the obligor's capacity to meet its financial commitment on the obligation is still strong.

BBB – exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation.

Obligations rated 'BB', 'B', 'CCC', 'CC', and 'C' are regarded as having significant speculative characteristics. 'BB' indicates the least degree of speculation and 'C' the highest. While such obligations will likely have some quality and protective characteristics, these may be outweighed by large uncertainties or major exposures to adverse conditions.

BB – less vulnerable to nonpayment than other speculative issues. However, it faces major ongoing uncertainties or exposure to adverse business, financial, or economic conditions which could lead to the obligor's inadequate capacity to meet its financial commitment on the obligation.

B – more vulnerable to nonpayment than obligations rated 'BB', but the obligor currently has the capacity to meet its financial commitment on the obligation. Adverse business, financial, or economic conditions will likely impair the obligor's capacity or willingness to meet its financial commitment on the obligation.

Analysis by credit quality of debt investment securities available for sale, debt trading securities and due from other banks outstanding at 31 December 2012 and 2011 is as follows:

	31 December 2012			*31 December 2011*		
	Debt trading securities	***Debt investment securities available for sale***	***Due from other banks***	***Debt trading securities***	***Debt investment securities available for sale***	***Due from other banks***
A+ to A-	–	–	3 485	–	–	8 384
BBB+ to BBB-	1 156	7 407	2 891	1 129	5 054	3 763
BB+ to BB-	821	–	–	811	–	–
Unrated	–	–	–	33	–	–
Total	**1 977**	**7 407**	**6 376**	**1 973**	**5 054**	**12 147**

The credit quality of loans to customers is managed by the Group based on credit ratings set in accordance with internal PD model. PD model was applied by the Group in order to divide clients into the groups based on their creditworthiness using a statistical model of default probabilities for corporate clients.

(Millions of Russian Rubles)

29. Risk management (continued)

Credit risk (continued)

Probability of Default (PD) – is the probability of insolvency of the counterparty for a specified period. In the practice of the Group the probability of default is estimated for the time horizon of one year. Rating of the probability of default (PD-rating) – is an indicator which takes values from 1 to 12 (where PDs 10, 11 and 12 – are determined to be impaired or default), which is set to each counterparty that has a calculated value of the probability of default on a special scale.

The table below shows the master scale of PD ratings:

PD rating	*Probability of default (%)*
1	Up to 0.1
2	from 0.1 to 0.2
3	from 0.2 to 0.4
4	from 0.4 to 0.8
5	from 0.8 to 1.6
6	from 1.6 to 3.2
7	from 3.2 to 6.4
8	from 6.4 to 12.8
9	from 12.8 to 100
10	100
11	100
12	100

The PD-ratings 10, 11 and 12 are not calculated using the PD-model, and are assigned on the individual basis.

The table below shows the summarized credit quality of loans to customers based on PD ratings as of 31 December 2012.

	Neither past due nor impaired loans									*Loans past due but not impaired*	*Individually Impaired loans (10-12)*	*Total*
	2	*3*	*4*	*5*	*6*	*7*	*8*	*9*	*Not rated*			
Corporate loans	1 039	285	1 787	7 784	8 982	3 247	345	51	–	–	2 780	26 300
Trade finance	–	–	41	22	1 105	169	–	–	–	–	1 005	2 342
SME loans	–	3	194	784	730	19	–	–	92	32	149	2 003
Finance lease receivables	256	–	83	158	280	150	13	22	4	4	285	1 255
Corporate bonds	–	–	–	–	–	–	–	–	–	–	158	158
Mortgage loans	15 693	–	98	12 891	31	2 363	9	1 529	–	341	765	33 720
Car loans	2 362	–	1 361	93	321	101	92	104	–	37	192	4 663
SME loans	–	–	123	788	777	5	2	–	83	5	86	1 869
Credit cards	–	–	–	97	–	117	1	37	2	30	161	445
Cash loans	–	–	–	–	–	–	–	–	10	–	–	10
Total	**19 350**	**288**	**3 687**	**22 617**	**12 226**	**6 171**	**462**	**1 743**	**191**	**449**	**5 581**	**72 765**

The table below shows the summarized credit quality of corporate loans and trade finance based on PD ratings as of 31 December 2011.

	Neither past due nor impaired loans									*Loans past due but not impaired*	*Individually Impaired loans (10-12)*	*Total*
	2	*3*	*4*	*5*	*6*	*7*	*8*	*9*	*Not rated*			
Corporate loans	1 170	121	1 935	5 231	11 041	3 540	204	273	26	221	7 504	31 266
Trade finance	–	–	–	–	234	106	–	–	–	–	1 158	1 498
Total	**1 170**	**121**	**1 935**	**5 231**	**11 275**	**3 646**	**204**	**273**	**26**	**221**	**8 662**	**32 764**

The credit quality of other part of the loan portfolio as of 31 December 2011 was managed by the Group by assigning one out of three quality categories. This classification is effected based on CBRF guidelines and the Group's internal methodologies. Risk assessment and financial assets classification is effected based on two principal parameters: evaluation of the financial position and debt servicing quality. The counterparty's financial position is determined by analyzing its creditworthiness and financial stability, assessing the turnover on the accounts, reviewing its credit history, as well as other objective and subjective factors. Debt servicing is assessed by identifying the fact of debt servicing as such, existence of overdue payments, use of funds of the specified purpose and sources of repayment.

(Millions of Russian Rubles)

29. Risk management (continued)

Credit risk (continued)

The table below shows the credit quality by class (from 1-3 in the descending order of quality) of loans to customers. Loans to customers of high grade are those having a minimal level of credit risk or very well collateralized. Other borrowers with good financial position and good debt service are included in the standard grade. Sub-standard grade comprises loans below standard grade but not individually impaired.

31 December 2011	*Neither past due nor impaired loans* 1 High grade	2 Standard grade	3 Sub-standard grade	*Loans past due but not impaired*	*Individually impaired loans*	*Total*
Mortgage loans	928	29 538	904	371	763	32 504
Car loans	60	4 997	42	55	243	5 397
SME loans	2 093	578	275	8	438	3 392
Finance lease receivables	–	847	–	7	423	1 277
Credit cards	8	241	8	36	168	461
Corporate bonds	50	–	61	–	164	275
Total	**3 139**	**36 201**	**1 290**	**477**	**2 199**	**43 306**

It is the Group's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business and products. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Group's rating policy. The attributable risk ratings are assessed and updated regularly.

Aging analysis of past due but not impaired loans to customers

	Less than 30 days	*31 to 90 days*	*More than 365 days*	*Total 2012*
Mortgage loans	326	14	1	341
Car loans	36	1	–	37
SME loans	18		19	37
Credit cards	30	–	–	30
Finance lease receivables	1		3	4
Total	**411**	**15**	**23**	**449**

	Less than 30 days	*31 to 90 days*	*91 to 180 days*	*181 to 365 days*	*Total 2011*
Mortgage loans	363	6	1	1	371
Corporate loans	221	–	–	–	221
Car loans	51	4	–	–	55
Credit cards	36	–	–	–	36
SME loans	8	–	–	–	8
Finance lease receivables	–	–	–	7	7
Total	**679**	**10**	**1**	**8**	**698**

Collateral and other credit enhancements

The required level of collateral cover is set by the Group's specialists for the groups of related borrowers with specified description of collateral types and taking into account lending limits set for these groups of related borrowers. The value of collateral is determined by application of a discount to market price of collateral. For inventory pledged, for which sales prices are readily available (cars, metals, raw materials, etc.), the evaluation basis is pricelist (adequacy review of prices is performed in accordance with internal procedures). The discount applied to these prices is from 20 to 30%. Prices on goods considerably dependent upon specific qualities of a particular product (footwear, household appliances, foods, etc.) are evaluated on the basis of carrying amounts, warehouse accounting prices, etc. with more substantial discounts (50% and more). For real estate, collateral is assessed on the basis of market value as reported by the professional valuer with a discount individually determined depending on the type of the asset, except for typical corporate business products. The amount of the required collateral cover is dependent upon lending exposure. The amount of this lending exposure is in all cases less than the discounted value of collateral. Credit cards loans and the majority of consumer loans are not collateralised.

(Millions of Russian Rubles)

29. Risk management (continued)

Credit risk (continued)

Impairment assessment

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

Individually assessed allowances

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

Collectively assessed allowances

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

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is no yet objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration the following information: historical losses on the portfolio, current economic conditions, the appropriate delay between the time a loss is likely to have been uncured and the time it will be identified as requiring an individually assessed impairment allowance. The impairment allowance is then reviewed by credit management to ensure alignment with the Group's overall policy.

The geographical concentration of Group's financial assets and liabilities is set out below:

	31 December 2012				*31 December 2011*			
	Russia	*OECD*	*Other*	*Total*	*Russia*	*OECD*	*Other*	*Total*
Assets								
Cash and cash equivalents	11 146	4 480	2	**15 628**	14 009	4 648	2	**18 659**
Mandatory cash balances with the Central Bank of the Russian Federation	619	–	–	**619**	549	–	–	**549**
Trading securities	1 977	–	–	**1 977**	1 879	33	61	**1 973**
Due from other banks	2 891	3 485	–	**6 376**	4 963	7 184	–	**12 147**
Derivative financial assets	31	4	–	**35**	3	36	–	**39**
Loans to customers	68 765	–	–	**68 765**	68 866	–	–	**68 866**
Investment securities available for sale	7 407	–	–	**7 407**	5 054	–	–	**5 054**
Other assets	345	–	–	**345**	352	–	–	**352**
	93 181	**7 969**	**2**	**101 152**	**95 675**	**11 901**	**63**	**107 639**
Liabilities								
Due to other banks	3 320	23 254	–	**26 574**	7 145	37 195	–	**44 340**
Derivative financial liabilities	21	22	–	**43**	55	70	–	**125**
Customer accounts	46 958	70	281	**47 309**	40 555	62	222	**40 839**
Debt securities issued	11 554	–	–	**11 554**	2 551	–	–	**2 551**
Other liabilities	194	–	–	**194**	361	–	–	**361**
Subordinated debt	–	1 928	–	**1 928**	–	7 410	–	**7 410**
	62 047	**25 274**	**281**	**87 602**	**50 667**	**44 737**	**222**	**95 626**
Net position	**31 134**	**(17 305)**	**(279)**	**13 550**	**45 008**	**(32 836)**	**(159)**	**12 013**
Financial commitments and contingencies	**29 025**	**713**	**69**	**29 807**	**22 821**	**381**	**708**	**23 910**

(Millions of Russian Rubles)

29. Risk management (continued)

Liquidity risk and funding management

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

The Group has committed lines of credit that it can access to meet liquidity needs. In addition, the Group maintains a cash deposit (obligatory reserve) with the CBRF, the amount of which depends on the level of customer funds attracted.

The liquidity position is assessed and managed by the Group primarily on a standalone basis, based on certain liquidity ratios established by the CBRF and on stress testing.

Due to the operational liquidity needs liquidity target consists of two parts: cash and equivalents and bonds available for sale.

- The cash part serves as a liquidity buffer. The main reason for holding this buffer is to prevent the liquidity deficit in case of early repayment of large term deposits of clients.
- The available for sale bond portfolio serves as collateral with the CBRF. The minimum volume of the bond portfolio is determined by the volume of the necessary collateral in CBRF. The actual volume is determined according to the liquidity requirements to the liquid assets in part of bonds additionally to cash liquid assets.

Analysis of financial liabilities by remaining contractual maturities

The table below summarizes the maturity profile of the Group's financial liabilities at 31 December 2012 and 2011 based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Group expects that many customers will not request repayment on the earliest date the Group could be required to pay and the table does not reflect the expected cash flows indicated by the Group's deposit retention history.

Financial liabilities As at 31 December 2012	***Less than 3 months***	***3 to 12 months***	***1 to 5 years***	***Over 5 years***	***Total***
Due to other banks	3 805	10 298	11 415	3 149	28 667
Foreign exchange derivative contracts					
- Contractual amounts payable	3 234	35	–	–	3 269
- Contractual amounts receivable	(3 214)	(35)	–	–	(3 249)
Customer accounts	43 699	12 503	6 212	–	62 414
Debt securities issued	4 616	838	7 212	–	12 666
Subordinated debt	111	158	1 927	–	2 196
Total undiscounted financial liabilities	**52 251**	**23 797**	**26 766**	**3 149**	**105 963**

Financial liabilities As at 31 December 2011	***Less than 3 months***	***3 to 12 months***	***1 to 5 years***	***Over 5 years***	***Total***
Due to other banks	4 142	12 805	25 268	8 507	50 722
Foreign exchange derivative contracts					
- Contractual amounts payable	6 077	31	–	–	6 108
- Contractual amounts receivable	(6 001)	(29)	–	–	(6 030)
Customer accounts	27 177	9 361	5 167	–	41 705
Debt securities issued	215	533	1 810	–	2 558
Subordinated debt	269	471	2 359	7 040	10 139
Total undiscounted financial liabilities	**31 879**	**23 172**	**34 604**	**15 547**	**105 202**

The table below shows the contractual expiry by maturity of the Group's financial commitments and contingencies.

	Less than 3 months	***3 to 12 months***	***1 to 5 years***	***Total***
2012	7 721	18 436	3 705	29 862
2011	5 305	14 181	4 516	24 002

(Millions of Russian Rubles)

29. Risk management (continued)

Liquidity risk and funding management (continued)

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

The Group's capability to repay its liabilities relies on its ability to realize an equivalent amount of assets within the same period of time.

The maturity analysis does not reflect the historical stability of current accounts. Their liquidation has historically taken place over a longer period than indicated in the tables above. These balances are included in amounts due in less than three months in the tables above.

Market risk

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

The responsible committees have set limits on the level of risk that may be accepted. The Group applies a sensitivity analysis to assess the market risk positions held and to estimate the potential economic loss based upon a number of parameters and assumptions for various changes in market conditions.

For managing the price, interest rate and currency risk the sensitivity to the reasonable possible change (RPC) of market index, yield curve and exchange rates are applied.

Market risk – Trading

Price risk

There were no material equity positions in the Trading book in 2012 and 2011.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The following table demonstrates the sensitivity (calculation is based on durations of instruments) to a reasonable possible change in interest rates, with all other variables held constant, of the Trading book.

	Increase in basis points		***Sensitivity of profit/loss before tax***	
Currency	***2012***	***2011***	***2012***	***2011***
RUR	260	551	(46)	(126)
USD	5	55	–	(3)

	Decrease in basis points		***Sensitivity of profit/loss before tax***	
Currency	***2012***	***2011***	***2012***	***2011***
RUR	(104)	(200)	18	46
USD	(5)	(15)	–	1

The sensitivity of net interest income (NII) before tax is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities. The sensitivity of equity estimates revaluation of fixed rate available-for-sale financial assets at 31 December for the effects of the assumed changes in interest rates based on the assumption that there are parallel shifts in the yield curve.

	Increase in basis points		***Sensitivity of NII before tax***		***Sensitivity of equity***	
Currency	***2012***	***2011***	***2012***	***2011***	***2012***	***2011***
RUR	260	551	65	100	(52)	(274)
USD	5	55	–	17	–	–

(Millions of Russian Rubles)

29. Risk management (continued)

Market risk (continued)

	Decrease in basis points		*Sensitivity of NII before tax*		*Sensitivity of equity*	
Currency	***2012***	***2011***	***2012***	***2011***	***2012***	***2011***
RUR	(104)	(200)	(26)	(36)	21	99
USD	(5)	(15)	–	(5)	–	–

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

According to the Group principles, all foreign exchange risk is transferred from the Banking book to the Trading book. The Management Board has set internal currency based limits on the Trading book positions and regulatory CBRF limits on consolidated currency position. Positions are monitored on a daily basis and calculated according to RAL.

Market risk – Non-trading

The tables below indicate the currencies to which the Group had significant exposure at 31 December 2012 and 2011 on its consolidated Banking and Trading books assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the RUR, with all other variables held constant on the statement of comprehensive income (due to the fair value of currency sensitive non-trading monetary assets and liabilities). The effect on equity does not differ from the effect on the statement of comprehensive income. A negative amount in the table reflects a potential net reduction in statement of comprehensive income or equity, while a positive amount reflects a net potential increase.

	Increase in currency rate in %		*Effect on profit/(loss) before tax*	
Currency	***2012***	***2011***	***2012***	***2011***
USD	10.7	12.5	(190)	(390)
EUR	9.5	11.8	(7)	(16)

	Decrease in currency rate in %		*Effect on profit/(loss) before tax*	
Currency	***2012***	***2011***	***2012***	***2011***
USD	(10.7)	(12.5)	190	390
EUR	(9.5)	(11.8)	7	16

Operational risk

Operational risk is a risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk includes legal risk, risk of fraud, IT risk and other risks but it does not include business risk, strategic risk and reputation risk.

The Bank continues the implementation of an operational risk management framework. The main precept of operational risk management is that ultimate responsibility for managing operational risk lies with line management, which receives support from local operational risk managers (‘LORM’) and is supervised by the Risk and Capital Oversight Committee (‘RCOC’). The RCOC takes concrete risk mitigating measures either directly or via line management. The LORMs are specifically trained employees who also keep business functions.

The framework consists of a number of building blocks for managing operational risks, which are gradually being implemented. These building blocks are described in the ORM Policy, which also includes the methodology applied to define the operational risk capital charge. The building blocks consist of:

- The Loss Events Database: since 2009 all operational losses of EUR 1 000 or more are recorded in a central database and reported to the RCOC quarterly;
- Implementation of KBC Group standards summarizing international best practice in operational risk area: the Bank translated Group standards into internal procedures which cover risks in such spheres as access rights management, dual controls, accounting controls, complaints handling, etc. The efficiency of Group standards implementation is monitored by the RCOC;
- New products (services) approval process: the main process aim is identification and evaluation all inherent risks before new product launch. Approval of a new product is made jointly during the RCOC on basis of fulfilled business proposal which includes risk assessment and necessary advices.

(Millions of Russian Rubles)

29. Risk management (continued)

Operational risk (continued)

- Key Risk Indicators ('KRI') – carefully selected parameters, tailored to selected business processes or areas, which are assumed to have a signaling function regarding changes in the operational risk profile or adequacy of existing controls. In 2012 the following KRIs were applied:
  - For complaints handling process,
  - For HR management,
  - For fraud control in plastic cards, internet banking and credit products,
  - For information security incidents monitoring.

It is ongoing the process of fine tuning developed indicators (correction of calculation algorithms and thresholds) and implementation of new KRIs for other processes.

30. Fair values of financial instruments

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

The 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.

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

At 31 December 2012	*Level 1*	*Level 2*	*Total*
Financial assets			
Trading securities	1 977	–	1 977
Derivative financial instruments	–	35	35
Investment securities available for sale	7 407	–	7 407
	9 384	**35**	**9 419**
Financial liabilities			
Derivative financial instruments	–	43	43

There have been no transfers from level 2 to level 1 and vice versa in 2012.

At 31 December 2011	*Level 1*	*Level 2*	*Total*
Financial assets			
Trading securities	1 973	–	1 973
Derivative financial instruments	–	39	39
Investment securities available for sale	5 054	–	5 054
	7 027	**39**	**7 066**
Financial liabilities			
Derivative financial instruments	–	125	125

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 Group's estimate of assumptions that a market participant would make when valuing the instruments.

Derivatives

Derivatives valued using a valuation technique with market observable inputs are mainly interest rate swaps, currency swaps and forward foreign exchange contracts. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves.

(Millions of Russian Rubles)

30. Fair values of financial instruments (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 non-financial assets and non-financial liabilities.

	31 December 2012			*31 December 2011*		
	Carrying value	***Fair value***	***Unrecognised gain/(loss)***	***Carrying value***	***Fair value***	***Unrecognised gain/(loss)***
Financial assets						
Cash and cash equivalents	15 628	15 628	–	18 659	18 659	–
Mandatory cash balances with the Central Bank of the Russian Federation	619	619	–	549	549	–
Due from other banks	6 376	6 376	–	12 147	12 147	–
Loans to customers	68 765	67 926	(839)	68 866	69 333	467
Financial liabilities						
Due to other banks	26 574	26 442	132	44 340	44 341	(1)
Customer accounts	47 309	47 308	1	40 839	40 782	57
Debt securities issued	11 554	11 584	(30)	2 551	2 422	129
Subordinated debt	1 928	1 928	–	7 410	7 320	90
Total unrecognised change in unrealised fair value			**(736)**			**742**

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

Cash and cash equivalents are carried at amortised cost, which approximates current fair value.

Loans and receivables carried at amortised cost

The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

The Group believes that the carrying amount of due from other banks balances closely approximates their fair value as all the loans granted to other banks are of a short term nature and expire shortly after the reporting date.

Liabilities carried at amortised cost

The fair value of debt securities in issue is based on quoted market prices. The estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The fair value of liabilities repayable on demand or after a notice period ("demandable liabilities") is estimated as the amount payable on demand, discounted from the first date that the amount could be required to be paid.

31. Maturity analysis of assets and liabilities

In its day-to-day liquidity management performed by the Treasury and liquidity reporting to ALCO the Group uses information from management accounts, which are based on statutory financial reporting figures. The liquidity analysis based on the international financial reporting figures as adjusted above is used as a subsequent control tool and in reporting to the international finance creditors.

(Millions of Russian Rubles)

31. Maturity analysis of assets and liabilities (continued)

The tables below shows an analysis of financial assets and liabilities as of 31 December 2012 and 2011 according to when they are contracted to be recovered or settled, except for mortgage loans, which are divided based on recursion model, which uses statistic data for period of 1 year for estimation of future payments. See Note 29 for the Group's contractual undiscounted repayment obligations.

31 December 2012	*Demand and less than 1 month*	*From 1 to 3 months*	*From 3 to 12 months*	*From 12 months to 5 years*	*Over 5 years*	*Overdue*	*Total*
Cash and cash equivalents	15 628	–	–	–	–	–	15 628
Mandatory cash balances with the Central Bank of the Russian Federation	619	–	–	–	–	–	619
Trading securities	1 977	–	–	–	–	–	1 977
Due from other banks	6 376	–	–	–	–	–	6 376
Derivative financial assets	28	6	1	–	–	–	35
Loans to customers	5 194	9 753	19 541	28 027	5 538	712	68 765
Investment securities available for sale	7 407	–	–	–	–	–	7 407
Other assets	323	22	–	–	–	–	345
Total financial assets	**37 552**	**9 781**	**19 542**	**28 027**	**5 538**	**712**	**101 152**
Due to other banks	4 918	69	8 959	9 591	3 037	–	26 574
Derivative financial liabilities	13	7	–	23	–	–	43
Customer accounts	25 468	4 360	11 867	5 614	–	–	47 309
Debt securities issued	174	1 417	934	9 029	–	–	11 554
Other liabilities	194	–	–	–	–	–	194
Subordinated debt	–	108	104	1 716	–	–	1 928
Total financial liabilities	**30 767**	**5 961**	**21 864**	**25 973**	**3 037**	**–**	**87 602**
Net liquidity gap	**6 785**	**3 820**	**(2 322)**	**2 054**	**2 501**	**712**	**13 550**
Cumulative liquidity gap	**6 785**	**10 605**	**8 283**	**10 337**	**12 838**		

The Group held financing as of 31 December 2012 from an international banking organisation. This loan arrangement in amount RUB 95 million (31 December 2011: RUB 181 million) is subject to fulfillment of financial covenants, which were not fully complied by the Group as of 31 December 2012. As of the date of signing the financial statements the creditor has not claimed early repayment of this loan.

31 December 2011	*Demand and less than 1 month*	*From 1 to 3 months*	*From 3 to 12 months*	*From 12 months to 5 years*	*Over 5 years*	*Overdue*	*Total*
Cash and cash equivalents	18 659	–	–	–	–	–	18 659
Mandatory cash balances with the Central Bank of the Russian Federation	549	–	–	–	–	–	549
Trading securities	1 973	–	–	–	–	–	1 973
Due from other banks	9 248	2 899	–	–	–	–	12 147
Derivative financial assets	–	38	–	1	–	–	39
Loans to customers	3 014	8 203	20 846	30 194	5 425	1 184	68 866
Investment securities available for sale	5 054	–	–	–	–	–	5 054
Other assets	328	24	–	–	–	–	352
Total financial assets	**38 825**	**11 164**	**20 846**	**30 195**	**5 425**	**1 184**	**107 639**
Due to other banks	4 712	139	10 460	20 980	8 049	–	44 340
Derivative financial liabilities	58	18	2	47	–	–	125
Customer accounts	23 415	3 760	8 853	4 811	–	–	40 839
Debt securities issued	126	101	601	1 723	–	–	2 551
Other liabilities	357	3	1	–	–	–	361
Subordinated debt	127	130	140	427	6 586	–	7 410
Total financial liabilities	**28 795**	**4 151**	**20 057**	**27 988**	**14 635**	**–**	**95 626**
Net liquidity gap	**10 030**	**7 013**	**789**	**2 207**	**(9 210)**	**1 184**	**12 013**
Cumulative liquidity gap	**10 030**	**17 043**	**17 832**	**20 039**	**10 829**		

(Millions of Russian Rubles)

32. Related party disclosures

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

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

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

	2012				***2011***			
	Parent	***Other related parties***	***Entities under common control***	***Key management personnel***	***Parent***	***Other related parties***	***Entities under common control***	***Key management personnel***
Consolidated statement of financial position:								
Cash and cash equivalents (contractual interest rates: 2012: 0%; 2011: 0-4.6%)	1 626	–	–	–	2 377	–	–	–
Due from other banks (contractual interest rates: 2012: 0.01-6.5%; 2011: 0.5-7.4%)	3 416	–	–	–	7 081	–	–	–
Gross amount of loans and advances to customers (contractual interest rates: 2012: 9.55-11.25%; 2011: 7.88-11.25%)	–	2 358	–	6	–	2 502	–	8
Allowance for impairment of loans to customers	–	(27)	–	–	–	–	–	–
Other assets	4	–	–	–	–	–	–	–
Due to other banks (contractual interest rates: 2012: 0.02-8.4%; 2011: 1.19-8.4%)	22 947	–	1	–	39 062	–	2	–
Customer accounts (contractual interest rates: 2012: 0-10%; 2011: 0-8.9%)	–	209	68	14	–	83	160	37
Other liabilities	2	–	–	229	6	–	9	45
Subordinated debt (contractual interest rate: 2012: 3.27%; 2011: 5.81-8.03%)	1 518	–	–	–	6 745	–	–	–
Consolidated statement of comprehensive income:								
Interest income	75	186	–	1	51	193	–	1
Interest expense	(2 257)	(9)	(1)	(1)	(2 682)	(1)	(2)	(1)
Allowance for loan impairment	–	(27)	–	–	–	66	–	–
Fee and commission income	1	7	–	–	1	1	8	–
Fee and commission expense	(1)	–	–	–	(1)	–	–	–
Net (losses)/gains from trading in foreign currencies	1	(8)	–	–	6	–	1	–
Net gains/(losses) from operations with derivatives	51	–	3	–	293	–	2	–
Administrative and other operating expenses	(19)	–	–	–	(14)	–	(25)	–
Credit related commitments:								
Undrawn credit lines	500	150	–	6	500	2 270	–	4
Guaranties issued	–	–	–	–	262	–	–	–

Other related parties are companies under control of one of the members of Board of Directors of the Bank.

Compensation of key management personnel was comprised of the following:

	2012	***2011***
Salaries and other short-term benefits	280	113
Social security costs	28	5
Total key management compensation	**308**	**118**

(Millions of Russian Rubles)

33. Capital adequacy

The Group maintains an actively managed 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 II Capital Accord and the ratios established by the CBRF in supervising the Group.

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

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

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 dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

Capital adequacy ratio under Basel II Capital Accord

The Group applies guidelines set out in June 2006 by the Basel Committee of Banking Regulation and Supervision in "International Convergence of Capital Measurement and Capital Standards: a Revised Framework" ("Basel II").

The Group uses following approaches stipulated by the Basel II:

- The minimum capital requirements for credit risk are calculated based on the standardized approach supported by an external rating assessment;
- The minimum capital requirements for market risk are calculated under standardized measurement method as combination of interest rate risk, equity position risk and foreign exchange risk according to predefined models. The basic structure of the 1996 Market Risk Amendment regarding the treatment of market risk remains unchangeable. Employable models were adjusted in accordance with methodology used under standardized approach for calculating the minimum capital requirements for credit risk;
- The minimum capital requirements for operational risk are calculated based on Basic Indicator Approach.

The Group's capital adequacy ratio, computed in accordance with the Basel II Capital Accord as at 31 December 2012 and 2011, comprised:

	31 December 2012	***31 December 2011***
Tier 1 capital	17 746	16 564
Tier 2 capital	1 606	6 954
Regulatory capital	**19 352**	**23 518**
Weighted risks		
Credit risk	71 331	75 824
Market risk	2 279	4 785
Operational risk	11 826	14 322
Total weighted risk volume	**85 436**	**94 931**
Tier 1 capital ratio	20.8%	17.4%
Total capital ratio	22.7%	24.8%