Open joint stock company
“Asian-Pacific Bank”

Consolidated Financial Statements

for the year ended 31 December 2012

Contents

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Auditors' Report

To the Shareholders and Board of Directors of "Asian-Pacific Bank" Open joint stock company

We have audited the accompanying consolidated financial statements of "Asian-Pacific Bank" Open joint stock company and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2012, and the consolidated statements of comprehensive income, changes in equity and cash flows for 2012, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to express an opinion on the fair presentation of these consolidated financial statements.

Audited entity: "Asian-Pacific Bank" Open joint stock company.

Registered by the Central Bank of the Russian Federation on 14 February 1992, Registration No. 1810.

Entered in the Unified State Register of Legal Entities on 22 August 2002 by the Amur Regional Tax Inspectorate of the Ministry of Taxes and Duties of the Russian Federation, Registration No. 1022800000079, Certificate series 28 No. 000749008.

Address of the audited entity: 225 Amurskaya St., Blagoveschensk, Amur region, Russian Federation, 675000.

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

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

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

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

Opinion

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

Kolosov A.E.

Director

power of attorney dated 3 October 2011 No. 37/11,
license No. 01-000130.

15 April 2013

ZAO KPMG

Moscow, Russian Federation

	Notes	2012 RUB'000	2011 RUB'000
Interest income	4	11 079 208	7 092 108
Interest expense	4	(4 566 566)	(2 498 999)
Net interest income		**6 512 642**	**4 593 109**
Fee and commission income	5	2 209 602	1 086 238
Fee and commission expense		(214 811)	(163 530)
Net fee and commission income		**1 994 791**	**922 708**
Net gain on financial instruments at fair value through profit or loss and realised gain on available-for-sale financial instruments		768 517	301 073
Net foreign exchange income	6	289 356	236 998
Net gain on operations with precious metals		26 428	8 014
Other operating income	7	513 930	328 386
Operating income		**10 105 664**	**6 390 288**
Impairment losses	8	(1 732 257)	(535 955)
Personnel expenses	9	(2 997 249)	(2 190 468)
Other general administrative expenses	10	(1 393 478)	(1 038 832)
Profit before income tax		**3 982 680**	**2 625 033**
Income tax expense	11	(721 440)	(431 537)
Profit for the year		**3 261 240**	**2 193 496**
Other comprehensive income			
Net gain from revaluation of available-for-sale financial assets		12 147	-
Net gain from revaluation of property		-	1 568 298
Income tax related to other comprehensive income		(2 429)	(214 834)
Other comprehensive income, net of income tax		**9 718**	**1 353 464**
Total comprehensive income for the year		**3 270 958**	**3 546 960**

The consolidated financial statements were approved by the Management board on 15 April 2013.

Mr. E.V. Aksenov
Chairman of the Board

Mr. O.V. Marinchenko
Chief Accountant

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

	Notes	2012 RUB'000	2011 RUB'000
ASSETS			
Cash		2 635 977	2 323 665
Placements with the Central Bank of the Russian Federation	12	3 102 000	1 854 991
Financial instruments at fair value through profit or loss	13	12 400 814	9 850 631
Available-for-sale financial assets	14	3 412 061	-
Due from banks	15	3 627 677	1 314 336
Amounts receivable under reverse repurchase agreements	16	150 107	-
Loans to customers	17	58 468 269	37 851 363
Net investments in finance leases	18	2 071 329	1 642 739
Current tax asset		9 563	10 538
Deferred tax asset	11	25 432	8 660
Property, equipment, intangible assets and investment property	20	4 592 030	4 220 145
Other assets	21	1 680 550	1 452 951
Total assets		**92 175 809**	**60 530 019**
LIABILITIES			
Derivative financial instruments	13	160 740	-
Deposits and balances from banks	22	7 130 691	3 909 951
Amounts payable under repurchase agreements	23	2 113 126	-
Current accounts and deposits from customers	24	65 143 328	46 340 622
Debt securities issued	25	4 184 231	537 674
Subordinated borrowings	26	915 050	-
Current tax liability		87 204	153 390
Deferred tax liability	11	288 773	312 900
Other liabilities	27	623 732	551 306
Total liabilities		**80 646 875**	**51 805 843**
EQUITY			
Share capital	28	562 312	562 312
Share premium		1 192 723	1 192 723
Revaluation surplus for available-for-sale financial assets		9 718	-
Revaluation surplus for buildings		1 280 014	1 353 464
Retained earnings		8 484 167	5 615 677
Total equity		**11 528 934**	**8 724 176**
Total liabilities and equity		**92 175 809**	**60 530 019**

Mr. E.V. Aksenov
Chairman of the Board

Mr. O.V. Marinchenko
Chief Accountant

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

	Notes	2012 RUB'000	2011 RUB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest receipts		10 574 475	6 855 932
Interest payments		(3 839 369)	(2 245 746)
Fee and commission receipts		1 650 024	1 059 188
Fee and commission payments		(228 380)	(150 595)
Net receipts from financial instruments at fair value through profit or loss and available-for-sale financial instruments		785 468	221 081
Net receipts from foreign exchange		339 943	256 549
Other income receipts		513 930	326 891
Net receipts from operations with precious metals		26 428	8 014
General administrative expenses payments		(3 982 060)	(2 872 895)
(Increase) decrease in operating assets			
Obligatory reserves with the CBR		(261 674)	(263 377)
Financial instruments at fair value through profit or loss		(2 592 275)	(2 383 464)
Available-for-sale financial assets		(3 400 037)	98 150
Due from banks		51 016	(208 159)
Amounts receivable under reverse repurchase agreements		(150 000)	5 726 883
Loans to customers		(21 376 437)	(17 953 281)
Net investments in finance leases		(326 703)	(900 896)
Other assets		(225 649)	(1 062 073)
Increase (decrease) in operating liabilities			
Deposits and balances from banks		3 195 363	2 187 058
Amounts payable under repurchase agreements		2 112 317	-
Current accounts and deposits from customers		18 129 499	13 750 667
Promissory notes		633 014	(965 710)
Other liabilities		(73 860)	(35 487)
Cash flows from operating activities before income tax paid		**1 555 033**	**1 448 730**
Income tax paid		(829 979)	(561 532)
Cash flows from operations		**725 054**	**887 198**
CASH FLOWS FROM INVESTING ACTIVITIES			
Net purchases of property and equipment and intangible assets		(633 357)	(910 344)
Cash flows used in investing activities		**(633 357)**	**(910 344)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Issue of bonds		2 989 608	-
Attraction of subordinated borrowing		942 789	-
Distribution to shareholders		(466 200)	(316 200)
Cash flows from (used in) financing activities		**3 466 197**	**(316 200)**

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

	Notes	2012 RUB'000	2011 RUB'000
Net increase (decrease) in cash and cash equivalents		**3 557 894**	**(339 346)**
Effect of changes in exchange rates on cash and cash equivalents		104 097	(19 551)
Cash and cash equivalents as at the beginning of the year		4 518 619	4 877 516
Cash and cash equivalents as at the end of the year	35	**8 180 610**	**4 518 619**

Mr. E.V. Aksenov
Chairman of the Board

Mr. O.V. Marinchenko
Chief Accountant

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

RUB'000	Share capital	Share premium	Revaluation surplus for available-for-sale financial assets	Revaluation surplus for buildings	Retained earnings	Total equity
Balance as at 1 January 2011	**562 312**	**1 192 723**	-	-	**3 738 381**	**5 493 416**
Total comprehensive income						
Profit for the year	-	-	-	-	2 193 496	2 193 496
Other comprehensive income						
Revaluation of buildings, net of deferred tax of RUB 214 834 thousand	-	-	-	1 353 464	-	1 353 464
Total comprehensive income for the year	-	-	-	**1 353 464**	**2 193 496**	**3 546 960**
Transactions with owners, recorded directly in equity						
Distributions to shareholders (note 36)	-	-	-	-	(316 200)	(316 200)
Total transactions with owners	-	-	-	-	**(316 200)**	**(316 200)**
Balance as at 31 December 2011	**562 312**	**1 192 723**	-	**1 353 464**	**5 615 677**	**8 724 176**
Total comprehensive income						
Profit for the year	-	-	-	-	3 261 240	3 261 240
Other comprehensive income						
Revaluation of available-for-sale financial assets, net of deferred tax of RUB 2 429 thousand	-	-	9 718	-	-	9 718
Reclassification of buildings from property and equipment to investment property	-	-	-	(73 450)	73 450	-
Total comprehensive income for the year	-	-	**9 718**	**(73 450)**	**3 334 690**	**3 270 958**
Transactions with owners, recorded directly in equity						
Distributions to shareholders (note 36)	-	-	-	-	(466 200)	(466 200)
Total transactions with owners	-	-	-	-	**(466 200)**	**(466 200)**
Balance as at 31 December 2012	**562 312**	**1 192 723**	**9 718**	**1 280 014**	**8 484 167**	**11 528 934**

Mr. E.V. Aksenov
Chairman of the Board

Mr. O.V. Marinchenko
Chief Accountant

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

1 Background

Organisation and operations

These consolidated financial statements include the financial statements of OJSC “Asian-Pacific Bank” (the Bank) and its subsidiaries (together referred to as the Group).

The Bank was established in the Russian Federation as a closed joint stock company in 1992 under the name Amurpromstroybank as a successor of Promstroybank of USSR which was founded in 1929. In 2006 the Bank was reorganised from a closed joint stock company to an open joint stock company and renamed to Asian-Pacific Bank by decision of the shareholders. On 7 May 2010 LLC “PPFIN Region”, being a common majority shareholder for OJSC “Asian-Pacific Bank”, OJSC “Kamchatprombank” and OJSC “Kolyma-Bank”, merged the operations of these entities and therefore granted full control over OJSC “Kamchatprombank” and OJSC “Kolyma-Bank” to OJSC “Asian-Pacific Bank”.

The principal activities of the Bank are deposit taking and customer accounts maintenance, lending, issuing guarantees, cash and settlement operations and operations with securities and foreign exchange. The activities of the Bank are regulated by the Central Bank of the Russian Federation (the CBR). The Bank has a general banking license, and is a member of the state deposit insurance system in the Russian Federation.

The Bank has 272 (2011: 211) offices from which it conducts business throughout the Russian Federation including a head office, 5 regional branches, 63 additional offices, 200 operational offices and 3 operational cash boxes. The registered address of the head office is 225, Amurskaya Street, Blagoveschensk, 675000. The majority of the assets and liabilities are located in the Russian Federation.

As at 31 December 2012 the following shareholders held the issued shares of Open Joint Stock Company “Asian-Pacific Bank”:

Shareholder	2012 %	2011 %
LLC “PPFIN Region” (Russian Federation)	66.62	67.24
East Capital Explorer Financial Institutions Fund AB (Sweden)	17.91	17.91
International Financial Corporation	6.99	6.99
Aksenov E.V.	5.21	5.21
Others	3.27	2.65
Total:	**100.00**	**100.00**

Details of the subsidiaries are as follows:

Name	Country of incorporation	Principal activities	Ownership % 2012	Ownership % 2011
LLC “Expo-Leasing”	Russian Federation	Leasing	100%	100%
CJSC “Mortgage agent APB”	Russian Federation	Mortgage agent	see below	-

On 1 October 2010 100% of the shares of LLC “Expo-Leasing” were acquired by the Bank.

LLC “Expo-Leasing” was registered in 2002 in Russia. Its head office is in Moscow and it has 12 branches (2011: 11) comprising a head office, 1 regional branch and 10 separate offices.

CJSC “Mortgage agent APB” is a special purpose entity established to facilitate the Bank’s issue of mortgage backed securities (refer to note 25). This entity is not owned by the Group. Control arises through the predetermination of the entity’s activities, having rights to obtain the majority of benefits of the SPE, and retaining the majority of the residual risks related to the entity.

In 2012 the average number of the Group’s employees was 3 673 (2011: 3 242).

Russian business environment

The Group’s operations are primarily located in the Russian Federation. Consequently, the Group is exposed to the economic and financial markets of the Russian Federation which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Russian Federation. In addition, the contraction in the capital and credit markets and its impact on the Russian economy have further increased the level of economic uncertainty in the environment. The consolidated financial statements reflect management’s assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management’s assessment.

2 Basis of preparation

Statement of compliance

The accompanying consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS).

Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except that financial instruments at fair value through profit or loss and available-for-sale financial assets are stated at fair value, and buildings are stated at revalued amounts.

Functional and presentation currency

The functional currency of the Bank and the subsidiaries is the Russian Rouble (RUB) as, being the national currency of the Russian Federation, it reflects the economic substance of the majority of underlying events and circumstances relevant to them.

The RUB is also the presentation currency for the purposes of these consolidated financial statements.

Financial information presented in RUB is rounded to the nearest thousand.

Use of estimates and judgments

The preparation of consolidated financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results could differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies is described in the following notes:

- loan impairment estimates - note 17
- building revaluation estimates - note 20.

Changes in accounting policies and presentation

With effect from 1 January 2012, the Group changed its accounting policies in the following area:

- Amendments to IFRS 7 - *Disclosures - Transfers of financial assets.*

3 Significant accounting policies

The accounting policies set out below are applied consistently by the Group entities to all periods presented in these consolidated financial statements, except as explained in note 2, which addresses changes in accounting policies

Basis of consolidation

Business combinations

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

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

The Group elects on a transaction-by-transaction basis whether to measure non-controlling interests at fair value, or at their proportionate share of the recognized amount of the identifiable net assets of the acquiree, at the acquisition date.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases.

Special purpose entities

Special purpose entities (SPEs) are entities that are created to accomplish a narrow and well-defined objective such as the securitisation of particular assets, or the execution of a specific borrowing or lending transaction. An SPE is consolidated if, based on an evaluation of the substance of its relationship with the Group and the SPE’s risks and rewards, the Group concludes that it controls the SPE.

Acquisitions of entities under common control

Acquisitions of controlling interests in entities that are under the control of the same controlling shareholder of the Group are accounted from the date of acquisition. The assets and liabilities acquired are recognized at their book values as recorded in the individual financial statements of the acquiree at the acquisition date. The difference between consideration paid and recognised amount of net assets is recognised in equity.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates are eliminated to the extent of the Group's interest in the enterprise. Unrealised gains resulting from transactions with associates are eliminated against the investment in the associate. Unrealised losses are eliminated in the same way as unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment.

Goodwill

Goodwill on acquisitions of subsidiaries is included in intangible assets. In respect of associates, the carrying amount of goodwill is included in the carrying amount of the investment in the associate.

Goodwill is allocated to cash-generating units for impairment testing purposes and is stated at cost less impairment losses.

Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Foreign currency

Foreign currency transactions

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

Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances (nostro accounts) held with the CBR and other banks and amounts due from credit institutions with original maturity within ninety days and which are free from contractual encumbrances. The mandatory reserve deposits with the CBR are not considered to be a cash equivalent due to restrictions on their withdrawability. Cash and cash equivalents are carried at amortized cost in the consolidated statement of financial position.

Financial instruments

Classification

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

- acquired or incurred principally for the purpose of selling or repurchasing in the near term

- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking

- derivative financial instruments (except for derivative financial instruments that are designated and effective hedging instruments) or,

- upon initial recognition, designated as at fair value through profit or loss.

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

- the assets or liabilities are managed, evaluated and reported internally on a fair value basis

- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise or,

- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

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

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

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

- intends to sell immediately or in the near term

- upon initial recognition designates as at fair value through profit or loss

- upon initial recognition designates as available-for-sale or,

- may not recover substantially all of its initial investment, other than because of credit deterioration.

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

- the Group upon initial recognition designates as at fair value through profit or loss

- the Group designates as available-for-sale or,

- meet the definition of loans and receivables.

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

Recognition

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

Measurement

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

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

- loans and receivables which are measured at amortized cost using the effective interest method

- held-to-maturity investments that are measured at amortized cost using the effective interest method

- investments in equity instruments that do not have a quoted market price in an active market and whose fair value can not be reliably measured which are measured at cost.

All financial liabilities, other than those designated at fair value through profit or loss and financial liabilities that arise when a transfer of a financial asset carried at fair value does not qualify for derecognition, are measured at amortized cost.

The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortized based on the effective interest rate of the instrument.

Fair value measurement principles

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 on the measurement date.

When available, the Group measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm’s length basis.

If a market for a financial instrument is not active, the Group establishes fair value using a valuation technique. Valuation techniques include using recent arm’s length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Group, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e., the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When a transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognized in profit or loss on an appropriate basis over the life of the instrument but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

Assets and long positions are measured at a bid price; liabilities and short positions are measured at an asking price. Where the Group has positions with offsetting risks, mid-market prices are used to measure the offsetting risk positions and a bid or asking price adjustment is applied only to the net open position as appropriate. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group entity and the counterparty where appropriate. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that the Group believes a third-party market participant would take them into account in pricing a transaction.

Gains and losses on subsequent measurement

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

- a gain or loss on a financial instrument classified as at fair value through profit or loss is recognized in profit or loss

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

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

Derecognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognized as a separate asset or liability in the consolidated statement of financial position. The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

The Group enters into transactions whereby it transfers assets recognized on its consolidated statement of financial position, but retains either all risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognized.

In transactions where the Group neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, it derecognises the asset if control over the asset is lost.

In transfers where control over the asset is retained, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred assets.

If the Group purchases its own debt, it is removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from early retirement of debt.

The Group writes off assets deemed to be uncollectible.

Repurchase and reverse repurchase agreements

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

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

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

Securitisation

For securitised financial assets, the Group considers both the degree of transfer of risks and rewards on assets transferred to another entity and the degree of control exercised by the Group over the other entity.

When the Group, in substance, controls the entity to which financial assets are transferred, the entity is included in these consolidated financial statements and the transferred assets are recognized in the consolidated statement of financial position.

When the Group transfers financial assets to another entity, but retains substantially all the risks and rewards relating to the transferred assets, the transferred assets are recognized in the consolidated statement of financial position.

When the Group transfers substantially all the risks and rewards relating to the transferred assets to an entity that it does not control, the assets are derecognized from the consolidated statement of financial position.

If the Group neither transfers nor retains substantially all the risks and rewards relating to the transferred assets, the assets are derecognized if the Group has not retained control over the assets.

Offsetting

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

Leases

The Group’s lease transactions are classified as either financing or operating leases at inception in accordance with IAS 17 *Leases*.

Finance leases are leases that transfer substantially all the risks and rewards incident to ownership of an asset. Title may or may not eventually be transferred. Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract. The indicators for finance lease classification are:

- The lease transfers ownership of the asset to the lessee by the end of the lease term;
- The lessee has the option to purchase the asset at a price which is expected to be sufficiently lower than the fair value at the date the option becomes exercisable such that, at the inception of the lease, it is reasonably certain that the option will be exercised;
- The lease term is for the major part of the economic life of the asset even if title is not transferred;
- At the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset; or
- The leased assets are of a specialised nature such that only the lessee can use them without major modifications being made.

The Group as a lessor initially measures finance leases at an amount equal to the net investment in the lease. Subsequently the recognition of finance income is based on a pattern reflecting a constant periodic rate of return on the Group’s net investment in the finance lease.

Property and equipment

Owned assets

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

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

Revaluation

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

Leased assets

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

Depreciation

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

-	buildings	50 years
-	computers and equipment	5 years
-	fixtures and fittings	5 years
-	vehicles	5 years
-	computer software	5 years

Intangible assets

Acquired intangible assets are stated at cost less accumulated amortisation and impairment losses.

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

Investment property

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

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

Impairment

Financial assets carried at amortized cost

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

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

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

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

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

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

When a loan is uncollectible, it is written off against the related allowance for loan impairment. The Group writes off a loan balance (and any related allowances for loan losses) when management determines that the loans are uncollectible and when all necessary steps to collect the loan are completed.

Financial assets carried at cost

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

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

Available-for-sale financial assets

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

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

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

Non financial assets

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

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

Provisions

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

A provision for restructuring is recognized when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

Credit related commitments

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

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

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

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

Loan commitments are not recognized, except for the followings:

- loan commitments that the Group designates as financial liabilities at fair value through profit or loss

- if the Group has a past practice of selling the assets resulting from its loan commitments shortly after origination, then the loan commitments in the same class are treated as derivative instruments

- loan commitments that can be settled net in cash or by delivering or issuing another financial instrument

- commitments to provide a loan at a below-market interest rate.

Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognized as a deduction from equity, net of any tax effects.

Preference share capital

Preference share capital that is non-redeemable and carries no mandatory dividends is classified as equity.

Repurchase of share capital

When share capital recognized as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognized as a decrease in equity.

Dividends

The ability of the Group to declare and pay dividends is subject to the rules and regulations of the Russian legislation.

Dividends in relation to ordinary shares are reflected as an appropriation of retained earnings in the period when they are declared.

Taxation

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

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

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and temporary differences related to investments in subsidiaries where the parent is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

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

Income and expense recognition

Interest income and expense are recognized in profit or loss using the effective interest method.

Loan origination fees, loan servicing fees and other fees that are considered to be integral to the overall profitability of a loan, together with the related transaction costs, are deferred and amortized to interest income over the estimated life of the financial instrument using the effective interest method.

Other fees, commissions and other income and expense items are recognized in profit or loss when the corresponding service is provided.

Dividend income is recognized in profit or loss on the date that the dividend is declared.

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

Hyperinflation accounting

The Russian Federation ceased to be hyperinflationary with effect from 1 January 2003 and, accordingly, no adjustments for hyperinflation are made for periods subsequent to this date. The hyperinflation-adjusted carrying amounts of equity items as at 31 December 2002 became their carrying amounts as at 1 January 2003 for the purpose of subsequent accounting.

Segment reporting

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

New standards and interpretations not yet adopted

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

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

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

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

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

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

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

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

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

4 Interest income and expense

	2012 RUB'000	2011 RUB'000
Interest income		
Loans to customers	10 437 820	6 400 517
Net investments in finance leases	458 218	280 622
Financial instruments at fair value through profit or loss and available-for-sale financial assets	107 592	243 322
Due from banks	75 578	167 647
	11 079 208	**7 092 108**
Interest expense		
Current accounts and deposits from customers	3 728 697	2 244 048
Deposits and balances from banks	650 889	170 178
Debt securities issued	175 806	81 442
Subordinated borrowings	11 174	3 331
	4 566 566	**2 498 999**

5 Fee and commission income

	2012 RUB'000	2011 RUB'000
Settlement operations	1 152 608	767 601
Insurance agent commission	808 385	108 552
Accounts opening and maintenance	146 488	86 142
Guarantee and letter of credit issuance	50 642	79 192
Other	51 479	44 751
	2 209 602	**1 086 238**

6 Net foreign exchange income

	2012 RUB'000	2011 RUB'000
Gain on spot transactions and derivatives	153 651	256 549
Gain (loss) from revaluation of financial assets and liabilities	135 705	(19 551)
	289 356	**236 998**

7 Other operating income

	2012 RUB'000	2011 RUB'000
Penalties on loans issued	311 264	200 295
Income from sale of repossesed collateral	34 800	425
Income from sale of loans	34 335	18 236
Rental income	27 061	29 272
Dividends and other participation income	15 200	69
Income from trust management	-	15 150
Other income	91 270	64 939
	513 930	**328 386**

8 Impairment losses

	2012 RUB'000	2011 RUB'000
Loans to customers	(1 720 933)	(539 613)
Net investments in finance leases	(11 324)	3 658
	(1 732 257)	**(535 955)**

9 Personnel expenses

	2012 RUB'000	2011 RUB'000
Employee compensation	2 450 906	1 830 134
Payroll related taxes	546 343	360 334
	2 997 249	**2 190 468**

10 Other general administrative expenses

	2012 RUB’000	2011 RUB’000
Depreciation and amortization	234 568	128 192
Taxes other than income tax	204 631	187 147
Write-off of materials and loss on disposals of assets	161 126	107 707
Insurance	133 073	90 131
Repairs and maintenance	115 807	94 078
Rent	98 408	68 037
Communications and information services	92 670	78 184
Advertising and marketing	91 668	75 557
Security	42 091	36 276
Travel expenses	38 125	21 566
Professional services	9 499	6 782
Fines and penalties	4 575	1 908
Other	167 237	143 267
	1 393 478	**1 038 832**

11 Income tax expense

	2012 RUB’000	2011 RUB’000
Current tax expense		
Current year	764 768	543 089
Reversal of temporary differences	(43 328)	(111 552)
Total income tax expense	**721 440**	**431 537**

In 2012, the applicable tax rate for current and deferred tax is 20% (2011: 20%).

Reconciliation of effective tax rate for the year ended 31 December:

	2012 RUB’000	%	2011 RUB’000	%
Profit before tax	**3 982 680**		**2 625 033**	
Income tax at the applicable tax rate	796 536	20.0%	525 007	20.0%
Recovery of income tax of previous year	-	-	(49 596)	(1.9%)
Other differences	(60 644)	(1.5%)	(42 278)	(1.6%)
Income taxed at lower tax rates	(14 452)	(0.4%)	(1 596)	(0.1%)
	721 440	**18.1%**	**431 537**	**16.4%**

Deferred tax asset and liability

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to deferred tax assets and liabilities as at 31 December 2012 and 2011. Net deferred tax liabilities have been recognized in these consolidated financial statements.

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

RUB'000	Balance 1 January 2012	Recognized in profit or loss	Recognized in equity	Balance 31 December 2012
Due from banks	(1 217)	1 217	-	-
Financial instruments at fair value through profit or loss	10 395	(8 010)	-	2 385
Available-for-sale financial assets	-	-	(2 429)	(2 429)
Derivative financial instruments	(5 058)	37 201	-	32 143
Loans to customers	(50 538)	(60 685)	-	(111 223)
Net investments in finance leases	8 660	16 772	-	25 432
Property, equipment and intangible assets	(318 095)	17 513	-	(300 582)
Debt securities issued	246	(908)	-	(662)
Other liabilities	51 367	40 228	-	91 595
	(304 240)	**43 328**	**(2 429)**	**(263 341)**

RUB'000	Balance 1 January 2011	Recognized in profit or loss	Recognized in equity	Balance 31 December 2011
Due from banks	(3 738)	2 521	-	(1 217)
Financial instruments at fair value through profit or loss	(10 879)	21 274	-	10 395
Derivative financial instruments	(544)	(4 514)	-	(5 058)
Amounts receivable under reverse repurchase agreements	(2 575)	2 575	-	-
Loans to customers	(99 759)	49 221	-	(50 538)
Net investments in finance leases	12 429	(3 769)	-	8 660
Property, equipment and intangible assets	(98 826)	(4 435)	(214 834)	(318 095)
Current accounts and deposits from customers	(5 854)	5 854	-	-
Promissory notes	-	246	-	246
Other liabilities	8 788	42 579	-	51 367
	(200 958)	**111 552**	**(214 834)**	**(304 240)**

12 Placements with the Central Bank of the Russian Federation

	2012 RUB'000	2011 RUB'000
Nostro accounts	2 155 496	1 020 172
Obligatory reserves with the CBR	746 455	484 781
Term deposits	200 049	350 038
Total placements with the Central Bank of the Russian Federation	**3 102 000**	**1 854 991**

13 Financial instruments at fair value through profit or loss

	2012 RUB’000	2011 RUB’000
ASSETS		
Held by the Group		
Debt and other fixed-income instruments		
- Government and municipal bonds		
Russian Government Federal bonds (OFZ)	2 274 536	2 067 217
Regional authorities bonds	882 547	-
Total government and municipal bonds	**3 157 083**	**2 067 217**
- Corporate bonds		
rated from BB- to BBB+	6 290 939	1 690 351
rated below B+	851 179	1 070 855
not rated	148 896	193 265
Total corporate bonds	**7 291 014**	**2 954 471**
- Promissory notes		
rated from BB- to BBB+	736 756	3 391 834
rated below B+	639 637	1 221 163
not rated	-	190 655
Total promissory notes	**1 376 393**	**4 803 652**
Equity investments		
Corporate shares	185 718	-
Total equity investments	**185 718**	**-**
Derivative financial instruments		
Foreign currency contracts	27	25 291
	27	**25 291**
Total financial instruments at fair value through profit or loss held by Group	**12 010 235**	**9 850 631**
Pledged under sale and repurchase agreements		
- Corporate bonds		
rated below B+	390 579	-
Total corporate bonds	**390 579**	**-**
Total financial instruments at fair value through profit or loss pledged under sale and repurchase agreements	**390 579**	**-**
Total financial instruments at fair value through profit or loss	**12 400 814**	**9 850 631**
LIABILITIES		
Derivative financial instruments		
Foreign currency and precious metalls contracts	160 740	-
	160 740	**-**

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

All financial instruments at fair value through profit or loss are classified as held for trading.

None financial assets at fair value through profit or loss are past due or impaired.

Foreign currency contracts

The table below summarises, by major currencies, the contractual amounts of forward exchange contracts outstanding at 31 December 2012 and at 31 December 2011 with details of the contractual exchange rates and remaining periods to maturity. Foreign currency amounts presented below are translated at rates ruling at the reporting date. The resultant unrealised gains and losses on these unmatured contracts are recognized in profit or loss and in financial instruments at fair value through profit or loss, as appropriate.

	Notional amount		Weighted average contractual exchange rates	
	2012 RUB’000	**2011 RUB’000**	**2012**	**2011**
Buy USD sell RUB				
Less than 3 months	60 745	476 270	30.41	31.75
Buy USD sell RUB				
From 3 to 12 months	1 839 800	-	33.35	-
Buy Euro sell RUB				
Less than 3 months	10 057	-	40.12	-
Buy Gold (grams) sell RUB				
Less than 3 months	1 884 968	1 154 860	1 696.76	1 603.95

14 Available-for-sale financial assets

	2012 RUB'000	2011 RUB'000
Held by the Group		
Debt and other fixed-income instruments		
- Government and municipal bonds		
Regional authorities bonds	205 336	-
Total government and municipal bonds	**205 336**	**-**
- Corporate bonds		
rated from BB- to BBB+	850 182	-
rated below B+	445 656	-
Total corporate bonds	**1 295 838**	**-**
Total available-for-sale financial instruments held by Group	**1 501 174**	**-**
Pledged under sale and repurchase agreements		
- Corporate bonds		
rated from BB- to BBB+	1 910 887	-
Total corporate bonds	**1 910 887**	**-**
Total available-for-sale financial instruments pledged under sale and repurchase agreements	**1 910 887**	**-**
Total available-for-sale financial instruments	**3 412 061**	**-**

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

None available-for-sale financial assets are past due or impaired.

15 Due from banks

	2012 RUB'000	2011 RUB'000
Nostro accounts		
- OECD banks	1 259 776	167 619
- Largest 30 Russian banks	228 066	156 091
- Other Russian banks	242 497	275 065
- Other foreign banks	95 081	48 011
Total nostro accounts	**1 825 420**	**646 786**
Term deposits		
- OECD banks	-	485 589
- Largest 30 Russian banks	1 406 054	167 010
- Other foreign banks	-	12 636
- Other Russian banks	396 203	2 315
Total term deposits	**1 802 257**	**667 550**
	3 627 677	**1 314 336**

None of due from banks balances are impaired or past due.

As at 31 December 2012 the Group has no banks (2011: no banks), whose balances individually exceed 10% of equity.

16 Amounts receivable under reverse repurchase agreements

The table below sets out receivables under reverse repurchase agreements showing individual types of securities received as collateral under reverse repurchase agreements outstanding as at 31 December 2012:

	Corporate bonds	Total
Amounts receivable under reverse repurchase agreements		
- Largest 30 Russian banks	150 107	150 107
	150 107	**150 107**

At 31 December 2012 the fair value of financial assets collateralizing reverse repurchase agreements that the Group is permitted to sell or repledge in the absence of default is RUB 166 683 thousand.

None amounts receivable under reverse repurchase agreements are past due or impaired.

There are no receivables under reverse repurchase agreements as at 31 December 2011.

17 Loans to customers

	2012 RUB'000	2011 RUB'000
Loans to corporate customers	**18 118 707**	**13 877 657**
Loans to retail customers		
Consumer loans	37 578 136	23 180 556
Mortgage loans	5 691 261	2 601 255
Total loans to retail customers	**43 269 397**	**25 781 811**
Gross loans to customers	**61 388 104**	**39 659 468**
Impairment allowance	(2 919 835)	(1 808 105)
Net loans to customers	**58 468 269**	**37 851 363**

Movements in the loan impairment allowance by classes of loans to customers for the year ended 31 December 2012 are as follows:

	Loans to corporate customers RUB'000	Loans to retail customers RUB'000	Total RUB'000
Balance at the beginning of the year	**347 376**	**1 460 729**	**1 808 105**
Net (recovery) /charge	(43 014)	1 763 947	1 720 933
Write-offs	(38 095)	(571 108)	(609 203)
Balance at the end of the year	**266 267**	**2 653 568**	**2 919 835**

Movements in the loan impairment allowance by classes of loans to customers for the year ended 31 December 2011 are as follows:

	Loans to corporate customers RUB'000	Loans to retail customers RUB'000	Total RUB'000
Balance at the beginning of the year	**296 833**	**1 503 159**	**1 799 992**
Net charge	51 427	488 186	539 613
Write-offs	(884)	(530 616)	(531 500)
Balance at the end of the year	**347 376**	**1 460 729**	**1 808 105**

As at 31 December 2012, interest accrued on past due and impaired loans amounts to RUB 377 312 thousand (31 December 2011: RUB 219 165 thousand).

Credit quality of loans to customers

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

	Gross loans RUB'000	Impairment allowance RUB'000	Net loans RUB'000	Impairment allowance to gross loans, %
Loans to corporate customers				
Loans without individual signs of impairment	16 116 693	(137 502)	15 979 191	0.85%
Watch list loans	1 431 913	(12 646)	1 419 267	0.88%
Impaired loans:				
- not overdue	186 337	(1 630)	184 707	0.87%
- overdue less than 90 days	14 778	(5 609)	9 169	37.96%
- overdue more than 90 days and less than 1 year	93 827	(8 590)	85 237	9.16%
- overdue more than 1 year	275 159	(100 290)	174 869	36.45%
Total impaired loans	570 101	(116 119)	453 982	20.37%
Total loans to corporate customers	**18 118 707**	**(266 267)**	**17 852 440**	**1.47%**
Loans to retail customers				
Consumer loans				
- not overdue	32 768 664	(152 528)	32 616 136	0.47%
- overdue less than 30 days	852 956	(115 751)	737 205	13.57%
- overdue 30-89 days	789 077	(342 214)	446 863	43.37%
- overdue 90-179 days	750 908	(441 145)	309 763	58.75%
- overdue more than 180 days	2 416 531	(1 580 746)	835 785	65.41%
Total consumer loans	**37 578 136**	**(2 632 384)**	**34 945 752**	**7.01%**

	Gross loans RUB’000	Impairment allowance RUB’000	Net loans RUB’000	Impairment allowance to gross loans, %
Mortgage loans				
- not overdue	5 654 942	(1 418)	5 653 524	0.03%
- overdue less than 30 days	1 315	(29)	1 286	2.21%
- overdue 30-89 days	10 574	(2 284)	8 290	21.60%
- overdue 90-179 days	6 799	(3 410)	3 389	50.15%
- overdue more than 180 days	17 631	(14 043)	3 588	79.65%
Total mortgage loans	**5 691 261**	**(21 184)**	**5 670 077**	**0.37%**
Total loans to retail customers	**43 269 397**	**(2 653 568)**	**40 615 829**	**6.13%**
Total loans to customers	**61 388 104**	**(2 919 835)**	**58 468 269**	**4.76%**

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

	Gross loans RUB’000	Impairment allowance RUB’000	Net loans RUB’000	Impairment allowance to gross loans, %
Loans to corporate customers				
Loans without individual signs of impairment	11 957 340	(134 974)	11 822 366	1.13%
Watch list loans	1 367 183	(15 814)	1 351 369	1.16%
Impaired loans:				
- not overdue	238 454	(824)	237 630	0.35%
- overdue less than 90 days	33 237	(6 990)	26 247	21.03%
- overdue more than 90 days and less than 1 year	96 149	(91 438)	4 711	95.10%
- overdue more than 1 year	185 294	(97 336)	87 958	52.53%
Total impaired loans	553 134	(196 588)	356 546	35.54%
Total loans to corporate customers	**13 877 657**	**(347 376)**	**13 530 281**	**2.50%**
Loans to retail customers				
Consumer loans				
- not overdue	20 398 665	(59 443)	20 339 222	0.29%
- overdue less than 30 days	505 358	(10 344)	495 014	2.05%
- overdue 30-89 days	286 245	(74 957)	211 288	26.19%
- overdue 90-179 days	271 285	(122 591)	148 694	45.19%
- overdue more than 180 days	1 719 003	(1 165 340)	553 663	67.79%
Total consumer loans	**23 180 556**	**(1 432 675)**	**21 747 881**	**6.18%**

	Gross loans RUB'000	Impairment allowance RUB'000	Net loans RUB'000	Impairment allowance to gross loans, %
Mortgage loans				
- not overdue	2 555 556	(1 484)	2 554 072	0.06%
- overdue less than 30 days	1 703	(60)	1 643	3.55%
- overdue 30-89 days	7 339	(686)	6 653	9.35%
- overdue 90-179 days	2 103	(637)	1 466	30.29%
- overdue more than 180 days	34 554	(25 187)	9 367	72.89%
Total mortgage loans	**2 601 255**	**(28 054)**	**2 573 201**	**1.08%**
Total loans to retail customers	**25 781 811**	**(1 460 729)**	**24 321 082**	**5.67%**
Total loans to customers	**39 659 468**	**(1 808 105)**	**37 851 363**	**4.56%**

Key assumptions and judgments for estimating loan impairment

Loans to corporate customers

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

The objective indicators of loan impairment for loans to corporate customers include the following:

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

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

In determining the impairment allowance for loans to corporate customers management makes the following key assumptions:

- the principal collateral taken into account in the estimation of future cash flows comprises mainly real estate. Valuations for real estate have been discounted by 10-20 percent depending on the type of the real estate to reflect current market conditions and costs to sell
- a delay of 12 to 24 months in obtaining proceeds from the foreclosure of collateral.

Changes in these estimates could affect the loan impairment allowance. For example, to the extent that the net present value of the estimated cash flows differs by plus/minus one percent, the impairment allowance on loans to corporate customers as at 31 December 2012 would be RUB 178 524 thousand lower/higher (31 December 2011: RUB 135 303 thousand lower/higher).

Loans to retail customers

The Group estimates loan impairment for loans to retail customers based on its past historical loss experience on each type of loan. The significant assumptions used by management in determining the impairment losses for loans to retail customers include:

- loss migration rates are constant and estimated based on historic loss migration pattern for the past 24 months
- the historic actual recovery rate of loans overdue more than 180 days has been taken into account when estimating future recoveries on overdue loans.

Changes in these estimates could affect the loan impairment allowance. For example, to the extent that the net present value of the estimated cash flows differs by plus/minus three percent, the impairment allowance on loans to retail customers as at 31 December 2012 would be RUB 1 218 475 thousand lower/higher (31 December 2011: RUB 729 632 thousand).

Analysis of collateral and other credit enhancements

Loans to corporate customers

Loans to corporate customers are secured by different types of collateral, including pledge over securities, real estate, guarantees provided by individuals, commercial enterprises or banks and other collateral.

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

	2012 RUB’000	**% of loan portfolio**	**2011 RUB’000**	**% of loan portfolio**
Corporate and personal guarantees	6 338 245	35.50%	4 531 735	33.48%
Real estate	3 468 065	19.43%	4 509 348	33.33%
Motor vehicles	2 028 801	11.36%	939 639	6.94%
Goods in turnover	1 047 134	5.87%	927 920	6.86%
Equipment	529 036	2.96%	435 567	3.22%
Securities	341 603	1.91%	405 412	3.00%
Promissory notes issued by the Bank	99 117	0.56%	167 242	1.24%
Cash balances	7 488	0.04%	-	-
Other collateral	507 202	2.84%	666 708	4.93%
No collateral	3 485 749	19.53%	946 710	7.00%
	17 852 440	**100.00%**	**13 530 281**	**100.00%**

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

Corporate and personal guarantees are not considered for impairment assessment purposes.

Loans to corporate customers that are impaired

Loans with individual signs of impairment with net carrying value of RUB 453 982 thousand (31 December 2011: RUB 356 546 thousand) are secured by collateral with fair value of RUB 444 248 thousand (31 December 2011: RUB 204 605 thousand), excluding the effect of over collateralisation.

Loans to corporate customers that are neither past due nor impaired

For remaining secured loans to corporate customers with a net carrying amount of RUB 17 398 458 thousand (31 December 2011: RUB 13 173 735 thousand), which are neither past due nor impaired, the fair value of collateral was estimated at the inception of the loans and was not adjusted for subsequent changes to the reporting date. The recoverability of these loans is primarily dependent on the creditworthiness of the borrowers rather than the value of collateral, and the current value of the collateral does not impact the impairment assessment.

Loans to retail customers

Mortgage loans are secured by the underlying housing real estate. The Group’s policy is to issue mortgage loans with a loan-to-value ratio of a maximum of 90%.

For certain mortgage loans the Group updates the appraised values of collateral obtained at inception of the loan to the current values considering the approximate changes in property values. The Group may also obtain a specific individual valuation of collateral at each reporting date where there are indications of impairment. For the remaining mortgage loans the fair value of collateral was estimated at inception of the loans and was not adjusted for subsequent changes to the reporting date.

For overdue mortgage loans management believes that the fair value of collateral is at least 100% of the carrying amount of the loans at the reporting date.

Consumer loans are mainly not secured.

Repossessed collateral

During the year ended 31 December 2012, the Group obtained certain assets by taking possession of collateral for loans to customers with a net carrying amount of RUB 2 592 thousand (2011: RUB 16 382 thousand). As at 31 December 2012, the repossessed collateral comprise:

	2012 RUB’000	**2011 RUB’000**
Real estate	9 645	8 032
Other assets	1 857	358
Total repossessed collateral	**11 502**	**8 390**

The Group’s policy is to sell these assets as soon as it is practicable.

Industry and geographical analysis of the loan portfolio

Loans to customers were issued primarily to customers located within the Russian Federation who operate in the following economic sectors:

	2012 RUB’000	2011 RUB’000
Wholesale and retail trade	4 919 057	4 635 858
Services	2 328 410	347 926
Production	1 842 182	1 417 731
Mining	1 257 622	1 353 862
Energy	1 177 738	194 487
Construction	1 133 124	1 459 664
Real estate	922 597	647 082
Fishery	596 740	848 230
Investment activities	277 031	422 591
Insurance	224 280	255 420
Other	3 439 926	2 294 806
Individuals	43 269 397	25 781 811
	61 388 104	**39 659 468**
Impairment allowance	(2 919 835)	(1 808 105)
	58 468 269	**37 851 363**

Significant credit exposures

As at 31 December 2012 the Group has no borrowers or groups of connected borrowers whose loan balances individually exceed 10% of equity (31 December 2011: no borrowers or group of borrowers).

18 Net investments in finance leases

Net investments in finance leases comprise:

	2012 RUB’000	2011 RUB’000
Gross investments in finance leases	2 769 945	2 216 820
Less unearned finance lease income	(650 297)	(537 086)
	2 119 648	**1 679 734**
Less allowance for impairment	(48 319)	(36 995)
Net investments in finance leases	**2 071 329**	**1 642 739**

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

Future minimum lease payments to be received are disclosed below:

	2012 RUB’000	2011 RUB’000
Within 1 year	1 409 117	919 853
From 1 to 5 years	1 334 199	1 267 581
More than 5 years	26 629	29 386
Minimum lease payments receivable	**2 769 945**	**2 216 820**

Gross investment in leases is receivable in the following currencies:

	2012 RUB’000	2011 RUB’000
RUB	2 468 452	1 956 987
USD	301 117	243 656
EUR	376	16 177
Gross investments in finance leases	**2 769 945**	**2 216 820**

Movements in the impairment allowance are as follows:

	2012 RUB’000	2011 RUB’000
Balance at the beginning of the year	36 995	40 653
Net charge (recovery)	11 324	(3 658)
Balance at the end of the year	**48 319**	**36 995**

19 Transfers of financial assets

2012 RUB’000	**Financial assets at fair value through profit or loss**	**Financial assets available for sale**
Carrying amount of assets	390 579	1 910 887
Carrying amount of associated liabilities	292 702	1 686 994

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

The securities lent or sold under agreements to repurchase are transferred to a third party and the Group receives cash in exchange. These financial assets may be repledged or resold by counterparties in the absence of default by the Group, but the counterparty has an obligation to return the securities at the maturity of the contract. The Group has determined that it retains substantially all the risks and rewards of these securities and therefore has not derecognised them. These securities are presented as “pledged under sale and repurchase agreements” in notes 13 and 14. In addition, the Group recognises financial liabilities for cash received as collateral included in deposits and balances from banks (note 23).

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

20 Property, equipment and intangible assets and investment property

RUB'000	Land and buildings	Computers and equipment	Fixtures and fittings	Vehicles	Intangible assets	Construction in progress	Total
Cost/revalued amount							
Balance at 1 January 2012	3 594 828	447 627	38 667	116 677	227 249	191 405	4 616 453
Additions	445 350	135 730	1 574	32 383	35 639	170 231	820 907
Disposals	(1 280)	(4 071)	(491)	(85 629)	(38 664)	(103 578)	(233 713)
Transfers to investment property	(146 719)	-	-	-	-	-	(146 719)
At 31 December 2012	**3 892 179**	**579 286**	**39 750**	**63 431**	**224 224**	**258 058**	**5 056 928**
Depreciation and impairment losses							
Balance at 1 January 2012	4 678	280 946	36 320	18 520	55 844	-	396 308
Depreciation and amortisation for the year	99 601	69 370	835	9 544	55 218	-	234 568
Disposals	(189)	(3 815)	(491)	(1 038)	(13 726)	-	(19 259)
Transfers to investment property	(3 284)	-	-	-	-	-	(3 284)
Balance at 31 December 2012	**100 806**	**346 501**	**36 664**	**27 026**	**97 336**	**-**	**608 333**
Carrying amounts							
At 31 December 2012	**3 791 373**	**232 785**	**3 086**	**36 405**	**126 888**	**258 058**	**4 448 595**
At 31 December 2011	**3 590 150**	**166 681**	**2 347**	**98 157**	**171 405**	**191 405**	**4 220 145**

There are no capitalised borrowing costs related to the acquisition or construction of property, equipment and intangible assets during 2012 (2011: nil).

RUB’000	Land and buildings	Computers and equipment	Fixtures and fittings	Vehicles	Intangible assets	Construction in progress	Total
Cost/revalued amount							
Balance at 1 January 2011	1 633 818	470 208	37 907	30 383	96 948	147 301	2 416 565
Additions	599 728	83 729	864	87 432	163 963	44 104	979 820
Disposals	(1 191)	(106 310)	(104)	(1 138)	(33 662)	-	(142 405)
Revaluation	1 362 473	-	-	-	-	-	1 362 473
At 31 December 2011	**3 594 828**	**447 627**	**38 667**	**116 677**	**227 249**	**191 405**	**4 616 453**
Depreciation and impairment losses							
Balance at 1 January 2011	172 616	272 124	35 581	14 535	29 951	-	524 807
Depreciation and amortisation for the year	37 988	50 900	839	4 738	33 727	-	128 192
Disposals	(101)	(42 078)	(100)	(753)	(7 834)	-	(50 866)
Revaluation	(205 825)	-	-	-	-	-	(205 825)
Balance at 31 December 2011	**4 678**	**280 946**	**36 320**	**18 520**	**55 844**	**-**	**396 308**
Carrying amounts							
At 31 December 2011	**3 590 150**	**166 681**	**2 347**	**98 157**	**171 405**	**191 405**	**4 220 145**
At 31 December 2010	**1 461 202**	**198 084**	**2 326**	**15 848**	**66 997**	**147 301**	**1 891 758**

Revalued assets

At 31 December 2012 and 31 December 2011, buildings are revalued based on the results of an independent appraisal performed by S.A.Ricci.

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

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

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

- the rental rates applied by the appraiser were calculated based on the analysis of comparable properties' rental rates
- the vacancy rate of 5% was assumed for the properties with the total area less than 150 m2, the vacancy rate of 7% was assumed for the properties with the total area of 150 to 500 m2, the vacancy rate of 10% was used for the properties with the total area of more than 500 m2
- the capitalization rate of 13% was assumed for large cities (regional centres) and 14% for small cities. For the office building located in Moscow, the capitalization rate of 10% was assumed based on the Appraiser's internal research (S.A.Ricci).

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

Changes in the estimates above could effect the value of the buildings. For example, to the extent that the net present value of the estimated cash flows differs by plus/minus three percent, the building valuation as at 31 December 2012 would be RUB 100 206 thousand higher/lower (2011: RUB 47 049 thousand).

The carrying value of buildings as at 31 December 2012, if the buildings would not have been revalued, would be RUB 2 901 074 thousand (2011: RUB 2 651 847 thousand).

Investment property

	2012 RUB'000	**2011 RUB'000**
Balance at 1 January	-	-
Transfer from property, equipment and intangible assets	143 435	-
Taking possession of collateral for loans to customers	-	-
Purchase of investment property	-	-
Fair value revaluation	-	-
Disposal of investment property	-	-
Balance at 31 December	**143 435**	**-**

Rental income from investment property for the year ended 31 December 2012 comprised RUB 11 547 thousand (2011: none).

21 Other assets

	2012 RUB'000	2011 RUB'000
Other receivables	173 657	131 524
Total other financial assets	**173 657**	**131 524**
Prepayments for assets to be leased under finance lease	248 977	461 195
Prepayments	315 711	338 744
Advances on precious metals delivery	814 310	324 363
Materials and supplies	31 968	26 419
Other	95 927	170 706
Total other non-financial assets	**1 506 893**	**1 321 427**
Total other assets	**1 680 550**	**1 452 951**

22 Deposits and balances from banks

	2012 RUB'000	2011 RUB'000
Vostro accounts	40 304	331 144
Term deposits	7 090 387	3 578 807
	7 130 691	**3 909 951**

As at 31 December 2012 the Group has one bank (2011: one bank), whose balances exceed 10% of equity. The gross value of these balances as at 31 December 2012 is RUB 1 716 023 thousand (2011: RUB 1 803 707 thousand).

Covenants

As at 31 December 2012, the Group has term deposits from one of the banks amounting to RUB 1 438 209 thousand (31 December 2011: RUB 1 622 339 thousand) with maturities set out in the table below:

	2012 RUB'000	2011 RUB'000
- repayable on 23 December 2013	453 075	917 993
- repayable on 27 July 2016	483 542	704 346
- repayable on 5 July 2017	200 794	-
- repayable on 15 August 2017	300 798	-
	1 438 209	**1 622 339**

According to the terms of the agreements, the Group is subject to a debt covenant stating that funds should be used for loan issuance to small and medium size entities. The Bank should comply with all ratios of the CBR and the N1 statutory ratio should be not less than 10.1%.

As at 31 December 2012, the Group has term deposits from another bank amounting to RUB 237 708 thousand repayable on 15 June 2015 (2011: RUB 332 920 thousand). According to the terms of the agreement the Group is subject to a debt covenant stating that funds should be used for issuance of loans to small and medium size entities and at the end of each quarter the Group should comply with a number of financial and non-financial covenants.

During 2012 the Group did not breach any covenants described above.

23 Amounts payable under repurchase agreements

The table below sets out payables under direct repo agreements showing individual types of securities transferred as collateral under repo agreements outstanding as at 31 December 2012:

	Corporate bonds	Total
Amounts payable under direct repo agreements		
- The CBR	2 023 180	2 023 180
- Other Russian banks	89 946	89 946
	2 113 126	**2 113 126**

Fair value of securities transferred under repo agreements as at 31 December 2012 comprised RUB 2 301 466 thousand. For details please refer to Note 19.

There are no payables under direct repo agreements as at 31 December 2011.

24 Current accounts and deposits from customers

	2012 RUB’000	2011 RUB’000
Current accounts and demand deposits		
- Retail	4 115 199	3 284 368
- Corporate	11 984 271	9 772 574
Term deposits		
- Retail	39 269 989	25 651 605
- Corporate	9 773 869	7 632 075
	65 143 328	**46 340 622**

As at 31 December 2012, the Group has no customers (2011: no customers), whose balances individually exceed 10% of equity.

25 Debt securities issued

	2012 RUB’000	2011 RUB’000
Bonds	3 022 432	-
Promissory notes	1 161 799	537 674
	4 184 231	**537 674**

Bonds are presented by two issues: one of the Bank and the other of one CJSC “Mortgage agent APB”.

In April 2012, the Group issued RUB 1 500 000 thousand of bonds with a coupon rate of 10.25%. These bonds mature on 30 April 2015.

In December 2012, the Group issued RUB 1 521 863 thousand of mortgage backed securities with a coupon rate of 8.75%. These securities mature on 26 April 2045. As at 31 December 2012 the carrying amount of mortgages served as collateral comprised RUB 1 458 747 thousand.

26 Subordinated borrowings

	2012 RUB’000	2011 RUB’000
Subordinated deposit	915 050	-
	915 050	**-**

On 21 November 2012 the Bank attracted a subordinated loan in the amount USD 30 mln from one of the Bank’s shareholders - IFC. The loan with interest rate 10.92% as at 31 December 2012 mature on 16 December 2019.

According to the terms of the agreement the Group is subject to a debt covenant stating that at the end of each quarter the Group should comply with a number of financial and non-financial covenants.

During 2012 the Group did not breach any covenants described above.

27 Other liabilities

	2012 RUB’000	2011 RUB’000
Payables to employees	431 291	272 264
Other taxes payable	69 607	6 804
Payables to creditors	35 904	247 703
Provision for guarantees and letters of credit issued	26 975	16 553
Other non-financial liabilities	59 955	7 982
	623 732	**551 306**

28 Share capital

Issued capital and share premium

Movements in share capital for the years ended 31 December 2012 and 2011 are as follows:

	Shares (thousands)	Nominal amount, RUB’000	Inflation adjustment, RUB’000	Total, RUB’000
Balance as at 1 January 2011	**4 949 019 820 939**	**554 290**	**8 022**	**562 312**
Ordinary shares	4 949 019 820 689	554 290	8 022	562 312
Preferred shares	250	-	-	-
Balance as at 1 January 2012	**4 949 019 820 939**	**554 290**	**8 022**	**562 312**
Ordinary shares	4 949 019 820 689	554 290	8 022	562 312
Preferred shares	250	-	-	-
Balance as at 31 December 2012	**4 949 019 820 939**	**554 290**	**8 022**	**562 312**

In accordance with the 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 the Russian Accounting Legislation.

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

29 Analysis by segment

The Group has eighteen divisions located in different regions of the Russian Federation, as described below, which are the Group's strategic business units. The strategic business units offer different products and services, and are managed separately. For each of the strategic business units the chief operating decision maker reviews internal management reports on at least a monthly basis. The Group combined branches into three reporting units based on geographical location: Far East region, Siberia region and West region.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before income tax as included in the internal management reports that are based on statutory financial information and that are reviewed by the CEO. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to others who operate within these industries.

Segment breakdown of assets and liabilities is set out below:

	2012 RUB'000	2011 RUB'000
ASSETS		
Far East region	42 381 816	28 491 545
Siberia region	21 174 510	13 806 811
West region	24 015 575	14 962 925
Total assets	**87 571 901**	**57 261 281**
LIABILITIES		
Far East region	51 259 406	37 674 212
Siberia region	12 941 005	6 990 091
West region	12 828 857	5 170 398
Total liabilities	**77 029 268**	**49 834 701**

Segment information for the main reportable segments for the year ended 31 December 2012 is set below:

RUB'000	**Far East region**	**Siberia region**	**West region**	**Total**
External interest income	5 517 096	3 186 934	683 309	9 387 339
Fee and commission income	2 173 164	1 123 204	116 949	3 413 317
Net (loss) gain on financial instruments at fair value through profit or loss and realised gain on available-for-sale financial instruments	(2 180)	-	793 130	790 950
Net foreign exchange income	309 703	101 919	85 384	497 006
Other operating income	260 989	117 349	4 179	382 517
Revenue	**8 258 772**	**4 529 406**	**1 682 951**	**14 471 129**
Impairment losses (recovery)	1 292 861	825 841	(83 745)	2 034 957
Interest expense	3 152 687	771 621	639 875	4 564 183
Fee and commission expense	67 536	25 416	17 977	110 929
Other general administrative expenses	3 326 121	303 494	71 286	3 700 901
Segment result	**419 567**	**2 603 034**	**1 037 558**	**4 060 159**
Income tax expense				764 768
Net profit after taxes				**3 295 391**

Segment information for the main reportable segments for the year ended 31 December 2011 is set below:

RUB'000	**Far East region**	**Siberia region**	**West region**	**Total**
External interest income	3 344 010	1 688 050	823 093	5 855 153
Fee and commission income	1 366 909	565 324	113 954	2 046 187
Net (loss) gain on financial instruments at fair value through profit or loss and realised gain on available-for-sale financial instruments	(2 830)	-	218 678	215 848
Net foreign exchange income	139 589	64 358	11 688	215 635
Other operating income	182 521	74 529	3 765	260 815
Revenue	**5 030 199**	**2 392 261**	**1 171 178**	**8 593 638**
Impairment losses (recovery)	292 690	405 953	(70 600)	628 043
Interest expense	1 903 306	324 395	211 812	2 439 513
Fee and commission expense	31 407	15 646	18 290	65 343
Other general administrative expenses	2 725 112	222 150	50 018	2 997 280
Segment result	**77 684**	**1 424 117**	**961 658**	**2 463 459**
Income tax expense				543 089
Net profit after taxes				**1 920 370**

Reconciliations of reportable segment revenues, profit or loss, assets and liabilities

	2012 RUB'000	2011 RUB'000
Revenues		
Total revenues for reportable segments	14 471 129	8 593 638
IFRS accounting policy adjustments:		
- interest income on loans and advances to customers	171 304	16 617
- securities at fair value	(17 650)	27 745
- other adjustments	262 258	406 801
Consolidated revenues	**14 887 041**	**9 044 801**
Profit or loss		
Total profit or loss for reportable segments	3 295 391	1 920 370
IFRS accounting policy adjustments:		
- interest income on loans and advances to customers	171 304	16 617
- allowance for impairment of loans and advances to customers and finance lease receivables	234 546	51 620
- allowance for impairment of other assets	68 154	40 469
- depreciation and amortisation of property and equipment and intangible assets	(52 805)	(8 951)
- securities at fair value	(17 650)	27 745
- other adjustments	(437 700)	145 626
Consolidated profit or loss	**3 261 240**	**2 193 496**
Assets		
Total assets for reportable segments	87 571 901	57 261 281
IFRS accounting policy adjustments:		
- interest income on loans and advances to customers	(24 341)	(135 685)
- allowance for impairment of loans and advances to customers and finance lease receivables	1 028 501	842 841
- allowance for impairment of other assets	355 056	286 902
- depreciation and amortisation of property and equipment and intangible assets and other adjustments to cost	182 624	80 913
- securities at fair value	8 925	14 108
- deferred income tax asset	25 432	8 660
- revaluation of property and equipment	125 668	125 866
- assets of subsidiaries	3 043 640	1 333 220
- other adjustments	(141 597)	711 913
Consolidated assets	**92 175 809**	**60 530 019**

	2012 RUB’000	2011 RUB’000
Liabilities		
Total liabilities for reportable segments	77 029 268	49 834 701
IFRS accounting policy adjustments:		
- accounting for deferred tax liability	288 773	312 900
- liabilities of subsidiaries	3 023 604	1 341 346
- other adjustments	305 230	316 896
Consolidated liabilities	**80 646 875**	**51 805 843**

Information about major customers and geographical areas

For the years ended 31 December 2012 and 2011, there were no corporate customers whose revenues individually exceed 10% of total revenue.

The majority of revenues from external customers relate to residents of the Russian Federation. The majority of non-current assets are located in the Russian Federation.

30 Risk management

Management of risk is fundamental to the business of banking and is an essential element of the Group’s operations. The major risks faced by the Group are those related to market risk, credit risk and liquidity risk.

(a) Risk management policies and procedures

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

The Board of Directors has overall responsibility for the oversight of the risk management framework, overseeing the management of key risks and reviewing its risk management policies and procedures as well as approving significantly large exposures.

The Management Board is responsible for monitoring and implementation of risk mitigation measures and making sure that the Group operates within the established risk parameters. The Head of the Risk Department is responsible for the overall risk management and compliance functions, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting both financial and non-financial risks. He reports directly to the Chairman of the Management Board and indirectly to the Board of Directors.

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

Both external and internal risk factors are identified and managed throughout the organisation. Particular attention is given to identifying the full range of risk factors and determination of the level of assurance over the current risk mitigation procedures. Apart from the standard credit and market risk analysis, the Risk Department monitors financial and non-financial risks by holding regular meetings with operational units in order to obtain expert judgments in their areas of expertise.

(b) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises currency risk, interest rate risk and other price risks. Market risk arises from open positions in interest rate, currency and equity based financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices.

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

Overall authority for market risk is vested in the ALCO, which is chaired by the Chairman of the Management Board. Market risk limits are approved by the ALCO based on recommendations of the Risk Department.

The Group manages its market risk by setting open position limits in relation to financial instrument types stated above, value-at-risk based limits and stop-loss limits. These are monitored on a regular basis and reviewed and approved by the ALCO.

(i) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may also reduce or create losses in the event that unexpected movements occur.

Average interest rates

The table below displays average effective interest rates for interest bearing assets and liabilities as at 31 December 2012 and 2011. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	2012 Average effective interest rate. %			**2011 Average effective interest rate. %**		
	RUB	**USD**	**Other currencies**	**RUB**	**USD**	**Other currencies**
Interest bearing assets						
Term deposits with the CBR	4%	-	-	4%	-	-
Financial instruments at fair value through profit or loss	9%	8%	-	7%	9%	-
Available-for-sale financial assets	9%	13%	-	-	-	-
Due from banks						
- nostro accounts	2%	-	-	2%	-	-
- term deposits	5%	7%	-	8%	11%	-
Amounts receivable under reverse repurchase agreements	7%	-	-	-	-	-
Loans to customers						
- retail	24%	11%	-	23%	10%	-
- corporate	13%	10%	11%	12%	10%	11%
Net investments in finance leases	29%	23%	40%	23%	20%	35%

	2012 Average effective interest rate. %			2011 Average effective interest rate. %		
	RUB	**USD**	**Other currencies**	**RUB**	**USD**	**Other currencies**
Interest bearing liabilities						
Deposits and balances from banks	10%	4%	4%	9%	-	-
Amounts payable under repurchase agreements	6%	-	-	-	-	-
Current accounts and deposits from customers						
- retail	10%	5%	5%	9%	6%	6%
- corporate	8%	4%	3%	7%	3%	4%
Debt securities issued						
- promissory notes	10%	9%	-	8%	-	9%
- bonds	10%	-	-	-	-	-
Subordinated borrowings	-	11%	-	-	-	-

Interest rate sensitivity analysis

The management of interest rate risk based on interest rate gap analysis is supplemented by monitoring the sensitivity of financial assets and liabilities. An analysis of sensitivity of profit or loss and equity (net of taxes) to changes in interest rates (repricing risk) based on a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves and positions of interest-bearing assets and liabilities existing as at 31 December 2012 and 2011 is as follows:

	2012		2011	
	Profit or loss RUB’000	**Equity RUB’000**	**Profit or loss RUB’000**	**Equity RUB’000**
100 bp parallel fall	133 628	133 628	70 191	70 191
100 bp parallel rise	(133 628)	(133 628)	(70 191)	(70 191)

An analysis of sensitivity of profit or loss and equity as a result of changes in the fair value of financial instruments at fair value though profit or loss and available-for-sale financial assets due to changes in the interest rates based on positions existing as at 31 December 2012 and 2011 and a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves is as follows:

	2012		2011	
	Profit or loss RUB’000	**Equity RUB’000**	**Profit or loss RUB’000**	**Equity RUB’000**
100 bp parallel fall	97 720	125 018	50 217	50 217
100 bp parallel rise	(97 720)	(125 018)	(50 217)	(50 217)

(ii) Currency risk

The Group has assets and liabilities denominated in several foreign currencies.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign currency exchange rates. Although the Group hedges its exposure to currency risk, such activities do not qualify as hedging relationships in accordance with IFRS.

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

	RUB	USD	EUR	Gold	Other currencies	Total
	RUB’000	RUB’000	RUB’000	RUB’000	RUB’000	RUB’000
ASSETS						
Cash	2 131 583	286 975	169 062	-	48 357	2 635 977
Placements with the Central Bank of the Russian Federation	3 102 000	-	-	-	-	3 102 000
Financial instruments at fair value through profit or loss	11 450 166	950 621	27	-	-	12 400 814
Available-for-sale financial assets	3 114 299	297 762	-	-	-	3 412 061
Due from banks	1 974 698	1 199 822	356 664	84 408	12 085	3 627 677
Amounts receivable under reverse repurchase agreements	150 107	-	-	-	-	150 107
Loans to customers	56 795 489	1 416 746	256 034	-	-	58 468 269
Net investments in finance leases	1 878 252	192 718	359	-	-	2 071 329
Current tax asset	9 563	-	-	-	-	9 563
Deferred tax asset	25 432	-	-	-	-	25 432
Property, equipment, intangible assets and investment property	4 592 030	-	-	-	-	4 592 030
Other assets	1 612 342	17 595	44 717	-	5 896	1 680 550
Total assets	**86 835 961**	**4 362 239**	**826 863**	**84 408**	**66 338**	**92 175 809**

	RUB	USD	EUR	Gold	Other currencies	Total
	RUB’000	RUB’000	RUB’000	RUB’000	RUB’000	RUB’000
LIABILITIES						
Derivative financial instruments	-	94 434	-	66 306	-	160 740
Deposits and balances from banks	5 893 112	1 200 166	37 233	-	180	7 130 691
Amounts payable under repurchase agreements	2 113 126	-	-	-	-	2 113 126
Current accounts and deposits from customers	58 477 009	3 953 736	756 429	1 938 022	18 132	65 143 328
Debt securities issued	3 978 892	205 339	-	-	-	4 184 231
Subordinated borrowings	-	915 050	-	-	-	915 050
Current tax liability	87 204	-	-	-	-	87 204
Deferred tax liability	288 773	-	-	-	-	288 773
Other liabilities	609 510	13 452	765		5	623 732
Total liabilities	**71 447 626**	**6 382 177**	**794 427**	**2 004 328**	**18 317**	**80 646 875**
Net position	**15 388 335**	**(2 019 938)**	**32 436**	**(1 919 920)**	**48 021**	**11 528 934**
The effect of derivatives held for risk management	**(3 795 570)**	**1 900 545**	**10 057**	**1 884 968**	**-**	**-**
Net position after derivatives held for risk management purposes	**11 592 765**	**(119 393)**	**42 493**	**(34 952)**	**48 021**	**11 528 934**

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

	RUB	USD	EUR	Gold	Other currencies	Total
	RUB'000	RUB'000	RUB'000	RUB'000	RUB'000	RUB'000
ASSETS						
Cash	1 852 999	272 560	166 390		31 716	2 323 665
Placements with the Central Bank of the Russian Federation	1 854 991	-	-	-	-	1 854 991
Financial instruments at fair value through profit or loss	9 766 858	65 154	-	18 619	-	9 850 631
Due from banks	680 054	331 247	204 973	83 939	14 123	1 314 336
Loans to customers	36 627 732	911 517	312 114	-	-	37 851 363
Net investments in finance leases	1 472 513	158 512	11 714	-	-	1 642 739
Current tax asset	10 538	-	-	-	-	10 538
Deferred tax asset	8 660	-	-	-	-	8 660
Property, equipment and intangible assets	4 220 145	-	-	-	-	4 220 145
Other assets	1 317 086	111 706	24 159	-	-	1 452 951
Total assets	**57 811 576**	**1 850 696**	**719 350**	**102 558**	**45 839**	**60 530 019**

	RUB RUB’000	USD RUB’000	EUR RUB’000	Gold RUB’000	Other currencies RUB’000	Total RUB’000
LIABILITIES						
Deposits and balances from banks	3 665 078	235 178	7 100	-	2 595	3 909 951
Current accounts and deposits from customers	42 403 485	2 048 969	620 607	1 262 964	4 597	46 340 622
Debt securities issued	536 100	-	1 574	-	-	537 674
Current tax liability	153 390	-	-	-	-	153 390
Deferred tax liability	312 900	-	-	-	-	312 900
Other liabilities	502 371	43 654	5 281	-	-	551 306
Total liabilities	**47 573 324**	**2 327 801**	**634 562**	**1 262 964**	**7 192**	**51 805 843**
Net position	**10 238 252**	**(477 105)**	**84 788**	**(1 160 406)**	**38 647**	**8 724 176**
The effect of derivatives held for risk management	**(1 631 130)**	**476 270**	**-**	**1 154 860**	**-**	**-**
Net position after derivatives held for risk management purposes	**8 607 122**	**(835)**	**84 788**	**(5 546)**	**38 647**	**8 724 176**

A weakening of the RUB, as indicated below, against the following currencies at 31 December 2012 and 2011 would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis is on net of tax basis and is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

	2012		2011	
	Profit or loss RUB’000	Equity RUB’000	Profit or loss RUB’000	Equity RUB’000
10% appreciation of USD against RUB	(22 038)	(22 038)	(67)	(67)
10% appreciation of EUR against RUB	3 488	3 488	6 783	6 783

A strengthening of the RUB against the above currencies at 31 December 2012 and 2011 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

(iii) Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. Other price risk arises when the Group takes a long or short position in such financial instrument.

An analysis of sensitivity of profit or loss and equity (net of tax) to changes in equity securities prices based on positions existing as at 31 December 2012 and 2011 and a simplified scenario of a 10% change in all securities prices is as follows:

	2012		2011	
	Profit or loss RUB’000	Equity RUB’000	Profit or loss RUB’000	Equity RUB’000
10% increase in equity securities prices	14 858	14 858	-	-
10% decrease in equity securities prices	(14 858)	(14 858)	-	-

(c) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Group has policies and procedures for the management of credit exposures (both for recognized financial assets and unrecognized contractual commitments), including guidelines to limit portfolio concentration and the establishment of a system of Credit Committees, which actively monitors credit risk. The credit policy is reviewed and approved by the Board of Directors.

The credit policy establishes:

- procedures for review and approval of loan credit applications
- methodology for the credit assessment of borrowers (corporate and retail)
- methodology for the credit assessment of counterparties, issuers and insurance companies
- methodology for the evaluation of collateral
- credit documentation requirements
- procedures for the ongoing monitoring of loans and other credit exposures.

Corporate loan applications are originated by the relevant client managers and are then passed on to the Loan Department, which is responsible for the corporate loan portfolio. Analysis reports are based on a structured analysis focusing on the customer’s business and financial performance. The loan application and the report are then independently reviewed by the Risk Department and a second opinion is given accompanied by a verification that credit policy requirements are met. The Credit Committee reviews the loan application on the basis of submissions by the Loan Department and the Risk Department. Individual transactions are also reviewed by the Legal Department depending on the specific risks and pending final approval of the Credit Committee.

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

Retail loan applications are reviewed by the Retail Lending Department through the use of scoring models and application data verification procedures developed together with the Risk Department.

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

The maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets in the consolidated statement of financial position and unrecognized contractual commitment amounts. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

For the analysis of concentration of credit risk in respect of loans to customers refer to note 17.

The maximum exposure to credit risk from unrecognized contractual commitments at the reporting date is presented in note 32.

As at 31 December 2012, the Group has no debtors or groups of connected debtors (2011: no debtors or group of debtors), credit risk exposure to whom individually exceeds 10% of maximum credit risk exposure.

(d) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to liquidity management. It is unusual for financial institutions ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

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

The Group seeks to actively support a diversified and stable funding base comprising debt securities in issue, long-term loans from other banks, core corporate and retail customer deposits. This policy is accompanied by diversified portfolios of highly liquid assets in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The liquidity management policy requires:

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

The Treasury Department monitors liquidity position on a daily basis, aggregates information regarding the liquidity profile of assets and liabilities on past deals and receives from business units details of projected cash flows arising from future business.

The Treasury Department performs regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions. The Treasury Department then provides for an adequate portfolio of short-term liquid assets to be maintained, largely made up of short-term liquid trading securities, short-term promissory notes of highly reliable banks, stock exchange reverse repo deals, to ensure that sufficient liquidity is maintained within the Group as a whole both in normal and more severe market conditions.

Under the normal market conditions liquidity reports covering the liquidity position are presented to senior management on a weekly basis. Decisions on liquidity management are made by the ALCO and implemented by the Treasury Department.

The following tables show the undiscounted cash flows on financial liabilities and credit-related commitments on the basis of their contractual maturity. The total gross inflow and outflow disclosed in the tables is the contractual, undiscounted cash flow on the financial liability or commitment.

The maturity analysis for financial liabilities as at 31 December 2012 is as follows:

RUB'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Total gross amount outflow (inflow)	Carrying amount
Liabilities							
Deposits and balances from banks	542 777	575 213	3 944 799	2 956 957	57 126	8 076 872	7 130 691
Amounts payable under repurchase agreements	2 116 147	-	-	-	-	2 116 147	2 113 126
Current accounts and deposits from customers	24 476 465	9 971 727	28 561 861	8 622 514	-	71 632 567	65 143 328
Debt securities issued	111 172	117 375	1 315 111	3 332 415	79 132	4 955 205	4 184 231
Subordinated borrowings	-	-	100 607	585 492	830 270	1 516 369	915 050
Current tax liability	87 204	-	-	-	-	87 204	87 204
Other liabilities	220 766	402 966	-	-	-	623 732	623 732
Derivative liabilities							
Inflow	(1 236 166)	-	(2 559 405)	-	-	(3 795 571)	(27)
Outflow	1 254 557	-	2 701 727	-	-	3 956 284	160 740
Total liabilities	**27 572 922**	**11 067 281**	**34 064 700**	**15 497 378**	**966 528**	**89 168 809**	**80 358 075**
Credit related commitments	**4 993 664**	**218 036**	**1 870 661**	**411 302**	**-**	**7 493 663**	**7 493 663**

The maturity analysis for financial liabilities as at 31 December 2011 is as follows:

RUB'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Total gross amount outflow (inflow)	Carrying amount
Liabilities							
Deposits and balances from banks	393 281	194 083	1 142 823	2 992 626	22 111	4 744 924	3 909 951
Current accounts and deposits from customers	15 249 807	4 881 754	18 542 484	9 639 799		48 313 844	46 340 622
Debt securities issued	148 657	174 935	204 742	2 667	23 727	554 728	537 674
Current tax liability	13 351	140 039	-	-	-	153 390	153 390
Other liabilities	358 835	192 471	-	-	-	551 306	551 306
Derivative liabilities							
Inflow	(1 656 421)	-	-	-	-	(1 656 421)	(25 291)
Outflow	1 631 130	-	-	-	-	1 631 130	-
Total liabilities	**16 138 640**	**5 583 282**	**19 890 049**	**12 635 092**	**45 838**	**54 292 901**	**51 467 652**
Credit related commitments	**3 309 645**	**746 624**	**717 390**	**451 062**	**-**	**5 224 719**	**5 224 719**

The tables above show the undiscounted cash flows of financial liabilities, including issued financial guarantee contracts and unrecognized loan commitments, on the basis of their earliest possible contractual maturity. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

In accordance with Russian legislation, individuals can withdraw their term deposits at any time, forfeiting in most of the cases the accrued interest. These retail deposits totaling RUB 39 269 989 thousand (31 December 2011: RUB 25 651 605 thousand) are classified in accordance with their stated maturity dates, but could legally be withdrawn on demand.

The table below shows an analysis, by expected maturities, of the amounts recognized in the consolidated statement of financial position as at 31 December 2012:

RUB'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Total
ASSETS							
Cash	2 635 977	-	-	-	-	-	2 635 977
Placements with the Central Bank of Russia	2 355 545	-	-	-	-	746 455	3 102 000
Financial instruments at fair value through profit or loss	11 024 421	1 376 393	-	-	-	-	12 400 814
Available-for-sale financial assets	-	3 412 061	-	-	-	-	3 412 061
Due from banks	3 189 088	-	347 642	-	-	90 947	3 627 677
Amounts receivable under reverse repurchase agreements	150 107	-	-	-	-	-	150 107
Loans to customers	1 066 974	5 718 396	19 583 890	27 285 997	4 813 012	-	58 468 269
Net investments in finance leases	82 933	166 552	747 641	1 050 339	23 864	-	2 071 329
Current tax asset	9 563	-	-	-	-	-	9 563
Deferred tax asset	-	-	-	-	-	25 432	25 432
Property, equipment, intangible assets and investment property	-	-	-	-	-	4 592 030	4 592 030
Other assets	936 899	135 220	608 431	-	-	-	1 680 550
Total assets	**21 451 507**	**10 808 622**	**21 287 604**	**28 336 336**	**4 836 876**	**5 454 864**	**92 175 809**
LIABILITIES							
Derivative financial instruments	18 417	-	142 323	-	-	-	160 740
Deposits and balances from banks	534 872	503 806	3 615 619	2 419 835	56 559	-	7 130 691
Amounts payable under repurchase agreements	2 113 126	-	-	-	-	-	2 113 126
Current accounts and deposits from customers	24 476 465	9 779 765	24 971 432	5 915 666	-	-	65 143 328
Debt securities issued	111 172	109 209	1 063 546	2 824 884	75 420	-	4 184 231
Subordinated borrowings	-	-	3 869	182 236	728 945	-	915 050
Current tax liability	87 204	-	-	-	-	-	87 204
Deferred tax liability	-	-	-	-	-	288 773	288 773
Other liabilities	220 766	402 966	-	-	-	-	623 732
Total liabilities	**27 562 022**	**10 795 746**	**29 796 789**	**11 342 621**	**860 924**	**288 773**	**80 646 875**
Net position	**(6 110 515)**	**12 876**	**(8 509 185)**	**16 993 715**	**3 975 952**	**5 166 091**	**11 528 934**

The table below shows an analysis, by expected maturities, of the amounts recognized in the consolidated statement of financial position as at 31 December 2011:

RUB’000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Total
ASSETS							
Cash	2 323 665	-	-	-	-	-	2 323 665
Placements with the Central Bank of Russia	1 370 210	-	-	-	-	484 781	1 854 991
Financial instruments at fair value through profit or loss	5 046 979	1 160 580	3 643 072	-	-	-	9 850 631
Due from banks	824 766	-	378 675	-	-	110 895	1 314 336
Loans to customers	1 605 018	2 813 300	12 887 102	17 809 969	2 735 974	-	37 851 363
Net investments in finance leases	62 549	97 274	437 730	1 019 740	25 446	-	1 642 739
Current tax asset	10 538	-	-	-	-	-	10 538
Deferred tax asset	-	-	-	-	-	8 660	8 660
Property, equipment, intangible assets and investment property	-	-	-	-	-	4 220 145	4 220 145
Other assets	1 149 697	55 137	248 117	-	-	-	1 452 951
Total assets	**12 393 422**	**4 126 291**	**17 594 696**	**18 829 709**	**2 761 420**	**4 824 481**	**60 530 019**
LIABILITIES							
Deposits and balances from banks	386 372	130 751	914 551	2 459 000	19 277	-	3 909 951
Current accounts and deposits from customers	15 112 725	4 734 576	17 617 464	8 875 857	-	-	46 340 622
Debt securities issued	148 645	171 288	192 007	2 007	23 727	-	537 674
Current tax liability	13 351	140 039	-	-	-	-	153 390
Deferred tax liability	-	-	-	-	-	312 900	312 900
Other liabilities	358 835	192 471	-	-	-	-	551 306
Total liabilities	**16 019 928**	**5 369 125**	**18 724 022**	**11 336 864**	**43 004**	**312 900**	**51 805 843**
Net position	**(3 626 506)**	**(1 242 834)**	**(1 129 326)**	**7 492 845**	**2 718 416**	**4 511 581**	**8 724 176**

Management expects that the cash flows from certain assets and liabilities will be different from their contractual terms either because management has the discretionary ability to manage the cash flows or because past experience indicates that cash flows will differ from contractual terms. In the tables below the following financial assets and liabilities are presented on a discounted basis and are based on their expected cash flows:

- Overdue and impaired loans are included in from 3 months to 1 year category based on past experience analysis of their recoverability.
- Financial instruments at fair value through profit or loss (except for promissory notes and derivative financial instruments): management holds a portfolio of trading securities that are readily marketable and can be used to meet outflows of financial liabilities. Cash flows from these trading securities, totalling RUB 11 024 394 thousand (31 December 2011: RUB 5 021 545 thousand) are included in the demand and less than 1 month category**.**

  Contractual maturities of trading securities are as follows:

	2012 RUB'000	**2011 RUB'000**
From 3 to 12 months	848 802	407 424
From 1 to 5 years	3 495 789	2 829 172
More than 5 years	6 494 085	1 784 949
No maturity	185 718	-
	11 024 394	**5 021 545**

- Available-for-sale financial assets: management holds a portfolio of other securities that are also readily marketable and can be used to meet outflows of financial liabilities. Cash flows from these trading securities, totalling RUB 3 412 061 thousand (31 December 2011: none) are included in from 1 to 3 months category based on past experience analysis of their holding period.

  Contractual maturities of available-for-sale securities are as follows:

	2012 RUB'000	**2011 RUB'000**
From 3 to 12 months	425 096	-
From 1 to 5 years	2 391 406	-
More than 5 years	595 559	-
	3 412 061	**-**

- In accordance with the Russian legislation, individuals and legal entities can withdraw the amounts from their current accounts at any time. However past experience indicates that current accounts in total population have permanent remainders. Based on the statistics cash flows from the current accounts for the year ended 31 December 2011, totalling RUB 2 869 346 thousand are included in the category from 3 to 12 months instead of the demand and less than 1 month category.

The Group maintains unused lines of credit from CB RF and other financial institutions. So when analysing liquidity position the Group considers that liquidity gaps represented in the tables above will be adequately covered by outstanding balances of customer accounts not withdrawn by depositors and unused lines of credit from CB RF and other financial institutions, mentioned above.

The Bank also calculates mandatory liquidity ratios on a daily basis in accordance with the requirements of the CBR. These ratios include:

- instant liquidity ratio (N2), which is calculated as the ratio of highly liquid assets to liabilities payable on demand
- current liquidity ratio (N3), which is calculated as the ratio of liquid assets to liabilities maturing within 30 calendar days
- long-term liquidity ratio (N4), which is calculated as the ratio of assets maturing after 1 year to the equity and liabilities maturing after 1 year.

The Bank was in compliance with these ratios as at 31 December 2012 and 2011. The following table shows the mandatory liquidity ratios calculated as at 31 December 2012 and 2011.

	Requirement	**2012, %**	**2011, %**
Instant liquidity ratio (N2)	Not less than 15%	56.5	44.6
Current liquidity ratio (N3)	Not less than 50%	100.2	76.2
Long-term liquidity ratio (N4)	Not more than 120%	110.2	84.3

31 Capital management

The CBR sets and monitors capital requirements for the Bank.

The Bank defines as capital those items defined by statutory regulation as capital for credit institutions. Under the current capital requirements set by the CBR, banks have to maintain a ratio of capital to risk weighted assets (statutory capital ratio) above the prescribed minimum level. As at 31 December 2012 and 31 December 2011, this minimum level is 10%. The Bank is in compliance with the statutory capital ratio during the years ended 31 December 2012 and 2011.

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

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

	2012 RUB’000	**2011 RUB’000**
Tier 1 capital		
Share capital	562 312	562 312
Share premium	1 192 723	1 192 723
Retained earnings	8 484 167	5 615 677
Total tier 1 capital	**10 239 202**	**7 370 712**

	2012 RUB'000	2011 RUB'000
Tier 2 capital		
Revaluation surplus for available-for-sale assets	9 718	-
Revaluation surplus for buildings	1 280 014	1 353 464
Subordinated debt (unamortized portion)	915 050	-
Total tier 2 capital	**2 204 782**	**1 353 464**
Total capital	**12 443 984**	**8 724 176**
Risk-weighted assets		
Banking book	69 521 689	48 782 973
Trading book	10 789 199	3 110 545
Total risk weighted assets	**80 310 888**	**51 893 518**
Total capital expressed as a percentage of risk-weighted assets (total capital ratio)	**15.49%**	**16.81%**
Total tier 1 capital expressed as a percentage of risk-weighted assets (tier 1 capital ratio)	**12.75%**	**14.20%**

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

The Group is subject to minimum capital adequacy requirements calculated in accordance with the methodology of International Finance Corporation (IFC) established by covenants under liabilities incurred by the Group. The Group has complied with all externally imposed capital requirements during the years ended 31 December 2012 and 2011.

32 Commitments

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

The Group provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to five years.

The Group applies the same credit risk management policies and procedures when granting credit commitments, financial guarantees and letters of credit as it does for granting loans to customers.

The contractual amounts of commitments are set out in the following table by category. The amounts reflected in the table for commitments assume that amounts are fully advanced. The amounts reflected in the table for guarantees and letters of credit represent the maximum accounting loss that would be recognized at the reporting date if counterparties failed completely to perform as contracted.

	2012 RUB'000	2011 RUB'000
Contracted amount		
Guarantees and letters of credit	2 820 942	2 213 476
Undrawn overdraft facilities	4 145 561	2 411 578
Loan and credit line commitments	527 160	599 665
	7 493 663	**5 224 719**

The total outstanding contractual commitments above do not necessarily represent future cash requirements, as these commitments may expire or terminate without being funded.

There is no significant credit risk exposure as at 31 December 2012.

As at 31 December 2012 the Group has a commitment to purchase 1 698 kg of gold and 8 923 kg of silver (2011: 1 369 kg of gold) under contracts to be settled at the market price at the date of maturity.

33 Operating leases

Leases as lessee

The Group leases a number of premises and equipment under operating leases. The leases typically run for an initial period of five to ten years, with an option to renew the lease after that date. Lease payments are usually increased annually to reflect market rentals. None of the leases includes contingent rentals or non-cancellable payments.

34 Contingencies

(a) Insurance

The insurance industry in the Russian Federation is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Group does not have full coverage for its premises and equipment, business interruption, or third party liability in respect of property or environmental damage arising from accidents on its property or relating to operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on operations and financial position.

(b) Litigation

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

Management is unaware of any significant actual, pending or threatened claims against the Group.

(c) Taxation contingencies

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

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

New transfer pricing legislation enacted in the Russian Federation starting from 1 January 2012 provides for major modifications making local transfer pricing rules closer to OECD guidelines, but creating additional uncertainty in practical application of tax legislation in certain circumstances.

The new transfer pricing rules introduce an obligation for the taxpayers to prepare transfer pricing documentation with respect to controlled transactions and prescribe new basis and mechanisms for accruing additional taxes and interest in case prices in the controlled transactions differ from the market level.

Since there is no practice of applying the new transfer pricing rules by the tax authorities and courts, it is difficult to predict the effect of the new transfer pricing rules on these consolidated financial statements.

35 Cash and cash equivalents

	2012 RUB’000	**2011 RUB’000**
Cash on hand	2 635 977	2 323 665
Nostro accounts with the CBR	2 155 496	1 020 172
Nostro accounts with other banks	1 825 420	646 786
Term deposits with the CBR	200 049	350 038
Term deposits with other banks	1 363 668	177 958
Total cash and cash equivalents	**8 180 610**	**4 518 619**

None of cash and cash equivalents are impaired or past due.

36 Related party transactions

(a) Control relationships

The Group’s parent company is LLC “PPFIN Region” (Russian Federation). As of 31 December 2012, the ultimate beneficial owners of the Group were Mr. Andrey Vdovin (the owner of 16.6553%), Mr. Kirill Yakubovsky (the owner of 16.6553%), Mr. Pavel Maslovsky (the owner of 16.6553%), Mr. Peter Hambro (the owner of 16.6553%), East Capital Explorer Financial Institution Fund (Sweden) (the owner of 17.91%), International Finance Corporation (6.99%) and Mr. Evgeniy Aksenov (the owner of 5.21%).

(b) Transactions with the members of the Board of Directors and the Management Board

Total remuneration included in personnel expenses for the years ended 31 December 2012 and 2011 is as follows:

	2012 RUB’000	2011 RUB’000
Short term employee benefits	308 677	229 378
	308 677	**229 378**

These amounts include non-cash benefits in respect of the members of the Board of Directors and the Management Board.

The outstanding balances and average effective interest rates as at 31 December 2012 and 2011 for transactions with the members of the Board of Directors and the Management Board are as follows:

	2012 RUB’000	Average effective interest rate, %	2011 RUB’000	Average effective interest rate, %
Consolidated statement of financial position				
ASSETS				
Loans to customers	138	29.12%	6 748	13.16%
Other assets	433	-	7	-
LIABILITIES				
Current accounts and deposits from customers	118 765	9.27%	65 974	9.30%
Debt securities issued	100 078	9.50%	-	-
Other liabilities	-	-	117	-

Other amounts included in the consolidated statement of comprehensive income in relation to transactions with the members of the Board of Directors and the Management Board for the year ended 31 December are as follows:

	2012 RUB’000	2011 RUB’000
Consolidated statement of comprehensive income		
Interest income	5	90
Interest expense	(9 884)	(1 657)
Commission income	83	52

(c) Transactions with shareholders

The outstanding balances and average effective interest rates as at 31 December 2012 and 2011 for transactions with shareholders are as follows:

	2012 RUB'000	Average effective interest rate, %	2011 RUB'000	Average effective interest rate, %
Consolidated statement of financial position				
ASSETS				
Loans to customers	38	16.00%	-	-
Other assets	500	-	41	-
LIABILITIES				
Deposits and balances from banks	237 708	14.79%	332 920	14.54%
Current accounts and deposits	88 961	11.22%	380 120	11.07%
Subordinated borrowings	915 050	10.92%	-	-

Amounts included in the consolidated statement of comprehensive income in relation to transactions with shareholders for the years ended 31 December are as follows:

	2012 RUB'000	2011 RUB'000
Consolidated statement of comprehensive income		
Interest expense	(63 821)	(58 473)
Commission income	23	-

During 2012 the Group declared and paid dividends of RUB 450 000 thousand (RUB 0.000000090927095 per share) (2011: RUB 300 000 thousand (RUB 0.00000006061806 per share)) and made an additional cash distribution to shareholders in the amount of RUB 16 200 thousand (2011: RUB 16 200 thousand).

(d) Transactions with the Banking Holding Group

The Group is part of a Holding Group (the Banking Holding Group) which as at 31 December 2012 and 31 December 2011 includes VMHY Holding, the parent company of LLC "PPFIN Region".

The outstanding balances and average effective interest rates as at 31 December 2012 and 2011 for transactions with the Banking Holding Group are as follows:

	2012 RUB'000	Average effective interest rate, %	2011 RUB'000	Average effective interest rate, %
Consolidated statement of financial position				
LIABILITIES				
Current accounts and deposits	23	-	140 185	13%

Amounts included in th consolidated statement of comprehensive income in relation to transactions with the Banking Holding Group for the year ended 31 December are as follows:

	2012 RUB’000	2011 RUB’000
Consolidated statement of comprehensive income		
Interest income	-	2 208
Interest expense	5 647	3 113
Commission income	53	26
Net foreign exchange income	3	4 356
Impairment loss recovery	-	3 280

(e) Transactions with other related parties

Other related parties are represented by companies controlled by management or shareholders of the Group.

The outstanding balances and average effective interest rates as at 31 December 2012 and 2011 for transactions with other related parties are as follows:

	2012 RUB’000	Average effective interest rate, %	2011 RUB’000	Average effective interest rate, %
Consolidated statement of financial position				
ASSETS				
Due from banks	938	-	5 931	-
Loans to customers	1 066 968	11.91%	955 812	10.69%
Other assets	9 120	-	2 855	-
LIABILITIES				
Deposits and balances from banks	72 815	12.00%	44	-
Current accounts and deposits from customers	798 965	9.75%	817 334	6.48%
Other liabilities	3 880	-	349	-
Debt securities issued	300 632	11.29%	-	-
Commitments				
Guarantees and letters of credit	30 502	-	36 123	-
Undrawn loan commitments and overdraft	19 150	-	500	-

Amounts included in the consolidated statement of comprehensive income in relation to transactions with other related parties for the year ended 31 December are as follows:

	2012 RUB’000	2011 RUB’000
Consolidated statement of comprehensive income		
Interest income	110 473	43 441
Interest expense	(85 198)	(11 881)
Commission income	11 320	23 022
Other income	1 021	115
Other expense	(2 939)	(2 748)
Impairment loss recovery (origination)	1 661	(5 809)

37 Financial assets and liabilities: fair values and accounting classifications

Accounting classifications and fair values

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

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

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

As at 31 December 2012 and 31 December 2011, the Group does not have any financial instruments for which fair value is based on valuation techniques involving the use of non-market observable inputs.

The estimates of fair value are intended to approximate the amount for which a financial instrument can be exchanged between knowledgeable, willing parties in an arm's length transaction. However given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realisable in an immediate sale of the assets or settlement of liabilities.

Fair value hierarchy

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

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: Valuation techniques based on observable inputs, either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

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

RUB '000	**Level 1**	**Level 2**	**Total**
Financial instruments at fair value through profit or loss			
- Debt and other fixed income instruments	10 838 676	1 376 393	12 215 069
- Equity investments	185 718	-	185 718
- Derivative assets	27	-	27
- Derivative liabilities	18 417	142 323	160 740
Available-for-sale financial assets			
- Debt and other fixed income instruments	3 412 061	-	3 412 061
	14 454 899	**1 518 716**	**15 973 615**

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

RUB '000	**Level 1**	**Level 2**	**Total**
Financial instruments at fair value through profit or loss			
- Debt and other fixed income instruments	5 021 688	4 803 652	9 825 340
- Derivative assets	25 291	-	25 291
	5 046 979	**4 803 652**	**9 850 631**

38 Events after the reporting date

In February 2013, the Group attracted loans in the total amount of RUB 650 000 thousand for issuing loans to SME. These loans have interest rate 11.4% and mature in February 2017.

On 19 February 2013, the Group issued RUB 3 000 000 thousand of bonds with a coupon rate of 10.4%.

On 27 February 2013, the Group’s parent company LLC “PPFIN Region” sold 8.4% of voting shares of the Bank to TECHSUN ENTERPRISES LIMITED (Cyprus) ultimately controlled by the same parties as LLC “PPFIN Region”.

The Board of Directors of the Bank on the meeting held on 27 March 2013 defined the distribution price of newly issued 700 271 681 780 696 ordinary shares of the Bank with a nominal value of RUB 0.000000112 per each share and total nominal value of RUB 78 430 thousand at RUB 0.000003494 per share.