**Commercial Bank ROSENERGOBANK (Closed Joint Stock Company)**

Financial Statements for the Year Ended 31 December 2012 and Independent Auditor's Report

# Contents

129110, г. Москва, Проспект Мира, д. 69, стр. 1, тел.: (495) 775 22 00, 775 22 01
почтовый адрес: 129110, г. Москва, а/я 179
info@finexpertiza.ru
www.finexpertiza.ru

**Исх. № 543-04/13 от 01.04.13**

AUDITOR'S REPORT
To the Management Board of Commercial Bank ROSENERGOBANK (Closed Joint Stock Company)

We have audited the accompanying financial statements of Commercial Bank ROSENERGOBANK (Closed Joint Stock Company) which comprise the statement of financial position at 31 December 2012t, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows for the year ended 31 December 2012, and summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

Management of the Bank is responsible for preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and significant estimates made by the management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient to provide a basis for our opinion on these financial statements.

Auditor's Opinion

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

Общество с ограниченной ответственностью "ФинЭкспертиза" Г.Р. № 937341 МОСКВА

Ms. Natalya Borzova
Deputy CEO

**OOO FINEXPERTIZA**
Moscow, Russia
01 April 2013

*Commercial Bank ROSENERGOBANK (Closed Joint Stock Company) Statement of Financial Position as at 31 December 2012 (in thousands of Russian Roubles)*

| | Note | 2012 | 2011 |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | 5 | 2 656 895 | 1 738 899 |
| Mandatory cash balances with the Central Bank of the Russian Federation | | 645 864 | 485 551 |
| Financial assets at fair value through profit or loss | 6 | 3 729 072 | 807 524 |
| Financial assets held to maturity | 7 | 284 652 | - |
| Due from other banks | 8 | 3 621 958 | 4 720 679 |
| Loans to customers | 9 | 17 002 347 | 11 193 379 |
| Premises and equipment | 10 | 2 191 891 | 1 801 917 |
| Other assets | 11 | 662 520 | 374 130 |
| **Total assets** | | **30 795 199** | **21 122 079** |
| **Liabilities** | | | |
| Due to other banks | 12 | 1 820 142 | 640 443 |
| Customer accounts and deposits | 13 | 22 625 547 | 16 976 420 |
| Debt securities issued | 14 | 1 556 965 | 308 816 |
| Other borrowed funds | 15 | 1 405 269 | 888 029 |
| Other liabilities | 16 | 247 591 | 69 991 |
| Current tax liabilities | | 20 265 | 13 862 |
| Deferred tax liabilities | 22 | 263 456 | 128 699 |
| **Total liabilities** | | **27 939 235** | **19 026 260** |
| **Equity** | | | |
| Share capital | 17 | 1 161 382 | 1 061 382 |
| Share premium | 17 | 592 000 | 392 000 |
| Revaluation reserve for premises and equipment | | 1 017 580 | 686 230 |
| Retained earnings | | 85 002 | (43 793) |
| **Total equity** | | **2 855 964** | **2 095 819** |
| **Total liabilities and equity** | | **30 795 199** | **21 122 079** |

M.V. Pavlik,
Chairman of the Executive Board

A.G. Volkova,
Chief Accountant

1 April 2013

*The notes set out on pages 9 to 55 form an integral part of these financial statements.*

*Commercial Bank ROSENERGOBANK (Closed Joint Stock Company) Statement of Comprehensive Income for the Year Ended 31 December 2012 (in thousands of Russian Roubles)*

| | Note | 2012 | 2011 |
|---|---|---|---|
| Interest income | 19 | 2 477 625 | 2 219 254 |
| Interest expense | 19 | (1 282 796) | (1 106 227) |
| **Net interest income** | | **1 194 829** | **1 113 027** |
| Provision for impairment of loans to customers | 9 | (380 818) | (261 106) |
| **Net interest income after provision for impairment of loans to customers** | | **814 011** | **851 921** |
| Gains less losses arising from financial assets at fair value through profit or loss | | 7 003 | (365 139) |
| Gains less losses from dealing in foreign currency | | 3 619 | 23 804 |
| Foreign exchange translation gains less losses | | 9 976 | 9 459 |
| Fee and commission income | 20 | 472 963 | 398 109 |
| Fee and commission expense | 20 | (41 445) | (37 058) |
| Provision for impairment of other assets and credit related commitments | 11, 16 | (10 948) | 5 371 |
| Other operating income | | 51 092 | 46 204 |
| **Operating income** | | **1 306 271** | **932 671** |
| Operating expenses | 21 | (1 090 850) | (908 286) |
| **Income before taxation** | | **215 421** | **24 385** |
| Income tax expense | 22 | (86 626) | (4 698) |
| **Net income** | | **128 795** | **19 687** |
| **Other comprehensive income** | | | |
| Effect from revaluation of premises and equipment | 10 | 414 187 | 297 276 |
| Income tax relating to components of comprehensive income | | (82 837) | (59 455) |
| **Other comprehensive income after taxation** | | **331 350** | **237 821** |
| **Total comprehensive income** | | **460 145** | **257 508** |

M.V. Pavlik,
Chairman of the Executive Board

A.G. Volkova,
Chief Accountant

КБ "РЭБ" (ЗАО)
КОММЕРЧЕСКИЙ БАНК «РОСЭНЕРГОБАНК»

1 April 2013

*Commercial Bank ROSENERGOBANK (Closed Joint Stock Company) Statement of Cash Flows for the Year Ended 31 December 2012 (in thousands of Russian Roubles)*

| | 2012 | 2011 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Interest, fees and commissions received | 2 917 055 | 2 605 822 |
| Interest, fees and commissions paid | (1 425 320) | (1 035 819) |
| Gains less losses arising from financial assets at fair value through profit or loss | (9 230) | (353 666) |
| Gains less losses from dealing in foreign currency | 3 673 | 23 804 |
| Other operating income | 48 965 | 46 204 |
| Operating expenses | (1 009 616) | (807 994) |
| Income tax paid | (28 303) | (27 936) |
| **Cash flows from operating activities before changes in operating assets and liabilities** | **497 224** | **450 415** |
| **Net (increase)/decrease in operating assets** | | |
| Mandatory cash balances with the Central Bank of the Russian Federation | (160 313) | (263 254) |
| Financial assets at fair value through profit or loss | (2 901 635) | 3 576 156 |
| Due from other banks | 1 098 177 | (4 720 000) |
| Loans to customers | (6 211 412) | (2 450 845) |
| Other assets | (283 261) | (223 025) |
| **Net increase /(decrease) in operating liabilities** | | |
| Due to other banks | 1 181 504 | (704 312) |
| Customer accounts and deposits | 5 810 514 | 4 188 321 |
| Debt securities issued | 1 289 336 | (1 012 881) |
| Other liabilities | 70 491 | (33 089) |
| **Net cash flows from operating activities** | **390 625** | **(1 192 514)** |
| **Cash flows from investing activities** | | |
| Purchase of financial assets held to maturity | (309 712) | - |
| Purchase of premises and equipment (Note 10) | (28 682) | (93 402) |
| Proceeds from disposal of premises and equipment | - | 245 |
| **Net cash flows from investing activities** | **(338 394)** | **(93 157)** |
| **Cash flows from financing activities** | | |
| Share issue | 300 000 | - |
| Other borrowed funds | 600 000 | - |
| **Net cash flows from financing activities** | **900 000** | **-** |
| Effect of exchange rate changes on cash and cash equivalents | (34 235) | 11 571 |
| **Net change in cash and cash equivalents** | **917 996** | **(1 274 100)** |
| **Cash and cash equivalents at the beginning of the year** | 1 738 899 | 3 012 999 |
| **Cash and cash equivalents at the end of the year (Note 5)** | **2 656 895** | **1 738 899** |

M.V. Pavlik,
Chairman of the Executive Board

A.G. Volkova,
Chief Accountant

1 April 2013

*Commercial Bank ROSENERGOBANK (Closed Joint Stock Company) Statement of Changes in Equity for the Year Ended 31 December 2012 (in thousands of Russian Roubles)*

| | Share capital | Share premium | Revaluation reserve for premises and equipment | Retained earnings | Total equity |
|---|---|---|---|---|---|
| **Balance as at 1 January 2011** | **1 061 382** | **392 000** | **448 409** | **(63 480)** | **1 838 311** |
| Comprehensive income for 2011 | - | - | 237 821 | 19 687 | 257 508 |
| **Balance as at 31 December 2011** | **1 061 382** | **392 000** | **686 230** | **(43 793)** | **2 095 819** |
| Share issue | 100 000 | 200 000 | - | - | 300 000 |
| Comprehensive income for 2012 | - | - | 331 350 | 128 795 | 460 145 |
| **Balance as at 31 December 2012** | **1 161 382** | **592 000** | **1 017 580** | **85 002** | **2 855 964** |

M.V. Pavlik,
Chairman of the Executive Board

A.G. Volkova,
Chief Accountant

1 April 2013

*(in thousands of Russian Roubles)*

## 1. Principal Activities of the Bank

Commercial Bank ROSENERGOBANK (Closed Joint Stock Company) (the Bank) was founded in 1992 as a closed joint stock company under the laws of the Russian Federation.

The Bank operates under the following licenses:

- License of the Central Bank of the Russian Federation (the CBR) No. 2211 of 6 August 2012 for banking operations with funds of individuals;
- License of the Central Bank of the Russian Federation No. 2211 of 6 August 2012 for banking operations with funds of legal entities;
- License of the Central Bank of the Russian Federation No. 2211 of 21 February 2012 for depository and placement operations with precious metals;
- Licenses of the professional securities market participant with an unlimited validity period:

  - No. 177-11119-100000 of 1 April 2008 for brokerage transactions;
  - No. 177-11123-010000 of 1 April 2008 for dealing transactions;
  - No. 177-11127-001000 of 1 April 2008 for securities management;
  - No. 177-13238-000100 of 29 July 2010 for depository activities.

Principal activities of the Bank are corporate and retail banking services on the territory of the Russian Federation.

The Bank has 6 branches (2011: 5 branches) in the Russian Federation.

The Bank's head office is located at: 3/30, Podsosensky Per., Moscow, 105062.

Legal and mailing address of the Bank is: 3/30, Podsosensky Per., Moscow, 105062.

Since September 2005 the Bank has been a member of the obligatory Deposit Insurance System managed by the state corporation Deposit Insurance Agency.

The average annual number of the Bank's employees in 2012 was 748 (2011: 699 employees).

Below is the information about the Bank's main shareholders:

| Name | 2012 Ownership (%) | 2011 Ownership (%) |
|---|---|---|
| LLC "FINANSGARANT" | 20,00 | 20,00 |
| LLC "LOGOS" | 17,50 | 20,00 |
| LLC "STROIPRIMA" | 17,50 | 20,00 |
| LLC "RUSINVEST" | 17,50 | 19,99 |
| LLC "RETOR" | 11,45 | - |
| LLC "Spetsenergocentre" | 10,74 | 11,80 |
| LLC "Alfa-CourierSevice" | 4,39 | 7,13 |
| Shareholders with shareholdings less than 5 % of the Bank's share capital | 0,92 | 1,08 |
| **Total** | **100,00** | **100,00** |

*(in thousands of Russian Roubles)*

Below is the information on the Bank's ultimate beneficiaries:

| Name | 2012 Ownership (%) | 2011 Ownership (%) |
|---|---|---|
| Genady Gordon | 19,90 | 19,90 |
| Lidia A. Vasilyeva | 17,50 | 20,00 |
| Konstantin V. Shvarts | 17,50 | 19,99 |
| Maria R. Didenko | 17,50 | - |
| Natalia V. Sinitsyna | 11,45 | - |
| Maria G. Maklakova | 10,74 | 19,98 |
| Monhe Simons Mario Ignasio | 4,37 | 7,09 |
| Rafail R. Bashirov | - | 11,81 |
| Ultimate beneficiaries with shareholdings less than 2% of the Bank's share capital | 1,04 | 1,23 |
| **Total** | **100,00** | **100,00** |

## 2. Operating Environment of the Bank

### *General*

From the early 1990s the Russian Federation has been facing serious political, economic and social changes. Despite the fact that starting from 2002 the economy of the Russian Federation is recognised as a market economy and main reforms concerning banking, legal and tax systems have been undertaken, business and legal infrastructure still lacks the level of stability attributable to those of developed countries.

Currently the Russian economy continues to demonstrate specific features attributable to the countries with developing economies. Such features include:

- Relatively high inflation rate for several years;
- Low liquidity level on capital markets;
- Inconvertibility of the national currency in a few foreign countries.

In 2012 international rating agencies affirmed the following national credit ratings of the Russian Federation:

- "BBB/A2" (the long-term and the short-term foreign currency rating), "BBB+/A2" (the long-term and the short-term local currency rating), stable trend, in accordance with the Standard&Poor's rating scale;

- "BBB", stable trend (the long-term issuer default rating ("IDR") in foreign and local currency), "F3" (the short-term IDR in foreign currency), in accordance with the Fitch Ratings rating scale;

- "Baa1" (the long-term issuer rating in foreign and local currency), stable trend, in accordance with the Moody's rating scale.

The national credit rating of the Russian Federation is supported by a high level of the state financial stability, but is restrained by a moderate level of economic development and a relatively low level of institutional development.

Benefits from the scale of the Russian economy are leveled by complexities in economy diversification that is dependent on raw materials export comprising 80% of the total Russian export.

According to the Federal service of the state statistics, the real GDP growth for 2012 comprised 3,4%.

The future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory, and political developments.

*(in thousands of Russian Roubles)*

### *Inflation*

Russian economy is characterised by relatively high inflation rate. Inflation indexes for the last 5 years are presented in the table below

| | Inflation for the period |
|---|---|
| 31 December 2012 | 6,6% |
| 31 December 2011 | 6,1% |
| 31 December 2010 | 8,8% |
| 31 December 2009 | 8,1% |
| 31 December 2008 | 13,3% |

### *Currency transactions and currency control*

Foreign currencies, in particular US Dollar and Euro, play an important role in the economic analysis of operations conducted in Russia.

Exchange rates of US Dollar and Euro to Russian rouble are presented below

| | US Dollar | Euro |
|---|---|---|
| 31 December 2012 | 30,3727 | 40,2286 |
| 31 December 2011 | 32,1961 | 41,6714 |
| 31 December 2010 | 30,4769 | 40,3331 |
| 31 December 2009 | 30,2442 | 43,3883 |
| 31 December 2008 | 29,3804 | 41,4411 |

## 3. Basis of Presentation

### *General principles*

The financial statements of the Bank are prepared in accordance with International Financial Reporting Standards (IFRS). The Bank maintains its accounting records in accordance with the applicable legislation of the Russian Federation. These financial statements have been prepared on the basis of those accounting records and adjusted as necessary in order to comply, in all material respects, with IFRS.

### *Functional and presentation currency*

The functional currency is the currency that mainly influences sales prices for goods and services (this will often be the currency in which sales prices for the goods and services are denominated and settled), labour, material and other costs of providing goods or services (this will often be the currency in which such costs are denominated and settled).

The presentation currency is the currency in which financial statements are presented.

These financial statements are presented in Russian Roubles being the Bank's functional and presentation currency.

### *Estimates and assumptions*

The preparation of the financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities as at the date of the financial statements preparation, and the reported amounts of revenues and expenses during the reporting period. Issues that require the management's estimates and are most significant for the financial statements are disclosed in Notes 4, 9, 23, 26.

### *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 have not been applied in preparing these financial statements. Of these pronouncements, potentially the following will have an impact on the Bank's operations. The Bank plans to adopt these pronouncements when they become effective. Currently, the Bank examines the consequences of the standards' and interpretations' application, their impact on the Bank and the dates of their effective application.

Amendments to IAS 1 "Presentation of Financial Statements" (issued in June 2011 and effective for annual periods beginning on or after 1 July 212), change the disclosure of items presented in other comprehensive income. The amendments require entities to separate items presented in other comprehensive income into two groups, based on whether or not they may be reclassified to profit or loss in the future. Additionally, the amendment changes a title of the statement of comprehensive income to "the statement of profit and loss and other comprehensive income". However, the use of other titles is acceptable.

IFRS 9 "Financial instruments: Classification and measurement". IFRS 9, issued in November 2009, replaces those parts of IAS 39 relating to the classification and measurement of financial assets. IFRS 9 was further amended in October 2010 to address the classification and measurement of financial liabilities and in December 2011 to a) change its effective date to annual periods beginning on or after 1 January 2015 and b) add transition disclosures. Key distinctions of the standard from IAS 39 are as follows:

- Financial assets must be classified into two measurement categories: those to be measured subsequently at fair value and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (a) the objective of the entity's business model is to hold the asset to collect the contractual cash flows; and (b) the asset's contractual cash flows represent payments of principal and interest only (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.

- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealized and realised fair value gains and losses through other comprehensive income rather than through profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.

Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

While adoption of IFRS 9 is mandatory from 1 January 2015, earlier adoption is permitted.

IFRS 10 "Consolidated financial statements" is 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 unified control model related to entities currently guided by SIC 12. In accordance with the new three-level control model, the investor controls an investment provided that he receives income from the investment, or has a right to receive such income, while he is able and has a right to affect the returns from the investment and there is a link between these rights and the amount of income from the investment. Consolidation procedures are carried forward from IAS 27 (2008 edition). If IFRS 10 application does not affect consolidation or non-consolidation of an investment, no changes are made to the financial statements when the standard is first applied. If the standard application affects consolidation or non-consolidation of an investment, the standard has to be applied retrospectively, starting the date of the investment acquisition or disposal, or, if this condition can not be met, a limited retrospective application has to be made, starting the earliest possible period when the standard can be applied, current period included.

IFRS 11 "Joint Arrangements" is applied retrospectively to annual reporting periods beginning on or after 1 January 2013. The new standard supersedes IAS 31 "Interests in Joint Ventures" and SIC 13 "Jointly Controlled Entities - Non-monetary Contributions from Ventures". Due to definitions change the number of joint arrangements' types was reduced to two: joint operations and joint ventures. The existing policy choice of proportional consolidation for jointly controlled entities has been eliminated. Equity accounting is mandatory for participants in joint ventures.

IFRS 12 "Disclosure of Interests in Other Entities" is effective for annual periods beginning on or after 1 January 2013. The standard applies to entities that have an interest in subsidiaries, joint arrangements, associates or unconsolidated structured entities. Interests in another entity are widely defined as contractual and non-contractual involvement that exposes an entity to variability of returns from the performance of the other entity. Amended and new requirements for disclosing information aim to provide the users of financial statements with information that would enable them to assess the nature of the risks related to the entity's interests in other entities and the effect of those interests on the entity's financial position, financial performance and cash flows.

IFRS 13 "Fair Value Measurement" is applied for annual periods beginning on or after 1 January 2013. The new standard replaces 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 measurement. IFRS 13 does not introduce new requirements for measurement of assets and liabilities at fair value nor does it eliminate the exceptions to fair value measurement currently applicable to certain standards. The standard is applies prospectively with an early application permitted. Comparative information for the periods preceding IFRS 13 application is not required.

IAS 27 "Separate Financial Statements" (revised in May 2011 and effective for annual reporting periods beginning on or after 1 January 2013). This standard has been changed and currently its purpose is to set requirements for accounting and disclosure of investments in subsidiaries, joint ventures and associates in separate financial statements. The guidance on control and consolidated financial statements was replaced by IFRS 10 "Consolidated Financial Statements".

The amendment to IAS 28 "Investments in Associates and Joint Ventures" is effective for annual reporting periods beginning on or after 1 January 2013. The new edition of the standard sets out requirements for the application of the equity method when accounting for investments in associates and joint ventures.

"Disclosures - Offsetting Financial Assets and Financial Liabilities" is an amendment to IFRS 7 issued in December 2011 and effective for annual periods beginning on or after 1 January 2013. The amendment requires disclosures for financial statement users to assess the effect or potential effect of offsetting agreements, the settlement right included. The amendment will have an impact on disclosures, but it will have no effect on the measurement and recognition of financial instruments.

Offsetting of Financial Assets and Financial Liabilities is an amendment to IAS 32 issued in December 2011 and effective for annual periods beginning on or after 1 January 2014. The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying the meaning of "currently has a legally enforceable right of set-off" and that some gross settlement systems may be considered equivalent to net settlement.

Other revised standards and interpretations - the amendments to IFRS 1 "First - time Adoption of IFRS", relating to severe hyperinflation, and eliminating references to fixed dates for certain exceptions and exemptions, the amendment to IAS 12 "Income Taxes", which introduces a rebuttable presumption that an investment property carried at fair value is recovered entirely through sale, amendments to IAS 19 "Employee Benefits" related to a revised approach to recognition and measurement of defined benefit pension expense, and to the disclosures of all employee benefits, will not affect these financial statements.

## 4. Significant Accounting Policies

### *Cash and cash equivalents*

Cash and cash equivalents are assets, which can be converted into cash within a day and consist of cash on hand, correspondent and current account balances. All short-term interbank placements are included in due from other banks. Amounts, which relate to funds that are of a restricted nature, are excluded from cash and cash equivalents.

Cash and cash equivalents do not include mandatory cash balances with the Central Bank of the Russian Federation.

***Mandatory cash balances with the Central Bank of the Russian Federation***

Mandatory cash balances with the Central Bank of the Russian Federation represent mandatory reserve deposits with the CBR, which are not available to finance the Bank's day-to-day operations. The mandatory reserve balance is excluded from cash and cash equivalents for the purposes of the statement of cash flows.

***Financial assets***

The Bank classifies its financial assets in the following categories:

- financial assets at fair value through profit or loss;
- financial assets held to maturity;
- financial assets available for sale;
- loans and receivables (this category includes due from other banks and loans to customers).

The Bank determines the classification of its financial assets at initial recognition. Classification of financial assets at initial recognition depends on the purpose for which they were acquired and their characteristics.

***Classification of financial assets***

Financial assets 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 assets 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 by the Bank as at fair value through profit or loss.

The Bank designates financial assets and liabilities at fair value through profit or loss where either:

- the assets or liabilities are managed and evaluated on a fair value basis;

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

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

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

Financial assets and liabilities at fair value through profit or loss are not reclassified subsequent to initial recognition.

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 Bank intends to sell immediately or in the near term;

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

- the Bank upon initial recognition designates as available-for-sale; or

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

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

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

- the Bank designates as available-for-sale; or

- meet the definition of loans and receivables.

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

Management determines the appropriate classification of financial instruments at the time of the initial recognition.

*Recognition of financial assets*

Financial assets and liabilities are recognised in the statement of financial position when the Bank 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 of financial assets*

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 amortised cost using the effective interest method, less the impairment loss. Premiums and discounts, including initial transaction costs, commissions and costs inherent for effecive interest rate of an instrument are included in the amortised cost calculation. The amortisation based on the effective interest rate method is recorded in net investment income in the statement of comprehensive income. Impaiment losses are included in the satement of comprehensive income as financing costs;

- financial assets held-to-maturity which are measured at amortised cost using the effective interest method; and

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

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

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

*Fair value measurement principles*

The fair value of financial assets is based on their quoted market price at the balance sheet date without any deduction for transaction costs. If a quoted market price is not available, the fair value of the instrument is estimated using pricing models or discounted cash flow techniques.

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

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

***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 recognised as follows:

- a gain or loss on a financial asset classified as at fair value through profit or loss is recognised in the statement of comprehensive income;

- a gain or loss on an available-for-sale financial asset is recognised directly in equity through the statement of changes in equity (except for impairment losses and foreign exchange gains and losses) until the asset is derecognised, at which time the cumulative gain or loss previously recognised in equity is recognised in the consolidated statement of comprehensive income. Interest in relation to an available-for-sale financial asset is recognised as earned in the consolidated statement of comprehensive income calculated using the effective interest method.

For financial assets and liabilities carried at amortised cost, a gain or loss is recognised in the statement of comprehensive income when the financial asset or liability is derecognised or impaired, and through the amortisation process.

***Derecognition***

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

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

***Due from other banks***

In the normal course of business, the Bank places funds for various periods of time with other banks. Amounts due from other banks with a fixed maturity term are not intended for immediate or short-term trading and are measured at amortised cost using the effective interest method. Amounts due from other banks are carried net of any allowance for impairment.

***Loans to customers***

Loans to customers include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- those that the entity intends to sell immediately or in the near term, which shall be classified as held for trading, and those designated as at fair value through profit or loss;
- those that the entity upon initial recognition designates as available for sale;
- those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, which shall be classified as available for sale.

Loans to customers are initially recorded at cost, which is the fair value of the consideration given. Subsequently, they are carried at amortised cost using the effective interest method less provision for loan impairment.

Loans to customers are recorded when cash is advanced to borrowers.

Loans originated at interest rates different from market rates are remeasured at origination to their fair values, being future interest payments and principal repayment(s) discounted at market interest rates for similar loans. The difference between the fair value and the nominal value at origination is credited or charged to the statement of comprehensive income as gains/losses on origination of loans to customers at rates above/below market. Subsequently, the carrying amount of such loans is adjusted for amortisation and the related gains/losses are recorded within the statement of comprehensive income using the effective interest method.

The Bank does not acquire loans from third parties.

***Impairment of financial assets***

The Bank assesses on each closing date whether there is any objective evidence that the value of a financial asset item or group of items has been impaired. Impairment losses are recognised in the statement of comprehensive income as they are incurred as a result of one or more events that occurred after the initial recognition of the financial asset (a 'loss event') and that loss event (or events) has an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

***(1) Impairment of due from other banks and loans to customers***

For amounts due from other banks and loans to customers carried at amortised cost, the Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant or collectively for financial assets that are not individually significant.

Objective evidence that due from other banks and loans to customers are impaired includes the following observable data in respect of individually significant financial assets:

- default in any payments due;
- significant financial difficulty of the borrower supported by financial information at the Bank's disposal;
- it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- worsening national or local economic environment affecting the borrower;
- breach of contract, such as a default or delinquency in interest or principal payments;
- the lender, for economic or legal reasons relating to the borrowers financial difficulty, granting to the borrower a concession that the lender would not otherwise consider.

Assets that are individually assessed for impairment and for which an impairment loss is recognised are not included in a collective assessment of impairment.

If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics such as asset type, industry, collateral type, payment status and other relevant factors. The characteristics chosen are relevant to the estimation of future cash flows for groups of such assets by being indicative of the borrowers' ability to pay all amounts due according to the contractual terms of the assets being evaluated. The main criterion used for determining objective evidence of loss from impairment of due from other banks and loans to customers representing collectively measured financial assets is availability of observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group. Such information may include adverse changes in the payment status of borrowers in the group (for example, an increased number of delayed payments or an increased number of credit card borrowers who have reached their credit limit and are paying the minimum monthly amount), national or local economic conditions that correlate with defaults on the assets in the group (for example, an increase in the unemployment rate in the geographical area of the borrowers, a decrease in property prices in respect of mortgages in the relevant area, a decrease in oil prices for loan assets to oil producers, or adverse changes in industry conditions that affect the borrowers in the group).

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced through the use of the provision account for impairment and the amount of the loss is recognised in the statement of comprehensive income.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral.

Future cash flows in a group of loans that are collectively evaluated for impairment are estimated on the basis of historical loss experience for loans with credit risk characteristics similar to those in the group or on the basis of historical information on collections of past due debts. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows reflect and are directionally consistent with changes in related observable data from period to period (such as changes in unemployment rates, prices for property and exchange-traded commodities, payment status or other factors that are indicative of incurred losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

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

Uncollectible assets are written off against the related allowance for impairment after all the necessary procedures to recover the asset in full or in part have been completed and the final amount of the loss has been determined. The carrying value of impaired financial assets is not reduced directly.

In accordance with the Russian legislation, in case of a write-off of the uncollectible loan and relating interest, the Bank shall take necessary and adequate steps, envisaged by law, standard business practice or agreement, to collect this outstanding loan.

***(2) Impairment of financial assets available for sale***

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

In case of equity investments classified as available for sale, the main criterion to determine objective evidence of impairment loss would include a significant or prolonged decline in the fair value of the equity security below its cost. This determination of what is significant and/or prolonged requires judgement. According to the Bank, a more than 20% decrease in the fair value of the financial asset below its cost is a significant decline and decrease in the financial asset's value for over 6 months is a prolonged decline. The Bank also assesses other factors such as volatility of price per share. Cumulative impairment loss measured as a difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised through profit or loss, is transferred from other comprehensive income to profit or loss.

Impairment losses on equity instruments are not reversed through the profit and loss account: increases in the fair value after impairment are recognised directly in other comprehensive income.

In case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as for financial assets carried at amortised cost. Interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount future cash flows for the purpose of measuring the impairment loss.

If in the subsequent period the fair value of a debt instrument increases, and such increase can be objectively related to the event occurring after the impairment loss was recognised in the statement of comprehensive income, the impairment loss is reversed and the related income is recognised in the statement of comprehensive income.

***Financial liabilities***

Financial liabilities are classified as financial liabilities carried at amortised cost.

Initially, a financial liability shall be measured by the Bank at its fair value plus, in the case of a financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial liability.

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

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

***Financial liabilities measured at amortised cost***

Financial liabilities carried at amortised cost include due to other banks, customer accounts and deposits, debt securities issued and other borrowed funds.

*Due to other banks.* Due to other banks are recorded when cash is advanced to the Bank by counterparty banks.

*Customer accounts and deposits.* Customer accounts are non-derivative financial liabilities to individuals, state or corporate customers in respect of settlement accounts and deposits.

*Debt securities issued.* Debt securities issued include promissory notes, bonds and deposit certificates issued by the Bank. If the Bank purchases its own debt securities issued, they are removed from the statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in other operating income as gain from retirement of debt in the statement of comprehensive income.

*Other borrowed funds.* Other borrowed funds include subordinated loans received by the Bank and are recorded as cash is advanced to the Bank.

***Repurchase and reverse repurchase agreements and lending of securities***

Sale and repurchase agreements ("repo" agreements) are treated as secured financing transactions. Securities sold under sale and repurchase agreements are not derecognized, and the securities are not reclassified. The corresponding liability is presented within due to other banks or customer accounts and deposits.

Securities purchased under agreements to resell ("reverse repo" agreements) are recorded as due from other banks or loans to customers, as appropriate. The difference between the sale and repurchase price is treated as interest income and accrued over the life of repo agreements using the effective interest rate method.

Securities lent to counterparties as a loan for fixed compensation are retained in the statement of financial position. Securities borrowed for fixed compensation are not recorded in the financial statements except when they are sold to third parties. In such cases, the financial result from sale and purchase of such securities is recognised in the statement of comprehensive income within gains less losses arising from financial assets at fair value through profit or loss. The obligation to return the securities is recorded as financial liabilities at fair value through profit or loss.

***Offsetting of financial assets***

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

***Premises and equipment***

Premises and equipment are stated at cost or at revalued amount, as described below, less accumulated depreciation and impairment provision.

At each reporting date the Bank assesses whether there is any indication of impairment of premises and equipment. If any such indication exists, the Bank estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell or its value in use. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down to its recoverable amount and the difference is charged to the statement of comprehensive income as loss from revaluation.

Land and buildings are revalued on a regular basis. The frequency of revaluations depends on changes in the fair value of the assets subjected to revaluation. After initial recognition at cost, land and buildings are carried at a revalued amount, which is the fair value of the items at the date of the revaluation less any subsequent accumulated depreciation (except for land) and accumulated impairment losses. Revaluations are performed regularly to avoid significant differences between the fair value of the revalued asset and its carrying amount.

After revaluation of buildings, any accumulated depreciation at the date of the revaluation is eliminated against gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

Any revaluation surplus is recorded in the statement of comprehensive income as other comprehensive income, except to the extent that it reverses a revaluation decrease of the same asset previously recognised through profit or loss. A decrease arising as a result of a revaluation should be recognised through profit or loss in the statement of comprehensive income, except that revaluation deficit is directly offset against the previous surplus from revaluation of the same asset recorded directly within other comprehensive income as effect of revaluation of premises and equipment. The revaluation reserve for premises and equipment is transferred directly to retained earnings when the surplus is realised, i.e. either on the retirement or disposal of the asset. Each year the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost is transferred from revaluation reserve for premises and equipment to retained earnings.

Gains and losses on disposal of premises and equipment are determined by reference to their carrying amount and are recognised in the statement of comprehensive income as operating expenses.

Repairs and maintenance are charged to the statement of comprehensive income when the expense is incurred.

Construction in progress is carried at cost less impairment provision. As soon as construction is completed, assets are reclassified as premises and equipment at their carrying value at the date of reclassification. Construction in progress is not depreciated until the asset is available for use.

### *Depreciation*

Depreciation of premises and equipment commences from the date the assets are ready for use. Depreciation is charged on a straight line basis over the estimated useful lives of the assets:

- Buildings - 40 years;
- Motor vehicles - 5 years;
- Office and computer equipment - 5 years;
- Leasehold improvements - over the lease term.

Land has an indefinite useful life and is not depreciated.

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

### *Operating lease - the Bank as lessee*

Leases of property under which the risks and rewards of ownership are effectively retained with the lessor are classified as operating leases. Lease payments under operating lease are recognised as expenses on a straight-line basis over the lease term and included into operating expenses in the statement of comprehensive income.

### *Operating lease - the Bank as lessor*

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

### *Share capital*

The share capital contributed before 1 January 2003 was restated for the effects of inflation. The share capital contributed after the above date is stated at original cost. Non-cash contributions into the share capital are recorded at fair value of contributed assets at the date the contribution is made. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction in equity from the proceeds.

*Share premium*

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

*Contingent assets and liabilities*

Contingent assets are not recognised in the statement of financial position but disclosed in the financial statements when an inflow of economic benefits is probable.

Contingent liabilities are not recognised in the statement of financial position but disclosed in the financial statements unless the possibility of any outflow in settlement is remote.

*Credit related commitments*

The Bank enters into credit related commitments, including guarantees and commitments to extend credits. Guarantees represent irrevocable assurances of the Bank to make payments in the event that a customer cannot meet its obligations to third parties and carry the same credit risk as loans. Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans or guarantees. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards.

Credit related commitments are initially recognised at their fair value. Subsequently, they are analysed at each reporting date and adjusted to reflect the current best estimate. The best estimate of the expenditure required to settle the present obligation is the amount that the Bank would rationally pay to settle the obligation at the reporting date or to transfer it to a third party at that time.

*Taxation*

The income tax charge/recovery comprises current tax and deferred tax and is recorded in the statement of comprehensive income. Income tax expense is recorded in the financial statements in accordance with the applicable legislation of the Russian Federation. Current tax is calculated on the basis of the estimated taxable profit for the year, using the tax rates enacted during the reporting period.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current or prior periods. Tax amounts are based on estimates if financial statements are authorised prior to filing relevant tax returns.

Deferred income tax is provided using the balance sheet liability method for tax loss carryforwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial statement purposes. Deferred tax balances are measured at tax rates enacted or substantively enacted at the reporting date which are expected to apply to the period when the temporary differences will reverse or the tax loss carryforwards will be utilised. Deferred tax assets and liabilities are offset if there is a legally enforceable right to set off current tax assets against current tax liabilities. Deferred tax assets for deductible temporary differences and tax loss carryforwards are recorded to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised. Judgement is required to determine the amount of deferred tax assets that may be recognised in financial statements based on probable periods and amounts of future taxable profits and future tax planning strategies.

Russia also has various other taxes, which are assessed on the Bank's activities. These taxes are recorded within operating expenses in the statement of comprehensive income.

*Income and expense recognition*

Interest income and expense are recorded in the statement of comprehensive income for all debt instruments on an accrual basis using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument, but does not consider future credit losses. The calculation includes all commissions and fees paid or received by the parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

*(in thousands of Russian Roubles)*

Interest income includes coupons earned on fixed-income financial assets and accrued discount and premium on promissory notes and other discount instruments. When loans become doubtful of collection, they are written down to their recoverable amounts and interest income is thereafter recognised based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

Fees, commissions and other income and expense items are recorded on an accrual basis after the service is provided. Loan origination fees for loans that are not yet provided, but are probable of being drawn down, are recognised within other assets and are subsequently taken into account in calculation of effective yield on the loan. Fees and commissions arising from negotiating a transaction for a third party, such as the acquisition of loans, shares and other securities or the purchase or sale of businesses, are recorded on completion of the transaction in the statement of comprehensive income. Investment portfolio and other advisory service fees are recognised based on the applicable service contracts.

***Employee benefits and social insurance contributions***

The Bank pays statutory social insurance contributions on the territory of the Russian Federation. These contributions are recorded on an accrual basis. Social insurance contributions comprise contributions to the Russian Federation state pension, social insurance, and obligatory medical insurance funds in respect of the Bank's employees. The Bank does not have pension arrangements separate from the state pension system of the Russian Federation. Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid annual leaves and paid sick leaves, bonuses and non-monetary benefits are accrued as the Bank's employees render the related service.

***Foreign currency***

Foreign currency transactions are translated into the functional currency at the CBR exchange rate in effect at the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the Central Bank of the Russian Federation exchange rate ruling at the reporting date. Foreign exchange gains and losses resulting from translation of transactions in foreign currency are recorded in the statement of comprehensive income within foreign exchange translation gains less losses. Non-monetary items denominated in foreign currency and carried at cost are restated at the exchange rate of the Central Bank of the Russian Federation in effect at the transaction date. Non-monetary items denominated in foreign currency and carried at fair value are restated at the exchange rate in effect at the date the fair value is determined.

Gains and losses from purchase and sale of foreign currency are determined as a difference between the selling price and the carrying value at the date of the transaction.

***Fiduciary activities***

Assets held by the Bank in its own name, but for the account of third parties under depository, agency, trust management and other similar agreements are not reported in the Bank's statement of financial position. Commissions received from such operations are shown within fee and commission income in the statement of comprehensive income.

## 5. Cash and cash equivalents

| | 2012 | 2011 |
|---|---|---|
| Balances with the Central Bank of the Russian Federation (other than mandatory reserve deposits) | 914 319 | 597 927 |
| Cash | 692 585 | 552 590 |
| Correspondent accounts and overnight deposits with banks of | | |
| - the Russian Federation | 226 617 | 92 956 |
| - other countries | 823 374 | 495 426 |
| **Total cash and cash equivalents** | **2 656 895** | **1 738 899** |

*(in thousands of Russian Roubles)*

## 6. Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss reflected in the statement of financial position as at 31 December 2012 and 31 December 2011 include trading securities.

| | 2012 | 2011 |
|---|---|---|
| Corporate debt securities | | |
| - Corporate bonds | 3 729 072 | 622 871 |
| Government and municipal debt securities | | |
| - Russian Federation bonds (OFZ) | - | 172 738 |
| - Municipal bonds | - | 11 915 |
| **Total financial assets at fair value through profit or loss** | **3 729 072** | **807 524** |

As at 31 December 2012, corporate bonds are represented by bonds of Russian issuers. These bonds in the Bank's portfolio have maturity dates from April 2013 to August 2022 (2011: from August 2012 to July 2016), coupon rates ranging from 7.75% to 12.00% per annum (2011: from 13.35% to 19.00% per annum) and yield to maturity ranging from 7.41% to 14.61% per annum (2011: from 6.55% to 9.9% per annum).

Russian Federation bonds (OFZ) are represented by Rouble-denominated government securities issued by the Ministry of Finance of the Russian Federation. As at 31 December 2011, these bonds in the Bank's portfolio have maturity dates from August 2012 to October 2012, coupon rates ranging from 6.85% to 11.30%, depending on the issue, and yield to maturity ranging from 4.70 % to 6.00%, depending on the issue.

Municipal bonds are represented by Rouble-denominated interest-bearing securities issued by subjects of the Russian Federation and local authorities that are freely tradable on the MICEX. As at 31 December 2011, municipal bonds in the Bank's portfolio have maturity date in September 2012, a coupon rate of 8.00%, and yield to maturity of 6.24%.

Besides, financial assets at fair value through profit or loss in the amount of RUB 1 612 530 thousand as at 31 December 2012 (2011: RUB 525 877 thousand) were provided as collateral under agreements with third parties in respect of term deposits with banks and other borrowed funds. This collateral was provided without the right of further sale.

| | 2012 | 2011 |
|---|---|---|
| Corporate debt securities | | |
| - Corporate bonds | 1 612 530 | 513 962 |
| Government and municipal debt securities | | |
| - Municipal bonds | - | 11 915 |
| **Total financial assets at fair value through profit or loss** | **1 612 530** | **525 877** |

*(in thousands of Russian Roubles)*

Below is the credit quality analysis of trading debt securities as at 31 December 2012 in accordance with the ratings of international agencies:

| | Fitch+ | Moody's investors service | S&P | Amount | Total |
|---|---|---|---|---|---|
| Corporate debt securities | | | | | |
| Corporate bonds | | | | | |
| CJSC Promsvyazbank | - | Ba2 | - | 518 530 | 518 530 |
| OIJSC Reso-Garantia | - | - | BB+ | 517 325 | 517 325 |
| OJSC Sinergia | B | - | - | 223 810 | 223 810 |
| OJSC Acron | B+ | - | - | 209 779 | 209 779 |
| OJSC NK Alliance | B | - | - | 208 174 | 208 174 |
| CJSC Sukhoi Civil Aircraft | BB | - | - | 203 689 | 203 689 |
| OJSC Trubnaya Metallurgicheskaya Company | - | B1 | - | 201 555 | 201 555 |
| OJSC Enel OGK-5 | - | Ba3 | - | 201 301 | 201 301 |
| OJSC Asian-Pacific Bank | - | B2 | - | 169 331 | 169 331 |
| CJSC Russian Standard Bank | B+ | - | - | 153 783 | 153 783 |
| CJSC Loko-Bank | B+ | - | - | 102 334 | 102 334 |
| OJSC Moscow Credit Bank | BB- | - | - | 102 120 | 102 120 |
| LLC Uralsib Leasing Company | BB- | - | - | 100 710 | 100 710 |
| OJSC Probusinessbank | B- | - | - | 101 497 | 101 497 |
| OJSC Vneshprombank | - | B2 | B | 100 275 | 100 275 |
| OJSC IKS-5 Finance | - | - | B+ | 100 272 | 100 272 |
| OJSC Ak-Bars Bank | - | B1 | - | 100 015 | 100 015 |
| OJSC Petrocommerce | - | B1 | - | 95 875 | 95 875 |
| OJSC New transportation company | - | B1 | - | 53 140 | 53 140 |
| OJSC Rosgosstrakh bank | - | E+ | - | 51 521 | 51 521 |
| OJSC Group Chrekizovo | - | B2 | - | 50 908 | 50 908 |
| OJSC of energy and electricity Yakutskenergo | BB | - | - | 25 680 | 25 680 |
| LLC Vympelcom Invest | - | Baa3 | - | 25 210 | 25 210 |
| OJSC Whimm-Bill-Dann Food | - | - | - | 24 999 | 24 999 |
| OJSC Bank St. Petersburg | - | Ba3 | - | 23 890 | 23 890 |
| OJSC Gazprom gazenergoset | - | - | - | 21 948 | 21 948 |
| OJSC Nomos-Bank | - | Ba3 | - | 20 929 | 20 929 |
| CJSC Evroplan | BB- | - | - | 20 472 | 20 472 |
| **Total financial assets at fair value through profit or loss** | | | | **3 729 072** | **3 729 072** |

*(in thousands of Russian Roubles)*

Below is the credit quality analysis of trading debt securities as at 31 December 2011 in accordance with the ratings of international agencies:

| | Fitch+ | Moody's investors service | S&P | Amount | Total |
|---|---|---|---|---|---|
| Corporate debt securities | | | | | |
| Corporate bonds | | | | | |
| OJSC LUKOIL Oil Company | - | - | BBB- | 218 331 | 218 331 |
| OJSC Financial Corporation Sistema | BB- | - | BB | 110 839 | 110 839 |
| OJSC Mechel | - | B1 | | 221 894 | 221 894 |
| OJSC Mobile Telesystems | - | - | BB | 71 807 | 71 807 |
| Government and municipal debt securities | | | | | |
| Russian Federation bonds (OFZ) | BBB | Baa1 | BBB+ | 172 738 | 172 738 |
| Moscow government | - | - | BBB | 11 915 | 11 915 |
| **Total financial assets at fair value through profit or loss** | | | | **807 524** | **807 524** |

## 7. Financial assets held to maturity

As at 31 December 2012 financial assets held to maturity are represented by settlement bills of OJSC "VTB Bank" nominated in foreign currency with a maturity date in October 2013. OJSC "VTB Bank" is assigned a BBB rating by S&P and a Baa1 rating by Moody's investors service.

## 8. Due from other banks

| | 2012 | 2011 |
|---|---|---|
| Deposits with the Central Bank of the Russian Federation | 2 700 664 | 3 020 331 |
| Loans and deposits with other banks with a credit rating from BBB to BBB+ | 554 890 | 1 400 274 |
| Loans and deposits with other banks with a credit rating from B to B+ | - | 300 074 |
| Amounts receivable under reverse repurchase transactions | 366 404 | - |
| **Total due from other banks** | **3 621 958** | **4 720 679** |

The credit quality analysis of due from other banks as at 31 December 2012 has shown that all the above classes of due from other banks in the total amount of RUB 3 621 958 thousand are current.

Balances due from other banks are pledged by no collateral.

The Bank did not create provisions for impairment of due from other banks in 2012 and 2011.

As at 31 December 2012, the Bank had cash balances above 10% of the Bank's capital with 2 counterparty banks (2011: 5 counterparties). The aggregate amount of these funds is RUB 3 250 754 thousand or 89.8% of total due from other banks (2011: RUB 4 720 679 thousand or 100% of total due from other banks).

*(in thousands of Russian Roubles)*

## 9. Loans to customers

| | 2012 | 2011 |
|---|---|---|
| Corporate loans | 7 639 195 | 6 433 366 |
| Loans to individual entrepreneurs, small and medium business | 9 621 797 | 4 781 659 |
| Amounts receivable under reverse repurchase transactions | 303 587 | - |
| Consumer loans to individuals | 505 498 | 696 039 |
| Mortgage loans to individuals | 80 613 | 67 245 |
| Loans to state and municipal authorities | 8 685 | 1 328 |
| Less provision for impairment of loans to customers | (1 157 028) | (786 258) |
| **Total loans to customers** | **17 002 347** | **11 193 379** |

As at 31 December 2012, accrued interest income on impaired loans to customers amounted to RUB 54 050 thousand (2011: RUB 53 055 thousand).

Movements in the provision for impairment of loans to customers for 2012 and 2011 are as follows:

| | Corporate loans | Loans to individual entrepreneurs, small and medium business | Consumer loans to individuals | Mortgage loans to individuals | Total |
|---|---|---|---|---|---|
| **Provision for impairment of loans to customers as at 1 January 2011** | **258 577** | **203 312** | **63 263** | **-** | **525 152** |
| Provision/ (recovery of provision) for impairment during 2011 | 39 729 | 202 274 | 19 103 | - | 261 106 |
| **Provision for impairment of loans to customers as at 31 December 2011** | **298 306** | **405 586** | **82 366** | **-** | **786 258** |
| Provision/ (recovery of provision) for impairment during 2012 | 259 326 | 130 952 | (9 460) | - | 380 818 |
| Loans written off during the year 2012 as uncollectible | - | (7 065) | (2 983) | - | (10 048) |
| **Provision for impairment of loans to customers as at 31 December 2012** | **557 632** | **529 473** | **69 923** | **-** | **1 157 028** |

*(in thousands of Russian Roubles)*

Economic sector concentrations within the Bank's loan portfolio are as follows:

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | Amount | % | Amount | % |
| Trade | 10 600 810 | 58,38 | 6 814 622 | 56,88 |
| Services | 3 912 558 | 21,55 | 1 705 864 | 14,24 |
| Construction | 568 921 | 3,13 | 1 089 484 | 9,10 |
| Leasing | 685 628 | 3,78 | 1 066 267 | 8,90 |
| Individuals | 586 111 | 3,23 | 763 284 | 6,37 |
| Manufacturing | 1 436 983 | 7,91 | 47 123 | 0,39 |
| Transportation services | 87 060 | 0,48 | 33 472 | 0,28 |
| Agriculture | 1 168 | 0,01 | 8 327 | 0,07 |
| State and municipal authorities | 8 685 | 0,05 | 1 328 | 0,01 |
| Other | 271 451 | 1,48 | 449 866 | 3,76 |
| **Total loans to customers** | **18 159 375** | **100** | **11 979 637** | **100** |

As at 31 December 2012, the Bank issued loans to 15 borrowers (2011: 13 borrowers) with the total amount exceeding 10% of the Bank's capital. The aggregate amount of these loans was RUB 6 248 359 thousand or 36.8% of the total amount of loans to customers (2011: RUB 4 388 892 thousand or 36.6% of the total amount of loans to customers).

Below is the credit quality analysis of loans as at 31 December 2012:

| | Gross loans | Impairment provision | Net loans | Impairment provision to gross loans, % |
|---|---|---|---|---|
| **Corporate loans** | | | | |
| *Individually assessed loans* | | | | |
| Current loans | 1 027 384 | 71 980 | 955 404 | 7,00 |
| More than 1 year overdue | 2 573 | 2 573 | - | 100,00 |
| *Collectively assessed loans* | | | | |
| Current loans | 6 912 825 | 483 079 | 6 429 746 | 6,99 |
| **Total corporate loans** | **7 942 782** | **557 632** | **7 385 150** | **7,02** |
| **Loans to individual entrepreneurs, small and medium business** | | | | |
| *Collectively assessed loans* | | | | |
| Current loans | 9 257 607 | 235 656 | 9 021 951 | 2,54 |
| Less than 1 month overdue | 50 415 | 19 191 | 31 224 | 38,07 |
| 1 to 6 months overdue | 117 054 | 84 928 | 32 126 | 72,55 |
| 6 months to 1 year overdue | 66 187 | 59 486 | 6 701 | 89,88 |
| More than 1 year overdue | 130 534 | 130 212 | 322 | 99,75 |
| **Total loans to individual entrepreneurs, small and medium business** | **9 621 797** | **529 473** | **9 092 324** | **5,50** |
| **Consumer loans to individuals** | | | | |
| *Collectively assessed loans* | | | | |
| Current loans | 462 702 | 44 144 | 418 558 | 9,54 |
| Less than 1 month overdue | 15 017 | 2 551 | 12 466 | 16,99 |
| 1 to 6 months overdue | 3 957 | 1 462 | 2 495 | 36,94 |
| 6 months to 1 year overdue | 8 248 | 6 604 | 1 644 | 80,06 |
| More than 1 year overdue | 15 574 | 15 162 | 412 | 97,36 |
| **Total consumer loans to individuals** | **505 498** | **69 923** | **435 575** | **13,83** |

*(in thousands of Russian Roubles)*

| | Gross loans | Impairment provision | Net loans | Impairment provision to gross loans, % |
|---|---|---|---|---|
| **Mortgage loans to individuals** | | | | |
| *Collectively assessed loans* | | | | |
| Current loans | 80 613 | - | 80 613 | - |
| **Total mortgage loans to individuals** | **80 613** | **-** | **80 613** | **-** |
| **Loans to state and municipal authorities** | | | | |
| *Collectively assessed loans* | | | | |
| Current loans | 8 685 | - | 8 685 | - |
| **Total loans to state and municipal authorities** | **8 685** | **-** | **8 685** | **-** |
| **Total loans to customers** | **18 159 375** | **1 157 028** | **17 002 347** | **6,37** |

Below is the credit quality analysis of loans as at 31 December 2011:

| | Gross loans | Impairment provision | Net loans | Impairment provision to gross loans, % |
|---|---|---|---|---|
| **Corporate loans** | | | | |
| *Individually assessed loans* | | | | |
| Current loans | 6 146 188 | 219 651 | 5 926 537 | 3,57 |
| *Collectively assessed loans* | | | | |
| Current loans | 287 178 | 78 655 | 208 523 | 27,39 |
| **Total corporate loans** | **6 433 366** | **298 306** | **6 135 060** | **4,64** |
| **Loans to individual entrepreneurs, small and medium business** | | | | |
| *Collectively assessed loans* | | | | |
| Current loans | 4 314 876 | 128 521 | 4 186 355 | 2,98 |
| Less than 1 month overdue | 262 716 | 87 565 | 175 151 | 33,33 |
| 1 to 6 months overdue | 53 357 | 39 805 | 13 552 | 74,60 |
| 6 months to 1 year overdue | 42 151 | 41 136 | 1015 | 97,59 |
| More than 1 year overdue | 108 559 | 108 559 | - | 100,00 |
| **Total loans to individual entrepreneurs, small and medium business** | **4 781 659** | **405 586** | **4 376 073** | **8,48** |
| **Consumer loans to individuals** | | | | |
| *Collectively assessed loans* | | | | |
| Current loans | 648 971 | 42 854 | 606 117 | 6,60 |
| Less than 1 month overdue | 9 240 | 3 576 | 5 664 | 38,70 |
| 1 to 6 months overdue | 2 949 | 1 057 | 1 892 | 35,84 |
| 6 months to 1 year overdue | 2 738 | 2 738 | - | 100,00 |
| More than 1 year overdue | 32 141 | 32 141 | - | 100,00 |
| **Total consumer loans to individuals** | **696 039** | **82 366** | **613 673** | **11,83** |

*(in thousands of Russian Roubles)*

| | Gross loans | Impairment provision | Net loans | Impairment provision to gross loans, % |
|---|---|---|---|---|
| **Mortgage loans to individuals** | | | | |
| *Collectively assessed loans* | | | | |
| Current loans | 67 245 | - | 67 245 | - |
| **Total mortgage loans to individuals** | **67 245** | **-** | **67 245** | **-** |
| **Loans to state and municipal authorities** | | | | |
| *Collectively assessed loans* | | | | |
| Current loans | 1 328 | - | 1 328 | - |
| **Total loans to state and municipal authorities** | **1 328** | **-** | **1 328** | **-** |
| **Total loans to customers** | **11 979 637** | **786 258** | **11 193 379** | **6,56** |

Individually assessed loans are loans that are material in value, show certain signs of impairment and individually assessed by the Bank. Unimpaired loans represent loans issued to borrowers with a high level of liquidity and profitability, in respect of which there is no evidence that they are individually impaired. Collectively assessed loans include loans grouped in homogeneous pools of claims sharing common characteristics in respect of risk exposure and/or signs of impairment.

The credit quality of loans for which no signs of impairment were identified is not homogeneous due to diversity of industry risks and financial position characteristics of borrowers.

As at 31 December 2012, current loans to customers include loans in the amount of RUB 603 952 thousand (2011: RUB 1 363 360 thousand) whose terms have been renegotiated, that would otherwise be past due.

The amounts recognised as "past due" represent the entire balance of such loans rather than the overdue amounts of individual payments.

*(in thousands of Russian Roubles)*

Below is the information on the collateral structure as at 31 December 2012:

| | Corporate loans | Loans to individual entrepreneurs, small and medium business | Consumer loans to individuals | Mortgage loans to individuals | Loans to state and municipal authorities | Total |
|---|---|---|---|---|---|---|
| Sureties | 575 538 | 912 161 | 183 259 | - | 8 029 | 1 678 987 |
| Immovable property and demand rights | 2 871 711 | 2 256 811 | 153 486 | 3 476 | - | 5 285 484 |
| Motor vehicles | 269 941 | 473 749 | 102 387 | - | - | 846 077 |
| Goods in turnover | 340 000 | 110 297 | 280 | - | - | 450 577 |
| Own securities | 1 220 000 | 315 300 | 10 000 | - | - | 1 545 300 |
| Equipment | 18 616 | 35 365 | 5 785 | - | - | 59 766 |
| Non-marketable securities | 303 587 | 4 269 | 1 187 | 64 365 | - | 373 408 |
| No collateral | 2 343 389 | 5 513 845 | 49 114 | 12 772 | 656 | 7 919 776 |
| **Total collateral** | **7 942 782** | **9 621 797** | **505 498** | **80 613** | **8 685** | **18 159 375** |

Below is the information on the collateral structure as at 31 December 2011:

| | Corporate loans | Loans to individual entrepreneurs, small and medium business | Consumer loans to individuals | Mortgage loans to individuals | Loans to state and municipal authorities | Total |
|---|---|---|---|---|---|---|
| Sureties | 1 321 513 | 838 094 | 137 242 | - | - | 2 296 849 |
| Immovable property | 885 593 | 1 345 554 | 198 203 | 36 105 | - | 2 465 455 |
| Motor vehicles | 483 130 | 345 980 | 76 499 | - | - | 905 609 |
| Goods in turnover | 650 000 | 106 455 | 12 619 | - | | 769 074 |
| Own securities | 150 000 | 47 000 | - | - | | 197 000 |
| Equipment | 62 158 | 72 062 | 9 583 | - | - | 143 803 |
| Non-marketable securities | - | - | 12 202 | 17 276 | - | 29 478 |
| Deposits | - | - | 5 000 | - | - | 5 000 |
| No collateral | 2 880 973 | 2 026 513 | 244 691 | 13 864 | 1 328 | 5 167 369 |
| **Total collateral** | **6 433 367** | **4 781 658** | **696 039** | **67 245** | **1 328** | **11 979 637** |

The collateral value of the pledge may differ from its fair value.

*(in thousands of Russian Roubles)*

## 10. Premises and equipment

| | Land | Buildings | Motor vehicles | Office and computer equipment | Furniture | Leasehold improve-ments | Construction in progress | Total |
|---|---|---|---|---|---|---|---|---|
| **Net book value as at 31 December 2011** | **271 024** | **1 426 359** | **2 690** | **36 238** | **1 322** | **2 091** | **62 193** | **1 801 917** |
| **Cost** | | | | | | | | |
| Balance as at 1 January 2012 | 271 024 | 1 426 359 | 8 186 | 85 714 | 5 042 | 3 285 | 62 193 | 1 861 803 |
| Additions | - | - | - | 18 256 | 8 562 | - | 1 864 | 28 682 |
| Disposals | - | - | - | (2 122) | (92) | - | (6 420) | (8 634) |
| Accumulated depreciation eliminated on revaluation | - | (30 350) | - | - | - | - | - | (30 350) |
| Revaluation | 123 552 | 290 635 | - | - | - | - | - | 414 187 |
| **Balance as at 31 December 2012** | **394 576** | **1 686 644** | **8 186** | **101 848** | **13 512** | **3 285** | **57 637** | **2 265 688** |
| **Accumulated depreciation** | | | | | | | | |
| Balance as at 1 January 2012 | - | - | 5 496 | 49 476 | 3 720 | 1 194 | - | 59 886 |
| Depreciation charge | - | 30 350 | 844 | 13 009 | 1 357 | 387 | - | 45 947 |
| Disposals | - | - | - | (1 594) | (92) | - | - | (1 686) |
| Accumulated depreciation eliminated on revaluation | - | (30 350) | - | - | - | - | - | (30 350) |
| **Balance as at 31 December 2012** | **-** | **-** | **6 340** | **60 891** | **4 985** | **1 581** | **-** | **73 797** |
| **Net book value as at 31 December 2012** | **394 576** | **1 686 644** | **1 846** | **40 957** | **8 527** | **1 704** | **57 637** | **2 191 891** |

*(in thousands of Russian Roubles)*

| | Land | Buildings | Motor vehicles | Office and computer equipment | Furniture | Leasehold improve-ments | Construction in progress | Total |
|---|---|---|---|---|---|---|---|---|
| **Net book value as at 31 December 2010** | **18 252** | **1 364 508** | **1 477** | **36 007** | **1 679** | **2 341** | **31 616** | **1 455 880** |
| **Cost** | | | | | | | | |
| Balance as at 1 January 2011 | 18 252 | 1 364 508 | 6 258 | 71 001 | 4 780 | 3 285 | 31 616 | 1 499 700 |
| Additions | 34 461 | 10 233 | 1 928 | 15 941 | 262 | - | 30 577 | 93 402 |
| Disposals | - | - | - | (1 228) | - | - | - | (1 228) |
| Accumulated depreciation eliminated on revaluation | - | (27 347) | - | - | - | - | - | (27 347) |
| Revaluation | 218 311 | 78 965 | - | - | - | - | - | 297 276 |
| **Balance as at 31 December 2011** | **271 024** | **1 426 359** | **8 186** | **85 714** | **5 042** | **3 285** | **62 193** | **1 861 803** |
| **Accumulated depreciation** | | | | | | | | |
| Balance as at 1 January 2011 | - | - | 4 781 | 34 994 | 3 101 | 944 | - | 43 820 |
| Depreciation charge | - | 27 347 | 715 | 15 466 | 619 | 250 | - | 44 397 |
| Disposals | - | - | - | (984) | - | - | - | (984) |
| Accumulated depreciation eliminated on revaluation | - | (27 347) | - | - | - | - | - | (27 347) |
| **Balance as at 31 December 2011** | - | - | **5 496** | **49 476** | **3 720** | **1 194** | - | **59 886** |
| **Net book value as at 31 December 2011** | **271 024** | **1 426 359** | **2 690** | **36 238** | **1 322** | **2 091** | **62 193** | **1 801 917** |

In 2011 the Bank acquired a land plot with the carrying amount of RUB 34 461 thousand from the Moscow Land Resources Department.

Construction in progress represents investments in construction and renovation of the premises. As soon as this work is completed these assets are recorded within the appropriate category of premises and equipment.

The Bank's land and buildings were appraised by an independent appraiser as at 31 December 2012 and 31 December 2011 on the basis of the market value. The net book value of the land and buildings includes RUB 1 271 975 thousand (2011: RUB 857 787 thousand) representing surplus on revaluation of the Bank's buildings.

As at 31 December 2012, total deferred tax liability in the amount of RUB 254 395 thousand (2011: RUB 171 558 thousand) was calculated in respect of this revaluation of the land and buildings at fair value and charged to revaluation reserve for premises and equipment in accordance with IAS 16 (Note 22).

*(in thousands of Russian Roubles)*

## 11. Other assets

| | 2012 | 2011 |
|---|---|---|
| Property received as indemnity | 549 447 | 294 048 |
| Settlements on brokerage and conversion transactions | 40 028 | 39 123 |
| Advance payments | 37 310 | 20 781 |
| Accounts receivable | 13 192 | 13 210 |
| Claims on agreements for sale and purchase of mortgage deeds | 11 006 | - |
| Settlements on plastic cards | 7 976 | 5 200 |
| Intangible assets | 6 413 | 1 170 |
| Commission remuneration | 6 364 | 11 354 |
| Tax prepayments | 2 301 | 1 966 |
| Other | 2 148 | 2 046 |
| Less provision for impairment of other assets | (13 665) | (14 768) |
| **Total other assets** | **662 520** | **374 130** |

The property received as indemnity comprises property items received by the Bank in settlement of past due loans. The Bank intends to sell these assets.

Movements in the provision for impairment of other assets during 2012 and 2011 are as follows:

| | Commission remuneration | Accounts receivable | Other | Total |
|---|---|---|---|---|
| **Provision for impairment of other assets as at 1 January 2011** | **-** | **11 416** | **711** | **12 127** |
| Provision/(recovery of provision) for impairment during 2011 | 8 199 | (4 460) | (692) | 3 047 |
| Assets written off during 2011 as uncollectible | (406) | - | - | (406) |
| **Provision for impairment of other assets as at 31 December 2011** | **7 793** | **6 956** | **19** | **14 768** |
| Provision/(recovery of provision) for impairment during 2012 | (2 651) | (48) | 2 796 | 97 |
| Assets written off during 2012 as uncollectible | - | (1 200) | - | (1 200) |
| **Provision for impairment of other assets as at 31 December 2012** | **5 142** | **5 708** | **2 815** | **13 665** |

The credit quality analysis of financial assets classified as other assets as at 31 December 2012 is as follows:

| | Current and unimpaired | Collectively impaired | Total |
|---|---|---|---|
| Settlements on brokerage and conversion transactions | 40 028 | - | 40 028 |
| Accounts receivable | 7 356 | 5 836 | 13 192 |
| Commission remuneration | 906 | 5 458 | 6 364 |
| Settlements on plastic cards | 7 976 | - | 7 976 |
| Less provision for impairment of financial assets classified as other assets | - | (10 850) | (10 850) |
| **Total financial assets classified as other assets** | **56 266** | **444** | **56 710** |

*(in thousands of Russian Roubles)*

Ageing analysis of impaired financial assets classified as other assets as at 31 December 2012 is as follows:

| | Current | Overdue | | | | Total |
|---|---|---|---|---|---|---|
| | | Less than 1 month | 1 to 6 months | 6 months to 1 year | More than 1 year | |
| Commission remuneration | 4 100 | 4 | 457 | 453 | 444 | 5 458 |
| Accounts receivable | 4 580 | - | 335 | 347 | 574 | 5 836 |
| Less provision for impairment of other assets | (8 605) | (4) | (586) | (645) | (1 010) | (10 850) |
| **Total financial assets classified as other assets** | **75** | **-** | **206** | **155** | **8** | **444** |

The credit quality analysis of financial assets classified as other assets as at 31 December 2011 is as follows:

| | Current and unimpaired | Collectively impaired | Total |
|---|---|---|---|
| Settlements on brokerage and conversion transactions | 39 123 | - | 39 123 |
| Accounts receivable | 6 214 | 6 956 | 13 170 |
| Commission remuneration | 3 561 | 7 793 | 11 354 |
| Settlements on plastic cards | 5 200 | - | 5 200 |
| Less provision for impairment of financial assets classified as other assets | - | (14 749) | (14 749) |
| **Total financial assets classified as other assets** | **54 098** | **-** | **54 098** |

Ageing analysis of impaired financial assets classified as other assets as at 31 December 2011 is as follows:

| | Current | Overdue | | | | Total |
|---|---|---|---|---|---|---|
| | | Less than 1 month | 1 to 6 months | 6 months to 1 year | More than 1 year | |
| Commission remuneration | 4 340 | 2 815 | - | 638 | - | 7 793 |
| Accounts receivable | 5 640 | 197 | 89 | 1 030 | - | 6 956 |
| Less provision for impairment of other assets | (9 980) | (3 012) | (89) | (1 668) | - | (14 749) |
| **Total financial assets classified as other assets** | **-** | **-** | **-** | **-** | **-** | **-** |

Current and unimpaired financial assets are amounts due with future settlement dates.

The Bank has no collateral for impaired assets classified as other assets.

## 12. Due to other banks

| | 2012 | 2011 |
|---|---|---|
| Amounts payable under repurchase agreements with the Central Bank of the Russian Federation | 1 277 729 | 429 310 |
| Loans and deposits of other banks | 520 340 | 211 133 |
| Vostro accounts | 22 073 | - |
| **Total due to other banks** | **1 820 142** | **640 443** |

As at 31 December 2012, the Bank had cash balances with 1 counterparty bank (2011: 1 counterparty bank) exceeding 10% of the Bank's capital. The aggregate amount of these funds was RUB 1 277 729 thousand or 70.2% (2011: RUB 429 310 thousand or 67.0%) of total due to other banks.

*(in thousands of Russian Roubles)*

## 13. Customer accounts and deposits

| | 2012 | 2011 |
|---|---|---|
| **Legal entities** | | |
| — Current accounts | 5 471 136 | 3 743 967 |
| — Term deposits | 5 542 881 | 3 322 284 |
| **Individuals** | | |
| — Current accounts | 531 678 | 340 162 |
| — Term deposits | 11 079 852 | 9 570 007 |
| **Total customer accounts and deposits** | **22 625 547** | **16 976 420** |

According to the Russian Civil Code, the Bank is obliged to repay deposits to individual depositors at short notice. If a fixed-term deposit is withdrawn by the depositor ahead of term, interest is payable at the rate paid by the Bank on demand deposits unless otherwise specified by the contract.

Economic sector concentrations within customer accounts are as follows:

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | **Amount** | **%** | **Amount** | **%** |
| Individuals | 11 611 530 | 51,32 | 9 910 169 | 58,38 |
| Construction | 4 932 969 | 21,80 | 2 027 455 | 11,94 |
| Services | 1 660 310 | 7,34 | 1 113 348 | 6,56 |
| Trade | 1 645 369 | 7,27 | 1 493 256 | 8,80 |
| Manufacturing | 1 523 046 | 6,73 | 1 479 369 | 8,71 |
| Financial services | 699 352 | 3,09 | 601 309 | 3,54 |
| Other | 552 971 | 2,45 | 351 514 | 2,07 |
| **Total customer accounts and deposits** | **22 625 547** | **100** | **16 976 420** | **100** |

As at 31 December 2012, the Bank had 4 customers with cash balances above 10% of its capital (2011: 5 customers). The aggregate amount of these funds was RUB 2 452 239 thousand or 10.8% of total customer accounts and deposits (2011: RUB 2 597 028 thousand or 15.3% of total customer accounts and deposits).

## 14. Debt securities issued

As at 31 December 2012, debt securities issued by the Bank in the amount of RUB 1 556 965 thousand included discount promissory notes in the amount of RUB 635 440 thousand (2011: discount promissory notes in the amount of RUB 293 398 thousand), interest-bearing promissory notes in the amount of RUB 889 787 thousand and deposit certificates in the amount of RUB 31 738 thousand (2011: a deposit certificate in the amount of RUB 15 418 thousand). Maturity dates of the above promissory notes are from January 2013 to November 2017, the deposit certificates - in April 2013 (2011: the promissory notes - from January 2012 to December 2016, the deposit certificate - in September 2012).

As at 31 December 2012, the Bank had debt securities issued in the total amount exceeding 10% of the Bank' capital purchased by 2 counterparties (2011: none). As at 31 December 2012, the total amount of these securities was RUB 1 290 333 thousand or 82.9% of total debt securities issued.

## 15. Other borrowed funds

The Bank borrowed funds in the amount of RUB 1 405 269 thousand (2011: RUB 888 029 thousand) in the form of subordinated loans. Subordinated loans were raised from private commercial companies for the term of more than 5 years. According to the signed agreements, the loans cannot be claimed for early repayment, and interest on the subordinated loans is paid at the closing date of the agreements. The interest rate on the subordinated loans varies from 1% to 5% per annum.

Under these subordinated loan agreements, the claims of the creditor that issued a subordinated loan are satisfied after meeting the claims of all other creditors in case of the Bank's bankruptcy.

The Bank's creditors that extended subordinated loans to the Bank are its related parties.

*(in thousands of Russian Roubles)*

## 16. Other liabilities

| | Note | 2012 | 2011 |
|---|---|---|---|
| Accounts payable for commission remuneration | | 82 555 | - |
| Employee compensation | | 47 440 | 34 427 |
| Taxes other than income tax | | 36 241 | 18 077 |
| Accounts payable | | 23 611 | 14 599 |
| Provision for credit related commitments | 25 | 10 851 | - |
| Other | | 46 893 | 2 888 |
| **Total other liabilities** | | **247 591** | **69 991** |

## 17. Share capital and share premium

Authorised, issued and fully paid share capital comprises:

| | 2012 | | | 2011 | | |
|---|---|---|---|---|---|---|
| | Number of shares | Nominal value | Inflation adjusted amount | Number of shares | Nominal value | Inflation adjusted amount |
| Ordinary shares | 79 900 000 | 799 000 | 1 161 382 | 69 900 000 | 699 000 | 1 061 382 |
| **Total share capital** | **79 900 000** | **799 000** | **1 161 382** | **69 900 000** | **699 000** | **1 061 382** |

The nominal value of each ordinary share is RUB 10. Each share gives the right of one vote.

Share premium represents the excess of contributions over the nominal value of the shares issued. As at 31 December 2012, the share premium amounted to RUB 592 000 thousand (2011: RUB 392 000 thousand).

## 18. Retained earnings according to Russian legislation

According to the Russian legislation, only accumulated retained earnings reflected in the Bank's statutory financial statements may be distributed among the Bank's shareholders. As at the date of the financial statements issue, the Bank's retained earnings amounted to RUB 245 224 thousand (2011: RUB 184 541 thousand), including the current year profit of RUB 80 875 thousand (2011: RUB 20 192 thousand).

Equity reflected in the Bank's statutory records includes a reserve fund in the amount of RUB 94 914 thousand (2011: RUB 74 721 thousand) that represents funds provided, as required by the regulations of the Russian Federation, in respect of the Bank's general risks, including future losses and other unforeseen risks or potential liabilities.

## 19. Interest income and expense

| | 2012 | 2011 |
|---|---|---|
| **Interest income** | | |
| Loans to customers | 1 996 972 | 1 784 866 |
| Financial assets at fair value through profit or loss | 295 683 | 416 287 |
| Placements with other banks | 75 156 | 17 064 |
| Correspondent accounts with other banks | 2 698 | 1 037 |
| Other interest income | 107 116 | - |
| **Total interest income** | **2 477 625** | **2 219 254** |
| | | |
| **Interest expense** | | |
| Term deposits of individuals | 952 752 | 839 531 |
| Term deposits of legal entities | 153 836 | 131 985 |
| Current accounts | 59 865 | 13 745 |
| Due to other banks | 58 570 | 41 574 |
| Debt securities issued | 57 773 | 49 892 |
| Other borrowed funds | - | 29 500 |
| **Total interest expense** | **1 282 796** | **1 106 227** |
| **Net interest income** | **1 194 829** | **1 113 027** |

*(in thousands of Russian Roubles)*

## 20. Fee and commission income and expense

| | 2012 | 2011 |
|---|---|---|
| **Fee and commission income** | | |
| Commission for cash and settlement transactions | 165 393 | 103 175 |
| Commission on guarantees issued | 112 185 | 173 206 |
| Commission for accounts opening | 22 222 | 20 256 |
| Commission on currency transactions | 20 395 | 8 317 |
| Other | 152 768 | 93 155 |
| **Total fee and commission income** | **472 963** | **398 109** |
| | | |
| **Commission expense** | | |
| Commission fee for intermediary services | 7 601 | 10 442 |
| Commission for cash and settlement transactions | 7 017 | 5 024 |
| Commission on transactions with plastic cards | 6 402 | 5 144 |
| Commission on currency transactions | 1 077 | 1 547 |
| Other | 19 348 | 14 901 |
| **Total fee and commission expense** | **41 445** | **37 058** |
| **Net fee and commission income** | **431 518** | **361 051** |

## 21. Operating expenses

| | Note | 2012 | 2011 |
|---|---|---|---|
| Staff costs | | 638 198 | 499 409 |
| Rent | | 112 964 | 90 374 |
| Administrative expenses | | 112 905 | 112 331 |
| Taxes other than income tax | | 62 867 | 61 567 |
| Professional services (security, communication and other) | | 54 493 | 32 083 |
| Depreciation | 10 | 45 947 | 44 397 |
| Advertising and marketing | | 34 797 | 42 582 |
| Other | | 28 679 | 25 543 |
| **Total operating expenses** | | **1 090 850** | **908 286** |

## 22. Income tax

Income tax expense comprises the following:

| | 2012 | 2011 |
|---|---|---|
| Current income tax expense | 34 706 | 30 440 |
| Deferred taxation movement due to origination and reversal of temporary differences | 134 757 | 33 713 |
| Less deferred taxation charged directly to other comprehensive income | (82 837) | (59 455) |
| | | - |
| **Income tax expense for the year** | **86 626** | **4 698** |

The current tax rate applicable to the majority of the Bank's profit is 20% (2011: 20%).

*(in thousands of Russian Roubles)*

Reconciliation between the theoretical and the actual taxation charge is provided below:

| | 2012 | 2011 |
|---|---|---|
| **IFRS income before tax** | **215 421** | **24 385** |
| Theoretical tax charge at 20% | 43 084 | 4 877 |
| Income on government securities taxed at 15% | (2 608) | (1 565) |
| Non-deductible expenses less non-taxable income | 46 150 | 1 386 |
| **Income tax expense for the year** | **86 626** | **4 698** |

Differences between IFRS and statutory taxation regulations of the Russian Federation give rise to certain temporary differences between the carrying amount of certain assets and liabilities for financial statement purposes and for the Bank income tax purposes.

| | 2012 | Change | 2011 |
|---|---|---|---|
| **Tax effect of deductible temporary differences** | | | |
| Provision for impairment of loans to customers | 44 945 | 825 | 44 120 |
| Provision for impairment of credit related commitments and other assets | 2 170 | (1 222) | 3 392 |
| Other liabilities | 13 468 | 6 583 | 6 885 |
| Debt securities issued | - | (490) | 490 |
| Revaluation of financial assets at fair value through profit or loss | - | (11 933) | 11 933 |
| Financial assets held to maturity | 3 815 | 3 815 | |
| **Gross deferred tax asset** | **64 398** | **(2 422)** | **66 820** |
| **Tax effect of taxable temporary differences** | | | |
| Revaluation of premises and equipment | 254 395 | 82 837 | 171 558 |
| Premises and equipment | - | (20 363) | 20 363 |
| Loans to customers | 10 810 | 7 212 | 3 598 |
| Revaluation of financial assets at fair value through profit or loss | 3 247 | 3 247 | - |
| Other borrowed funds | 22 754 | 22 754 | - |
| Other assets | 36 648 | 36 648 | - |
| **Gross deferred tax liability** | **327 854** | **132 335** | **195 519** |
| **Total net deferred tax liability** | **(263 456)** | **(134 757)** | **(128 699)** |

| | 2011 | Change | 2010 |
|---|---|---|---|
| **Tax effect of deductible temporary differences** | | | |
| Provision for impairment of loans to customers | 44 120 | 25 221 | 18 899 |
| Provision for impairment of credit related commitments and other assets | 3 392 | (717) | 4 109 |
| Other liabilities | 6 885 | 2 591 | 4 294 |
| Debt securities issued | 490 | (1 416) | 1 906 |
| Revaluation of financial assets at fair value through profit or loss | 11 933 | 11 933 | - |
| Premises and equipment | - | (2 004) | 2 004 |
| Other | - | (867) | 867 |
| **Gross deferred tax asset** | **66 820** | **34 741** | **32 079** |
| **Tax effect of taxable temporary differences** | | | |
| Revaluation of premises and equipment | 171 558 | 59 455 | 112 103 |
| Premises and equipment | 20 363 | 20 363 | - |
| Loans to customers | 3 598 | 3 598 | - |
| Revaluation of financial assets at fair value through profit or loss | - | (14 927) | 14 927 |
| Other | - | (35) | 35 |
| **Gross deferred tax liability** | **195 519** | **68 454** | **127 065** |
| **Total net deferred tax liability** | **(128 699)** | **(33 713)** | **(94 986)** |

Net deferred tax liability is the amount of income taxes payable in future periods in respect of taxable temporary differences.

As at 31 December 2012, the total deferred tax liability of RUB 254 395 thousand (2011: RUB 171 558 thousand) was calculated in respect of positive revaluation of buildings at fair value and recorded within revaluation reserve for premises and equipment (Note 10).

## 23. Risk management

The risk management function within the Bank is carried out in respect of financial risks (credit, market, currency, liquidity and interest rate), operational and legal risks. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The assessment of exposure to risks also serves as a basis for optimal distribution of risk-adjusted capital, transaction pricing and business performance assessment. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimise operational and legal risks.

***Credit risk.*** The Bank takes on exposure to credit risk which is the risk that a counterparty will be unable to pay amounts in full when due. The Bank controls the credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower or a group of related borrowers. Such risks are monitored on a regular basis and limits are reviewed at least annually. Limits on the level of credit risk by products, borrowers and groups of borrowers are approved by the Credit Committee and Executive Board of the Bank.

The exposure to any one borrower including banks and broker companies is further restricted by sub-limits covering on-and off-balance sheet exposures. Actual exposures are monitored against limits daily.

Exposure to credit risk is managed through regular analysis of the ability of the existing and potential borrowers to meet interest and principal repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also mitigated by the Bank by obtaining collateral in the form of property and securities, and corporate and personal guarantees.

The Bank's maximum exposure to credit risk is primarily reflected in the carrying value of financial assets in the statement of financial position. Possibility to offset assets and liabilities does not substantially reduce potential credit risk. For guarantees and commitments to extend credits, the maximum exposure to credit risk is equal to total liabilities (Note 25).

Credit risk for off-balance sheet financial instruments is defined as the possibility of sustaining a loss as a result of another party to a financial instrument failing to perform in accordance with the terms of the contract. The Bank uses the same credit policies in making conditional obligations as it does for on-balance sheet financial instruments through established transaction approvals, risk control limits and monitoring procedures.

The Bank performs the loan maturity analysis and subsequent monitoring of overdue balances. Therefore, the management provides information on overdue maturities and other information on credit risk, as described in Note 9.

The Bank is exposed to early redemption risk as a result of lending at fixed or variable interest rates. The financial result and the Bank's equity for the current year and at the reporting date would not greatly depend on the rate fluctuations in case of early redemption because such loans are carried at amortised cost, whereas the amount to be early redeemed corresponds or nearly corresponds to the amortised cost of loans to customers.

***Market risk.*** The Bank takes on exposure to market risk arising from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The Board of Directors sets acceptable risk limits and monitors them on a permanent basis. However, the use of this approach does not prevent losses beyond these limits in the event of more significant market movements.

The objective of market risk management is to keep the exposure to market risk within the acceptable limits assuring optimal yields for the risk accepted.

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

The market risk is assessed by the Bank in accordance with the requirements of CBR Regulation No. 313-P of 14 November 2007 "On procedure of market risk calculation by credit institutions".

*(in thousands of Russian Roubles)*

### *Geographical risk*

The geographical concentration of the Bank's assets and liabilities as at 31 December 2012 is set out below:

| | Russia | OECD* | Other countries | Total |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and cash equivalents | 1 833 521 | 823 374 | - | 2 656 895 |
| Mandatory cash balances with the Central Bank of the Russian Federation | 645 864 | - | - | 645 864 |
| Financial assets at fair value through profit or loss | 3 729 072 | - | - | 3 729 072 |
| Financial assets held to maturity | 284 652 | - | - | 284 652 |
| Due from other banks | 3 621 958 | - | - | 3 621 958 |
| Loans to customers | 16 614 693 | - | 387 654 | 17 002 347 |
| Premises and equipment | 2 191 891 | - | - | 2 191 891 |
| Other assets | 661 050 | 1 470 | - | 662 520 |
| **Total assets** | **29 582 701** | **824 844** | **387 654** | **30 795 199** |
| **Liabilities** | | | | |
| Due to other banks | 1 807 308 | 12 834 | - | 1 820 142 |
| Customer accounts and deposits | 22 576 769 | 8 006 | 40 772 | 22 625 547 |
| Debt securities issued | 1 556 965 | - | - | 1 556 965 |
| Other borrowed funds | 1 405 269 | - | - | 1 405 269 |
| Other liabilities | 247 553 | 38 | - | 247 591 |
| Current tax liabilities | 20 265 | - | - | 20 265 |
| Deferred tax liabilities | 263 456 | - | - | 263 456 |
| **Total liabilities** | **27 877 585** | **20 878** | **40 772** | **27 939 235** |
| **Net balance sheet position** | **1 705 116** | **803 966** | **346 882** | **2 855 964** |
| **Credit related commitments** | **8 041 607** | **-** | **-** | **8 041 607** |

* OECD - the Organisation for Economic Co-operation and Development

*(in thousands of Russian Roubles)*

The geographical concentration of the Bank's assets and liabilities as at 31 December 2011 is set out below:

| | Russia | OECD[†] | Other countries | Total |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and cash equivalents | 1 243 473 | 495 426 | - | 1 738 899 |
| Mandatory cash balances with the Central Bank of the Russian Federation | 485 551 | - | - | 485 551 |
| Financial assets at fair value through profit or loss | 807 524 | - | - | 807 524 |
| Due from other banks | 4 720 679 | - | - | 4 720 679 |
| Loans to customers | 10 768 885 | 7 779 | 416 715 | 11 193 379 |
| Premises and equipment | 1 801 917 | - | - | 1 801 917 |
| Other assets | 373 737 | 393 | - | 374 130 |
| **Total assets** | **20 201 766** | **503 598** | **416 715** | **21 122 079** |
| **Liabilities** | | | | |
| Due to other banks | 631 724 | 8 719 | - | 640 443 |
| Customer accounts and deposits | 16 931 547 | 8 859 | 36 014 | 16 976 420 |
| Debt securities issued | 308 816 | - | - | 308 816 |
| Other borrowed funds | 888 029 | - | - | 888 029 |
| Other liabilities | 69 977 | 14 | - | 69 991 |
| Current tax liabilities | 13 862 | - | - | 13 862 |
| Deferred tax liabilities | 128 699 | - | - | 128 699 |
| **Total liabilities** | **18 972 654** | **17 592** | **36 014** | **19 026 260** |
| **Net balance sheet position** | **1 229 112** | **486 006** | **380 701** | **2 095 819** |
| **Credit related commitments** | **4 857 862** | **-** | **-** | **4 857 862** |

† OECD - the Organisation for Economic Co-operation and Development

*(in thousands of Russian Roubles)*

***Currency risk.*** The Bank takes on exposure to effects of fluctuations in the foreign currency exchange rates on its financial position and cash flows. The Asset and Liability Management Committee sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, and monitors them on a daily basis. The table below summarises the Bank's exposure to foreign currency exchange rate risk as at 31 December 2012.

| | Roubles | US Dollars | Euro | Other | Total |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and cash equivalents | 1 528 427 | 827 634 | 297 224 | 3 610 | 2 656 895 |
| Mandatory cash balances with the Central Bank of the Russian Federation | 645 864 | - | - | - | 645 864 |
| Financial assets at fair value through profit or loss | 3 729 072 | - | - | - | 3 729 072 |
| Financial assets held to maturity | - | 284 652 | - | - | 284 652 |
| Due from other banks | 3 617 158 | 4 799 | 1 | - | 3 621 958 |
| Loans to customers | 15 967 503 | 370 618 | 664 226 | - | 17 002 347 |
| Premises and equipment | 2 191 891 | - | - | - | 2 191 891 |
| Other assets | 657 517 | 4 067 | 777 | 159 | 662 520 |
| **Total assets** | **28 337 432** | **1 491 770** | **962 228** | **3 769** | **30 795 199** |
| **Liabilities** | | | | | |
| Due to other banks | 1 785 235 | 22 073 | 12 834 | - | 1 820 142 |
| Customer accounts and deposits | 20 278 348 | 1 510 870 | 836 131 | 198 | 22 625 547 |
| Debt securities issued | 1 556 965 | - | - | - | 1 556 965 |
| Other borrowed funds | 1 405 269 | - | - | - | 1 405 269 |
| Other liabilities | 244 020 | 1 645 | 1 926 | - | 247 591 |
| Current tax liabilities | 20 265 | - | - | - | 20 265 |
| Deferred tax liabilities | 263 456 | - | - | - | 263 456 |
| **Total liabilities** | **25 553 558** | **1 534 588** | **850 891** | **198** | **27 939 235** |
| **Net balance sheet position** | **2 783 874** | **(42 818)** | **111 337** | **3 571** | **2 855 964** |
| **Net off-balance sheet position** | **(6 192)** | **4 138** | **2 054** | **-** | **-** |
| **Net balance sheet and off-balance sheet position** | **2 777 682** | **(38 680)** | **113 391** | **3 571** | **2 855 964** |
| **Credit related commitments** | **7 357 453** | **517 629** | **166 525** | **-** | **8 041 607** |

*(in thousands of Russian Roubles)*

As at 31 December 2011, the Bank had the following positions in currencies:

| | Roubles | US Dollars | Euro | Other | Total |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and cash equivalents | 1 001 965 | 559 439 | 175 475 | 2 020 | 1 738 899 |
| Mandatory cash balances with the Central Bank of the Russian Federation | 485 551 | - | - | - | 485 551 |
| Financial assets at fair value through profit or loss | 807 524 | - | - | - | 807 524 |
| Due from other banks | 4 720 679 | - | - | - | 4 720 679 |
| Loans to customers | 10 542 017 | 134 934 | 516 428 | - | 11 193 379 |
| Premises and equipment | 1 801 917 | - | - | - | 1 801 917 |
| Other assets | 371 379 | 2 334 | 417 | - | 374 130 |
| **Total assets** | **19 731 032** | **696 707** | **692 320** | **2 020** | **21 122 079** |
| **Liabilities** | | | | | |
| Due to other banks | 631 724 | 8 719 | - | - | 640 443 |
| Customer accounts and deposits | 15 522 004 | 752 101 | 700 357 | 1 958 | 16 976 420 |
| Debt securities issued | 308 816 | - | - | - | 308 816 |
| Other borrowed funds | 888 029 | - | - | - | 888 029 |
| Other liabilities | 69 972 | 5 | 14 | - | 69 991 |
| Current tax liabilities | 13 862 | - | - | - | 13 862 |
| Deferred tax liabilities | 128 699 | - | - | - | 128 699 |
| **Total liabilities** | **17 563 106** | **760 825** | **700 371** | **1 958** | **19 026 260** |
| **Net balance sheet position** | **2 167 926** | **(64 118)** | **(8 051)** | **62** | **2 095 819** |
| **Net off-balance sheet position** | **194 000** | **-** | **(195 856)** | **-** | **(1 856)** |
| **Net balance sheet and off-balance sheet position** | **2 361 926** | **(64 118)** | **(203 907)** | **62** | **2 093 963** |
| **Credit related commitments** | **4 688 085** | **169 517** | **260** | **-** | **4 857 862** |

The Bank rendered loans denominated in foreign currencies. Depending on the revenue stream of the borrower, the appreciation of foreign currencies against the Russian Rouble may adversely affect the borrowers' repayment ability and therefore increases the likelihood of future loan losses.

The table below shows the change in the financial result and equity due to possible fluctuations of exchange rates used as at 31 December 2012.

| | | 2012 |
|---|---|---|
| | Effect on income before tax | Effect on equity |
| USD appreciation by 4% | (1 547) | (1 238) |
| USD depreciation by 4% | 1 547 | 1 238 |
| Euro appreciation by 3% | 3 402 | 2 721 |
| Euro depreciation by 3% | (3 402) | (2 721) |

*(in thousands of Russian Roubles)*

The table below shows the change in the financial result and equity due to possible fluctuations of exchange rates used as at 31 December 2011.

| | 2011 | |
|---|---|---|
| | **Effect on income before tax** | **Effect on equity** |
| USD appreciation by 4% | (2 565) | (2 052) |
| USD depreciation by 4% | 2 565 | 2 052 |
| Euro appreciation by 3% | (242) | (194) |
| Euro depreciation by 3% | 242 | 194 |

The risk was calculated only for cash balances in currencies other than the Bank's functional currency. The impact of changes in other currencies on the Bank's profit and equity is not material.

The following table summarises, by major currency, the contractual amounts of the Bank's forward and spot foreign exchange contracts outstanding at 31 December 2012 with details of the contracted exchange rates. Foreign currency amounts presented below are translated at rates ruling at the balance sheet date.

| | Notional amount | Weighted average contracted exchange rates |
|---|---|---|
| **Swap deals** | | |
| Buy USD/sell RUB | 4 473 | 30,43 |
| Buy EUR/sell RUB | 2 054 | 40,27 |
| Buy RUB/sell USD | 335 | 30,45 |
| **Term deals** | | |
| Deliverable option (futures on gold) | 33 385 | 48 773 |

***Liquidity risk.*** Liquidity risk is defined as the risk when the maturity of assets and liabilities does not match. The Bank is exposed to risk via daily calls from customers on its available cash resources from customer accounts, maturing deposits, loan draw downs, guarantees and other calls on cash settled derivative financial instruments. The Bank does not accumulate cash resources to meet calls on all liabilities mentioned above, as based on the existing practice, it is possible to forecast with a sufficient degree of certainty the required level of cash funds necessary to meet the above obligations. The liquidity risk is managed by the Treasury Department of the Bank.

The Bank is keen on maintaining stable financing predominantly consisting of due to other banks, deposits of legal entities/deposits of individuals, debt securities and also on investing funds in diversified liquid asset portfolios to be able to meet unexpected liquidity needs quickly and unhampered.

To manage its liquidity, the Bank is required to analyse the level of liquid assets needed to settle the liabilities on their maturity by providing access to various sources of financing, drawing up plans to solve the problems with financing and exercising control over compliance of liquidity ratios with the laws and regulations. The Bank calculates the liquidity ratios on a daily basis in accordance with the requirements of the Central Bank of the Russian Federation. These ratios include:

- Quick ratio (H2) calculated as a ratio of highly liquid assets and liabilities on demand. The minimum admissible value of H2 is set at 15%. As at 31 December 2012, this ratio was 30.08% (2011: 35.1%).
- Current liquidity ratio (H3) calculated as a ratio of liquid assets and liabilities maturing within 30 calendar days. The minimum admissible value of H3 is set at 50%. As at 31 December 2012, this ratio was 83.15% (2011: 102.6%).
- Long-term liquidity ratio (H4) calculated as a ratio of assets maturing in more than 1 year to equity and liabilities maturing in more than 1 year. The maximum admissible value of H4 is set at 120%. As at 31 December 2012, this ratio was 81.22% (2011: 72.0%).

The Treasury Department receives information about financial assets and liabilities. 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, bank deposits and other interbank facilities to ensure that sufficient liquidity is maintained within the Bank as a whole.

*(in thousands of Russian Roubles)*

The daily liquidity position is monitored and regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions is performed by the Treasury Department.

The table below shows the liabilities as at 31 December 2012 by their remaining contractual maturity. The amounts in the table represent contractual undiscounted cash flows. These undiscounted cash flows differ from the amounts recognized in the statement of financial position as they are based on discounted cash flows.

In those cases when the amount to be paid is not fixed, the amount in the table is determined on the basis of conditions prevailing at the reporting date. Foreign currency payments are translated using the spot exchange rate effective at the reporting date.

The table below shows the maturity analysis of financial liabilities as at 31 December 2012:

| | On demand and less than 1 month | 1-6 months | 6months – 1 year | More than 1 year | Total |
|---|---|---|---|---|---|
| **Liabilities** | | | | | |
| Due to other banks | 1 301 537 | 13 043 | - | 706 585 | 2 021 165 |
| Customer accounts and deposits | 9 180 118 | 5 831 266 | 6 553 690 | 1 853 854 | 23 418 928 |
| Debt securities issued | 934 398 | 188 951 | 434 823 | 30 420 | 1 588 592 |
| Other borrowed funds | - | 112 510 | - | 2 268 386 | 2 380 896 |
| **Total potential future payments under financial liabilities** | **11 416 053** | **6 145 770** | **6 988 513** | **4 859 245** | **29 409 581** |

The table below shows the maturity analysis of financial liabilities as at 31 December 2011:

| | On demand and less than 1 month | 1-6 months | 6months – 1 year | More than 1 year | Total |
|---|---|---|---|---|---|
| **Liabilities** | | | | | |
| Due to other banks | 431 233 | 15 146 | 7 955 | 254 816 | 709 150 |
| Customer accounts and deposits | 5 789 563 | 4 045 755 | 6 649 350 | 1 240 578 | 17 725 246 |
| Debt securities issued | 107 449 | 157 323 | 20 269 | 43 084 | 328 125 |
| Other borrowed funds | - | - | - | 1 473 388 | 1 473 388 |
| **Total potential future payments under financial liabilities** | **6 328 245** | **4 218 224** | **6 677 574** | **3 011 866** | **20 235 909** |

Customer accounts are reflected in the above analysis by the term to maturity. However, in accordance with the Civil Code of the Russian Federation, the individuals have the right to withdraw funds from accounts before maturity in which case they lose the accrued interest.

*(in thousands of Russian Roubles)*

The Bank does not use the above undiscounted amounts in the maturity analysis to monitor the liquidity profile. Instead, the Bank monitors the expected maturity limits presented in the table below as at 31 December 2012:

| | On demand and less than 1 month | 1-6 months | 6months – 1 year | More than 1 year | No stated maturity | Total |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash and cash equivalents | 2 656 895 | - | - | - | - | 2 656 895 |
| Mandatory cash balances with the Central Bank of the Russian Federation | - | - | - | - | 645 864 | 645 864 |
| Financial assets at fair value through profit or loss | 3 729 072 | - | - | - | - | 3 729 072 |
| Financial assets held to maturity | - | - | 284 652 | - | - | 284 652 |
| Due from other banks | 3 621 958 | - | - | - | - | 3 621 958 |
| Loans to customers | 496 505 | 5 232 092 | 6 383 133 | 4 890 617 | - | 17 002 347 |
| Premises and equipment | - | - | - | - | 2 191 891 | 2 191 891 |
| Other assets | 61 271 | 16 | 30 331 | 7 470 | 563 432 | 662 520 |
| **Total assets** | **10 565 701** | **5 232 108** | **6 698 116** | **4 898 087** | **3 401 187** | **30 795 199** |
| **Liabilities** | | | | | | |
| Due to other banks | 1 299 802 | 12 834 | - | 507 506 | - | 1 820 142 |
| Customer accounts and deposits | 9 170 138 | 5 702 891 | 6 087 389 | 1 665 129 | - | 22 625 547 |
| Debt securities issued | 934 397 | 182 810 | 413 891 | 25 867 | - | 1 556 965 |
| Other borrowed funds | - | 109 782 | - | 1 295 487 | - | 1 405 269 |
| Other liabilities | 150 967 | 13 673 | 50 014 | 32 668 | 269 | 247 591 |
| Current tax liabilities | - | 20 265 | - | - | - | 20 265 |
| Deferred tax liabilities | - | - | - | - | 263 456 | 263 456 |
| **Total liabilities** | **11 555 304** | **6 042 255** | **6 551 294** | **3 526 657** | **263 725** | **27 939 235** |
| **Net liquidity gap as at 31 December 2012** | **(989 603)** | **(810 147)** | **146 822** | **1 371 430** | **3 137 462** | **2 855 964** |
| **Cumulative liquidity gap as at 31 December 2012** | **(989 603)** | **(1 799 750)** | **(1 652 928)** | **(281 498)** | **2 855 964** | |

*(in thousands of Russian Roubles)*

The table below shows the expected maturity analysis as at 31 December 2011:

| | On demand and less than 1 month | 1-6 months | 6months – 1 year | More than 1 year | No stated maturity | Total |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash and cash equivalents | 1 738 899 | - | - | - | - | 1 738 899 |
| Mandatory cash balances with the Central Bank of the Russian Federation | - | - | - | - | 485 551 | 485 551 |
| Financial assets at fair value through profit or loss | 807 524 | - | - | - | - | 807 524 |
| Due from other banks | 4 720 679 | | | | | 4 720 679 |
| Loans to customers | 197 620 | 2 242 125 | 5 243 792 | 3 509 842 | - | 11 193 379 |
| Premises and equipment | - | - | - | - | 1 801 917 | 1 801 917 |
| Other assets | 64 454 | 3 671 | 4 290 | 6 497 | 295 218 | 374 130 |
| **Total assets** | **7 529 176** | **2 245 796** | **5 248 082** | **3 516 339** | **2 582 686** | **21 122 079** |
| **Liabilities** | | | | | | |
| Due to other banks | 429 311 | 8 719 | - | 202 413 | - | 640 443 |
| Customer accounts and deposits | 5 709 461 | 3 708 517 | 6 394 303 | 1 164 139 | - | 16 976 420 |
| Debt securities issued | 106 031 | 150 731 | 18 663 | 33 391 | - | 308 816 |
| Other borrowed funds | - | - | - | 888 029 | - | 888 029 |
| Other liabilities | 37 551 | 31 930 | 184 | 18 | 308 | 69 991 |
| Current tax liabilities | - | 13 862 | - | - | - | 13 862 |
| Deferred tax liabilities | - | - | - | - | 128 699 | 128 699 |
| **Total liabilities** | **6 282 354** | **3 913 759** | **6 413 150** | **2 287 990** | **129 007** | **19 026 260** |
| **Net liquidity gap as at 31 December 2011** | **1 246 822** | **(1 667 963)** | **(1 165 068)** | **1 228 349** | **2 453 679** | **2 095 819** |
| **Cumulative liquidity gap as at 31 December 2011** | **1 246 822** | **(421 141)** | **(1 586 209)** | **(357 860)** | **2 095 819** | |

As the above analysis is based on expected maturity, the entire portfolio of financial assets at fair value through profit or loss is categorised as "on demand and less than 1 month" in accordance with the portfolio liquidity assessment by the management.

In the opinion of the Bank's management, the matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental for successful management of the Bank. It is unusual for the banks 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 maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Bank and its exposure to changes in interest and exchange rates.

Management believes that in spite of a substantial portion of customer accounts being on demand, diversification of these deposits by number and type of depositors, and the past experience of the Bank would indicate that these customer accounts provide a long-term and stable source of funding for the Bank.

Liquidity requirements in respect of guarantees are considerably lower than the amount of the related commitment because the Bank does not generally expect a third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credits does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

***Interest rate risk.*** The Bank takes on exposure to the effects of fluctuations of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise.

*(in thousands of Russian Roubles)*

The Bank is exposed to interest rate risk, principally as a result of lending at fixed interest rates, in amounts and for periods, which differ from those of borrowings at fixed interest rates. In practice, interest rates are generally fixed on a short-term basis. Also, interest rates fixed contractually on both assets and liabilities are usually renegotiated upon mutual consent to reflect current market conditions.

The Bank's Risk Department sets limits on the level of mismatch of interest rate re-pricing that may be undertaken, which is monitored on a permanent basis. In the absence of hedging instruments, the Bank normally seeks to match its interest rate positions.

The table below summarises the Bank's exposure to interest rate risks as at 31 December 2012. Included in the table are the Bank's financial assets and liabilities at carrying amounts, categorised by the earlier of contractual re-pricing or maturity dates.

| | On demand and less than 1 month | 1-6 months | 6months – 1 year | More than 1 year | Non-interest bearing | Total |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash and cash equivalents | - | - | - | - | 2 656 895 | 2 656 895 |
| Mandatory cash balances with the Central Bank of the Russian Federation | - | - | - | - | 645 864 | 645 864 |
| Financial assets at fair value through profit or loss | 3 729 072 | - | - | - | - | 3 729 072 |
| Financial assets held to maturity | - | - | 284 652 | - | - | 284 652 |
| Due from other banks | 3 621 958 | - | - | - | - | 3 621 958 |
| Loans to customers | 496 505 | 5 232 092 | 6 383 133 | 4 890 617 | - | 17 002 347 |
| Premises and equipment | - | - | - | - | 2 191 891 | 2 191 891 |
| Other assets | - | - | - | - | 662 520 | 662 520 |
| **Total assets** | **7 847 535** | **5 232 092** | **6 667 785** | **4 890 617** | **6 157 170** | **30 795 199** |
| **Liabilities** | | | | | | |
| Due to other banks | 1 299 802 | 12 834 | - | 507 506 | - | 1 820 142 |
| Customer accounts and deposits | 9 170 138 | 5 702 891 | 6 087 389 | 1 665 129 | - | 22 625 547 |
| Debt securities issued | 934 397 | 182 810 | 413 891 | 25 867 | - | 1 556 965 |
| Other borrowed funds | - | 109 782 | - | 1 295 487 | - | 1 405 269 |
| Other liabilities | - | - | - | - | 247 591 | 247 591 |
| Current tax liabilities | - | - | - | - | 20 265 | 20 265 |
| Deferred tax liabilities | - | - | - | - | 263 456 | 263 456 |
| **Total liabilities** | **11 404 337** | **6 008 317** | **6 501 280** | **3 493 989** | **531 312** | **27 939 235** |
| **Net interest rate gap as at 31 December 2012** | **(3 556 802)** | **(776 225)** | **166 505** | **1 396 628** | **5 625 858** | **2 855 964** |
| **Cumulative interest rate gap as at 31 December 2012** | **(3 556 802)** | **(4 333 027)** | **(4 166 522)** | **(2 769 894)** | **2 855 964** | |

*(in thousands of Russian Roubles)*

The table below summarises the Bank's exposure to interest rate risks as at 31 December 2011:

| | On demand and less than 1 month | 1-6 months | 6months – 1 year | More than 1 year | Non-interest bearing | Total |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash and cash equivalents | - | - | - | - | 1 738 899 | 1 738 899 |
| Mandatory cash balances with the Central Bank of the Russian Federation | - | - | - | - | 485 551 | 485 551 |
| Financial assets at fair value through profit or loss | 807 524 | - | - | - | - | 807 524 |
| Due from other banks | 4 720 679 | - | - | - | - | 4 720 679 |
| Loans to customers | 197 620 | 2 242 125 | 5 243 792 | 3 509 842 | - | 11 193 379 |
| Premises and equipment | - | - | - | - | 1 801 917 | 1 801 917 |
| Other assets | - | - | - | - | 374 130 | 374 130 |
| **Total assets** | **5 725 823** | **2 242 125** | **5 243 792** | **3 509 842** | **4 400 497** | **21 122 079** |
| **Liabilities** | | | | | | |
| Due to other banks | 429 311 | 8 719 | - | 202 413 | - | 640 443 |
| Customer accounts and deposits | 1 625 332 | 3 708 517 | 6 394 303 | 1 164 138 | 4 084 130 | 16 976 420 |
| Debt securities issued | 106 031 | 150 731 | 18 663 | 33 391 | - | 308 816 |
| Other borrowed funds | - | - | - | 888 029 | - | 888 029 |
| Other liabilities | - | - | - | - | 69 991 | 69 991 |
| Current tax liabilities | - | - | - | - | 13 862 | 13 862 |
| Deferred tax liabilities | - | - | - | - | 128 699 | 128 699 |
| **Total liabilities** | **2 160 674** | **3 867 967** | **6 412 966** | **2 287 971** | **4 296 682** | **19 026 260** |
| **Net interest rate gap as at 31 December 2011** | **3 565 149** | **(1 625 842)** | **(1 169 174)** | **1 221 871** | **103 815** | **2 095 819** |
| **Cumulative interest rate gap as at 31 December 2011** | **3 565 149** | **1 939 307** | **770 133** | **1 992 004** | **2 095 819** | |

As at 31 December 2012 and 31 December 2011, change in interest rate would not have had a material effect on the Bank's equity as all liabilities and financial assets presented above have fixed interest rates.

The Bank performs monitoring of financial instrument interest rates. The table below shows the interest rates on the basis of reports that were analysed by the Bank's management as at 31 December 2012 and 31 December 2011:

| | 2012 | | | 2011 | | |
|---|---|---|---|---|---|---|
| | Roubles | US Dollars | Euro | Roubles | US Dollars | Euro |
| **Assets** | | | | | | |
| Cash and cash equivalents | - | - | - | - | - | - |
| Financial assets at fair value through profit or loss | 8,6% | - | - | 14,1% | - | - |
| Financial assets held to maturity | - | - | - | - | - | - |
| Due from other banks | 4,43% | - | - | 4,15% | - | - |
| Loans to customers | 14,06% | 9,62% | 10,77% | 14,6% | 12,0% | 11,5% |
| **Liabilities** | | | | | | |
| Due to other banks | 6,56% | 0,56% | 4,02% | 6,7% | 6,2% | - |
| Customer accounts and deposits | | | | | | |
| - term deposits | 9,25% | 5,87% | 5,42% | 8,1% | 5,6% | 5,4% |
| Debt securities issued | 8,49% | - | - | 5,5% | - | - |
| Other borrowed funds | 2,58% | - | - | 3,8% | - | - |

*(in thousands of Russian Roubles)*

## 24. Capital management

The Bank's capital management has the following objectives: to observe the capital requirements established by the Central Bank of the Russian Federation, including the requirements of the deposit insurance system, assurance of the Bank's ability to continue its operations as a going concern and maintenance of the capital base at the level required for sustaining the capital adequacy ratio at 10% as required by the CBR. The control over compliance with the capital adequacy ratio set by the Central Bank of the Russian Federation is exercised on the basis of forecast and actual data, as well as monthly reports containing corresponding calculations that are verified and signed by the Deputy Chairman of the Executive Board and Chief Accountant of the Bank. Other capital management objectives are assessed on a daily basis.

As at 31 December 2012, the Bank's capital adequacy ratio calculated based on capital requirements established by the Central Bank of the Russian Federation was 11.58% (2011: 14.0%). The minimum admissible value is set by the Central Bank of the Russian Federation at 10.0%.

## 25. Contingent liabilities

***Legal issues.*** In the ordinary course of business, the Bank is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Bank. Based on its own estimates and internal and external professional advice, the Bank's management is of the opinion that no material losses will be incurred from such actions and accordingly no provision has been made in these financial statements.

***Tax legislation.*** Russian tax legislation is subject to varying interpretations and changes which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Bank may be challenged by the relevant regional or federal authorities. Recent events in the Russian Federation have shown that the tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments and it is possible that transactions and accounting methods that have not been challenged in the past may be challenged. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the tax authorities in respect of taxes for three calendar years preceding the year of the review. Under certain circumstances reviews may cover longer periods.

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

***Operating lease commitments.*** Where the Bank is the lessee, the future minimum lease payments under non-cancellable operating leases are as follows:

| | 2012 | 2011 |
|---|---|---|
| Less than 1 year | 67 071 | 46 519 |
| 1-5 years | 182 222 | 145 142 |
| More than 5 years | 15 965 | 20 670 |
| **Total operating lease commitments** | **265 258** | **212 331** |

Operating lease includes lease of immovable property and motor vehicles.

Lease expenses recognised by the Bank amounted to RUB 112 964 thousand (2011: RUB 90 374 thousand).

***Credit related commitments.*** The main objective of these instruments is to provide funds to customers when necessary. The total outstanding contractual amount of guarantees and undrawn credit lines does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded. However, as there is a potential risk, a provision for credit related commitments in respect of issued guarantees and unused credit lines is made in the statement of financial position within other liabilities depending on the customer's financial position.

*(in thousands of Russian Roubles)*

Credit related commitments of the Bank are as follows:

| | 2012 | 2011 |
|---|---|---|
| Guarantees issued | 6 646 684 | 3 500 826 |
| Unused credit lines | 1 394 923 | 1 357 036 |
| **Total credit related commitments** | **8 041 607** | **4 857 862** |

Movements in the provision for credit related commitments are as follows:

| | 2012 | 2011 |
|---|---|---|
| **Provision for credit related commitments as at 1 January** | **-** | **8 418** |
| Provision/(recovery of provision) for credit related commitments during the year | 10 851 | (8 418) |
| **Provision for credit related commitments as at 31 December** | **10 851** | **-** |

## 26. Fair value of financial instruments

The fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties on arm's length conditions, other than in a forced sale or liquidation. Quoted financial instruments in active markets provide the best evidence of fair value.

The major portion of the Bank's financial instruments is represented by liquid securities included in the Lombard list of the CBR and actively traded on the MICEX Stock Exchange. Therefore, the amounts which the Bank can obtain through sale of the available portfolio of financial instruments at fair value through profit or loss approximate the estimated values presented below.

At the same time, the estimates presented below may be below/above the amounts the Bank can obtain from the market sale of the available portfolio of a specific instrument, as determined by the market environment and specific risks associated with this specific instrument.

Below is the estimated fair value of the Bank's financial instruments as at 31 December 2012 and 31 December 2011:

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | Carrying value | Fair value | Carrying value | Fair value |
| **Financial assets** | | | | |
| Cash and cash equivalents | 2 656 895 | 2 656 895 | 1 738 899 | 1 738 899 |
| Financial assets at fair value through profit or loss | 3 729 072 | 3 729 072 | 807 524 | 807 524 |
| Financial assets held to maturity | 284 652 | 284 652 | - | - |
| Due from other banks | 3 621 958 | 3 621 958 | 4 720 679 | 4 720 679 |
| Loans to customers | 17 002 347 | 17 002 347 | 11 193 379 | 11 193 379 |
| **Financial liabilities** | | | | |
| Due to other banks | 1 820 142 | 1 820 142 | 640 443 | 640 443 |
| Customer accounts and deposits | 22 625 547 | 22 625 547 | 16 976 420 | 16 976 420 |
| Debt securities issued | 1 556 965 | 1 556 965 | 308 816 | 308 816 |
| Other borrowed funds | 1 405 269 | 1 405 269 | 888 029 | 888 029 |

The Bank uses the following methods and assumptions to estimate the fair value of the following financial instruments:

***Financial instruments carried at fair value.*** Cash and cash equivalents, financial assets and liabilities at fair value through profit or loss and financial assets available for sale are carried in the statement of financial position at their fair value. Certain financial assets available for sale for which there is no available independent quotation have been fair valued by the Bank on the basis of results of recent sales of equity holdings in investees to unrelated third parties, consideration of other relevant information such as discounted cash flows and financial data of the investees and application of other valuation techniques.

***Due from other banks.*** The fair value of floating rate instruments is their carrying amount. The estimated fair value of fixed interest-bearing placements is based on discounted cash flows using prevailing money market interest rates for instruments with similar credit risk and maturity. The management believes that the fair values of due from other banks as at 31 December 2012 and 31 December 2011 do not materially differ from respective carrying amounts, due to their short-term nature.

*(in thousands of Russian Roubles)*

***Loans to customers.*** Loans to customers are reported net of impairment provisions. The estimated fair value of loans to customers represents the discounted amount of estimated future cash flows expected to be received. To determine fair value, expected cash flows are discounted at current market rates. The management believes that the fair values of loans to customers as at 31 December 2012 and 31 December 2011 do not materially differ from the respective carrying amounts. This is primarily due to the existing practice to renegotiate interest rates to reflect current market conditions. So, interest on most balances is accrued at rates approximating market interest rates.

***Due to other banks.*** The fair value of due to other banks maturing within 3 months approximates the carrying amount due to their relatively short-term maturity. The fair value of due to other banks maturing in more than 3 months is the present value of the estimated future cash flows discounted at the respective year-end market rates. The Bank's management believes that fair values of due to other banks as at 31 December 2012 and 31 December 2011 do not materially differ from their respective carrying amounts.

***Customer accounts and deposits.*** The estimated fair value of fixed interest bearing borrowings and other borrowed funds without a quoted market price is based on discounted cash flows using interest rates for debt instruments with similar maturity. The Bank believes that fair values of customer accounts as at 31 December 2012 and 31 December 2011 do not materially differ from respective carrying amounts. This is primarily due to the fact that it is practice to renegotiate interest rates to reflect current market conditions. So, interest on most balances is accrued at rates approximating market interest rates.

***Debt securities issued.*** The estimated fair value of fixed interest bearing debt securities issued is based on discounted cash flows using money market interest rates for debt instruments with similar credit risk and remaining maturity.

***Other borrowed funds.*** The fair value of other fixed interest rate borrowings and other borrowed funds without quoted market prices is based on discounted cash flows using interest rates for debt instruments with similar maturity.

Below is the fair value hierarchy of financial assets as at 31 December 2012. Level 1 includes financial assets which are traded in an active market, whose fair values are measured based on market quotations. Level 2 includes financial assets whose fair value is measured using different valuation techniques. These models are based on observable data characterizing market conditions and factors which may affect the fair value of a financial asset. Level 3 includes financial assets whose fair value is determined based on judgment or fair value techniques for which any significant input is not based on observable market data.

| | Level 1 |
|---|---|
| Financial assets at fair value through profit or loss | 3 729 072 |

| | Level 2 |
|---|---|
| Financial assets held to maturity | 284 652 |

Below is the fair value hierarchy of financial assets as at 31 December 2011:

| | Level 1 |
|---|---|
| Financial assets at fair value through profit or loss | 807 524 |

*(in thousands of Russian Roubles)*

## 27. Reconciliation of Classes of Financial Instruments with Measurement Categories

In accordance with IAS 39 "Financial Instruments: Recognition and Measurement" the Bank classifies its financial assets in the following categories: 1) financial assets at fair value through profit or loss; 2) loans and receivables; 3) financial assts available for sale; 4) financial assets held to maturity.

At the same time, in accordance with IFRS 7 "Financial Instruments: Disclosure" the Bank discloses different classes of financial instruments.

The table below shows reconciliation of classes of financial assets with the above measurement categories as at 31 December 2012:

| | Financial assets at fair value through profit or loss | Financial assets held to maturity | Loans and receivables | Total |
|---|---|---|---|---|
| **Assets** | | | | |
| **Cash and cash equivalents** | 2 656 895 | - | - | 2 656 895 |
| **Financial assets at fair value through profit or loss** | | | | |
| - Corporate debt securities | 3 729 072 | - | - | 3 729 072 |
| **Financial assets held to maturity** | - | 284 652 | - | 284 652 |
| **Due from other banks** | | | | |
| - Deposits with the Central Bank of the Russian Federation | - | - | 2 700 664 | 2 700 664 |
| - Loans and deposits with other banks | - | - | 554 890 | 554 890 |
| - Amounts receivable under reverse repurchase transactions | - | - | 366 404 | 366 404 |
| **Loans to customers** | | | | |
| - Corporate loans and amounts receivable under reverse repurchase transactions | - | - | 7 385 150 | 7 385 150 |
| - Loans to individual entrepreneurs, small and medium business | - | - | 9 092 324 | 9 092 324 |
| - Consumer loans to individuals | - | - | 435 575 | 435 575 |
| - Mortgage loans to individuals | - | - | 80 613 | 80 613 |
| - Loans to state and municipal authorities | - | - | 8 685 | 8 685 |
| **Other financial assets** | | | | |
| – Settlements on conversion transactions | 40 028 | - | - | 40 028 |
| – Accounts receivable | 7 483 | - | - | 7 483 |
| - Commission remuneration | 1 223 | - | - | 1 223 |
| – Settlements on plastic cards | 7 976 | - | - | 7 976 |
| **Total financial assets** | **6 442 677** | **284 652** | **20 624 305** | **27 351 634** |
| Non-financial assets | | | | 3 443 565 |
| **Total assets** | | | | **30 795 199** |

*(in thousands of Russian Roubles)*

The table below shows reconciliation of classes of financial assets with the above measurement categories as at 31 December 2011:

| | Financial assets at fair value through profit or loss | Loans and receivables | Total |
|---|---|---|---|
| **Assets** | | | |
| **Cash and cash equivalents** | 1 738 899 | - | 1 738 899 |
| **Financial assets at fair value through profit or loss** | | | |
| - Corporate debt securities | 622 871 | - | 622 871 |
| - Government and municipal debt securities | 184 653 | - | 184 653 |
| **Due from other banks** | | | |
| - Deposits with the Central Bank of the Russian Federation | | 3 020 331 | 3 020 331 |
| - Loans and deposits with other banks | | 1 700 348 | 1 700 348 |
| **Loans to customers** | | | |
| - Corporate loans | - | 6 135 060 | 6 135 060 |
| - Loans to individual entrepreneurs, small and medium business | - | 4 376 073 | 4 376 073 |
| - Consumer loans to individuals | - | 613 673 | 613 673 |
| - Mortgage loans to individuals | - | 67 245 | 67 245 |
| - Loans to state and municipal authorities | - | 1 328 | 1 328 |
| **Other financial assets** | | | |
| – Settlements on conversion transactions | 39 123 | - | 39 123 |
| – Accounts receivable | 6 214 | - | 6 214 |
| - Commission remuneration | 3 561 | - | 3 561 |
| – Settlements on plastic cards | 5 200 | - | 5 200 |
| **Total financial assets** | **2 600 521** | **15 914 058** | **18 514 579** |
| Non-financial assets | | | 2 607 500 |
| **Total assets** | | | **21 122 079** |

All financial liabilities of the Bank are carried at amortised cost.

## 28. Related party transactions

For the purposes of these financial statements, parties are considered to be related if one party has the ability to control or exercise significant influence over the other party in making financial or operational decisions as defined by IAS 24 "Related Party Disclosures". In considering each possible related party relationship, attention is directed to the economic substance of the relationship, not merely the legal form.

In the normal course of business the Bank enters into transactions with its major shareholders, directors and other related parties. These transactions include settlements, issuance of loans, deposit taking, issuance of guarantees, trade finance and foreign currency transactions. According to the Bank's policy the terms of related party transactions are equivalent to those that prevail in arm's length transactions.

*(in thousands of Russian Roubles)*

As at 31 December 2012 the outstanding balances with related parties are as follows:

| | Shareholders | Directors and key management personnel | Other related parties |
|---|---|---|---|
| **Assets** | | | |
| Loans to customers | - | 40 248 | 852 265 |
| **Liabilities** | | | |
| Customer accounts and deposits | 43 464 | 48 338 | 49 154 |
| Other borrowed funds | 1 202 525 | - | 202 744 |

The transactions with other borrowed funds of related parties for the year 2012 are presented below:

| | Shareholders | Other related parties | Total |
|---|---|---|---|
| **Other borrowed funds** | | | |
| Other borrowed funds as at1 January | **661 210** | **226 819** | **888 029** |
| Other borrowed funds received during the year | 600 000 | - | 600 000 |
| Amortisation of other borrowed funds at the market interest rate | (83 997) | (29 775) | (113 772) |
| Interest accrued | 25 312 | 5 700 | 31 012 |
| **Other borrowed funds as at 31 December** | **1 202 525** | **202 744** | **1 405 269** |

As at 31 December 2011 the outstanding balances with related parties are as follows:

| | Shareholders | Directors and key management personnel | Other related parties |
|---|---|---|---|
| **Assets** | | | |
| Loans to customers | - | 67 943 | 734 357 |
| **Liabilities** | | | |
| Customer accounts and deposits | 471 | 21 670 | 28 092 |
| Other borrowed funds | 661 210 | - | 226 819 |

The transactions with other borrowed funds of related parties for the year 2011 are presented below:

| | Shareholders | Other related parties | Total |
|---|---|---|---|
| **Other borrowed funds** | | | |
| Other borrowed funds as at1 January | **413 554** | **221 119** | **634 673** |
| Other borrowed funds reassigned by unrelated parties to shareholders | 223 856 | - | 223 856 |
| Interest accrued | 23 800 | 5 700 | 29 500 |
| **Other borrowed funds as at 31 December** | **661 210** | **226 819** | **888 029** |

The results of transactions with related parties for the year ended 31 December 2012 are as follows:

| | Shareholders | Directors and key management personnel | Other | Total |
|---|---|---|---|---|
| Interest income | - | 11 247 | 110 407 | 121 654 |
| Interest expense | (25 312) | (6 535) | (6 129) | (37 976) |
| Fee and commission income | 147 | 568 | 100 | 815 |
| Other income | - | 1 153 | 2 | 1 155 |
| Operating expenses | - | (42) | - | (42) |

*(in thousands of Russian Roubles)*

The results of transactions with related parties for the year ended 31 December 2011 are as follows:

| | Shareholders | Directors and key management personnel | Other | Total |
|---|---|---|---|---|
| Interest income | - | 6 233 | 60 457 | 66 690 |
| Interest expense | (23 800) | (617) | (6 180) | (30 597) |
| Fee and commission income | 70 | 233 | 1 047 | 1 350 |
| Operating expenses | - | (2) | (5 879) | (5 881) |

Remuneration to key management personnel in 2012 amounted to RUB 51 845 thousand (2011: RUB 40 289 thousand).

Short-term bonuses are paid in full amounts during the twelve months after the end of the period in which the respective services are provided by the management.

## 29. Events after the balance sheet date

In December 2012 an additional share issue of the Bank's ordinary shares was registered with the state. The issue is comprised of 15 000 000 ordinary shares with a nominal value of 10 roubles each. Since 5th March 2013 the additional share issue has been being placed via closed subscription.

M.V. Pavlik,
Chairman of the Executive Board

A.G. Volkova,
Chief Accountant

1 April 2013