LLC CB Aljba Alliance

Consolidated Financial Statements
For the Year Ended 31 December 2012

COMMERCIAL BANK ALJBA ALLIANCE (LIMITED LIABILITY COMPANY)

TABLE OF CONTENTS

Page

COMMERCIAL BANK ALJBA ALLIANCE (LIMITED LIABILITY COMPANY)

STATEMENT OF MANAGEMENT’S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of Commercial Bank Aljba Alliance (Limited Liability Company) and its subsidiaries (the “Group”) as at 31 December 2012, and the consolidated results of its operations and cash flows for the year then ended, in compliance with International Financial Reporting Standards (“IFRS”).

In preparing the consolidated financial statements, management is responsible for:

- Selecting suitable accounting policies and applying them consistently;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group’s consolidated financial position and financial performance;
- Making an assessment of the Group's ability to continue as a going concern.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls throughout the Group;
- Maintaining adequate accounting records that are sufficient to show and explain the Group's transactions, and disclose with reasonable accuracy at any time the consolidated financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- Maintaining statutory accounting records in compliance with Russian legislation and accounting standards;
- Taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- Preventing and detecting fraud and other irregularities.

The consolidated financial statements of the Group for the year ended 31 December 2012 was authorized for issue by the Bank’s Management Board on 29 April 2013.

On behalf of the Group

A.N. Yakimov **Chairman of the Management Board**	**[illegible].I. Anokhina** **Chief Accountant**
29 April 2013 Moscow	29 April 2013 Moscow

ZAO Deloitte & Touche CIS
5 Lesnaya Street
Moscow, 125047
Russia

Tel: +7 (495) 787 06 00
Fax: +7 (495) 787 06 01
www.deloitte.ru

INDEPENDENT AUDITORS' REPORT

To the Participants and the Board of Directors of Commercial Bank Aljba Alliance (Limited Liability Company):

We have audited the accompanying consolidated financial statements of Commercial Bank Aljba Alliance (Limited Liability Company) and its subsidiaries (the “Group”), which comprise the consolidated statement of financial position as at 31 December 2012, and the consolidated statements of profit or loss, comprehensive income and cash flows for 2012, and notes comprising a summary of significant accounting policies and other explanatory information.

Management’s Responsibility for the Consolidated Financial Statements

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

Auditor’s Responsibility

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

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

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

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee, and its network of member firms, each of which is a legally separate and independent entity. Please see www.deloitte.com/about for a detailed description of the legal structure of Deloitte Touche Tohmatsu Limited and its member firms. Please see www.deloitte.com/ru/about for a detailed description of the legal structure of Deloitte CIS.

© 2013 ZAO Deloitte & Touche CIS. All rights reserved

Memberof Deloitte Touche Tohmatsu Limited

Opinion

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

Emphasis of Matter

We draw attention to Note 24 to the accompanying consolidated financial statements in which the Group's susceptibility to the risks related to the Cyprus economy is discussed.

Our opinion is not qualified in respect of this matter.

Deloitte & Touche

29 April 2013
Moscow, Russian Federation

S.V. Nekrasov, Partner
(Qualification Certificate No.01-000196 dated 28 November 2011)

ZAO "Deloitte & Touche CIS"

The Entity: Commercial Bank Aljba Alliance (Limited Liability Company)

Certificate of state registration № 033.217
Issued by the Moscow Registration Chamber by 14.07.1994.

Certificate 50 № 002240480 of registration in the Unified State Register №1025000004787 as of 21.11.2002.
Issued by Russian Ministry of Taxation Inspectorate in Moscow Region.

Address: 1 bld. 2 Kremlevskaya nab., Moscow, 119019, Russia.

Independent Auditor: ZAO "Deloitte & Touche CIS"

Certificate of state registration № 018.482, issued by the Moscow Registration Chamber on 30.10.1992.

Certificate of registration in the Unified State Register № 1027700425444 of 13.11.2002, issued by Moscow Interdistrict Inspectorate of the Russian Ministry of Taxation № 39.

Certificate of membership in "NP "Audit Chamber of Russia" (auditors' SRO) of 20.05.2009 № 3026, ORNZ 10201017407.

COMMERCIAL BANK ALJBA ALLIANCE (LIMITED LIABILITY COMPANY)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2012
(in thousands of Russian Rubles)

	Notes	Year ended 31 December 2012	Year ended 31 December 2011
Continuing operations			
Interest income	4,20	394,007	279,584
Interest expense	4,20	(164,741)	(134,365)
NET INTEREST INCOME BEFORE PROVISION FOR IMPAIRMENT LOSSES ON INTEREST BEARING ASSETS		229,266	145,219
Provision for impairment losses on interest bearing assets	5,20	(6,250)	(5,861)
NET INTEREST INCOME		223,016	139,358
Net gain/(loss) on financial assets at fair value through profit or loss	6	72,385	(339,191)
Net gain on foreign exchange operations	7	55,742	47,479
Fee and commission income	8	116,838	107,317
Fee and commission expense	8	(24,908)	(12,969)
Other income		17,537	8,955
NET NON-INTEREST INCOME/(LOSS)		237,594	(188,409)
OPERATING INCOME/(LOSS)		460,610	(49,051)
OPERATING EXPENSES	9,20	(397,193)	(375,785)
PROFIT/(LOSS) BEFORE INCOME TAX		63,417	(424,836)
Income tax (expense)/recovery	10	(17,661)	37,164
Profit/(loss) from continuing operations		**45,756**	**(387,672)**
Discontinued operations			
Loss from discontinued operations:		-	(10,683)
NET PROFIT/(LOSS)		**45,756**	**(398,355)**

On behalf of the Group

A.N. Yakimov
Chairman of the Management Board

29 April 2013
Moscow

O.I. Anokhina
Chief Accountant

29 April 2013
Moscow

The notes on pages 9-49 form an integral part of these consolidated financial statements.

COMMERCIAL BANK ALJBA ALLIANCE (LIMITED LIABILITY COMPANY)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2012
(in thousands of Russian Rubles)

	Year ended 31 December 2012	Year ended 31 December 2011
NET PROFIT/(LOSS)	**45,756**	**(398,355)**
OTHER COMPREHENSIVE (LOSS)/INCOME		
Exchange differences on translating foreign operations	(9,819)	8,073
TOTAL COMPREHENSIVE INCOME/(LOSS)	**35,937**	**(390,282)**

On behalf of the Group

A.N. Yakimov
Chairman of the Management Board

29 April 2013
Moscow

O.I. Anokhina
Chief Accountant

29 April 2013
Moscow

The notes on pages 9-49 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2012
(in thousands of Russian Rubles)

	Notes	31 December 2012	31 December 2011
ASSETS:			
Cash and balances with the Central Bank of the Russian Federation	11	686,985	924,667
Financial assets at fair value through profit or loss	12,20	663,461	563,501
Due from banks and other financial institutions	13	1,364,746	1,749,869
Loans to customers	14,20	2,851,725	1,595,302
Property and equipment	15	583,036	607,618
Deferred income tax assets	10	8,129	-
Current income tax asset		3,488	3,223
Other assets		27,393	27,665
TOTAL ASSETS		**6,188,963**	**5,471,845**
LIABILITIES:			
Deposits by customers	16,20	4,368,547	3,701,516
Debt securities issued	17	229,063	248,085
Deferred income tax liabilities	10	39,947	16,529
Deposits by banks		3,706	-
Other liabilities		28,512	22,464
		4,669,775	3,988,594
Net assets attributable to the participants of the Group	18	1,519,188	1,483,251
TOTAL LIABILITIES		**6,188,963**	**5,471,845**

On behalf of the Group

A.N. Yakimov	**O.I. Anokhina**
Chairman of the Management Board	**Chief Accountant**
29 April 2013	29 April 2013
Moscow	Moscow

РОССИЙСКАЯ ФЕДЕРАЦИЯ ★ Коммерческий Банк "Альба Альянс" (Общество с ограниченной ответственностью) ★ Лицензия № 2593 ★ г. МОСКВА ★ ОГРН 1025000004787 ALJBA ALLIANCE

The notes on pages 9-49 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2012
(in thousands of Russian Rubles)

	Notes	Year ended 31 December 2012	Year ended 31 December 2011
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit/(loss) before income tax, including discontinued operations		63,417	(435,519)
Adjustments for non-cash items:			
Provision for impairment losses on interest bearing assets	5	6,250	5,861
Depreciation of property and equipment	9,15	26,771	28,197
Net change in interest accruals		17,356	(6,789)
Loss from disposal of property and equipment		148	2,209
Net change in fair value of financial assets at fair value through profit or loss	6	15,020	307,988
(Gain)/loss on precious metals operations		51	(1,121)
Foreign exchange (gain)/loss	7	(86,567)	1,489
Cash flows from operating activities before changes in operating assets and liabilities		**42,446**	**(97,685)**
Changes in operating assets and liabilities			
(Increase)/decrease in operating assets:			
Minimum reserve deposits with the Central Bank of the Russian Federation		(29,634)	(45,166)
Due from banks and other financial institutions		302,425	236,241
Financial assets at fair value through profit or loss		(128,714)	579,499
Loans to customers		(1,313,215)	(167,908)
Other assets		(3,410)	(3,448)
Increase/(decrease) in operating liabilities:			
Deposits by banks		3,706	(11,945)
Deposits by customers		790,460	(513,679)
Debt securities issued		(6,642)	(38,341)
Other liabilities		(5,884)	(253,126)
Cash outflow from operating activities before taxation		(348,462)	(315,558)
Income tax paid		(2,637)	(1,374)
Net cash outflow from operating activities		(351,099)	(316,932)

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2012
(in thousands of Russian Rubles)

	Notes	Year ended 31 December 2012	Year ended 31 December 2011
CASH FLOWS FROM INVESTING ACTIVITIES:			
Payments for property and equipment	15	(2,345)	(5,066)
Proceeds on disposal of property and equipment		7	506
Disposal of subsidiaries		-	171
Net cash outflow from investing activities		(2,338)	(4,389)
Effect of foreign exchange rate changes on cash and cash equivalents		53	75,579
NET DECREASE IN CASH AND CASH EQUIVALENTS		(353,384)	(245,742)
CASH AND CASH EQUIVALENTS, beginning of year	11	**1,761,135**	**2,006,877**
CASH AND CASH EQUIVALENTS, end of year	11	**1,407,751**	**1,761,135**

Interest paid and received by the Group during the year ended 31 December 2012 amounted to RUB 170,541 thousand and RUB 382,451 thousand, respectively.

Interest paid and received by the Group during the year ended 31 December 2011 amounted to RUB 131,072 thousand and RUB 283,080 thousand, respectively.

On behalf of the Group

A.N. Yakimov
Chairman of the Management Board

29 April 2013
Moscow

O.I. Anokhina
Chief Accountant

29 April 2013
Moscow

The notes on pages 9-49 form an integral part of these consolidated financial statements.

1. ORGANIZATION

Commercial Bank Aljba Alliance (Limited Liability Company) (the "Bank") is a limited liability company, which was incorporated in the Russian Federation in 1993. The Bank is regulated by the Central Bank of the Russian Federation (the "CBR") and conducts its business under general license number 2593. In addition, the Bank holds licenses for broker, dealer, depositary and security management operations issued by the Federal Service for Financial Markets in December 2000, and a stock exchange intermediary license issued by the Federal Service for Financial Markets of Russia in 2009.

The Bank's activities include commercial banking, financial and other operations. These operations include attraction of deposits, issue of commercial loans in freely convertible currencies and in Russian Rubles, settlements on customer export/import operations, currency exchange operations, broker operations, securities management, agency and other services to Russian debt and equity securities market players, and operations with securities and derivatives. The Bank conducts operations in the Russian and international markets.

The registered office of the Bank is located at: 1 Kremlevskaya nab., bld. 2, Moscow, Russian Federation.

The Bank is a parent company of a group of companies (the "Group") which include the following companies consolidated in the financial statements:

Description	Country of operation	Proportion of ownership interest/ voting rights, % 31 December 2012	31 December 2011	Type of operation
OOO SOVLINK	RF	100%	100%	Broker and dealer services, corporate finance and financial advisory services
S.L. Capital Services Limited	Cyprus	100%	100%	Investments, broker operations, securities management, agency and other services to Russian securities market players

As at 31 December 2012 and 2011 the following participants (ultimate beneficiaries) owned 100% of the Bank's share capital:

Participants	% in share capital
Alexander Markovich Fryman	50.0
Dmitri Yurievich Pyatkin	50.0
Total	**100.0**

These consolidated financial statements for the year ended 31 December 2012 were authorized for issue on 29 April 2013 by the Management Board of Commercial Bank Aljba Alliance (Limited Liability Company).

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

Other basis of presentation criteria

The consolidated financial statements have been prepared on the assumption that the Group is a going concern and will continue in operation for the foreseeable future.

These financial statements are presented in thousands of rubles ("RUB thousand"), unless otherwise indicated. These consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at revalued amounts or fair values, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The Bank and its consolidated companies, registered in the Russian Federation, maintain their accounting records in accordance with Russian Accounting Standards (RAS), foreign consolidated company of the Bank maintains its accounting records in accordance with IFRS. These consolidated financial statements have been prepared from the statutory accounting records and have been adjusted to conform with IFRS.

The Group presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the statement of financial position date (current) and more than 12 months (non-current) is presented in Note 23.

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously. Income and expense is not offset in the consolidated statement of profit or loss unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Group.

Items included in the financial statements of the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to the Group (the "functional currency"). The functional currency of the financial statements is the Russian Ruble (RUB).

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Bank and entities controlled by the Bank (its subsidiaries) made up to December 31 each year. Control is achieved where the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of the Group.

All significant intra-group transactions, balances, income and expenses are eliminated on consolidation.

Recognition of interest income and expense

Interest income and expense are recognized on an accrual basis using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on a debt instrument paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Income is recognized on an effective interest basis for debt instruments other than those financial assets classified as at fair value through profit or loss.

Once a financial asset or a group of similar financial assets has been written down (partly written down) as a result of an impairment loss, interest income is thereafter recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Interest earned on assets at fair value is classified within interest income.

Recognition of income on repurchase and reverse repurchase agreements

Gain/loss on the sale of the above instruments is recognized as interest income or expense in the statement of profit or loss based on the difference between the repurchase price accrued to date using the effective interest method and the sale price when such instruments are sold to third parties. When the reverse repo/repo is fulfilled on its original terms, the effective yield/interest between the sale and repurchase prices negotiated under the original contract is recognized using the effective interest method.

Recognition of revenue – other

Recognition of fee and commission income

Loan origination fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the loan. Where it is probable that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the resulting loan. Where it is unlikely that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are recognized in profit or loss over the remaining period of the loan commitment. Where a loan commitment expires without resulting in a loan, the loan commitment fee is recognized in profit or loss on expiry. Loan servicing fees are recognized as revenue as the services are rendered. Loan syndication fees are recognized in profit or loss when the syndication has been completed.

All other commissions are recognized as services are provided.

Recognition of dividend income

Dividend income is recognized on the ex-dividend date (provided that it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably).

Recognition of rental income

The Group's policy for recognition of income as a lessor is set out in the "Operating leases" section of this note.

Financial instruments

The Group recognizes financial assets and liabilities in its consolidated statement of financial position when it becomes a party to the contractual obligations of the instrument. Regular way purchases and sales of financial assets and liabilities are recognized using settlement date accounting.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Financial assets

Financial assets are classified into the following specified categories: financial assets “at fair value through profit or loss” (FVTPL), “held to maturity” investments, “available-for-sale” (AFS) financial assets and “loans and receivables”. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- It has been acquired principally for the purpose of selling it in the near term; or
- On initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the group is provided internally on that basis; or
- It forms part of a contract containing one or more embedded derivatives, and IAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the “Net (loss)/gain on financial assets and liabilities at fair value through profit or loss” line item in the consolidated income statement.

Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as ‘loans and receivables’. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Securities repurchase and reverse repurchase agreements and securities lending transactions

In the normal course of business, the Group enters into financial assets sale and purchase back agreements (“repos”) and financial assets purchase and sale back agreements (“reverse repos”). Repos and reverse repos are utilized by the Group as an element of its treasury management.

A repo is an agreement to transfer a financial asset to another party in exchange for cash or other consideration and a concurrent obligation to reacquire the financial assets at a future date for an amount equal to the cash or other consideration exchanged plus interest. These agreements are accounted for as financing transactions. Financial assets sold under repo are retained in the consolidated financial statements and consideration received under these agreements is recorded as collateralized deposit received within deposits by banks/customers.

Assets purchased under reverse repos are recorded in the consolidated financial statements as cash placed on deposit collateralized by securities and other assets and are classified within due from banks and other financial institutions and/or loans and advances to customers.

The Group enters into securities repurchase agreements and securities lending transactions under which it receives or transfers collateral in accordance with normal market practice. Under standard terms for repurchase transactions in the RF and other CIS states, the recipient of collateral has the right to sell or repledge the collateral, subject to returning equivalent securities on settlement of the transaction.

The transfer of securities to counterparties is only reflected on the statement of financial position if the risks and rewards of ownership are also transferred.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For listed and unlisted equity investments classified as AFS, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- Significant financial difficulty of the issuer or counterparty; or
- Breach of contract, such as evasion or refusal of interest or principal payments; or
- Default or delinquency in interest or principal payments; or
- It becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- Disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as loans and receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of loans and receivables could include the Group’s past experience of collecting payments, an increase in the number of delayed payments in the portfolio, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset’s carrying amount and the present value of estimated future cash flows, discounted at the financial asset’s original effective interest rate.

For financial assets measured at amortized cost, 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 recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment as at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset’s carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of loans and receivables, where the carrying amount is reduced through the use of an allowance account. When a loan or a receivable is considered uncollectible, it is written off against the provision account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period.

In respect of AFS equity securities, impairment losses previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income. In respect of AFS debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Renegotiated loans

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated any impairment is measured using the original effective interest rate as calculated before the modification of terms and the loan is no longer considered past due. Management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

Write-off of loans and advances

Loans and advances are written off against the allowance for impairment losses when deemed uncollectible, including through repossession of collateral. Loans and advances are written off after management has exercised all possibilities available to collect amounts due to the Group and after the Group has sold all available collateral. Subsequent recoveries of amounts previously written off are reflected as an offset to the charge for impairment of financial assets in the consolidated statement profit or loss in the period of recovery.

Derecognition of financial assets

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

- Rights to receive cash flows from the asset has expired;
- The Group has transferred its rights to receive cash flows from the asset or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; and
- The Group either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial asset is derecognized when it has been transferred and the transfer qualifies for derecognition. A transfer requires that the Group either (a) transfers the contractual rights to receive the asset's cash flows; or (b) retains the right to receive the asset's cash flows but assumes a contractual obligation to pay those cash flows to a third party. After a transfer, the Group reassesses the extent to which it has retained the risks and rewards of ownership of the transferred asset. If substantially all the risks and rewards have been retained, the asset remains on the balance sheet. If substantially all of the risks and rewards have been transferred, the asset is derecognized. If substantially all the risks and rewards have been neither retained nor transferred, the Group assesses whether or not it has retained control of the asset. If it has not retained control, the asset is derecognized. Where the Group retained control of the asset, it continues to recognize the asset to the extent of its continuing involvement.

Financial liabilities issued

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Financial liabilities

Financial liabilities are classified as either financial liabilities "at FVTPL" or "other financial liabilities".

Other financial liabilities

Other financial liabilities, including deposits by banks, deposits by customers, debt securities issued, and other liabilities are initially recognized at fair value, less transaction costs.

Other financial liabilities are subsequently measured at amortized cost. Interest expense is calculated using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Derecognition of financial liabilities

The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, canceled or they expire. 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. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit and loss.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantee contracts issued by the Group are initially measured at their fair values and, if not designated as at FVTPL, are subsequently measured at the higher of:

- The amount of the obligation under the contract, as determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets; and
- The amount initially recognized less, where appropriate, cumulative amortization recognized in accordance with the revenue recognition policies.

Derivative financial instruments

The Group enters into a variety of derivative financial instruments to manage its exposure to foreign exchange rate risk, including foreign exchange forward contracts, futures and swaps.

Derivatives are initially recognized at fair value at the date the derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately.

Operating leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, unrestricted balances on correspondent accounts and balances with banks and other financial institutions with original maturities within 90 days, which may be converted to cash within a short period of time and thus are considered liquid.

For purposes of determining cash flows, the minimum reserve deposit required by the Central Bank of Russian Federation is not included as a cash equivalent due to restrictions on its availability. Amounts that are subject to restrictions on their availability are not included in cash and cash equivalents.

Property and equipment

Property and equipment are carried at initial cost less accumulated depreciation and any recognized impairment loss, if any. The cost of an item of property and equipment is the cash price equivalent at the recognition date.

Depreciation of property and equipment is designed to write off assets (other than a land plot) on a straight-line basis over their useful economic lives. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis at the following annual rates:

Buildings and constructions	2%-4%
Furniture and equipment	5%-20%
Motor vehicles	14%-20%

Freehold land is not depreciated.

The carrying amounts of property and equipment are reviewed at each reporting date to assess whether they are recorded in excess of their recoverable amounts. Where carrying values exceed this estimated recoverable amount, assets are written down to their recoverable amount. Impairment is recognized in the respective period and is included in operating expenses. After the recognition of an impairment loss the depreciation charge for property and equipment is adjusted in future periods to allocate the assets' revised carrying value, less its residual value (if any), on a systematic basis over its remaining useful life.

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

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current income tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of profit or loss because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred income tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future. Deferred tax assets and liabilities are offset only within each individual entity of the Group.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax for the year

Current and deferred tax are recognized in profit or loss, except when they relate to items that are directly recognized in other comprehensive income, in which case, the current and deferred tax are also recognized in other comprehensive income.

Operating taxes

The Russian Federation has various other taxes, which are assessed on the Group's activities. These taxes are included as a component of operating expenses in the consolidated statement of profit or loss.

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Contingencies

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

Fiduciary activities

The Group provides trustee services to its customers. The Group also provides depositary services to its customers, which include transactions with securities on their depositary accounts. Assets accepted and liabilities incurred under the fiduciary activities are not included in the Group's financial statements. The Group accepts the operational risk on these activities, but the Group's customers bear the credit and market risks associated with such operations. Revenue for provision of trustee services is recognized as services are provided.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not restated.

Exchange differences on monetary items are recognized in profit or loss in the period in which they arise.

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into RUB using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in net assets attributable to the Group's participants.

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary), all of the exchange differences accumulated in net assets attributable to the Group's participants are reclassified to profit or loss.

In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognized in profit or loss. For all other partial disposals (i.e. reductions in the Group's ownership interest in associates or jointly controlled entities that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

The exchange rates used by the Group in the preparation of the consolidated financial statements as at year-end are as follows:

	31 December 2012	31 December 2011
RUB/USD	30.3727	32.1961
RUB/EUR	40.2286	41.6714

Collateral

The Group obtains collateral in respect of customer liabilities where this is considered appropriate. The collateral normally takes the form of a lien over the customer’s assets and gives the Group a claim on these assets for both existing and future customer liabilities.

Net assets attributable to the participants of the Group

As the Bank is incorporated as a limited liability company, participants may leave the company at any time regardless of the agreement of other participants or the company. If any of the participants leaves the company the participant's share is transferred to the company. The company shall pay to such participant the value of its share or transfer property of the same value subject to agreement of the participant. For this reason, shares of the participants in the Bank’s share capital, and retained earnings are reported as Net assets attributable to the participants of the Group.

Areas of significant management judgment and sources of estimation uncertainty

In the application of the Group’s accounting policies, the management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Impairment of loans to customers

The Group regularly reviews its loans to customers to assess for impairment. The Group’s loan impairment provisions are established to recognize incurred impairment losses in its portfolio of loans to customers. The Group considers accounting estimates related to allowance for impairment of loans to customers a key source of estimation uncertainty because (i) they are highly susceptible to change from period to period as the assumptions about future default rates and valuation of potential losses relating to impaired loans and receivables are based on recent performance experience, and (ii) any significant difference between the Group’s estimated losses and actual losses would require the Group to record provisions which could have a material impact on its financial statements in future periods.

The Group uses management’s judgments to estimate the amount of any impairment loss in cases where a borrower has financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Group estimates changes in future cash flows based on past performance, past customer behavior, observable data indicating an adverse change in the payment status of borrowers in a group, and national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans. The Group uses management’s judgment to adjust observable data for a group of loans to reflect current circumstances not reflected in historical data.

The allowances for impairment of financial assets in the consolidated financial statements have been determined on the basis of existing economic and political conditions. The Group is not in a position to predict what changes in conditions will take place in the Russian Federation and what effect such changes might have on the adequacy of the provisions for impairment of financial assets in future periods.

As at 31 December 2012 and 2011 gross loans to customers totaled RUB 2,977,705 thousand and RUB 1,704,758 thousand, respectively, and allowance for impairment losses amounted to RUB 125,980 thousand and RUB 109,456 thousand, respectively.

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

At the date of authorization of this financial information, the following new standards and interpretations were in issue, but not yet effective, and which the Group has not early adopted:

- IFRS *9 Financial Instruments*[3];
- IFRS 10 *Consolidated Financial Statements*[2];
- IFRS 11 *Joint Arrangements*[2];
- IFRS 12 *Disclosure of Interest in Other Entities*[2];
- IFRS 13 *Fair Value Measurement*[1];
- Amendments to IFRS 7 *Financial Instruments*: *Disclosures* – "Disclosures – Offsetting Financial Assets and Financial Liabilities"[1];
- Amendments to IFRS 9 *Financial Instruments* and IFRS 7 *Financial Instruments: Disclosures* – "IFRS 9: Mandatory Effective Date and Transition Disclosures"[3];
- Amendments to IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interest in Other Entities* – "Consolidated Financial statements, Joint Arrangements and Disclosure of Interest in Other Entities: Transition Guidance"[1];
- IAS 19 (as revised in 2011) *Employee Benefits*[1];
- IAS 27 (as revised in 2011) *Separate Financial Statements*[2];
- IAS 28 (as revised in 2011) *Investments in Associates and Joint Ventures*[2];
- Amendments to IAS 32 *Financial Instruments: Presentation* – "Offsetting Financial Assets and Financial Liabilities"[4];
- Amendments to IFRSs – *Annual Improvements to IFRSs* 2009-2011 Cycle[1.]

[1] Effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.
[2] Each of the five standards becomes effective for annual periods beginning on or after 1 January 2013, with earlier application permitted if all the other standards in the 'package of five' are also early applied (except for IFRS 12 that can be applied earlier on its own).
[3] Effective for annual periods beginning on or after 1 January 2015, with earlier application permitted.
[4] Effective for annual periods beginning on or after 1 January 2014, with earlier application permitted.

<u>IFRS 9 Financial Instruments</u>

IFRS 9 *Financial Instruments*, issued in November 2009 and amended in October 2010, introduces new requirements for the classification and measurement of financial assets and financial liabilities and for derecognition.

Key requirements of IFRS 9:

- All recognized financial assets that are within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods. In addition, under IFRS 9 *Financial Instruments*, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in profit or loss.

- For financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognized in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39 *Financial Instruments: Recognition and Measurement*, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was recognized in profit or loss.

The Group management anticipates that IFRS 9 *Financial Instruments* in the future may have a significant impact on amounts reported in respect of the Group’s financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 *Financial Instruments* until a detailed review has been completed.

New and revised Standards on consolidation, joint arrangements, associates and disclosures

In May 2011, a package of five Standards on consolidation, joint arrangements, associates and disclosures was issued, including IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, IFRS 12 *Disclosure of Interest in Other Entities*, IAS 27 (as revised in 2011) *Separate Financial Statements* and IAS 28 (as revised in 2011) *Investments in Associates and Joint Ventures*.

Key requirements of these five Standards are described below.

IFRS 10 Consolidated Financial Statements replaces the parts of IAS 27 *Consolidated and Separate Financial Statements* that deal with consolidated financial statements. SIC-12 *Consolidation – Special Purpose Entities* will be withdrawn upon the effective date of IFRS 10 *Consolidated Financial Statements.*

Under IFRS 10, there is only one basis for consolidation, that is control. In addition, IFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor’s return. Extensive guidance has been added in IFRS 10 to deal with complex scenarios.

IFRS 11 Joint Arrangements replaces IAS 31 *Interests in Joint Ventures*. IFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. SIC-13 *Jointly Controlled Entities – Non-monetary Contributions by Venturers* will be withdrawn upon the effective date of IFRS 11 *Joint Arrangements*. Under IFRS, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In addition, joint ventures under IFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under IAS 31 *Interests in Joint Ventures* can be accounted for using the equity method of accounting or proportional consolidation.

IFRS 12 Disclosure of Interests in Other Entities is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in IFRS 12 are more extensive than those in the current standards.

In June 2012, the amendments to IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, and IFRS 12 *Disclosure of Interests in Other Entities* were issued to clarify certain transitional guidance on the application of these IFRSs for the first time.

The Group management anticipates that the application of these five standards will have no significant impact on amounts reported in the consolidated financial statements.

IFRS 13 Fair Value Measurement

IFRS 13 *Fair Value Measurement* establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The Standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements.

The scope of IFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in IFRS 13 are more extensive than those required in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under IFRS 7 *Financial Instruments: Disclosures* will be extended by IFRS 13 to cover all assets and liabilities within its scope.

The Group management anticipates that the application of the new IFRS 13 *Fair Value Measurement* may affect certain amounts reported in the financial statements and result in more extensive disclosures in the financial statements.

Amendments to IFRS 7 Financial Instruments: Disclosures and IAS 32 Financial Instruments: Presentation – "Offsetting Financial Assets and Financial Liabilities and the related disclosures"

The amendments to IAS 32 *Financial Instruments: Presentation* clarify existing application issues relating to the offset of financial assets and financial liabilities requirements. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realization and settlement'.

The amendments to IFRS 7 *Financial Instruments: Disclosures* require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.

The disclosures should be provided retrospectively for all comparative periods.

The Group management anticipates that the application of above mentioned amendments shall not have material impact on the consolidated financial statements of the Group.

IAS 19 Employee Benefits

The amendments to IAS 19 *Employee Benefits* change the accounting for defined benefit plans and termination benefits and a definition of short-term benefits.

The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in fair value of plan assets when they occur and hence eliminate the 'corridor approach' permitted under the previous version of IAS 19 *Employee Benefits* and accelerate the recognition of past service costs. The amendments require all actuarial gains and losses to be recognized immediately through other comprehensive income in order for the net pension asset or liability recognized in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus. Furthermore, the interest cost and expected return on plan assets used in the previous version of IAS 19 *Employee Benefits* are replaced with a 'net-interest' amount, which is calculated by applying the discount rate to the net defined benefit liability or asset.

The amendments to IAS 19 *Employee Benefits* require retrospective application.

The Group management does not anticipate that the revision of IAS 19 *Employee Benefits* will have a significant effect on the Group's consolidated financial statements as the Group does not have defined benefit plans.

Annual Improvements to IFRSs 2009-2011 Cycle issued in May 2012

The Annual Improvements to IFRSs 2009-2011 Cycle include a number of amendments to various IFRSs. Amendments to IFRSs include:

Amendments to IAS 32 *Financial Instruments:* Presentation

The amendments to IAS 32 *Financial Instruments: Presentation* clarify that income tax relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction should be accounted for in accordance with IAS 12 *Income Taxes*.

Amendments to IAS 1 *Presentation of Financial Statements*

IAS 1 *Presentation of Financial Statements* requires an entity that changes accounting policies retrospectively, or makes a retrospective restatement or reclassification to present a statement of financial position as at the beginning of the preceding period (third statement of financial position). The amendments to IAS 1 clarify that an entity is required to present a third statement of financial position only when the retrospective application, restatement or reclassification has a material effect on the information in the third statement of financial position and that related notes are not required to accompany the third statement of financial position.

The Group has not applied the amendments to IAS 1 as part of the *Annual Improvements to IFRSs* 2009-2011 Cycle in advance of the effective date (annual periods beginning on or after 1 January 2013).

Amendments to IFRSs affecting presentation and disclosure only

Amendments to IFRS 7 *Disclosures – Transfers of Financial Assets*

In the current year the Group did **not** apply the amendments to IFRS 7 *Disclosures – Transfer of financial assets* since the Group did not enter into transactions requiring transfer of financial assets to third parties.

Amendments to IAS 1 *Presentation of Items of Other Comprehensive Income*

The Group has **not** applied the amendments to IAS 1 Presentation of Items of Other Comprehensive Income in advance of the effective date (annual periods beginning on or after 1 July 2012).

The amendments introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to IAS 1 Presentation of Items of Other Comprehensive Income, the ‘statement of comprehensive income’ is renamed the ‘statement of profit or loss and other comprehensive income’ and the ‘income statement’ is renamed the ‘statement of profit or loss’.

The amendments to IAS 1 *Presentation of Items of Other Comprehensive Income* retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to IAS 1 require items of other comprehensive income to be grouped into two categories in the other comprehensive income section:

(a) Items that will not be reclassified subsequently to profit or loss; and
(b) Items that will be reclassified subsequently to profit or loss when specific conditions are met.

Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes. Other than the above mentioned presentation changes, the application of the amendments to IAS 1 Presentation of Items of Other Comprehensive Income does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

4. NET INTEREST INCOME

	Year ended 31 December 2012	Year ended 31 December 2011
Interest income		
Interest income on financial assets recorded at amortized cost:		
interest income on impaired financial assets	191,097	133,013
interest income on unimpaired financial assets	170,752	113,172
Interest income on assets at fair value through profit or loss	32,158	33,399
Total interest income	**394,007**	**279,584**
Interest income on financial assets recorded at amortized cost		
interest income on loans to customers	333,934	216,673
interest income on balances due from banks	27,915	29,512
Total interest income on financial assets recorded at amortized cost	**361,849**	**246,185**
Interest expense		
Interest expense on financial liabilities recorded at amortized cost:	(164,741)	(134,365)
Total interest expense	**(164,741)**	**(134,365)**
Interest expense on financial liabilities recorded at amortized cost		
Interest expense on deposits by customers	(147,411)	(117,317)
Interest expense on debt securities issued	(17,330)	(17,048)
Total interest expense on financial liabilities recorded at amortized cost	**(164,741)**	**(134,365)**
Net interest income before provision for impairment losses on interest bearing assets	**229,266**	**145,219**

5. ALLOWANCE FOR IMPAIRMENT LOSSES

The movements in allowance for impairment losses on interest bearing assets were as follows:

	Due from banks and other financial institutions	Loans to customers	Total
31 December 2010	**1,279**	**113,869**	**115,148**
Provision/(recovery of provision)	10,274	(4,413)	5,861
31 December 2011	**11,553**	**109,456**	**121,009**
Provision/(recovery of provision)	(10,274)	16,524	6,250
31 December 2012	**1,279**	**125,980**	**127,259**

6. NET GAIN/(LOSS) ON FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Net gain/(loss) on financial assets at fair value through profit or loss includes loss on financial assets held for trading and comprises the following:

	Year ended 31 December 2012	Year ended 31 December 2011
Net gain/(loss) on operations with financial assets held for trading comprises:		
Gain/(loss) on trade operations with securities	83,048	(25,125)
Loss on trade operations with derivatives	(10,365)	(18,770)
Change in fair value	(15,020)	(307,988)
Dividend income	14,722	12,692
Total net gain/(loss) on operations with financial assets held for trading	**72,385**	**(339,191)**

7. NET GAIN ON FOREIGN EXCHANGE OPERATIONS

Net gain on foreign exchange operations comprises:

	Year ended 31 December 2012	Year ended 31 December 2011
Dealing, net	(30,825)	48,968
Translation differences, net	86,567	(1,489)
Total net gain on foreign exchange operations	**55,742**	**47,479**

8. FEE AND COMMISSION INCOME AND EXPENSE

Fee and commission income and expense comprise:

	Year ended 31 December 2012	Year ended 31 December 2011
Fee and commission income:		
Broker operations with securities	56,904	32,209
Consulting services	27,629	46,068
Settlement services	21,301	17,263
Trust and fiduciary activities	9,202	8,975
Guarantees	1,100	2,470
Other operations	702	332
Total fee and commission income	**116,838**	**107,317**
Fee and commission expense:		
Broker operations with securities	(9,639)	(3,120)
Trust and fiduciary activities	(7,731)	(3,465)
Settlement services	(4,434)	(3,944)
Foreign exchange operations	(2,703)	(1,990)
Other operations	(401)	(450)
Total fee and commission expense	**(24,908)**	**(12,969)**

9. OPERATING EXPENSES

Operating expenses comprise:

	Year ended 31 December 2012	Year ended 31 December 2011
Staff costs	197,140	185,714
Social insurance contributions	37,075	29,078
Communications	27,118	19,789
Depreciation of property and equipment	26,771	28,197
Taxes, other than income tax	22,424	28,329
Professional services	16,036	17,573
Security expenses	15,050	12,836
Payments to the Deposit Insurance Fund	10,210	9,752
Operating leases	9,946	11,104
Property and equipment maintenance	8,401	11,641
Write-off of material costs and other assets	8,194	8,834
Insurance	5,680	5,286
Data processing	4,658	4,696
Business trip expenses	2,926	1,267
Other expenses	5,564	1,689
Total operating expenses	**397,193**	**375,785**

10. INCOME TAX

The Group provides for income taxes based on the tax accounts maintained and prepared in accordance with the tax regulations of the Russian Federation which may differ from International Financial Reporting Standards.

The Group is subject to certain permanent tax differences due to the non-tax deductibility of certain expenses and certain income being treated as non-taxable for tax purposes.

Deferred taxes reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as at 31 December 2012 and 2011 relate mostly to different methods of income and expense recognition as well as to recorded values of certain assets.

The tax rate used for the years ended 31 December 2012 and 2011 reconciliations is the corporate tax rate of 20% payable by corporate entities in the Russian Federation on taxable profits under tax law in that jurisdiction and 10% in Cyprus.

As at 31 December 2012 and 2011 deferred income tax was calculated at the rate of 20%.

Temporary differences as at 31 December 2012 and 2011 comprise:

	31 December 2012	31 December 2011
Deferred income tax assets/(liabilities) relating to:		
Financial assets at fair value through profit or loss	11,815	18,855
Deposits by customers	1,422	(182)
Other liabilities	1,450	2,281
Other assets	853	802
Due from banks and other financial institutions	505	8,242
Property and equipment	(57,558)	(58,516)
Debt securities issued	(1,479)	2,305
Loans to customers	(1,246)	3,028
Tax loss carryforwards	12,420	12,839
Net deferred tax asset	8,129	-
Net deferred tax liabilities	(39,947)	(10,346)
Deferred tax asset not recognized	-	(6,183)
Net deferred tax liabilities	**(31,818)**	**(16,529)**

Deferred tax asset not recognized as at 31 December 2011 relates to loss carryforwards of the Group's subsidiaries. The Group's management reviewed the recoverability of this asset and concluded that realization of this asset for one of the subsidiaries is unlikely as at 31 December 2011.

The effective tax rate reconciliation is as follows for the years ended 31 December 2012 and 2011:

	Year ended 31 December 2012	Year ended 31 December 2011
Profit/(loss) before income tax, including discontinued operations	63,417	(435,519)
Tax at the statutory tax rate (20%)	12,683	(87,104)
Change in deferred tax asset not recognized	(6,183)	5,951
Tax effect of permanent differences	8,620	26,266
Effect of tax rate different from the prime rate of 20%	2,541	17,723
Income tax expense/(benefit)	**17,661**	**(37,164)**
Current income tax expense	2,372	1,374
Deferred tax expense/(benefit) recognized in the current year	15,289	(38,538)
Income tax expense/(benefit)	**17,661**	**(37,164)**

11. CASH AND BALANCES WITH THE CENTRAL BANK OF THE RUSSIAN FEDERATION

	31 December 2012	31 December 2011
Balances with the Central Bank of the Russian Federation	570,683	793,305
Cash	116,302	131,362
Total cash and balances with the CBR	**686,985**	**924,667**

The balances with the Central Bank of the Russian Federation as at 31 December 2012 and 2011 include RUB 178,830 thousand and RUB 149,196 thousand, respectively, which represent the minimum reserve deposits required by the Central Bank of the Russian Federation. The Group is required to maintain minimum reserve deposits with the CBR at all times.

Cash and cash equivalents presented in the consolidated statement of cash flows comprise:

	31 December 2012	31 December 2011
Cash and balances with the Central Bank of the Russian Federation	686,985	924,667
Due from banks	899,596	985,664
	1,586,581	1,910,331
Less: minimum reserve deposits with the Central Bank of the Russian Federation	(178,830)	(149,196)
Total cash and cash equivalents	**1,407,751**	**1,761,135**

12. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets at fair value through profit or loss include financial assets held for trading and comprise the following:

	Interest rate to nominal	31 December 2012	Interest rate to nominal	31 December 2011
Corporate Eurobonds	9.25-11.5%	192,095	2.625-11.5%	114,427
Debt instruments of the Russian Federation	8.15%	64,738	7.5%	63,446
Corporate bonds	19.0%	86,967		-
Total debt securities		**343,800**		**177,873**

	31 December 2012	31 December 2011
Shares of Russian companies	90,786	161,405
Shares/Global depositary receipts (GDRs) on shares of non-resident entities	224,482	112,591
Shares of credit institutions	4,393	111,632
Total equity securities	**319,661**	**385,628**
Total financial assets at fair value through profit or loss	**663,461**	**563,501**

13. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

Due from banks and other financial institutions comprise:

	31 December 2012	31 December 2011
Correspondent accounts with banks	900,875	986,943
Time deposits with banks	325,876	541,539
Amounts in broker accounts with financial organizations	139,274	232,940
	1,366,025	1,761,422
Less: allowance for impairment losses	(1,279)	(11,553)
Total due from banks and other financial institutions	**1,364,746**	**1,749,869**

Amounts in broker and other accounts with financial institutions include balances of settlement accounts with MICEX-RTS (CJSC JSCB National Clearing Centre and NCO CJSC National Settlement Depository) Russian exchanges.

As at 31 December 2012 and 2011 included in balances due from banks and other financial institutions are restricted deposits of RUB 24,905 thousand and RUB 26,401 thousand, respectively, placed by the Group to collateralize its operations with plastic cards, and contributions to insurance funds of CJSC JSCB National Clearing Centre in the amount of RUB 12,430 thousand and RUB 10,000 thousand, respectively.

As at 31 December 2012 and 2011 the Group had due from two and three financial institutions totaling RUB 884,939 thousand and RUB 1,247,069 thousand, respectively, which individually exceeded 10% of net assets attributable to the Group's participants.

Movements in provisions for impairment losses on due from banks and other financial institutions for the years ended 31 December 2012 and 2011 are disclosed in Note 5.

14. LOANS TO CUSTOMERS

Loans to customers comprise:

	31 December 2012	31 December 2011
Loans to customers	2,977,705	1,704,758
	2,977,705	1,704,758
Less: allowance for impairment losses	(125,980)	(109,456)
Total loans to customers	**2,851,725**	**1,595,302**

Movements in the allowance for impairment losses for the years ended 31 December 2012 and 2011 are disclosed in Note 5.

The table below summarizes carrying value of loans to customers analyzed by type of collateral obtained by the Group:

	31 December 2012	31 December 2011
Loans collateralized by pledge of real estate or rights thereto	492,715	152,639
Loans collateralized by pledge of corporate shares	305,981	494,871
Loans collateralized by pledge of goods in turnover	178,544	165,891
Loans collateralized by cash	173,000	135,002
Loans collateralized by pledge of equipment	56,963	49,501
Loans collateralized by rights of demand	32,285	-
Unsecured loans	1,738,217	706,854
	2,977,705	1,704,758
Less: allowance for impairment losses	(125,980)	(109,456)
Total loans to customers	**2,851,725**	**1,595,302**

	31 December 2012	31 December 2011
Analysis by sector/type of borrower:		
Trade	878,142	580,509
Individuals	700,498	286,676
Finance	567,082	292,581
Oil production	200,000	-
Real estate	198,470	183,813
Construction	140,554	179,000
Food	140,000	75,000
Transport and communication	124,083	80,500
Other	28,876	26,679
	2,977,705	1,704,758
Less: allowance for impairment losses	(125,980)	(109,456)
Total loans to customers	**2,851,725**	**1,595,302**

Loans to individuals comprise:

	31 December 2012	31 December 2011
Purchase of securities	449,677	62,911
Housing loans	128,590	75,601
Mortgage loans	66,726	69,249
Consumer loans	53,938	64,682
Car loans	1,567	14,233
	700,498	286,676
Less: allowance for impairment losses	(14,174)	(3,103)
Total loans to individuals	**686,324**	**283,573**

As at 31 December 2012 and 2011 the Group granted loans to eight and two borrowers/groups of related borrowers totaling RUB 1,512,030 thousand and RUB 350,000 thousand, respectively, which individually exceeded 10% of net assets attributable to the Group's participants.

The table below summarizes an analysis of loans to customers by impairment:

	31 December 2012			31 December 2011		
	Carrying value before allowance	Allowance for impairment losses	Carrying value	Carrying value before allowance	Allowance for impairment losses	Carrying value
Loans to customers individually determined to be impaired	1,346,572	(119,508)	1,227,064	921,141	(104,162)	816,979
Loans to customers collectively determined to be impaired	357,450	(6,472)	350,978	123,782	(5,294)	118,488
Unimpaired loans	1,273,683	-	1,273,683	659,835	-	659,835
Total	**2,977,705**	**(125,980)**	**2,851,725**	**1,704,758**	**(109,456)**	**1,595,302**

As at 31 December 2012 and 2011 loans totaling RUB 1,346,572 thousand and RUB 921,141 thousand, respectively, that were individually determined to be impaired were collateralized by pledge of securities, real estate, equipment, inventories with fair value totaling RUB 265,326 thousand and RUB 349,747 thousand, respectively. For the purposes of estimating impairment of individual loans the Group analyses the financial position, debt service, credit history and collateral.

As at 31 December 2012 and 2011 there were no past due, but unimpaired loans.

15. PROPERTY AND EQUIPMENT

Property and equipment comprise:

	Land, buildings and other real estate	Furniture and equipment	Motor vehicles	Total
At initial cost				
31 December 2010	**852,347**	**59,733**	**6,951**	**919,031**
Additions	-	2,248	2,818	5,066
Disposals	-	(815)	(5,202)	(6,017)
31 December 2011	**852,347**	**61,166**	**4,567**	**918,080**
Additions	-	1,473	872	2,345
Disposals		(759)	(399)	(1,158)
31 December 2012	**852,347**	**61,880**	**5,040**	**919,267**
Accumulated depreciation				
31 December 2010	**232,630**	**49,440**	**3,497**	**285,567**
Charge for the year	23,182	3,656	1,359	28,197
Eliminated on disposal	-	(769)	(2,533)	(3,302)
31 December 2011	**255,812**	**52,327**	**2,323**	**310,462**
Charge for the year	23,091	3,012	668	26,771
Eliminated on disposal	-	(672)	(330)	(1,002)
31 December 2012	**278,903**	**54,667**	**2,661**	**336,231**
Net book value				
31 December 2012	**573,444**	**7,213**	**2,379**	**583,036**
31 December 2011	**596,535**	**8,839**	**2,244**	**607,618**

The Group owns an office building with the total area of 5,324.6 sq m used for administrative purposes, and a land plot with the total area of 1,262 sq m where the building is located, i.e. 1 Kremlevskaya nab., bld. 2, Moscow.

As at 31 December 2012 and 2011 included in property and equipment were fully depreciated equipment with initial cost of RUB 42,017 thousand and RUB 39,252 thousand, respectively.

16. DEPOSITS BY CUSTOMERS

Deposits by customers comprise:

	31 December 2012	31 December 2011
Current/settlement accounts and demand deposits	1,659,710	2,608,985
Term deposits	2,708,837	1,092,531
Total deposits by customers	**4,368,547**	**3,701,516**

	31 December 2012	31 December 2011
Analysis by economic sector:		
Individuals	2,893,035	2,292,348
Finance	645,635	534,137
Transport and communication	295,587	610,253
Marketing and advertising	244,270	-
Trade and personal services	201,048	116,898
Construction and real estate	57,971	89,135
Development services	15,938	18,967
Private sector	10,170	8,906
Printing industry	1,769	5,360
Oil and gas	-	3,886
Other	3,124	21,626
Total deposits by customers	**4,368,547**	**3,701,516**

17. DEBT SECURITIES ISSUED

Debt securities issued comprise:

	31 December 2012			31 December 2011		
	Maturity month/year	Annual interest rate %	Amount	Maturity month/year	Annual interest rate %	Amount
Interest-bearing promissory notes	May – December 2013	7.5-8.0	229,063	September – November 2012	5.0-7.5	248,085
Total debt securities issued			**229,063**			**248,085**

18. NET ASSETS ATTRIBUTABLE TO THE PARTICIPANTS OF THE GROUP

Net assets attributable to the participants of the Group:

	Net assets attributable to the participants
31 December 2010	**1,873,533**
Comprehensive loss	(390,282)
31 December 2011	**1,483,251**
Comprehensive income	35,937
31 December 2012	**1,519,188**

As at 31 December 2012 and 2011 net assets attributable to the participants of the Group included paid in share capital of the Bank (parent company of the Group) in amount of RUB 370,907 thousand.

The Group’s reserves distributable among participants are limited to the amount of its reserves as disclosed in its statutory accounts. Non-distributable reserves are represented by a reserve fund, which is created, as required by the statutory regulations, in respect of financial risks, including future losses and other unforeseen risks or contingencies. The reserve fund is created in accordance with the charter of the Bank and/or the Group's participants by means of annual contributions from the net profit in accordance with RAS. As at 31 December 2012 and 2011 the reserve fund amounted to RUB 34,177 thousand.

19. COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Group is a party to financial instruments with off-balance sheet risk in order to meet the needs of its customers. These instruments, involving varying degrees of credit risk, are not reflected in the consolidated statement of financial position.

The Group's maximum exposure to credit loss under contingent liabilities and commitments to extend credit, in the event of non-performance by another party where all counterclaims, collateral or security prove valueless, is represented by the contractual amounts of those instruments.

The Group uses the same credit control and management policies in undertaking off-balance sheet commitments as it does for on-balance operations.

As at 31 December 2012 and 2011 the nominal or contract amounts for contingent financial liabilities were as follows:

	31 December 2012	31 December 2011
Contingent liabilities and credit commitments		
Guarantees issued and similar commitments	166,026	193,195
Commitments on loans and unused credit lines	86,227	43,519
Letters of credit and other transaction related contingent liabilities	131,707	355,514
Total contingent liabilities and credit commitments	**383,960**	**592,228**

Extension of loans to customers within credit line limits is approved by the Group on a case-by-case basis and depends on borrowers' financial position, debt service and other conditions characterizing credit risks and assessed by the Group at the time of such decision. As at 31 December 2012 and 2011 included in commitments on loans and unused credit lines are RUB 86,227 thousand and RUB 43,519 thousand, respectively, representing the Bank's commitments to extend loans within unused credit line limits that are conditioned on the above.

Fiduciary activities – In the normal course of its business, the Group enters into agreements with limited rights on decision making with clients for asset management in accordance with specific criteria established by clients. The Group may be liable for losses due to gross negligence or willful misconduct by the Group only until such funds or securities are returned to the client. The maximum potential financial risk of the Group at any given moment is equal to the volume of the clients' funds plus/minus any unrealized income/loss on the clients' position. As at 31 December 2012 the Group did not have any clients' assets accepted for management. As at 31 December 2011 the maximum potential financial risk on assets accepted by the Group on behalf of its clients did not exceed RUB 2,569 thousand. This amount represents clients' funds and securities under the management of the Group as at 31 December 2011, including securities under trusteeship in the amount of RUB 2,405 thousand.

The Group also provides depositary services to its customers. As at 31 December 2012 and 2011 the Group had 4,862,489,595 and 4,292,503,038 customer securities, respectively, in its nominal holder accounts.

Legal proceedings – From time to time and in the normal course of business, claims against the Group are received from customers and counterparties. Management is of the opinion that no material unaccrued losses will be incurred and accordingly no provision has been made in these financial statements.

Taxation – Provisions of the Russian tax legislation are sometimes inconsistent and may have more than one interpretation, which allows the Russian tax authorities to take decisions based on their own arbitrary interpretation of these provisions. In practice, the RF tax authorities often interpret the tax legislation not in favor of the taxpayers, who have to resort to court proceeding to defend their position against the tax authorities. It should be noted that the Russian tax authorities can use the clarifications issued by the judicial bodies that have introduced the concept of "unjustified tax benefit", "primary commercial goal of transaction" and the criteria of "commercial purpose (substance) of transaction".

Such uncertainty could, in particular, be attributed to tax treatment of financial instruments/derivatives and determination of market price of transactions for transfer pricing purposes. It could also lead to temporary taxable differences occurred due to loan impairment provisions being treated by the tax authorities as understatement of the tax base. The management of the Group is confident that applicable taxes have all been accrued and, consequently, creation of respective provisions is not required.

Generally, taxpayers are subject to tax audits with respect to the three calendar years preceding the year of the audit. However, completed audits do not exclude the possibility of subsequent additional tax audits performed by upper-level tax inspectorates reviewing the results of tax audits of their subordinate tax inspectorates. Also according to the clarification of the RF Constitutional Court the statute of limitation for tax liabilities may be extended beyond the three year term set forth in the tax legislation, if a court determines that the taxpayer has obstructed or hindered a tax inspection.

Russia's transfer pricing legislation was amended effective 1 January 2012. The above amendments introduce additional requirements with respect to the accounting for and documenting transactions. Under the amended legislation Russian tax authorities can impose additional taxes with respect to a number of transactions, including those with related parties, if they believe that the transaction price differs from the market price. In view of the absence of application practice for the new transfer pricing rules and the uncertainty of wording of a number of their provisions, the likelihood of challenge by tax authorities of the Group's position with respect to application of those rules cannot be assessed reliably.

Operating environment – Emerging markets such as RF are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks.

Laws and regulations affecting businesses in the RF may change rapidly and may be subject to arbitrary interpretations. The future economic direction of RF is largely dependent upon fiscal and monetary measures undertaken by the government, together with legal, regulatory, and political developments.

Because Russia produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market.

20. RELATED PARTY TRANSACTIONS

The Group‘s transactions with related parties are disclosed below:

	31 December 2012		**31 December 2011**	
	Related party transactions	**Total category as per the financial statements caption**	**Related party transactions**	**Total category as per the financial statements caption**
Loans to customers, gross	**105,500**	**2,977,705**	**81,070**	**1,704,758**
- key management personnel	-		570	
- entities under common control with the Group	105,500		80,500	
Allowance on loans to customers	**(10,033)**	**(125,980)**	**(2,679)**	**(109,456)**
- key management personnel	-		(6)	
- entities under common control with the Group	(10,033)		(2,673)	
Deposits by customers	**127,157**	**4,368,547**	**136,936**	**3,701,516**
- key management personnel	78,729		114,852	
- entities with joint control or significant influence over the Group	20,684		12,104	
- entities under common control with the Group	11,640		2,702	
- other related parties	16,104		7,278	

	31 December 2012		31 December 2011	
	Related party transactions	**Total category as per the financial statements caption**	**Related party transactions**	**Total category as per the financial statements caption**
Guarantees issued and similar commitments	**19,948**	**166,026**	**22,835**	**193,195**
- key management personnel	152		3,485	
- entities with joint control or significant influence over the Group	9,092		9,564	
- entities under common control with the Group	10,400		9,464	
- other related parties	304		322	

Included in the consolidated income statement for the years ended 31 December 2012 and 2011 are the following amounts which were recognized in transactions with related parties:

	31 December 2012		31 December 2011	
	Related party transactions	**Total category as per the financial statements caption**	**Related party transactions**	**Total category as per the financial statements caption**
Interest income	**19,029**	**394,007**	**16,968**	**279,584**
- entities with joint control or significant influence over the Group	1,112		1,589	
- entities under common control with the Group	17,892		15,059	
- key management personnel	25		320	
Interest expense	**(4,584)**	**(164,741)**	**(5,477)**	**(134,365)**
- entities with joint control or significant influence over the Group	(34)		(11)	
- key management personnel	(4,117)		(5,098)	
- other related parties	(433)		(368)	
(Provision)/recovery of provision for impairment losses on interest bearing assets	**(7,360)**	**(6,250)**	**(296)**	**(5,861)**
- key management personnel	-		60	
- entities under common control with the Group	(7,360)		(1,228)	
- other related parties	-		872	
Staff costs				
Short-term compensation of key management personnel	56,623	**197,140**	51,639	**185,714**

21. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is defined as the amount at which the financial instrument could be acquired in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in forced or liquidation sale.

The fair values of financial assets and financial liabilities are determined as follows:

- The fair values of financial assets and financial liabilities with standard terms and conditions traded on active liquid markets are determined with reference to quoted market prices (includes listed redeemable notes).
- For financial assets and liabilities that have a short term maturity (less than 3 months), it is assumed that the carrying amounts approximate their fair value. This assumption is also applied to demand deposits and savings accounts without a maturity.
- The fair values of other financial assets and financial liabilities (excluding derivatives) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.
- The fair values of derivatives are calculated using quoted prices. Where such prices are not available, a discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives. Foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts. Interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.

Management considers that the fair value of financial assets and liabilities approximates their carrying value.

Analysis of financial instruments recognized in the consolidated statement of financial position at fair value

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Financial asset class		**31 December 2012**	
	Level 1	**Level 2**	**Level 3**
Financial assets at fair value through profit or loss	663,461	-	-
Total	**663,461**	**-**	**-**

Financial asset class		**31 December 2011**	
	Level 1	**Level 2**	**Level 3**
Financial assets at fair value through profit or loss	563,501	-	-
Total	**563,501**	**-**	**-**

There were no transfers between the hierarchy Levels in 2012 and 2011.

As at 31 December 2012 and 2011 Level 1 of the fair value hierarchy includes financial assets at fair value through profit or loss (equity and debt securities) of which the fair value is fully determined on the basis of published price quotations in the active market. The share of Level 1 financial instruments in the total amount of financial assets at fair value through profit or loss is 100%.

As at 31 December 2011 Level 3 of the fair value hierarchy includes equity securities of three Russian issuers, conducting activities in one industry, the fair value of which was earlier determined using a valuation technique based on the available information on the last market transactions for the sale and purchase of shares, the industry significance and the reputation of issuers and discounted future cash flows. As at 31 December 2011, due to impossibility to obtain reliable data on the fair value of these financial assets, the Group revaluated the equity securities forming the Level 3 financial assets in the full amount with gain (loss) on such revaluation recognized in the consolidated statement of profit or loss for the year ended 31 December 2011, taking into consideration the fact that the Group's management expected that it would be impossible to sell those securities in the future.

The reconciliation of Level 3 fair value measurements of financial assets is presented as follows:

	Asset-backed securities held for trading
31 December 2010	**65,764**
Purchases	166
Exchange difference	3,710
Fair value remeasurement recognized in the consolidated statement of profit or loss	(69,640)
31 December 2011	
Fair value remeasurement recognized in the consolidated statement of profit or loss	**-**
31 December 2012	**-**

22. CAPITAL MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximizing the return to participants through the optimization of the debt balance and net assets attributable to the Group’s participants.

The Group’s capital structure includes funds of the Group’s participants, which include share capital and retained earnings.

Management considers the structure of net assets attributable to the Group’s participants on a quarterly basis. As part of this review, management considers the cost of net assets and risks associated with each class of the net assets attributable to the Group’s participants.

Decisions to raise debt are made by an authorized management body depending on the amount of the deal.

The Group’s overall capital risk management policy remains unchanged from 2011.

The Central bank of the Russian Federation requires the banks to observe the stipulations relating to maintaining the capital adequacy ratio calculated on the basis of the Russian Accounting Standards.

In accordance with the requirements established by the CBR, banks must maintain the ratio of capital to risk weighted assets (“capital adequacy ratio”) above the established minimum level. As at 31 December 2012, the minimum level was 10%. During 2012 and 2011 the Bank complied with the mandatory capital adequacy ratio.

23. RISK MANAGEMENT POLICIES

Management of risk is fundamental to the Group's banking business and is an essential element of the Group's operations. The main risks inherent to the Group's operations are those related to:

- Credit exposures;
- Liquidity risk;
- Market risk.

The Group recognizes that it is essential to have efficient and effective risk management processes in place. To enable this, the Group has established a risk management framework, whose main purpose is to protect the Group from existing risks and allow it to achieve its performance objectives. Through the risk management framework, the Group manages the following risks:

Credit risk

The Group is exposed to credit risk which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a loss. Risk management and monitoring within set limits of authority is performed by the Credit Committee and the Group's management.

The Group structures the level of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or one group of borrowers, and to industry (and geographical) segments. Limits on the level of credit risk by borrowers and products are approved by the Bank's Management Board. The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on and off-balance sheet exposures which are set by the Group's management. Actual exposures against limits are monitored by the Group's management daily.

Where appropriate, and in the case of most loans, the Group obtains collateral and corporate and personal guarantees.

Commitments to extend credit represent unused portions of credit in the form of loans and guarantees. The credit risk on off-balance sheet financial instruments is defined as a probability of losses due to the inability of a counterparty to comply with the contractual terms and conditions.

With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of the loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group applies the same credit policy to the contingent liabilities as it does to the balance sheet financial instruments, i.e. the one based on the procedures for approving the grant of loans, using limits to mitigate the risk, and current monitoring. The Group monitors the term to maturity of off-balance sheet contingencies because longer-term commitments generally have a greater degree of credit risk than short-term commitments.

Maximum credit risk exposure

The Group's maximum exposure to credit risk varies significantly and is dependent on both individual risks, inherent to specific assets, and general market economy risks.

The following table presents the maximum exposure to credit risk of financial assets and contingent liabilities. For financial assets in the balance sheet, the maximum exposure is equal to the carrying amount of those assets prior to any offset or collateral. For financial guarantees and other contingent liabilities the maximum exposure to credit risk is the maximum amount the Group would have to pay if the guarantee was called on or in the case of commitments, if the loan amount was called on.

	31 December 2012		31 December 2011	
	Maximum exposure	**Collateral pledged**	**Maximum exposure**	**Collateral pledged**
Balances with the Central Bank of the Russian Federation	570,683	-	793,305	-
Financial assets at fair value through profit or loss, except for equity securities	343,800	-	177,873	-
Due from banks and other financial institutions	1,364,746	-	1,749,869	-
Loans to customers	2,851,725	1,191,584	1,595,302	937,734
Other financial assets	1,527	-	5,311	-
Guarantees issued and similar commitments	166,026	-	193,195	-
Commitments on loans and unused credit lines	86,227	-	43,519	-
Letters of credit and other transaction related contingent obligations	131,707	-	355,514	-

Collateral pledged is determined based on its fair value not exceeding the carrying amount of the underlying loans.

The effect of collateral and other risk mitigation techniques is shown below.

Collateral

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

The main types of collateral obtained are as follows:

- For commercial lending, charges over real estate properties, inventory, securities and corporate guarantees, equipment and vehicles;
- For retail lending, mortgages over residential properties, vehicles, cash.

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

Credit quality by classes of financial assets

Financial assets other than loans to customers are graded according to the current credit rating they have been issued by an internationally regarded agency such as Fitch, Standard & Poor’s and Moody’s. The highest possible rating is AAA. Investment grade: financial assets have ratings from AAA to BBB. Financial assets which have ratings lower than BBB are classed as speculative grade.

As at 31 December 2012 and 2011 balances with the Central Bank of the Russian Federation amounted to RUB 570,683 thousand and RUB 793,305 thousand, respectively. In 2012 and 2011 the credit rating of the Russian Federation according to the international rating agencies corresponded to investment level BBB.

The following table details credit ratings of financial assets held by the Group that are neither past due nor impaired:

	AAA	AA	A	BBB	>BBB	Not rated	31 December 2012 Total
Balances with the Central Bank of the Russian Federation	-	-	-	570,683	-	-	570,683
Financial assets at fair value through profit or loss, except for equity securities	-	-	-	64,738	192,095	86,967	343,800
Due from banks and other financial institutions	-	3,364	287,293	19,195	586,648	468,246	1,364,746
Other financial assets	-	-	-	-	1,527	-	1,527

	AAA	AA	A	BBB	>BBB	Not rated	31 December 2011 Total
Balances with the Central Bank of the Russian Federation	-	-	-	793,305	-	-	793,305
Financial assets at fair value through profit or loss, except for equity securities	-	-	-	63,446	114,427	-	177,873
Due from banks and other financial institutions	-	3,983	350,733	17,993	536,827	840,333	1,749,869
Other financial assets	-	-	-	-	3,299	2,012	5,311

The Group enters into numerous transactions where the counterparties are not rated by international rating agencies.

A methodology to determine credit ratings of borrowers has been developed in the Group to assess borrowers. The system is based on a scoring model depending on key performance indicators of the borrower with the possibility of insignificant expert adjustments in case of insufficient objectivity of the benchmark. The financial position and business activity are the most important criteria. Therefore, the scoring model provides for overall assessment of the borrower and the loan.

The scoring assessment based on the borrower's parameters is one of the main factors for the decision-making process relating to loans.

The following table provides an analysis of unimpaired loans to customers that are classified in three categories according to internal ratings assigned to borrowers (debtors):

- The "Top performing" category with low credit risk includes loans (assets) with no past due status that are granted to borrowers (debtors) that have unexceptionable credit history with the Group and other creditors; that proved to be profitable and well performing businesses with no signs of decline of their financial sustainability.
- The "Moderately performing" category with temperate credit risk includes loans (assets) with no past due status that are granted to borrowers (debtors) with good credit history with the Group and other creditors with minor exceptions in the past; that proved to be well performing businesses in the past but average financial performance at the moment.
- The "Other" category includes loans (assets) that are not overdue and are granted to borrowers (debtors) that do not fall within the two categories described above.

	31 December 2012	31 December 2011
Unimpaired loans to corporate borrowers not rated by international rating agencies		
Top performing loans	579,937	-
Moderately performing loans	446,560	471,200
Other unimpaired loans	-	-
Total	**1,026,497**	**471,200**
Unimpaired loans to individuals		
Top performing loans	52,820	162,878
Moderately performing loans	194,366	25,757
Other unimpaired loans	-	-
Total	**247,186**	**188,635**
Total unimpaired loans to borrowers not rated by international rating agencies	**1,273,683**	**659,835**
Unimpaired balances with banks and other financial institutions not rated by international rating agencies		
Top performing assets	468,246	840,333
Moderately performing assets	-	-
Other unimpaired assets	-	-
Total unimpaired balances with banks and other financial institutions not rated by international rating agencies	**468,246**	**840,333**

There were no past due but not impaired financial assets.

Banking sector entities are generally exposed to credit risk arising with regard to financial instruments, commitments and contingencies. Credit risk exposure of the Group is generally concentrated within the Russian Federation. The exposure is monitored on a regular basis to ensure that the credit limits and creditworthiness guidelines established by the Group's risk management policy are not breached.

Renegotiated loans and advances

As at 31 December 2012 and 2011 loans to customers included loans totaling RUB 31,133 thousand and RUB 35,342 thousand, respectively, whose terms were renegotiated. Otherwise these loans would be past due or impaired.

Loans and advances are generally renegotiated either as part of an ongoing customer relationship or in response to an adverse change in the circumstances of the borrower. In the latter case, renegotiation can result in an extension of the due date of payment or repayment plans under which the Group offers a concessionary rate of interest to genuinely distressed borrowers. This will result in the asset continuing to be overdue and will be individually impaired where the renegotiated payments of interest and principal will not recover the original carrying amount of the asset. In other cases, renegotiation will lead to a new agreement, which is treated as a new loan.

Geographical concentration

The Group's Management Board and the Credit Committee exercise control over the risk in the legislation and regulatory arena and assess its influence on the Group's activity. This approach allows the Group to minimize potential losses from the investment climate fluctuations in the Russian Federation.
The management sets country limits.

The geographical concentration of assets and liabilities is set out below:

	RF	OECD countries	Non-OECD countries	31 December 2012 Total
FINANCIAL ASSETS				
Cash and balances with the Central Bank of the Russian Federation	686,982	-	3	686,985
Financial assets at fair value through profit or loss	460,050	203,221	190	663,461
Due from banks and other financial institutions	174,422	605,444	584,880	1,364,746
Loans to customers	2,735,839	-	115,886	2,851,725
Other financial assets	242	-	1,285	1,527
TOTAL FINANCIAL ASSETS	**4,057,535**	**808,665**	**702,244**	**5,568,444**
FINANCIAL LIABILITIES				
Deposits by banks	-	-	3,706	3,706
Deposits by customers	3,961,512	49,573	357,462	4,368,547
Debt securities issued	-	-	229,063	229,063
Other financial liabilities	11,608	311	2,407	14,326
TOTAL FINANCIAL LIABILITIES	**3,973,120**	**49,884**	**592,638**	**4,615,642**
NET POSITION	**84,415**	**758,781**	**109,606**	**-**

	RF	OECD countries	Non-OECD countries	31 December 2011 Total
FINANCIAL ASSETS				
Cash and balances with the Central Bank of the Russian Federation	924,660	-	7	924,667
Financial assets at fair value through profit or loss	537,598	25,205	698	563,501
Due from banks and other financial institutions	276,075	979,144	494,650	1,749,869
Loans to customers	1,511,367	-	83,935	1,595,302
Other financial assets	738	83	4,490	5,311
TOTAL FINANCIAL ASSETS	**3,250,438**	**1,004,432**	**583,780**	**4,838,650**
FINANCIAL LIABILITIES				
Deposits by customers	3,409,848	9,969	281,699	3,701,516
Debt securities issued	16,131	-	231,954	248,085
Other financial liabilities	8,003	67	2,616	10,686
TOTAL FINANCIAL LIABILITIES	**3,433,982**	**10,036**	**516,269**	**3,960,287**
NET POSITION	**(183,544)**	**994,396**	**67,511**	**-**

Liquidity risk

Liquidity risk refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments associated with financial instruments as they actually fall due.

Group management and the Management Board control these types of risks by means of maturity analysis, determining the Group’s strategy for the next financial period. Current liquidity is managed by the Currency Department of the Bank, which performs operations on money market for maintaining the current liquidity level and cash flows optimization.

In order to manage liquidity risk, the Group performs daily monitoring of future expected cash flows on clients’ and banking operations, which is a part of assets/liabilities management process. The management sets limits on the minimum proportion of maturing funds available to meet deposit withdrawals and on the minimum level on interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

An analysis of liquidity risk as at 31 December 2012 and 2011 on the basis of carrying amounts of financial assets and liabilities is provided below.

	On demand and less than 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	31 December 2012 Total
FINANCIAL ASSETS							
Financial assets at fair value through profit or loss	343,800	-	-	-	-	-	343,800
Due from banks and other financial institutions	460,484	-	288,541	-	-	607	749,632
Loans to customers	117,710	280,032	1,865,296	322,966	265,721	-	2,851,725
Total interest bearing financial assets	**921,994**	**280,032**	**2,153,837**	**322,966**	**265,721**	**607**	**3,945,157**
Cash and balances with the Central Bank of the Russian Federation	508,155	-	-	-	-	178,830	686,985
Financial assets at fair value through profit or loss	319,661	-	-	-	-	-	319,661
Due from banks and other financial institutions	578,386	-	-	-	-	36,728	615,114
Other financial assets	1,527	-	-	-	-	-	1,527
TOTAL FINANCIAL ASSETS	**2,329,723**	**280,032**	**2,153,837**	**322,966**	**265,721**	**216,165**	**5,568,444**
FINANCIAL LIABILITIES							
Deposits by banks	-	3,706	-	-	-	-	3,706
Deposits by customers	1,105,608	195,523	1,221,510	551,832	-	-	3,074,473
Debt securities issued	-	-	229,063	-	-	-	229,063
Total interest bearing financial liabilities	**1,105,608**	**199,229**	**1,450,573**	**551,832**	-	**-**	**3,307,242**
Deposits by customers	1,294,074	-	-	-	-	-	1,294,074
Other financial liabilities	605	13,721	-	-	-	-	14,326
TOTAL FINANCIAL LIABILITIES	**2,400,287**	**212,950**	**1,450,573**	**551,832**	-	-	**4,615,642**
Liquidity gap	(70,564)	67,082	703,264	(228,866)	265,721		
Cumulative liquidity gap	(70,564)	(3,482)	699,782	470,916	736,637		

	On demand and less than 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	31 December 2011 Total
FINANCIAL ASSETS							
Financial assets at fair value through profit or loss	177,873	-	-	-	-	-	177,873
Due from banks and other financial institutions	488,748	-	515,138	-	-	644	1,004,530
Loans to customers	2,535	318,915	936,785	337,067	-	-	1,595,302
Total interest bearing financial assets	**669,156**	**318,915**	**1,451,923**	**337,067**	-	**644**	**2,777,705**
Cash and balances with the Central Bank of the Russian Federation	775,471	-	-	-	-	149,196	924,667
Financial assets at fair value through profit or loss	385,628	-	-	-	-	-	385,628
Due from banks and other financial institutions	709,015	-	-	-	-	36,324	745,339
Other financial assets	2,039	-	-	-	-	3,272	5,311
TOTAL FINANCIAL ASSETS	**2,541,309**	**318,915**	**1,451,923**	**337,067**	-	**189,436**	**4,838,650**

	On demand and less than 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	31 December 2011 Total
FINANCIAL LIABILITIES							
Deposits by customers	593,514	936,511	818,977	120,346	-	-	2,469,348
Debt securities issued	3,849	-	244,236	-	-	-	248,085
Total interest bearing financial liabilities	**597,363**	**936,511**	**1,063,213**	**120,346**	-	**-**	**2,717,433**
Deposits by customers	1,231,133	-	1,035	-	-	-	1,232,168
Other financial liabilities	888	9,798	-	-	-	-	10,686
TOTAL FINANCIAL LIABILITIES	**1,829,384**	**946,309**	**1,064,248**	**120,346**	-	-	**3,960,287**
Liquidity gap	711,925	(627,394)	387,675	216,721			
Cumulative liquidity gap	711,925	84,531	472,206	688,927			

In the table above, the terms to maturity correspond to the contractual terms. However, individuals are entitled to terminate the deposit agreement ahead of schedule according to effective laws.

The following tables detail the Group’s remaining contractual maturity for its non-derivative financial liabilities as at 31 December 2012 and 2011. The tables have been drawn up based on undiscounted cash flows of the Group's financial liabilities including interests which will be paid on these liabilities based on contractual terms of maturity, except the cases when the Group expects that cash flows will occur in a different time. The contractual maturity is based on the earliest date on which the Group may be required to pay.

	On demand and less than 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	31 December 2012 Total
FINANCIAL LIABILITIES					
Deposits by banks	-	3,706	-	-	3,706
Deposits by customers	1,107,757	205,483	1,313,649	588,332	3,215,221
Debt securities issued	-	-	244,007	-	244,007
TOTAL INTEREST BEARING FINANCIAL LIABILITIES	**1,107,757**	**209,189**	**1,557,656**	**588,332**	**3,462,934**
Deposits by customers	1,294,074	-	-	-	1,294,074
Other financial liabilities	605	13,721	-	-	14,326
Liabilities on financial guarantees	17,629	140,575	7,822	-	166,026
Commitments on loans and unused credit lines	86,227	-	-	-	86,227
Letters of credit and other transaction related contingent obligations	131,707	-	-	-	131,707
TOTAL FINANCIAL LIABILITIES AND COMMITMENTS	**2,637,999**	**363,485**	**1,565,478**	**588,332**	**5,155,294**

	On demand and less than 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	31 December 2011 Total
FINANCIAL LIABILITIES					
Deposits by customers	594,678	948,105	865,245	125,296	2,533,324
Debt securities issued	3,849	-	258,953	-	262,802
TOTAL INTEREST BEARING FINANCIAL LIABILITIES	**598,527**	**948,105**	**1,124,198**	**125,296**	**2,796,126**
Deposits by customers	1,231,133	-	1,035	-	1,232,168
Other financial liabilities	888	9,798	-	-	10,686
Liabilities on financial guarantees	5,314	167,277	19,883	721	193,195
Commitments on loans and unused credit lines	43,519	-	-	-	43,519
Letters of credit and other transaction related contingent obligations	355,514	-	-	-	355,514
TOTAL FINANCIAL LIABILITIES AND COMMITMENTS	**2,234,895**	**1,125,180**	**1,145,116**	**126,017**	**4,631,208**

Market risk

Market risk is that the risk that the Group's earnings or net assets or its ability to meet business objectives will be adversely affected by changes in the level or volatility of market rates or prices. Market risk covers interest rate risk, currency risk and other pricing risks that the Group is exposed to. In 2012 there have been no changes as to the risks the Group is exposed to; the Group revised the manner in which these risks are measured and managed to ensure more accurate risk measurement in accordance with the changing market environment.

Market risk arises from open positions on interest, currency and equity instruments which are subject to general and specific market fluctuations and changes in market rates volatility.

Interest rate risk

The Group measures interest rate risk by applying gap analysis and the analysis of net interest income's sensitivity to interest rate risk on interest bearing financial assets and liabilities. The Group manages fair value interest rate risk through periodic estimation of potential losses that could arise from adverse changes in market conditions. The Risk Management Department conducts monitoring of the Group's current financial performance, estimates the Group's sensitivity to interest rate risk and its influence on the Group's profit and net assets attributable to its participants.

The sensitivity analysis uses possible changes in interest rate of 5% increase and 10% decrease.

The following table presents a sensitivity analysis of the Group's pretax profit and net assets attributable to the Group's participants to interest rate risk, which has been determined based on "reasonably possible changes in the risk variable". The level of these changes is determined by the Group's management and is contained within the risk reports prepared by the Risk Management Department and provided to key management personnel.

Impact on pretax profit and net assets attributable to the Group's participants

31 December 2012	Interest rate +5%		Interest rate -10%	
	Impact on profit before tax	**Impact on net assets attributable to the Group's participants**	**Impact on profit before tax**	**Impact on net assets attributable to the Group's participants**
Financial assets at fair value through profit or loss	16,474	13,179	(32,947)	(26,358)
Due from banks and other financial institutions	27,475	21,980	(54,950)	(43,960)
Loans to customers	40,460	32,368	(80,921)	(64,737)
Total assets	**84,409**	**67,527**	**(168,818)**	**(135,055)**
Deposits by banks	(178)	(142)	355	284
Deposits by customers	(84,027)	(67,222)	168,054	134,443
Debt securities issued	(4,295)	(3,436)	8,590	6,872
Total financial liabilities	**(88,500)**	**(70,800)**	**176,999**	**141,599**
Net impact	**(4,091)**	**(3,273)**	**8,181**	**6,544**

31 December 2011	Interest rate +5%		Interest rate -10%	
	Impact on profit before tax	**Impact on net assets attributable to the Group's participants**	**Impact on profit before tax**	**Impact on net assets attributable to the Group's participants**
Financial assets at fair value through profit or loss	8,523	6,818	(17,046)	(13,637)
Due from banks and other financial institutions	33,078	26,462	(66,156)	(52,925)
Loans to customers	30,974	24,779	(61,949)	(49,559)
Total assets	**72,575**	**58,059**	**(145,151)**	**(116,121)**
Deposits by banks	-	-	-	-
Deposits by customers	(83,260)	(66,608)	166,520	133,216
Debt securities issued	(4,764)	(3,811)	9,528	7,622
Total financial liabilities	**(88,024)**	**(70,419)**	**176,048**	**140,838**
Net impact	**(15,449)**	**(12,360)**	**30,897**	**24,717**

The Group's sensitivity to interest rates has increased during the current period mainly due to the increase in the carrying value of debt instruments and loans to customers as at 31 December 2012.

Currency risk

Currency risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group is exposed to the effects of fluctuations in the foreign currency exchange rates on its financial position and cash flows.

The Group's management controls currency risk by management of the open currency position on the estimated basis of RUB devaluation and other macroeconomic indicators, which gives the Group an opportunity to minimize losses from significant currency rates fluctuations toward its national currency. The Management Board of the Bank performs daily monitoring of the Bank's open currency position with the aim to match the requirements of the CBR.

The Group's exposure to foreign currency exchange rate risk is presented in the table below:

	RUB	**USD** USD 1 = RUB 30.3727	**EUR** EUR 1 = RUB 40.2286	**Other currency**	**31 December 2012 Total**
Non-derivative financial assets					
Cash and balances with the Central Bank of the Russian Federation	599,341	51,116	32,314	4,214	686,985
Financial assets at fair value through profit or loss	241,174	413,051	-	9,236	663,461
Due from banks and other financial institutions	34,894	1,237,593	74,590	17,669	1,364,746
Loans to customers	2,359,982	469,819	21,924	-	2,851,725
Other financial assets	1,502	23	2	-	1,527
Total non-derivative financial assets	**3,236,893**	**2,171,602**	**128,830**	**31,119**	**5,568,444**
Non-derivative financial liabilities					
Deposits by banks	-	3,706	-	-	3,706
Deposits by customers	1,335,064	1,946,913	1,074,164	12,406	4,368,547
Debt securities issued	-	229,063	-	-	229,063
Other financial liabilities	8,384	3,652	2,243	47	14,326
Total non-derivative financial liabilities	**1,343,448**	**2,183,334**	**1,076,407**	**12,453**	**4,615,642**
OPEN BALANCE SHEET POSITION	**1,893,445**	**(11,732)**	**(947,577)**	**18,666**	
Derivatives					
Net settled:					
- foreign exchange spot contracts	(932,789)	27,082	905,707	-	
OPEN POSITION ON DERIVATIVES	**(932,789)**	**27,082**	**905,707**	**-**	
OPEN POSITION	**960,656**	**15,350**	**(41,870)**	**18,666**	

	RUB	USD USD 1 = RUB 32.1961	EUR EUR 1= RUB 41.6714	Other currency	31 December 2011 Total
Non-derivative financial assets					
Cash and balances with the Central Bank of the Russian Federation	802,372	75,005	43,203	4,087	924,667
Financial assets at fair value through profit or loss	273,065	276,270	-	14,166	563,501
Due from banks and other financial institutions	73,438	1,541,732	128,953	5,746	1,749,869
Loans to customers	1,333,078	225,943	36,281	-	1,595,302
Other financial assets	1,815	113	3,383	-	5,311
Total non-derivative financial assets	**2,483,768**	**2,119,063**	**211,820**	**23,999**	**4,838,650**
Non-derivative financial liabilities					
Deposits by customers	1,328,352	1,250,098	1,120,929	2,137	3,701,516
Debt securities issued	-	248,085	-	-	248,085
Other financial liabilities	2,350	8,295	37	4	10,686
Total non-derivative financial liabilities	**1,330,702**	**1,506,478**	**1,120,966**	**2,141**	**3,960,287**
OPEN BALANCE SHEET POSITION	**1,153,066**	**612,585**	**(909,146)**	**21,858**	
Derivatives					
Net settled:					
- foreign exchange spot contracts	(170,344)	(747,398)	917,742	-	
OPEN POSITION ON DERIVATIVES	**(170,344)**	**(747,398)**	**917,742**	**-**	
OPEN POSITION	**982,722**	**(134,813)**	**8,596**	**21,858**	

Currency risk sensitivity

The Group carries out “value at risk” (VaR) analysis and an analysis of projected financial result’s sensitivity to changes in currency rates by one point, their 1% volatility and to change in the amount invested by one unit of functional currency to assess the possible losses due to changes in foreign exchange rates for each currency position and in general for aggregate open currency position. The Bank uses “Financial Risk Manager” software system produced by INEC company to carry out VaR and sensitivity analyses. The report on VaR analysis provided below presents ruble estimate of loss amounts that with 95% confidence level will not be exceeded by the expected losses on the open currency position within 1 day provided that the current market trends continue.

Currency	Total open position 31 December 2012 RUB’000	Currency rate volatility
USD	15,350	0.6895
EUR	(41,870)	0.5058
Swiss franc	4,075	0.5371
Great Britain pound sterling	14,320	0.5767
Japanese yen	271	0.8797
95% 1 day VaR	**820**	

Currency	Total open position 31 December 2011 RUB'000	Currency rate volatility
USD	(134,813)	0.6997
EUR	8,596	0.8080
Swiss franc	1,425	1.6563
Great Britain pound sterling	20,313	0.8532
Japanese yen	120	1.2464
95% 1 day VaR	**1,699**	

Other price risks

The Group is exposed to equity price risks arising from equity investments. The Group purchases equity securities mainly for trading purposes. The Group is engaged in active trading with such instruments.

The table below presents the amount of loss from publicly traded equity and debt security portfolios of the Group which, with a 95% confidence, will not be exceeded within 1 day and 10 days provided that the current pricing trends in the securities market are preserved.

	VaR (1 day, 0.95) (RUB'000)	VaR (1 day, 0.95) %	VaR (10 days, 0.95) (RUB'000)	VaR (10 days, 0.95) %
31 December 2012				
Shares	6,654	2.08	19,312	6.04
Bonds	2,742	3.15	8,290	9.53
31 December 2011				
Shares	22,645	5.87	71,609	18.57
Bonds	4,576	7.21	14,472	22.81

The VaR figures are incomparable as at 31 December 2012 and 2011 since in 2012 the Bank revised the method of measurement of VaR values with respect to the trading portfolio.

The major changes have affected the approach to the analysis of risk factors influencing the Group's trading portfolio. There has been a transition from general analysis of impact of stock indexes on the trading portfolio to individual analysis of financial instruments of the Group's trading portfolio. Taking into consideration the volatility in equity markets, the Group used the method of stochastic modeling (Monte Carlo) to assess changes in retrospective risk factors.

This method is similar to the method of historical simulation used in 2011 which is solely based on past scenarios of risk factor changes which actually took place. The major difference of the Monte Carlo method is that scenarios of retrospective risk factors changes are generated by a random-number generator based on the use of calculated projected risk factors and their volatility with consideration of their statistical correlations. Such approach ensures more adequate measurement of the Group's possible losses within a given time horizon both for individual financial instruments and the trading portfolio as a whole.

As at 31 December 2012 and 2011 if the value of shares changes by 10%, the value of the portfolio will increase or decrease by RUB 31,966 thousand and RUB 38,563 thousand, respectively.

Limitations of sensitivity analysis

The above tables demonstrate the effect of a change in a key assumption while other assumptions remain unchanged. In reality, there is a correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear, and larger or smaller impacts should not be interpolated or extrapolated from these results.

The sensitivity analyses do not take into consideration that the Group's assets and liabilities are actively managed. Additionally, the financial position of the Group may vary at the time that any actual market movement occurs. For example, the Group's financial risk management strategy aims to manage the exposure to market fluctuations. As investment markets move past various trigger levels, management actions could include selling investments, changing investment portfolio allocation and taking other protective actions. Consequently, the actual impact of a change in the assumptions may not have any impact on the liabilities, whereas assets are held at market value in the statement of financial position. In these circumstances, the different measurement bases for liabilities and assets may lead to volatility in net assets.

Other limitations in the above sensitivity analyses include the use of hypothetical market movements to demonstrate potential risk that only represent the Group's view of possible near-term market changes that cannot be predicted with any certainty; another limiting assumption is that all interest rates move in an identical fashion.

Operational risk

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

24. SUBSEQUENT EVENTS

During March and April 2013, the Republic of Cyprus announced a 'macroeconomic adjustment programme' ('MAP') with the objective of re-structuring and stabilizing the Cypriot financial sector.

The Group is exposed to certain risks arising from situation in the Cypriot economy through:

- Deposits placed in Bank of Cyprus Public Company Ltd ("BoC");
- Its subsidiary company S.L. Capital Services Limited incorporated in Cyprus and operating primarily in Russian and international securities markets;
- A loan to a financial intermediary company registered in Cyprus with limited operations in its jurisdiction.

As at 31 December 2012 the Group had due from BoC on correspondent accounts of Aljba Alliance Bank and current accounts of S.L. Capital Services Limited totaling RUB 571,226 thousand (USD 18,807 thousand) and RUB 12,880 thousand (USD 424 thousand), respectively.

In accordance with Resolution of Credit and Other Institutions Law, 2013 and Decree of the Central Bank of Cyprus, measures on partial conversion of deposits placed on accounts with BoC into BoC's shares and other securities together with temporary restrictions on access to deposits are not applicable to placements of credit institutions.

During April 2013 BoC executed Bank's order to transfer money to another credit institution in amount of USD 10,997 thousand. As at 29 April 2013 Aljba Alliance Bank has USD 15,170 thousand on its correspondent account with BoC. As at 29 April 2013 S.L. Capital Services Limited has USD 749 thousand on current accounts with BoC with temporary restrictions on access to these funds.

Currently it is not possible to fully predict the economic outcome of the MAP for Cypriot economics. However, given measures taken by the Cypriot Government together with the Central Bank of Cyprus, Management of the Group believes that BoC will settle all its obligations related to the assets mentioned above.

The Management believes that the activities of the Group subsidiary S.L. Capital Services Limited and loan to a company registered in Cyprus mentioned above will not be affected by MAP.

Management of the Group will continue to monitor further developments in Cyprus and take measures to protect the economic interests of the Group.