OJSC OTP Bank

Financial Statements
for the Year Ended 31 December 2012

OJSC OTP BANK

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OJSC OTP BANK

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

Management is responsible for the preparation of the financial statements that present fairly the financial position of Open Joint Stock Company "OTP Bank" (the "Bank") as of 31 December 2012, and the results of its operations, cash flows and changes in shareholders' equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

In preparing the financial statements, management is responsible for:

- Properly selecting and applying accounting policies;
- 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 IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Bank's financial position and financial performance;
- Making an assessment of the Bank'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 Bank;
- Maintaining adequate accounting records that are sufficient to show and explain the Bank's transactions and disclose with reasonable accuracy at any time the financial position of the Bank, and which enable them to ensure that the financial statements of the Bank comply with IFRS;
- Maintaining statutory accounting records in compliance with legislation and accounting standards of the Russian Federation ("RF");
- Taking such steps as are reasonably available to them to safeguard the assets of the Bank;
- Preventing and detecting fraud and other irregularities.

The financial statements for the year ended 31 December 2012 were approved by the President of the Bank on 08 April 2013.

On behalf of the Management Board:

Deputy Chairman of the Management Board
D. Szemere

8 April 2013
Moscow

Chief Accountant
D. Karpov

8 April 2013
Moscow

Deloitte.

ZAO Deloitte & Touche CIS
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Moscow, 125047
Russia

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders and the Board of Directors of Open Joint Stock Company "OTP Bank":

We have audited the accompanying financial statements of Open Joint Stock Company "OTP Bank" (the "Bank"), which comprise the statement of financial position as at December 31, 2012, the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management of the Bank is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of 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 these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

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

Deloitte & Touche

8 April 2013
Moscow, Russian Federation

Golovkova A.Y., Partner (license no. 01-000102)
ZAO Deloitte & Touche CIS

Аудируемое лицо: Открытое акционерное общество «ОТП банк»

Свидетельство о государственной регистрации № 2087711001871 от 26 февраля 2008 года.

Лицензия на осуществление банковских операций № 2766 от 4 марта 2008 года.

Генеральная лицензия на осуществление банковских операций № 2766 от 21 июня 2012 года

Место нахождения: 125171, г. Москва, Ленинградское шоссе, д.16А, стр.1.

Независимый аудитор: ЗАО «Делойт и Туш СНГ»

Свидетельство о государственной регистрации № 018.482. Выдано Московской регистрационной палатой 30.10.1992 г.

Свидетельство о внесении записи в ЕГРЮЛ № 1027700425444, выдано 13.11.2002 г. Межрайонной Инспекцией МНС России № 39 по г. Москва.

Свидетельство о членстве в СРО аудиторов «НП «Аудиторская Палата России» от 20.05.2009 г. № 3026, ОРНЗ 10201017407.

OJSC OTP BANK

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

	Notes	2012	2011
Interest income	3, 32	31 046 773	24 190 539
Interest expense	3, 32	(6 049 401)	(4 115 458)
Net interest income before impairment of interest earning assets		**24 997 372**	**20 075 081**
Impairment of interest earning assets	4	(10 112 952)	(6 449 949)
Net interest income		**14 884 420**	**13 625 132**
Net gain on financial assets and liabilities at fair value through profit or loss	5	700 111	987 366
Net loss on foreign exchange operations	6, 32	(414 126)	(794 655)
Fee and commission income	7, 32	5 210 330	3 595 078
Fee and commission expense	7, 32	(2 331 071)	(1 090 891)
Net loss on financial assets available-for-sale	2	(8 751)	(9 122)
Income received from sale of loans		27 782	62 626
Other provisions	4	(164 402)	(41 283)
Gains/(losses) from associate	20	19 479	(49 495)
Other income	8, 32	36 315	68 053
Net non-interest income		**3 075 667**	**2 727 677**
Operating income		17 960 087	16 352 809
Operating expenses	9,32	(9 880 651)	(8 685 498)
Profit before income tax		**8 079 436**	**7 667 311**
Income tax expense	10	(1 666 083)	(1 663 626)
Profit for the year		**6 413 353**	**6 003 685**
Other comprehensive income			
Financial assets available for sale:			
Net change in fair value of financial assets available-for-sale		665 474	(576 933)
Net change in fair value transferred to profit or loss		(20 707)	11 201
Revaluation of property and equipment		32 271	(123 147)
Exchange differences on translating foreign operations		(4 711)	4 711
Deferred tax relating to components of other comprehensive income	10	(135 405)	137 777
Other comprehensive income, net of tax		**536 922**	**(546 391)**
Total comprehensive income		**6 950 275**	**5 457 294**
Earnings per share – basic and diluted (RUR, per share)	11	0.023	0.021

The financial statements are approved for issue by the Management Board and signed on its behalf on 8 April 2013.

Открытое акционерное общество
г. Москва
«ОТП Банк»

Deputy Chairman of the Management Board
D. Szemere

8 April 2013
Moscow

Chief Accountant
D. Karpov

8 April 2013
Moscow

The notes on pages 8-75 form an integral part of these financial statements.

OJSC OTP BANK

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

	Notes	31 December 2012	31 December 2011
Assets			
Cash and cash equivalents	12, 32	6 549 339	7 819 379
Obligatory reserve with the Central Bank of the Russian Federation	13	1 162 133	975 726
Financial assets at fair value through profit or loss	14	37 237	400 493
Derivative financial assets	15, 32	91 446	356 087
Due from other banks	16, 32	12 937 997	5 957 940
Loans to customers	17, 32	101 828 771	90 218 006
Financial assets available-for-sale	18, 32	15 773 894	7 679 417
Financial assets held-to-maturity	19	154 363	160 991
Investments in associates	20, 32	-	255 749
Property, equipment and intangible assets	21	2 619 150	2 534 846
Investment property	22	58 797	51 876
Other assets	23, 32	691 263	495 399
Total assets		**141 904 390**	**116 905 909**
Liabilities and equity			
Liabilities			
Due to other banks	24, 32	10 345 962	12 281 210
Derivative financial liabilities	15, 32	326 553	118 825
Customer accounts	25, 32	83 070 933	66 105 061
Debt securities issued	26, 32	16 262 215	14 121 884
Current income tax liabilities		164 930	445 095
Deferred tax liabilities	10	202 650	26 527
Other liabilities	27, 32	2 389 511	1 523 118
Subordinated debts	28, 32	2 258 824	2 351 652
Total liabilities		**115 021 578**	**96 973 372**
Equity			
Share capital	29	4 423 768	4 423 768
Share premium	29	2 000 000	2 000 000
Financial assets available-for-sale revaluation reserve		758 172	242 358
Property and equipment revaluation reserve		412 351	387 684
Foreign currency translation reserve		-	4 711
Retained earnings		19 288 521	12 874 016
Total equity		**26 882 812**	**19 932 537**
Total liabilities and equity		**141 904 390**	**116 905 909**

The financial statements are approved for issue by the Management Board and signed on its behalf on 8 April 2013.

Deputy Chairman of the Management Board
D. Szemere

8 April 2013
Moscow

Chief Accountant
D. Karpov

8 April 2013
Moscow

The notes on pages 8-75 form an integral part of these financial statements.

OJSC OTP BANK

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2012
(in thousands of Russian Rubles unless otherwise stated)

	Share capital	Share premium	Financial assets available-for-sale revaluation reserve	Property, plant and equipment revaluation reserve	Foreign currency translation reserve	Retained earnings	Total equity
Balance as at 31 December 2010	**4 423 768**	**2 000 000**	**694 943**	**505 523**	**-**	**6 851 009**	**14 475 243**
Profit for the year	-	-	-	-	-	6 003 685	6 003 685
Other comprehensive income							
Exchange differences on translating foreign operations	-	-	-	-	4 711	-	4 711
Revaluation of property and equipment, net of deferred tax				(98 517)	-	-	(98 517)
Net change in fair value of financial assets available-for-sale, net of deferred tax	-	-	(463 786)	-	-	-	(463 786)
Disposal of financial assets available-for-sale	-	-	11 201	-	-	-	11 201
Total other comprehensive income for the year ended 31 December 2010	**-**	**-**	**(452 585)**	**(98 517)**	**4 711**	**-**	**(546 391)**
Total comprehensive income for the year ended 31 December 2010	**-**	**-**	**(452 585)**	**(98 517)**	**4 711**	**6 003 685**	**5 457 294**
De-recognition of property and equipment revaluation reserve	-	-	-	(19 322)	-	19 322	-
Balance as at 31 December 2011	**4 423 768**	**2 000 000**	**242 358**	**387 684**	**4 711**	**12 874 016**	**19 932 537**
Profit for the year	-	-	-	-	-	6 413 353	6 413 353
Other comprehensive income							
Exchange differences on translating foreign operations	-	-	-	-	(4 711)	-	(4 711)
Revaluation of property and equipment, net of deferred tax	-	-	-	25 819	-	-	25 819
Net change in fair value of financial assets available-for-sale, net of deferred tax	-	-	532 380	-	-	-	532 380
Disposal of financial assets available-for-sale	-	-	(16 566)	-	-	-	(16 566)
Total other comprehensive income for the year ended 31 December 2012	**-**	**-**	**515 814**	**25 819**	**(4 711)**	**-**	**536 922**
Total comprehensive income for the year ended 31 December 2012	**-**	**-**	**515 814**	**25 819**	**(4 711)**	**6 413 353**	**6 950 275**
De-recognition of property and equipment revaluation reserve	-	-	-	(1 152)	-	1 152	-
Balance as at 31 December 2012	**4 423 768**	**2 000 000**	**758 172**	**412 351**	**-**	**19 288 521**	**26 882 812**

The financial statements are approved for issue by the Management Board and signed on its behalf on 8 April 2013.

Открытое акционерное общество «ОТП Банк» г. Москва

Deputy Chairman of the Management Board
D. Szemere

8 April 2013
Moscow

Chief Accountant
D. Karpov

8 April 2013
Moscow

The notes on pages 8-75 form an integral part of these financial statements.

OJSC OTP BANK

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

	Notes	2012	2011
Cash flows from operating activities			
Profit before tax		8 079 436	7 667 311
Adjustments for:			
Allowance for impairment losses on interest bearing assets		10 112 952	6 449 949
Other provisions		164 402	41 283
Net change in fair value of financial assets held for trading		(2 282)	2 527
Net change in fair value of derivative instruments		472 369	(384 839)
Loss on disposal of property, equipment and intangible assets		41 817	25 145
Net loss on operations with financial assets available-for-sale		8 751	9 122
Depreciation charge on property, equipment and amortization charge on intangible assets		635 421	547 719
Gain from translation of foreign currency transactions		(251 078)	(124 683)
Net change in interest accruals		(1 517 744)	(2 422 070)
Net change in other accruals		422 120	338 055
Gain/(loss) on revaluation of property and equipment		(2 381)	22 478
Dividends received		(122)	(98)
(Gains)/losses from associate		(19 479)	49 495
Cash flows from operating activities before changes in operating assets and liabilities		**18 144 182**	**12 221 394**
(Increase)/decrease in operating assets			
Obligatory reserve deposit with the Central Bank of the Russian Federation		(186 407)	(476 437)
Financial assets at fair value through profit or loss		360 576	(176 821)
Due from other banks		(7 014 459)	2 596 565
Loans and advances to customers		(18 960 754)	(25 278 393)
Other assets		(410 145)	(220 755)
Increase/(decrease) in operating liabilities			
Due to other banks		(1 511 040)	(4 955 420)
Customer accounts		16 644 090	6 902 662
Debt securities issued		2 054 937	10 495 707
Other liabilities		431 521	141 657
Cash inflow from operating activities before taxation		**9 552 501**	**1 250 159**
Income tax paid		(1 905 406)	(1 347 751)
Net cash inflow/(outflow) from operating activities		**7 647 095**	**(97 592)**
Cash flows from investing activities			
Purchase of property, equipment and intangible assets		(739 157)	(807 063)
Proceeds on sale of property, equipment and intangible assets		5 346	4 454
Purchase of financial assets available-for-sale		(22 761 184)	(7 408 611)
Proceeds on disposal of financial assets available-for-sale		14 652 559	8 849 713
Purchase of investment in associate		-	(293 258)
Dividends received		122	98
Net cash (outflow)/inflow from investing activities		**(8 842 314)**	**345 333**
Cash flows from financing activities			
Repayment of subordinated debt		(10 161)	-
Net cash outflow from financing activities		**(10 161)**	**-**
Effect of changes in foreign exchange rate fluctuations on cash and cash equivalents		**(64 660)**	**59 103**
Net (decrease)/increase in cash and cash equivalents		**(1 270 040)**	**306 844**
Cash and cash equivalents, beginning of year	12	**7 819 379**	**7 512 535**
Cash and cash equivalents, end of year	12	**6 549 339**	**7 819 379**

Interest paid and received by the Bank during the year ended 31 December 2012 amounted to RUR 5 008 567 thousand and RUR 28 475 666 thousand, respectively.

Interest paid and received by the Bank during the year ended 31 December 2011 amounted to RUR 3 666 685 thousand and RUR 23 950 626 thousand, respectively.

The financial statements are approved for issue by the Management Board and signed on its behalf on 8 April 2013.

Deputy Chairman of the Management Board
D. Szemere

8 April 2013
Moscow

Chief Accountant
D. Karpov

8 April 2013
Moscow

The notes on pages 8-75 form an integral part of these financial statements.

(in thousands of Russian Rubles unless otherwise stated)

1. ORGANISATION

OJSC “OTP Bank” (the “Bank”) is an open joint stock company, which was incorporated in the Russian Federation (the “RF”) in 1994. The Bank is regulated by the Central Bank of the Russian Federation (the “CBR”) and conducts its business under general license number 2766 dated 4 March 2008. The Bank’s primary business consists of commercial operations and retail banking. These operations include receipt of funds on deposits and lending to corporate clients, small businesses and individuals, provision of guarantees, servicing clients on import and export operations, cash settlement services, operations with securities, foreign currency, derivative financial instruments, borrowing and issuing funds in the interbank loan market.

The registered office of the Bank is located at: 16A Leningradskoye shosse, bld. 1, Moscow, 125171, Russian Federation.

As of 31 December 2012 and 2011 the Bank had 9 branches in the Russian Federation.

The Bank is the parent company of a banking group which consists of the following entities:

Company	Country of operation	Ownership interest, % 2012	Ownership interest, % 2011	Type of operation
Open Joint Stock Company “OTP Bank”	RF	Parent company	Parent company	Commercial bank
Limited Liability Company “Gamayun”	RF	100.0	100.0	Catering
Limited Liability Company “OTP Credit”	Ukraine	15.7	40.0	Financial activities

The Limited Liability Company “Gamayun” is not consolidated as at 31 December 2012 and 31 December 2011 as it is immaterial. The Limited Liability Company “OTP Credit” was reclassified to financial assets available for sale in the year 2012 and is accounted at fair value (Note 20).

As of 31 December 2012 and 2011, the following shareholders owned the issued shares of the Bank.

	31 December, 2012, %	31 December, 2011, %
First level shareholders:		
OTP BANK PLC	66.07	66.04
ALLIANCE RESERVE LLC	31.71	31.71
Other	2.22	2.25
Total	**100.00**	**100.00**
Ultimate shareholders:		
OTP BANK PLC	97.78	97.75
Other	2.22	2.25
Total	**100.00**	**100.00**

Being the sole owner of ALLIANCE RESERVE LLC, OTP BANK PLC holds 97.78% of the Bank's shares as of 31 December 2012 and 97.75% of the Bank’s share as of 31 December 2011, so the Bank is a subsidiary of OTP BANK PLC and OTP BANK PLC is ultimate controlling party for the Bank.

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

These 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

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

These financial statements are presented in thousands of Russian Roubles ("RUR thousand"), unless otherwise indicated.

These financial statements have been prepared on the historical cost basis except for certain properties 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, registered in the Russian Federation, maintains its accounting records in accordance with Russian Accounting Standards (RAS). These financial statements have been prepared from the statutory accounting records and have been adjusted to conform to the IFRS.

The Bank 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 after the Statement of Financial Position date (non-current) is presented in Note 35.

Functional currency

Items included in the financial statements of the Bank are measured using the currency of the primary of the economic environment in which the entity operates ("the functional currency"). The functional currency of the parent of the Bank is the Russian Rouble ("RUR"). The presentation currency of the financial statements of the Bank is the RUR.

Offsetting

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 recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. Income and expense is not offset in the Statement of Comprehensive Income unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Bank.

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 payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. The discounting period is equal to the expected life of the financial instrument, or if applicable, to a shorter period.

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 income statement based on the difference between the repurchase price accreted 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 price 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 provided. Loan syndication fees are recognized in profit or loss when the syndication has been completed. All other commissions are recognized when services are provided.

Recognition of dividend income

Dividend income from investments is recognized when the shareholder’s right to receive payment has been established (provided that it is probable that the economic benefits will flow to the Bank and the amount of income can be measured reliably).

Cash and cash equivalents

Cash comprises cash on hand and cash on correspondent accounts of the Bank. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Amounts that are subject to restrictions on their availability are not included in cash and cash equivalents.

Obligatory reserve deposit with the Central Bank of the RF

Obligatory reserve deposits with the Central Bank of the Russian Federation comprises funds deposited with the Central Bank of the Russian Federation and not used to finance the Bank’s current operations and hence they are not considered as part of cash and cash equivalents for the purposes of the cash flow statement.

Financial instruments

The Bank recognizes financial assets and liabilities in its Statement of Financial Position when it becomes a party to the contractual obligation of the instrument. Regular way purchases and sales of financial assets and liabilities are recognized using settlement date accounting.

Financial assets and liabilities are initially recognized at fair value. The historic cost of financial assets not at fair value through profit or loss is adjusted for transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. 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.

The accounting policies for subsequent re-measurement of these items are disclosed in the respective accounting policies set out below.

Financial assets

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' ("FVTPL"), financial assets 'held to maturity' ("HTM") financial assets, 'available-for-sale' ("AFS") 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 Bank 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 Bank's documented risk management or investment strategy, and information about the grouping 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 recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend and interest earned on the financial asset and is included in the 'other gains and losses' and 'interest income' line item, respectively, in the Statement of Comprehensive Income. Fair value is determined in the manner described in Note 33.

Financial assets held-to-maturity

Financial assets held-to-maturity are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Bank has the positive intent and ability to hold to maturity. Financial assets held-to-maturity are measured at amortized cost using the effective interest method less any impairment.

If the Bank were to sell or reclassify more than an insignificant amount of financial assets held-to-maturity before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as available-for-sale. Furthermore, the Bank will not classify any financial asset as held-to-maturity during the following two years.

Financial assets available-for-sale

Financial assets available-for-sale are non-derivatives that are either designated as available-for-sale or are not classified as (a) loans and receivables, (b) financial assets held-to-maturity or (c) financial assets at FVTPL.

Listed shares and listed redeemable notes held by the Bank that are traded in an active market are classified as AFS and are stated at fair value. The Bank also has investments in unlisted shares that are not traded in an active market that are also classified as AFS and stated at historical cost less any identified impairment losses at the end of each reporting period. Fair value is determined in the manner described in Note 33. Gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated in the investments revaluation reserve, with the exception of other-than-temporary impairment losses, interest calculated using the effective interest method, dividend income and foreign exchange gains and losses on monetary assets, which are recognised in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

The fair value of AFS monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period. The foreign exchange gains and losses that are recognised in profit or loss are determined based on the amortised cost of the monetary asset. Other foreign exchange gains and losses are recognised in other comprehensive income.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of each reporting period.

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 amortised cost using the effective interest method, less any impairment. Interest income is recognised 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

In the normal course of business, the Bank enters into financial assets sale and purchase back agreements (“repos”) and financial assets purchase and sale back agreements (“reverse repos”) in the normal course of its business. Repos and reverse repos are utilized by the Bank 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 financial statements and consideration received under these agreements is recorded as collateralized deposit received within balances due to other banks or customer accounts.

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

The Bank 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, only if the counterparty fails to meet its obligations per the agreement on the lending transaction.

In the event that assets purchased under reverse repo are sold to third parties, the results are recorded within the gain or loss included in net gains or loss on respective assets. Any related income or expense arising from the pricing difference between purchase and sale of the underlying assets is recognized as interest income and/or expense.

The transfer of securities to counterparties is recorded in case when all risks and rewards are 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 default or delinquency in interest or principal payments;
- 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 as not individually impaired are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of loans and receivables could include the Bank'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 amortised cost, the amount of the impairment loss recognised 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 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 allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

Interest income on overdue and impaired loans is accrued in the amount based on bank's estimate of future cash flows on each loan or group of collectively assessed loans.

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

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 at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

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 and accumulated under the heading of investments revaluation reserve.

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 Bank 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

Loans are written off against the allowance for impairment losses in the case of uncollectibility of loans and advances, including through repossession of collateral. Loans are written off after the Bank has made all necessary and sufficient efforts to collect amounts due to the Bank and after the Bank has obtained and sold all available collateral. Excess funds realized from the sale are repaid to the borrower.

Subsequent recoveries of amounts previously written off are reflected as an offset to the charge for impairment of financial assets in the profit or loss in the period of recovery.

Derecognition of financial assets

The Bank derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the Bank continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Bank retains an option to repurchase part of a transferred asset), the Bank allocates the previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognized in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

Financial liabilities and equity instruments 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.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Bank are recognised at the proceeds received, net of direct issue costs. Equity instruments issued and paid before January 1, 2003 are recognized at their cost restated for inflation.

Repurchase of the Bank's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Bank's own equity instruments.

Financial liabilities

Financial liabilities are classified as either financial liabilities 'at fair value through profit or loss' or 'other financial liabilities'.

Financial liabilities at FVTPL

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

A financial liability is classified as held for trading if:

- It has been acquired principally for the purpose of repurchasing it in the near term; or
- On initial recognition it is part of a portfolio of identified financial instruments that the Bank 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 liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces measurement or recognition inconsistency that would otherwise arise; or
- The financial liability 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 Bank's documented risk management or investment strategy, and information about the grouping 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 liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the 'interest expenses' line item in the Statement of Comprehensive Income. Fair value is determined in the manner described in Note 33.

Other financial liabilities

Other financial liabilities, including due to other banks, customer accounts, debt securities issued, subordinated debt and other liabilities are initially recognized at fair value, less transaction costs.

Further, other financial liabilities are carried at amortized cost. Interest expense is calculated applying the effective interest rate.

The effective interest method is a method of calculating the amortised 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.

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 Bank 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.

Derecognition of financial liabilities

The Bank derecognises financial liabilities when, and only when, the Bank's obligations are discharged, cancelled 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 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.

Derivative financial instruments

The Bank enters into variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including foreign exchange forward contracts, futures on foreign currency, interest rate swaps and cross currency swaps. Derivative financial instruments entered into by the Bank do not qualify for hedge accounting. Derivatives are initially recognized at fair value at the date a derivative contract is entered into and are subsequently re-measured to their fair value at each reporting date. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Derivatives are included in financial assets and liabilities at fair value through profit or loss in the Statement of Financial Position. Further details of derivative financial instruments are disclosed in Note 15.

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.

The Bank as lessor

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Bank's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Bank's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

The Bank as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Property, equipment and intangible assets

Land and buildings

Land and buildings are stated in the Statement of Financial Position at their revalued amounts, being the fair value at the date of revaluation, determined from market-based evidence by appraisal undertaken by professional independent appraisers, less subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the reporting date.

Any revaluation increase arising on the revaluation of property and equipment is recognized in the property and equipment revaluation reserve, except for the extent that it reverses a revaluation decrease for the same asset previously recognized as an expense, in which case the increase is credited to the Statement of Comprehensive Income to the extent of the decrease previously charged. A decrease in the carrying amount arising on the revaluation of an asset is charged as an expense to the income statement to the extent that it exceeds the balance, if any, held in the property and equipment revaluation reserve relating to a previous revaluation of that asset.

Depreciation on revalued buildings is recognised in profit or loss. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the properties revaluation reserve is transferred directly to retained earnings.

Freehold land is not depreciated.

Furniture, equipment and other fixed assets and intangible assets are stated at cost less accumulated depreciation and accumulated impairment losses. The Bank doesn’t have internally generated intangible assets.

Depreciation is recognized so as to write off the cost or valuation of assets (other than freehold land) less their residual values over their useful lives, using the straight-line method. 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	1%-20%
Other property and equipment	3,3%-50%
Intangible assets	10%-33.3%

Leasehold improvements are amortized over the contractual lease term of the related leased asset. Expenses related to repairs and renewals are charged when incurred and included in operating expenses unless they qualify for capitalization.

An item of property and equipment/intangible asset is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Impairment of tangible and intangible assets

At the end of each reporting period, the Bank reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Bank estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Investment property

Investment property includes assets used to earn rental payment. Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value. Gains and losses arising from changes in the fair value of investment properties are included in profit or loss in the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

Taxation

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

Current tax

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

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised 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 utilised. Such deferred tax assets and liabilities are not recognised 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 recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Bank 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 recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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 realised, 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 Bank 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 recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Operating taxes

The Russian Federation also has various other taxes, which are assessed on the Bank’s activities. These taxes are included as a component of operating expenses in the Statement of Comprehensive Income.

Other provisions

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

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Contingencies

Contingent liabilities are not recognized in the 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 Statement of Financial Position but disclosed when an inflow of economic benefits is probable.

Fiduciary activities

The Bank 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 Bank's financial statements. The Bank accepts the operational risk on these activities, but the Bank's customers bear the credit and market risks associated with such operations. Revenue for provision of depository services is recognized as services are provided.

Foreign currencies

In preparing the financial statements of the individual transactions in currencies other than the entity's functional currency (foreign currencies) are recognised 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 retranslated.

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

The Central Bank of the Russian Federation exchange rates for the key currencies at year-end used by the Bank in the preparation of the financial statements are as follows:

	31 December 2012	**31 December 2011**
RUR/1 US Dollar	30.3727	32.1961
RUR/1 Euro	40.2286	41.6714

Collateral

The Bank obtains collateral in respect of customer liabilities where it is considered to be appropriate. The collateral normally takes the form of a lien over the customer's assets and gives the Bank a claim on these assets for both existing and future customer liabilities.

Equity reserves

The reserves recorded in equity on the Bank's Statement of Financial Position include:

- Available-for-sale investment reserve which comprises changes in fair value of available-for-sale financial assets;
- Property and equipment revaluation reserve which reflects change in fair value of buildings;
- Foreign currency translation reserve which is used to record exchange differences arising from the translation of the net investment in foreign operations.

Investments in associated companies

An associate is an entity over which the Bank has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations.* Under the equity method, an investment in an associate is initially recognised in the Statement of Financial Position at cost and adjusted thereafter to recognise the Bank's share of the profit or loss and other comprehensive income of the associate. When the Bank's share of losses of an associate exceeds the Bank's interest in that associate (which includes any long-term interests that, in substance, form part of the Bank's net investment in the associate), the Bank discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Bank has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Bank's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Bank's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

The requirements of IAS 39 *Financial Instruments: Recognition and Measurement* are applied to determine whether it is necessary to recognise any impairment loss with respect to the Bank's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 *Impairment of Assets* as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 *Impairment of Assets* to the extent that the recoverable amount of the investment subsequently increases.

Upon disposal of an associate that results in the Bank losing significant influence over that associate, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with IAS 39 *Financial Instruments: Recognition and Measurement.* The difference between the previous carrying amount of the associate attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate. In addition, the Bank accounts for all amounts previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Bank reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses significant influence over that associate.

When the Bank transacts with its associate, profits and losses resulting from the transactions with the associate are recognised in the Bank's financial statements only to the extent of interests in the associate that are not related to the Bank.

Critical accounting judgments and key sources of estimation uncertainty

The preparation of the Bank's financial statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities at the reporting date and the reported amount of income and expenses during the period ended. 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 recognised 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.

Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations (see below), that the Bank management has made in the process of applying the Bank's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Held to maturity financial assets

The Bank management has reviewed the Bank's held to maturity financial assets in the light of its capital maintenance and liquidity requirements and has confirmed the Bank's positive intention and ability to hold those assets to maturity. The carrying amount of the held to maturity financial assets is RUR 154 363 thousand (2011: RUR 160 991 thousand). Details of these assets are set out in Note 19.

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 and advances to customers

The Bank regularly reviews its loans to assess for impairment. The Bank's loan impairment allowances are established to recognize incurred impairment losses in its portfolio of loans and receivables. The Bank considers accounting estimates related to allowance for impairment of loans 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 are based on recent performance experience, and (ii) any significant difference between the Bank's estimated losses and actual losses would require the Bank to record allowances which could have a material impact on its financial statements in future periods.

The Bank uses management's judgment 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 Bank estimates changes in future cash flows based on past performance, past customer behaviour, 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. 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 Bank 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 financial statements have been determined on the basis of existing economic and political conditions. The Bank is not in a position to predict what changes in conditions will take place in RF and what effect such changes might have on the adequacy of the allowance for impairment of financial assets in future periods.

As of 31 December 2012 the loans to customers totalled RUR 125 298 112 thousand (31 December 2011: RUR 103 699 295 thousand), and allowance for impairment losses was RUR 23 469 341 thousand (31 December 2011: RUR 13 481 289 thousand). Details are set in Note 17.

Valuation of financial instruments

As described in Note 03, fair value of financial instruments is calculated by the Bank based on market information available, if any, and proper evaluation methods. However, professional judgment is required to interpret market data in order to calculate fair value. Changes in assessment may influence the fair value recognized in financial statements. The Russian Federation still has some typical features of a developed market, but the economic environment still restricts operations in financial markets. Market quotations may be outdated or reflect transactions at residual value and, thus, sometimes do not reflect fair value of financial instruments. All market information available has been used for measurement of fair value of financial instruments.

The Bank's management believes that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments.

<u>Properties carried at revalued amounts</u>

Certain property and equipment (buildings) and investment properties are carried in the financial statements at revalued cost. The date of the latest appraisal was 31 December 2012. As of 31 December 2012 the carrying value of revalued buildings amounted to RUR 1 038 340 thousand (31 December 2011: RUR 1 041 382 thousand). Details are set in Note 21.

<u>Investment property carried at revalued amounts</u>

Certain investment property is measured at revalued amounts. The date of the latest appraisal was December 31, 2012. The next revaluation is preliminary scheduled as at 31 December 2013. The carrying value of revalued property amounted to RUR 58 797 thousand and RUR 51 876 thousand as at 31 December 2012 and 2011, respectively. Details of the valuation techniques used are set out in Note 22.

<u>Recoverability of deferred tax assets</u>

The Bank regularly assesses the possibility of recognition of deferred tax assets. Recognized deferred tax asset is the amount of income tax which can be offset against future income tax and is recognized in the Statement of Financial Position. Deferred tax assets are recognized to the extent that utilization of respective tax benefit is probable. Assessment of future taxable profit and tax benefit probable for recovery in the future is based on expectations of the management which are considered reasonable in current conditions.

Application of new and revised international financial reporting standards (IFRSs)

Amendments to IFRSs affecting amounts reported in the financial statements

The following amendments to IFRSs have been applied in the current year and have affected the amounts reported in these financial statements.

Amendments to IFRSs affecting presentation and disclosure only

<u>Amendments to IFRS 7 Disclosures – Transfers of Financial Assets</u>

The Bank has applied the amendments to IFRS 7 *Disclosures – Transfers of Financial Assets* in the current year. The amendments increase the disclosure requirements for transactions involving the transfer of financial assets in order to provide greater transparency around risk exposures when financial assets are transferred.

As at 31 December 2012 and 2011 the Bank had no transferred financial assets for which such disclosures were needed.

In accordance with the transitional provisions set out in the amendments to IFRS 7 *Financial instruments: Disclosures*, the Bank has not provided comparative information for the disclosures required by the amendments.

<u>Amendments to IAS 1 Presentation of Items of Other Comprehensive Income</u>

The Bank has 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. 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 may 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.

Amendments to IAS 1 Presentation of Financial Statements
(as part of the Annual improvements to IFRSs 2009-2011 Cycle issued in May 2012)

The Bank has 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).

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 *Presentation of Financial Statements* clarity 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.

Amendments to IAS 12 *Income Taxes* "Deferred tax: Recovery of Underlying Assets"

The Bank has applied the amendments to IAS 12 *Income taxes* "Deferred tax: Recovery of Underlying Assets" in the current year. Under the amendments, investment properties that are measured using the fair value model in accordance with IAS 40 *Investment Property* are presumed to be recovered entirely through sale for the purposes of measuring deferred taxes unless the presumption is rebutted. An application of the amendments to IAS 12 *Income taxes* "Deferred tax: Recovery of Underlying Assets" did not have an effect on the Bank's financial statements.

New and revised IFRSs in issue but not yet effective

The Bank has not applied the following new and revised IFRSs that have been issued but are not yet effective:

- IFRS 9 Financial Instruments[3];
- 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 – "Mandatory Effective Date of IFRS 9 and Transition Disclosures"[3];
- 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 except for the amendment to IAS 1 (see above)[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.

IFRS 9 Financial Instruments

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 recognised financial assets that are within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* to be subsequently measured at amortised 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 amortised 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 recognised in profit or loss.
- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 *Financial Instruments* requires that 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 presented 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 recognised in profit or loss.

The Bank management anticipates that IFRS 9 *Financial Instruments* in the future may have a significant impact on amounts reported in respect of the Bank’s financial assets and financial liabilities (e.g. the Bank’s investments in redeemable notes that are currently classified as available-for-sale investments will have to be measured at fair value at the end of subsequent reporting periods, with changes in the fair value being recognised in profit or loss). 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*.

The Bank management anticipates that the application of these five standards will not have a significant impact on amounts reported in the 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 *Fair Value Measurement* 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 amount fair value measurements, except in specified circumstances. In general, the disclosure requirements in IFRS 13 *Fair Value Measurement* 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 *Fair Value Measurement* to cover all assets and liabilities within its scope.

The Bank management anticipates that the application of the new Standard 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 Bank management anticipates that the application of these amendments to IAS 32 and IFRS 7 may result in more disclosures being made with regards to offsetting financial assets and financial liabilities in the future.

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*. The Bank management anticipates that the amendments to IAS 32 *Financial Instruments: Presentation* will have no effect on the Bank's financial statements as the Bank has already adopted this treatment.

(in thousands of Russian Rubles unless otherwise stated)

3. NET INTEREST INCOME

Net interest income for the year ended 2012 and 2011 comprises:

	2012	2011
Interest income comprises		
Interest income on financial assets recorded at amortized cost	30 203 892	23 616 173
Interest income on assets recorded at fair value	842 881	574 366
Total interest income	**31 046 773**	**24 190 539**
Interest income on assets recorded at amortized cost comprises:		
Interest income on loans and advances to customers	29 409 689	23 292 807
Interest income on loans to banks	780 900	307 535
Interest income on financial assets held-to-maturity	13 303	15 831
Total interest income on financial assets recorded at amortized cost	**30 203 892**	**23 616 173**
Interest income on financial assets at fair value through profit or loss:		
Interest income on financial assets available-for-sale	811 942	552 061
Interest income on financial assets at fair value through profit or loss	30 939	22 305
Total interest income on financial assets recorded at fair value	**842 881**	**574 366**
Interest expense comprises		
Interest on financial liabilities recorded at amortized cost	6 049 401	4 115 458
Total interest expense	**6 049 401**	**4 115 458**
Interest expense on financial liabilities recorded at amortized cost comprises:		
Interest expense on customer accounts	3 855 014	2 875 485
Interest expense on debt securities issued	1 630 808	612 684
Interest expense on due to other banks	418 812	486 083
Interest expense on subordinated debt	144 767	141 206
Total interest expense on financial liabilities recorded at amortized cost	**6 049 401**	**4 115 458**
Net interest income before impairment of interest earning assets	**24 997 372**	**20 075 081**

4. IMPAIRMENT OF INTEREST EARNING ASSETS AND OTHER PROVISIONS

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

	Due from other banks	Loans and advances to customers	Financial assets available-for-sale	Held-to-maturity financial assets	Total
31 December 2010	**3 495**	**10 498 038**	**3 778**	**3 019**	**10 508 330**
Allowances/(recovery of allowance)	577	6 449 394	(22)	-	6 449 949
Write-off against allowance	-	(3 523 680)	(3 756)	(3 019)	(3 530 455)
Recovery of allowance on assets previously written off	-	57 537	-	-	57 537
31 December 2011	**4 072**	**13 481 289**	**-**	**-**	**13 485 361**
Allowances/(recovery of allowance)	(4 072)	10 117 024	-	-	10 112 952
Write-off against allowance	-	(129 154)	-	-	(129 154)
Recovery of allowance on assets previously written off	-	182	-	-	182
31 December 2012	**-**	**23 469 341**	**-**	**-**	**23 469 341**

(in thousands of Russian Rubles unless otherwise stated)

The movements in allowance for impairment losses on other assets and in other provisions were as follows:

	Other assets	Provision for credit commitments	Legal proceedings	Total
31 December 2010	**57 423**	**29 448**	**3 834**	**90 705**
Provision	15 107	14 780	11 396	41 283
Write-off against allowance	(2 018)	-	(9 421)	(11 439)
31 December 2011	**70 512**	**44 228**	**5 809**	**120 549**
Provision	38 214	98 250	27 938	164 402
Write-off against allowance	(381)	-	(8 288)	(8 669)
31 December 2012	**108 345**	**142 478**	**25 459**	**276 282**

5. NET GAIN ON FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

Net gain on financial assets and liabilities at fair value through profit or loss comprises:

	2012	2011
Net gain on operations with derivative financial instruments	682 441	992 259
Net gain/(loss) on financial assets and liabilities held for trading	17 670	(4 893)
Total net gain on financial assets and liabilities at fair value through profit or loss	**700 111**	**987 366**
Net gain/(loss) on operations with financial assets and liabilities held-for-trading comprise:		
Realized gain/(loss) on trading operations	15 388	(2 366)
Unrealized gain/(loss) on fair value adjustment	2 282	(2 527)
Total net gain/(loss) on financial assets and liabilities held for trading	**17 670**	**(4 893)**

The Bank enters into derivative financial instruments to manage currency and liquidity risks and such financial instruments are held primarily for trading purposes.

6. NET LOSS ON FOREIGN EXCHANGE OPERATIONS

Net loss on foreign exchange operations comprises:

	2012	2011
Translation differences, net	251 078	124 683
Dealing, net	(665 204)	(919 338)
Net loss on foreign exchange operations	**(414 126)**	**(794 655)**

(in thousands of Russian Rubles unless otherwise stated)

7. FEE AND COMMISSION INCOME AND EXPENSES

Fee and commission income and expense comprise:

	2012	2011
Fee and commission income		
Plastic cards operations	2 517 062	1 636 105
Cash operations and settlements	1 632 269	1 264 208
Intermediary services	733 582	436 806
Foreign exchange operations	72 205	71 709
Use of a remote access system	62 884	66 881
Attraction of clients for insurance companies	61 540	24 852
Documentary operations and guarantees issue	61 334	21 962
Currency control agent’s functions	43 963	38 815
Encashment operations	7 899	14 905
Banknote transactions	3 794	5 779
Broker services	305	874
Other	13 493	12 182
Total fee and commission income	**5 210 330**	**3 595 078**
Fees and commission expense		
Intermediary services	1 810 269	712 436
Plastic cards operations	355 296	253 655
Financial market operations, including transactions with securities	74 101	42 352
Settlements and money transfers	63 672	62 652
Encashment operations	13 528	7 635
Banknote transactions	3 982	6 800
Depositary services	2 353	3 449
Other	7 870	1 912
Total fee and commission expense	**2 331 071**	**1 090 891**

8. OTHER INCOME

Other income comprises:

	2012	2011
Income from rent of safe boxes	17 994	18 476
Property operating lease	6 452	3 555
Reversal of loss on revaluation of property and equipment of prior periods	3 007	505
Income on accounts payable write-off	2 038	1 214
Fines and penalties	956	778
Income tax refund	-	40 782
Other	5 868	2 743
Total other income	**36 315**	**68 053**

(in thousands of Russian Rubles unless otherwise stated)

9. OPERATING EXPENSES

Operating expenses comprise:

	2012	**2011**
Staff costs	4 641 587	4 222 340
Unified Social Tax	1 041 795	947 092
Operating lease	786 480	801 147
Telecommunication and information services	777 458	671 169
Taxes other than income tax	644 886	436 915
Depreciation and amortization expense	635 421	547 719
Repairs and maintenance expenses	336 275	220 179
Advertising costs	273 061	207 854
Payments to the Deposit Insurance Fund	189 213	156 115
Expenses on materials and furniture not classified as property and equipment	184 219	120 434
Security expenses	97 171	106 188
Professional services	95 767	45 178
Business trip expenses	50 935	46 669
Expenses on rights to use intellectual property	30 599	13 107
Transportation expenses	11 901	18 100
Insurance expenses	8 986	10 055
Charity and sponsorship expenses	3 613	4 475
Loss on revaluation of property and equipment	626	17 693
Other	70 658	93 069
Total operating expenses	**9 880 651**	**8 685 498**

10. INCOME TAX

The Bank provides for income taxes based on the tax accounts maintained and prepared in accordance with the tax regulations of Russian Federation, which may differ from IFRS.

The Bank is subject to certain permanent tax differences due to non-tax deductibility of certain expenses and tax-free regime for certain income.

Deferred taxes reflect the net tax effects 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 of 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 2012 and 2011 reconciliations below is the corporate tax rate of 20% payable by corporate entities in the RF on taxable profits under tax law in that jurisdiction.

Tax effect of temporary differences is presented below.

(in thousands of Russian Rubles unless otherwise stated)

Tax effect of temporary differences as of 31 December 2012 and 2011 is presented below:

	31 December 2012 Net deferred tax asset/ (liability)	**Tax effect on profit or loss**	**Tax effect on other comprehend-sive income**	**31 December 2011 Net deferred tax asset/ (liability)**	**Tax effect on profit or loss**	**Tax effect on other comprehen-sive income**	**31 December 2010 Net deferred tax asset/ (liability)**
Due from other banks	-	(264)	-	264	906		(642)
Financial assets at fair value through profit or loss	(18 089)	52 482	-	(70 571)	(71 018)		447
Loans and advances to customers	55 427	(312 782)	-	368 209	237 159		131 050
Available-for-sale financial assets	(175 318)	80 498	(128 953)	(126 863)	(7 543)	113 147	(232 467)
Financial assets held-to-maturity	(5 972)	(1 559)	-	(4 413)	(632)		(3 781)
Property, equipment and intangible assets	(209 713)	(14 390)	(6 452)	(188 869)	9 703	24 630	(223 202)
Investment property	1 314	210	-	1 104	529		575
Investments in associated companies	-	(8 117)	-	8 117	8 117		-
Other assets	78 511	40 484	-	38 027	12 711		25 316
Financial liabilities at fair value through profit or loss	65 311	41 546	-	23 765	(5 447)		29 212
Debt securities issued	(4 244)	1 044	-	(5 288)	(11 513)		6 225
Other liabilities	243 769	108 668	-	135 101	50 772		84 329
	30 996	(12 180)	(135 405)	178 583	223 744	137 777	(182 938)
Less: unrecognized deferred tax asset	(233 646)	(28 537)	-	(205 110)	(108 363)	-	(96 747)
Net deferred tax liabilities/Tax effect on profit or loss and other comprehensive income for the year	**(202 650)**	**(40 717)**	**(135 405)**	**(26 527)**	**115 381**	**137 777**	**(279 685)**

Relationships between tax expenses and accounting profit for the years ended 31 December 2012 and 2011 are explained below:

	2012	**2011**
Income before tax	**8 079 436**	**7 667 311**
Tax at the statutory tax rate (20%)	1 615 887	1 533 462
Change in deferred tax asset not recognized	28 537	108 363
Tax effect of permanent differences – non-deductible expenses	21 659	21 801
Attributable income tax expense	**1 666 083**	**1 663 626**
Current income tax expense	1 625 366	1 779 007
Change in deferred tax	40 717	(115 381)
Attributable income tax expense	**1 666 083**	**1 663 626**

(in thousands of Russian Rubles unless otherwise stated)

11. EARNINGS PER SHARE

Basic earnings per share are calculated by dividing profits owned by the Bank's shareholders by the average weighted number of ordinary shares outstanding for the year, less treasury shares. The Bank holds no ordinary shares which could potentially dilute earnings per share. Thus, diluted earnings per share are equal to basic earnings per share.

	2012	2011
Net profit for the year attributable to owners of the Bank	6 413 353	6 003 685
Weighted average number of ordinary shares for purposes of basic and diluted earnings per share (thousand of shares)	279 788 785	279 788 785
Earnings per share – basic and diluted (RUR, per share)	**0.023**	**0.021**

12. CASH AND CASH EQUIVALENTS

	31 December 2012	31 December 2011
Cash on hand	2 876 630	3 040 077
Balances on correspondent accounts with the Central Bank of the Russian Federation (less obligatory reserves)	2 565 112	3 608 309
Balances on correspondent accounts with banks and non-banking credit institutions	1 107 597	1 170 993
Total cash and cash equivalents	**6 549 339**	**7 819 379**

Geographical, currency and interest rate are disclosed in Note 35.

13. OBLIGATORY RESERVE DEPOSITS WITH THE CENTRAL BANK OF THE RUSSIAN FEDERATION

As of 31 December 2012 obligatory reserve deposits with the Central Bank of the Russian Federation amounted to RUR 1,162,133 thousand (31 December 2011: RUR 975 726 thousand). The Bank is required to maintain the reserve balance at the CBR at all times.

Geographical, currency and interest rate risks are disclosed in Note 35.

14. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets at fair value through profit or loss comprise:

	31 December 2012	31 December 2011
Financial assets held for trading:		
Government bonds	37 237	400 493
Total financial assets at fair value through profit or loss	**37 237**	**400 493**

As of 31 December 2012 financial assets at fair value through profit or loss included accrued interest income on debt securities for the total amount of RUR 807 thousand (31 December 2011: RUR 8 690 thousand).

(in thousands of Russian Rubles unless otherwise stated)

As of 31 December 2012 federal loan bonds amounting to RUR 37 237 thousand (31 December 2011: RUR 167 945 thousand), were restricted by the Central Bank of Russian Federation. Collateral represented by these securities enables the Bank to use the one-day and automatic overdraft loans while transfer payments through the current accounts with the Central Bank of the Russian Federation.

Geographical, currency and interest rate risks are disclosed in Note 35.

15. DERIVATIVE FINANCIAL ASSETS AND LIABILITIES

	31 December 2012				31 December 2011			
			Fair value				Fair value	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Forward contracts								
Buy USD sell RUR	4 325	(4 157)	168		260 371	(270 474)	-	(10 103)
Buy EUR sell RUR	-	-	-		274 605	(271 912)	2 693	-
Foreign exchange spot contracts								
Buy RUR sell EUR	6 034	(6 024)	10	-	-	-	-	-
Buy RUR sell USD	528 485	(527 291)	1 217	(23)	-	-	-	-
Buy USD sell RUR	1 881 704	(1 883 107)	20	(1 423)	-	-	-	-
Buy EUR sell USD	482 743	(480 068)	2 675	-	-	-	-	-
Buy CHF sell USD	1 071 498	(1 072 156)	-	(658)	-	-	-	-
Buy USD sell EUR	1 706 329	(1 705 693)	636	-	-	-	-	-
Buy USD sell GBP	136 983	(137 098)	-	(115)	-	-	-	-
Buy USD sell KZT	-	-	-	-	5 473	(5 472)	1	-
Swap contracts								
Buy USD sell RUR	2 121 992	(2 035 272)	86 720	-	2 174 522	(2 253 360)	17 062	(95 900)
Buy RUR sell USD	5 114 621	(5 431 708)	-	(317 087)	5 345 624	(5 009 423)	336 201	-
Buy USD sell EUR	65 578	(70 396)	-	(4 818)	1 373 429	(1 375 106)	-	(1 677)
Buy CHF sell USD	-	-	-	-	482 768	(482 911)	-	(143)
Buy EUR sell USD	-	-	-	-	270 715	(281 717)	-	(11 002)
Buy USD sell GBP	-	-	-	-	89 430	(89 299)	131	-
Interest rate swap contracts								
RUR receivable on settlement	-	(2 429)	-	(2 429)	-	-	-	-
Total	**13 120 292**	**(13 355 399)**	**91 446**	**(326 553)**	**10 276 937**	**(10 039 674)**	**356 088**	**(118 825)**

Forwards

Forward contracts are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over-the-counter market. The Bank has credit exposure to the counterparties of forward contracts. Forward contracts are settled on a gross basis. Forwards result in market risk exposure.

Swaps

Swaps are contractual agreements between two parties to exchange streams of payments over time based on specified notional amounts, in relation to movements in a specified underlying index such as foreign currency rate.

In a currency swap, the Bank pays a specified amount in one currency and receives a specified amount in another currency. Currency swaps are mostly gross-settled.

Geographical, currency and interest rate risks are disclosed in Note 35.

(in thousands of Russian Rubles unless otherwise stated)

16. LOANS AND ADVANCES TO BANKS AND OTHER FINANCIAL INSTITUTIONS

Loans and advances to banks and other financial institutions:

	31 December 2012	31 December 2011
Term deposits	12 937 997	5 962 012
Less: allowance for impairment losses	-	(4 072)
Total due from other banks	12 937 997	5 957 940

As of 31 December 2012 included in amounts due from other banks is accrued interest income of RUR 12 455 thousand (31 December 2011: RUR 11 973 thousand).

As of 31 December 2012 the Bank had term deposits with the parent bank (OTP BANK PLC), which exceeded 39% (31 December 2011: 9%) of the Bank's equity.

Movements in allowances for impairment losses on loans to banks for the years ended 31 December 2012 and 2011 are disclosed in Note 4.

Geographical, currency and interest rate risks are disclosed in Note 35.

17. LOANS AND ADVANCES TO CUSTOMERS

Loans to customers comprise as of 31 December 2012 comprise:

	Loans not past due	Loans with past due payments	Total
Loans and advances to individuals			
Consumer loans to individuals at points of sale	40 810 405	13 137 902	53 948 307
Plastic card overdrafts	24 288 677	14 558 399	38 847 076
Cash loans to individuals	16 212 286	4 287 997	20 500 283
Mortgage loans to individuals	5 357 282	1 260 300	6 617 582
Car loans to individuals	636 185	359 120	995 305
Total loans and advances to individuals	**87 304 835**	**33 603 718**	**120 908 553**
Loans and advances to legal entities			
Loans and advances to legal entities	3 724 686	664 873	4 389 559
Total loans and advances to legal entities	**3 724 686**	**664 873**	**4 389 559**
Total loans and advances to customers before allowance for loan impairment	**91 029 521**	**34 268 591**	**125 298 112**
Less: allowance for loan impairment	(639 999)	(22 829 342)	(23 469 341)
Total loans and advances to customers	**90 389 522**	**11 439 249**	**101 828 771**

(in thousands of Russian Rubles unless otherwise stated)

Loans to customers comprise as of 31 December 2011 comprise:

	Loans not past due	Loans with past due payments	Total
Loans and advances to individuals			
Consumer loans to individuals at points of sale	33 886 328	7 173 826	41 060 154
Cash loans to individuals	17 242 972	2 365 269	19 608 241
Plastic card overdrafts	14 736 226	9 717 505	24 453 731
Mortgage loans to individuals	7 188 374	1 437 538	8 625 912
Car loans to individuals	1 426 203	418 436	1 844 639
Total loans and advances to individuals	**74 480 103**	**21 112 574**	**95 592 677**
Loans and advances to legal entities and entrepreneurs			
Loans and advances to legal entities and entrepreneurs	6 235 492	1 871 126	8 106 618
Total Loans and advances to legal entities and entrepreneurs	**6 235 492**	**1 871 126**	**8 106 618**
Total loans and advances to customers before provision for loan impairment	**80 715 595**	**22 983 700**	**103 699 295**
Less: allowance for loan impairment	(351 666)	(13 129 623)	(13 481 289)
Total loans and advances to customers	**80 363 929**	**9 854 077**	**90 218 006**

The table below shows the analysis of loans and allowance for loan impairment as at 31 December 2012:

	Gross loans	Allowance for impairment	Net loans	Allowance for impairment to gross loans
Consumer loans to individuals at points of sale				
Collectively assessed loans				
Not past due	40 810 405	(433 177)	40 377 228	1,06%
Loans up to 30 days overdue	1 761 498	(255 155)	1 506 343	14,49%
Loans 31 to 60 days overdue	845 473	(293 368)	552 105	34,70%
Loans 61 to 90 days overdue	663 494	(310 316)	353 178	46,77%
Loans 91 to 180 days overdue	1 671 614	(992 153)	679 461	59,35%
Loans over 180 days overdue	8 195 823	(7 366 149)	829 674	89,88%
Total consumer loans to individuals at points of sale	**53 948 307**	**(9 650 318)**	**44 297 989**	**17,89%**
Cash loans to individuals				
Collectively assessed loans				
Not past due	16 212 181	(47 225)	16 164 956	0,29%
Loans up to 30 days overdue	690 096	(99 513)	590 583	14,42%
Loans 31 to 60 days overdue	294 692	(132 161)	162 531	44,85%
Loans 61 to 90 days overdue	208 626	(124 477)	84 149	59,67%
Loans 91 to 180 days overdue	455 484	(333 633)	121 851	73,25%
Loans over 180 days overdue	2 465 679	(2 180 823)	284 856	88,45%
Total collectively assessed cash loans to individuals	**20 326 758**	**(2 917 832)**	**17 408 926**	**14,35%**
Individually assessed loans				
Not past due	105	(105)	-	100,00%
Loans up to 30 days overdue	-	-	-	0,00%
Loans 31 to 60 days overdue	-	-	-	0,00%
Loans 61 to 90 days overdue	-	-	-	0,00%
Loans 91 to 180 days overdue	-	-	-	0,00%
Loans over 180 days overdue	173 420	(173 420)	-	100,00%
Total individually assessed cash loans to individuals	**173 525**	**(173 525)**	**-**	**100,00%**
Total cash loans to individuals	**20 500 283**	**(3 091 357)**	**17 408 926**	**15,08%**

(in thousands of Russian Rubles unless otherwise stated)

	Gross loans	Allowance for impairment	Net loans	Allowance for impairment to gross loans
Plastic card overdrafts				
Collectively assessed loans				
Not past due	24 288 677	(79 262)	24 209 415	0,33%
Loans up to 30 days overdue	2 146 757	(128 437)	2 018 320	5,98%
Loans 31 to 60 days overdue	932 189	(194 535)	737 654	20,87%
Loans 61 to 90 days overdue	725 888	(266 422)	459 466	36,70%
Loans 91 to 180 days overdue	1 682 287	(957 673)	724 614	56,93%
Loans over 180 days overdue	9 071 277	(7 856 189)	1 215 088	86,61%
Total plastic card overdrafts	**38 847 076**	**(9 482 518)**	**29 364 557**	**24,41%**
Mortgage loans to individuals				
Collectively assessed loans				
Not past due	5 357 282	(1)	5 357 281	0,00%
Loans up to 30 days overdue	54 397	-	54 397	0,00%
Loans 31 to 60 days overdue	54 881	-	54 881	0,00%
Loans 61 to 90 days overdue	34 531	-	34 531	0,00%
Loans 91 to 180 days overdue	29 500	(325)	29 175	1,10%
Loans over 180 days overdue	1 086 991	(373 560)	713 431	34,37%
Total mortgage loans to individuals	**6 617 582**	**(373 886)**	**6 243 696**	**5,65%**
Car loans to individuals				
Collectively assessed loans				
Not past due	636 185	(38)	636 147	0,01%
Loans up to 30 days overdue	23 149	(117)	23 032	0,51%
Loans 31 to 60 days overdue	4 994	(359)	4 635	7,19%
Loans 61 to 90 days overdue	5 110	(424)	4 686	8,30%
Loans 91 to 180 days overdue	8 057	(1 756)	6 301	21,79%
Loans over 180 days overdue	317 811	(231 702)	86 109	72,91%
Total car loans	**995 306**	**(234 396)**	**760 910**	**23,55%**
Total loans to individuals	**120 908 553**	**(22 832 475)**	**98 076 078**	**18,88%**
Loans and advances to legal entities and entrepreneurs				
Collectively assessed loans				
Not past due	2 048 523	(54 630)	1 993 893	2,67%
Loans up to 30 days overdue	-	-	-	0,00%
Loans 31 to 60 days overdue	-	-	-	0,00%
Loans 61 to 90 days overdue	-	-	-	0,00%
Loans 91 to 180 days overdue	-	-	-	0,00%
Loans over 180 days overdue	3 005	(2 668)	337	88,79%
Total collectively assessed loans	**2 051 528**	**(57 298)**	**1 994 230**	**2,79%**
Individually assessed loans				
Not past due	1 676 163	(25 560)	1 650 603	1,52%
Loans up to 30 days overdue	-	-	-	0,00%
Loans 31 to 60 days overdue	-	-	-	0,00%
Loans 61 to 90 days overdue	-	-	-	0,00%
Loans 91 to 180 days overdue	-	-	-	0,00%
Loans over 180 days overdue	661 868	(554 008)	107 860	83,70%
Total individually assessed loans	**2 338 031**	**(579 568)**	**1 758 463**	**24,79%**
Total Loans and advances to legal entities and entrepreneurs	**4 389 559**	**(636 866)**	**3 752 693**	**14,51%**
Total loans and advances to customers at 31 December 2012	**125 298 112**	**(23 469 341)**	**101 828 771**	**18,73%**

(in thousands of Russian Rubles unless otherwise stated)

The table below shows the analysis of loans and allowance for loan impairment as at 31 December 2011:

	Gross loans	Allowance for impairment	Net loans	Allowance for impairment to gross loans
Consumer loans to individuals at points of sale				
Collectively assessed loans				
Not past due	33 886 328	(167 122)	33 719 206	0,50%
Loans up to 30 days overdue	2 036 763	(300 960)	1 735 803	14,80%
Loans 31 to 60 days overdue	589 875	(240 950)	348 925	40,80%
Loans 61 to 90 days overdue	436 687	(239 950)	196 737	54,90%
Loans 91 to 180 days overdue	887 168	(602 868)	284 300	68,00%
Loans over 180 days overdue	3 223 333	(2 930 274)	293 059	88,10%
Total consumer loans to individuals at points of sale	**41 060 154**	**(4 482 124)**	**36 578 030**	**10,70%**
Cash loans to individuals				
Collectively assessed loans				
Not past due	17 225 293	(22 955)	17 202 338	0,10%
Loans up to 30 days overdue	437 293	(37 947)	399 346	8,70%
Loans 31 to 60 days overdue	153 460	(47 401)	106 059	30,90%
Loans 61 to 90 days overdue	145 076	(64 757)	80 319	44,60%
Loans 91 to 180 days overdue	274 671	(162 951)	111 720	59,30%
Loans over 180 days overdue	1 343 656	(1 189 040)	154 616	84,80%
Total collectively assessed loans	**19 579 449**	**(1 525 051)**	**18 054 398**	**7,50%**
Individually assessed loans				
Not past due	17 679	(596)	17 083	3,40%
Loans up to 30 days overdue	588	(1)	587	0,20%
Loans 31 to 60 days overdue	-	-	-	0,00%
Loans 61 to 90 days overdue	-	-	-	0,00%
Loans 91 to 180 days overdue	-	-	-	0,00%
Loans over 180 days overdue	10 525	(10 525)	-	100,00%
Total individually assessed loans	**28 792**	**(11 122)**	**17 670**	**38,60%**
Total cash loans to individuals	**19 608 241**	**(1 536 173)**	**18 072 068**	**7,60%**
Plastic card overdrafts				
Collectively assessed loans				
Not past due	14 736 226	(18 632)	14 717 594	0,10%
Loans up to 30 days overdue	1 776 908	(44 237)	1 732 671	2,50%
Loans 31 to 60 days overdue	765 633	(77 427)	688 206	10,10%
Loans 61 to 90 days overdue	401 872	(100 705)	301 167	25,10%
Loans 91 to 180 days overdue	876 277	(460 637)	415 640	52,60%
Loans over 180 days overdue	5 896 815	(5 279 679)	617 136	88,80%
Total plastic card overdrafts	**24 453 731**	**(5 981 317)**	**18 472 414**	**24,30%**
Mortgage loans to individuals				
Collectively assessed loans				
Not past due	7 188 374	(11)	7 188 363	0,00%
Loans up to 30 days overdue	153 033	-	153 033	0,00%
Loans 31 to 60 days overdue	58 061	(8)	58 053	0,00%
Loans 61 to 90 days overdue	48 590	(30)	48 560	0,10%
Loans 91 to 180 days overdue	57 607	-	57 607	0,00%
Loans over 180 days overdue	1 120 247	(431 891)	688 356	38,60%
Total mortgage loans to individuals	**8 625 912**	**(431 940)**	**8 193 972**	**5,00%**

(in thousands of Russian Rubles unless otherwise stated)

	Gross loans	Allowance for impairment	Net loans	Allowance for impairment to gross loans
Car loans to individuals				
Collectively assessed loans				
Not past due	1 426 203	(27)	1 426 176	0,00%
Loans up to 30 days overdue	44 353	(80)	44 273	0,20%
Loans 31 to 60 days overdue	10 354	(190)	10 164	1,80%
Loans 61 to 90 days overdue	6 306	(327)	5 979	5,20%
Loans 91 to 180 days overdue	12 019	(2 756)	9 263	22,90%
Loans over 180 days overdue	345 404	(261 628)	83 776	75,70%
Total car loans	**1 844 639**	**(265 008)**	**1 579 631**	**14,40%**
Total loans to individuals	**95 592 677**	**(12 696 562)**	**82 896 115**	**13,10%**
Loans and advances to legal entities and entrepreneurs				
Collectively assessed loans				
Not past due	1 734 794	(60 391)	1 674 403	3,50%
Loans up to 30 days overdue	762 685	(25 458)	737 227	3,30%
Loans 31 to 60 days overdue	679	(7)	672	1,00%
Loans 61 to 90 days overdue	-	-	-	0,00%
Loans 91 to 180 days overdue	779	(779)	-	100,00%
Loans over 180 days overdue	10 902	(2 805)	8 097	25,70%
Total collectively assessed loans	**2 509 839**	**(89 440)**	**2 420 399**	**3,60%**
Individually assessed loans				
Not past due	4 500 698	(81 932)	4 418 766	1,80%
Loans up to 30 days overdue	-	-	-	0,00%
Loans 31 to 60 days overdue	-	-	-	0,00%
Loans 61 to 90 days overdue	-	-	-	0,00%
Loans 91 to 180 days overdue	1 259	(1 259)	-	100,00%
Loans over 180 days overdue	1 094 822	(612 096)	482 726	72,90%
Total individually assessed loans	**5 596 779**	**(695 287)**	**4 901 492**	**15,70%**
Total Loans and advances to legal entities and entrepreneurs	**8 106 618**	**(784 727)**	**7 321 891**	**12,00%**
Total loans and advances to customers at 31 December 2011	**103 699 295**	**(13 481 289)**	**90 218 006**	**13,00%**

Movements in allowances for impairment losses for the years ended 31 December 2012 and 2011 are disclosed in Note 4.

The table below summarizes the amount of loans analyzed by type of collateral, rather than the fair value of the collateral itself:

	31 December 2012	31 December 2011
Unsecured loans	113 862 953	86 151 049
Loans collateralized by pledge of securities	5 716 286	589 233
Loans collateralized by pledge of real estate and receivables	2 486 290	11 585 043
Loans collateralized by pledge of inventories	2 477 999	7 415
Loans collateralized by goods in turnover	116 152	509 868
Loans collateralized by pledge of motor vehicles	58 297	2 009 309
Loans collateralized by pledge of other property	50 233	975 163
Loans collateralized by Bank's promissory notes	-	30 682
Loans collateralized by other collateral	529 902	1 841 533
	125 298 112	**103 699 295**
Less: allowance for impairment losses	(23 469 341)	(13 481 289)
Total loans and advances to customers	**101 828 771**	**90 218 006**

(in thousands of Russian Rubles unless otherwise stated)

The table below summarizes the amount of loans analyzed by industry:

	31 December 2012	31 December 2011
Analysis by sector		
Individuals	120 908 553	95 592 677
Real estate and rent	1 703 821	2 279 892
Trade	1 732 886	2 700 208
Manufacturing	378 019	947 554
Construction	256 636	811 504
Transport and communication	217 876	788 877
Publishing and printing	64 823	112 540
Finance and operating leases	14 652	73 933
Agriculture	10 913	87 051
Financial services	-	163 049
Services	-	109 362
Other	9 933	32 648
	125 298 112	**103 699 295**
Less: allowance for impairment losses	(23 469 341)	(13 481 289)
Total loans and advances to customers	**101 828 771**	**90 218 006**

During 2012 the Bank received financial assets by taking possession of collateral it held as security with fair value of RUR 104 581 thousand (2011 – RUR 20 108 thousand). As of 31 December 2012 part of such assets in the amount of RUR 102 687 thousand (31 December 2011: RUR 4 303 thousand) was included in other assets. The remaining part was sold during 2012 and 2011.

As of 31 December 2012, included in loans to customers were loans of RUR 717 964 thousand (31 December 2011: RUR 938 728 thousand), the terms of which were renegotiated. Otherwise these loans would have been past due or individually impaired.

As of 31 December 2012 included in loans to customers is accrued interest income, less allowance for impairment losses, of RUR 3 490 859 thousand (31 December 2011: RUR 2 188 793 thousand). Accrued interest on impaired loans as of 31 December 2012 is RUR 1 651 741 thousand (31 December 2011: RUR 1 058 161 thousand).

As of 31 December 2012 loans amounting to RUR 2 555 741 thousand (31 December 2011: RUR 3 758 309 thousand) that are individually impaired are collateralized by the Bank's promissory notes, pledge of real estate, motor vehicles, equipment, goods in turnover and other collateral with fair value of RUR 3 576 666 thousand (31 December 2011: RUR 4 247 473 thousand).

Geographical, currency and interest rate risks are disclosed in Note 35.

18. FINANCIAL ASSETS AVAILABLE-FOR-SALE

Available-for-sale financial assets comprise:

	31 December 2012	31 December 2011
Debt securities	15 542 477	7 671 280
Equity securities	231 417	8 137
Total financial assets available-for-sale	**15 773 894**	**7 679 417**

(in thousands of Russian Rubles unless otherwise stated)

Debt securities comprise of:

	Maturity	Nominal annual interest rate,%	31 December 2012	Maturity	Nominal annual interest rate,%	31 December 2011
Government bonds	October 2013-August 2014	6.55-12.00	3 215 829	-	-	-
Eurobonds	December 2015-without maturity	5.875-7.50	4 282 148	February 2012-November 2016	4.00-7.875	5 026 770
Promissory notes	March 2013-December 2013	4.00-9.22	6 136 793	January 2012-May 2012	3.03-8.40	2 392 099
Corporate bonds	March 2013-April 2022	6.75-9.40	1 907 707	November 2018-October 2021	8.75	252 411
Total debt securities available-for-sale			**15 542 477**			**7 671 280**

As of 31 December 2012 available-for-sale investments included accrued interest income on debt securities for the total amount of RUR 592 015 thousand (31 December 2011: RUR 453 297 thousand).

As of 31 December 2012 government and corporate bonds amounting to RUR 4 192 776 thousand were restricted by the Central Bank of Russian Federation. Collateral represented by these securities enables the Bank to use the one-day and automatic overdraft loans while transfer payments through the correspondent accounts with the Central Bank of the Russian Federation.

As at 31 December 2012 available-for-sale investments included pledged under repurchase agreements with other banks totalling RUR 930 760 thousand (see Note 24).

Geographical, currency and interest rate risks are disclosed in Note 35.

19. HELD TO MATURITY FINANCIAL ASSETS

Investments held-to-maturity comprise:

	31 December 2012		31 December 2011	
	Nominal annual interest rate,%	**Amount**	**Nominal annual interest rate,%**	**Amount**
Eurobonds	8.63	154 363	8.63	160 991
Total financial assets held-to-maturity		**154 363**		**160 991**

As of 31 December 2012 financial assets held-to-maturity included accrued interest income, less allowance for impairment loss, totalling to RUR 6 483 thousand (31 December 2011: RUR 6 762 thousand).

Geographical, currency and interest rate risks are disclosed in Note 35.

(in thousands of Russian Rubles unless otherwise stated)

20. INVESTMENTS IN ASSOCIATES

In November 2010 the Bank became a member of LLC OTP Credit, whose exclusive activity is the provision of finance services, in particular, issuance of loans to legal entities and individuals. The company was registered in 2010 and operates under the laws of Ukraine. The total contribution of the Bank to the share capital of the company amounted to UAH 77,200 thousand which was equal to a share of 40% at the date of contribution.

From the date of contribution the Company was consolidated in the Bank's financial statements using the equity method of accounting. As of 31 December 2011 the carrying amount of the investment was RUR 255 749 thousand.

On 31 March 2012 OTP Credit Ukraine contributed UAH 300,000 thousand to the share capital of LLC OTP Credit which resulted in the Bank's share in share capital of LLC OTP Credit decreasing to 15,7%.The Bank's management concluded that from that date the Bank lost significant influence over the operating and financing activities of LLC OTP Credit and stopped applying the equity method to account for the investment. On 31 March 2012 the investment in LLC OTP Credit was reclassified to financial assets available-for-sale category and accounted in accordance with IAS 39 "Financial instruments: recognition and measurement".

The fair value of the investment in LLC OTP Credit is equity at the date of reclassification amounted to RUR 253 460 thousand. The carrying amount of the investment at the date of reclassification amounted to RUR 207 560 thousand. The difference between carrying amount and fair value of the investment at the date of reclassification amounting to RUR 45 900 thousand was classified as a gain on reclassification.

Reconciliation of the investments in associates as of 31 December 2012 and 2011 comprise:

	31 December 2012	31 December 2011
As at 1 January	**255 749**	**7 275**
Acquisition of investments	-	293 258
Share of loss of associates	(26 421)	(49 495)
Exchange differences	(21 768)	4 711
Investment in associates reclassified from this category when the Bank ceased to have a significant influence	(207 560)	-
As at 31 December	**-**	**255 749**

Amounts presented in the Statement of Comprehensive Income comprise:

	2012	2011
Share of loss of associates	(26 421)	(49 495)
Gain on reclassification	45 900	-
Gains/(losses) from associate	**19 479**	**(49 495)**

Summarized financial information in respect of the Bank's associate as of 31 December 2012 and 2011 is set out below:

	2012			2011		
	Assets	Liabilities	Net loss for the year	Assets	Liabilities	Net loss for the year
LLC OTP Credit	1 431 736	5 939	(303 277)	1 351 706	712 333	(123 328)

Geographical, currency and interest rate risks are disclosed in Note 35.

(in thousands of Russian Rubles unless otherwise stated)

21. PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS

Property, equipment and intangible assets comprise:

	Land	Buildings	Other property and equipment	Intangible assets	Construc-tion in progress, capital investments	Total
At initial/indexed/revalued cost						
31 December 2010	**6 067**	**1 520 785**	**2 189 259**	**592 411**	**12 323**	**4 320 845**
Acquisitions	-	-	486 906	269 878	36 547	793 331
Revaluation	-	(173 440)	-	-	-	(173 440)
Transfers	-	-	3 066	7 065	(10 131)	-
Reclassification to investment property	(229)	(58 846)	-	-	-	(59 075)
Disposals	(13)	(2 205)	(153 800)	(26 494)	(292)	(182 804)
31 December 2011	**5 825**	**1 286 294**	**2 525 431**	**842 860**	**38 447**	**4 698 857**
Acquisitions	-	874	450 889	287 394	-	739 157
Revaluation	-	43 938	-	-	-	43 938
Transfers	-	-	28 342 -		(28 342)	0
Reclassification to investment property	-	(7 672)	-	-	-	(7 672)
Disposals	-	(3 859)	(130 067)	(97 169)	(8 952)	(240 047)
31 December 2012	**5 825**	**1 319 575**	**2 874 595**	**1 033 085**	**1 153**	**5 234 233**
Accumulated depreciation and amortization						
31 December 2010	**-**	**253 030**	**1 312 596**	**244 768**	**-**	**1 810 394**
Charge for the period	-	33 015	334 443	180 261	-	547 719
Revaluation	-	(33 105)	-	-	-	(33 105)
Reclassification to investment property	-	(7 808)	-	-	-	(7 808)
Disposals	-	(220)	(127 406)	(25 563)	-	(153 189)
31 December 2011	**-**	**244 912**	**1 519 633**	**399 466**	**-**	**2 164 011**
Charge for the period	-	28 274	370 707	236 440	-	635 421
Revaluation	-	9 417	-	-	-	9 417
Reclassification to investment property	-	(884)	-	-	-	(884)
Disposals	-	(484)	(90 703)	(101 695)	-	(192 882)
31 December 2012	**-**	**281 235**	**1 799 637**	**534 211**	**-**	**2 615 083**
Net book value						
31 December 2012	**5 825**	**1 038 340**	**1 074 958**	**498 874**	**1 153**	**2 619 150**
31 December 2011	**5 825**	**1 041 382**	**1 005 798**	**443 394**	**38 447**	**2 534 846**

As of 31 December 2012 included in property and equipment was fully depreciated equipment of RUR 1 000 752 thousand (31 December 2011: RUR 851 909 thousand).

(in thousands of Russian Rubles unless otherwise stated)

As of 31 December 2012 and 2011 the Bank revalued its buildings. The revaluation was performed by appraisers who have recognized qualifications and are experienced in the revaluation of properties with similar location and category. Due to heterogeneity of the revalued buildings, which are located in different regions of the Russian Federation, the revaluation was performed using the following methods: discounted cash flow approach (income approach), sales comparison approach (comparative approach). In evaluation of properties, taking into consideration the developed market for sales of such properties, the comparative approach was mainly used. Since the properties are commercial real estate, they were evaluated using the income approach, in particular, the capitalization method was used.

As of 31 December 2012 buildings owned by the Bank were recognized at a revalued amount. As a result, the carrying value of these buildings amounted to RUR 1 038 340 thousand. If the buildings were accounted at historical cost restated for inflation less accumulated depreciation their carrying value at 31 December 2012 would be RUR 635 115 thousand.

As of 31 December 2011 the carrying value of buildings including previous revaluation amounted to RUR 1 041 382 thousand. If the buildings were accounted at historical cost less accumulated depreciation their carrying value at 31 December 2011 would be RUR 683 156 thousand.

22. INVESTMENT PROPERTY

	31 December 2012	31 December 2011
Investment properties as of 1 January	**51 876**	**5 900**
Transferred from property and equipment	6 788	51 267
Change in fair value	133	(5 291)
Investment properties as of 31 December	**58 797**	**51 876**

The Bank applies the fair value accounting model to investment properties.

The properties were reclassified to Investment Property upon the change of the intention of the Bank with regard to their usage.

As of 31 December 2012 and 2011 they were revalued at fair value which was determined based on the assessment performed by appraisers who have the required qualification and experience in appraising properties of similar categories and similar location. The valuation was arrived at by reference to market evidence of transaction prices for similar properties (comparative approach), as well as based on discounted cash flow approach (income approach).

As of 31 December 2012 net gain (loss) from revaluation of investment property in the amount of RUR 133 thousand (31 December 2011: RUR (5 291) thousand) was reflected within other operating expense of the Bank.

Included into operating lease income is investment property rental income as of 31 December 2012 of RUR 585 thousand (31 December 2011: 361 thousand).

As of 31 December 2012 and 2011 the Bank had no limitations regarding sales of investment properties, as well as regarding distribution of proceeds from their disposal.

As of 31 December 2012 and 2011 the Bank had no material liabilities regarding repairs, current servicing or improvement of investment properties.

(in thousands of Russian Rubles unless otherwise stated)

23. OTHER ASSETS

Other assets comprise:

	31 December 2012	31 December 2011
Other financial assets		
Accrued commission income	59 994	28 405
Receivables on other transactions	36 297	23 637
Unsettled transactions with plastic cards	9 454	7 547
Insurance coverage of transactions at trading venues	50	10 050
Accrued dividends	16	17
	105 811	**69 656**
Less: allowance for impairment losses	(67 270)	(39 967)
Total other financial assets	**38 541**	**29 689**
Other non-financial assets		
Prepayments and receivables on business transactions	536 353	416 977
Property received as collateral under loan agreement	102 687	4 303
Tax settlements, other than income tax	38 975	44 914
Inventories	12 677	27 888
Receivable from staff	3 105	2 049
Current income tax assets	-	124
	693 797	**496 255**
Less: allowance for impairment losses	(41 075)	(30 545)
Total other non-financial assets	**652 722**	**465 710**
Total other assets	**691 263**	**495 399**

Movements in the provision for impairment losses on other assets for the years ended 31 December 2012 and 2011 are disclosed in Note 4.

Geographical, currency and interest rate risks are disclosed in Note 35.

24. DUE TO OTHER BANKS

Due to other banks comprise:

	31 December 2012	31 December 2011
Loans and deposits from other banks	10 099 760	12 040 055
Correspondent accounts of other banks	246 202	241 155
Total due to other banks	**10 345 962**	**12 281 210**

As of 31 December 2012 accrued interest expenses included in due to other banks was RUR 41 345 thousand (31 December 2011: RUR 65 529 thousand).

As of 31 December 2012 amounts of RUR 6 717 382 thousand (64.93%) (31 December 2011: RUR 11 528 274 thousand (93.87%)), were due to the parent bank, which represents significant concentration.

As at December 31, 2012 in deposits by banks are loans under repurchase agreements of RUR 773 151 thousand that were settled before 9 January 2013.

(in thousands of Russian Rubles unless otherwise stated)

Fair value of assets pledged and carrying value of loans under repurchase agreements as at 31 December 2012 comprise:

	31 December 2012	
	Carrying value of loans	**Fair value of collateral**
Corporate bonds	773 151	930 760
Total	773 151	930 760

Geographical, currency and interest rate risks are disclosed in Note 35.

25. CUSTOMER ACCOUNTS

Customer accounts comprise:

	31 December 2012	**31 December 2011**
Time deposits	59 675 573	45 155 725
Current/settlement accounts and demand deposits	23 395 360	20 949 336
Total customer accounts	**83 070 933**	**66 105 061**

	31 December 2012	**31 December 2011**
Analysis by sector		
Individuals	55 764 623	45 234 077
Trade	7 109 760	4 101 264
Finance and investments	3 943 957	3 378 030
Insurance	3 823 981	2 617 785
Construction	3 133 181	2 154 789
Real estate and rent	2 813 367	2 143 442
Services	2 674 622	2 609 607
Science, education and IT	898 216	774 068
Manufacturing and engineering	665 813	683 891
Public activities and charity	614 675	837 007
Transport and communication	486 381	563 818
Marketing and advertising	283 877	259 322
Publishing and mass media	250 094	231 624
Agriculture	264 083	150 019
Food	172 168	49 564
Geological investigations	65 703	69 690
Oil & gas production, refining and transportation	64 106	24 577
Power and heat generation and distribution	12 818	18 122
Finance and operating leases	3 808	4 456
Other	25 700	199 909
Total customer accounts	**83 070 933**	**66 105 061**

As of 31 December 2012 included in customer accounts is accrued interest expense of RUR 1 683 605 thousand (31 December 2011: RUR 699 542 thousand).

As of 31 December 2012 customer accounts totalling RUR 3 159 184 thousand (31 December 2011: RUR 2 040 739 thousand) exceeded 10% of the Bank's capital.

Geographical, currency and interest rate risks are disclosed in Note 35.

(in thousands of Russian Rubles unless otherwise stated)

26. DEBT SECURITIES ISSUED

Debt securities issued comprise:

	Maturity month/year	Interest rate per annum, %	31 December 2012	Maturity month/year	Interest rate per annum, %	31 December 2011
Bonds	March 2014-October 2014	8.21-10.86	14 026 762	March 2014-October 2014	8.21-10.88	11 754 851
Discount bearing promissory notes	January 2013-June 2013	1.86-10.33	2 216 968	January 2012-July 2015	5.75-9.03	2 338 313
Interest-bearing promissory notes	June 2013	0.08	2 863	January 2012	0.10	2 906
Interest/discount free promissory notes	on demand-March 2015	-	15 622	on demand-March 2013	-	25 814
Total debt securities issued			**16 262 215**			**14 121 884**

As of 31 December 2012 included in debt securities issued is accrued interest expense of RUR 471 491 thousand (31 December 2011: RUR 383 903 thousand).

Geographical, currency and interest rate risks are disclosed in Note 35.

27. OTHER LIABILITIES

Other liabilities comprise:

	31 December 2012	31 December 2011
Other financial liabilities		
Trade accounts payable and fees payable for professional services	360 264	222 331
Accrued commission expenses	272 011	61 137
Unsettled transactions with plastic cards	221 055	90 989
Provision for credit commitments	142 478	44 228
Settlements on other operations	71 236	46 864
	1 067 044	**465 549**
Other non-financial liabilities		
Salary payable	815 724	716 037
Taxes payable, other than income tax	410 489	287 916
Accrued expenses on deposit insurance premiums	50 946	40 745
Provisions for legal proceedings	25 459	5 809
Advances received	19 849	7 062
	1 322 467	**1 057 569**
Total other liabilities	**2 389 511**	**1 523 118**

Movements in provision for credit commitments and legal proceedings for the years ended 31 December 2012 and 2011 are disclosed in Note 4.

Geographical, currency and interest rate risks are disclosed in Note 35.

(in thousands of Russian Rubles unless otherwise stated)

28. SUBORDINATED DEBT

As of 31 December 2012 and 2011 carrying value of subordinated debt comprised the following:

	Currency	Maturity date	Interest rate %	31 December 2012	Interest rate %	31 December 2011
Subordinated debt from the parent bank	U.S. Dollars	2014	7.05	1 103 106	7.05	1 169 358
Subordinated debt from the parent bank	RUR	2014-2015	6.05-7	569 837	6.05-7	569 851
Subordinated debt from related party	Swiss francs	2014	4.6	569 181	4.6	585 396
Subordinated debt from other companies – third party	RUR	2014-2015	8.25	16 700	8.00	27 047
				2 258 824		**2 351 652**

As of 31 December 2012 accrued interest expense included in subordinated debt was RUR 17 798 thousand (31 December 2011: RUR 18 710 thousand)

In the event of bankruptcy or liquidation of the Bank, repayment of this debt is subordinate to the repayment of the Bank's liabilities to all other creditors.

Geographical, currency and interest rate risks are disclosed in Note 35.

29. SHARE CAPITAL AND SHARE PREMIUM

As of 31 December 2012 and 2011, the issued share capital of the Bank comprised of 279 788 785 310 ordinary shares with a par value of RUR 0.01 per share carrying equal rights. Each share provides for one vote. All issued ordinary shares are fully paid up.

	31 December 2012			31 December 2011		
	Number of shares, thousand of shares	Notional value	Amount adjusted for inflation	Number of shares, thousand of shares	Notional value	Amount adjusted for inflation
Ordinary shares	279 788 785	2 797 888	4 423 768	279 788 785	2 797 888	4 423 768
Total shares	**279 788 785**	**2 797 888**	**4 423 768**	**279 788 785**	**2 797 888**	**4 423 768**

As of 31 December 2012 and 2011, share premium amounting to RUR 2 000 000 thousand represents an excess of contributions received over the nominal value of shares issued.

The Bank's distributable reserves among shareholders reserves are limited to the amount of its reserves as disclosed in its statutory accounts. Non-distributable funds are represented by a reserve fund, which is created, as required by the statutory regulations, in respect of general banking risks, including future losses and other unforeseen risks or contingencies. The reserve has been created in accordance with the Bank's statute that provides for the creation of a reserve for these purposes of not less than 5% of the Bank's share capital reported in its statutory books.

30. SEGMENT REPORTING

The Bank discloses information to enable users of its financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates. This matter is regulated by IFRS 8 "Operating segments" and other standards that require special disclosures in the form of segmental reporting.

(in thousands of Russian Rubles unless otherwise stated)

IFRS 8 defines an operating segment as follows. An operating segment is a component of an entity:

- That engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity);
- Whose operating results are reviewed regularly by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance; and
- For which discrete financial information is available.

Information reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance focuses on types of services delivered or provided. The Bank's reportable segments under IFRS 8 are therefore as follows:

- Retail banking – representing private banking services, private customer current accounts, savings, deposits, custody, credit and debit cards, consumer loans and mortgages;
- Corporate banking – cash settlement service, deposits, overdrafts, loans and other credit facilities, foreign currency operations;
- Treasury – operations in finance markets (borrowing and lending funds in the interbank loan market, conversion operations, swaps, note operations, operations in the currency market, with interest rates, repurchase operations with securities).

Segment information for the main operating segments of the Bank is set out below as of 31 December 2012 and for the year then ended, is provided below:

	Retail banking	Corporate banking	Treasury	Unallocated amounts	2012
Interest income from operations with counterparties	28 889 199	532 975	1 624 599	-	31 046 773
Interest expense on operations with counterparties	(3 083 996)	(758 495)	(2 086 316)	(120 594)	(6 049 401)
Internal (expense)/income on funding	(2 400 514)	834 344	232 748	1 333 422	-
Allowance for impairment losses on interest bearing assets	(10 123 102)	5 175	4 975	-	(10 112 952)
Net interest income	**13 281 587**	**613 999**	**(223 994)**	**1 212 828**	**14 884 420**
Net gain on financial assets and liabilities at fair value through profit or loss	-	-	700 111	-	700 111
Net gain/(loss) on foreign exchange operations	121 751	47 864	(583 741)	-	(414 126)
Fee and commission income	5 055 406	146 457	8 467	-	5 210 330
Fee and commission expense	(2 242 947)	(11 803)	(76 321)	-	(2 331 071)
Net loss on financial assets available-for-sale	-	-	(8 751)	-	(8 751)
Income received from sale of loans	16 533	11 249	-	-	27 782
Provision for other operations	(107 226)	(57 176)	-	-	(164 402)
Share of profits of associates	19 479	-	-	-	19 479
Other income	29 833	6 452	30	-	36 315
Net non-interest income	**2 892 829**	**143 043**	**39 795**	**-**	**3 075 667**
Operating income	**16 174 416**	**757 042**	**(184 199)**	**1 212 828**	**17 960 087**
Operating expenses	(9 222 387)	(373 381)	(284 883)	-	(9 880 651)
Profit/(loss) before income tax	**6 952 029**	**383 661**	**(469 082)**	**1 212 828**	**8 079 436**
Income tax expense	(1 433 843)	(78 844)	96 747	(250 143)	(1 666 083)
Net profit/(loss)	**5 518 186**	**304 817**	**(372 335)**	**962 685**	**6 413 353**
Segment assets	**98 076 075**	**3 752 695**	**32 667 646**	**7 407 974**	**141 904 390**
Segment liabilities	**64 908 986**	**18 161 947**	**29 193 554**	**2 757 091**	**115 021 578**

(in thousands of Russian Rubles unless otherwise stated)

Segment information for the main operating segments of the Bank is set out below as of 31 December 2011 and for the year then ended:

	Retail banking	**Corporate banking**	**Treasury**	**Unallocated amounts**	**2011**
Interest income from operations with counterparties	22 333 427	948 155	908 957	-	24 190 539
Interest expense on operations with counterparties	(2 403 838)	(600 658)	(1 105 212)	(5 750)	(4 115 458)
Internal income/(expense) on funding	(1 005 676)	275 978	(728 646)	1 458 344	-
(Allowance)/recovery of allowance for impairment losses on interest bearing assets	(6 851 171)	402 241	(68)	(951)	(6 449 949)
Net interest income	**12 072 742**	**1 025 716**	**(924 969)**	**1 451 643**	**13 625 132**
Net gain on financial assets and liabilities at fair value through profit or loss	-	-	987 366	-	987 366
Net gain/(loss) on foreign exchange operations	27 355	27 431	(849 441)	-	(794 655)
Fee and commission income	3 038 273	548 308	8 497	-	3 595 078
Fee and commission expense	(1 013 216)	(58 842)	(18 833)	-	(1 090 891)
Net loss on financial assets available-for-sale	-	-	(9 122)	-	(9 122)
Other provisions	(35 713)	(456)	(800)	(4 314)	(41 283)
Income received from sale of loans	62 626	-	-	-	62 626
(Provision)/recovery of provision on other operations	(49 495)	-	-	-	(49 495)
Other income	51 451	3 687	17	12 898	68 053
Net non-interest income	**2 081 281**	**520 128**	**117 684**	**8 584**	**2 727 677**
Operating income	**14 154 023**	**1 545 844**	**(807 285)**	**1 460 227**	**16 352 809**
Operating expenses	(8 084 391)	(434 513)	(166 594)	-	(8 685 498)
Profit/(loss) before income tax	**6 069 632**	**1 111 331**	**(973 879)**	**1 460 227**	**7 667 311**
Income tax expense	(1 316 967)	(241 133)	211 309	(316 835)	(1 663 626)
Net profit/(loss)	**4 752 665**	**870 198**	**(762 570)**	**1 143 392**	**6 003 685**
Segment assets	**80 971 559**	**6 962 302**	**21 652 297**	**7 319 751**	**116 905 909**
Segment liabilities	**45 234 077**	**20 870 984**	**28 168 471**	**2 699 840**	**96 973 372**

Operations between segments are performed as a part of ordinary activities. The Bank operates principally in the Russian Federation.

31. COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Bank 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 Statement of Financial Position.

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

As of 31 December 2012 provision for losses on credit commitments was RUR 142 478 thousand (31 December 2011: RUR 44 228 thousand).

(in thousands of Russian Rubles unless otherwise stated)

As of 31 December 2012 and 2011, the nominal or contract amounts were:

	31 December 2012 Nominal amount	31 December 2011 Nominal amount
Contingent liabilities and loan commitments		
Unused credit lines	51 287 838	30 974 743
Guarantees issued	4 065 059	592 168
Import letters of credit	402 186	589 508
Loan commitments	-	7 856
Total contingent liabilities and loan commitments	**55 755 083**	**32 164 275**

Extension of the loans to customers within credit line limits is approved by the Bank on a case-by-case basis and depends on borrowers' financial performance, debt service and other conditions.

Capital commitments – The Bank had capital commitments in respect of rented premises totaling RUR 3 170 thousand as of 31 December 2012 (31 December 2011: RUR 23 908 thousand).

Operating lease commitments – Where the Bank is the lessee, the future minimum lease payments under non cancelable operating leases of premises and land as of 31 December 2012 and 2011 are as follows:

	31 December 2012	31 December 2011
Less than 1 year	731 661	614 939
Later than 1 year and not later than 5 years	1 677 520	1 610 079
Later than 5 years	420 461	676 660
Total operating lease commitments	**2 829 642**	**2 901 678**

The Bank also provides depositary services to its customers. As of 31 December 2012 the Bank held as the nominee holder for its customers' securities in the amount of 92 109 601 623 securities (31 December 2011: 92 129 641 183 securities).

Legal proceedings – From time to time and in the normal course of business, claims against the Bank are received from customers and counterparties. Management is of the opinion that no material unaccrued losses will be incurred. The movements of provisions for legal proceedings are disclosed in Note 4.

Taxation – Due to the presence in Russian commercial legislation, and tax legislation in particular, of provisions allowing for more than one interpretation, and also due to the probability that tax authorities may make judgments on the Bank's activities which differ from those of the Bank, if a particular treatment based on management's judgment of the Bank's business activities are to be challenged by the tax authorities, the Bank may be assessed additional taxes, penalties and interest. Such uncertainty may relate to the valuation of financial instruments, valuation of provision for impairment losses and the market pricing of deals. The management of the Bank believes that it has accrued all tax amounts due and therefore no allowance has been made in the financial statements. Generally, taxpayers are subject to tax audits with respect to 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.

Business environment – The Bank's principal business activities are within the RF. Laws and regulations affecting the business environment in the RF are subject to rapid changes and the Bank's assets and operations could be at risk due to negative changes in the political and business environment.

(in thousands of Russian Rubles unless otherwise stated)

Operating Environment – The Bank's principal business activities are within the RF. Laws and regulations affecting the business environment in the RF are subject to rapid changes and the Bank's assets and operations could be at risk due to negative changes in the political and business environment.

Because Russia produces and exports large volumes of oil and gas, Russia's economy is particularly sensitive to the price of oil and gas on the world market that fluctuated significantly during 2012 and 2011.

32. TRANSACTIONS WITH RELATED PARTIES

Related parties or transactions with related parties, as defined by IAS 24 "Related Party Disclosures", represent:

Parties that directly, or indirectly through one or more intermediaries: control, or are controlled by, or are under common control with, the Bank (this includes parents, subsidiaries and fellow subsidiaries); have an interest in the Bank that gives them significant influence over the Bank; and that have joint control over the Bank:

- Associates – enterprises on which the Bank has significant influence and which is neither a subsidiary nor a joint venture of the investor;
- Joint ventures in which the Bank is a venturer;
- Key management personnel of the Bank or its parent;
- Close members of the family of any individuals referred to in (a)-(d);
- Parties that are entities controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (a)-(e);
- Post-employment benefit plans for the benefit of employees of the Bank, or of any entity that is a related party of the Bank.

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. The Bank had the following transactions outstanding with related parties:

	31 December 2012		31 December 2011	
	Related party transactions	**Total category as per financial statements caption**	**Related party transactions**	**Total category as per financial statements caption**
Cash and cash equivalents	**1 452**	**6 549 339**	**2 581**	**7 819 379**
- shareholders	1 129		2 247	
- entities and banks controlled by the shareholders	323		334	
Derivative financial assets	**63 471**	**91 446**	**38 933**	**356 087**
- shareholders	63 471		38 933	
Due from other banks	**10 651 782**	**12 937 997**	**1 818 731**	**5 957 940**
- shareholders	10 651 782		1 818 731	
Loans and advances to customers	**261 638**	**125 298 112**	**354 235**	**103 699 295**
- key management personnel of the Bank	14 260		15 316	
- entities and banks controlled by the shareholders	246 596		337 339	
- other related parties	782		1 580	

(in thousands of Russian Rubles unless otherwise stated)

	31 December 2012 Related party transactions	31 December 2012 Total category as per financial statements caption	31 December 2011 Related party transactions	31 December 2011 Total category as per financial statements caption
Allowance for impairment loss on loans and advances to customers	**(25)**	**(23 469 341)**	**(5)**	**(13 481 289)**
- key management personnel of the Bank	(25)		(4)	
- other related parties	-		(1)	
Financial assets available-for-sale	**4 477 982**	**15 773 894**	**4 476 981**	**7 679 417**
- shareholders	4 180 624		4 476 981	
- entities and banks controlled by the shareholders	297 358			
Other assets	**120**	**799 608**	**160**	**565 911**
- shareholders	68		155	
- key management personnel of the Bank	-		4	
- entities and banks controlled by the shareholders	30		-	
- other related parties	22		1	
Allowance for impairment loss on other assets	-	**(108 345)**	**(1)**	**(70 512)**
- other related parties	-		(1)	
Derivative financial liabilities	**200 352**	**326 553**	**12 822**	**118 825**
- shareholders	200 352		12 822	
Due to other banks	**6 700 920**	**10 345 962**	**11 696 380**	**12 281 210**
- shareholders	6 500 976		11 528 274	
- entities and banks controlled by the shareholders	199 944		168 106	
Customer accounts	**558 477**	**83 070 933**	**517 584**	**66 105 061**
- shareholders	233 100		216 554	
- key management personnel of the Bank	210 216		264 264	
- entities and banks controlled by the shareholders	86 873		9 632	
- other related parties	28 288		27 134	
Debt securities issued	**1 094 754**	**16 262 215**	**110 005**	**14 121 884**
- shareholders	1 094 754		110 005	
Other liabilities	**60,952**	**2 389 511**	**80**	**1 523 118**
- shareholders	4		-	
- key management personnel of the Bank	60,948		80	
Subordinated debt	**2 242 124**	**2 258 824**	**2 324 604**	**2 351 652**
- shareholders	1 672 943		1 739 208	
- entities and banks controlled by the shareholders	569 181		585 396	
Commitments on unused credit lines	**4 809**	**51 287 838**	**5 593**	**30 974 743**
- key management personnel of the Bank	4 739		5 329	
- other related parties	70		264	

(in thousands of Russian Rubles unless otherwise stated)

The remuneration of directors and other members of key management was as follows:

	31 December 2012		31 December 2011	
	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption
Key management personnel compensation				
Short-term benefits	367 506	4 641 587	396 555	4 222 340
	367 506	**4 641 587**	**396 555**	**4 222 340**

Included in the income statement for the years ended 31 December 2012 and 2011 are the following amounts which arose due to transactions with related parties:

	31 December 2012		31 December 2011	
	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption
Interest income	**1 124 774**	**31 046 773**	**578 804**	**24 190 539**
- shareholders	1 098 859		548 067	
- key management personnel of the Bank	1 367		1 314	
- entities and banks controlled by the shareholders	24 376		29 180	
- other related parties	172		243	
Interest expenses	**567 899**	**6 049 401**	**611 797**	**4 115 458**
- shareholders	530 777		574 859	
- key management personnel of the Bank	7 392		6 752	
- entities and banks controlled by the shareholders	29 108		29 817	
- other related parties	622		369	
Net gain on financial assets and liabilities at fair value through profit or loss	**146 264**	**700 111**	**298 196**	**987 366**
- shareholders	130 651		298 196	
- entities and banks controlled by the shareholders	15 613			
Net loss on foreign exchange operations	**(417)**	**(414 126)**	**(469)**	**(794 655)**
- shareholders	-	-	(257)	
- key management personnel of the Bank	1 446		289	
- entities and banks controlled by the shareholders	203		(501)	
- other related parties	(2 066)		-	
Fee and commission income	**1 526**	**5 210 330**	**1 984**	**3 595 078**
- shareholders	335		55	
- key management personnel of the Bank	193		377	
- entities and banks controlled by the shareholders	980		1 515	
- other related parties	18		37	
Fee and commission expense	**96**	**2 331 071**	**100**	**1 090 891**
- shareholders	94		97	
- entities and banks controlled by the shareholders	2		3	

(in thousands of Russian Rubles unless otherwise stated)

	31 December 2012		31 December 2011	
	Related party transactions	**Total category as per financial statements caption**	**Related party transactions**	**Total category as per financial statements caption**
Net loss on financial assets available-for-sale	**-**	**(8 751)**	**2 081**	**(9 122)**
- shareholders	-		2 081	
Other income	**955**	**36 315**	**295**	**68 053**
- shareholders	44		71	
- key management personnel of the Bank	51			
- entities and banks controlled by the shareholders	860		223	
- other related parties	-		1	
Operating expense other than short-term benefits to key management personnel	**137 165**	**5 239 064**	**156 588**	**4 463 158**
- key management personnel of the Bank	-		6 029	
- entities and banks controlled by the shareholders	137 165		150 515	
- other related parties	-		44	

33. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in forced 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 and traded on active liquid markets are determined with reference to quoted market prices (includes listed redeemable notes, bills of exchange, debentures and perpetual notes).
- Unquoted equities and debt securities classified as available-for-sale are valued using models that use both observable and unobservable data. The non-observable inputs to the models include assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry and geographical jurisdiction in which the investee operates.
- As there is no active secondary market in Russia for loans and advances to banks and customers, deposits by banks and customers, promissory notes issued, subordinated debt, other borrowing funds and other financial assets and liabilities, there is no reliable market value available for these portfolios.
- For financial assets and liabilities that have a short term maturity (less than 3 months), it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits and savings accounts without a maturity.
- For loans and advances to banks and customers and deposits by banks and customers and promissory notes issued at variable rates management believes that carrying rate may be assumed to be fair value.
- For loans and advances to banks and customers and deposits by banks and customers and promissory notes issued at fixed rates fair value has been estimated by reference to the market rates available at the balance sheet date for similar instruments of maturity equal to the remaining fixed period.

The fair values of other financial assets and financial liabilities (excluding derivative instruments) 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.

(in thousands of Russian Rubles unless otherwise stated)

The fair values of derivative instruments 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.

Except as detailed below, management of the Bank considers that the fair value of financial assets and liabilities approximates their carrying value.

	31 December 2012		**31 December 2011**	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Loans and advances to customers	101 828 771	101 646 757	90 218 006	88 103 997
Financial assets held-to-maturity	154 363	164 878	160 991	162 703
Customer accounts	83 070 933	83 150 042	66 105 061	65 999 398
Debt securities issued	16 262 215	16 136 478	14 121 884	13 802 778
Subordinated debt	2 258 824	2 187 802	2 351 652	2 132 274

Financial assets with change in fair value recognized in profit and loss accounts, derivative financial instruments, and financial assets available-for-sale are recorded in the Statement of Financial Position at fair value. As of 31 December 2012, equity investments available-for-sale in the amount of RUR 7 778 thousand (31 December 2011: RUR 8 137 thousand), were recorded at cost. The fair value of investments cannot be measured reliably due to time and cost restrictions.

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 and traded on active liquid markets are determined with reference to quoted market prices (includes listed redeemable notes, bills of exchange, debentures and perpetual notes).
- The fair values of other financial assets and financial liabilities (excluding derivative instruments) 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 derivative instruments are calculated using quoted prices. Foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts.

Financial instruments recognized at fair value are broken down for disclosure purposes into a three level fair value hierarchy based on the observability of inputs as follows:

- Quoted prices in an active market (Level 1) – Valuations based on quoted prices in active markets that the Bank has the ability to access for identical assets or liabilities. Valuation adjustments and block discounts are not applied to these financial instruments. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant amount of judgment.
- Valuation techniques using observable inputs (Level 2) – Valuations based on inputs for which all significant inputs are observable, either directly or indirectly and valuations based on one or more observable quoted prices for orderly transactions in markets that are not considered active.
- Valuation techniques incorporating information other than observable market data (Level 3) – Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

(in thousands of Russian Rubles unless otherwise stated)

The Bank's valuation approach and fair value hierarchy categorization for certain significant classes of financial instruments recognized at fair value as at 31 December 2012 is as follows:

	Quoted prices in active market (Level 1)	Valuation techniques based on observable market data (Level 2)	Recorded at cost	Total carrying value
Financial assets at fair value through profit or loss	37 237	-	-	**37 237**
Derivative financial assets	-	91 446	-	**91 446**
Financial assets available-for-sale	15 542 467	223 639	7 788	**15 773 894**
	15 579 704	**315 085**	**7 788**	**15 902 577**
Derivative financial liabilities	-	326 553	-	**326 553**
	-	**326 553**	**-**	**326 553**

The Bank's valuation approach and fair value hierarchy categorization for certain significant classes of financial instruments recognized at fair value as at 31 December 2011 is as follows:

	Quoted prices in active market (Level 1)	Valuation techniques based on observable market data (Level 2)	Recorded at cost	Total carrying value
Financial assets at fair value through profit or loss	400 493	-	-	**400 493**
Derivative financial assets	-	356 087	-	**356 087**
Financial assets available-for-sale	7 670 469	811	8 137	**7 679 417**
	8 070 962	**356 898**	**8 137**	**8 435 997**
Derivative financial liabilities	-	118 825	-	**118 825**
	-	**118 825**	**-**	**118 825**

There were no transfers between Level 1 and 2 in the year 2012 and 2011.

34. CAPITAL RISK MANAGEMENT

The Bank's policy establishes a basis for the maintenance of a stable capital base to retain the trust of investors, lenders and market participants. The Bank's capital management is aimed at compliance with capital requirements established by the Central Bank of the Russian Federation, future development of the business, maintenance of the capital base sufficient to ensure compliance with laid down capital adequacy ratio requirement. The Bank controls the capital adequacy ratio, determining the ratio value on a daily basis.

The Bank's overall capital risk management policy remains unchanged from 2011.

(in thousands of Russian Rubles unless otherwise stated)

In accordance with effective requirements established by the Central Bank of the Russian Federation, banks must maintain the ratio of capital to risk weighted assets ("capital adequacy ratio") above the established minimum level of 10%. For the purposes of timely management decision-making the Bank established the internal (stricter) value of the ratio as 11%. The said value exceeds the minimum levels established by the Bank Central Bank of the Russian Federation (10%) and the Basel Committee (8%) and allows the Bank to participate in the deposit insurance scheme in accordance with requirements stipulated by Federal Law No.177-FZ "On insurance of individual deposits with the Russian Federation banks" dated 23 December 2003.

In 2012 the Bank complied with all external requirements to the capital.

The calculation of the Bank's capital adequacy ratio as of 31 December 2012 and 31 December 2011 performed in compliance with the Basel accord of 1988, and taking into account the subsequent amendments made in November 2005 is as follows:

	31 December 2012	**31 December 2011**
Tier 1 capital		
Share capital	4 423 768	4 423 768
Share premium	2 000 000	2 000 000
Foreign currency translation reserve	-	4 711
Retained earnings	19 288 521	12 874 016
Total Tier 1 capital (Principal capital)	**25 712 289**	**19 302 495**
Tier 2 capital		
Property and equipment revaluation reserve	412 351	387 684
Financial assets available-for-sale revaluation reserve	758 172	242 358
Subordinated debt	756 909	1 253 692
Less investments in subsidiaries and associates	(6)	(255 749)
Total Tier 2 capital	**1 927 426**	**1 627 985**
Total capital	**27 639 715**	**20 930 480**
Risk weighted assets	**134 745 597**	**108 521 645**
Principal capital adequacy ratio	**19.08%**	**17.79%**
Total capital adequacy ratio	**20.51%**	**19.29%**

35. RISK MANAGEMENT POLICIES

Improvement of risk management quality is one of the priorities of the Bank. In 2012 the Bank continued the work on bringing the Bank's risk management system to the standards of the Bank's parent – OTP BANK PLC.

In 2012 as a part of its risk management procedures integration process the Bank continued the work on implementation of principles of general evaluation and risk acceptance, adopted by the Bank's parent, taking into consideration local peculiarities, regulative base of the Central Bank of the Russian Federation and the Basel Committee's recommendations on banking surveillance.

A better transparency of the risk management system is a key task for the successful integration of the Bank in the general risk management system within the OTP Group. This task is performed, among other, by means of implementation of information systems used in OTP BANK PLC for risk assessment and control.

The risk management system of the Bank is developed based on continuous processes of risk detection, analysis, evaluation, control and monitoring.

The main risks inherent in the Bank's operations are those related to:

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

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

Credit risk

The Bank is exposed to credit risk which is the risk that one party to a financial instrument will fail to discharge an obligation, and, consequently, the other party will incur a financial loss.

The Bank's main priority is credit risk management. Expansion of loan portfolio, a larger market share and launch of new products are performed under obligatory control over credit risk levels.

Credit risk management is carried out in compliance with regulative documents approved by the Bank's Main Credit Committee. The regulations envisage a system approach based on risk awareness, differentiation of responsibilities, monitoring and control over the risk run.

The Bank structures the level of credit risk it undertakes by placing limits to the amount of risk accepted in relation to one borrower or groups of interrelated borrowers and monitors the compliance on a regular basis. The limits are subject to quarterly or more frequent reviews. The Bank's Main Credit Committee sets limits to the level of credit risk accepted in relation to a borrower, a product and industry sector. Limits in excess of the Credit Committee's authority are approved by the Credit Committee of OTP Bank Nyrt. Major credit risks of the Bank are associated with operations in financials markets and corporate and retail lending.

Special attention is paid to managing retail lending risks. The level of risk accepted by the Bank is constantly monitored by portfolios and products, amount of overdue debt, ratio between accepted risk and the level of income from retail lending operations. The Bank gives special importance to scoring models used for credit analysis depending on the type of the credit product, regional features of RF constituent territories and client segment. These models are regularly reviewed and adjusted depending on both external (macroeconomic, OTP Group experience) and internal (obtained through its own data analysis) factors. Besides, the Bank applies scoring models on the basis of data of two credit offices. The Bank implements automated anti-fraud systems. All these arrangements allow to support high quality of retail loan portfolio. The Bank also actively collects overdue retail debt both with its own efforts and through six collection agencies, thus improving the portfolio's risk/return ratio.

In 2012 there were no significant changes in Bank's credit risk policy compared to the year 2011. The main priority in risk policies and procedures development was given to improvement of risk monitoring and analytical database supporting risk management decisions.

In 2012 special attention was paid to collecting of overdue debts in retail segment including developing relationship with collector agencies.

In 2012 the Bank's approach for lending to retail customers was based on the following principles:

- Focus on continuous improvement of risk management methods and retail lending processes (implementing and testing new projects);
- Optimization of the lending process to maintain a low level of overdue debts and keep fraud within acceptable limits;
- Attraction of best customers by focusing on targeted groups that the Bank is interested in;
- Cross sale of credit products to current customers;
- Daily monitoring of the loan portfolio.

In 2012 the Bank, as a part of the retail loan portfolio risk management, performed the following arrangements:

- Implementation of regular monitoring of grant quality for each agent in order to mitigate possible fraud (for all products);
- In the POS lending segment:
  - Implementation of trigger system in order to mitigate risk of fraud;
  - Improvement of collection procedures (collection of overdue debts);
  - Improvement of incentive system which is oriented to business profitability and takes into account both sales and profit indicators;
  - Better lending terms and conditions for reliable POS clients (e.g. better terms for initial installment);
- In the segment of credit cards:
  - Existing technologies of issuance of credit cards were revised and renewed;
  - Improvement of collection procedures (collection of overdue debts);
- In the retail lending segment (non-purpose loans):
  - Centralization of decisions making;
  - A new pricing approach was implemented based on individual risk of client (risk-based pricing);
  - Optimisation of scoring model taking into account the regional features;
  - Implementation of trigger system in order to mitigate risk of fraud;
  - Essentially new products, encouraging new high quality borrowers, have been implemented.

In 2012 the aggregate effect of retail loan portfolios management resulted in the expansion of the retail loan portfolio, growth of income and profitability in general. The main result delivered by the retail business was a significant increase in POS loan portfolios, credit card and non-purpose loan portfolios.

The corporate borrower credit risk management system is based on impartial and precise assessment of the borrowers' financial position and their business development prospects; regular monitoring of corporate borrowers' financial position and quality of debt service throughout the lending period; and a careful and balanced approach to loan portfolio management.

In 2012 the following principles of credit risk management became basic in the corporate business segment:

- Selectivity principle and stricter requirements to the borrower's financial situation when attracting new large corporate customers;
- Diversification of the loan portfolio: distribution of the loan portfolio between the largest possible number of borrowers (including by way of reducing the average amount of transactions) and industries;
- Selectiveness when financing economic sectors, based on key performance indicators of the relevant sector, its competitive environment and dependence on borrowings;
- Better monitoring;
- Management of the process of early detection and reduction of bad debt;
- Minimization of possible losses by accepting lending transactions secured by the most liquid and reliable collateral;
- Higher profitability of the corporate business, including by way of selling the Bank's non-credit services to borrowers.

(in thousands of Russian Rubles unless otherwise stated)

Credit risk of financial institutions (banks, insurance and investment companies) is managed by assessment of the counterparties' financial position, setting and controlling of limits compliance, continual monitoring of financial institutions. The techniques of the counterparties' financial position analysis and approaches to limits setting used in the Bank are in accordance with requirements of the OTP Group. The Bank uses structured limit system for banks-counterparties, including limits on values of credit, deliverable and pre-deliverable risks in the financial markets.

Maximum credit risk exposure

The Bank's maximum exposure to credit risk varies significantly and is dependant on both individual risks and general market economy risks.

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

As of 31 December 2012:

	Maximum credit risk exposure	Collateral pledged	Net exposure after collateral
Balances with the Central Bank of the Russian Federation	2 565 112	-	2 565 112
Balances on correspondent accounts and on accounts with non-banking credit institutions	1 107 597	-	1 107 597
Obligatory reserve deposit with the Central Bank of the RF	1 162 133	-	1 162 133
Financial assets at fair value through profit or loss	37 237	-	37 237
Derivative financial assets	91 446	-	91 446
Due from other banks	12 937 997	-	12 937 997
Loans and advances to customers	101 828 771	(11 435 159)	90 393 612
Financial assets available-for-sale	15 773 894	-	15 773 894
Financial assets held-to-maturity	154 363	-	154 363
Other financial assets	38 541	-	38 541
Guarantees issued and other commitments	4 065 610	(1 635 525)	2 373 085
Letters of credit and other transaction related contingent obligations	401 185	-	401 185
Commitments on loans and unused credit lines	51 202 809	-	51 202 809

As of 31 December 2011:

	Maximum credit risk exposure	Collateral pledged	Net exposure after collateral
Balances with the Central Bank of the Russian Federation	3 608 309	-	3 608 309
Balances on correspondent accounts and on accounts with non-banking credit institutions	1 170 993	-	1 170 993
Obligatory reserve deposit with the Central Bank of the RF	975 726	-	975 726
Financial assets at fair value through profit or loss	400 493	-	400 493
Derivative financial assets	356 087	-	356 087
Due from other banks	5 957 940	-	5 957 940
Loans and advances to customers	90 218 006	(17,548,246)	72 669 760
Financial assets available-for-sale	7 679 417	-	7 679 417
Financial assets held-to-maturity	160 991	-	160 991
Other financial assets	29 689	-	29 689
Guarantees issued and other commitments	591 924	(276 917)	315 007
Letters of credit and other transaction related contingent obligations	589 479	-	589 479
Commitments on loans and unused credit lines	30 938 645	-	30 938 645

(in thousands of Russian Rubles unless otherwise stated)

Financial assets are graded according to the current credit rating they have been issued by an internationally recognized 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 of 31 December 2012 the balances with the Central Bank of the Russian Federation comprised RUR 2 565 112 thousand (31 December 2011: RUR 3 608 309 thousand). The credit rating of the Russian Federation according to the international rating agencies in 2012 and 2011 corresponded to investment level BBB.

The following table details the credit ratings of financial assets held by the Bank as of 31 December 2012 (this information prepared for all financial assets that are neither past due nor impaired):

	AA	**A**	**BBB**	**<BBB**	**Not rated**	**31 December 2012 Total**
Balances on correspondent accounts and on accounts with non-banking credit institutions	5 333	578 068	302 870	1 413	219 913	**1 107 597**
Financial assets at fair value through profit or loss	-	-	37 237	-	-	**37 237**
Derivative financial assets	-	-	27 807	63 471	168	**91 446**
Due from other banks	-	571 708	1 414 352	10 651 782	300 155	**12 937 997**
Loans and advances to customers	-	-	-	9 769	10 209	**19 978**
Financial assets available-for-sale	-	108 102	10 494 310	4 946 644	224 838	**15 773 894**
Financial assets held-to-maturity	-	-	-	154 363	-	**154 363**
Other financial assets	-	-	-	-	37 829	**37 829**

As of 31 December 2011:

	AA	**A**	**BBB**	**<BBB**	**Not rated**	**31 December 2011 Total**
Balances on correspondent accounts and on accounts with non-banking credit institutions	6 130	100 101	303 993	11 067	749 702	**1 170 993**
Financial assets at fair value through profit or loss	-	-	400 493	-	-	**400 493**
Derivative financial assets	-	120 555	193 906	38 934	2 692	**356 087**
Due from other banks	-	33 607	4 438	1 846 523	-	**5 880 568**
Loans and advances to customers	-	-	-	-	4 382 701	**4 382 701**
Financial assets available-for-sale	-	-	1 975 759	5 695 523	7 785	**7 679 067**
Financial assets held-to-maturity	-	-		160 991	-	**160 991**
Other financial assets	-	-	-	-	24 256	**24 256**

Banking industry is generally exposed to credit risk through its financial assets and contingent liabilities. With regard to the loans to customers this risk exposure is generally concentrated within the Russian Federation. The credit risk exposure is monitored on a regular basis to ensure that the credit limits and credit worthiness guidelines established by the Bank's risk management policy are complied with.

All overdue financial assets are impaired.

(in thousands of Russian Rubles unless otherwise stated)

The Bank enters into numerous transactions where the counterparties are not rated by international rating agencies. The Bank has developed internal models, which allow it to determine the rating of counterparties for internal risk management purposes. Credit rating classification for all loans to customers is based on loan overdue period. The bank has the following credit risk groups:

Credit risk group	Overdue period range
Performing	Below 30 days
To be monitored	Between 30 and 60 days
Below average	Between 60 and 90 days
Doubtfull	Between 90 and 180 days
Bad	Over 180 days

Information about amounts of loans and allowance for loan losses for each credit risk group period is presented in Note 17.

Renegotiated loans and advances

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 Bank 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.

Carrying amount by class of financial assets whose terms have been renegotiated:

The table below shows the carrying amount of renegotiated financial assets, by class:

Financial asset class	31 December 2012	31 December 2011
Corporate loans	315 313	866 654
Mortgage loans	202 569	35 406
Consumer loans	187 003	16 840
Car loans	13 079	19 095
Other	-	733
Total renegotiated loans and advances	**717 964**	**938 728**

The banking industry is generally exposed to credit risk through its loans to customers and interbank deposits. With regard to the loans to customers this risk exposure is concentrated within the country. The exposure is monitored on a regular basis to ensure that the credit limits and creditworthiness guidelines established by the Bank’s risk management policy are not breached.

Geographical concentration

Country (regional) risk is a risk that a credit institution may incur losses due to the failure of foreign counterparties to fulfill their obligations due to economic, political or social changes, as well as due to specific provisions of national legislation. This risk is controlled by the Bank’s Credit Committee. When handling loan applications, market work technologies, the Bank pays a special attention to residence of a potential borrower and to the impact of regional factor on functioning of the technology. More severe requirements are in effect for non-residents as compared to the residents of the Russian Federation. The Bank continuously monitors the recent developments in the world in order to be able to react to the relevant changes in a timely manner. The Bank limits the country risk value in accordance with requirements of the OTP Group, implements regular country risk control.

(in thousands of Russian Rubles unless otherwise stated)

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

	Russian Federation	**OECD countries**	**Other countries**	**31 December 2012 Total**
Non-derivative financial assets				
Cash and cash equivalents	5 962 735	586 246	358	6 549 339
Obligatory reserve deposit with the Central Bank of the RF	1 162 133	-	-	1 162 133
Financial assets at fair value through profit or loss	37 237	-	-	37 237
Due from other banks	1 714 507	11 223 490	-	12 937 997
Loans and advances to customers	101 789 100	39 320	351	101 828 771
Financial assets available-for-sale	11 260 836	4 289 419	223 639	15 773 894
Financial assets held-to-maturity	-	154 363	-	154 363
Other financial assets	38 517	19	5	38 541
Total non-derivative financial assets	**121 965 065**	**16 292 857**	**224 353**	**138 482 275**
Non-derivative financial liabilities				
Due to other banks	3 628 580	6 517 438	199 944	10 345 962
Customer accounts	81 840 779	410 319	819 835	83 070 933
Debt securities issued	16 262 215	-	-	16 262 215
Other financial liabilities	1 065 687	1 247	110	1 067 044
Subordinated debt	16 700	1 672 943	569 181	2 258 824
Total non-derivative financial liabilities	**102 813 961**	**8 601 947**	**1 589 070**	**113 004 978**
Net position on non-derivative financial instruments	**19 151 104**	**7 690 910**	**(1 364 717)**	**25 477 297**
Derivative financial instruments				
- foreign exchange spot contracts	(200)	2 539	-	2 339
- forward contracts	168	-	-	168
- swap contracts	(98 196)	(136 989)	-	(235 185)
- interest rate swap contracts	-	(2 429)	-	(2 429)
Net position on derivative financial instruments	**(98 228)**	**(136 879)**	**-**	**(235 107)**
Net position	**19 052 876**	**7 554 031**	**(1 364 717)**	**25 242 190**

(in thousands of Russian Rubles unless otherwise stated)

	Russian Federation	OECD countries	Other countries	31 December 2011 Total
Non-derivative financial assets				
Cash and cash equivalents	7 694 065	116 490	8 824	7 819 379
Obligatory reserve deposit with the Central Bank of the RF	975 726	-	-	975 726
Financial assets at fair value through profit or loss	400 493	-	-	400 493
Due from other banks	4 105 601	1 852 339	-	5 957 940
Loans and advances to customers	90 202 913	13 985	1 108	90 218 006
Financial assets available-for-sale	2 645 321	5 034 096	-	7 679 417
Financial assets held-to-maturity	-	160 991	-	160 991
Other financial assets	29 363	200	126	29 689
Total non-derivative financial assets	**106 053 482**	**7 178 101**	**10 058**	**113 241 641**
Non-derivative financial liabilities				
Due to other banks	584 830	11 528 274	168 106	12 281 210
Customer accounts	64 734 839	332 834	1 037 388	66 105 061
Debt securities issued	14 121 884	-	-	14 121 884
Other financial liabilities	449 864	15 424	261	465 549
Subordinated debt	27 047	1 739 209	585 396	2 351 652
Total non-derivative financial liabilities	**79 918 464**	**13 615 741**	**1 791 151**	**95 325 356**
Net position on non-derivative financial instruments	**26 135 018**	**(6 437 640)**	**(1 781 093)**	**17 916 285**
Derivative financial instruments				
- spot deals	-	-	1	1
- foreign exchange forward contracts	(7 411)	-	-	(7 411)
- forex swap contracts	193 907	50 766	-	244 673
Net position on derivative financial instruments	**186 496**	**50 766**	**1**	**237 263**
Net position	**26 321 514**	**(6 386 874)**	**(1 781 092)**	**18 153 548**

Liquidity risk

Liquidity risk is the risk that the Bank will fail to fulfil timely its obligations to its customers and counterparties, or to meet its customers' and counterparties' and own needs in funds.

At present, the Bank is adopting new standards of liquidity management on the basis of the following approaches:

- Liquidity gap analysis;
- Liquidity pool concept;
- Calculation of short-term local currency liquidity in the horizon from 1 month to 6 months and identification of the sufficient liquidity level in these horizons taking into account possible outflow of the deposit base, business outlook and the Bank's potential funding opportunities;
- Liquid assets management concept.

The liquidity management process is coordinated by the Assets and Liabilities Committee (ALCO), which is responsible for developing the Bank's liquidity management strategy, monitoring current liquidity and making decisions on liquidity management.

Liquidity is continuously monitored by a separate subdivision of the Bank (the Asset and Liability Management Unit). Key monitoring parameters are reported to the Bank's management and a supervising subdivision of the Head Bank on a weekly basis (the Asset and Liability Management Unit of the Head Bank) and examined by the Bank's collective bodies (the ALCO). Current liquidity is monitored by one of the subdivisions of the Asset and Liability Management Unit, which is responsible for the estimation of the Bank's payment position and optimization of its cash flows.

When managing cash flows the Bank's collective bodies closely monitor whether the level of liquidity assets is sufficient. In the event a crisis situation occurs, the Bank believes that a possible rapid outflow of individuals' deposits caused by the ability of individual depositors to cancel deposit agreements concluded with the Bank without any encumbrances and the outflow of funds that legal entities have on their settlement accounts with the Bank pose a major problem.

If a crisis situation on the market is identified, the Bank takes the following actions:

- Analysis of the reasons why the crisis situation occurred;
- Evaluation of the seriousness of the crisis;
- Analysis of the resource market at the moment of the crisis;
- Development of anti-crisis measures;
- Analysis of the efficiency of measures taken followed by their improvement.

Where a crisis situation occurs, the Bank takes the following actions to overcome it:

At the first stage of a crisis:

- Much tighter limits (complete closure is also possible) for counterparties on the financial markets;
- Closure of some transactions on the placement of monetary funds on the financial markets with the aim to accumulate instant liquidity, in particular, by:
  - Raising discounts when granting monetary funds;
  - Reducing an allowable amount of time to place monetary funds on the financial markets;
  - Selling a part of the securities portfolio or raising monetary funds with respect to these assets.
- As regards customer relationship the Bank uses the following techniques aimed to immunize itself against the risk of outflow of customer funds:
  - The Bank will endeavour to satisfy demands of its customers for an early discharge of the Bank's obligations (the repurchase of its own securities, early termination of deposit agreements, the allowance of short-term loans secured by deposits and securities of the Bank) to prevent a panic which may be raised by the Bank's customers and counteragents. The Bank's previous experience of overcoming unstable situations shows that the above mentioned measures lead to the immunization of the outflow of monetary funds that legal entities have with the Bank.

At the second stage of a crisis the Bank provides for the following measures to improve liquidity:

- Further sale of liquid assets;
- Significant reduction of the Bank's market share on the individual lending market (by reducing limits set for plastic cards, introducing tighter credit score requirements, etc.);
- Attraction of additional resources from its shareholders;
- Attraction of additional resources from government authorities;
- Sale of a part of the Bank's loan portfolio.

(in thousands of Russian Rubles unless otherwise stated)

Further is analysis of liquidity and interest rate risks:

	Weighted average effective interest rate	Up to 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
Non-derivative financial assets								
Fixed interest rate instruments								
Cash and cash equivalents	0.16%	29 690	-	-	-	-	-	29 690
Financial assets at fair value through profit or loss	7.00%	-	808	-	-	36 429	-	37 237
Due from other banks	3.29%	12 795 931	-	-	-	-	-	12 795 931
Loans and advances to customers	40.19%	39 420 507	10 969 971	27 569 016	19 707 816	3 572 141	-	101 239 451
Financial assets available-for-sale	7.55%	7 563	1 227 672	5 515 395	8 047 112	744 735	-	15 542 477
Financial assets held-to-maturity	8.63%	6 483	-	-	147 880	-	-	154 363
Total fixed interest bearing financial assets		**52 260 174**	**12 198 451**	**33 084 411**	**27 902 808**	**4 353 305**	**-**	**129 799 149**
Variable interest rate instruments								
Cash and cash equivalents	0.09%	2 513	-	-	-	-	-	2 513
Due from other banks	0.13%	28 162	-	-	-	-	-	28 162
Loans and advances to customers	19.01%	27 388	5 003	21 194	145 660	390 075	-	589 320
Total variable interest bearing financial assets		**58 063**	**5 003**	**21 194**	**145 660**	**390 075**	**-**	**619 995**
Non-interest bearing financial assets								
Cash and cash equivalents		6 517 136	-	-	-	-	-	6 517 136
Obligatory reserve deposit with the Central Bank of the RF		1 162 133	-	-	-	-	-	1 162 133
Due from other banks		113 904	-	-	-	-	-	113 904
Financial assets available-for-sale		-	-	-	-	-	231 417	231 417
Other financial assets		34 172	1 882	2 338	149	-	-	38 541
Total non-interest bearing financial assets		**7 827 345**	**1 882**	**2 338**	**149**	**-**	**231 417**	**8 063 131**
Total non-derivative financial assets		**60 145 582**	**12 205 336**	**33 107 943**	**28 048 617**	**4 743 380**	**231 417**	**138 482 275**
Non-derivative financial liabilities								
Fixed interest rate instruments								
Due to other banks	4.80%	3 448 798	551 941	2 028 975	-	-	-	6 029 714
Customer accounts	7.70%	25 268 648	6 463 364	27 018 997	5 359 290	-	-	64 110 299
Debt securities issued	8.87%	835 266	1 138 996	354 792	13 917 539	-	-	16 246 593
Subordinated debt	6.37%	-	17 797	-	2 224 327	-	-	2 242 124
Total fixed interest bearing financial liabilities		**29 552 712**	**8 172 098**	**29 402 764**	**21 501 156**	**-**	**-**	**88 628 730**
Variable interest rate instruments								
Due to other banks	4.68%	-	25 220	4 252 178	-	-	-	4 277 398
Subordinated debt	8.25%	-	-	-	16 700	-	-	16 700
Total variable interest bearing financial liabilities		**-**	**25 220**	**4 252 178**	**16 700**	**-**	**-**	**4 294 098**

(in thousands of Russian Rubles unless otherwise stated)

	Weighted average effective interest rate	Up to 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
Non-interest bearing financial liabilities								
Due to other banks		38 846	-	4	-	-	-	38 850
Customer accounts		18 956 901	1 025	2 665	43	-	-	18 960 634
Debt securities issued		5 087	5 278	3 738	1 519	-	-	15 622
Other financial liabilities		659 197	6 725	399 367	1 755	-	-	1 067 044
Total non-interest bearing financial liabilities		**19 660 031**	**13 028**	**405 774**	**3 317**	**-**	**-**	**20 082 150**
Total non-derivative financial liabilities		**49 212 743**	**8 210 346**	**34 060 716**	**21 521 173**	**-**	**-**	**113 004 978**
Interest sensitivity gap		**22 765 525**	**4 006 136**	**(549 337)**	**6 530 612**	**4 743 380**		
Cumulative interest sensitivity gap		**22 765 525**	**26 771 661**	**26 222 324**	**32 752 936**	**37 496 316**		
Derivative financial instruments								
- foreign exchange spot contracts		2 339	-	-	-	-	-	2 339
- forward contracts		-	168	-	-	-	-	168
- swap contracts		26 560	(129 574)	(47 319)	(84 852)	-	-	(235 185)
- interest rate swap contracts		-	-	-	(2 429)	-	-	(2 429)
Total derivative financial instruments		**28 899**	**(129 406)**	**(47 319)**	**(87 281)**	**-**	**-**	**(235 107)**
Liquidity gap		**10 961 738**	**3 865 584**	**(1 000 092)**	**6 440 163**	**4 743 380**		
Cumulative liquidity gap		**10 961 738**	**14 827 322**	**13 827 230**	**20 267 393**	**25 010 773**		

	Weighted average effective interest rate	Up to 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
Non-derivative financial assets								
Fixed interest rate instruments								
Cash and cash equivalents	0.78%	10 265	-	-	-	-	-	10 265
Financial assets at fair value through profit or loss	6.65%	2 005	6 685	165 455	192 200	34 148	-	400 493
Due from other banks	4.25%	5 791 023	-	27 791	-	-	-	5 818 814
Loans and advances to customers	40.25%	6 242 482	7 090 811	37 897 215	29 542 319	5 601 894	-	86 374 721
Financial assets available-for-sale	6.05%	278 394	1 640 562	1 909 431	3 592 988	249 905	-	7 671 280
Financial assets held-to-maturity	8.63%	-	6 762	-	154 229	-	-	160 991
Total fixed interest bearing financial assets		**12 324 169**	**8 744 820**	**39 999 892**	**33 481 736**	**5 885 947**	**-**	**100 436 564**
Variable interest rate instruments								
Cash and cash equivalents	0.40%	62 004	-	-	-	-	-	62 004
Due from other banks	5.06%	28 148	-	77 372	-	-	-	105 520
Loans and advances to customers	12.90%	169 191	1 135 187	654 790	1 591 447	292 670	-	3 843 285
Total variable interest bearing financial assets		**259 343**	**1 135 187**	**732 162**	**1 591 447**	**292 670**	**-**	**4 010 809**

(in thousands of Russian Rubles unless otherwise stated)

	Weighted average effective interest rate	Up to 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
Non-interest bearing financial assets								
Cash and cash equivalents		7 747 110	-	-	-	-	-	7 747 110
Obligatory reserve deposit with the Central Bank of the RF		975 726	-	-	-	-	-	975 726
Due from other banks		33 606	-	-	-	-	-	33 606
Financial assets available-for-sale		-	-	-	-	-	8 137	8 137
Other financial assets		27 572	791	1 298	28	-	-	29 689
Total non-interest bearing financial assets		**8 784 014**	**791**	**1 298**	**28**	**-**	**8 137**	**8 794 268**
Total non-derivative financial assets		**21 367 526**	**9 880 798**	**40 733 352**	**35 073 211**	**6 178 617**	**8 137**	**113 241 641**
Non-derivative financial liabilities								
Fixed interest rate instruments								
Due to other banks	5.73%	729 444	3 327 480	-	1 711 830	-	-	5 768 754
Customer accounts	7.43%	19 410 248	7 457 508	19 010 004	3 237 216	15	-	49 114 991
Debt securities issued	7.42%	606 161	414 310	1 602 182	11 473 417	-	-	14 096 070
Subordinated debt	6.37%	-	18 523	-	2 306 082	-	-	2 324 605
Total fixed interest bearing financial liabilities		**20 745 853**	**11 217 821**	**20 612 186**	**18 728 545**	**15**	**-**	**71 304 420**
Variable interest rate instruments								
Due to other banks	2.30%	-	31 450	1 931 766	4 507 454	-	-	6 470 670
Customer accounts	7.83%	6 074	8 140	10 937	9 889	-	-	35 040
Subordinated debt	8.00%	187	-	-	26 860	-	-	27 047
Total variable interest bearing financial liabilities		**6 261**	**39 590**	**1 942 703**	**4 544 203**	**-**	**-**	**6 532 757**
Non-interest bearing financial liabilities								
Due to other banks		41 786	-	-	-	-	-	41 786
Customer accounts		16 951 638	992	2 361	39	-	-	16 955 030
Debt securities issued		11 506	2 110	10 588	1 610	-	-	25 814
Other financial liabilities		465 369	8	172	-	-	-	**465 549**
Total non-interest bearing financial liabilities		**17 470 299**	**3 110**	**13 121**	**1 649**	**-**	**-**	**17 488 179**
Total non-derivative financial liabilities		**38 222 413**	**11 260 521**	**22 568 010**	**23 274 397**	**15**	**-**	**95 325 356**
Interest sensitivity gap		**(8 168 602)**	**(1 377 404)**	**18 177 165**	**11 800 435**	**6 178 602**		
Cumulative interest sensitivity gap		**(8 168 602)**	**(9 546 006)**	**8 631 159**	**20 431 594**	**26 610 196**		
Derivative financial instruments								
Spot deals		1	-	-	-	-	-	1
Foreign exchange forward contracts		2 380	(9 791)	-	-	-	-	(7 411)
Forex swap contracts		(5 977)	118 595	119 584	12 471	-	-	244 673
Total derivative financial instruments		**(3 596)**	**108 804**	**119 584**	**12 471**	**-**	**-**	**237 263**
Liquidity gap		**(16 858 483)**	**(1 270 919)**	**18 284 926**	**11 811 285**	**6 178 602**		
Cumulative liquidity gap		**(16 858 483)**	**(18 129 402)**	**155 524**	**11 966 809**	**18 145 411**		

While preparing the liquidity analysis disclosure the amounts below minimum balances on deposits of customers were split by the contractual terms of maturity but the amounts exceeding the minimum balances were considered as liabilities with a maturity of up to 1 month.

(in thousands of Russian Rubles unless otherwise stated)

The further analysis of maturities of financial liabilities is represented in accordance with a requirement of clause 39 (a) of IFRS 7. The amounts disclosed in the maturity analysis represent non-discounted cash flows under the contracts and do not concur with the balance sheet amounts as a carrying amount is based on discounted cash flows:

(a) Term to maturity of financial liabilities, that are non-derivatives, is calculated for non-discounted cash flows (principal debt and interest) on the earliest date, when the Bank will be liable to redeem the liability;

(b) Term to maturity of financial liabilities, that are derivatives, is calculated for non-discounted cash flows on the earliest date, when the Bank will be liable to redeem the liability;

(c) When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the reporting date.

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	31 December 2012 Total
Fixed interest rate instruments					
Due to other banks	3 452 312	574 194	2 084 695	-	6 111 201
Customer accounts	25 335 596	6 643 737	28 386 248	6 081 290	66 446 871
Debt securities issued	866 091	1 304 728	994 682	14 799 683	17 965 184
Subordinated debt	-	35 693	107 078	2 332 102	2 474 873
Total fixed interest bearing financial liabilities	**29 653 999**	**8 558 352**	**31 572 703**	**23 213 075**	**92 998 129**
Variable interest rate instruments					
Due to other banks	-	82 905	4 366 384	-	4 449 289
Subordinated debt	125	249	1 053	18 204	19 631
Total variable interest bearing financial liabilities	**125**	**83 154**	**4 367 437**	**18 204**	**4 468 920**
Non-interest bearing instruments					
Due to other banks	38 846	-	4	-	38 850
Customer accounts	18 956 900	1 025	2 665	43	18 960 633
Debt securities issued	5 087	5 278	3 738	1 519	15 622
Other financial liabilities	659 198	6 725	399 367	1 755	1 067 045
Liabilities on financial guarantees and letters of credit	1 300 999	861 313	1 660 607	242 140	4 065 059
Commitments on loans and unused credit lines	51 287 838	-	-	-	51 287 838
Total non-interest bearing financial liabilities	**72 248 868**	**874 341**	**2 066 381**	**245 457**	**75 435 047**
Total financial liabilities and commitments	**101 902 992**	**9 515 847**	**38 006 521**	**23 476 736**	**172 902 097**

(in thousands of Russian Rubles unless otherwise stated)

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	31 December 2011 Total
Fixed interest rate instruments						
Due to other banks	729 992	3 383 332	65 107	1 787 392	-	5 965 823
Customer accounts	19 438 568	7 572 480	19 828 665	3 708 301	18	50 548 032
Debt securities issued	691 106	414 732	2 314 752	13 445 593	-	16 866 183
Subordinated debt	-	37 046	111 138	2 563 701	-	2 711 885
Total fixed interest bearing financial liabilities	**20 859 666**	**11 407 590**	**22 319 662**	**21 504 987**	**18**	**76 091 923**
Variable interest rate instruments						
Due to other banks	-	50 105	2 028 984	4 592 401	-	6 671 490
Customer accounts	6 261	8 407	11 577	11 786	-	38 031
Subordinated debt	370	353	1 619	30 169		32 511
Total variable interest bearing financial liabilities	**6 631**	**58 865**	**2 042 180**	**4 634 356**	**-**	**6 742 032**
Non-interest bearing instruments						
Due to other banks	41 786	-	-	-	-	41 786
Customer accounts	16 951 638	992	2 361	39	-	16 955 030
Debt securities issued	11 506	2 110	10 588	1 610	-	25 814
Other financial liabilities	465 549	-	-	-	-	465 549
Liabilities on financial guarantees and letters of credit	10 276	407 685	161 403	12 804	-	592 168
Commitments on loans and unused credit lines	30 974 743	-	-	-	-	30 974 743
Total non-interest bearing financial liabilities	**48 455 498**	**410 787**	**174 352**	**14 453**	**-**	**49 055 090**
Total financial liabilities and commitments	**69 321 795**	**11 877 242**	**24 536 194**	**26 153 796**	**18**	**131 889 045**

The following table details the Bank's liquidity analysis for its derivative financial liabilities. The table has been drawn up based on the undiscounted contractual net cash inflows and outflows on derivative instruments that settle on a net basis, and the undiscounted gross inflows and outflows on those derivatives that require gross settlement.

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Total
31 December 2012					
Foreign exchange forward contracts	-	129 573	47 319	145 013	**321 905**
Forex swap contracts	2 219	-	-	-	**2 219**
Interest rate swap contracts	-	-	-	2 429	**2 429**
	2 219	**129 573**	**47 319**	**147 442**	**326 553**
31 December 2011					
Foreign exchange forward contracts	312	9 791	-	-	**10 103**
Forex swap contracts	12 822	-	95 901	-	**108 723**
	13 134	**9 791**	**95 901**	**-**	**118 826**

(in thousands of Russian Rubles unless otherwise stated)

Market Risk

Market risk is the risk of losses due to changes in market prices of a financial instrument. Market risk includes currency, interest rate and other pricing risks.

The Bank is exposed to market risks associated with its interest rate, currency and equity instruments which are subject to general and specific market fluctuations. The Bank uses system of market risk management, including procedures of limits calculation, setting and controlling which mitigate risk exposure and take into account analysis, control and reporting over limits operation. Regular testing of models and risk estimation techniques, based on historical market data and financial results on the Bank's trading operations, is performed in order to provide reliable risk assessment. The ALCO of the Bank is responsible for work coordination of subdivisions, which manage market risk, setting and revision of market risk limits. The Bank sets the following limits: open position limits, VAR-limits and stop-loss limits. The compliance with these limits is monitored on a daily basis by a separate subdivision responsible for assessment of the risk run.

Interest rate sensitivity

Interest rate risk refers to the possibility of adverse changes in interest rates in view of the gap between maturities of assets, liabilities and off-balance sheet instruments.

The Bank is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Such fluctuations may increase the interest margin; however, unexpected changes of interest rates may cause a decrease in the interest margin or lead to losses. To minimize the cash flow interest rate risk, the Bank developed a code of regulations to manage liabilities and assets of the Bank according to their terms and liquidity. The interest rate risk is monitored continuously by the Bank's ALCO. In 2010 the Bank adopted a new transfer pricing system providing that transfer prices should be defined on a monthly basis in accordance with the Bank's uniform standards and take into account quoted market prices and the cost of resources by major currencies and maturities (market quote spreads), approved by the ALCO of the Head Bank. This transfer pricing method allows for better estimation of the performance of subdivisions and setting an acceptable margin for the Bank.

Interest rates on raising and placing funds are revised regularly (at least quarterly) and approved by collective bodies of the Bank.

In accordance with the global practices of interest rate risk management the Bank regularly carries out a quantitative assessment of the current level of interest rate risk. Presently, the Bank measures interest rate risk using the gap analysis, which complies with the requirements of the CBR (Letter No. 15-1-3-6-3995 of 2 November 2007 "On the international approaches to (standards of) interest rate risk management") and those of the parent bank (intragroup requirements). Afterwards, as the Bank's information systems become more sophisticated, the Bank intends to adopt more complicated measurement techniques (the duration method, simulation models, etc.).

The following table presents a sensitivity analysis of interest rate risk, which has been determined based on "reasonably possible changes in the risk variable".

Impact on profit and equity as of 31 December 2012 and 2011 is as follows:

Impact on profit and equity of a change in interest rate by +1%

	Up to 1 month	1 month to 3 months	3 months to 1 year	Total
2012	227 655	40 061	(5 493)	262 223
2011	(81 686)	(13 774)	181 772	86 312

(in thousands of Russian Rubles unless otherwise stated)

Impact on profit and equity of a change in interest rate by -1%

	Up to 1 month	1 month to 3 months	3 months to 1 year	Total
2012	(227 655)	(40 061)	5 493	(262 223)
2011	81 686	13 774	(181 772)	(86 312)

Currency risk

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

When analyzing the currency risk, impact of external destabilizing factors to the international and local currency markets is taken into consideration.

General management of the Bank's currency positions (in terms of maturity and currency) is carried out by the Bank's collective bodies (the ALCO, the Credit Committee, the Management Board). Presently, the Bank makes a special effort to avoid significant imbalances in the maturity structure of its balance sheet by employing various risk mitigation instruments (borrowing from the parent Bank and use of derivatives).

On-going management of net foreign currency position is performed by the Bank's Treasury Directorate on the basis of limits set by the Bank's collective bodies and limitations set by the Central Bank of the Russian Federation. The Bank's exposure to currency risk is as follows:

	RUR	USD 1 = RUR 30.3727	EUR 1 = RUR 40.2286	Other currency	31 December 2012 Total
Non-derivative financial assets					
Cash and cash equivalents	4 860 041	1 051 329	393 638	244 331	6 549 339
Obligatory reserve deposit with the Central Bank of the RF	1 162 133	-	-	-	1 162 133
Financial assets at fair value through profit or loss	37 237	-	-	-	37 237
Due from other banks	2 212 338	10 568 495	157 164	-	12 937 997
Loans and advances to customers	95 018 996	3 795 935	1 048 724	1 965 116	101 828 771
Financial assets available-for-sale	9 940 637	1 428 301	4 404 956	-	15 773 894
Financial assets held-to-maturity	-	154 363	-	-	154 363
Other financial assets	31 788	2 031	4 722	-	38 541
Total non-derivative financial assets	**113 263 170**	**17 000 454**	**6 009 204**	**2 209 447**	**138 482 275**
Non-derivative financial liabilities					
Due to other banks	2 931 503	5 373 131	366 289	1 675 039	10 345 962
Customer accounts	67 604 952	10 761 119	4 428 105	276 757	83 070 933
Debt securities issued	15 017 666	1 184 307	60 242	-	16 262 215
Other financial liabilities	1 049 604	4 337	13 103	-	1 067 044
Subordinated debt	586 537	1 103 106	-	569 181	2 258 824
Total non-derivative financial liabilities	**87 190 262**	**18 426 000**	**4 867 739**	**2 520 977**	**113 004 978**
Net position on non-derivative financial instruments	**26 072 908**	**(1 425 546)**	**1 141 465**	**(311 530)**	
Derivative financial instruments					
- foreign exchange spot contracts	1 348 389	(1 063 535)	(1 216 915)	934 400	2 339
- forward contracts	4 326	(4 158)		-	168
- swap contracts	(3 309 715)	3 144 926	(70 395)	-	(235 184)
- interest rate swap contracts	(2 429)	-	-	-	(2 429)
Net position on derivative financial instruments	**(1 959 431)**	**2 077 234**	**(1 287 310)**	**934 400**	**(235 107)**
Total net position	**24 113 477**	**651 688**	**(145 845)**	**622 870**	

(in thousands of Russian Rubles unless otherwise stated)

	RUR	USD 1 = RUR 32.1961	EUR 1 = RUR 41.6714	Other currency	31 December 2011 Total
Non-derivative financial assets					
Cash and cash equivalents	6 085 563	789 610	718 838	225 368	7 819 379
Obligatory reserve deposit with the Central Bank of the RF	975 726	-	-	-	975 726
Financial assets at fair value through profit or loss	400 493	-	-	-	400 493
Due from other banks	4 631 826	1 301 368	24 745	1	5 957 940
Loans and advances to customers	80 939 761	5 483 971	1 225 676	2 568 598	90 218 006
Financial assets available-for-sale	2 162 226	705 132	3 649 487	1 162 572	7 679 417
Financial assets held-to-maturity	-	160 991	-	-	160 991
Other financial assets	25 995	1 920	1 774	-	29 689
Total non-derivative financial assets	**95 221 590**	**8 442 992**	**5 620 520**	**3 956 539**	**113 241 641**
Non-derivative financial liabilities					
Due to other banks	2 627 192	6 496 843	13 997	3 143 178	12 281 210
Customer accounts	54 850 438	6 751 122	4 144 240	359 261	66 105 061
Debt securities issued	14 118 664	3 220	-	-	14 121 884
Other financial liabilities	440 737	802	24 010	-	465 549
Subordinated debt	596 898	1 169 358	-	585 396	2 351 652
Total non-derivative financial liabilities	**72 633 929**	**14 421 345**	**4 182 247**	**4 087 835**	**95 325 356**
Net position on non-derivative financial instruments	**22 587 661**	**(5 978 353)**	**1 438 273**	**(131 296)**	
Derivative financial instruments					
- spot deals	-	5 473	-	(5 472)	1
- foreign exchange forward contracts	534 975	(270 474)	(271 912)	-	(7 411)
- forex swap contracts	(4 194 687)	5 150 282	(1 104 391)	393 469	244 673
Net position on derivative financial instruments	**(3 659 712)**	**4 885 281**	**(1 376 303)**	**387 997**	**237 263**
Total net position	**18 927 949**	**(1 093 072)**	**61 970**	**256 701**	

Currency risk sensitivity

The following table details the Bank's sensitivity to an increase and decrease in the USD and the EUR exchange rates against the RUR. 15% and 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel of the Bank and represents management's assessment of the possible change in foreign currency exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the period for a 15% and 10% change in foreign currency rates.

	31 December 2012		31 December 2011	
	RUR/USD +15%	RUR/USD -15%	RUR/USD +15%	RUR/USD -15%
Impact on profit	1.21%	(1.21)%	(2.05)%	2.05%
Impact on equity	0.36%	(0.36)%	(0.83)%	0.83%

	31 December 2012		31 December 2011	
	RUR/EUR +10%	RUR/EUR -10%	RUR/EUR +10%	RUR/EUR -10%
Impact on profit	(0.18)%	0.18%	(0.34)%	0.34%
Impact on equity	(0.05)%	0.05%	(0.14)%	0.14%

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 Bank's assets and liabilities are actively managed. Additionally, the financial position of the Bank may vary at the time that any actual market movement occurs. For example, the Bank'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 action. 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 on the balance sheet. In these circumstances, the different measurement bases for liabilities and assets may lead to volatility in shareholder equity.

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

Price risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices whether those changes are caused by factors specific to the individual security or its issuer or factors affecting all securities traded in the market. The Bank is exposed to price risks of its products which are subject to general and specific market fluctuations.

The Bank manages price risk through periodic estimation of potential losses that could arise from adverse changes in market conditions and establishing and maintaining appropriate stop-loss limits and margin and collateral requirements.

For mitigation of the price risk the Bank seeks to diversify its security portfolio. Besides the Bank regularly revalues its portfolio at market value or makes allowance for possible losses on the financial investments for offsetting a loss from unfavorable changes in market conditions. The Bank manages the price risk by applying a system of limits that restricts the volumes of the Bank's trading transactions. These limits are set by the Bank's Asset and Liability Management Department and their observance is controlled on a daily basis by an independent subdivision responsible for the risk level assessment.

The table below represents an analysis of sensitivity to price risk based on the balance sheet position for investments in equity securities at the reporting date.

The results of the analysis of the sensitivity of the Bank profit before tax and equity for the year to changes in prices of securities on a simplified scenario of 1% symmetrical increase or decrease in all securities prices are given in the table below:

	31 December 2012		**31 December 2011**	
	1% increase in securities price	**1% decrease in securities price**	**1% increase in securities price**	**1% decrease in securities price**
Impact on equity	2 314	(2 314)	78	(78)

36. OPERATIONAL RISK

Operational risk is the risk of loss arising from inadequate or erroneous internal processes, human error, systems failure or external events.

Operational risk management is performed in accordance with internal normative documents of the Bank, which are in compliance with Instructions of the Central Bank of the RF, legal act of OTP Bank (Hungary) and Basel Committee recommendations. Well-defined division of powers and subdivisions' areas of responsibility in risk management are set in the Bank.

Activity of the Bank's operational risks management includes the following main elements: identification, assessment, monitoring, control and (or) minimization of the Bank's exposure to operational risk as well as distribute authorities to manage operational risk.

The Bank's specially designed software collects information on the facts that operational risk has been realized and losses have been incurred to enable efficient identification of the risk. Collected data are used to develop quantitative techniques of operational risk assessment.

In order to determine potential operational risks the Bank performs annual self-assessment of operational risk, which includes estimation by the Bank of its transactions and business activities in terms of potential exposure to different types of operational risks.

The Bank uses the system of operational risk indication. The system of operational risk indication is maintained in order to prevent exposure to operational risk increase.

For monitoring the level of operational risk and coordinating the activity of operational risk management, and also for development and making decisions on maintaining unique, approved policy for operational risk management the Bank uses collegiate working unit, operating on a continued basis – Committee on operational risks.

To mitigate the operating risk the Bank uses the following primary instruments:

- Improvement of bank technology automation systems and data protection systems (data reconciliation, differentiation of access to information, adjustment and connection of automated checking procedures for diagnostics of erroneous actions, automatic performance of routine repeated actions, etc.);
- Insurance – the Bank uses insurance to cover a number of operating risks;
- Transfer (outsourcing) of risks (e.g. storage and transportation of valuables);
- Control over observance of limits set for transactions;
- Division of powers (no risk concentration);
- Application of the principles “Know your client”, “Know your employee”;
- Other instruments.

For the purpose of mitigation of operational risk the Bank developed and approved Plan of actions for the case of unexpected circumstances using backup automated systems, as well as a crisis management plan.