

ZAO UniCredit Bank
Consolidated Financial Statements
Year ended 31 December 2012

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Auditors' Report

To the Shareholder and Supervisory Board

ZAO UniCredit Bank

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Audited entity: ZAO UniCredit Bank.

Licensed by the Central Bank of the Russian Federation on 23 March 2012, Licence No. 1.

Entered in the Unified State Register of Legal Entities on 19 August 2002 by the Moscow Inter-Regional Tax Inspectorate No.39 of the Ministry for Taxes and Duties of the Russian Federation, Registration No. 1027739082106, Certificate series 77 No. 005721432.

9, Prechistenskaya emb., Moscow, Russia 119034.

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

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

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

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

Opinion

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

Malyutina M.S.

Director

power of attorney dated 1 October 2010 No. 43/10

licence No. 01-000066

ZAO KPMG

18 February 2013

Moscow, Russian Federation



CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2012

(Thousands of Russian Roubles)

	Notes	2012	2011
Assets			
Cash and cash balances	6	24 020 106	24 491 991
Trading securities	7	4 340 528	1 938 722
Amounts due from credit institutions	8	246 446 188	200 143 375
Derivative financial assets	9	10 064 303	12 867 079
Derivative financial assets designated for hedging	9	7 350 086	3 776 683
Changes in fair value of portfolio hedged items	9	1 142 230	495 370
Loans to customers	10	504 195 074	472 698 094
Investment securities:	11		
- available-for-sale			
- held by the Group		31 918 591	43 575 124
- pledged under repurchase agreements	12	26 690 399	—
- held-to-maturity	11	311 805	311 662
Investments in associate		979 435	929 032
Fixed assets	13	6 792 727	6 583 910
Intangible assets	14	1 974 557	1 744 158
Other assets	16	2 249 553	2 421 714
Total assets		868 475 582	771 976 914
Liabilities			
Amounts due to credit institutions	17	187 523 705	165 826 669
Derivative financial liabilities	9	7 309 978	12 893 794
Derivative financial liabilities designated for hedging	9	6 222 442	7 273 366
Amounts due to customers	18	503 869 222	462 922 550
Debt securities issued	19	40 792 747	25 833 182
Deferred income tax liabilities	15	2 810 119	2 854 232
Current income tax liabilities		724 314	297 952
Other liabilities	16	5 969 924	5 767 025
Total liabilities		755 222 451	683 668 770
Equity	21		
Share capital		41 787 806	31 787 811
Share premium		437 281	437 281
Cash flow hedge reserve		(960 582)	(1 302 369)
Revaluation reserve for available-for-sale securities		4 721 389	7 596 368
Retained earnings		67 267 237	49 789 053
Total equity		113 253 131	88 308 144
Total equity and liabilities		868 475 582	771 976 914

Signed and authorised for release on behalf of the Board of Management of the Bank

K. Zhukov-Emelyanov

Acting Chairman of the Board of Management

O. Goncharova

Chief Accountant

18 February 2013

The accompanying notes on pages 5 to 58 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

(Thousands of Russian Roubles)

	<i>Notes</i>	<i>2012</i>	<i>2011</i>
Interest income			
Loans to customers		40 274 293	32 897 534
Amounts due from credit institutions		4 058 869	3 343 096
Trading and investment securities		3 262 042	2 187 918
Other		2 996 310	196 931
		50 591 514	38 625 479
Interest expense			
Amounts due to customers		(15 835 206)	(10 969 271)
Amounts due to credit institutions		(8 668 563)	(4 632 916)
Debt securities issued		(2 830 163)	(1 251 615)
		(27 333 932)	(16 853 802)
Net interest income		23 257 582	21 771 677
Fee and commission income	24	5 468 307	4 642 161
Fee and commission expense		(745 026)	(661 695)
Net fee and commission income		4 723 281	3 980 466
Dividend income		59 478	23 134
Gains on financial assets and liabilities held for trading	23	4 797 090	3 576 862
Fair value adjustments in portfolio hedge accounting		(406)	339
Gains on disposal of:			
- loans		134 227	184 793
- available-for-sale financial assets		3 154 569	3 248 218
OPERATING INCOME		36 125 821	32 785 489
Impairment on loans	10	(2 783 324)	(2 661 838)
NET INCOME FROM FINANCIAL ACTIVITIES		33 342 497	30 123 651
Personnel expenses	25	(5 949 934)	(5 248 444)
Other administrative expenses	25	(3 964 239)	(3 979 686)
Depreciation of fixed assets	13	(711 695)	(814 281)
Amortization of intangible assets	14	(452 845)	(348 408)
Other provisions		(5 196)	(38 171)
Net other operating (expense) income		(58 188)	140 367
Operating costs		(11 142 097)	(10 288 623)
Share of gains of associate		50 403	35 978
Losses on disposal of fixed assets		(8 157)	(4 735)
PROFIT BEFORE INCOME TAX EXPENSE		22 242 646	19 866 271
Income tax expense	15	(4 764 462)	(4 078 434)
PROFIT FOR THE YEAR		17 478 184	15 787 837
Other comprehensive income			
Cash flow hedge reserve - effective portion of changes in fair value	15	341 787	(626 522)
Revaluation reserve for available-for-sale securities - net change	15	(2 874 979)	7 646 707
Other comprehensive (loss) income for the period, net of tax		(2 533 192)	7 020 185
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		14 944 992	22 808 022

The accompanying notes on pages 5 to 58 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2012

(Thousands of Russian Roubles)

	<i>Share capital</i>	<i>Share premium</i>	<i>Cash flow hedge reserve</i>	<i>Revaluation reserve for available- for-sale securities</i>	<i>Retained earnings</i>	<i>Total equity</i>
1 January 2011	28 613 826	437 281	(675 847)	(50 339)	41 432 382	69 757 303
Total comprehensive income						
Profit for the year	—	—	—	—	15 787 837	15 787 837
Other comprehensive income						
Change in cash flow hedge reserve, net of tax	—	—	(626 522)	—	—	(626 522)
Net change in revaluation reserve for available-for-sale assets, net of tax	—	—	—	7 646 707	—	7 646 707
Total other comprehensive income	—	—	(626 522)	7 646 707	—	7 020 185
Total comprehensive income	—	—	(626 522)	7 646 707	15 787 837	22 808 022
Transactions with owner, recorded directly in equity						
Increase of share capital (Note 21)	3 173 985	—	—	—	—	3 173 985
Dividends paid on ordinary shares	—	—	—	—	(7 409 580)	(7 409 580)
Purchase of subsidiary under common control	—	—	—	—	(21 586)	(21 586)
Total transactions with owners	3 173 985	—	—	—	(7 431 166)	(4 257 181)
31 December 2011	31 787 811	437 281	(1 302 369)	7 596 368	49 789 053	88 308 144
1 January 2012	31 787 811	437 281	(1 302 369)	7 596 368	49 789 053	88 308 144
Total comprehensive income						
Profit for the year	—	—	—	—	17 478 184	17 478 184
Other comprehensive income						
Change in cash flow hedge reserve, net of tax	—	—	341 787	—	—	341 787
Net change in revaluation reserve for available-for-sale assets, net of tax	—	—	—	(2 874 979)	—	(2 874 979)
Total other comprehensive income	—	—	341 787	(2 874 979)	—	(2 533 192)
Total comprehensive income	—	—	341 787	(2 874 979)	17 478 184	14 944 992
Transactions with owner, recorded directly in equity						
Increase of share capital (Note 21)	9 999 995	—	—	—	—	9 999 995
Total transactions with owners	9 999 995	—	—	—	—	9 999 995
31 December 2012	41 787 806	437 281	(960 582)	4 721 389	67 267 237	113 253 131

The accompanying notes on pages 5 to 58 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2012

(Thousands of Russian Roubles)

	<i>Notes</i>	<i>2012</i>	<i>2011</i>
Cash flows from operating activities			
Interest received		46 578 568	39 129 896
Interest paid		(20 283 662)	(12 437 908)
Fees and commissions received		5 468 307	4 642 161
Fees and commissions paid		(745 026)	(661 695)
Net receipts from trading securities		145 300	32 405
Net payments from derivatives and dealing in foreign currencies		(1 843 108)	(4 122 008)
Other income received		3 253 687	2 007 376
Salaries and benefits paid		(4 985 260)	(4 068 599)
Other operating expenses paid		(3 358 392)	(2 302 750)
Cash flows from operating activities before changes in operating assets and liabilities		24 230 414	22 218 878
<i>Net decrease (increase) in operating assets</i>			
Obligatory reserve with the CBR		2 193 874	(4 913 826)
Trading securities		(2 437 411)	32 600 522
Amounts due from credit institutions		(57 700 192)	(99 263 908)
Loans to customers		(44 798 399)	(69 065 455)
Other assets		(176 519)	(203 334)
<i>Net increase (decrease) in operating liabilities</i>			
Amounts due to credit institutions		32 707 076	19 584 530
Amounts due to customers		49 092 142	122 585 626
Promissory notes		63 777	289 961
Other liabilities		(668 614)	732 145
Net cash flows from operating activities before income tax		2 506 148	24 565 139
Income tax paid		(3 748 860)	(2 912 008)
Net cash (used in) from operating activities		(1 242 712)	21 653 131
Cash flows from investing activities			
Dividends received		59 478	23 134
Net purchase of available-for-sale securities		(20 316 233)	(30 055 821)
Proceeds from redemption of held-to-maturity securities		—	265 000
Proceeds from sale of fixed and intangible assets		9 538	10 435
Purchase of fixed and intangible assets		(1 462 214)	(3 536 053)
Net cash used in investing activities		(21 709 431)	(33 293 305)
Cash flows from financing activities			
Purchase of subsidiary under common control		—	(846 000)
Proceeds from issuance of bonds	19	20 000 000	10 000 000
Redemption of bonds issued		(5 479 788)	—
Redemption of subordinated debt		(1 958 127)	(58 707)
Increase of share capital	21	9 999 995	3 173 985
Dividends paid		—	(7 409 580)
Net cash from financing activities		22 562 080	4 859 698
Effect of exchange rates changes on cash and cash balances		(81 822)	65 831
Net decrease in cash and cash balances		(471 885)	(6 714 645)
Cash and cash balances, beginning		24 491 991	31 206 636
Cash and cash balances, ending	6	24 020 106	24 491 991

The accompanying notes on pages 5 to 58 are an integral part of these consolidated financial statements.

(Thousands of Russian Roubles)

1. Principal activities

These consolidated financial statements include the financial statements of ZAO UniCredit Bank (hereinafter – the “Bank”), its subsidiary and associate. ZAO UniCredit Bank, its subsidiary and associate are hereinafter collectively referred to as the “Group”.

The Bank (the former International Moscow Bank) was established as a closed joint stock company under the laws of the Russian Federation in 1989. The Bank operates under General Banking License No. 1 reissued by the Central Bank of Russia (hereinafter – the “CBR”) on 23 March 2012 as well as the CBR license for operations with precious metals issued on 20 December 2007. The Bank also possesses licenses for securities transactions and custody services from the Federal Service for the Securities Market issued on 25 April 2003, the license to act as an exchange broker on transactions with futures and options issued on 27 May 2008 and Russian Federal Customs Service permission to act as a guarantor in relation to customs authorities issued on 1 October 2010. The Bank is a member of the state deposit insurance system in the Russian Federation.

The Bank’s registered legal address is 9, Prechistenskaya Embankment, Moscow, Russian Federation, 119034.

As at 31 December 2012 the Bank has 13 branches and 13 representative offices throughout the Russian Federation and one representative office in the Republic of Belarus.

As at 31 December 2012 the Group comprises the Bank, the leading operating entity of the Group, CJSC Bank Sibir and LLC UniCredit Leasing Company, a leasing company.

The primary activities of the Group are deposit taking, lending, providing payments and settlement services, transactions with foreign currencies and securities and providing finance leases.

As at 31 December 2012 the sole shareholder of the Group is UniCredit Bank Austria AG. UniCredit Bank Austria AG, a member of UniCredit Group, is responsible for the commercial banking in Central and Eastern Europe within the UniCredit Group.

2. Basis of preparation

Statement of compliance

These consolidated financial statements are prepared in accordance with International Financial Reporting Standards (hereinafter - “IFRS”).

Basis of measurement

These consolidated financial statements are prepared on the historical cost basis except that financial instruments held for trading, available-for-sale assets and derivative financial instruments are stated at fair value.

Presentation currency

These consolidated financial statements are presented in Russian Roubles (“RUB”). Amounts in Russian Roubles are rounded to the nearest thousand.

(Thousands of Russian Roubles)

3. Summary of accounting policies

The following significant accounting policies are applied in the preparation of the consolidated financial statements.

Principles of consolidation

Subsidiaries are those enterprises controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The control is normally evidenced when the Group owns, either directly or indirectly, more than 50% of voting rights of a company's share capital and is able to govern financial and operating policies of an enterprise. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases.

Associates are those enterprises in which the Bank has significant influence, but not control, over the financial and operating policies. The significant influence is normally evidenced when the Group owns, either directly or indirectly, between 20% and 50%. The consolidated financial statements include the Bank's share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence effectively commences until the date that significant influence effectively ceases. When the Bank's share of losses exceeds the Bank's interest in the associate, that interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Bank has incurred obligations in respect of the associate. Intra-group balances and transactions, and any unrealised gains arising from intra-Group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains resulting from transactions with associates are eliminated against the investment in the associate. Unrealised losses are eliminated in the same way as unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment.

Where necessary, accounting policies of subsidiary and associate are changed to conform with the accounting policies adopted by the Group.

The consolidated financial statements include the following subsidiary and associate:

Entities	Ownership, %		Country	Industry
	2012	2011		
CJSC Bank Sibir	100%	100%	Russia	Finance
LLC UniCredit Leasing Company	40%	40%	Russia	Finance

Financial assets

Initial recognition

Financial assets in the scope of International Accounting Standard 39 *Financial Instruments: Recognition and Measurement* are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets upon initial recognition. Derivative financial instruments and financial instruments designated as at fair value through profit or loss upon initial recognition are not reclassified out of at fair value through profit or loss category. Financial assets that would have met the definition of loan and receivables may be reclassified out of the fair value through profit or loss or available-for-sale category if the entity has an intention and ability to hold it for the foreseeable future or until maturity. Other financial instruments may be reclassified out of fair value through profit or loss category only in rare circumstances. Rare circumstances arise from a single event that is unusual and highly unlikely to recur in the near term.

The Group recognises financial assets and liabilities on its consolidated statement of financial position when it becomes a party to the contractual provisions of the instrument. All regular way purchases of financial assets and liabilities are recognised at the settlement date.

(Thousands of Russian Roubles)

3. Summary of accounting policies (continued)

Financial assets (continued)

Financial instruments at fair value through profit or loss

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

- acquired or incurred principally for the purpose of selling or repurchasing in the near term;
- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking;
- derivative financial instruments (except for derivative financial instruments that are designated and effective hedging instruments); or,
- upon initial recognition, designated by the Group as at fair value through profit or loss.

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

- the assets or liabilities are managed and evaluated on a fair value basis;
- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise; or
- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

Gains or losses on financial assets held for trading are recognised in profit or loss.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold them to maturity other than those that:

- the Group upon initial recognition designates as at fair value through profit or loss;
- the Group designates as available-for-sale; or,
- meet the definition of loans and receivables.

Held-to-maturity investments are subsequently measured at amortised cost. Gains and losses are recognised in profit or loss when the investments are impaired, as well as through the amortisation process.

Loans and receivables

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

- intends to sell immediately or in the near term;
- upon initial recognition designates as at fair value through profit or loss;
- upon initial recognition designates as available-for-sale; or,
- may not recover substantially all of its initial investment, other than because of credit deterioration.

Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

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

Available-for-sale assets are subsequently measured at fair value. Non-marketable equity instruments, for which it is impracticable to determine fair value, are stated at cost.

(Thousands of Russian Roubles)

3. Summary of accounting policies (continued)

Financial assets (continued)

Determination of fair value

The fair value for financial instruments traded in an active market at the reporting date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. If a quoted market price is not available, the fair value of the instrument is estimated using valuation techniques with a maximum use of market inputs. Such valuation techniques include reference to recent arm's length market transactions, current market prices of substantially similar instruments, discounted cash flow and option pricing models and other techniques commonly used by market participants to price the instrument.

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

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

Offsetting

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

Cash and cash balances

The Group considers cash and nostro accounts with the CBR to be cash and cash balances. The obligatory reserve deposit with the CBR is not considered to be in this category due to restrictions on its availability.

Derivative financial instruments

In the normal course of business, the Group enters into various derivative financial instruments including futures, forwards, foreign exchange and interest rate swaps. Such financial instruments are held for trading and are recorded at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments, except for derivatives designated for hedging, are included in profit or loss as gains or losses on financial assets and liabilities held for trading.

Hedge accounting

In hedge accounting, the Group distinguishes between cash flow hedges and fair value hedges. To qualify for hedge accounting in accordance with IAS 39, hedges must be highly effective. Derivatives used for hedging purposes are measured at fair value in the consolidated statement of financial position.

At inception of the hedge relationship, the Group formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk, the objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship.

Also at the inception of the hedge relationship, a formal assessment is undertaken to ensure the hedging instrument is expected to be highly effective in offsetting the designated risk in the hedged item. Hedges are formally assessed for effectiveness on monthly basis. A hedge is regarded as highly effective if the changes in the fair value of cash flows attributable to the hedged risk are expected to offset in a range of 80% to 125% during the hedging period.

Where a derivative is designated as a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognised as other comprehensive income in equity. The amount recognised in equity is removed and included in profit or loss in the same period as the hedged cash flows affect profit or loss. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss.

(Thousands of Russian Roubles)

3. Summary of accounting policies (continued)

Hedge accounting (continued)

If the derivative expires or is sold, terminated, or exercised, or no longer meets the criteria for cash flow hedge accounting, or the designation is revoked, hedge accounting is discontinued and the amount recognised in equity remains in equity until the forecast transaction affects profit or loss. If the forecast transaction is no longer expected to occur, hedge accounting is discontinued and the balance in equity is recognised immediately in profit or loss.

Fair value hedge is defined as a hedge of the exposure to changes in fair value of a recognised asset or liability that is attributable to a particular risk and could affect profit or loss. In a fair value hedge assets or liabilities are hedged against future fair value changes, if those changes affect the Group's results and are caused by a determinable risk. The hedging instrument is stated at its fair value, and any gains or losses on the hedging instrument are recognised in profit or loss as gains or losses on financial assets and liabilities held for trading. Gains and losses which are attributable to the hedged risk adjust the carrying value of the hedged item. Changes in the fair value of portfolio hedged items are presented separately in the consolidated statement of financial position and recognized in the consolidated statement of comprehensive income as gains or losses on financial assets and liabilities held for trading.

Repurchase and reverse repurchase agreements and securities lending

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

Securities lent to counterparties are retained in the consolidated statement of financial position. Securities borrowed are not recorded in the consolidated statement of financial position, unless they are sold to third parties, in which case the purchase and sale are recorded within net gains or losses from trading securities in profit or loss. The obligation to return them is recorded at fair value as a trading liability.

Securities purchased under agreements to resell ("reverse repo") and then sold under repurchase agreements are not recorded in the consolidated statement of financial position.

Borrowings

Financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include amounts due to credit institutions, amounts due to customers, subordinated debt and debt securities issued. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the borrowings are derecognised as well as through the amortisation process.

If the Group purchases its own debt, it is removed from the statement of financial position and the difference between the carrying amount of the liability and the consideration paid is recognised in profit or loss.

Leases

Operating lease

Where the Group is the lessee in a lease agreement where the lessor does not transfer substantially all of the risks and rewards incidental to ownership of the asset, the arrangement is accounted for as an operating lease. The leased asset is not recognised in the consolidated financial statements, and lease payments are recognised in profit or loss on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

(Thousands of Russian Roubles)

3. Summary of accounting policies (continued)

Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Amounts due from credit institutions and loans to customers

For amounts due from credit institutions and loans to customers carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risks characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is an objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to allowance account in profit or loss.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Bank's internal credit grading system that considers credit risk characteristics such as asset type, borrower's financial position, industry, geographical location, collateral type, past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in property prices, payment status, or other factors that are indicative of incurred losses in the group or their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Held-to-maturity financial investments

For held-to-maturity investments the Group assesses individually whether there is objective evidence of impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss.

(Thousands of Russian Roubles)

3. Summary of accounting policies (continued)

Impairment of financial assets (continued)

Held-to-maturity financial investments (continued)

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognised, any amounts formerly charged are credited to profit or loss.

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

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

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded in profit or loss. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss.

Renegotiated loans

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously 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 impairment assessment, calculated using the loan's original effective interest rate.

Non-financial assets

Other non-financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment.

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

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

(Thousands of Russian Roubles)

3. Summary of accounting policies (continued)

Derecognition of financial assets and liabilities

Financial assets

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

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

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial liabilities

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

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

Taxation

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

The current income tax expense is calculated in accordance with the regulations of the Russian Federation and of the regions in which the Group has offices, or where its branches, subsidiaries and associates are located. Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the reporting date. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefits will be realised.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised.

Russia also has various operating taxes that are assessed on the Group's activities. These taxes are included as a component of other administrative expenses in the consolidated statement of comprehensive income.

New transfer pricing legislation enacted in the Russian Federation starting from 1 January 2012 provides for major modifications making local transfer pricing rules closer to OECD guidelines, but creating additional uncertainty in practical application of tax legislation in certain circumstances. Since there is no practice of applying the new transfer pricing rules by the tax authorities and courts, it is difficult to predict the effect of the new transfer pricing rules on these consolidated financial statements.

(Thousands of Russian Roubles)

3. Summary of accounting policies (continued)

Fixed assets

Fixed assets are carried at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any accumulated impairment. Depreciation of an asset begins when it is available for use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	<i>Years</i>
Buildings	20-30
Furniture and fixtures	5
Computer equipment	5
Leasehold improvements	lesser of the useful life of the asset and period of lease
Other fixed assets	3-5

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

Intangible assets including goodwill

Intangible assets other than goodwill include licenses and computer software. Licenses are stated at historical cost net of accumulated amortisation and any accumulated impairment losses. Amortisation is provided so as to write down the cost of an asset on a straight-line basis over its estimated useful economic life. The useful life is currently assessed as not more than 10 years.

Software development costs (relating to the design and testing of new or substantially improved software) are recognised as intangible assets only when the Group can demonstrate the technical feasibility of completing the software so that it will be available for use or sale, its intention to complete and its ability to use the asset, how the asset will generate future economic benefits, the availability of resources to complete and the ability to measure reliably the expenditure during the development. Other software development costs are recognised as an expense as incurred. Computer software development costs recognised as intangible assets, as well as acquired computer software, are initially recorded at historical cost and are subsequently amortised using the straight-line method over their useful lives, but not exceeding a period of three years.

Goodwill is initially measured at cost, being the excess of the cost of an acquisition over the net fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiary or associate at the date of acquisition. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired. For the purpose of impairment testing, goodwill is allocated to the Group's cash-generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than its carrying amount, an impairment loss is recognised.

Negative goodwill arising on an acquisition is recognised immediately in profit or loss.

Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in normal course of business, or for the use in production or supply of goods or services or for administrative purposes. Investment property is measured at cost less accumulated depreciation and any accumulated impairment. Depreciation is calculated on a straight-line basis over the useful life applicable for the fixed assets.

(Thousands of Russian Roubles)

3. Summary of accounting policies (continued)

Credit related commitments

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

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

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

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

Other provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of obligation can be made.

Retirement and other employee benefit obligations

The Group makes contributions to the State pension system of the Russian Federation, which requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged in the period the related salaries are earned.

The Group also provides defined contribution pension coverage for employees. The coverage provided does not represent contributions into a separate legal entity, nor are its assets and liabilities segregated from the assets and liabilities of the Group. Contributions accrued by the Group during the period are included in profit or loss as personnel expenses, and related liabilities to employees are recorded within other liabilities.

Share capital

Ordinary shares are classified as equity. Any excess of the fair value of consideration received over the par value of shares issued is recognised as share premium.

Dividends are recognised as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the consolidated financial statements are authorised for issue.

Segment reporting

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

Contingencies

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

Recognition of income and expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured.

(Thousands of Russian Roubles)

3. Summary of accounting policies (continued)

Recognition of income and expenses (continued)

Interest and similar income and expense

For all financial instruments measured at amortised cost and interest bearing securities classified as trading or available-for-sale, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the original effective interest rate applied to the new carrying amount.

Fee and commission income

The Group earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

- *Fee income earned from services that are provided over a certain period of time*

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loan.

- *Fee income from providing transaction services*

Fees arising from negotiating or participating in the negotiation of a transaction for a third party – such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses – are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

Dividend income

Dividend income is recognised in profit or loss on the date when the dividend is declared.

Foreign currency translation

Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Management determined the functional currency for all Group entities to be the RUB as it reflects the economic substance of the underlying events and circumstances of the Group. Transactions in foreign currencies are translated to the functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in profit or loss as gains or losses on financial assets and liabilities held for trading. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Differences between the contractual exchange rate of a transaction in a foreign currency and the CBR exchange rate on the date of the transaction are included in gains or losses on financial assets and liabilities held for trading.

(Thousands of Russian Roubles)

3. Summary of accounting policies (continued)

New standards and interpretations not yet adopted

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

- IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2015. The new standard is to be issued in phases and is intended ultimately to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement*. The first phase of IFRS 9 was issued in November 2009 and relates to the classification and measurement of financial assets. The second phase regarding classification and measurement of financial liabilities was published in October 2010. The remaining parts of the standard are expected to be issued during 2013. The Group recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on Group's consolidated financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued. The Group does not intend to adopt this standard early.
- IFRS 10 *Consolidated Financial Statements* will be effective for annual periods beginning on or after 1 January 2013. The new standard supersedes IAS 27 *Consolidated and Separate Financial Statements* and SIC-12 *Consolidation – Special Purpose Entities*. IFRS 10 introduces a single control model which includes entities that are currently within the scope of SIC-12. Under the new three-step control model, an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with that investee, has the ability to affect those returns through its power over that investee and there is a link between power and returns. Consolidation procedures are carried forward from IAS 27 (2008). When the adoption of IFRS 10 does not result in a change in the previous consolidation or non-consolidation of an investee, no adjustments to accounting are required on initial application. When the adoption results in a change in the consolidation or non-consolidation of an investee, the new standard may be adopted with either full retrospective application from date that control was obtained or lost or, if not practicable, with limited retrospective application from the beginning of the earliest period for which the application is practicable, which may be the current period. Early adoption of IFRS 10 is permitted provided an entity also early-adopts IFRS 11, IFRS 12, IAS 27 (2011) and IAS 28 (2011).
- IFRS 11 *Joint Arrangements* will be effective for annual periods beginning on or after 1 January 2013 with retrospective application required. The new standard supersedes IAS 31 *Interests in Joint Ventures*. The main change introduced by IFRS 11 is that all joint arrangements are classified either as joint operations, which are consolidated on a proportionate basis, or as joint ventures, for which the equity method is applied. The type of arrangement is determined based on the rights and obligations of the parties to the arrangement arising from joint arrangement's structure, legal form, contractual arrangement and other facts and circumstances. When the adoption of IFRS 11 results in a change in the accounting model, the change is accounted for retrospectively from the beginning of the earliest period presented. Under the new standard all parties to a joint arrangement are within the scope of IFRS 11 even if all parties do not participate in the joint control. Early adoption of IFRS 11 is permitted provided the entity also early-adopts IFRS 10, IFRS 12, IAS 27 (2011) and IAS 28 (2011).
- IFRS 12 *Disclosure of Interests in Other Entities* will be effective for annual periods beginning on or after 1 January 2013. The new standard contains disclosure requirements for entities that have interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. Interests are widely defined as contractual and non-contractual involvement that exposes an entity to variability of returns from the performance of the other entity. The expanded and new disclosure requirements aim to provide information to enable the users to evaluate the nature of risks associated with an entity's interests in other entities and the effects of those interests on the entity's financial position, financial performance and cash flows. Entities may early present some of the IFRS 12 disclosures without a need to early-adopt the other new and amended standards. However, if IFRS 12 is early-adopted in full, then IFRS 10, IFRS 11, IAS 27 (2011) and IAS 28 (2011) must also be early-adopted.
- Amendments to IFRS 7 *Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities* contain new disclosure requirements for financial assets and liabilities that are offset in the statement of financial position or subject to master netting arrangements or similar agreements. The amendments are effective for annual periods beginning on or after 1 January 2013, and are to be applied retrospectively.

(Thousands of Russian Roubles)

3. Summary of accounting policies (continued)

New standards and interpretations not yet adopted (continued)

- IAS 27 (2011) *Separate Financial Statements* will become effective for annual periods beginning on or after 1 January 2013. The amended standard carries forward the existing accounting and disclosure requirements of IAS 27 (2008) for separate financial statements with some clarifications. The requirements of IAS 28 (2008) and IAS 31 for separate financial statements have been incorporated into IAS 27 (2011). Early adoption of IAS 27 (2011) is permitted provided the entity also early-adopts IFRS 10, IFRS 11, IFRS 12 and IAS 28 (2011).
- IAS 28 (2011) *Investments in Associates and Joint Ventures* combines the requirements in IAS 28 (2008) and IAS 31 that were carried forward but not incorporated into IFRS 11 and IFRS 12. The amended standard will become effective for annual periods beginning of or after 1 January 2013 with retrospective application required. Early adoption of IAS 28 (2011) is permitted provided the entity also early-adopts IFRS 10, IFRS 11, IFRS 12 and IAS 27 (2011).
- IFRS 13 *Fair Value Measurement* will be effective for annual periods beginning on or after 1 January 2013. The new standard replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It provides a revised definition of fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. IFRS 13 does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurement that currently exist in certain standards. The standard is applied prospectively with early adoption permitted. Comparative disclosure information is not required for periods before the date of initial application.
- Amendments to IAS 32 *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities* do not introduce new rules for offsetting financial assets and liabilities; rather they clarify the offsetting criteria to address inconsistencies in their application. The Amendments specify that an entity currently has a legally enforceable right to set-off if that right is not contingent on a future event; and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties. The amendments are effective for annual periods beginning on or after 1 January 2014, and are to be applied retrospectively.
- Various *Improvements to IFRSs* have been dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect not earlier than 1 January 2013. The Group has not yet analysed the likely impact of the improvements on its financial position or performance.

Reclassifications

With effect from 31 March 2012, the Group presents the client related part of foreign currency exchange and derivative transactions within gain on financial assets and liabilities held for trading in the consolidated statement of comprehensive income. The Group previously presented the client related part of foreign currency exchange and derivative transactions within fee and commission income in the consolidated statement of comprehensive income for the year ended 31 December 2011.

(Thousands of Russian Roubles)

3. Summary of accounting policies (continued)

The following reclassifications are made to the consolidated statement of comprehensive income for the year ended 31 December 2011 to conform to the 2012 presentation:

	As previously reported	Effect of reclassifications	As adjusted
Consolidated statement of comprehensive income for the year ended 31 December 2011			
Fee and commission income	6 770 315	(2 128 154)	4 642 161
Gains on financial assets and liabilities held for trading	1 448 708	2 128 154	3 576 862

4. Significant accounting judgements and estimates

Management makes a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these consolidated financial statements in conformity with IFRS. Actual results could differ from those estimates.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies related to loan impairment is described in the Note 10.

5. Operating segments

For management purposes, the Group has three reporting business segments:

Corporate and Investment banking (hereinafter – “CIB”) includes corporate lending, project and commodity and corporate structured finance, corporate sight and term deposit services, securities, foreign currency and derivatives trading and custody services.

Retail banking comprises private banking services, credit and debit card services, retail sight and term deposit services, retail lending (consumer loans, car loans and mortgages).

Other – represents the Group’s funding activities and other unallocated items.

Information about each segment is measured on the same basis as the information used for decision making purposes for allocating resources to segments and assessing segment performance and is prepared on the same basis as the consolidated financial statements.

Transactions between the business segments are on normal commercial terms and conditions. Funds are ordinarily reallocated between segments, resulting in funding cost transfers included in segment revenue. Interest charged for these funds is based on the Group’s funds transfer pricing policy.

Segment breakdown of assets and liabilities is set out below:

	<i>31 December 2012</i>	<i>31 December 2011</i>
Assets		
CIB	577 773 209	494 536 132
Retail banking	111 526 692	82 245 432
Other	179 175 681	195 195 350
Total assets	868 475 582	771 976 914
Liabilities		
CIB	439 303 604	403 622 397
Retail banking	94 553 138	88 303 350
Other	221 365 709	191 743 023
Total liabilities	755 222 451	683 668 770

(Thousands of Russian Roubles)

5. Operating segments (continued)

Segment information for the operating segments for the year ended 31 December 2012 and 2011 is set out below:

	<i>CIB</i>	<i>Retail Banking</i>	<i>Other</i>	<i>Total</i>
Net interest income (expense) from external customers for the year ended 31 December 2012	12 875 374	10 600 086	(217 878)	23 257 582
Net interest income (expense) from external customers for the year ended 31 December 2011	17 664 940	8 105 730	(3 998 993)	21 771 677
Inter-segment (expense) income for the year ended 31 December 2012	(1 827 444)	(3 611 404)	5 438 848	–
Inter-segment (expense) income for the year ended 31 December 2011	(4 329 030)	(2 088 920)	6 417 950	–
Net interest income for the year ended 31 December 2012	11 047 930	6 988 682	5 220 970	23 257 582
Net interest income for the year ended 31 December 2011	13 335 910	6 016 810	2 418 957	21 771 677
Net fee and commission income (expenses) from external customers for the year ended 31 December 2012	2 295 198	2 428 279	(196)	4 723 281
Net fee and commission income (expense) from external customers for the year ended 31 December 2011	2 070 070	1 967 622	(57 226)	3 980 466
Dividend income for the year ended 31 December 2012	–	–	59 478	59 478
Dividend income for the year ended 31 December 2011	–	–	23 134	23 134
Gains on financial assets and liabilities held for trading from external customers for the year ended 31 December 2012	4 265 007	530 604	1 479	4 797 090
Gains on financial assets and liabilities held for trading from external customers for the year ended 31 December 2011	2 928 809	593 911	54 142	3 576 862
Fair value adjustments in portfolio hedge accounting for the year ended 31 December 2012	–	–	(406)	(406)
Fair value adjustments in portfolio hedge accounting for the year ended 31 December 2011	–	–	339	339
Gains on disposals of financial assets for the year ended 31 December 2012	270 788	10 958	3 007 050	3 288 796
Gains on disposals of financial assets for the year ended 31 December 2011	217 403	4 342	3 211 266	3 433 011
Operating income for the year ended 31 December 2012	17 878 923	9 958 523	8 288 375	36 125 821
Operating income for the year ended 31 December 2011	18 552 192	8 582 685	5 650 612	32 785 489
(Impairment) recovery on loans for the year ended 31 December 2012	(1 604 014)	(1 224 068)	44 758	(2 783 324)
Impairment of loans for the year ended 31 December 2011	(2 168 695)	(239 107)	(254 036)	(2 661 838)
Net income from financial activities for the year ended 31 December 2012	16 274 909	8 734 455	8 333 133	33 342 497
Net income from financial activities for the year ended 31 December 2011	16 383 497	8 343 578	5 396 576	30 123 651
Operating costs for the year ended 31 December 2012	(3 639 979)	(7 182 877)	(319 241)	(11 142 097)
Operating costs for the year ended 31 December 2011	(3 092 135)	(7 037 545)	(158 943)	(10 288 623)
Share of gains of associate for the year ended 31 December 2012	–	–	50 403	50 403
Share of gains of associate for the year ended 31 December 2011	–	–	35 978	35 978

(Thousands of Russian Roubles)

5. Operating segments (continued)

	<i>CIB</i>	<i>Retail Banking</i>	<i>Other</i>	<i>Total</i>
Losses on disposal of fixed assets for the year ended 31 December 2012	–	–	(8 157)	(8 157)
Losses on disposal of fixed assets for the year ended 31 December 2011	–	–	(4 735)	(4 735)
Profit before income tax expense for the year ended 31 December 2012	12 634 930	1 551 578	8 056 138	22 242 646
Profit before income tax expense for the year ended 31 December 2011	13 291 362	1 306 033	5 268 876	19 866 271
Income tax expense for the year ended 31 December 2012				(4 764 462)
Income tax expense for the year ended 31 December 2011				(4 078 434)
Profit for the year ended 31 December 2012				17 478 184
Profit for the year ended 31 December 2011				15 787 837
Cash flow hedge reserve for the year ended 31 December 2012				341 787
Cash flow hedge reserve for the year ended 31 December 2011				(626 522)
Revaluation reserve for available-for-sale securities for the year ended 31 December 2012				(2 874 979)
Revaluation reserve for available-for-sale securities for the year ended 31 December 2011				7 646 707
Total comprehensive income for the year ended 31 December 2012				14 944 992
Total comprehensive income for the year ended 31 December 2011				22 808 022

Information about major customers and geographical areas

The Group operates in the Russian Federation and foreign countries. In presenting geographical information the allocation of revenue is based on the geographical location of customers and assets.

Geographical information on revenues and assets for 2012 is presented below:

	<i>Revenues</i>	<i>Assets</i>
Russian Federation	49 862 313	630 941 574
OECD countries	9 695 399	214 971 301
Non-OECD countries	1 299 199	22 562 707
Total	60 856 911	868 475 582

Geographical information on revenues and assets for 2011 is presented below:

	<i>Revenues</i>	<i>Assets</i>
Russian Federation	39 109 937	554 303 664
OECD countries	6 139 474	192 221 299
Non-OECD countries	1 595 091	25 451 951
Total	46 844 502	771 976 914

6. Cash and cash balances

Cash and cash balances comprise:

	<i>2012</i>	<i>2011</i>
Cash on hand	8 308 350	7 696 175
Current accounts with the CBR	15 711 756	16 795 816
Cash and cash balances	24 020 106	24 491 991

(Thousands of Russian Roubles)

6. Cash and cash balances (continued)

Included in cash and cash balances as at 31 December 2012 is amount of RUB 862 000 thousand (31 December 2011: RUB 500 000 thousand) pledged as collateral for mortgage-backed bonds issued by the Group in September 2011 (see Note 19 for details).

7. Trading securities

Trading securities comprise:

	2012	2011
USD denominated		
Russian Government Eurobonds	3 827	3 450
Corporate bonds	—	84 555
RUB denominated		
Russian Government Bonds	2 504 247	1 253 984
Corporate bonds	1 832 454	596 733
Trading securities	4 340 528	1 938 722

As at 31 December 2012 approximately 88% of trading securities held by the Group were issued by organisations rated not lower than “BBB-“ (31 December 2011: 80%).

Nominal interest rates and maturities of trading securities are as follows:

	2012		2011	
	%	Maturity	%	Maturity
Russian Government Bonds	6.8 – 11.2%	2014 – 2027	6.7 – 11.3%	2012 – 2018
Russian Government Eurobonds	7.5 – 12.75%	2018, 2028, 2030	7.5 – 12.75%	2018, 2028, 2030
Corporate bonds	8.5 – 9.4%	2022	7.5 – 8.75%	2014, 2022 – 2023

8. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	2012	2011
Current accounts with credit institutions	29 361 664	8 524 623
Time deposits	200 825 815	161 892 332
Reverse repurchase agreements with credit institutions	9 616 833	20 890 670
Obligatory reserve with the CBR	6 641 876	8 835 750
Amounts due from credit institutions	246 446 188	200 143 375

Credit institutions are required to maintain a non-interest earning cash deposit (obligatory reserve) with the CBR, the amount of which depends on the level of funds attracted by the credit institution. The Bank's ability to withdraw such deposit is significantly restricted by the statutory legislation.

As at 31 December 2012, there are four counterparties with balances that individually exceeded 10% of equity. As at 31 December 2012, the aggregate amount of these balances is RUB 198 765 111 thousand (31 December 2011: two counterparties with aggregate amount of RUB 153 857 978 thousand).

As at 31 December 2012, the Group entered into reverse repurchase agreements with a number of Russian banks. Pledged under these agreements are Russian Government bonds, municipal bonds and corporate and bank bonds issued by Russian companies and banks with the total fair value of RUB 10 524 122 thousand (31 December 2011: RUB 22 454 878 thousand).

As at 31 December 2012 approximately 96% (31 December 2011: 84%) of current accounts with credit institutions and term deposits were placed with banks rated not lower than “BBB-“. As at 31 December 2012 100% (31 December 2011: 89%) of total amount of reverse repurchase agreements with credit institutions were placed with non-rated banks or banks rated lower than “BBB-“.

As at 31 December 2012 the Group has term placements with CBR of RUB 25 006 148 thousand (31 December 2011: none).

(Thousands of Russian Roubles)

9. Derivative financial instruments

The Group enters into derivative financial instruments principally for trading and hedging purposes. The tables below show the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset or notional amount to which reference rate or index is applied and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are indicative of neither the market risk nor the credit risk.

The Bank values the derivative financial instruments using widely accepted valuation techniques which are based on market interest rates and forward currency rates. Significant changes in these variables could cause the fair value of the derivatives to change materially.

The table below shows the fair value derivative instruments held for trading, recorded as assets or liabilities, together with their notional amounts.

	2012			2011		
	<i>Notional principal</i>	<i>Fair value Asset</i>	<i>Liability</i>	<i>Notional principal</i>	<i>Fair value Asset</i>	<i>Liability</i>
Cross-currency interest rate swaps	120 279 430	3 204 544	1 899 534	100 384 731	5 258 181	4 061 327
Interest rate swaps and options	306 839 794	5 317 432	4 714 982	301 725 380	4 143 272	4 729 554
Foreign exchange forwards	69 837 962	1 542 327	695 462	177 093 920	3 465 626	4 102 913
Futures on foreign exchange and securities	2 837 500	—	—	8 060 000	—	—
Total derivative assets/liabilities		10 064 303	7 309 978		12 867 079	12 893 794

The table below shows the fair values of financial instruments designated for hedging, recorded as assets or liabilities, together with their notional amounts.

	2012			2011		
	<i>Notional principal</i>	<i>Fair value Asset</i>	<i>Liability</i>	<i>Notional principal</i>	<i>Fair value Asset</i>	<i>Liability</i>
Cash flow hedge						
Interest rate swaps	113 217 772	2 712 468	117 466	80 625 660	1 142 153	16 595
Cross-currency interest rate swaps	60 666 859	1 909 910	585 421	46 919 330	172 679	2 520 389
Total cash flow hedge		4 622 378	702 887		1 314 832	2 536 984
Fair value hedge						
Interest rate swaps	283 365 959	2 727 708	5 519 555	281 538 885	2 461 851	4 736 382
Total fair value hedge		2 727 708	5 519 555		2 461 851	4 736 382
Total derivative financial assets/liabilities designated for hedging		7 350 086	6 222 442		3 776 683	7 273 366

Portfolio Fair Value Hedge Accounting (hereinafter – the “PFVHA”) is a part of interest rate risk hedging strategy of the Group that helps to avoid discrepancies between the economic substance of deals concluded for hedging purposes and their accounting treatment. PFVHA allows managing interest rate risks associated with a portfolio of financial assets or financial liabilities designated as hedged items. The Group designates interest rate swaps as hedging instruments. The hedging instruments are stated at their fair value and changes in fair value are recognized in the consolidated statement of comprehensive income.

Hedging instruments to hedge variability of fair value are measured at fair value with changes in fair value of RUB 1 142 636 thousand recognised as a loss in the consolidated statement of comprehensive income in fair value adjustments in portfolio hedge accounting for the year ended 31 December 2012 (31 December 2011: RUB 495 031 thousand). The changes in the fair value of hedged items (portfolio of financial assets and financial liabilities) that are attributable to the hedged risk are recognised as gains of RUB 1 142 230 thousand in the consolidated statement of comprehensive income in fair value adjustments in portfolio hedge accounting for the year ended 31 December 2012 (31 December 2011: RUB 495 370 thousand).

(Thousands of Russian Roubles)

9. Derivative financial instruments (continued)

Along with PFVHA the Group uses the Portfolio Cash Flow hedging.

The Group designates certain interest rate swaps and cross-currency interest rate swaps as hedging instruments to hedge variability in cash flows and fair value resulting from interest rate mismatch of the banking book position. The hedged cash flows are expected to occur and to affect the statement of comprehensive income until 2024 for interest rate swaps. As at 31 December 2012, the effective portion of changes in the fair value of derivative financial instruments designated as hedging instruments recognised as part of other comprehensive income in equity was RUB 960 582 thousand (31 December 2011: RUB 1 302 369 thousand), net of tax RUB 240 146 thousand (31 December 2011: RUB 325 593 thousand).

The Group recognised RUB 2 996 310 thousand of gains on the cash flows and fair value hedging instruments in other interest income for the year ended 31 December 2012 in relation to the interest rate swaps and cross-currency interest rate swaps (31 December 2011: RUB 196 931 thousand).

10. Loans to customers

Loans to customers comprise:

	<i>2012</i>	<i>2011</i>
Corporate customers	385 884 479	392 480 466
Retail customers, including SME	117 555 112	87 323 721
Reverse repurchase agreements with companies	16 663 201	8 122 974
Other	–	548 242
Gross loans to customers	520 102 792	488 475 403
Allowance for loan impairment	(15 907 718)	(15 777 309)
Loans to customers	504 195 074	472 698 094

A reconciliation of the provisions for impairment by classes of loans to customers for the year ended 31 December 2012 is as follows:

	<i>Corporate customers</i>	<i>Retail customers</i>	<i>Other</i>	<i>Total</i>
At 1 January 2012	10 482 898	5 097 041	197 370	15 777 309
Charge for the year	1 695 307	1 259 403	(171 386)	2 783 324
Loans sold during the year	(2 319 470)	(8 021)	(25 407)	(2 352 898)
Loans written-off during the year	(23 545)	(7 133)	(577)	(31 255)
Effect of exchange rate changes	(168 906)	(99 856)	–	(268 762)
At 31 December 2012	9 666 284	6 241 434	–	15 907 718

A reconciliation of the provisions for impairment by classes of loans to customers for the year ended 31 December 2011 is as follows:

	<i>Corporate customers</i>	<i>Retail customers</i>	<i>Other</i>	<i>Total</i>
At 1 January 2011	10 417 619	4 897 669	–	15 315 288
Acquisition of subsidiary	–	–	116 328	116 328
Charge for the year	2 288 248	142 641	230 949	2 661 838
Loans sold during the year	(2 115 447)	(3 417)	(149 907)	(2 268 771)
Loans written-off during the year	(219 947)	(35 790)	–	(255 737)
Effect of exchange rate changes	112 425	95 938	–	208 363
At 31 December 2011	10 482 898	5 097 041	197 370	15 777 309

*(Thousands of Russian Roubles)***10. Loans to customers (continued)**

The following table shows gross loans and related impairment as at 31 December 2012:

	<i>Gross loans</i>	<i>Impairment</i>	<i>Net loans</i>
Corporate customers			
Loans for which no indications of impairment have been identified on an individual basis, not past due	369 488 719	(1 226 750)	368 261 969
Loans for which no specific impairment is identified, past due			
- Past due less than 31 days	201 688	(1 942)	199 746
Impaired loans			
- Not past due	6 873 711	(956 204)	5 917 507
- Past due less than 31 days	361 481	(29 057)	332 424
- Past due 31 - 90 days	496 113	(122 785)	373 328
- Past due 90 - 180 days	1 124 753	(882 562)	242 191
- Past due over 180 days	7 338 014	(6 446 984)	891 030
Total loans to corporate customers	385 884 479	(9 666 284)	376 218 195
Retail customers			
Standard loans, not past due	106 465 077	(748 649)	105 716 428
Standard loans, past due			
- Past due less than 31 days	2 495 983	(166 015)	2 329 968
- Past due 31 - 90 days	774 562	(124 516)	650 046
Impaired loans			
- Not past due	178 571	(132 350)	46 221
- Past due 31 - 90 days	6 038	(5 818)	220
- Past due 90 - 180 days	474 203	(202 843)	271 360
- Past due over 180 days	7 160 678	(4 861 243)	2 299 435
Total loans to retail customers	117 555 112	(6 241 434)	111 313 678
Reverse repurchase agreements with companies			
Loans for which no indications of impairment have been identified on an individual basis, not past due	16 663 201	—	16 663 201
Total loans to customers	520 102 792	(15 907 718)	504 195 074

*(Thousands of Russian Roubles)***10. Loans to customers (continued)**

The following table shows gross loans and related impairment as at 31 December 2011:

	<i>Gross loans</i>	<i>Impairment</i>	<i>Net loans</i>
Corporate customers			
Loans for which no indications of impairment have been identified on an individual basis, not past due	373 190 313	(1 128 535)	372 061 778
Loans for which no specific impairment is identified, past due			
- Past due 31 - 90 days	4 199	(38)	4 161
Impaired loans			
- Not past due	7 628 049	(849 045)	6 779 004
- Past due less than 31 days	89 627	(49 339)	40 288
- Past due 31 - 90 days	838 080	(564 629)	273 451
- Past due 90 - 180 days	453 694	(281 338)	172 356
- Past due over 180 days	10 276 504	(7 609 974)	2 666 530
Total loans to corporate customers	392 480 466	(10 482 898)	381 997 568
Retail customers			
Standard loans, not past due	77 832 941	(287 838)	77 545 103
Standard loans, past due			
- Past due less than 31 days	1 254 445	(88 862)	1 165 583
- Past due 31 - 90 days	637 780	(123 047)	514 733
Impaired loans			
- Not past due	13 832	(3 605)	10 227
- Past due 31 - 90 days	195	(23)	172
- Past due 90 - 180 days	449 722	(139 807)	309 915
- Past due over 180 days	7 134 806	(4 453 859)	2 680 947
Total loans to retail customers	87 323 721	(5 097 041)	82 226 680
Reverse repurchase agreements with companies			
Loans for which no indications of impairment have been identified on an individual basis, not past due	8 122 974	—	8 122 974
Other			
Loans for which no indications of impairment have been identified on an individual basis, not past due	234 596	(39 245)	195 351
Impaired loans			
- Not past due	294 192	(142 839)	151 353
- Past due less than 31 days	2 961	(1 184)	1 777
- Past due 31 - 90 days	15 684	(13 293)	2 391
- Past due 90 - 180 days	809	(809)	—
Total other	548 242	(197 370)	350 872
Total loans to customers	488 475 403	(15 777 309)	472 698 094

Key assumptions and judgments for estimating the loan impairment

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

(Thousands of Russian Roubles)

10. Loans to customers (continued)

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

- a breach of contract, such as a default or delinquency in interest or principal payments;
- significant difficulties in the financial conditions of the borrower;
- deterioration in business environment, negative changes in the borrower's markets.

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

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

- The principal collateral taken into account in the estimation of future cash flows comprises marketable collateral, mainly real estate. Valuations for real estate have been discounted by 30-40 percent depending on type of the real estate to reflect current market conditions.
- a delay of 12 months in obtaining proceeds from the foreclosure of collateral.

Changes in these estimates could affect the loan impairment provision. For example, to the extent that the net present value of the estimated cash flows differs by one percent, the impairment allowance on loans to corporate customers as at 31 December 2012 would be RUB 3 762 181 thousand lower/higher (2011: RUB 3 819 976 thousand lower/higher).

The Group estimates loan impairment for loans to retail customers based on its internal model which takes into account historical loss experience on each type of loan, probability of default and loss given default.

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

- loss given default rate varies from 10% to 100% depending on the risk profile of the portfolio;
- probability of default varies from 0.11% to 100 %.

Changes in these estimates could effect the loan impairment provision. For example, to the extent that the net present value of the estimated cash flows differs by plus minus one percent, the impairment allowance on loans to retail customers as at 31 December 2012 would be RUB 1 113 137 thousand lower/higher (2011: RUB 822 267 thousand).

Impaired loans

Accrued interest income on impaired loans as at 31 December 2012 comprised RUB 722 617 thousand (31 December 2011: RUB 718 461 thousand).

Collateral and other credit enhancements

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

The main types of collateral obtained are as follows:

- for reverse repurchase transactions, securities;
- for commercial lending to corporate customers, pledge over real estate properties, inventories and trade receivables;
- for retail lending, mortgages over residential properties and motor vehicles.

The primary purpose of collateral arrangements is to reduce the potential credit loss in case of a workout of the credit exposure. Estimates of value are based on the value of collateral assessed at the time of borrowing.

*(Thousands of Russian Roubles)***10. Loans to customers (continued)***Collateral and other credit enhancements (continued)*

The following table shows the fair value of collateral and other credit enhancements, excluding overcollateralization, securing loans to corporate customers (including Reverse repurchase agreements with companies), net of impairment, by types of collateral as at 31 December 2012:

	Fair value of collateral – for collateral assessed as of reporting date	Fair value of collateral – for collateral assessed as of loan inception date	Loans to customers, carrying amount
Loans for which no indications of impairment have been identified on an individual basis			
Securities	–	18 896 916	18 896 916
Real estate	36 654 895	–	36 654 895
Motor vehicles	–	7 862 270	7 862 270
Guarantees	–	8 183 107	8 183 107
Other collateral	–	140 526 111	140 526 111
No collateral or other credit enhancement	–	–	174 230 309
Gross loans for which no indications of impairment have been identified on an individual basis	36 654 895	175 468 404	386 353 608
Impaired loans			
Securities	–	105 943	105 943
Real estate	3 796 472	–	3 796 472
Motor vehicles	–	119 761	119 761
Guarantees	–	33 082	33 082
Other collateral	–	7 991 785	7 991 785
No collateral or other credit enhancement	–	–	4 147 029
Gross impaired loans	3 796 472	8 250 571	16 194 072
Total gross loans to corporate customers	40 451 367	183 718 975	402 547 680
Allowance for loan impairment			(9 666 284)
Total loans to corporate customers			392 881 396

*(Thousands of Russian Roubles)***10. Loans to customers (continued)**

The following table shows the fair value of collateral and other credit enhancements, excluding overcollateralization, securing loans to corporate customers (including Reverse repurchase agreements with companies), net of impairment, by types of collateral as at 31 December 2011:

	Fair value of collateral - for collateral assessed as of reporting date	Fair value of collateral - for collateral assessed as of loan inception date	Loans to customers, carrying amount
Loans for which no indications of impairment have been identified on an individual basis			
Securities		12 904 697	12 904 697
Real estate	38 662 614	–	38 662 614
Motor vehicles	–	5 763 449	5 763 449
Guarantees	–	7 380 187	7 380 187
Other collateral	–	151 213 342	151 213 342
No collateral or other credit enhancement	–	–	165 393 197
Gross loans for which no indications of impairment have been identified on an individual basis	38 662 614	177 261 675	381 317 486
Impaired loans			
Securities		719 315	719 315
Real estate	3 142 297	–	3 142 297
Motor vehicles	–	119 327	119 327
Guarantees	–	28 600	28 600
Other collateral	–	6 267 879	6 267 879
No collateral or other credit enhancement	–	–	9 008 536
Gross impaired loans	3 142 297	7 135 121	19 285 954
Total gross loans to corporate customers	41 804 911	184 396 796	400 603 440
Allowance for loan impairment			(10 482 898)
Total loans to corporate customers			390 120 542

*(Thousands of Russian Roubles)***10. Loans to customers (continued)**

The following table shows the fair value of collateral and other credit enhancements, excluding overcollateralization, securing loans to retail customers, net of impairment, by types of collateral as at 31 December 2012:

	Fair value of collateral – for collateral assessed as of reporting date	Fair value of collateral – for collateral assessed as of loan inception date	Loans to customers, carrying amount
Standard loans, including past due			
Real estate	24 647 519	–	24 647 519
Motor vehicles	–	60 641 950	60 641 950
Guarantees	–	40 251	40 251
Other collateral	–	2 213 182	2 213 182
No collateral or other credit enhancement	–	–	22 192 720
Gross standard loans	24 647 519	62 895 383	109 735 622
Impaired loans			
Real estate	3 072 840	–	3 072 840
Motor vehicles	–	1 711 869	1 711 869
Other collateral	–	62 281	62 281
No collateral or other credit enhancement	–	–	2 972 500
Gross overdue or impaired loans	3 072 840	1 774 150	7 819 490
Total gross loans to retail customers	27 720 359	64 669 533	117 555 112
Allowance for loan impairment			(6 241 434)
Total loans to retail customers			111 313 678

The following table shows the fair value of collateral and other credit enhancements, excluding overcollateralization, securing loans to retail customers, net of impairment, by types of collateral as at 31 December 2011:

	Fair value of collateral – for collateral assessed as of reporting date	Fair value of collateral – for collateral assessed as of loan inception date	Loans to customers, carrying amount
Standard loans, including past due			
Real estate	22 142 298	–	22 142 298
Motor vehicles	–	33 909 430	33 909 430
Guarantees	–	247 921	247 921
Other collateral	–	1 450 436	1 450 436
No collateral or other credit enhancement	–	–	21 975 081
Gross standard loans	22 142 298	35 607 787	79 725 166
Impaired loans			
Real estate	2 608 391	–	2 608 391
Motor vehicles	–	238 699	238 699
Other collateral	–	35 225	35 225
No collateral or other credit enhancement	–	–	4 716 240
Gross overdue or impaired loans	2 608 391	273 924	7 598 555
Total gross loans to retail customers	24 750 689	35 881 711	87 323 721
Allowance for loan impairment			(5 097 041)
Total loans to retail customers			82 226 680

(Thousands of Russian Roubles)

10. Loans to customers (continued)

The following table shows the fair value of collateral and other credit enhancements, excluding overcollateralization, securing loans to other customers, net of impairment, by types of collateral as at 31 December 2011:

	Fair value of collateral – for collateral assessed as of reporting date	Fair value of collateral – for collateral assessed as of loan inception date	Loans to customers, carrying amount
Loans for which no indications of impairment have been identified on an individual basis			
Real estate	154 195	–	154 195
Other collateral	–	15 362	15 362
No collateral or other credit enhancement	–	–	65 039
Gross loans for which no indications of impairment have been identified on an individual basis	154 195	15 362	234 596
Impaired loans			
Real estate	35 120	–	35 120
No collateral or other credit enhancement	–	–	278 526
Gross impaired loans	35 120	–	313 646
Total gross loans to other customers	189 315	15 362	548 242
Allowance for loan impairment			(197 370)
Total loans to other customers			350 872

When lending to the legal entities is belonging to one economic group, the Group normally also obtains guarantees from other group members.

Included in retail loans as at 31 December 2012 are mortgage loans with gross amount of RUB 4 626 925 thousand (31 December 2011: RUB 5 147 035 thousand) pledged as collateral for mortgage-backed bonds issued by the Group in September 2011 (see Note 19 for details).

Reposessed collateral

During the year ended 31 December 2012, the Group obtained certain assets by taking control of collateral for loans to customers with a net carrying amount of RUB 143 402 thousand. As at 31 December 2012, the reposessed collateral is comprised of real estate with a fair value of RUB 148 840 thousand (31 December 2011: nil). The Group's policy is to sell these assets as soon as it is practicable.

Reverse repurchase agreements

As at 31 December 2012 and 2011, the Group entered into reverse repurchase agreements with a number of Russian companies. Pledged under these agreements are Russian Government bonds, municipal bonds and corporate and bank bonds issued by Russian companies and banks with the total fair value of RUB 17 591 689 thousand (31 December 2011: RUB 8 597 773 thousand).

Concentration of loans to customers

As at 31 December 2012, the Group had RUB 85 132 076 thousand due from the ten largest borrowers (16% of gross loan portfolio) (31 December 2011: RUB 79 549 149 thousand or 16%). An allowance of RUB 102 158 thousand was recognised against these loans (31 December 2011: RUB 105 541 thousand).

As at 31 December 2012, the Group had two borrowers with aggregate loan amounts that individually exceeded 10% of equity (31 December 2011: two borrowers). As at 31 December 2012, the aggregate amount of these loans is RUB 27 682 773 thousand (31 December 2011: RUB 29 460 038 thousand).

(Thousands of Russian Roubles)

10. Loans to customers (continued)

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

	2012	2011
Mining and metallurgy	78 232 542	69 995 713
Agriculture and food	50 114 795	43 956 013
Energy	44 639 023	44 047 754
Finance	44 324 063	32 396 351
Trade	42 184 701	52 728 107
Chemicals	31 156 933	39 254 950
Other manufacturing	22 319 400	28 306 960
Transportation	21 224 167	19 175 889
Real estate and construction	19 302 905	23 003 292
Machinery construction	17 490 839	14 149 468
Timber processing	14 217 552	9 220 145
Telecommunications	8 483 901	15 269 916
Other	12 375 786	12 186 695
	406 066 607	403 691 253
Loans to individuals	114 036 185	84 784 150
Gross loans to customers	520 102 792	488 475 403

11. Investment securities

Available-for-sale investment securities comprise:

	2012	2011
Debt and other fixed income investments available-for-sale		
USD denominated		
Corporate Eurobonds	1 277 364	1 540 504
Bank bonds	539 512	–
RUB denominated		
Russian Government Bonds	31 198 188	25 576 848
Corporate and bank bonds	17 842 988	3 183 792
Total debt and other fixed income investments available-for-sale	50 858 052	30 301 144
Equity investments available-for-sale		
RUB denominated		
Equity investments in financial institutions	7 748 448	13 272 949
EUR denominated		
Equity investments in financial institutions	2 490	1 031
Total equity investments available-for-sale	7 750 938	13 273 980
Total available-for-sale investment securities	58 608 990	43 575 124

As at 31 December 2012 included in Russian Government bonds, corporate and bank bonds are securities sold under repurchase agreements with the CBR in the amount of RUB 26 690 399 thousand (31 December 2011: none).

Nominal interest rates and maturities of these securities are as follows:

	2012		2011	
	%	Maturity	%	Maturity
Russian Government Bonds	6.7 – 12%	2013 – 2017	6.7 – 12%	2012 – 2015
Corporate and bank bonds	0.1 – 10.15%	2014 – 2032	6.41 – 9.4%	2012 – 2014
Corporate Eurobonds	9.63%	2013	7.88 – 9.63%	2012 – 2013

As at 31 December 2012 approximately 93% of debt and other fixed income investments available-for-sale were issued by organisations rated not lower than “BBB-“ (31 December 2011: 99%).

(Thousands of Russian Roubles)

11. Investment securities (continued)

As at 31 December 2012 included in debt and other fixed income investments available-for-sale are bonds blocked as collateral for “overnight” loans with the CBR in the amount of RUB 14 166 678 thousand (31 December 2011: RUB 18 460 096 thousand).

As at 31 December 2012 the Group has 135 835 335 shares in MICEX-RTS Open Joint Stock Company (hereinafter – “MICEX-RTS”), corresponding to 6.182% stake in the company. The revaluation of the Group’s stock is based on the price of RUB 57 per share. The Group reviewed information on actual market deals with MICEX-RTS shares during the second half of 2012, financial indicators of MICEX-RTS and other applicable market information and concluded that price of RUB 57 per share to be a best estimate of fair value of MICEX-RTS share as at 31 December 2012.

Net change in revaluation reserve for available-for-sale assets recognized in other comprehensive income in the amount of RUB 2 874 979 thousand includes RUB 2 320 363 thousand reclassified from equity to profit and loss and the remaining amount of RUB 554 616 thousand which relates to fair value changes of available-for-sale assets.

Held-to-maturity investment securities comprise:

		<i>2012</i>		<i>2011</i>	
		<i>Nominal value</i>	<i>Carrying value</i>	<i>Nominal value</i>	<i>Carrying value</i>
Corporate bonds		300 000	311 805	300 000	311 662
Held-to-maturity investment securities			311 805		311 662

Nominal interest rates and maturities of these securities are as follows:

		<i>2012</i>		<i>2011</i>	
		<i>%</i>	<i>Maturity</i>	<i>%</i>	<i>Maturity</i>
Corporate bonds		7.95%	2014	7.95%	2014

12. Transfers of financial assets

As at 31 December 2012 transferred financial assets that are not derecognized in their entirety comprise:

	Financial assets available for sale
Carrying amount of assets	26 690 399
Carrying amount of associated liabilities	25 357 504

The Group has transactions to sell securities classified as available-for-sale under agreements to repurchase and to purchase securities under agreements to resell (Note 11).

The securities sold under agreements to repurchase are transferred to a third party and the Group receives cash in exchange. These financial assets may be repledged or resold by counterparties in the absence of default by the Group, but the counterparty has an obligation to return the securities at the maturity of the contract. The Group has determined that it retains substantially all the risks and rewards of these securities and therefore has not derecognised them. These securities are presented as “pledged under sale and repurchase agreements” in Note 11. In addition, the Group recognises a financial liability for cash received as collateral included in deposits and balances from banks (Note 17).

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

(Thousands of Russian Roubles)

13. Fixed assets

The movements in fixed assets were as follows:

	<i>Buildings</i>	<i>Computers and equipment</i>	<i>Other fixed assets</i>	<i>Leasehold improvements</i>	<i>Total</i>
Cost					
1 January 2012	6 326 793	3 326 131	642 097	773 519	11 068 540
Additions	284 265	612 432	52 287	3 987	952 971
Disposals	(23 648)	(98 521)	(51 832)	–	(174 001)
31 December 2012	6 587 410	3 840 042	642 552	777 506	11 847 510
Accumulated depreciation					
1 January 2012	(974 999)	(2 362 056)	(510 214)	(637 361)	(4 484 630)
Depreciation charge	(175 540)	(399 046)	(65 519)	(71 590)	(711 695)
Disposals	2 657	92 423	46 462	–	141 542
31 December 2012	(1 147 882)	(2 668 679)	(529 271)	(708 951)	(5 054 783)
Net book value:					
31 December 2012	5 439 528	1 171 363	113 281	68 555	6 792 727
	<i>Buildings</i>	<i>Computers and equipment</i>	<i>Other fixed assets</i>	<i>Leasehold improvements</i>	<i>Total</i>
Cost					
1 January 2011	4 214 454	2 758 283	628 535	769 962	8 371 234
Acquisition of subsidiary	282 660	16 527	4 747	–	303 934
Additions	2 102 135	628 900	50 985	3 557	2 785 577
Disposals	(272 456)	(77 579)	(42 170)	–	(392 205)
31 December 2011	6 326 793	3 326 131	642 097	773 519	11 068 540
Accumulated depreciation					
1 January 2011	(814 355)	(2 008 443)	(477 968)	(530 234)	(3 831 000)
Acquisition of subsidiary	(19 248)	(12 793)	(2 696)	–	(34 737)
Depreciation charge	(234 158)	(402 599)	(70 397)	(107 127)	(814 281)
Disposals	92 762	61 779	40 847	–	195 388
31 December 2011	(974 999)	(2 362 056)	(510 214)	(637 361)	(4 484 630)
Net book value:					
31 December 2011	5 351 794	964 075	131 883	136 158	6 583 910

(Thousands of Russian Roubles)

14. Intangible assets

The movements in intangible assets and goodwill were as follows:

	<i>Intangible assets</i>	<i>Goodwill</i>	<i>Total</i>
Cost			
1 January 2012	2 642 048	389 911	3 031 959
Additions	683 244	–	683 244
Disposals	(13)	–	(13)
31 December 2012	3 325 279	389 911	3 715 190
Accumulated amortisation			
1 January 2012	(1 287 801)	–	(1 287 801)
Amortisation charge	(452 845)	–	(452 845)
Disposals	13	–	13
31 December 2012	(1 740 633)	–	(1 740 633)
Net book value:			
31 December 2012	1 584 646	389 911	1 974 557

	<i>Intangible assets</i>	<i>Goodwill</i>	<i>Total</i>
Cost			
1 January 2011	2 147 541	389 911	2 537 452
Acquisition of subsidiary	18 099	–	18 099
Additions	494 598	–	494 598
Disposals	(18 190)	–	(18 190)
31 December 2011	2 642 048	389 911	3 031 959
Accumulated amortisation			
1 January 2011	(950 407)	–	(950 407)
Acquisition of subsidiary	(7 176)	–	(7 176)
Amortisation charge	(348 408)	–	(348 408)
Disposals	18 190	–	18 190
31 December 2011	(1 287 801)	–	(1 287 801)
Net book value:			
31 December 2011	1 354 247	389 911	1 744 158

15. Taxation

The corporate income tax expense comprises:

	<i>2012</i>	<i>2011</i>
Current tax charge	4 175 276	2 856 832
Deferred tax charge - origination of temporary differences	589 186	1 221 602
Income tax expense	4 764 462	4 078 434

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

(Thousands of Russian Roubles)

15. Taxation (continued)

The effective income tax rate differs from the statutory income tax rates. A reconciliation of the effective income tax rate and the statutory income tax rate is as follows:

	<i>2012</i>	<i>2011</i>
Profit before tax	22 242 646	19 866 271
Statutory tax rate	20%	20%
Theoretical income tax expense at the statutory rate	4 448 529	3 973 254
Effect of income taxed at lower tax rates	(133 829)	(88 285)
Non-deductible costs and non-taxable income	449 762	199 145
Tax refund	–	(5 680)
Income tax expense	4 764 462	4 078 434

Deferred tax assets and liabilities as at 31 December 2012 and 2011 comprise:

	<i>Assets</i>		<i>Liabilities</i>		<i>Net</i>	
	<i>2012</i>	<i>2011</i>	<i>2012</i>	<i>2011</i>	<i>2012</i>	<i>2011</i>
Fixed and intangible assets	389 277	349 006	(858 511)	(1 043 213)	(469 234)	(694 207)
Trading securities and derivatives	2 815 422	2 427 709	(3 468 323)	(2 410 475)	(652 901)	17 234
Available-for-sale securities	–	–	(1 478 454)	(2 566 879)	(1 478 454)	(2 566 879)
Loan impairment and credit related commitments	651 715	720 363	(929 468)	(1 549 132)	(277 753)	(828 769)
Deferred revenue	267 606	430 019	–	–	267 606	430 019
Other items	692 828	908 349	(892 211)	(119 979)	(199 383)	788 370
Total deferred tax assets/(liabilities)	4 816 848	4 835 446	(7 626 967)	(7 689 678)	(2 810 119)	(2 854 232)

Movement in deferred tax assets and liabilities during the year ended 31 December 2012 is presented in the table below:

	1 January 2012	Recognised in profit or loss	Recognised in other comprehensive income	31 December 2012
Fixed and intangible assets	(694 207)	224 973	–	(469 234)
Trading securities and derivatives	17 234	(584 689)	(85 446)	(652 901)
Available-for-sale securities	(2 566 879)	369 680	718 745	(1 478 454)
Loan impairment and credit related commitments	(828 769)	551 016	–	(277 753)
Deferred revenue	430 019	(162 413)	–	267 606
Other items	788 370	(987 753)	–	(199 383)
	(2 854 232)	(589 186)	633 299	(2 810 119)

Movement in deferred tax assets and liabilities during the year ended 31 December 2011 is presented in the table below:

	1 January 2011	Recognised in profit or loss	Recognised in other comprehensive income	31 December 2011
Fixed and intangible assets	(284 695)	(409 512)	–	(694 207)
Trading securities and derivatives	366 358	(505 755)	156 631	17 234
Available-for-sale securities	–	(655 203)	(1 911 676)	(2 566 879)
Loan impairment and credit related commitments	(542 429)	(286 340)	–	(828 769)
Deferred revenue	264 010	166 009	–	430 019
Other items	319 171	469 199	–	788 370
	122 415	(1 221 602)	(1 755 045)	(2 854 232)

(Thousands of Russian Roubles)

15. Taxation (continued)

Tax effect relating to components of other comprehensive income comprise:

	<i>2012</i>			<i>2011</i>		
	<i>Amount before tax</i>	<i>Tax expense</i>	<i>Amount net-of-tax</i>	<i>Amount before tax</i>	<i>Tax expense</i>	<i>Amount net-of-tax</i>
Cash flow hedge reserve	427 233	(85 446)	341 787	(783 153)	156 631	(626 522)
Revaluation reserve for available-for-sale securities	(3 593 724)	718 745	(2 874 979)	9 558 383	(1 911 676)	7 646 707
Other comprehensive income	(3 166 491)	633 299	(2 533 192)	8 775 230	(1 755 045)	7 020 185

16. Other assets and liabilities

Other assets comprise:

	<i>2012</i>	<i>2011</i>
Advances, prepayments and deferred expenses	1 295 863	1 525 579
Settlements with derivatives clearers	255 758	435 658
Reposessed collateral	148 840	—
Other	549 092	460 477
Other assets	2 249 553	2 421 714

Other liabilities comprise:

	<i>2012</i>	<i>2011</i>
Accrued compensation expense	2 459 454	2 094 652
Liability arising on initial designation of fair value macro hedge	1 585 630	2 002 315
Accounts payable	902 960	606 961
Deferred income	584 339	574 548
Transit accounts	154 894	190 963
Taxes payables	174 695	156 922
Other provisions	16 327	66 991
Other	91 625	73 673
Other liabilities	5 969 924	5 767 025

17. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	<i>2012</i>	<i>2011</i>
Current accounts	13 954 824	5 526 661
Time deposits and loans	128 467 349	142 646 788
Repurchase agreements with credit institutions	30 010 875	—
Subordinated debt (Note 20)	15 090 657	17 653 220
Amounts due to credit institutions	187 523 705	165 826 669

As at 31 December 2012, the ten largest deposits (excluding subordinated debt) represented 85% of total amounts due to credit institutions (31 December 2011: 94%).

As at 31 December 2012, the Group had three counterparties with aggregate balances that individually exceeded 10% of equity (31 December 2011: two counterparties). As at 31 December 2012, the aggregate amount of these balances is RUB 123 568 043 thousand (31 December 2011: RUB 105 970 692 thousand).

As at 31 December 2012 the Group has term deposits due to the CBR in the amount of RUB 26 057 855 thousand and repurchase agreements with CBR in the amount of 29 898 989 thousand (31 December 2011: none).

(Thousands of Russian Roubles)

18. Amounts due to customers

The amounts due to customers include the following:

	2012	2011
Current accounts	90 662 208	83 133 578
Time deposits	413 207 014	379 574 924
Subordinated debt (Note 20)	–	214 048
Amounts due to customers	503 869 222	462 922 550

As at 31 December 2012, approximately 56% of total amounts due to customers (excluding subordinated debt) was placed with the Group by its ten largest customers (31 December 2011: 62%).

Analysis of customer accounts by type of customer is as follows:

	2012	2011
Corporate		
Current accounts	32 149 917	25 898 985
Time deposits	377 159 952	353 854 069
Subordinated debt	–	214 048
Total corporate accounts	409 309 869	379 967 102
Retail		
Current accounts	58 512 291	57 234 593
Time deposits	36 047 062	25 720 855
Total retail accounts	94 559 353	82 955 448
Amounts due to customers	503 869 222	462 922 550

Included in retail time deposits are deposits of individuals in the amount of RUB 23 344 972 thousand (31 December 2011: RUB 17 522 930 thousand). In accordance with the Russian Civil Code, the Group is obliged to repay such deposits upon demand of the depositor. In case a term deposit is repaid upon demand of the depositor prior to maturity, the related interest rate on it is paid based on the interest rate for demand deposits, unless a different interest rate is specified in the contract. The remaining part of retail time deposits in the amount of RUB 12 702 090 thousand (31 December 2011: RUB 8 197 925 thousand) is represented by deposits placed by small business enterprises.

19. Debt securities issued

Debt securities issued consisted of the following:

	2012	2011
Bonds issued	40 251 779	25 320 325
Promissory notes	540 968	512 857
Debt securities issued	40 792 747	25 833 182

On 2 March 2012 the Group placed a RUB 5 000 000 thousand bonds issue with a three-year maturity. The bonds each have a face value of RUB one thousand and carry six semi-annual interest coupons. The coupon rate was set as 8.5% for the first three semi-annual periods. In August 2013 the coupon rate will be set for the remaining three semi-annual periods. The Group has an obligation to buy the bonds back at their nominal value upon the bond holders request just before the end of the third semi-annual period.

On 7 March 2012 the Group placed a RUB 5 000 000 thousand bonds issue with a three-year maturity. The bonds each have a face value of RUB one thousand and carry six semi-annual interest coupons. The coupon rate was set as 8.5% for the first three semi-annual periods. In September 2013 the coupon rate will be set for the remaining three semi-annual periods. The Group has an obligation to buy the bonds back at their nominal value upon the bond holders request just before the end of the third semi-annual period.

On 26 October 2012 the Group placed a RUB 5 000 000 thousand bonds issue with a three-year maturity. The bonds each have a face value of RUB one thousand and carry six semi-annual interest coupons. The coupon rate was set as 9.1% for the first four semi-annual periods. In October 2014 the coupon rate will be set for the remaining two semi-annual periods. The Group has an obligation to buy the bonds back at their nominal value upon the bond holders request just before the end of the fourth semi-annual period.

(Thousands of Russian Roubles)

19. Debt securities issued (continued)

On 30 October 2012 the Group placed a RUB 5 000 000 thousand bonds issue with a three-year maturity. The bonds each have a face value of RUB one thousand and carry six semi-annual interest coupons. The coupon rate was set as 9.1% for the first four semi-annual periods. In October 2014 the coupon rate will be set for the remaining two semi-annual periods. The Group has an obligation to buy the bonds back at their nominal value upon the bond holders request just before the end of the fourth semi-annual period.

As at 31 December 2012 mortgage-backed bonds with the carrying value of RUB 5 123 224 thousand (31 December 2011: RUB 5 121 315 thousand) are secured by a pool of mortgage loans with the carrying value of RUB 4 626 925 thousand (31 December 2011: RUB 5 147 035 thousand) and by cash in the amount of RUB 862 000 thousand (31 December 2011: RUB 500 000 thousand) (see Note 6 and Note 10 for details).

20. Subordinated debt

	<i>2012</i>	<i>2011</i>
UniCredit Bank Austria AG, Vienna		
USD 30 000 thousand, semi-annual interest payment, maturing November 2012, LIBOR+2.5% p.a.;		
USD 50 000 thousand, semi-annual interest payment, maturing November 2013, LIBOR+1.43%p.a.;		
USD 100 000 thousand, semi-annual interest payment, maturing June 2014, LIBOR+1.43%p.a.;		
EUR 100 000 thousand, semi-annual interest payment, maturing November 2017, EURIBOR+1.83% p.a.;		
EUR 100 000 thousand, semi-annual interest payment, maturing February 2018, EURIBOR+2.15% p.a.	12 655 191	14 214 639
UniCredit Bank AG		
USD 30 000 thousand, semi-annual interest payment, maturing February 2013, LIBOR+2.3% p.a.;		
USD 50 000 thousand, semi-annual interest payment, maturing August 2013, LIBOR+1.5%p.a.	2 435 466	2 582 390
Deutsche Investitions-und Entwicklungsgesellschaft (DEG)		
EUR 20 000 thousand, semi-annual interest payment, maturing January 2012, EURIBOR+4% p.a.	–	856 191
Finnish Fund for Industrial Cooperation Ltd., Helsinki		
EUR 5 000 thousand, semi-annual interest payment, maturing January 2012, EURIBOR+4% p.a.	–	214 048
Subordinated Debt	15 090 657	17 867 268

21. Shareholder's equity

As at 31 December 2012, the authorised, issued and outstanding share capital comprises 2 404 181 ordinary shares (31 December 2011: 1 809 651 ordinary shares) with a par value of RUB 16 820 each. During 2012, 594 530 ordinary shares were issued at their nominal value (2011: 188 703 ordinary shares).

22. Commitments and contingencies

Credit related commitments

	<i>2012</i>	<i>2011</i>
Undrawn loan commitments	184 423 053	147 427 274
Guarantees issued	105 248 952	65 018 063
Letters of credit	13 502 933	15 646 415
Gross undrawn commitments, guarantees and letters of credit	303 174 938	228 091 752
Provisions for unrecognised commitments	(21 978)	–
Total undrawn commitments, guarantees and letters of credit	303 152 960	228 091 752

The Group issues guarantees and letters of credit for its customers. These instruments bear a credit risk similar to that of loans granted. With respect to the documentary instruments shown above, as at 31 December 2012, collateral deposits of RUB 4 039 772 thousand were held by the Group (31 December 2011: RUB 5 528 605 thousand).

*(Thousands of Russian Roubles)***22. Commitments and contingencies (continued)****Operating lease commitments**

	<i>2012</i>	<i>2011</i>
Not later than 1 year	679 697	660 807
Later than 1 year but not later than 5 years	978 676	842 623
Later than 5 years	301 802	79 148
	1 960 175	1 582 578

Operating environment

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

Taxation

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

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

Based on the facts available, no provision for potential tax liabilities is made in these consolidated financial statements, as management believes that it is not likely that an outflow of funds will be required to settle such obligations.

23. Gains on financial assets and liabilities held for trading

Gains on financial assets and liabilities held for trading comprise:

	<i>2012</i>	<i>2011</i>
Net gains from trading securities	141 360	32 206
Net gains from foreign exchange and interest based derivatives		
- spot and derivative instruments	838 647	987 325
- translation of other foreign currency assets and liabilities	3 817 083	2 557 331
Gains on financial assets and liabilities held for trading	4 797 090	3 576 862

24. Fee and commission income

Fee and commission income comprises:

	<i>2012</i>	<i>2011</i>
Customer accounts handling and settlements	1 905 236	1 550 919
Retail services	1 862 637	1 568 321
Documentary business	1 435 294	1 177 172
Loan fees that are not part of the effective interest rate	213 199	293 653
Other	51 941	52 096
Fee and commission income	5 468 307	4 642 161

(Thousands of Russian Roubles)

25. Personnel and other administrative expenses

Personnel and other administrative expenses comprise:

	2012	2011
Salaries and bonuses	4 519 048	4 057 689
Social security costs	329 457	334 067
Other compensation expenses	240 980	195 941
Other employment taxes	860 449	660 747
Personnel expenses	5 949 934	5 248 444
Rent, repairs and maintenance	1 418 782	1 397 999
Communication and information services	601 425	579 302
Advertising and marketing	450 704	632 005
Security expenses	273 393	261 667
Other taxes	162 090	129 304
Legal, audit and other professional services	91 380	204 953
Insurance	63 960	50 515
Other	902 505	723 941
Other administrative expenses	3 964 239	3 979 686

26. Risk management

Management of risk is fundamental to the banking business and is an essential element of the Group's operations. The Group has exposure to risks, which include credit, market, foreign exchange, liquidity, and operational risks. The Group's aim is to maintain an appropriate balance between risks and return and to minimise potential adverse effect on the Group's financial performance.

Risk management structure

The Group's risk management policies aim to identify, analyse, measure and manage the risks taken by the Group, to establish appropriate risk limits and methods of monitoring, and to continuously monitor risk levels and compliance with the established limits. Risk management policies and procedures are reviewed regularly to reflect changes in market conditions, products and services offered and emerging best practice in risk management.

The operational risk management functions are aimed at developing and ensuring proper functioning of internal processes and procedures that minimise the Group's exposure to internal and external risk factors.

The Supervisory Board of the Bank has overall responsibility for the oversight of the risk management framework, overseeing the management of key risks.

The Board of Management has overall responsibility for monitoring and implementation of risk mitigation measures and making sure that the Bank operates within the established risk parameters.

The Chief Risk Officer (hereinafter – "CRO") is responsible for the overall risk management function, ensuring the implementation of common principles and methods for identifying, underwriting, measuring, managing and risk reporting for both financial and non-financial risks. The CRO is the Member of the Board of Management of the Bank.

Credit, market and liquidity risks, both at portfolio and transactional levels, are managed through a system of Credit Approval Authorities as well as an Asset and Liability Management Committee. In order to facilitate efficient decision-making, the Bank has established a hierarchy of Credit Approval Authorities, which includes four Credit Committees, including Large Credit Committee, Small Credit Committee, Special Credit Committee and Credit Committee of the Small and Medium Enterprises and several levels of joint and single personal approval authority, depending on amount of exposure, type and risk associated with a customer.

(Thousands of Russian Roubles)

26. Risk management (continued)

Risk management structure (continued)

Credit risk policies and underwriting guidelines are under the CRO's responsibility. Internal local policies, rules, guidelines and operational instructions for lending to individuals and to the Small and Medium Enterprises (hereinafter – "SME") are in line with Group Credit Policies and agreed with CRO and approved by the Board of Management of the Bank (excluding operational instructions which are approved by the Head of responsible Unit). The four-eyes principle is applied for the credit decision-making process. Credit approval authority is exercised through the submission and approval of a credit application. For standardized products in lending process to individuals decision-making is done by Operations Function, to which CRO Function delegates authority through respective underwriting guidelines and rules and/or implementation of credit scoring. For standardized products in lending process to SMEs decision-making is done by Business Function, to which CRO Function delegates authority through respective guidelines and rules. All deviations/exceptions from standardized products have to be approved by the CRO.

The Group's risk underwriting, assessment, reporting and control procedures vary by risk type, but share a common principle to be concentrated under the supervision of the CRO.

Credit risk

Credit risk is the risk of financial loss occurring as a result of default by a borrower or counterparty on their obligation to the Group and arises principally from the Group's loans to customers and credit institutions and other unrecognised credit exposures.

For risk management purposes, credit risk arising from positions in trading securities is managed and reported on a daily basis.

Credit risk governance

Credit risk management policies, procedures and manuals are approved by the Board of Management of the Bank.

The following Credit Committees are responsible for approving corporate and retail credit risk exposures:

- The Large Credit Committee reviews and approves all loan/credit applications from customers and issuers above EUR 10 million or equivalent in other currencies. It is chaired by President of the Board of Management and meets on a weekly basis;
- The Small Credit Committee reviews and approves all loan/credit applications from customers in the amount up to EUR 10 million or equivalent in other currencies. It is chaired by the Head of Credit Underwriting Department and meets on a weekly basis;
- The Credit Committee of the SME is responsible for approval of the loan applications of SME in the amount up to EUR 1 million or equivalent in other currencies. The Committee meets once in a two-week period;
- The Special Credit Committee is responsible for considerations of the applications related to restructuring/refinancing of problem debts.

The Bank also has a system of personal credit approval authorities with the four-eyes principle in place – approval is done jointly by representatives from both business and risk functions; for SME lending process proposal is done by business function and approval is done by risk function.

All credit exposures above EUR 30 million or equivalent in other currencies as well as restructuring/refinancing applications above EUR 15 million have to be approved by the UniCredit Group (by the authorized members of Supervisory Board).

The Group limits concentrations of exposure to individual customers, counterparties and issuers (for securities), as well as groups of related customers. Exposure to credit risk is managed through regular analysis of the borrower's creditworthiness and by changing/adjusting lending limits where appropriate.

The Group's credit policies and product guidelines establish:

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

(Thousands of Russian Roubles)

26. Risk management (continued)

Credit risk (continued)

Credit risk governance (continued)

The relevant relationship managers and Corporate Lending Department originate corporate loan/credit applications jointly. The application could be solely prepared by relationship managers, depending on the respective authority granted to a given relationship manager. The credit applications consist of a structured analysis focusing on the customer's business and financial performance. The loan/credit applications are then independently reviewed by the Credit Underwriting and a second opinion is given accompanied by a check that credit policy requirements have been met. The relevant Approval Authority reviews the loan/credit application accompanied by the Credit Underwriting opinion.

In order to provide better assessment of customers' creditworthiness, separate units specialising on analysis of different industries were created within the Credit Underwriting department. This business model allows the Bank to quickly and thoroughly analyse changes in various industries, adjust strategies and take adequate decisions. Along with the industry divisioning there is also a set of regional risk managers that monitor the situation in the main regions of Bank's operations. This allows the Bank to manage its credit portfolio both on industry and regional levels.

Credit portfolio diversification by client types (large corporate clients, SME, individual clients) and industries allows the Bank to maintain high credit portfolio quality. In order to provide an adequate risk assessment, the Bank uses various internal rating models which take into account specifics of different client segments, provides effective differentiation of clients by credit risk level and precise assessment of their probability of default in accordance with Basel II principles. Internal ratings are used in credit decision-making, pricing, capital allocation and risk management processes.

All existing credit deals/approved limits for corporate clients are subject to annual review according to the procedure similar to that for the approval of the credit application.

The Bank continuously monitors the performance of individual credit exposures and regularly reassesses the creditworthiness of its customers. The review is based on the customer's most recent financial statements and other information submitted by the borrower, or otherwise obtained by the Bank. As the result of the review, the borrower's internal credit rating may be changed. The Bank monitors concentrations of credit risk by industry/sector and by the exposure to top 10, 50 and 100 borrowers.

Retail loan applications are approved according to internal local policies, rules, guidelines and operational instructions for lending to individuals and SME. Information is obtained on every customer. The extent of the information required and frequency of its update depend on the regulatory requirements, the customer category, creditworthiness of the customer and type of a transaction. The business unit obtains and analyzes the information from different sources (information from the customer, on-site visits, internal/external sources).

In order to reduce the risk of potential losses in the Bank's credit transactions a Monitoring Unit was established. The Unit implements procedures for systematic identification and assessment of negative signals, analysis and situation monitoring as well as strategies and action plans for potentially troubled corporate borrowers.

The Group continues active work to manage and decrease the problem loan portfolio. During 2011 the Restructuring Department of the Bank further developed and improved the systemic approach for handling problem loans. Under Watch List procedures monitoring of corporate customers and warning signals were applied on a daily basis.

Settlement risk

The Group's activities may give rise to settlement risk at the time of settlement of transactions. Settlement risk is the risk of loss due to the failure of counterparty to honour its obligations to deliver cash, securities or other assets as contractually agreed.

For certain types of transactions the Group mitigates this risk by conducting settlements through settlement/clearing agents to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations. Acceptance of settlement risk on free settlement transactions requires transaction specific and/or counterparty specific settlement limits that form part of the counterparty limit approval/monitoring process described above.

(Thousands of Russian Roubles)

26. Risk management (continued)**Credit risk (continued)***Settlement risk (continued)*

The table below shows the maximum exposure to credit risk for the components of the statement of financial position, including derivatives. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements.

	<i>Notes</i>	<i>Maximum gross exposure 31 December 2012</i>	<i>Maximum gross exposure 31 December 2011</i>
Cash and cash balances (excluding cash on hand)	6	15 711 756	16 795 816
Trading securities:	7	4 340 528	1 938 722
Amounts due from credit institutions	8	246 446 188	200 143 375
Derivative financial assets	9	10 064 303	12 867 079
Derivative financial assets designated for hedging	9	7 350 086	3 776 683
Loans to customers	10	504 195 074	472 698 094
Investment securities:	11		
- available-for-sale			
- held by the Group		31 918 591	43 575 124
- pledged under repurchase agreement		26 690 399	—
- held-to-maturity		311 805	311 662
Investments in associate		979 435	929 032
Other assets	16	1 551 621	1 961 237
		849 559 786	754 996 824
Financial commitments and contingencies	22	303 152 960	228 091 752
Total credit risk exposure		1 152 712 746	983 088 576

Where financial instruments are recorded at fair value, the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

The credit quality of financial assets is managed by the Bank using internal credit ratings. The table below shows the credit quality by class of asset for consolidated statement of financial position items, based on the Bank's credit rating system as at 31 December 2012 and 2011:

	<i>Notes</i>	<i>Neither past due nor impaired</i>		<i>Past due or impaired</i>	<i>Total 2012</i>
		<i>High grade</i>	<i>Standard</i>		
Cash and cash balances (excluding cash on hand)	6	15 711 756	—	—	15 711 756
Trading securities	7	4 340 528	—	—	4 340 528
Amounts due from credit institutions	8	246 446 188	—	—	246 446 188
Derivative financial assets	9	10 064 303	—	—	10 064 303
Derivative financial assets designated for hedging	9	7 350 086	—	—	7 350 086
Loans to customers	10				
Corporate customers		205 348 641	162 913 328	7 956 226	376 218 195
Retail customers		82 858 599	22 857 829	5 597 250	111 313 678
Reverse repurchase agreements with companies		16 663 201	—	—	16 663 201
Investment securities:	11				
- available-for-sale					
- held by the Group		31 918 591	—	—	31 918 591
- pledged under repurchase agreement		26 690 399	—	—	26 690 399
- held-to-maturity		311 805	—	—	311 805
Total		647 704 097	185 771 157	13 553 476	847 028 730

(Thousands of Russian Roubles)

26. Risk management (continued)**Credit risk (continued)**

	<i>Notes</i>	<i>Neither past due nor impaired</i>		<i>Past due or impaired</i>	<i>Total 2011</i>
		<i>High grade</i>	<i>Standard</i>		
Cash and cash balances (excluding cash on hand)	6	16 795 816	–	–	16 795 816
Trading securities	7	1 938 722	–	–	1 938 722
Amounts due from credit institutions	8	200 143 375	–	–	200 143 375
Derivative financial assets	9	12 867 079	–	–	12 867 079
Derivative financial assets designated for hedging	9	3 776 683	–	–	3 776 683
Loans to customers	10				
Corporate customers		356 422 748	15 639 030	9 935 790	381 997 568
Retail customers		75 047 870	2 497 233	4 681 577	82 226 680
Reverse repurchase agreements with companies		8 122 974	–	–	8 122 974
Other		–	195 351	155 521	350 872
Investment securities:	11				
- available-for-sale		43 575 124	–	–	43 575 124
- held-to-maturity		311 662	–	–	311 662
Total		719 002 053	18 331 614	14 772 888	752 106 555

Liquidity risk and funding management

Liquidity risk refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments associated with financial instruments as they actually fall due. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of financial institutions. It is unusual for financial institutions ever to be completely matched since a lot of business transactions are of uncertain term and different types. An unmatched position could potentially enhance profitability, but also could increase the risk of failure to meet obligations.

The approach to liquidity management is to ensure, as far as possible, that the Group always has sufficient liquidity to meet its obligations, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group reputation.

Assets and Liabilities Committee (hereinafter – “ALCO”) is responsible for management of liquidity risk of the Bank. ALCO delegates to the Finance Department and Markets Department the responsibility to monitor and maintain within limits the Bank’s liquidity profile on a daily basis. At the same time Market Risk Unit controls compliance with liquidity limits and informs ALCO in case of limit breaches. Both Finance Department and Market Risk Unit report to local and to the UniCredit Group ALCO on a weekly basis.

According to the liquidity management policy:

1. The approach to funding and structural liquidity is described in the annual funding plan, which is based on annual budget data. On a monthly basis, the funding plan is updated taking into account the current recognised and unrecognised positions, changes in the asset and liability mismatches of the Bank, available funding sources and market analysis. The Bank has adopted contingency funding plans, the UniCredit Group standard risk management instrument, which describes potential funding sources in case of crisis situation. The contingency funding plan is updated in the event of crisis, but at least once a year by ALCO, after annual funding plan approval.
2. Structural liquidity of the Bank is analysed by Finance Department using the liquidity gap approach and reported to local ALCO and to the UniCredit Group on a weekly basis. Liquidity limits and requirements both established by the UniCredit Group and the CBR are taken into account.

(Thousands of Russian Roubles)

26. Risk management (continued)

Liquidity risk and funding management (continued)

3. Short-term liquidity is monitored on the basis of cash flow models in total and separately by major currencies:
 - Scenarios (going concern, market crisis, foreign exchange market crisis scenario, etc.) are assessed to forecast future cash flows and corresponding liquidity needs for the nearest three months. Market crisis scenario includes “haircuts” to liquid security positions, failure of Bank’s counterparties to meet their obligations with regard to money market deals, run on retail deposits, inability to make swaps at reasonable prices, etc. Decisions with regard to switches between going-concern and crisis scenarios are taken by ALCO;
 - ALCO sets limits on cash flow positions that depend on available liquidity sources and level of liquid assets (portfolio of assets that can be quickly liquidated to meet obligations without significant price decline).
4. Funding structure concentration is monitored and managed on a constant basis:
 - ALCO sets an internal limit on the maximum volume of borrowings from a single group of clients;
 - Reports on customer funds concentration are reported to management and analyzed on a weekly basis.
5. Liquidity ratios in line with regulatory requirements (the CBR) are to be monitored and met:
 - On daily basis Finance Department evaluates N2 and calculates projections of N4 ratio for one month horizon. Markets Department calculates projections of N3 ratio for one month horizon:
 - Instant liquidity Ratio (N2) is the ratio of liquid assets to sight and overnight liabilities;
 - Current liquidity ratio (N3) is the ratio of liquid assets to liabilities maturing within 30 calendar days;
 - Long-term liquidity ratio (N4) is the ratio of assets maturing after one year to the sum of capital and liabilities maturing after one year.

As at 31 December 2012 and 2011, these ratios were as follows:

	<i>2012, %</i>	<i>2011, %</i>
N2 “Instant liquidity Ratio” (minimum 15%)	85.0	108.9
N3 “Current Liquidity Ratio” (minimum 50%)	84.4	66.4
N4 “Long-Term Liquidity Ratio” (maximum 120%)	92.7	98.5

The following table shows the liquidity gap profile as at 31 December 2012. This information is prepared using the internal Assets and Liabilities Management system according to the approved internal approach. The mapping approach is compliant with the requirements of the UniCredit Group liquidity policy. This information is used internally for risk management purposes and differs from financial statement amounts.

(Thousands of Russian Roubles)

26. Risk management (continued)**Liquidity risk and funding management (continued)**

The information presented below relates to assets and liabilities of the Bank only prepared using statutory accounting methods. The table below presents the liquidity gap profile according to the approved internal approach as at 31 December 2012:

	<i>2012</i>							
	<i>Less than 1 month</i>	<i>1 month to 3 months</i>	<i>3 months to 6 months</i>	<i>6 months to 1 year</i>	<i>1 year to 3 years</i>	<i>More than 3 years</i>	<i>No stated maturity</i>	<i>Total</i>
Assets								
Cash and cash balances	24 020 106	—	—	—	—	—	—	24 020 106
Trading securities	3 040 854	—	—	1 300 000	—	—	—	4 340 854
Amounts due from credit institutions	228 764 840	17 496 012	—	—	—	—	—	246 260 852
Loans to customers	58 954 315	24 613 023	37 923 894	106 670 883	172 375 747	103 004 837	—	503 542 699
Investment securities:								
- available-for-sale	1 450 865	7 607 592	—	—	24 407 672	17 476 004	7 742 614	58 684 747
- held-to-maturity	—	—	—	—	302 430	—	—	302 430
Fixed assets	—	—	—	—	—	—	6 793 444	6 793 444
Other assets	106	—	—	5 914 902	—	—	—	5 915 008
Total assets	316 231 086	49 716 627	37 923 894	113 885 785	197 085 849	120 480 841	14 536 058	849 860 140
Liabilities								
Amounts due to credit institutions	106 168 653	10 650 450	8 264 719	4 165 200	45 665 264	12 437 419	—	187 351 705
Amounts due to customers								
- current accounts	48 709 370	3 765 925	3 765 925	4 518 393	7 262 792	21 664 608	—	89 687 013
- time deposits	244 515 038	49 131 447	30 370 688	33 306 777	38 515 523	17 479 054	—	413 318 527
Debt securities issued	—	—	—	514 439	34 520 212	5 000 000	—	40 034 651
Other liabilities	6 723	—	—	6 318 963	—	—	—	6 325 686
Equity	—	—	—	—	—	—	113 142 558	113 142 558
Total equity and liabilities	399 399 784	63 547 822	42 401 332	48 823 772	125 963 791	56 581 081	113 142 558	849 860 140
Net position	(83 168 698)	(13 831 195)	(4 477 438)	65 062 013	71 122 058	63 899 760	(98 606 500)	—
Accumulated gap	(83 168 698)	(96 999 893)	(101 477 331)	(36 415 318)	34 706 740	98 606 500	—	

The Group estimates that the negative accumulated gap in 1 month to 1 year periods will be sufficiently covered by the Group's money market daily borrowing capacity, issue of unsecured bonds and secured refinancing with the CBR.

(Thousands of Russian Roubles)

26. Risk management (continued)**Liquidity risk and funding management (continued)**

The table below presents the liquidity gap profile according to the approved internal approach as at 31 December 2011:

	2011							
	<i>Less than 1 month</i>	<i>1 month to 3 months</i>	<i>3 months to 6 months</i>	<i>6 months to 1 year</i>	<i>1 year to 3 years</i>	<i>More than 3 years</i>	<i>No stated maturity</i>	<i>Total</i>
Assets								
Cash and cash balances	24 468 219	—	—	—	—	—	—	24 468 219
Trading securities	1 536 718	—	240 000	162 004	—	—	—	1 938 722
Amounts due from credit institutions	88 864 121	1 054 433	5 070 000	8 164 231	96 508 909	149 119	—	199 810 813
Loans to customers	18 625 579	24 710 798	46 858 279	93 141 957	196 212 739	92 258 403	—	471 807 755
Investment securities:								
- available-for-sale	26 732 310	—	1 268 221	2 300 612	—	—	13 273 230	43 574 373
- held-to-maturity	—	—	—	—	311 964	—	—	311 964
Fixed assets	—	—	—	—	—	—	6 583 910	6 583 910
Other assets	10 676	—	—	4 663 127	—	—	—	4 673 803
Total assets	160 237 623	25 765 231	53 436 500	108 431 931	293 033 612	92 407 522	19 857 140	753 169 559
Liabilities								
Amounts due to credit institutions	55 455 024	39 835 575	10 854 806	6 690 612	35 751 622	18 076 406	—	166 664 045
Amounts due to customers								
- current accounts	48 925 782	3 785 124	3 683 502	7 047 308	697 343	18 881 860	—	83 020 919
- time deposits	181 916 404	14 603 865	10 298 981	15 764 778	152 805 942	3 947 163	—	379 337 133
Debt securities issued	—	—	—	10 832 852	10 000 000	5 000 330	—	25 833 182
Other liabilities	98 142	—	—	9 081 390	—	10 899	—	9 190 431
Equity	—	—	—	—	—	—	89 123 849	89 123 849
Total equity and liabilities	286 395 352	58 224 564	24 837 289	49 416 940	199 254 907	45 916 658	89 123 849	753 169 559
Net position	(126 157 729)	(32 459 333)	28 599 211	59 014 991	93 778 705	46 490 864	(69 266 709)	—
Accumulated gap	(126 157 729)	(158 617 062)	(130 017 851)	(71 002 860)	22 775 845	69 266 709	—	

(Thousands of Russian Roubles)

26. Risk management (continued)**Liquidity risk and funding management (continued)***Analysis of financial assets and liabilities by remaining contractual maturities*

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

	<i>Less than 1 month</i>	<i>1 month to 3 months</i>	<i>3 months to 6 months</i>	<i>6 to 12 months</i>	<i>1 year to 3 years</i>	<i>More than 3 years</i>	<i>Total</i>
Financial assets as at 31 December 2012							
Cash and cash balances	24 020 106	—	—	—	—	—	24 020 106
Trading securities	4 340 528	—	—	—	—	—	4 340 528
Amounts due from credit institutions	225 980 319	19 172 622	455 486	495 743	554 768	965 922	247 624 860
Derivative financial assets:							
- Contractual amounts payable	(20 095 181)	(4 404 466)	(4 697 136)	(13 915 991)	(6 243 326)	(2 332 412)	(51 688 512)
- Contractual amounts receivable	20 578 058	6 909 406	6 825 545	14 581 445	11 462 009	4 613 492	64 969 955
Derivative financial assets designated for hedging:							
- Contractual amounts payable	(13 916)	(17 594)	(30 359)	(2 049 097)	(1 929 634)	(625 760)	(4 666 360)
- Contractual amounts receivable	3 084 669	1 790 054	1 045 339	2 021 844	3 380 924	1 627 618	12 950 448
Loans to customers	29 746 947	46 353 249	53 776 645	105 360 236	259 311 933	144 806 041	639 355 051
Investment securities							
- available-for-sale							
- held by the Group	1 541 366	2 442 907	424 472	841 507	15 136 760	10 697 026	31 084 038
- pledged under repurchase agreements	111 666	5 634 256	573 260	780 105	13 724 604	11 526 356	32 350 247
- held-to-maturity	11 892	—	—	23 784	311 892	—	347 568
Total undiscounted financial assets	289 306 454	77 880 434	58 373 252	108 139 576	295 709 930	171 278 283	1 000 687 929
Financial liabilities as at 31 December 2012							
Amounts due to credit institutions	85 148 903	32 485 461	8 729 432	4 602 864	48 558 949	12 659 618	192 185 227
Derivative financial liabilities:							
- Contractual amounts payable	12 188 808	9 259 486	6 599 446	7 979 855	7 427 614	7 404 143	50 859 352
- Contractual amounts receivable	(12 188 304)	(8 118 250)	(4 340 942)	(7 393 108)	(2 095 966)	(869 636)	(35 006 206)
Derivative financial liabilities designated for hedging:							
- Contractual amounts payable	197 915	1 790 597	2 794 546	1 103 839	5 887 390	5 104 535	16 878 822
- Contractual amounts receivable	(5 261)	(102 790)	(108 051)	(462 314)	(1 154 195)	(180 883)	(2 013 494)
Amounts due to customers	375 690 126	36 460 877	28 663 744	31 197 087	34 911 564	1 711 990	508 635 388
Debt securities issued	501 765	—	—	1 719 262	41 681 794	5 813 279	49 716 100
Total undiscounted financial liabilities	461 533 952	71 775 381	42 338 175	38 747 485	135 217 150	31 643 046	781 255 189

(Thousands of Russian Roubles)

26. Risk management (continued)**Liquidity risk and funding management (continued)***Analysis of financial assets and liabilities by remaining contractual maturities (continued)*

The maturity profile of the financial assets and liabilities at 31 December 2011 was the following:

	<i>Less than 1 month</i>	<i>1 month to 3 months</i>	<i>3 months to 6 months</i>	<i>6 to 12 months</i>	<i>1 year to 3 years</i>	<i>More than 3 years</i>	<i>Total</i>
Financial assets as at 31 December 2011							
Cash and cash balances	24 491 991	—	—	—	—	—	24 491 991
Trading securities	1 938 722	—	—	—	—	—	1 938 722
Amounts due from credit institutions	84 674 771	1 394 240	6 201 494	7 875 431	103 955 217	425 638	204 526 791
Derivative financial assets:							
- Contractual amounts payable	(20 558 804)	(48 908 164)	(21 790 105)	(14 374 831)	(31 706 405)	(1 958 600)	(139 296 909)
- Contractual amounts receivable	21 553 464	50 628 919	24 714 093	14 454 930	34 676 049	3 875 693	149 903 148
Derivative financial assets designated for hedging:							
- Contractual amounts payable	(432 352)	(147 704)	(656 827)	(2 741 464)	(8 695 574)	(819 422)	(13 493 343)
- Contractual amounts receivable	1 935 003	328 180	1 356 116	1 685 371	10 649 625	2 060 099	18 014 394
Loans to customers	7 970 509	36 145 997	48 383 167	82 782 092	173 771 346	215 526 269	564 579 380
Investment securities:							
- available-for-sale	149 495	921 118	351 986	5 693 867	26 888 006	191 172	34 195 644
- held-to-maturity	11 892	—	—	11 892	347 568	—	371 352
Total undiscounted financial assets	121 734 691	40 362 586	58 559 924	95 387 288	309 885 832	219 300 849	845 231 170
Financial liabilities as at 31 December 2011							
Amounts due to credit institutions	56 388 107	40 904 349	11 474 287	9 470 902	30 544 383	22 865 838	171 647 866
Derivative financial liabilities:							
- Contractual amounts payable	15 109 864	46 329 106	35 069 123	14 514 437	35 842 318	7 841 600	154 706 448
- Contractual amounts receivable	(15 159 367)	(44 631 956)	(31 755 840)	(13 593 471)	(31 898 513)	(1 786 818)	(138 825 965)
Derivative financial liabilities designated for hedging:							
- Contractual amounts payable	193 188	3 897 728	7 211 299	4 187 099	29 978 722	15 270 544	60 738 580
- Contractual amounts receivable	(228 842)	(2 997 167)	(6 165 108)	(3 435 386)	(27 865 008)	(11 662 090)	(52 353 601)
Amounts due to customers	265 808 874	13 987 752	11 215 806	10 493 214	169 667 564	1 419 049	472 592 259
Debt securities issued	—	392 040	572 238	1 509 825	8 107 951	22 614 973	33 197 027
Total undiscounted financial liabilities	322 111 824	57 881 852	27 621 805	23 146 620	214 377 417	56 563 096	701 702 614

(Thousands of Russian Roubles)

26. Risk management (continued)

Liquidity risk and funding management (continued)

Analysis of financial liabilities by remaining contractual maturities (continued)

The maturity analysis does not reflect the historical pattern of stable balances on current accounts. Withdrawals of current accounts historically are taking place over a longer period than indicated in the tables above. These balances are included in amounts due in less than one month in the tables above.

Included in due to customers are term deposits of individuals. In accordance with the Russian legislation, the Group is obliged to repay such deposits upon demand (please refer to Note 18).

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

	<i>Less than 1 month</i>	<i>1 to 3 months</i>	<i>3 to 6 months</i>	<i>6 to 12 months</i>	<i>1 to 3 years</i>	<i>More than 3 years</i>	<i>Total</i>
2012	<u>22 453 552</u>	<u>39 841 451</u>	<u>75 898 568</u>	<u>96 951 136</u>	<u>57 253 829</u>	<u>10 754 424</u>	<u>303 152 960</u>
2011	<u>12 635 241</u>	<u>15 892 889</u>	<u>53 648 502</u>	<u>83 786 610</u>	<u>40 133 020</u>	<u>21 995 490</u>	<u>228 091 752</u>

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

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates and equity prices.

The Group distinguishes four market risk categories:

1. Interest Rate Risk is the risk that changes in interest rates will affect future cash flows or fair values of financial instruments.
2. Currency Risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates.
3. Spread Risk is the risk that changes in credit spreads will affect bond prices.
4. Residual Risk is the risk that a price of a particular instrument will change due to its specific characteristics.

On a daily basis the Group assesses interest rate and currency risks for both the trading portfolio and banking book. Moreover, spread and residual risks are calculated for fixed income positions.

The Group applies a Value-at-Risk (hereinafter – “VAR”) methodology for the measuring of all risks mentioned above. VAR measure adopted by the Group estimates the potential negative change in the market value of a portfolio at a 99% confidence level over a 1-day horizon. The Group distinguishes the following types of VAR:

1. Total VAR is calculated for all risk factors taken in aggregate;
2. Interest Rate VAR is originated from interest rate risk exposure of the portfolio;
3. Foreign exchange VAR is originated from currency risk exposure of the portfolio;
4. Spread VAR is originated from spread risk exposure of the bond portfolio;
5. Residual VAR is originated from other factors exposure of the bond portfolio.

The Group also started to calculate Incremental Risk Charge (hereinafter – “IRC”) that complements additional standards being applied to VAR modelling framework according to amendments to Basel II. IRC is an estimate of the default and migration risks of unsecured credit products over a one year capital horizon at 99.9% confidence level.

For interest rate risk management and control the Group also uses a Basis Point Value (hereinafter – “BPV”) measure, which shows a change of present value of the Group’s position if interest rate changes by one basis point. The measure is calculated for all currencies in which the Group has interest rate exposures. In addition, for bonds the Group established Credit Point Value (hereinafter – “CPV”) measure that reflects a change of the bond position present value in case of credit spread changes by one basis point.

(Thousands of Russian Roubles)

26. Risk management (continued)

Market risk (continued)

Since monitoring of VAR, BPV and CPV is an integral part of the risk management procedures, VAR, CPV and BPV limits have been established and exposures are reviewed daily against the limits by Market Risk Unit (hereinafter – “MRU”). IRC exposure is reviewed weekly.

The Group has adopted the following limits:

- Total VAR limit for whole portfolio;
- IRC limit for total bond position;
- Total BPV limit for whole portfolio;
- BPV limit split by currencies;
- Open foreign exchange position limits;
- CPV limit for total bond position.

Usage of VAR enables management of a position taking into consideration complex relationships and interdependencies between different risk factors. Typically MRU analyses VAR figures and sets BPV limits which help traders and the Finance Department to optimize risk profiles in volatile market environments. On a monthly basis MRU provides stress-testing of all four market risk categories, in other words, the estimation of total portfolio present value change according to several predefined scenarios of market risk factor movements. In addition, the MRU monitors on a daily basis the financial result of the trading operations and thoroughly investigates any significant variances.

All limit violations are analyzed by the MRU on a daily basis, and all limit breaches are escalated and reported to local ALCO and to UniCredit Bank Austria AG.

In 2012 MRU significantly improved the control of economical and regulatory open foreign currency position that is performed on a daily basis. MRU continued to upgrade the internal methodologies and procedures according to international standards and UniCredit Group methodologies. In particular, new methodologies of risk estimation based on Basel 2.5 were implemented and implementation of Basel 3 regulatory standards was started. Thus, implementation of Credit Valuation Adjustment (modification of derivatives market value taking into account counterparty credit risk) and corresponded impact on Capital was done. Also, the requirements of minimum mark-up of derivatives were applied. To improve the control of the Bank's trading strategy the sensitivity analysis of statement of comprehensive income in terms of risk factors was created and implemented.

Interest rate risk management of the banking book

The Bank uses the active interest rate risk management concept, which aims to minimize the net interest income volatility of the banking book.

In banking book interest rate risk position there is a discrepancy between economic (behavioural) and contractual maturities of financial instruments. It concerns both instruments with fixed contractual maturities (loans and time deposits) and instruments without contractual maturities (current accounts, capital). Based on historical observation the Bank developed models that allowed applying behavioural approach to such kinds of banking book items for construction of interest rate risk position with the aim of better interest rate risk management by means of preventing over-hedging and encouraging self-hedging. The Bank applies behavioural models to current accounts, short-term customer time deposits and time deposits with auto-rollover option as well as to capital. The Bank has developed prepayment model for retail loans and implemented it in interest rate risk position. For avoiding accounting discrepancy between hedged items of banking book calculated on accrual basis and hedging instruments calculated on mark-to-market basis and, as a result, to stabilize net interest income the Bank uses hedge accounting methodology. During the period from 2008 until 2011 the Bank sequentially implemented the following hedge accounting approaches: Micro Cash Flow Hedge, Macro Cash Flow Hedge, Micro Fair Value Hedge, Portfolio Fair Value Hedge for interest rate risk management.

(Thousands of Russian Roubles)

26. Risk management (continued)**Market risk (continued)***Objectives and limitation of VAR methodology*

The Group uses a Basel II compliant VAR methodology based on historical simulations. Historical simulation is a method that allows to calculate VAR without making any assumptions about the a priori statistical distribution of the portfolio value movements. This approach involves the construction of the hypothetical distribution of the yields (profit and losses) of a portfolio of financial instruments directly by means of the historical fluctuations of the market prices. Once the hypothetical distribution has been calculated, the VAR is given by the percentile evaluation with the 99% confidence interval.

The VAR methodology described above replaces the previous approach based on historical and Monte-Carlo simulations, where 1000 scenarios of joint risk factors behaviour are modelled. The portfolios were revalued according to the scenarios set. The VAR measure resulted as the 99% quantile of the above distribution. Interest and exchange rates were modelled on a historical data basis. Bonds credit spread changes were modelled using the Student 5 distribution.

VAR estimates are based on historical data and therefore have some limitations. The volatility of interest and exchange rates observed in the past might not match the current market conditions, which could lead to underestimation of the future losses. The VAR measure does not account for any losses that may occur beyond the 99% confidence level.

The adequacy of the models used by the Group is controlled using a back-testing method, which compares VAR measures with realized mark-to-market revaluation for traded instruments and mark-to-model revaluation for non-traded instruments. This analysis is provided by MRU on a monthly basis.

Computational results

The following table shows estimation of the potential losses that could occur on all risk positions as a result of movements in market rates and prices by one BPV:

	<i>2012</i>	<i>2011</i>
Total VAR	283 825	199 286
Interest Rate VAR	209 654	161 371
Spread VAR	200 816	137 748
Foreign exchange VAR	6 413	16 897

The banking book includes corporate and retail loans and bonds from the investment portfolio on the asset side and deposits on the liability side offset by internal interest rate swaps to transfer interest rate risk to the trading book. A new prepayment model for retail loans has been implemented in 2011.

The following table shows estimation of the potential losses that could occur on banking book risk positions as a result of movements in market rates and prices by one BPV:

	<i>2012</i>	<i>2011</i>
Total VAR	24 920	56 261
Interest Rate VAR	24 842	58 693
Spread -VAR ^[1]	2 019	2 972
Foreign exchange VAR ^[2]	—	—

[1] Spread risk in the banking book arises from bonds comprising investment portfolio.

[2] Foreign exchange risk is defined as the risk arising from the net open position of the Bank and allocated to the trading book. The foreign exchange risk component of the banking book is therefore considered to be zero.

The following table shows estimation of the potential losses that could occur on trading book risk positions as a result of movements in market rates and prices by one BPV:

	<i>2012</i>	<i>2011</i>
Total VAR	273 178	184 490
Interest Rate VAR	201 589	146 319
Spread VAR	200 089	135 651
Foreign exchange VAR	6 413	16 897

The following table shows estimation of the potential losses that could occur on trading bond portfolio position as a result of movements in market rates and prices by one BPV:

	<i>2012</i>	<i>2011</i>
Total VAR	282 982	213 487
Interest Rate VAR	185 482	130 518
Spread VAR	168 591	136 723

(Thousands of Russian Roubles)

26. Risk management (continued)

Operational risk

Operational Risk Definition and Risk Management Principles

The UniCredit Group and the Bank define as “operational” the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The definition of Operational Risk includes legal risk but excludes strategic and reputation risk. Legal risk includes but is not limited to exposure to fines, penalties or punitive damages resulting from supervisory actions as well as private settlements.

The management of Operational Risk as defined above is based on the following fundamental principles:

- involvement of corporate governing bodies in all the relevant decisions regarding the Operational Risk management framework;
- independence of Operational Risk management function from the risk taking functions;
- effective system of controls at different control levels (line, second level and third level);
- involvement of Operational Risk management function in evaluation the risks of new products, process and markets;
- efficient escalation and decision-making process;
- adequate and periodical disclosure and reporting process.

Operational Risk Management Framework

The Bank is fully compliant with the UniCredit Group’s operational risk management framework in its guiding standards and principles as well as with the legislation of the Russian Federation.

Management Board of the Bank holds the responsibility for the establishment, governance and monitoring of the effective and efficient Operational Risk management system. The Management Board establishes the general policies of the Bank’s Operational Risk management system and has control over its due implementation and its actual operations including but not limiting to:

- approval of the Operational Risk framework and any essential changes to it as well as all internal normative documents of the Bank guiding the Operational Risk management system;
- establishment of an Operational Risk management function being of appropriate independence of judgement and having the adequate personnel and other resources;
- assurance that the tasks and responsibilities of the functions involved in the Operational Risk management system are assigned in a clear and appropriate manner with special regard to avoidance of conflicts of interest;
- establishment of informing and reporting system providing accurate, complete and timely information on Operational Risk exposure and other significant Operational Risk management issues.

Operational Risk Committee of the Bank is a governing body primarily responsible for making decisions on Operational Risk topics and ongoing monitoring of developments affecting the Bank’s business and promoting the exchange of information among the divisions and individual operating functions (Retail Banking, CIB, CFO, Legal, HR, Security) representing line controls.

The Bank’s Operational Risk Management Unit (hereinafter – “ORM Unit”) performing the second level controls is fully independent from risk taking functions performing the line level controls. The ORM’s main methodologies, tools and activities to identify, assess, monitor and mitigate Operational Risk are focused on but not limited to:

- loss data collection including general ledger analysis, accounts reconciliation, transitory and suspense accounts monitoring, data quality control;
- key Operational Risk indicators;
- scenario analysis;
- Operational Risk limits control;
- insurance coverage;
- capital at risk allocation according to the Basel II Standardized Approach;
- new products/processes analysis from the Operational Risk impact perspective;
- credit bureaus cooperation;
- reporting and escalating any of the essential Operational Risk issues to the Management Board, Internal Audit Department and competent UniCredit Group functions.

(Thousands of Russian Roubles)

26. Risk management (continued)

Operational risk (continued)

Operational Risk Management Framework (continued)

In order to assure the efficacy of the Operational Risk identification and mitigation processes, a Permanent Workgroup is established at the Bank which aims at identifying the source of Operational Risk and reduce the Operational Risk exposure of the Bank, leveraging mainly on the expertise of the ORM and Organization functions.

The Internal Audit Department performing the third level controls cooperates with the ORM Unit in terms of setting, development, implementation and maintenance of the Operational Risk management system, Operational Risk identification and the inherent local internal validation process.

27. Fair values of financial instruments

The following disclosure of the estimated fair value of financial instruments is made in accordance with the requirements of IFRS 7 *Financial Instruments: Disclosures*. Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties on arm's length conditions, other than in forced sale or liquidation. As no readily available market exists for a significant part of the Group's financial instruments, judgment is necessary in arriving at fair value, based on current economic conditions and the specific risks attributable to the instrument. The estimates presented herein are not necessarily indicative of the amounts the Group could realise in a market exchange from the sale of its full holdings of a particular instrument.

The estimated fair values of trading securities, bonds issued, and liquid investment securities are based on quoted market prices at the reporting date without any deduction for transaction costs. For securities and derivative financial instruments not traded in an active market, the fair value is estimated by using valuation techniques that include the use of recent arm's length transactions and discounted cash flow analysis.

The estimated fair values of all other financial assets and liabilities are calculated using discounted cash flow techniques based on estimated future cash flows.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and applicable interest rates as at 31 December 2012 (Mosprime rates varying from 8% to 11.21%, LIBOR rates – from 2.51% to 6.16%, EURIBOR rates – from 1.99% to 5.22% for RUB, USD and EUR instruments respectively, and discount rates varying from 1% to 25.33%).

The following table summarises the carrying amounts and fair values of those financial assets and liabilities not presented in the consolidated statement of financial position at fair value.

	2012		2011	
	<i>Carrying amount</i>	<i>Fair value</i>	<i>Carrying amount</i>	<i>Fair value</i>
<i>Financial assets</i>				
Amounts due from credit institutions	246 446 188	246 446 188	200 143 375	200 143 375
Loans to customers	504 195 074	484 170 598	472 698 094	468 924 332
Investment securities held-to-maturity	311 805	305 826	311 662	311 697
<i>Financial liabilities</i>				
Amounts due to credit institutions	187 523 705	187 523 705	165 826 669	165 826 669
Amounts due to customers	503 869 222	502 403 373	462 922 550	463 908 528
Debt securities issued	40 792 747	40 307 268	25 833 182	24 715 781

Financial instruments recorded at fair value

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

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

(Thousands of Russian Roubles)

27. Fair values of financial instruments (continued)

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

	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total 2012</i>
<i>Financial assets</i>				
Trading securities	4 340 528	–	–	4 340 528
Available-for-sale securities				
- held by the Group	22 630 017	1 537 635	7 742 614	31 910 266
- pledged under repurchase agreement	25 779 069	911 330	–	26 690 399
Derivative financial assets	–	10 064 303	–	10 064 303
Derivative financial assets designated for hedging	–	7 350 086	–	7 350 086
	52 749 614	19 863 354	7 742 614	80 355 582
<i>Financial liabilities</i>				
Derivative financial liabilities	–	7 309 978	–	7 309 978
Derivative financial liabilities designated for hedging	–	6 222 442	–	6 222 442
	–	13 532 420	–	13 532 420

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

	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total 2011</i>
<i>Financial assets</i>				
Trading securities	1 646 189	292 533	–	1 938 722
Available-for-sale securities	28 242 821	2 058 323	13 267 115	43 568 259
Derivative financial assets	–	12 867 079	–	12 867 079
Derivative financial assets designated for hedging	–	3 776 683	–	3 776 683
	29 889 010	18 994 618	13 267 115	62 150 743
<i>Financial liabilities</i>				
Derivative financial liabilities	–	12 893 794	–	12 893 794
Derivative financial liabilities designated for hedging	–	7 273 366	–	7 273 366
	–	20 167 160	–	20 167 160

Financial instruments of Level 3 represent equity investment in MICEX-RTS which is not quoted on an active market and is revalued based on the price of RUR 57 per share.

The following table shows reconciliation for the years ended 31 December 2012 and 2011 for fair value measurements in Level 3 of the fair value hierarchy:

	<i>2012</i>	<i>2011</i>
	Equity investments available-for-sale	Equity investments available-for-sale
Balance at beginning of the year	13 267 115	–
Total gains or losses:		
- in profit or loss	3 007 049	3 211 266
- in other comprehensive income	(4 256 550)	9 702 731
Disposals	(4 275 000)	–
Transfers into level 3	–	353 118
Balance at the end of the year	7 742 614	13 267 115

Loss on financial instruments of Level 3 of RUB 4 256 550 thousand is presented in other comprehensive income within revaluation reserve for available-for-sale securities.

28. Related party disclosures

The Bank's ultimate parent is the UniCredit Group. The Bank's immediate parent is UniCredit Bank Austria AG. Both entities produce publicly available financial statements.

In accordance with IAS 24 *Related Party Disclosures*, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

(Thousands of Russian Roubles)

28. Related party disclosures (continued)

Balances and transactions with UniCredit Bank Austria AG (the immediate parent) and more senior parents within the UniCredit Group were as follows:

	<i>31 December 2012</i>	<i>Average interest rate, %</i>	<i>31 December 2011</i>	<i>Average interest rate, %</i>
Amounts due from credit institutions				
- In Russian Roubles	1 805 998	6.8%	7 313 510	6.8%
- In EUR	94 207 212	2.5%	143 482 611	2.8%
- In USD	63 788 242	0.2%	3 061 857	0.4%
Other assets	78 232		85 450	
Amounts due to credit institutions				
- In Russian Roubles	9 366 136	7.1%	23 736 953	7.3%
- In EUR	8 241 285	2.4%	37 592 789	2.0%
- In USD	44 566 913	2.3%	25 684 219	2.0%
Derivative financial liabilities	—		—	
Debt securities issued	1 004 672	9.0%	1 004 192	9.0%
Other liabilities	179 527		94 216	
Commitments and guarantees issued	1 879 274		2 276 613	
Commitments and guarantees received	1 781 822		1 189 686	

	<i>2012</i>	<i>2011</i>
Interest income	3 129 230	1 977 662
Interest expense	(2 634 271)	(2 805 220)
Fee and commission income	12 267	12 264
Fee and commission expense	(19 366)	(22 323)
Gains on financial assets and liabilities held for trading	45 804	595 691
Personnel expenses	(33 533)	(29 782)

Balances and transactions with other companies controlled by the UniCredit Group are as follows:

	<i>31 December 2012</i>	<i>Average interest rate, %</i>	<i>31 December 2011</i>	<i>Average interest rate, %</i>
Amounts due from credit institutions				
- In EUR	10 844 253	0.0%	567 409	0.0%
- In USD	294	0.0%	—	
- In other currencies	55 244	0.0%	20 129	0.0%
Derivative financial assets	2 262 301		3 537 856	
Derivative financial assets designated for hedging	4 130 765		3 573 532	
Loans to customers				
- In EUR	1 618 669	6.2%	600 216	6.6%
Other assets	621 326		626 152	
Amounts due to credit institutions				
- In Russian Roubles	551 111	2.3%	821 587	0.0%
- In EUR	—		602 489	3.3%
- In USD	6 104 863	2.3%	5 824 153	2.4%
- In other currencies	1 903	0.0%	—	
Derivative financial liabilities	4 548 547		5 023 326	
Derivative financial liabilities designated for hedging	3 905 127		5 904 556	
Amounts due to customers				
- In Russian Roubles	114 411	5.7%	519 989	2.2%
- In EUR	311 594	0.6%	251 961	1.6%
- In USD	253 268	1.2%	486 478	1.2%
Debt securities issued	—		3 873 877	7.0%
Other liabilities	76 375		69 221	
Commitments and guarantees issued	15 961 786		16 267 095	
Commitments and guarantees received	2 974 011		1 356 662	

(Thousands of Russian Roubles)

28. Related party disclosures (continued)

	<i>2012</i>	<i>2011</i>
Interest income	5 212 239	3 586 040
Interest expense	(3 426 256)	(2 890 527)
Fee and commission income	31 145	27 474
Fee and commission expense	(21 515)	(9 535)
Losses on financial assets and liabilities held for trading	(764 513)	(2 297 332)
Other income	895	398
Personnel expenses	(46 105)	(7 504)
Other administrative expenses	(20 972)	(16 117)

Subordinated loans from the members of the UniCredit Group were as follows for 2012 and 2011:

	<i>2012</i>		<i>2011</i>	
	UniCredit Bank Austria AG and more senior parents within the UniCredit Group	Other companies controlled by the UniCredit Group	UniCredit Bank Austria AG and more senior parents within the UniCredit Group	Other companies controlled by the UniCredit Group
Subordinated loans at the beginning of the year	14 214 639	2 582 390	13 621 564	2 444 330
Subordinated debt repaid during the year	(949 665)	—	—	—
Accrual of interest, net of interest paid	(47 713)	(1 054)	15 959	524
Effect of exchange rates changes	(562 070)	(145 870)	577 116	137 536
Subordinated loans at the end of the year	12 655 191	2 435 466	14 214 639	2 582 390

Total compensation of the key management personnel included in personnel expenses for the years ended 31 December 2012 and 2011 comprised short-term benefits in the amount of RUB 101 741 thousand and other long-term benefits in the amount of RUB 67 505 thousand (2011: RUB 85 269 thousand and RUB 75 996 thousand, respectively) and post-employment benefits in the amount of RUB 985 thousand (2011: RUB 1 232 thousand).

There were no outstanding balances for transactions with the key management personnel as at 31 December 2012. As at 31 December 2011 outstanding balances for transactions with the key management personnel are as follows:

	<i>2011</i>	<i>Average interest rate, %</i>
Loans outstanding at 31 December, gross	7 718	9.5%
Less loan impairment at 31 December	(8)	
Loans outstanding at 31 December, net	7 710	

29. Capital

The Group maintains an actively managed capital base to cover risks inherent in the business. The adequacy of capital is monitored using, among other measures, the ratios established by the Basel Capital Accord 1988 and the ratios established by the CBR.

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

(Thousands of Russian Roubles)

29. Capital (continued)

CBR capital adequacy ratio

The CBR requires banks to maintain a capital adequacy ratio of 10% of risk-weighted assets, computed using amounts in statutory financial statements prepared in accordance with Russian accounting legislation. As at 31 December 2012 and 2011, the Bank's capital adequacy ratio on this basis was as follows:

	2012	2011
Main capital	83 018 263	66 437 322
Additional capital	32 544 376	19 984 356
Subordinated loans granted	(477 045)	(486 071)
Total capital	115 085 594	85 935 607
Risk weighted assets	853 083 834	691 840 524
Capital adequacy ratio	13.5%	12.4%

Main capital comprises share capital, share premium, reserve fund and retained earnings including current year profit confirmed by external auditors. Additional capital includes subordinated debt, preferred shares, current year profit not included in the main capital and revaluation reserves.

Capital adequacy ratio under the Basel II requirements

Starting from the reporting period 1 January 2009 the Group calculates risk weighted assets under Basel II requirements following UniCredit Bank Austria AG internal policies.

The capital adequacy ratio, computed in accordance with the Basel II requirements, as at 31 December 2012 and 2011, was as follows (unaudited):

	2012	2011
Tier 1 capital	99 972 596	74 581 168
Tier 2 capital	7 816 453	10 427 076
Tier 3 capital	2 192 663	2 377 603
Total capital	109 981 712	87 385 847
Risk weighted assets	731 287 819	683 406 886
Tier 1 capital ratio	13.7%	10.9%
Total capital ratio	15.0%	12.8%

During 2012 and 2011 the Group complied with all external capital requirements.