ZENIT BANKING GROUP

Consolidated Financial Statements

For the year ended 31 December 2012

ZENIT BANKING GROUP

Contents

ZENIT BANKING GROUP

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

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of the Group at 31 December 2012, the consolidated statements of income, comprehensive income, changes in equity and cash flows and for the year then ended, and a summary of significant accounting policies and other explanatory notes, in compliance with International Financial Reporting Standards ("IFRS").

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

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

Management is also responsible for:

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

The consolidated financial statements for the year ended 31 December 2012 were approved on 25 March 2013 by the Management Board.

On behalf of the Management Board:

Shpigun K.O.
Chairman of the Management Board

Gorovoy R.V.
First Deputy Chairman

25 March 2013
Moscow

БАНК ЗЕНИТ
МОСКВА

ZAO Deloitte & Touche CIS
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Moscow, 125047
Russia

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INDEPENDENT AUDITORS' REPORT

To the Shareholders and the Board of Directors of Bank ZENIT (Open Joint-Stock Company):

Report on the Financial Statements

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance 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 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 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 provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position as at 31 December 2012, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes in accordance with International Financial Reporting Standards.

Deloitte & Touche

25 March 2013
Moscow, Russian Federation

Ploutalova Svetlana Evgenyevna, partner
(certificate № 01-000596 dated 19 March 2012)
ZAO “Deloitte and Touche CIS”

The Entity: Bank ZENIT (open joint stock company)/OAO Bank ZENIT

Certificate of state registration № 037.622., issued by the Moscow Registration Chamber by 18.02.2000.

Certificate of state registration № 3255, issued by Central Bank of Russian Federation by 30.12.1999.

Certificate of registration in the Unified State Register 77 №007107802 of 09.08.2002, issued by Moscow Inspectorate of the Russian Ministry of Taxation № 39.

Address: 9 Banniy pereylok, Moscow, 129110 Russia

Independent Auditor: ZAO “Deloitte & Touche CIS”

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

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

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

(Thousands of Russian Roubles, except for Earnings per share)

	Note	Year ended 31 December 2012	2011
Interest income	4, 35	20,738,093	17,866,514
Interest expense	4, 35	(12,980,655)	(10,436,556)
Net interest income before provision for loan impairment		**7,757,438**	**7,429,958**
Provision for loan impairment	5, 35	(2,084,074)	(1,371,641)
Net interest income		**5,673,364**	**6,058,317**
Net gain on financial assets at fair value through profit or loss	6, 35	89,060	74,091
Net realised gain from available-for-sale financial assets		88,739	25,866
Recovery of impairment of available-for-sale financial assets	15, 35	456,093	83,356
Net gains arising from dealing in foreign currencies		411,091	286,875
Net (loss)/gain arising on foreign exchange translation		(270,206)	92,646
Fee and commission income	7, 35	4,601,550	4,272,964
Fee and commission expense	7	(662,587)	(535,905)
Provision for losses on credit related commitments	5	(109,848)	(68,137)
Recovery of impairment of property, plant and equipment	18	22,582	58,263
Recovery/(impairment) of assets for development and sale	19	19,400	(335,434)
Fair value movement of investment property	20	2,448	14,575
Impairment of non-current assets held for sale	21	(20,688)	(59,549)
Net gain/(loss) on disposal of non-current assets held for sale		107,087	(77,893)
Net gain/(loss) on disposal of assets for development and sale		75,674	-
Other operating income	8	520,207	442,395
Net revenues		**11,003,966**	**10,332,430**
Operating expenses	9	(7,550,556)	(6,786,128)
Profit before income tax expense		**3,453,410**	**3,546,302**
Income tax expense	10	(794,023)	(1,026,718)
Net profit		**2,659,387**	**2,519,584**
Attributable to:			
Equity holders of the parent		**2,640,095**	**2,506,867**
Non-controlling interest		**19,292**	**12,717**
Earnings per share, basic and diluted (Russian Roubles)	11	**0.234**	**0.222**

Signed on behalf of the Management Board

Shpigun K.O.
Chairman of the Management Board

25 March 2013
Moscow

Gorovoy R.V.
First Deputy Chairman

25 March 2013
Moscow

БАНК ЗЕНИТ

The notes on pages 9-83 form an integral part of these consolidated financial statements.

(Thousands of Russian Roubles)

	Note	Year ended 31 December 2012	2011
Net Profit		**2,659,387**	**2,519,584**
Other comprehensive income			
Exchange differences on translation of foreign operations		834	(3,216)
Net result from changes in fair value of available-for-sale financial assets reclassified to profit or loss upon disposal (net of deferred income tax of RUR 17,748 thousand for the year ended 31 December 2012 and net of deferred income tax of RUR 5,173 thousand for the year ended 31 December 2011)		(70,991)	(20,693)
Net result from changes in fair value of available-for-sale financial assets reclassified to profit or loss upon impairment (net of deferred income tax of RUR 91,219 thousand for the year ended 31 December 2012 and net of deferred income tax of RUR 16,671 thousand for the year ended 31 December 2011)		(364,874)	(66,685)
Fair value adjustment on available-for-sale financial assets (net of deferred income tax of RUR 191,417 thousand for the year ended 31 December 2012 and net of deferred income tax of RUR 125,601 thousand for the year ended 31 December 2011)		765,669	(502,405)
Revaluation of property, plant and equipment (net of deferred income tax of RUR 13,693 thousand for the year ended 31 December 2012 and net of deferred income tax of RUR 16,520 thousand for the year ended 31 December 2011)		54,772	66,076
Other comprehensive income from investments in associates (net of deferred income tax of RUR 11,875 thousand for the year ended 31 December 2012 and net of deferred income tax of RUR 2,920 thousand for the year ended 31 December 2011)		47,499	11,678
Other comprehensive income/(loss), net of tax		**432,909**	**(515,245)**
Total comprehensive income		**3,092,296**	**2,004,339**
Total comprehensive income attributable to:			
Equity holders of the parent		**3,073,004**	**1,991,622**
Non-controlling interest		**19,292**	**12,717**

Signed on behalf of the Management Board

Shpigun K.O.
Chairman of the Management Board

25 March 2013
Moscow

БАНК ЗЕНИТ
ОТКРЫТОЕ АКЦИОНЕРНОЕ ОБЩЕСТВО Г.Р.№3255 МОСКВА

Gorovoy R.V.
First Deputy Chairman

25 March 2013
Moscow

The notes on pages 9-83 form an integral part of these consolidated financial statements.

(Thousands of Russian Roubles)

	Note	31 December 2012	31 December 2011
Assets			
Cash and cash equivalents	12	31,767,819	34,413,258
Mandatory reserve deposits with the Central Bank of the Russian Federation (CBRF)		2,407,813	2,335,160
Due from banks	13	9,077,237	10,097,501
Financial assets at fair value through profit or loss	14, 35	9,631,603	6,933,434
Available-for-sale financial assets	15, 35	17,401,844	16,641,962
Investments in associates	16, 35	1,308,727	1,213,914
Loans to customers	17, 35	176,881,094	164,304,510
Property, plant and equipment	18	4,134,112	4,017,664
Assets for development and sale	19	2,977,908	2,691,584
Investment property	20	679,824	392,768
Goodwill		156,248	156,248
Other assets	27	833,395	760,258
Current income tax asset		326,410	8,017
Deferred income tax asset	10	276,611	575,779
Non-current assets held for sale	21	3,041,527	2,185,310
Total assets		**260,902,172**	**246,727,367**
Liabilities			
Due to banks and CBRF	22	19,888,069	23,432,163
Customer accounts	23, 35	152,597,774	142,244,146
Debt securities issued	24, 35	18,893,157	19,689,309
RUR-denominated bonds issued	25	28,582,711	23,885,464
Other liabilities	27	1,709,020	1,024,705
Current income tax liability		14,818	12,545
Deferred income tax liability	10	118,808	85,286
Subordinated debt	26, 35	12,113,381	12,440,987
Total liabilities		**233,917,738**	**222,814,605**
Equity			
Share capital	28	12,698,104	12,698,104
Treasury shares	28	(699,900)	(699,900)
Share premium	28	1,545,000	1,545,000
Cumulative translation reserve		(2,487)	(3,321)
Revaluation reserve for available-for-sale financial assets		(239,188)	(568,992)
Property, plant and equipment revaluation reserve		258,550	203,778
Other comprehensive income from investments in associates		59,177	11,678
Retained earnings	29	13,294,698	10,654,603
Equity attributable to shareholders of the Bank		**26,913,954**	**23,840,950**
Non-controlling interest		70,480	71,812
Total equity		**26,984,434**	**23,912,762**
Total liabilities and equity		**260,902,172**	**246,727,367**

Signed on behalf of the Management Board

Shpigun K.O.
Chairman of the Management Board

25 March 2013
Moscow

Gorovoy R.V.
First Deputy Chairman

25 March 2013
Moscow

ОТКРЫТОЕ АКЦИОНЕРНОЕ ОБЩЕСТВО БАНК ЗЕНИТ Г.Р. №3255 МОСКВА

The notes on pages 9-83 form an integral part of these consolidated financial statements.

(Thousands of Russian Roubles)

	Share capital	Treasury shares	Share premium	Cumulative translation reserve	Revaluation reserve for available-for-sale financial assets	Property and equipment revaluation reserve	Other compre-hensive income from investment in associates	Retained earnings	Equity attributable to share-holders of the Bank	Non-controlling interest	Total equity
31 December 2010	**12,698,104**	**(699,900)**	**1,545,000**	**(105)**	**20,791**	**137,702**	**-**	**8,400,755**	**22,102,347**	**66,888**	**22,169,235**
Net profit	-	-	-	-	-	-	-	2,506,867	2,506,867	12,717	**2,519,584**
Dividends for the year 2010 (Note 30)	-	-	-	-	-	-	-	(253,019)	(253,019)	(7,793)	**(260,812)**
Translation movement	-	-	-	(3,216)	-	-	-	-	(3,216)	-	**(3,216)**
Net result from changes in fair value of available-for-sale financial assets reclassified to profit or loss upon disposal (net of deferred income tax of RUR 5,173 thousand)	-	-	-	-	(20,693)	-	-	-	(20,693)	-	**(20,693)**
Net result from changes in fair value of available-for-sale financial assets reclassified to profit or loss upon impairment or disposal (net of deferred income tax of RUR 16,671 thousand)	-	-	-	-	(66,685)	-	-	-	(66,685)	-	**(66,685)**
Fair value adjustment on available-for-sale financial assets (net of deferred income tax of RUR 125,601 thousand)	-	-	-	-	(502,405)	-	-	-	(502,405)	-	**(502,405)**
Revaluation of property, plant and equipment (net of deferred income tax of RUR 16,520 thousand)	-	-	-	-	-	66,076	-	-	66,076	-	**66,076**
Other comprehensive income from investments in associates (net of deferred income tax of RUR 2,920)	-	-	-	-	-	-	11,678	-	11,678	-	**11,678**
31 December 2011	**12,698,104**	**(699,900)**	**1,545,000**	**(3,321)**	**(568,992)**	**203,778**	**11,678**	**10,654,603**	**23,840,950**	**71,812**	**23,912,762**
Net profit	-	-	-	-	-	-	-	2,640,095	2,640,095	19,292	**2,659,387**
Dividends for the year 2011 (Note 30)	-	-	-	-	-	-	-	-	-	(20,512)	**(20,512)**
Translation movement	-	-	-	834	-	-	-	-	834	-	**834**
Net result from changes in fair value of available-for-sale financial assets reclassified to profit or loss upon disposal (net of deferred income tax of RUR 17,748 thousand)	-	-	-	-	(70,991)	-	-	-	(70,991)	-	**(70,991)**
Net result from changes in fair value of available-for-sale financial assets reclassified to profit or loss upon impairment or disposal (net of deferred income tax of RUR 91,219 thousand)	-	-	-	-	(364,874)	-	-	-	(364,874)	-	**(364,874)**
Fair value adjustment on available-for-sale financial assets (net of deferred income tax of RUR 191,417 thousand)	-	-	-	-	765,669	-	-	-	765,669	-	**765,669**
Revaluation of property, plant and equipment (net of deferred income tax of RUR 13,693 thousand)	-	-	-	-	-	54,772	-	-	54,772	-	**54,772**
Other comprehensive income from investments in associates (net of deferred income tax of RUR 11,875)	-	-	-	-	-	-	47,499	-	47,499	-	**47,499**
Acquisition of share in subsidiary	-	-	-	-	-	-	-	-	-	(112)	**(112)**
31 December 2012	**12,698,104**	**(699,900)**	**1,545,000**	**(2,487)**	**(239,188)**	**258,550**	**59,177**	**13,294,698**	**26,913,954**	**70,480**	**26,984,434**

Signed on behalf of the Management Board

Shpigun K.O.
Chairman of the Management Board

25 March 2013
Moscow

Gorovoy R.V.
First Deputy Chairman

25 March 2013
Moscow

The notes on pages 9-83 form an integral part of these consolidated financial statements.

(Thousands of Russian Roubles)

	Note	2012	2011
Cash flows from operating activities			
Interest received		21,004,463	16,971,620
Interest paid		(12,256,076)	(9,778,136)
Cash received on dealing in foreign currencies		387,541	263,378
Cash paid on dealing in financial assets at fair value through profit or loss		(7,239)	(50,607)
Fees and commissions received		4,561,240	4,233,721
Fees and commissions paid		(653,643)	(520,156)
Other operating income received		426,582	467,172
Operating expenses paid		(7,185,807)	(6,835,272)
Income tax paid		(885,471)	(1,000,758)
Operating activities before changes in operating assets and liabilities		**5,391,590**	**3,750,962**
Net cash (decrease)/increase from operating assets and liabilities			
Mandatory reserve deposits with the Central Bank of the Russian Federation		(72,653)	(1,247,910)
Due from banks		520,061	(1,482,153)
Financial assets at fair value through profit or loss		(2,630,669)	5,391,286
Loans to customers		(16,979,161)	(36,898,326)
Other assets		(54,384)	(351,868)
Due to banks		(3,348,383)	6,359,443
Customer accounts		11,386,408	24,892,072
Debt securities issued		(58,411)	3,286,858
Other liabilities		879,962	430,598
Net cash /(used in)/from operating activities		**(4,965,640)**	**4,130,962**
Cash flows from investing activities			
Subsequent acquisition of shares in subsidiary		(178)	-
Purchase of available-for-sale financial assets		(27,620,639)	(24,940,114)
Proceeds from sales of available-for-sale financial assets		28,332,396	18,410,867
Purchase of property, plant and equipment		(299,668)	(435,278)
Proceeds from sale of property, plant and equipment		30,143	66,339
Purchase of assets for development and sale		(876,821)	(3,027,018)
Proceeds from sales of assets for development and sale		843,144	-
Purchase of non-current assets held for sale		(926,590)	-
Proceeds from sale of non-current assets held for sale		514,299	1,022,422
Purchase of investment property		-	(165,422)
Net cash used in investing activities		**(3,914)**	**(9,068,204)**
Cash flows from financing activities			
Re-issuance/issuance of RUR-denominated bonds		16,000,000	8,000,000
Redemption of RUR-denominated bonds		(12,272,656)	(667,268)
Dividends paid		(20,512)	(260,812)
Subordinated debt, paid		(128,142)	(55,000)
Subordinated debt, received		-	1,047,630
Net cash from financing activities		**3,578,690**	**8,064,550**
Effect of exchange rate changes on cash and cash equivalents		**(1,258,248)**	**349,114**
Net (decrease)/increase in cash and cash equivalents		**(2,649,112)**	**3,476,422**
Cash and cash equivalents, beginning		34,412,269	30,935,847
Cash and cash equivalents, ending	12	**31,763,157**	**34,412,269**

Signed on behalf of the Management Board

Shpigun K.O.
Chairman of the Management Board

25 March 2013
Moscow

Gorovoy R.V.
First Deputy Chairman

25 March 2013
Moscow

ОТКРЫТОЕ АКЦИОНЕРНОЕ ОБЩЕСТВО
БАНК
ЗЕНИТ
Г. Р. №3255
МОСКВА

The notes on pages 9-83 form an integral part of these consolidated financial statements.

(Thousands of Russian Roubles)

1. Principal Activities

These consolidated financial statements include the financial statements of Bank ZENIT (Open Joint-Stock Company) (the “Bank”, or “ZENIT”) and its subsidiaries. ZENIT and its subsidiaries are hereinafter, collectively referred to as the “Group”.

ZENIT, the parent company and principal operating entity of the Group, was registered in the Russian Federation to carry out banking activities in 1995. The Bank provides all services permitted by the legislation of the Russian Federation in accordance with a full banking license issued by the Central Bank of the Russian Federation (the “CBRF”) in 1996 and other licences issued by respective regulatory bodies. The Bank is an open joint-stock company.

The Bank's registered office is located in Moscow at Bannyi Pereulok 9. As of 31 December 2012 ZENIT has 115 points of sale including head office, branches, sub-branches and mini-offices throughout the Russian Federation (2011: 110). The Group also includes the following consolidated banking subsidiaries, incorporated in the Russian Federation:

		31 December 2012		31 December 2011	
Name	**Date of acquisition**	**% ownership interest and voting power**	**Number of points of sale**	**% ownership interest and voting power**	**Number of points of sale**
Bank Devon-Credit	2 December 2005	97.3%	30	97.3%	31
Lipetskcombank	29 June 2007	99.4%	25	99.4%	24
Bank ZENIT-Sochi	15 January 2007	99.5%	6	99.5%	7
SPIRITBANK	8 December 2008	100.0%	7	100.0%	8

As of 31 December 2012, the Group has an integrated ATM network consisting of 920 ATMs (2011: 848). The Group has a wide correspondent network both in Russia and abroad and is involved in co-operation with more than 100 international institutions in Europe, America and Asia.

The Bank has 100% ownership in LLP “Regionalnoe Razvitie”, ZPIF “4th Natsionalny”, ZPIF “6th Natsionalny” and ZPIF “LIBRA Capital-Property” and 99.7% in OJSC “Pushnoi Dom”. These subsidiaries are incorporated in the Russian Federation and engaged in the real estate business. The Bank has 100% ownership in Zenit Investment Service Inc, incorporated in the British Virgin Islands. The Bank has a 35.5% in Cheltenwood Investments Limited entity accounted for as an investment in associated company.

The ultimate controlling parties of the Group as of 31 December 2012 and 2011 are as follows:

		31 December 2012	
Shareholder	**Controlled by:**	**% of voting rights**	**% of effective ownership**
Tatneft Oil AG	OJSC Tatneft	24.56%	25.13%
Nabertherm Limited, Rosemead Enterprises Limited	Mr. Alexey A. Sokolov, Mr. Arkady V. Sokolov, Mr. Andrey G. Nyrkov, Ms. Tatyana P. Shishkina	19.77%	20.23%
Silener Management Limited	Mr. Vladimir S. Lisin	14.42%	14.76%
Viewcom Finance Limited	Mr. Aleksandr I. Proshechkin	7.25%	7.41%
Gatehill Limited	Ms. Tatyana P. Shishkina	4.22%	4.32%
Mr. Alexey A. Sokolov		3.00%	3.07%
Meliboea Trading Limited	Mr. Igor G. Avanesyan	1.88%	1.92%
Bradehurst Management Limited, Lorwell Investments Limited, Berdston Trade Limited, Norsdale Trading Limited, Blarison Holdings Limited, LLP “Sintez Grupp”	Members of the Management Board and the Board of Directors	19.92%	20.38%
Other		4.98%	2.78%
Total		**100.00%**	**100.00%**

1. Principal Activities (continued)

		31 December 2011	
Shareholder	**Controlled by:**	**% of voting rights**	**% of effective ownership**
Tatneft Oil AG	OJSC Tatneft	24.56%	25.13%
Nabertherm Limited, Rosemead Enterprises Limited	Mr. Alexey A. Sokolov, Mr. Arkady V. Sokolov, Mr. Andrey G. Nyrkov, Ms. Tatyana P. Shishkina	19.77%	20.23%
Silener Management Limited	Mr. Vladimir S. Lisin	14.42%	14.76%
Viewcom Finance Limited	Mr. Aleksandr I. Proshechkin	7.25%	7.41%
Gatehill Limited	Ms. Tatyana P. Shishkina	4.22%	4.32%
Mr. Alexey A. Sokolov		3.00%	3.07%
Meliboea Trading Limited	Mr. Igor G. Avanesyan	1.76%	1.80%
RUVC Limited, LLP “Sintez Grupp”, Janisaco Enterprises Limited, Jackfield Trading Limited	Members of the Management Board and the Board of Directors	19.92%	20.38%
Other		5.10%	2.90%
Total		**100.00%**	**100.00%**

2. Basis of Presentation

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

These consolidated financial statements are presented in thousands of Russian Roubles (“RUR”), unless otherwise indicated. These consolidated financial statements have been prepared under the historical cost convention, except for the measurement at fair value of certain financial instruments, property, plant and equipment and investment property.

The Bank and its consolidated companies, registered in the Russian Federation, maintain their accounting records in accordance with Russian Accounting Standards (“RAS”), foreign consolidated companies of the Bank maintain their accounting records in accordance with the law of the countries, in which they operate. These consolidated financial statements have been prepared from the Russian statutory accounting records and have been adjusted to conform with IFRS. Entered adjustments include certain reclassifications to reflect the economic substance of underlying transactions including reclassifications of certain assets and liabilities, income and expenses to appropriate financial statement captions. The Group presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the statement of financial position date (current) and more than 12 months after the statement of financial position date (non-current) is presented in Note 32.

Functional currency. The functional currency of the Bank and its subsidiaries incorporated in the Russian Federation is the Russian Rouble (“RUR”) as the RUR is used by the shareholders, the managers and the regulators in measuring these entities’ performance. In addition, the RUR, being the national currency of the Russian Federation, is the currency that reflects the economic substance of the underlying events and circumstances relevant to the Group members incorporated in the Russian Federation. The reporting currency of Zenit Investment Service Inc is US Dollar. The results and financial position of Zenit Investment Service inc. are translated into the Russian Roubles using the following procedures:

(a) Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
(b) Income and expenses for each income statement presented are translated at exchange rates at the dates of the transactions or average for the period;
(c) Cash flows for each period are translated at average exchange rates for the period; and
(d) All resulting exchange differences are recognised as a separate component of equity.

3. Significant Accounting Policies

Basis of consolidation. The consolidated financial statements incorporate the financial statements of the Bank and entities controlled by the Bank (its subsidiaries). Control is achieved where the Bank has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group.

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

In translating the financial statements of a foreign subsidiary into the presentation currency for incorporation in the consolidated financial statements, the Group follows a translation policy in accordance with IAS 21 "The Effects of Changes in Foreign Exchange Rates" ("IAS 21"), in particular, performs the following procedures:

- Assets and liabilities, both monetary and non-monetary, of the foreign entity are translated at closing rate;
- Income and expense items of the foreign entity are translated at exchange rates at the dates of transactions or average for the reporting period;
- Equity items of the foreign entity are translated at exchange rates at the dates of transactions;
- All resulting exchange differences are classified as equity until the disposal of the investment;
- On disposal of the investment in the foreign entity related exchange differences are recognized in the consolidated income statement.

Non-controlling interests

Non-controlling interests represent the portion of profit or loss and net assets of subsidiaries not owned, directly or indirectly, by the Bank.

Non-controlling interests are presented separately in the consolidated income statement and within equity in the consolidated statement of financial position, separately from parent shareholders' equity.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Bank.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Bank had directly disposed of the relevant assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 *Financial Instruments: Recognition and Measurement* or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

3. Significant Accounting Policies (continued)

Business combinations. Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- Deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with IAS 12 *Income Taxes* and IAS 19 *Employee Benefits respectively;*
- Liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 *Share-based Payment* at the acquisition date; and
- Assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*, or IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

3. Significant Accounting Policies (continued)

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

Business combinations that took place prior to January 1, 2010 were accounted for in accordance with the previous version of IFRS 3.

Goodwill. Goodwill arising on the acquisition of a subsidiary or jointly controlled entity represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition. Goodwill is initially recognized as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

The Group tests goodwill for impairment at least annually. An impairment loss recognized for goodwill is not reversed in a subsequent period.

If the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the Group:

(a) Reassesses the identification and measurement of the Group's identifiable assets, liabilities and contingent liabilities of acquired company and the measurement of the cost of the combination; and
(b) Any excess remaining after such reassessment is recognized immediately in consolidated profit or loss statement.

On disposal of an investment, the amount of goodwill attributable is included in the determination of the profit or loss on disposal.

The Group's policy for goodwill arising on the acquisition of an associate is described below.

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

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

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

3. Significant Accounting Policies (continued)

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

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

Recognition and measurement of financial instruments. The Group recognises financial assets and liabilities in its consolidated statement of financial position when it becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial instruments are recognised using settlement date accounting and between the trade date and the settlement date regular way purchases that will be subsequently measured at fair value are accounted for in the same way as for acquired instruments.

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis or to realise the asset and settle the liability simultaneously. In accounting for a transfer of a financial asset that does not qualify for derecognition, the Group does not offset the transferred asset and the associated liability.

Income and expense is not offset in the consolidated income statement unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Group.

Financial assets and liabilities are initially recognized at fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to acquisition or issue of the financial asset or financial liability. The accounting policies for subsequent re-measurement of financial assets and liabilities are disclosed in the respective accounting policies set out below.

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

Cash and cash equivalents. Cash and cash equivalents include cash on hand, cash balances with the CBRF (other than mandatory reserve deposits) and balances with other banks maturing within one working day from the balance sheet date and free from any encumbrances. Short-term placements with other banks, beyond overnight deposits, are included in Due from banks.

Mandatory reserve deposits with the CBRF. Mandatory reserve deposits with the CBRF represent non-interest bearing funds placed with the CBRF that are not available to finance the Group's day-to-day operations and, therefore, are not considered part of cash and cash equivalents. The amount to be deposited with the CBRF is calculated in accordance with the CBRF's regulation and depends on the volume of funds attracted by the Group from its customers and banks.

Due from banks. Deposits with banks having maturity exceeding one working day from the balance sheet date are treated as amounts due from banks. Due from banks are initially recognized at fair value. These balances are subsequently re-measured at amortized cost at the effective interest method and are carried net of any allowance for impairment.

3. Significant Accounting Policies (continued)

Financial assets at fair value through profit or loss. Financial assets at fair value through profit or loss consist of financial assets held-for-trading and financial assets designated at fair values through profit or loss.

Financial assets at fair value through profit or loss, which consist of financial assets held-for-trading include (i) securities which were acquired for generating profit from short-term fluctuations in price or dealer's margin or (ii) portfolio of identified financial instruments that are managed together and for which there is evidence of a recent or actual pattern of short-term profit-taking or (iii) a derivative.

The Group designates financial assets at fair value through profit or loss where either (i) such designation eliminates or significantly reduces a measurement or recognition inconsistency that would other wise arise; or (ii) the financial asset forms part of a group of financial assets or liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or (iii) it forms part of a contract containing one or more embedded derivatives, and IAS 39 "Financial Instruments: Recognition and Measurement" permits the entire combined contract (asset or liability) to be designated as at fair value through profit or loss.

Financial assets at fair value through profit or loss are initially recorded and subsequently measured at fair value. The Group uses the last bid price if quoted on an exchange or, if traded over-the-counter, at the last bid price to determine fair value for financial assets at fair value through profit or loss. The fair value adjustment on financial assets at fair value through profit or loss is recognized in the consolidated income statement for the period. The Group does not reclassify financial instruments in or out of this category while they are held (except the cases of reclassification in accordance with amendments to IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 7 "Financial instruments: Disclosure").

Coupon and interest earned on financial assets at fair value through profit or loss are reflected as interest income on securities. Dividends received are included in other operating income in the consolidated statement of income.

Derivative financial instruments. In the normal course of business, the Group enters into various derivative financial instruments including forwards, swaps and options. Derivatives are initially recognized at fair value at the date a derivative contract is entered into and are subsequently re-measured to their fair value at each balance sheet date. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Derivatives are included in financial assets and liabilities at fair value through profit or loss in the consolidated statement of financial position. Derivative liabilities are included within other liabilities, if insignificant. Gains and losses resulting from these instruments are included in Net gain/loss from financial assets and liabilities at fair value through profit or loss in the consolidated statement of income. The Group also enters into derivative instruments to manage liquidity and foreign exchange risk. Derivative financial instruments entered by the Group are not designated as hedges and do not qualify for hedge accounting.

Derivative instruments embedded in other financial instruments are treated as separate derivatives if their risks and characteristics are not closely related to those of the host contracts and the host contracts are not carried at fair value with unrealized gains and losses reported in consolidated income statement. An embedded derivative is a component of a hybrid (combined) financial instrument that includes both the derivative and a host contract, with the effect that some of the cash flows of the combined instrument vary in a similar way to a stand-alone derivative.

3. Significant Accounting Policies (continued)

Repurchase agreements. Repurchase agreements are used by the Group as an element of its treasury management and trading business and are treated as secured financing transactions.

A repo is an agreement to transfer a financial asset to another party in exchange for cash or other consideration and a concurrent obligation to reacquire the financial assets at a future date for an amount equal to the cash or other consideration exchanged plus interest. These agreements are accounted for as financing transactions.

Financial assets sold under repurchase agreements are included into financial assets at fair value through profit or loss and funds received under these agreements are accounted for as amounts Due to banks or Customer accounts as appropriate. Financial assets purchased under agreements to resell (“reverse repurchase”) are recorded as amounts Due from banks or Loans to customers as appropriate. Gain/loss on the sale of the above instruments is recognized as interest income or expense in the income statement based on the difference between the repurchase price accreted to date using the effective interest method and the sale price when such instruments are sold to third parties. When the reverse repo/repo is fulfilled on its original terms, the effective yield/interest between the sale and repurchase price negotiated under the original contract is recognized using the effective interest method.

Available-for-sale financial assets. Available-for-sale financial assets include investment securities which management intends to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. Management determines the appropriate classification of its investment securities at the time of purchase.

Available-for-sale financial assets are initially recognised in accordance with the accounting policy for financial instruments and subsequently re-measured to fair value based on quoted bid prices. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in equity in the period in which they arise. Gain or loss on disposal of available-for-sale financial assets is recorded in the consolidated statement of income. Coupon and interest earned on available-for-sale financial assets are reflected in the consolidated statement of income as interest income. Dividends received are included in other operating income in the consolidated statement of income.

When there is objective evidence that such financial assets have been impaired, the cumulative loss previously recognized in equity is removed from equity and recognised in the consolidated statement of income for the period. Reversals of such impairment losses on debt instruments, which are objectively related to events occurring after the impairment, are credited to the consolidated statement of income for the period. Impairment losses on equity instruments are not reversed.

Loans to customers. Loans to customers are financial assets that are non-derivative financial instruments with fixed or identifiable cash flows that do not have a quoted market price except for assets that are classified into other financial instruments categories.

Loans granted by the Group with fixed maturities are initially recognized at fair value, including respective transaction costs, directly attributable to the acquisition and production of the financial assets. Loans are subsequently measured at amortised cost using the effective interest rate method. Loans to customers are carried net of allowance for impairment losses.

3. Significant Accounting Policies (continued)

Allowance for impairment losses. The Group accounts for impairment losses of financial assets when there is objective evidence that a financial asset or group of financial assets is impaired. Impairment losses are measured as the difference between carrying amounts and the present value of expected future cash flows, including amounts recoverable from guarantees and collateral, discounted at the financial asset's original effective interest rate, for financial assets which are carried at amortized cost. If in a subsequent period the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. For financial assets carried at cost, the impairment losses are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows, discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

The determination of impairment losses is based on an analysis of the risk assets and reflects the amount which, in the judgment of management, is adequate to provide for losses incurred. Provisions are made as a result of an individual appraisal of risk assets for financial assets that are individually significant, and an individual or collective assessment for financial assets that are not individually significant. For listed and unlisted equity investments classified as AFS, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

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

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

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

The change in the impairment is included into profits using the provision account (financial assets recorded at amortized value) or by a direct write-off (financial assets recorded at cost). The assets recorded in the statement of financial position are reduced by the amount of the impairment. Factors that the Group considers in determining whether it has objective evidence that an impairment loss has been incurred include (i) information about the debtors' or issuers' liquidity, solvency and business and financial risk exposures, (ii) levels of and trends in delinquencies for similar financial assets, (iii) national and local economic trends and conditions, and (iv) the fair value of collateral and guarantees. These and other factors may, either individually or taken together, provide sufficient objective evidence that an impairment loss has been incurred in a financial asset or group of financial assets.

The Group accounts for impairment losses on financial assets at amortised cost using allowance account, for financial assets measured at cost through direct write off.

It should be understood that estimates of losses involve an exercise of judgment. While it is possible that in particular periods the Group may sustain losses that are substantial relative to the allowance for impairment losses, it is the judgment of management that the allowance for impairment losses is adequate to absorb losses incurred on the risk assets.

3. Significant Accounting Policies (continued)

Write offs. When a financial asset is not collectable, after management has exercised all possibilities available to the Group and after the Group repossessed and sold all available collateral, it is written off against the related allowance for impairment. Such financial assets are written off after all necessary legal procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to the provision for loan impairment in the consolidated statement of income.

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 derecognized 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.

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

Financial liabilities

A financial liability is derecognized when the obligation is discharged, cancelled, or expires.

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

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

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

3. Significant Accounting Policies (continued)

At the commencement of the lease term, the Group as a lessee recognizes finance leases as assets and liabilities in its consolidated statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. Subsequently, the minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability so as to produce a constant periodic rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Group's general policy on borrowing costs. Contingent rents are charged as expenses in the periods in which they are incurred. Depreciation of the lease property is charged in accordance with depreciation policy that is applied to property owned by the Group.

Property, plant and equipment. Depreciation is charged on the carrying value of property and equipment and is designed to write off assets over their useful economic lives. Depreciation is calculated on a straight line basis at the following annual prescribed rates:

	Years
Property	25-50
Computers and equipment	5
Furniture and fixtures	2-5
Motor vehicles	4

Plant and equipment is carried at cost less accumulated depreciation and impairment charges.

The carrying amounts of property, plant and equipment are reviewed at each balance sheet date to assess whether they are recorded in excess of their recoverable amounts, and, where carrying values exceed this estimated recoverable amount, assets are written down. The estimated recoverable amount is the higher of an asset's fair value less cost to sell and its value in use. Impairment is recognised when it occurs and is disclosed in the consolidated statement of income separately.

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

Gains and losses on disposal of property, plant and equipment are determined by reference to their carrying amount. Repairs and maintenance costs are included in other operating expenses when the expenditure is incurred.

Property held for use in supply of services, or for administrative purposes, is stated in the consolidated statement of financial position at its revalued amount, being the fair value at the date of revaluation, determined from market-based evidence by appraisal undertaken by professional independent appraisers, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the reporting date.

Any revaluation increase arising on the revaluation of such property is credited to the property, plant and equipment revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognized as an expense, in which case the increase is credited to profit or loss for the period to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of such land and buildings is charged as an expense to the extent that it exceeds the balance, if any, held in the property, plant and equipment revaluation reserve relating to a previous revaluation of that asset.

Depreciation on revalued buildings is charged to the consolidated statement of income. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the property, plant and equipment revaluation reserve is transferred directly to retained earnings.

3. Significant Accounting Policies (continued)

Market value of property is assessed using three methods:

- The comparable sales method which involves analysis of market sales prices for similar real estate property;
- The income-based method which assumes a direct relationship between revenues generated by the property and its market value;
- The costs method which presumes the value of property to be equal to its recoverable amount less any depreciation charges.

Investment property. Investment property, comprising office and commercial buildings, is held for long-term rental yields or appreciation in value and is not occupied by the Group. Investment property is initially measured at cost, including transaction costs. Subsequent to initial recognition, investment property is carried at the revalued amount, being the fair value at the date of revaluation, determined from market-based evidence by appraisal undertaken by professional independent appraisers, less subsequent accumulated impairment losses. Revaluation is performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the reporting date. Gains and losses arising from changes in the fair value of investment property are included in profit or loss in the period in which they arise.

Taxation. Charge for income taxes in the consolidated statement of income for the year comprises current income tax and changes in deferred tax. The current income tax is based on taxable profit for the year that is calculated in accordance with the legislation enacted in the Russian Federation for the reporting period. Taxable profit differs from net income reported in the consolidated statement of income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Deferred income tax is calculated for temporary differences arising at the balance sheet date between the tax basis of assets and liabilities and their carrying values for financial reporting purposes. Deferred income tax liabilities are recognised for all taxable temporary differences. Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that future taxable profit will be available against which the temporary differences carry-forward of unused tax assets and unused tax losses can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantially enacted at the balance sheet date.

Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

3. Significant Accounting Policies (continued)

Deferred income tax assets and deferred income tax liabilities are offset and reported net in the statement of financial position if:

- The Group has a legally enforceable right to set off current income tax assets against current income tax liabilities; and
- Deferred income tax assets and the deferred income tax liabilities relate to income taxes levied by the same taxation authority on the same taxable entity.

Deferred income tax is charged or credited to the consolidated statement of income except when it relates to items charged or credited directly to equity, in which case the deferred tax is also accounted for within equity.

The Group members are also required to pay various other taxes, which are assessed on their activities. These taxes are included as a component of operating expenses in the consolidated statement of income.

Non-current assets held for sale

A non-current asset is classified as held for sale if it is highly probable that the asset's carrying amount will be recovered through a sale transaction rather than through continuing use and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification of an asset as held for sale.

Non-current assets held for sale are measured at the lower of its carrying amount and fair value less costs to sell. If the fair value less costs to sell of an asset held for sale is lower than its carrying amount, an impairment loss is recognized in the consolidated income statement as loss from non-current assets held for sale. Any subsequent increase in an asset's fair value less costs to sell is recognized to the extent of the cumulative impairment loss that was previously recognized in relation to that specific asset.

Assets for development and sale

Assets for development and sale are accounted for according to IAS 2. Assets for development and sale are measured at the lower of cost and net realisable value. Net realisable value represents the estimated selling price for property less all estimated costs of completion and costs necessary to make the sale. If net realisable value is lower than its carrying amount, an impairment loss is recognized in the consolidated income statement as loss from assets for development and sale. Any subsequent increase in an asset's net realisable value is recognized to the extent of the cumulative impairment loss that was previously recognized in relation to that specific asset.

Financial liabilities and equity instruments issued

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

Due to banks, customer accounts and subordinated debt. Amounts due to banks, customer accounts and subordinated debt are initially recognised in accordance with the accounting policy for financial instruments and subsequently re-measured at amortized cost. Any difference between net proceeds and the redemption value of these amounts due is recognised in the consolidated statement of income over the life of related financial liability using the effective interest method.

3. Significant Accounting Policies (continued)

Debt securities, eurobonds and RUR-denominated bonds issued. Debt securities issued include promissory notes and certificates of deposit issued by the Group to its customers. Eurobonds and RUR-denominated bonds represent securities issued by the Bank that are traded and quoted in the open market. Promissory notes, more commonly known as “veksels”, carry a fixed date of repayment. These may be issued against cash deposits or as a payment instrument, which the customer can sell at a discount in the over-the-counter market. Debt securities, eurobonds and RUR-denominated bonds issued are accounted for according to the same principles used for amounts due to banks, customer accounts and subordinated debt. If the Group purchases its own debt, it is removed from the consolidated balance sheet and the difference between the carrying amount and the amount paid is recognized as a gain or loss on redemption of debt.

Financial guarantee contracts issued and letters of credit. Financial guarantee contracts and letters of credit issued by the Group are credit insurance that provides for specified payments to be made to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due under the original or modified terms of a debt instrument. Such financial guarantee contracts and letters of credit issued are initially recognized at fair value. Subsequently they are measured at the higher of (a) the amount recognized as a provision in accordance with IAS 37 *“Provisions, Contingent Liabilities and Contingent Assets”* and (b) the amount initially recognized less, where appropriate, cumulative amortization of initial premium revenue received over the financial guarantee contracts or letter of credit issued.

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 obligation can be made.

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

Share capital and share premium. Contributions to share capital, made before 1 January 2003 are recognized at their cost restated for inflation. Contributions to share capital, made after 1 January 2003 are recognized at cost. Share premium represents the excess of contributions over the nominal value of the shares issued.

Costs directly attributable to the issue of new shares, other than on a business combination, are deducted from equity net of any related income taxes.

Treasury shares repurchased from shareholders are recognized at cost of acquisition. When such repurchased treasury shares are further sold, any difference between their selling price and the cost of acquisition is either charged to share premium (if positive) or to retained earnings (if negative). Where repurchased treasury shares are retired, the carrying value thereof is reduced by the amount paid by the Group at repurchase thereof, with the share capital respectively reduced by the par value of such retired shares restated, where applicable, for inflation, and the resulting difference is charged to retained earnings.

Equity reserves. The reserves recorded in equity (other comprehensive income) on the Group’s statement of financial position include:

- Cumulative translation reserve;
- Revaluation reserve for available-for-sale financial assets;
- Property, plant and equipment revaluation reserve.

Dividends. Dividends are not accounted for until they have been legally ratified, as appropriate. Dividends are recognized in equity as a reduction in the period in which they are declared. Dividends declared after the balance sheet date are treated as a subsequent event under IAS 10 *“Events After the Balance Sheet Date”* and disclosed accordingly.

3. Significant Accounting Policies (continued)

Income and expense recognition

Recognition of interest income and expense. Interest income and expense are recognised on an accrual basis calculated using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Commissions and other fees are recognised when the related transactions are completed. Loan origination fees for loans issued to customers, are deferred (together with related direct costs) and recognised as an adjustment to the loans effective yield. Other income and expense are recognised on an accrual basis.

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

Recognition of fee and commission income and expense. Loan origination fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the loan. Where it is probable that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the resulting loan. Where it is unlikely that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are recognized in the consolidated income statement over the remaining period of the loan commitment. Where a loan commitment expires without resulting in a loan, the loan commitment fee is recognized in the consolidated income statement on expiry. Loan servicing fees are recognized as revenue as the services are provided. Loan syndication fees are recognized in the consolidated income statement when the syndication has been completed. All other commissions are recognized when services are provided.

Pension costs. The Group members incorporated in the Russian Federation make pension contributions to the State pension fund. The state pension system provides for the calculation of certain payments covering pension, social and obligatory medical insurance by the Group members as a percentage of current total disbursements to staff.

These contributions are recorded within social costs in the period when the related salaries are accrued. Upon retirement, all retirement benefits are made available to employees by pension funds selected by each individual employee.

The Group provided its employees with post-employment benefits in the form of defined contribution plans. It makes monthly contributions to a non-governmental pension fund for its employees, who in turn will receive a future benefit. The contributions to the defined contribution plan are included in staff costs on accrual basis.

Operating leases. Payments made under operating leases are charged against income in equal instalments over the period of the lease.

Offset of financial assets and liabilities. Financial assets and liabilities are offset and reported net on the consolidated statement of financial position when the Group has a legally enforceable right to set off the recognized amounts and the Group intends either to settle on a net basis or to realize the asset and settle the liability simultaneously. In accounting for a transfer of a financial asset that does not qualify for de-recognition, the Group does not offset the transferred asset and the associated liability.

Accounting for the effects of hyperinflation. In accordance with IAS 29, economy of Russian Federation was treated as hyperinflationary till the end of 2002. Since 1 January 2003 economy of Russian Federation ceased to be hyperinflationary, and the costs of non-monetary assets, liabilities and equity, calculated as at 31 December 2002, was used to form the beginning balances as at 1 January 2003.

3. Significant Accounting Policies (continued)

Fiduciary activities. The Group provides trustee services to its customers. The Group also provides depositary services to its customers which include transactions with securities on their depositary accounts. Assets and liabilities held by the Group in its own name, but on behalf of third parties, are not reported on the consolidated statement of financial position. The Group accepts the operational risk on these activities, but its customers bear the credit and market risks associated with such operations.

Foreign currency translation. Monetary assets and liabilities denominated in foreign currency are translated into RUR at the official exchange rate of the CBRF at the balance sheet date. Foreign currency gains and losses arising from the translation of assets and liabilities are reflected in the consolidated statement of income as foreign exchange translation gains less losses (translation differences). Differences between the contractual exchange rate of a certain transaction and the CBRF exchange rate in the date of the transaction are included in gains less losses from dealing in foreign currencies (dealing). As of 31 December 2012, the principal rate of exchange used for translating foreign currency balances was US Dollar 1.00 = RUR 30.3727 (31 December 2011: US Dollar 1.00 = RUR 32.1961).

Segment reporting. In accordance with IFRS 8 “Operating Segments” the Group defined as the operating segments its key business lines. Qualitative and quantitative information on operating segments is reported to the appropriate operating decision makers for the purposes of making operating decisions on allocation of resources to the segment and assessment of its performance. The Group measures information about reportable segments in accordance with IFRS.

Segments with a majority of revenue earned from sales to external customers and whose revenue, result or assets are ten per cent or more of all the segments are reported separately. If the total external revenue reported by operating segments constitutes less than 75 per cent of the entity’s revenue, additional operating segments are identified as reportable segments (even if they do not meet the quantitative thresholds set out above) until at least 75 per cent of the Group's revenue is included in reportable segments.

Areas of significant management judgment and sources of estimation uncertainty

The preparation of the Group’s consolidated financial statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities at the balance sheet date and the reported amount of income and expenses during the period ended. Management evaluates its estimates and judgments on an ongoing basis. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. The following estimates and judgments are considered important to the portrayal of the Group’s financial condition.

3. Significant Accounting Policies (continued)

Allowance for impairment of loans

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

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

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

Valuation of Financial Instruments

Financial instruments that are classified at fair value through profit or loss or available for sale, and all derivatives, are stated at fair value. The fair value of such financial instruments is the estimated amount at which the instrument could be exchanged between willing parties, other than in a forced or liquidation sale. If a quoted market price is available for an instrument, the fair value is calculated based on the market price. When valuation parameters are not observable in the market or cannot be derived from observable market prices, the fair value is derived through analysis of other observable market data appropriate for each product and pricing models which use a mathematical methodology based on accepted financial theories. Pricing models take into account the contract terms of the securities as well as market-based valuation parameters, such as interest rates, volatility, exchange rates and the credit rating of the counterparty. Where market-based valuation parameters are missed, management will make a judgment as to its best estimate of that parameter in order to determine a reasonable reflection of how the market would be expected to price the instrument. In exercising this judgment, a variety of tools are used including proxy observable data, historical data, and extrapolation techniques. The best evidence of fair value of a financial instrument at initial recognition is the transaction price unless the instrument is evidenced by comparison with data from observable markets. Any difference between the transaction price and the value based on a valuation technique is not recognized in the consolidated income statement (the consolidated statement of comprehensive income) on initial recognition. Subsequent gains or losses are only recognized to the extent that it arises from a change in a factor that market participants would consider in setting a price.

The Group considers that the accounting estimate related to valuation of financial instruments where quoted markets prices are not available is a key source of estimation uncertainty because: (i) it is highly susceptible to change from period to period because it requires management to make assumptions about interest rates, volatility, exchange rates, the credit rating of the counterparty, valuation adjustments and specific feature of the transactions and (ii) the impact that recognizing a change in the valuations would have on the assets reported in the consolidated statement of financial position as well as its profit/(loss) could be material.

3. Significant Accounting Policies (continued)

Goodwill

Goodwill is the excess cost of an acquisition over the fair value of its net assets. The determination of fair value of assets and liabilities of businesses acquired requires the exercise of management judgment; for example those financial assets and liabilities for which there are no quoted prices, and those non-financial assets where valuations reflect estimates of market conditions. A difference in fair values would result in changes to the goodwill arising and to the post-acquisition performance of the acquisition. Goodwill is not amortized but is tested annually or more frequently for impairment if events or changes in circumstances indicated that it might be impaired.

For the purposes of impairment testing, goodwill acquired in a business combination is allocated to each of the Group’s cash-generating units or groups of cash-generating units expected to benefit from the combination. Goodwill impairment testing involves the comparison of the carrying value of a cash-generating unit or group of cash generating units with its recoverable amount. The recoverable amount is the higher of the unit’s fair value and its value in use. Value in use is the present value of expected future cash flows from the cash-generating unit or group of cash-generating units. Fair value is the amount obtainable for the sale of the cash-generating unit in an arm’s length transaction between knowledgeable, willing parties.

Impairment testing inherently involves a number of judgmental areas: the preparation of cash flow forecasts for periods that are beyond the normal requirements of management reporting; the assessment of the discount rate appropriate to the business; estimation of the fair value of cash-generating units; and the valuation of the separable assets of each business whose goodwill is being reviewed.

Property, plant and equipment

Certain property (land and buildings) is measured at revalued amounts. The date of the latest appraisal was 31 December 2012. The next revaluation is preliminary scheduled as of 31 December 2013. The carrying value of revalued property amounted to RUR 3,028,813 thousand at 31 December 2012 and RUR 2,932,065 as of 31 December 2011.

Investment property carried at revalued amounts

Property included in the Investment property is measured at fair value. The date of the latest appraisal was December 31, 2012. The next revaluation is preliminary scheduled as at December 31, 2013. The carrying value of revalued property amounted to RUR 679,824 thousand and RUR 392,768 thousand as at December 31, 2012 and 2011, respectively.

Deferred tax assets

The management of the Group is confident that no provision against deferred tax assets at the reporting date is considered necessary, because it is more likely than the deferred tax asset will be fully realized. The carrying value of deferred tax assets amounted to RUR 276,611 thousand and RUR 575,779 thousand as at 31 December 2012 and 2011, respectively.

3. Significant Accounting Policies (continued)

Adoption of new and revised standards

The Group has adopted the following new or revised standards and interpretations issued by International Accounting Standards Board and the International Financial Reporting Interpretations Committee (the IFRIC) which became effective for the Group's annual consolidated financial statement for the year ended 31 December 2012:

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

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

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

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

New and revised IFRSs in issue but not yet effective

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

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

[1] Effective for annual periods beginning on or after January 1, 2013, with earlier application permitted.

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

[3] Effective for annual periods beginning on or after January 1, 2015, with earlier application permitted.

[4] Effective for annual periods beginning on or after January 1, 2014, with earlier application permitted.

3. Significant Accounting Policies (continued)

IFRS 9 Financial Instruments

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

Key requirements of IFRS 9:

- All recognised financial assets that are within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods. In addition, under IFRS 9 *Financial Instruments,* entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 *Financial Instruments* requires that the amount of change in the fair value of the financial liability, that is attributable to changes in the credit risk of that liability, is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39 *Financial Instruments: Recognition and Measurement*, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was recognised in profit or loss.

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

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

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

Key requirements of these five Standards are described below.

IFRS 10 *Consolidated Financial Statements* replaces the parts of IAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements. SIC-12 Consolidation – Special Purpose Entities will be withdrawn upon the effective date of IFRS 10 Consolidated Financial Statements. Under IFRS 10 Consolidated Financial Statements, there is only one basis for consolidation, that is, control. In addition, IFRS 10 Consolidated Financial Statements includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor’s return. Extensive guidance has been added in IFRS 10 Consolidated Financial Statements to deal with complex scenarios.

3. Significant Accounting Policies (continued)

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

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

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

The Group management anticipates that the application of these five standards will not have a significant impact on amounts reported in the consolidated financial statements. A detailed review will be performed by the Group management to quantify the impact on the application of IFRS 10 *Consolidated Financial Statements.*

IFRS 13 Fair Value Measurement

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

The Group management anticipates that the application of the new Standard may affect certain amounts reported in the financial statements and result in more extensive disclosures in the financial statements.

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

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

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

The disclosures should be provided retrospectively for all comparative periods.

3. Significant Accounting Policies (continued)

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

IAS 19 Employee Benefits

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

The amendments to IAS 19 *Employee Benefits* require retrospective application. The Group management does not anticipate that the revision of IAS 19 *Employee Benefits* will have a significant effect on the Group’s consolidated financial statements as the Group has no defined benefit plans.

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

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

Amendments to IAS 32 *Financial Instruments: Presentation*

The amendments to IAS 32 *Financial Instruments: Presentation* clarify that income tax relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction should be accounted for in accordance with IAS 12 *Income Taxes*. The Group management anticipates that the amendments to IAS 32 *Financial Instruments: Presentation* will have no effect on the Group’s consolidated financial statements as the Group has already adopted this treatment.

(Thousands of Russian Roubles)

4. Interest Income and Expense

	Year ended 31 December	
	2012	**2011**
Interest income		
Interest income on assets recorded at amortized cost:		
Loans to customers	18,255,977	15,541,848
Due from banks	417,730	258,767
Correspondent accounts	18,034	37,563
Total interest income on financial assets recorded at amortized cost	**18,691,741**	**15,838,178**
Interest income on assets at fair value through profit or loss		
Financial assets held-for-trading	569,537	688,645
Total interest income on assets at fair value through profit or loss	**569,537**	**688,645**
Interest income on available-for-sale financial assets	1,476,815	1,339,691
Total interest income	**20,738,093**	**17,866,514**
Interest expense		
Interest expense on liabilities recorded at amortized cost:		
Term deposits of legal entities	(3,772,950)	(2,854,574)
Term deposits of individuals	(3,463,356)	(3,191,222)
RUR-denominated bonds issued	(2,385,845)	(1,660,959)
Term placements of banks	(1,258,809)	(815,313)
Debt securities issued	(1,111,545)	(968,440)
Subordinated debt	(988,150)	(946,048)
Interest expense on liabilities recorded at amortized cost	**(12,980,655)**	**(10,436,556)**
Total interest expense	**(12,980,655)**	**(10,436,556)**
Net interest income	**7,757,438**	**7,429,958**

Interest income on loans to customers for the years ended 31 December 2012 and 2011 includes interest income on loans to customers with objective evidence of impairment in amount of RUR 1,418,711 thousand (2011: RUR 1,338,784 thousand). As of 31 December 2012 and 2011 appropriate allowance for impairment losses was created for these amounts.

(Thousands of Russian Roubles)

5. Allowance for Impairment Losses and Other Provisions

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

	Loans to legal entities	Loans to individuals	Total
Allowance for loan impairment at 31 December 2010	**(9,049,481)**	**(748,791)**	**(9,798,272)**
Charge of loan impairment allowance	(1,332,488)	(39,153)	**(1,371,641)**
Write off of assets	610,877	21,379	**632,256**
Allowance for loan impairment at 31 December 2011	**(9,771,092)**	**(766,565)**	**(10,537,657)**
Charge of loan impairment allowance	(2,132,458)	48,384	**(2,084,074)**
Write off of assets	2,128,646	81,647	**2,210,293**
Allowance for loan impairment at 31 December 2012	**(9,774,904)**	**(636,534)**	**(10,411,438)**

Movements in the allowance for impairment of credit related commitments are as follows:

	Guarantees and other commitments
Allowance for impairment at 31 December 2010	**(6,251)**
Charge of credit related commitments impairment during the year	(68,137)
Allowance for impairment at 31 December 2011	**(74,388)**
Charge of credit related commitments impairment during the year	(109,848)
Allowance for impairment at 31 December 2012	**(184,236)**

Allowance for credit related commitments was included in other liabilities as disclosed in Note 27 of these consolidated financial statements. The total outstanding contractual amount of guarantees and letters of credit does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded.

6. Net Gain on Financial Assets at Fair Value through Profit or Loss

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

	Year ended 31 December	
	2012	2011
Loss on trading operations	(7,239)	(50,607)
Net fair value adjustment	96,299	124,698
Total net gain on operations with financial assets at fair value through profit or loss	**89,060**	**74,091**

(Thousands of Russian Roubles)

7. Fee and Commission Income and Expense

	Year ended 31 December	
	2012	**2011**
Settlement transactions	1,787,204	1,467,103
Operations with foreign currencies	1,428,876	1,577,144
Cash transactions	626,855	561,137
Guarantees issued	487,735	401,684
Investment banking	49,408	41,570
Asset management	30,448	40,251
Transactions with securities	25,165	28,057
Other	165,859	156,018
Total fee and commission income	**4,601,550**	**4,272,964**
Settlement transactions	(465,197)	(336,256)
Transactions with securities	(66,401)	(77,308)
Cash transactions	(38,457)	(25,808)
Commission on guarantees received	(16,007)	(17,962)
Operations with foreign currencies	(11,647)	(7,683)
Other	(64,878)	(70,888)
Total fee and commission expense	**(662,587)**	**(535,905)**
Net fee and commission income	**3,938,963**	**3,737,059**

During 2012 the Group received and paid fees and commission (other than amounts included in determining the effective interest rate) arising from financial assets and financial liabilities that are not at fair value through profit or loss in the amount of RUR 3,649,759 thousand and RUR 249,939 thousand, respectively (2011: RUR 3,741,499 thousand and RUR 236,347 thousand).

8. Other Operating Income

	Year ended 31 December	
	2012	**2011**
Rent	93,291	98,755
Dividends received	63,212	38,021
Penalties	48,021	133,377
Net income from dealing in precious metals	25,800	16,332
Repayment of loans purchased from subsidiaries issued by the subsidiaries prior to the acquisition dates	24,234	72,928
Income from associates	105,003	(28,998)
Other	160,646	111,980
Total other operating income	**520,207**	**442,395**

(Thousands of Russian Roubles)

9. Operating Expenses

	Year ended 31 December	
	2012	**2011**
Salaries	(3,626,744)	(3,310,826)
Social security costs	(836,614)	(571,415)
Administrative	(677,410)	(560,106)
Rent	(625,139)	(579,328)
Occupancy and maintenance	(574,771)	(618,621)
Operating taxes	(404,563)	(374,523)
Depreciation	(244,124)	(226,108)
Charitable contributions	(138,710)	(153,486)
Advertising and marketing	(120,742)	(119,477)
Telecommunications	(73,344)	(64,790)
Insurance	(57,442)	(48,264)
Fixed payment to a non-government pension fund	(19,931)	(20,252)
Other	(151,022)	(138,932)
Total operating expenses	**(7,550,556)**	**(6,786,128)**

10. Income Taxes

Income tax expense comprises of the following:

	Year ended 31 December	
	2012	**2011**
Current tax charge	(569,351)	(1,103,011)
Deferred taxation movement due to:		
Origination and reversal of temporary differences	(224,672)	76,293
Income tax expense	**(794,023)**	**(1,026,718)**

The income tax rate applicable to the majority of the Group's income in 2012 and in 2011 is 20%.

Reconciliation between the expected and the actual income tax expense is provided below.

	Year ended 31 December	
	2012	**2011**
Profit before income tax expense	3,453,410	3,546,302
Theoretical tax charge at the applicable statutory rate	(690,682)	(709,260)
Net tax effect from securities operations	(23,181)	(91,009)
Non-deductible administrative expenses	(67,038)	(43,174)
Income taxes at different rates	18,494	14,929
Other items	(31,616)	(198,204)
Income tax expense	**(794,023)**	**(1,026,718)**

(Thousands of Russian Roubles)

10. Income Taxes (continued)

Differences between the carrying value of assets and liabilities for IFRS and taxation purposes give rise to temporary differences. Certain items are presented on a gross basis as they relate to different entities and cannot be offset for income tax purposes. The tax effect of these temporary differences as of 31 December 2012 and 2011 financial statements are as follows:

	31 December 2012	31 December 2011
Tax effect of deductible temporary differences		
Financial assets at fair value through profit or loss	1,305	-
Available-for-sale financial assets:	60,114	142,347
- revaluation recognized in profit or loss	*317*	*99*
- revaluation recognized in equity	*59,797*	*142,248*
Investments in associates	-	5,801
Loans to customers	77,971	56,743
Property, plant and equipment, revaluation recognized in profit or loss	122,657	144,738
Assets for development and sale	63,206	67,086
Other assets	533	-
Non-current assets held for sale	49,025	70,784
Other liabilities	209,957	334,326
Gross deferred income tax asset	**584,768**	**821,825**
Tax effect of taxable temporary differences		
Financial assets at fair value through profit or loss	-	(7,341)
Available-for-sale financial assets, revaluation recognized in profit or loss:	(198,692)	(44,912)
Investments in associates	(29,995)	(2,920)
- revaluation recognized in profit or loss	*(15,201)*	-
- revaluation recognized in equity	*(14,794)*	*(2,920)*
Loans to customers	(16,526)	(51,753)
Property, plant and equipment	(149,370)	(202,182)
- revaluation recognized in profit or loss	*(84,732)*	*(151,237)*
- revaluation recognized in equity	*(64,638)*	*(50,945)*
Investment property	(737)	(247)
Other assets	(1,972)	(15,466)
Non-current assets held for sale	(29,673)	(6,511)
Gross deferred income tax liability	**(426,965)**	**(331,332)**
Total deferred income tax asset	**276,611**	**575,779**
Total deferred income tax liability	**(118,808)**	**(85,286)**

	2012	2011
Beginning of the period:		
Deferred income tax asset	**575,779**	**387,953**
Deferred income tax liability	**(85,286)**	**(101,759)**
Change in deferred tax assets and liabilities charged to equity	(108,018)	128,006
Increase in income tax liability for the period charged to consolidated profit and loss statement	(224,672)	76,293
End of the period:		
Deferred income tax asset	**276,611**	**575,779**
Deferred income tax liability	**(118,808)**	**(85,286)**

(Thousands of Russian Roubles)

11. Earnings per Share

	2012	2011
Profit:		
Profit attributable to ordinary shareholders of the Bank	2,640,095	2,506,867
Weighted average number of ordinary shares for basic and diluted earnings per share	11,283,625,876	11,283,625,876
Earnings per share – basic and diluted (Russian Roubles)	**0.234**	**0.222**

12. Cash and Cash Equivalents

	31 December 2012	31 December 2011
Cash balances with the CBRF (other than mandatory reserve deposits)	8,710,771	11,721,956
Cash on hand	7,342,214	6,737,467
Correspondent accounts and overnight deposits with other banks:		
- The Russian Federation	3,605,998	2,733,897
- Other countries	12,108,836	13,219,938
Total cash and cash equivalents	**31,767,819**	**34,413,258**

As of 31 December 2012, the Group placed RUR 8,675,111 thousand with two banks located in countries that are members of the Organisation for Economic Co-operation and Development (the "OECD"), which individually exceed 5% of the Group's equity (2011: RUR 9,363,741 thousand with three OECD banks) and 1,941,270 thousand with one Russian financial institution, which individually exceeds 5% of the Group's equity (2011: no Russian financial institutions).

Cash and cash equivalents include RUR 4,662 thousand (2011: RUR 989 thousand) of accrued interest which has not been included in cash and cash equivalents for the purposes of the consolidated statement of cash flows.

13. Due from Banks

	31 December 2012	31 December 2011
Current deposits	9,077,237	10,097,501
Total due from banks	**9,077,237**	**10,097,501**

As of 31 December 2012, current deposits include RUR 3,251,814 thousand placed with two Russian banks, which individually exceeded 5% of the Group's equity (2011: RUR 2,100,259 thousand placed with one Russian bank).

During 2012 the Bank issued two loans in amount of USD 10 million and in amount of USD 5 million respectively as parts of the syndicates of several financial institutions bearing interest of LIBOR plus 4.5% and of LIBOR plus 4.6% respectively. Effective interest rates amounted to 7.5% and to 7.0% respectively. Loans mature in June 2013 and October 2013 respectively. As of 31 December 2012 syndicated loans amounted to RUR 451,444 thousand.

As of 31 December 2012 current deposits include RUR 172,623 thousand that represent deposits issued to Russian banks under reverse repurchase agreements (2011: RUR 661,599 thousand). These loans are collateralized by securities, primarily corporate bonds, with market values of RUR 215,729 thousand (2011: RUR 772,447 thousand). In accordance with the contractual terms and conditions, loans under reverse repurchase agreements outstanding as of 31 December 2012 were repaid in January 2013 (2011: loans under reverse repurchase agreements outstanding as of 31 December 2011 were repaid in January 2012).

As at 31 December 2012 included in due from banks are deposits of RUR 991,996 thousand (2011: RUR 1,577,323 thousand), transferred to foreign banks as collateral for irrevocable commitments under import letters of credit.

(Thousands of Russian Roubles)

14. Financial Assets at Fair Value through Profit or Loss

	31 December 2012			31 December 2011		
	Held for Trading	**Designated at Fair Value through profit or loss**	**Total**	**Held for Trading**	**Designated at Fair Value through profit or loss**	**Total**
RUR denominated securities						
Corporate bonds	4,509,288	-	4,509,288	4,509,288	-	4,509,288
Local authorities bonds	1,124,059	-	1,124,059	866,107	-	866,107
Corporate shares	219,014	-	219,014	283,295	-	283,295
US Dollar and other currencies denominated securities						
Corporate Eurobonds	2,124,753	-	2,124,753	1,033,026	-	1,033,026
Russian Federation Eurobonds	183,285	-	183,285	76,214	-	76,214
GDR	18,375	-	18,375	20,238	-	20,238
RUR denominated securities sold under repurchase agreements						
Corporate bonds	1,448,236	-	1,448,236	1,448,236	-	1,448,236
Derivatives	4,593	-	4,593	79,461	-	79,461
Total financial assets at fair value through profit or loss	**9,631,603**	**-**	**9,631,603**	**6,933,434**	**-**	**6,933,434**

Corporate bonds held as of 31 December 2012 and 2011 consist of RUR-denominated bonds issued by Russian banks and companies. These bonds mature from April 2013 to September 2032 (2011: April 2012 to January 2025). The annual coupon rates on these securities range from 7.3% to 13.9% (2011: 6.5% to 14.5%), and yields to maturity vary from 0.5% to 15.9% (2011: 5.8% to 12.8%).

Local authorities bonds held as of 31 December 2012 and 2011 consist of RUR-denominated bonds issued by regional and municipal authorities of the Russian Federation and mature from April 2014 to December 2017 (2011: April 2014 to November 2016). The annual coupon rates range from 8.0% to 10.0% (2011: 8.0% to 10.0%), and their yields to maturity vary from 8.3% to 9.2% (2011: 8.9% to 9.8%).

Corporate shares held as of 31 December 2012 and 2011 include quoted shares of Russian companies.

Corporate Eurobonds held as of 31 December 2012 and 2011 are securities denominated in USD, issued by Russian and other CIS companies and financial institutions. These securities mature from March 2013 to December 2022 (2011: May 2012 to June 2017). The annual coupon rates range from 4.4% to 12.8% (2011: 5.1% to 10.5%) and their yields to maturity vary from 1.7% to 10.3% (2011: 4.3% to 9.1%).

Russian Federation Eurobonds held as of 31 December 2012 and 2011, are USD-denominated bearer securities. These bonds mature in March 2030 (2011: June 2028 to March 2030). The annual coupon rate fixed at 7.5% (2011: 7.5% to 12.8%) and yield to maturity amounts to 2.6% (2011: from 4.5% to 6.0%).

GDRs held as of 31 December 2012 and 2011 represent Global Depository Receipts for shares of Russian companies. These securities are denominated in USD.

(Thousands of Russian Roubles)

14. Financial Assets at Fair Value through Profit or Loss (continued)

Derivatives. The Group engages in transactions with forward contracts, options and futures with foreign currency, securities and precious metals. Foreign exchange and other derivative financial instruments are generally traded in an over-the-counter market with professional market counterparts on standard contractual terms and conditions.

The table below includes derivative contracts with maturity dates subsequent to 31 December 2012. The majority of these contracts (except SWAP agreements) was executed during December 2012 and matures in January and March 2013. All swap agreements mature within 2013.

	Domestic			Foreign		
	Nominal amount	Net fair value Asset	Net fair value Liability	Nominal amount	Net fair value Asset	Net fair value Liability
Precious metals						
- purchase of precious metals	-	-	-	1,425,711	2,477	(5,782)
Foreign currency						
- foreign currency SWAP	-	-	-	7,695,858	1,716	(223,618)
Securities						
- sale of securities	164,510	400	-	-	-	-
Futures						
- sale of futures for precious metals	667,540	-	-	-	-	-
- purchase of RTS Ind.	147,025	-	-	-	-	-
- sale of RTS Ind.	115,841	-	-	-	-	-
Options						
- sale of put option on RTS Ind.	96,549	-	-	-	-	-
Total	**1,191,465**	**400**	**-**	**9,121,569**	**4,193**	**(229,400)**

The table below includes derivative contracts with maturity dates subsequent to 31 December 2011. The majority of these contracts were executed during December 2011 and mature in January 2012.

	Domestic			Foreign		
	Nominal amount	Net fair value Asset	Net fair value Liability	Nominal amount	Net fair value Asset	Net fair value Liability
Precious metals						
- sale of precious metals	-	-	-	9,130	484	-
- purchase of precious metals	-	-	-	868,544	6,745	(1,594)
Foreign currency						
- sale of foreign currency	8,075	-	(425)	-	-	-
- foreign currency SWAP	-	-	-	6,082,594	72,165	(5,572)
Futures						
- sale of futures for precious metals	727,226	-	-	-	-	-
- purchase of RTS Ind.	78,500	-	-	-	-	-
- sale of RTS Ind.	220,434	-	-	-	-	-
Futures						
- sale of call option on precious metals	-	-	-	57,349	67	-
- purchase of call option on precious metals	57,401		(90)	-	-	-
Total	**1,091,636**	**-**	**(515)**	**7,017,617**	**79,461**	**(7,166)**

(Thousands of Russian Roubles)

15. Available-for-Sale Financial Assets

	31 December 2012	31 December 2011
US Dollar and other currency denominated securities		
Corporate eurobonds	2,838,386	3,163,134
GDR	23,447	30,774
RUR denominated securities		
Corporate bonds	11,730,816	11,195,632
Corporate shares	1,203,839	1,535,504
Local authorities bonds	781,006	355,860
Corporate Eurobonds (RUR)	464,305	-
Federal loan bonds	357,544	358,570
Participating shares of investment funds	2,501	2,488
Total available-for-sale securities	**17,401,844**	**16,641,962**

Corporate Eurobonds held as of 31 December 2012 and 2011 are securities denominated in USD, issued by Russian and other CIS companies and financial institutions. These securities mature from April 2013 to December 2022 (2011: March 2012 to July 2025). They bear annual coupon rates ranging from 5.1% to 13.0% (2011: 6.2% to 13.0%) and their average yields to maturity vary from 2.3% to 13.5% (2011: 3.2% to 16.7%).

GDRs held as of 31 December 2012 and 2011 represent Global Depository Receipts for shares of Russian companies. These securities are denominated in USD.

Corporate bonds held as of 31 December 2012 and 2011 consist of RUR-denominated bonds issued by Russian banks and companies. These bonds mature from February 2013 to August 2022 (2011: January 2012 to October 2021). The annual coupon rates on these securities range from 6.5% to 12.0% (2011: 6.5% to 14.8%), and yields to maturity vary from 6.9% to 13.0% (2011: 4.0% to 14.4%).

Corporate shares held as of 31 December 2012 and 2011 include quoted shares of Russian companies.

Local authorities bonds held as of 31 December 2012 and 2011consist of RUR-denominated bonds issued by regional and municipal authorities of the Russian Federation and mature from April 2014 to August 2017 (2011: June 2012 to December 2016). The annual coupon rates on these securities range from 7.3% to 9.9% (2011: 8.0% to 9.0%), and yields to maturity vary from 8.3% to 9.0% (2011: 6.1% to 9.0%).

Corporate Eurobonds (RUR) held as of 31 December 2012 are RUR-denominated bonds issued by a Russian company. These securities mature in June 2019 with annual coupon rate of 7.1% and yield to maturity of 19.7%.

Federal loan bonds held as of 31 December 2012 and 2011 are RUR-denominated government securities issued by the Ministry of Finance of the Russian Federation, which are commonly referred to as “OFZ”. Bonds are issued with a premium to face value and mature from July 2015 to November 2021 (2011: November 2012 to November 2021). The annual coupon rates on these securities vary from 6.5% to 7.4% (2011: 6.0% to 8.0%), and yield to maturity vary from 6.4% to 7.1% (2011: 6.8% to 8.7%).

Investment funds whose participating shares were purchased by the Group represent funds operating with different types of securities.

As of 31 December 2012 the Group made an analysis of the credit risk and history of payments for debt securities available-for-sale. The Group recognized a recovery for debt securities in the amount of RUR 456,093 thousand (2011: recovery for debt securities in the amount of RUR 83,356 thousand).

(Thousands of Russian Roubles)

16. Investments in Associates

Summarized financial information in respect of the Group's associates carried as an equity method investees is set out below:

	31 December 2012	31 December 2011
Total assets	6,866,088	4,062,478
Total liabilities	4,312,407	1,264,054
Revenue	35,603	57,951
Net profit/(loss)	295,668	(81,654)
Group's share of profit/(loss) of associates	105,003	(28,998)
Group's share of other comprehensive income (net of deferred income tax of RUR 11,875 as of 31 December 2012 and net of deferred income tax of RUR 2,920 as of 31 December 2011)	47,499	11,678

Reconciliation of the investments in associates comprise:

31 December 2010	**1,162,726**
Share of loss of associates	(28,998)
Foreign currency revaluation	65,589
Other comprehensive income from associates	14,597
31 December 2011	**1,213,914**
Foreign currency revaluation	(69,564)
Share of profits of associates	105,003
Other comprehensive income from associates	59,374
31 December 2012	**1,308,727**

17. Loans to Customers

	31 December 2012	31 December 2011
Loans to legal entities:		
Commercial loans	103,569,128	103,661,697
Project finance	62,780,147	54,861,689
Reverse sale and repurchase agreements	979,561	2,424,048
Total loans to legal entities	**167,328,836**	**160,947,434**
Loans to individuals:		
Mortgage loans	9,132,364	5,690,168
Consumer loans	8,286,877	6,831,804
Car loans	2,216,081	1,076,655
Plastic cards overdrafts	242,333	147,904
Reverse sale and repurchase agreements	86,041	148,202
Total loans to individuals	**19,963,696**	**13,894,733**
Loans to customers before impairment	**187,292,532**	**174,842,167**
Allowance for loan impairment	(10,411,438)	(10,537,657)
Total loans to customers	**176,881,094**	**164,304,510**

(Thousands of Russian Roubles)

17. Loans to Customers (continued)

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

As at 31 December 2012 the Group granted loans to 19 customers totalling RUR 40,283,968 thousand (2011: 24 customers totalling RUR 42,732,582 thousand), which individually exceeded 5% of the Group's equity.

Risk concentrations by customer industry within the customer loan portfolio are as follows:

	31 December 2012		31 December 2011	
	Amount	**%**	**Amount**	**%**
Trade	**39,003,553**	**21**	**36,636,671**	**21**
Food trade	10,765,830	6	11,592,070	7
Trade (other)	9,095,051	5	9,363,325	5
Car trade and service	6,534,272	3	5,208,230	3
Oil trade	5,746,616	3	3,863,157	2
Liquors and tobacco trade	5,005,264	3	3,572,246	2
Metal trade	1,087,790	1	1,098,095	1
Home appliances trade	768,730	-	1,939,548	1
Manufacturing	**36,058,779**	**19**	**38,578,057**	**22**
Manufacturing (Other)	18,592,423	10	17,813,390	10
Machine building	12,775,464	7	14,143,903	8
Metallurgy	2,718,812	1	3,735,897	2
Chemical Industry	1,584,712	1	2,502,378	1
Pulp and paper Industry	387,368	-	382,489	1
Construction	**30,649,818**	**16**	**23,530,216**	**13**
Construction (Residential)	18,851,498	10	17,643,455	10
Construction (Non-Residential)	11,798,320	6	5,886,761	3
Services	**25,541,028**	**14**	**22,692,504**	**13**
Individuals	**19,963,696**	**11**	**13,894,733**	**8**
Finance	**14,663,822**	**8**	**17,317,973**	**10**
Food	**7,356,287**	**4**	**7,897,510**	**5**
Agricultural	**6,476,556**	**3**	**5,401,806**	**3**
Oil and gas	**1,150,765**	**1**	**1,000,311**	**1**
Other	**6,428,228**	**3**	**7,892,386**	**4**
Total	**187,292,532**	**100**	**174,842,167**	**100**

Loans to customers consist of RUR 166,073,920 thousand (2011: RUR 146,342,811 thousand) loans secured by real estate, equipment, goods in turnover, motor vehicles, securities and other types of collateral and RUR 21,218,612 thousand (2011: RUR 28,499,356 thousand) unsecured loans.

Included in loans to customers as of 31 December 2012 and 2011 is RUR 1,065,602 thousand (2011: RUR 2,572,250 thousand), which represents loans issued to customers under reverse repurchase agreements. These loans are collateralized by securities, primarily shares and bonds issued by Russian companies, with fair value of RUR 1,346,800 thousand as of 31 December 2012 (2011: RUR 3,134,236 thousand). In accordance with contractual terms and conditions loans under reverse repurchase agreements outstanding as of 31 December 2012 mature in January 2013 (2011: January 2012).

During 2012 the Group received property with carrying amount of RUR 1,796,700 thousand (2011: RUR 1,016,627 thousand) by taking possession of collateral it held as security of loans to customers and receiving other property. The repossessed property in the amount of RUR 407,211 thousand has been converted into cash during 2012 year with profit of RUR 107,087 thousand (2011: RUR 1,100,315 thousand with loss of RUR 77,893 thousand). Such property is disclosed in Note 21.

(Thousands of Russian Roubles)

18. Property, Plant and Equipment

	Property	Computers and equipment	Furniture and fixtures	Motor vehicles	Assets under construction	Total
Book value						
31 December 2010	**2,646,491**	**688,921**	**176,261**	**77,085**	**632,649**	**4,221,407**
Additions	141,758	171,832	22,396	42,096	57,196	435,278
Disposals	(48,310)	(31,089)	(836)	(19,997)	(158)	(100,390)
Transfers	97,881	25,433	800	-	(124,114)	-
Elimination of accumulated depreciation of revaluated assets	(50,500)	-	-	-	-	(50,500)
Revaluation	144,745	-	-	-	-	144,745
31 December 2011	**2,932,065**	**855,097**	**198,621**	**99,184**	**565,573**	**4,650,540**
Additions	51,636	120,233	24,166	36,541	67,092	299,668
Disposals	(64)	(35,775)	(1,498)	(19,895)	(3,207)	(60,439)
Transfers	10,270	19,050	212	788	(30,320)	-
Elimination of accumulated depreciation of revaluated assets	(56,141)	-	-	-	-	(56,141)
Revaluation	91,047	-	-	-	-	91,047
31 December 2012	**3,028,813**	**958,605**	**221,501**	**116,618**	**599,138**	**4,924,675**
Accumulated depreciation						
31 December 2010	**-**	**(389,133)**	**(82,309)**	**(19,877)**	**-**	**(491,319)**
Charge	(51,206)	(127,918)	(25,452)	(21,532)	-	(226,108)
Disposals	706	19,351	514	13,480	-	34,051
Elimination of accumulated depreciation of revaluated assets	50,500	-	-	-	-	50,500
31 December 2011	**-**	**(497,700)**	**(107,247)**	**(27,929)**	**-**	**(632,876)**
Charge	(56,141)	(132,693)	(24,434)	(30,856)	-	(244,124)
Disposals	-	13,644	2,361	14,291	-	30,296
Elimination of accumulated depreciation of revaluated assets	56,141	-	-	-	-	56,141
31 December 2012	**-**	**(616,749)**	**(129,320)**	**(44,494)**	**-**	**(790,563)**
Net book value						
31 December 2012	**3,028,813**	**341,856**	**92,181**	**72,124**	**599,138**	**4,134,112**
31 December 2011	**2,932,065**	**357,397**	**91,374**	**71,255**	**565,573**	**4,017,664**

As at 31 December 2012 the property owned by the Group carried at revalued amounts based on an independent appraiser’s report. Carrying value of this property totalled RUR 3,028,813 thousand (2011: RUR 2,932,065 thousand).

If the property were accounted at historical cost restated according to inflation indices less accumulated depreciation and impairment losses, its carrying value would be RUR 2,879,409 thousand as at 31 December 2012 (2011: RUR 2,873,705 thousand).

Property owned by the Group was revalued by independent appraisers as at 31 December 2012. The following methods were used for the estimation of their fair value: discounted cash flow method (income approach), integrated cost estimation method (cost based method), method of sales comparison (comparative approach). For the estimation of the final value, certain weights were assigned to the results obtained using different approaches, depending on the degree to which the estimates met the following characteristics: reliability and completeness of the information, specifics of the estimated property and other.

(Thousands of Russian Roubles)

19. Assets for Development and Sale

As of 31 December 2012 assets for development and sale include three real estate projects for development and further sale (2011: two real estate projects for development and further sale). During 2012 the Group recorded the recovery of assets for development and sale in the consolidated statement of income in amount of RUR 19,400 (2011: impairment of RUR 335,434).

The operational cycle is such that the majority of Assets for development and sale will may not be realised within 12 months. It is not possible to determine with accuracy when specific Asset for development and sale will be realised, as this will be subject to a number of issues such as construction progress, constant changes in relevant regulations, marketing policy depending on customer demand and convenient pricing.

Book value

31 December 2010	**-**
Additions	3,027,018
Disposals	-
Impairment	(335,434)
31 December 2011	**2,691,584**
Additions	1,034,394
Disposals	(767,470)
Recovery	19,400
31 December 2012	**2,977,908**

20. Investment Property

	Investment property
31 December 2010	**212,771**
Additions	165,422
Fair value movement	14,575
31 December 2011	**392,768**
Additions	362,399
Disposals	(77,791)
Fair value movement	2,448
31 December 2012	**679,824**

Included into other income is investment property rental income for the year ended December 31, 2012 totalled RUR 58,563 thousand (2011: RUR 42,516 thousand).

Operating expenses arising from the investment property that generated rental income during the year ended December 31, 2012 totalled RUR 6,199 thousand (2011: RUR 4,561 thousand).

The fair value of the Group’s investment property at December 31, 2012 and 2011 has been arrived at on the basis of a valuation carried out at that date by an independent appraiser. The valuation was arrived at by reference to market evidence of transaction prices for similar properties.

(Thousands of Russian Roubles)

21. Non-current Assets Held For Sale

Book value

31 December 2010	**2,328,547**
Additions	1,016,627
Disposals	(1,100,315)
Impairment	(59,549)
31 December 2011	**2,185,310**
Additions	1,796,700
Disposals	(919,795)
Impairment	(20,688)
31 December 2012	**3,041,527**

As at 31 December 2012 and 2011 non-current assets held for sale include real estate which the Group received during the year 2012 and 2011 by taking possession of collateral held as security for loans and receiving other property. The carrying amount of non-current assets held for sale will be recovered through a sale transaction. The Group's management approved a sales plan and the Group has started the process of active marketing of non-current assets held for sale in order to sell them within 12 months starting from the date of their classification into this category. Due to the recent improvement in Russian real estate market the Group is selecting the most advantageous offers. The property in the amount of RUR 407,211 thousand has been converted into cash during 2011 year with profit of RUR 107,087 thousand (2011: RUR 1,100,315 thousand with loss RUR 77,893 thousand). The possessed property has been revalued at fair value with impairment totalled to RUR 20,688 thousand (2011: impairment of RUR 59,549 thousand).

22. Due to Banks and CBRF

	31 December 2012	**31 December 2011**
Term deposits from other banks	12,477,645	16,363,015
Term deposits from the CBRF	4,308,942	2,306,750
Correspondent accounts and overnight deposits of other banks	1,792,832	1,262,669
REPO with the CBRF	1,049,188	-
REPO with banks	259,462	-
Syndicated loans	-	3,499,729
Total due to banks and CBRF	**19,888,069**	**23,432,163**

Included in amounts due to banks as of 31 December 2012 are RUR 10,047,714 thousand of correspondent accounts and term deposits from three Russian banks and no amounts on correspondent accounts and term deposits from OECD banks, which individually exceeded 5% of the Group's equity (2011: RUR 6,064,227 thousand of correspondent accounts and term deposits from two Russian banks and RUR 5,963,196 thousand of correspondent accounts and term deposits from four OECD banks).

During 2012 the Bank repaid one syndicated loan received from the syndicates of several foreign financial institutions in total amount of RUR 3,489,024 thousand, or USD 110 million (2011: one syndicated loan in total amount of RUR 3,066,000 thousand, or USD 100 million).

During 2011 the Bank received one loan from the syndicate of several foreign financial institutions in total amount of USD 110 million. Syndicated loan facility bears interest of LIBOR plus 2.2% Effective interest rate amounted to 4.7%. Loan matures in November 2012.

As of 31 December 2012 the Group received five term deposits from the CBRF (2011: four deposits from the CBRF). These term deposits mature from January 2013 to March 2013 (2011: January 2012 to June 2012). The interest rates on these term deposits range from 5.5% to 7.3% (2011: 5.3% to 7.5%).

(Thousands of Russian Roubles)

21. Non-current Assets Held For Sale (continued)

The borrowings under repurchase agreements with the CBRF were collateralized by financial assets at fair value through profit or loss (corporate bonds), with fair value of RUR 1,182,230 thousand as of 31 December 2012. The borrowings under repurchase agreements with other banks were collateralized by financial assets at fair value through profit or loss (corporate bonds), with fair value of RUR 266,006 thousand as of 31 December 2012. Financial assets at fair value through profit or loss sold under repurchase agreements are disclosed in Note 14. In accordance with contractual terms and conditions deposits under repurchase agreements outstanding as of 31 December 2012 matured in January 2013.

23. Customer Accounts

	31 December 2012	31 December 2011
State and public organisations		
- Current/settlement accounts	480,253	715,204
- Term deposits	3,250,649	2,701,282
Other legal entities		
- Current/settlement accounts	33,774,860	33,134,187
- Term deposits	50,222,204	47,776,373
Individuals		
- Current/demand accounts	8,055,785	8,069,805
- Term deposits	56,814,023	49,847,295
Total customer accounts	**152,597,774**	**142,244,146**

Risk concentrations by customer industry within customer accounts are as follows:

	31 December 2012		31 December 2011	
	Amount	%	Amount	%
Individuals	64,869,808	43	57,917,100	41
Finance	28,029,654	18	22,057,484	16
Oil and gas	22,318,891	15	23,227,396	17
Trade	6,971,257	5	7,581,972	5
Manufacturing	5,938,474	4	6,373,538	4
Construction	4,910,654	3	4,088,627	3
Services	3,000,503	2	3,824,518	3
Energy	2,796,837	2	3,377,473	2
Transport	1,875,475	1	1,714,951	1
Local authorities	358	-	1,423,508	1
Other	11,885,863	7	10,657,579	7
Total customer accounts	**152,597,774**	**100**	**142,244,146**	**100**

As at 31 December 2012 included in customer accounts are deposits of RUR 1,916,493 thousand (2011: RUR 3,160,074 thousand), held as collateral for irrevocable commitments under import letters of credit.

As of 31 December 2012 the Group has term deposits and current accounts placed by a single customer totalling RUR 14,353,966 thousand (2011: placed by a single customer totalling RUR 13,023,515 thousand).

As of 31 December 2012 the Group has term deposits and current accounts placed by nine customers each of which exceeds 5% of total equity of the Group totalling RUR 36,070,416 thousand (2011: term deposits and current accounts placed by thirteen customers totalling RUR 34,076,988 thousand).

24. Debt Securities Issued

	31 December 2012	31 December 2011
Promissory notes	18,893,128	19,667,491
Certificates of deposit	29	21,818
Total debt securities issued	**18,893,157**	**19,689,309**

The Group issued promissory notes at a discount to nominal value and interest bearing promissory notes denominated in Russian Roubles, US Dollars and Euros with effective interest rates from 4.5% to 13.0%, from 1.0% to 7.0% and from 2.0% to 5.8% respectively (2011: Russian Roubles, US Dollars and Euros with effective interest rates from 1.5% to 13.0%, from 0.1% to 7.0% and from 0.1% to 5.6% respectively). Maturity dates of these promissory notes vary from January 2013 to April 2017 (2011: January 2012 to April 2017).

As at 31 December 2012 non-interest-bearing promissory notes of the aggregate nominal value of RUR 643,147 thousand (2011: RUR 265,451 thousand) were issued by the Group for settlement purposes and mature primarily on demand.

25. RUR-denominated Bonds Issued

	31 December 2012	31 December 2011
RUR-denominated bonds issued	28,582,711	23,885,464
Total RUR-denominated bonds issued	**28,582,711**	**23,885,464**

The Group had the following RUR-denominated bonds outstanding as at 31 December 2012:

Nominal (thousands of Roubles)	Effective rate, %	Issue date	Maturity date	Outstanding as at 31 December 2012
5,000,000	9.00%	10 June 2008	4 June 2013	2,294,432
3,000,000	9.20%	7 July 2009	1 July 2014	2,548,495
5,000,000	7.50%	7 April 2010	7 April 2013	298,766
5,000,000	7.50%	22 September 2010	22 September 2013	109,447
5,000,000	8.75%	26 May 2011	26 May 2014	4,791,754
3,000,000	9.10%	15 November 2011	15 November 2014	2,522,705
3,000,000	8.90%	7 February 2012	7 February 2015	3,062,379
3,000,000	8.90%	14 February 2012	14 February 2015	3,078,672
5,000,000	9.20%	12 April 2012	12 April 2015	5,018,053
5,000,000	9.20%	29 August 2012	23 August 2017	4,858,008
Total RUR-denominated bonds				**28,582,711**

25. RUR-denominated Bonds Issued (continued)

The Group had the following RUR-denominated bonds outstanding as at 31 December 2011:

Nominal (thousands of Roubles)	Effective rate, %	Issue date	Maturity date	Outstanding as at 31 December 2011
5,000,000	7.50%	10 June 2008	4 June 2013	4,825,266
3,000,000	8.00%	7 July 2009	1 July 2014	2,918,223
5,000,000	7.10%	7 April 2010	7 April 2013	4,721,529
5,000,000	7.75%	22 September 2010	22 September 2013	5,081,334
5,000,000	7.25%	26 May 2011	26 May 2014	4,797,795
3,000,000	8.75%	15 November 2011	15 November 2014	1,541,317
Total RUR-denominated bonds				**23,885,464**

26. Subordinated Debt

	31 December 2012	31 December 2011
Subordinated loans in RUR	8,794,831	8,794,176
Subordinated loans in US Dollars	3,318,550	3,646,811
Total subordinated debt	**12,113,381**	**12,440,987**

The Group received 10 subordinated loans from its shareholders totalling RUR 8,755,862 thousand as of 31 December 2012 (2011: 11 subordinated loans of RUR 9,010,549 thousand), respectively. Subordinated loans in RUR bear interest at rates ranging from 6.5% to 9.4% (2011: from 6.5% to 9.4%) and mature from May 2017 to February 2022 (2011: April 2013 to June 2019). Subordinated loans in US Dollars bear interest at rates ranging from 6.6% to 8.0% as of 31 December 2012 (2011: 5.1% to 8.0%) and mature from June 2016 to February 2022 (2011: September 2012 to December 2021).

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

(Thousands of Russian Roubles)

27. Other Assets and Other Liabilities

	31 December 2012			31 December 2011		
	Financial	**Non-financial**	**Total**	**Financial**	**Non-financial**	**Total**
Plastic card settlements	388,942	-	**388,942**	245,925	-	**245,925**
Trade debtors and prepayments	9,119	151,048	**160,167**	19,732	177,296	**197,028**
Prepaid taxes, other than income tax	-	153,148	**153,148**	-	69,068	**69,068**
Precious metals	-	21,453	**21,453**	-	146,256	**146,256**
Other	74,801	34,884	**109,685**	66,291	35,690	**101,981**
Total other assets	**472,862**	**360,533**	**833,395**	**331,948**	**428,310**	**760,258**
Expenses and costs accrued	-	901,554	**901,554**	-	639,835	**639,835**
Provision for credit related commitments	184,236	-	**184,236**	74,388	-	**74,388**
Trade creditors	24,067	53,911	**77,978**	39,285	40,916	**80,201**
Taxation payable, other than income tax	-	77,933	**77,933**	-	86,748	**86,748**
Amounts due to Deposits' Insurance Agency	-	23,198	**23,198**	-	20,935	**20,935**
Other	424,797	19,324	**444,121**	105,460	17,138	**122,598**
Total other liabilities	**633,100**	**1,075,920**	**1,709,020**	**219,133**	**805,572**	**1,024,705**

28. Share Capital and Share Premium

Share capital issued and fully paid comprises:

	Number of shares	**Nominal value**	**Treasury shares**
Ordinary shares			
31 December 2010	11,545,000,000	11,545,000,000	(261,374,124)
31 December 2011	11,545,000,000	11,545,000,000	(261,374,124)
31 December 2012	11,545,000,000	11,545,000,000	(261,374,124)

At 31 December 2012 and 2011, authorised share capital of the Group consists of 12,000,000,000 ordinary shares. Ordinary shares have a nominal value of 1 RUR per share with equal rights and carry one vote each.

In September 2009 Zenit Investment Services Inc. acquired 261,374,124 shares of Bank ZENIT from a shareholder of the Bank.

As at December 31, 2012 and 2011, share premium totalling RUR 1,545,000 thousand represents an excess of contributions received over the nominal value of shares issued.

29. Retained Earnings

The Bank's retained earnings distributable among shareholders are limited to the amount of its reserves as disclosed in statutory accounts of the Bank. Non-distributable reserves are represented by a reserve fund, which is created as required by the statutory regulations, in respect of general banking risks, including future losses and other unforeseen risks or contingencies. The reserve has been created in accordance with the Bank's statute that provides for the creation of a reserve for these purposes of not less than 15% of the Bank's share capital reported in statutory books.

(Thousands of Russian Roubles)

30. Dividends and Distributions

The Group members' reports under Russian Accounting Rules which are the basis for the profit distribution and other appropriations. Russian legislation identifies the basis of distribution as the current year net profit calculated in accordance with Russian Accounting Rules.

The dividends paid by the members of the Group during the years 2012 and 2011 are presented in the table below:

	31 December 2012			31 December 2011		
Name	**Date**	**Period of payment**	**Amount of Dividends**	**Date**	**Period of payment**	**Amount of Dividends**
Bank Devon-Credit	January 2012	for previous years	8,024	-	-	-
Bank Devon-Credit	April 2012	for previous years	8,024	April 2011	for the year 2010	523
Bank Devon-Credit	July 2012	for previous years	4,015	December 2011	for 9 months of the year 2011	6,684
Lipetskcombank	December 2012	for 9 months of the year 2012	321	December 2011	for 9 months of the year 2011	201
Bank ZENIT Sochi	-	-	-	May 2011	for the year 2010	27
Bank ZENIT Sochi	December 2012	for 9 months of the year 2012	128	December 2011	for 9 months of the year 2011	214
Bank ZENIT	-	-	-	April 2011	for the year 2010	253,019
Lipetskcombank	-	-	-	April 2011	for the year 2010	144
Total			**20,512**			**260,812**

(Thousands of Russian Roubles)

31. Geographical Analysis

The geographical analysis of the Group's assets and liabilities as of 31 December 2012, is set out below:

	Russia	OECD	Non-OECD	Total
Assets				
Financial assets:				
Cash and cash equivalents	19,658,986	12,105,755	3,078	31,767,819
Mandatory reserve deposits with the CBRF	2,407,813	-	-	2,407,813
Due from banks	7,588,964	1,488,273	-	9,077,237
Financial assets at fair value through profit or loss	9,604,723	26,880	-	9,631,603
Available-for-sale financial assets	17,347,160	-	54,684	17,401,844
Loans to customers	171,660,319	45,588	5,175,187	176,881,094
Other financial assets	318,126	154,442	294	472,862
Total financial assets	**228,586,091**	**13,820,938**	**5,233,243**	**247,640,272**
Non-financial assets:				
Investment in associates	-	-	1,308,727	1,308,727
Property, plant and equipment	4,134,112	-	-	4,134,112
Assets for development and sale	2,977,908	-	-	2,977,908
Investment property	679,824	-	-	679,824
Goodwill	156,248	-	-	156,248
Other non-financial assets	359,548	985	-	360,533
Current income tax asset	326,410	-	-	326,410
Deferred income tax asset	276,611	-	-	276,611
Non-current assets held for sale	3,041,527	-	-	3,041,527
Total non-financial assets	**11,952,188**	**985**	**1,308,727**	**13,261,900**
Total assets	**240,538,279**	**13,821,923**	**6,541,970**	**260,902,172**
Liabilities				
Financial liabilities:				
Due to banks	13,913,803	5,949,533	24,733	19,888,069
Customer accounts	148,780,325	60,536	3,756,913	152,597,774
Debt securities issued	13,606,682	-	5,286,475	18,893,157
Eurobonds and RUR-denominated bonds issued	28,582,711	-	-	28,582,711
Other financial liabilities	385,559	247,158	383	633,100
Subordinated debt	9,833,578	1,672,349	607,454	12,113,381
Total financial liabilities	**215,102,658**	**7,929,576**	**9,675,958**	**232,708,192**
Non-financial liabilities:				
Current income tax liability	14,818	-	-	14,818
Deferred income tax liability	118,808	-	-	118,808
Other non-financial liabilities	1,075,920	-	-	1,075,920
Total non-financial liabilities	**1,209,546**	-	-	**1,209,546**
Total liabilities	**216,312,204**	**7,929,576**	**9,675,958**	**233,917,738**
Net position as at 31 December 2012	**24,226,075**	**5,892,347**	**(3,133,988)**	
Credit related commitments as at 31 December 2012	**55,323,207**	**123,521**	**229,873**	

Cash and Cash equivalents with OECD counterparties include balances of RUR 981,963 thousand with 3 member banks of VTB Group, registered in OECD countries.

(Thousands of Russian Roubles)

31. Geographical Analysis (continued)

The geographical analysis of the Group's assets and liabilities as of 31 December 2011, is set out below:

	Russia	OECD	Non-OECD	Total
Assets				
Financial assets:				
Cash and cash equivalents	21,193,322	13,184,302	35,634	34,413,258
Mandatory reserve deposits with the CBRF	2,335,160	-	-	2,335,160
Due from banks	7,661,688	2,435,813	-	10,097,501
Financial assets at fair value through profit or loss	6,853,973	79,461	-	6,933,434
Available-for-sale financial assets	16,173,874	407,746	60,342	16,641,962
Loans to customers	158,757,611	-	5,546,899	164,304,510
Other financial assets	324,589	6,617	742	331,948
Total financial assets	**213,300,217**	**16,113,939**	**5,643,617**	**235,057,773**
Non-financial assets:				
Investment in associates	-	-	1,213,914	1,213,914
Property, plant and equipment	4,017,664	-	-	4,017,664
Assets for development and sale	2,691,584	-	-	2,691,584
Investment property	392,768	-	-	392,768
Goodwill	156,248	-	-	156,248
Other non-financial assets	427,450	860	-	428,310
Current income tax asset	8,017	-	-	8,017
Deferred income tax asset	575,779	-	-	575,779
Non-current assets held for sale	2,185,310	-	-	2,185,310
Total non-financial assets	**10,454,820**	**860**	**1,213,914**	**11,669,594**
Total assets	**223,755,037**	**16,114,799**	**6,857,531**	**246,727,367**
Liabilities				
Financial liabilities:				
Due to banks	13,488,375	9,456,059	487,729	23,432,163
Customer accounts	138,514,641	244,407	3,485,098	142,244,146
Debt securities issued	6,663,976	3,220	13,022,113	19,689,309
Eurobonds and RUR-denominated bonds issued	23,885,464	-	-	23,885,464
Other financial liabilities	194,793	23,996	344	219,133
Subordinated debt	9,895,283	1,772,998	772,706	12,440,987
Total financial liabilities	**192,642,532**	**11,500,680**	**17,767,990**	**221,911,202**
Non-financial liabilities:				
Current income tax liability	12,545	-	-	12,545
Deferred income tax liability	85,286	-	-	85,286
Other non-financial liabilities	805,572	-	-	805,572
Total non-financial liabilities	**903,403**	-	-	**903,403**
Total liabilities	**193,545,935**	**11,500,680**	**17,767,990**	**222,814,605**
Net position as at 31 December 2011	**30,209,102**	**4,614,119**	**(10,910,459)**	
Credit related commitments as at 31 December 2011	**61,903,184**	**200,099**	**743,176**	

Cash and Cash equivalents with OECD counterparties include balances of RUR 1,730,491 with 3 member banks of VTB Group, registered in OECD countries.

32. Risk Management Policies

Risk Management plays a fundamental role in the banking industry and is an essential element of the Group's activity. The Group's risk management network and the management structure are directed at the control and management of major risks, inherent in the Group's business.

The Group's risk management policy is based on the concept of admissible risk within certain profitability parameters assumed for the entire entity and each business line and it is structured in order to achieve unconditional satisfaction of regulatory requirements.

Bank ZENIT is the risk coordinating, methodological and supervisory center of the Group. In particular, the Bank's risk management department is responsible for the overall risk management and compliance functions, development of the methodology for risk identification and measurement as well as for ensuring that common principles and methods of identifying, measuring, managing and reporting on risks are implemented and function effectively within the entire Group. Although the Bank's banking subsidiaries perform on-going risk management procedures independently, they use unified risk management policies including methods and procedures aligned with those of the Bank.

The Group identifies credit, liquidity and market risks. Market risk, in its turn, consists of currency, interest rate and other prices risks.

Risk identification and classification is performed through the system of exposure distribution by risk types which are assessed and monitored within the decision-making, operating and control processes. New products are examined for risks and the risk assessment structure is formulated at the preliminary stage of the decision-making process.

The quantitative risk assessment includes an assessment of expected losses and unexpected losses and is performed by the calculation of historical loss parameters; using stress-testing, Value at Risk (VaR) and, where appropriate, conditional VaR (CVaR) method; as well as by using standardized and advanced methodologies, introduced by the new Basel Accord ("Basel II"). Assessment models and related assumptions are revised on a regular basis in order to achieve calculation adequacy.

In order to control risks the Group uses risk avoidance strategies, including the establishment of limits on counterparties, products, positions, countries, business lines and others. If it seems reasonable, loss limits and call-level limits are approved. Limits are controlled by the back-offices and risk management departments.

The principles of risk management

(i) Independence

- Existence of an independent risk management function in the form of (a) risk management departments, (b) units responsible for transaction registration and control of terms and conditions approved in relation to respective transactions, and (c) divisions dealing with collateral assessment and control;
- Separation of risk assessment and control units from units initiating transactions within the organizational structure and management systems; and
- An independent internal audit of risk management procedures.

(ii) Full scope of all risks

- Covering all significant risks on all transactions and portfolios by risk control and management procedures; and
- Assessment of economic capital and its restrictions.

32. Risk Management Policies (continued)

(iii) Reliability

- Use of methods and means providing high reliability and accuracy of risk assessment, i.e. minimization of model risks associated with the methodology;
- Comparison of expected results calculated by transaction initiators (forecast profitability) with estimation of risks prepared by risk management departments at the decision-making level; and
- Use of stress-testing.

(iv) Frequency and timing

- Providing the management with regular reports reflecting risks and their dynamics with a frequency allowing to avoid delay in management decisions; and
- Independent monitoring of all kinds of risks on a daily basis.

(v) Conformity to best risk management practices

- Use of best risk management practices of both foreign and domestic banks concerning risk management strategy, organization, policies and procedures throughout the Group.

The risk management system

The risk management system and responsibility is diversified and includes the Board of Directors, Management Boards, internal management committees and supporting units, including departments responsible for risk assessment, control and monitoring procedures.

The Board of Directors considers risk analysis while approving financial plans and assessing business and financial assumptions underlying these plans.

Management Boards are responsible for (i) approving general terms and conditions of the Group's operations including, but not limited to, loan issuance and taking trading and investment positions, (ii) establishing internal management committees, (iii) setting-up internal risk management procedures and regulations and (iv) monitoring risk mitigation measures to make sure that risk management procedures function effectively and the Group members operate within established risk parameters.

Internal management committees approve limits, terms and conditions in respect of specific transactions. They also review reports on dynamics and the quality of banking and trading portfolios as well as reports on risks. Internal management committees include an Assets and Liabilities Management Committee ("ALCO") and other credit committees. ALCO is responsible for liquidity management, asset quality and funding as well as for monitoring actual results versus plans on attraction and allocation of resources. Other credit committees are engaged in consideration and approval of credit-related specific transactions and their responsibility depends on certain business lines or regions and is limited by maximum exposure allowed to one or a group of related borrowers.

Risk management departments are responsible for ensuring the implementation of unified principles and methods for risk identification and measurement as well as for managing and reporting on all kinds of risk. Risk management departments perform an independent analysis of credit and market risks on lending transactions and trading positions submitted for approval, develop limits on specific transactions and on aggregated risks (i.e. group of borrowers, product, country, industry/sector and other concentration limits), perform several portfolio analyses, control actual positions versus established limits and prepare reports to ALCO and Management Boards.

(Thousands of Russian Roubles)

32. Risk Management Policies (continued)

Treasury departments perform on-going monitoring and control over liquidity, currency and interest rate risks and report to ALCO.

The business, operational and other supporting units of the Group participate in risk management within their functional duties stipulated by internal regulations and report to Management Boards.

The Internal Audit Departments audit business, operational, supporting and risk management units to ensure their compliance with internal policies and procedures. Their reports to the Board of Directors include findings identified during the audit and proposals on remedial actions necessary.

The main risk management policies, processes and procedures used by the Group and details of methods developed to measure risks are provided below.

Credit risk. The Group takes on exposure to credit risk which is the risk that a counterparty will be unable to pay amounts in full when due. The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. Limits on the level of credit risk by product, borrower, group of borrowers and industry sector are described in the Credit Policies, which are approved by Management Boards, and are reviewed, on a regular basis. The credit risk exposure is monitored on a regular basis to ensure that the credit limits and credit worthiness guidelines established by the Group's risk management policy are not breached.

The Group is generally exposed to credit risk through its financial assets and contingent liabilities. The Group's maximum exposure to credit risk, ignoring the fair value of any collateral, is generally reflected in the carrying amounts of financial assets in the consolidated statement of financial position. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

The following table represents aggregate amounts affecting overall credit risk of the Group as of 31 December 2012:

					31 December 2012
	Maximum exposure to credit risk	**Offset**	**Net exposure after offset**	**Collateral pledged**	**Net exposure after offset and collateral**
Cash and cash equivalents (excluding cash on hand)	24,425,605	-	24,425,605	-	24,425,605
Mandatory reserve deposits with CBRF	2,407,813	-	2,407,813	-	2,407,813
Due from banks	9,077,237	-	9,077,237	-	9,077,237
Financial assets at fair value through profit or loss	9,394,214	-	9,394,214	-	9,394,214
Available-for-sale financial assets	16,172,057	-	16,172,057	-	16,172,057
Loans to customers	176,881,094	-	176,881,094	(166,073,920)	10,807,174
Other assets	472,862	-	472,862	-	472,862
Loan commitments	30,786,807	-	30,786,807	(2,271,003)	28,515,804
Guarantees issued	23,406,880	-	23,406,880	(10,907,396)	12,499,484
Import letters of credit	2,826,836	-	2,826,836	(664,343)	2,162,493

(Thousands of Russian Roubles)

32. Risk Management Policies (continued)

The following table represents aggregate amounts affecting overall credit risk of the Group as of 31 December 2011:

	31 December 2011				
	Maximum exposure to credit risk	**Offset**	**Net exposure after offset**	**Collateral pledged**	**Net exposure after offset and collateral**
Cash and cash equivalents (excluding cash on hand)	27,675,791	-	27,675,791	-	27,675,791
Mandatory reserve deposits with CBRF	2,335,160	-	2,335,160	-	2,335,160
Due from banks	10,097,501	-	10,097,501	-	10,097,501
Financial assets at fair value through profit or loss	6,629,901	-	6,629,901	-	6,629,901
Available-for-sale financial assets	15,073,196	-	15,073,196	-	15,073,196
Loans to customers	164,304,510	-	164,304,510	(146,342,811)	17,961,699
Other assets	331,948	-	331,948	-	331,948
Loan commitments	33,652,257	-	33,652,257	(2,556,121)	31,096,136
Guarantees issued	24,082,601	-	24,082,601	(11,530,754)	12,551,847
Import letters of credit	7,039,204	-	7,039,204	(2,621,963)	4,417,241

In accordance with the Group's collateral policies and procedures the Group may securitize its loans by multi-collateral, i.e. to take different types of collateral in order to secure the same loan. In these cases the value of collateral taken by the Group may exceed amounts lent to the customer. Therefore, maximum credit risk exposure on such loans is limited to the amount of loan balances outstanding at reporting dates.

For risk management purposes, credit risk arising from positions held-for-trading and other financial instruments at fair value through profit and loss is managed and reported as a market (other prices) risk.

In order to optimize the decision-making process on taking credit risk the Group established several credit committees with different levels of responsibilities. ZENIT’s credit committees and their level of responsibility in respect of approval of maximum exposures on a borrower or group of related borrowers are as follows:

	Maximum exposure allowed to be approved
Assets and Liabilities Management Committee	Above 400,000
Credit committee	400,000
Credit committee on small and medium business borrowers	50,000
Credit committee on retail lending	14,000

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and principal repayment obligations and by changing these lending limits, where appropriate. Exposure to credit risk is also managed, in part, by obtaining collateral and corporate or personal guarantees. The Group implements a continuous monitoring system of risk factors on substandard loans.

Internal instructions to assess potential borrowers are developed and applied for each segment of lending activities including lending to legal entities, individuals, small and medium-size enterprises and certain others.

32. Risk Management Policies (continued)

The decision making process within the Group is designed to ensure a thorough risk assessment is performed before any credit risk is taken and on all transactions submitted for approval. Therefore, an initiator of the transaction prepares a resume with a description of the suggested project, ensures (where appropriate) that an independent assessment of the collateral and its quality is performed and forwards all transaction related documentation to the risk management department, which is responsible for the independent risk assessment of the project itself, the transaction structure and the assessment of the adequacy of limits, terms and conditions associated with the transaction. The risk management department formulates its own conclusion on the project which is submitted for approval along with all other transaction related documents.

The core procedure to assess credit risk associated with corporate lending is the analysis of corporate borrowers' financial statements for the latest available four quarters, their market position, business developments, organizational and functional structure, business cycle and cash flows, transparency of shareholders (owners) as well as reputational risks of the borrowers themselves and those of the Group that may arise as a result of the suggested project.

Underwriting procedures with respect to individual borrowers are built to minimize internal costs in order to maximize financial results taking into account potential risks. These procedures are based on certain rating techniques such as scoring methods that allow the minimization of credit risks both on a separate loan and on a portfolio basis. The rating accounts for the financial position of an individual borrower as well as the specifics of each credit product. However, the portion of loans to individuals issued purely using scoring models is still insignificant.

The majority of loans to individuals are approved by specialized credit committees which include transaction initiators and representatives of units responsible for risk assessment, control and monitoring. Such underwriting procedures allow a flexible combination of formalized techniques and non-formalized knowledge of experts which is adequate for the current retail lending operations and provide a good basis for further development of retail business.

The Group securitizes its credit risk exposure by taking guarantees and collateral.

If a guarantee is taken the Group assesses a guarantor's financial stability and business profile in a similar manner to the assessment of a borrower described above.

The assessment of collateral is performed internally by special divisions responsible for collateral assessment and control. They use several methodologies developed for each type of collateral. Valuations performed by third parties, including independent appraisal firms authorized by the Group, may serve as additional data for such assessment. The Group usually requires collateral to be insured by insurance companies authorized by the Group.

(Thousands of Russian Roubles)

32. Risk Management Policies (continued)

The following table details the type and carrying value of collateral over loans to customers:

	Securities	Real estate	Motor vehicles	Equipment	Goods in turnover	Non liquid property	Total
31 December 2012							
Loans to legal entities, including:							
Commercial loans	477,793	49,112,371	1,379,980	9,137,300	26,306,977	81,088	86,495,509
Project finance	373,674	47,478,538	271,993	14,965,812	797,105	3,250	63,890,372
Reverse sale and repurchase agreements	1,237,342	-	-	-	-	-	1,237,342
Loans to individuals, including:							
Mortgage loans	4,983,900	7,907,291	4,987	495,411	-	34,660	13,426,249
Consumer loans	265,525	6,711,263	202,548	657,363	167,956	10,335	8,014,990
Car loans	-	6,801	4,159,929	1,680	-	-	4,168,410
Reverse sale and repurchase agreements	109,457	-	-	-	-	-	109,457
Total	**7,447,691**	**111,216,264**	**6,019,437**	**25,257,566**	**27,272,038**	**129,333**	**177,342,329**
31 December 2011							
Loans to legal entities, including:							
Commercial loans	1,587,260	54,707,134	1,517,547	13,733,050	25,014,780	2,113,146	98,672,917
Project finance	88,615	41,408,569	201,376	8,065,596	675,608	8,106	50,447,870
Reverse sale and repurchase agreements	2,940,171	-	-	-	-	-	2,940,171
Loans to individuals, including:							
Consumer loans	165,310	4,871,100	193,779	910,089	14,096	16,859	6,171,233
Mortgage loans	1,871,275	3,521,805	57,042	274,437	-	9,584	5,734,143
Car loans			708,406	1,689	-	-	710,095
Reverse sale and repurchase agreements	194,065	-	-	-	-	-	194,065
Total	**6,846,696**	**104,508,608**	**2,678,150**	**22,984,861**	**25,704,484**	**2,147,695**	**164,870,494**

Collateral is not generally held over amounts due to banks, except where securities are held as a part of reverse re-purchase and sale transactions.

The Group measures and monitors credit risk on corporate portfolios by individual corporate exposure and estimates quantitative parameters of credit risk such as expected and unexpected losses on credit exposures. These calculations are based on internal ratings of creditworthiness assigned to each corporate borrower. The internal rating system was set up in 1999 and it has been regularly updated and developed. The information accumulated over this period provides a sound ground for assessment of ratings migration and allows the Group to calibrate corresponding parameters of default probability. While the revision of a recovery number in classes of corporate borrowers is performed, the historical data on losses is taken into consideration. In the final calculations of expected losses on loans, liquid and reliable collateral is considered. The calculation of unexpected losses on credit exposures is based on the internal risk-based approach in respect with the calculation of credit risks stipulated in the new Basel II.

(Thousands of Russian Roubles)

32. Risk Management Policies (continued)

The Group uses the following rating categories for the analysis of credit quality of loans to customers:

- Rating I – standard quality transaction; low probability of default on the transaction due to stable financial position of the borrower allowing generation of cash flows sufficient for meeting requirements of analyzed transaction;
- Rating II – stable quality transaction; average probability of default due to acceptable quality of the borrower's cash flows, however, the borrower's financial position and its performance against business plans require closer monitoring;
- Rating III – middle and low quality transaction; middle and high probability of default because of non-stable financial position of the borrower, or the lack of or poor quality of collateral; and
- Rating IV – non-recoverable loans which may be collected through legal procedures, claims to guarantors or realization of collateral but expected results of these collection procedures are uncertain.

The Group does not enter into transactions with an initial rating of III or IV.

The table below shows credit quality by class of loans to legal entities as of 31 December 2012:

	Commercial loans			Project finance			REPO agreements			Total		
	Gross loans	Allowance	Total	Gross loans	Allowance	Total	Gross loans	Allowance	Total	Gross loans	Allowance	Total
Loans without individual indicators of impairment and not past due	**93,931,948**	**(1,268,424)**	**92,663,524**	**60,771,023**	**(1,403,859)**	**59,367,164**	**963,609**	**-**	**963,609**	**155,666,580**	**(2,672,283)**	**152,994,297**
Rating I	78,464,526	(683,324)	77,781,202	39,224,099	(532,686)	38,691,413	963,609	-	963,609	118,652,234	(1,216,010)	117,436,224
Rating II	15,467,422	(585,100)	14,882,322	21,546,924	(871,173)	20,675,751	-	-	-	37,014,346	(1,456,273)	35,558,073
Rating III	-	-	-	-	-	-	-	-	-	-	-	-
Rating IV	-	-	-	-	-	-	-	-	-	-	-	-
Loans without individual indicators of impairment and past due	**96,422**	**(9,643)**	**86,779**	**-**	**-**	**-**	**-**	**-**	**-**	**96,422**	**(9,643)**	**86,779**
overdue less than 30 days	615	(62)	553	-	-	-	-	-	-	615	(62)	553
Rating I	215	(2)	213	-	-	-	-	-	-	215	(2)	213
Rating II	400	(60)	340	-	-	-	-	-	-	400	(60)	340
Rating III	-	-	-	-	-	-	-	-	-	-	-	-
Rating IV	-	-	-	-	-	-	-	-	-	-	-	-
overdue more than 90 days and less than 180 days	95,807	(9,581)	86,226	-	-	-	-	-	-	95,807	(9,581)	86,226
Rating I	-	-	-	-	-	-	-	-	-	-	-	-
Rating II	95,807	(9,581)	86,226	-	-	-	-	-	-	95,807	(9,581)	86,226
Rating III	-	-	-	-	-	-	-	-	-	-	-	-
Rating IV	-	-	-	-	-	-	-	-	-	-	-	-
Total loans without individual indicators of impairment	**94,028,370**	**(1,278,067)**	**92,750,303**	**60,771,023**	**(1,403,859)**	**59,367,164**	**963,609**	**-**	**963,609**	**155,763,002**	**(2,681,926)**	**153,081,076**
Loans with individual indicators of impairment	**9,540,758**	**(6,061,315)**	**3,479,443**	**2,009,124**	**(1,015,711)**	**993,413**	**15,952**	**(15,952)**	**-**	**11,565,834**	**(7,092,978)**	**4,472,856**
not past due	5,172,975	(2,202,210)	2,970,765	1,442,628	(495,614)	947,014	-	-	-	6,615,603	(2,697,824)	3,917,779
Rating I	-	-	-	-	-	-	-	-	-	-	-	-
Rating II	-	-	-	-	-	-	-	-	-	-	-	-
Rating III	1,818,783	(780,748)	1,038,035	1,221,896	(281,434)	940,462	-	-	-	3,040,679	(1,062,182)	1,978,497
Rating IV	3,354,192	(1,421,462)	1,932,730	220,732	(214,180)	6,552	-	-	-	3,574,924	(1,635,642)	1,939,282
overdue less than 30 days	119,216	(49,901)	69,315	67,676	(67,429)	247	-	-	-	186,892	(117,330)	69,562
Rating I	-	-	-	-	-	-	-	-	-	-	-	-
Rating II	-	-	-	-	-	-	-	-	-	-	-	-
Rating III	10,595	(1,876)	8,719	-	-	-	-	-	-	10,595	(1,876)	8,719
Rating IV	108,621	(48,025)	60,596	67,676	(67,429)	247	-	-	-	176,297	(115,454)	60,843
overdue more than 30 days and less than 90 days	236,138	(163,917)	72,221	-	-	-	-	-	-	236,138	(163,917)	72,221
Rating I	-	-	-	-	-	-	-	-	-	-	-	-
Rating II	1,270	(127)	1,143	-	-	-	-	-	-	1,270	(127)	1,143
Rating III	5,754	(2,567)	3,187	-	-	-	-	-	-	5,754	(2,567)	3,187
Rating IV	229,114	(161,223)	67,891	-	-	-	-	-	-	229,114	(161,223)	67,891
overdue more than 90 days and less than 180 days	162,079	(107,502)	54,577	12,714	(10,094)	2,620	-	-	-	174,793	(117,596)	57,197
Rating I	-	-	-	-	-	-	-	-	-	-	-	-
Rating II	-	-	-	-	-	-	-	-	-	-	-	-
Rating III	-	-	-	2,346	(540)	1,806	-	-	-	2,346	(540)	1,806
Rating IV	162,079	(107,502)	54,577	10,368	(9,554)	814	-	-	-	172,447	(117,056)	55,391
overdue more than 180 days and less than 360 days	339,966	(320,106)	19,860	105,797	(105,797)	-	-	-	-	445,763	(425,903)	19,860
Rating I	-	-	-	-	-	-	-	-	-	-	-	-
Rating II	-	-	-	-	-	-	-	-	-	-	-	-
Rating III	9,041	(4,269)	4,772	-	-	-	-	-	-	9,041	(4,269)	4,772
Rating IV	330,925	(315,837)	15,088	105,797	(105,797)	-	-	-	-	436,722	(421,634)	15,088
overdue more than 360 days	3,510,384	(3,217,679)	292,705	380,309	(336,777)	43,532	15,952	(15,952)	-	3,906,645	(3,570,408)	336,237
Rating I	-	-	-	-	-	-	-	-	-	-	-	-
Rating II	6,734	(673)	6,061	-	-	-	-	-	-	6,734	(673)	6,061
Rating III	19,784	(5,933)	13,851	-	-	-	-	-	-	19,784	(5,933)	13,851
Rating IV	3,483,866	(3,211,073)	272,793	380,309	(336,777)	43,532	15,952	(15,952)	-	3,880,127	(3,563,802)	316,325
Total loans to legal entities	**103,569,128**	**(7,339,382)**	**96,229,746**	**62,780,147**	**(2,419,570)**	**60,360,577**	**979,561**	**(15,952)**	**963,609**	**167,328,836**	**(9,774,904)**	**157,553,932**

(Thousands of Russian Roubles)

32. Risk Management Policies (continued)

The table below shows credit quality by class of loans to legal entities as of 31 December 2011:

	Commercial loans			Project finance			REPO agreements			Total		
	Gross loans	Allowance	Total	Gross loans	Allowance	Total	Gross loans	Allowance	Total	Gross loans	Allowance	Total
Loans without individual indicators of impairment and not past due	**94,443,428**	**(1,455,682)**	**92,987,746**	**53,829,999**	**(1,722,548)**	**52,107,451**	**2,408,096**	**-**	**2,408,096**	**150,681,523**	**(3,178,230)**	**147,503,293**
Rating I	78,411,926	(861,704)	77,550,222	32,657,781	(465,088)	32,192,693	2,408,096	-	2,408,096	113,477,803	(1,326,792)	112,151,011
Rating II	16,031,502	(593,978)	15,437,524	21,172,218	(1,257,460)	19,914,758	-	-	-	37,203,720	(1,851,438)	35,352,282
Rating III	-	-	-	-	-	-	-	-	-	-	-	-
Rating IV	-	-	-	-	-	-	-	-	-	-	-	-
Loans without individual indicators of impairment and past due	**16**	**-**	**16**	**-**	**-**	**-**	**-**	**-**	**-**	**16**	**-**	**16**
overdue more than 30 days and less than 90 days	16	-	16	-	-	-	-	-	-	16	-	16
Rating I	16	-	16	-	-	-	-	-	-	16	-	16
Rating II	-	-	-	-	-	-	-	-	-	-	-	-
Rating III	-	-	-	-	-	-	-	-	-	-	-	-
Rating IV	-	-	-	-	-	-	-	-	-	-	-	-
Total loans without individual indicators of impairment	**94,443,444**	**(1,455,682)**	**92,987,762**	**53,829,999**	**(1,722,548)**	**52,107,451**	**2,408,096**	**-**	**2,408,096**	**150,681,539**	**(3,178,230)**	**147,503,309**
Loans with individual indicators of impairment	**9,218,253**	**(5,853,436)**	**3,364,817**	**1,031,690**	**(723,474)**	**308,216**	**15,952**	**(15,952)**	**-**	**10,265,895**	**(6,592,862)**	**3,673,033**
not past due	4,183,423	(2,387,850)	1,795,573	507,699	(332,962)	174,737	-	-	-	4,691,122	(2,720,812)	1,970,310
Rating I	-	-	-	-	-	-	-	-	-	-	-	-
Rating II	-	-	-	-	-	-	-	-	-	-	-	-
Rating III	437,666	(75,190)	362,476	43,369	(10,296)	33,073	-	-	-	481,035	(85,486)	395,549
Rating IV	3,745,757	(2,312,660)	1,433,097	464,330	(322,666)	141,664	-	-	-	4,210,087	(2,635,326)	1,574,761
overdue less than 30 days	33,641	(16,811)	16,830	-	-	-	-	-	-	33,641	(16,811)	16,830
Rating I	-	-	-	-	-	-	-	-	-	-	-	-
Rating II	-	-	-	-	-	-	-	-	-	-	-	-
Rating III	33,621	(16,810)	16,811	-	-	-	-	-	-	33,621	(16,810)	16,811
Rating IV	20	(1)	19	-	-	-	-	-	-	20	(1)	19
overdue more than 30 days and less than 90 days	51,018	(43,868)	7,150	-	-	-	-	-	-	51,018	(43,868)	7,150
Rating I	-	-	-	-	-	-	-	-	-	-	-	-
Rating II	-	-	-	-	-	-	-	-	-	-	-	-
Rating III	5,266	(2,633)	2,633	-	-	-	-	-	-	5,266	(2,633)	2,633
Rating IV	45,752	(41,235)	4,517	-	-	-	-	-	-	45,752	(41,235)	4,517
overdue more than 90 days and less than 180 days	282,033	(275,319)	6,714	-	-	-	-	-	-	282,033	(275,319)	6,714
Rating I	-	-	-	-	-	-	-	-	-	-	-	-
Rating II	-	-	-	-	-	-	-	-	-	-	-	-
Rating III	5,235	(2,618)	2,617	-	-	-	-	-	-	5,235	(2,618)	2,617
Rating IV	276,798	(272,701)	4,097	-	-	-	-	-	-	276,798	(272,701)	4,097
overdue more than 180 days and less than 360 days	253,427	(62,451)	190,976	362,826	(282,461)	80,365	-	-	-	616,253	(344,912)	271,341
Rating I	-	-	-	-	-	-	-	-	-	-	-	-
Rating II	-	-	-	-	-	-	-	-	-	-	-	-
Rating III	242,166	(53,212)	188,954	-	-	-	-	-	-	242,166	(53,212)	188,954
Rating IV	11,261	(9,239)	2,022	362,826	(282,461)	80,365	-	-	-	374,087	(291,700)	82,387
overdue more than 360 days	4,414,711	(3,067,137)	1,347,574	161,165	(108,051)	53,114	15,952	(15,952)	-	4,591,828	(3,191,140)	1,400,688
Rating I	-	-	-	-	-	-	-	-	-	-	-	-
Rating II	-	-	-	-	-	-	-	-	-	-	-	-
Rating III	70,475	(6,025)	64,450	-	-	-	-	-	-	70,475	(6,025)	64,450
Rating IV	4,344,236	(3,061,112)	1,283,124	161,165	(108,051)	53,114	15,952	(15,952)	-	4,521,353	(3,185,115)	1,336,238
Total loans to legal entities	**103,661,697**	**(7,309,118)**	**96,352,579**	**54,861,689**	**(2,446,022)**	**52,415,667**	**2,424,048**	**(15,952)**	**2,408,096**	**160,947,434**	**(9,771,092)**	**151,176,342**

(Thousands of Russian Roubles)

32. Risk Management Policies (continued)

Credit risk associated with loans to individuals is measured and monitored primarily on a portfolio basis. Preliminary evaluations are made during the underwriting process when the Group calculates overall risks from expected and unexpected losses by portfolios and checks whether they are in line with relative limits. Limits are set up by product and by region on a basis of historical losses and expert opinions. The Group uses computerized procedures for subsequent monitoring of retail lending portfolios and identification of substandard loans.

The following table provides information on loans to individuals as of 31 December 2012:

	Gross loans	Allowance	Total	Allowance ,%
Mortgage loans	**9,132,364**	**(262,232)**	**8,870,132**	**2.9**
not past due	8,687,898	(11,680)	8,676,218	0.1
overdue less than 30 days	58,650	(5,731)	52,919	9.8
overdue more than 30 days and less than 90 days	53,225	(9,598)	43,627	18.0
overdue more than 90 days and less than 180 days	45,763	(15,622)	30,141	34.1
overdue more than 180 days and less than 360 days	17,615	(12,307)	5,308	69.9
overdue more than 360 days	269,213	(207,294)	61,919	77.0
Consumer loans	**8,286,877**	**(323,032)**	**7,963,845**	**3.9**
not past due	7,568,230	(26,113)	7,542,117	0.3
overdue less than 30 days	141,552	(6,417)	135,135	4.5
overdue more than 30 days and less than 90 days	35,606	(7,680)	27,926	21.6
overdue more than 90 days and less than 180 days	45,503	(13,341)	32,162	29.3
overdue more than 180 days and less than 360 days	24,239	(10,634)	13,605	43.9
overdue more than 360 days	471,747	(258,847)	212,900	54.9
Car loans	**2,216,081**	**(40,746)**	**2,175,335**	**1.8**
not past due	2,108,685	(3,910)	2,104,775	0.2
overdue less than 30 days	28,076	(2,300)	25,776	8.2
overdue more than 30 days and less than 90 days	15,594	(2,679)	12,915	17.2
overdue more than 90 days and less than 180 days	7,947	(2,031)	5,916	25.6
overdue more than 180 days and less than 360 days	5,473	(2,416)	3,057	44.1
overdue more than 360 days	50,306	(27,410)	22,896	54.5
Plastic cards overdrafts	**242,333**	**(10,524)**	**231,809**	**4.3**
not past due	223,537	(2,802)	220,735	1.3
overdue less than 30 days	4,210	(170)	4,040	4.0
overdue more than 30 days and less than 90 days	1,918	(282)	1,636	14.7
overdue more than 90 days and less than 180 days	1,581	(463)	1,118	29.3
overdue more than 180 days and less than 360 days	3,501	(985)	2,516	28.1
overdue more than 360 days	7,586	(5,822)	1,764	76.7
Reverse sale and repurchase agreements	**86,041**	**-**	**86,041**	**-**
not past due	86,041	-	86,041	-
overdue less than 30 days	-	-	-	-
overdue more than 30 days and less than 90 days	-	-	-	-
overdue more than 90 days and less than 180 days	-	-	-	-
overdue more than 180 days and less than 360 days	-	-	-	-
overdue more than 360 days	-	-	-	-
Total	**19,963,696**	**(636,534)**	**19,327,162**	**3.2**

(Thousands of Russian Roubles)

32. Risk Management Policies (continued)

The following table provides information on loans to individuals as of 31 December 2011:

	Gross loans	Allowance	Total	Allowance ,
Mortgage loans	**5,690,168**	**(367,788)**	**5,322,380**	**6.5**
not past due	5,198,852	(5,928)	5,192,924	0.1
overdue less than 30 days	17,356	(2,997)	14,359	17.3
overdue more than 30 days and less than 90 days	16,720	(4,839)	11,881	28.9
overdue more than 90 days and less than 180 days	30,480	(14,769)	15,711	48.5
overdue more than 180 days and less than 360 days	26,608	(18,741)	7,867	70.4
overdue more than 360 days	400,152	(320,514)	79,638	80.1
Consumer loans	**6,831,804**	**(340,012)**	**6,491,792**	**5.0**
not past due	6,034,858	(31,938)	6,002,920	0.5
overdue less than 30 days	39,701	(5,091)	34,610	12.8
overdue more than 30 days and less than 90 days	55,409	(10,855)	44,554	19.6
overdue more than 90 days and less than 180 days	62,020	(22,812)	39,208	36.8
overdue more than 180 days and less than 360 days	97,909	(41,259)	56,650	42.1
overdue more than 360 days	541,907	(228,057)	313,850	42.1
Car loans	**1,076,655**	**(36,976)**	**1,039,679**	**3.4**
not past due	992,325	(1,487)	990,838	0.1
overdue less than 30 days	18,288	(2,604)	15,684	14.2
overdue more than 30 days and less than 90 days	5,903	(1,298)	4,605	22.0
overdue more than 90 days and less than 180 days	3,998	(1,379)	2,619	34.5
overdue more than 180 days and less than 360 days	4,031	(1,832)	2,199	45.4
overdue more than 360 days	52,110	(28,376)	23,734	54.5
Plastic cards overdrafts	**147,904**	**(21,789)**	**126,115**	**14.7**
not past due	111,731	(1,989)	109,742	1.8
overdue less than 30 days	2,933	(416)	2,517	14.2
overdue more than 30 days and less than 90 days	1,355	(391)	964	28.9
overdue more than 90 days and less than 180 days	1,214	(537)	677	44.2
overdue more than 180 days and less than 360 days	2,411	(709)	1,702	29.4
overdue more than 360 days	28,260	(17,747)	10,513	62.8
Reverse sale and repurchase agreements	**148,202**	**-**	**148,202**	**-**
not past due	148,202	-	148,202	-
overdue less than 30 days	-	-	-	-
overdue more than 30 days and less than 90 days	-	-	-	-
overdue more than 90 days and less than 180 days	-	-	-	-
overdue more than 180 days and less than 360 days	-	-	-	-
overdue more than 360 days	-	-	-	-
Total	**13,894,733**	**(766,565)**	**13,128,168**	**5.5**

(Thousands of Russian Roubles)

32. Risk Management Policies (continued)

The table below shows credit quality of assets other than loans to customers as at 31 December 2012:

	Rating I	Rating II	Rating III	Rating IV	Total
Cash and cash equivalents (excluding cash on hand)	24,425,605	-	-	-	24,425,605
Mandatory reserve deposits with CBRF	2,407,813	-	-	-	2,407,813
Due from banks	9,077,237	-	-	-	9,077,237
Financial assets at fair value through profit or loss	9,394,214	-	-	-	9,394,214
Available-for-sale financial assets	15,707,752	464,305	-	-	16,172,057
Other assets	472,862	-	-	-	472,862
Loan commitments	30,622,950	163,495	43	319	30,786,807
Guarantees issued	23,179,988	103,843	-	123,049	23,406,880
Import letters of credit	2,826,836	-	-	-	2,826,836
Less: allowance for credit related commitment impairment	(49,750)	(11,075)	(43)	(123,368)	(184,236)
Credit related commitments, net	56,580,024	256,263	-	-	56,836,287

The table below shows credit quality of assets other than loans to customers as at 31 December 2011:

	Rating I	Rating II	Rating III	Rating IV	Total
Cash and cash equivalents (excluding cash on hand)	27,675,791	-	-	-	27,675,791
Mandatory reserve deposits with CBRF	2,335,160	-	-	-	2,335,160
Due from banks	10,097,501	-	-	-	10,097,501
Financial assets at fair value through profit or loss	6,629,901	-	-	-	6,629,901
Available-for-sale financial assets	15,038,123	35,073	-	-	15,073,196
Other assets	331,948	-	-	-	331,948
Loan commitments	33,652,257	-	-	-	33,652,257
Guarantees issued	24,082,601	-	-	-	24,082,601
Import letters of credit	7,039,204	-	-	-	7,039,204
Less: allowance for credit related commitment impairment	(74,388)	-	-	-	(74,388)
Credit related commitments, net	64,699,674	-	-	-	64,699,674

Procedures on subsequent monitoring of credit risk include:

- Analysis of actual exposures versus established limits;
- Control over compliance with internal policies, procedures, instructions and orders issued by respective management bodies;
- Review of corporate borrowers' quarterly financial statements and, where appropriate, actual performance versus business plans;
- Control over existence and valuation of collateral taken;
- Monitoring of business, economic and political events in order to assess whether these events can negatively affect (a) an industry or a region where the Group's corporate borrowers operate; (b) the reputation of these corporate borrowers and of the Group itself;
- Monitoring of macroeconomic parameters in order to assess adequacy of risk assessment associated with corporate lending portfolios and to validate scoring models used for retail lending programs; and
- Portfolio analyses showing trends in default rates, concentrations/diversifications by borrowers or groups of borrowers, products, industries, countries, etc.

32. Risk Management Policies (continued)

Attention is paid to improve efficiency of distressed debt collection and to protect the Group against illegal actions. Distressed debt collection procedures are initiated if loans are overdue by more than 30 days. These procedures include the Group's proprietary techniques and the best practices of international and Russian banks in this area such as debt restructuring, searching for evading debtors and their property, claims to property and earnings and actions against lending fraud. Debt collection procedures are performed on the basis of current Russian legislation and international standards in close interaction with legal and law enforcement authorities.

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

The Group also uses several limits on amounts due from other banks such as maximum credit exposure on counterparty and on a group of transactions with this counterparty including lending, purchase and sale of securities, currency and other financial assets if these transactions may cause a credit risk. In order to establish these limits the Group uses credit quality assessment procedures similar to the ones applicable to corporate borrowers discussed above.

Liquidity risk. Liquidity risk refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments associated with financial instruments as they actually fall due. It is unusual for banks ever to be completely matched on maturities of assets and liabilities since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Group and its exposure to changes in interest and exchange rates.

The Group's approach to liquidity management is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both ordinary and stressed conditions, without incurring unacceptable losses or damaging the Group's reputation.

The Group endeavors to maintain a stable and diversified funding base including core corporate and individual customer accounts; short-, medium- and long-term loans from other banks; promissory notes issued and bonds placed on domestic and international markets. On the other hand, the Group tends to keep diversified portfolios of liquid and highly-liquid assets in order to be able to settle unforeseen liquidity requirements in an efficient and timely manner.

Key parameters in liquidity risk management such as the structure of assets and liabilities, composition of liquid assets and acceptable liquidity risks are established by the Assets and Liabilities Committee (ALCO). ALCO sets and reviews limits on liquidity gaps which are assessed on the basis of liquidity stress-tests in regard to medium- and long-term liquidity. These tests are performed using the following information:

- Current structure of assets and liabilities including any known renewal arrangements as of the date of the respective test;
- Amounts, maturity and liquidity profiles of transactions projected by business units;
- Current and projected characteristics of liquid assets which include, apart from cash and cash equivalents, amounts due from other banks and certain financial assets held-for-trading; and
- Relevant external factors.

32. Risk Management Policies (continued)

The resulting models allow for the assessment of future expected cash flows due to projected future business and different crisis scenarios.

While managing liquidity risk treasury departments of the Group distinguish liquidity required within a current business day and term liquidity with a 1-year horizon.

For managing current liquidity (with a 1-day horizon) the following methods are used:

- Reallocation of cash between accounts with other banks;
- Collection of information from business and other supporting units on large transactions (both proprietary and customer based);
- Purchase and sale of certain financial assets in liquid portfolios;
- Accelerating closure of trade positions;
- Estimation of minimum expected cash inflow during a business day; and
- Daily control over the balance of cash and estimated liabilities to be settled on demand.

For managing term liquidity treasury departments of the Group use liquidity graphs that reflect volume and time of liquidity mismatches (surpluses or deficiencies). These liquidity graphs, in essence, present projected cash flows estimated with due regard for expected maturities of assets and liabilities. The Group sets limits on acceptable accumulated liquidity mismatches which are calculated by using the following instruments:

- Discounts to assets are applied to recognize market risk in case of accelerated realization of respective assets; and
- Models showing cash flow fluctuations due to accelerated settlement of liabilities.

In the normal course of business, liquidity reports covering the current and projected structure of assets and liabilities as well as future expected cash flows are submitted to ALCO once every two weeks. Decisions on liquidity management made by ALCO are implemented by treasury departments within their duties and responsibilities. In addition to this, ALCO reviews and approves model of maturity for the minimum required daily balances of current accounts by currencies on the basis of analysis of historical dynamics. Models of stress-analysis of long-term liquidity were renewed in the year 2010.

The tables below provide an analysis of assets and liabilities as of 31 December 2012 and 2011 by their remaining contractual maturity from the respective balance sheet date.

(Thousands of Russian Roubles)

32. Risk Management Policies (continued)

The liquidity position of interest bearing assets and liabilities the Group as of 31 December 2012 is set out below:

	Interest bearing financial assets/liabilities				Non-interest bearing		
	On demand and less than 1 month	**From 1 to 6 months**	**From 6 to 12 months**	**More than 1 year**	**Financial**	**Non-financial**	**Total**
Assets							
Cash and cash equivalents	13,920,582	-	-	-	17,847,237	-	31,767,819
Mandatory reserve deposits with the CBRF	-	-	-	-	2,407,813	-	2,407,813
Due from banks	8,177,600	495,350	181,735	222,552	-	-	9,077,237
Financial assets at fair value through profit or loss	9,149,396	-	-	-	482,207	-	9,631,603
Available-for-sale financial assets	69,224	2,383,868	2,346,163	11,372,796	1,229,793	-	17,401,844
Investments in associates					-	1,308,727	1,308,727
Loans to customers	7,475,204	47,682,858	24,621,083	97,101,949	-	-	176,881,094
Property, plant and equipment	-	-	-	-	-	4,134,112	4,134,112
Assets for development and sale	-	-	-	-	-	2,977,908	2,977,908
Investment property	-	-	-	-	-	679,824	679,824
Goodwill	-	-	-	-	-	156,248	156,248
Other assets	-	-	-	-	472,862	360,533	833,395
Current income tax asset	-	-	-	-	-	326,410	326,410
Deferred income tax asset	-	-	-	-	-	276,611	276,611
Non-current assets held for sale	-	-	-	-	-	3,041,527	3,041,527
Total assets	**38,792,006**	**50,562,076**	**27,148,981**	**108,697,297**	**22,439,912**	**13,261,900**	**260,902,172**
Liabilities							
Due to banks and CBRF	5,347,762	11,257,747	3,016,230	266,330	-	-	19,888,069
Customer accounts	25,886,015	44,464,317	34,711,219	13,281,110	34,255,113	-	152,597,774
Debt securities issued	1,718,731	6,342,744	1,717,598	8,470,937	643,147	-	18,893,157
RUR-denominated bonds issued	-	2,593,198	109,447	25,880,066	-	-	28,582,711
Other liabilities	-	-	-	-	633,100	1,075,920	1,709,020
Current income tax liability	-	-	-	-	-	14,818	14,818
Deferred income tax liability	-	-	-	-	-	118,808	118,808
Subordinated debt	-	11,545	-	12,101,836	-	-	12,113,381
Total liabilities	**32,952,508**	**64,669,551**	**39,554,494**	**60,000,279**	**35,531,360**	**1,209,546**	**233,917,738**
Net liquidity gap on interest bearing financial assets and liabilities	**5,839,498**	**(14,107,475)**	**(12,405,513)**	**48,697,018**			
Cumulative liquidity gap at 31 December 2012 on interest bearing financial assets and liabilities	**5,839,498**	**(8,267,977)**	**(20,673,490)**	**28,023,528**			

(Thousands of Russian Roubles)

32. Risk Management Policies (continued)

The liquidity position of interest bearing assets and liabilities the Group as of 31 December 2011 is set out below:

	Interest bearing financial assets/liabilities				Non-interest bearing		
	On demand and less than 1 month	**From 1 to 6 months**	**From 6 to 12 months**	**More than 1 year**	**Financial**	**Non-financial**	**Total**
Assets							
Cash and cash equivalents	14,717,091	-	-	-	19,696,167	-	34,413,258
Mandatory reserve deposits with the CBRF	-	-	-	-	2,335,160	-	2,335,160
Due from banks	7,917,385	1,283,264	574,028	322,824		-	10,097,501
Financial assets at fair value through profit or loss	4,286,034	-	-	-	2,647,400	-	6,933,434
Available-for-sale financial assets	134,589	3,939,259	5,142,676	5,840,176	1,585,262	-	16,641,962
Investments in associates	-	-	-	-	-	1,213,914	1,213,914
Loans to customers	9,398,344	37,169,152	28,311,921	89,425,093	-	-	164,304,510
Property, plant and equipment	-	-	-	-	-	4,017,664	4,017,664
Assets for development and sale	-	-	-	-	-	2,691,584	2,691,584
Investment property	-	-	-	-	-	392,768	392,768
Goodwill	-	-	-	-	-	156,248	156,248
Other assets	-	-	-	-	331,948	428,310	760,258
Current income tax asset	-	-	-	-	-	8,017	8,017
Deferred income tax asset	-	-	-	-	-	575,779	575,779
Non-current assets held for sale	-	-	-	-	-	2,185,310	2,185,310
Total assets	**36,453,443**	**42,391,675**	**34,028,625**	**95,588,093**	**26,595,937**	**11,669,594**	**246,727,367**
Liabilities							
Due to banks and CBRF	2,881,992	12,615,265	6,250,157	1,684,749	-	-	23,432,163
Customer accounts	20,791,373	39,415,611	38,811,934	9,375,837	33,849,391	-	142,244,146
Debt securities issued	3,165,696	4,854,197	3,575,753	7,828,212	265,451	-	19,689,309
RUR-denominated bonds issued	-	-	-	23,885,464	-	-	23,885,464
Other liabilities	-	-	-	-	219,133	805,572	1,024,705
Current income tax liability	-	-	-	-	-	12,545	12,545
Deferred income tax liability	-	-	-	-	-	85,286	85,286
Subordinated debt	-	10,338	128,784	12,301,865	-	-	12,440,987
Total liabilities	**26,839,061**	**56,895,411**	**48,766,628**	**55,076,127**	**34,333,975**	**903,403**	**222,814,605**
Net liquidity gap on interest bearing financial assets and liabilities	**9,614,382**	**(14,503,736)**	**(14,738,003)**	**40,511,966**			
Cumulative liquidity gap at 31 December 2011 on interest bearing financial assets and liabilities	**9,614,382**	**(4,889,354)**	**(19,627,357)**	**20,884,609**			

(Thousands of Russian Roubles)

32. Risk Management Policies (continued)

Term deposits from individuals are based on the terms of individual deposits stipulated in the contracts. However, in accordance with the Russian legislation, such deposits must be repaid on receipt of an individual's request.

While financial assets at fair value through profit or loss are shown at demand, realising such assets upon demand is dependent upon financial market conditions. Significant security positions may not be liquidated in a short period of time without adverse price effects. While financial assets available-for-sale are shown by maturity, these assets could used for managing the maturity gaps.

In addition to the risk of unmatched positions on maturity of assets and liabilities, the Group is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may also result in losses in the event that unexpected movements arise. Interest rate risk is discussed below as a part of market risk.

The following tables show undiscounted cash flows (the gross outflow) of the Group's financial liabilities and off-balance sheet loan commitments on the basis of their earliest possible contractual maturity. The Group's expected cash flows on these financial liabilities and unrecognized loan commitments may vary significantly from this analysis.

The gross undiscounted cash flows of the Group as at 31 December 2012 and 2011 were as follows:

	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 1 to 5 years	More than 5 years	Total
31 December 2012						
Financial liabilities						
Due to banks and CBRF	5,895,343	11,523,630	3,119,760	273,046	-	20,811,779
Customer accounts	60,565,778	45,967,329	36,436,495	14,083,559	869	157,054,030
Debt securities issued	2,519,059	6,441,436	1,796,589	9,354,454	-	20,111,538
RUR-denominated bonds issued	-	3,824,142	1,256,474	28,993,401	-	34,074,017
Other financial liabilities	591,584	7,188	7,102	27,226	-	633,100
Subordinated debt	61,600	329,344	488,182	5,061,798	11,936,294	17,877,218
Total financial liabilities	**69,633,364**	**68,093,069**	**43,104,602**	**57,793,484**	**11,937,163**	**250,561,682**
Loan commitments	**3,646,058**	**7,478,055**	**6,920,068**	**11,506,790**	**1,235,836**	**30,786,807**
31 December 2011						
Financial liabilities						
Due to banks and CBRF	3,168,690	13,388,741	8,519,371	1,807,285	-	26,884,087
Customer accounts	55,967,453	40,747,505	40,439,698	10,002,212	1,748	147,158,616
Debt securities issued	3,441,880	4,930,271	3,741,489	8,247,234	208,803	20,569,677
RUR-denominated bonds issued	112,015	775,910	1,004,677	25,364,273	-	27,256,875
Other financial liabilities	174,338	16,358	25,847	2,590	-	219,133
Subordinated debt	61,340	305,805	678,120	5,050,442	12,809,868	18,905,575
Total financial liabilities	**62,925,716**	**60,164,590**	**54,409,202**	**50,474,036**	**13,020,419**	**240,993,963**
Loan commitments	**1,576,019**	**5,331,357**	**6,540,328**	**18,327,669**	**1,876,884**	**33,652,257**

32. Risk Management Policies (continued)

Market risk. Market risk is the risk that movements in market prices (including interest rates and spreads, foreign exchange rates, quotes on assets held-for-trading and assets recognized at fair value through profit and loss) will result in fluctuations of the fair value or future cash flows of a financial instrument and, therefore, will affect the Group's profitability. Market risk arises due to open positions on interest rates, currency, financial assets at fair value through profit or loss and available-for-sale financial assets that are exposed to general and specific market movements and changes in the level of volatility of market prices.

Market risk includes currency risk, interest rate risk, and other prices risk.

The purpose of market risk management is to maintain a reasonable balance of risk and profitability. The market risk management system includes limits, policies and procedures regarding the different types of market risk including currency, interest rate and other prices risk.

Market risk is managed primarily through daily mark-to-market procedures, sensitivity analysis showing how the Group's profit or loss and equity would have been affected by changes in the relevant risk variable and control of limits established for various types of financial instruments.

All new types of transactions are examined for risk associated with them and a preliminary analysis of these risks is performed by risk management departments. This risk profile along with proposals on risk limits and control procedures is submitted to ALCO for approval.

Depending on the type of risk the Group introduces position limits (i.e. limits restricting the total amount of an investment or exposure) as well as stop-loss and call-level limits. Stop-loss limits are extensively used for the restriction of price risks associated with investments in securities. In addition to these, the Group sets limits on a maximum duration of debt instruments. When necessary the Group establishes margin and collateral requirements.

Market risk management is performed on a regular basis by evaluating risk indices and calculating the market value of open positions which are compared to permitted limits approved by ALCO. Market risk control procedures on positions in securities are performed on a daily basis and their result is an integral part of the quarterly report on the Group's consolidated risks.

Currency risk. Currency risk is the risk that values of financial instruments will fluctuate due to changes in foreign exchange rates. The Group operates within the limits of exposure by different currencies set by the CBRF. The Group management controls the allocation of these limits between operating units.

Generally the Group does not allow long open currency positions, these are monitored and controlled by treasury departments on a daily basis. Short-term trade transactions are permitted in insignificant amounts, but only if a position can be closed immediately. The Group sets position limits and stop-loss limits for such transactions which are controlled by the risk management departments.

At the year end the Group had balances in RUR, USD and other currencies. Other currencies are represented mainly by amounts in Euro, clearing currencies and precious metals.

(Thousands of Russian Roubles)

32. Risk Management Policies (continued)

As at 31 December 2012, the Group has the following open positions in currencies:

	RUR	USD	Other currencies	Total
Assets				
Financial assets:				
Cash and cash equivalents	17,398,679	11,570,891	2,798,249	31,767,819
Mandatory reserve deposits with the CBRF	2,407,813	-	-	2,407,813
Due from banks	7,137,520	961,477	978,240	9,077,237
Financial assets at fair value through profit or loss	7,300,998	2,326,412	4,193	9,631,603
Available-for-sale financial assets	14,540,011	2,856,798	5,035	17,401,844
Loans to customers	153,798,158	17,200,836	5,882,100	176,881,094
Other financial assets	418,672	45,358	8,832	472,862
Total financial assets	**203,001,851**	**34,961,772**	**9,676,649**	**247,640,272**
Non-financial assets:				
Investments in associates	-	1,308,727	-	1,308,727
Property, plant and equipment	4,134,112	-	-	4,134,112
Assets for development and sale	2,977,908	-	-	2,977,908
Investment property	679,824	-	-	679,824
Goodwill	156,248	-	-	156,248
Other non-financial assets	330,224	7,755	22,554	360,533
Current income tax asset	326,410	-	-	326,410
Deferred income tax asset	276,611	-	-	276,611
Non-current assets held for sale	3,041,527	-	-	3,041,527
Total non-financial assets	**11,922,864**	**1,316,482**	**22,554**	**13,261,900**
Total assets	**214,924,715**	**36,278,254**	**9,699,203**	**260,902,172**
Liabilities				
Financial liabilities:				
Due to banks and CBRF	13,010,448	5,087,920	1,789,701	19,888,069
Customer accounts	120,837,916	23,247,914	8,511,944	152,597,774
Debt securities issued	6,485,630	7,287,057	5,120,470	18,893,157
RUR-denominated bonds issued	28,582,711	-	-	28,582,711
Other financial liabilities	595,684	17,282	20,134	633,100
Subordinated debt	8,794,831	3,318,550	-	12,113,381
Total financial liabilities	**178,307,220**	**38,958,723**	**15,442,249**	**232,708,192**
Non-financial liabilities:				
Current income tax liability	14,818	-	-	14,818
Deferred income tax liability	118,808	-	-	118,808
Other non-financial liabilities	1,074,414	1,481	25	1,075,920
Total non-financial liabilities	**1,208,040**	**1,481**	**25**	**1,209,546**
Total liabilities	**179,515,260**	**38,960,204**	**15,442,274**	**233,917,738**
Net position	**35,409,455**	**(2,681,950)**	**(5,743,071)**	
Off-balance sheet (derivatives) net notional position	**(7,816,426)**	**1,092,386**	**6,724,040**	
Credit related commitments	**50,037,065**	**4,653,326**	**986,210**	

(Thousands of Russian Roubles)

32. Risk Management Policies (continued)

As at 31 December 2011, the Group has the following open positions in currencies:

	RUR	USD	Other currencies	Total
Assets				
Financial assets:				
Cash and cash equivalents	18,632,799	12,237,525	3,542,934	34,413,258
Mandatory reserve deposits with the CBRF	2,335,160	-	-	2,335,160
Due from banks	7,661,688	856,257	1,579,556	10,097,501
Financial assets at fair value through profit or loss	5,796,659	1,129,545	7,230	6,933,434
Available-for-sale financial assets	13,448,054	3,189,285	4,623	16,641,962
Loans to customers	140,723,302	18,150,796	5,430,412	164,304,510
Other financial assets	284,900	42,279	4,769	331,948
Total financial assets	**188,882,562**	**35,605,687**	**10,569,524**	**235,057,773**
Non-financial assets:				
Investments in associates	-	1,213,914	-	1,213,914
Property, plant and equipment	4,017,664	-	-	4,017,664
Assets for development and sale	2,691,584	-	-	2,691,584
Investment property	392,768	-	-	392,768
Goodwill	156,248	-	-	156,248
Other non-financial assets	272,391	7,603	148,316	428,310
Current income tax asset	8,017	-	-	8,017
Deferred income tax asset	575,779	-	-	575,779
Non-current assets held for sale	2,185,310	-	-	2,185,310
Total non-financial assets	**10,299,761**	**1,221,517**	**148,316**	**11,669,594**
Total assets	**199,182,323**	**36,827,204**	**10,717,840**	**246,727,367**
Liabilities				
Financial liabilities:				
Due to banks and CBRF	11,820,630	9,477,260	2,134,273	23,432,163
Customer accounts	114,087,963	17,353,396	10,802,787	142,244,146
Debt securities issued	6,380,836	8,243,567	5,064,906	19,689,309
RUR-denominated bonds issued	23,885,464	-	-	23,885,464
Other financial liabilities	190,198	17,658	11,277	219,133
Subordinated debt	8,794,176	3,646,811	-	12,440,987
Total financial liabilities	**165,159,267**	**38,738,692**	**18,013,243**	**221,911,202**
Non-financial liabilities:				
Current income tax liability	12,545	-	-	12,545
Deferred income tax liability	85,286	-	-	85,286
Other non-financial liabilities	803,598	1,403	571	805,572
Total non-financial liabilities	**901,429**	**1,403**	**571**	**903,403**
Total liabilities	**166,060,696**	**38,740,095**	**18,013,814**	**222,814,605**
Net position	**33,121,627**	**(1,912,891)**	**(7,295,974)**	
Off-balance sheet (derivatives) net notional position	**22,573**	**(873,912)**	**851,339**	
Credit related commitments	**51,293,293**	**8,390,300**	**3,162,866**	

The Group has extended loans denominated in foreign currencies. Depending on the revenue sources of the borrower, the increase of the foreign currency exchange rate can adversely influence the borrowers' repayment ability and, therefore, increases the probability of future loan losses.

(Thousands of Russian Roubles)

32. Risk Management Policies (continued)

The sensitivity analysis of currency risk includes outstanding balance revaluation and calculation of the translation effect for main currencies. The table below represents the Group's sensitivity to a 21.4 increase and decrease in USD against RUR as of 31 December 2012 (2011: 26.5). These sensitivity rates are used in foreign currency risk internal reports and represent management's assessment of the possible change in foreign exchange rates.

	As of 31 December 2012		As of 31 December 2011	
	RUR/USD +21.4	RUR/USD -21.4	RUR/USD +26.5	RUR/USD -26.5
Impact on profit or loss before tax	(341,309)	341,309	(737,639)	737,639
Impact on equity	(273,047)	273,047	(590,111)	590,111

Interest rate risk. Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates.

The table below summarises the effective average year end interest rates, by major currencies (USD, RUR), for financial instruments outstanding as at 31 December 2012 and 2011. The analysis has been prepared on the basis of weighted average effective interest rates for the various financial instruments using year-end contractual terms and conditions.

	31 December 2012		31 December 2011	
	USD	RUR	USD	RUR
Assets				
Cash and cash equivalents	0.1	4.4	0.1	3.7
Due from banks	4.6	6.0	0.1	5.7
Financial assets at fair value through profit or loss	7.1	8.8	7.4	8.6
Available-for-sale financial assets	7.8	8.6	8.8	8.2
Loans to customers	7.7	10.9	8.3	11.1
Liabilities				
Due to banks and CBRF	3.5	6.9	3.0	6.4
Customer accounts	4.9	7.8	4.2	7.2
Debt securities issued	6.1	7.6	5.3	7.1
Eurobonds and RUR-denominated bonds issued	-	9.0	-	7.6
Subordinated debt	7.3	8.2	7.1	8.1

The majority of the Group's interest rate sensitive financial assets and liabilities are at fixed rates. Floating rate arrangements exist in respect of loans to customers, term deposits placed with or taken from foreign banks, loans attracted from syndicates of foreign financial institutions and certain subordinated loans. Therefore, the Group's interest rate risk arises primarily from unmatched positions on maturities of assets and liabilities carried at fixed rates.

Management of interest rate risk is performed through analysis of the structure of assets and liabilities by re-pricing dates. Interest rates are revised on a short-term basis, normally at three-month intervals. Also, interest rates that are contractually fixed on both assets and liabilities may be renegotiated before any new credit tranche is issued to reflect current market conditions. All new credit products and transactions are assessed in respect of interest rate risk upfront, prior to starting these transactions.

Additionally, as disclosed in the maturity analysis above, the maturity dates applicable to the majority of the Group's assets and liabilities are relatively short-term and that provides the Group with a certain level of flexibility to react to changing market situations.

(Thousands of Russian Roubles)

32. Risk Management Policies (continued)

The Group's overall interest rate risk is monitored by ALCO which reviews the structure of assets and liabilities, current and projected interest rates. Treasury departments are responsible for day-to-day management of the interest rate mismatch, preliminary approval of interest rates on projected transactions, preparation and submission for approval suggestions on acceptable interest rate levels by instrument and duration. Risk management departments review current interest rate gaps and assess resulting effects of interest rate risk on the Group's interest margin and economic capital.

The quantitative estimation of interest rate risk is carried out using stress-models which quantify the change in net interest margin due to fluctuations of interest rate sensitive assets and liabilities. For this purpose the Group identifies interest rate sensitive assets and liabilities and assesses the level of interest rate sensitivity by each asset or liability. The analysis is made by currencies on an annual horizon and is based on certain assumptions in respect of expected fluctuations of interest rates and most sensitive stress scenario. The results are used for on-going interest margin monitoring and regulation and are included in the quarterly report on the Group's consolidated risks.

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

Change of interest rates for interest rate sensitive financial instruments		**31 December 2012**		**31 December 2011**	
RUR	**USD**	**Effect on profit before tax**	**Effect on equity**	**Effect on profit before tax**	**Effect on equity**
-1%	-1%	(170,076)	(136,061)	(197,881)	(158,305)

Other prices risk. Other prices risk is the risk that movements in market prices resulting from factors associated with an issuer of financial instruments (specific risk) and general changes in the market prices of financial instruments (general risk) will affect the fair value or future cash flows of a financial instrument and, as a result, the Group's profitability.

Other prices risk for financial instruments held within the Group's financial assets at fair value through profit or loss is managed: (a) through maintaining a diversified structure of portfolios; and (b) by setting position limits (i.e. limits restricting the total amount of an investment or maximum mismatch between respective assets and liabilities) as well as stop-loss and call-level limits. In addition to these, the Group sets limits on a maximum duration of debt financial instruments. When necessary the Group establishes margin and collateral requirements.

Other prices risk is managed primarily through daily mark-to-market procedures, sensitivity analysis and control of limits established for various types of financial instruments.

Other prices sensitivity is assessed using the Value at Risk ("VaR") method. This is a technique that estimates potential losses that could occur on a risk position as a result of movements in market rates and prices over a specified time horizon and to a given level of confidence. The method is predominantly based on historical simulation models which incorporate the following features: (i) potential market movements calculated with reference to data from the previous two years; (ii) risk is calculated to a 98.5 per cent confidence level; and (iii) risk is calculated for a one-day holding period. The Group uses a VaR model that relies on Monte Carlo simulations.

(Thousands of Russian Roubles)

32. Risk Management Policies (continued)

VaR estimates in respect of financial assets at fair value through profit or loss and available-for-sale financial assets as at 31 December 2012 and 2011 are as follows:

	31 December 2012	31 December 2011
Fixed income securities price risk	257,387	152,660
Equity securities price risk	96,308	108,154
Total price risk in respect with financial assets at fair value through profit or loss and available-for-sale financial assets	**353,695**	**260,814**

Although VaR is a valuable tool in measuring other prices risk exposures, it has a number of limitations, especially, in less liquid markets:

- The use of historical data as a basis for determining future events may not encompass all possible scenarios;
- A 1 day holding period assumes that all positions can be liquidated or hedged within that period; however, this may not be the case in situations when severe market illiquidity exists and is prolonged;
- The use of a 98.5 per cent confidence level does not take into account losses that may occur beyond this level. There is 1.5 per cent probability that the loss could exceed the VaR; and
- As VaR is only calculated on an end-of-day basis, it does not necessarily reflect exposures that may arise on positions during the trading day.

The limitations of the VaR method are recognized by supplementing these assessments with limits on other prices risk discussed above.

33. Contingencies and Commitments

Operating Environment – Emerging markets such as Russia are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. As has happened in the past, actual or perceived financial problems or an increase in the perceived risks associated with investing in emerging economies could adversely affect the investment climate in Russia and the Russian economy in general.

Laws and regulations affecting businesses in Russia continue to change rapidly. Tax, currency and customs legislation within Russia are subject to varying interpretations, and other legal and fiscal impediments contribute to the challenges faced by entities currently operating in Russia. The future economic direction of Russia is heavily influenced by the economic, fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

The global financial system continues to exhibit signs of deep stress and many economies around the world are experiencing lesser or no growth than in prior years. Additionally there is increased uncertainty about the creditworthiness of some sovereign states in the Eurozone and financial institutions with exposure to the sovereign debt of such states. These conditions could slow or disrupt the Russian economy, adversely affect the Group’s access to capital and cost of capital for the Group and, more generally, its business, results of operations, financial condition and prospects.

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

(Thousands of Russian Roubles)

33. Contingencies and Commitments (continued)

The management of the Group is constantly monitoring the macroeconomic and market environment within the country and in the world to react effectively and promptly to the ongoing changes and to adjust their actions to the competitive environment. The management of the Group considers that all necessary steps to keep the stable development and growth of the Group are undertaken in the given circumstances.

Legal proceedings. From time to time and in the normal course of business, claims against the Group are received. Management is of the opinion that no material losses will be incurred by the Group and, accordingly, no provision for such contingent liabilities has been made in these consolidated financial statements.

Tax legislation. The presence in Russian commercial and tax legislation of provisions allowing more than one interpretation coupled with the practice by the tax authorities of making arbitrary judgements of business activities, management's judgement on the Group's business activities may not coincide with the interpretation of the same by tax and other regulatory authorities. Therefore, the possibility exists that tax authorities may impose arbitrary or onerous taxes and penalties in the future, which could adversely affect the Group's business.

In addition to this, because the tax legislation is subject to frequent change and some tax regulations are comparatively new, implementation of these regulations is often unclear or nonexistent. In some instances, the Russian tax authorities have applied new interpretations of tax laws retroactively. There is no established precedent or consistent court practice in respect of these questions. Tax years remain open to review by the tax authorities for three years.

Tax declarations, together with other legal compliance areas including, for example, customs and currency control matters, are subject to review and investigation by a number of authorities, which are enabled by law to impose several fines, penalties and interest charges.

In 2010-2012 the Bank had a legal dispute with Russian Tax Authority upon additional income tax payment for the years 2006-2008. As at 31 December 2009 the Group made a provision for these contingent liabilities totalling to RUR 82,612 thousand. In 2010 the Group paid the requested amount and submitted the legal dispute to the court. The court found in favour of the Bank in respect of the major episodes of the dispute and the relevant provision of RUR 72,587 thousand was recovered in the consolidated financial statements of the Group for the year ended 31 December 2012.

In April 2012 the Russian Tax Authority issued the request to the Bank for additional income tax payment for the years 2009-2010. The Group paid the requested amount and recorded relevant provision totalling to RUR 18,020 thousand.

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

	31 December 2012	**31 December 2011**
Not later than one year	525,753	450,405
Later than one year and not later than five years	153,171	385,419
Later than five years	120,864	56,497
Total operating lease commitments	**799,788**	**892,321**

(Thousands of Russian Roubles)

33. Contingencies and Commitments (continued)

Credit related commitments. The credit related commitments comprise loan commitments, letters of credit and guarantees. The contractual commitments represent the value at risk should the contract be fully drawn upon, the client defaults, and the value of any existing collateral becomes worthless. In general, certain part of Group's import letters of credit are collateralised with cash deposits or collateral pledged to the Group and accordingly the Group normally assumes minimal risk.

Outstanding credit related commitments are as follows:

	31 December 2012	31 December 2011
Loan commitments	30,786,807	33,652,257
Guarantees issued	23,406,880	24,082,601
Import letters of credit	2,826,836	7,039,204
Total credit related commitments before impairment	**57,020,523**	**64,774,062**
Less: allowance for credit related commitment impairment	(184,236)	(74,388)
Less: client funds held as security for guarantees issued	(234,677)	(270,464)
Less: client funds held as security for import letter of credit	(925,009)	(1,582,751)
Total credit related commitments	**55,676,601**	**62,846,459**

This allowance was included in other liabilities. The total outstanding contractual amount of guarantees and letters of credit does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded.

Fiduciary activities. These assets are not included in the Group's consolidated statement of financial position as they are not assets of the Group and are held in custody or safekeeping for customers. The nominal values disclosed below are normally different from the fair values of respective securities. The fiduciary assets fall into the following categories:

	31 December 2012 Nominal value	31 December 2011 Nominal value
Shares in banks	12,229,865	11,838,716
Corporate bonds	6,574,367	6,558,355
Federal loan bonds (OFZ)	2,578,358	1,526,832
Shares in companies	1,848,677	1,872,396
Shares in investment funds	1,707,794	1,193,343
Corporate Eurobonds	1,561,212	1,080,746
Local authorities bonds	521,378	1,009,739
Bills of exchange	293,806	557,969
Depository notes	64,970	56,801

The Group also performs asset management services on behalf of customers and at their expense. The fair value of assets under management as of 31 December 2012 amounted to RUR 1,889,644 thousand (2011: RUR 2,055,864 thousand).

34. Fair Value of Financial Instruments

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

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. While management has used available market information in estimating the fair value of financial instruments, the market information may not be fully reflective of the value that could be realised.

Valuation techniques

The Group uses a number of methodologies to determine the fair values of financial instruments for which observable prices in active markets for identical instruments are not available. These techniques include: relative value methodologies based on observable prices for similar instruments; present value approaches where future cash flows from the asset or liability are estimated and then discounted using a risk-adjusted interest rate.

The principal inputs to these valuation techniques are listed below. When utilizing valuation techniques, the fair value can be significantly affected by the choice of valuation model and by underlying assumptions concerning factors such as the amounts and timing of cash flows, discount rates and credit risk.

Fixed income and equity securities – quoted prices are generally available for these securities.

Interest rates – these are principally benchmarks interest rates effective as at reporting date and quoted interest rates in the bond and futures markets.

Foreign currency exchange rates – these are observable markets both for forward contracts and futures in major currencies.

In order to determine a reliable fair value, where appropriate, management applies valuation adjustments to the pricing information gathered from the above sources. Furthermore, on an ongoing basis, the Group assesses the appropriateness of any model used.

Financial assets and liabilities

The following methods and significant assumption have been applied to estimate the fair values of following financial instruments:

- Cash and balances with the CBRF and mandatory reserve deposits with the CBRF, due to the short term environment and availability restriction of these types of assets, the carrying amount is assumed to be reasonable estimate of their fair value.
- The estimated fair value of quoted trading securities and derivative financial instruments, comprising financial assets at fair value through profit or loss category and available-for-sale financial assets, is determined based on quoted active market prices at the reporting date.
- The fair value of overdraft loans to customers is assumed to be the amount of their carrying value The fair value of other loans is estimated by application of market interest rates when the loans were originated with the year-end market rates offered on similar loans with the deduction of the allowance for loan impairment from the calculated fair value amounts.
- Other financial assets and liabilities are mainly represented by short-term receivables and payables, therefore the carrying amount is assumed to be a reasonable estimate of their fair value.
- The fair value of the term deposits (included in customer accounts and due to banks) is estimated by application of market interest rates when the deposits were placed with the year-end market rates offered on similar deposits. The carrying amount of current customer accounts is assumed to be reasonable estimate of their fair value due to the short-term environment and availability requirements of these types of liability.
- The fair value of debt securities issued, RUR-denominated bonds issued, and subordinated debt is based on quoted prices. Where these are not available, fair value is based on expected cash flows discounted using market interest rates for similar securities or funds whose market shares are quoted.

(Thousands of Russian Roubles)

34. Fair Value of Financial Instruments (continued)

The following table compares the carrying amount of financial assets and liabilities to their estimated fair value:

	31 December 2012		31 December 2011	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Financial assets				
Cash and cash equivalents	31,767,819	31,767,819	34,413,258	34,413,258
Mandatory reserve deposits with the Central Bank of the Russian Federation (CBRF)	2,407,813	2,407,813	2,335,160	2,335,160
Due from banks	9,077,237	9,077,087	10,097,501	10,093,077
Financial assets at fair value through profit or loss	9,631,603	9,631,603	6,933,434	6,933,434
Available-for-sale financial assets	17,401,844	17,401,844	16,641,962	16,641,962
Loans to customers	176,881,094	171,336,313	164,304,510	160,377,396
Other financial assets	472,862	472,862	331,948	331,948
Financial liabilities				
Due to banks and CBRF	19,888,069	19,873,476	23,432,163	23,529,542
Customer accounts	152,597,774	153,275,390	142,244,146	142,240,347
Debt securities issued	18,893,157	18,631,160	19,689,309	19,695,098
RUR-denominated bonds issued	28,582,711	28,558,508	23,885,464	23,741,062
Other financial liabilities	633,100	633,100	219,133	219,133
Subordinated debt	12,113,381	12,382,743	12,440,987	12,073,551

Valuation hierarchy

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

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

The Group's valuation approach and fair value hierarchy categorisation for certain significant classes of financial instruments recognised at fair value is as follows:

	31 December 2012		
	Quoted prices in active market (Level 1)	**Valuation techniques based on observable market data (Level 2)**	**Valuation techniques incorporating information other than observable market data (Level 3)**
Financial assets at fair value through profit or loss	9,631,603	-	-
Available-for-sale financial assets	17,401,844	-	-

(Thousands of Russian Roubles)

34. Fair Value of Financial Instruments (continued)

	31 December 2011		
	Quoted prices in active market (Level 1)	Valuation techniques based on observable market data (Level 2)	Valuation techniques incorporating information other than observable market data (Level 3)
Financial assets at fair value through profit or loss	6,933,434	-	-
Available-for-sale financial assets	16,641,962	-	-

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

35. Related Party Transactions

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

The outstanding balances at the year-end and income and expenses as well as other transactions with related parties as of and for the year ended 31 December 2012 are as follows:

	Entities with significant influence over the Group	Key management personnel of the Group	Associates	Other related parties	Total related parties
Assets					
Financial assets at fair value through profit or loss	12,146	-	-	-	12,146
Available-for-sale financial assets	37,384	-	-	-	37,384
Investments in associates	-	-	1,308,727	-	1,308,727
Loans to customers, net	2,177,882	139,585	3,143,782	39	5,461,288
Loans to customers, gross	2,193,247	146,687	3,320,286	41	5,660,261
Less: allowance for loan impairment	(15,365)	(7,102)	(176,504)	(2)	(198,973)
Liabilities					
Customer accounts	16,509,671	4,280,543	3,882	4,933,005	25,727,101
Debt securities issued (first holder)	430,000	-	-	-	430,000
Subordinated debt	8,755,862	-	-	-	8,755,862
Statement of Income					
Interest income	420,548	11,596	104,779	1	536,924
Interest expense	(1,584,469)	(262,245)	-	(193,008)	(2,039,722)
Provision for loan impairment	23,915	(2,286)	(138,929)	(2)	(117,302)
Net gain on financial assets at fair value through profit or loss	2,328	-	-	-	2,328
Net realised gain from available-for-sale- financial assets	3,612	-	-	-	3,612
Fee and commission income	1,207,422	674	362	1,864	1,210,322
Off-balance sheet commitments					
Guarantees issued	169,545	-	-	-	169,545
Import letters of credit	658,805	-	-	-	658,805
Loan commitments	554,765	13,736	361,495	3,512	933,508
Fiduciary activities	6,842,545	356,952	-	2,876,307	10,075,804

(Thousands of Russian Roubles)

35. Related Party Transactions (continued)

The outstanding balances at the year-end and income and expenses as well as other transactions with related parties as of and for the year ended 31 December 2011 are as follows:

	Entities with significant influence over the Group	Key management personnel of the Group	Associates	Other related parties	Total related parties
Assets					
Financial assets at fair value through profit or loss	14,700	-	-	-	14,700
Available-for-sale financial assets	30,511	-	-	-	30,511
Investments in associates	-	-	1,213,914	-	1,213,914
Loans to customers, net	2,135,766	96,206	1,099,927	4	3,331,903
Loans to customers, gross	2,175,046	101,022	1,137,502	4	3,413,574
Less: allowance for loan impairment	(39,280)	(4,816)	(37,575)	-	(81,671)
Liabilities					
Customer accounts	18,394,038	3,408,880	1,316	3,545,975	25,350,209
Debt securities issued (first holder)	95,441	-	-	-	95,441
Subordinated debt	8,881,765	-	-	-	8,881,765
Statement of Income					
Interest income	133,008	8,642	55,468	80	197,198
Interest expense	(1,532,775)	(229,425)	-	(196,340)	(1,958,540)
Provision for loan impairment	153,548	1,210	17,949	-	172,707
Net gain on financial assets at fair value through profit or loss	975	-	-	-	975
Net realised gain from available-for-sale-financial assets	7,075	-	-	-	7,075
Fee and commission income	1,361,087	1,053	472	1,695	1,364,307
Off-balance sheet commitments					
Guarantees issued	320,769	-	-	-	320,769
Import letters of credit	220,981	-	-	-	220,981
Loan commitments	200,000	22,093	730,282	3,271	955,646
Fiduciary activities	3,599,621	356,953	-	2,450,657	6,407,231

During 2012, the total remuneration of directors and key management personnel included in operating expenses was RUR 467,966 thousand (2011: RUR 383,841 thousand). The amount included solely short-term benefits.

36. Segment Reporting

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

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

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

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

- Corporate banking: Corporate banking includes the provision of settlement, foreign currency, cash and other transactions as well as the attraction of funds and extension loans to large and medium-sized companies;
- Investment banking: Investment banking includes the provision of brokerage, custody and fiduciary services to large corporate groups and individual clients, acting as a financial consultant to the corporate customers on raising finance as well as operating as a dealer on financial markets on the Bank’s own behalf; and
- Retail and private banking: Retail and private banking represents the provision of large-scale retail services to middle-income and high net-worth individuals, the attraction of funds from them and the issuance loans of different types.

The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies. Transactions between the operating segments consist only of reallocating of funds. Funds are ordinarily reallocated between segments, resulting in funding cost transfers disclosed in operating income. Interest charged for these funds is based on the Group’s internal interest rates that are based on market terms and conditions for similar financial instruments. There are no other material items of income or expense between the business segments. Segment assets and liabilities comprise operating assets and liabilities, being the majority of the statement of financial position, but excluding items such as taxation, share of profits of associates, etc. Internal charges for items such as management board and directors’ salaries and transfer pricing adjustments have been reflected in the performance of each business. This is the measure reported to the chief operating decision maker, Chairman of the Management Board, for the purposes of resource allocation and assessment of segment performance.

(Thousands of Russian Roubles)

36. Segment Reporting (continued)

Segment information about these businesses as of 31 December 2012 and for the year 2012 is presented below.

	Corporate banking	Investment banking	Retail and private banking	Unallocated	Total
Interest income	16,095,562	2,619,907	2,022,624	-	20,738,093
Interest expense	(6,653,854)	(2,763,404)	(3,563,397)	-	(12,980,655)
Net interest income	**9,441,708**	**(143,497)**	**(1,540,773)**	**-**	**7,757,438**
Provision for loan impairment	(2,132,458)	-	48,384	-	(2,084,074)
Net interest income after changes in provision for loan impairment	**7,309,250**	**(143,497)**	**(1,492,389)**	**-**	**5,673,364**
Net gain on financial assets at fair value through profit or loss	-	89,060	-	-	89,060
Net realised gain from available-for-sale financial assets	-	88,739	-	-	88,739
Recovery of impairment of available-for-sale financial assets	-	456,093	-	-	456,093
Net gain arising from dealing in foreign currencies	270,174	56,191	84,726	-	411,091
Net loss arising on foreign exchange translation	16,766	(286,972)	-	-	(270,206)
Fee and commission income	3,509,709	110,190	981,651	-	4,601,550
Fee and commission expense	(181,541)	(87,903)	(393,143)	-	(662,587)
Provision for losses on credit related commitments	(109,848)	-	-	-	(109,848)
Recovery of impairment of property, plant and equipment	11,971	327	7,812	2,472	22,582
Recovery of impairment of assets for development and sale	19,400	-	-	-	19,400
Fair value movement of investment property	2,448	-	-	-	2,448
Impairment of non-current assets held for sale	(20,914)	-	226	-	(20,688)
Net gain on disposal of non-current assets held for sale	107,431	-	(344)	-	107,087
Net gain on disposal of assets for development and sale	75,674	-			75,674
Other operating income	296,903	83,242	26,734	113,328	520,207
External net revenue	**11,307,423**	**365,470**	**(784,727)**	**115,800**	**11,003,966**
Net revenue from other segments	(2,572,659)	321,897	2,250,762	-	-
Total	**8,734,764**	**687,367**	**1,466,035**	**115,800**	**11,003,966**
Operating expenses	(3,910,284)	(583,331)	(2,669,649)	(387,292)	(7,550,556)
Profit before income tax expense	**4,824,480**	**104,036**	**(1,203,614)**	**(271,492)**	**3,453,410**
Income tax expense	-	-	-	(794,023)	(794,023)
Net profit	**4,824,480**	**104,036**	**(1,203,614)**	**(1,065,515)**	**2,659,387**
Segment assets	191,684,073	38,362,832	29,205,688	1,649,579	260,902,172
Segment liabilities	114,838,992	53,528,916	65,071,339	478,491	233,917,738
Other segment items					
Depreciation expense	(128,733)	(6,815)	(88,263)	(20,313)	(244,124)
Capital expenditures	(148,658)	(5,288)	(89,890)	(55,835)	(299,671)

(Thousands of Russian Roubles)

36. Segment Reporting (continued)

Segment information about these businesses as of 31 December 2011 and for the year 2011 is presented below.

	Corporate banking	Investment banking	Retail and private banking	Unallocated	Total
Interest income	14,210,737	2,324,666	1,331,111	-	17,866,514
Interest expense	(4,787,248)	(2,456,559)	(3,192,749)	-	(10,436,556)
Net interest income	**9,423,489**	**(131,893)**	**(1,861,638)**	**-**	**7,429,958**
Provision for loan impairment	(1,332,488)	-	(39,153)	-	(1,371,641)
Net interest income after changes in provision for loan impairment	**8,091,001**	**(131,893)**	**(1,900,791)**	**-**	**6,058,317**
Net gain on financial assets at fair value through profit or loss	-	74,091	-	-	74,091
Net realised gain from available-for-sale financial assets	-	25,866	-	-	25,866
Recovery of impairment of available-for-sale financial assets	-	83,356	-	-	83,356
Net gain arising from dealing in foreign currencies	115,312	36,934	134,629	-	286,875
Net gain arising on foreign exchange translation	-	92,646	-	-	92,646
Fee and commission income	3,232,693	100,832	939,439	-	4,272,964
Fee and commission expense	(210,000)	(76,156)	(249,409)	(340)	(535,905)
Provisions on credit related commitments	(67,415)	-	(722)	-	(68,137)
Recovery of impairment of property, plant and equipment	46,811	369	7,986	3,097	58,263
Impairment of assets for development and sale	(335,434)	-	-	-	(335,434)
Fair value movement of investment property	14,575	-	-	-	14,575
Impairment of non-current assets held for sale	(60,024)	-	475	-	(59,549)
Net loss on disposal of non-current assets held for sale	(76,404)	-	(1,489)	-	(77,893)
Other operating income	245,310	36,377	36,257	124,451	442,395
External net revenue	**10,996,425**	**242,422**	**(1,033,625)**	**127,208**	**10,332,430**
Net revenue from other segments	(2,048,690)	16,244	2,032,446	-	-
Total	**8,947,735**	**258,666**	**998,821**	**127,208**	**10,332,430**
Operating expenses	(3,523,118)	(557,706)	(2,328,315)	(376,989)	(6,786,128)
Profit before income tax expense	**5,424,617**	**(299,040)**	**(1,329,494)**	**(249,781)**	**3,546,302**
Income tax expense	-	-	-	(1,026,718)	(1,026,718)
Net profit	**5,424,617**	**(299,040)**	**(1,329,494)**	**(1,276,499)**	**2,519,584**
Segment assets	184,890,333	38,310,125	21,978,823	1,548,086	246,727,367
Segment liabilities	113,243,003	51,334,960	57,876,266	360,376	222,814,605
Other segment items					
Depreciation expense	(119,252)	(6,015)	(80,791)	(20,050)	(226,108)
Capital expenditures	(185,546)	(8,264)	(143,127)	(98,353)	(435,290)

The Group operates principally with the Russian Federation. However, management believes, based on the distribution of its operations, that the breakdown in the Note 31 is the most appropriate geographically.

(Thousands of Russian Roubles)

37. Capital Management and Capital Adequacy

Capital Management

The Group's policy on capital management is to maintain a strong capital base in order to support further business development of the Group and to satisfy requirements set by regulatory authorities.

The CBRF establishes and controls capital adequacy requirements. Banks are obliged to maintain the ratio of total capital to risk weighted assets at not less than certain established levels. As of 31 December 2012 and 2011 the minimum capital adequacy requirement was 10%.

The following table shows the structure of the Group's capital position calculated in accordance with the requirements of the Basel Accord as of 31 December 2012 and 2011.

	As of 31 December 2012	**As of 31 December 2011**
Tier 1 capital	25,260,909	22,338,822
Tier 2 capital	12,077,504	11,373,189
Total capital	37,338,413	33,712,011
Risk-weighted assets	248,740,247	243,305,895
Total capital ratio,	15.0	13.9
Tier 1 capital ratio,	10.2	9.2

The Group has been developing procedures for the economic capital calculation on the basis of best international risk management practices. The calculation is performed on a quarterly basis and the economic capital is compared to the Group's capital and should not exceed it.

38. Subsequent Events

In January 2013 the Bank has attracted a subordinated loan from its shareholder amounting to RUR 3,600,000 thousand. This subordinated loan matures in February 2023 and bears interest rate of 9.0%.

On 11 February 2013 the Bank redeemed RUR-denominated stock bonds at a face value of RUR 900,451 thousand in accordance with the offer letter issued in March 2011. These bonds have been resold on the same date. Next redemption date is due on 11 February 2014.

On 18 February 2013 the Bank redeemed RUR-denominated stock bonds at a face value of RUR1,340,674 thousand in accordance with the offer letter issued in March 2011. These bonds have been resold on the same date. Next redemption date is due on 18 February 2014.