CENTER-INVEST BANK GROUP

International Financial Reporting Standards
Consolidated Financial Statements
and Independent Auditor's Report

31 December 2012

CONTENTS

Independent Auditor's Report

To the Shareholders and Board of Directors of OJSC CB «Center-invest»:

We have audited the accompanying consolidated financial statements of OJSC CB «Center-invest» and its subsidiary (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2012 and the consolidated statements of comprehensive income, cash flows and changes in equity for 2012, and notes comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

ZAO PricewaterhouseCoopers Audit

19 March 2013
Moscow, Russian Federation

E.N. Kriventsev, Director (licence no. № 01-000198), ZAO PricewaterhouseCoopers Audit

Audited entity: OJSC CB «Center-invest»

Certificate of inclusion in the Unified State Register of Legal Entities № 61 0026900187 issued on 28 August 2002

62 Sokolova street, Rostov-on-the Don, 344000

Independent auditor: ZAO PricewaterhouseCoopers Audit

State registration certificate № 008.890, issued by the Moscow Registration Bureau on 28 February 1992

Certificate of inclusion in the Unified State Register of Legal Entities № 1027700148431 issued on 22 August 2002

Certificate of membership in self regulated organisation non-profit partnership "Audit Chamber of Russia" № 870. ORNZ 10201003683 in the register of auditors and audit organizations

Center-invest Bank Group
Consolidated Statement of Financial Position

In thousands of Russian Roubles	Note	31 December 2012	31 December 2011
ASSETS			
Cash and cash equivalents	7	7 005 707	4 650 962
Mandatory cash balances with the Central Bank of the Russian Federation		552 854	484 091
Trading securities	8	1 682 658	970 349
Other securities at fair value through profit or loss		5 997	5 997
Due from other banks	9	1 304 576	2 012 023
Loans and advances to customers	10	47 762 355	42 010 560
Finance lease receivables	11	643 094	538 667
Investment in associate	12	332 766	319 199
Intangible assets	13	309 979	329 674
Premises and equipment	14	2 530 490	2 710 632
Other financial assets	15	281 211	302 851
Other assets	16	260 150	201 958
TOTAL ASSETS		**62 671 837**	**54 536 963**
LIABILITIES			
Due to other banks	17	730 972	94 689
Customer accounts	18	44 062 862	39 000 759
Debt securities in issue	19	4 896 259	3 720 669
Borrowings from international financial institutions	20	3 070 200	2 655 299
Subordinated debt	21	1 834 138	1 942 715
Other financial liabilities	22	173 375	148 429
Deferred income tax liability	28	204 456	216 063
Other liabilities	23	106 300	72 281
TOTAL LIABILITIES		**55 078 562**	**47 850 904**
EQUITY			
Share capital	24	1 258 709	1 258 709
Share premium	24	1 646 428	1 646 428
Revaluation reserve for premises and equipment		1 356 247	1 377 608
Retained earnings		3 331 891	2 403 314
TOTAL EQUITY		**7 593 275**	**6 686 059**
TOTAL LIABILITIES AND EQUITY		**62 671 837**	**54 536 963**

19 March 2013

G.I. Zhukov
Chairman of the Board

T.I. Ivanova
Chief Accountant

The notes set out on pages 5 to 65 form an integral part of these consolidated financial statements.

In thousands of Russian Roubles	Note	2012	2011
Interest income	25	6 494 937	5 374 230
Interest expense	25	(3 045 572)	(2 339 864)
Net interest income		**3 449 365**	**3 034 366**
Provision for impairment on loans and advances and finance lease receivables	10, 11	(888 460)	(620 790)
Net interest income after impairment provisions		**2 560 905**	**2 413 576**
Fee and commission income	26	895 566	842 041
Fee and commission expense	26	(208 854)	(210 918)
Gains less losses from trading securities		22 528	(38 208)
Gains less losses from trading in foreign currencies		66 358	61 582
Foreign exchange translation gains less losses		40 455	138 374
Losses less gains from conversion operations on the interbank market		(32 986)	(125 049)
Gains less losses from assignment of the rights of claim	10	80 962	29 031
Other provisions	15,16	(58 605)	(158 444)
Other operating income		74 546	87 277
Contributions to the state deposit insurance scheme		(117 069)	(99 894)
Administrative and other operating expenses	27	(1 900 369)	(1 778 642)
Share of profit of associate	12	39	3 934
Profit before tax		**1 423 476**	**1 164 660**
Income tax expense	28	(322 861)	(252 484)
Profit for the year		**1 100 615**	**912 176**
Other comprehensive income			
Revaluation of premises and equipment	14	-	196 035
Revaluation of premises and equipment of the associate	12	13 528	(5 392)
Income tax recorded directly in other comprehensive income	28	(2 706)	(95 199)
Other comprehensive income for the year		**10 822**	**95 444**
Total comprehensive income for the year		**1 111 437**	**1 007 620**

The notes set out on pages 5 to 65 form an integral part of these consolidated financial statements.

In thousands of Russian Roubles	Note	2012	2011
Cash flows from operating activities			
Interest received		6 230 579	5 393 576
Finance income arising from leasing		117 285	93 810
Interest paid		(3 080 219)	(2 478 150)
Fees and commissions received		904 759	857 088
Fees and commissions paid		(201 919)	(206 154)
Losses less gains paid from trading securities		(12 957)	(19 111)
Net income received from trading in foreign currencies		66 358	61 582
Losses less gains paid from conversion operations on the interbank market		(32 986)	(120 046)
Income received from assignment of the rights of claim		343 068	185 274
Other operating income received		78 870	98 122
Contributions to the state deposit insurance scheme		(113 548)	(94 846)
Staff costs		(1 042 719)	(914 729)
Operating expenses paid		(599 021)	(580 524)
Income tax paid		(322 614)	(341 526)
Cash flows from operating activities before changes in operating assets and liabilities		**2 334 936**	**1 934 366**
Changes in operating assets and liabilities			
Net increase in mandatory cash balances with the CBRF		(68 763)	(239 385)
Net (increase)/decrease in trading securities		(684 682)	1 905 859
Net decrease in due from other banks		707 151	2 515 904
Net increase in loans and advances to customers		(7 020 994)	(12 576 650)
Net increase in finance lease receivables		(110 769)	(64 594)
Net (increase)/decrease in other financial and other assets		(24 470)	187 955
Net increase/(decrease) in due to other banks		628 414	(278 881)
Net increase in customer accounts		5 271 694	5 238 690
Net increase/(decrease) in promissory notes issued		534 190	(68 602)
Net increase/(decrease) in other financial and other liabilities		3 137	(26 455)
Net cash from/(used in) operating activities		**1 569 844**	**(1 471 793)**
Cash flows from investing activities			
Acquisition of premises and equipment	14	(63 266)	(103 447)
Proceeds from disposal of premises and equipment	14	54 818	19 983
Acquisition of intangible assets	13	(16 701)	(34 515)
Net cash used in investing activities		**(25 149)**	**(117 979)**
Cash flows from financing activities			
Issue of bonds	19	3 065 000	2 500 000
Repurchase and repayment of bonds	19	(2 460 107)	(754 156)
Borrowings from international financial institutions	20	1 751 708	70 000
Repayment of borrowings from international financial institutions	20	(1 280 061)	(1 452 305)
Repayment of subordinated debt		-	(37 567)
Dividends paid	29	(204 221)	(95 649)
Net cash from financing activities		**872 319**	**230 323**
Effect of exchange rate changes on cash and cash equivalents		**(62 269)**	**64 520**
Net increase/(decrease) in cash and cash equivalents		**2 354 745**	**(1 294 929)**
Cash and cash equivalents at the beginning of the year		4 650 962	5 945 891
Cash and cash equivalents at the end of the year	7	**7 005 707**	**4 650 962**

In thousands of Russian Roubles	Note	Share capital	Share premium	Revaluation reserve for premises and equipment	Retained earnings	Total equity
Balance at 1 January 2011		**1 258 709**	**1 646 428**	**1 270 280**	**1 598 671**	**5 774 088**
Profit for the year		-	-	-	912 176	912 176
Other comprehensive income		-	-	155 297	(59 853)	95 444
Total comprehensive income for 2011		**-**	**-**	**155 297**	**852 323**	**1 007 620**
Dividends declared and paid:						
- ordinary shares	29	-	-	-	(77 550)	(77 550)
- preference shares	29	-	-	-	(18 099)	(18 099)
Transfer of revaluation surplus on premises to retained earnings		-	-	(47 969)	47 969	-
Balance at 31 December 2011		**1 258 709**	**1 646 428**	**1 377 608**	**2 403 314**	**6 686 059**
Profit for the year		-	-	-	1 100 615	1 100 615
Other comprehensive income		-	-	13 528	(2 706)	10 822
Total comprehensive income for 2012		**-**	**-**	**13 528**	**1 097 909**	**1 111 437**
Dividends declared and paid:						
- ordinary shares	29	-	-	-	(186 122)	(186 122)
- preference shares	29	-	-	-	(18 099)	(18 099)
Transfer of revaluation surplus on premises to retained earnings		-	-	(34 889)	34 889	-
Balance at 31 December 2012		**1 258 709**	**1 646 428**	**1 356 247**	**3 331 891**	**7 593 275**

The notes set out on pages 5 to 65 form an integral part of these consolidated financial statements.

1 Introduction

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2012 for OJSC CB «Center-invest» (the “Bank”) and its 100% subsidiary LLC Center-Leasing (the “Group”).

The Bank was incorporated and is domiciled in the Russian Federation. The Bank is a joint stock company limited by shares.

Principal activity. The Group’s principal business activities are corporate and retail banking and leasing operations within the Russian Federation. The Bank has operated under a full banking licence issued by the Central Bank of the Russian Federation (“CBRF”) since 1992. The Bank participates in the state deposit insurance scheme, which was introduced by Federal Law #177-FZ “Deposits of individuals insurance in Russian Federation” dated 23 December 2003. The State Deposit Insurance Agency guarantees repayment of 100% of individual deposits up to RR 700 thousand per individual in the case of the withdrawal of a licence of a bank or a CBRF imposed moratorium on payments.

At 31 December 2012, the Bank has nine (2011: nine) branches within the Russian Federation. Additionally, the Bank has representative offices in Moscow, London and 109 (2011: 108) sub-branches in the Rostov, Volgograd, Stavropol and Krasnodar regions.

Registered address and place of business. The Bank’s registered address is: 62 Sokolova street, Rostov-on-the Don, Russian Federation, 344000.

The average number of the Group’s employees during 2012 was 1 420 (2011: 1 382).

Presentation currency. These consolidated financial statements are presented in thousands of Russian Roubles ("RR thousands"), unless otherwise stated.

2 Operating Environment of the Group

Russian Federation. The Russian Federation displays certain characteristics of an emerging market. It is also quite sensitive to fluctuations of oil and gas prices. Tax, currency and customs legislation is subject to varying interpretations and contributes to the challenges faced by banks operating in the Russian Federation (Note 33).

The international sovereign debt crisis, stock market volatility and other risks could have a negative effect on the Russian financial and corporate sectors. Management determined loan impairment provisions by considering the economic situation and outlook at the end of the reporting period, and applied the ‘incurred loss’ model required by the applicable accounting standards. These standards require recognition of impairment losses that arose from past events and prohibit recognition of impairment losses that could arise from future events, no matter how likely those future events are. Refer to Note 4.

The future economic development of the Russian Federation is dependent upon external factors and internal measures undertaken by the government to sustain growth, and to change the tax, legal and regulatory environment. Management believes it is taking all necessary measures to support the sustainability and development of the Group’s business in the current business and economic environment.

The Bank operates primarily in the South of Russia. Due to a diversified economic structure by industry the South of Russia demonstrates more dynamic and stable development trends than other Russian regions. The growth rate demonstrated by the main industry of the region - agriculture - significantly exceeds Russia's average level. Stable growth is attributable to natural and climatic factors, well developed infrastructure, the structure of economy diversified by activity and characterised by high share of small and medium enterprises.

3 Summary of Significant Accounting Policies

Basis of preparation. These consolidated financial statements have been prepared in accordance with IFRS under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value, and by revaluation of premises and equipment, and financial instruments at fair value through profit or loss. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

Consolidated financial statements. Subsidiaries are those companies and other entities (including special purpose entities) in which the Group, directly or indirectly, has an interest of more than one half of the voting rights, or otherwise has power to govern the financial and operating policies so as to obtain benefits. The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Group, and are deconsolidated from the date on which control ceases. The purchase method of accounting is used to account for the acquisition of subsidiaries.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Bank and its subsidiary use uniform accounting policies consistent with the Group's policies.

Associates. Associates are entities over which the Bank has significant influence (directly or indirectly), but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights. Investments in associates are accounted for using the equity method of accounting, and are initially recognised at cost. Post-acquisition changes in Group's share of net assets of an associate are recognised as follows: (i) the Group's share of profits or losses of associates is recorded in the consolidated profit or loss for the year as share of result of associates, (ii) the Group's share of other comprehensive income is recognised in other comprehensive income and presented separately, (iii); all other changes in the Group's share of the carrying value of net assets of associates are recognised in profit or loss within the share of result of associates. However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Financial instruments - key measurement terms. Depending on their classification financial instruments are carried at cost, fair value or amortised cost as described below.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair value is the current bid price for financial assets and the current asking price for financial liabilities which are quoted in an active market. For assets and liabilities with offsetting market risks, the Group may use mid-market prices as a basis for establishing fair values for the offsetting risk positions, and apply the bid or asking price to the net open position as appropriate. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange or other institution, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees, are used to measure at fair value certain financial instruments for which external market pricing information is not available. Valuation techniques may require assumptions not supported by observable market data. Disclosures are made in these consolidated financial statements if changing any such assumptions to a reasonably possible alternative would result in significantly different profit, income, total assets or total liabilities.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition and includes transaction costs. Measurement at cost is only applicable to investments in equity instruments that do not have a quoted market price and whose fair value cannot be reliably measured.

3 Summary of Significant Accounting Policies (Continued)

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the consolidated statement of financial position.

The effective interest method is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid and received between parties to the contract that are an integral part of the effective interest rate.

Initial recognition of financial instruments. Trading securities, derivatives and other financial instruments at fair value through profit or loss are initially recorded at fair value. All other financial instruments are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date on which the Group commits to deliver a financial asset. All other purchases and sales are recognised on the settlement date with the change in value between the commitment date and settlement date not recognised for assets carried at cost or amortised cost; recognised in profit or loss for trading securities, derivatives and other financial assets at fair value through profit or loss; and recognised in equity for assets classified as available for sale.

Derecognition of financial assets. The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership, but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Cash and cash equivalents. Cash and cash equivalents are items which can be converted into cash within one business day. All short term interbank placements, beyond overnight placements, are included in due from other banks. Amounts which relate to funds that are of a restricted nature are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortised cost.

Mandatory cash balances with the CBRF. Mandatory cash balances with the CBRF are carried at amortised cost and represent non-interest bearing mandatory reserve deposits which are not available to finance the Group's day to day operations and hence are not considered as part of cash and cash equivalents for the purposes of the consolidated statement of cash flows.

3 Summary of Significant Accounting Policies (Continued)

Trading securities. Trading securities are financial assets which are either acquired for generating a profit from short-term fluctuations in price or trader's margin, or are securities included in a portfolio in which a pattern of short-term trading exists. The Group classifies securities into trading securities if it has an intention to sell them within a short period after purchase, i.e. normally within six months. The Group may choose to reclassify a non-derivative trading financial asset out of the fair value through the profit or loss category if the asset is no longer held for the purpose of selling it in the near term. Financial assets other than loans and receivables are permitted to be reclassified out of fair value through the profit or loss category only in rare circumstances arising from a single event that is unusual and highly unlikely to reoccur in the near term. Financial assets that would meet the definition of loans and receivables may be reclassified if the Group has the intention and ability to hold these financial assets for the foreseeable future, or until maturity.

Trading securities are carried at fair value. Interest earned on trading securities calculated using the effective interest method is presented in the consolidated statement of comprehensive income as interest income. Dividends are included in dividend income within other operating income when the Group's right to receive the dividend payment is established, and it is probable that the dividends will be collected. All other elements of the changes in the fair value and gains or losses on derecognition are recorded in the consolidated statement of comprehensive income as gains less losses from trading securities in the period in which they arise.

Other securities at fair value through profit or loss. Other securities at fair value through profit or loss are financial assets designated irrevocably, at initial recognition, into this category. Management designates securities into this category only if (a) such classification eliminates or significantly reduces an accounting mismatch that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or (b) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information on that basis is regularly provided to and reviewed by the Bank's Executive Board. Recognition and measurement of this category of financial assets is consistent with the above policy for trading securities.

Due from other banks. Amounts due from other banks are recorded when the Group advances money to counterparty banks with no intention of trading the resulting unquoted non-derivative receivable due on fixed or determinable dates. Amounts due from other banks are carried at amortised cost.

Sale and repurchase agreements and lending of securities. Securities purchased under agreements to resell ("reverse repo agreements"), which effectively provide a lender's return to the Group, are recorded as due from other banks or loans and advances to customers, as appropriate. The difference between the sale and repurchase price is treated as interest income and accrued over the life of repo agreements using the effective interest method.

Loans and advances to customers. Loans and advances to customers are recorded when the Group advances money to purchase or originate an unquoted non-derivative receivable from a customer due on fixed or determinable dates, and has no intention of trading the receivable. Loans and advances to customers are carried at amortised cost.

Impairment of financial assets carried at amortised cost. Impairment losses are recognised in the consolidated statement of comprehensive income when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Group determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics, and collectively assesses them for impairment. The primary factors that the Group considers in determining whether a financial asset is impaired are its overdue status and realisability of related collateral, if any.

3 Summary of Significant Accounting Policies (Continued)

The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred:

- any instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the borrower experiences a significant financial difficulty as evidenced by the borrower's financial information that the Group obtains;
- the borrower considers bankruptcy or a financial reorganisation;
- there is an adverse change in the payment status of the borrower as a result of changes in the national or local economic conditions that impact the borrower; or
- the value of collateral significantly decreases as a result of deteriorating market conditions.
- the borrower considers or is implementing financial restructuring, which may result in a worsening of the borrower's financial position entailing bankruptcy or persistent insolvency (e.g., a decrease in the borrower's net assets by more than 25%);
- provision by the Bank of favourable terms due to economic or judicial reasons associated with the borrower's financial problems, which the Bank would not have otherwise undertaken (debt restructuring);
- available information on an identifiable decrease of the expected future cash flows for a group of loans, on condition that this decrease cannot be yet identified with certain loans within this group, including national or local economic conditions related to defaults on loans within the group (growth of unemployment in the borrowers' geographic regions, a fall in real estate prices in relation to the mortgage situation in a particular region, adverse changes in the sector affecting the borrowers within the group).

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment, are estimated on the basis of the contractual cash flows of the assets and the experience of management in respect of the extent to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods, and to remove the effects of past conditions that do not exist currently.

If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the borrower or issuer, impairment is measured using the original effective interest rate before the modification of terms.

Impairment losses are always recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

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

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to impairment loss account in profit or loss for the year.

3 Summary of Significant Accounting Policies (Continued)

Repossessed collateral. Repossessed collateral represents financial and non-financial assets acquired by the Group in settlement of overdue loans. The assets are initially recognised at fair value when acquired and included in premises and equipment, other financial assets or inventories within other assets depending on their nature and the Group's intention in respect of disposal of these assets, and are subsequently measured and accounted for in accordance with the accounting policies for these categories of assets.

Credit related commitments. The Group issues financial guarantees, letters of credit and commitments to provide loans. Financial guarantees and letters of credit represent irrevocable assurances to make payments in the event that a customer cannot meet its obligations to third parties and carry the same credit risk as loans. Financial guarantees and letters of credit are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitment. At the end of each reporting period, the commitments are measured at the higher of (i) the remaining unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at the end of each reporting period. All commitments to extend credit are revocable and are automatically closed upon breach by the borrower of the loan agreement, they create no exposure to credit risk and therefore no provision is made.

Premises and equipment. Premises and equipment (except for land and buildings of the Group) are stated at cost, restated to the equivalent purchasing power of the Russian Rouble at 31 December 2002 for assets acquired prior to 1 January 2003, less accumulated depreciation and provision for impairment, where required.

Land and premises of the Group are subject to revaluation on a regular basis. The frequency of revaluation depends upon the movements in the fair values of the premises and equipment being revalued. Increases in the carrying amount arising on revaluation are credited to other comprehensive income and increase the revaluation surplus in equity. Decreases that offset previous increases of the same asset are recognised in other comprehensive income and decrease the previously recognised revaluation surplus in equity; all other decreases are charged to profit or loss for the year. The revaluation reserve for premises included in equity is transferred directly to retained earnings when the surplus is realised, i.e. either on the retirement or disposal of the asset, or as the asset is used by the Group. In the latter case, the amount of the surplus realised is the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost. If there is no market based evidence of fair value, fair value is estimated using an income approach.

Costs of minor repairs and maintenance are expensed when incurred.

At the end of each reporting period management assesses whether there is any indication of impairment of premises and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit or loss for the year to the extent it exceeds the previous revaluation surplus in equity. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Other premises and equipment include office and computer equipment and are stated at cost, less accumulated depreciation and provision for impairment, where required.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in the consolidated statement of comprehensive income.

Depreciation. Land is not depreciated. Depreciation on other items of premises and equipment is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives at the following annual rates:

Premises	2% - 2.5%
Other	20%

3 Summary of Significant Accounting Policies (Continued)

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

Intangible assets. All of the Group's intangible assets have a definite useful life and primarily include capitalised computer software and software licenses.

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Development costs that are directly associated with identifiable and unique software controlled by the Group are recorded as intangible assets if the inflow of incremental economic benefits exceeding costs is probable. Capitalised costs include staff costs of the software development team and an appropriate portion of relevant overheads. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred. Capitalised computer software is amortised on a straight line basis over expected useful lives of 3 to 10 years. Under certain circumstances the Group may decide to extend useful lives.

Operating leases. Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments are charged to profit or loss for the year (rental expense) on a straight-line basis over the period of the lease.

When assets are leased out under an operating lease, the lease payments receivable are recognised as rental income on a straight-line basis over the lease term.

Finance lease receivables. Where the Group is a lessor in a lease which transfers substantially all the risks and rewards incidental to ownership to the lessee, the assets leased out are presented as a finance lease receivable and carried at the present value of the future lease payments. Finance lease receivables are initially recognised at commencement using a discount rate determined at inception.

Commencement of the lease term. The commencement of the lease term is the date from which the lessee is entitled to exercise its right to use the leased asset. It is the date of initial recognition of the lease.

Inception of the lease. The inception of the lease is considered to be the date of the lease contract, or the date of commitment, if earlier. For purposes of this definition, a commitment shall be in writing, signed by the parties involved in the transaction, and shall set forth the principal terms of the transaction.

Revenue recognition. The Group records finance lease receivables in the amount equal to the net investment in the lease. Net investment in the lease is calculated as the aggregate of the minimum lease payments, representing the amounts guaranteed by the lessee and any unguaranteed residual value (together gross investment in the lease), discounted at the interest rate implicit in the lease. The interest rate implicit in the lease is the discount rate that, at the inception of the lease, causes the present value of the gross investment in the lease to be equal to the fair value of the leased asset.

The difference between the gross investment in the lease and the net investment in the lease represents unearned financial income. The unearned finance income is amortised over the lease term using the discount rate implicit in the lease.

Initial direct costs incurred by lessors include amounts such as intermediary activities, legal fees and internal costs that are incremental and directly attributable to negotiating and arranging a lease. They exclude general overheads such as those incurred by a sales and marketing team. In case of a finance lease direct costs are included in the initial measurement of the finance lease receivable and reduce the amount of income recognised over the lease term.

Any advances made to the supplier after the date of the inception of the lease and before the date of commencement of the lease term, are recorded as prepayments within other financial assets. Payments received by the Group from the lessee before the commencement of the lease term are recorded as advances received within other financial liabilities. These amounts are adjusted against finance lease receivables on the date of commencement of the lease term.

3 Summary of Significant Accounting Policies (Continued)

Impairment losses are recognised in the consolidated statement of comprehensive income when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of finance lease receivables. Impairment losses are recognised through an allowance account to write down the receivables' net carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred), discounted at the interest rates implicit in the finance leases. The estimated future cash flows reflect the cash flows that may result from obtaining and selling the assets subject to the lease.

Due to other banks. Amounts due to other banks are recorded when money or other assets are advanced to the Group by counterparty banks. The non-derivative liability is carried at amortised cost. If the Group purchases its own debt, the liability is removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from early retirement of debt.

Customer accounts. Customer accounts are non-derivative liabilities to individuals, state or corporate customers and are carried at amortised cost.

Debt securities in issue. Debt securities in issue include promissory notes and debentures issued by the Group. Debt securities are stated at amortised cost. If the Group purchases its own debt securities in issue, they are removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains arising from early retirement of debt.

Borrowings from international financial institutions. Borrowings (including subordinated loans) are recorded from the moment of provision of cash funds to the Group. The non-derivative liability is carried at amortised cost.

Derivative financial instruments. Derivative financial instruments, including foreign exchange contracts are carried at their fair value. All derivative instruments are carried as assets when fair value is positive, and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in the consolidated statement of comprehensive income. The Group does not apply hedge accounting.

Certain derivative instruments embedded in other financial instruments are treated as separate derivative instruments when their risks and characteristics are not closely related to those of the host contract.

Income taxes. Income taxes have been provided for in the consolidated financial statements in accordance with Russian legislation enacted or substantively enacted at the reporting date. The income tax charge comprises current tax and deferred tax and is recognised in the consolidated statement of comprehensive income except if it is recognised directly in equity because it relates to transactions that are also recognised, in the same or a different period, directly in equity.

Current tax is the amount expected to be paid to, or recovered from, the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if consolidated financial statements are authorised prior to filing relevant tax returns. Taxes other than on income are recorded within administrative and other operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

3 Summary of Significant Accounting Policies (Continued)

Deferred income tax is provided on post acquisition retained earnings of subsidiaries, except where the Group controls the subsidiary's dividend policy and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable future.

Uncertain tax positions. The Group's uncertain tax positions are reassessed by management at every reporting date. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the reporting date and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the reporting date.

Trade and other payables. Trade payables are accrued when the counterparty has performed its obligations under the contract and are carried at amortised cost.

Share capital. Ordinary shares and non-redeemable preference shares with discretionary dividends are both classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

Dividends. Dividends are recorded in equity in the period in which they are declared. Dividends declared after the reporting date and before the consolidated financial statements are authorised for issue are disclosed in the subsequent events note. The statutory accounting reports of the Group with account for IFRS profit are the basis for profit distribution and other appropriations. Russian legislation identifies the basis of distribution as the current year net profit.

Income and expense recognition. Interest income and expense are recorded in the consolidated statement of comprehensive income for all debt instruments on an accrual basis using the effective interest method. This method defers, as part of interest income or expense, all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents. Commitment fees received by the Group to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. The Group does not designate loan commitments as financial liabilities at fair value through profit or loss.

When loans and other debt instruments become doubtful of collection, they are written down to the present value of expected cash inflows and interest income is thereafter recorded for the unwinding of the present value discount based on the asset's effective interest rate which was used to measure the impairment loss.

All other fees, commissions and other income and expense items are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided. Loan syndication fees are recognised as income when the syndication has been completed and the Group retains no part of the loan package for itself, or retains a part at the same effective interest rate as for the other participants.

Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, and which are earned on execution of the underlying transaction, are recorded on its completion. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-proportion basis. Asset management fees relating to investment funds are recorded rateably over the period that the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continually provided over an extended period of time.

3 Summary of Significant Accounting Policies (Continued)

Foreign currency translation. The functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. The functional currency of the Bank and the Group's presentation currency is the national currency of the Russian Federation, Russian Roubles ("RR").

Monetary assets and liabilities are translated into each entity's functional currency at the official exchange rate of the CBRF at the respective reporting dates. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities into each company's functional currency at year-end official exchange rates of the CBRF are recognised in the consolidated statement of comprehensive income.

At 31 December 2012, the principal rate of exchange used for translating foreign currency balances was USD 1 = RR 30.3727 and EURO 1 = RR 40.2286 (31 December 2011: USD 1 = RR 32.1961, EURO 1 = RR 41.6714).

Fiduciary assets. Assets held by the Group in its own name, but on the account of third parties, are not reported in the consolidated statement of financial position. Commissions received from fiduciary activities are shown in fee and commission income.

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

Staff costs and related contributions. Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the Group. The Group has no legal or constructive obligation to make pension or similar benefit payments beyond the payments to the statutory defined contribution scheme.

Segment reporting. Operating segments are reported in a manner consistent with the internal reporting provided to the Bank's Management Board responsible for making operating decisions. Segments whose revenue, result or assets are ten percent or more of all the segments are reported separately.

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Impairment losses on loans and advances. The Group regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in the consolidated statement of comprehensive income, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or 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 portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. Impairment losses for individually significant loans are based on estimates of discounted future cash flows of the individual loans, taking into account repayments and realisation of any assets held as collateral against the loans. A 10% increase or decrease in the actual loss experience compared to the estimated future discounted cash flows, which could arise from differences in amounts and timing of the cash flows, would result in an increase or decrease in loan impairment losses of RR 298 036 thousand (2011: RR 275 509 thousand).

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies (ContInied)

Revaluation of premises and equipment. Given the absence of a highly liquid market for non-residential premises and land in Rostov, the Rostov Region and other regions of the South of Russia, the Bank and the independent appraiser have used professional judgements on comparability of existing real estate sale deals and available data on transactions with land and real estate between third parties. If the price per square meter of land had increased by 10%, the carrying value of land would have increased by RR 52 770 thousand (2011: RR 52 970 thousand). If the price per square meter of buildings had increased by 10%, the carrying value of building would have increased by RR 187 275 thousand (2011: RR 198 178 thousand).

Tax legislation. Russian tax, currency and customs legislation is subject to varying interpretations. Refer to Note 33.

5 Adoption of New or Revised Standards and Interpretations

The following new standards and interpretations became effective for the Group from 1 January 2012:

Disclosures—Transfers of Financial Assets – Amendments to IFRS 7 (issued in October 2010 and effective for annual periods beginning on or after 1 July 2011). The amendment requires additional disclosures in respect of risk exposures arising from transferred financial assets. The amendment includes a requirement to disclose by class of asset the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party, yet remain on the entity's balance sheet. Disclosures are also required to enable a user to understand the amount of any associated liabilities, and the relationship between the financial assets and associated liabilities. Where financial assets have been derecognised, but the entity is still exposed to certain risks and rewards associated with the transferred asset, additional disclosure is required to enable the effects of those risks to be understood. The standard requires these new disclosures to be presented in a separate note.

Other revised standards and interpretations: The amendments to IFRS 1 “First-time adoption of IFRS”, relating to hyperinflation and eliminating references to fixed dates for certain exceptions and exemptions, did not have any impact on these financial statements. The amendment to IAS 12 “Income taxes”, which introduced a rebuttable presumption that an investment property carried at fair value is recovered entirely through sale, did not have a material impact on these consolidated financial statements.

6 New Accounting Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2013 or later, and which the Group has not early adopted. The Group currently assesses the effect of the new standards and interpretation on the consolidated financial statements.

IFRS 9, Financial Instruments Part 1: Classification and Measurement. IFRS 9, issued in November 2010, replaces those parts of IAS 39 relating to the classification and measurement of financial assets. IFRS 9 was further amended in October 2010 to address the classification and measurement of financial liabilities and in December 2011 to (i) change its effective date to annual periods beginning on or after 1 January 2015 and (ii) add transition disclosures. Key features of the standard are as follows:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity’s business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity’s business model is to hold the asset to collect the contractual cash flows, and (ii) the asset’s contractual cash flows represent payments of principal and interest only (that is, it has only “basic loan features”). All other debt instruments are to be measured at fair value through profit or loss.

6 New Accounting Pronouncements (Continued)

- Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

While adoption of IFRS 9 is mandatory from 1 January 2015, earlier adoption is permitted. The Group decided not to early adopt IFRS 9.

IAS 28 "Investments in Associates and Joint Ventures", (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013). The amendment of IAS 28 resulted from the Board's project on joint ventures. When discussing that project, the Board decided to incorporate the accounting for joint ventures using the equity method into IAS 28 because this method is applicable to both joint ventures and associates. With this exception, other guidance remained unchanged.

Improvements to International Financial Reporting Standards (issued in May 2012 and effective for annual periods beginning 1 January 2013). The improvements consist of changes to five standards. IFRS 1 was amended to (i) clarify that an entity that resumes preparing its IFRS financial statements may either repeatedly apply IFRS 1 or apply all IFRSs retrospectively as if it had never stopped applying them, and (ii) to add an exemption from applying IAS 23 "Borrowing costs", retrospectively by first-time adopters. IAS 1 was amended to clarify that explanatory notes are not required to support the third balance sheet presented at the beginning of the preceding period when it is provided because it was materially impacted by a retrospective restatement, changes in accounting policies or reclassifications for presentation purposes, while explanatory notes will be required when an entity voluntarily decides to provide additional comparative statements. IAS 16 was amended to clarify that servicing equipment that is used for more than one period is classified as property, plant and equipment rather than inventory. IAS 32 was amended to clarify that certain tax consequences of distributions to owners should be accounted for in the income statement as was always required by IAS 12. IAS 34 was amended to bring its requirements in line with IFRS 8. IAS 34 will require disclosure of a measure of total assets and liabilities for an operating segment only if such information is regularly provided to chief operating decision maker and there has been a material change in those measures since the last annual financial statements.

The Group does not expect adoption of the following new pronouncements to have any material impact on the Group:

- IFRS 10, Consolidated Financial Statements (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), replaces all of the guidance on control and consolidation in IAS 27, Consolidated and separate financial statements, and SIC-12, Consolidation - special purpose entities.
- IFRS 11, Joint arrangements, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), replaces IAS 31, Interests in Joint Ventures, and SIC-13, Jointly Controlled Entities – Non-Monetary Contributions by Ventures.
- IFRS 12, Disclosure of Interests in Other Entities, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), that provides for disclosure of new information by entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity.

6 New Accounting Pronouncements (Continued)

- IFRS 13, Fair Value Measurement, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), which aims to improve the quality of disclosures and ensure consistency by providing a revised definition of fair value.

- IAS 27, Separate Financial Statements, and IAS 31, Interests in Joint Ventures (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013), amendments to IFRS 10, Consolidated Financial Statements, and IFRS 11, Joint Arrangements.

- Amendments to IAS 1, Presentation of Financial Statements (issued in June 2011, effective for annual periods beginning on or after 1 July 2012), changes the disclosure of items presented in other comprehensive income.

- Amended IAS 19, Employee Benefits (issued in June 2011, effective for periods beginning on or after 1 January 2013), makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits.

- Disclosures – Offsetting Financial Assets and Financial Liabilities - Amendments to IFRS 7 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2013). The amendments require disclosures that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off.

- Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2014). The amendment clarifies the meaning of 'currently has a legally enforceable right of set-off'.

- IFRIC 20, Stripping Costs in the Production Phase of a Surface Mine, considers when and how to account for the benefits arising from the stripping activity in mining industry.

IASB has also issued the following amendments that have not been yet adopted in Russia:

- Transition Guidance Amendments to IFRS 10, IFRS 11 and IFRS 12 (issued in June 2012 and effective for annual periods beginning on or after 1 January 2013). The amendments also provide additional transition relief in IFRS 10, IFRS 11, Joint Arrangements, and IFRS 12, Disclosure of Interests in Other Entities.

- Amendments to IFRS 1, First-time adoption of International Financial Reporting Standards - Government Loans (issued in March 2012 and effective for annual periods beginning 1 January 2013). The amendments give first-time adopters of IFRSs relief from full retrospective application of IFRSs when accounting for certain government loans on transition.

- Amendments to IFRS 10, IFRS 12 and IAS 27 - Investment entities (issued on 31 October 2012 and effective for annual periods beginning 1 January 2014). The amendment introduced a definition of an investment entity as an entity that (i) obtains funds from investors for the purpose of providing them with investment management services, (ii) commits to its investors that its business purpose is to invest funds solely for capital appreciation or investment income and (iii) measures and evaluates its investments on a fair value basis. An investment entity will be required to account for its subsidiaries at fair value through profit or loss, and to consolidate only those subsidiaries that provide services that are related to the entity's investment activities. IFRS 12 was amended to introduce new disclosures, including any significant judgements made in determining whether an entity is an investment entity and information about financial or other support to an unconsolidated subsidiary, whether intended or already provided to the subsidiary.

7 Cash and Cash Equivalents

In thousands of Russian Roubles	**2012**	**2011**
Cash on hand	2 386 228	2 120 028
Cash balances with the CBRF (other than mandatory reserve deposits)	2 535 582	1 427 974
Correspondent accounts and overnight placements with banks		
- Russian Federation	384 237	349 568
- other countries	1 595 270	601 225
- settlement accounts with trading systems	104 390	152 167
Total cash and cash equivalents	**7 005 707**	**4 650 962**

Analysis by credit quality of correspondent accounts and overnight placements at 31 December 2012 and 31 December 2011 is as follows:

In thousands of Russian Roubles	**Country**	**Rating of S&P/Moody's/Fitch**	**2012**	**2011**
Bank 1	Russia	- /Baa3 /BBB+	250 922	307 464
Bank 2	Russia	BBB /Baa1 /BBB	39 923	3 120
Bank 3	Russia	- /Baa1 /BBB	1 564	244
Non-banking credit institution	Russia	-	91 619	-
Other	Russia	-	209	38 740
Total for the Russian Federation			**384 237**	**349 568**
Bank 4	USA, Great Britain	A /A3 /A	943 907	174 526
Bank 5	Germany	A /A3 /A+	606 052	300 246
Bank 6	Italy	BBB+ /Baa2 /A-	15 547	10 736
Bank 7	Great Britain	A /A3 /A	12 480	46 918
Bank 8	Austria	A /A3 /A	5 217	5 542
Bank 9	USA	-	-	54 956
Others with a rating not lower than A		-	12 067	8 301
Total for other countries			**1 595 270**	**601 225**

Settlement accounts with trading systems represent balances on the Moscow Exchange and its subsidiary.

Balances on correspondent accounts and overnight placements are not collateralised.

Interest rate analysis of cash and cash equivalents is disclosed in Note 31. Information on related party balances is disclosed in Note 36.

8 Trading Securities

In thousands of Russian Roubles	**2012**	**2011**
Corporate bonds	1 521 829	447 349
Eurobonds	109 008	478 953
Total debt securities	**1 630 837**	**926 302**
Shares of closed mutual funds	51 821	44 047
Total equity securities	**51 821**	**44 047**
Total trading securities	**1 682 658**	**970 349**

8 Trading Securities (Continued)

Corporate bonds are interest bearing securities denominated in Russian Roubles and freely tradable on the Russian market. Corporate securities were mainly issued by large Russian companies and banks.

Eurobonds are interest bearing securities denominated in Euros (2011: Euros) and are freely tradable on the market. The actual borrower with regards to these securities is the Moscow Government.

Trading securities are carried at fair value which also reflects any credit risk related write-downs. As trading securities are carried at their fair values, the Group does not analyse or monitor their impairment indicators.

Analysis by credit quality of debt trading securities is as follows at 31 December 2012:

In thousands of Russian Roubles	**Corporate bonds**	**Eurobonds**	**Total**
Neither past due nor impaired			
Standard&Poor's BBB	375 974	109 008	484 982
Fitch BBB	501 009	-	501 009
Fitch B	50 416	-	50 416
Moody's Baa	594 430	-	594 430
Total trading securities	**1 521 829**	**109 008**	**1 630 837**

Analysis by credit quality of debt trading securities is as follows at 31 December 2011:

In thousands of Russian Roubles	**Corporate bonds**	**Eurobonds**	**Total**
Neither past due nor impaired			
Standard&Poor's BBB	101 638	478 953	580 591
Standard&Poor's BB	88 736	-	88 736
Fitch B	103 523	-	103 523
Moody's B	153 452	-	153 452
Total trading securities	**447 349**	**478 953**	**926 302**

The debt securities are not collateralised. The Group's maximum exposure to credit risk is reflected in the carrying amounts of financial assets.

Interest rate analysis of trading securities is disclosed in Note 31.

The Bank is licensed by the Federal Service on Financial Markets of the Russian Federation for trading in securities.

9 Due from Other Banks

In thousands of Russian Roubles	**2012**	**2011**
Placements with the Bank of Russia	1 300 320	2 000 219
Long-term placements with other banks	4 256	1 000
Issued letters of credit	-	10 804
Total due from other banks	**1 304 576**	**2 012 023**

9 Due from other Banks (Continued)

Analysis by credit quality of amounts due from other banks outstanding at 31 December 2012 is as follows:

In thousands of Russian Roubles	Placements with the Bank of Russia	Long-term placements with other banks	Issued letters of credit	Total
Neither past due nor impaired				
Unrated	1 300 320	4 037	-	1 304 357
Fitch BBB	-	219	-	219
Total due from other banks	**1 300 320**	**4 256**	**-**	**1 304 576**

Analysis by credit quality of amounts due from other banks outstanding at 31 December 2011 is as follows:

In thousands of Russian Roubles	Placements with the Bank of Russia	Long-term placements with other banks	Issued letters of credit	Total
Neither past due nor impaired				
Unrated	2 000 219	-	-	2 000 219
Standard&Poor's A	-	1 000	10 804	11 804
Total due from other banks	**2 000 219**	**1 000**	**10 804**	**2 012 023**

Carrying value of each class of amounts due from other banks approximates their fair value at 31 December 2012 and 31 December 2011.

Interest rate analysis of due from other banks is disclosed in Note 31.

10 Loans and Advances to Customers

In thousands of Russian Roubles	2012	2011
Loans to small and medium size enterprises (SME loans)	21 369 021	19 958 072
Corporate loans	10 265 442	10 305 545
Loans to individuals - consumer loans and car loans	11 638 510	8 546 508
Loans to individuals - mortgage loans	7 469 744	5 955 523
Total loans and advances to customers (before impairment)	**50 742 717**	**44 765 648**
Less: Provision for loan impairment	(2 980 362)	(2 755 088)
Total loans and advances to customers	**47 762 355**	**42 010 560**

10 Loans and Advances to Customers (Continued)

Movements in the provision for loan impairment during 2012 are as follows:

In thousands of Russian Roubles	**Loans to small and medium enterprises (SME)**	**Corporate loans**	**Consumer loans and car loans**	**Mortgage loans**	**Total**
Provision for loan impairment at 1 January 2012	**992 558**	**968 418**	**543 849**	**250 263**	**2 755 088**
Provision for loan impairment during the year	661 379	57 326	100 074	66 184	884 963
Provision on assigned rights of claims	(153 354)	(39 244)	(381)	-	(192 979)
Amounts written off during the year as uncollectible	(336 407)	(55 218)	(73 190)	(1 895)	(466 710)
Provision for loan impairment at 31 December 2012	**1 164 176**	**931 282**	**570 352**	**314 552**	**2 980 362**

Movements in the provision for loan impairment during 2011 are as follows:

In thousands of Russian Roubles	**Loans to small and medium enterprises (SME)**	**Corporate loans**	**Consumer loans and car loans**	**Mortgage loans**	**Total**
Provision for loan impairment at 1 January 2011	**1 085 838**	**893 395**	**545 072**	**191 474**	**2 715 779**
Provision for loan impairment during the year	317 731	180 310	75 175	63 995	637 211
Provision on assigned rights of claims	(342 330)	-	(3 774)	-	(346 104)
Amounts written off during the year as uncollectible	(68 681)	(105 287)	(72 624)	(5 206)	(251 798)
Provision for loan impairment at 31 December 2011	**992 558**	**968 418**	**543 849**	**250 263**	**2 755 088**

In 2012, the Group assigned the rights of claim on past due and impaired loans in the total amount of RR 407 381 thousand (2011: RR 454 967 thousand) for the total consideration of RR 295 364 thousand (2011: RR 137 454 thousand). The Group's gain on assignment of the rights of claim on these loans in the amount of RR 80 962 thousand (2011: RR 29 031 thousand) was recorded in the consolidated statement of comprehensive income.

Economic sector risk concentrations within the loan portfolio are as follows:

	2012		**2011**	
In thousands of Russian Roubles	**Amount**	**%**	**Amount**	**%**
Individuals (total), incl.	19 108 254	37.7	14 502 031	32.4
- consumer loans	*10 427 945*	*20.6*	*7 219 181*	*16.1*
- mortgage loans	*7 469 744*	*14.7*	*5 955 523*	*13.3*
- car loans	*1 210 565*	*2.4*	*1 327 327*	*3.0*
Trade	8 309 004	16.3	8 460 211	18.9
Agriculture	7 943 839	15.7	6 973 800	15.6
Manufacturing	5 687 423	11.2	4 512 437	10.1
Construction	2 985 631	5.9	3 277 007	7.3
Transport	2 830 367	5.6	3 061 743	6.8
Energy	986 905	1.9	1 007 782	2.3
Financial companies	309 651	0.6	532 855	1.2
Real estate	94 309	0.2	177 420	0.4
Other	2 487 334	4.9	2 260 362	5.0
Total loans and advances to customers (before impairment)	**50 742 717**	**100.0**	**44 765 648**	**100.0**

10 Loans and Advances to Customers (Continued)

As at 31 December 2012, the Group's 10 largest borrowers had aggregate loan balances (including finance lease investments) of RR 8 646 901 thousand, or 16.8% of the loan portfolio and finance lease receivables before impairment (2011: RR 7 845 715 thousand, or 17.3%).

Information about collateral at 31 December 2012 is as follows:

In thousands of Russian Roubles	**Loans to small and medium enterprises (SME)**	**Corporate loans**	**Consumer loans and car loans**	**Mortgage loans**	**Total**
Loans collateralised by:	21 264 919	8 916 360	9 345 037	7 458 861	46 985 177
- real estate	*13 955 594*	*7 084 174*	*1 924 781*	*6 456 760*	*29 421 309*
- tradable securities	*12 600*	*272 088*	*6 386*	*-*	*291 074*
- motor vehicles	*3 400 899*	*453 483*	*3 997 985*	*43 338*	*7 895 705*
- agricultural equipment	*877 242*	*104 786*	*15 434*	*-*	*997 462*
- property	*1 097 180*	*419 219*	*276 690*	*413 673*	*2 206 762*
- pledge of rights	*88 002*	*-*	*1 771*	*59 329*	*149 102*
- goods in turnover	*547 056*	*296 121*	*707*	*-*	*843 884*
- guarantees of third parties	*1 286 346*	*286 489*	*3 121 283*	*485 761*	*5 179 879*
Unsecured loans	104 102	1 349 082	2 293 473	10 883	3 757 540
Total loans and advances to customers	**21 369 021**	**10 265 442**	**11 638 510**	**7 469 744**	**50 742 717**

Information about collateral at 31 December 2011 is as follows:

In thousands of Russian Roubles	**Loans to small and medium enterprises (SME)**	**Corporate loans**	**Consumer loans and car loans**	**Mortgage loans**	**Total**
Loans collateralised by:	19 851 010	8 356 465	7 221 380	5 934 983	41 363 838
- real estate	*11 608 939*	*6 303 622*	*1 398 117*	*4 939 698*	*24 250 376*
- tradable securities	*-*	*-*	*4 052*	*-*	*4 052*
- motor vehicles	*4 008 273*	*587 336*	*3 380 199*	*59 079*	*8 034 887*
- agricultural equipment	*1 116 832*	*104 185*	*20 168*	*-*	*1 241 185*
- property	*1 299 170*	*836 665*	*234 904*	*355 496*	*2 726 235*
- pledge of rights	*37 201*	*-*	*799*	*41 930*	*79 930*
- goods in turnover	*535 634*	*237 655*	*2 117*	*-*	*775 406*
- guarantees of third parties	*1 244 961*	*287 002*	*2 181 024*	*538 780*	*4 251 767*
Unsecured loans	107 062	1 949 080	1 325 128	20 540	3 401 810
Total loans and advances to customers	**19 958 072**	**10 305 545**	**8 546 508**	**5 955 523**	**44 765 648**

The disclosure above represents the lower of the carrying value of the loan or collateral taken. The carrying value of loans was allocated based on liquidity of the assets taken as collateral.

10 Loans and Advances to Customers (Continued)

The analysis of loans and advances to customers by credit quality at 31 December 2012 is as follows:

In thousands of Russian Roubles	**Loans to small and medium enterprises (SME)**	**Corporate loans**	**Consumer loans and car loans**	**Mortgage loans**	**Total**
Current and not impaired					
Individually significant borrowers					
- A1 rated	2 210 009	5 899 472	-	-	8 109 481
- A3 rated	988 204	-	-	-	988 204
- B2 rated	1 007 634	736 958	-	-	1 744 592
Loans assessed on a portfolio basis					
- agriculture	4 229 431	219 904	-	-	4 449 335
- trade	5 312 080	397 891	-	-	5 709 971
- manufacturing	2 587 793	1 094 709	-	-	3 682 502
- other	3 309 251	1 049 203	-	-	4 358 454
- mortgage loans	-	-	-	6 936 996	6 936 996
- car loans	-	-	1 114 854	-	1 114 854
- consumer loans	-	-	9 737 634	-	9 737 634
Total current and not impaired	**19 644 402**	**9 398 137**	**10 852 488**	**6 936 996**	**46 832 023**
Past due but not impaired					
Loans assessed on a portfolio basis					
- less than 30 days overdue	15 980	-	383 109	192 039	591 128
Total past due but not impaired	**15 980**	**-**	**383 109**	**192 039**	**591 128**
Impaired					
Individually significant borrowers					
- over 181 days overdue	-	548 094	-	-	548 094
Loans assessed on a portfolio basis					
- up to 180 days overdue	584 727	-	126 063	96 081	806 871
- over 181 days overdue	1 123 912	319 211	276 850	244 628	1 964 601
Total impaired loans and advances to customers	**1 708 639**	**867 305**	**402 913**	**340 709**	**3 319 566**
Total loans and advances to customers (gross)	**21 369 021**	**10 265 442**	**11 638 510**	**7 469 744**	**50 742 717**
Less: provision for impairment	(1 164 176)	(931 282)	(570 352)	(314 552)	(2 980 362)
Total loans and advances to customers	**20 204 845**	**9 334 160**	**11 068 158**	**7 155 192**	**47 762 355**

10 Loans and Advances to Customers (Continued)

The analysis of loans and advances to customers by credit quality at 31 December 2011 is as follows:

In thousands of Russian Roubles	**Loans to small and medium enterprises (SME)**	**Corporate loans**	**Consumer loans and car loans**	**Mortgage loans**	**Total**
Current and not impaired					
Individually significant borrowers					
- A1 rated	573 040	3 561 325	-	-	4 134 365
- A3 rated	458 752	1 445 007	-	-	1 903 759
- B2 rated	1 400 397	1 282 116	-	-	2 682 513
Loans assessed on a portfolio basis					
- agriculture	4 287 121	597 891	-	-	4 885 012
- trade	5 563 951	638 359	-	-	6 202 310
- manufacturing	2 301 843	1 200 217	-	-	3 502 060
- other	4 142 073	628 217	-	-	4 770 290
- mortgage loans	-	-	-	5 509 196	5 509 196
- car loans	-	-	1 173 437	-	1 173 437
- consumer loans	-	-	6 818 973	-	6 818 973
Total current and not impaired	**18 727 177**	**9 353 132**	**7 992 410**	**5 509 196**	**41 581 915**
Past due but not impaired					
Loans assessed on a portfolio basis					
- less than 30 days overdue	25 308	-	190 356	122 889	338 553
Total past due but not impaired	**25 308**	**-**	**190 356**	**122 889**	**338 553**
Impaired					
Individually significant borrowers					
- over 181 days overdue	-	559 158	-	-	559 158
Loans assessed on a portfolio basis					
- up to 180 days overdue	277 802	338 471	114 289	111 304	841 866
- over 181 days overdue	927 785	54 784	249 453	212 134	1 444 156
Total impaired loans and advances to customers	**1 205 587**	**952 413**	**363 742**	**323 438**	**2 845 180**
Total loans and advances to customers (gross)	**19 958 072**	**10 305 545**	**8 546 508**	**5 955 523**	**44 765 648**
Less: provision for impairment	(992 558)	(968 418)	(543 849)	(250 263)	(2 755 088)
Total loans and advances to customers	**18 965 514**	**9 337 127**	**8 002 659**	**5 705 260**	**42 010 560**

10 Loans and Advances to Customers (Continued)

The Group applied the portfolio provisioning methodology prescribed by IAS 39, Financial Instruments: Recognition and Measurement, and created portfolio provisions for impairment losses that were incurred, but have not been specifically identified with any individual loan, by the end of the reporting period. The Group's policy is to classify each loan as 'neither past due nor impaired' until specific objective evidence of impairment of the loan is identified. The impairment provisions may exceed the total gross amount of individually impaired loans as a result of this policy and the portfolio impairment methodology.

The primary factors that the Group considers in determining whether a loan is impaired are its overdue status and realisability of related collateral, if any. As a result, the Group presents above an ageing analysis of loans that are determined to be impaired.

Past due, but not impaired, loans primarily include collateralised loans where the fair value of collateral covers the overdue interest and principal repayments. The amount reported as past due but not impaired is the whole balance of such loans, not only the individual instalments that are past due.

Based on the results of the collection rate analysis, the Group assigns one of the following ratings to borrowers with individually significant, unimpaired and not past due loans:

A 1 – is assigned when a comprehensive analysis of the borrower's financial and economic activity and other information on the borrower, including information on external conditions, confirm the borrower's absolute financial stability and the absence of any negative aspects or trends (with consideration of the seasonal factor) that can affect the borrower's financial stability in future, or existence of certain insignificant adverse aspects or trends that do not, and should not, affect the borrower's financial stability in foreseeable future (or before the agreement expires).

A2 – is assigned when a comprehensive analysis of the borrower's financial and economic activity and/or other information on the borrower confirm the absence of any direct threats to the borrower's financial position in the presence of adverse aspects and/or trends in the borrower's activity (with consideration of the seasonal factor) which in foreseeable future (or before the agreement expires) can cause financial problems unless the borrower undertakes necessary actions to remedy the situation, however the analysis of movements on the borrower's settlement accounts with the Bank confirms the borrower's ability to fully meet its obligations to the Bank in due time.

A3 – is assigned when a comprehensive analysis of the borrower's financial and economic activity and/or other information on the borrower confirm the absence of any direct threats to the borrower's financial position in the presence of adverse aspects and/or trends in the borrower's activity (with consideration of the seasonal factor) which in foreseeable future (or before the agreement expires) can cause financial problems unless the borrower undertakes necessary actions to remedy the situation, analysis of the turnover on the borrower's current account opened in the Bank, indicating a lack of turnover for repayment of loans, however the sound budgeted performance indicators of the borrower of the Bank confirm the borrower's ability to fully meet its obligations to the Bank in due time.

B1 – is assigned when a comprehensive analysis of the borrower's financial and economic activity and/or other information on the borrower indicates the absence of any direct threats to the borrower's financial position in the presence of adverse aspects and/or trends in the borrower's activity (with consideration of the seasonal factor) which in foreseeable future (or before the agreement expires) can lead to financial problems unless the borrower undertakes necessary actions to remedy the situation, and the analysis of actual and justified performance indicators of a group of entities, of which the borrower is a part, allows to conclude that the borrower will be able to repay its debt with the use of the group's funds.

B2 – is assigned when a comprehensive analysis of the borrower's financial and economic activity and/or other information on the borrower indicates the absence of any direct threats to the borrower's financial position in the presence of adverse aspects and/or trends in the borrower's activity (with consideration of the seasonal factor) which in foreseeable future (or before the agreement expires) can cause financial problems unless the borrower undertakes necessary actions to remedy the situation, and the analysis of movements on the borrower's settlement accounts with the Bank indicates insufficiency of the movements for the purpose of debt repayment, however, the analysis of the borrower's loan collateral enables to conclude that the borrower will be able to repay its debt to the Bank by selling the available collateral.

10 Loans and Advances to Customers (Continued)

An entity's rating deterioration alone is not an impairment indicator, however, it may become an impairment indicator when other available information is taken into account.

The financial effect of collateral is presented by disclosing collateral values separately for (i) those assets where collateral and other credit enhancements are equal to or exceed carrying value of the asset ("over-collateralised assets") and (ii) those assets where collateral and other credit enhancements are less than the carrying value of the asset ("under-collateralised assets"). The effect of collateral at 31 December 2012:

	Over-collateralised assets		**Under-collateralised assets**	
In thousands of Russian Roubles	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Loans to small and medium enterprises (SME)	8 826 820	17 870 088	12 542 201	4 929 115
Corporate loans	1 564 535	3 720 559	8 700 907	3 842 536
Consumer loans and car loans	8 736 429	19 421 535	2 902 081	426 294
Mortgage loans	7 337 271	19 829 070	132 473	105 497

The effect of collateral at 31 December 2011:

	Over-collateralised assets		**Under-collateralised assets**	
In thousands of Russian Roubles	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Loans to small and medium enterprises (SME)	8 654 258	15 779 759	11 303 814	3 877 224
Corporate loans	2 374 222	5 581 668	7 931 323	1 874 409
Consumer loans and car loans	6 858 952	15 730 511	1 687 556	247 590
Mortgage loans	5 867 663	14 928 392	87 860	54 578

The fair value of the collateral in respect of retail loans includes personal guarantees in the amount less than or equal to the loan amount. At 31 December 2012 fair value of these guarantees was RR 16 786 132 thousand (2011: RR 12 895 264 thousand). The Group believes it reasonable to use personal guarantees as loan collateral, since it has practical experience in collecting overdue loans from guarantors.

The fair value of residential real estate at the end of the reporting period was estimated by indexing the values determined by the Group's internal credit department staff at the time of loan inception for the average increases in residential real estate prices by city and region. The fair value of other real estate and other assets was determined by the Group's credit department using the Group's internal guidelines. In the current economic conditions there exists an uncertainty as to complete repossession of collateral. Provision for impairment reflects the risk that the management will not be able to change the right of ownership and take possession of the collateral on a particular loan or the amount received from the disposal of the collateral will be insufficient.

Carrying value of each class of loans and advances to customers approximates their fair value at 31 December 2012 and 31 December 2011. At 31 December 2012, the estimated fair value of loans and advances to customers was RR 47 323 936 thousand (2011: RR 42 548 719 thousand). Refer to Note 34.

Geographical, maturity and interest rate analysis of loans and advances to customers is disclosed in Note 31. Information on related party balances is disclosed in Note 36.

11 Finance Lease Receivables

In thousands of Russian Roubles	**2012**	**2011**
Total investments in finance lease	799 682	670 668
Less: Unearned future finance income	(132 987)	(110 189)
Less: Provision for impairment	(23 601)	(21 812)
Total finance lease receivables	**643 094**	**538 667**

The primary factor that the Group considers in determining whether a finance lease receivable is impaired is its overdue status. The rights to the leased assets revert to the Group in the event of default by the lessee.

Analysis by credit quality of finance lease receivables at 31 December 2012 is as follows:

In thousands of Russian Roubles	**Corporate business**	**SME**	**Total**
Current and not impaired	84 993	534 559	619 552
Total current and not impaired	**84 993**	**534 559**	**619 552**
Past due but not impaired			
- less than 30 days overdue	-	12 024	12 024
Total past due but not impaired	-	**12 024**	**12 024**
Impaired			
- 31 to 180 days overdue	-	1 620	1 620
- 181 days to 1 year overdue	1 175	5 904	7 079
- over 1 year overdue	479	25 941	26 420
Total impaired	**1 654**	**33 465**	**35 119**
Total finance lease receivables (gross)	**86 647**	**580 048**	**666 695**
Less: provision for impairment	(1 158)	(22 443)	(23 601)
Total finance lease receivables	**85 489**	**557 605**	**643 094**

11 Finance Lease Receivables (Continued)

Analysis by credit quality of finance lease receivables at 31 December 2011 is as follows:

In thousands of Russian Roubles	Corporate business	SME	Total
Current and not impaired	86 903	442 663	529 566
Total current and not impaired	**86 903**	**442 663**	**529 566**
Past due but not impaired			
- less than 30 days overdue	398	-	398
Total past due but not impaired	**398**	-	**398**
Impaired			
- 181 days to 1 year overdue	-	10 045	10 045
- over 1 year overdue	-	20 470	20 470
Total impaired	-	**30 515**	**30 515**
Total finance lease receivables (gross)	**87 301**	**473 178**	**560 479**
Less: provision for impairment	-	(21 812)	(21 812)
Total finance lease receivables	**87 301**	**451 366**	**538 667**

The Group applies a single approach in assessing impairment of overdue loans and finance lease receivables. General principles, individual and collective risk assessment, rating system and other components of assessment for leasing and loans are the same. Individually significant loans related to leasing are determined based on initial investments under a finance lease. The Group believes that all lease receivables are collateralised.

Movements in the provision for uncollectible finance lease receivables during 2012 and 2011 are as follows:

In thousands of Russian Roubles	2012	2011
Provision for impairment of finance lease receivables as at 1 January	**21 812**	**52 493**
Provision for/(recovery of) impairment of finance lease receivables during the year	3 497	(16 421)
Amounts written off during the year as uncollectible and provision utilised on selling assets	(1 708)	(14 260)
Provision for impairment of finance lease receivables at 31 December	**23 601**	**21 812**

11 Finance Lease Receivables (Continued)

Fair value of leased assets related to finance lease receivables as at 31 December 2012 and 31 December 2011 is as follows:

In thousands of Russian Roubles	2012	2011
Motor vehicles	743 941	435 799
Industrial equipment	266 555	331 868
Agricultural equipment	153 323	217 643
Construction equipment	103 844	100 073
Office equipment	4 153	2 839
Real estate	2 500	2 009
Trading equipment	1 945	775
Fair value of collateral in respect of finance lease receivables	**1 276 261**	**1 091 006**

The collateral for finance lease receivables is also the asset for lease. All investments into finance lease are over-collateralised assets.

The structure of finance lease receivables by leased assets is as follows:

	2012		2011	
In thousands of Russian Roubles	Amount	%	Amount	%
Motor vehicles	389 916	58.4	234 071	41.7
Industrial equipment	165 701	24.8	187 879	33.5
Agricultural equipment	63 132	9.5	85 627	15.3
Construction equipment	44 667	6.7	50 238	9.0
Trading equipment	1 126	0.2	504	0.1
Office equipment	1 123	0.2	2 008	0.4
Real estate	1 030	0.2	152	0.0
Total finance lease receivables (before impairment)	**666 695**	**100.0**	**560 479**	**100.0**

The structure of finance lease receivables by economic sector is as follows:

	2012		2011	
In thousands of Russian Roubles	Amount	%	Amount	%
Trade	205 941	30.9	69 337	12.4
Manufacturing	137 237	20.6	117 885	21.0
Transport	89 088	13.4	105 395	18.8
Construction	63 076	9.4	41 658	7.4
Agriculture	50 924	7.6	105 813	18.9
Energy	617	0.1	7 093	1.3
Other	119 812	18.0	113 298	20.2
Total finance lease receivables (before impairment)	**666 695**	**100.0**	**560 479**	**100.0**

11 Finance Lease Receivables (Continued)

The analysis of investment in finance lease receivables by maturity is disclosed below:

In thousands of Russian Roubles	**Due within 1 year**	**Due between 1 and 5 years**	**Total**
Total investments in finance lease at 31 December 2012	**405 121**	**394 561**	**799 682**
Unearned finance income	(77 782)	(55 205)	(132 987)
Less: Provision for impairment	(11 588)	(12 013)	(23 601)
Finance lease receivables as at 31 December 2012	**315 751**	**327 343**	**643 094**
Total investments in finance lease at 31 December 2011	**338 423**	**332 245**	**670 668**
Unearned finance income	(70 139)	(40 050)	(110 189)
Less: Provision for impairment	(10 441)	(11 371)	(21 812)
Finance lease receivables as at 31 December 2011	**257 843**	**280 824**	**538 667**

As at 31 December 2012 the estimated fair value of finance lease receivable amounted to RR 645 343 thousand (2011: RR 543 812 thousand). Refer to Note 34.

Geographical, currency, maturity and interest rate analyses of finance lease receivables are disclosed in Note 31. Information on related party balances is disclosed in Note 36.

12 Investment in Associate

Before December 2007, OAO TPTS Teploenergo was a subsidiary of the Center-invest Bank. Following the additional share issue in December 2007, Center-invest Bank Group holds 47.31% in the charter capital of Teploenergo and EBRD holds a 25.00% share.

The table below summarises the movements in the carrying amount of the Group's investment in the associate.

In thousands of Russian Roubles	**2012**	**2011**
Carrying amount at 1 January	**319 199**	**320 657**
Share of profit of associate	39	3 934
Share of revaluation of premises and equipment of associate	13 528	(5 392)
Carrying amount at 31 December	**332 766**	**319 199**

Summarised financial information on this associate, including total assets, liabilities, revenues and profit or loss, was as follows:

In thousands of Russian Roubles	**2012**	**2011**
Total assets	1 080 592	1 052 920
Total liabilities	(377 219)	(378 224)
Revenue	536 330	542 823
Profit	83	8 316
% interest held	47.31%	47.31%

13 Intangible Assets

In thousands of Russian Roubles	Note	2012	2011
Carrying value			
Balance at 1 January		425 261	424 407
Additions		16 701	34 515
Disposals/fully amortised		(38 554)	(33 661)
Balance at 31 December		**403 408**	**425 261**
Accumulated amortisation			
Balance at 1 January		95 587	69 660
Amortisation charge	27	36 396	48 612
Disposals/fully amortised		(38 554)	(22 685)
Balance at 31 December		**93 429**	**95 587**
Net carrying amount at 31 December		**309 979**	**329 674**

Residual value of intangible assets includes investments into the following software: SAP for Banking, SAP Business Warehouse data storage, TranzWare processing centre, CFT settlement centre, SAP Process Integration bus, GEMINI IBSC remote banking service system, SAP Human Capital Management, Terrasoft XRM Bank and other. Amortisation on operating software was charged based on useful lives from 3 to 10 years. Software which was not operating has no indication of impairment.

14 Premises and Equipment

In thousands of Russian Roubles	Note	Land	Premises	Other	Total
Residual value at 31 December 2010		**461 280**	**1 857 327**	**305 152**	**2 623 759**
Carrying value					
Balance at the beginning of the year		461 280	1 865 990	986 768	3 314 038
Additions		44 825	54 415	46 742	145 982
Disposals		(22 088)	(32 888)	(65 506)	(120 482)
Revaluation		45 682	106 867	-	152 549
Balance at the end of the year		**529 699**	**1 994 384**	**968 004**	**3 492 087**
Accumulated depreciation					
Balance at the beginning of the year		-	8 663	681 616	690 279
Depreciation charge	27	-	47 428	150 583	198 011
Disposals		-	-	(63 349)	(63 349)
Revaluation		-	(43 486)	-	(43 486)
Balance at the end of the year		**-**	**12 605**	**768 850**	**781 455**
Residual value at 31 December 2011		**529 699**	**1 981 779**	**199 154**	**2 710 632**
Carrying value					
Balance at the beginning of the year		529 699	1 994 384	968 004	3 492 087
Additions		212	7 776	55 278	63 266
Disposals		(2 215)	(73 283)	(46 311)	(121 809)
Balance at the end of the year		**527 696**	**1 928 877**	**976 971**	**3 433 544**
Accumulated depreciation					
Balance at the beginning of the year		-	12 605	768 850	781 455
Depreciation charge	27	-	47 695	123 564	171 259
Disposals		-	(4 171)	(45 489)	(49 660)
Balance at the end of the year		**-**	**56 129**	**846 925**	**903 054**
Residual value at 31 December 2012		**527 696**	**1 872 748**	**130 046**	**2 530 490**

14 Premises and Equipment (Continued)

As at 31 December 2012, independent valuation of premises and land was not performed, since there were no significant changes on the real estate market of the Southern Federal District in 2012. Premises and land were independently valued at 31 December 2011 by an independent firm of valuers, ZAO BDO, Moscow, who hold a recognised and relevant professional qualification and who have recent experience in valuation of assets of similar location and category. The basis used for the appraisal was market value and cost method where market value was not observable.

The carrying amount of premises and land at 31 December 2012 includes RR 1 599 128 thousand (2011: RR 1 629 773 thousand) of revaluation surplus relating to premises and land of the Group. At 31 December 2012, the carrying amount of premises and land would have been RR 801 316 thousand (2011: RR 881 705 thousand) had the assets been carried at cost less depreciation.

The total value of premises and equipment includes RR 13 621 thousand related to the premises and equipment leased under operating lease contract (2011: RR 117 576 thousand). The income from lease of these premises and equipment for the year 2012 amounted to RR 2 360 thousand (2011: RR 7 291 thousand).

15 Other Financial Assets

In thousands of Russian Roubles	**2012**	**2011**
Plastic cards receivables	132 970	92 167
Trade receivables and prepayments	73 383	135 343
Contribution to endowment fund	39 253	30 000
Settlements on brokerage operations	707	12
Settlements on other operations	34 898	45 329
Total other financial assets	**281 211**	**302 851**

The primary factors that the Group considers in determining whether a receivable is impaired are its overdue status and realisability of related collateral, if any.

Other financial assets are mainly neither overdue, nor impaired. There is no collateral on other financial assets.

Endowment Fund "Education and Science of SFD" initiated and co-founded by Center-invest Bank, commenced its work in May 2007. In June 2007, the Bank made its first contribution to the Fund in the amount of RR 30 000 thousand on a repayable basis, for the period of 10 years and in September 2012, its second contribution to the Fund in the amount of RR 30 000 thousand for the period up to June 2017.During 2012 the Group recorded loss on initial recognition of this assets in the amount of RR 20 747 thousand.

Carrying value of each class of other financial assets approximates their fair value at 31 December 2012 and 31 December 2011. At 31 December 2012, the estimated fair value of other financial assets was RR 281 211 thousand (2011: RR 302 851 thousand).

16 Other Assets

In thousands of Russian Roubles	**2012**	**2011**
Repossessed collateral	170 808	138 102
Equipment purchased for finance leasing purposes	62 577	10 243
Prepaid taxes and recoverable taxes (other than income tax)	36 538	22 139
Prepayments to suppliers of equipment for finance leasing purposes	24 689	47 753
Prepaid income tax	-	17 361
Other	45 808	35 412
Less: impairment provision	(80 270)	(69 052)
Total other assets	**260 150**	**201 958**

16 Other Assets (Continued)

Repossessed collateral represents assets obtained by the Group in settlement of overdue loans. The Group expects to dispose of the assets in the foreseeable future. The assets were initially recognised at fair value when acquired using reports on the property's estimated value, prepared by accredited valuers approved by the Bank's departments based on a comparative assessment approach, which reflects the property value in relation to equivalent objects, with available market value taking into account required adjustments. At 31 December 2012 the Group recorded an impairment provision for this class of assets amounting to RR 80 270 thousand (2011: RR 69 052 thousand).

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

In thousands of Russian Roubles	**2012**	**2011**
Provision for other assets at 1 January	**69 052**	**147 810**
Charge to provision for other assets during the period	37 858	158 444
Amounts written off during the year as uncollectible and provision utilised on selling assets	(26 640)	(237 202)
Provision for other assets at 31 December	**80 270**	**69 052**

17 Due to Other Banks

In thousands of Russian Roubles	**2012**	**2011**
Current term placements of other banks	728 832	89 277
Correspondent accounts and overnight placements of other banks	2 140	5 412
Total due to other banks	**730 972**	**94 689**

The structure of current term deposits of other banks at 31 December 2012 and 31 December 2011:

In thousands of Russian Roubles	**2012**	**2011**
Loan from SME Bank under the SME lending programme	500 000	-
Term loan from Citibank (Russia)	211 460	-
Loans from Raiffesenlandesbank for trade financing	17 372	19 838
Credit line from PNC Bank	-	65 381
Loans from Commerzbank for trade financing	-	4 058
Total current term deposits	**728 832**	**89 277**

Carrying value of each class of due to other banks approximates fair value at 31 December 2012 and 31 December 2011. At 31 December 2012, the estimated fair value of due to other banks was RR 730 972 thousand (2011: RR 94 689 thousand). Refer to Note 34.

Geographical, currency, maturity and interest rate analyses of due to other banks are disclosed in Note 31. Information on related party balances is disclosed in Note 36.

18 Customer Accounts

In thousands of Russian Roubles	2012	2011
State and public organisations		
- Current/settlement accounts	723 289	715 978
- Term deposits	2 527	67 802
Other legal entities		
- Current/settlement accounts	9 834 559	8 859 625
- Term deposits	1 268 149	1 103 273
Individuals		
- Current/demand accounts	4 139 362	3 315 995
- Term deposits	28 094 976	24 938 086
Total customer accounts	**44 062 862**	**39 000 759**

State and public organisations exclude government owned profit orientated businesses.

Economic sector concentrations within customer accounts are as follows:

	2012		2011	
In thousands of Russian Roubles	Amount	%	Amount	%
Individuals	32 234 338	73.1	28 254 081	72.4
Trade	3 286 672	7.5	2 714 854	7.0
Construction	2 092 553	4.7	1 557 841	4.0
Manufacturing	1 047 864	2.4	1 003 502	2.6
Education	685 532	1.6	629 774	1.6
Agriculture	627 822	1.4	844 172	2.2
Transport	422 385	1.0	475 726	1.2
Municipal organisations	231 723	0.5	328 849	0.8
Energy	164 879	0.4	140 165	0.4
Financial sector	75 222	0.2	39 232	0.1
Telecommunications	46 392	0.1	37 314	0.1
Other	3 147 480	7.1	2 975 249	7.6
Total customer accounts	**44 062 862**	**100.0**	**39 000 759**	**100.0**

At 31 December 2012 the total aggregate balance of 10 largest clients of the Group was RR 2 924 150 thousand or 6.6% of customer accounts (2011: the total aggregate balance of 10 largest customers amounted to RR 2 846 844 thousand or 7.3% of customer accounts).

Carrying value of each class of customer accounts approximates fair value at 31 December 2012 and 31 December 2011. At 31 December 2012, the estimated fair value of customer accounts was RR 44 062 862 thousand (2011: RR 39 000 759 thousand). Refer to Note 34.

Geographical, currency, maturity and interest rate analyses of customer accounts are disclosed in Note 31. Information on related party balances is disclosed in Note 36.

19 Debt Securities in Issue

In thousands of Russian Roubles	**2012**	**2011**
Bonds	4 336 093	3 705 061
Promissory notes	560 166	15 608
Total debt securities in issue	**4 896 259**	**3 720 669**

Each bond has par value of RR 1 000 and an embedded put option at par value and exercisable at the moment of coupon income change.

Issue	**CINBO-02**	**CINBO-BO1**	**CINBO-BO5**	**CINBO-BO2**
Par value, RR	1 000	1 000	1 000	1 000
Quantity	3 000 000	1 500 000	1 000 000	1 500 000
Initial placement date	June 2009	June 2011	June 2011	April 2012
Maturity	June 2014	June 2014	June 2014	April 2015
Next offer date	June 2013	December 2013	December 2013	April 2013
As at 31 December 2012				
Number of bonds in issue	2 696 444	272 534	70 002	1 500 000
- including repurchased by subsidiary	160 684	-	-	67 345
Coupon rate, %	10.40	9.70	9.70	9.70
Bid price, RR	1005.5	1000.0	999.0	1001.2
As at 31 December 2011				
Number of bonds in issue	2 813 127	1 500 000	1 000 000	-
- including repurchased by subsidiary	1 056 864	321 013	229 192	-
Coupon rate	9.25	8.40	8.40	-
Bid price, RR	1001.0	986.5	986.5	-

In July 2012, the Bank fully met claims of CINBO-02 bond holders who exercised their embedded put options and repurchased bonds (less newly placed at the repurchase date) of RR 274 683 thousand at par.

In September 2012, the Bank announced an additional public offer for bonds of CINBO-BO01 and CINBO-BO05 series. The Bank repurchased 1 082 441 bonds as part of the offer. In December 2012, the Bank met claims of bond holders who exercised their put options and repurchased bonds of RR 1 075 023 thousand at par.

The put option is regarded as closely related to the bonds issued, therefore, not accounted as a separate derivative.

Carrying value of each class of debt securities in issue approximates fair value at 31 December 2012 and 31 December 2011. At 31 December 2012, the estimated fair value of debt securities in issue was RR 4 920 411 thousand (2011: RR 3 764 168 thousand). Refer to Note 34.

Geographical, currency, interest rate and maturity analyses of debt securities in issue are disclosed in Note 31.

20 Borrowings from International Financial Institutions

In thousands of Russian Roubles	2012	2011
Term borrowings from EBRD	1 990 290	1 562 919
Term borrowings from IFC	468 845	671 116
Term borrowings from OeEB	310 337	201 782
Term borrowings from EDB	300 728	-
Term borrowings from KfW-Bank	-	214 461
Term borrowings from Landesbank Berlin	-	5 021
Total borrowings from international financial institutions	**3 070 200**	**2 655 299**

In 2007 - 2012, the Group opened several credit lines with International Finance Corporation ("IFC"), Landesbank Berlin (formerly Gesellschaft Berlin Bank), European Bank for Reconstruction and Development ("EBRD"), German governmental finance and consulting company DEG, KfW Bank, Austrian Bank of Economic Development (Oesterreichische Entwicklungsbank AG (OeEB)) and Eurasian Bank for Development (EBD).

The principal conditions of these loans are as follows:

In thousands of Russian Roubles	Currency	Issue date	Maturity date	Balance at 31 December 2012	Balance at 31 December 2011
Term borrowings from EBRD	RR	November 2007	November 2012	-	105 347
	RR	December 2007	September 2012	-	148 338
	RR	December 2007	September 2014	250 838	376 184
	RR	August 2008	September 2012	-	24 076
	RR	August 2008	February 2013	50 477	150 497
	RR	January 2009	February 2013	25 216	75 171
	RR	February 2012	February 2015	375 297	-
	RR	March 2012	March 2015	374 332	-
	RR	April 2012	May 2015	380 573	-
	RR	August 2012	February 2013	25 693	-
	RR	September 2012	March 2013	24 884	-
	RR	October 2012	April 2013	25 289	-
	RR	December 2012	December 2013	50 225	-
	USD	March 2009	April 2014	202 077	356 846
	USD	April 2009	April 2014	205 389	326 460
Term borrowings from IFC	RR	May 2010	December 2014	366 856	550 383
	RR	December 2010	September 2015	42 495	50 243
	RR	December 2011	September 2015	59 494	70 490
Term borrowings from OeEB	USD	August 2009	April 2014	114 207	201 782
	EUR	September 2012	April 2019	196 130	-
Term borrowings from EDB	RR	June 2012	June 2015	300 728	-
Term borrowings from KfW-Bank	USD	August 2008	December 2012	-	214 461
Term borrowings from Landesbank Berlin	EUR	July 2007	June 2012	-	5 021
Total borrowings from international financial institutions				**3 070 200**	**2 655 299**

20 Borrowings from International Financial Institutions (Continued)

The carrying value of borrowings from international financial institutions approximates fair value at 31 December 2012 and 31 December 2011 as interest rate of these borrowings is floating. At 31 December 2012, the estimated fair value of borrowings from international financial institutions was RR 3 070 200 thousand (2011: RR 2 655 299 thousand). Refer to Note 34.

Geographical, currency, maturity and interest rate analyses of borrowings from international financial institutions are disclosed in Note 31. Information on covenants related to borrowings is disclosed in Note 33. Information on related party balances is disclosed in Note 36.

21 Subordinated Debt

In thousands of Russian Roubles	2012	2011
Subordinated loan from DEG	917 136	971 446
Subordinated loan from EBRD	611 475	647 690
Subordinated loan from Black Sea Bank of Reconstruction and Development (Greece)	305 527	323 579
Total subordinated debt	**1 834 138**	**1 942 715**

The principal conditions of these subordinated loans are as follows:

	Amount (thousands of USD)	Issue date	Maturity date
Subordinated loan from DEG	30 000	June 2008	October 2018
Subordinated loan from EBRD	20 000	April 2008	October 2018
Subordinated loan from Black Sea Bank of Reconstruction and Development (Greece)	10 000	April 2007	April 2014

The carrying value of subordinated loans approximates fair value at 31 December 2012 and 31 December 2011, as interest rate of these loans is floating. At 31 December 2012, the estimated fair value of subordinated loans was RR 1 834 138 thousand (2011: RR 1 942 715 thousand). Refer to Note 34.

The claims of other lenders against the Group in respect of the principal and interest on these loans will be subordinated to the claims of other creditors in accordance with legislation of the Russian Federation.

Geographical, currency, maturity and interest rate analyses of subordinated debt are disclosed in Note 31. Information on covenants related to borrowings is disclosed in Note 33. Information on related party balances is disclosed in Note 36.

22 Other Financial Liabilities

Other financial liabilities comprise the following:

In thousands of Russian Roubles	Note	2012	2011
Plastic cards payables		54 436	44 985
Prepayment under lease contracts		45 414	45 847
Deferred income on issued guarantees and letters of credit	33	32 641	29 357
Trade payables		27 269	15 624
Other accrued liabilities		13 615	12 616
Total other financial liabilities		**173 375**	**148 429**

The carrying amount of each class of other financial liabilities approximates fair value at 31 December 2012 and 31 December 2011. At 31 December 2012, the estimated fair value of other financial liabilities was RR 173 064 thousand (2011: RR 148 429 thousand). Refer to Note 34.

23 Other Liabilities

Other liabilities comprise the following:

In thousands of Russian Roubles	Note	2012	2011
Taxes payable other than on income		30 886	28 190
Deposits insurance agency		30 519	26 998
Provisions for contingent liabilities		6 835	2 856
Income tax liability		1 958	-
Other		36 102	14 237
Total other liabilities		**106 300**	**72 281**

Movements in the provision for liabilities and charges during 2012 and 2011 are as follows:

In thousands of Russian Roubles	2012	2 011
Provision for liabilities and charges at 1 January	2 856	-
Provision for liabilities and charges during the year	6 080	2 856
Use of provision during the period	(2 101)	-
Provision for liabilities and charges at 31 December	**6 835**	**2 856**

The provision for liabilities and charges includes a provision for legal claims brought against the Group by borrowers and lessees. The balance at 31 December 2012 is expected to be utilised by the end of 2013. In management's opinion, after taking appropriate legal advice, the outcome of these legal claims will not give rise to any significant loss beyond the accrued amounts. Refer to Note 33.

24 Share Capital

	Number of shares			**Ordinary shares**	**Preferen-ce shares**	**Share premium**	**Total**
In thousands of Russian Roubles except for number of shares	**Ordinary shares**	**Preference shares with a par value of RR 4**	**Preference shares with a par value of RR 1000**				
At 1 January 2011	**77 550 750**	**123 125**	**90 000**	**1 162 786**	**95 923**	**1 646 428**	**2 905 137**
At 31 December 2011	**77 550 750**	**123 125**	**90 000**	**1 162 786**	**95 923**	**1 646 428**	**2 905 137**
At 31 December 2012	**77 550 750**	**123 125**	**90 000**	**1 162 786**	**95 923**	**1 646 428**	**2 905 137**

The nominal registered amount of the Bank's issued share capital, prior to restatement of capital contributions made before 1 January 2003 to the purchasing power of the Russian Rouble at 31 December 2002 is RR 866 000 thousand (2011: RR 866 000 thousand). At 31 December 2012 and 31 December 2011, all of the Bank's outstanding shares were authorised, issued and fully paid in.

All ordinary shares have a nominal value of RR 10 per share (2011: RR 10 per share) and rank equally. Each share carries one vote.

The preference shares have nominal value of RR 4 and RR 1 000 and carry no voting rights but rank ahead of the ordinary shares in the event of the Bank's liquidation. Preference shares are not redeemable. Preference share dividends are set at 20% p.a. (2011: 20% p.a.) and rank above ordinary dividends. If preference dividends are not declared by ordinary shareholders, the preference shareholders obtain the right to vote as ordinary shareholders until such time as the dividends are paid.

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

25 Interest Income and Expense

In thousands of Russian Roubles	2012	2011
Interest income		
Loans and advances to SME	2 644 886	2 438 706
Consumer and auto loans	1 445 122	1 065 553
Corporate loans	1 110 007	910 334
Mortgage loans	810 662	546 028
Impaired loans	215 887	85 571
Finance income arising from leasing	117 616	97 906
Due from other banks	99 135	98 925
Debt trading securities	51 345	130 737
Overnight placements with other banks	219	159
Correspondent accounts with other banks	58	311
Total interest income	**6 494 937**	**5 374 230**
Interest expense		
Term deposits of individuals	1 967 484	1 666 469
Bonds issued	481 584	271 711
Borrowings from international financial institutions and subordinated debt	401 541	318 817
Term deposits of legal entities	100 464	41 796
Current accounts of legal entities	54 825	30 057
Promissory notes issued	22 986	558
Term placements of other banks	16 688	10 456
Total interest expense	**3 045 572**	**2 339 864**
Net interest income	**3 449 365**	**3 034 366**

26 Fee and Commission Income and Expense

In thousands of Russian Roubles	2012	2011
Fee and commission income		
Commission on settlement transactions	377 133	371 376
Commission on operations with plastic cards	209 945	166 983
Commission on cash transactions	198 642	205 781
Commission on issued guarantees	44 397	27 899
Commission on currency transactions	34 504	36 969
Commission on cash collection	5 414	6 188
Commission on fiduciary operations	909	808
Other	24 622	26 037
Total fee and commission income	**895 566**	**842 041**
Fee and commission expense		
Commission on operations with plastic cards	77 297	49 067
Commission on cash collection	58 455	44 183
Settlement transactions	46 390	43 034
Commission to collection agencies	17 051	57 400
Agent commission on interbank transactions	5 911	8 271
Commission on currency transactions	2 842	2 693
Commission on received guarantees	202	782
Other	706	5 488
Total fee and commission expense	**208 854**	**210 918**
Net fee and commission income	**686 712**	**631 123**

27 Administrative and Other Operating Expenses

In thousands of Russian Roubles	Note	2012	2011
Staff costs		1 041 201	898 994
Depreciation of premises and equipment	14	171 259	198 011
Other costs of premises and equipment		123 119	115 873
Security services		95 340	115 827
Taxes other than on income		83 145	95 361
Rent		80 492	77 617
Consulting and information services		67 770	36 109
Amortisation of intangible assets	13	36 396	48 612
General administrative costs		35 295	29 616
Telecommunication and mail		27 810	28 321
Advertising and marketing services		25 670	17 413
Expenses for holding meetings of the Board of Directors		24 040	16 158
Staff costs other than salary		22 515	24 141
Travel and entertainment expenses		12 371	8 776
Stationary		12 100	12 466
Insurance		9 265	9 640
Losses on disposal of premises and equipment		1 182	21 414
Charity		933	373
Other		30 466	23 920
Total administrative and other operating expenses		**1 900 369**	**1 778 642**

Included in staff costs are statutory pension and social security contributions and contributions to the obligatory medical insurance fund of RR 206 208 thousand (2011: RR 182 382 thousand).

28 Income Taxes

(a) Components of income tax expense / (benefit)

Income tax expense comprises the following:

In thousands of Russian Roubles	2012	2011
Current tax	337 174	297 943
Deferred tax	(14 313)	(45 459)
Income tax expense for the year	**322 861**	**252 484**

(b) Reconciliation between the tax expense and profit or loss multiplied by applicable tax rate

The income tax rate applicable to the Group's income is 20% (2011: 20%). A reconciliation between the expected and the actual taxation charge is provided below.

In thousands of Russian Roubles	2012	2011
Profit before tax	**1 423 476**	**1 164 660**
Theoretical tax charge at statutory rate (2012: 20%; 2011: 20%)	284 695	232 932
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Non-deductible expenses	38 166	19 970
- Income on government securities taxed at different rates	-	(418)
Income tax expense for the year	**322 861**	**252 484**

28 Income Taxes (Continued)

(c) Deferred taxes analysed by type of temporary difference

Differences between IFRS and statutory taxation regulations in Russia give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below, and is recorded at the rate of 20% (2011: 20%).

In thousands of Russian Roubles	**1 January 2012**	**Credited/ (charged) to profit or loss**	**Charged directly to equity**	**31 December 2012**
Loans and advances to customers	74 928	20 130	-	95 058
Other	56 848	(5 960)	-	50 888
Gross deferred tax asset	**131 776**	**14 170**	-	**145 946**
Premises and equipment	(274 146)	1 572	-	(272 574)
Investment in associate	(59 853)	(7)	(2 706)	(62 566)
Finance lease receivables	(6 697)	(94)	-	(6 791)
Other	(7 143)	(1 328)	-	(8 471)
Gross deferred tax liability	**(347 839)**	**143**	**(2 706)**	**(350 402)**
Less offsetting with deferred tax assets	131 776	14 170	-	145 946
Net deferred tax liability	**(216 063)**	**14 313**	**(2 706)**	**(204 456)**

In thousands of Russian Roubles	**1 January 2011**	**Credited/ (charged) to profit or loss**	**Charged directly to equity**	**31 December 2011**
Loans and advances to customers	73 854	1 074	-	74 928
Finance lease receivables	12 869	(12 869)	-	-
Other	15 099	41 749	-	56 848
Gross deferred tax asset	**101 822**	**29 954**	-	**131 776**
Premises and equipment	(222 232)	(16 568)	(35 346)	(274 146)
Investment in associate	-	-	(59 853)	(59 853)
Finance lease receivables	-	(6 697)	-	(6 697)
Other	(45 913)	38 770	-	(7 143)
Gross deferred tax liability	**(268 145)**	**15 505**	**(95 199)**	**(347 839)**
Less offsetting with deferred tax assets	101 822	29 954	-	131 776
Net deferred tax liability	**(166 323)**	**45 459**	**(95 199)**	**(216 063)**

The main part of the net deferred tax liability is expected to be settled in the term more than 12 months, or has no stated maturity.

In the context of the Group's current structure and Russian tax legislation, tax losses and current tax assets of different group companies may not be offset against current tax liabilities and taxable profits of other group companies and, accordingly, taxes may accrue even where there is a consolidated tax loss. Therefore, deferred tax assets and liabilities are offset only when they relate to the same taxable entity and the same taxation authority.

29 Dividends

In thousands of Russian Roubles	**2012** Ordinary shares	**2012** Preference shares	**2011** Ordinary shares	**2011** Preference shares
Dividends payable at 1 January	-	-	-	-
Dividends declared during the period	186 122	18 099	77 550	18 099
Dividends paid during the period	(186 122)	(18 099)	(77 550)	(18 099)
Dividends payable at 31 December	**-**	**-**	**-**	**-**

During 2012 the Bank declared and paid dividends on preference shares with nominal value of RR 1 000 – RR 200 per share (2011: RR 200 per share) and on preference shares with nominal value of RR 4 – RR 0.8 per share (2011: RR 0.8 per share). During 2012 the Bank declared and paid dividends on ordinary shares - RR 2.4 per share (2011: RR 1 per share). All dividends are declared and paid in Russian Roubles.

30 Segment Analysis

Operating segments are components that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision maker (CODM), and for which discrete financial information is available. The CODM is the person - or group of persons - who allocates resources and assesses the performance for the entity. The functions of chief operating decision maker (CODM) are performed by the Management Board of the Bank.

Description of products and services from which each reportable segment derives its revenue

The Group is organised on the basis of main business segments:

- Lending – representing retail and corporate lending services, leasing, factoring and bank guarantees issued.
- Treasury – representing financial instruments trading, borrowings on domestic and international markets, management of liquidity and foreign currency position of the Group, correspondent and current accounts, corporate deposits.
- Retail banking – representing private banking services to individuals, private customer, deposits, investment savings products, custody, credit and debit cards, municipal payments.

Factors that management used to identify the reportable segments

The Group's segments are strategic business units that focus on different customers. They are managed separately because each business unit requires different marketing strategies and service level.

The Group has identified the following operating segments: lending activities, leasing, retail, securities, treasury, correspondent and current accounts, and plastic cards. Lending and leasing have been aggregated into one reportable segment – lending. Correspondent and current accounts, securities, and treasury have been aggregated into one reportable segment - treasury. Retail and plastic cards have been aggregated into one segment – retail banking.

In addition, the Bank's Management Board reviews the major categories of general and administrative expenses, however, these expenses are not allocated to the above segments and they are not taken into consideration in allocating resources to segments and assessing their performance.

30 Segment Analysis (Continued)

Measurement of operating segment profit or loss, assets and liabilities

The Management Board reviews financial information prepared based on Russian Accounting Standards adjusted to meet the requirements of internal reporting. Such financial information differs in certain aspects from International Financial Reporting Standards:

- for operating decisions standalone information not adjusted for statutory subsequent events;
- income taxes are not allocated to segments;
- loan provisions are recognised based on management judgement and availability of information, rather than based on the incurred loss model prescribed in IAS 39;
- income on impaired loans is not recognised;
- commission income related to lending and commission expenses on borrowings is recognised immediately rather than deferred using the effective interest method;
- finance income arising from leasing is recognised as services provided, advances from lessees are recognised as income pro rata during the period of the leasing agreement;
- the fair value of trading securities portfolio is determined based on average market price other than last bid market price; and
- funds are generally reallocated between segments ignoring internal interest rates.

The Management Board evaluates performance of each segment based on profit before tax.

Information about reportable segment profit or loss, assets and liabilities

Segment information for the reportable segments for the year ended 31 December 2012 is set out below:

In thousands of Russian Roubles	**Lending and leasing**	**Treasury**	**Retail**	**Total**
2012				
External revenues:				
- Interest income	5 905 308	151 527	7 595	6 064 430
- Fee and commission income and other operating income	450 302	527 321	404 234	1 381 857
- Gains less losses from trading securities	-	16 833	-	16 833
Total revenues	**6 355 610**	**695 681**	**411 829**	**7 463 120**
Interest expense	-	(1 134 261)	(1 974 561)	(3 108 822)
Provision for impairment	(549 462)	(2 107)	(83)	(551 652)
Fee and commission expenses and other expenses	(132 047)	(85 346)	(79 170)	(296 563)
Segment result	**5 674 101**	**(526 033)**	**(1 641 985)**	**3 506 083**
Total reportable segment assets	**48 805 606**	**4 031 125**	**-**	**52 836 731**
Total reportable segment liabilities	**-**	**(22 555 152)**	**(32 044 702)**	**(54 599 854)**

30 Segment Analysis (Continued)

Segment information for the reportable segments for the year ended 31 December 2011 is set out below:

In thousands of Russian Roubles	**Lending and leasing**	**Treasury**	**Retail**	**Total**
2011				
External revenues:				
- Interest income	4 839 145	222 809	7 731	5 069 685
- Fee and commission income and other operating income	597 311	540 386	359 816	1 497 513
Total revenues	**5 436 456**	**763 195**	**367 547**	**6 567 198**
Interest expense	-	(759 023)	(1 670 918)	(2 429 941)
Provision for impairment	(513 924)	(35 846)	(965)	(550 735)
Losses on assignment of the rights of claim	(184 287)	-	-	(184 287)
Losses less gains from trading securities	-	(10 905)	-	(10 905)
Fee and commission expenses and other expenses	(69 016)	(58 170)	(55 341)	(182 527)
Segment result	**4 669 229**	**(100 749)**	**(1 359 677)**	**3 208 803**
Total reportable segment assets	**44 140 782**	**3 408 236**	**-**	**47 549 018**
Total reportable segment liabilities	**-**	**(20 736 063)**	**(27 983 498)**	**(48 719 561)**

Reconciliation of reportable segment revenues, profit or loss, assets and liabilities

In thousands of Russian Roubles	**2012**	**2011**
Total revenues for reportable segments	**7 463 120**	**6 567 198**
Accrual method application to fee and commission income	66 383	(88 273)
Application of IAS 17 on finance lease	(1 646)	(14 933)
Fair value of trading securities portfolio recalculation	33 459	(13 493)
Recognition of interest income on impaired loans	95 906	10 266
Consolidation effect	(62 078)	(61 589)
Other	80 247	137 293
Total consolidated revenues	**7 675 391**	**6 536 469**

Total consolidated revenues comprise interest income, fee and commission income and other income.

In thousands of Russian Roubles	**2012**	**2011**
Total reportable segment result	**3 506 083**	**3 208 803**
Administrative expenses	(1 944 552)	(1 875 830)
Application of effective interest rate method	67 653	(96 264)
Application of IAS 17 on finance lease	(1 646)	(14 933)
Fair value of trading securities portfolio and other financial assets and liabilities recalculation	33 459	(56 748)
Recognition of interest income on impaired loans	95 906	10 266
Recognition of loan loss provision	(166 571)	107 459
Consolidation effect	23 578	35 481
Events after the end of the reporting period	(71 673)	(99 025)
Depreciation/amortisation recalculation	(47 188)	(49 175)
Other	(71 573)	(5 374)
Profit before tax	**1 423 476**	**1 164 660**

30 Segment Analysis (Continued)

In thousands of Russian Roubles	2012	2011
Total reportable segment assets	**52 836 731**	**47 549 018**
Unallocated assets	10 016 446	8 486 585
Recognition of loan loss provision	77 275	188 568
Recognition of interest income on impaired loans	312 087	262 716
Application of effective interest rate method to fee and commission income	(342 652)	(407 476)
Finance lease adjustments	(181 723)	(120 735)
Fair value of trading securities portfolio recalculation	1 751	(4 507)
Consolidation effect	64 926	(1 338 150)
Other	(113 004)	(79 056)
Total consolidated assets	**62 671 837**	**54 536 963**

In thousands of Russian Roubles	2012	2011
Total reportable segment liabilities	**54 599 854**	**48 719 561**
Unallocated liabilities	812 249	814 352
Application of effective interest rate method to fee and commission expenses	(39 358)	(38 088)
Consolidation effect	(291 738)	(1 650 247)
Other	(2 445)	5 326
Total consolidated liabilities	**55 078 562**	**47 850 904**

Geographical information

The Group operates only in the Southern Federal District of the Russian Federation. Below is income as at 31 December 2012 and 31 December 2011:

In thousands of Russian Roubles	2012	2011
Rostov region	5 843 849	5 090 823
Krasnodar Krai	848 929	696 535
Stavropol region and Volgograd region	576 439	521 764
External market operations	193 903	258 076
Total revenues for reportable segments	**7 463 120**	**6 567 198**

The analysis is based on domicile of the customer.

For years 2012 and 2011 capital expenditures mainly relate to Rostov region.

Analysis of revenues by products and services

The Group’s revenues are analysed by products and services in Notes 25 and 26.

Major customers

The Group does not have customers, revenues from which represent 10% or more of the total revenues.

31 Financial Risk Management

The risk management function within the Group is carried out in respect of the entire range of financial risks faced by the Group in the course of business. The focus is placed on the following risks: credit, market (including currency, equity and interest rate risk), liquidity, operational, business event (including legal, strategic and reputational risks) and system risk.

The Bank's risk management function is viewed as a full set of activities aimed to protect its assets.

The Group uses the following main risk management tools:

- Limiting accepted risks and risk concentration by setting limits;
- Managing positions;
- Creating collateral;
- Insuring risks;
- Hedging risks;
- Covering risks by an adequate reserves level;
- Covering risks by an adequate capital level;
- Monitoring compliance with internal procedures and regulations.

The Bank manages risks on the basis of the document "Risk Management Policy of OJSC CB «Center-invest» approved by the Bank's Board of Directors in February 2010. The policy regulates the Bank's risk management strategy, main requirements and strategy implementation procedures; mandatory business lines and types of risks for monitoring; interaction in the process of managing the Bank's risks.

The risk management strategy described in this document includes:

- Accepting risks on the basis of the level of profitability and risks associated with business lines;
- Priority of developing lending operations;
- Regulatory revaluation of market risks associated with assets;
- Consideration of the level of risk in evaluating business lines' efficiency;
- Capital and reserves management.

Credit risk. The Group takes on exposure to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of the Group's lending and other transactions with counterparties giving rise to financial assets.

The Bank manages credit risks on the basis of the following principles:

- Avoiding risks through refusing from transactions that fall beyond the Bank's Credit Policy or Risk Management Policy;
- Setting concentration limits, limits per one borrower (a group of related borrowers) covering on-balance sheet and off-balance sheet risks ("one obligor" principle);
- Creating and adequately evaluating collateral;
- Using a system of corporate and personal guarantees;
- Diversifying the loan portfolio;
- Limiting officials' authority in making lending decisions without consideration by collegial bodies (credit committees);
- Improving methods of reviewing borrowers' financial and business activity enabling to adequately evaluate the level of risk associated with loans and other credit instruments;

31 Financial Risk Management (Continued)

- Regular monitoring of borrowers' financial position, state of collateral and debt servicing;
- Using same credit policies in relation to contingent liabilities and on-balance sheet financial instruments through established credit approvals, risk control limits, monitoring procedures;
- Using selective approaches and procedures for evaluating credit risks and decision-making procedures with consideration of products, risk levels and aggregate outstanding balances per borrower (a group of borrowers);
- Covering credit risks by an adequate capital and reserves level;
- Performing preventive and efficient work on collection of overdue debts.

The Group's maximum exposure to credit risk is reflected in the carrying amounts of financial assets on the consolidated statement of financial position. For guarantees, the exposure to credit risk is the amount of the commitment. Refer to Note 33.

Such risks are monitored on a regular basis. Lending transactions are approved according to individual decision-making limits and the structure of credit committees:

Large Credit Committee of the Bank's Head Office approves credit limits for borrowers or groups of related borrowers with aggregate outstanding balances in the range from RR 10 million (2011: RR 5 million) (without positive credit history) and RR 20 million (2011: RR 12 million) (with positive credit history) to 25% (2011: 25%) of capital, calculated in accordance with the requirements of the Central Bank of the Russian Federation. It is also responsible for issuing guidance to lower level credit committees. The Committee meets twice a week.

Small Credit Committees of the Bank's Head Office approve loans to borrowers and groups of related borrowers with aggregate outstanding balances less than RR 10 million (2011: RR 5 million) (without positive credit history) and RR 20 million (2011: RR 12 million) (with positive credit history). At present, there are two small credit committees functioning at the Bank's Head Office which approve credit limits for small businesses and retail clients. The Committees meet twice a week.

Transactions of borrowers and a group of related borrowers - legal entities and entrepreneurs with an aggregate debt of up to RR 3 million (2011: RR 3 million) on standard loan programmes are approved by sole decisions of authorised persons who are confirmed by the order of the Chairman of the Bank's Management Board.

Transactions of borrowers and a group of related borrowers - individuals on standard loan programmes are approved by authorised persons within the limits set by the order of the Chairman of the Bank's Management Board.

Loan applications originated by the relevant client relationship managers are considered on the basis of standardised procedures and passed on to the relevant Credit Committee for approval of credit limit after completion of preliminary, authorisation and monitoring procedures.

In order to monitor credit risk credit officers are monitoring the borrowers based on a structured analysis of borrowers' business and financial performance in conformity with the requirements of the Central Bank of the Russian Federation. Any significant exposures to customers and groups of related customers with deteriorating creditworthiness are reported to, and reviewed by the appropriate Credit Committee, the Risk Management Committee and the Committee for Problem Loans. The Group uses formalised internal credit ratings in compliance with regulations of the Central Bank of the Russian Federation. The Bank takes preventive actions, performs monitoring and conducts a set of measures aimed at collection of overdue debts.

The Group's credit departments review ageing analysis of outstanding loans and follow up past due balances. The ageing and other information about credit risk is disclosed in Note 10.

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

32 Financial Risk Management (Continued)

Market risk. The Group takes on exposure to market risks. Market risks arise from open positions in (a) currency, (b) interest rates and (c) equity products, all of which are exposed to general and specific market movements.

The Bank manages market risks and monitors corresponding limits on a daily basis. Market risks are managed in respect of each component and in general on the basis of the following principles:

- Ongoing monitoring of trading operations;
- Setting limits on financial investments;
- Setting limits on homogeneous financial instrument portfolios;
- Monitoring and evaluation of the level of market risk;
- Coverage of market risks through ensuring an adequate capital level.

Market risk associated with revaluation of the trading securities portfolio. The Bank accepts equity risk associated with losses resulting from fluctuations of market values of open positions on securities and derivative market instruments. The Bank opens positions on securities for subsequent resale and for investment purposes.

Equity risks are managed through limiting the overall volume of transactions, exposed to such risk, and setting limits on different types of transactions and specific issuers with consideration of risks associated with the issuer's industry (on the basis of regular monitoring and analysis). The Bank uses a wide range of VaR (Value at Risk) methodologies for reviewing and limiting risks associated with market price fluctuations.

The management sets limits in respect of the level of capital allocated for coverage of market risk.

At 31 December 2012, the level of market risk was RR 71 137 thousand under a limit of RR 1 026 461 thousand (2011: RR 173 831 thousand under a limit of RR 975 686 thousand).

Currency risk. The Group is exposed to currency risk associated with losses resulting from fluctuations of market values of open positions in different currencies. Exposure to currency risk is evaluated on the basis of VaR. The size of the currency position is regulated through matching assets and liabilities balances in foreign currencies. The Group seeks to decrease the open currency position, thereby, decreasing its exposure to currency risk. The Bank manages its currency position by using currency swaps and forwards in the interbank market and other transactions. The Group is not exposed to risks associated with changes in precious metals' prices due to the absence of such transactions.

As at 31 December 2012, the ten day VAR level was RR 1 048 thousand (2011: RR 4 884 thousand).

Since VAR is used for management of certain risks, for the purpose of this consolidated financial statements the level of currency risk is examined based on simple sensitivity, calculated based on open currency position of the Group at the reporting date. The table below summarises the Group's exposure to foreign currency exchange rate risk at the reporting date:

	2012			2011		
In thousands of Russian Roubles	**Monetary financial assets**	**Monetary financial liabilities**	**Net balance sheet position**	**Monetary financial assets**	**Monetary financial liabilities**	**Net balance sheet position**
Russian roubles	53 982 645	(49 565 293)	4 417 352	45 405 029	(42 187 168)	3 217 861
US dollars	4 228 966	(4 215 463)	13 503	4 572 283	(4 437 187)	135 096
Euro	999 218	(974 249)	24 969	933 263	(881 343)	51 920
Other	27 623	(12 801)	14 822	64 925	(56 862)	8 063
Total	**59 238 452**	**(54 767 806)**	**4 470 646**	**50 975 500**	**(47 562 560)**	**3 412 940**

The above analysis includes only monetary assets and liabilities. The Group's management believes that investments in equities and non-monetary assets are not considered to give rise to any material currency risk.

31 Financial Risk Management (Continued)

The following table presents sensitivities of profit or loss and equity to reasonably possible changes in exchange rates applied at the end of the reporting period, with all other variables held constant:

In thousands of Russian Roubles	2012 Impact on profit or loss	2012 Impact on equity	2011 Impact on profit or loss	2011 Impact on equity
US dollar strengthening by 11% (2011: 8%)	1 485	1 485	10 808	10 808
US dollar weakening by 11% (2011: 8%)	(1 485)	(1 485)	(10 808)	(10 808)
Euro strengthening by 6% (2011: 9%)	1 498	1 498	4 673	4 673
Euro weakening by 6% (2011: 9%)	(1 498)	(1 498)	(4 673)	(4 673)

The exposure was calculated only for monetary balances denominated in currencies other than the functional currency of the respective entity of the Group.

Interest rate risk. The Group takes on exposure 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 reduce or create losses in the event that unexpected movements arise.

Interest rate risk is managed based on the analysis of the structure of the Group's assets and liabilities by interest repricing dates.

The management monitors exposure to interest rate risk on a regular basis and sets limits on the level of interest rate risk that may be undertaken on a quarterly basis.

The Group evaluates new products from the point of their impact on interest rate risk. Treasury department of the Group operates daily within approved limits on the level of interest rate risk whereas Risk Management department independently monitors compliance of actual level of interest rate to the approved limits.

To manage interest rate risk, the Group uses fixed and floating interest rates for attracted funds.

The table below summarises the Group’s exposure to interest rate risks. The table presents the aggregated amounts of the Group’s financial assets and liabilities at carrying amounts, categorised by the earlier of contractual interest repricing or maturity dates:

In thousands of Russian Roubles	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	Over 1 year	Non interest bearing assets	Total
31 December 2012							
Total financial assets	10 974 240	4 671 469	5 544 096	12 215 080	25 775 749	57 818	59 238 452
Total financial liabilities	(15 524 473)	(5 126 730)	(7 533 960)	(5 395 873)	(21 186 770)	-	(54 767 806)
Net interest sensitivity gap at 31 December 2012	**(4 550 233)**	**(455 261)**	**(1 989 864)**	**6 819 207**	**4 588 979**	**57 818**	**4 470 646**
31 December 2011							
Total financial assets	9 591 854	4 640 413	5 623 090	13 329 630	17 740 469	50 044	50 975 500
Total financial liabilities	(13 545 776)	(3 225 025)	(4 828 465)	(7 128 295)	(18 834 999)	-	(47 562 560)
Net interest sensitivity gap at 31 December 2011	**(3 953 922)**	**1 415 388**	**794 625**	**6 201 335**	**(1 094 530)**	**50 044**	**3 412 940**

All of the Group’s debt instruments reprice within 5 years (2011: all reprice within 5 years).

31 Financial Risk Management (Continued)

At 31 December 2012, if interest rates had been 200 basis points lower/higher, with all other variables held constant, profit for the year would have been RR 251 630 thousand (2011: if interest rates had been 200 basis points higher/lower, profit would have been RR 139 260 thousand) higher/lower, due to the structure and repricing timing of attracted and invested funds.

The Group monitors interest rates for its financial instruments. The table below summarises interest rates based on reports reviewed by key management personnel:

	2012				2011			
In % p.a.	**RR**	**USD**	**EUR**	**Other**	**RR**	**USD**	**EUR**	**Other**
Assets								
Cash balances with the CBRF	-	-	-	-	-	-	-	-
Correspondent accounts and overnight placements with other banks	0.5	0.0	0.0	0.0	0.0	0.1	0.0	0.0
Debt trading securities	7.9	-	2.9	-	8.2	-	3.2	-
Due from other banks								
- Placements with the Bank of Russia	4.5	-	-	-	4.0	-	-	-
- Long-term placements with other banks	1.0	-	-	-	0.0	-	-	-
Loans and advances to customers:								
- Corporate loans	11.6	8.0	7.6	-	11.2	7.8	8.3	-
- Loans to SME	13.3	6.4	7.2	-	13.8	8.9	11.3	-
- Loans to individuals - consumer loans	15.7	11.9	-	-	15.6	11.6	-	-
- Loans to individuals - car loans	14.4	-	-	-	14.2	13.7	-	-
- Mortgage loans	12.4	12.2	-	-	12.7	12.0	11.0	-
Finance lease receivables	18.7	-	8.1	-	20.4	21.6	13.6	-
Liabilities								
Due to other banks	9.4	-	3.4	-	-	3.4	5.0	-
Customer accounts								
- Demand deposits of individuals	0.2	0.1	0.1	0.1	0.2	0.1	0.1	0.1
- Term deposits of legal entities	7.9	1.5	-	-	6.5	1.6	1.8	-
- Term deposits of individuals	8.6	3.5	3.0	1.0	6.4	3.7	3.0	1.0
Promissory notes issued	6.0	-	-	-	4.4	-	-	-
Bonds issued	10.1	-	-	-	9.0	-	-	-
Loans from international financial institutions	10.9	6.3	4.2	-	10.4	5.7	2.7	-
Subordinated debt	-	4.8	-	-	-	4.8	-	-

The sign "-" in the table above means that the Group does not have the respective assets or liabilities in the corresponding currency.

Other price risk. The Group is exposed to limited risk as a result of fluctuation of equity securities' prices. Transactions with equity instruments are monitored and authorised by the Group's Treasury. The amount of the 10-day VaR in a 99% confidence interval for the Bank's equity portfolio was RR 8 499 thousand as at 31 December 2012 (2011: RR 19 897 thousand).

The Group is exposed to prepayment risk through providing fixed or variable rate loans, including mortgages, which give the borrower the right to early repay the loans. The Group's current year profit or loss and equity for the year and at the end of the reporting period would not have been significantly impacted by changes in prepayment rates because such loans are carried at amortised cost and the prepayment right is at or close to the amortised cost of the loans and advances to customers.

31 Financial Risk Management (Continued)

Geographical risk concentrations. The geographical concentration of the Group's financial assets and liabilities at 31 December 2012 is set out below:

In thousands of Russian Roubles	**Russia**	**USA**	**Europe**	**Other**	**Total**
Assets					
Cash and cash equivalents	5 410 437	930 862	662 905	1 503	7 005 707
Mandatory cash balances with the CBRF	552 854	-	-	-	552 854
Trading securities	1 528 806	-	-	153 852	1 682 658
Other securities at fair value through profit or loss	5 997	-	-	-	5 997
Due from other banks	1 304 576	-	-	-	1 304 576
Loans and advances to customers	47 586 487	-	175 868	-	47 762 355
Finance lease receivables	643 094	-	-	-	643 094
Other financial assets	279 116	-	-	2 095	281 211
Total financial assets	**57 311 367**	**930 862**	**838 773**	**157 450**	**59 238 452**
Other assets	3 433 385	-	-	-	3 433 385
Total assets	**60 744 752**	**930 862**	**838 773**	**157 450**	**62 671 837**
Liabilities					
Due to other banks	711 506	-	17 372	2 094	730 972
Customer accounts	44 018 941	3 192	21 100	19 629	44 062 862
Debt securities in issue	4 896 259	-	-	-	4 896 259
Borrowings from international financial institutions	-	468 845	2 300 627	300 728	3 070 200
Subordinated debt	-	-	1 834 138	-	1 834 138
Other financial liabilities	173 375	-	-	-	173 375
Total financial liabilities	**49 800 081**	**472 037**	**4 173 237**	**322 451**	**54 767 806**
Other liabilities	310 756	-	-	-	310 756
Total liabilities	**10 633 915**	**458 825**	**(3 334 464)**	**(165 001)**	**7 593 275**
Net position	**10 787 767**	**458 825**	**(3 334 464)**	**(318 853)**	**7 593 275**
Credit related commitments (Note 33)	**7 224 390**	-	-	-	**7 224 390**

31 Financial Risk Management (Continued)

Assets, liabilities and credit related commitments have generally been based on the country in which the counterparty is located. Cash on hand and premises and equipment have been allocated based on the country in which they are physically held.

The geographical concentration of the Group's assets and liabilities at 31 December 2011 is disclosed in table below:

	Russia	USA	Europe	Other	Total
Assets					
Cash and cash equivalents	4 049 737	220 314	379 262	1 649	4 650 962
Mandatory cash balances with the CBRF	484 091	-	-	-	484 091
Trading securities	970 349	-	-	-	970 349
Other securities at fair value through profit or loss	5 997	-	-	-	5 997
Due from other banks	2 001 219	-	-	10 804	2 012 023
Loans and advances to customers	41 766 744	-	243 816	-	42 010 560
Finance lease receivables	538 667	-	-	-	538 667
Other financial assets	302 851	-	-	-	302 851
Total financial assets	**50 119 655**	**220 314**	**623 078**	**12 453**	**50 975 500**
Other assets	3 561 463	-	-	-	3 561 463
Total assets	**53 681 118**	**220 314**	**623 078**	**12 453**	**54 536 963**
Liabilities					
Due to other banks	1 248	65 381	23 896	4 164	94 689
Customer accounts	38 964 358	518	19 228	16 655	39 000 759
Debt securities in issue	3 720 669	-	-	-	3 720 669
Borrowings from international financial institutions	-	671 116	1 984 183	-	2 655 299
Subordinated debt	-	-	1 942 715	-	1 942 715
Other financial liabilities	148 429	-	-	-	148 429
Total financial liabilities	**42 834 704**	**737 015**	**3 970 022**	**20 819**	**47 562 560**
Other liabilities	288 344	-	-	-	288 344
Total liabilities	**43 123 048**	**737 015**	**3 970 022**	**20 819**	**47 850 904**
Net position	**10 558 070**	**(516 701)**	**(3 346 944)**	**(8 366)**	**6 686 059**
Credit related commitments (Note 33)	**6 426 401**	-	-	**1 518**	**6 427 919**

Other risk concentrations. Management monitors and discloses concentrations of credit risk by obtaining reports listing exposures to borrowers with aggregated loan balances in excess of 10% of capital. Refer to Note 10.

31 Financial Risk Management (Continued)

Liquidity risk. Liquidity risk is determined as the risk of facing difficulties associated with the transformation of assets into cash required for repayment of liabilities upon maturity, the real cost of the asset remaining unchanged.

The Asset and Liability Committee of the Bank is a regulatory and consultative body in charge of liquidity risk management. It coordinates actions of the Bank's units that have a direct or indirect impact on liquidity and cooperates with the Credit Committee in respect of liquidity issues.

Operational liquidity management is carried out by the Bank's Treasury on a daily basis through maintaining the overall liquidity reserve, consisting of balances on the Bank's correspondent accounts, cash on hand, due from other banks – primary liquidity reserve, and high liquid securities – secondary liquidity reserve. The Treasury monitors the Bank's payment position on a daily basis.

Efficient liquidity management is ensured through forecasting and reviewing liquidity gaps calculated as the difference between assets and liabilities (including off-balance sheet positions) by maturity. Based on forecast data, the Bank prepares a schedule of future cash receipts and payments and sets its own liquidity surplus (deficit) ratios. These are approved by the Asset and Liability Committee and are used in the current operations of the Bank.

The table below shows assets and liabilities at 31 December 2012 by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows. Such undiscounted cash flows differ from the amount included in the consolidated statement of financial position because the amount in the consolidated statement of financial position is based on discounted cash flows. Trading securities are classified within demand and less than 1 month, as they are readily saleable in case of necessity. Impaired loans are included at their carrying amounts net of impairment provisions, and based on the expected timing of cash inflows.

When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the end of the reporting period. Foreign currency payments are translated using the spot exchange rate at the end of the reporting period.

31 Financial Risk Management (Continued)

In thousands of Russian Roubles	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 12 months to 5 years	Over 5 years	Total
Assets							
Cash and cash equivalents	7 005 707	-	-	-	-	-	7 005 707
Mandatory cash balances with the CBRF	178 282	16 475	31 858	65 269	260 970	-	552 854
Trading securities	1 710 048	-	-	-	-	-	1 710 048
Other securities at fair value through profit or loss	-	-	-	-	-	5 997	5 997
Due from other banks	1 301 762	-	-	-	4 037	-	1 305 799
Loans and advances to customers	1 518 599	4 901 844	5 984 144	14 034 319	28 182 608	9 492 769	64 114 283
Finance lease receivables	32 195	81 867	109 421	181 639	365 033	-	770 155
Other financial assets	158 697	6 859	4 484	38 239	93 679	-	301 958
Total financial assets	**11 905 290**	**5 007 045**	**6 129 907**	**14 319 466**	**28 906 327**	**9 498 766**	**75 766 801**
Liabilities							
Due to other banks	2 140	11 404	227 543	27 412	675 014	-	943 513
Customer accounts	15 442 029	1 427 021	2 759 413	5 653 360	22 604 032	-	47 885 855
Debt securities in issue	134 870	420 306	4 192 455	577 628	374 050	-	5 699 309
Borrowings from international financial institutions	-	766 812	338 003	685 799	1 789 076	-	3 579 690
Subordinated debt	-	922 648	20 766	172 051	277 954	731 554	2 124 973
Contingent credit related commitments	196 007	831 667	723 915	2 547 374	2 925 427	-	7 224 390
Other financial liabilities	132 783	6 984	967	-	-	-	140 734
Total potential future payments for financial obligations	**15 907 829**	**4 386 842**	**8 263 062**	**9 663 624**	**28 645 553**	**731 554**	**67 598 464**
Net liquidity gap at 31 December 2012	**(4 002 539)**	**620 203**	**(2 133 155)**	**4 655 842**	**260 774**	**8 767 212**	**8 168 337**
Cumulative liquidity gap at 31 December 2012	**(4 002 539)**	**(3 382 336)**	**(5 515 491)**	**(859 649)**	**(598 875)**	**8 168 337**	

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment disclosed in the above maturity analysis, because the Group does not generally expect the third party to draw funds under the agreement.

31 Financial Risk Management (Continued)

The maturity analysis of financial assets and liabilities at 31 December 2011 is as follows:

In thousands of Russian Roubles	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 to 6 months**	**From 6 to 12 months**	**From 12 months to 5 years**	**Over 5 years**	**Total**
Assets							
Cash and cash equivalents	4 650 962	-	-	-	-	-	4 650 962
Mandatory cash balances with the CBRF	156 155	15 009	15 501	65 400	232 026	-	484 091
Trading securities	992 617	-	-	-	-	-	992 617
Other securities at fair value through profit or loss	-	-	-	-	-	5 997	5 997
Due from other banks	2 002 405	-	10 804	-	1 000	-	2 014 209
Loans and advances to customers	1 505 516	5 174 701	5 387 237	13 398 984	22 821 271	6 681 287	54 968 996
Finance lease receivables	27 399	63 599	88 759	158 666	303 015	-	641 438
Other financial assets	178 873	5 753	2 133	32 567	53 525	30 000	302 851
Total financial assets	**9 513 927**	**5 259 062**	**5 504 434**	**13 655 617**	**23 410 837**	**6 717 284**	**64 061 161**
Liabilities							
Due to other banks	71 027	-	19 887	4 420	-	-	95 334
Customer accounts	13 403 326	1 288 246	1 330 511	5 613 487	19 915 529	-	41 551 099
Debt securities in issue	3 539	-	1 924 520	2 122 364	486 658	-	4 537 081
Borrowings from international financial institutions	-	1 004 496	255 127	660 564	947 042	-	2 867 229
Subordinated debt	-	325 313	41 096	366 408	2 775	1 937 669	2 673 261
Contingent credit related commitments	159 779	546 993	759 087	2 068 952	2 893 108	-	6 427 919
Other financial liabilities	111 454	7 617	1	-	-	-	119 072
Total potential future payments for financial obligations	**13 749 125**	**3 172 665**	**4 330 229**	**10 836 195**	**24 245 112**	**1 937 669**	**58 270 995**
Net liquidity gap at 31 December 2011	**(4 235 198)**	**2 086 397**	**1 174 205**	**2 819 422**	**(834 275)**	**4 779 615**	**5 790 166**
Cumulative liquidity gap at 31 December 2011	**(4 235 198)**	**(2 148 801)**	**(974 596)**	**1 844 826**	**1 010 551**	**5 790 166**	

Customer accounts are classified in the above analysis based on contractual maturities. However, in accordance with Russian Civil Code, individuals have a right to withdraw their deposits prior to maturity if they forfeit their right to accrued interest.

31 Financial Risk Management (Continued)

The Group does not use the above undiscounted maturity analysis to manage liquidity. Instead, the Group monitors expected maturities, which may be summarised as follows at 31 December 2012:

In thousands of Russian Roubles	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 to 6 months**	**From 6 to 12 months**	**From 12 months to 5 years**	**Over 5 years**	**No stated maturity**	**Total**
Assets								
Cash and cash equivalents	7 005 707	-	-	-	-	-	-	7 005 707
Mandatory cash balances with the CBRF	552 854	-	-	-	-	-	-	552 854
Trading securities	1 682 658	-	-	-	-	-	-	1 682 658
Other securities at fair value through profit or loss	-	-	-	-	-	-	5 997	5 997
Due from other banks	1 300 539	-	-	-	4 037	-	-	1 304 576
Loans and advances to customers	1 465 327	3 556 699	4 499 660	11 456 089	20 602 936	6 181 644	-	47 762 355
Finance lease receivables	27 181	63 980	85 313	144 674	321 946	-	-	643 094
Investment in associate	-	-	-	-	-	-	332 766	332 766
Intangible assets	-	-	-	-	-	-	309 979	309 979
Premises and equipment	-	-	-	-	-	-	2 530 490	2 530 490
Other financial assets	158 697	6 859	4 484	38 239	72 932	-	-	281 211
Other assets	8 402	103 667	9 536	39 888	98 657	-	-	260 150
Total assets	**12 201 365**	**3 731 205**	**4 598 993**	**11 678 890**	**21 100 508**	**6 181 644**	**3 179 232**	**62 671 837**
Liabilities								
Due to other banks	2 140	0	11 581	199 998	517 253	-	-	730 972
Customer accounts	15 254 485	1 122 909	2 262 888	4 924 372	20 498 208	-	-	44 062 862
Debt securities in issue	134 870	415 399	4 002 192	343 798	-	-	-	4 896 259
Borrowings from international financial institutions	-	722 164	279 229	566 352	1 502 455	-	-	3 070 200
Subordinated debt	-	917 136	8 908	151 864	151 389	604 841	-	1 834 138
Other financial liabilities	132 978	8 552	2 433	9 587	19 825	-	-	173 375
Deferred income tax liability	-	-	-	-	-	-	204 456	204 456
Other liabilities	51 851	35 512	30	12 601	6 306	-	-	106 300
Total liabilities	**15 576 324**	**3 221 672**	**6 567 261**	**6 208 572**	**22 695 436**	**604 841**	**204 456**	**55 078 562**
Net liquidity gap at 31 December 2012	**(3 374 959)**	**509 533**	**(1 968 268)**	**5 470 318**	**(1 594 928)**	**5 576 803**	**2 974 776**	**7 593 275**
Cumulative liquidity gap at 31 December 2012	**(3 374 959)**	**(2 865 426)**	**(4 833 694)**	**636 624**	**(958 304)**	**4 618 499**	**7 593 275**	

31 Financial Risk Management (Continued)

The above analysis is based on expected maturities. The entire portfolio of trading securities is therefore classified within demand and less than one month based on management's assessment of the portfolio's realisability.

The expected maturities are as follows at 31 December 2011:

In thousands of Russian Roubles	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 to 6 months**	**From 6 to 12 months**	**From 12 months to 5 years**	**Over 5 years**	**No stated maturity**	**Total**
Assets								
Cash and cash equivalents	4 650 962	-	-	-	-	-	-	4 650 962
Mandatory cash balances with the CBRF	484 091	-	-	-	-	-	-	484 091
Trading securities	970 349	-	-	-	-	-	-	970 349
Other securities at fair value through profit or loss	-	-	-	-	-	-	5 997	5 997
Due from other banks	2 000 219	-	10 804	-	1 000	-	-	2 012 023
Loans and advances to customers	1 443 665	4 115 720	4 095 578	10 948 032	17 096 424	4 311 141	-	42 010 560
Finance lease receivables	22 728	47 215	66 636	124 115	277 973	-	-	538 667
Investment in associate	-	-	-	-	-	-	319 199	319 199
Intangible assets	-	-	-	-	-	-	329 674	329 674
Premises and equipment	-	-	-	-	-	-	2 710 632	2 710 632
Other financial assets	178 873	5 753	2 133	32 567	53 525	30 000	-	302 851
Other assets	4 210	64 248	13 075	34 404	86 021	-	-	201 958
Total assets	**9 755 097**	**4 232 936**	**4 188 226**	**11 139 118**	**17 514 943**	**4 341 141**	**3 365 502**	**54 536 963**
Liabilities								
Due to other banks	70 908	-	19 475	4 306	-	-	-	94 689
Customer accounts	13 355 486	1 127 836	1 081 593	5 046 628	18 389 216	-	-	39 000 759
Debt securities in issue	3 532	-	1 766 069	1 951 068	-	-	-	3 720 669
Borrowings from international financial institutions	-	955 468	233 970	602 261	863 600	-	-	2 655 299
Subordinated debt	-	323 579	17 077	-	-	1 602 059	-	1 942 715
Other financial liabilities	111 546	8 418	794	5 392	22 279	-	-	148 429
Deferred income tax liability	-	-	-	-	-	-	216 063	216 063
Other liabilities	30 951	29 055	53	12 222	-	-	-	72 281
Total liabilities	**13 572 423**	**2 444 356**	**3 119 031**	**7 621 877**	**19 275 095**	**1 602 059**	**216 063**	**47 850 904**
Net liquidity gap at 31 December 2011	**(3 817 326)**	**1 788 580**	**1 069 195**	**3 517 241**	**(1 760 152)**	**2 739 082**	**3 149 439**	**6 686 059**
Cumulative liquidity gap at 31 December 2011	**(3 817 326)**	**(2 028 746)**	**(959 551)**	**2 557 690**	**797 538**	**3 536 620**	**6 686 059**	

31 Financial Risk Management (Continued)

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the successful management of the Group. It is unusual for banks ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Group and its exposure to changes in interest and exchange rates.

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

Operational risk. To ensure efficient risk management, the Bank has created an operational risk management system. Currently, the Bank uses the Base Indicative Approach (BIA) to operational risk evaluation. Operational risks are managed on the basis of the regulation approved by the Bank's Management Board. This activity includes the following:

- Collecting information on operating losses;
- Identifying sources of operational risk in the credit institution's activity;
- Developing regulations and actions for decreasing the level of operational risk;
- Coverage of risks by maintenance of adequate level of capital.

The Bank's information security and continuity are ensured by the Bank's Information Security Policy developed on the basis of ISO 17799 and approved by the Board of Directors.

The Bank has a policy that insures its property interests associated with ownership, use and disposal of the Bank's property and also with unforeseen expenses (losses) incurred by the Bank in its operations.

32 Management of Capital

The Group's objectives when managing capital are (i) to comply with the capital requirements set by the Central Bank of the Russian Federation, (ii) to safeguard the Group's ability to continue as a going concern and (iii) to maintain a sufficient capital base to achieve a capital adequacy ratio based on the Basel Accord of at least 8%. Compliance with capital adequacy ratios set by the Central Bank of the Russian Federation is monitored monthly with reports outlining their calculation reviewed and signed by the Bank's Chief Executive Officer and Chief Accountant. Other objectives of capital management are evaluated annually.

The Group and the Bank are also subject to minimum capital requirements established by covenants stated in loan agreements, including capital adequacy levels calculated in accordance with the requirements of the Basel Accord, as defined in the International Convergence of Capital Measurement and Capital Standards (updated April 1998) and the Amendment to the Capital Accord to incorporate market risks (updated November 2005), commonly known as Basel I. The composition of the Group's capital calculated in accordance with the Basel Accord is as follows:

In thousands of Russian Roubles	**2012**	**2011**
Tier 1 capital		
Share capital	1 258 709	1 258 709
Share premium	1 646 428	1 646 428
Retained earnings	3 331 891	2 403 314
Total tier 1 capital	**6 237 028**	**5 308 451**
Tier 2 capital		
Revaluation reserve for premises and equipment	1 356 247	1 377 608
Subordinated debt	1 573 812	1 732 687
Total tier 2 capital	**2 930 059**	**3 110 295**
Total capital	**9 167 087**	**8 418 746**

32 Management of Capital (Continued)

As at 31 December 2012 the Bank's capital adequacy ratio, calculated in accordance with Basel Accord is 17.4% (2011: 18.2%).

Management of the Bank believes that the Group and the Bank complied with all externally imposed capital requirements throughout 2012 and 2011.

33 Contingencies and Commitments

***Legal proceedings*.** From time to time and in the normal course of business, claims against the Group may be received. At 31 December 2012, the Group was engaged in litigation proceedings in relation to claims from borrowers and leassees. A provision of RR 6 835 thousand (2011: RR 2 856 thousand) has been made as internal professional advice has indicated that it is likely that a liability will eventuate.

Tax legislation. Russian tax legislation which was enacted or substantively enacted at the end of the reporting period is subject to varying interpretations when being applied to the transactions and activities of the Group. Consequently, tax positions taken by management and the formal documentation supporting the tax positions may be successfully challenged by relevant authorities. Russian tax administration is gradually strengthening, including the fact that there is a higher risk of review of tax transactions without a clear business purpose or with tax incompliant counterparties. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

Russian transfer pricing legislation became effective prospectively for new transactions from 1 January 2012. The new transfer pricing rules appear to be better developed from a technical standpoint and, to a certain extent, better comply with relevant international pricing rules established by the Organization for Economic Cooperation and Development (OECD). The new legislation allows tax authorities to make adjustments in terms of transfer pricing and charge additional tax liabilities for controlled transactions (transactions with related parties and some types of transactions with unrelated parties) if they are not arm's length transactions. If additional tax is charged for one party to a transaction, a taxpayer being the other party of a controlled transaction is entitled to apply symmetrical adjustments.

The transfer pricing legislation that is applicable to transactions on or prior to 31 December 2011, also provided the possibility for tax authorities to make transfer pricing adjustments and to impose additional tax liabilities in respect of all controllable transactions, provided that the transaction price differs from the market price by more than 20%. Controllable transactions included transactions with interdependent parties, as determined under the Russian Tax Code, all cross-border transactions (irrespective of whether performed between related or unrelated parties), transactions where the price applied by a taxpayer differed by more than 20% from the price applied in similar transactions by the same taxpayer within a short period of time, and barter transactions. Significant difficulties exist in interpreting and applying transfer pricing legislation in practice.

Tax liabilities arising from transactions between companies are determined using actual transaction prices. It is possible, with the evolution of the interpretation of the transfer pricing rules, that such transfer prices could be challenged. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the entity.

As Russian tax legislation does not provide definitive guidance in certain areas, the Group adopts, from time to time, interpretations of such uncertain areas that reduce the overall tax rate of the Group. While management currently estimates that the tax positions and interpretations that it has taken can probably be sustained, there is a possible risk that outflow of resources will be required should such tax positions and interpretations be challenged by the relevant authorities. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the Group.

Capital expenditure commitments. At 31 December 2012, the Group has contractual capital expenditure commitments in respect of premises and equipment, and software and other intangible assets totalling RR 862 thousand (2011: RR 474 thousand).

33 Contingencies and Commitments (Continued)

The Group has already allocated the necessary resources in respect of these commitments. The Group believes that future net income and funding will be sufficient to cover this and any similar such commitments.

Compliance with covenants. The Group is subject to certain covenants related primarily to its borrowings. Non-compliance with such covenants may result in negative consequences for the Group including growth in the cost of borrowings and a requirement of early repayment of the loan. At 31 December 2012, the Group did not comply with covenants regarding the ratio of impaired loans in the loan portfolio. The Bank launched negotiations with the relevant creditors regarding this situation in advance. However, by the end of the year the Bank only managed to obtain an informal confirmation to soften this covenant. The creditors signed additional agreements on cancellation of the covenant regarding the ratio of impaired loans in the loan portfolio in 2013.

As at 31 December 2011, the Group did not comply with covenants with regard to the 'one borrower's debt to equity' ratio. This situation arose due to a significant increase in the USD/RR exchange rate and a respective increase in the RR equivalent of the USD denominated debt. The Bank notified respective creditors of this situation. In 2012, notifications were received from the creditors on temporary cancellation of the respective covenant. As at 1 February 2012 and later, the Group complied with this covenant.

Credit related commitments. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings of the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralised by cash deposits and therefore carry less risk than a direct borrowing.

The Group monitors the term to maturity of credit related commitments, because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments. Outstanding credit related commitments are as follows:

In thousands of Russian Roubles	**2012**	**2011**
Guarantees issued	1 521 724	1 039 147
Import documentary letters of credit	9 027	1 518
Total credit related commitments	**1 530 751**	**1 040 665**

The total outstanding contractual amount of guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded. The fair value of credit related commitments was RR 32 641 thousand at 31 December 2012 (2011: RR 29 357 thousand). Credit related commitments are denominated in currencies as follows:

In thousands of Russian Roubles	**2012**	**2011**
Russian roubles	1 499 180	1 011 187
US dollars	15 490	25 311
Euro	16 081	4 167
Total	**1 530 751**	**1 040 665**

The Group has loan commitments of RR 5 693 639 thousand (2011: RR 5 387 254 thousand). All undrawn credit facilities can be automatically closed upon failure by the borrower to meet the requirements of the loan agreement. The fair value of such commitments is equal to zero.

Assets pledged and restricted. Mandatory cash balances with the CBRF in the amount of RR 552 854 thousand (2011: RR 484 091 thousand) represent mandatory reserve deposits which are not available to finance the Bank’s day to day operations.

34 Fair Value of Financial Instruments

(a) Fair values of financial instruments carried at amortised cost.

Fair values of financial instruments carried at amortised cost are as follows:

In thousands of Russian Roubles	2012 Carrying value	2012 Fair value	2011 Carrying amount	2011 Fair value
FINANCIAL ASSETS				
Cash and cash equivalents	7 005 707	7 005 707	4 650 962	4 650 962
Mandatory cash balances with the Central Bank of the Russian Federation	552 854	552 854	484 091	484 091
Due from other banks	1 304 576	1 304 576	2 012 023	2 012 023
Loans and advances to customers	47 762 355	47 323 936	42 010 560	42 548 719
- Corporate loans and loans to SME	*29 539 005*	*29 297 760*	*28 302 641*	*28 177 787*
- Loans to individuals – consumer and car loans	*11 068 158*	*10 854 449*	*8 002 659*	*8 249 766*
- Mortgage loans	*7 155 192*	*7 171 727*	*5 705 260*	*6 121 166*
Finance lease receivables	643 094	645 343	538 667	543 812
Other financial assets	281 211	281 211	302 851	302 851
TOTAL FINANCIAL ASSETS CARRIED AT AMORTISED COST	**57 549 797**	**57 113 627**	**49 999 154**	**50 542 458**
FINANCIAL LIABILITIES				
Due to other banks	730 972	730 972	94 689	94 689
Customer accounts	44 062 862	44 062 862	39 000 759	39 000 759
Debt securities in issue	4 896 259	4 920 411	3 720 669	3 764 168
- Promissory notes	*560 166*	*560 166*	*15 608*	*15 608*
- Bonds issued on domestic market	*4 336 093*	*4 360 245*	*3 705 061*	*3 748 560*
Borrowings from international financial institutions	3 070 200	3 070 200	2 655 299	2 655 299
Subordinated debt	1 834 138	1 834 138	1 942 715	1 942 715
Other financial liabilities	140 734	140 734	119 072	119 072
TOTAL FINANCIAL LIABILITIES CARRIED AT AMORTISED COST	**54 735 165**	**54 759 317**	**47 533 203**	**47 576 702**

(b) Analysis by fair value hierarchy of financial instruments carried at fair value.

For financial instruments carried at fair value, the level in the fair value hierarchy into which the fair values are categorised are as follows:

In thousands of Russian Roubles	2012 Quoted price in an active market (Level 1)	2012 Valuation technique with inputs observable in markets (Level 2)	2012 Valuation technique with significant non-observable inputs (Level 3)	2011 Quoted price in an active market (Level 1)	2011 Valuation technique with inputs observable in markets (Level 2)	2011 Valuation technique with significant non-observable inputs (Level 3)
FINANCIAL ASSETS						
Trading securities						
- Eurobonds	109 008	-	-	478 953	-	-
- Corporate bonds	1 521 829	-	-	447 349	-	-
- Shares of closed mutual funds	51 821	-	-	44 047	-	-
Other securities at fair value through profit or loss						
- Other	-	-	5 997	-	-	5 997
TOTAL FINANCIAL ASSETS CARRIED AT FAIR VALUE	**1 682 658**	**-**	**5 997**	**970 349**	**-**	**5 997**

34 Fair Value of Financial Instruments (Continued)

(c) The methods and assumptions applied in determining fair values

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price. Where quoted market prices are not available, the Group used valuation techniques. The fair value of floating rate instruments that are not quoted in an active market was estimated to be equal to their carrying amount. The fair value of unquoted fixed interest rate instruments was estimated based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

Discount rates used depend on currency, maturity of the instrument and credit risk of the counterparty and were as follows:

In thousands of Russian Roubles	**2012**	**2011**
RR		
Loans and advances to customers		
Corporate loans and loans to SME	11.3% - 16.2%	9.6% - 16.5%
Loans to individuals - consumer loans	11.0% - 16.3%	11.5% - 14.5%
Loans to individuals - car loans	14.3% - 14.9%	10.8% - 13.6%
Mortgage loans	10.0% - 12.2%	10.2% - 11.0%
Finance lease receivables	18.2%-19.9%	19.0%-19.2%
Currency		
Loans and advances to customers		
Corporate loans and loans to SME	6.5% - 7.3%	7.7% - 8.0%
Loans to individuals - consumer loans	10.0%	11.0%
Loans to individuals - car loans	-	11.0%
Mortgage loans	9.0%	10.0%
Finance lease receivables	12.1%	12.4%

35 Presentation of Financial Instruments by Measurement Category

For the purposes of measurement, IAS 39, Financial Instruments: Recognition and Measurement, the Group classifies financial assets into the following categories: (1) loans and receivables; (2) available-for-sale financial assets; (3) financial assets held to maturity and (4) financial assets at fair value through profit or loss ("FVTPL"). Financial assets at fair value through profit or loss have two subcategories: (1) assets designated as such upon initial recognition, and (2) those classified as held for trading.

The following table provides a reconciliation of classes of financial assets with these measurement categories as of 31 December 2012:

In thousands of Russian Roubles	**Loans and receivables**	**Financial assets at fair value through profit or loss**	**Total**
Assets			
Cash and cash equivalents	**7 005 707**	**-**	**7 005 707**
Mandatory cash balances with the CBRF	**552 854**	**-**	**552 854**
Trading securities	**-**	**1 682 658**	**1 682 658**
Other securities at fair value through profit or loss	**-**	**5 997**	**5 997**
Due from other banks	**1 304 576**	**-**	**1 304 576**
- Placements with the Bank of Russia	1 300 320	-	1 300 320
- Long-term placements with other banks	4 256	-	4 256
Loans and advances to customers	**47 762 355**	**-**	**47 762 355**
- Loans to SME	20 204 845	-	20 204 845
- Corporate loans	9 334 160	-	9 334 160
- Loans to individuals – consumer and car loans	11 068 158	-	11 068 158
- Mortgage loans	7 155 192	-	7 155 192
Finance lease receivables	**643 094**	**-**	**643 094**
Other financial assets:	**281 211**	**-**	**281 211**
- Receivables related to plastic card transactions	132 970	-	132 970
- Trade receivables and prepayments	73 383	-	73 383
- Endowment fund	39 253	-	39 253
- Settlements on brokerage operations	707	-	707
- Settlements on other operations	34 898	-	34 898
Total financial assets	**57 549 797**	**1 688 655**	**59 238 452**

The following table provides a reconciliation of classes of financial assets with these measurement categories as of 31 December 2011:

In thousands of Russian Roubles	**Loans and receivables**	**Financial assets at fair value through profit or loss**	**Total**
Assets			
Cash and cash equivalents	**4 650 962**	**-**	**4 650 962**
Mandatory cash balances with the CBRF	**484 091**	**-**	**484 091**
Trading securities	**-**	**970 349**	**970 349**
Other securities at fair value through profit or loss	**-**	**5 997**	**5 997**
Due from other banks	**2 012 023**	**-**	**2 012 023**
- Placements with the Bank of Russia	2 000 219	-	2 000 219
- Long-term placements with other banks	1 000	-	1 000
- Issued letters of credit	10 804	-	10 804
Loans and advances to customers	**42 010 560**	**-**	**42 010 560**
- Loans to SME	18 965 514	-	18 965 514
- Corporate loans	9 337 127	-	9 337 127
- Loans to individuals – consumer and car loans	8 002 659	-	8 002 659
- Mortgage loans	5 705 260	-	5 705 260
Finance lease receivables	**538 667**	**-**	**538 667**
Other financial assets:	**302 851**	**-**	**302 851**
- Receivables related to plastic card transactions	92 167	-	92 167
- Trade receivables and prepayments	135 343	-	135 343
- Endowment fund	30 000	-	30 000
- Settlements on brokerage operations	12	-	12
- Settlements on other operations	45 329	-	45 329
Total financial assets	**49 999 154**	**976 346**	**50 975 500**

All of the Group's financial liabilities are carried at amortised cost.

36 Related Party Transactions

For the purposes of these consolidated financial statements, parties are considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

The Group's policy is to lend funds to related parties if they have an appropriate credit history and provide sufficient guarantees from third parties or pledge collateral valued in excess of the committed credit lines.

The consolidated financial statements of the Group include the following significant transactions and balances with related parties.

	2012			2011		
In thousands of Russian Roubles	**Significant share-holders**	**Associate**	**Manage-ment and Board of Directors**	**Significant share-holders**	**Associate**	**Manage-ment and Board of Directors**
Correspondent accounts with banks	5 217	-	-	5 542		
Gross amount of loans and advances to customers (contractual interest rate: 2012: 8% - 24%; 2011: 8% - 18%)	-	7 232	11 501	-	6 661	13 557
Customer accounts (contractual interest rate: 2012: 0% – 10%; 2011: 0% – 9.5%)	-	3 935	446 353	-	12 839	430 293
Borrowings from international financial institutions (contractual interest rate: 2012: 7% – 11%; 2011: 7% – 10%)	1 990 290	-	-	1 562 919	-	-
Subordinated loans (contractual interest rate: 2012: 5%; 2011: 5%)	1 528 611	-	-	1 619 136	-	-

	2012			2011		
In thousands of Russian Roubles	**Significant share-holders**	**Associate**	**Manage-ment and Board of Directors**	**Significant share-holders**	**Associate**	**Manage-ment and Board of Directors**
Interest income	-	5 597	1 082	-	447	1 170
Interest expense	(287 150)	(106)	(29 339)	(220 404)	(672)	(22 005)
Fee and commission income	-	963	-	-	146	-
Administrative expenses excluding management remuneration	-	-	(1 690)	-	-	(1 018)

36 Related Party Transactions (Continued)

The major shareholders of the Bank at 31 December 2012 and 31 December 2011 are as follows:

	2012		2011	
Shareholder	Equity share, %	Voting rights share, %	Equity share, %	Voting rights share, %
European Bank for Reconstruction and Development	24.58	27.45	24.58	27.45
DEG (Deutsche Investitions und Entwicklungsgesellschaft GmbH)	20.10	22.45	20.10	22.45
Erste Bank	9.80	9.80	9.80	9.80
Firebird funds	8.87	9.90	8.87	9.90
Vysokov Vasiliy Vasilievich	8.07	9.01	8.07	9.01
Vysokova Tatiana Nikolaevna	7.91	8.83	7.91	8.83
Rekha Holdings Limited	7.29	8.15	7.29	8.15

Key management compensation is presented below:

	2012		2011	
In thousands of Russian Roubles	Expense	Accrued liability	Expense	Accrued liability
Short-term benefits:				
- Salaries	15 363	-	18 340	-
- Short-term bonuses	54 449	-	36 284	-
Long-term bonus scheme	6 306	6 306	-	-
Post-employment benefits:	326	-	1 958	-
Total	**76 444**	**6 306**	**56 582**	**-**

Short-term bonuses fall due wholly within twelve months after the end of the period in which management rendered the related services.

In 2012, the Board of Directors consisted of 7 persons (2011: 7 persons). As at the end of 2012, the Group's Executive Board consisted of 3 persons (2011: 4 persons).