



**Hlynov Commercial Bank
(Open Joint Stock Company)**

**Non-Consolidated Financial Statements
31 December 2012
and Independent Auditor's Report**

OJSC CB Hlynov
Non-Consolidated financial statements as at 31 December 2012
and Independent Auditor's report

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STATEMENT OF MANAGEMENT RESPONSIBILITIES

Management has prepared and is responsible for the financial statements and related notes of Open Joint Stock Company Commercial Bank Hlynov ("the Bank"). They have been prepared in accordance with International Financial Reporting Standards ("IFRS") and necessarily include amounts based on judgements and estimates by Management.

In preparing the financial statements, management is responsible for:

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

Management is also responsible for:

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

The financial statements of the Bank for the year ended 31 December 2012 were approved by management on 26 April 2013:

I.P. Prozorov
Chairman of the Executive Board

S.V. Shamseeva
Chief accountant

26 April 2013



INDEPENDENT AUDITOR'S REPORT

To Shareholders and Board of Directors of OJSC CB Hlynov

Audited entity

Name: Commercial Bank "Hlynov" Open Joint Stock Company (OJSC CB "Hlynov").

Primary state registration number: 1024300000042

Location: 610002, Kirov, Uritskogo st., 40

Auditor

Name: Closed Joint Stock Company "Mazars" (CJSC "Mazars").

Primary state registration number: 1027739734219.

Location: 24/27 Sadovaya-Samotechnaya st., Moscow, 127051.

The Auditor is a corporate member of a professional audit organization, self-regulating organization of auditors - Noncommercial Partnership "Moscow Audit Chamber". The number in the register of auditors and audit organizations of self-regulating organization of auditors (main registration number of entry): 10303044761.

We have audited the accompanying financial statements of OJSC CB Hlynov (the "Bank"), which comprise of the statement of financial position as of December 31, 2012, statement of profit and loss and other comprehensive income, statement of cash flows and statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

The Bank's management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as of December 31, 2012, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

CJSC «Mazars»

Auditor



Kovrova L. G.

(auditor's qualification certificate № 03-000120 issued by order of the self-regulating organization of auditors' non-profit Partnership "Moscow Audit Chamber" in accordance with the minutes №169 from February, 01, 2012 for an indefinite period).

April 26, 2013

OJSC CB Hlynov
Non-Consolidated Statement of Financial Position as at 31 December 2012
(in thousands of Russian Roubles)

	<u>Notes</u>	<u>2012</u>	<u>2011</u>
Assets			
Cash and Cash Equivalents	5	1,444,294	947,617
Mandatory Balances with the CBRF	6	112,268	98,472
Due from Banks	7	140,804	569,681
Financial assets at fair value through profit or loss	8	1,562,544	1,665,726
Financial assets held to maturity	9	115,444	90,251
Loans and Advances to Customers	10	8,946,210	6,401,756
Investment in Subsidiaries	11	6,233	-
Other Assets	12	119,119	135,781
Property, Plant and Equipment	13	315,039	278,547
Investment properties	13	50,839	68,077
Total Assets		<u>12,812,794</u>	<u>10,255,908</u>
Liabilities			
Due to Banks	14	520,821	1
Customer Accounts	15	10,416,549	8,712,561
Debt Securities Issued	16	29,214	18,910
Taxation	17	49,308	38,240
Other Liabilities	18	56,062	44,741
Total Liabilities		<u>11,071,954</u>	<u>8,814,453</u>
Equity			
Share Capital	19	627,198	627,198
Retained Earnings		1,038,598	767,642
Revaluation Reserve		75,044	46,615
Total Equity		<u>1,740,840</u>	<u>1,441,455</u>
Total Liabilities and Equity		<u>12,812,794</u>	<u>10,255,908</u>
Credit Related Commitments	20	<u>1,560,796</u>	<u>601,675</u>

Signed and authorised for release on behalf of the Executive Board of the Bank on 26 April 2013

I.P. Prozorov
Chairman of the Executive Board

S.V. Shamseeva
Chief accountant



OJSC CB Hlynov
Non-Consolidated Statement of Profit and Loss and other Comprehensive Income
for the year ended 31 December 2012
(in thousands of Russian Roubles)

	Notes	2012	2011
Interest income			
Loans and advances to legal entities		767,469	660,854
Loans and advances to individuals		203,099	156,143
Securities		146,493	123,231
Due from banks		6,705	9,286
		1,123,766	949,514
Interest expense			
Term deposits of individuals		(472,834)	(462,031)
Term deposits of legal entities		(25,083)	(13,283)
Current/settlement accounts		(9,396)	(8,907)
Due to banks		(10,703)	(178)
Debt securities issued		(428)	(25)
		(518,444)	(484,424)
Net interest income			
		605,322	465,090
Allowance for impairment	21	(151,010)	(148,932)
Net interest income less allowance for losses			
		454,312	316,158
Net fee and commission income	23	284,924	251,907
Net gains / (losses) from trading with securities	22	5,293	(17,339)
Net gains / (losses) from transactions with foreign currencies		56,989	(1,568)
Net gain / (loss) from revaluation of items in foreign currencies		(30,153)	19,633
Gains less losses from disposal of property, plant and equipment		2,090	1,229
Fair value adjustment of investment in subsidiary	11	6,233	-
Other operating income		10,016	15,247
Operating income			
		789,704	585,267
Staff costs	24	(269,999)	(216,320)
Administrative and other operating costs	24	(158,559)	(120,715)
Depreciation and amortisation	13	(14,825)	(15,288)
Operating expenses			
		(443,383)	(352,323)
Profit before tax			
		346,321	232,944
Income tax charge	17	(75,365)	(46,546)
Profit for the period			
		270,956	186,398
Other comprehensive income			
Gains on property revaluation, net of tax		28,429	-
Write-off of revaluation on disposed fixed assets		-	(254)
Total other comprehensive income / (loss)			
		28,429	(254)
Total comprehensive income for the year			
		299,385	186,144

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I.P. Prozorov
Chairman of the Executive Board

S.V. Shamseeva
Chief accountant

The accompanying notes on pages 5 to 55 form an integral part of these financial statements

OJSC CB Hlynov
Non-Consolidated Statement of Cash Flows
for the year ended 31 December 2012
(in thousands of Russian Roubles)

	<u>Notes</u>	<u>2012</u>	<u>2011</u>
Cash flows from operating activities			
Interest received		849,299	742,594
Interest paid		(518,444)	(484,424)
Income from securities trading		142,964	126,276
Income from trading in foreign currencies		59,310	753
Commissions received		331,186	292,035
Commissions paid		(28,962)	(28,962)
Income / (losses) from disposal of property, plant and equipment		(948)	1,229
Other operating incomes received		18,339	14,299
Other operating expenses paid		(429,210)	(319,485)
Income tax paid		(71,404)	(43,200)
Cash flows from operating activities received before changes in operating assets and liabilities		352,130	301,115
<i>Net (increase)/decrease in operating assets</i>			
Mandatory balance with CBRF		(13,796)	(40,198)
Securities at fair value through profit or loss		151,859	(163,540)
Due from banks		428,877	505,319
Loans and advances to customers		(2,695,464)	(584,086)
Other assets		112,967	67,594
<i>Net increase /(decrease) in operating liabilities</i>			
Due to banks		520,820	(244)
Customer accounts		1,703,988	(25,301)
Debt securities issued		10,305	13,710
Other liabilities		(24,115)	(16,636)
Net cash received from operating activities		547,571	57,733
Cash flows from investing activities			
Acquisition of property, plant and equipment		(21,636)	(37,680)
Disposal of property, plant and equipment		5,429	39,424
Purchase of financial assets HTM		(64,956)	(39,855)
Net cash paid in investing activities		(81,163)	(38,111)
Net cash received from financing activities			
Effect of exchange rate on cash and cash equivalents		30,269	19,633
Net increase of cash and cash equivalents		496,677	39,255
Cash and cash equivalents at the beginning of the year	5	947,617	908,362
Cash and cash equivalents at the end of the year	5	1,444,294	947,617

Signed and authorised for release on behalf of the Executive Board of the Bank on 26 April 2013

I.P. Prozorov
Chairman of the Executive Board

S.V. Shamseeva
Chief accountant



The accompanying notes on pages 5 to 55 form an integral part of these financial statements

OJSC CB Hlynov
Non-Consolidated Statement of Changes in Equity
for the year ended 31 December 2012
(in thousands of Russian Roubles)

	Share capital	Revaluation reserve	Retained earnings	Total equity
01 January 2011	627,198	46,869	581,244	1,255,311
Total comprehensive income for the year	-	(254)	186,398	186,144
01 January 2012	627,198	46,615	767,642	1,441,455
Total comprehensive income for the year	-	28,429	270,956	299,385
01 January 2013	627,198	75,044	1,038,598	1,740,840

In accordance with normative legal acts of the Russian Federation regulating the banking activity, the Bank must use financial statements prepared under Russian Accounting Standards ('RAS') as the basis for calculating distributable profit for the accounting year. The income may be used for paying dividends or for increasing the Bank's reserves.

As at 31 December 2012, retained earnings of the Bank calculated in accordance with RAS were 750,725 (2011: 509,124).

Signed and authorised for release on behalf of the Executive Board of the Bank on 26 April 2013

I.P. Prozorov
Chairman of the Executive Board

S.V. Shamseeva
Chief accountant



OJSC CB "Hlynov"
Notes to the Non-Consolidated Financial Statements
as at 31 December 2012
(in thousands of Russian Roubles)

1. Principal Activities

On 6 March 1990, Bank "KirovCoopBank" was registered with the Central Bank of the Russian Federation ("CBRF"). In the year 1991 it was renamed as "Commercial Bank Hlynov" (Open Joint Stock Company).

The Bank conducts its business under general license № 254 issued by the CBRF on 24 February 2000 to conduct banking operations in Russian Roubles and foreign currency and to attract deposits from individuals in Roubles and foreign currency. Since 21 September 2004 the Bank has been a member of the State Deposit Insurance system. The Bank has also been granted licenses as professional participant of the Securities Market allowing it to carry out depository functions, and to act as broker and dealer and provide services in managing securities.

The principal activity of the Bank is to provide banking services to the population and legal entities in the Kirov district.

The structure of the Bank comprised a central office, situated at 40 Yritskogo Street, Kirov, 610002, plus 28 supplementary offices and 5 'cash-in offices'. The Bank does not have any branches.

During 2012 the Bank has had an average of 644 members of staff (2011: 511).

In the opinion of the Bank's management, and considering the structure and nature of the shareholders, described in Note 19, the Bank does not have a single ultimate controlling party.

2. Operating Environment of the Bank

In 2012 the global economy was still unstable under the influence of the European debt crisis. In 2012 the Russian economy showed good resilience of economic activity due to strong internal demand supported by dynamic credit growth and public spending as well as due to positive external environment (prices on oil and other resources). Russia still has significant devaluation risks as compared to Euro and US Dollar, undeveloped capital markets, dependence on oil, other energy and commodity prices in global markets as well as relatively high inflation. The tax, currency and insurance legislation within the Russian Federation is subject to varying interpretations and changes, which can occur frequently.

Supported by strong prices in oil, gas and other natural resources the country's GDP grew approximately 3.8% in real terms in 2012, unemployment was relatively low at approximately 5.4% and inflation was approximately 6.6% p.a.

The future economic direction of the Russian Federation is largely dependent upon the state of the global economy, price of oil and other commodities, the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory and political developments.

The financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Bank. The future business environment may differ from management's assessment.

3. Basis of Presentation

a) General

The non-consolidated financial statements of the Bank have been prepared on the going concern basis in accordance with IFRS which comprise existing standards and their interpretations approved by the International Accounting Standards Board ("IASB"), and International Accounting Standards ("IAS") and Standing Interpretations Committee interpretations ("SIC") approved by the International Accounting Standards Committee that remain in effect. The Bank maintains its accounting records in accordance with Russian Accounting Standards ("RAS").

OJSC CB "Hlynov"
Notes to the Non-Consolidated Financial Statements
as at 31 December 2012
(in thousands of Russian Roubles)

Basis of Presentation (continued)

These financial statements are based on the Bank's RAS analytical books and records adjusted and reclassified in order to comply with IFRS.

These financial statements are presented and rounded to thousands of Roubles (RUR) unless otherwise indicated. The Rouble is utilised as the reporting currency as the majority of the Bank's transactions are denominated, measured, or funded in RUR, hence it is both the functional and reporting currency. Transactions in other currencies other than RUR are treated as transactions in foreign currencies.

These financial statements have been prepared on the historical cost basis except for the revaluation of certain non-current assets and financial instruments.

b) Use of estimates

The preparation of financial statements in accordance with IFRS requires the use of estimations and assumptions that affect the reported data. These estimates are based on information available at the date of financial statements' preparation, and although are based on Management's best knowledge and understanding of current events, the actual results might differ from the estimated. The most significant are the estimates of level of allowances for possible losses.

(i) Impairment losses on loans to customers

The Bank reviews loans to customers on a quarterly basis for evidence of impairment. The reason for impairment could be late payments of loans and interest or negative financial information about the borrower. The credits exceeding the materiality level for financial statements are reviewed individually. Others are reviewed on a portfolio basis by counterparty industry type and geographical location. When impairment is required to be recognised it is done individually for loans, exceeding materiality level based on Managements estimate of the future cash flows arising from the loan. This is based on their knowledge and experience of the counterparty, its industry and location. For portfolio based impairment the estimate is based wherever possible on observable data such as CBRF statistics including industry areas statistics by industry and regions.

Impairment amount is calculated as the difference between the loan's carrying amount and the present value of estimated future cash flows (less future credit losses that have not been incurred) discounted at the loan's original effective interest rate. The aggregate of the allowances made during the year is charged against Statement of Profit and Loss and other Comprehensive Income for the year.

(ii) Impairment losses on receivables other than loans

The Bank reviews all its assets for impairment on a quarterly basis. In determining whether an impairments loss should be recorded in the Statement of Profit and Loss and other Comprehensive Income, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from an asset. Management uses estimates based on their knowledge and experience to determine both the amount and timing of future cash flows

(iii) Fair values

For assets and liabilities estimated at fair value the Bank applies the latest market bid prices where possible. In cases where this is not available it uses evaluation techniques or conventions. Further details are given in Note 8.

(iv) Related party transactions

In the normal course of business the Bank enters into transactions with related parties. These transactions are predominantly priced at market rates. Judgment is applied in determining if transactions are priced at market or non market rates where there is no active market for such transactions. The basis for judgment is the pricing of similar types of transactions with non related parties and effective interest rate analysis.

OJSC CB "Hlynov"
Notes to the Non-Consolidated Financial Statements
as at 31 December 2012
(in thousands of Russian Roubles)

Basis of Presentation (continued)

(v) Depreciation

The Bank applies the norms of depreciation based on the estimated useful life of its fixed assets. These estimates are based on Management's knowledge of assets and the use to which they are put. Estimates of useful lives are reviewed on an annual basis.

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

c) Application of new and revised International Financial Reporting Standards (IFRSs)

New standards, interpretations and amendments effective from 1 January 2012:

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

The amendments increase the disclosure requirements for transactions involving the transfer of financial assets in order to provide greater transparency around risk exposure when financial assets are transferred.

The adoption of the amendments did not have significant effect on the financial position or performance of the Bank.

**Amendments to IFRS 1 -
Severe Hyperinflation and
Removal of Fixed Dates for
First-time Adopters**

The amendment stipulates that when an entity's date of transition to IFRS is on, or after, the date its functional currency ceases to be subject to severe hyperinflation (for Russia – 31 December 2002), the entity may elect to measure all assets and liabilities held before the functional currency normalisation date at fair value on the date of transition to IFRS. This fair value may be used as the deemed cost of those assets and liabilities in the opening IFRS statement of financial position.

The adoption of the amendments did not have any effect on the financial position or performance of the Bank.

**Amendments to IAS 12 -
Deferred Tax: Recovery of
Underlying Assets**

The amendment to IAS 12 Deferred Tax: Recovery of Underlying Assets provide (for income tax calculation purposes) a presumption that recovery of the carrying amount of an asset measured using the fair value model in IAS 40 Investment Property will, normally, be through sale.

The adoption of the amendments did not have any effect on the financial position or performance of the Bank.

New and revised IFRSs in issue but not yet effective

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

OJSC CB "Hlynov"
Notes to the Non-Consolidated Financial Statements
as at 31 December 2012
(in thousands of Russian Roubles)

Basis of Presentation (continued)

IFRS 9 Financial Instruments
(effective for annual periods
beginning on or after 1 January
2015)

Introduces new requirements for the classification and measurement of financial assets and financial liabilities.

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

- for financial liabilities that are designated as at fair value through Profit or Loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in Profit or Loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to Profit or Loss. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through Profit or Loss was recognised in Profit or Loss.

**IFRS 10 Consolidated
Financial Statements**
(effective for annual periods
beginning on or after 1 January
2013)

Replaces all of the guidance on control and consolidation in IAS 27 and SIC-12 by introducing a single consolidation model for all entities based on control, irrespective of the nature of the investee. Under IFRS 10, the single definition of control, accompanied by extensive application guidance, is based on whether an investor has: (a) power over the investee; (b) exposure, or rights, to variable returns from its involvement with the investee; and (c) the ability to use its power over the investee to affect the amount of the returns.

IFRS 11 Joint Arrangements
(effective for annual periods
beginning on or after 1 January
2013)

Replaces IAS 31 with new accounting requirements for joint arrangements by classifying them as either joint operations or joint ventures (the 'jointly controlled assets' classification exists no more).

**IFRS 12 Disclosure of Interest
in Other Entities**
(effective for annual periods
beginning on or after 1 January
2013)

Requires enhanced disclosures about both consolidated and unconsolidated entities in which an entity has involvement, so that financial statement users are able to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities.

OJSC CB "Hlynov"
Notes to the Non-Consolidated Financial Statements
as at 31 December 2012
(in thousands of Russian Roubles)

Basis of Presentation (continued)

IAS 27 Separate Financial Statements

(effective for annual periods beginning on or after 1 January 2013)

Includes the provisions on separate financial statements that are left almost unchanged after the control provisions of IAS 27 have been replaced with the new IFRS 10.

IAS 28 Investments in Associates and Joint Ventures

(effective for annual periods beginning on or after 1 January 2013)

Includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of IFRS 11.

IFRS 13 Fair Value Measurement

(effective for annual periods beginning on or after 1 January 2013)

Provides a definition of fair value and a single source of fair value measurement and disclosure requirements to use across IFRSs. The Standard:

- defines fair value;
- sets out in a single IFRS a framework for measuring fair value;
- requires disclosures about fair value measurements.

Amendments to IAS 1 Presentation of Financial Statements

(effective for annual periods beginning on or after 1 July 2012)

Under the amendments the "statement of comprehensive income" is renamed the "statement of Profit or Loss and other comprehensive income" and the "income statement" is renamed the "statement of profit and loss". Other than the above mentioned presentation changes, the application of the amendments to IAS 1 does not result in any impact on Profit or Loss, other comprehensive income and total comprehensive income.

Amendments to IFRS 7 and IAS 32 Disclosures – Offsetting Financial assets and Financial Liabilities

(effective for annual periods beginning on or after 1 January 2013 and 1 January 2014, correspondingly)

The amendments clarify the existing application issues relating to offset of financial assets and financial liabilities requirements. Specially, the amendments clarify the meaning of "currently has a legally enforceable right of set-off" and "simultaneous realisation and settlement".

IAS 19 (as revised in 2011) Employee Benefits

effective for annual periods beginning on or after 1 January 2013)

The amendments change the accounting for defined benefit plans and termination benefits.

Amendments to IFRSs Annual Improvements to IFRSs 2009-2011 Cycle

(effective for annual periods beginning on or after 1 January 2013)

The annual improvements include amendments to IAS 16 Property, Plant and Equipment, IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements.

OJSC CB "Hlynov"
Notes to the Non-Consolidated Financial Statements
as at 31 December 2012
(in thousands of Russian Roubles)

Basis of Presentation (continued)

IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine

(effective for annual periods beginning on or after 1 January 2013)

The amendments will have no effect on the financial statement of the Bank.

IAS 1 Presentation of Other Comprehensive Income

(effective for annual periods beginning on or after 1 July 2012)

Revise the way other comprehensive income is presented:

- require entities to group items presented in OCI based on whether they are potentially reclassifiable to Profit or Loss subsequently. i.e. those that might be reclassified and those that will not be reclassified;
- require tax associated with items presented before tax to be shown separately for each of the two groups of OCI items.

Management has decided not to early adopt any of the Standards, Interpretations and Amendments. Of the above Management believes that only the following will have a significant impact on the Bank's financial statements:

IFRS 9 Financial Instruments – Classification and Measurement

The Bank does not have a complex range of financial instruments and the anticipated changes are expected largely to relate to disclosure requirements only.

The Bank will adopt these standards when they become effective.

d) Inflation accounting

In the opinion of Management, effective from 1 January 2003, the Russian Federation no longer met the criteria of IAS 29 "*Financial Reporting in Hyperinflationary Economies*", and therefore, the Bank ceased applying IAS 29 to subsequent periods recognising only the cumulative impact of inflation indexing on non-monetary elements of the financial statements through 31 December 2002.

Consequently, monetary items and results of operations for 2011 and 2012 are reported in actual, nominal amounts. Non-monetary assets and liabilities acquired prior to 31 December 2002, and share capital transactions occurring before 31 December 2002 were restated by applying the relevant inflation factors to the historical cost ("restated cost") through 31 December 2002. Gains or losses on subsequent disposals are recognised based on the restated cost of the non-monetary assets and liabilities.

OJSC CB "Hlynov"
Notes to the Non-Consolidated Financial Statements
as at 31 December 2012
(in thousands of Russian Roubles)

Basis of Presentation (continued)

e) Reconciliation of RAS and IFRS equity and net income

	31 December 2012		31 December 2011	
	Equity	Net profit	Equity	Net profit
RAS	1,476,428	241,002	1,203,028	174,469
Transfer value of loans	-	19,997	(19,997)	8,117
Allowance for loans and correspondent accounts	250,411	5,576	271,020	38,002
Interest expense/income	24,689	5,741	(7,237)	(22,451)
Write off of low value assets	(137)	204	(341)	272
Additional depreciation	(2,590)	(1,570)	(4,327)	(2,935)
Investments in subsidiaries	6,233	6,233	-	-
Adjustments of fixed assets	15,658	7,517	15,363	4,777
Deferred tax	(49,308)	(3,961)	(38,240)	(3,346)
Deposit insurance system	(6,657)	(772)	(5,885)	(80)
Revaluation of fixed assets	13,429	1,502	10,114	-
Recognition of SWAP deals	269	2,590	(2,321)	(1,841)
Recognition of financial assets HTM at amortised cost	(90)	2	(92)	(508)
Staff expenses	(15,815)	(4,891)	(10,924)	(7,594)
Commission on guarantees issued	(3,900)	34	(3,934)	(469)
Expenses on repairmen of rented premises	(3,723)	(3,723)	-	-
Other	35,943	(4,525)	35,228	(15)
IFRS	1,740,840	270,956	1,441,455	186,398

f) Fair value of financial instruments

Unless otherwise stated, the financial instruments of the Bank have been stated in these financial statements at their measured fair values in accordance with IAS 39 "*Financial Instruments: Recognition and Measurement*". The estimated fair values are intended to approximate the amounts at which these instruments could be exchanged in an arm's length transaction between willing parties at the year end. Certain financial instruments lack an active trading market and therefore fair values are based on valuation techniques, which involve assumptions and judgement.

The specific valuation methodologies applied to these instruments are outlined in Note 3. In light of the foregoing, the fair values should not necessarily be interpreted as being realisable in an immediate settlement of the instruments.

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4. Significant Accounting Policies

a) Consolidation

These financial statements present the Bank's activities and balances on a non-consolidated basis. The Bank has produced separate financial statements presenting the consolidated Statement of Profit and Loss and other Comprehensive Income and Statement of Financial Position of the Bank and its subsidiaries.

b) Recognition of Financial Instruments

The Bank recognises financial assets and liabilities on its Statement of Financial Position when, and only when, it becomes a party to the contractual provisions of the instrument. Financial assets and liabilities are recognised using trade date accounting.

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

Financial assets and liabilities are initially recognised at cost, which is the fair value of consideration given or received, respectively, including or net of any transaction costs incurred, respectively. Any gain or loss at initial recognition is recognised in the current period's Statement of Profit and Loss and other Comprehensive Income. The accounting policies for subsequent re-measurement of these items are disclosed in the respective accounting policies set out below.

c) Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, amounts due from the CBRF, excluding mandatory reserves, and due from credit institutions that mature within one day of the date of origination and are free from contractual encumbrances.

d) Mandatory Balances with the CBRF

Mandatory balances represent mandatory reserve assets which are not available to finance the Bank's day to day operations and hence are not considered as part of cash and cash equivalents for the purposes of the statement of cash flows.

e) Due from Banks

In the normal course of business, the Bank maintains current accounts or deposits for various periods of time with other banks. Amounts due from banks with a fixed maturity term are subsequently measured at amortised cost using the effective interest method. Those that do not have fixed maturities are carried at cost. Amounts due from banks are carried net of any allowance for impairment.

f) Financial Assets at Fair Value through Profit or Loss ("FVPL")

Securities at FVPL are securities which were either acquired for generating a profit from short-term fluctuations in price or dealer's margin, or are securities included in a portfolio in which a pattern of short-term holding exists. Securities at FVPL are initially recognised at fair value and subsequently re-measured at fair value. The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the reporting date.

All related realised and unrealised gains or losses are recorded within net gains or losses from trading activities in the Statement of Profit and Loss and other Comprehensive Income for the period in which the change occurs. Interest earned on trading securities is reflected in the Statement of Profit and Loss and other Comprehensive Income as interest income on securities.

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Significant Accounting Policies (continued)

All purchases and sales of securities at FVPL that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recognised at trade date, which is the date when the property is effectively transferred.

g) Investment in subsidiaries

Investments in subsidiaries are valued at fair value through profit or loss using the same basis as outlined in Note 3 (f) above.

h) Financial Assets Held to Maturity ("HTM")

This category includes non-derivative financial assets with fixed or determinable payments and fixed maturity which the Bank has both the intent and the ability to hold to maturity.

After initial recognition such securities are re-measured to amortised cost as at the date of the financial statements. At each reporting date the Bank also evaluates whether there are any objective signs of impairment of securities carried at amortised cost with the purpose of determining whether an impairment loss calculation is necessary.

Impairment losses are calculated as being equal to the difference between the statement of financial position value and anticipated future cash flows discounted at the effective interest rate that was applicable on initial recognition. Impairment loss is recognised in the Statement of Profit and Loss and other Comprehensive Income for the period.

i) Sale and Repurchase Agreements

Sale and repurchase ("repo") agreements are treated as secured financing transactions. Securities sold under sale and repurchase agreements are included in securities. The corresponding liability is presented under due to banks, amounts due to customers or other liabilities as appropriate. Securities purchased under agreements to resell ("reverse repo") are recorded as due from banks, loans to customers or other assets as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the repo agreement using the effective interest method.

j) Promissory Notes Purchased

Promissory notes purchased are included in securities, due from credit institutions or in loans and advances to customers, depending on their substance and are recorded and subsequently re-measured and accounted in accordance with the accounting policies for these categories of assets.

k) Loans and Advances to Customers

Loans are stated at amortised cost, net of allowances for impairment. Amortised cost is calculated as the amount outstanding after amortisation of the premium or discount over fair value arising at initial recognition using the effective interest method.

A loan or portfolio of loans is considered impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the loan or loans (a 'loss event'), that loss event (or events) has an impact on the estimated future cash flows that will be generated by the loan or portfolio of loans and that loss can be reliably estimated. Whether objective evidence of impairment exists is considered individually for loans that are individually significant, and individually or collectively for loans that are not individually significant. Should no objective evidence of impairment exist for an individually assessed loan, whether significant or not, the loan is included in a portfolio of loans with similar credit risk characteristics and is collectively assessed for impairment.

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Significant Accounting Policies (continued)

The amount of impairment loss is calculated as the difference between the loan's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the loan's original effective interest rate. The aggregate of the allowances made during the year is included in the Statement of Profit and Loss and other Comprehensive Income.

Loans and advances which cannot be recovered are written off and charged against the allowance for impairment loss. Such loans are written off after all necessary legal procedures have been completed and the amount of the loss is finally determined.

Mortgage loans for sale continue to be recognised as loans to customers because they contain the features of loans rather than securities.

1) Impairment of Financial Assets

(i) Assets carried at amortised cost

The Bank assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is considered impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows that will be generated by the asset or group of assets that can be reliably estimated.

The criteria that the Bank uses to determine that there is objective evidence of an impairment loss include:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower (for example, equity ratio, net income, percentage of sales, etc.);
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrowers' competitive position;
- Deterioration in the value of collateral; and
- Downgrading in the CBR credit rating below II category.

The estimated period between losses occurring and their identification is determined by management for each identified portfolio.

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

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Significant Accounting Policies (continued)

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the Statement of Profit and Loss and other Comprehensive Income. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Bank may measure impairment on the basis of an instrument's fair value using an observable market price.

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.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e., on the basis of the Bank's grading process that considers asset type, industry, collateral type, past-due status and other relevant factors). 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 in the Bank and historical loss experience for assets with credit risk characteristics similar to those in the Bank. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the Bank and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

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. The amount of the reversal is recognised in the Statement of Profit and Loss and other Comprehensive Income in impairment charge for credit losses.

(ii) Assets classified as available for sale

The Bank assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the Statement of Profit and Loss and other Comprehensive Income – is removed from equity and recognised in the Statement of Profit and Loss and other Comprehensive Income. Impairment losses recognised in the Statement of Profit and Loss and other Comprehensive Income on equity instruments are not reversed through the Statement of Profit and Loss and other Comprehensive Income.

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Significant Accounting Policies (continued)

If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the Statement of Profit and Loss and other Comprehensive Income, the impairment loss is reversed through the Statement of Profit and Loss and other Comprehensive Income.

(iii) Renegotiated loans

Loans that are either subject to collective impairment assessment or individually significant and whose terms have been renegotiated are no longer considered to be past due but are treated as new loans. In subsequent years, the asset is considered to be past due and disclosed only if renegotiated.

m) Financial Guarantee Contracts

Potential liabilities arising under such contracts are initially recognised at fair value which is measured by reference to consideration received in respect of the contract unless it has been issued at non market rates.

The recognised amount is then amortised on a straight line basis by reference to time to maturity as this represents the reduction in potential liability remaining.

Assessments of counterparties are conducted on a regular basis on a similar basis to that used to assess whether loans are impaired as described in note 4l. When impairment equivalent events are noted the fair value of the guarantee contract is re-assessed by reference to the provisions of IAS 37.

n) Property, Plant and Equipment

Premises are stated in the Statement of Financial Position at their revalued amounts, being the fair value at the date of revaluation, as assessed by management based on appraisals of market value undertaken by professional valuers, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the reporting date.

Any revaluation increase arising on the revaluation of such premises is credited to the property revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense, in which case the increase is credited to the Statement of Profit and Loss and other Comprehensive Income to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of such buildings is charged as an expense to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the properties revaluation reserve is transferred directly to accumulated profits.

Fixtures and equipment are carried at restated cost less accumulated depreciation and any accumulated impairment for diminution in value. Depreciation on other assets is calculated on a straight-line basis over the following estimated useful lives:

	<u>Years</u>
Premises	50 – 80
Computer Equipment	3 – 4
Office Equipment	3 – 10
Furniture	3 – 5
Motor Vehicles	3 – 7

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Significant Accounting Policies (continued)

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and showed separately in the Statement of Profit or Loss and other Comprehensive Income.

o) Investment Property

Investment property comprises freehold properties that are held to earn rentals or for capital appreciation or both. It is not depreciated but is stated at fair value based on valuations by independent registered valuers. Fair value is based on current prices for similar properties in the same location and condition. Any gain or loss arising from a change in fair value is recognised in the Statement of Profit and Loss and other Comprehensive Income. Rental income from investment property is recognised on a straight-line basis over the term of the lease.

If an investment property becomes owner occupied, it is reclassified as property, plant and equipment and its fair value at the date of reclassification becomes its cost for accounting purposes.

p) Operating Leases

The leases entered into by the Bank are primarily operating leases. The total payments made under operating leases are charged to other operating expenses in the Statement of Profit and Loss and other Comprehensive Income on a straight-line basis over the period of the lease.

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

q) Due to Banks and Customers Accounts

Amounts due to banks and customer accounts are initially recognised in accordance with the recognition of financial instruments provisions of IAS 39 (revised). Subsequently, amounts due are stated at amortised cost and any difference between net proceeds and the redemption value is recognised in the Statement of Profit and Loss and other Comprehensive Income over the period of the borrowings using the effective interest method.

r) Debt Securities Issued

Debt securities issued represent promissory notes issued by the Bank. They are accounted for according to the same principles used for amounts due to credit institutions and to customers.

s) Provisions

Provisions for legal claims or other purposes are recognised when: the Bank has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

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Significant Accounting Policies (continued)

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

t) Retirement and Other Benefit Obligations

The Bank does not have any pension arrangements separate from the State pension system of the Russian Federation, which requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged in the period the related salaries are earned. In addition, the Bank has no post-retirement benefits or significant other compensated benefits requiring accrual.

u) Share Capital

Share capital is recognised at restated cost. When the bank holds treasury shares the fair value of consideration paid is recognised as a deduction from equity as treasury shares until they are cancelled. When the shares are subsequently sold or reissued the fair value of consideration received is added to equity.

v) Dividends

Dividends are recognised as a reduction in equity in the period in which they are declared. Dividends declared after the reporting dates are disclosed in the subsequent events note. The RAS financial statements of the Bank are the basis for profit distribution and other appropriations.

w) Taxation

The income tax charge in the Statement of Profit or Loss and other Comprehensive Income for the year comprises current tax and changes in deferred tax. The current income tax expense is calculated in accordance with the regulations of the Russian Federation. Taxes, other than on income, are recorded within operating expenses.

Deferred income tax is provided, using the balance sheet liability method, for all temporary differences arising between the tax basis of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax assets are recorded to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

x) Interest Income and Expense

Interest income and expense for all interest-bearing financial instruments, except for those classified as held for trading or designated at fair value through profit or loss, are recognised within 'interest income' and 'interest expense' in the Statement of Profit and Loss and other Comprehensive Income using the effective interest method.

When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

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

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Significant Accounting Policies (continued)

y) Fee and Commission Income

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan.

Other service fees are recognised based on the applicable service contracts, usually on a time-proportionate basis.

z) Foreign Currency Translation

Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into Russian Roubles at the official CBRF exchange rates ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the Statement of Profit and Loss and other Comprehensive Income as gains less losses from foreign currencies (translation differences). Differences between the contractual exchange rate of a certain transaction and the Central Bank exchange rate on the date of the transaction are included in gains less losses from foreign currencies.

The official CBRF exchange rates at 31 December 2012 and 31 December 2011 were RUR 30.3727 and 32.1961 RUR to 1 USD, respectively, and RUR 40.2286 and 41.6714 RUR to 1 EUR, respectively.

5. Cash and Cash Equivalents

	<u>2012</u>	<u>2011</u>
Cash on hand	561,421	465,436
Cash balances with the CBRF (other than mandatory reserve deposits)	333,143	111,164
Correspondent accounts with other banks		
Russian Federation	158,038	40,429
Other countries	321,780	291,879
	<u>479,818</u>	<u>332,308</u>
Other market placements	69,912	38,709
	<u>1,444,294</u>	<u>947,617</u>

As at 31 December 2012 the aggregate amount of nostro accounts with the biggest counterparty (VTB Deutschland AG) amounted to 321,779 or 67.06% of total nostro accounts (2011: 291,879 or 87.83%).

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Cash and Cash Equivalents (continued)

Information about the credit quality of nostro accounts (based on Fitch ratings) with banks included in cash and cash equivalents is as follows:

	<u>2012</u>	<u>2011</u>
Rated BBB+	9,135	1,763
Rated BBB	329,439	292,635
Rated BB	106,718	-
Rated B+	-	30,745
Other (including banks that do not have a credit rating)	34,526	7,165
	<u>479,818</u>	<u>332,308</u>

Geographical, currency and maturity analyses of cash and cash equivalents are disclosed in Note 25.

6. Mandatory Balances with the CBRF

The mandatory balance with the CBRF represents amounts deposited and not available for use in the Bank's day to day operations. Credit institutions are required to maintain a non-interest earning cash deposit (mandatory reserve) with the CBRF, the amount of which depends on the level of funds attracted by the credit institution. The Bank's ability to withdraw such deposit is significantly restricted by legislation, and therefore such amounts are excluded from cash and cash equivalents.

7. Due from Banks

	<u>2012</u>	<u>2011</u>
Interbank loans	140,804	569,681
	<u>140,804</u>	<u>569,681</u>

As at 31 December 2012 the aggregate amount of due from banks balances with the biggest counterparty (MDM Bank) amounted to 50,002 or 35.51% of total due from banks.

As at 31 December 2011 49.16% of due from banks balances were represented by deposits in CBRF.

Geographical, currency, interest rate and maturity analyses of the balances due from banks are detailed in Note 25.

8. Financial Assets at Fair Value through Profit or Loss

	<u>2012</u>	<u>2011</u>
Credit organisation bonds	1,002,666	640,530
Corporate bonds	302,573	583,723
Government and municipal bonds	227,994	229,041
Eurobonds	24,248	24,558
Corporate equity securities	2,719	6,087
Shares in credit organizations	1,344	2,132
Promissory notes	1,000	179,655
	<u>1,562,544</u>	<u>1,665,726</u>

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

The following table provides details of the Bank's FVPL securities portfolio as at 31 Dec 2012:

	Maturity (dates)		Coupon rate per annum (%)		Fitch rating	
	Minimum	Maximum	Minimum	Maximum	Minimum	Maximum
Credit organizations bonds	19.01.2013	19.07.2015	7,60	10,25	B	BBB+
Corporate Bonds	15.08.2013	07.11.2017	7,10	8,80	Not rated	BBB
Government and municipal bonds	16.04.2014	30.11.2016	7,49	8,75	B+	BBB-
Eurobonds	21.10.2015	21.10.2015	8,75	8,75	BB	BB

As at 31 December 2011 credit organizations bonds FVPL comprise MICEX quoted bonds issued by credit institutions ranked in Top-20 among Russian banks by net assets value as at 31 December 2011 with coupon rates from 7% to 10%.

As at 31 December 2011 corporate bonds FVPL comprise MICEX quoted bonds of Russian top 50 companies with coupon rates from 7% to 11%. As at 31 December 2011 the issuers have a Fitch rating from BBB (rus) (Stable under the National Scale Russia) to AAA (rus) (Stable under the National Scale Russia).

As at 31 December 2011 government and municipal bonds FVPL comprise MICEX quoted bonds issued by Regional governments of Russian Federation with coupon rates from 7.75% to 9.3%.

As at 31 December 2011 Eurobonds FVPL comprise actively quoted bonds issued by and NOMOS Capital PLC with coupon rates from 8% to 8.75%. NOMOS Capital PLC is a Special Purpose Entity (SPE) of leading Russian bank OJSC NOMOS-Bank, which is ranked in Top-20 among Russian banks by net assets value as at 31 December 2011.

As at 31 December 2011 promissory notes FVPL comprise promissory notes of leading Russian banks denominated in RUR with the interest rates varying from 6.14% to 10.5% and maturity periods from 15 January 2012 and 6 December 2012.

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Bank's market assumptions. The hierarchy is as follows:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges and exchanges traded derivatives like futures.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). This level includes the majority of the OTC derivative contracts, traded loans and issued structured debt. The sources of input parameters like LIBOR yield curve or counterparty credit risk are Bloomberg and Reuters.
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

This hierarchy requires the use of observable market data when available. The Bank considers relevant and observable market prices in its valuations where possible.

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

The following table provides information on the classification of financial assets carried at fair value as at 31 December 2012 based on data obtained from the sources of information about their fair values:

	<u>Level 1</u>	<u>Level 3</u>	<u>Total</u>
Credit organisations bonds	1,002,666	-	1,002,666
Corporate Bonds	302,573	-	302,573
Government and municipal bonds	227,994	-	227,994
Promissory notes	-	1,000	1,000
Eurobonds	24,248	-	24,248
Corporate equity securities	2,719	-	2,719
Shares of credit organizations	1,344	-	1,334
	<u>1,561,544</u>	<u>1,000</u>	<u>1,562,544</u>

The following table provides information on the classification of financial assets carried at fair value as at 31 December 2011 based on data obtained from the sources of information about their fair values:

	<u>Level 1</u>	<u>Level 3</u>	<u>Total</u>
Credit organisations bonds	640,530	-	640,530
Corporate Bonds	583,723	-	583,723
Government and municipal bonds	229,041	-	229,041
Promissory notes	-	179,655	179,655
Eurobonds	24,558	-	24,558
Corporate equity securities	6,087	-	6,087
Shares of credit organisations	2,132	-	2,132
	<u>1,486,071</u>	<u>179,655</u>	<u>1,665,726</u>

Reconciliation of Level 3 items in 2012 is presented below:

	<u>Promissory notes</u>	<u>Total</u>
At 1 January 2012	179,655	179,655
Total gains / (losses)		
Profit or loss (accrued income)	18	18
Purchases	570,445	570,445
Settlements	(749,118)	(749,118)
At 31 December 2012	<u>1,000</u>	<u>1,000</u>

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

Reconciliation of Level 3 items in 2011 is presented below:

	<u>Promissory notes</u>	<u>Total</u>
At 1 January 2011	279,721	279,721
Total gains / (losses)		
Profit or loss (accrued income)	3,292	3,292
Purchases	556,609	556,609
Settlements	(659,967)	(659,967)
At 31 December 2011	<u>179,655</u>	<u>179,655</u>

Geographical, currency, maturity and interest rate analyses of the financial assets at fair value through profit or loss are disclosed in Note 25.

9. Financial Assets Held to Maturity

	<u>2012</u>	<u>2011</u>
Government and municipal bonds	63,676	90,251
Credit organisations bonds	51,768	-
	<u>115,444</u>	<u>90,251</u>

The following table provides details of the Bank's HTM securities as at 31 Dec 2012:

	<u>Maturity (dates)</u>		<u>Coupon rate per annum (%)</u>		<u>Fitch rating</u>	
	<u>Minimum</u>	<u>Maximum</u>	<u>Minimum</u>	<u>Maximum</u>	<u>Minimum</u>	<u>Maximum</u>
Government and municipal bonds	16.05.2013	29.11.2016	8,00	9,50	BB	BB+
Credit organizations bonds	01.02.2015	01.02.2015	8,50	8,50	BBB-	BBB-

As at 31 December 2011 government and municipal bonds HTM comprise bonds issued by Regional governments of Russian Federation. These bonds mature between May 2013 and November 2016 and have a weighted average coupon rate of 9%. As at 31 December 2011 the issuers have a Fitch rating of AA- (rus) (Stable under the National Scale Russia).

Geographical, currency, maturity and interest rate analyses of the financial assets held to maturity are disclosed in Note 25.

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10. Loans and Advances to Customers

	<u>2012</u>	<u>2011</u>
Loans and advances to customers	9,313,264	6,774,635
Mortgage loans for sale	407,027	287,100
Factoring	<u>23,935</u>	<u>15,292</u>
	9,744,226	7,077,027
Less: Allowance for impairment	<u>(798,016)</u>	<u>(675,271)</u>
	<u>8,946,210</u>	<u>6,401,756</u>

The aggregate value of collateral received by the Bank in respect of its lending operations amounts to 12,161,003 (2011: 9,896,113).

In the normal course of business the Bank sells mortgage loans to LLC "Regional Investment Agency" (89.85% of total sales in 2012) and JSC "Kirov Regional Mortgage Corporation (10.15% of total sales in 2012). These loans are therefore held on the SOFP for a relatively short period of time and have been described as mortgage loans for sale in these notes.

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Loans and Advances to Customers (continued)

The loan portfolio has been assigned to finance the following economic sectors:

	2012		2011	
	Amount	Allowance	Amount	Allowance
Trade	3,107,973	175,720	2,601,859	160,905
Manufacturing industry	1,084,897	53,431	636,597	39,816
Individuals	1,051,130	114,307	755,716	94,124
Transport and communication	919,734	221,433	702,990	141,455
Construction	793,413	16,743	547,682	44,566
Municipal government authorities	706,430	5,322	-	-
Operation with immobile property	425,919	76,062	219,753	32,906
Agriculture	274,712	13,957	180,063	9,029
Audit, accounting and consulting	223,336	39,127	51,877	10,705
Light industry	164,178	3,161	175,521	34,745
Car manufacturing	110,046	7,752	85,407	6,876
Timber	102,098	35,245	91,213	39,137
Hotels	91,480	10,005	124,289	11,397
Research and certification	82,566	4,128	247,262	7,373
Gas and water	58,624	2,931	91,198	21,301
Mining	30,220	2,301	932	839
Maintenance of residential properties	20,820	1,041	18,809	560
Chemical	18,446	369	5,665	112
Social and personal services, culture	17,903	1,055	15,974	1 984
Architecture	12,816	2,622	43,647	1 300
Medicine and tourism	7,382	369	18,260	456
Personnel	6,929	347	6,550	-
Sport	5,072	1,268	-	-
Finance	928	46	155,152	4,582
Publishing	608	30	11,556	5,748
Education	408	89	1,486	44
IT consulting	-	-	469	14
Other	19,131	956	-	-
	9,337,199	789,817	6,789,927	669,974
Mortgage loans for sale	407,027	8,199	287,100	5,297
	9,744,226	798,016	7,077,027	675,271

During 2012 the Bank had taken possession of collateral for the total amount of 6,604 (2011: 28,964). This is shown in other assets (Note 12). The Bank's policy for disposing of such collateral is usually to sell it to a third party for maximum possible consideration.

Loans classified as current that had been subject to re-negotiation and would otherwise had been categorised as overdue comprised 11 loans for a total amount of 213,613 (2011: 3 loans for a total amount of 2,462).

Movements in the allowance for impairment on loans to customer are disclosed in Note 21.

Geographical, currency, maturity and interest rate analyses of loans and advances to customers are disclosed in Note 25.

Loans granted to related parties are disclosed in Note 26.

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11. Investment in Subsidiaries

	2012	2011
Valuation at start of year (Original cost 100)	-	-
Fair value adjustment in the year, recognized in Statement of Comprehensive Income	6,233	-
	6,233	-

In 2004 the Bank acquired OOO "Leasing-Hlynov" a company specialising in leasing services. At 31 December 2012 and 2011 the Bank owned 100% of its share capital.

In 2010 the Bank acquired OOO "Hlynov-Dom" a company specialising in operations with property. At 31 December 2012 and 2011 the Bank owned 100% of its share capital.

With regard to the hierarchies described in Note 8 the Bank considers the valuation to have been conducted under level 3.

The Bank has produced separate consolidated financial statements with the financial statements of OOO "Leasing-Hlynov" OOO "Hlynov-Dom".

12. Other Assets

	2012	2011
Reposessed collateral	86,808	106,843
Debtors and prepayments	25,787	27,512
Settlements with the budget	1,539	1,168
Other	4,985	258
	119,119	135,781

Debtors and prepayments include accounts receivable on credit card transactions.

Other assets include buildings and land plots reposessed by the Bank in respect of making recoveries for its lending operations for a total of 85,828 (2011: 103,620). As at the reporting date no decision has been made by Management as to how these assets will be utilised and accordingly they have not been shown in Property and Equipment or Investment Property.

Geographical, currency and maturity analyses of other assets are disclosed in Note 25.

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13. Property, Plant and Equipment

	Land	Buildings	Motor vehicles	Computer equipment	Office equipment and furniture	Intangible assets	Construction in progress	Total
Cost or Valuation								
31 December 2010	3,670	218,291	3,978	21,328	40,369	35,229	20,143	343,008
Additions	-	23,657	-	3,275	3,685	11,292	18,282	60,191
Transfer to other assets and investment property	-	(16,660)	-	-	-	-	(27,611)	(44,271)
Disposals	(18)	(4,772)	(299)	(1,017)	(909)	-	-	(7,015)
Revaluation	-	-	-	-	-	-	-	-
Modernization	-	-	-	-	-	-	-	-
31 December 2011	3,652	220,516	3,679	23,586	43,145	46,521	10,814	351,913
Additions	104	-	-	3,823	9,018	6,793	1,898	21,636
Transfer to investment property	-	9,711	-	-	-	-	(11,998)	(2,287)
Disposals	-	(1,483)	-	(399)	(3,386)	(161)	-	(5,429)
Revaluation	-	33,656	-	-	-	-	-	33,656
Modernization	-	-	-	967	44	-	-	1,011
31 December 2012	3,756	262,400	3,679	27,977	48,821	53,153	714	400,500
Depreciation								
31 December 2010	-	(3,650)	(1,898)	(17,032)	(29,771)	(8,078)	-	(60,429)
Charge for the year	-	(5,197)	(402)	(2,355)	(4,566)	(2,768)	-	(15,288)
Depreciation of revalued part	-	-	-	-	-	-	-	-
Disposals	-	826	280	985	260	-	-	2,351
31 December 2011	-	(8,021)	(2,020)	(18,402)	(34,077)	(10,846)	-	(73,366)
Charge for the year	-	(4,135)	(354)	(2,815)	(3,927)	(3,594)	-	(14,825)
Depreciation of revalued part	-	-	-	-	-	-	-	-
Disposals	-	649	-	296	1,701	84	-	2,730
31 December 2012	-	(11,507)	(2,374)	(20,921)	(36,303)	(14,356)	-	(85,461)
Net Book Values								
31 December 2012	3,756	250,893	1,305	7,056	12,518	38,797	714	315,039
31 December 2011	3,652	212,495	1,659	5,184	9,068	35,675	10,814	278,547
31 December 2010	3,670	214,641	2,080	4,296	10,598	27,151	20,143	282,579

As at 31 December 2012 property, plant and equipment was insured to a value of 224,707 (2011: 387,944).

On 31 December 2012 the Bank revalued buildings held by and used by the Bank. The valuation was performed by independent appraisers "Viatskoe Property Agency" on the basis of open market value.

If buildings had been carried at cost the carrying value would be 145,313 (2011: 149,871).

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Property, Plant and Equipment (continued)

	Investment properties
Cost or Valuation	
31 December 2010	81,328
Additions	21,760
Transfer	-
Disposals	(35,011)
Revaluation	-
	68,077
31 December 2011	68,077
Additions	2,287
Transfer	(23,060)
Disposals	3,535
Revaluation	-
	50,839
31 December 2012	50,839
Depreciation	
31 December 2010	-
Charge for the year	-
Depreciation of revalued part	-
Disposals	-
	-
31 December 2011	-
Charge for the year	-
Depreciation of revalued part	-
Disposals	-
	-
31 December 2012	-
Net Book Values	
31 December 2012	50,839
31 December 2011	68,077
31 December 2010	81,328

The Bank revalued investment property on 31 December 2012. The valuation was performed by independent appraisers "Viatskoe Property Agency" on the basis of open market value.

As at 31 December 2012 investment property includes four buildings (2011: six buildings) repossessed by the Bank in respect of making recoveries for its lending operations. As at the reporting date these buildings are not leased to third parties.

Rental income from investment properties was 911 (2011: 1,120). There were no direct operating expenses related to investment properties (2011: none).

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14. Due to Banks

	<u>2012</u>	<u>2011</u>
Loans and deposits received from CBRF	300,000	-
Current and term loans and deposits received from other banks	219,754	-
VOSTRO accounts	<u>1,067</u>	<u>1</u>
	<u>520,821</u>	<u>1</u>

As at 31 December 2012 100% of current and term loans and deposits received from other banks were received from OAO "MSP Bank".

Geographical, currency, maturity and interest rate analyses of amounts due to banks are detailed in Note 25.

15. Customer Accounts

	<u>2012</u>	<u>2011</u>
Individuals		
Current accounts	600,892	649,605
Term deposits	<u>6,444,351</u>	<u>5,434,411</u>
	7,045,243	6,084,016
Other legal entities		
Current accounts	2,594,244	2,268,139
Term deposits	<u>665,949</u>	<u>268,206</u>
	3,260,193	2,536,345
State and budgetary organisations		
Current accounts	63,212	48,927
Term deposits	<u>47,901</u>	<u>43,273</u>
	111,113	92,200
	<u>10,416,549</u>	<u>8,712,561</u>

The breakdown of customer accounts per sector is presented in the following table:

	<u>2012</u>		<u>2011</u>	
	Amount	%	Amount	%
Individuals	7,045,243	67.6	6,084,016	69.8
Trade	1,034,408	9.9	826,161	9.5
Services	971,225	9.3	577,275	6.6
Construction	564,861	5.4	535,390	6.1
Manufacturing	390,108	3.7	267,208	3.1
Transport and telecommunication	107,365	1.0	89,860	1.0
Financial	91,970	0.9	67,070	0.8
Other	69,445	0.7	144,615	1.7
Agriculture	60,973	0.6	71,093	0.8
Health facilities	36,928	0.4	24,137	0.3
Education	28,778	0.3	23,733	0.3
Insurance	15,104	0.1	1,861	0.0
Fuel and energy	<u>141</u>	<u>0.0</u>	<u>142</u>	<u>0.0</u>
Total customer accounts	<u>10,416,549</u>	<u>100.0</u>	<u>8,712,561</u>	<u>100.0</u>

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Customer accounts (continued)

Geographical, currency, maturity and interest rate analyses of customer accounts are detailed in Note 25.

Balances of term deposits and current accounts of related parties are disclosed in Note 26.

16. Debt Securities Issued

	<u>2012</u>	<u>2011</u>
Promissory notes	29,214	18,910
	<u>29,214</u>	<u>18,910</u>

As at 31 December 2012, promissory notes issued by the Bank were held by six investors, the maximum share of one investor in total amount of issued promissory notes was 34.96% (2011: 52.96% of issued promissory notes were purchased by 1 investor. Total number of investors was 7).

Geographical, currency, maturity and interest rate analyses of debt securities issued are detailed in Note 25.

17. Taxation

The corporate income tax expense comprises:

	<u>2012</u>	<u>2011</u>
Current tax charge	71,404	43,200
Deferred tax charge relating to the origination and reversal of temporary differences	3,961	3,346
Income tax expense	<u>75,365</u>	<u>46,546</u>

The corporation tax rate applicable to the majority of the Bank's income was 20% for 2012 (2011: 20%).

The effective income tax rate differs from the statutory income tax rate. A reconciliation of the income tax expense based on comparison of statutory rate with actual is as follows:

	<u>2012</u>	<u>2011</u>
Profit before tax	346,321	221,172
Statutory tax rate	20%	20%
Theoretical income tax expense at the statutory rate	69,264	44,234
Tax on state securities income taxable at different rates	(3,602)	(2,914)
Effect of non deductible/(taxable) items	5,742	1,880
Income tax expense	<u>71,404</u>	<u>43,200</u>

Differences between IFRS and Russian statutory taxation regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial purposes and for income tax purposes.

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Taxation (continued)

The tax effect of the movement on these temporary differences is recorded at the rate of 20% (2011: 20%).

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

Tax effect of deductible temporary differences	31 Dec 12	Taken to equity	Taken to SOCI	31 Dec 11
Allowance for losses on loans and promissory notes	(61,001)	-	(22,552)	(38,449)
Debtors and prepayments	(7,514)	-	(10,982)	3,468
Premises and equipment	(8,981)	(7,107)	4,196	(6,070)
Other assets	28,188	-	25,377	2,811
	(49,308)	(7,107)	(3,961)	(38,240)

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

Tax effect of deductible temporary differences	31 Dec 11	Taken to equity	Taken to SOCI	31 Dec 10
Allowance for losses on loans and promissory notes	(38,449)	-	(546)	(37,903)
Debtors and prepayments	3,468	-	1,914	1,554
Premises and equipment	(6,070)	-	(11,348)	5,278
Investments in subsidiary	-	-	1,515	(1,515)
Other assets	2,811	-	5,119	(2,308)
	(38,240)	-	(3,346)	(34,894)

18. Other Liabilities

	2012	2011
Accounts payable	29,274	23,418
Deferred commission	17,487	11,327
Operating taxes payable	8,498	7,572
Accrued interest expense	686	-
Dividends payable	30	34
Other	87	2,390
	56,062	44,741

Geographical, currency and maturity analyses of other liabilities are detailed in Note 25.

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19. Share Capital

Statutory share capital authorised, issued and fully paid comprised:

	2012			2011		
	Number of shares (‘000)	Par value	Value	Number of shares (‘000)	Par value	Value
Common shares	12,100	0.05	605,000	12,100	0.05	605,000
IAS 29 adjustments			22,198			22,198
			627,198			627,198

All ordinary shares have a nominal value of RUR 50 (not thousands) per share, rank equally and carry one vote. In 2012 no dividends were declared (2011: none).

In 2012 and 2011 the Bank did not increase share capital.

	2012	2011
Dividends payable at 1 January	34	51
Dividends declared during the year	-	-
Dividends paid during the year	(4)	(17)
Dividends payable at 31 December	30	34

All dividends are paid and declared in Russian Roubles.

Shareholders of the Bank were as follows:

Shareholder	2012 %	2011 %
Rekha Holdings Limited	20.0	20.0
OOO «Monolit»	11.1	11.1
OOO «Norma»	10.0	10.0
Quest Advisory Restructing Ltd.	9.3	9.3
OOO «Konkurent»	8.8	8.8
OOO «Strike»	8.4	8.4
OOO «Avangard»	8.3	7.3
OOO «Standart»	7.8	7.8
Individuals with less than 5% each (134)	8.1	10.8
Legal entities with less than 5% each (15)	8.2	6.5
	100.0	100.0

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20. Commitments and Contingencies

Legal actions

From time to time and in the normal course of business, the Bank is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Bank.

Operating lease commitments

The following are the minimal amounts payable under non cancellable operating leases over the relevant time periods where the Bank acts as a tenant:

	<u>2012</u>	<u>2011</u>
Not later than 1 year	20,136	9,655
Later than 1 year and not later than 5 years	41,634	44,077
Later than 5 years	16,149	4,491
	<u>77,919</u>	<u>58,223</u>

Capital commitments

As at 31 December 2012 and 31 December 2011 the Bank had not entered into any capital commitments which would require disclosure or recognition in the financial statements.

Credit related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required.

With respect to undrawn loan commitments the Bank is potentially exposed to loss in an amount equal to the total amount of such commitments. However, the likely amount of loss is less than that, since funding of most commitments are contingent upon certain conditions set out in the loan agreements.

Credit related commitments comprise:

	<u>2012</u>	<u>2011</u>
Undrawn loan commitments	728,044	215,008
Unused limits of overdrafts	189,270	109,296
Guaranties	643,482	277,371
	<u>1,560,796</u>	<u>601,675</u>

Derivatives

Foreign exchange and other derivative financial instruments are generally traded in an over-the-counter market with professional market counterparties on standardised contractual terms and conditions.

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Commitments and Contingencies (continued)

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the Statement of Financial Position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Bank's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favourable or unfavourable and, thus, the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly over time.

As at 31 December 2012 the Bank had three financial instruments, foreign currency forward contracts (2011: four financial instruments, foreign currency forward contracts).

	Notional amount		CBRF rate	
	31 Dec 12	31 Dec 11	31 Dec 12	31 Dec 11
Buy RUR sell USD				
Less than one month	151,864	352,027	30.3727	32.1961
Buy RUR sell EUR				
Less than one month	321,829	20,645	40.2286	41.6714

The corresponding fair value gain and asset of 269 has been recorded in Statement of Profit and Loss and other Comprehensive Income and the relevant asset in other assets.

21. Allowance for Impairment

The movements in allowances for impairment of financial assets were as follows:

	Loans and advances to customers	Total
31 December 2010	560,173	560,173
Charge	148,932	148,932
Assets written off	(33,834)	(33,834)
31 December 2011	675,271	675,271
Charge	151,010	151,010
Assets written off	(28,265)	(28,265)
31 December 2012	798,016	798,016

Allowances for losses and provisions of assets are deducted from the related assets. In accordance with Russian legislation, loans may only be written off with the approval of the Shareholders' Meeting and, in certain cases, with the respective Court decision.

22. Gains less Losses from Trading with Securities

	2012	2011
Fair value adjustments	6,063	(20,292)
Gains less losses realized from sales and redemptions	(1,025)	2,885
Other gain from trading with securities	255	68
	5,293	(17,339)

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23. Commission Income and Expenses

	2012	2011
Commission income		
Cash operations	145,842	141,529
Settlements and foreign currency exchange transactions	138,560	122,390
Commission from insurance companies	13,611	5,747
Commission on guarantees	9,222	6,598
Commission from transaction with plastic cards	8,755	2,761
Commission on other operations	900	1,191
Commission from loans to customers	326	648
	317,216	280,864
Commission expense		
Settlements and foreign currency exchange transactions	(17,270)	(16,534)
Commission from transaction with plastic cards	(8,353)	(6,155)
Commission on collection	(5,093)	(4,409)
Commission on mortgages sale	(624)	(860)
Cash operations	(447)	(636)
Other commissions	(505)	(363)
	(32,292)	(28,957)
	284,924	251,907

24. Staff, Administrative and Other Operating Costs

	2012	2011
Salaries	142,534	118,099
Bonuses	69,836	50,194
Social security costs	57,629	48,027
	269,999	216,320
Deposit insurance system payment	25,282	23,568
Rent	18,519	15,472
Advertising and marketing	17,350	11,348
Taxes other than income tax	16,108	11,714
Repair of fixed assets	13,512	3,140
Software expenses	11,662	7,867
Stationery	10,403	7,776
Maintenance of building	9,077	8,532
Security	8,561	8,735
Postage	5,442	5,419
Related to computers, vehicles and information service	4,785	3,924
Printing expenses, document processing	3,632	3,361
Personnel training, travel and representative expenses	3,104	1,782
Audit expense	2,038	2,166
Insurance of fixed assets	370	136
Statutory duty	228	1,455
Assignment of rating	177	-
Personnel insurance	25	38
Other	8,284	4,282
	158,559	120,715

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25. Financial Risk Management

Management of risk is fundamental to the banking business and is an essential element of the Bank's operations. The risk management function within the Bank is carried out in respect of financial risks (credit, market, price, geographical, currency, liquidity and interest rate), operational risks and legal risks. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimise operational and legal risks.

Credit risk

The Bank is exposed to credit risk which is the risk that a counterparty will be unable to pay amounts in full when due. Credit risk is the most important risk for the Bank's business and, therefore, management manages carefully its exposure to credit risk. Credit exposures arise principally in lending activities that lead to loans and advances, and investment activities that bring debt securities and other bills into the Bank's asset portfolio. There is also credit risk in off-balance sheet financial instruments, such as loan commitments. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a continuous basis and subject to quarterly or more frequent reviews.

a) Credit Risk Measurement

(i) Loans and advances

In measuring credit risk of loans and advances to customers and to banks at a counterparty level, the Bank reflects three components:

- The "probability of default" by the client or the counterparty on its contractual obligations;
- The current exposures to the counterparty and its likely future development, from which the Bank derive the "exposure at default"; and
- The likely recovery ratio on the defaulted obligations (the "loss given default")

These credit risk measurements, which reflect expected losses (the "expected loss model"), are applied following the normative and instructions issued by the CBRF and are embedded in the Bank's daily operational management. The operational measurements can be contrasted with impairment allowances required under IAS 39, which are based on losses that have been incurred at the reporting date (the "incurred loss model") rather than expected losses.

(ii) Debt securities

For debt securities and other equity instruments, external ratings or equivalents are used by the Bank for managing of the credit risk exposures. The investments in those securities and equity instruments are viewed as a way to gain a better credit quality mapping and maintain a readily available source to meet the funding requirement at the same time.

b) Risk limit control and mitigation policies

The bank manages limits and controls concentrations of credit risk wherever they are identified, in particular, to individual counterparties, groups and industries.

The Bank structures the level of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, groups of borrowers and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary.

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Financial Risk Management (continued)

The exposure to any one borrower including banks is further restricted by sub-limits covering on- and off-balance sheet exposures. Actual exposures against limits are monitored daily. Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate.

Some other specific control and mitigation measures are outlined below.

(i) Collateral

The Bank employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advances, which is common practice. The Bank implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances are:

- Mortgages over residential properties;
- Assets such as premises, equipment and inventory;
- Financial instruments such as debt securities and shares.

Finance and lending to corporate entities are generally secured; individual consumer credit facilities are generally unsecured. In addition, in order to minimise the credit loss the Bank will seek additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances.

Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument. Debt securities and other eligible bills are generally unsecured.

(ii) 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 carry the same credit risk as loans. Documentary and commercial letters of credit – which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions – are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct loan.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments.

However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

c) Impairment policies

Impairment provisions are recognised for financial reporting purposes under IFRS only for losses that have been incurred at the reporting date based on objective evidence of impairment. Due to the different methodologies applied, the amount of incurred credit losses provided for in these financial statements are usually lower than the amount determined from the expected loss model that is used for internal operational management and statutory and tax regulation purposes.

The impairment allowance shown in the Statement of Financial Position under IFRS at year-end is derived from each of the five statutory risk categories.

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Financial Risk Management (continued)

The table below shows the percentage of the Bank's on-and off-balance sheet items relating to loans and advances and the associated impairment allowance for each of the Bank's CBRF rating categories:

Risk category	2012			2011		
	Loans and advances (%)	Allowance for impairment (%)	Overall allowance rate (%)	Loans and advances (%)	Allowance for impairment (%)	Overall allowance rate (%)
I	6.31	0.00	0.00	2.20	-	-
II	78.52	15.54	2.03	75.84	9.37	1.57
III	6.37	15.35	24.78	8.03	12.69	20.05
IV	1.80	0.97	5.53	5.80	14.56	31.88
V	7.00	68.14	100.00	8.13	63.38	98.90
	100.00	100.00	10.28	100.00	100.00	12.69

The internal rating tool assists management to determine whether objective evidence of impairment exists as defined under IAS 39, based on the following criteria set out by the Bank:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower
- Breach of loan covenants or conditions
- Initiation of bankruptcy proceedings
- Deterioration of the borrower's competitive position
- Deterioration in the value of collateral, and
- Downgrading below II category

The Bank's policy requires the review of individual financial assets that are above the materiality thresholds at least annually or more regularly when individual circumstances require. Impairment allowances on individually assessed items are determined by an evaluation of the incurred loss at reporting date on a case-by-case basis, and are applied to all individually significant accounts. The assessment usually encompasses collateral held (including review of its enforceability) and the anticipated receipts for that individual account.

Collectively assessed impairment allowances are provided for: (i) portfolios of homogenous assets that are individually below materiality thresholds; and (ii) losses that have been incurred but have not yet been identified, by using the available historical experience, experienced judgment and statistical techniques

The Bank's maximum exposure to credit risk is generally recorded in the carrying amounts of financial assets in the Statement of Financial Position. The impact of possible netting off assets and liabilities to reduce potential credit exposure is not significant. For guarantees and liabilities on granting loans maximum exposure to credit risk is equal to the sum of liabilities.

The Bank uses the same credit policies in respect of contingent liabilities as it does in respect of financial instruments in the Statement of Financial Position. These policies are based on minimising risks procedures of approval of deals, using limits and monitoring.

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Financial Risk Management (continued)

Loans and advances to customers include the following portfolios:

	<u>2012</u>	<u>2011</u>
Individuals (retail customers)		
Overdrafts	1,847	716
Term loans	1,049,283	755,000
Mortgage loans	407,027	287,100
	<u>1,458,157</u>	<u>1,042,816</u>
Legal entities		
Large corporate customers	2,005,635	1,697,563
SMEs	5,447,197	4,252,106
Federal and governmental organizations; local authorities	706,430	-
Factoring	23,935	15,292
Other	102,872	69,250
	<u>8,286,069</u>	<u>6,034,211</u>
	<u>9,744,226</u>	<u>7,077,027</u>
Less allowance for impairment	<u>(798,016)</u>	<u>(675,271)</u>
	<u>8,946,210</u>	<u>6,401,756</u>

The loan portfolio of the Bank is summarised as follows:

	<u>2012</u>		<u>2011</u>	
	<u>Loans and advances to customers</u>	<u>Due from banks</u>	<u>Loans and advances to customers</u>	<u>Due from banks</u>
Neither past due nor impaired	9,077,290	140,804	6,560,555	569,681
Past due but not impaired	505,411	-	373,194	-
Impaired	161,525	-	143,278	-
	<u>9,744,226</u>	<u>140,804</u>	<u>7,077,027</u>	<u>569,681</u>
Less allowance for impairment	<u>(798,016)</u>	-	<u>(675,271)</u>	-
	<u>8,946,210</u>	<u>140,804</u>	<u>6,401,756</u>	<u>569,681</u>

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Financial Risk Management (continued)

a) *Loans and advances neither past due nor impaired*

As at 31 December 2012 loans and advances neither past due nor impaired to individuals were composed of:

Risk category	Overdrafts	Term loans	Mortgage loans	Total
I	-	-	-	-
II	1,450	884,412	376,418	1,262,280
III	212	44,522	23,114	67,848
IV	-	1,171	1,621	2,792
V	66	3,942	-	4,008
	1,728	934,047	401,153	1,336,928

As at 31 December 2012 loans and advances neither past due nor impaired to legal entities were composed of:

Risk category	Large corporate clients	SMEs	Factoring	Municipal, federal and governmental organisations	Other	Total
I	-	8,464	-	600,000	-	608,464
II	1,782,522	4,449,180	13,129	106,430	-	6,351,261
III	56,676	476,122	-	-	11,250	544,048
IV	156,000	5,206	-	-	-	161,206
V	-	33,448	7,124	-	34,811	75,383
	1,995,198	4,972,420	20,253	706,430	46,061	7,740,362

In summary:

Risk category	Individuals	Legal entities	Total
I	-	608,464	608,464
II	1,262,280	6,351,261	7,613,541
III	67,848	544,048	611,896
IV	2,792	161,206	163,998
V	4,008	75,383	79,391
	1,336,928	7,740,362	9,077,290

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Financial Risk Management (continued)

As at 31 December 2011 loans and advances neither past due nor impaired to individuals were composed of:

Risk category	Overdrafts	Term loans	Mortgage loans	Total
I	-	4,210	2,275	6,485
II	716	578,410	249,602	828,728
III	-	38,780	18,960	57,740
IV	-	6,357	714	7,071
V	-	9,409	6,635	16,044
	716	637,166	278,186	916,068

As at 31 December 2011 loans and advances neither past due nor impaired to legal entities were composed of:

Risk category	Large corporate clients	SMEs	Factoring	Other	Total
I	40,025	104,627	4,180	-	148,832
II	1,369,291	3,137,583	9,058	-	4,515,932
III	91,474	400,563	471	18,199	510,707
III	156,000	216,265	-	18,346	390,611
IV	-	78,405	-	-	78,405
	1,656,790	3,937,443	13,709	36,545	5,644,487

In summary:

Risk category	Individuals	Legal entities	Total
I	6,485	148,832	155,317
II	828,728	4,515,932	5,344,660
III	57,740	510,707	568,447
IV	7,071	390,611	397,682
V	16,044	78,405	94,449
	916,068	5,644,487	6,560,555

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Financial Risk Management (continued)

b) Loans and Advances Past due but Not Impaired:

As at 31 December 2012 past due but not impaired loans to individuals and legal entities were composed of:

	Past due up to 30 days	Past due 31-60 days	Past due 61-90 days	Past due over 90 days	Total	Fair value of collateral
Individuals (retail customers)						
Overdrafts	6	27	38	48	119	-
Term loans	15,120	1,327	2,137	46,650	65,234	16,130
Mortgage loans	-	1,217	-	4,657	5,874	7,000
Legal entities						
Large corporate clients	-	-	-	9,928	9,928	10,000
SMEs	6,931	72,529	481	307,683	387,624	321,479
Factoring	2,099	-	-	133	2,232	-
Other	34,400	-	-	-	34,400	-
	58,556	75,100	2,656	369,099	505,411	354,609

As at 31 December 2011 past due but not impaired loans to individuals and legal entities were composed of:

	Past due up to 30 days	Past due 31-60 days	Past due 61-90 days	Past due over 90 days	Total	Fair value of collateral
Individuals (retail customers)						
Term loans	8,733	1,260	1,445	77,257	88,695	22,427
Mortgage loans	-	2,693	-	6,221	8,914	7,382
Legal entities						
Large corporate clients	-	-	-	25,493	25,493	28,730
SMEs	24,494	61,849	901	131,407	218,651	138,793
Factoring	-	133	-	-	133	-
Other	-	-	31,308	-	31,308	-
	33,227	65,935	33,654	240,378	373,194	197,332

c) Loans and Advances Individually Impaired

The breakdown of gross amount of individually impaired loans and advances by class, along with the fair value of related collateral held by the Bank as security, are as follows:

	2012		2011	
	Balance (gross)	Fair value of collateral	Balance (gross)	Fair value of collateral
Individuals (retail customers)				
Term loans	50,002	2,190	29,139	-
Legal entities				
Large corporate clients	509	-	15,280	15,124
SMEs	87,153	10,000	96,012	300
Factoring	1,450	-	1,450	-
Other	22,411	-	1,397	-
	161,525	12,190	143,278	15,424

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Financial Risk Management (continued)

In 2012 the movement of the allowance for impairment of loans and advances to individuals was as follows:

	Overdrafts	Term loans	Mortgage loans	Total
As at 1 January 2012	7	94,117	5,297	99,421
Charge / (Release) for the period	108	22,158	2,902	25,168
Loans written off	-	(2,083)	-	(2,083)
Amounts recovered	-	-	-	-
As at 31 December 2012	115	114,192	8,199	122,506

In 2012 the movement of the allowance for impairment of loans and advances to legal entities was as follows:

	Large corporate clients	SMEs	Municipal, federal and governmental organizations	Factoring	Other	Total
As at 1 January 2012	97,378	446,731	-	1,735	30,006	575,850
Charge / (Release) for the period	(8,337)	83,379	5,321	1,139	44,340	125,842
Loans written off	-	(25,917)	-	-	(265)	(26,182)
Amounts recovered	-	-	-	-	-	-
As at 31 December 2012	89,041	504,193	5,321	2,874	74,081	675,510

In summary:

	Individuals	Legal entities	Total
As at 1 January 2012	99,421	575,850	675,271
Charge / (Release) for the period	25,168	125,842	151,010
Loans written off	(2,083)	(26,182)	(28,265)
Amounts recovered	-	-	-
As at 31 December 2012	122,506	675,510	798,016

In 2011 the movement of the allowance for impairment of loans and advances to individuals was as follows:

	Overdrafts	Term loans	Mortgage loans	Total
As at 1 January 2011	107	132,269	7,857	140,233
Charge / (Release) for the period	(100)	(34,055)	(2,560)	(36,715)
Loans written off	-	(4,097)	-	(4,097)
Amounts recovered	-	-	-	-
As at 31 December 2011	7	94,117	5,297	99,421

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Financial Risk Management (continued)

In 2011 the movement of the allowance for impairment of loans and advances to legal entities was as follows:

	Large corporate clients	SMEs	Municipal, federal and governmental organizations	Factoring	Other	Total
As at 1 January 2011	53,595	313,456	3,356	1,534	47,999	419,940
Charge / (Release) for the period	43,783	162,924	(3,356)	201	(17,905)	185,647
Loans written off	-	(29,649)	-	-	(88)	(29,737)
Amounts recovered	-	-	-	-	-	-
As at 31 December 2011	97,378	446,731	-	1,735	30,006	575,850

In summary:

	Individuals	Legal entities	Total
As at 1 January 2011	140,233	419,940	560,173
Charge for the period	(36,715)	185,647	148,932
Loans written off	(4,097)	(29,737)	(33,834)
Amounts recovered	-	-	-
As at 31 December 2011	99,421	575,850	675,271

Fair value of collateral

Collateral taken depends on the type of exposure; for legal entities usually is represented by a charge over buildings or other assets or inventories, for mortgage loans by a charge over the property purchased and for other types of credit operations different types of collateral including cash and guarantees from third parties.

The table discloses the estimated fair value of collateral received by the Bank for its loan portfolio by type of collateral and its estimated fair value:

	2012	2011
Real estate	6,201,382	4,871,262
Goods in turnover	2,588,001	2,129,176
Vehicles	2,105,206	1,635,433
Fixed assets and equipment	819,982	766,294
Securities	446,432	493,948
Total amount of collateral	12,161,003	9,896,113

Geographical risk

Geographical risk is the risk that the Bank may suffer losses as the result of exposure of the political or economic environment of a country in which it operates or holds assets. The Bank operates in Russia predominantly for Russian customers, and therefore, as analysed in the table below it has a significant concentration of Russia exposure. Further comments on the operating environment of the Bank are set out in Note 2. The Bank has no specific policy, objectives or processes for managing country risk, although in general it seeks to keep exposure to countries other than Russia as low as possible.

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Financial Risk Management (continued)

The geographical concentration of the Bank's assets and liabilities as at 31 December 2012 is set out below:

	<u>Russia</u>	<u>OECD</u>	<u>Non – OECD</u>	<u>Total</u>
Assets				
Cash and cash equivalents	1,122,514	321,780	-	1,444,294
Mandatory balances with the CBRF	112,268	-	-	112,268
Due from banks	140,804	-	-	140,804
Securities at fair value through profit or loss	1,538,296	24,248	-	1,562,544
Securities held-to-maturity	115,444	-	-	115,444
Loans and advances to customers	8,946,210	-	-	8,946,210
Investments in subsidiaries	6,233	-	-	6,233
Other assets	119,119	-	-	119,119
Fixed assets	315,039	-	-	315,039
Investment property	50,839	-	-	50,839
	<u>12,466,766</u>	<u>346,028</u>	-	<u>12,812,794</u>
Liabilities				
Due to banks	520,821	-	-	520,821
Customer accounts	10,408,030	4,154	4,365	10,416,549
Debt securities issued	29,214	-	-	29,214
Deferred tax liability	49,308	-	-	49,308
Other liabilities	56,062	-	-	56,062
	<u>11,063,435</u>	<u>4,154</u>	<u>4,365</u>	<u>11,071,954</u>
Net balance sheet position	<u>1,403,331</u>	<u>341,874</u>	<u>(4,365)</u>	<u>1,740,840</u>

As at 31 December 2011, the Bank had the following positions in geographical concentration:

	<u>Russia</u>	<u>OECD</u>	<u>Non - OECD</u>	<u>Total</u>
Net balance sheet position	<u>1,126,846</u>	<u>316,305</u>	<u>(1,696)</u>	<u>1,141,455</u>

Market Risk

The Bank takes on exposure to market risk. Market risk arises from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The Bank manages market risk through periodic estimation of potential losses that could arise from adverse changes in market conditions and establishing and maintaining appropriate stop-loss limits and margin and collateral requirements.

Price risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or factors affecting all instruments traded in the market. Price risk arises when there is a long or short position in a financial instrument.

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Financial Risk Management (continued)

An analysis of sensitivity of the Bank's net profit before tax and equity to changes in prices for quoted debt securities and gold based on positions existing as at 31 December 2012 and 31 December 2011 and a simplified scenario of a 10% change in prices of quoted securities is as follows:

	31 December 2012		31 December 2011	
	Profit before tax	Equity	Profit before tax	Equity
10% increase in quoted securities prices	156,254	125,004	166,573	133,258
10% decrease in quoted securities prices	(156,254)	(125,004)	(166,573)	(133,258)

Currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. There is also a risk that borrowers with a revenue stream in foreign currency will also be adversely affected and this could impact their ability to pay. Currency classification of monetary assets and liabilities is based on the currency they are denominated in.

The Bank's policy on foreign currency exposure is primarily to comply with the rules of the CBRF which sets a limit of 10% of the Bank's equity. However, its real target is more conservative, and that is to reach only 1%, or 2% for overnight exposure. Compliance is assessed and monitored via the daily foreign currency exposure report which is produced and reviewed by Head of Treasury. Any issues noted are escalated to senior management immediately. A review of the currency exposure is also conducted by the Asset and Liability Committee which meets regularly.

This committee has representatives from senior management, treasury, finance and other key departments. The Bank takes practical steps to keep exposure low, for example to keep open currency positions at or below an approved level the bank places forex transactions on the interbank market which currently comprises related parties.

The Bank is exposed to effects of fluctuation in the prevailing foreign currency exchange rates on its financial position and cash flows. The Bank's Financial Committee sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. These limits also comply with the requirements of the Central Bank of Russia.

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Financial Risk Management (continued)

As at 31 December 2012, the Bank had the following positions in currencies:

	<u>RUB</u>	<u>USD</u>	<u>EUR</u>	<u>Total</u>
Assets				
Cash and cash equivalents	828,802	231,461	381,031	1,444,294
Mandatory balances with the CBRF	112,268	-	-	112,268
Due from banks	140,008	796	-	140,804
Securities at fair value through profit or loss	1,538,296	24,248	-	1,562,544
Securities held-to-maturity	115,444	-	-	115,444
Loans and advances to customers	8,946,210	-	-	8,946,210
Investments in subsidiaries	6,233	-	-	6,233
Other assets	118,837	13	269	119,119
Fixed assets	315,039	-	-	315,039
Investment property	50,839	-	-	50,839
	<u>12,171,976</u>	<u>259,518</u>	<u>381,300</u>	<u>12,812,794</u>
Liabilities				
Due to banks	520,821	-	-	520,821
Customer accounts	10,261,148	106,810	48,591	10,416,549
Debt securities issued	19,157	-	10,057	29,214
Taxation	49,308	-	-	49,308
Other liabilities	55,948	93	21	56,042
	<u>10,906,382</u>	<u>106,903</u>	<u>58,669</u>	<u>11,071,954</u>
Net on-balance sheet position	<u>1,265,594</u>	<u>152,615</u>	<u>322,631</u>	<u>1,740,840</u>

As at 31 December 2011, the Bank had the following positions in currencies:

	<u>RUB</u>	<u>USD</u>	<u>EUR</u>	<u>Total</u>
Net on-balance sheet position	<u>1,097,016</u>	<u>326,329</u>	<u>18,110</u>	<u>1,441,455</u>

The table below analyses the risk of foreign currency rate as to Russian Federation Rouble:

	<u>As at 31 December 2012</u>		<u>As at 31 December 2011</u>	
	<u>Effect on profit or loss</u>	<u>Effect on equity</u>	<u>Effect on profit or loss</u>	<u>Effect on equity</u>
Strengthening of USD for 10%	12,209	12,209	26,106	26,106
Weakening of USD for 10%	(12,209)	(12,209)	(26,106)	(26,106)
Strengthening of Euro for 10%	25,810	25,810	1,449	1,449
Weakening of Euro for 10%	(25,810)	(25,810)	(1,449)	(1,449)

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Financial Risk Management (continued)

Liquidity Risk

Liquidity risk is defined as the risk that arises from the fact that the maturity of assets and liabilities does not match. Management of the Bank actively monitors liquidity risk.

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to Management of the Bank. 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 Bank and its exposure to changes in interest and exchange rates. Part of the portfolio of securities is classified as on demand and less than one month as the securities in question are of dealing nature and management believes this is a fairer portrayal of their liquidity position. The remaining securities represent strategic investments of the Bank or securities retained for short term capital appreciation and thus do not have a stated maturity date.

Management believes that in spite of a substantial portion of customer accounts being on demand and less than one month, diversification of these deposits by number and type of clients and the past experience of the Bank would indicate that deposits provide a relatively long-term and stable source of funding for the Bank.

The Bank calculates mandatory liquidity ratios on a daily basis in accordance with the requirements of the CBRF. These ratios include:

- Instant liquidity ratio (N2), which is calculated as the ratio of highly-liquid assets to liabilities payable on demand
- Current liquidity ratio (N3), which is calculated as the ratio of liquid assets to liabilities maturing within 30 calendar days
- Long-term liquidity ratio (N4), which is calculated as the ratio of assets maturing after one year to capital and liabilities maturing after one year

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Financial Risk Management (continued)

The Bank was in compliance with the above ratios during the year ended 31 December 2012 and year ended 31 December 2011.

The following table represents the mandatory liquidity ratios for the Bank calculated at 31 December 2012 and 31 December 2011:

	Requirement	31 December 2012	31 December 2011
Instant liquidity ratio (N2)	Minimum 15%	40,9%	29.6%
Current liquidity ratio (N3)	Minimum 50%	82,7%	84.1%
Long-term liquidity ratio (N4)	Maximum 120%	57,6%	44.3%

The Bank's liquidity position is calculated on a daily basis for the three requirements above by Treasury, and any issues are highlighted and referred to senior management immediately. The Bank performs daily operations with its financial assets in order to ensure limits are complied with. Liquidity management is controlled by the Asset and Liability Committee.

The table below presents the cash flows payable by the Bank under non-derivative financial liabilities and assets held for managing liquidity at 31 December 2012. Amounts shown are contractual undiscounted cash flows, including future interest, as required by IFRS 7 revised, although in practice the Bank manages liquidity on a different basis, as described above. Some of the assets may be of a longer term nature than presented in the table. For example, loans are frequently renewed and accordingly short term loans can have longer term durations.

	On demand or less than 1 month	1 to 6 months	6 months to 1 year	Over 1 year	Overdue/ no stated maturity	Total
Liabilities						
Due to banks	301,067	-	-	219,754	-	520,821
Customer accounts	3,538,943	2,223,436	2,749,502	2,502,572	-	11,014,453
Debt securities issued	19,567	9,647	-	-	-	29,214
Other liabilities	31,821	14,772	5,596	3,873	-	56,062
Taxation	-	-	-	-	41,586	41,586
Total liabilities	3,891,398	2,247,855	2,755,098	2,726,199	41,586	11,662,136
Assets held for managing liquidity risk						
	3,502,833	3,898,784	2,970,915	3,247,649	980,917	14,601,098
Credit Related Commitments						
	66,753	232,906	531,041	730,096	-	1,560,796

The tables below present the cash flows payable by the Bank under non-derivative financial liabilities and assets held for managing liquidity at 31 December 2011.

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Financial Risk Management (continued)

	On demand or less than 1 month	1 to 6 months	6 months to 1 year	Over 1 year	Overdue/ no stated maturity	Total
Liabilities						
Due to banks	1	-	-	-	-	1
Customer accounts	3,528,893	1,096,975	2,162,481	2,368,528	-	9,156,877
Debt securities issued	8,955	174	9,781	-	-	18,910
Other liabilities	32,715	5,434	3,296	3,296	-	44,741
Taxation	-	-	-	-	38,240	38,240
Total liabilities	3,570,564	1,102,583	2,175,558	2,371,824	38,240	9,258,769
Assets held for managing liquidity risk	3,389,306	2,622,239	2,498,878	2,256,111	814,255	11,580,789
Credit Related Commitments	331,503	26,217	114,093	107,186	22,676	601,675

The data in the tables above does not reconcile to the discounted cash flows which form the basis of the statement of financial position at 31 December 2012 and at 31 December 2011, and IFRS 7 revised does not require such reconciliation. The Bank considers that loans should be included in assets held for managing liquidity risk.

The maturity gap analysis does not reflect the historical stability of current accounts. Their liquidation has historically taken place over a longer period than indicated in the table above. These balances are included in amounts due less than 1 month in the table above.

Liquidity requirements to support calls under guarantees are considerably less than the amount of the commitment because the Bank does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, as many of these commitments will expire or terminate without being funded.

Interest Rate Risk

The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The Bank's Assets and Liabilities Management Committee sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored regularly. The majority of the Bank's assets and liabilities are priced on a fixed rate basis.

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Financial Risk Management (continued)

The analysis of the Bank's weighted average interest rates of interest bearing assets and liabilities by reference to the next interest rate re-fixing date as at 31 December 2012 is presented below.

	On demand or less than 1 month	1 to 6 months	6 months to 1 year	Over 1 year	Overdue
Assets					
Due from banks	5.91	-	-	-	-
Securities at a fair value through profit or loss	8.45	-	-	-	-
Securities held-to-maturity	-	-	8.61	8.99	-
Loans and advances to customers	10.94	10.41	11.84	14.00	17.38
Liabilities					
Due to banks	5.55	-	-	8.45	-
Customer accounts	0.61	7.58	8.80	9.26	-
Debt securities issued	-	8.00	-	-	-

The analysis of the Bank's weighted average interest rates of interest bearing assets and liabilities by reference to the next interest rate re-fixing date as at 31 December 2011 is presented below.

	On demand or less than 1 month	1 to 6 months	6 months to 1 year	Over 1 year	Overdue
Assets					
Due from banks	4.52	2.25	-	-	-
Securities at a fair value through profit or loss	7.85	-	-	-	-
Securities held-to-maturity	-	-	-	9.04	-
Loans and advances to customers	12.01	9.89	10.62	13.45	18.53
Liabilities					
Customer accounts	0.61	4.73	5.18	8.05	-
Debt securities issued	-	-	4.25	-	-

Assuming the financial assets and liabilities as at 31 December 2012 were to remain until maturity or settlement without any action by the Bank to alter the resulting interest rate risk exposure, an immediate and sustained for one year reasonably possible positive change of 3% in market interest rates across all maturities and currencies would increase profit for the current year by approximately 9,315 as a result of higher interest income (2011: 3% change would decrease profit by 23,766 as a result of higher interest expense on interest-bearing liabilities).

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Financial Risk Management (continued)

In the table below given is the analysis of the interest rate fluctuation risk to which the Bank is exposed as at 31 December 2012. In the table shown are the amounts of interest assets and liabilities in their balance cost existing for the reporting date referred to different categories from the earliest of the following dates set in the agreement of interest rate fluctuation or maturity.

	<u>On demand or less than 1 month</u>	<u>1 to 6 months</u>	<u>6 months to 1 year</u>	<u>Over 1 year</u>	<u>Overdue/ no stated maturity</u>	<u>Total</u>
Assets						
Due from banks	140,000	-	-	-	-	140,000
Securities at a fair value through profit or loss	1,557,484	-	-	-	-	1,557,484
Securities held-to-maturity	-	-	25,903	89,541	-	115,444
Loans and advances to customers	208,716	2,677,138	2,566,724	3,399,380	65,461	8,917,419
Total assets	1,906,200	2,677,138	2,592,627	3,488,921	65,461	10,730,347
Liabilities						
Due to banks	300,000	-	-	219,754	-	519,754
Customer accounts	2,523,413	1,742,222	2,561,340	2,697,740	-	9,524,715
Debt securities issued	-	9,647	-	-	-	9,647
Total liabilities	2,823,413	1,751,869	2,561,340	2,917,494	-	10,054,116
Net liquidity	(917,213)	925,269	31,287	571,427	65,461	676,231
Accumulated gap as at 31 December 2012	(917,213)	8,056	39,343	610,770	676,231	
Accumulated gap as at 31 December 2011	(392,316)	487,955	380,083	627,705	721,195	

The table given below shows the average interest rates by currencies on major interest monetary financial instruments. The following analysis is prepared on the basis of average weighted interest rates in accordance with agreements in the effect on the end of the reporting year:

	<u>2012</u>			<u>2011</u>		
	<u>RUR</u>	<u>USD</u>	<u>Euro</u>	<u>RUR</u>	<u>USD</u>	<u>Euro</u>
Interest bearing assets						
Due from banks	5.91	-	-	4.52	2.25	-
Securities at a fair value through profit or loss	8.45	8.75	-	7.83	8.75	-
Securities held to maturity	8.90	-	-	9.04	-	-
Loans and advances to customers	12.25	-	-	11.64	-	-
Interest bearing liabilities						
Due to banks	6.78	-	-	-	-	-
Customer accounts	6.58	3.81	3.38	5.90	2.81	2.50
Debt securities issued	8.00	-	-	-	-	4.25

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26. Related Party Transactions

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

During the reporting period the Bank entered into a number of banking transactions in the normal course of business with various related parties.

The total outstanding balances at 31 December 2012 and the related income and expense transactions during 2012 with related parties were as follows:

	Shareholders	Under common control by virtue of having the same shareholders	Other including management	Total Related party balance/result	Total per category in the financial statement
Statement of Financial Position					
Loans and advances to customers					
At beginning of year	-	185,509	1,893	187,403	7,077,027
Granted during year	-	539,086	8,309	547,395	-
Repaid during the year	-	(113,361)	(4,346)	(117,707)	-
At the end of the year	-	648,088	5,865	653,953	9,744,226
Allowance for losses	-	(22,728)	(360)	(23,088)	(798,016)
Current accounts					
At beginning of year	535	11,598	2,047	14,180	2,966,671
Opened during year	745,333	3,082,817	46,851	3,875,002	-
Repaid during the year	(741,046)	(3,090,265)	(44,972)	(3,876,283)	-
At the end of the year	4,822	4,241	3,887	12,950	3,258,348
Term deposits					
At beginning of year	-	-	2,651	2,651	5,745,890
Received during year	-	-	3,829	3,829	-
Repaid during the year	-	-	(1,520)	(1,520)	-
At the end of the year	-	-	1,886	1,886	7,158,201
Statement of Profit and Loss and other Comprehensive Income					
Interest Income on loans					
	-	36,337	340	36,677	970,568
Interest expenses					
On term deposits	-	-	122	122	497,917
On current accounts	-	3	37	41	9,396
Commission income					
From settlement operations	541	246	9	795	138,560
Salary and bonuses	-	-	27,423	27,423	269,999

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Related Party Transactions (continued)

The total outstanding balances at 31 December 2011 and the related income and expense transactions during 2011 with related parties were as follows:

	Shareholders	Under common control by virtue of having the same shareholders	Other including management	Total Related party balance/result	Total per category in the financial statement
Statement of Financial Position					
Loans and advances to customers					
At beginning of year	-	181,507	1,784	183,291	6,443,090
Granted during year	-	208,986	1,290	210,276	-
Repaid during the year	-	(204,984)	(1,181)	(206,165)	-
At the end of the year	-	185,509	1,893	187,402	7,077,027
Allowance for losses	-	(6,316)	(19)	(6,335)	(675,271)
Current accounts					
At beginning of year	470	2,167	1,711	4,348	3,039,391
Opened during year	142,696	2,776,749	19,635	2,939,080	-
Repaid during the year	(142,631)	(2,767,318)	(19,848)	(2,929,797)	-
At the end of the year	535	11,598	1,498	13,631	2,966,671
Term deposits					
At beginning of year	-	-	4,218	4,218	5,698,471
Received during year	-	-	12,849	12,849	-
Repaid during the year	-	-	(14,526)	(14,526)	-
At the end of the year	-	-	2,541	2,541	5,745,890
Statement of Profit and Loss and other Comprehensive Income					
Interest Income on loans					
	-	28,465	221	28,686	816,997
Interest expenses					
On term deposits	-	-	546	546	475,320
On current accounts	-	2	21	23	8,907
Commission income					
From settlement operations	31	117	-	148	122,390
Salary and bonuses	-	-	20,465	20,465	215,576

In 2012 salaries and other short term payment to the members of Board of Directors and members of the Executive Board amounted to 24,815 (2011: 19,729), including 7,730 (2011: 8,503) salaries, other short term payments 17,086 (2011: 11,226). Other short term payments to the members of the Executive Board and Board of Directors, who are not employed with the Bank, amounted to 2,608 (2011: 736).

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27. Capital Management

The Bank's policy is aimed to maintain the level of capital sufficient to keep trust of investors, creditors and the market in general, as well as for the future development of the Bank's operations.

The CBRF sets capital requirements to the Bank and monitors compliance with these requirements. Currently, under requirements of the CBRF, the Bank has to maintain a ratio of regulatory capital to risk weighted assets ("statutory capital ratio") above a certain minimum level. As at 31 December 2012, this minimum level was 10% (2011: 10%).

The regulatory capital on the basis of the Bank's reports prepared under Russian legislation as at 31 December 2012 and 31 December 2011 is presented in the following table:

	As at 31 December 2012	As at 31 December 2011
Capital		
Share capital	590,227	590,227
Funds	90,750	90,750
Previous years profit	506,564	330,901
Current year profit	208,218	142,990
Additional capital		
Additional capital formed by capitalisation of property revaluation	14,773	14,773
Property surplus due to revaluation	66,020	33,512
Investments in subsidiary	(110)	(110)
Intangible assets	(14)	(15)
Total regulatory capital	1,476,428	1,203,028
Capital adequacy ratio	12.18%	13.06%

The main reason explaining the difference between the amount of capital calculated under CBRF requirements and equity presented in these financial statements is an additional allowance performed for the purposes of IFRS for loans and other assets and amortisation for property, plant and equipment.

During 2012 and 2011 the Bank's capital adequacy ratio was line with regulations.

The Bank can apply some measures in case of insufficiency of capital, such as: an additional share issue, asset sales and reduction in lending. Allocation of capital between individual operations and activities is mostly motivated by the desire to increase the level of profitability (profit margin) for the capital allocation. Despite the fact that the decisive factor in allocating capital to individual transactions or activities is to maximize the return on capital given the risk, this is not the only factor when deciding on the allocation of capital. Appropriate activities of the Bank's long-term management plans and prospects are taking into calculation. The Bank's capital management and its distribution is regularly analyzed by the Directors of the Bank during the review and approval of annual budget.