RUSSIAN AGRICULTURAL BANK GROUP

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

31 December 2012

CONTENTS

Independent Auditor's Report

To the Shareholder and the Supervisory Board of Russian Agricultural Bank

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

ZAO PricewaterhouseCoopers Audit

10 April 2013
Moscow, Russian Federation

N.Y. Dmitrieva, Director (licence no. 01-000271), ZAO PricewaterhouseCoopers Audit

Audited entity: Open Joint Stock Company Russian Agricultural Bank	Independent auditor: ZAO PricewaterhouseCoopers Audit
State registration number 3349 issued by Central Bank of Russian Federation on 24.04.2000	State registration certificate № 008.890, issued by the Moscow Registration Bureau on 28 February 1992
Certificate of inclusion in the Unified State Register of Legal Entities № 1027700342890 issued on 22.10.2002	Certificate of inclusion in the Unified State Register of Legal Entities № 1027700148431 issued on 22 August 2002
3 Gagarinsky Pereulok, 119034, Moscow, Russian Federation	Certificate of membership in self regulated organisation non-profit partnership "Audit Chamber of Russia" № 870. ORNZ 10201003683 in the register of auditors and audit organizations

In millions of Russian Roubles	Note	31 December 2012	31 December 2011
ASSETS			
Cash and cash equivalents	7	106 342	133 959
Mandatory cash balances with the Central Bank of the Russian Federation		9 153	8 417
Trading securities	8	19 220	-
Repurchase receivables	9	20 632	2 369
Financial instruments designated at fair value through profit or loss	10	12 550	11 225
Derivative financial instruments	34	18 659	23 296
Due from other banks	11	45 930	39 569
Loans and advances to customers	12	1 070 712	903 697
Investment securities available for sale	13	44 036	76 595
Investment securities held to maturity	14	27 999	31 319
Deferred income tax asset		5 100	5 531
Intangible assets	15	1 723	1 531
Premises and equipment	15	23 068	25 093
Current income tax prepayment		2 464	820
Other assets	16	15 724	15 904
Assets of the disposal groups held for sale	38	5 338	5 101
TOTAL ASSETS		**1 428 650**	**1 284 426**
LIABILITIES			
Derivative financial instruments	34	5 261	739
Due to other banks	17	136 343	90 417
Customer accounts	18	557 476	607 295
Promissory notes issued	19	23 234	20 129
Debt securities issued	20	440 866	342 499
Deferred income tax liability		2 065	1 322
Current income tax liability		-	7
Other liabilities	21	8 824	6 769
Subordinated debts	22	55 274	57 192
Liabilities directly associated with the disposal groups held for sale	38	1 410	1 282
TOTAL LIABILITIES		**1 230 753**	**1 127 651**
EQUITY			
Share capital	23	188 798	148 798
Revaluation reserve for premises		1 270	1 050
Revaluation reserve for investment securities available for sale		(271)	(898)
Retained earnings		7 117	7 017
Equity attributable to the Bank's owner		**196 914**	**155 967**
Non-controlling interest		**983**	**808**
TOTAL EQUITY		**197 897**	**156 775**
TOTAL LIABILITES AND EQUITY		**1 428 650**	**1 284 426**

Approved for issue and signed on behalf of the Management Board on 10 April 2013.

D.N. Patrushev Chairman of the Management Board	E.A. Romankova Chief Accountant

In millions of Russian Roubles	Note	2012	2011
Interest income	24	135 903	113 314
Interest expense	24	(79 490)	(59 699)
Net interest income		**56 413**	**53 615**
Provision for loan impairment	2, 11, 12	(26 603)	(22 552)
Net interest income after provision for loan impairment		**29 810**	**31 063**
Fee and commission income	25	7 104	4 834
Fee and commission expense	25	(805)	(631)
Gains less losses/(losses net of gains) from trading securities		8	(76)
Gains less losses/(losses net of gains) from financial instruments designated at fair value through profit or loss		1 854	(749)
(Losses net of gains)/gains less losses from disposal of investment securities available for sale	13	(207)	324
Gains less losses from disposal of investment securities held to maturity	14	158	-
Foreign exchange translation gains less losses/(losses net of gains)		5 042	(8 136)
(Losses net of gains)/gains less losses from derivative financial instruments		(10 035)	3 154
Gains less losses from dealing in foreign currencies		5 310	82
Provision of other assets impairment	16	(192)	(78)
(Losses)/gains from early redemption of debt securities issued	20	(14)	25
Losses net of gains from non-banking activities	26	(3 702)	(1 245)
(Losses)/gains on disposal of subsidiaries	38	(52)	21
Other operating income		326	927
Administrative and other operating expenses	27	(33 785)	(29 165)
Profit before tax		**820**	**350**
Income tax expense	28	(676)	(292)
Profit for the year		**144**	**58**
Other comprehensive income/(loss)			
Securities available for sale:			
- Revaluation of securities at fair value	13	575	(672)
- Realised revaluation reserve (at disposal)	13	207	(324)
Revaluation of premises		341	211
Income tax recorded directly in other comprehensive income	28	(223)	157
Other comprehensive income/(loss) for the year, net of tax		**900**	**(628)**
Total comprehensive income/(loss) for the year		**1 044**	**(570)**
Profit/(loss) is attributable to:			
Owner of the Bank		365	367
Non-controlling interest		(221)	(309)
Profit for the year		**144**	**58**
Total comprehensive income/(loss) is attributable to:			
Owner of the Bank		1 265	(261)
Non-controlling interest		(221)	(309)
Total comprehensive income/(loss) for the year		**1 044**	**(570)**

In millions of Russian Roubles	Note	Attributable to owner of the Bank: Share capital	Revaluation reserve for premises	Revaluation reserve for securities available for sale	Retained earnings	Total	Non-controlling interest	Total equity
Balance at 31 December 2010		**108 798**	**933**	**(101)**	**6 851**	**116 481**	**1 117**	**117 598**
Profit/(loss) for the year, net of tax		-	-	-	367	367	(309)	58
Other comprehensive income/(loss), net of tax		-	169	(797)	-	(628)	-	(628)
Total comprehensive income/(loss), net of tax		**-**	**169**	**(797)**	**367**	**(261)**	**(309)**	**(570)**
Share issue	23	40 000	-	-	-	40 000	-	40 000
Realised revaluation reserve for premises, net of tax		-	(52)	-	52	-	-	-
Dividends declared	29	-	-	-	(253)	(253)	-	(253)
Balance at 31 December 2011		**148 798**	**1 050**	**(898)**	**7 017**	**155 967**	**808**	**156 775**
Profit/(loss) for the year, net of tax		-	-	-	365	365	(221)	144
Other comprehensive income, net of tax		-	273	627	-	900	-	900
Total comprehensive income/(loss), net of tax		**-**	**273**	**627**	**365**	**1 265**	**(221)**	**1 044**
Share issue	23	40 000	-	-	-	40 000	-	40 000
Change in ownership interests		-	-	-	-	-	396	396
Realised revaluation reserve for premises, net of tax		-	(53)	-	53	-	-	-
Dividends declared	29	-	-	-	(318)	(318)	-	(318)
Balance at 31 December 2012		**188 798**	**1 270**	**(271)**	**7 117**	**196 914**	**983**	**197 897**

In millions of Russian Roubles	Note	2012	2011
Cash flows from operating activities			
Interest received		120 322	104 112
Interest paid		(70 989)	(54 586)
(Losses incurred)/income received from trading in securities and financial instruments designated at fair value through profit or loss		(23)	424
(Losses incurred)/income received from derivative financial instruments		(876)	677
Income received from dealing in foreign currencies		5 310	82
Fees and commissions received		7 039	4 930
Fees and commissions paid		(805)	(631)
Other operating income received		372	577
Net insurance income received		994	17
Staff costs paid		(21 285)	(17 831)
Administrative and other operating expenses paid		(13 012)	(9 932)
Income tax paid		(1 847)	(4 462)
Cash flows from operating activities before changes in operating assets and liabilities		**25 200**	**23 377**
Changes in operating assets and liabilities			
Net increase in mandatory cash balances with the Central Bank of the Russian Federation		(736)	(4 949)
Net (increase)/decrease in trading securities		(18 210)	3 967
Net increase in financial instruments designated at fair value through profit or loss		-	(1 406)
Net increase in due from other banks		(8 673)	(3 147)
Net increase in loans and advances to customers		(178 618)	(225 985)
Net increase in other assets		(133)	(6 378)
Net increase/(decrease) in due to other banks		46 287	(20 899)
Net (decrease)/increase in customer accounts		(51 821)	218 666
Net increase in promissory notes issued		2 983	9 807
Net increase in other liabilities		525	1 271
Net cash used in operating activities		**(183 196)**	**(5 676)**
Cash flows from investing activities			
Acquisition of premises and equipment	15	(1 877)	(1 820)
Proceeds from disposal of premises and equipment		282	75
Acquisition of intangible assets	15	(704)	(416)
Acquisition of investment securities available for sale	13	(91 406)	(116 178)
Proceeds from disposal of investment securities available for sale	13	104 892	51 385
Acquisition of investment securities held to maturity		-	(1 132)
Proceeds from redemption of investment securities held to maturity		3 432	1 625
Acquisition of subsidiaries, net of cash acquired		-	(17)
Cash outflow on disposal of subsidiaries, net of cash disposed of	38	-	(24)
Effect directly associated with disposal groups held for sale		(8)	6
Net cash from/(used in) investing activities		**14 611**	**(66 496)**
Cash flows from financing activities			
Issue of ordinary shares	23	40 000	40 000
Proceeds from subordinated debts		-	22 434
Repayment of subordinated debts		-	(15 748)
Proceeds from sale of previously bought back subordinated debts		1 148	-
Buy back of subordinated debts		(1 474)	-
Proceeds from debt securities issued	20	112 799	83 564
Repayment of debt securities issued	20	(4 858)	(9 089)
Proceeds from sale of previously bought back debt securities issued		2 318	1 137
Buy back of debt securities issued		(2 419)	(102)
Dividends paid	29	(318)	(253)
Net cash from financing activities		**147 196**	**121 943**
Effect of exchange rate changes on cash and cash equivalents		**(6 228)**	**3 178**
Net (decrease)/increase in cash and cash equivalents		**(27 617)**	**52 949**
Cash and cash equivalents at the beginning of the year	7	133 959	81 010
Cash and cash equivalents at the end of the year	7	**106 342**	**133 959**

1 Introduction

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (the "IASB") for the year ended 31 December 2012 for Open Joint-Stock Company Russian Agricultural Bank (the "Bank") and its subsidiaries (together referred to as the "Group").

The Bank was incorporated and is domiciled in the Russian Federation. The Bank is an open joint-stock company limited by shares and was set up in accordance with Russian regulations.

The Bank's only shareholder is the Government of the Russian Federation represented by the Federal Agency for Managing State Property.

Principal activity. The Bank's principal business activity is commercial and retail banking operations in the Russian Federation with emphasis on lending to agricultural enterprises. The main objectives of the Bank are:

- to participate in realisation of the monetary policy of the Russian Federation in the area of agricultural production;
- to develop within the agricultural industry a national system of lending to the domestic agricultural producers; and
- to maintain an effective and uninterrupted performance of the settlement system in the area of agricultural production across the Russian Federation.

The Bank has operated under a full banking licence issued by the Central Bank of the Russian Federation ("CBRF") since 13 June 2000. The Bank participates in the State deposit insurance scheme, which was introduced by the Federal Law #177-FZ "Deposits of individuals insurance in Russian Federation" dated 23 December 2003. The State Deposit Insurance Agency guarantees repayment of 100% of individual deposits up to RR 700 thousand per individual in case of the withdrawal of a licence of a bank or a CBRF imposed moratorium on payments.

The Bank has 78 (2011: 78) branches within the Russian Federation. The Bank's registered address is 119034 Russia, Moscow, Gagarinsky Pereulok, 3. The Bank's principal place of business is 119019 Russia, Moscow, Arbat, 1.

In August 2011 the Group acquired 100% of shares in Closed Joint-Stock Company «Insurance Company «GazGarant», which was later renamed to Closed Joint-Stock Company «RSHB-Insurance».

The number of the Group's employees as at 31 December 2012 was 35 458 (2011: 35 699).

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

2 Operating Environment of the Group

Russian Federation. The Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to varying interpretation. Refer to Note 33.

In the summer 2012, several Russian regions were affected by abnormal climate conditions (drought). This event had significant negative consequences, including a decrease of wheat harvest, that affected financial state of Bank's borrowers and consequently loan loss provision rates. The Russian Government announced state support for drought-affected regions.

The ongoing uncertainty and volatility of the financial markets, in particular in Europe, and other risks could have significant negative effects on the Russian financial and corporate sectors. Management determined loan impairment provisions using the 'incurred loss' model required by the applicable accounting standards. These standards require recognition of impairment losses that arose from past events and prohibit recognition of impairment losses that could arise from future events, including future changes in the economic environment, no matter how likely those future events are. Thus final impairment losses from financial assets could differ significantly from the current level of provisions. Refer to Note 4.

2 Operating Environment of the Group (Continued)

The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations and frequent changes. Furthermore, the need for further developments in the bankruptcy laws, the absence of formalised procedures for the registration and enforcement of collateral, and other legal and fiscal impediments contribute to the challenges faced by banks currently operating in the Russian Federation. The future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory and political developments.

Management is unable to reliably determine the effects on the Group's future financial position of any potential further deterioration in the liquidity of the financial markets and the increased volatility in the currency and equity markets. Management believes it is taking all necessary measures to support the sustainability and development of the Group’s business in the current circumstances.

3 Summary of Significant Accounting Policies

Basis of preparation. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value, and by the revaluation of premises used in banking activity, investment securities available for sale, and financial instruments categorised as at fair value through profit or loss. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated (refer to Note 5).

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

The acquisition method of accounting is used to account for the acquisition of subsidiaries. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

The Group measures non-controlling interest that represents present ownership interest and entitles the holder to a proportionate share of net assets in the event of liquidation on a transaction by transaction basis, either at: (a) fair value, or (b) the non-controlling interest's proportionate share of net assets of the acquiree. Non-controlling interest that does not present ownership interest is measured at fair value.

Goodwill is measured by deducting the net assets of the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount (“negative goodwill”) is recognised in profit or loss after management reassesses whether it identified all the assets acquired and all liabilities and contingent liabilities assumed and reviews appropriateness of their measurement.

The consideration transferred for the acquiree is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed, including fair value of assets or liabilities from contingent consideration arrangements but excludes acquisition related costs such as advisory, legal, valuation and similar professional services. Transaction costs incurred for issuing equity instruments are deducted from equity; transaction costs incurred for issuing debt are deducted from its carrying amount and all other transaction costs associated with the acquisition are expensed.

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

Non-controlling interest is that part of the net results and of the net assets of a subsidiary attributable to interests which are not owned, directly or indirectly, by the Bank. Non-controlling interest form a separate component of the Group’s equity.

3 Summary of Significant Accounting Policies (Continued)

Purchases and sales of non-controlling interest. The Group applies the economic entity model to account for transactions with non-controlling shareholders. Any difference between the purchase consideration and the carrying amount of non-controlling interest acquired is recorded directly in equity.

The Group recognizes the difference between sales consideration and carrying amount of non-controlling interest sold in the consolidated statement of changes in equity.

Disposals of subsidiaries, associates or joint ventures. When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are recycled to profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss, where appropriate.

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

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

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

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

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

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

3 Summary of Significant Accounting Policies (Continued)

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

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date on which the Group commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

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

Cash and cash equivalents. Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents include interbank loans, deposits and reverse sale and repurchase agreements with other banks with original maturity of less than one month. Amounts which relate to funds that are of a restricted nature are excluded from cash and cash equivalents.

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

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

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

Sale and repurchase agreements and lending of securities. Sale and repurchase agreements ("repo agreements"), which effectively provide a lender's return to the counterparty, are treated as secured financing transactions. Securities sold under such sale and repurchase agreements are not derecognised. The securities are not reclassified in the consolidated statement of financial position unless the transferee has the right by contract or custom to sell or repledge the securities, in which case they are reclassified as repurchase receivables. The corresponding liability is presented within amounts due to other banks or customer accounts.

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

3 Summary of Significant Accounting Policies (Continued)

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

Investment securities available for sale. This classification includes investment securities which the Group intends to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. The Group classifies investments as available for sale at the time of purchase or as a result of reclassification.

Investment securities available for sale are carried at fair value. Interest income on available-for-sale debt securities is calculated using the effective interest method and recognised in profit or loss for the year. Dividends on available-for-sale equity instruments are recognised in profit or loss for the year when the Group's right to receive payment is established and it is probable that the dividends will be collected. All other elements of changes in the fair value are recognised in other comprehensive income until the investment is derecognised or impaired, at which time the cumulative gain or loss is reclassified from other comprehensive income to profit or loss for the year.

Impairment losses are recognised in profit or loss for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of investment securities available for sale. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss – is reclassified from other comprehensive income to profit or loss for the year. Impairment losses on equity instruments are not reversed and any subsequent gains are recognised in other comprehensive income. 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 profit or loss, the impairment loss is reversed through profit or loss for the year.

Investment securities held to maturity. This classification includes quoted non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has both the intention and ability to hold to maturity. An investment is not classified as held-to-maturity investment if the Group has the right to require that the issuer repay or redeem the investment before its maturity, because paying for such a feature is inconsistent with expressing an intention to hold the asset until maturity. Management determines the classification of investment securities held to maturity at their initial recognition and reassesses the appropriateness of that classification at the end of each reporting period. The Group may reclassify financial assets into this category from fair value through profit or loss category in rare circumstances arising from a single event that is unusual and highly unlikely to reoccur in the near term. Investment securities held to maturity are carried at amortised cost.

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

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

3 Summary of Significant Accounting Policies (Continued)

Impairment of financial assets carried at amortised cost. Impairment losses are recognised in profit or loss for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Group determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. The primary factors that the Group considers in determining whether a financial asset is impaired are its overdue status and significant financial difficulty of the debtor. Refer to Note 12 for the detailed principal criteria to determine whether there is objective evidence that an impairment loss has occurred.

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

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

If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the borrower or issuer, impairment is measured using the original effective interest rate before the modification of terms. The renegotiated asset is then derecognized and a new asset is recognized at its fair value only if the risks and rewards of the asset substantially changed. This is normally evidenced by a substantial difference between the present values of the original cash flows and the new expected cash flows.

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

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

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

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

Where repossessed collateral results in acquiring control over a business, the business combination is accounted for using the purchase method of accounting with fair value of the settled loan representing the cost of acquisition (refer to the accounting policy for consolidation).

3 Summary of Significant Accounting Policies (Continued)

Credit related commitments. The Group issues financial guarantees and commitments to provide loans. Financial guarantees represent irrevocable assurances to make payments in the event that a customer cannot meet its obligations to third parties and carry the same credit risk as loans. Financial guarantees and commitments to provide a loan are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitment, except for commitments to originate loans if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination; such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition. At the end of each reporting period, the commitments are measured at the higher of (i) the remaining unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at the end of the reporting period.

Promissory notes purchased. Promissory notes purchased are included in trading securities or investment securities held to maturity or in due from other banks or in loans and advances to customers, depending on their substance and are recorded, subsequently remeasured and accounted for in accordance with the accounting policies for these categories of assets.

Goodwill. Goodwill is carried at cost less accumulated impairment losses, if any. The Group tests goodwill for impairment at least annually and whenever there are indications that goodwill may be impaired. Goodwill is allocated to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the business combination. Such units or group of units represent the lowest level at which the Group monitors goodwill, and are not larger than an operating segment. Gains or losses on disposal of an operation within a cash generating unit to which goodwill has been allocated include the carrying amount of goodwill associated with the disposed operation, generally measured on the basis of the relative values of the disposed operation and the portion of the cash-generating unit which is retained.

Premises and equipment. Premises and equipment are stated at cost, restated to the equivalent purchasing power of the Russian Rouble at 31 December 2002 for assets acquired prior to 1 January 2003, or revalued amounts, as described below, less accumulated depreciation and provision for impairment, where required.

Premises owned by the Group and used in a banking activity were for the first time revalued at fair value as at 31 December 2007 and are subject to regular subsequent revaluation. The frequency of revaluation depends upon the movements in the fair values of the premises being revalued. The revaluation is recognised by proportionally restating the gross carrying amount and accumulated depreciation of the revalued premises. These changes in values are shown separately in the reconciliation of movements in premises in Note 15. The revaluation reserve for premises included in equity is transferred directly to retained earnings when the surplus is realised, i.e. either on the retirement or disposal of the asset, or as the asset is used by the Group; in the latter case, the amount of the surplus realised is the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost.

Premises owned by the Group and used in non-banking activities are stated at cost less accumulated depreciation and provision for impairment, where required.

Construction in progress is carried at historical cost less provision for impairment where required. Construction in progress is not depreciated until the asset is available for use.

Costs of minor repairs and maintenance are expensed when incurred. Cost of replacing major parts or components of premises and equipment items are capitalised and the replaced part is retired. Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss.

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

3 Summary of Significant Accounting Policies (Continued)

Depreciation. Land is not depreciated. Depreciation on other items of premises and equipment is calculated using the straight-line method to allocate cost or revalued amounts of premises and equipment to their residual values over the estimated remaining useful lives. The following useful lives in years are applied for the main categories of premises and equipment:

Useful lives in years	Used in banking activities	Used in non-banking activities
Premises	40	20 - 40
Equipment	5 - 20	5 - 20
Leasehold improvements	10	-

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

Intangible assets. The Group's intangible assets other than goodwill have definite useful life and primarily include capitalised computer software.

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Development costs that are directly associated with identifiable and unique software controlled by the Group are recorded as intangible assets if the inflow of incremental economic benefits exceeding costs is probable. Capitalised costs include staff costs of the software development team and an appropriate portion of relevant overheads. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred. Capitalised computer software is amortised on a straight line basis over expected useful lives of 5 years.

Investment property. Investment property is property held by the Group to earn rental income or for capital appreciation and which is not occupied by the Group.

Investment properties are stated at cost less accumulated depreciation and provision for impairment, where required. If any indication exists that investment properties may be impaired, the Group estimates the recoverable amount as the higher of value in use and fair value less costs to sell. The carrying amount of an investment property is written down to its recoverable amount through profit or loss. An impairment loss recognised in prior years is reversed if there has been a subsequent change in the estimates used to determine the asset's recoverable amount.

Earned rental income is recorded in profit or loss within other operating income. Gains or losses on disposal of investment property are calculated as proceeds less carrying amount.

Subsequent expenditure is capitalised to the asset's carrying amount only when it is probable that future economic benefits associated with the expenditure will flow to the Group and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred.

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

Finance lease liabilities. Where the Group is a lessee in a lease which transferred substantially all the risks and rewards incidental to ownership to the Group, the assets leased are capitalised in premises and equipment at the commencement of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of future finance charges, are included in other liabilities. The interest cost is charged to profit or loss over the lease period using the effective interest method. The assets acquired under finance leases are depreciated over their useful life or the shorter lease term if the Group is not reasonably certain that it will obtain ownership by the end of the lease term.

3 Summary of Significant Accounting Policies (Continued)

Inventory. Inventories are stated at the lower of cost and net realisable value. The cost of inventories is determined using the first-in, first-out (FIFO) method. Net realisable value is the estimated selling price in the ordinary course of business less applicable variable selling expenses. The cost of finished goods and work in progress comprises packaging costs, raw materials, direct labour, other direct costs and related production overheads.

Non-current assets classified as held for sale. Non-current assets and disposal groups, which may include both non-current and current assets, are classified in the statement of financial position as 'non-current assets held for sale' if their carrying amount will be recovered principally through a sale transaction, including loss of control of a subsidiary holding the assets, within twelve months after the end of the reporting period. Assets are reclassified when all of the following conditions are met: (a) the assets are available for immediate sale in their present condition; (b) the Group's management approved and initiated an active programme to locate a buyer; (c) the assets are actively marketed for a sale at a reasonable price; (d) the sale is expected within one year and (e) it is unlikely that significant changes to the plan to sell will be made or that the plan will be withdrawn. Non-current assets or disposal groups classified as held for sale in the current period's statement of financial position are not reclassified or re-presented in the comparative consolidated statement of financial position to reflect the classification at the end of the current period.

A disposal group is a group of assets (current or non-current) to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction. Goodwill is included if the disposal group includes an operation within a cash-generating unit, to which goodwill has been allocated on acquisition. Non-current assets are assets that include amounts expected to be recovered or collected more than twelve months after the end of the reporting period. If reclassification is required, both the current and non-current portions of an asset are reclassified.

Held for sale disposal groups as a whole are measured at the lower of their carrying amount and fair value less costs to sell.

Liabilities directly associated with disposal groups that will be transferred in the disposal transaction are reclassified and presented separately in the consolidated statement of financial position.

Due to other banks. Amounts due to other banks are recorded when money or other assets are advanced to the Group by counterparty banks and banking groups. The non-derivative liability is carried at amortised cost.

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

Promissory notes issued. Promissory notes issued by the Group are carried at amortised cost. If the Group purchases its own promissory notes issued, they are removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains/(losses) arising from early retirement of debt.

Debt securities issued. Debt securities issued represent amounts attracted from Eurobonds issue and bonds issued on domestic market. Issued Eurobonds and bonds issued on domestic market carry a coupon and are redeemable on a specific date. Debt securities issued are carried at amortised cost. If the Group repurchases its debt securities issued, they are removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains/(losses) arising from early retirement of debt.

Subordinated debts. Subordinated debts are carried at amortised cost. Creditors' claims on subordinated debts will be considered only after all claims of other creditors of the Group are satisfied.

Derivative financial instruments. Derivative financial instruments, including foreign exchange contracts (forwards and swaps) and futures on shares are carried at their fair value. Non-derivative transactions are aggregated and treated as a derivative when the transaction result, in substance, is a derivative.

An embedded derivative shall be separated from the host contract and accounted for as a derivative if, and only if:

a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract;

b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and

3 Summary of Significant Accounting Policies (Continued)

c) the hybrid (combined) instrument is not measured at fair value with changes in fair value recognised in profit or loss (i.e. a derivative that is embedded in a financial asset or financial liability at fair value through profit or loss is not separated).

If an embedded derivative is separated, the host contract shall be accounted for under IAS 39 Financial Instruments: Recognition and Measurement, and in accordance with other appropriate Standards if it is not a financial instrument. If a contract contains one or more embedded derivatives, the Group may designate the entire hybrid (combined) contract as a financial asset or financial liability at fair value through profit or loss.

All derivative financial instruments are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative financial instruments are included in gains less losses from derivative financial instruments. The Group does not apply hedge accounting.

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

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

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit.

Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

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

Insurance operations. Insurance contracts are those contracts that transfer significant insurance risk. Such contracts may also transfer financial risk. As a general guideline, the Group defines as significant insurance risk the possibility of having to pay benefits on the occurrence of an insured event that are at least 10% more than the benefits payable if the insured event did not occur. Insurance risk exists when the Group has uncertainty in respect of the following matters at inception of the contract: the occurrence of the insurance event, the date of occurrence of the insurance event and the claim value in respect of it.

The insurance contracts protect the Group’s individual policyholders from the consequences of events, such as death or total permanent disability, that would affect the ability of the policyholder or his/her dependants to pay the outstanding amount of the underlying consumer loan or credit card’s balance. There are no maturity or surrender benefits on the Group’s insurance products.

Gross insurance premiums written. Gross insurance premiums written, which the Group is contractually entitled to receive from the insured in relation to insurance contracts, are recognised when due from a policyholder. Specifically, the Group recognises premiums for the policies issued during the year and includes an estimate of premiums due but not yet received by the reporting date, less an allowance for cancellations. Premiums are shown before the deduction of commission. Gross insurance premiums written are recognised as result from insurance operations within losses net of gains from non-banking activities. Refer to Note 26.

3 Summary of Significant Accounting Policies (Continued)

Provision for unearned premiums. Unearned premiums represent the proportion of premiums written in the year that relate to the unexpired terms of policies in-force as at the reporting date, calculated on a time apportionment basis. Provisions for unearned premiums are recognised as result from insurance operations within losses net of gains from non-banking activities. Refer to Note 26.

Claims paid. Claims and claims handling expenses are charged to the consolidated statement of comprehensive income as incurred based on the evaluated liability for compensation payable to policy-holders or third parties.

Loss provision. The loss provision represents the accumulation of estimates for ultimate insurance losses and includes the outstanding claims reserve (“OCR”) and provision for losses incurred but not yet reported (“IBNR”). Estimates of the claims handling expenses of 2% of claim indemnity value in 2012 (2% in 2011) are included in both the OCR and the IBNR.

The OCR is provided in respect of claims reported but not settled as at the reporting date. The estimation is made on the basis of information received by the Group during investigation of insurance cases as at and after the reporting date. IBNR is actuarially determined by the Group.

Deferred acquisition costs. Deferred acquisition costs (“DAC”) are calculated (for non-life insurance contracts) separately for each insurance product. Acquisition costs include commission to agents for concluding agreements with corporate clients and individuals, commission and brokerage fee for underwriting of assumed reinsurance agreements. They vary with and fully depend on the premium earned under acquired or renewed insurance policies. These acquisition costs are deferred and amortised over the period in which the related written premiums are earned. They are reviewed by line of business at the time of the policy issue and at the end of each accounting period to ensure they are recoverable based on future estimates.

Liability adequacy test. At each reporting date, liability adequacy tests are performed to ensure the adequacy of the contract liabilities net of related DAC. In performing these tests, the current best estimates of the future contractual cash flows and claims handling and maintenance expenses, as well as investment income from the assets backing such liabilities, are used. Any deficiency is immediately charged to the consolidated statement of comprehensive income, initially by writing off DAC and by subsequently establishing a provision for losses arising from the liability adequacy tests (the unexpired risk provision). When performing the liability adequacy test, the Group uses a combination of its own as well as externally available statistics and also includes a security margin. Insurance receivables are included as part of this test.

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

Provisions for liabilities and charges. Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

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

Share capital. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

3 Summary of Significant Accounting Policies (Continued)

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

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

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents.

Commitment fees received by the Group to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. The Group does not designate loan commitments as financial liabilities at fair value through profit or loss.

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

All other fees, commissions and other income and expense items are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Commissions on agency services are recognised based on the applicable service contracts.

Revenue recognition — sale of goods. Revenues from sales of goods are recognised at the point of transfer of risks and rewards of ownership of the goods, normally when the goods are shipped. If the Group agrees to transport goods to a specified location, revenue is recognised when the goods are passed to the customer at the destination point. Sales are shown net of VAT and discounts.

Revenues are measured at the fair value of the consideration received or receivable. When the fair value of goods received in a barter transaction cannot be measured reliably, the revenue is measured at the fair value of the goods or service given up.

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

As at 31 December 2012 the principal rates of exchange used for translating foreign currency balances was USD 1 = RR 30.3727 (2011 USD 1 = RR 32.1961), EUR 1 = RR 40.2286 (2011: EUR 1 = RR 41.6714).

Fiduciary assets. Assets and liabilities held by the Group in its own name, but on the account of third parties, are not reported in the consolidated statement of financial position. The extent of such balances and transactions is indicated in Note 33. For the purposes of disclosure, fiduciary activities do not encompass safe custody functions. Commissions received from fiduciary activities are shown in fee and commission income.

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

3 Summary of Significant Accounting Policies (Continued)

Accounting for the effects of hyperinflation. The Russian Federation has previously experienced relatively high levels of inflation and was considered to be hyperinflationary as defined by IAS 29 Financial Reporting in Hyperinflationary Economies ("IAS 29"). IAS 29 requires that the consolidated financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the end of the reporting period. It states that reporting operating results and financial position in the local currency without restatement is not useful because money loses purchasing power at such a rate that the comparison of amounts from transactions and other events that have occurred at different times, even within the same accounting period, is misleading.

The characteristics of the economic environment of the Russian Federation indicated that hyperinflation had ceased effective from 1 January 2003. Restatement procedures of IAS 29 are therefore only applied to share capital. For these balances, the amounts expressed in the measuring unit current as at 31 December 2002 are the basis for the carrying amounts in these consolidated financial statements. The restatement was calculated using the conversion factors derived from the Russian Federation Consumer Price Index ("CPI"), published by the Russian Statistics Agency, and from indices obtained from other sources for years prior to 1992.

Staff costs and related contributions. Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the Group. The Group makes payments to a non-state pension fund in respect of certain groups of employees (a defined contribution plan). These payments are included in staff expenses in consolidated profit or loss.

Segment Reporting. IFRS 8 requires an entity to report financial and descriptive information about its operating segments, with segment information presented on a similar basis to that used for internal reporting purposes.

An operating segment is a component of the Group that engages in business activities from which it earns revenues and incurs expenses whose operating results are regularly reviewed by the Group's Chief Operating Decision Maker (CODM) to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. The Management Board has been identified as the CODM.

In these consolidated financial statements the Group defined operating segments on the basis of organizational structure and geographical areas.

Amendments of the financial statements after issue. Any further changes to these consolidated financial statements require approval of the Group's Management who authorised these consolidated financial statements for issue.

4 Critical Accounting Estimates and Judgements in Applying Accounting Policies

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

Impairment losses on loans and advances. The Group regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in the profit or loss, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in a particular group.

4 Critical Accounting Estimated and Judgements in Applying Accounting Policies (Continued)

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. A 5% increase or decrease in actual loss given default compared to estimated loss given default used would result in an increase or decrease in loan impairment losses of RR 2 011 million (31 December 2011: RR 2 045 million).

Held-to-maturity financial assets. Management applies judgement in assessing whether financial assets can be categorised as held-to-maturity, in particular its intention and ability to hold the assets to maturity. If the Group fails to keep these investments to maturity other than in certain specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to reclassify the entire class as available-for-sale. The investments would therefore be measured at fair value rather than amortised cost. Refer to Note 35.

Fair value of derivatives. The fair values of financial derivatives that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. To the extent practical, models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect fair reported values.

As at 31 December 2012 an increase in underlying interest rates in RR used for fair value calculation by 100 basis points would result in an increase in fair value of derivatives by RR 3 299 million (31 December 2011: RR 1 958 million), a decrease in underlying interest rates in RR used for fair value calculation by 100 basis points would result in a decrease in fair value of derivatives by RR 3 433 million (31 December 2011: RR 2 035 million) (assuming all other variable do not change).

As at 31 December 2012 an increase in underlying interest rates in USD used for fair value calculation by 10 basis points would result in a decrease in fair value of derivatives by RR 490 million (31 December 2011: RR 382 million), a decrease in underlying interest rates in USD used for fair value calculation by 10 basis points would result in an increase in fair value of derivatives by RR 492 million (31 December 2011: RR 384 million) (assuming all other variable do not change).

Deferred income tax asset recognition. The recognised deferred tax asset represents income taxes recoverable through future deductions from taxable profits, and is recorded in the statement of financial position. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. The future taxable profits and the amount of tax benefits that are probable in the future are based on a medium term business plan prepared by management and extrapolated results thereafter. The business plan is based on management expectations that are believed to be reasonable under the circumstances. Key assumptions in the business plan is to obtain profits in the current and subsequent financial years through widening of product range and client base.

Accounting for subordinated debt from Vnesheconombank. The Russian government provided assistance to the Russian financial system by instructing the Russian State Corporation Bank Razvitiya i Vneshneekonomicheskoy Deyatelnosti ("Vnesheconombank") to grant subordinated debts to selected banks. In October 2008 the Group attracted a subordinated debt from Vnesheconombank in the amount of RR 25 000 million with maturity in December 2019 and interest rate of 8.0% p.a. This subordinated debt was attracted in accordance with the Federal Law # 173-FZ "On supplementary measures to support financial system of the Russian Federation" dated 13 October 2008 (the "Federal Law # 173-FZ").

Due to its unique terms and conditions, subordinated nature and absence of observable current market transactions providing evidence of a market rate for such instruments, the debt was originally recognised and subsequently carried on the consolidated statement of financial position at amortised contractual value.

Had there been evidence that the market interest rate for such debt was higher than the contractual interest rate, the amortised contractual value of the debt would have been replaced by (i) the amortised value of the debt determined based on the fair value of the debt at the date of origination and (ii) the unamortised value of the government grant embedded in such low interest debt; there would have been no impact on the profit or loss for the year since the increased effective interest rate would have been offset by amortisation of the government grant.

4 Critical Accounting Estimated and Judgements in Applying Accounting Policies (Continued)

Accounting for the change of interest rate on the subordinated debt from Vnesheconombank. In July 2010, Federal Law # 173-FZ was amended to reduce the interest rate on subordinated debt attracted by the Group from Vnesheconombank from 8.0% p.a. to 6.5% p.a. All other terms of the debt remained unchanged.

The Group accounted for such reduction in accordance with IAS 39 "Financial Instruments: Recognition and Measurement" and tested whether the modification was substantial. As the modification was not substantial, the Group accounted for the change in the interest rate as a prospective adjustment of the effective interest rate.

The alternative possible accounting treatment could have been to account for the above reduction of interest rate in accordance with IAS 20 "Accounting for Government Grants and Disclosure of Government Assistance" and the difference between the previous and revised carrying value of the debt in the amount of RR 2 375 million would have been recorded as a government grant and included in deferred income within other liabilities and would have to be amortised through interest expense until the debt's maturity date.

5 Adoption of New or Revised Standards and Interpretations

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

"Disclosures — Transfers of Financial Assets" — Amendments to IFRS 7 (issued in October 2010 and effective for annual periods beginning on or after 1 July 2011). The amendment requires additional disclosures in respect of risk exposures arising from transferred financial assets. The amendment includes a requirement to disclose by class of asset the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party, yet remain on the entity's balance sheet. Disclosures are also required to enable a user to understand the amount of any associated liabilities, and the relationship between the financial assets and associated liabilities. Where financial assets have been derecognised, but the entity is still exposed to certain risks and rewards associated with the transferred asset, additional disclosure is required to enable the effects of those risks to be understood. Refer to Note 33.

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

Unless otherwise stated above, the amendments, improvements and interpretations did not have any significant effect on the Group's consolidated financial statements.

6 New Accounting Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2013 or later, and which the Group has not early adopted.

IFRS 10, Consolidated Financial Statements, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013) replaces all of the guidance on control and consolidation in IAS 27 "Consolidated and separate financial statements" and SIC 12 "Consolidation - special purpose entities". IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control. This definition is supported by extensive application guidance. The Group does not expect the new standard to have any impact on its consolidated financial statements.

IFRS 11, Joint Arrangements, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013) replaces IAS 31 "Interests in Joint Ventures" and SIC 13 "Jointly Controlled Entities **–** Non-Monetary Contributions by Venturers". Changes in the definitions have reduced the number of types of joint arrangements to two: joint operations and joint ventures. The existing policy choice of proportionate consolidation for jointly controlled entities has been eliminated. Equity accounting is mandatory for participants in joint ventures. The Group does not expect the new standard to have any impact on its consolidated financial statements.

6 New Accounting Pronouncements (Continued)

IFRS 12, Disclosure of Interests in Other Entities, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013) applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. It replaces the disclosure requirements currently found in IAS 28 "Investments in associates". IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. To meet these objectives, the new standard requires disclosures in a number of areas, including significant judgements and assumptions made in determining whether an entity controls, jointly controls, or significantly influences its interests in other entities, extended disclosures on share of non-controlling interests in group activities and cash flows, summarised financial information of subsidiaries with material non-controlling interests, and detailed disclosures of interests in unconsolidated structured entities. The Group is currently assessing the impact of the new standard on its consolidated financial statements.

IFRS 13, Fair Value Measurement, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013) aims to improve consistency and reduce complexity by providing a revised definition of fair value, and a single source of fair value measurement and disclosure requirements for use across IFRSs. The Group is currently assessing the impact of the new standard on its consolidated financial statements.

IAS 27, Separate Financial Statements, (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013) was changed and its objective is now to prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The guidance on control and consolidated financial statements was replaced by IFRS 10, Consolidated Financial Statements. The Group does not expect the standard to have any impact on its consolidated financial statements.

IAS 28, Investments in Associates and Joint Ventures, (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013). The amendment of IAS 28 resulted from the Board's project on joint ventures. When discussing that project, the Board decided to incorporate the accounting for joint ventures using the equity method into IAS 28 because this method is applicable to both joint ventures and associates. With this exception, other guidance remained unchanged. The Group does not expect the standard to have any impact on its consolidated financial statements.

Amendments to IAS 1, Presentation of Financial Statements, (issued in June 2011, effective for annual periods beginning on or after 1 July 2012) changes the disclosure of items presented in other comprehensive income. The amendments require entities to separate items presented in other comprehensive income into two groups, based on whether or not they may be reclassified to profit or loss in the future. The suggested title used by IAS 1 has changed to "Statement of profit or loss and other comprehensive income". The Group expects the amended standard to change presentation of its consolidated financial statements, but have no impact on measurement of transactions and balances.

Amended IAS 19, Employee Benefits, (issued in June 2011, effective for periods beginning on or after 1 January 2013) makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. The standard requires recognition of all changes in the net defined benefit liability (asset) when they occur, as follows: (i) service cost and net interest in profit or loss; and (ii) remeasurements in other comprehensive income. The Group does not expect the amendments to have any material effect on its consolidated financial statements.

Amendments to IFRS 1, First-time adoption of International Financial Reporting Standards — Government loans, (issued in March 2012 and effective for annual periods beginning 1 January 2013). The amendments, dealing with loans received from governments at a below market rate of interest, give first-time adopters of IFRSs relief from full retrospective application of IFRSs when accounting for these loans on transition. This will give first-time adopters the same relief as existing preparers. The Group does not expect the amendments to have any material effect on its consolidated financial statements.

6 New Accounting Pronouncements (Continued)

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

Transition Guidance Amendments to IFRS 10, IFRS 11 and IFRS 12 (issued in June 2012 and effective for annual periods beginning on or after 1 January 2013). The amendments clarify the transition guidance in IFRS 10 Consolidated Financial Statements. Entities adopting IFRS 10 should assess control at the first day of the annual period in which IFRS 10 is adopted, and if the consolidation conclusion under IFRS 10 differs from IAS 27 and SIC 12, the immediately preceding comparative period (that is, year 2012 for a calendar year-end entity that adopts IFRS 10 in 2013) is restated, unless impracticable. The amendments also provide additional transition relief in IFRS 10, IFRS 11, Joint Arrangements, and IFRS 12, Disclosure of Interests in Other Entities, by limiting the requirement to provide adjusted comparative information only for the immediately preceding comparative period. Further, the amendments will remove the requirement to present comparative information for disclosures related to unconsolidated structured entities for periods before IFRS 12 is first applied. The Group is currently assessing the impact of the amendments on its consolidated financial statements.

Other revised standards and interpretations: IFRIC 20, Stripping Costs in the Production Phase of a Surface Mine, considers when and how to account for the benefits arising from the stripping activity in mining industry. The interpretation will not have an impact on the Group's consolidated financial statements.

IASB has also issued standards that are not yet enacted in the Russian Federation.

Disclosures — Offsetting Financial Assets and Financial Liabilities — Amendments to IFRS 7 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2013). The amendment requires disclosures that will enable users of the Group's consolidated financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off. The amendment will have an impact on disclosures but will have no effect on measurement and recognition of financial instruments.

Offsetting Financial Assets and Financial Liabilities — Amendments to IAS 32 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2014). The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying the meaning of "currently has a legally enforceable right of set-off" and that some gross settlement systems may be considered equivalent to net settlement. The Group is considering the implications of the amendment, the impact on the Group and the timing of its adoption by the Group.

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

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

6 New Accounting Pronouncements (Continued)

- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent payments of principal and interest only (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.
- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

While adoption of IFRS 9 is mandatory from 1 January 2015, earlier adoption is permitted. The Group is considering the implications of the standard, the impact on the Group's consolidated financial statements and the timing of its adoption by the Group.

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

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Group's consolidated financial statements.

7 Cash and Cash Equivalents

In millions of Russian Roubles	**2012**	**2011**
Cash on hand	23 284	19 635
Cash balances with the CBRF (other than mandatory reserve deposits)	46 266	33 015
Correspondent accounts and deposits with other banks with original maturities less than one month	34 739	77 225
Settlement accounts with stock and currency exchanges	2 053	3 256
Deals with securities purchased under "reverse-repo agreements" with original maturities of less than one month	-	828
Total cash and cash equivalents	**106 342**	**133 959**

As at 31 December 2011 cash equivalents of RR 828 million are effectively collateralized by securities purchased under reverse sale and repurchase agreements at fair value of RR 956 million. The Group had a right to sell or repledge these securities.

As at 31 December 2012, correspondent accounts and deposits with other banks with original maturities less than one month included the balance with one Russian banking group with rating of its state-owned parent bank BBB (S&P) in the amount of RR 15 878 million or 15% of total cash and cash equivalents (2011: one Russian banking group with rating of its state-owned parent bank BBB (S&P) in the amount of RR 45 505 million or 34% of total cash and cash equivalents).

7 Cash and Cash Equivalents (Continued)

Analysis by credit quality of cash and cash equivalents is as follows:

In millions of Russian Roubles	2012	2011
Current and not impaired		
Cash on hand	23 284	19 635
Cash balances with the CBRF (other than mandatory reserve deposits)	46 266	33 015
Correspondent accounts and deposits with other banks with original maturities less than one month:		
- top 30 Russian banks (by net assets) and their subsidiary banks	26 112	58 815
- OECD banks and their subsidiary banks	8 313	17 099
- other Russian banks	-	1 303
- other non-resident banks	314	8
Settlement accounts with stock and currency exchanges	2 053	3 256
Deals with securities purchased under “reverse-repo agreements” with original maturities of less than one month:		
- other Russian banks	-	828
Total cash and cash equivalents	**106 342**	**133 959**

Refer to Note 35 for the disclosure of fair value of cash and cash equivalents. Geographical and interest rate analyses of cash and cash equivalents are disclosed in Note 31.

8 Trading Securities

In millions of Russian Roubles	2012	2011
Promissory Notes	19 220	-
Total trading securities	**19 220**	**-**

Trading securities are carried at fair value which also reflects any credit risk related write-downs. As trading securities are carried at their fair values based on observable market data, the Group neither analyse nor monitor impairment indicators.

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

In millions of Russian Roubles	Securities internationally rated not lower than BB- (S&P)*	Securities internationally rated lower than BB- (S&P)*	Total
Promissory Notes	17 603	1 617	19 220
Total debt trading securities	**17 603**	**1 617**	**19 220**

* or analogous ratings of other rating agencies

If a security’s rating is unavailable, the issuer’s rating is used.

Promissory notes are represented by promissory notes denominated in Russian Roubles issued at a discount to nominal value by Russian companies. As at 31 December 2012 these promissory notes have maturity date from March to November 2013 and yield to maturity from 7.8% p.a. to 9.8% p.a.

Refer to Note 35 for the disclosure of fair value hierachy for trading securities. Geographical and interest rate analyses of trading securities are disclosed in Note 31.

8 Trading Securities (Continued)

The Group reclassified the following financial assets from held for trading category during 2008:

In million of Russian Roubles	**Amount reclassified**	**Undiscounted cash flows expected to be recovered**	**Effective interest rate (%)**
Reclassified into held to maturity			
Federal loan bonds (OFZ)	4 141	7 825	5.7 – 7.3
Municipal and subfederal bonds	1 201	1 698	7.1 – 9.2
Corporate bonds	980	1 411	6.7 – 10.1
Corporate Eurobonds	793	1 300	7.0 – 8.8
Reclassified into available for sale			
Municipal and subfederal bonds	53	56	7.0
Corporate bonds	2 792	3 868	7.3 – 15.4
Corporate Eurobonds	1 959	2 918	6.2 – 11.6
Corporate shares	12	12	-
Total	**11 931**	**19 088**	

The reclassification was made effective from 1 July 2008 when, in management's opinion, the third quarter 2008 collapse in financial markets liquidity and stability commenced, which had also led to the International Accounting Standards Board issuing the amendment allowing reclassifications from that date.

Management believes that the declines in market prices that occurred in the third quarter of 2008 represent a rare event as they are significantly out of line with historical volatilities observed in financial markets.

The carrying amounts and fair values of all financial assets that have been reclassified from trading securities and which were not yet sold or otherwise derecognised, were as follows:

	2012		**2011**	
In millions of Russian Roubles	**Carrying value**	**Fair value**	**Carrying value**	**Fair value**
Reclassified into held to maturity	4 052	3 995	5 774	5 936
Reclassified into available for sale	8	8	292	292
Total	**4 060**	**4 003**	**6 066**	**6 228**

Income or loss recognised for 2012 and fair value gain or loss that would have been recognised if financial assets had not been reclassified were as follows:

	Income recognised in profit or loss after reclassification*					**Fair value gain/(loss) that would have been recognised if the assets had not been reclassified**				
In millions of Russian Roubles	**2012**	**2011**	**2010**	**2009**	**2008**	**2012**	**2011**	**2010**	**2009**	**2008**
Reclassified into held to maturity	511	486	480	540	482	191	84	441	833	(1 307)
Reclassified into available for sale	4	59	215	492	743	(1)	(40)	74	1 067	(1 612)
Total	**515**	**545**	**695**	**1 032**	**1 225**	**190**	**44**	**515**	**1 900**	**(2 919)**

* Income or loss recognised after reclassification comprises gains less losses from sale, interest income and foreign exchange gains less losses.

9 Repurchase Receivables

In millions of Russian Roubles	2012	2011
Securities available for sale		
Corporate bonds	-	825
Federal loan bonds (OFZ)	-	443
Municipal and subfederal bonds	-	48
Securities held to maturity		
Corporate bonds	-	1 053
Corporate Eurobonds	20 632	-
Total repurchase receivables	**20 632**	**2 369**

Repurchase receivables relate to the transferred financial assets in transactions that did not qualify for derecognition. As at 31 December 2012 carrying value of liabilities related to securities held to maturity sold under sale and repurchase agreements is RR 17 161 million.

Corporate Eurobonds are securities denominated in Russian Roubles issued by major Russian company rated not lower than BB- (S&P). Corporate Eurobonds are traded at a discount or premium to face value and carry a coupon payable semi-annually. As at 31 December 2012 these bonds have maturity date in November 2016, coupon rate 7.6% p.a. and yield to maturity or next repricing date 8.3% p.a.

Corporate bonds are securities denominated in Russian Roubles issued by major Russian companies. Corporate bonds are traded at a discount or premium to face value and carry a coupon payable semi-annually. As at 31 December 2011 these bonds had maturity dates from September 2013 to June 2021, coupon rates from 7.5% to 15.0% p.a. and yield to maturity or next repricing date from 7.6% to 10.4% p.a., depending on the type of the bond issue, the issuer and the market conditions.

Federal loan bonds (OFZ) are represented by state securities denominated in Russian Roubles issued by Ministry of Finance of Russian Federation. Federal loan bonds (OFZ) are traded at a discount or premium to face value and carry a coupon payable semi-annually. As at 31 December 2011 these bonds had maturity dates from June 2017 to March 2018, coupon rate from 7.4% to 7.5% p.a. and yield to maturity from 8.3% to 8.4% p.a. depending on the type of the bond issue and the market conditions.

Municipal and subfederal bonds are represented by bonds issued by Russian municipal and subfederal authorities. These bonds are traded at a discount or premium to face value and carry a coupon payable semi-annually. As at 31 December 2011 these bonds had maturity date in June 2017, coupon rate 8.0% p.a. and yield to maturity 8.7% p.a.

Analysis by credit quality of repurchase receivables outstanding at 31 December 2011 is as follows:

In millions of Russian Roubles	Securities internationally rated not lower than BB- (S&P)*	Internationally unrated securities	Total
Securities available for sale			
Corporate bonds	536	289	825
Federal loan bonds (OFZ)	443	-	443
Municipal and subfederal bonds	48	-	48
Securities held to maturity			
Corporate bonds	931	122	1 053
Total repurchase receivables	**1 958**	**411**	**2 369**

* or analogous ratings of other rating agencies

If a security's rating is unavailable, the issuer's rating is used.

Refer to Note 35 for the disclosure of fair value hierarchy of repurchase receivables related to securities available for sale and fair values of repurchase receivables related to securities held to maturity. Geographical and interest rate analyses of repurchase receivables are disclosed in Note 31.

10 Financial Instruments Designated at Fair Value Through Profit or Loss

In millions of Russian Roubles	**2012**	**2011**
Credit Linked Note	1 036	848
Due from other banks	11 514	10 377
Total financial instruments designated at fair value through profit or loss	**12 550**	**11 225**

International credit ratings of issuers of the notes and of counterparty banks were not less than BB- (S&P) as at 31 December 2012 (2011: not less than BB- (S&P)).

Management classified financial instruments with embedded derivatives as financial instruments designated at fair value through profit or loss, although there was an option to separate the embedded derivative and value the host contract at amortised cost.

In May 2008, the Group purchased a Credit Linked Note from an OECD bank in the nominal amount of RR 2 500 million at the net price of 19.5% of the nominal amount with maturity in May 2023 and a zero coupon. The Note has an embedded Credit Default Swap linked to the Bank's own credit risk.

Due from other banks with embedded derivatives are as follows:

In March 2010, the Group placed funds with the OECD bank in the total amount of USD 200 million, with maturity in April 2014 and interest rates of 10.0% and 10.4% p.a. The contracts have embedded derivatives FTD ("first to default"), linked to credit events associated with quasi-sovereign issuers.

In April 2010 and August 2010, the Group placed funds with the OECD bank in the total amount of USD 107 million, with maturity in March 2013 and August 2015 and interest rates of 10.3% and 10.1% p.a. The contracts have embedded derivatives linked to a credit risk of a quasi-sovereign issuer.

In May 2011, the Group placed funds with the OECD bank in the total amount of USD 50 million, with maturity in May 2016, an interest rate of 0.6% p.a. The contract has an embedded option linked to the performance of commodity index.

Refer to Note 35 for the disclosure of fair value hierarchy for financial instruments designated at fair value through profit or loss. Geographical and interest rate analyses of financial instruments designated at fair value through profit or loss are disclosed in Note 31.

11 Due from Other Banks

In millions of Russian Roubles	**2012**	**2011**
Current term placements with other banks	45 886	39 577
Overdue placements with other banks	155	-
Less: Provision for impairment	(111)	(8)
Total due from other banks	**45 930**	**39 569**

Analysis of the movements in the provision for loan impairment for due from other banks is as follows:

In millions of Russian Roubles	**2012**	**2011**
Provision for loan impairment for due from other banks at 1 January	**8**	**23**
Provision/(recovery of provision) for loan impairment for due from other banks during the year	103	(15)
Provision for loan impairment for due from other banks at 31 December	**111**	**8**

11 Due from Other Banks (Continued)

Analysis by credit quality of amounts due from other banks is as follows:

In millions of Russian Roubles	**2012**	**2011**
Current and not impaired		
- OECD banks and their subsidiary banks	27 536	25 962
- Other non-resident banks	9 673	5 580
- Top 30 Russian banks (by net assets) and their subsidiary banks	5 075	4 831
- Other Russian banks	3 543	2 898
Total current and not impaired	**45 827**	**39 271**
Individually assessed for impairment		
- watch-list	59	306
- 181 to 365 days overdue	155	-
Total individually assessed for impairment	**214**	**306**
Total due from other banks (before impairment)	**46 041**	**39 577**
Provision for impairment	**(111)**	**(8)**
Total due from other banks	**45 930**	**39 569**

Analysis of amounts due from other banks by collateral is as follows:

In millions of Russian Roubles	**2012**	**2011**
Unsecured interbank loans	18 347	10 709
Interbank loans collateralised by:		
- guarantee deposits	24 492	25 962
- securities	523	-
- other assets	2 568	2 898
Total due from other banks	**45 930**	**39 569**

As at 31 December 2012, the Group has placements with one foreign bank with rating A+ (S&P) in the total amount of RR 24 492 million, or 53% of total due from other banks (2011: one foreign bank with rating A+ (S&P) in the total amount of RR 25 962 million, or 66% of total due from other banks).

Refer to Note 35 for the disclosure of fair value of due from other banks. Geographical and interest rate analyses of due from other banks are disclosed in Note 31.

12 Loans and Advances to Customers

In millions of Russian Roubles	**2012**	**2011**
Loans to legal entities		
- Loans to corporates	946 315	796 450
- Lending for food interventions	21 794	33 256
- Deals with securities purchased under “reverse-repo agreements”	-	1 990
- Investments in agricultural cooperatives	396	509
Loans to individuals	199 572	147 403
Total loans and advances to customers (before impairment)	**1 168 077**	**979 608**
Less: Provision for loan impairment	(97 365)	(75 911)
Total loans and advances to customers	**1 070 712**	**903 697**

As at 31 December 2012, included in gross amount of loans are loans in the principal amount of RR 569 898 million (2011: RR 502 982 million), where borrowers are eligible for interest subsidies from federal and regional budgets. Subsidies are paid directly to the borrowers.

Lending for food interventions is represented by loans to a company, which is 51% owned by the Federal Government of the Russian Federation (2011: 100% owned).

As at 31 December 2012, the Group has loans to ten largest borrowers (groups of borrowers) in the total amount of RR 138 884 million (before impairment), or 12% of total loans and advances to customers (2011: the Group has loans to ten largest borrowers (groups of borrowers) in the total amount of RR 118 011 million (before impairment), or 12% of total loans and advances to customers).

Investments in agricultural cooperatives represent contributions made by the Group as part of its participation in the National Project "Development of the Agro-Industrial Sector". According to the contracts with cooperatives the Group receives fixed annual dividends at the rate 1/2 of the rate of refinancing of CBRF of the contributions made. The Group’s management has a right to make cooperative member contributions for the period of 5 years and at the end to withdraw its contributions.

As at 31 December 2011, loans and advances to customers in the amount of RR 1 990 million were effectively collateralised by securities purchased under reverse repo agreements with a fair value RR 2 348 million.The Group had the right to sell or repledge securities.

Analysis of the movements in the provision for loan impairment is as follows:

	2012				**2011**			
In millions of Russian Roubles	**Loans to corporates**	**Investments in agricultural cooperatives**	**Loans to individuals**	**Total**	**Loans to corporates**	**Investments in agricultural cooperatives**	**Loans to individuals**	**Total**
Provision for loan impairment at 1 January	**73 084**	**18**	**2 809**	**75 911**	**54 769**	**23**	**2 237**	**57 029**
Provision/(recovery of provision) for loan impairment during the year	24 208	(2)	2 294	26 500	22 000	(5)	572	22 567
Provision for loans sold during the year	(721)	-	-	(721)	(3 203)	-	-	(3 203)
Loans and advances to customers written off during the year as uncollectible	(4 314)	-	(11)	(4 325)	(467)	-	-	(467)
Reclassification to assets of disposal groups held for sale	-	-	-	-	(15)	-	-	(15)
Provision for loan impairment at 31 December	**92 257**	**16**	**5 092**	**97 365**	**73 084**	**18**	**2 809**	**75 911**

12 Loans and Advances to Customers (Continued)

No provision for "Lending for food interventions" and "Reverse repo agreements" was recorded as at 31 December 2012 and 2011.

The economic sector structure of the credit portfolio is as follows:

	2012		2011	
In millions of Russian Roubles	**Amount**	**%**	**Amount**	**%**
Agriculture	613 089	53	543 731	55
Individuals	199 572	17	147 403	15
Manufacturing	150 113	13	126 716	13
Trading	103 387	9	85 529	9
Construction	40 169	3	35 111	4
Other	61 747	5	41 118	4
Total loans and advances to customers (before impairment)	**1 168 077**	**100**	**979 608**	**100**

As at 31 December 2012, the aggregate amount of loans to individuals included loans in the principal amount of RR 75 162 million issued to individuals-sole farmers (2011: RR 61 884 million).

Loan portfolio analysis by credit quality. The Group estimates credit risk on the basis of professional judgement pronounced upon completing a comprehensive review of a borrower's activities taking into account their financial situation, debt service quality as well as all other information available to the Group related to any other risks of the borrower.

In reviewing the corporate borrower's financial position the Group applies a system of coefficients according to which the borrower's financial situation is assessed as follows:

- *good* if the total score in evaluation of financial situation using the coefficient approach is 53 or more;
- *average* if the total score in evaluation of financial situation using the coefficient approach ranges from 52 to 25 (inclusive);
- *poor* if the total score in evaluation of financial situation using the coefficient approach is less than 25.

In accordance with the methodology of financial assets impairment evaluation, the Group includes loans, for which there is no identified loss event and/or a borrower/debtor default into the category "*collectively assessed for impairment".*

As a *loss event* the Group recognizes objective evidence of asset impairment that emerged subsequent to initial recognition, namely:

- *for loans issued to legal entities (including individual entrepreneurs – sole farmers):*
  - significant financial difficulty of the borrower – changes in financial position from the moment when the loan is issued from good or average to poor (score of 24 and below in accordance with the methodology of evaluation and analysis of the Group's borrower financial position taking into consideration their industry, organisational and legal specifics);
  - breach of contract – principal or interest overdue by more than 5 days;
- *for loans issued to individuals:*
  - significant financial difficulty of the borrower – changes in the scoring of the borrower's financial position from the moment when the loan was issued from good to poor. i.e., loss or significant decrease in income or cost of property, out of which the individual intended to repay the debt (e.g., termination of labour relations between the employer and the individual if the latter has no significant savings, existence of court decisions on bringing the individual to criminal responsibility in the form of imprisonment that came into effect, existence of documentarily supported information of revocation of the license from the credit institution with which the individual's deposit is placed, if failure to receive this deposit impacts the ability of the individual borrower to fulfil his/her obligations on the loan);
  - breach of contract – principal or interest overdue by more than 30 days.

12 Loans and Advances to Customers (Continued)

As a *default* of a borrower/debtor, the Group recognizes objective evidence that it is impossible for the creditor to claim future cash flows due under the contract, unless the collateral is used (default of the borrower/debtor), namely:

- *for legal entities (including individual entrepreneurs – sole farmers):*
  - the debtors excluded from the Single State Register of Legal Entities without legal succession (based upon the results of completed bankruptcy proceedings or on the basis of court decision on liquidation of the borrower at the presentation of the authorised body);
  - the debtors, with respect to whom bankruptcy proceedings are completed but they are not excluded from the Single State Register of Legal Entities;
  - the debtors, with respect to whom bankruptcy proceedings are conducted however the court has rejected the claim to include the amounts payable to the Bank into the register of creditors and/or there is no actual property used as a collateral that belongs to these debtors;
  - the debtors, with respect to whom court decision has entered into force but the court has rejected the claim to collect the debt in the Bank's favour or collection under a write-off execution is impossible due to expiry of the term, during which it can be presented for execution;
  - the debtors, who actually discontinued their operation and with respect to whom there exists a documentary confirmation of their actual absence; and
  - principal or interest overdue by over 365 days;
- *for individuals:*
  - death of the debtor in the absence of heirs and inheritance;
  - the debtors, with respect to whom court decision has entered into force but the court has rejected the claim to collect the debt in the Bank's favour or collection under a writ of execution is impossible due to expiry of the term, during which it can be presented for execution;
  - principal or interest overdue by over 365 days; and
  - the debtors, who do not reside at the place of residence indicated in the loan agreement and with respect to whom it is impossible to identify the new place of residence.

Lending for food interventions and reverse repo agreements are assessed for impairment by the Group on the individual basis as the nature of the borrowers/products is unique and exposures could not be grouped with others.

12 Loans and Advances to Customers (Continued)

Analysis by credit quality of loans outstanding at 31 December 2012 is as follows:

In millions of Russian Roubles	**Loans to corporates**	**Lending for food interven-tions**	**Invest-ments in agricul-tural coopera-tives**	**Loans to individuals**	**Total**
1. Current and not impaired					
- good financial position	-	21 794	-	-	21 794
Total current and not impaired	**-**	**21 794**	**-**	**-**	**21 794**
2. Collectively assessed for impairment					
Current					
- good financial position	412 545	-	396	-	412 941
- average financial position	207 416	-	-	-	207 416
- included in portfolios of similar risk loans	-	-	-	190 664	190 664
Overdue					
- overdue by: less than 6 days for legal entities, less than 31 days for individuals	18 079	-	-	1 473	19 552
Total collectively assessed for impairment	**638 040**	**-**	**396**	**192 137**	**830 573**
3. Individually assessed for impairment					
- watch list	183 037	-	-	-	183 037
- poor financial position	8 079	-	-	-	8 079
- 6 to 30 days overdue	5 090	-	-	-	5 090
- 31 to 90 days overdue	11 447	-	-	1 320	12 767
- 91 to 180 days overdue	12 972	-	-	1 482	14 454
- 181 to 365 days overdue	19 584	-	-	2 217	21 801
- over 365 days overdue	68 066	-	-	2 416	70 482
Total individually assessed for impairment	**308 275**	**-**	**-**	**7 435**	**315 710**
Total loans and advances to customers (before impairment)	**946 315**	**21 794**	**396**	**199 572**	**1 168 077**
Provision for loan impairment	**(92 257)**	**-**	**(16)**	**(5 092)**	**(97 365)**
Total loans and advances to customers	**854 058**	**21 794**	**380**	**194 480**	**1 070 712**

12 Loans and Advances to Customers (Continued)

Analysis of loans by credit quality at 31 December 2011 is as follows:

In millions of Russian Roubles	Loans to corporates	Lending for food interventions	Reverse repo agreements	Investments in agricultural cooperatives	Loans to individuals	Total
1. Current and not impaired						
- good financial position	-	33 256	1 990	-	-	35 246
Total current and not impaired	**-**	**33 256**	**1 990**	**-**	**-**	**35 246**
2. Collectively assessed for impairment						
Current						
- good financial position	389 123	-	-	509	-	389 632
- average financial position	193 421	-	-	-	-	193 421
- included in portfolios of similar risk loans	441	-	-	-	143 244	143 685
Overdue						
- overdue by: less than 6 days for legal entities, less than 31 days for individuals	9 427	-	-	-	1 002	10 429
Total collectively assessed for impairment	**592 412**	**-**	**-**	**509**	**144 246**	**737 167**
3. Individually assessed for impairment						
- watch list	120 524	-	-	-	-	120 524
- poor financial position	2 972	-	-	-	-	2 972
- 6 to 30 days overdue	3 244	-	-	-	-	3 244
- 31 to 90 days overdue	8 452	-	-	-	470	8 922
- 91 to 180 days overdue	8 680	-	-	-	338	9 018
- 181 to 365 days overdue	16 324	-	-	-	394	16 718
- over 365 days overdue	43 842	-	-	-	1 955	45 797
Total individually assessed for impairment	**204 038**	**-**	**-**	**-**	**3 157**	**207 195**
Total loans and advances to customers (before impairment)	**796 450**	**33 256**	**1 990**	**509**	**147 403**	**979 608**
Provision for loan impairment	**(73 084)**	**-**	**-**	**(18)**	**(2 809)**	**(75 911)**
Total loans and advances to customers	**723 366**	**33 256**	**1 990**	**491**	**144 594**	**903 697**

Overdue loans represent not only past due payments but the whole outstanding balances of such loans.

12 Loans and Advances to Customers (Continued)

Loans included in the watch list are in the process of restructuring and/or renegotiation. Watch list includes loans and advances to customers overdue from 6 to 180 days of RR 9 051 million (2011: RR 14 879 million) and loans and advances to customers overdue more than 180 days of RR 89 672 million (2011: RR 46 439 million). The remaining loans included in the watch list are not overdue.

Loans included in portfolio with similar risk loans consist of small value loans with homogeneous credit characteristics without any signs of impairment. According to internal policies the bank before granting each particular loan analyses sufficiency of earnings and collateral (where applicable), obtains confirmation from external sources on positive credit history and reputation of each borrower. Current collectivelly assessed loans to individuals comprises: loans to the sole farmers — 37% (2011: 42%), mortgage loans — 14% (2011: 11%) and consumer and other individual loans — 49% (2011: 47%).

The table below summarizes the results of quality analysis of the loan portfolio:

In millions of Russian Roubles	2012	2011
Current loans	925 208	824 162
Past due instalments	147 290	92 816
Current portion of past due loans	95 579	62 630
Provision for loan impairment	(97 365)	(75 911)
Total loans and advances to customers	**1 070 712**	**903 697**

Loan collateral

The Group accepts different types of collateral, such as: inventories (finished products, raw materials, goods in turnover), equipment, including agricultural machinery, motor vehicles, real estate, land plots, construction in progress, sea and other vessels, farm animals, future crop, property acquired in the future, property rights, warranties, banking guarantees, government guarantees of Russian Federation and municipal guarantees.

Where appropriate, the value of collateral was incorporated in the assessment of recoverable amount of loans and advances to customers.

Among other measures aimed at credit enhancement is the Group's requirement to insure the subject of collateral. Property is insured by insurance companies that have accreditation and a cooperation agreement with the Bank.

The Group monitors the condition and reviews the structure of the collateral. The primary purpose of the review of the structure of collateral as well as monitoring of the collateral rights by the Group include:

- obtaining complete and objective information on the available collateral property and its structure;
- development of optimal schemes of realisation of collateral rights with account for the specifics of regional distribution;
- improving the effectiveness and timeliness of collateral foreclosure process;
- preparation of statistical and analytical information for the Group management; and
- control over the Group's regional branches with respect to issued loans.

The majority of collateral (over 76%) (2011: over 78%) relates to the following types: real estate – 49% (2011: 49%), equipment – 17% (2011: 17%) and goods in turnover – 10% (2011: 12%).

According to the Group's internal documents it is allowed to issue unsecured loans in the following cases:

- for legal entities – overdrafts; and
- for individuals – loans up to RR 50 thousand under the program "Sadovod"; loans up to RR 700 thousand under the program "Loans to the sole farmers"; loans up to RR 750 thousand (or equivalent in foreign currency) under the program "Consumer loan without collateral"; loans up to RR 3 million (or equivalent in foreign currency) under the program "Credit card" and overdrafts (up to RR 300 thousand or equivalent in foreign currency).

12 Loans and Advances to Customers (Continued)

The financial effect of collateral is presented by disclosing collateral values separately for (i) those loans and advances to customers where collateral and other credit enhancements are equal to, or exceed, gross amount (before impairment) of the asset ("over-collateralised assets") and (ii) those loans and advances to customers where collateral and other credit enhancements are less than the gross amount (before impairment) of the asset ("under-collateralised assets"). The effect of collateral at 31 December 2012 was as follows:

	Over-collateralised assets		**Under-collateralised assets**	
In millions of Russian Roubles	**Loans and advances to customers (before impairment)**	**Fair value of collateral**	**Loans and advances to customers (before impairment)**	**Fair value of collateral**
Loans to legal entities				
- Loans to corporates	685 328	1 246 640	260 987	75 496
- Lending for food interventions	74	74	21 720	9 566
- Investments in agricultural cooperatives	-	-	396	-
Loans to individuals	26 389	55 117	173 183	979
Total	**711 791**	**1 301 831**	**456 286**	**86 041**

The effect of collateral at 31 December 2011 was as follows:

	Over-collateralised assets		**Under-collateralised assets**	
In millions of Russian Roubles	**Loans and advances to customers (before impairment)**	**Fair value of collateral**	**Loans and advances to customers (before impairment)**	**Fair value of collateral**
Loans to legal entities				
- Loans to corporates	544 897	1 168 542	251 553	25 268
- Lending for food interventions	31 087	31 087	2 169	446
- Deals with securities purchased under "reverse-repo agreements"	1 990	2 348	-	-
- Investments in agricultural cooperatives	-	-	509	-
Loans to individuals	18 543	35 597	128 860	770
Total	**596 517**	**1 237 574**	**383 091**	**26 484**

Refer to Note 35 for the disclosure of fair value of each class of loans and advances to customers. Geographical and interest rate analyses of loans and advances to customers are disclosed in Note 31. The information on related party transactions is disclosed in Note 37.

13 Investment Securities Available for Sale

In millions of Russian Roubles	2012	2011
Corporate bonds	34 805	44 083
Federal loan bonds (OFZ)	7 629	8 003
Municipal and subfederal bonds	1 101	1 140
Corporate Eurobonds	489	22 650
State Eurobonds	-	707
Corporate shares	12	12
Total investment securities available for sale	**44 036**	**76 595**

The primary factor that the Group considers in determining whether a debt security is impaired is its overdue status.

Analysis by credit quality of debt investment securities available for sale outstanding at 31 December 2012 is as follows:

In millions of Russian Roubles	Securities internationally rated not lower than BB- (S&P)*	Securities internationally rated lower than BB- (S&P)*	Internationally unrated securities	Total
Corporate bonds	25 247	8 127	1 431	34 805
Federal loan bonds (OFZ)	7 629	-	-	7 629
Municipal and subfederal bonds	1 047	54	-	1 101
Corporate Eurobonds	238	251	-	489
Total debt investment securities available for sale	**34 161**	**8 432**	**1 431**	**44 024**

* or analogous ratings of other rating agencies

Analysis by credit quality of debt investment securities available for sale outstanding at 31 December 2011 is as follows:

In millions of Russian Roubles	Securities internationally rated not lower than BB- (S&P)*	Securities internationally rated lower than BB- (S&P)*	Internationally unrated securities	Total
Corporate bonds	35 368	5 466	3 249	44 083
Corporate Eurobonds	21 743	907	-	22 650
Federal loan bonds (OFZ)	8 003	-	-	8 003
Municipal and subfederal bonds	1 038	102	-	1 140
State Eurobonds	707	-	-	707
Total debt investment securities available for sale	**66 859**	**6 475**	**3 249**	**76 583**

* or analogous ratings of other rating agencies

Corporate bonds in the Group's portfolio are represented by securities denominated in Russian Roubles issued by major Russian companies. Corporate bonds are traded at a discount or premium to face value and carry a coupon payable quarterly, semi-annually or annually depending on the type of the bond issue and the issuer. As at 31 December 2012 these bonds have maturity dates from February 2013 to November 2024 (2011: from January 2012 to January 2025), coupon rates from 6.7% to 14.5% p.a. (2011: from 6.3% to 14.8% p.a.) and yield to maturity or next repricing date from 6.8% to 17.0% p.a. (2011: from 6.1% to 14.9%p.a), depending on the type of the bond issue, the issuer and the market conditions.

13 Investment Securities Available for Sale (Continued)

Federal loan bonds (OFZ) are represented by state securities denominated in Russian Roubles issued by Ministry of Finance of Russian Federation. Federal loan bonds (OFZ) are traded at a discount or premium to face value and carry a coupon payable semi-annually. As at 31 December 2012 these bonds have maturity date from July 2022 to February 2027 (2011: from February 2013 to March 2018), coupon rate from 7.6% to 8.2% p.a. (2011: 6.7% to 12.0% p.a.) and yield to maturity from 6.9% p.a to 7.1% p.a. (2011: 6.7% to 8.4% p.a.) depending on the type of the bond issue and the market conditions.

Corporate Eurobonds are bonds denominated in USD and in Russian Roubles issued by major Russian companies. As at 31 December 2012 these bonds have maturity dates from December 2016 to April 2021 (2011: from April 2014 to September 2017), coupon rates from 7.6% to 7.8% p.a. (2011: 5.4% to 9.8% p.a.), payable semi-annually, and yield to maturity or next repricing date from 6.2% to 8.9% p.a. (2011: from 5.5% to 10.6%p.a.), depending on the type of the bond issue, the issuer and the market conditions.

Municipal and subfederal bonds are represented by Russian Roubles bonds of Russian municipal and subfederal authorities. These bonds are traded at a discount or premium to face value and carry a coupon payable quarterly or semi-annually, depending on the type of the bond issue and the issuer. As at 31 December 2012 these bonds have maturity dates from December 2014 to November 2018 (2011: June 2012 to June 2017), coupon rates from 7.0% to 8.9% p.a. (2011: from 7.6% to 9.3% p.a.) and yield to maturity or next repricing date from 7.8% to 8.7% p.a. (2011: from 6.8% to 9.0% p.a.), depending on the type of the bond issue, the issuer and the market conditions.

State Eurobonds are represented by Russian Federation bonds denominated in USD and in Russian Roubles. As at 31 December 2011 these bonds had maturity dates from March 2018 to March 2030, coupon rate from 7.5% p.a. to 7.9% p.a., payable semi-annually, and yield to maturity from 4.6% p.a. to 7.6% p.a.

The movements in investment securities available for sale are as follows:

In millions of Russian Roubles	**Note**	**2012**	**2011**
Carrying amount at 1 January		**76 595**	**15 687**
Purchases		91 406	116 178
Addition in the result of acquisition of subsidiary		-	14
Reclassification to investment securities held to maturity		(20 729)	(17 187)
Fair value gains less losses		575	(672)
Realised revaluation reserve (at disposal)		207	(324)
Interest income accrued	24	4 133	4 441
Interest income received		(4 345)	(3 554)
Proceeds from disposal		(104 892)	(51 385)
Foreign exchange differences gains less losses		(230)	91
Reclassification from Repurchase receivables	9	1 316	13 306
Carrying amount at 31 December		**44 036**	**76 595**

13 Investment Securities Available for Sale (Continued)

During 2011, 2012 the Group reclassified financial assets from the available-for-sale category. The amount of all financial assets that have been reclassified from investment securities available for sale and which were not yet sold or otherwise derecognised, were as follows:

In million of Russian Roubles	**Amount reclassified**	**Undiscounted cash flows expected to be recovered**	**Effective interest rate (%)**
Reclassified into held to maturity during 2011			
Corporate bonds	14 370	20 400	6.6 - 8.9
Municipal and subfederal bonds	2 641	3 099	7.7 - 8.1
Reclassified into held to maturity during 2012			
Corporate Eurobonds	20 721	27 230	6.7
Corporate bonds	8	9	7.1
Total	**37 740**	**50 738**	

The Group reclassified financial assets from the available-for-sale category as result of reassessment of its intention to held to maturity in 2011, 2012.

Refer to Note 35 for the disclosure of the fair value hierachy for investment securities available for sale. Geographical and interest rate analyses of investment securities available for sale are disclosed in Note 31.

14 Investment Securities Held to Maturity

In millions of Russian Roubles	**2012**	**2011**
Corporate bonds	14 916	14 306
State Eurobonds	6 659	7 058
Municipal and subfederal bonds	3 403	3 732
Federal Loan bonds (OFZ)	2 754	3 196
Corporate Eurobonds	267	1 564
Promissory notes	-	1 463
Total investment securities held to maturity	**27 999**	**31 319**

Analysis by credit quality of investment securities held to maturity at 31 December 2012 is as follows:

In millions of Russian Roubles	**Securities internationally rated not lower than BB- (S&P)***	**Securities internationally rated lower than BB- (S&P)***	**Total**
Corporate bonds	14 275	641	14 916
State Eurobonds	6 659	-	6 659
Municipal and subfederal bonds	2 985	418	3 403
Federal Loan bonds (OFZ)	2 754	-	2 754
Corporate Eurobonds	267	-	267
Total investment securities held to maturity	**26 940**	**1 059**	**27 999**

* or analogous ratings of other rating agencies

14 Investment Securities Held to Maturity (Continued)

Analysis by credit quality of investment securities held to maturity at 31 December 2011 is as follows:

In millions of Russian Roubles	**Securities internationally rated not lower than BB- (S&P)***	**Securities internationally rated lower than BB- (S&P)***	**Internationally unrated securities**	**Total**
Corporate bonds	13 476	-	830	14 306
State Eurobonds	7 058	-	-	7 058
Municipal and subfederal bonds	3 328	404	-	3 732
Federal Loan bonds (OFZ)	3 196	-	-	3 196
Corporate Eurobonds	1 564	-	-	1 564
Promissory notes	-	1 463	-	1 463
Total investment securities held to maturity	**28 622**	**1 867**	**830**	**31 319**

* or analogous ratings of other rating agencies

If a security's rating is unavailable, the issuer's rating is used.

The primary factor that the Group considers when deciding whether a debt security is impaired is its overdue status. Since the Group did not have overdue securities held to maturity, no provisions for impairment of these securities were recognised.

Corporate bonds are represented by securities denominated in Russian Roubles, issued by major Russian companies. Corporate bonds are traded at a discount or premium to face value and carry a coupon payable quarterly, semi-annually or annually, depending on the type of the bond issue and the issuer. As at 31 December 2012 these bonds have maturity dates from September 2013 to July 2023 (2011: from October 2012 to July 2023), coupon rates from 6.7% to 15.0% p.a. (2011: from 7.0% to 15.0% p.a.) and yield to maturity or next repricing date from 6.8% to 9.3% p.a. (2011: from 6.6% to 9.8% p.a.), depending on the type of the bond issue, the issuer and the market conditions.

State Eurobonds are represented by Russian Federation bonds denominated in USD. As at 31 December 2012 these bonds have maturity date in April 2020 (2011: in April 2020), coupon rate 5.0% p.a.(2011: 5.0% p.a) payable semi-annually, and yield to maturity 2.3% p.a. (2011: 4.6% p.a.).

Municipal and subfederal bonds are represented by bonds issued by Russian municipal and subfederal authorities denominated in Russian Roubles. These bonds are traded at a discount or premium to face value and carry a coupon payable quarterly or semi-annually, depending on the type of the bond issue and the issuer. As at 31 December 2012 these bonds have maturity dates from November 2013 to December 2015 (2011: from June 2012 to December 2015), coupon rates from 7.0% to 13.0% p.a. (2011: from 7.0% to 14.0% p.a.) and yield to maturity from 6.9% to 9.0% p.a. (2011: from 7.1% to 8.9% p.a.), depending on the type of the bond issue, the issuer and the market conditions.

Federal Loan bonds (OFZ) are represented by the state securities denominated in Russian Roubles issued by the Ministry of Finance of Russian Federation. As at 31 December 2012 these OFZ have maturity dates from July 2013 to February 2036 (2011: from July 2012 to February 2036), coupon rates from 6.0% to 7.0% p.a. (2011: from 6.1% to 8.0% p.a.) payable quarterly or semi-annually, and yield to maturity from 6.0% to 7.6% p.a. (2011: from 6.0% to 8.2% p.a.), depending on the type of the bond issue and the market conditions.

Corporate Eurobonds are interest bearing securities denominated in USD, issued by major Russian companies. As at 31 December 2012 these bonds have maturity dates from March 2013 to June 2013 (2011: from January 2012 to August 2037), coupon rates from 7.9% to 9.6% p.a. (2011: from 6.7% to 9.6%p.a.) payable semi-annually, and yield to maturity or next repricing date from 1.0% to 1.8% p.a. (2011: from 3.5% to 8.5% p.a.), depending on the type of the bond issue, the issuer and the market conditions.

Promissory notes are represented by promissory notes denominated in USD at a discount to nominal value issued by one Russian bank. As at 31 December 2011 these promissory notes had maturity date in November 2013 and yield to maturity 9.0% p.a.

Refer to Note 35 for the disclosure of the fair value of investment securities held to maturity. Geographical and interest rate analyses of securities held to maturity are disclosed in Note 31.

15 Premises, Equipment and Intangible Assets

	Note	Used in banking activities			Used in non-banking activities				Total	Intangible	Total
In millions of Russian Roubles		Office premises	Leasehold (premises) improve-ments	Office and computer equipment	Land	Produc-tion premises	Equip-ment	Land	premises and equip-ment	assets	
Cost or valuation at 1 January 2011		8 500	1 562	5 969	350	11 883	1 819	61	30 144	2 359	32 503
Accumulated depreciation		(489)	(462)	(2 168)	-	(840)	(200)	-	(4 159)	(796)	(4 955)
Carrying amount at 1 January 2011		**8 011**	**1 100**	**3 801**	**350**	**11 043**	**1 619**	**61**	**25 985**	**1 563**	**27 548**
Additions		664	34	743	37	405	121	57	2 061	416	2 477
Disposals		(6)	(29)	(76)	(1)	(6)	(19)	-	(137)	-	(137)
Depreciation charge: before revaluation	26, 27	(165)	(166)	(965)	-	(563)	(132)	-	(1 991)	(448)	(2 439)
Depreciation charge: realised revaluation reserve and revaluation loss	27	(17)	-	-	-	-	-	-	(17)	-	(17)
Changes in accumulated depreciation resulting from revaluation		(34)	-	-	-	-	-	-	(34)	-	(34)
Reclassification to assets of the disposal groups held for sale		-	-	-	-	(560)	(214)	-	(774)	-	(774)
Carrying amount at 31 December 2011		**8 453**	**939**	**3 503**	**386**	**10 319**	**1 375**	**118**	**25 093**	**1 531**	**26 624**
Cost or valuation at 31 December 2011		9 158	1 545	6 490	386	11 688	1 660	118	31 045	2 775	33 820
Accumulated depreciation		(705)	(606)	(2 987)	-	(1 369)	(285)	-	(5 952)	(1 244)	(7 196)
Carrying amount at 31 December 2011		**8 453**	**939**	**3 503**	**386**	**10 319**	**1 375**	**118**	**25 093**	**1 531**	**26 624**

15 Premises, Equipment and Intangible Assets (Continued)

In millions of Russian Roubles	Note	Used in banking activities: Office premises	Used in banking activities: Leasehold (premises) improve-ments	Used in banking activities: Office and computer equipment	Used in non-banking activities: Land	Used in non-banking activities: Production premises	Used in non-banking activities: Equipment	Used in non-banking activities: Land	Total premises and equipment	Intangible assets	Total
Cost or valuation at 1 January 2012		9 158	1 545	6 490	386	11 688	1 660	118	31 045	2 775	33 820
Accumulated depreciation		(705)	(606)	(2 987)	-	(1 369)	(285)	-	(5 952)	(1 244)	(7 196)
Carrying amount at 1 January 2012		**8 453**	**939**	**3 503**	**386**	**10 319**	**1 375**	**118**	**25 093**	**1 531**	**26 624**
Additions		638	16	608	-	572	44	53	1 931	704	2 635
Disposals		(233)	(23)	(44)	-	(801)	(188)	(72)	(1 361)	-	(1 361)
Disposal of entities	38	-	-	-	-	(1 139)	(32)	-	(1 171)	-	(1 171)
Depreciation charge: before revaluation	26, 27	(212)	(160)	(963)	-	(487)	(93)	-	(1 915)	(512)	(2 427)
Depreciation charge: realised revaluation reserve and revaluation loss	27	(17)	-	-	-	-	-	-	(17)	-	(17)
Changes in gross carrying value resulting from revaluation		588	-	-	-	-	-	-	588	-	588
Changes in accumulated depreciation resulting from revaluation		(80)	-	-	-	-	-	-	(80)	-	(80)
Carrying amount at 31 December 2012		**9 137**	**772**	**3 104**	**386**	**8 464**	**1 106**	**99**	**23 068**	**1 723**	**24 791**
Cost or valuation at 31 December 2012		10 147	1 515	6 910	386	9 936	1 306	99	30 299	3 479	33 778
Accumulated depreciation		(1 010)	(743)	(3 806)	-	(1 472)	(200)	-	(7 231)	(1 756)	(8 987)
Carrying amount at 31 December 2012		**9 137**	**772**	**3 104**	**386**	**8 464**	**1 106**	**99**	**23 068**	**1 723**	**24 791**

15 Premises, Equipment and Intangible Assets (Continued)

Non-banking premises are mainly represented by grain storages and production premises related to subsidiaries activities.

Intangible assets mainly include capitalised computer software.

Construction in progress in respect of banking and non-banking premises at 31 December 2012 was RR 315 million (2011: RR 1 259 million).

Carrying amount of office premises without revaluation at 31 December 2012 is RR 8 157 million (2011: RR 7 935 million), including cost in amount of RR 8 910 million (2011: RR 8 478 million) and accumulated depreciation of RR 753 million (2011: RR 543 million). As at 31 December 2012 and 31 December 2011 premises were independently valued. The valuation was carried out by an independent appraisers firm, Institute of Valuation of Property and Financial Activity Ltd, which hold a relevant professional qualification and which have recent experience in valuation of assets of similar location and category.

16 Other Assets

In millions of Russian Roubles	Note	2012	2011
Non-financial assets			
Repossessed collateral		5 766	5 334
Prepayment for goods		1 141	2 572
Prepayment for services		368	389
Inventory		274	1 050
Prepaid taxes		84	69
Goodwill		8	8
Other		18	9
Financial assets			
Settlements on banking cards		4 930	3 850
Trade receivables		828	1 253
Settlements on funds transfer operations		686	165
Insurance assets		644	118
Restricted cash	33	202	202
Other		1 209	1 132
Provision for impairment of other financial assets		(434)	(247)
Total other assets		**15 724**	**15 904**

Repossessed collateral mainly represents the land and production. The Group is not going to use repossessed collateral in its own operations. The Group is currently assessing the possibility of disposal of the assets in the future.

Trade receivables, inventory and prepayment for goods are related to trade activities of subsidiaries.

The movements in the provision for impairment of other financial assets are as follows:

In millions of Russian Roubles	2012	2011
Provision for impairment of other financial assets at 1 January	**247**	**167**
Provision for impairment of other financial assets during the year	193	78
Reclassification to assets of the disposal groups held for sale	-	3
Other financial assets written off during the year as uncollectible	(6)	(1)
Provision for impairment of other financial assets at 31 December	**434**	**247**

16 Other Assets (Continued)

The movements in repossessed collateral are as follows:

In millions of Russian Rouble	Note	2012	2011
Repossessed collateral at 1 January		**5 334**	**5 395**
Additions for the year		473	138
Disposal for the year		(1)	(157)
Depreciation charge	27	(40)	(42)
Repossessed collateral at 31 December		**5 766**	**5 334**

As at 31 December 2012, the fair value of repossessed collateral was RR 5 527 million (2011: RR 5 486 million).

Significant part of repossessed collateral was evaluated by an independent appraisers firm, Institute of Valuation of Property and Financial Activity Ltd, which hold a relevant professional qualification and which have experience in valuation of assets of similar location and category.

Refer to the Note 35 for the disclosure of fair value of other financial assets. Geographical analysis of other assets is disclosed in Note 31.

17 Due to Other Banks

In millions of Russian Roubles	2012	2011
Borrowings from other banks with term to maturity:		
- sale and repurchase agreements less than 30 days	-	2 006
- sale and repurchase agreements from 181 days to 1 year	17 161	-
- less than 30 days	33 100	3 090
- from 31 to 180 days	32 538	2 678
- from 181 days to 1 year	23 783	14 297
- from 1 year to 3 years	5 526	49 504
- more than 3 years	13 662	18 490
Borrowings from the CBRF with term to maturity:		
- less than 30 days	22	-
- from 31 to 180 days	10 000	-
Correspondent accounts and overnight placements of other banks	551	352
Total due to other banks	**136 343**	**90 417**

As at 31 December 2012, the Group had balances due to two foreign bank with the aggregated amount of RR 52 087 million, or 38% of total due to other banks (2011: due to one foreign bank with the aggregated amount of RR 31 105 million, or 34% of total due to other banks).

Refer to Note 35 for the disclosure of the fair value of due to other banks. Geographical, maturity and interest rate analyses of due to other banks are disclosed in Note 31.

18 Customer Accounts

In millions of Russian Roubles	2012	2011
State and public organisations		
- Current/settlement accounts	9 672	4 757
- Term deposits	67 549	192 706
Other legal entities		
- Current/settlement accounts	65 379	57 226
- Term deposits	226 981	201 264
- Sale and repurchase agreements with securities	-	89
Individuals		
- Current/demand accounts	32 940	23 556
- Term deposits	154 955	127 697
Total customer accounts	**557 476**	**607 295**

State and public organisations exclude state-controlled joint-stock companies.

Economic sector concentrations within customer accounts are as follows:

	2012		2011	
In millions of Russian Roubles	Amount	%	Amount	%
Individuals	187 895	34	151 253	25
Financial services and pension funds	121 474	22	88 081	15
State and public organisations	77 221	14	197 463	33
Agriculture	36 189	6	23 149	3
Insurance	35 579	6	38 740	6
Manufacturing	25 382	5	33 718	6
Trading	18 292	3	18 795	3
Construction	17 766	3	13 755	2
Telecommunication	5 605	1	9 046	1
Leasing	1 591	1	9 662	2
Other	30 482	5	23 633	4
Total customer accounts	**557 476**	**100**	**607 295**	**100**

As at 31 December 2012, the Group had four customers with balances above RR 19 000 million (2011: four customers with balances above RR 15 000 million). The aggregate balance of these customers was RR 119 756 million, or 21% of total customer accounts (2011: RR 197 372 million, or 33% of total customer accounts).

As at 31 December 2012, customer accounts include secured deposit of RR 5 700 million (2011: RR 6 168 million). The deposit was secured by State Eurobonds with carring value of RR 6 659 million (2011: RR 7 058 million). Refer to Note 33.

Refer to Note 35 for the disclosure of the fair value of customer accounts. Geographical, interest rate and maturity analyses of customer accounts are disclosed in Note 31. The information on related party balances is disclosed in Note 37.

19 Promissory Notes Issued

In millions of Russian Roubles	2012	2011
Promissory notes issued	23 234	20 129
Total promissory notes issued	**23 234**	**20 129**

The Group issued promissory notes at a discount to nominal value and interest bearing promissory notes denominated in Russian Roubles and US dollars with effective interest rate from 0% p.a. (for promissory notes on demand) up to 9% p.a. and maturity dates from January 2013 to December 2020 (2011: promissory notes at a discount to nominal value and interest bearing promissory notes denominated in Russian Roubles, US dollars and Euros with effective interest rate from 0% p.a. (for promissory notes on demand) up to 11% p.a. and maturity dates from January 2012 to December 2016).

As at 31 December 2012, promissory notes issued, which were initially purchased by one counterparty, amounted to RR 15 155 million or 65% of total promissory notes issued by the Group (2011: one counterparty, amounted to RR 13 969 million or 69% of total promissory notes issued by the Group).

Refer to Note 35 for the disclosure of the fair value of promissory notes issued. Geographical, maturity and interest rate analyses of promissory notes issued are disclosed in Note 31.

20 Debt Securities Issued

In millions of Russian Roubles	2012	2011
Eurobonds issued	293 678	231 155
Bonds issued on domestic market	147 188	111 344
Total debt securities issued	**440 866**	**342 499**

20 Debt Securities Issued (Continued)

As at 31 December 2012, debt securities issued consist of US Dollars, Russian Roubles and Swiss Francs denominated Eurobonds issued by the Group through its special purpose entity, RSHB Capital S.A. as well as Russian Roubles denominated bonds issued on domestic market.

Currency of denomination	Nominal value, in million of currency, in circulation	Issue date	Maturity date	Put option date	Coupon rate	Coupon payment	Yield to maturity/ next repricing date
Eurobonds issued							
US Dollars	627	16 May 2006	16 May 2013	-	7.175%	6 months	1.37%
US Dollars	1 148	14 May 2007	15 May 2017	-	6.299%	6 months	3.52%
US Dollars							
- tranche A	702	29 May 2008	14 January 2014	-	7.125%	6 months	1.77%
- tranche B	901	29 May 2008	29 May 2018	-	7.750%	6 months	3.77%
US Dollars	1 000	11 June 2009	11 June 2014	-	9.000%	6 months	2.05%
Russian Roubles	30 000	25 March 2010	25 March 2013	-	7.500%	6 months	5.94%
Russian Roubles	20 000	17 March 2011	17 March 2016	-	8.700%	6 months	8.07%
Russian Roubles	12 000	20 April 2011	17 March 2016	-	8.700%	6 months	8.07%
Russian Roubles	20 000	23 November 2011	23 November 2016	-	7.580%	6 months	8.26%
Russian Roubles	10 000	17 February 2012	17 February 2017	-	8.625%	6 months	8.05%
US Dollars	500	27 June 2012	27 December 2017	-	5.298%	6 months	3.61%
US Dollars	350	5 July 2012	27 December 2017	-	5.298%	6 months	3.61%
Russian Roubles	10 000	26 July 2012	17 February 2017	-	8.625%	6 months	8.05%
Swiss Francs	450	17 August 2012	17 August 2015	-	3.125%	1 year	2.34%
US Dollars	450	31 August 2012	27 December 2017	-	5.298%	6 months	3.61%
Bonds issued on domestic market							
Russian Roubles	10 000	22 February 2007	9 February 2017	17 February 2014	9.250%	6 months	8.20%
Russian Roubles	9 010	10 October 2007	27 September 2017	4 October 2013	7.500%	6 months	7.90%
Russian Roubles	585	22 February 2008	9 February 2018	19 August 2014	7.800%	6 months	8.01%
Russian Roubles	5 000	17 June 2008	5 June 2018	14 June 2013	6.850%	6 months	7.91%
Russian Roubles	10 000	9 December 2008	27 November 2018	5 December 2013	8.750%	6 months	8.02%
Russian Roubles	5 000	26 November 2009	14 November 2019	26 May 2014	8.400%	6 months	8.28%
Russian Roubles	5 000	26 November 2009	14 November 2019	26 May 2014	8.400%	6 months	8.32%
Russian Roubles	5 000	10 February 2010	29 January 2020	8 February 2013	9.000%	6 months	7.52%
Russian Roubles	5 000	11 February 2010	30 January 2020	11 February 2013	9.000%	6 months	7.18%
Russian Roubles	5 000	1 September 2010	28 August 2013	-	8.300%	6 months	8.15%
Russian Roubles	10 000	1 September 2010	28 August 2013	-	8.300%	6 months	7.99%
Russian Roubles	10 000	2 November 2010	29 October 2013	-	8.200%	6 months	8.02%
Russian Roubles	10 000	12 July 2011	29 June 2021	9 July 2015	7.700%	6 months	8.58%
Russian Roubles	5 000	14 July 2011	1 July 2021	13 July 2015	7.700%	6 months	8.65%
Russian Roubles	5 000	15 July 2011	2 July 2021	14 July 2015	7.700%	6 months	8.54%
Russian Roubles	10 000	8 November 2011	26 October 2021	7 November 2013	8.750%	6 months	8.08%
Russian Roubles	5 000	7 February 2012	3 February 2015	8 August 2013	8.200%	6 months	8.16%
Russian Roubles	5 000	9 February 2012	5 February 2015	10 August 2013	8.200%	6 months	8.17%
Russian Roubles	10 000	16 April 2012	4 April 2022	15 April 2015	8.550%	6 months	8.49%
Russian Roubles	10 000	23 October 2012	11 October 2022	23 October 2014	8.350%	6 months	8.42%
Russian Roubles	5 000	25 October 2012	13 October 2022	27 October 2014	8.350%	6 months	8.42%

20 Debt Securities Issued (Continued)

As at 31 December 2011, the Group's debt securities issued included Eurobonds denominated in US Dollars, Russian Roubles and Swiss Francs that are issued by the Group through its special purpose entity, RSHB Capital S.A. as well as bonds denominated in Russian Roubles and issued on domestic market.

Currency of denomination	Nominal value, in million of currency, in circulation	Issue date	Maturity date	Put option date	Coupon rate	Coupon payment	Yield to maturity/ next repricing date
Eurobonds issues							
US Dollars	630	16 May 2006	16 May 2013	-	7.175%	6 months	4.06%
US Dollars	1 148	14 May 2007	15 May 2017	-	6.299%	6 months	6.29%
Swiss Francs	150	30 April 2008	30 April 2012	-	6.263%	1 year	4.08%
US Dollars							
- tranche A	702	29 May 2008	14 January 2014	-	7.125%	6 months	5.20%
- tranche B	901	29 May 2008	29 May 2018	-	7.750%	6 months	6.51%
US Dollars	1 000	11 June 2009	11 June 2014	-	9.000%	6 months	5.43%
Russian Roubles	30 000	25 March 2010	25 March 2013	-	7.500%	6 months	8.71%
Russian Roubles	20 000	17 March 2011	17 March 2016	-	8.700%	6 months	9.67%
Russian Roubles	12 000	20 April 2011	17 March 2016	-	8.700%	6 months	9.67%
Russian Roubles	20 000	23 November 2011	23 November 2016	-	6.970%	6 months	7.38%
Bonds issued in domestic market							
Russian Roubles	10 000	22 February 2007	9 February 2017	17 February 2014	9.250%	6 months	8.90%
Russian Roubles	9 010	10 October 2007	27 September 2017	4 October 2013	7.500%	6 months	7.69%
Russian Roubles	585	22 February 2008	9 February 2018	19 August 2014	7.800%	6 months	9.78%
Russian Roubles	5 000	17 June 2008	5 June 2018	14 June 2013	6.850%	6 months	8.56%
Russian Roubles	10 000	9 December 2008	27 November 2018	5 December 2013	8.750%	6 months	8.94%
Russian Roubles	5 000	26 November 2009	14 November 2019	26 November 2012	10.100%	6 months	7.42%
Russian Roubles	5 000	26 November 2009	14 November 2019	26 November 2012	10.100%	6 months	7.49%
Russian Roubles	5 000	10 February 2010	29 January 2020	8 February 2013	9.000%	6 months	9.68%
Russian Roubles	5 000	11 February 2010	30 January 2020	11 February 2013	9.000%	6 months	8.35%
Russian Roubles	5 000	1 September 2010	28 August 2013	31 August 2012	7.200%	6 months	7.40%
Russian Roubles	10 000	1 September 2010	28 August 2013	31 August 2012	7.200%	6 months	7.42%
Russian Roubles	10 000	2 November 2010	29 October 2013	3 May 2012	6.600%	6 months	7.65%
Russian Roubles	10 000	12 July 2011	29 June 2021	9 July 2015	7.700%	6 months	9.22%
Russian Roubles	5 000	14 July 2011	1 July 2021	13 July 2015	7.700%	6 months	8.94%
Russian Roubles	5 000	15 July 2011	2 July 2021	14 July 2015	7.700%	6 months	8.19%
Russian Roubles	10 000	8 November 2011	26 October 2021	7 November 2013	8.750%	6 months	8.92%

Refer to Note 35 for the disclosure of the fair value for debt securities issued. Geographical, maturity and interest rate analyses of debt securities issued are disclosed in Note 31.

21 Other Liabilities

In millions of Russian Roubles	2012	2011
Non-financial liabilities		
Accrued staff costs	2 343	1 465
Unearned premium reserve	988	27
Taxes payable other than on income	410	364
Insurance prepayment received	296	3
Insurance contribution	167	139
Other	580	467
Financial liabilities		
Settlements on banking cards	3 048	2 463
Trade payables	368	1 182
Other subsidiaries' payables	265	358
Financial liabilities associated with issuance of guarantees by subsidiaries	-	187
Carryng value of guarantees issued	50	114
Loss provision	309	-
Total other liabilities	**8 824**	**6 769**

Trade payables are related to the business activities of subsidiaries.

Movements in the provision for unearned premiums are as follows:

In millions of Russian Roubles	2012	2011
Provision for unearned premiums as at 1 January	**27**	**-**
Increase in provision	961	27
Provision for unearned premiums as at 31 December	**988**	**27**

Movements in the loss provision are as follows:

In millions of Russian Roubles	2012
Loss provision as at 1 January	**-**
Provision created during the period	442
Insurance claims settled	(133)
Loss provision as at 31 December	**309**

Refer to Note 35 for the disclosure of the fair value of other financial liabilities. Geographical analysis of other liabilities is disclosed in Note 31.

22 Subordinated Debts

As at 31 December 2012, the Group's subordinated debts totalled RR 55 274 million (2011: RR 57 192 million).

In June 2007, the Group attracted a subordinated debt totalling USD 200 million maturing in June 2017 and bearing an interest rate of Libor +1.875% p.a. In June 2012 the Group decided not to use its option to terminate this subordinated debt and interest rate was stepped up to Libor +3.375% p.a.

In October 2008, the Group attracted from Vnesheconombank a subordinated debt totalling RR 25 000 million with maturity in December 2019 and an interest rate of 8.0% p.a. This subordinated debt was attracted in accordance with the Federal Law # 173-FZ "On supplementary measures to support financial system of the Russian Federation". In July 2010, Federal Law # 173-FZ was amended to reduce the interest rate on subordinated debt attracted by the Group from Vnesheconombank from 8.0% p.a. to 6.5% p.a.

In June 2011, the Group attracted a subordinated debt totalling USD 800 million in Eurobonds issued by the Group through its special purpose entity, RSHB Capital S.A. The Eurobonds mature in June 2021, have contractual interest rate of 6.0% p.a., and yield at 8.3% p.a. till the next repricing date, i.e. in June 2016. The Group has an option to terminate this subordinated debt at the nominal value in June 2016.

In September 2011, the Group executed its option to early terminate the subordinated debt attracted in September 2006 in the total amount of USD 500 million.

Refer to Note 35 for the disclosure of the fair value of subordinated debts. Geographical, maturity and interest rate analyses of subordinated debts are disclosed in Note 31. The information on related party balances is disclosed in Note 37.

23 Share Capital

Share capital issued and fully paid comprises:

In millions of Russian Roubles (except for number of shares)	**Number of outstanding shares**	**Nominal amount**	**Inflation adjusted amount**
At 1 January 2011	**108 048**	**108 048**	**108 798**
New shares issued	40 000	40 000	40 000
At 31 December 2011	**148 048**	**148 048**	**148 798**
New shares issued	40 000	40 000	40 000
At 31 December 2012	**188 048**	**188 048**	**188 798**

Issued and fully paid authorised share capital comprises 188 048 issued and registered ordinary shares. All ordinary shares have a nominal value of RR 1 million per share and rank equally. Each share carries one vote.

In 2012, the Bank increased its share capital by issuing 40 000 ordinary shares (2011: 40 000 ordinary shares) with the total nominal amount of RR 40 000 million (2011: RR 40 000 million). All shares were purchased by the Bank's only shareholder — the Government of the Russian Federation represented by the Federal Agency for Managing State Property.

24 Interest Income and Expense

In millions of Russian Roubles	Note	2012	2011
Interest income			
Loans and advances to customers		122 564	103 276
Investment securities available for sale and related repurchase receivables	13	4 133	4 441
Investment securities held to maturity and related repurchase receivables		3 361	1 006
Due from other banks		2 723	2 480
Financial instruments designated at fair value through profit or loss		1 111	1 139
Trading securities and related repurchase receivables		1 058	314
Cash equivalents		953	658
Total interest income		**135 903**	**113 314**
Interest expense			
Debt securities issued		(29 880)	(22 834)
Term deposits of legal entities		(26 022)	(17 096)
Term deposits of individuals		(8 840)	(7 711)
Term deposits of other banks		(7 726)	(7 040)
Subordinated debts		(3 521)	(3 381)
Promissory notes issued		(1 660)	(841)
Term deposits of the CBRF		(1 155)	(48)
Current/settlement accounts		(686)	(748)
Total interest expense		**(79 490)**	**(59 699)**
Net interest income		**56 413**	**53 615**

Interest income on loans and advances to customers includes interest income recognised on impaired loans in the total amount of RR 33 457 million (2011: RR 21 486 million).

25 Fee and Commission Income and Expense

In millions of Russian Roubles	2012	2011
Fee and commission income		
Commission on cash transactions	4 020	3 553
Agency fees for sale of insurance contracts	1 377	246
Commission on settlement transactions	733	537
Commission on banking cards	368	235
Commission on guarantees issued	274	25
Agency fees for currency control	107	100
Other	225	138
Total fee and commission income	**7 104**	**4 834**
Fee and commission expense		
Commission on cash collection	(485)	(426)
Commission on settlement transactions	(279)	(163)
Other	(41)	(42)
Total fee and commission expense	**(805)**	**(631)**
Net fee and commission income	**6 299**	**4 203**

26 Losses net of Gains from Non-banking Activities

In millions of Russian Roubles	2012	2011
Sales of goods	4 537	8 873
Cost of goods sold	(4 983)	(8 443)
Impairment charge of trade receivables and prepayments	(1 778)	(359)
Net income from insurance operations	43	-
Other non-banking income	964	446
Other non-banking expenses	(2 485)	(1 762)
Total losses net of gains from non-banking activities	**(3 702)**	**(1 245)**

Sales of goods mainly represent sales of grain, sugar, meat and milk products, animal feedstuff and other nonfoods.

Included in cost of goods sold is depreciation of non-banking premises and equipment in the total amount of RR 580 million (2011: RR 695 million).

Net income from insurance operations are as follows:

In millions of Russian Roubles	2012
Income from insurance operations	
Premium earned	576
Reinsurance recoveries	97
Total income from insurance operations	**673**
Expense from insurance operations	
Claims incurred	(278)
Acquisition costs	(138)
Insurance premium ceded to reinsurance	(214)
Total expense from insurance operations	**(630)**
Net income from insurance operations	**43**

27 Administrative and Other Operating Expenses

In millions of Russian Roubles	Note	2012	2011
Staff costs		22 420	18 734
Rental expenses		2 687	2 383
Depreciation of premises and equipment	15	1 352	1 314
Taxes other than on income		1 301	1 114
Security services		930	836
Communications and information services		756	669
Other costs of premises and equipment		681	682
Advertising and marketing services		609	508
Payments to the Deposit Insurance Fund		592	499
Amortization of intangible assets	15	512	448
Supplies and other materials		409	428
(Reversals of impairment)/impairment of premises		(167)	246
Depreciation of repossessed collateral	16	40	42
Other		1 663	1 262
Total administrative and other operating expenses		**33 785**	**29 165**

Included in staff costs are statutory social security and contributions to a state pension fund in the amount of RR 4 154 million (2011: RR 3 720 million).

28 Income Taxes

Income tax expense comprises the following:

In millions of Russian Roubles	2012	2011
Current tax	195	3 823
Deferred tax	481	(3 531)
Income tax expense for the year	**676**	**292**

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

In millions of Russian Roubles	2012	2011
IFRS profit before tax	**820**	**350**
Theoretical tax charge at statutory rate (2012: 20%; 2011: 20%)	164	70
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Non deductible interest expenses	146	133
- Non deductible staff costs	61	38
- Non deductible charity costs	19	6
- Income on government securities taxed at different rates	(17)	(36)
- Other nontemporary differences	303	81
Income tax expense for the year	**676**	**292**

Differences between IFRS and Russian statutory tax regulations give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 20% (2011: 20%), except for income on government securities that is taxed at 15% (2011: 15%).

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

28 Income Taxes (Continued)

In millions of Russian Roubles	31 December 2011	(Charged)/ credited to profit or loss	Charged directly to other compre-hensive income	Transfer to disposal groups classified as held for sale	31 December 2012
Tax effect of deductible/(taxable) temporary differences					
Accruals on loans	3 871	1 855	-	(285)	5 441
Provision for impairment	528	(1 884)	-	(2)	(1 358)
Fair valuation of derivative financial instruments	342	(1 081)	-	-	(739)
Accrued staff costs	293	169	-	1	463
Accruals on due to other banks	289	23	-	-	312
Fair valuation of securities	159	(104)	(155)	-	(100)
Defferal of fees on guarantees issued	23	(13)	-	-	10
Promissory notes issued	7	46	-	(28)	25
Premises and equipment	(1 888)	148	(68)	21	(1 787)
Accruals on debt securities issued and subordinated debts	(215)	184	-	-	(31)
Intangible assets	(44)	(3)	-	-	(47)
Other	844	179	-	(177)	846
Net deferred income tax asset	**4 209**	**(481)**	**(223)**	**(470)**	**3 035**
Recognised deferred income tax asset	5 531	(431)	-	-	5 100
Recognised deferred income tax liability	(1 322)	(50)	(223)	(470)	(2 065)
Net deferred income tax asset	**4 209**	**(481)**	**(223)**	**(470)**	**3 035**

In millions of Russian Roubles	31 December 2010	(Charged)/ credited to profit or loss	(Charged)/ credited directly to other compre-hensive income	Transfer to disposal groups classified as held for sale	31 December 2011
Tax effect of deductible/(taxable) temporary differences					
Accruals on loans	1 968	1 905	-	(2)	3 871
Provision for impairment	403	125	-	-	528
Fair valuation of derivative financial instruments	(325)	667	-	-	342
Accrued staff costs	178	113	-	2	293
Accruals on due to other banks	74	215	-	-	289
Fair valuation of securities	(110)	70	199		159
Defferal of fees on guarantees issued	-	23	-	-	23
Promissory notes issued	(3)	10	-	-	7
Premises and equipment	(1 895)	22	(42)	27	(1 888)
Accruals on debt securities issued and subordinated debts	(218)	3	-	-	(215)
Intangible assets	(57)	13	-	-	(44)
Other	510	365	-	(31)	844
Net deferred income tax asset	**525**	**3 531**	**157**	**(4)**	**4 209**
Recognised deferred income tax asset	1 930	3 601	-	-	5 531
Recognised deferred income tax liability	(1 405)	(70)	157	(4)	(1 322)
Net deferred income tax asset	**525**	**3 531**	**157**	**(4)**	**4 209**

29 Dividends

In millions of Russian Roubles	2012 Ordinary shares	2011 Ordinary shares
Dividends payable at 1 January	**-**	**-**
Dividends declared during the year	318	253
Dividends paid during the year	(318)	(253)
Dividends payable at 31 December	**-**	**-**
Dividends per share declared during the year	**0.0021**	**0.0023**

30 Segment Analysis

(a) Description of geographic areas from which each reportable segment derives its revenue and factors that management used to identify the reportable segments

Operational decision making is the responsibility of the Management Board of the Bank. The Management Board of the Bank reviews internal management reporting in order to assess efficiency and allocate resources.

The Management Board of the Bank performs geographic analysis of the Bank's operations and therefore the Bank's regional branches have been designated as operating segments.

Taking into account the administrative-territorial division of Russia, federal districts of the Russian Federation have been designated as reportable segments.

Based on IFRS 8 requirements the Group also discloses those operational segments where revenue, profit or total assets are higher than 10% of related Group's indicators.

As at 31 December 2012 and at 31 December 2011 the Group defines the following reportable segments:

- Head office,
- Central federal district,
- Far Eastern federal district,
- Volga federal district,
- North-West federal district,
- North-Caucasian federal district,
- Siberian federal district,
- Ural federal district,
- Krasnodar branch,
- Southern federal district (without Krasnodar branch).

For analysis of revenue by products refer to Notes 24, 25.

(b) Measurement of operating segment profit or loss and assets

The Management Board of the Bank assesses efficiency of operating segments based on a financial performance measure prepared from statutory accounting data and not adjusted for an intersegment income and expenses. Intersegment income and expenses are used by CODM for information purpose only and not for identification of profit or loss of the operating segments. Intrersegment income/(expense) represents mainly income from/(costs of) funding provided by Head Office to other reportable segments.

The accounting policy of the operating segments is based on Russian Accounting Rules (RAR) and thus materially differs from policies described in the summary of significant accounting policies in these consolidated financial statements.

(c) Information about reportable segment profit or loss and assets

Segment reporting of the Group's revenue and profit/(loss) for the reporting period ended 31 December 2012 and 31 December 2011 and segment reporting of the Group's assets at 31 December 2012 and 31 December 2011 is as follows:

30 Segment Analysis (Continued)

In millions of Russian Roubles	Head office	Central federal district	Far Eastern federal district	Volga federal district	North-west federal district	North-Caucasian federal district	Siberian federal district	Ural federal district	Krasno dar branch	Southern federal district (without Krasnodar branch)	Total
For the year ended 31 December 2012											
Revenue from external customers:	**17 405**	**34 293**	**5 107**	**28 483**	**8 649**	**11 911**	**15 785**	**3 489**	**5 762**	**7 788**	**138 672**
- Interest income from loans and advances to customers, due from other banks and other placed funds	16 124	31 435	4 456	26 125	7 843	10 868	14 370	3 139	5 323	7 103	126 786
- Net fee and commission income from credit related operations	1 281	2 858	651	2 358	806	1 043	1 415	350	439	685	11 886
(Losses net of gains)/gains less losses arising from securities, derivative financial instruments and currency	(5 931)	82	27	34	30	9	28	25	23	12	(5 661)
Interest expenses from due to other banks, customer accounts and debt securities issued	(56 919)	(8 649)	(929)	(3 757)	(1 600)	(593)	(1 928)	(647)	(813)	(858)	(76 693)
Provision recovery/(charge) for impairment	690	(4 280)	(615)	(3 029)	(1 472)	(2 105)	(11 165)	(62)	(3 210)	(545)	(25 793)
Administrative and Maintenance expense	(11 975)	(4 537)	(1 813)	(4 319)	(1 597)	(1 955)	(3 467)	(748)	(606)	(1 223)	(32 240)
- Including depreciation charge for the reporting period	(178)	(233)	(56)	(206)	(80)	(100)	(139)	(27)	(50)	(38)	(1 107)
Other income less other expenses	(389)	1 452	35	139	109	151	162	10	713	45	2 427
Current income tax expense	(188)	-	-	-	-	-	-	-	-	-	(188)
Intersegment income and expense*	**62 771**	**(13 681)**	**(2 516)**	**(14 592)**	**(4 485)**	**(7 276)**	**(8 164)**	**(1 640)**	**(6 228)**	**(4 189)**	**-**
Profit/(loss) of reportable segments	**(57 307)**	**18 361**	**1 812**	**17 551**	**4 119**	**7 418**	**(585)**	**2 067**	**1 869**	**5 219**	**524**
For the year ended 31 December 2011											
Revenue from external customers:	**13 798**	**28 201**	**4 129**	**23 687**	**7 066**	**10 366**	**12 767**	**2 563**	**8 461**	**5 214**	**116 252**
- Interest income from loans and advances to customers, due from other banks and other placed funds	13 131	25 793	3 626	21 894	6 465	9 126	11 583	2 347	7 862	4 715	106 542
- Net fee and commission income from credit related operations	667	2 408	503	1 793	601	1 240	1 184	216	599	499	9 710
(Losses net of gains)/gains less losses arising from securities, derivative financial instruments and currency	(2 408)	81	23	15	16	(2)	25	3	20	10	(2 217)
Interest expenses from due to other banks, customer accounts and debt securities issued	(44 335)	(4 930)	(720)	(2 495)	(1 183)	(428)	(1 475)	(335)	(748)	(604)	(57 253)
Provision (charge)/recovery for impairment	(920)	(10 060)	(578)	510	(1 118)	(916)	63	(223)	(11 587)	(572)	(25 401)
Administrative and Maintenance expense	(5 983)	(5 146)	(1 794)	(4 681)	(1 972)	(1 911)	(3 645)	(817)	(897)	(1 229)	(28 075)
- Including depreciation charge for the reporting period	(160)	(252)	(63)	(230)	(77)	(114)	(155)	(34)	(46)	(43)	(1 174)
Other income less other expenses	(613)	151	29	197	168	194	115	27	1 465	50	1 783
Current income tax expense	(3 817)	-	-	-	-	-	-	-	-	-	(3 817)
Intersegment income and expense*	**54 524**	**(12 960)**	**(1 865)**	**(12 078)**	**(3 737)**	**(5 736)**	**(6 475)**	**(1 389)**	**(7 556)**	**(2 728)**	**-**
Profit/(loss) of reportable segments	**(44 278)**	**8 297**	**1 089**	**17 233**	**2 977**	**7 303**	**7 850**	**1 218**	**(3 286)**	**2 869**	**1 272**
Total assets											
31 December 2012	1 418 521	419 974	59 391	278 982	108 575	123 741	165 569	44 612	102 840	76 109	**2 798 314**
31 December 2011	1 577 279	443 342	58 505	303 908	107 959	129 403	168 682	35 754	163 520	69 749	**3 058 101**
Provision for loan impairment (RAR)											
31 December 2012	(443)	(28 967)	(2 633)	(10 201)	(6 525)	(5 449)	(17 571)	(2 006)	(29 988)	(2 987)	**(106 770)**
31 December 2011	(1 151)	(18 111)	(2 429)	(9 318)	(5 566)	(3 733)	(7 789)	(1 888)	(19 960)	(3 190)	**(73 135)**

***** Intersegment income and expense are used by CODM for information purpose only and not for identification of profit or loss of the operating segments.

30 Segment Analysis (Continued)

The amount of additions/(disposals) in premises and equipment and land for the reporting period ended 31 December 2012 and 31 December 2011 is as follows:

In millions of Russian Roubles	2012	2011
Additions/(disposals)*		
Head office	692	(11)
Central federal district	19	707
Far Eastern federal district	6	29
Volga federal district	48	143
North-West federal district	49	(21)
North-Caucasian federal district	(186)	(23)
Siberian federal district	38	132
Ural federal district	8	37
Krasnodar branch	221	35
Southern federal district (without Krasnodar branch)	25	22
Total additions	**920**	**1 050**

* Based on RAR

(d) Reconciliation of reportable segment revenues, profit or loss, assets and provision for loan impairment

Reconciliation of profit and assets of the reporting segments for the reporting period ended 31 December 2012 and 31 December 2011 is as follows:

In millions of Russian Roubles	2012	2011
Total profit of reportable segments (after tax)	**524**	**1 273**
Adjustments of deferred tax	(151)	3 720
Adjustments of provisions for impairment	(3 590)	1 184
Accounting for derivative financial instruments at fair value	5 406	(3 348)
Accounting for financial assets and liabilities carried at amortised cost	(3 524)	(1 704)
Gains less losses/(losses net of gains) from revaluation of other financial assets at fair value through profit and loss	1 854	(749)
Revaluation of premises	167	(246)
Accrued staff costs	(381)	(165)
Results of non-reportable segments, including the effect of consolidation*	576	185
Other	(737)	(92)
The Group's profit under IFRS (after tax)	**144**	**58**
Assets of reportable segments	**2 798 314**	**3 058 101**
Elimination of settlements between branches	(1 068 876)	(1 561 892)
Elimination of back-to-back deposits	(176 325)	(124 963)
Provision for loan impairment	(97 262)	(75 926)
Assets of non-reportable segments, including the effect of consolidation*	4 210	4 227
Other	(31 411)	(15 121)
The Group's assets under IFRS	**1 428 650**	**1 284 426**
Provision for loan impairment for loans and advances to customers of reportable segments	**(106 770)**	**(73 135)**
Accounting for provision under IFRS	17 207	(4 694)
Provision related to non-reportable segments, including the effect of consolidation*	(7 802)	1 918
The Group's provision for loan impairment for loans and advances to customers under IFRS	**(97 365)**	**(75 911)**

* Non-reportable segments are represented by subsidiaries of the Group.

30 Segment Analysis (Continued)

Reconciliation of material items of income and expenses for the years ended 31 December 2012 and 31 December 2011 is as follows:

In millions of Russian Roubles	2012	2011
Total revenue of reportable segments from external customers	**138 672**	**116 252**
Reclassification of income not included in segment revenue	4 158	1 979
Interest income related to effective interest rate implication	1 173	502
Results of non-reportable segments, including the effect of consolidation*	(1 795)	341
Effect of disposal of loans	(8)	(1 557)
Other	2	-
The Group's revenue under IFRS**	**142 202**	**117 517**
Total interest expenses from due to other banks, customer accounts and debt securities issued of reportable segments	**(76 693)**	**(57 253)**
Reclassification of interest expense not included in segment interest expenses	(2 187)	(2 088)
Effective interest rate adjustments	(658)	(448)
Results of non-reportable segments, including the effect of consolidation*	49	103
Other	(1)	(13)
The Group's interest expense under IFRS	**(79 490)**	**(59 699)**
Provision charge for impairment	**(25 793)**	**(25 401)**
Accounting for provision under IFRS	4 207	13
Provision related to non-reportable segments, including the effect of consolidation*	(5 209)	2 758
The Group's provision charge for impairment under IFRS	**(26 795)**	**(22 630)**
Administrative and Maintenance expenses of reportable segments	**(32 240)**	**(28 075)**
Reclassification of results from loan restructuring	18	1 171
Expense of non-reportable segments, including the effect of consolidation*	(132)	36
Reclassification of payments to the Deposit Insurance Fund not included in segment administrative and maintenance expenses	(592)	(499)
Accrued staff costs	(381)	(165)
Other	(458)	(1 633)
The Group's administrative and other operating expenses under IFRS	**(33 785)**	**(29 165)**

* Non-reportable segments are represented by subsidiaries of the Group.

** Group's revenue under IFRS comprises of interest income and net fee and commission income.

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

- Adjustments of provisions for impairment are related to the difference between the methodology applied to calculate provisions for loan impairment under the RAR used for preparation of management reporting and the methodology used for IFRS reporting. The provision under RAR is calculated based mainly on formal criteria depending on the financial position of the borrower, quality of debt service and collateral, whereas the provision under IFRS requirement is calculated based on incurred loss model.
- Adjustments of derivative financial instruments to their fair value arise from the difference in the accounting treatment of currency swaps under RAR (which are the basis for management reporting) and IFRS reporting. Under RAR gross settled swap transactions are recognised as back-to-back deposits, whereas in IFRS financial statements such transactions are recognised at fair value. Refer to Note 34. Providing reconciliation, accounting for deals described above under RAR assumes also adjustments related to interest income/expense and total assets of reportable segments.

30 Segment Analysis (Continued)

- Adjustments to fair value of securities resulted from application of different valuation techniques and input data.
- Adjustments to financial assets and liabilities carried at amortised cost (including adjustment to disposal of loans) resulted from accruals of interest income/expenses using effective interest rate method, whereas there is nominal rate accrual approach under RAR.
- There is no concept of deferred tax accounting in RAR for credit organizations.
- Interest income and interest expense under IFRS are accounted using the effective interest rate method, whereas there is nominal rate accrual approach under RAR.
- Balances of intercompany settlements related to regional branches of the Bank are presented in assets and liabilities, while in IFRS such balances are shown on a net basis.
- Revaluation of premises resulted under RAR are based on current replacement cost basis, whereas under IFRS on fair value basis.
- Adjustments of income tax expense and accrued staff costs arise from the timing difference in recognition of certain expenses (mainly related to unused vacations provision) under RAR compared to IFRS and regulatory requirements of tax-filing date.
- Income, which is not included into segmental revenue, mainly relates to interest income, which is reclassified into “Other income less other expenses” line of management accounts according to its economic substance.

All other differences also resulted from the differences between RAR (used as the basis for management reporting) and IFRS.

(e) Major Customers

The Group does not have any customer, from which it earns revenue representing 10% or more of the total revenues.

31 Financial Risk Management

The purpose of the Group’s risk management policy is to maintain acceptable levels of risks determined by the Group with consideration of its approved strategic goals. The Group’s priority task is to ensure the maximum safety of assets and capital through minimising exposures that can lead to unforeseen losses. Group provides coordinated management of credit and market risk, liquidity risk and operational risk across all levels of activity.

The Group has a multi-level system of decision-making, monitoring and risk management.

The Bank’s Supervisory Board approves the risk management policy and, consequently, is responsible for creating and monitoring the operation of the Bank’s risk management system in general. Its competence also covers decisions relating to significant risks.

The Bank’s Management Board monitors the functioning of the risk management system, approves documents and procedures for identification, evaluation, determination of acceptable risk level, selection of response actions (acceptance, limitation, reallocation, hedging, avoidance) and monitoring thereof.

Operational risk management is carried out by the Bank’s Management Board, its Chairman, special collegiate bodies of the Group, and also by separate structural divisions of the Group and executives on the basis of their competence.

The Risks Department (hereinafter, the RD) provides independent analysis and evaluation of risks. The competence of the Risk Department also includes methodological support of risk management system, the implementation of the principles and methods of identification, assessment and monitoring of financial risks (credit, market, liquidity risk) and operational risk, including at the regional level.

The Bank’s authorized bodies on a regular basis consider the Bank’s performance, approve and revise risk management procedures to facilitate the early detection of changes in the external and internal factors, and to minimize the adverse consequences for the Bank.

In order to ensure stable operation of the Bank in 2012, the Bank took the following priority steps.

31 Financial Risk Management (Continued)

For its lending activities the Bank developed Methodology of internal rating of different types of borrowers. The Bank has built a multi-level system of limits and restrictions on the adoption of various types of risks.

The Bank applied a number of activities to improve the efficiency and completeness of the control limits for the Bank's financial markets operations as fact of the framework for market risk management system. In particular, the work on automation were continued in respect of the control limits in the real time of the Bank's operations on the foreign exchange, money and stock markets and related operational management reporting.

A vertically-arranged unit for risk assessment and control in the Banks' regional branches was established in order to carry out independent control of the level of risks taken by the branches and additional offices. The role of risk managers in taking lending decisions was enhanced.

The Bank took a set of measures aimed at intensification of actions with regard to non-performing loans and certain steps were taken to establish an infrastructure providing for various actions resolving issues in the area of non-performing loans.

The Bank approved and applied additional control measures for liquidity control, which include estimated liquidity indicators. These indicators allowed to timely identify imbalances between the volume of claims and liabilities of the Bank in different time intervals and to promptly identify the necessity of management actions.

To evaluate comprehensive impact on Bank's activities the Bank updated in 2012 its stress-testing scenario based on the current market and economic conditions.

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

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

The risk management policy aims to maintain the proper quality of the loan portfolio by optimizing the industry, regional and product structure of the loan portfolio of the Group, the implementation of a systematic approach to the management of credit risk, based on the principles of risk awareness, power-sharing assessment and risk-taking, monitoring and control.

The credit risk approval competencies in 2012 and 2011 are determined as follows:

- The Supervisory Board approves decisions on loans or determines credit limits per one borrower or a group of related borrowers with the aggregate credit risk limit in excess of RR 4 000 million (2011: RR 4 000 million).
- The Bank's Management Board approves decisions on loans or determines credit limits per one borrower or a group of related borrowers with the aggregate credit risk limit per one borrower or a group of related borrowers totalling up to RR 4 000 million (2011: up to RR 4 000 million) .
- The Credit Committee resolves on providing loans or establishing individual credit risk limits per one borrower or a group of related borrowers within the aggregate credit risk limit in the amount of RR 2 000 million (2011: RR 2 000 million).
- The Small Credit Committee resolves on providing loans or establishing individual credit risk limits per one borrower or a group of related borrowers within the aggregate credit risk limit in the amount of RR 500 million (2011: no Small Credit Committee was established).
- Credit committees of regional branches, Credit commissions of additional offices, certain executives of the Bank make credit decisions within the preset limits.
- The Asset and Liabilities Management Committee (2011: the Resource Committee) adopts decisions on limiting credit risks through setting structural and portfolio limits and also limits for counteragents and securities issuers. The Committee also resolves on establishing the independent authority of credit decisions of the Bank's regional branches.

31 Financial Risk Management (Continued)

The Bank's authorised management bodies approve internal regulations that contain formalised descriptions of risk evaluation procedures and processes for provision and servicing of credit products.

The Bank selects credit projects with consideration of the purpose of lending, primary sources of repayment of the loan. On the mandatory basis Bank assesses risk factors associated with borrower's financial position and its trends, borrower's property structure and reputation, credit history, state of the economic sector and region, all relationships between the Bank and related persons.

The Bank's authorised bodies set and promptly review credit limits for regional branches and additional offices that are monitored on an ongoing basis.

The Bank monitors portfolio concentration risk through setting credit limits by region, type of loan and certain borrowers. Currently, the maximum level of portfolio concentration per one of the Bank's regional branch is 15% of the Bank's aggregate loan portfolio.

In selecting lending and investment programmes, priority rests with the agricultural sector and related industries, which support and service agricultural producers. The loan portfolio industry concentration risk is mitigated by:

- lending to the entire cycle of agricultural product turnover (production, storage, processing and sales to ultimate consumers);
- lending to borrowers with different specialisation in different regions;
- a combination of several types of production in one entity typical for agricultural producers;
- diversification of investments in effective and reliable projects of other economic sectors; and
- limiting one borrower's risk exposure.

The Bank uses different methods of securing execution by borrowers of their contractual obligations in the form of pledge of property or ownerhip rights (with approval of a list of pledged items subject to obligatory insurance by insurers accredited by the Bank), guarantees and warranties from third parties.

Credit risk is monitored at different levels on the basis of the Bank's regulatory documents: at the level of regional branch, additional office and the Head Office of the Bank.

Market risk. The Group takes on exposure to market risk arising from open positions in (a) currency, (b) interest and (c) equity products.

Market risks are managed by means of identifying, evaluating, forecasting market prices, currency rates and market interest rates, determining the acceptable level of risk on open positions, setting limits (creating a system of limits enabling to minimise losses in case of unfavourable market changes) and developing risk insurance mechanisms.

The Bank's authorized bodies perform qualitative evaluation of market risk by means of expert analysis method.

The responsibility of managing the Bank's market risk rests with the Management Board and the Asset and Liabilities Management Committee within their competence.

The responsibility for operational managing of market risk, implementing market risk management policies and complying with set limits rests with the heads of structural units that carry out transactions exposed to market risk.

The Bank's exposure to market risks is analysed by the Treasury, the Capital Markets Department and the RD within their competence.

The Bank has contingency plans in case of unfavourable market fluctuations in the value of trading financial instruments, derivative financial instruments, exchange rates and potential losses associated with changes in interest rates. These actions constitute an integral part of the Bank's risk management system and serve a preventive measure for ensuring the continuity of the Bank's operations and safety of the Bank's capital.

31 Financial Risk Management (Continued)

The market risks management competencies are determined as follows:

- The Bank's Supervisory Board makes decisions on setting limits on positions of equity instruments;
- The Chairman of the Management Board makes decisions on the entering into / suspension of any transactions, including hedging risks;
- The Asset and Liabilities Management Committee sets limits on market risk, including interest rate and currency risks.

Decision-making authority in the event of sudden market changes or violations of the limits imposed on the Chairman of the Management Board.

Any additional expenses that need to be incurred for covering financial losses are approved by the Bank's Management Board.

The responsibility for reviewing and preparation of reports for the Bank's management, for providing information for assigning credit ratings by international rating agencies and for regulators rests with the RD.

The RD's functional duties cover determining the acceptable market risk level, independent of the business unit evaluation, review and control of the actual level of the Bank's market risk exposure, agreeing and monitoring limits, monitoring transactions with financial instruments, evaluating the efficiency of these transactions and comparing with the market risk level.

The Bank's business units (the Capital Markets Department, the Treasury) and the Operations Department are also in charge of current monitoring of positions exposed to market risks in the process of entering into, and accounting for transactions.

The RD jointly with business units, creates the regulatory basis for risks evaluation and interaction of the Bank's units in the process of identification and management of market risks, and also summarizes and optimises the system of monitoring market risk.

Market risk is also mitigated by setting limits with consideration of the portfolio's (instrument's) risk and the Bank's business strategy. When setting limits, the Bank considers several factors, such as market environment, financial position, business trends and management experience.

Limits are regularly reviewed by the Bank's authorised bodies, and the RD monitors limits and reports information on compliance with the set limits to the Bank's management. The RD also considers and agrees all limits proposed by business units for carrying out new transactions.

The Bank has a hierarchy of limits: structural limits, positional limits, stop-loss limits, limits on transactions' parameters, etc. The RD is improving the system of limits on an ongoing basis.

The Bank sets limits on:

- the maximum volume of investments in certain types of assets or liabilities;
- the maximum level of losses and gains in case of changes in financial instruments' prices (stop-loss);
- personal limit (limitation of authorities) on the Bank's staff to adopt independent decisions concerning certain types of transactions;
- the maximum allowed relation between certain ratios on assets and liabilities, including off-balance sheet claims and liabilities (open position limit, limits on other comparative figures); and
- various characteristics of financial instruments (discounts, etc.).

The Bank monitors currency position for each currency and the amount of all foreign currency positions to comply with CBRF requirements.

31 Financial Risk Management (Continued)

Interest rate risk. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase or decrease in the event if unexpected movements arise.

The sources of interest rate risk are:

- Mismatching of the level of interest rate changes for floating rate instruments with the same regularity of repricing (basis risk).
- Mismatching of the maturities of assets, liabilities and off-balance sheet claims and liabilities associated with fixed or floating rate instruments (repricing risk).
- Changes in the yield curve on long and short positions relating to financial instruments, which create the risk of loss as a result of excess of potential expenses over income at the close of these positions (risk of yield curve changes).

The main method of interest rate risk measurement is evaluating the gaps between the Group's assets and liabilities that are sensitive to changes in the interest rate level (GAP method).

The tables below are based on management reports on the Bank's interest rate risk at the stated dates, that were prepared in accordance with the Interest Rate Evaluation Methodology approved by the Bank. Interest rate reports are issued on a monthly basis using the information extracted from the accounting system, which is based on RAR with the assumption of stability of the structure of the Bank's assets and liabilities.

The table below summarises the Group's exposure to interest rate risk at 31 December 2012 by showing the Group's interest bearing financial assets and liabilities in categories based on the earlier of contractual repricing or maturity dates:

In millions of Russian Roubles	**Demand and less than 30 days**	**Due between 31 and 90 days**	**Due between 91 and 180 days**	**Due between 181 days and 1 year**	**Due between 1 and 3 years**	**More than 3 years**	**Total**
Total interest bearing financial assets*	129 797	141 758	203 397	218 057	380 891	339 256	**1 413 156**
Total interest bearing financial liabilities*	172 525	145 685	219 660	227 233	260 090	254 799	**1 279 992**
Sensitivity gap	**(42 728)**	**(3 927)**	**(16 263)**	**(9 176)**	**120 801**	**84 457**	**133 164**
Cummulative sensitivity gap	**(42 728)**	**(46 655)**	**(62 918)**	**(72 094)**	**48 707**	**133 164**	

* Total interest-bearing financial assets and total interest-bearing financial liabilities include positions in derivative financial instruments with gross settlements valued at spot foreign exchange rates as they are accounted in accordance with RAR.

Securities included in the table above are presented by maturity (repricing) dates, except for the most highly liquid securities categorised as "Demand and less than 30 days".

31 Financial Risk Management (Continued)

For the year ended 31 December 2012, if interest rates at that date had been 100 basis points lower with all other variables held constant, profit before tax for the year would have been RR 631 million higher (2011: RR 12 million lower); other components of equity (pre-tax) would have been RR 1 012 million higher (2011: RR 1 943 million higher), as a result of an increase in the fair value of fixed interest rate debt investments classified as available for sale.

For the year ended 31 December 2012, if interest rates at that date had been 100 basis points higher with all other variables held constant, profit before tax for the year would have been RR 631 million lower (2011: RR 12 million higher); other components of equity (pre-tax) would have been RR 1 012 million lower (2011: RR 1 943 million lower), as a result of a decrease in the fair value of fixed interest rate debt investments classified as available for sale.

The table below summarises the Group's exposure to interest rate risk at 31 December 2011 by showing the Group's interest bearing financial assets and liabilities in categories based on the earlier of contractual repricing or maturity dates:

In millions of Russian Roubles	**Demand and less than 30 days**	**Due between 31 and 90 days**	**Due between 91 and 180 days**	**Due between 181 days and 1 year**	**Due between 1 and 3 years**	**More than 3 years**	**Total**
Total interest bearing financial assets*	212 593	136 996	116 685	168 666	339 439	314 256	**1 288 635**
Total interest bearing financial liabilities*	109 718	198 283	175 403	171 616	301 365	199 962	**1 156 347**
Sensitivity gap	**102 875**	**(61 287)**	**(58 718)**	**(2 950)**	**38 074**	**114 294**	**132 288**
Cummulative sensitivity gap	**102 875**	**41 588**	**(17 130)**	**(20 080)**	**17 994**	**132 288**	

* Total interest-bearing financial assets and total interest-bearing financial liabilities include positions in derivative financial instruments with gross settlements valued at spot foreign exchange rates as they are accounted in accordance with RAR.

31 Financial Risk Management (Continued)

The Group monitors interest rates for its financial instruments. The table below summarises interest rates based on reports reviewed by the Group's management. The analysis has been prepared based on year-end interest rates.

	2012				2011			
In % p.a.	**RR**	**US Dollars**	**Euros**	**Other**	**RR**	**US Dollars**	**Euros**	**Other**
Assets								
Cash equivalents*	7	1	-	-	6	-	-	-
Mandatory cash balances with the CBRF	0	-	-	-	0	-	-	-
Debt trading securities and related repurchase receivables	8	-	-	-	-	-	-	-
Financial instruments designated at fair value through profit or loss	12	9	-	-	12	9	-	-
Due from other banks*	7	7	-	-	-	7	-	-
Loans and advances to customers	13	8	9	7	13	8	9	7
Debt investment securities available for sale and related repurchase receivables	9	8	-	-	8	8	-	-
Debt investment securities held to maturity and related repurchase receivables	8	5	-	-	8	6	-	-
Liabilities								
Due to other banks*	3	7	2	8	7	8	3	5
Customer accounts*	8	7	4	5	8	3	3	-
Promissory notes issued	9	0	-	-	7	1	5	-
Debt securities issued	9	7	-	3	8	8	-	6
Subordinated debts	7	6	-	-	7	5	-	-

* disclosed rates on term deposits

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

Currency and Equity Risk Management

Currency and equity risks are assessed on the basis of the VAR method (Value At Risk). This method represents a statistical evaluation of the ratio characterising the maximum amount of possible losses on a portfolio consisting of different financial instruments (or one instrument) with a specified probability and for a certain period of time. Reports on the level of market risk are issued on the basis of the approved Methodology for Market Risk Evaluation and provided by the RD to the Bank's management and heads of interested units in compliance with the internal regulatory documents.

The Bank calculates VAR on the basis of a 95% or 99% (depending on the purpose of calculations) confidence level and makes evaluations on the basis of retrospective information on closing prices (as the most dynamic and precise in terms of risk evaluation) for 250 days, evaluation period is one day. Therefore, VAR shows the maximum loss that can be received from the open position during one trading day with a 95% (99%) probability; however, in 5% (1%) of cases losses may exceed this level.

VAR calculation is based on the data extracted from RAR accounting system and is shown in management reports in two forms: relative (in percentage terms) and absolute (in Roubles). Relative VAR shows the maximum possible loss as per RR 1 of investments, and absolute VAR – losses on the current open position during the period of evaluation.

Together with VAR, the Bank calculates ES indicator (Expected Shortfall), which represents monetary value of expected losses in case of excess VAR.

VAR is calculated by historical method and, subsequently, the most adequate evaluation of calculations' parameters is chosen on the basis of analysing the changes in a financial instrument (group of instruments).

The methods used by the Bank are back-tested on a quarterly basis.

31 Financial Risk Management (Continued)

Although VAR is a most common tool for measuring market risk exposures, it has a number of limitations, especially in less liquid markets:

- The use of historic data as a basis for determining future events may not encompass all possible scenarios, particularly those which are of an extreme nature;
- A one day holding period assumes that all positions can be liquidated or hedged within that period. This is considered to be a realistic assumption in almost all cases but may not be the case in situation in which there is a severe market illiquidity for a prolonged period;
- The use of 95% (99%) confidence level does not take into account losses that may occur beyond this level. There is a 5%(1%) probability that the loss could exceed the VAR; and
- VAR is calculated only on the end-of-day basis and does not necessarily reflect exposures that may arise on positions during the trading day.

Currency risk

The below table shows possible changes in financial results and equity during one day as a result of possible fluctuations in exchange rates, evaluated on the basis of VAR and Expected ShortFall methods with 99% confidence level.

In millions of Russian Roubles		**2012**	**2011**
At period end	Short position	(249)	(35)
	VAR	3	2
	Expected ShortFall	4	3

Equity risk taken by the Group is assessed as insignificant due to limited volumes of transactions.

The below table shows possible changes in financial results and equity during one day as a result of possible fluctuations in stock quotations, evaluated on the basis of VAR and Expected ShortFall methods with 99% confidence level.

In millions of Russian Roubles		**2012**	**2011**
At period end	Short position	8	9
	VAR	-	-
	Expected ShortFall	-	-

31 Financial Risk Management (Continued)

Geographical risk concentration

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

In millions of Russian Roubles	Russia	OECD*	Other countries	Total
Assets				
Cash and cash equivalents	98 327	7 705	310	106 342
Mandatory cash balances with the CBRF	9 153	-	-	9 153
Trading securites	19 220	-	-	19 220
Repurchase receivables	20 632	-	-	20 632
Financial instruments designated at fair value through profit or loss	-	12 550	-	12 550
Derivative financial instruments	119	18 540	-	18 659
Due from other banks	11 708	24 492	9 730	45 930
Loans and advances to customers	1 070 712	-	-	1 070 712
Investment securities available for sale	44 036	-	-	44 036
Investment securities held to maturity	27 999	-	-	27 999
Deferred income tax asset	5 100	-	-	5 100
Intangible assets	1 723	-	-	1 723
Premises and equipment	23 068	-	-	23 068
Current income tax prepayment	2 464	-	-	2 464
Other assets	15 719	5	-	15 724
Assets of the disposal groups held for sale	5 336	2	-	5 338
Total assets	**1 355 316**	**63 294**	**10 040**	**1 428 650**
Liabilities				
Derivative financial instruments	201	5 060	-	5 261
Due to other banks	61 998	73 925	420	136 343
Customer accounts	553 111	4 173	192	557 476
Promissory notes issued	23 234	-	-	23 234
Debt securities issued	147 188	293 678	-	440 866
Deferred income tax liability	2 065	-	-	2 065
Other liabilities	8 824	-	-	8 824
Subordinated debts	25 009	30 265	-	55 274
Liabilities directly associated with disposal groups held for sale	1 409	1	-	1 410
Total liabilities	**823 039**	**407 102**	**612**	**1 230 753**
Net position in on-balance sheet positon	**532 277**	**(343 808)**	**9 428**	**197 897**
Credit related commitments	**60 948**	**-**	**-**	**60 948**

* OECD – Organisation for Economic Cooperation and Development.

Assets, liabilities and credit related commitments have been classified according to the country in which the counterparty is located. Balances with Russian counterparties actually outstanding to/from offshore companies of these Russian counterparties, are allocated to the caption "Russia". Cash on hand and premises and equipment have been classified according to the country in which they are physically held.

31 Financial Risk Management (Continued)

The geographical concentration of the Group's assets and liabilities at 31 December 2011 is set out below:

In millions of Russian Roubles	**Russia**	**OECD***	**Other countries**	**Total**
Assets				
Cash and cash equivalents	130 071	3 883	5	133 959
Mandatory cash balances with the CBRF	8 417	-	-	8 417
Repurchase receivables	2 369	-	-	2 369
Financial instruments designated at fair value through profit or loss	-	11 225	-	11 225
Derivative financial instruments	-	23 296	-	23 296
Due from other banks	8 019	25 962	5 588	39 569
Loans and advances to customers	903 697	-	-	903 697
Investment securities available for sale	76 595	-	-	76 595
Investment securities held to maturity	31 319	-	-	31 319
Deferred income tax asset	5 531	-	-	5 531
Intangible assets	1 531	-	-	1 531
Premises and equipment	25 093	-	-	25 093
Current income tax prepayment	820	-	-	820
Other assets	15 903	1	-	15 904
Assets of the disposal groups held for sale	5 099	2	-	5 101
Total assets	**1 214 464**	**64 369**	**5 593**	**1 284 426**
Liabilities				
Derivative financial instruments	386	353	-	739
Due to other banks	13 424	75 772	1 221	90 417
Customer accounts	600 925	6 168	202	607 295
Promissory notes issued	20 129	-	-	20 129
Debt securities issued	111 344	231 155	-	342 499
Deferred income tax liability	1 322	-	-	1 322
Current income tax liability	7	-	-	7
Other liabilities	6 762	7	-	6 769
Subordinated debts	25 004	32 188	-	57 192
Liabilities directly associated with disposal groups held for sale	1 281	1	-	1 282
Total liabilities	**780 584**	**345 644**	**1 423**	**1 127 651**
Net position in on-balance sheet positon	**433 880**	**(281 275)**	**4 170**	**156 775**
Credit related commitments	**46 998**	**-**	**-**	**46 998**

* OECD – Organisation for Economic Cooperation and Development.

***Liquidity risk*.** Liquidity risk is defined as the risk of the Group's inability to meet its obligations on a timely and full basis. The Group is exposed to daily calls on its available cash resources from customer accounts, demand deposits, maturing interbank loans (deposits), term deposits and issued securities, loan draw downs, guarantees and from margin and other calls on cash settled derivative instruments. The Group does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty.

The Group manages liquidity risk on the basis of the following principles:

- segregation of duties between the Groups's management bodies, its collegial working bodies, structural units and executives;
- setting limits ensuring an optimal liquidity level and corresponding to the Group's financial position;
- priority of maintaining liquidity over profit maximisation;
- excluding conflicts of interest in organising the liquidity management system; and
- optimal matching of the volumes and maturities of funding sources with the volumes and maturities of placed assets.

31 Financial Risk Management (Continued)

The responsibility for liquidity management rests with the Bank's Management Board, Assets and Liabilities Management Committee and the Treasury. The responsibility for maintaining an optimal level of current (short-term) liquidity rests with the Treasury of the Bank's Head Office within the set limits of attraction/placement of funds in the money market. In case of necessity to attract/place funds in the volumes exceeding the set limits, such decisions are made by the Bank's Management Board (Assets and Liabilities Management Committee). Medium-term and long-term liquidity management is carried out with consideration of information and proposals provided by the RD at each end of reporting period.

The Group manages liquidity risk using the following basic methods:

- evaluating the daily payment position on the basis of cash flow analysis;
- reviewing the actual values and changes in mandatory liquidity ratios;
- evaluating structure and quality of assets and liabilities;
- setting limits on asset-side transactions by types of investments;
- analysing maturity gaps of the Group on the basis of the most likely claim/repayment dates by main currencies; and
- analysing the Group's exposure to liquidity risk with consideration of stress factors's impact on various scenarios covering standard and more unfavourable market conditions.

Information on financial assets and liabilities (their structure and gaps within certain time intervals) is used in management decisions on the Group's liquidity maintenance at an adequate level. Treasury is responsible to maintain short-term assets portfolio of liquid trading securities, deposits with banks and other interbank instruments.

The Group maintains a stable financing base consisting mainly of funds that were attracted through placing of bonds in Russian roubles and other currencies, increasing the volume of deposits (including interbank deposits), issuing promissory notes and also current resources of the Group as a result of an increase in customer current accounts.

The Group develops and promptly reviews a contingency plan for maintaining the necessary liquidity level with consideration of any changes in the Group's financial position and volume and nature of its transactions. In case of a liquidity crisis and additional expenses to be incurred in this respect, as well as for coverage of incurred or potential financial losses all decision-making responsibilities are transferred to the Management Board and Assets and Liabilities Management Committee.

Compliance with liquidity requirements set by the CBRF is forecasted on a daily basis for the Bank in general with consideration of the branch network.

For the purpose of additional management of the Group's term liquidity in general, the Group uses estimated liquidity ratios, the level of which is supervised by the RD as part of ongoing monitoring.

The table below shows distribution of financial liabilities at 31 December 2012 by their remaining contractual maturity. The amounts disclosed in the table are the contractual undiscounted cash flows of the Group's financial liabilities and off-balance sheet credit related committments. Such undiscounted cash flows differ from the amount included in the statement of financial position, since the amount in statement of financial position is based on discounted cash flows. Net settled derivative financial instruments are included at the net amounts expected to be paid. In respect of gross settled derivative financial instruments, payments are presented for related cash inflows and outflows separately.

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

31 Financial Risk Management (Continued)

The maturity analysis of undiscounted financial liabilities at 31 December 2012 is as follows:

In millions of Russian Roubles	Demand and less than 30 days	Due between 31 and 180 days	Due between 181 days and 1 year	From 1 to 3 years	More than 3 years	Total
Financial liabilities						
Gross settled derivative financial instruments						
- inflow	(178)	(3 600)	(37 917)	(81 019)	(92 931)	(215 645)
- outflow	970	7 141	10 505	89 821	92 304	200 741
Net settled derivative financial instruments (liabilities)	273	326	-	-	-	599
Due to other banks	33 851	43 839	41 616	7 127	22 389	148 822
Customer accounts	215 897	166 412	122 397	66 060	7 635	578 401
Promissory notes issued	4 180	8 080	10 359	1 326	553	24 498
Debt securities issued	1 527	93 942	93 384	227 448	252 751	669 052
Subordinated debts	-	1 253	2 069	6 644	62 196	72 162
Other financial liabilities	3 109	249	632	-	-	3 990
Off-balance sheet financial liabilities						
Financial guarantees issued	20 535	-	-	-	-	20 535
Letters of credit	11 286	-	-	-	-	11 286
Other credit related commitments*	40 217	-	-	-	-	40 217
Total potential future payments for financial obligations	**331 667**	**317 642**	**243 045**	**317 407**	**344 897**	**1 554 658**

* Other credit related commitments include cancellable commitments, which are dependent on borrowers' compliance with certain creditworthiness criteria.

31 Financial Risk Management (Continued)

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

In millions of Russian Roubles	Demand and less than 30 days	Due between 31 and 180 days	Due between 181 days and 1 year	From 1 to 3 years	More than 3 years	Total
Financial liabilities						
Gross settled derivative financial instruments						
- inflow	(5 223)	(20 569)	(16 714)	(51 799)	(79 554)	(173 859)
- outflow	5 440	19 102	15 969	53 215	65 867	159 593
Net settled derivative financial instruments (liabilities)	386	-	-	-	-	386
Due to other banks	948	3 880	11 232	52 113	27 507	95 680
Customer accounts	151 076	252 654	140 738	82 113	7 758	634 339
Promissory notes issued	888	13 365	5 695	405	660	21 013
Debt securities issued	1 573	26 818	37 611	193 386	160 173	419 561
Subordinated debts	-	8 107	1 581	6 341	60 392	76 421
Other financial liabilities	2 563	100	1 387	-	187	4 237
Off-balance sheet financial liabilities						
Financial guarantees issued	28 468	-	-	-	-	28 468
Letters of credit	1 428	-	-	-	-	1 428
Other credit related commitments*	36 368	-	-	-	-	36 368
Total potential future payments for financial obligations	**223 915**	**303 457**	**197 499**	**335 774**	**242 990**	**1 303 635**

* Other credit related commitments include cancellable commitments, which are dependent on borrowers' compliance with certain creditworthiness criteria.

The future minimum lease payments under non-cancellable operating lease commitments where the Group is a lessee is disclosed in Note 33.

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

The Group does not use the above undiscounted maturity analysis to manage liquidity. Instead, the Group monitors expected maturities.

The tables presented below are based on the management reports on the Bank's liquidity risk at the stated dates that were issued in accordance with the Net liquidity Gap Methodology approved by the Bank. These reports are prepared using the information extracted from the accounting system, which is based on the Russian Accounting Rules (RAR).

31 Financial Risk Management (Continued)

The table below summarizes analysis of liquidity risk at 31 December 2012:

	Demand and less than 30 days	Due between 31 and 90 days	Due between 91 and 180 days	Due between 181 and 1 year	From 1 to 3 years	More than 3 years	Overdue	Total
Total financial assets*	196 358	151 152	188 907	219 134	387 316	372 868	111 540	1 627 275
Total financial liabilities*	252 355	151 159	157 514	246 529	267 083	324 514	-	1 399 154
Net liquidity gap	**(55 997)**	**(7)**	**31 393**	**(27 395)**	**120 233**	**48 354**	**111 540**	**228 121**
Cumulative liquidity gap	**(55 997)**	**(56 004)**	**(24 611)**	**(52 006)**	**68 227**	**116 581**	**228 121**	

* Total financial assets and total financial liabilities include gross positions in derivative financial instruments with gross settlements valued at spot foreign exchange rates as they are accounted in accordance with RAR.

The table below summarize analysis of liquidity risk at 31 December 2011:

In millions of Russian Roubles	Demand and less than 30 days	Due between 31 and 90 days	Due between 91 and 180 days	Due between 181 and 1 year	From 1 to 3 years	More than 3 years	Overdue	Total
Total financial assets*	262 869	135 061	120 662	179 511	342 473	318 885	72 234	1 431 695
Total financial liabilities*	164 881	188 073	117 141	189 420	319 816	266 434	-	1 245 765
Net liquidity gap	**97 988**	**(53 012)**	**3 521**	**(9 909)**	**22 657**	**52 451**	**72 234**	**185 930**
Cumulative liquidity gap	**97 988**	**44 976**	**48 497**	**38 588**	**61 245**	**113 696**	**185 930**	

* Total financial assets and total financial liabilities include gross positions in derivative financial instruments with gross settlements valued at spot foreign exchange rates as they are accounted in accordance with RAR.

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

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

In addition, the Group has an ability to manage liquidity gap by attracting additional financing via borrowing from other banks and from CBRF, which are collaterised by Group's assets or by guarantee, and via participation in depositary actions of Federal treasury and Moscow department of finance.

31 Financial Risk Management (Continued)

Insurance risk. The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable. The Group provides non-life insurance services, i.e. property insurance, agricultural insurance and personal accident insurance.

For a portfolio of insurance contracts where the theory of probabilities is applied to pricing and reserving, the principal risk that the Insurance Company faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated. Insurance events are random and the actual number and amount of claims and benefits will vary from year to year from the estimate established using actuarial techniques. Factors that aggravate insurance risk include a lack of risk diversification in terms of the type and amount of risk, the geographical location and the type of policyholder base covered.

32 Management of Capital

The Group's objectives when managing capital are:

i. to comply with the capital requirements set by the CBRF;

ii. to ensure the Group's ability to continue as a going concern; and

iii. to maintain a sufficient capital base and to achieve a capital adequacy ratio of at least 8% in accordance with the requirements as defined in the June 2004 Basel II Framework and in the reference on the application of Basel II to Trading activities and the Treatment of Double Default Effects, and elements of the 1988 Accord, and the 1996 Amendment to the Capital Accord to Incorporate Market risks.

Compliance with the capital adequacy ratio set by the CBRF is monitored by the Group's management on a monthly basis.

Under the current capital requirements set by the CBRF banks have to maintain a ratio of capital and assets weighted to risk ("statutory capital ratio") above a prescribed minimum level.

The Group is also subject to minimum capital requirements established by covenants stated in loan agreements, including capital adequacy levels calculated in accordance with Basel Accord and based on the IFRS figures.

The composition of the Group's capital calculated based on IFRS in accordance with Basel Accord is as follows:

In millions of Russian Roubles	**2012**	**2011**
Share capital	188 798	148 798
Retained earnings	7 117	7 017
Goodwill	(8)	(8)
Total tier 1 capital	*195 907*	*155 807*
Revaluation reserves	999	152
Subordinated debts	54 335	57 192
Total tier 2 capital	*55 334*	*57 344*
Total capital	**251 241**	**213 151**

Management of the Group is of the opinion that the Group complied with all the external capital adequacy requirements imposed by the CBRF and loan covenants.

33 Contingencies and Commitments

Legal proceedings. From time to time in the normal course of business, claims against the Group are received. As at 31 December 2012, based on its own estimates and both internal and external professional advice the Group's management is of the opinion that no material losses will be incurred in respect of claims and accordingly no provision for cover of such losses has been made in these consolidated financial statements (2011: Group's management is of the opinion that no material losses will be incurred in respect of claims and accordingly no provision for cover of such losses has been made in these consolidated financial statements).

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

Amended Russian transfer pricing legislation took effect from 1 January 2012.The new transfer pricing rules appear to be more technically elaborate and, to a certain extent, better aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development (OECD). The new legislation provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controlled transactions (transactions with related parties and some types of transactions with unrelated parties), provided that the transaction price is not arm's length.

Given that the practice of implementation of the new Russian transfer pricing rules has not yet developed, the consequences of any challenge of the Group's transfer prices cannot be reliably estimated; however, it may have an impact on the financial conditions and/or the overall operations of the Group.

The management of the Group believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency and customs positions will be sustained. Therefore, as at 31 December 2012 the management has not created any provision for potential tax liabilities (31 December 2011: nil).

Capital expenditure commitments. As at 31 December 2012, the Group had contractual capital expenditure commitments of RR 1 million (2011: RR 135 million).

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

In millions of Russian Roubles	**2012**	**2011**
Not later than 1 year	2 506	2 433
Later than 1 year and not later than 5 years	7 007	6 977
Later than 5 years	2 478	3 591
Total operating lease commitments	**11 991**	**13 001**

Compliance with covenants. The Group is subject to certain covenants primarily relating to its borrowings. Non-compliance with such covenants may result in negative consequences for the Group including an increase of the borrowing costs and announcement of the default. The Group's Management believes that the Group is in compliance with the covenants.

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

33 Contingencies and Commitments (Continued)

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 Group 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 since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit related commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

Outstanding credit related commitments are as follows:

In millions of Russian Roubles	**2012**	**2011**
Undrawn credit lines	29 127	17 102
Financial guarantees issued	20 535	28 468
Letters of credit	11 286	1 428
Total credit related commitments	**60 948**	**46 998**

As at 31 December 2012 the amount of financial guarantees issued to the CBRF for two Russian banks with a rating less than BB- (S&P) was RR 2 017 (2011: the amount of financial guarantees to the CBRF for one state-owned Russian bank with a rating not less than BB- (S&P) was RR 20 732).

Undrawn credit lines are represented by revocable credit lines. The Group has the right to revoke unused portion of credit line in response to a material adverse change of the borrower. At 31 December 2012 and 31 December 2011 there are no grounds for cancellation of disclosed amount of unused credit lines.

The total outstanding contractual amount of revocable undrawn credit lines, letters of credit, and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded.

As at 31 December 2012, the fair value of guarantees issued was RR 50 million (2011: RR 114 million).

In 2012 no provision for losses on credit related commitments had to be created (2011: nil).

Credit related commitments are denominated in currencies as follows:

In millions of Russian Roubles	**2012**	**2011**
Russian Roubles	46 971	45 268
US Dollars	8 707	546
Euros	5 267	1 084
Other currencies	3	100
Total	**60 948**	**46 998**

Fiduciary assets. These assets are not included in the consolidated statement of financial position as they are not assets of the Group. Nominal values disclosed below are normally different from the fair values of respective securities.

The fiduciary assets fall into the following categories:

In millions of Russian Roubles	**2012**	**2011**
Shares and bonds of companies held with the National Settlement Depository	3 008	3 396
Promissory notes issued by the Bank	1 200	714
Shares and bonds of companies held with other depositories	333	220
Promissory notes of companies held with the Bank	200	-

33 Contingencies and Commitments (Continued)

Assets pledged and restricted. The Group had the following assets pledged and restricted:

In millions of Russian Roubles	**Note**	**2012**	**2011**
Under term deposits from clients:			
- State Eurobonds	18	6 659	7 058
Under repo agreements			
- Corporate Eurobonds	9	20 632	-
- Corporate bonds	9	-	1 878
- Federal loan bonds (OFZ)	9	-	443
- Municipal and subfederal bonds	9	-	48
Restricted cash	16	202	202

As at 31 December 2012, mandatory cash balances with the CBRF of RR 9 153 million (2011: RR 8 417 million) represent mandatory reserve deposits which are not available to finance the Group's day to day operations.

As at 31 December 2012, the Bank's subsidiaries pledged production premises and equipment under loan agreements with other banks in the total amount of RR 1 378 million (2011: RR 1 375 million).

34 Derivative Financial Instruments

Foreign exchange derivative financial instruments entered into by the Group are generally traded in an over-the-counter market with professional market counterparties on standardised contractual terms and conditions. Derivative financial instruments have potentially favourable (assets) or unfavourable (liabilities) conditions as a result of fluctuations in market interest rates, foreign exchange rates or other variables relative to their terms.

The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time. Liquidity risk on derivative financial instruments is managed by the Group's Treasury and the Capital Markets Department within powers of departments. Management of derivative financial instrument portfolio risks is carried out by authorized Group's bodies through establishing limits.

Foreign exchange swaps with original settlement dates of more than 30 working days are structured as loans issued by the Bank in US Dollars, Euros, Swiss Francs and Japanese yens to seven OECD banks and one Russian banking group with maturities from May 2013 to May 2023, and deposits in Russian Roubles received from the same eight counterparties with the same maturities ("back to back loans"). These transactions are aimed at economically hedging the currency exposure of the Group.

As at 31 December 2012, international credit ratings of these counterparties were not less than BB- (S&P) (2011: not less than BB- (S&P)).

The table below reflects gross positions in derivative financial instruments before netting of any counterparty positions at 31 December 2012 and covers the contracts with settlement dates after the respective end of the reporting period:

In millions of Russian Roubles	**Principal or agreed amount at fair value of assets receivable**	**Principal or agreed amount at fair value of assets payable**	**Positive fair value**	**Negative fair value**
Forwards and swaps				
Currency				
- purchase RUB/sale USD	214 817	(201 747)	17 742	(4 672)
- purchase USD/sale RUB	33 587	(34 141)	-	(554)
- purchase EUR/sale USD	1 207	(1 206)	2	(1)
- purchase USD/sale EUR	1 486	(1 489)	-	(3)
- purchase RUB/sale EUR	824	(831)	-	(7)
- purchase RUB/sale JPY	4 734	(3 891)	843	-
- purchase RUB/sale CHF	15 922	(15 874)	72	(24)
Total	**272 577**	**(259 179)**	**18 659**	**(5 261)**

34 Derivative Financial Instruments (Continued)

The table below reflects gross positions in derivative financial instruments before netting of any counterparty positions at 31 December 2011 and covers the contracts with settlement dates after the respective end of the reporting period:

In millions of Russian Roubles	Principal or agreed amount at fair value of assets receivable	Principal or agreed amount at fair value of assets payable	Positive fair value	Negative fair value
Forwards and swaps				
Currency				
- purchase RUB/sale USD	160 693	(140 229)	21 129	(665)
- purchase USD/sale RUB	3 860	(3 878)	-	(18)
- purchase RUB/sale EUR	2 770	(2 816)	-	(46)
- purchase RUB/sale JPY	4 317	(3 877)	440	-
- purchase RUB/sale CHF	5 411	(3 684)	1 727	-
Futures				
Currency				
-purchase USD/sale RUB	966	(976)	-	(10)
Total	**178 017**	**(155 460)**	**23 296**	**(739)**

As at 31 December 2012 gross receivables and gross payables on settlement of foreign exchange swaps included the balances with one foreign bank in the amount of RR 76 209 million and RR 69 931 million, respectively, or 38% of total gross receivables or 38% of total gross payables on settlement of foreign exchange swaps (2011: RR 46 486 million and RR 41 122 million, respectively, or 32% of total gross receivables or 34% of total gross payables on settlement of foreign exchange swaps).

35 Fair Value of Financial Instruments

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation. The best evidence of the fair value is the quotation of the financial instrument in an active market.

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. The Russian Federation continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

Financial instruments carried at fair value. Trading securities, securities available for sale, and related repurchase receivables are carried on the consolidated statement of financial position at their fair value based on quoted market prices.

Financial instruments designated at fair value through profit or loss and derivative financial instruments are carried on the consolidated statement of financial position at their fair value based on valuation technique with inputs observable in markets. Derivative financial instruments are measured at fair value as assets when fair value is positive and as liabilities when fair value is negative. The bank uses discounted cash flow techniques with observable market data inputs as offshore and onshore yield curves, as well as market data, reflecting the distribution of the probability of default over time.

Cash and cash equivalents are carried at amortised cost which approximates current fair value.

35 Fair Value of Financial Instruments (Continued)

Loans and receivables carried at amortised cost. The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate bearing placements is based on discounted cash flows using current market interest rates for instruments with similar credit risk and similar maturity.

Held to maturity securities carried at amortised cost. The fair value for held to maturity securities and related repurchase receivables is based on market price.

Liabilities carried at amortised cost. The fair value of debt securities issued is based on market prices, if available. The estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and similar remaining maturity.

Discount rates used depend on currency, maturity of the instrument and credit risk of the counterparty. The analysis of these rates (in % p.a.) is as follows:

	2012	2011
Due from other banks		
Short-term placements with other banks with original maturity more than one month	0% - 10%	0% - 12%
Loans and advances to customers		
Corporate loans	3% - 14%	5% - 16%
Loans to individuals	11% - 32%	11% - 29%
Securities held to maturity	1% - 9%	4% - 10%
Due to other banks	0% - 10%	0% - 9%
Customer accounts		
Term deposits of legal entities	1% - 12%	1% - 13%
Term deposits of individuals	1% - 10%	2% - 9%
Promissory notes issued	1% - 9%	2% - 10%
Subordinated debts	4% - 7%	3% - 7%

35 Fair Value of Financial Instruments (Continued)

(a) Fair value of financial instruments carried at amortised cost and at fair value:

In millions of Russian Roubles	2012 Carrying amount	2012 Fair value	2011 Carrying amount	2011 Fair value
FINANCIAL ASSETS CARRIED AT AMORTISED COST				
Cash and cash equivalents	106 342	106 342	133 959	133 959
Mandatory cash balances with the CBRF	9 153	9 153	8 417	8 417
Due from other banks	45 930	46 646	39 569	41 531
Loans and advances to customers				
- Loans to corporates	854 058	849 537	723 366	724 085
- Lending for food interventions	21 794	21 794	33 256	33 256
- Reverse repo agreements	-	-	1 990	1 990
- Investments in agricultural cooperatives	380	380	491	491
- Loans to individuals	194 480	191 913	144 594	144 280
Investment securities held to maturity and related repurchase receivables				
-Corporate bonds	14 916	14 723	15 359	14 955
-State Eurobonds	6 659	7 575	7 058	7 013
-Municipal and subfederal bonds	3 403	3 413	3 732	3 709
-Federal Loan bonds (OFZ)	2 754	2 691	3 196	3 329
-Corporate Eurobonds	20 899	19 801	1 564	1 638
-Promissory notes	-	-	1 463	1 463
Other financial assets	8 065	8 065	6 473	6 473
TOTAL FINANCIAL ASSETS CARRIED AT AMORTISED COST	**1 288 833**	**1 282 033**	**1 124 487**	**1 126 589**
FINANCIAL ASSETS CARRIED AT FAIR VALUE	**94 465**	**94 465**	**112 432**	**112 432**
TOTAL FINANCIAL ASSETS	**1 383 298**	**1 376 498**	**1 236 919**	**1 239 021**
FINANCIAL LIABILITIES CARRIED AT AMORTISED COST				
Due to other banks				
- Term borrowings from other banks	125 770	131 727	90 065	92 523
- Term borrowings from the CBRF	10 022	10 022	-	-
- Correspondent accounts and overnight placements of other banks	551	551	352	352
Customer accounts				
- State and public organisations	77 221	77 221	197 463	197 463
- Other legal entities	292 360	292 360	258 579	258 579
- Individuals	187 895	188 076	151 253	151 316
Promissory notes issued	23 234	23 234	20 129	20 129
Debt securities issued				
- Eurobonds issued	293 678	314 302	231 155	237 489
- Bonds issued on domestic market	147 188	148 124	111 344	112 179
Other financial liabilities	4 040	4 040	4 334	4 334
Subordinated debts	55 274	56 630	57 192	54 420
TOTAL FINANCIAL LIABILITIES CARRIED AT AMORTISED COST	**1 217 233**	**1 246 287**	**1 121 866**	**1 128 784**
FINANCIAL LIABILITIES CARRIED AT FAIR VALUE	**5 261**	**5 261**	**739**	**739**
TOTAL FINANCIAL LIABILITIES	**1 222 494**	**1 251 548**	**1 122 605**	**1 129 523**

35 Fair Value of Financial Instruments (Continued)

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

Analysis of financial instruments at fair value at 31 December 2012 is as follows:

In million of Russian Roubles	**Quoted price in an active market (Level 1)**	**Valuation technique with inputs observable in markets (Level 2)**	**Total**
Financial assets			
Trading Securities	19 220	-	19 220
Financial instruments designated at fair value through profit or loss	-	12 550	12 550
Investment securities available for sale	44 036	-	44 036
Derivative financial instruments assets	-	18 659	18 659
Financial liabilities			
Derivative financial instruments liabilities	-	(5 261)	(5 261)

Analysis of financial instruments at fair value at 31 December 2011 is as follows:

In million of Russian Roubles	**Quoted price in an active market (Level 1)**	**Valuation technique with inputs observable in markets (Level 2)**	**Total**
Financial assets			
Repurchase receivables related to available for sale securities	1 316	-	1 316
Financial instruments designated at fair value through profit or loss	-	11 225	11 225
Investment securities available for sale	76 595	-	76 595
Derivative financial instruments assets	-	23 296	23 296
Financial liabilities			
Derivative financial instruments liabilities	-	(739)	(739)

There were no financial instruments carried at fair value based on a valuation technique with non-observable inputs (Level 3) at 31 December 2012 (2011: nil).

36 Presentation of Financial Instruments by Measurement Category

According to the IAS 39, Financial Instruments: Recognition and Measurement, the Group classifies its financial assets into the following categories: (a) loans and receivables; (b) available for sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit and loss. Financial assets at fair value through profit and loss have two subcategories: (i) assets designated as such upon initial recognition, and (ii) financial assets held for trading. The table below provides a reconciliation of classes of financial assets with these measurement categories as at 31 December 2012.

In millions of Russian Roubles	**Loans and receivables**	**Available for sale assets**	**Trading assets**	**Financial assets designated at fair value through profit or loss**	**Held-to-maturity assets**	**Total**
Financial assets						
Cash and cash equivalents						
- cash on hand	23 284	-	-	-	-	23 284
- cash balances with the CBRF (other than mandatory reserve deposits)	46 266	-	-	-	-	46 266
- correspondent and settlement accounts and placements with other banks with original maturities of less than one month	36 792	-	-	-	-	36 792
Mandatory cash balances with the CBRF	9 153	-	-	-	-	9 153
Trading Securities	-	-	19 220	-	-	19 220
Repurchase receivables	-	-	-	-	20 632	20 632
Financial instruments designated at fair value through profit or loss	-	-	-	12 550	-	12 550
Derivative financial instruments	-	-	18 659	-	-	18 659
Due from other banks	45 930	-	-	-	-	45 930
Loans and advances to customers						
- Loans to corporates	854 058	-	-	-	-	854 058
- Lending for food interventions	21 794	-	-	-	-	21 794
- Investments in agricultural cooperatives	380	-	-	-	-	380
- Loans to individuals	194 480	-	-	-	-	194 480
Investment securities available for sale	-	44 036	-	-	-	44 036
Investment securities held to maturity	-	-	-	-	27 999	27 999
Other financial assets	8 065	-	-	-	-	8 065
TOTAL FINANCIAL ASSETS	**1 240 202**	**44 036**	**37 879**	**12 550**	**48 631**	**1 383 298**
Non-financial assets						**45 352**
TOTAL ASSETS	**1 240 202**	**44 036**	**37 879**	**12 550**	**48 631**	**1 428 650**

36 Presentation of Financial Instruments by Measurement Category (Continued)

The table below provides a reconciliation of classes of financial assets with measurement categories mentioned above as at 31 December 2011.

In millions of Russian Roubles	Loans and receivables	Available for sale assets	Trading assets	Financial assets designated at fair value through profit or loss	Held-to-maturity assets	Total
Financial assets						
Cash and cash equivalents						
- cash on hand	19 635	-	-	-	-	19 635
- cash balances with the CBRF (other than mandatory reserve deposits)	33 015	-	-	-	-	33 015
- correspondent and settlement accounts and placements with other banks with original maturities of less than one month	81 309	-	-	-	-	81 309
Mandatory cash balances with the CBRF	8 417	-	-	-	-	8 417
Repurchase receivables	-	1 316	-	-	1 053	2 369
Financial instruments designated at fair value through profit or loss	-	-	-	11 225	-	11 225
Derivative financial instruments	-	-	23 296	-	-	23 296
Due from other banks	39 569	-	-	-	-	39 569
Loans and advances to customers						
- Loans to corporates	723 366	-	-	-	-	723 366
- Lending for food interventions	33 256				-	33 256
- Deals with securities purchased under "reverse-repo agreements"	1 990	-	-	-	-	1 990
- Investments in agricultural cooperatives	491	-	-	-	-	491
- Loans to individuals	144 594	-	-	-	-	144 594
Investment securities available for sale	-	76 595	-	-	-	76 595
Investment securities held to maturity	-	-	-	-	31 319	31 319
Other financial assets	6 473	-	-	-	-	6 473
TOTAL FINANCIAL ASSETS	**1 092 115**	**77 911**	**23 296**	**11 225**	**32 372**	**1 236 919**
Non-financial assets						**47 507**
TOTAL ASSETS	**1 092 115**	**77 911**	**23 296**	**11 225**	**32 372**	**1 284 426**

All of the Group's financial liabilities except for derivative financial instruments are carried at amortised cost. Derivative financial instruments are classified as held for trading.

37 Related Party Transactions

For the purposes of these consolidated financial statements, parties are considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence over the other party in making financial or operational decisions. The Bank's only shareholder is the Government of the Russian Federation represented by the Federal Agency for Managing State Property. Refer to Note 1.

The Group decided to apply the exemption from disclosure of individually insignificant transactions and balances with the state-owned entities and parties that are related to such entites because the Russian state has control, joint control or significant influence over such parties.

In these consolidated financial statements, the most significant balances and transactions with related partiesowned by the Russian State and balances and transactions with related parties represented by key management and their family members are disclosed.

In millions of Russian Roubles	**2012**	**2011**
Loans and advances to customers (before impairment)		
State-owned entities (contractual interest rate: 7%-12% p.a. (2011: 7%-12% p.a.))	30 222	39 233
Provision for loan impairment at the year end		
State-owned entities	(15)	(11)
Investment securities issued by Russian Federation		
Investment securities available for sale	7 629	9 149
Investment securities held to maturity	9 413	10 254
Customer accounts		
State-owned entities (contractual interest rate for term deposits: 4%-12% p.a. (2011: 4%-10% p.a.))	87 135	225 451
Key management and their family members (contractual interest rate for term deposits: 3%-13% p.a. (2011: 1%-10% p.a.))	59	24
Subordinated debts		
State-owned entities (contractual interest rate: 6.5% p.a. (2011: 6.5% p.a.))	25 009	25 004

The income and expense items with related parties were as follows:

In millions of Russian Roubles	**2012**	**2011**
Interest income on loans and advances to customers		
State-owned entities	2 836	3 040
Interest income on investment securities issued by Russian Federation		
Investment securities available for sale	492	516
Investment securities held to maturity	527	526
Interest expense on customer accounts		
State-owned entities	(9 334)	(10 765)
Key management and their family members	(2)	(11)
Interest expense on subordinated debts		
State-owned entities	(1 625)	(1 621)

37 Related Party Transactions (Continued)

The Group had also the following insignificant balances and transactions with related parties:

- cash and cash equivalents as at 31 December 2012 and as at 31 December 2011 (refer to Note 7);
- repurchase receivables as at 31 December 2012 and as at 31 December 2011 (refer to Note 9);
- due from state-owned banks as at 31 December 2012 and as at 31 December 2011;
- securities of state-owned companies and banks in portfolio of securities avalaible for sale as at 31 December 2012 and as at 31 December 2011 (refer to Note 13);
- securities of state-owned companies and banks in portfolio of securities held to maturity as at 31 December 2012 and as at 31 December 2011 (refer to Note 14);
- due to state-owned banks as at 31 December 2012;
- credit related commitments as at 31 December 2012 and as at 31 December 2011 (refer to Note 33);
- foreign exchange swap with one state-owned Banking Group as at 31 December 2012 and as at 31 December 2011;
- interest income on cash equivalents, trading securities, securities available for sale, securities held to maturity and related repurchase receivables, due from other banks;
- interest expense on due to other banks;
- results from operation with trading securities and securities available for sale; and
- other.

In 2012 and 2011, the only transactions with the shareholder were share capital increase, dividends and taxes paid. Refer to Note 28 and 29.

Key management of the Group represents members of the Supervisory Board, the Management Board and Chief Accountant of the Bank. In 2012 short-term benefits of the key management amounted to RR 269 million (2011: RR 113 million).

	2012		**2011**	
In millions of Russian Roubles	**Remuneration paid**	**Accrued liability**	**Remuneration paid**	**Accrued liability**
Short-term benefits:				
Salary, social security costs and short-term bonuses included in salary	181	70	108	4
Post-employment benefits:				
State pension and social costs	18	-	1	-
Total	**199**	**70**	**109**	**4**

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

38 Disposal of Subsidiaries and Groups Classified as Held for Sale

a) Disposal of Subsidiaries

As a result of insolvency procedures in March 2012, the Group lost the control over ZAO “Agroholding “SP-Holod”, in October 2012, the Group lost the control over Agrolux. In December 2012, the Group sold APP Stavropolye to third party. The details of the disposed assets and liabilities and disposal consideration are as follows:

In millions of Russian Roubles	**2012**
Cash and cash equivalents	266
Prepayments for goods	363
Premises and equipment	1 171
Deferred tax assets	400
Other assets	18
Due to other banks	(1 585)
Current income tax liability	(102)
Trade payables	(218)
Other financial liabilities	(409)
Other liabilities	(3)
Net liabilities of subsidiaries	**(99)**
Less: non-controlling interest	151
Carrying amount of net assets disposed of	**52**

The loss on disposal of the subsidiaries comprises:

In millions of Russian Roubles	**Loss on disposal of subsidiary**
Consideration for disposal of the subsidiaries	-
Less: carrying amount of net assets disposed of	(52)
Loss on disposal of subsidiaries	**(52)**

38 Disposal of Subsidiaries and Groups Classified as Held for Sale (Continued)

In June 2011 the Group completed disposal of its subsidiary Chelyabinskiy Commercial Land Bank.

In millions of Russian Roubles	**2011**
Cash and cash equivalents	250
Mandatory cash balances with the Central Bank of the Russian Federation	2
Intangible assets	1
Premises and equipment	58
Customer accounts	(30)
Current income tax liability	(2)
Other liabilities	(74)
Net assets of subsidiary	**205**
Carrying amount of net assets disposed of	**205**
Total disposal consideration	**226**
Less: cash and cash equivalents in subsidiary disposed of	(250)
Cash outflow on disposal	**(24)**

The gain on disposal of the subsidiaries comprises:

In millions of Russian Roubles	**Gain on disposal of subsidiary**
Consideration for disposal of the subsidiary	226
Less: carrying amount of net assets disposed of	(205)
Gains on disposal of subsidiary	**21**

b) Groups Classified as Held for Sale

As at 31 December 2012 the Group has classified the assets and liabilities related to companies in Bashkortostan and Leningrad Region as disposal groups held for sale (31 December 2011: the assets and liabilities related to companies in Bashkortostan and Leningrad Region as disposal groups held for sale).

Major classes of assets of disposal groups held for sale are as follows:

In millions of Russian Roubles	**31 December 2012**	**31 December 2011**
Premises and equipment	3 032	2 861
Trade receivables	957	1 119
Inventory	792	745
Loans and advances to customers	117	108
Cash and cash equivalents	6	6
Other	434	262
Total assets of disposal groups held for sale	**5 338**	**5 101**

38 Disposal of Subsidiaries and Groups Classified as Held for Sale (Continued)

Major classes of liabilities directly associated with disposal groups held for sale are as follows:

In millions of Russian Roubles	31 December 2012	31 December 2011
Due to other banks	7	-
Trade payables	731	639
Deferred income tax liability	280	301
Other	392	342
Total liabilities directly associated with disposal groups held for sale	**1 410**	**1 282**

Cumulative income or expenses recognised in statement of comprehensive income relating to disposal groups classified as held for sale as part of gains net of losses from non-banking activity:

In millions of Russian Roubles	2012	2011
Sales of goods	3 464	3 845
Cost of goods sold	(3 395)	(3 276)
Administrative and other operating expenses	(329)	(435)
Other income	319	327
Other expenses	(288)	(291)
Total (expense)/income directly associated with disposal groups held for sale	**(229)**	**170**

During 2012 the certain circumstances arised, which were previously considered unlikely, and, as a result, a non-current asset previously classified as held for sale were not sold by the end of 2012. The Group is actively marketing these assets and expects the sale to complete by the end of 2013.

39 Events after the End of the Reporting Period

In February 2013, the Group placed CNY 1 000 million Eurobonds (loan participation notes) maturing in February 2016 with semi-annual payments of coupon at 3.6% p.a.

In February 2013, the Group issued RR 10 000 million Eurobonds (loan participation notes) (placed at par) maturing in February 2018 with semi-annual payments of coupon at 7.875% p.a.

In March 2013, the Group repaid Eurobonds denominated in Russian Rouble in the amount of RR 30 000 million issued in March 2010.