Joint Stock Commercial Bank Almazergienbank
Open Joint-Stock Company

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

31 December 2012

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Independent Auditor's Report

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

We have audited the accompanying financial statements of Joint Stock Commercial Bank "Almazergienbank" (Open Joint-Stock Company) (the "Bank"), which comprise the statement of financial position as at 31 December 2012 and the 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 Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on the fair presentation of these 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 financial statements.

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

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Basis for Qualified Opinion

According to IFRS 1 "First-Time Adoption of International Financial Reporting Standards", when preparing the first IFRS financial statements, the Bank has to apply accounting policies consistently throughout all periods presented in the IFRS financial statements. In these financial statements, premises were recorded at fair value based on the independent valuation results as at 31 December 2012. But as at 31 December 2011 and 31 December 2010 premises were recorded at their historical cost. As the Bank had no fair value information as at the above dates, we were not able to identify adjustments required in relation to the carrying values of premises and respective deferred taxes at 31 December 2011 and 31 December 2010 and respective profit and loss on revaluation and income tax expense for the years ended 31 December 2012 and 31 December 2011.

Qualified Opinion

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2012, and its financial performance and its cash flows for 2012 in accordance with International Financial Reporting Standards.

ZAO " PricewaterhouseCoopers Audit

29 March 2013
Moscow, Russian Federation

E.V. Filippova, General Director (qualification certificate No. 01-000195),
ZAO PricewaterhouseCoopers Audit

Audited entity: Joint Stock Commercial Bank Almazergienbank Open Joint-Stock Company

State registration certificate No. 1031403918138, issued by Moscow Registration Chamber on 23 July 2003

Certificate of inclusion in the Unified State Register of Legal Entities No. 2121400012413 issued on 27 November 2012.

1 Prospect Lenina, Yakutsk 677000, Russia

Independent auditor: ZAO PricewaterhouseCoopers Audit

State registration certificate No. 008.890, issued by Moscow Registration Chamber on 28 February 1992

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

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

In thousands of Russian Roubles	Note	31 December 2012	31 December 2011	1 January 2011
ASSETS				
Cash and cash equivalents	6	4 246 299	2 752 001	2 853 406
Securities at fair value through profit or loss	7	575 872	838 893	1 170 766
Due from other banks	8	3 339	115 185	380 676
Loans and advances to customers	9	10 614 021	8 545 166	5 056 968
Investment securities available for sale	10	646 375	784 418	377 338
Investment properties	11	95 513	43 981	84 767
Deferred income tax asset	28	-	20 737	7 288
Premises, equipment and intangible assets	12	778 552	429 364	507 300
Other financial assets	13	232 507	291 980	64 143
Other assets	14	52 816	53 891	78 650
Current income tax prepayment		8 475	4 474	-
Non-current assets held for sale	15	72 153	163 976	345 632
TOTAL ASSETS		**17 325 922**	**14 044 066**	**10 926 934**
LIABILITIES				
Due to other banks	16	28 534	-	-
Customer accounts	17	14 686 130	12 050 831	9 291 451
Debt securities in issue	18	29 471	4 000	45 874
Current income tax liability		-	-	4 503
Deferred income tax liability	28	20 825	-	-
Provisions for liabilities and charges	19	36 301	33 494	-
Other financial liabilities	20	52 716	107 469	44 161
Other liabilities	21	87 164	88 835	42 142
Subordinated debt	22	412 000	312 000	312 000
TOTAL LIABILITIES		**15 353 141**	**12 596 629**	**9 740 131**
EQUITY				
Share capital	23	1 550 111	1 397 111	1 197 111
Retained earnings		173 141	74 776	(12 397)
Revaluation reserve for premises and equipment	12	324 005	-	-
Revaluation reserve for available-for-sale investment securities		(74 476)	(24 450)	2 089
TOTAL EQUITY		**1 972 781**	**1 447 437**	**1 186 803**
TOTAL LIABILITIES AND EQUITY		**17 325 922**	**14 044 066**	**10 926 934**

Approved for issue by the Chairman of the Management Board and signed on his behalf of on 29 March 2013.

A.S. Mironov
Chairman of the Management Board

S.T. Vasiliev
Chief Accountant

In thousands of Russian Roubles	Note	2012	2011
Interest income	24	1 548 796	1 296 514
Interest expense	24	(684 731)	(708 330)
Net interest income		**864 065**	**588 184**
Provision for loan impairment	9	(180 766)	(47 628)
Net interest income after provision for loan impairment		**683 299**	**540 556**
Fee and commission income	25	278 255	226 448
Fee and commission expense	25	(39 069)	(34 374)
Losses on initial recognition of assets at rates below market		-	(69 823)
Losses less gains from trading in securities		(13 729)	(47 896)
Losses less gains from financial derivatives		(21 650)	20 268
Gains less losses from trading in foreign currencies		11 676	11 882
Gains less losses from trading in precious metals		12 177	24 258
Foreign exchange translation gains less losses		3 498	518
Other operating income	26	39 818	138 737
Administrative and other operating expenses	27	(820 266)	(697 782)
Dividend income received		11 004	6 072
Profit before tax		**145 013**	**118 864**
Income tax expense	28	(29 836)	(27 763)
PROFIT FOR THE YEAR		**115 177**	**91 101**
Other comprehensive income:			
- Losses from revaluation of available for sale securities		(62 532)	(33 174)
- Revaluation of premises and equipment	12	405 006	-
- Deferred income tax recorded in other comprehensive income	28	(68 495)	6 635
Other comprehensive income/(loss) for the year		**273 979**	**(26 539)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**389 156**	**64 562**

The notes set out on pages 5 to 61 form an integral part of these financial statements.

In thousands of Russian Roubles	Note	Share capital	Share premium	Revaluation reserve for available-for-sale securities	Revaluation reserve for premises and equipment	Retained earnings (Accumulated deficit)	Total equity
Balance at 31 December 2010		**1 021 111**	**176 000**	**2 089**	**-**	**(12 397)**	**1 186 803**
Profit for the year		-	-	-	-	91 101	**91 101**
Other comprehensive income		-	-	(26 539)	-	-	**(26 539)**
Total comprehensive income for 2011		**-**	**-**	**(26 539)**	**-**	**91 101**	**64 562**
Share issue	23	200 000	-	-	-	-	**200 000**
Dividends declared	29	-	-	-	-	(3 928)	**(3 928)**
Balance at 31 December 2011		**1 221 111**	**176 000**	**(24 450)**	**-**	**74 776**	**1 447 437**
Profit for the year		-	-	-	-	115 177	**115 177**
Other comprehensive income		-	-	(50 026)	324 005	-	**273 979**
Total comprehensive income for 2012		**-**	**-**	**(50 026)**	**324 005**	**115 177**	**389 156**
Share issue	23	153 000	-	-	-	-	**153 000**
Dividends declared	29	-	-	-	-	(16 812)	**(16 812)**
Balance at 31 December 2012		**1 374 111**	**176 000**	**(74 476)**	**324 005**	**173 141**	**1 972 781**

In thousands of Russian Roubles	Note	2012	2011
Cash flows from operating activities			
Interest received	24	1 452 713	1 327 909
Interest paid	24	(619 469)	(728 870)
Fees and commissions received	25	274 505	229 265
Fees and commissions paid	25	(32 925)	(34 374)
Expenses paid from securities at fair value through profit or loss		(18 919)	(14 054)
Income received from financial derivatives	33	4 711	3 300
Income received from trading in foreign currencies		11 676	11 882
Income received from trading in precious metals		9 476	16 337
Other operating income received		35 485	37 860
Loss from recognition of assets at rates below market		-	(69 823)
Staff costs paid	27	(445 232)	(373 048)
Administrative and other operating expenses paid	27	(305 821)	(247 619)
Income tax paid		(60 773)	(39 822)
Cash flows from operating activities before changes in operating assets and liabilities		**305 427**	**118 943**
Net decrease/(increase) in:			
- mandatory cash balances with the Central Bank		(24 403)	(74 698)
- securities at fair value through profit or loss		266 682	284 801
- due from other banks	8	111 649	263 555
- loans and advances to customers	9	(2 134 564)	(3 554 869)
- other financial assets	13	98 721	(198 638)
- other assets	14	(66 760)	33 038
- proceeds from disposal of assets held for sale		91 823	181 656
Net increase/(decrease) in:			
- due to other banks		28 534	-
- customer accounts	17	2 685 037	2 775 481
- debt securities in issue	18	25 460	(41 874)
- other financial liabilities	20	(68 288)	88 814
Net cash from/(used in) operating activities		**1 319 318**	**(123 791)**
Cash flows from investing activities			
Acquisition of investment securities available for sale		57 833	(430 558)
Acquisition of premises and equipment	12	(20 203)	(32 771)
Proceeds from disposal of premises and equipment		22 716	97 119
Proceeds from disposal of investment properties		-	114 225
Dividend income received		11 004	6 072
Acquisition of investment properties		(45 275)	(841)
Net cash from/(used in) investing activities		**26 075**	**(246 754)**
Cash flows from financing activities			
Issue of ordinary shares	23	153 000	200 000
Dividends paid	23	(16 811)	(3 939)
Net cash from financing activities		**136 189**	**196 061**
Effect of exchange rate changes on cash and cash equivalents		**(11 687)**	**(1 619)**
Net decrease in cash and cash equivalents		**1 469 895**	**(176 103)**
Cash and cash equivalents at the beginning of the year	6	2 611 651	2 787 754
Cash and cash equivalents at the end of the year	6	**4 081 546**	**2 611 651**

The notes set out on pages 5 to 61 form an integral part of these financial statements.

1 Introduction

These financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2012 for Joint Stock Commercial Bank Almazergienbank (OJSC) (the "Bank").

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 ultimate controlling party of the Bank is the Russian Federation represented by the *Ministry of Property Relations of the Republic of Sakha* , which owns 74% of the Bank's shares as at 31 December 2012 (31 December 2011: 70% of the Bank's shares; 31 December 2010: 62% of the Bank's shares).

Principal activity. The Bank's principal business activity is commercial and retail banking operations within the Russian Federation. The Bank has operated under a full banking license issued by the Central Bank of the Russian Federation ("CBRF") since 1993. The Bank participates in the state deposit insurance scheme, which was introduced by Federal Law No. 177-FZ "Deposits of Individuals Insurance in Russian Federation" dated 23 December 2003. The State Deposit Insurance Agency guarantees repayment of 100% of individual deposits up to RR 700 thousand per individual in the case of the withdrawal of a licence of a bank or a CBRF imposed moratorium on payments.

The Bank also has additional offices in Yakutsk, Mirny, Vilyuisk, Nyurba, Pokrovsk, Aldan, Lensk, Neryungry, Nizhny Bestyakh, Suntar, Maya, Churapcha, Ytyk-Kyuel of the Republic of Sakha (Yakutia). The Bank also has representative offices in Moscow and St Petersburg and an operational office in Khabarovsk. The Bank had 577 employees at 31 December 2012 (2011: 527 employees; 2010: 520 employees).

Registered address and place of business. The Bank's registered address is: 1, Prospect Lenina, Yakutsk 677000, Republic of Sakha (Yakutia), Russian Federation. The Bank's principal place of business is the Republic of Sakha (Yakutia).

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

2 Operating Environment of the Bank

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 (Note 32).

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.

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

In 2012 major macroeconomic indicators of the Republic of Sakha (Yakutia) improved. Gross regional product reached 3%, the increase was caused by growth in industry (by 6.3%), construction (by 4%) and trade (by 2.6%). Investments in core capital exceeded RR 200 billion in 2012.

The inflation in consumer market of the republic grew slower against the Russian Federation as a whole and made 4.8%. Real cash income of population increased by 2.1%. Unemployment rate is equal to 8.2% in the republic.

3 Summary of Significant Accounting Policies

Basis of presentation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") for the year ended 31 December 2012.

The published statutory financial statements of the Bank as of 31 December 2011 were prepared in accordance with the Russian Accounting Regulations ("RAR"). These RAR statutory financial statements for the year ended 31 December 2011 used to be the only financial statements that were presented to the shareholders and creditors of the Bank. In this respect the Bank decided to apply IFRS 1 "First-Time Adoption of IFRS" when preparing these IFRS financial statements for the year ended 31 December 2012.

In addition to RAR statutory financial statements and in accordance with reporting requirements of the Central bank of the Russian Federation, the Bank also prepared financial statements for the year ended 31 December 2011 in which it claimed compliance with IFRS. However, these financial statements were not in compliance with IFRS in many aspects, were prepared for internal use by management, were submitted to the Central bank of the Russian Federation and were not published to the Bank's owners or creditors. The management has informed the Central Bank of the Russian Federation of the situation and hence believes that the Bank does not have any previously issued IFRS financial statements.The management used professional judgment and in the current circumstances decided to prepare these financial statements for the year ended 31 December 2012 subject to IFRS 1 "First-Time Adoption of IFRS".

The table below shows the effect of differences in RAR and IFRS accounting policies in numbers as at 1 January 2011, 31 December 2011, 31 December 2012 and for the years ended 31 December 2011 and 31 December 2012:

In thousands of Russian Roubles		**31 December 2012**	**31 December 2011**	**1 January 2011**
Equity under RAR		**1 887 730**	**1 258 410**	**1 027 624**
(i)	Accrual of interest income on impaired loans	13 722	10 279	5 794
(ii)	Loans and advances to customers: impairment losses (charge of provision under IFRS)	271 187	318 782	216 877
(iii)	Premises and equipment: revaluation with adjustment for capitalised VAT	68 012	65 750	62 519
(iv)	Premises and equipment: depreciation charge under IFRS	(32 352)	(23 912)	(22 877)
(v)	Premises and equipment: revaluation under IFRS	5 620	-	-
(vi)	Investment securities at fair value through profit or loss	(3 044)	(1 150)	5 002
(vii)	Assets held for sale measured at fair value	(540)	-	-
(viii)	Investments in bonds: impairment losses	(48 275)	(83 137)	(81 745)
(ix)	Open position on derivatives	(9 098)	17 262	294
(x)	Reclassification of penalty and fines receivables into loans and advances to customers net of provision	(45 691)	(6 173)	(8 207)
(xi)	Charge of provision for losses on tax positions	(36 301)	(33 494)	-
(xii)	Charge of provision for unused vacation	(25 578)	(21 553)	(15 503)
(xiii)	Deferred income on financial guarantees	(3 038)	(5 019)	(2 200)
(xiv)	Professional services	(6 419)	(7 380)	-
(xv)	Accrued remuneration for the year 2010 paid in 2011	-	-	(10 934)
(xvi)	Write-off of inventories to expenses	(9 703)	(9 344)	(3 898)
(xvii)	Deferred tax: recognition under the balance sheet liability method	(20 825)	20 737	7 288
(xviii)	Losses from recognition of assets at rates below market	(45 347)	(61 172)	-
(xix)	Recognition of intangible assets	(801)	(3 775)	(6 199)
(xx)	Premises and equipment: hyperinflation adjustment	9 904	9 904	9 904
(xxi)	Investment securities available for sale: fair value	3 618	2 422	3 064
Equity under IFRS		**1 972 781**	**1 447 437**	**1 186 803**

3 Summary of Significant Accounting Policies (Continued)

Basis of Preparation (Continued)

In thousands of Russian Roubles		2012	2011
PROFIT UNDER RAR		**156 157**	**67 244**
(i)	Loans and advances to customers: interest income accrued on off-balance sheet accounts	3 443	4 485
(ii)	Loans and advances to customers: impairment losses (charge of provision under IFRS)	(214 749)	(49 633)
(iii)	Premises and equipment: VAT capitalisation	2 262	3 231
(iv)	Premises, equipment and intangible assets: depreciation charge under IFRS	(8 440)	(1 035)
(v)	Premises and equipment: revaluation	(181)	-
(vi)	Investment securities at fair value through profit or loss	(1 894)	(6 152)
(vii)	Assets held for sale measured at fair value	(540)	-
(viii)	Investments in bonds: impairment losses	34 862	(1 392)
(ix)	Open position on derivatives	(26 360)	16 968
(x)	Reversal of provision for other assets	(17 957)	(304)
(xi)	Charge of provision for losses on tax positions	(2 807)	(33 494)
(xii)	Charge of provision for unused vacation	(4 025)	(6 050)
(xiii)	Deferred income on financial guarantees	1 979	(2 817)
(xiv)	Professional services	961	(7 380)
(xv)	Bonuses for 2011 (2010) paid in 2012 (2011)	-	10 934
(xvi)	Write-off of inventories to expenses	(359)	(5 446)
(xvii)	Deferred tax: recognition under the balance sheet liability method	26 934	6 814
(xviii)	Losses from recognition of assets at rates below market	15 825	(61 172)
(xix)	Recognition of intangible assets	2 974	2 424
(xx)	Reversal of RAR provisions through SoCI	185 111	151 842
(xxi)	Charge of provision for receivables	(39 518)	2 034
(xxii)	Disposal of premises and equipment temporarily not used in core activities	1 499	-
TOTAL INCOME UNDER IFRS		**115 177**	**91 101**

The key adjustments for the differences between RAR and IFRS were attributable to the following:

(i) ***Recognition of interest income on impaired loans.*** Accrued interest income on impaired loans is recognised as interest income using the effective interest method as opposed to RAR accounting on off-balance sheet accounts.

(ii) ***Impairment losses on loans and advances.*** Provisions for loan impairment under RAR are calculated following a formalised procedure. The provision is a prescribed percentage of the gross loan amount and depends on credit history, financial performance of a borrower and certain other relevant factors. Under IFRS, the amount of the provision is calculated as the difference between the carrying amount and estimated recoverable amount, calculated as the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted at the loan's initial effective interest rate.

(iii) ***Premises and equipment: revaluation of premises and equipment with adjustment for capitalised VAT.*** Value added tax is capitalised into the carrying value of premises and equipment as opposed to write-off to expenses under RAR.

(iv) ***Premises, equipment and intangible assets: depreciation charge under IFRS.*** The adjustment was required to recognise depreciation of premises and equipment adjusted for capitalised VAT and hyperinflation.

(v) ***Premises and equipment: revaluation.*** The adjustment was required to recognise the market value of premises and land as at 31 December 2012.

(viii) ***Investments in bonds: impairment losses.*** The adjustment was required to recognise the fair value of bonds.

(xi) ***Charge of provision for losses on tax positions.*** Certain provisions that are not recognised under RAR were charged in accordance with the requirements of IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" ("IAS 37") for recognition as a liability.

3 Summary of Significant Accounting Policies (Continued)

Basis of Preparation (Continued)

(xii) ***Charge of provision for unused vacation.*** Certain provisions that are not recognised under RAR were charged in accordance with the requirements of IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" ("IAS 37") for recognition as a liability.

(xviii) ***Loss from recognition of assets at rates below market.*** The adjustment was required to recognise losses at initial recognition of assets at rates below market.

(xx) ***Premises and equipment: adjustment for 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". As part of the Bank's transition to IFRS, non-monetary assets, non-monetary liabilities and equity items arising from transactions prior to 1 January 2003 were restated in accordance with IAS 29 for the changes in the general purchasing power of the Russian Rouble from the dates of the transactions until 31 December 2002. The amounts expressed in the measuring unit current at as 31 December 2002 are treated as the basis for the carrying amounts in these financial statements. As the characteristics of the economic environment of the Russian Federation indicate that hyperinflation has ceased, transactions after 1 January 2003 are not subject to adjustment in accordance with the provisions of IAS 29.

(xvii) ***Deferred tax: recognition under the balance sheet liability method.*** The adjustment was required to recognise deferred taxes under the balance sheet liability method for temporary differences detailed in Note 28. The Bank's operating, investing and financing cash flows reported under RAR did not significantly differ from IFRS.

Going concern. Management prepared these financial statements on a going concern basis.

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 Bank 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 financial statements if changing any such assumptions to a reasonably possible alternative would result in significantly different profit, income, total assets or total liabilities.Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition and includes transaction costs. Measurement at cost is only applicable to investments in equity instruments that do not have a quoted market price and whose fair value cannot be reliably measured and derivatives that are linked to, and must be settled by, delivery of such unquoted equity instruments. Refer to Note 10.

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 statement of financial position.

3 Summary of Significant Accounting Policies (Continued)

Basis of Preparation (Continued)

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.

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

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date on which the Bank 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 Bank derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Bank 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 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 mandatory reserve deposits with the CBRF and all interbank placements with original maturities of less than three months. Cash and cash equivalents are carried at amortised cost. Refer to Note 6.

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 Bank's day to day operations and hence are not considered as part of cash and cash equivalents for the purposes of the statement of cash flows. Refer to Note 6.

Securities at fair value through profit or loss. Other securities at fair value through profit or loss are financial assets designated irrevocably, at initial recognition, into this category. Management designates securities into this category only if (a) such classification eliminates or significantly reduces an accounting mismatch that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or (b) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information on that basis is regularly provided to and reviewed by the Bank's key management personnel. Refer to Note 7.

Due from other banks. Amounts due from other banks are recorded when the Bank 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. Refer to Note 8.

Loans and advances to customers. Loans and advances to customers are recorded when the Bank 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. Refer to Note 9.

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 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 other borrowed funds.

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 Bank 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 Bank considers in determining whether a financial asset is impaired are its overdue status and realisability of related collateral, if any.

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

- any instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;

- the borrower experiences a significant financial difficulty as evidenced by borrower's financial information that the Bank obtains;

- the borrower considers bankruptcy or a financial reorganisation;

- there is an adverse change in the payment status of the borrower as a result of changes in the national or local economic conditions that impact the borrower; or

- the value of collateral significantly decreases as a result of deteriorating market conditions.

Impairment of financial assets carried at amortised cost. 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 did not have any impact on the reporting period.

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

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

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss for the year. Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to impairment loss account in profit or loss for the year. ***Repossessed collateral.*** Repossessed collateral represents financial and non-financial assets acquired by the Bank 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 Bank'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. Refer to Note 9.

3 Summary of Significant Accounting Policies (Continued)

Credit related commitments. The Bank 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 Bank 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 each reporting period. Refer to Note 32.

Investment securities available for sale. This classification includes investment securities which the Bank 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. Refer to Note 10.

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 Bank'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.

Promissory notes purchased. Promissory notes purchased are included in trading securities, 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.

Investment property. Investment property is property held by the Bank to earn rental income or for capital appreciation, or both, and is not occupied by the Bank.

Investment property is stated at cost, restated to the equivalent purchasing power of the Russian Rouble at 31 December 2002 for assets acquired prior to 1 January 2003 less accumulated depreciation.

Subsequent expenditure is capitalised only when it is probable that future economic benefits associated with it will flow to the Bank, and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred. If an investment property becomes owner-occupied, it is reclassified to premises and equipment. Refer to Note 11.

Precious metals. The Bank has a practice of taking delivery of precious metals and selling them within a short period after delivery, for the purpose of generating a profit from short-term fluctuations in price or dealer's margin. Precious metals are carried at fair value with gains or losses recognised in profit or loss.

Premises and equipment. Premises and equipment is stated at cost, restated to the equivalent purchasing power of the Russian Rouble at 31 December 2002 for assets acquired prior to 1 January 2003 less accumulated depreciation.

Costs of minor repairs and maintenance are expensed when incurred. Costs of replacing major parts or components of premises and equipment items are capitalised, and the replaced part is retired. Refer to Note 12.

Changes in accounting policy on premises and equipment. The Bank decided to start using the revaluation model in accounting for such categories of premises and equipment as Land and Premises and Buildings for the purposes of the statement of financial position at 31 December 2012. The Bank's management believes the evaluation model ensures the more reliable valuation of premises and equipment. Retrospective application of such changes is not possible as the Bank had not engaged any external valuation company to make the valuation of premises and equipment as at 31 December 2011 and 31 December 2010. The effect of differences in revaluation models is disclosed in numbers in Note 12.

3 Summary of Significant Accounting Policies (Continued)

Intangible assets. The Group's intangible assets have definite useful life and primarily include capitalised computer software. Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Capitalised computer software is amortised on a straight line basis over expected useful lives of 5 years. Refer to Note 12.

Depreciation. Land and construction in progress are not depreciated. Depreciation on other items of premises and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives:

	Useful lives in years
Premises and buildings	20-50
Office equipment	2-15
Furniture	5-10
Vehicles	5-7

Refer to Note 12.

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

Leases embedded in other agreements are separated if (a) fulfilment of the arrangement is dependent on the use of a specific asset or assets and (b) the arrangement conveys a right to use the asset. Refer to Note 32.

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 sale at a reasonable price; (d) 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 statement of financial position to reflect the classification at the end of the current period. Refer to Note 15.

Customer accounts. Customer accounts are non-derivative liabilities to individuals, state or corporate customers and are carried at amortised cost. Refer to Note 17.

Subordinated debt. Subordinated debt is carried at amortised cost. The debt ranks after all other creditors in the case of liquidation. Refer to Note 22.

Debt securities in issue. Debt securities in issue include promissory notes, bonds, certificates of deposit and debentures issued by the Bank. Debt securities are stated at amortised cost. If the Bank purchases its own debt securities in issue, they are removed from the statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains arising from early retirement of debt. Refer to Note 18.

Derivative financial instruments. Derivative financial instruments, including foreign exchange contracts, interest rate futures, forward rate agreements, currency and interest rate swaps, and currency and interest rate options are carried at their fair value.

All derivative instruments are carried as assets when fair value is positive, and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss for the year (gains less losses on derivatives). The Bank does not apply hedge accounting. Refer to Note 33.

Income taxes. Income taxes have been provided for in the 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.

3 Summary of Significant Accounting Policies (Continued)

Current tax is the amount expected to be paid to, or recovered from, the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if 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 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. Refer to Note 28.

Uncertain tax positions. The Bank'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. Refer to Note 32.

Provisions for liabilities and charges. Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when the Bank 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. Refer to Note 19.

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 that are not redeemable and with discretionary dividends 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. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity. Refer to Note 23.

Dividends. Dividends are recorded in equity in the period in which they are declared. Any dividends declared after the end of 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. Refer to Note 29.

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. Refer to Note 24.

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

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

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

3 Summary of Significant Accounting Policies (Continued)

Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, and which are earned on execution of the underlying transaction, are recorded on its completion. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-proportion basis. Asset management fees relating to investment funds are recorded rateably over the period that the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continually provided over an extended period of time. Refer to Note 25.

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

Monetary assets and liabilities are translated into the Bank's functional currency at the official exchange rate of the CBRF at the end of the respective reporting period. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities into the Bank's functional currency at year-end official exchange rates of the CBRF, are recognised in profit or loss for the year (as foreign exchange translation gains less losses). Translation at year-end rates does not apply to non-monetary items that are measured at historical cost. Non-monetary items measured at fair value in a foreign currency, including equity investments, are translated using the exchange rates at the date when the fair value was determined.

Effects of exchange rate changes on non-monetary items measured at fair value in a foreign currency are recorded as part of the fair value gain or loss.

As at 31 December 2012 the principal rates of exchange used for translating foreign currency balances were USD 1 = RR 30.3727 (2011: USD 1 = RR 32.1961; 2010: USD 1 = RR 30.4769) and EUR 1 = RR 40.2286 (2011: EUR 1 = RR 41.6714; 2010: EUR 1 = 40.3331). The principal average rate of exchange used for translating income and expenses was USD 1 = RR 31.07 (2011: USD 1 = RR 29.35; 2010: USD 1 = RR 30.36)

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

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

Staff costs and related contributions. Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the Bank. In addition to payments to the statutory defined contribution scheme the Bank has an agreement on non-state pension security. Refer to Note 32.

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies

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

4 Critical Accounting Estimates, 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 10% increase or decrease in actual loss experience compared to the loss estimates used would result in an increase or decrease in loan impairment losses of RR 53 561 thousand (2011: RR 36 482 thousand; 2010: RR 33 494 thousand), respectively. Impairment losses for individually significant loans are based on estimates of discounted future cash flows of the individual loans, taking into account repayments and realisation of any assets held as collateral against the loans. A 10% increase or decrease in the actual loss experience compared to the estimated future discounted cash flows from individually significant loans, which could arise from differences in amounts and timing of the cash flows, would result in an increase or decrease in loan impairment losses of RR 7 084 thousand (2011: RR 8 693 thousand; 2010: RR 6 761 thousand), respectively.

Fair value of non-current assets held for sale. Non-current assets held for sale are assets received under settlement agreements and are recorded at their collateral value adjusted for further sales price.

Loans at low interest rates. The Bank monitors its exposure to credit risk on a regular basis and reviews limits at least once a year. The Bank believes low interest rates on mortgage loans comply with the market level as loans were issued within the Programme of Increasing Housing Affordability in the republican programme, the Providing the High-Quality Housing 2012-2016 state programme where cost of housing was partly subsidised from the state budget. The low interest rate on these loans is offset by the absence of risk of nonpayment. Refer to Note 9.

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

Initial recognition of related party transactions. In the normal course of business the Bank enters into transactions with its related parties. IAS 39, Financial Instruments: Recognition and Measurement, requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis. Terms and conditions of related party balances are disclosed in Note 36.

5 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 Bank 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. IFRS 10 has no material impact on the Bank's financial statements for 2012.

IFRS 11, Joint Arrangements, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), replaces IAS 31, *Interests in Joint Ventures*, and SIC-13, *Jointly Controlled Entities – Non-Monetary Contributions by Ventures*. 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. IFRS 11 has no material impact on the Bank's financial statements for 2012.

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. IFRS 12 has no material impact on the Bank's financial statements for 2012.

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. IFRS 13 has no material impact on the Bank's financial statements for 2012.

5 New Accounting Pronouncements (Continued)

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. IAS 27 has no material impact on the Bank's financial statements for 2012.

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 Bank expects the amended standard to change presentation of its 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 Bank is currently assessing the impact of the amended standard on its financial statements.

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 an entity's 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. ***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 Bank is considering the implications of the amendment, the impact on the Bank and the timing of its adoption by the Bank.

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 Bank is currently assessing the impact of the amendments on its financial statements.

Transition Guidance Amendments to IFRS 10, IFRS 11 and IFRS 12 (issued in June 2012 and effective for annual periods beginning 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 Bank is currently assessing the impact of the amendments on its financial statements.

5 New Accounting Pronouncements (Continued)

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

The following standards and interpretations have not been enacted in the Russian Federation.

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

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

- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent payments of principal and interest only (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.

- 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 Bank did not early adopt IFRS 9 in preparation of these 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. IAS 28 has no material impact on the Bank's financial statements for 2012.

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 Bank is considering the implications of the amendment, the impact on the Bank and the timing of its adoption by the Bank.

6 Cash and cash equivalents

In thousands of Russian Roubles	2012	2011	2010
Cash balances with the CBRF (other than mandatory reserve deposits)	2 795 136	1 288 678	1 487 346
Cash on hand	1 058 429	671 481	731 674
Correspondent accounts and overnight placements with other banks	227 981	141 492	118 734
Mandatory cash balances with CBRF	164 753	140 350	65 652
Placements with other banks with original maturities of less than three months	-	510 000	450 000
Total cash and cash equivalents	**4 246 299**	**2 752 001**	**2 853 406**

6 Cash and cash equivalents (Continued)

The credit quality of cash and cash equivalents balances may be summarised based on Standard and Poor's ratings as follows at 31 December 2012:

In thousands of Russian Roubles	Cash balances with the CBRF, including mandatory reserves	Correspondent accounts and overnight placements	Total
Neither past due nor impaired			
- Central Bank of the Russian Federation	2 959 889	-	2 959 889
- A rated	-	2 980	2 980
- B rated	-	4 880	4 880
- BB rated	-	52 389	52 389
- BBB+ rated	-	134 958	134 958
- BBB- rated	-	6 337	6 337
- unrated	-	26 437	26 437
Total cash and cash equivalents, excluding cash on hand	**2 959 889**	**227 981**	**3 187 870**

At 31 December 2012 mandatory cash balances totalled RR 164 753 thousand (31 December 2011: RR 140 350 thousand; 31 December 2010: RR 65 652 thousand).

The credit quality of cash and cash equivalents balances may be summarised based on Standard and Poor's ratings as follows at 31 December 2011:

In thousands of Russian Roubles	Cash balances with the CBRF, including mandatory reserves	Correspondent accounts and overnight placements	Placements with other banks with original maturities of less than three months	Total
Neither past due nor impaired				
- Central Bank of the Russian Federation	1 429 028	-	-	1 429 028
- AA- rated	-	-	50 000	50 000
- B- rated	-	667	-	667
- BB rated	-	-	150 000	150 000
- BB- rated	-	84 041	-	84 041
- BBB rated	-	39 221	-	39 221
- unrated	-	17 563	310 000	327 563
Total cash and cash equivalents, excluding cash on hand	**1 429 028**	**141 492**	**510 000**	**2 080 520**

6 Cash and cash equivalents (Continued)

The credit quality of cash and cash equivalents balances may be summarised based on Standard and Poor's ratings as follows at 31 December 2010:

In thousands of Russian Roubles	Cash balances with the CBRF, including mandatory reserves	Correspondent accounts and overnight placements	Placements with other banks	Total
Neither past due nor impaired				
- Central Bank of the Russian Federation	1 552 998	-	-	1 552 998
- B- rated	-	35 161	-	35 161
- B+ rated	-	-	300 000	300 000
- BBB rated	-	26 674	100 000	126 674
- BBB+ rated	-	1 383	-	1 383
- unrated	-	55 516	50 000	105 516
Total cash and cash equivalents, excluding cash on hand	**1 552 998**	**118 734**	**450 000**	**2 121 732**

The ratings are based on Standard & Poor's ratings where available or Moody's or Fitch ratings converted to the nearest equivalent on the Standard & Poor's rating scale.

Interest rate analysis of cash and cash equivalents is disclosed in Note 30. Information on related party balances is disclosed in Note 36.

7 Securities at Fair Value Through Profit or Loss

In thousands of Russian Roubles	2012	2011	2010
Corporate bonds	556 387	809 715	1 170 766
Municipal bonds	19 485	-	-
Russian government bonds	-	29 178	-
Total securities at fair value through profit or loss	**575 872**	**838 893**	**1 170 766**

The Bank irrevocably designated the above securities that are not part of its trading portfolio, as at fair value through profit or loss. The securities meet the criteria for classification as at fair value through profit or loss because management assesses performance of these investments based on their fair values.

As at 31 December 2011, government bonds are represented by federal loan bonds issued by the Russian Ministry of Finance maturing in November 2014, with coupon income of 8% p.a.

Municipal bonds are represented by bonds issued by the government of the Chuvash Republic maturing in June 2014, with coupon income of 7.81%.

Corporate bonds are bonds issued by large Russian companies maturing from October 2013 to June 2021 (2011: from March 2012 to July 2023; 2010: from February 2011 to November 2019) with coupon income from 8.0% to 16.5% p.a. (2011: from 7.0% to 17.0% p.a.; 2010: from 7.0% to 18.0% p.a.).

7 Securities at Fair Value through Profit or Loss (Continued)

Securities designated at fair value through profit or loss are carried at fair value, which also reflects any credit risk related write-downs as the securities are carried at their fair values based on observable market data.

Analysis by credit quality of debt securities at fair value through profit or loss outstanding at 31 December 2012, is as follows:

In thousands of Russian Roubles	Municipal bonds	Corporate bonds	Total
Neither past due nor impaired (at fair value)			
- B+ rated	-	183 017	183 017
- B rated	-	245 268	245 268
- BB rated	19 485	-	19 485
- BB- rated	-	80 316	80 316
- BBB- rated	-	47 786	47 786
Total debt securities at fair value through profit or loss	**19 485**	**556 387**	**575 872**

Analysis by credit quality of debt securities at fair value through profit or loss outstanding at 31 December 2011, is as follows:

In thousands of Russian Roubles	Russian government bonds	Corporate bonds	Total
Neither past due nor impaired (at fair value)			
- B+ rated	-	28 109	28 109
- B rated	-	18 945	18 945
- B- rated	-	75 985	75 985
- BB rated	-	78 859	78 859
- BB- rated	-	91 443	91 443
- BBB rated	29 178	161 236	190 414
- CCC+ rated	-	3 678	3 678
- unrated	-	351 460	351 460
Total debt securities at fair value through profit or loss	**29 178**	**809 715**	**838 893**

Analysis by credit quality of debt securities at fair value through profit or loss outstanding at 31 December 2010, is as follows:

In thousands of Russian Roubles	Corporate bonds	Total
Neither past due nor impaired (at fair value)		
- BBB+ rated	49 818	49 818
- BB rated	186 729	186 729
- BB- rated	98 544	98 544
- B+ rated	244 594	244 594
- B rated	133 550	133 550
- unrated	457 531	457 531
Total debt securities at fair value through profit or loss	**1 170 766**	**1 170 766**

The credit ratings are based on Standard & Poor's ratings where available or Moody's or Fitch ratings converted to the nearest equivalent on the Standard & Poor's rating scale. The debt securities are not collateralised.

7 Securities at Fair Value through Profit or Loss (Continued)

Regarding unrated securities, the Bank analyses financial position of quoted companies with internal techniques of the Bank.

At 31 December 2012, all securities at fair value through profit or loss are included into securities accepted as collateral for Loans from the CBRF which serves as the source for the Bank's liquidity maintenance (the Bank has signed a framework agreement with CBRF and is entitled to borrow cash from the latter collateralised by these securities).

Interest rate analysis of securities at fair value through profit or loss is disclosed in Note 30.

8 Due from other banks

In thousands of Russian Roubles	2012	2011	2010
Placements with other banks with original maturities of more than three months	3 339	115 185	380 676
Total due from other banks	**3 339**	**115 185**	**380 676**

All placements with other banks are neither overdue, nor impaired.

The analysis by credit quality of amounts due from other banks outstanding at 31 December 2012 (31 December 2011 and 31 December 2010) is as follows:

In thousands of Russian Roubles	2012	2011	2010
- B rated	-	-	150 000
- B- rated	-	-	227 335
- BBB+ rated	445	-	-
- BBB rated	-	1 276	1 215
- BBB- rated	768	-	-
- unrated	2 126	113 909	2 126
Total due from other banks	**3 339**	**115 185**	**380 676**

The credit ratings are based on Standard & Poor's ratings where available or Moody's or Fitch ratings converted to the nearest equivalent on the Standard & Poor's rating scale.

Regarding unrated due from other banks, the Bank analyses financial position of counterparties with the internal policy of the Bank.

Interest rate analysis of due from other banks is disclosed in Note 30.

9 Loans and advances to customers

In thousands of Russian Roubles	2012	2011	2010
Corporate loans	6 626 853	6 096 996	4 406 244
Loans to individuals:			
Consumer loans	2 304 900	1 510 496	593 338
Mortgage loans	1 997 318	1 300 826	390 392
Car loans	563	599	1 935
Reverse sale and repurchase agreements	*219 999*	-	-
Less: Provision for loan impairment	(535 612)	(363 751)	(334 941)
Total loans and advances to customers	**10 614 021**	**8 545 166**	**5 056 968**

9 Loans and Advances to Customers (Continued)

Loans and advances to customers include interest on impaired loans at 31 December 2012 of RR 13 722 thousand (31 December 2011: RR 10 279 thousand; 31 December 2010: RR 5 794 thousand).

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

In thousands of Russian Roubles	Corporate loans	Loans to individuals	Total
Provision for loan impairment at 1 January 2012	**274 097**	**89 654**	**363 751**
Provision for impairment during the year	94 367	86 399	180 766
Amounts written off during the year as uncollectible	(4 283)	(4 622)	(8 905)
Provision for loan impairment at 31 December 2012	**364 181**	**171 431**	**535 612**

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

In thousands of Russian Roubles	Corporate loans	Loans to individuals	Total
Provision for loan impairment at 1 January 2011	**256 221**	**78 720**	**334 941**
Provision for impairment during the year	28 123	19 505	47 628
Amounts written off during the year as uncollectible	(10 247)	(8 571)	(18 818)
Provision for loan impairment at 31 December 2011	**274 097**	**89 654**	**363 751**

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

	2012		2011		2010	
In thousands of Russian Roubles	Amount	%	Amount	%	Amount	%
Individuals:						
Consumer loans	2 304 900	21%	1 510 496	17%	593 338	11%
Mortgage loans	1 997 318	18%	1 300 826	15%	390 392	7%
Car loans	563	0%	599	0%	1 935	0%
Legal entities:						
Trade	1 460 998	13%	1 340 762	15%	1 138 222	21%
Construction, agriculture and forestry	1 139 276	10%	742 977	8%	508 313	10%
Transport and communication	952 221	9%	929 785	11%	666 133	12%
Mining	809 802	7%	1 055 766	12%	521 246	10%
Manufacturing	753 130	7%	626 428	7%	333 099	6%
Financial, legal, intermediary services and real estate	718 291	6%	474 714	5%	331 730	6%
Power, gas and water production and distribution	330 171	3%	285 982	3%	-	0%
Other industries	682 963	6%	640 582	7%	907 501	17%
Total loans and advances to customers (before impairment)	**11 149 633**	**100%**	**8 908 917**	**100%**	**5 391 909**	**100%**

State and public organisations exclude government owned profit orientated businesses.

At 31 December 2012 the Bank had 99 borrowers (2011: 73 borrowers; 2010: 55 borrowers) with aggregated loan amounts above RR 10 million. The total aggregate amount of these loans was RR 5 470 million (2011: RR 5 172 million; 2010: RR 3 776 million), or 49% of the gross loan portfolio (2011: 58%; 2010: 70%).

9 Loans and Advances to Customers (Continued)

Information about collateral at 31 December 2012 is as follows:

In thousands of Russian Roubles	Corporate loans	Consumer loans	Mortgage loans	Car loans	Reverse sale and repurchase agreements	Total
Unsecured loans	1 624 453	2 144 325	-	8	219 999	3 988 785
Loans collateralised by:						
- real estate	2 537 951	144 375	1 995 856	-	-	4 678 182
- inventory	854 526	-	-	-	-	854 526
- state guarantees	687 095	-	-	-	-	687 095
- motor vehicles	637 637	16 200	-	555	-	654 392
- cash deposits	222 463	-	1 462	-	-	223 925
- other assets	62 728	-	-	-	-	62 728
Total loans and advances to customers	**6 626 853**	**2 304 900**	**1 997 318**	**563**	**219 999**	**11 149 633**

Information about collateral at 31 December 2011 is as follows:

In thousands of Russian Roubles	Corporate loans	Consumer loans	Mortgage loans	Car loans	Total
Unsecured loans	898 945	1 412 833	-	-	2 311 778
Loans collateralised by:					
- real estate	1 681 684	83 336	1 300 826	-	3 065 846
- state guarantees	1 127 692	-	-	-	1 127 692
- inventory	1 063 109	-	-	-	1 063 109
- motor vehicles	559 602	14 327	-	599	574 528
- cash deposits	701 098	-	-	-	701 098
- other assets	64 866	-	-	-	64 866
Total loans and advances to customers	**6 096 996**	**1 510 496**	**1 300 826**	**599**	**8 908 917**

The information about collateral at 31 December 2010 is as follows:

In thousands of Russian Roubles	Corporate loans	Consumer loans	Mortgage loans	Car loans	Total
Unsecured loans	1 165 271	516 118	-	-	1 681 389
Loans collateralised by:					
- real estate	1 039 960	62 924	390 392	-	1 493 276
- state guarantees	500 093	-	-	-	500 093
- inventory	692 063	-	-	-	692 063
- motor vehicles	316 751	14 296	-	1 935	332 982
- cash deposits	512 380	-	-	-	512 380
- other assets	179 726	-	-	-	179 726
Total loans and advances to customers	**4 406 244**	**593 338**	**390 392**	**1 935**	**5 391 909**

9 Loans and Advances to Customers (Continued)

Other assets mainly include equipment. The disclosure above represents the lower of the carrying value of the loan or collateral taken; the remaining part is disclosed within the unsecured exposures. The carrying value of loans was allocated based on liquidity of the assets taken as collateral.

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

In thousands of Russian Roubles	Corporate loans	Consumer loans	Mortgage loans	Car loans	Reverse sale and repurchase agreements	Total
Neither past due nor impaired						
- 1st quality category	1 269 007	8 747	-	-	219 999	1 497 753
- 2nd quality category	4 180 301	1 965 361	1 936 820	-	-	8 082 482
- 3rd quality category	834 065	27 234	40 038	-	-	901 337
Total neither past due nor impaired	**6 283 373**	**2 001 342**	**1 976 858**	**-**	**219 999**	**10 481 572**
Past due but not impaired						
- less than 30 days overdue	105 833	121 273	6 923	-	-	234 029
Total past due but not impaired	**105 833**	**121 273**	**6 923**	**-**	**-**	**234 029**
Loans individually determined to be impaired (gross)						
- 30 to 90 days overdue	2 617	31 168	11 338	-	-	45 123
- 91 to 180 days overdue	16 799	28 765	-	-	-	45 564
- 181 to 360 days overdue	111 605	34 139	987	-	-	146 731
- over 360 days overdue	106 626	88 213	1 212	563	-	196 614
Total individually impaired loans (gross)	**237 647**	**182 285**	**13 537**	**563**	**-**	**434 032**
Less provision for impairment	**(364 181)**	**(168 430)**	**(2 438)**	**(563)**	**-**	**(535 612)**
Total loans and advances to customers	**6 262 672**	**2 136 470**	**1 994 880**	**-**	**219 999**	**10 614 021**

9 Loans and Advances to Customers (Continued)

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

In thousands of Russian Roubles	Corporate loans	Consumer loans	Mortgage loans	Car loans	Total
Neither past due nor impaired					
- 1st quality category	1 926 645	-	40 076	-	1 966 721
- 2nd quality category	2 534 157	1 285 504	1 214 964	-	5 034 625
- 3rd quality category	1 196 072	22 433	19 796	-	1 238 301
Total neither past due nor impaired	**5 656 874**	**1 307 937**	**1 274 836**	**-**	**8 239 647**
Past due but not impaired					
- less than 30 days overdue	258 708	76 542	14 691	-	349 941
Total past due but not impaired	**258 708**	**76 542**	**14 691**	**-**	**349 941**
Loans individually determined to be impaired (gross)					
- 30 to 90 days overdue	9 611	42 397	2 162	-	54 170
- 91 to 180 days overdue	83 537	35 583	-	-	119 120
- 181 to 360 days overdue	11 158	12 369	272	-	23 799
- over 360 days overdue	77 108	35 668	8 865	599	122 240
Total individually impaired loans (gross)	**181 414**	**126 017**	**11 299**	**599**	**319 329**
Less provision for impairment	**(274 097)**	**(79 258)**	**(9 797)**	**(599)**	**(363 751)**
Total loans and advances to customers	**5 822 899**	**1 431 238**	**1 291 029**	**-**	**8 545 166**

9 Loans and Advances to Customers (Continued)

Analysis by credit quality of loans outstanding at 31 December 2010 is as follows:

In thousands of Russian Roubles	Corporate loans	Consumer loans	Mortgage loans	Car loans	Total
Neither past due nor impaired					
- 1st quality category	1 416 462	6 819	2 126	-	1 425 407
- 2nd quality category	2 254 094	455 619	304 419	-	3 014 132
- 3rd quality category	223 113	16 897	46 414	-	286 424
Total neither past due nor impaired	**3 893 669**	**479 335**	**352 959**	**-**	**4 725 963**
Past due but not impaired					
- less than 30 days overdue	384 626	28 850	11 293	-	424 769
Total past due but not impaired	**384 626**	**28 850**	**11 293**	**-**	**424 769**
Loans individually determined to be impaired (gross)					
- 30 to 90 days overdue	7 676	34 185	3 339	-	45 200
- 91 to 180 days overdue	19 234	4 000	3 883	-	27 117
- 181 to 360 days overdue	31 656	3 737	964	-	36 357
- over 360 days overdue	69 383	43 231	17 954	1 935	132 503
Total individually impaired loans (gross)	**127 949**	**85 153**	**26 140**	**1 935**	**241 177**
Less provision for impairment	**(256 221)**	**(56 010)**	**(20 775)**	**(1 935)**	**(334 941)**
Total loans and advances to customers	**4 150 023**	**537 328**	**369 617**	**-**	**5 056 968**

The Bank uses the following classification of neither past due nor impaired loans by credit quality:

- Category 1 loans have good debt servicing quality and financial position of a borrower;
- Category 2 loans have average (good) debt servicing quality and good (average) financial position of a borrower;
- Category 3 loans have average debt servicing quality and financial position of a borrower.

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

9 Loans and Advances to Customers (Continued)

The impairment provisions may exceed the total gross amount of individually impaired loans as a result of this policy and the portfolio impairment methodology.

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

Past due but not impaired loans primarily include loans with technical overdue. The amount reported as past due but not impaired is the whole balance of such loans, not only the individual instalments that are past due.

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

	Over-collateralised assets		**Under-collateralised assets**	
In thousands of Russian Roubles	**Carrying value of the assets**	**Fair value of collateral**	**Carrying value of the assets**	**Fair value of collateral**
Corporate loans	*4 082 418*	*7 535 165*	*2 180 254*	*273 925*
Loans to individuals	*2 112 378*	*2 891 893*	*2 018 972*	*21 084*
Consumer loans	129 719	345 701	2 006 751	11 531
Mortgage loans	1 982 659	2 545 244	12 221	9 553
Car loans	-	948	-	-
Reverse sale and repurchase agreements	-	-	*219 999*	-

The effect of collateral at 31 December 2011:

	Over-collateralised assets		**Under-collateralised assets**	
In thousands of Russian Roubles	**Carrying value of the assets**	**Fair value of collateral**	**Carrying value of the assets**	**Fair value of collateral**
Corporate loans	4 290 228	7 543 283	1 532 671	317 472
Loans to individuals	1 268 449	1 817 775	1 453 818	7 956
Consumer loans	76 002	199 273	1 355 236	3 923
Mortgage loans	1 192 447	1 616 567	98 582	4 033
Car loans	-	1 935	-	-
Reverse sale and repurchase agreements	-	-	-	-

The effect of collateral at 31 December 2010:

	Over-collateralised assets		**Under-collateralised assets**	
In thousands of Russian Roubles	**Carrying value of the assets**	**Fair value of collateral**	**Carrying value of the assets**	**Fair value of collateral**
Corporate loans	2 276 035	5 503 503	1 873 988	313 971
Loans to individuals	245 953	689 771	660 992	36 437
Consumer loans	40 633	167 183	496 695	7 773
Mortgage loans	205 320	519 486	164 297	28 664
Car loans	-	3 102	-	-
Reverse sale and repurchase agreements	-	-	-	-

9 Loans and Advances to Customers (Continued)

The fair value of residential real estate collateral at the end of the reporting period was estimated by indexing the values determined by the Group's internal credit department staff at the time of loan inception.

The fair value of real estate and other assets was determined by the Bank's credit department by considering the condition or location of the assets accepted as collateral.

Refer to Note 34 for the estimated fair value of each class of loans and advances to customers. Interest rate analysis of loans and advances to customers is disclosed in Note 30.

10 Investment securities available for sale

In thousands of Russian Roubles	2012	2011	2010
Corporate bonds	220 472	227 512	50 805
Russian government bonds	77 290	192 939	160 587
Municipal bonds	-	-	16 289
Total debt securities	**297 762**	**420 451**	**227 681**
Corporate shares	348 613	363 967	149 657
Total investment securities available for sale	**646 375**	**784 418**	**377 338**

Russian government bonds are represented by federal loan bonds issued by the Russian Ministry of Finance maturing from August 2034 to February 2036 (2011: from August 2016 to February 2036; 2010: from August 2012 to February 2036), with coupon income of 6.9% (2011: 7.0%; 2010: 7.0%).

Corporate bonds are bonds, issued by large Russian companies and maturing from June 2013 to April 2014 (2011: in April 2014; 2010: in February 2014), with coupon income from 8.0% (2011: 8.0%; 2010: 9.0%) p.a.

Corporate shares are quoted shares of large Russian companies. Unquoted shares are represented by the shares issued by large companies from the Republic of Sakha (Yakutia) related to mining and regional infrastructure.

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

In thousands of Russian Roubles	Russian government bonds	Corporate bonds	Total
Neither past due nor impaired			
- BBB+ rated	77 290	-	77 290
- unrated	-	220 472	220 472
Total neither past due nor impaired	**77 290**	**220 472**	**297 762**

10 Investment Securities Available for Sale (Continued)

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

In thousands of Russian Roubles	Russian government bonds	Corporate bonds	Total
Neither past due nor impaired			
- BBB rated	192 939	-	192 939
- unrated	-	227 008	227 008
Total neither past due nor impaired	**192 939**	**227 008**	**419 947**
Debt securities individually determined to be impaired (gross)			
- over 360 days overdue	-	504	504
Total individually impaired debt securities	**-**	**504**	**504**
Total debt securities available for sale	**192 939**	**227 512**	**420 451**

Analysis by credit quality of debt securities outstanding at 31 December 2010 is as follows:

In thousands of Russian Roubles	Russian government bonds	Municipal bonds	Corporate bonds	Total
Neither past due nor impaired				
- BBB rated	160 587	16 289	-	176 876
- B+ rated	-	-	48 415	48 415
- unrated	-	-	2 390	2 390
Total neither past due nor impaired	**160 587**	**16 289**	**50 805**	**227 681**

The credit ratings are based on Standard & Poor's ratings where available or Moody's or Fitch ratings converted to the nearest equivalent on the Standard & Poor's rating scale.

The primary factor that the Bank considers in determining whether a debt security is impaired is its overdue status. As a result, the Bank presents above an ageing analysis of debt securities that are individually determined to be impaired.

The debt securities are not collateralised.

Interest rate analysis of investment securities available for sale is disclosed in Note 30.

11 Investment properties

In thousands of Russian Roubles	Note	2012	2011
Cost of investment properties at 1 January		**49 688**	**89 621**
Accumulated depreciation at 1 January		**(5 707)**	**(4 854)**
Carrying value of investment properties as at 1 January		**43 981**	**84 767**
Additions		22 624	-
Transfer from owner-occupied premises	12	46 059	34 990
Disposals		(10 977)	(73 566)
Transfer to owner-occupied premises	12	(178)	(1 357)
Depreciation charge	27	(6 723)	(1 509)
Depreciation charge on disposed items		727	656
Carrying value of investment properties as at 31 December		**107 216**	**49 688**
Accumulated depreciation at 31 December		**(11 703)**	**(5 707)**
Carrying value of investment properties as at 31 December		**95 513**	**43 981**

Investment properties are valued at cost less depreciation.

Assets were transferred from owner-occupied premises to investment properties due to leasing out non-residential premises under agreements first signed in 2012 and 2011 respectively.

12 Premises, Equipment and Intangible Assets

In thousands of Russian Roubles	Note	Land plots	Premises	Motor vehicles	Office equipment	Furniture	Construction in progress	Intangible assets	Total
Cost at 31 December 2010		**2 137**	**414 771**	**39 575**	**42 955**	**145 121**	**-**	**15 473**	**660 032**
Accumulated depreciation		**-**	**(34 281)**	**(13 854)**	**(33 688)**	**(64 710)**	**-**	**(6 199)**	**(152 732)**
Carrying amount at 31 December 2010		**2 137**	**380 490**	**25 721**	**9 267**	**80 411**	**-**	**9 274**	**507 300**
Additions		53	6 696	10 350	1 705	18 854	3 930	8 841	**50 429**
Transfer to investment properties	11	-	(34 990)	-	-	-	-	-	**(34 990)**
Disposals		-	(53 987)	(3 611)	(2 274)	(2 677)	-	-	**(62 549)**
Depreciation charge	27	-	(12 050)	(6 429)	(3 046)	(17 496)	-	(4 863)	**(43 884)**
Depreciation charged on disposed items		-	6 628	3 060	888	2 482	-	-	**13 058**
Carrying amount at 31 December 2011		**2 190**	**292 787**	**29 091**	**6 540**	**81 574**	**3 930**	**13 252**	**429 364**
Cost at 31 December 2011		**2 190**	**332 490**	**46 314**	**42 386**	**161 298**	**3 930**	**24 314**	**612 922**
Accumulated depreciation		**-**	**(39 703)**	**(17 223)**	**(35 846)**	**(79 724)**	**-**	**(11 062)**	**(183 558)**

12 Premises and Equipment and Intangible Assets (Continued)

In thousands of Russian Roubles	Note	Land plots	Premises	Motor vehicles	Office equipment	Furniture	Construction in progress	Intangible assets	Total
Carrying amount at 31 December 2011		**2 190**	**292 787**	**29 091**	**6 540**	**81 574**	**3 930**	**13 252**	**429 364**
Cost at 31 December 2011		**2 190**	**332 490**	**46 314**	**42 386**	**161 298**	**3 930**	**24 314**	**612 922**
Accumulated depreciation		**-**	**(39 703)**	**(17 223)**	**(35 846)**	**(79 724)**	**-**	**(11 062)**	**(183 558)**
Additions		-	-	11 989	4 344	26 429	-	4 185	**46 947**
Transfer to investment properties	11	-	(46 059)	-	-	-	-	-	**(46 059)**
Disposals		(117)	(3 698)	(11 392)	(75)	(633)	(2 676)	-	**(18 591)**
Transfer to owner-occupied premises	11	-	178	-	-	-	-	-	**178**
Depreciation charge	27	-	(4 824)	(9 431)	(3 341)	(20 323)	-	(2 238)	**(40 157)**
Depreciation charged on disposed items		-	1 485	9 092	50	216	-	-	**10 843**
Negative revaluation presented in profit and loss	27	(18)	(18 398)	-	-	-	-	-	**(18 416)**
Revaluation		28 422	342 979	-	-	-	-	-	**371 401**
Depreciation charged on assets with negative revaluation		-	9 437	-	-	-	-	-	**9 437**
Depreciation charged on revalued assets		-	33 605	-	-	-	-	-	**33 605**
Carrying amount at 31 December 2012		**30 477**	**607 492**	**29 349**	**7 518**	**87 263**	**1 254**	**15 199**	**778 552**
Cost at 31 December 2012		**30 477**	**607 492**	**46 911**	**46 655**	**187 094**	**1 254**	**28 499**	**948 382**
Accumulated depreciation		**-**	**-**	**(17 562)**	**(39 137)**	**(99 831)**	**-**	**(13 300)**	**(169 830)**

12 Premises and Equipment and Intangible Assets (Continued)

Construction in progress consists mainly of construction and refurbishment of branch premises and equipment. Upon completion, assets are transferred to premises and equipment.

As at 31 December 2012, office equipment and furniture include fully depreciated items with the original cost of RR 49 849 thousand (2011: RR 52 808 thousand) that are still in use by the Bank and, therefore, are carried in the Bank's statement of financial position at zero net book value.

Premises have been revalued at fair value at 31 December 2012. The valuation was carried out by an independent firm of valuers, LLC UBA, which holds a recognised and relevant professional qualification and which has recent experience in valuation of assets of similar location and category. Real estate was valued based on the market value of similar properties at the valuation date subject to all restrictions and encumbrances using the most applicable valuation approaches.

At 31 December 2012, the carrying amount of premises would have been RR 241 942 thousand had the assets been carried at cost less depreciation. The amount reconciles to the carrying value of the premises, buildings and land as follows:

In thousands of Russian Roubles	Note	31 December 2012
Premises, buildings and land at revalued amount in the statement of financial position		637 969
Revaluation reserve presented in equity, net of tax		324 005
Deferred tax on revaluation recognised directly in equity	28	81 001
Negative revaluation presented in the income statement	27	(8 979)
Premises, buildings and land at cost less accumulated depreciation		**241 942**

13 Other financial assets

In thousands of Russian Roubles	2012	2011	2010
Trade receivables	176 018	236 573	42 451
Settlements on conversion operations	23 245	374	3 643
Credit and debit cards receivables	22 528	19 150	14 116
Settlements on financial derivatives transactions	7 459	29 109	294
Settlements on securities transactions	197	3 280	354
Other	11 208	3 936	3 512
Less provision for impairment	(8 148)	(532)	(227)
Total other financial assets	**232 507**	**291 890**	**64 143**

Trade receivables mainly include claims to M.K. Ammosov North Eastern Federal University related to the sale of the building at 1 Prospekt Lenina, Yakutsk. Payments to be made until 2018 under the schedule.

14 Other assets

In thousands of Russian Roubles	2012	2011	2010
Precious metals held for trading	47 254	47 512	74 181
Prepaid taxes and duties	2 376	1 986	717
Prepayments for services	1 378	3 634	3 076
Settlements with personnel	700	532	3 019
Other	10 409	2 570	-
Less provision for impairment	(9 301)	(2 343)	(2 343)
Total other assets	**52 816**	**53 891**	**78 650**

Information on related party balances and transactions is disclosed in Note 36.

15 Non-current assets held for sale

Major classes of non-current assets classified as held for sale are as follows:

In thousands of Russian Roubles	2012	2011	2010
Non-current assets held for sale:			
River vessels	61 565	154 964	175 110
Motor vehicles	3 068	-	-
Premises	-	-	161 963
Other	7 520	9 012	8 559
Total non-current assets held for sale	**72 153**	**163 976**	**345 632**

Non-financial assets were received under a settlement agreement for a subsequent sale in accordance with the established procedure and were recorded as assets held for sale in other assets. The assets acquired are recorded at the lower of the fair value and carrying amount of the collateral as at the reporting date. No depreciation is charged on assets held for sale. Each subsequent decrease in the value of the assets acquired as a result of their revaluation at fair value less costs to sell is accounted for as impairment loss and included into the income statement. Each subsequent increase in fair value less costs to sell is recognised in the income statement up to the previously recorded impairment loss.

In 2012, the Bank sold river vessels with the carrying amount of RR 93 851 thousand for the consideration of RR 91 900 thousand. The vessels were sold to the Ministry of Transport and Roads Republic of Sakha (Yakutia). The Bank expects the remaining river vessels held for sale to be also sold to the Ministry of Transport and Roads of the Republic of Sakha (Yakutia) in 2013.

16 Due to other banks

In thousands of Russian Roubles	2012	2011	2010
Placements of other banks	19 000	-	-
Correspondent accounts and overnight placements of other banks	9 534	-	-
Total due to other banks	**28 534**	**-**	**-**

All placements with other banks are neither overdue, nor impaired.

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

In thousands of Russian Roubles	Due to other banks
- B+ rated	9 534
- higher than BBB+ rated	19 000
Total due to other banks	**28 534**

17 Customer accounts

In thousands of Russian Roubles	2012	2011	2010
State and public organisations			
- Current/settlement accounts	521 570	120 159	221 522
- Term deposits	123 941	435 391	272 947
Other legal entities			
- Current/settlement accounts	2 484 217	2 188 844	1 345 970
- Term deposits	1 148 893	773 269	787 746
Individuals			
- Current/demand accounts	2 340 802	1 647 220	974 076
- Term deposits	8 066 707	6 885 948	5 689 190
Total customer accounts	**14 686 130**	**12 050 831**	**9 291 451**

State and public organisations exclude government owned profit orientated businesses.

Economic sector concentrations within customer accounts are as follows:

	2012		2011		2010	
In thousands of Russian Roubles	Amount	%	Amount	%	Amount	%
Individuals	10 407 509	71%	8 533 168	71%	6 663 266	72%
Construction	1 080 688	7%	449 972	4%	187 317	2%
Insurance	794 860	5%	920 554	8%	909 392	10%
State and public organisations	645 511	4%	555 550	5%	494 469	5%
Manufacturing	362 996	2%	315 076	3%	122 074	1%
Trade	332 409	2%	223 763	2%	168 424	2%
Services	239 011	2%	392 646	3%	325 594	4%
Investment and financing activities	89 311	1%	38 648	0%	89 687	1%
Energy	69 505	1%	64 739	1%	14 756	0%
Agriculture	56 398	1%	34 698	0%	12 161	0%
Other	607 932	4%	522 017	3%	304 311	3%
Total customer accounts	**14 686 130**	**100%**	**12 050 831**	**100%**	**9 291 451**	**100%**

At 31 December 2012 the Group had 33 customers (2011: 22 customers; 2010: 20 customers) with balances above RR 20 000 thousand. The aggregate balance of these customers was RR 2 816 970 thousand (2011: RR 2 302 768 thousand; 2010: RR 1 951 985 thousand), or 19.18% (2011: 19.11%; 2010: 21.01%) of total customer accounts.

The Bank's management assesses the risk of outflow of cash of the Bank's major clients as low as legal entities with balances above RR 20 million are the Bank's long-term customers. The Bank on an ongoing basis carries out customer retention activities for these clients and attracts new organisations to use its cash and settlement services.

Collateral deposits as at 31 December 2012 made RR 388 051 thousand (2011: RR 265 027 thousand, 2010: 151 577 thousand).

Refer to Note 34 for the disclosure of the fair value of each class of customer accounts. Interest rate analysis of customer accounts is disclosed in Note 30. Information on related party balances is disclosed in Note 36.

18 Debt securities in issue

In thousands of Russian Roubles	2012	2011	2010
Promissory notes	29 471	4 000	45 874
Total debt securities in issue	**29 471**	**4 000**	45 874

At 31 December 2012 promissory notes mainly include promissory notes with a maturity date not earlier than 19 June 2013 (2011: not earlier than 2 July 2013; 2010: not earlier than 16 April 2011) and an interest rate of 6.5% p.a. (2011: 0% p.a.; 2010: 7.5% p.a.).

19 Provisions for liabilities and charges

Provision for uncertain tax positions and related penalties and interest.

In 2012, the Bank created provisions for losses on tax positions of RR 2 807 thousand for the sale of shares in OAO Yakutia Railways at the price more than 20% below the market price with subsequent understatement of income tax of RR 2 807 thousand, respectively. The Bank assesses the risk of collection of these tax positions by tax authorities as high.

In 2011, the Bank created provisions of RR 33 494 thousand for losses on tax positions with the period of inspection rights of three years. The Bank established the following tax positions when the provision was booked: improper charge of provision for overdue promissory notes with subsequent understatement of income tax of RR 7 702 thousand and the sale of shares in OAO Yakutia Railways at the price more than 20% below the market price with subsequent understatement of income tax of RR 25 792 thousand, respectively. The Bank assesses the risk of collection of these tax positions by tax authorities as high.

20 Other financial liabilities

Other financial liabilities comprise the following:

In thousands of Russian Roubles	Note	2012	2011	2010
Debit or credit card payables		13 418	72 324	1 309
Other financial derivatives	33	16 558	11 847	-
Payables		14 159	9 570	6 570
Dividends payable	29	3 169	2 930	2 941
Settlements on conversion operations		-	-	5 324
Payables under special state programmes		-	332	24 378
Other accrued liabilities		5 412	10 466	3 639
Total other financial liabilities		**52 716**	**107 469**	**44 161**

Refer to Note 34 for disclosure of the fair value of each class of other financial liabilities.

21 Other liabilities

Other liabilities comprise the following:

In thousands of Russian Roubles	2012	2011	2010
Taxes payable other than on income	49 059	62 263	13 505
Charge of provision for unused vacation	25 578	21 553	15 503
Insurance contributions to the Pension Fund of the Russian Federation and FFOMI	9 489	-	-
Deferred income on financial guarantees	3 038	5 019	2 200
Accrued employee benefit costs	-	-	10 934
Total other liabilities	**87 164**	**88 835**	**42 142**

22 Subordinated debt

Subordinated debt to OAO Republic Investment Company of RR 180 million (2011: RR 180 million; 2010: RR 180 million) carries a fixed interest rate of 8.5% p.a. and matures on 18 June 2016. The debt ranks after all other creditors in the case of liquidation.

Subordinated debt to non-profit organisation Trust Fund for Future Generations of the Sakha (Yakutia) Republic of RR 100 million (2011: RR 100 million; 2010: RR 100 million) carries a variable interest rate (based on the CBRF's refinancing rate) of 8.25% p.a. and matures on 29 September 2015. The debt ranks after all other creditors in the case of liquidation.

Subordinated debt to OOO Nirungan of RR 100 million (2011: RR 0 million; 2010: RR 0 million) carries a fixed interest rate of 8.0% p.a. and matures on 5 July 2019. The debt ranks after all other creditors in the case of liquidation.

Subordinated debt to Bargaryy National Revival Fund under the President of the Republic of Sakha (Yakutia) of RR 12 million (2011: RR 12 million; 2010: RR 12 million) carries a fixed interest rate of 2.0% p.a. and matures on 15 August 2013. The debt ranks after all other creditors in the case of liquidation.

Subordinated debt to OAO Regional Insurance Company Sterkh of RR 20 million (2011: RR 20 million; 2010: RR 20 million) carries a fixed interest rate of 12.0% p.a. and matures on 18 December 2014. The debt ranks after all other creditors in the case of liquidation.

Interest rate analysis of subordinated debt is disclosed in Note 30.

23 Share capital

In thousands of Russian Roubles except for number of shares	Number of outstanding shares in thousands	Change in purchasing power	Ordinary shares	Share premium	Total
At 31 December 2010	769 943	251 168	769 943	176 000	1 197 111
New shares issued	200 000	-	200 000	-	200 000
At 31 December 2011	969 943	251 168	969 943	176 000	1 397 111
New shares issued	153 000	-	153 000	-	153 000
At 31 December 2012	**1 122 943**	**251 168**	**1 122 943**	**176 000**	**1 550 111**

The total authorised number of ordinary shares is 1 122 943 thousand shares (2011: 969 943 thousand shares; 2010: 769 943 thousand shares) with a par value of RR 1 per share (2011: RR 1 per share; 2010: RR 1 per share). All issued ordinary shares are fully paid.

24 Share capital (Continued)

Each ordinary share carries one vote.

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

In accordance with Russian legislation, the Bank distributes profits as dividends or transfers them to reserves on the basis of financial statements prepared in accordance with Russian Accounting Rules. The Bank's reserves under Russian Accounting Rules at 31 December 2012 amount to RR 129 100 thousand (2011: RR 77 168 thousand; 2010: RR 65 383 thousand).

24 Interest Income and Expense

In thousands of Russian Roubles	**2012**	**2011**
Interest income		
Loans and advances to customers	1 358 855	1 078 705
Securities at fair value through profit or loss and available for sale	97 854	166 010
Due from other banks	92 087	51 799
Total interest income	**1 548 796**	**1 296 514**
Interest expense		
Term deposits of individuals	543 358	566 649
Term deposits of legal entities	105 604	108 533
Subordinated loan	27 122	28 440
Current/settlement accounts of legal entities	7 920	1 192
Due to banks	680	-
Promissory notes issued	36	3 414
Other	11	102
Total interest expense	**684 731**	**708 330**
Net interest income	**864 065**	**588 184**

25 Fee and Commission Income and Expense

In thousands of Russian Roubles	**2012**	**2011**
Fee and commission income		
- Settlement transactions	209 101	171 607
- Opening and maintenance of bank accounts	19 091	12 650
- Cash collection	10 425	10 488
- Transactions with securities	-	10 001
- Guarantees issued	13 056	6 763
- Foreign exchange transactions	4 107	4 656
- Other	22 475	10 283
Total fee and commission income	**278 255**	**226 448**
Fee and commission expense		
- Settlement transactions	32 323	27 934
- Cash transactions	5 156	4 766
- Other	1 590	1 674
Total fee and commission expense	**39 069**	**34 374**
Net fee and commission income	**239 186**	**192 074**

26 Other operating income

In thousands of Russian Roubles	Note	2012	2011
Rental income from investment properties	11	13 057	12 479
Fines and penalties received		11 463	17 682
Proceeds for recovery of incurred loss		7 027	-
Gains on disposal of premises, equipment and investment properties		1 840	100 877
Other		6 431	7 699
Total other operating income		**39 818**	**138 737**

27 Administrative and other operating expenses

In thousands of Russian Roubles	Note	2012	2011
Staff costs		453 209	370 981
Depreciation of premises, equipment and investment property and amortisation of intangible assets	12	46 880	45 393
Insurance expenses		36 807	31 252
Security expenses		34 611	32 353
Taxes other than on income		32 874	33 125
Material costs		30 972	31 751
Utilities		22 643	21 128
Charity expenses		17 431	14 545
Communication, telecommunication and information system services		15 247	12 761
Provision for impairment of other assets		14 574	305
Advertising and marketing services		12 595	8 406
Operating lease expense for premises and equipment		11 942	6 978
Other costs of premises and equipment		9 075	6 612
Negative revaluation of property and equipment	12	8 979	-
Professional services		7 739	8 127
Provisions for tax risks	19	2 807	33 494
Receivables write off	14	-	5 439
Other		61 881	35 132
Total administrative and other operating expenses		**820 266**	**697 782**

Included in staff costs are statutory pension contributions of RR 65 886 thousand (2011: RR 71 342 thousand).

28 Income Taxes

(a) Components of income tax expense

Income tax expense comprises the following:

In thousands of Russian Roubles	2012	2011
Current tax	56 770	34 577
Deferred tax	(26 934)	(6 814)
Income tax expense for the year	**29 836**	**27 763**

28 Income Taxes (Continued)

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

The income tax rate applicable to the Bank's 2012 income is 20% (2011: 20%; 2010: 20%).

In thousands of Russian Roubles	2012	2011
Profit before tax	**145 014**	**118 864**
Theoretical tax charge at statutory rate (2011: 20%; 2012: 20%)	29 003	23 773
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Non-deductible expenses	6 047	6 261
- Income on government securities taxed at different rates	(570)	(873)
- Income which is exempt from taxation	(1 918)	(610)
- Fee and commission income	-	(705)
- Other	(525)	1 131
- Dividend income	(2 201)	(1 214)
Income tax expense for the year	**29 836**	**27 763**

(c) Deferred taxes analysed by type of temporary difference

Differences between IFRS and statutory taxation regulations in Russia give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in the 2012 temporary differences is detailed below and is recorded at the rate of 20%.

In thousands of Russian Roubles	1 January 2012	Credited/ (charged) to profit or loss	Credited/ (charged) to other comprehensive income	31 December 2012
Tax effect of deductible/(taxable) temporary differences				
Premises and equipment:	(12 999)	2 509	(81 001)	(91 491)
Provision for loan impairment	(12 544)	1 144	-	(11 400)
Fair valuation of securities	15 268	271	12 506	28 045
Loans and advances to customers	6 297	4 327	-	10 624
Other assets	8 282	14 047	-	22 239
Provision for impairment of other assets	575	2 915	-	3 490
Other liabilities	15 858	1 720	-	17 579
Net deferred tax asset/(liability)	**20 737**	**26 934**	**(68 495)**	**(20 825)**
Recognised deferred tax asset	37 999	23 748	12 506	82 067
Recognised deferred tax liability	(17 262)	3 186	(81 001)	(102 891)
Net deferred tax asset/(liability)	**20 737**	**26 934**	**(68 495)**	**(20 825)**

28 Income Taxes (Continued)

(c) Deferred taxes analysed by type of temporary difference

The tax effect of the movements in the 2011 temporary differences is detailed below and is recorded at the rate of 20%.

In thousands of Russian Roubles	1 January 2011	Credited/ (charged) to profit or loss	Credited to other comprehensive income	31 December 2011
Tax effect of deductible/(taxable) temporary differences				
Premises and equipment:	(11 764)	(1 235)	-	(12 999)
Provision for loan impairment	(8 014)	(4 530)	-	(12 544)
Fair valuation of securities	14 646	(6 013)	6 635	15 268
Loans and advances to customers	5 399	898	-	6 297
Other assets	780	7 502	-	8 282
Provision for impairment of other assets	513	62	-	575
Other liabilities	5 728	10 130	-	15 858
Net deferred tax asset	**7 288**	**6 814**	**6 635**	**20 737**
Recognised deferred tax asset	27 066	10 933	-	37 999
Recognised deferred tax liability	(19 778)	(4 119)	6 635	(17 262)
Net deferred tax asset	**7 288**	**6 814**	**6 635**	**20 737**

29 Dividends

On 29 June 2012 the Bank declared dividends for 2011 of RR 16 812 thousand (approximately RR 0.0173 per share). Dividends were paid out in July 2012. All dividends were declared and paid in Russian Roubles.

On 30 June 2011 the Bank declared dividends for 2010 of RR 3 928 thousand (approximately RR 0.004 per share). Dividends were paid out in July 2011.

30 Financial Risk Management

The Bank follows its risk management strategy aimed to maintain optimal relationship between profitability and assumed risks.

The Bank's risk management system allows considering risks at the stage of making management decisions and in the course of banking activities. The system is based on timely identification and classification of possible risks, the analysis, measurement and assessment of risk positions and on applying specific banking risk management methods. Risk assessment and management procedures are integrated into current operations.

In terms of possible losses, the Bank determines the following most significant financial risks: credit risk, liquidity risk, market risk and operational risk.

The risk management function within the Bank is carried out in respect of financial risks, operational risks and legal risks. Financial risk comprises market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures, in order to minimise operational and legal risks.

Credit risk. The Bank 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 Bank's lending and other transactions with counterparties giving rise to financial assets.

30 Financial Risk Management (Continued)

The Bank's maximum exposure to credit risk is reflected in the carrying amounts of financial assets in the 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 32. The credit risk is mitigated by collateral and other credit enhancements.

In accordance with Regulations on Assessment and Management of Aggregate Credit Risk of 23.07.2008 and 25.05.2011, the Management Board sets up quarterly limits of credit risk per borrower or a group of related borrowers.

The Bank manages its credit risk through the system of limits and authorities aimed at limiting the risk level and streamlining the decision-making process. The system of limits and authorities assigns considering the highest possible level of the credit risk per borrower and the aggregate amount of loan products issued to the Bank's collegial body or an executive.

The Bank's Credit and Deposit Committee is responsible for current credit risk management operations.

The Bank has developed and applies policies and procedures aimed at prevention and mitigation of the damage that the Bank might incur as a result of exposure to credit risk including:

- Mandatory and regular assessment of the borrower's financial position and the feasibility of financed projects;
- Assessment of liquidity and adequacy of the offered collateral, its valuation and insurance, if necessary, by insurance companies approved by the Bank;
- Ongoing monitoring of how borrowers meet their obligations to the Bank and whether the collateral is actually available;
- Assessment of quality and the level of risk for loans issued;
- Creation of provision for possible loan losses and possible losses on other transactions;
- Procedure of transferring impaired loans to the Collection Function of the Bank's Security Department and their further processing;
- Procedure of defining and monitoring authorities of the Bank's branches in other regions and relevant governing bodies of the Bank responsible for loan issue subject to their size.

Such risks are monitored on a regular basis and are subject to an annual, or more frequent, review. The Bank established a number of credit committees which are responsible for approving credit limits for individual borrowers:

- The Bank's Supervisory Council considers and approves limits over 25% of the Bank's equity;
- The Bank's Management Board considers and approves limits over fifty million roubles;
- The Bank's Credit and Deposit Committee considers and approves limits over one million roubles;
- The Small Credit Committee considers and approves credit limits under five million roubles.

The Bank's credit risk management is based on the system of actions by the Bank's management and staff involved in the lending process, in order to mitigate any negative impact of risks on the Bank's profit and capital. The system of actions includes a comprehensive analysis of any credit risks, their identification, assessment and selection of the risk strategy (decision on accepting the risk, rejection of actions related to risk or risk mitigation), development of controls over risk level.

During the reporting period, the Bank took actions on increasing its loan portfolio along with following the requirement to ensure an adequate balance between maintaining and further improving the portfolio quality, the Bank's profitability and credit risks. Because of the conservative approach used in management, the share of bad debt in the structure of the Bank's loan portfolio has decreased.

30 Financial Risk Management (Continued)

The Bank's aggregate credit risk is managed under requirements of the Regulations on Assessment and Management of Aggregate Credit Risk of AKB Almazergienbank (OAO) in order to maintain a certain level of indices demonstrating efficiency of the Bank's credit operations. The Department of Banking Risks monitors the structure of the loan portfolio and assesses the Bank's aggregate credit risk.

The credit risk associated with a specific borrower is controlled over the period from the execution of the loan agreement up to repayment.

The Bank's Security Department is involved in determination of credit risk by collection and review of information on the potential borrower, inspection and evaluation of the collateral fair value, scheduled checks of its availability.

In order to exclude any conflict of interest, the Bank's divisions carrying out credit operations are divided into back office and front office ensuring ongoing control over the borrowers' business through collection, monitoring and analysis of their financial statements. In the head office, the back office performs evaluation of credit risks of additional offices' borrowers.

Market risk. The Bank takes on exposure to market risks. Market risks arise from open positions in (a) currency, (b) interest rate and (c) equity products, all of which are exposed to general and specific market movements. Management sets limits on the value of risk that may be accepted, which is monitored on a daily basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

The size and structure of the securities portfolio are reviewed to consider yield and manage current liquidity. To manage market risk, the Bank has set the following limits:

- limits for counterparties (issuers);
- limits on the size of portfolio of securities at fair value through profit or loss set up based on the market situation, data on yield in various market segments, internal resources of the Bank and diversification considerations;
- liability limits (head of a division; dealer (specialist));
- stop-loss limits (loss limits) and take profit limits (profit fixing limits).

Currency Risk. The Bank manages its currency risk in compliance with the Currency Risk Management Strategy. The Strategy also provides a set of actions to be taken when there are dramatic changes in the foreign exchange market conditions. To assess and monitor the currency risk, the Bank calculates its open currency positions. To assess a risk related to maintaining open foreign currency positions, the Bank applies the CBRF techniques.

In its foreign currency activities, the Bank tries to limit the accepted currency risk by maintaining open positions at their lowest possible level. Special attention is paid to the quality of foreign currency denominated assets and the quality of loan portfolio.

The Bank's conservative currency risk management policy includes external and internal limits for currency positions as well as daily monitoring of how they are being applied.

The currency risk's effect on equity was assessed using a technique described in Regulation of the Bank of Russia No. 313-P of 14 November 2007 "On Calculation of Market Risk by Credit Organisations".

In respect of currency risk, management sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily.

30 Financial Risk Management (Continued)

The table below summarises the Bank's exposure to foreign currency exchange rate risk at the end of the reporting period:

In thousands of Russian Roubles	At 31 December 2012			
	Monetary financial assets	**Monetary financial liabilities**	**Derivative financial instruments**	**Net position**
Russian Roubles	15 777 765	(14 826 801)	(505 887)	445 077
US Dollars	102 290	(204 026)	325 639	223 903
Euro	78 776	(99 582)	-	(20 806)
Other	3 510	(61 884)	171 150	112 786
Total	**15 962 341**	**(15 192 293)**	**(9 098)**	**760 960**

In thousands of Russian Roubles	At 31 December 2011				At 31 December 2010			
	Monetary financial assets	**Monetary financial liabilities**	**Derivative financial instruments**	**Net position**	**Monetary financial assets**	**Monetary financial liabilities**	**Derivative financial instruments**	**Net position**
Russian Roubles	12 741 801	(12 123 414)	(36 722)	581 665	9 536 357	(9 404 539)	(207 165)	(75 347)
US Dollars	150 408	(198 182)	-	(47 774)	145 675	(162 983)	-	(17 308)
Euro	40 052	(82 154)	-	(42 102)	71 314	(82 870)	-	(11 556)
Other	2 216	(58 703)	53 984	(2 503)	-	(43 094)	207 459	164 365
Total	**12 934 477**	**(12 462 453)**	**17 262**	**489 286**	**9 753 346**	**(9 693 486)**	**294**	**60 154**

Derivatives presented above are monetary financial assets or monetary financial liabilities, but are presented separately in order to show the Bank's gross exposure. The analysis of derivative financial instruments is disclosed in Note 33.

Amounts disclosed in respect of derivatives represent the fair value, at the end of the reporting period, of the respective currency that the Bank agreed to buy (positive amount) or sell (negative amount) before netting of positions and payments with the counterparty. The amounts by currency are presented gross as stated in Note 33. The net total represents the fair value of the currency derivatives. The above analysis includes only monetary assets and liabilities. Investments in equities and non-monetary assets are not considered to give rise to any material currency risk.

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

Interest rate risk. The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes, but may reduce or create losses in the event that unexpected movements arise. Management monitors on a daily basis and sets limits on the level of mismatch of interest rate repricing that may be undertaken.

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

30 Financial Risk Management (Continued)

In thousands of Russian Roubles	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Total
31 December 2012					
Total financial assets	5 776 916	474 422	2 010 644	8 880 303	**17 142 285**
Total financial liabilities	(6 835 656)	(1 791 943)	(3 698 723)	(4 262 205)	**(16 588 527)**
Net interest sensitivity gap at 31 December 2012	**(1 058 740)**	**(1 317 521)**	**(1 688 079)**	**4 618 098**	**553 758**
31 December 2011					
Total financial assets	4 786 411	798 294	1 748 382	6 019 431	**13 352 518**
Total financial liabilities	(4 341 927)	(1 720 141)	(1 404 506)	(5 551 833)	**(13 018 407)**
Net interest sensitivity gap at 31 December 2011	**444 484**	**(921 847)**	**343 876**	**467 598**	**334 111**
31 December 2010					
Total financial assets	4 770 820	575 834	1 925 415	2 838 393	**10 110 462**
Total financial liabilities	(3 011 644)	(637 207)	(1 898 525)	(4 557 472)	**(10 104 848)**
Net interest sensitivity gap at 31 December 2010	**1 759 176**	**(61 373)**	**26 890**	**(1 719 079)**	**5 614**

At 31 December 2012, if interest rates at that date had been 100 basis points lower (2011: 100 basis points lower; 2010: 100 basis points lower), with all other variables held constant, profit would have been RR 13 817 thousand higher (2011: RR 15 159 thousand lower; 2010: RR 1 203 thousand higher), mainly as a result of lower interest expense on liabilities with variable rates. Other components of equity would have been RR 6 464 thousand (2011: RR 7 844 thousand; 2010: RR 3 773 thousand) lower, mainly as a result of an increase in the fair value of fixed rate financial assets classified as available for sale.

If interest rates at that date had been 100 basis points higher (2011: 100 basis points higher; 2010: 100 basis points higher), with all other variables held constant, profit would have been RR 13 817 thousand lower (2011: RR 15 159 thousand higher; 2010: RR 1 203 thousand lower), as a result of higher interest expense on liabilities with variable rates. Other components of equity would have been RR 6 464 thousand higher (2011: RR 7 844 thousand higher; 2010: RR 3 773 thousand higher), mainly as a result of a decrease in the fair value of fixed rate financial assets classified as available for sale.

30 Financial Risk Management (Continued)

Following the Regulations on Assessment and Management of Interest Rate Risk, the Bank regularly carries out stress testing of its interest rate risk. The interest rate risk calculated using duration method causing a decrease in economic (net) value by more than 20% of equity is treated as critical. The value of interest rate risk was normal in the reporting period. The Bank monitors interest rates for its financial instruments. The table below summarises interest rates at the respective reporting date based on reports reviewed by key management personnel. For securities, the interest rates represent yields to maturity based on market quotations at the reporting date:

	2012			
In % p.a.	**RR**	**USD**	**Euro**	**Other**
Assets				
Other debt securities at fair value through profit or loss	9.44%	-	-	-
Due from other banks	-	3.00%	-	-
Loans and advances to customers	13.66%	-	-	-
Debt investment securities available for sale	7.85%	-	-	-
Liabilities				
Due to other banks	8.50%	-	-	-
Customer accounts				
- current and settlement accounts	1.49%	-	-	-
- term deposits	7.83%	4.61%	4.89%	1.98%
Debt securities in issue	6.50%	-	-	-
Subordinated debt	8.30%	-	-	-

	2011				2010			
In % p.a.	**RR**	**USD**	**Euro**	**Other**	**RR**	**USD**	**Euro**	**Other**
Assets								
Other debt securities at fair value through profit or loss	9.86%	-	-	-	0.57%	-	-	-
Due from other banks	-	2.82%	-	-	4.98%	2.82%	-	-
Loans and advances to customers	13.47%	8.50%	-	-	14.99%	12.00%	13.00%	-
Debt investment securities available for sale	8.05%	-	-	-	4.34%	-	-	-
Liabilities								
Due to other banks	-	-	-	-	-	-	-	-
Customer accounts								
- current and settlement accounts	0.57%	0.42%	-	-	0.56%	0.38%	-	-
- term deposits	7.81%	4.66%	4.69%	2.01%	8.86%	4.67%	4.65%	1.50%
Debt securities in issue	-	-	-	-	5.83%	-	-	-
Subordinated debt	8.31%	-	-	-	8.31%	-	-	-

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

The Bank is exposed to prepayment risk through providing fixed or variable rate loans, including mortgages, which give the borrower the right to repay the loans early. The Bank's current year profit and equity at the end of the current reporting period would not have been significantly impacted by changes in prepayment rates because such loans are carried at amortised cost and the prepayment right is at, or close to, the amortised cost of the loans and advances to customers (2011, 2010: no material impact).

To mitigate its interest rate risk, the Bank applies gap analysis, brings assets and liabilities into balance in terms of repricing/maturity dates and regularly reviews its effective interest rates against the refinancing rate of the Bank of Russia and rates in the financial market.

Other price risks. The Bank has exposure to equity price risk. Transactions in equity products are monitored and authorised by the Bank's Treasury. At 31 December 2012, if equity prices at that date had been 20% (2011: 20%; 2010: 20%) lower with all other variables held constant, other components of equity would have been RR 69 723 thousand (2011: RR 72 793 thousand; 2010: RR 29 931 thousand) lower, mainly as a result of a decrease of fair value of corporate shares designated as available for sale.

30 Financial Risk Management (Continued)

Liquidity risk. Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw downs, guarantees and from margin and other calls on cash-settled derivative instruments.

The liquidity management of the Bank requires considering the level of liquid assets necessary to settle obligations at maturity; maintaining access to a range of funding sources; maintaining funding contingency plans; and monitoring liquidity ratios against regulatory requirements.

The key divisions carrying out control over the Bank's liquidity position are: the Treasury, the Division of Economic Analysis and Planning, the Department of Financial Reporting, the Division of Accounting, Taxation and Reporting, the Division of Banking Risks.

The principal task of the Treasury in liquidity management is instant liquidity ratio maintenance and related control. In order to control the liquidity position, the Treasury:

- on a daily basis, accumulates information on the forthcoming cash flow from the Bank's divisions, directly or indirectly impacting its liquidity position;

- carries out operational management and control over instant liquidity, monitoring the Bank's payment position in real time mode; communicates any information of excessive (insufficient) liquidity to the Division of Economic Analysis and Planning;

- analyses and forecasts the current cash inflow and outflow, including cash of additional offices;

- on a daily basis, provides to the Division of Economic Analysis and Planning any information on scheduled repayments and placements of deposits with the CB RF, amounts on correspondent accounts with other banks, amounts and maturities of interbank loans;

- sets limits on the maximum balances of cash on hand in the Head Office and additional offices and controls compliance with the set limits;

- is responsible for maintenance of the required balances on the Bank's correspondent accounts and for timely performance of clients' payments.

The Bank calculates liquidity ratios on a daily basis in accordance with the requirement of the Central Bank of Russia. These ratios are:

- Instant liquidity ratio (N2), which is calculated as the ratio of highly-liquid assets to liabilities payable on demand and should be at least 15%. The ratio was 80.24% at 31 December 2012 (2011: 33.6%; 2010: 42.9).

- Current liquidity ratio (N3), which is calculated as the ratio of liquid assets to liabilities maturing within 30 calendar days and should be at least 50%. The ratio was 90.15% at 31 December 2012 (2011: 75.6%; 2010: 77.5).

- Long-term liquidity ratio (N4), which is calculated as the ratio of assets maturing after one year to regulatory capital and liabilities maturing after one year and should be at least 120%. The ratio was 76.42% at 31 December 2012 (2011: 67.6%; 2010: 56.7%).

The Treasury receives information about the liquidity profile of the financial assets and liabilities. The Treasury Department then provides for an adequate portfolio of short-term liquid assets, largely made up of short-term liquid securities, deposits with banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole. The table below shows liabilities at 31 December 2012 by their remaining contractual maturity.

The table shows contractual undiscounted cash flows, total liabilities for loans received and financial guarantees. Such undiscounted cash flows differ from the amount included in the statement of financial position because the amount in the statement of financial position is based on discounted cash flows. Financial derivatives are included at the contractual amounts to be paid or received, unless the Bank expects to close the derivative position before its maturity date in which case the derivatives are included based on the expected cash flows.

30 Financial Risk Management (Continued)

The table below shows liabilities at 31 December 2012 by their remaining contractual maturity.

In thousands of Russian Roubles	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 12 months to 5 years	Over 5 years	Total
Liabilities						
Due to other banks	9 534	-	-	19 000	-	**28 534**
Customer accounts – current accounts	5 346 589	-	-	-	-	**5 346 589**
Customer accounts – term deposits	756 522	1 825 227	3 577 283	3 881 379	-	**10 040 411**
Promissory notes issued	-	5 011	20 750	3 710	-	**29 471**
Other financial liabilities	36 158	-	-	-	-	**36 158**
Subordinated debt	-	-	12 149	380 388	152 099	**544 636**
Financial guarantees	555 805	-	-	-	-	**555 805**
Gross settled derivatives	133 412	-	334 542	372 475	-	**840 429**
Total potential future payments for financial obligations	**6 838 020**	**1 830 238**	**3 944 724**	**4 656 952**	**152 099**	**17 422 033**

The table below shows liabilities at 31 December 2011 by their remaining contractual maturity.

In thousands of Russian Roubles	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 12 months to 5 years	Over 5 years	Total
Liabilities						
Customer accounts – current accounts	3 956 223	-	-	-	-	**3 956 223**
Customer accounts – term deposits	234 874	1 572 749	1 396 116	5 748 249	49 637	**9 001 625**
Promissory notes issued	-	-	4 000	-	-	**4 000**
Other financial liabilities	95 622	-	-	-	-	**95 622**
Subordinated debt	-	-	-	371 921	-	**371 921**
Financial guarantees	519 232	-	-	-	-	**519 232**
Gross settled derivatives	36 722	-	-	-	-	**36 722**
Total potential future payments for financial obligations	**4 842 673**	**1 572 749**	**1 400 116**	**6 120 170**	**49 637**	**13 985 345**

30 Financial Risk Management (Continued)

The table below shows liabilities at 31 December 2010 by their remaining contractual maturity.

In thousands of Russian Roubles	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 12 months to 5 years	Over 5 years	Total
Liabilities						
Customer accounts – current accounts	2 541 568	-	-	-	-	**2 541 568**
Customer accounts– term deposits	128 694	649 936	1 322 988	4 154 512	48 883	**6 257 042**
Promissory notes issued	-	-	45 874	-	-	**45 874**
Other financial liabilities	44 161	-	-	-	-	**44 161**
Subordinated debt	-	-	-	339 321	-	**339 321**
Gross settled derivatives	207 165	-	-	-	-	**207 165**
Financial guarantees	204 197	-	-	-	-	**204 197**
Total potential future payments for financial obligations	**3 125 785**	**649 936**	**1 368 862**	**4 493 833**	**48 883**	**9 639 328**

The table below shows the maturity analysis of non-derivative financial assets at their carrying amounts and based on their contractual maturities, except for assets that are readily saleable if it should be necessary to meet cash outflows on financial liabilities. Such financial assets are included in the maturity analysis based on their expected date of disposal. Impaired loans are included at their carrying amounts net of impairment provisions, and based on the expected timing of cash inflows. Derivatives are presented based on their contractual maturities.

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

30 Financial Risk Management (Continued)

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

In thousands of Russian Roubles	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 12 months to 5 years	Over 5 years	Total
Assets						
Cash and cash equivalents	4 246 299	-	-	-	-	**4 246 299**
Other securities at fair value through profit or loss	575 872	-	-	-	-	**575 872**
Due from other banks	2 126	-	-	1 213	-	**3 339**
Loans and advances to customers	94 689	474 422	1 682 057	6 252 303	2 110 550	**10 614 021**
Investment securities available for sale	646 375	-	-	-	-	**646 375**
Net settled derivatives	136 660	-	325 639	369 032	-	**831 331**
Other financial assets	74 895	-	2 948	4 775	142 430	**225 048**
Total	**5 776 916**	**474 422**	**2 010 644**	**6 627 323**	**2 252 980**	**17 142 285**
Liabilities						
Due to other banks	(9 534)	-	-	(19 000)	-	**(28 534)**
Customer accounts – deposits of individuals	(744 158)	(1 651 932)	(2 607 577)	(3 063 040)	-	**(8 066 707)**
Customer accounts – current accounts of individuals	(2 340 802)	-	-	-	-	**(2 340 802)**
Customer accounts – deposits of legal entities	(10 000)	(135 000)	(723 854)	(403 980)	-	**(1 272 834)**
Customer accounts – current accounts of legal entities	(3 005 787)	-	-	-	-	**(3 005 787)**
Debt securities in issue	-	(5 011)	(20 750)	(3 710)	-	**(29 471)**
Subordinated debt	-	-	(12 000)	(300 000)	(100 000)	**(412 000)**
Net settled derivatives	(133 412)	-	(334 542)	(372 475)	-	**(840 429)**
Financial guarantees	(555 805)					**(555 805)**
Other financial liabilities	(36 158)	-	-	-	-	**(36 158)**
Total potential future payments for financial obligations	**(6 835 656)**	**(1 791 943)**	**(3 698 723)**	**(4 162 205)**	**(100 000)**	**(16 588 527)**
Liquidity gap arising from financial instruments	**(1 058 740)**	**(1 317 521)**	**(1 688 079)**	**2 465 118**	**2 152 980**	**553 758**

30 Financial Risk Management (Continued)

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

In thousands of Russian Roubles	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 12 months to 5 years	Over 5 years	Total
Assets						
Cash and cash equivalents	2 752 001	-	-	-	-	**2 752 001**
Other securities at fair value through profit or loss	838 893	-	-	-	-	**838 893**
Due from other banks	2 254	-	111 655	-	1 276	**115 185**
Loans and advances to customers	91 990	798 294	1 636 727	4 644 447	1 373 708	**8 545 166**
Investment securities available for sale	784 418	-	-	-	-	**784 418**
Net settled derivatives	53 984	-	-	-	-	**53 984**
Other financial assets	262 871	-	-	-	-	**262 871**
Total	**4 786 411**	**798 294**	**1 748 382**	**4 644 447**	**1 374 984**	**13 352 518**
Liabilities						
Customer accounts – deposits of individuals	(222 789)	(1 276 997)	(1 321 920)	(4 015 215)	(49 027)	**(6 885 948)**
Customer accounts – current accounts of individuals	(1 647 220)	-	-	-	-	**(1 647 220)**
Customer accounts – deposits of legal entities	(10 000)	(265 000)	(6 200)	(927 460)	-	**(1 208 660)**
Customer accounts – current accounts of legal entities	(2 309 003)	-	-	-	-	**(2 309 003)**
Debt securities in issue	-	-	(4 000)	-	-	**(4 000)**
Subordinated debt	-	-	-	(312 000)	-	**(312 000)**
Net settled derivatives	(36 722)	-	-	-	-	**(36 722)**
Financial guarantees	(20 571)	(178 144)	(72 386)	(213 129)	(35 002)	**(519 232)**
Other financial liabilities	(95 622)	-	-	-	-	**(95 622)**
Total potential future payments for financial obligations	**(4 341 927)**	**(1 720 141)**	**(1 404 506)**	**(5 467 804)**	**(84 029)**	**(13 018 407)**
Liquidity gap arising from financial instruments	**444 484**	**(921 847)**	**343 876**	**(823 357)**	**1 290 955**	**334 111**

30 Financial Risk Management (Continued)

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

The maturity analysis of financial instruments at 31 December 2010 is as follows:

In thousands of Russian Roubles	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 12 months to 5 years	Over 5 years	Total
Assets						
Cash and cash equivalents	2 853 406	-	-	-	-	**2 853 406**
Other securities at fair value through profit or loss	1 170 766	-	-	-	-	**1 170 766**
Due from other banks	2 138	150 000	-	227 335	1 203	**380 676**
Loans and advances to customers	95 864	425 834	1 925 415	2 185 666	424 189	**5 056 968**
Investment securities available for sale	377 338	-	-	-	-	**377 338**
Net settled derivatives	207 459	-	-	-	-	**207 459**
Other financial assets	63 849	-	-	-	-	**63 849**
Total	**4 770 820**	**575 834**	**1 925 415**	**2 413 001**	**425 392**	**10 110 462**
Liabilities						
Customer accounts – deposits of individuals	(125 195)	(637 207)	(1 258 968)	(3 619 539)	(48 281)	**(5 689 190)**
Customer accounts – current accounts of individuals	(974 076)	-	-	-	-	**(974 076)**
Customer accounts – deposits of legal entities	-	-	(523 050)	(537 643)	-	**(1 060 693)**
Customer accounts – current accounts of legal entities	(1 567 492)	-	-	-	-	**(1 567 492)**
Debt securities in issue	-	-	(45 874)	-	-	**(45 874)**
Subordinated debt	-	-	-	(312 000)	-	**(312 000)**
Net settled derivatives	(207 165)	-	-	-	-	**(207 165)**
Financial guarantees	(93 555)		(70 633)	(10 009)	(30 000)	**(204 197)**
Other financial liabilities	(44 161)	-	-	-	-	**(44 161)**
Total potential future payments for financial obligations	**(3 011 644)**	**(637 207)**	**(1 898 525)**	**(4 479 191)**	**(78 281)**	**(10 104 848)**
Liquidity gap arising from financial instruments	**1 759 176**	**(61 373)**	**26 890**	**(2 066 190)**	**347 111**	**5 614**

Payments in respect of gross settled forwards will be accompanied by related cash inflows. 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 entire portfolio of securities is classified within demand and less than one month based on management's assessment of the portfolio's realisability.

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

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

30 Financial Risk Management (Continued)

The Bank may use the following liquidity management tools:

- A framework agreement with CBRF for issuing loans on collateral (lockout) of securities;

- Daylight and overnight loans based on the addendum to the framework agreement; the set limit on loans on the principal account with the Financial Settlements Centre of the National Bank of Sakha (Yakutia) Republic of the Bank of Russia of RR 250 million.

31 Management of Capital

The Bank's objectives when managing capital are (i) to comply with the capital requirements set by the Central Bank of the Russian Federation and (ii) to safeguard the Bank's ability to continue as a going concern. The Bank considers total capital under management to be equity as shown in the statement of financial position. For the purpose of control over compliance with capital adequacy requirements, on an annual basis the Bank's management forecasts the level of capital with the breakdown by months for the calendar year. Subject to this forecast, the Bank sets up a plan for the calendar year based on the capital adequacy ratio, and on a quarterly basis, sets up limits on placement of cash based on expected repayments. Realisation of the forecast is monitored on a monthly basis, as a result of which the report on implementation of the plan is prepared and communicated to the Bank's Management Board.

Under the current capital requirements set by the Central Bank of Russia, banks have to maintain a ratio of regulatory capital to risk weighted assets ("statutory capital ratio N1") above a prescribed minimum level (under Instruction of the Central Bank of Russia No. 110-I of 16.01.2004, the prescribed minimum level was 11% until 1 July 2012 and 10% afterwards). Regulatory capital is based on the Bank's reports prepared under Russian accounting standards and comprises:

In thousands of Russian Roubles	2012	2011	2010
Net assets under Russian GAAP	1 492 177	1 258 410	1 027 625
Plus subordinated debt	412 000	292 000	292 000
Total regulatory capital	**1 904 177**	**1 550 410**	**1 319 625**

The Bank complied with all the CBRF capital requirements throughout 2012 and 2011 and as at 31 December 2010.

32 Contingencies and Commitments

Legal proceedings. From time to time and in the normal course of business, claims against the Bank are received. In 2012, five claims against the Bank were received. The courts dismiss the above claims against the Bank in full based on the produced responses for the legal position of the Bank.

At 31 December 2012, the Bank was not engaged in litigation proceedings as a defendant.

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

In thousands of Russian Roubles	2012	2011	2010
Due between 1 and 5 years	15 624	4 753	5 524
Total operating lease commitments	**15 624**	**4 753**	**5 524**

32 Contingencies and Commitments (Continued)

Future obligations under non-state pension plan for employees

The Bank has entered into an agreement on non-state pension security with NPF Almaznaya Osen. According to Regulation on Non-State Pension Security of AKB Almazergienbank (OAO) of 1 January 2012, employees of AKB Almazergienbank (OAO) meeting the following characteristics may join the Non-State Pension Security Plan (become qualified) to get a non-state pension:

- members of the Management Board, key personnel who have been with the Bank for five years and more in a row;

- other employees who have no more than one break in continuous employment and total years of service with the Bank of fifteen years and more;

- employees of retirement age as at 28 November 2007 become qualified for a non-state pension when they have ten-year length of service with the Bank.

Employees may be qualified for a non-state pension if they reach the retirement age and get old age pension or are disabled persons of groups I and II provided that they meet the condition of the years of service. A non-state pension is paid on the basis that an employee is actually retired by AKB Almazergienbank (OAO).

Funds for non-state pension security to the Bank employees are budgeted by the Bank annually in the form of pension contributions to NPF of a least 1% of payroll fund but not exceeding statutory contributions.

The contribution for 2012 amounted to RR 6 350 thousand (2011: 5 772 thousand; 2010: RR 4 513 thousand).

The fixed contribution to be paid in the future to NPF Almaznaya Osen amounts to: less than 1 year – RR 6 500 thousand; from 1 to 5 years - RR 30 900 thousand.

Credit related commitments. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank 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 Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate or cash deposits and therefore carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments, if the unused amounts were to be drawn down. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of credit related commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

Outstanding credit related commitments are as follows:

In thousands of Russian Roubles	**2012**	**2011**	**2010**
Undrawn credit lines that are irrevocable or are revocable only in response to a material adverse change	619 473	797 882	454 303
Guarantees issued	555 805	519 232	204 197
Total credit related commitments	**1 175 278**	**1 317 114**	**658 500**

The total outstanding contractual amount of undrawn credit lines and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded. The fair value of credit related commitments was RR 1 175 278 thousand (2011: RR 1 317 114 thousand; 2010: RR 658 500 thousand). Mandatory cash balances with the CBRF of RR 164 753 thousand (2011: RR 140 350 thousand; 2010: RR 65 652 thousand) represent mandatory reserve deposits which are not available to finance the Bank's day to day operations as disclosed in Note 3.

33 Derivative financial instruments

The table below sets out fair values, at the end of the reporting period, of currencies receivable or payable under contracts on delivery of precious metals entered into by the Bank. The table covers the contracts with settlement dates after the end of the respective reporting period. The terms of the transactions make from one to thirteen months after the reporting date.

In thousands of Russian Roubles	2012 Contingent asset/(liability) under the contract	2011 Contingent asset/(liability) under the contract	2010 Contingent asset/(liability) under the contract
Contracts on delivery of precious metals: fair values at the end of the reporting period			
- Receivable in gold under the contract on delivery of precious metals payable on settlement (+)	505 692	53 984	207 459
- Receivable in US Dollars under the contract on delivery of precious metals payable on settlement (+)	325 639	-	-
- RR payable on settlement (-)	(505 887)	(36 722)	(207 165)
- Gold payable on settlement (-)	(334 542)	-	-
Net fair value of contracts on delivery of precious metals	**(9 098)**	**17 262**	**294**

Derivative financial instruments entered into by the Bank are generally traded in an over-the-counter market with professional market counterparties on standardised contractual terms and conditions. Derivatives have potentially favourable (assets) or unfavourable (liabilities) conditions as a result of fluctuations in precious metals rates related to such derivatives. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

At 31 December 2012, the Bank had receivables under its contracts on delivery of precious metals with fair value of RR 505 692 thousand (2011: RR 53 984 thousand; 2010: RR 207 459 thousand), and obligations on payment for delivery of precious metals with fair value of RR 505 887 thousand (2011: RR 36 722 thousand; 2010: RR 207 165 thousand), and receivables under its contracts on sale of precious metals with fair value of RR 325 639 thousand (2011: nil; 2010: RR nil), and obligations on delivery of precious metals with fair value of RR 334 542 thousand (2011: nil; 2010: RR nil).

The Bank expects to settle these forward contracts net in cash and, therefore, recognised them in the statement of financial position as an asset at net fair value of RR 7 459 thousand (2011: RR 29 109 thousand; 2010: RR 294 thousand) and a liability at net fair value of RR 16 558 thousand (2011: RR 11 847 thousand; 2010: nil). Refer to Notes 14 and 20.

34 Fair Value of Financial Instruments

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

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

In thousands of Russian Roubles	2012 Carrying amount	2012 Fair value
FINANCIAL ASSETS		
Cash and cash equivalents		
- Cash on hand	1 058 429	1 058 429
- Cash balances with the CBRF	2 795 136	2 795 136
- Correspondent accounts and overnight placements	227 981	227 981
- Mandatory cash balances with the CBRF	164 753	164 753
Due from other banks		
- Short-term placements with other banks with original maturities of more than three months	3 339	3 339
Loans and advances to customers		
- Corporate loans	6 482 671	6 888 295
- Loans to individuals	4 131 350	3 329 078
Other financial assets		
Trade receivables	167 870	167 870
Credit and debit cards receivables	22 528	22 528
Settlements on financial derivatives transactions	7 459	7 459
Settlements on securities transactions	197	197
Settlements on conversion operations	23 245	23 245
Other	11 208	11 208
TOTAL FINANCIAL ASSETS CARRIED AT AMORTISED COST	**15 096 166**	**14 699 518**

In thousands of Russian Roubles	2012 Carrying amount	2012 Fair value
FINANCIAL LIABILITIES		
Due to other banks		
- Due to other banks	28 534	28 534
Customer accounts		
- Term deposits of individuals	8 066 707	7 865 166
- Current/settlement accounts of legal entities	3 005 787	3 002 719
- Current/demand accounts of individuals	2 340 802	2 340 802
- Term deposits of legal entities	1 272 834	1 216 762
Debt securities in issue		
- Promissory notes	29 471	29 471
Other financial liabilities		
Debit or credit card payables	13 418	13 433
Other financial derivatives	16 558	16 558
Payables	14 159	16 166
Dividends payable	3 169	3 169
Other accrued liabilities	5 412	3 390
Subordinated debt		
- Subordinated debt	412 000	311 616
TOTAL FINANCIAL LIABILITIES CARRIED AT AMORTISED COST	**15 208 851**	**14 847 786**

34 Fair Value of Financial Instruments (Continued)

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

In thousands of Russian Roubles	2011 Carrying amount	2011 Fair value	2010 Carrying amount	2010 Fair value
FINANCIAL ASSETS				
Cash and cash equivalents				
- Placements with other banks with original maturities of less than three months	510 000	510 000	450 000	450 000
- Cash on hand	671 481	671 481	731 674	731 674
- Cash balances with the CBRF	1 288 678	1 288 678	1 487 346	1 487 346
- Correspondent accounts and overnight placements	141 492	141 492	118 734	118 734
- Mandatory cash balances with the CBRF	140 350	140 350	65 652	65 652
Due from other banks				
- Short-term placements with other banks with original maturities of more than three months	115 185	115 185	380 676	380 676
Loans and advances to customers				
- Corporate loans	5 822 899	5 939 096	4 150 023	4 365 841
- Loans to individuals	2 722 267	2 237 592	906 945	810 645
Other financial assets				
Trade receivables	236 573	236 573	42 451	42 451
Credit and debit cards receivables	19 150	19 150	14 116	14 116
Settlements on financial derivatives transactions	29 109	29 109	294	294
Settlements on securities transactions	3 280	3 280	354	354
Settlements on conversion operations	374	374	3 643	3 643
Other	3 404	3 404	3 285	3 285
TOTAL FINANCIAL ASSETS CARRIED AT AMORTISED COST	**11 704 242**	**11 335 764**	**8 355 193**	**8 474 711**

In thousands of Russian Roubles	2011 Carrying amount	2011 Fair value	2010 Carrying amount	2010 Fair value
FINANCIAL LIABILITIES				
Customer accounts				
- Term deposits of individuals	6 885 948	6 914 221	5 689 190	5 693 876
- Current/settlement accounts of legal entities	2 309 003	2 309 003	1 567 492	1 567 492
- Current/demand accounts of individuals	1 647 220	1 647 220	974 076	974 076
- Term deposits of legal entities	1 208 660	1 293 197	1 060 693	1 162 869
Debt securities in issue				
- Promissory notes	4 000	4 000	45 874	45 874
Other financial liabilities				
Debit or credit card payables	72 324	72 324	1 309	1 309
Other financial derivatives	11 847	11 847		
Payables	9 570	9 570	6 570	6 570
Dividends payable	2 930	2 930	2 941	2 941
Other accrued liabilities	10 466	10 465	3 639	3 639
Settlements on conversion operations	-	-	5 324	5 324
Payables under special state programmes	332	332	24 378	24 378
Subordinated debt				
- Subordinated debt	312 000	342 251	312 000	310 796
TOTAL FINANCIAL LIABILITIES CARRIED AT AMORTISED COST	**12 474 300**	**12 617 360**	**9 693 486**	**9 799 144**

34 Fair Value of Financial Instruments (Continued

(d) The methods and assumptions applied in determining fair values.

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

35 Presentation of Financial Instruments by Measurement Category

For the purposes of measurement, IAS 39, *Financial Instruments: Recognition and Measurement*, the Bank classifies 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 or loss ("FVTPL"). Financial assets at fair value through profit or loss have two sub-categories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading. The following table provides a reconciliation of financial assets with these measurement categories as of 31 December 2012:

In thousands of Russian Roubles	Loans and receivables	Available-for-sale assets	Assets designated at FVTPL	Total
ASSETS				
Cash and cash equivalents	*4 246 299*	-	-	***4 246 299***
Other securities at fair value through profit or loss	-	-	*575 872*	***575 872***
Due from other banks	*3 339*	-	-	***3 339***
- Short-term placements with other banks with original maturities of more than three months	*3 339*	-	-	***3 339***
Loans and advances to customers	*10 614 021*	-	-	***10 614 021***
- Corporate loans	6 482 671	-	-	**6 482 671**
- Loans to individuals - consumer loans	2 136 470	-	-	**2 136 470**
- Mortgage loans	1 994 880	-	-	**1 994 880**
- Car loans	-	-	-	-
Investment securities available for sale	-	*646 375*	-	***646 375***
Other financial assets	*225 048*	-	*7 459*	***232 507***
TOTAL FINANCIAL ASSETS	**15 088 707**	**646 375**	**583 331**	**16 318 413**

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

In thousands of Russian Roubles	Loans and receivables	Available-for-sale assets	Assets designated at FVTPL	Total
ASSETS				
Cash and cash equivalents	*2 752 001*	-	-	***2 752 001***
Other securities at fair value through profit or loss	-	-	*838 893*	***838 893***
Due from other banks	*115 185*	-	-	***115 185***
- Short-term placements with other banks with original maturities of more than three months	*115 185*	-	-	
Loans and advances to customers	*8 545 166*	-	-	***8 545 166***
- Corporate loans	*5 822 899*	-	-	***5 822 899***
- Loans to individuals - consumer loans	*1 431 238*	-	-	***1 431 238***
- Mortgage loans	*1 291 029*	-	-	***1 291 029***
- Car loans	-			-
Investment securities available for sale	-	*784 418*		***784 418***
Other financial assets	291 890	-	-	**291 890**
TOTAL FINANCIAL ASSETS	**11 704 242**	**784 418**	**838 893**	**13 327 553**

35 Presentation of Financial Instruments by Measurement Category (Continued)

The following table provides a reconciliation of financial assets with measurement categories at 31 December 2010:

In thousands of Russian Roubles	Loans and receivables	Available-for-sale assets	Assets designated at FVTPL	Total
ASSETS				
Cash and cash equivalents	*2 853 406*	-	-	***2 853 406***
Other securities at fair value through profit or loss	-	-	*1 170 766*	***1 170 766***
Due from other banks	*380 676*	-	-	***380 676***
- Short-term placements with other banks with original maturities of more than three months	*380 676*	-	-	***380 676***
Loans and advances to customers	*5 056 968*	-	-	***5 056 968***
- Corporate loans	*4 150 023*	-	-	**4 150 023**
- Loans to individuals– consumer loans	*537 328*	-	-	**537 328**
- Mortgage loans	369 617	-	-	**369 617**
Investment securities available for sale	-	*377 338*	-	***377 338***
Other financial assets	64 143	-	-	**64 143**
TOTAL FINANCIAL ASSETS	**8 355 193**	**377 338**	**1 170 766**	**9 903 297**

Financial liabilities as at 31 December 2012, 31 December 2011 and 31 December 2010 are stated in the statement of financial position at their amortised cost, except for derivative financial instruments which are stated in the balance sheet at their fair value.

36 Related Party Transactions

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

Other related parties are companies under common control with the Bank. Other major shareholders include OAO Nizhne-Lenskoye which exercises significant influence over the Bank's operations. All related party transactions are carried out in the normal course of business of the Bank.

At 31 December 2012, the outstanding balances with related parties were as follows:

In thousands of Russian Roubles	Other significant shareholders (Nizhne-Lenskoye)	Key management personnel	Other related parties
Gross amount of loans and advances to customers (contractual interest rate: 6-18 %)	280 000	12 691	2 195
Impairment provisions for loans and advances to customers at 31 December	-	-	(2 195)
Other assets	-	-	527

36 Related Party Transactions (Continued)

The income and expense items with related parties for 2012 were as follows:

In thousands of Russian Roubles	Other significant shareholders (Nizhne-Lenskoye)	Key management personnel	Other related parties
Interest income	33 045	769	493
Interest expense	-	-	-
Provision for loan impairment	-	-	-
Dividends	-	-	-
Fee and commission income	-	-	-

Aggregate amounts of loans lent to and repaid by related parties during 2012 were:

In thousands of Russian Roubles	Other significant shareholders (Nizhne-Lenskoye)	Key management personnel	Other related parties
Amounts lent to related parties during the year	10 000	6 100	-
Amounts repaid by related parties during the year	280 000	1 970	369

At 31 December 2011, the outstanding balances with related parties were as follows:

In thousands of Russian Roubles	Other significant shareholders (Nizhne-Lenskoye)	Key management personnel	Other related parties
Gross amount of loans and advances to customers (contractual interest rate: 7-16 %)	550 000	8 535	2 564
Impairment provisions for loans and advances to customers at 31 December	-	-	(2 564)
Other assets	-	-	527

The income and expense items with related parties for 2011 were as follows:

In thousands of Russian Roubles	Other significant shareholders (Nizhne-Lenskoye)	Key management personnel	Other related parties
Interest income	72 919	980	409
Interest expense	-	-	-
Provision for loan impairment	-	-	-
Dividends	-	35	-
Fee and commission income	-	-	-

Aggregate amounts lent to and repaid by related parties during 2011 were:

In thousands of Russian Roubles	Other significant shareholders (Nizhne-Lenskoye)	Key management personnel	Other related parties
Amounts lent to related parties during the year	615 000	2 654	-
Amounts repaid by related parties during the year	250 000	1 957	-

36 Related Party Transactions (Continued)

At 31 December 2010, the outstanding balances with related parties were as follows:

In thousands of Russian Roubles	Other significant shareholders (Nizhne-Lenskoye)	Key management personnel	Other related parties
Gross amount of loans and advances to customers (contractual interest rate: 6 – 16 %)	185 000	8 440	2 564
Impairment provisions for loans and advances to customers at 31 December	-	-	(2 564)
Other assets	-	-	463
Other liabilities	-	-	-

The income and expense items with related parties for 2010 were as follows:

In thousands of Russian Roubles	Other significant shareholders (Nizhne-Lenskoye)	Key management personnel	Other related parties
Interest income	4	1 453	306
Provision for loan impairment	161	-	-

Aggregate amounts lent to and repaid by related parties during 2010 were:

In thousands of Russian Roubles	Other significant shareholders (Nizhne-Lenskoye)	Key management personnel	Other related parties
Amounts lent to related parties during the year	5 000	2 374	-
Amounts repaid by related parties during the year	-	674	-

Key management compensation is presented below:

	2012		2011		2010	
In thousands of Russian Roubles	Expense	Accrued liability	Expense	Accrued liability	Expense	Accrued liability
Short-term benefits:	**30 553**	**2 177**	**27 756**	**1 812**	**17 689**	**1 174**
- Salaries	22 230	1 665	21 412	1 568	16 530	1 174
- Short-term bonuses	8 323	512	6 344	244	1 159	-
- Benefits in-kind	-	-				
Total	**30 553**	**2 177**	**27 756**	**1 812**	**17 689**	**1 174**

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