

**BANCA INTESA
(CLOSED JOINT-STOCK COMPANY)**

Consolidated financial statements

Year ended 31 December 2012

Together with Auditors' report

Contents

Auditors' report

Consolidated statement of financial position.....	1
Consolidated statement of comprehensive income	2
Consolidated statement of changes in equity	3
Consolidated statement of cash flows	4

Notes to consolidated financial statements

1. Principal activities	5
2. Basis of preparation.....	6
3. Summary of accounting policies	6
4. Cash and cash equivalents	17
5. Amounts due from credit institutions.....	17
6. Available-for-sale securities.....	18
7. Derivative financial instruments	18
8. Loans to customers	19
9. Net investments in finance leases	19
10. Property and equipment	20
11. Intangible assets.....	21
12. Taxation.....	21
13. Other impairment and provisions.....	23
14. Other assets and liabilities.....	23
15. Amounts due to credit institutions.....	23
16. Amounts due to customers.....	24
17. Debt securities issued	24
18. Other borrowed funds.....	24
19. Subordinated debt.....	24
20. Equity	25
21. Commitments and contingencies.....	25
22. Net fee and commission income.....	26
23. Net losses from other operating activities.....	27
24. Personnel and other administrative expenses.....	27
25. Risk management.....	27
26. Fair values of financial instruments	40
27. Related party transactions.....	41
28. Capital adequacy.....	43



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Independent Auditors' Report

To the Shareholders and Board of Directors

BANCA INTESA (CLOSED JOINT STOCK COMPANY)

We have audited the accompanying consolidated financial statements of BANCA INTESA (CLOSED JOINT STOCK COMPANY) and its subsidiary ZAO "Intesa Leasing" (the "Bank"), which comprise the consolidated statement of financial position as at 31 December 2012, and the consolidated statements of comprehensive income, changes in equity and cash flows for 2012, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Audited entity: BANCA INTESA (CLOSED JOINT STOCK COMPANY).

Registered by the Central Bank of Russian Federation on 31 December 1992, Registration No. 2216.

Entered in the Unified State Register of Legal Entities on 11 September 2002 by Moscow Inter-Regional Tax Inspectorate No.39 of the Ministry of Taxes and Duties of the Russian Federation, Registration No. 1027739177377, Certificate series 77 No. 010860133.

Address of audited entity: 2, Petroverigsky per, Moscow, 101000.

Auditor: ZAO KPMG, a company incorporated under the Laws of the Russian Federation, a part of the KPMG Europe LLP group, and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Registered by the Moscow Registration Chamber on 25 May 1992, Registration No. 011.585.

Entered in the Unified State Register of Legal Entities on 13 August 2002 by Moscow Inter-Regional Tax Inspectorate No.39 of the Ministry of Taxes and Duties of the Russian Federation, Registration No. 1027700125628, Certificate series 77 No. 005721432.

Member of the Non-commercial Partnership "Chamber of Auditors of Russia". The Principal Registration Number of the Entry in the State Register of Auditors and Audit Organisations: No.10301000804.

Opinion

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

Other matters

The financial statements of the Bank as at and for the year ended 31 December 2012 were audited by other auditors whose report dated 20 February 2012 expressed an unmodified opinion on those statements.

Malyutina M.S.

Director

power of attorney dated 1 October 2010 No. 43/10

licence No. 01-000066

ZAO KPMG



Moscow, Russian Federation

20 February 2013

Consolidated statement of financial position**As at 31 December 2012***(Thousands of Russian Roubles)*

	Notes	2012	2011
Assets			
Cash and cash equivalents	4	6 887 120	3 184 157
Mandatory cash balances with the Central Bank of the Russian Federation		374 992	429 886
Amounts due from credit institutions	5	11 400 772	13 970 416
Available-for-sale securities	6	3 028 170	3 370 702
Derivative financial assets	7	94 176	33 489
Loans to customers	8	53 273 766	62 225 938
Net investments in finance leases	9	1 111 124	1 573 252
Property and equipment	10	494 764	597 205
Intangible assets	11	1 095 396	1 214 995
Current income tax assets		2 245	139 331
Deferred income tax assets	12	43 846	—
Tax assets other than income tax		36 629	68 504
Other assets	14	827 810	904 426
Total assets		78 670 810	87 712 301
Liabilities			
Amounts due to credit institutions	15	26 799 230	37 846 949
Derivative financial liabilities	7	2 026	70 653
Amounts due to customers	16	19 027 201	19 751 997
Debt securities issued	17	8 132 583	—
Other borrowed funds	18	8 698 962	14 793 731
Current income tax liabilities		61 911	3 366
Deferred income tax liabilities	12	—	67 644
Tax liabilities other than income tax		19 421	157 538
Other liabilities	14	515 460	514 334
Subordinated debt	19	548 344	695 671
Total liabilities		63 805 138	73 901 883
Equity			
Share capital	20	10 820 181	10 820 181
Other capital reserve		1 803 914	1 803 914
Revaluation reserve for available-for-sale securities		14 726	(11 054)
Retained earnings		2 226 851	1 197 377
Total equity		14 865 672	13 810 418
Total equity and liabilities		78 670 810	87 712 301

Signed and authorised for release on behalf of the Board of Directors of the Bank

Olga Lein

Tatyana Pavlycheva

20 February 2013



Acting Chairman of the Management Board

Head of Accounting,
Planning and Control Group/Chief accountant*The accompanying Notes are an integral part of these consolidated financial statements.*

Consolidated statement of comprehensive income**For the year ended 31 December 2012***(Thousands of Russian Roubles)*

	Notes	2012	2011
Interest income			
Loans to customers		7 200 186	7 191 622
Net investments in finance leases		345 072	458 290
Amounts due from credit institutions		238 510	285 387
Available-for-sale securities		190 893	222 009
Trading securities		—	1 792
		7 974 661	8 159 100
Interest expense			
Amounts due to credit institutions		(1 533 286)	(1 704 882)
Other borrowed funds		(506 685)	(589 439)
Debt securities issued		(385 456)	(961)
Amounts due to customers		(367 787)	(281 945)
Subordinated debt		(23 138)	(22 406)
		(2 816 352)	(2 599 633)
Net interest income		5 158 309	5 559 467
Impairment of loans and net investments in finance leases	8, 9	(518 633)	(1 108 378)
Net interest income after impairment of loans and net investments in finance leases		4 639 676	4 451 089
Fee and commission income		874 732	798 807
Fee and commission expense		(137 628)	(158 834)
Net fee and commission income	22	737 104	639 973
Net losses from trading securities		—	(294)
Net (losses) gains from available-for-sale securities		(407)	5 323
Net gains (losses) from foreign currencies:			
- dealing		373 485	(144 653)
- translation differences		(47 130)	372 298
Net losses from other operating activities	23	(136 120)	(142 788)
Operating income		5 566 608	5 180 948
Personnel expenses	24	(1 775 498)	(1 772 266)
Other general administrative expenses	24	(1 527 282)	(1 590 265)
Depreciation and amortisation	10, 11	(532 092)	(513 471)
Other impairment and provisions	13	(188 935)	(72 547)
Profit before income tax		1 542 801	1 232 399
Income tax expense	12	(348 449)	(227 427)
Profit for the year		1 194 352	1 004 972
Other comprehensive income (loss), net of income tax			
Revaluation reserve for available-for-sale securities:			
- Net change in fair value of available-for-sale securities		25 432	3 408
- Net change in fair value of available-for-sale securities transferred to profit or loss		348	(4 258)
Total other comprehensive income (loss) for the year, net of income tax		25 780	(850)
Total comprehensive income for the year		1 220 132	1 004 122

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20 February 2013

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Acting Chairman of the Management Board

Head of Accounting,
Planning and Control Group/Chief accountant

Consolidated statement of changes in equity**For the year ended 31 December 2012***(Thousands of Russian Roubles)*

	Share capital	Other capital reserve	Revaluation reserve for available-for-sale securities	Retained earnings	Total equity
Balance as at 1 January 2011	10 820 181	1 803 914	(10 204)	192 405	12 806 296
Total comprehensive income					
Profit for the year	—	—	—	1 004 972	1 004 972
Other comprehensive loss					
Net change in fair value of available-for-sale securities, net of income tax	—	—	3 408	—	3 408
Net change in fair value of available-for-sale securities transferred to profit or loss, net of income tax	—	—	(4 258)	—	(4 258)
Total other comprehensive loss	—	—	(850)	—	(850)
Total comprehensive income for the year	—	—	(850)	1 004 972	1 004 122
Balance as at 31 December 2011	10 820 181	1 803 914	(11 054)	1 197 377	13 810 418
Total comprehensive income					
Profit for the year	—	—	—	1 194 352	1 194 352
Other comprehensive income					
Net change in fair value of available-for-sale securities, net of income tax	—	—	25 432	—	25 432
Net change in fair value of available-for-sale securities transferred to profit or loss, net of income tax	—	—	348	—	348
Total other comprehensive income	—	—	25 780	—	25 780
Total comprehensive income for the year	—	—	25 780	1 194 352	1 220 132
Dividends declared and paid	—	—	—	(164 878)	(164 878)
Balance as at 31 December 2012	10 820 181	1 803 914	14 726	2 226 851	14 865 672

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20 February 2013



Acting Chairman of the Management Board

Head of Accounting,
Planning and Control Group/Chief accountant

The accompanying Notes are an integral part of these consolidated financial statements.

Consolidated statement of cash flows**For the year ended 31 December 2012***(Thousands of Russian Roubles)*

	Note	2012	2011
Cash flows from operating activities			
Interest received		7 829 215	8 144 026
Interest paid		(2 804 852)	(2 562 810)
Fees and commissions received		876 208	811 754
Fees and commissions paid		(132 818)	(171 180)
Net receipts from trading securities		—	590
Net receipts (payments) from dealing in foreign currencies		244 172	(101 050)
Net payments for other operating activities		(20 646)	(12 171)
Personnel expenses paid		(1 714 266)	(1 772 266)
Other general administrative expenses paid		(1 536 723)	(1 526 225)
Cash flows from operating activities before changes in operating assets and liabilities		2 740 290	2 810 668
<i>Net (increase) decrease in operating assets</i>			
Mandatory cash balances with the CBR		54 894	(237 430)
Trading securities		—	6
Amounts due from credit institutions		1 916 337	(5 040 964)
Loans to customers		7 592 524	(2 211 069)
Net investments in finance leases		449 613	267 290
Other assets		(160 231)	(124 155)
<i>Net increase (decrease) in operating liabilities</i>			
Amounts due to credit institutions		(10 128 759)	632 870
Amounts due to customers		(498 952)	1 913 173
Other liabilities		(117 122)	24 952
Net cash flows used in operating activities before income tax		(891 696)	(4 775 327)
Income tax paid		(294 218)	(230 995)
Net cash flows provided from (used in) operating activities		1 554 376	(2 195 654)
Cash flows from investing activities			
Purchase of property and equipment		(69 704)	(75 023)
Proceeds from sale of property and equipment		16 935	—
Purchase of intangible assets		(250 329)	(305 128)
Purchase of available-for-sale securities		(1 907 295)	(4 660 162)
Proceeds from sale and redemption of available-for-sale securities		2 302 837	5 604 009
Net cash flows provided from investing activities		92 444	563 696
Cash flows from financing activities			
Dividends paid		(164 878)	—
Proceeds (repayment) from issue of bonds		8 000 000	(15 862)
Proceeds from other borrowed funds		—	5 070 000
Repayment of other borrowed funds		(5 570 686)	(5 070 000)
Repayment of subordinated debt		(111 209)	—
Net cash flows provided from (used in) financing activities		2 153 227	(15 862)
Effect of exchange rates changes on cash and cash equivalents		(97 084)	34 401
Net increase (decrease) in cash and cash equivalents		3 702 963	(1 613 419)
Cash and cash equivalents as at the beginning of the year		3 184 157	4 797 576
Cash and cash equivalents as at the end of the year	4	6 887 120	3 184 157

Signed and authorised for release on behalf of the Board of Directors of the Bank

Olga Lein

Tatyana Pavlycheva

20 February 2013

The accompanying Notes are an integral part of these consolidated financial statements.



Acting Chairman of the Management Board

Head of Accounting,
Planning and Control Group/Chief accountant

(Thousands of Russian Roubles)

1. Principal activities

These consolidated financial statements include the financial statements of BANCA INTESA (CLOSED JOINT-STOCK COMPANY) and its subsidiary, ZAO "IntesaLeasing", together referred to as the "Bank".

BANCA INTESA (CLOSED JOINT-STOCK COMPANY) is a commercial bank organised in the form of a closed joint-stock company under the laws of the Russian Federation.

The Bank, formerly known as KMB BANK (CLOSED JOINT-STOCK COMPANY) (the "incorporating Bank"), changed its name following the merger with ZAO BancaIntesa (the "incorporated Bank"), 100% Russian banking subsidiary of IntesaSanpaoloS.p.A. (Italy), on 11 January 2010.

The shareholders of the Bank as at 31 December are:

Shareholder	2012 %	2011 %
Intesa Sanpaolo S.p.A. (Italy)	46.9772	46.9772
Intesa Sanpaolo Holding International SA (Luxembourg)	39.7670	39.7670
European Bank for Reconstruction and Development (the "EBRD") (United Kingdom)	13.2558	13.2558
Total	100.0000	100.0000

The ultimate controlling party of the Bank is Intesa SanpaoloS.p.A. (Italy) ("ISP").

The Bank's principal business activities are retail bank products and services, including an affluent segment, and corporate bank products to small, medium and large businesses. The Bank is engaged in a program of the EBRD to support the businesses of small to medium sized companies by providing them with lending facilities.

The activities of the Bank are regulated by the Central Bank of Russian Federation (the "CBR"). The Bank operates under General Banking License № 2216.

In 2004, the Bank became a member of the state deposit insurance system in the Russian Federation.

The Bank has a wholly owned and controlled subsidiary, ZAO "Intesa Leasing", former ZAO "KMB-Leasing". It is primarily engaged in the provision of finance leases to the Bank's clients and other companies.

The Bank's head office is located in Moscow and it has 6 branches within the Russian Federation in the cities of Saint Petersburg, Nizhniy Novgorod, Ekaterinburg, Novosibirsk, Vladivostok and Rostov-on-Don (2011: 6 branches). As at 31 December 2012 the Bank has 76 offices selling banking products in different cities within the Russian Federation (2011: 75 offices).

The Bank's registered office is located at the following address: 2, Petroverigsky pereulok, Moscow, Russia, 101000.

As at 31 December 2012 the Bank employed 1 879 people (2011: 1 838).

Russian Business environment

The Bank's operations are primarily located in the Russian Federation. Consequently, the Bank is exposed to the economic and financial markets of the Russian Federation which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Russian Federation. In addition, the contraction in the capital and credit markets and its impact on the Russian economy have further increased the level of economic uncertainty in the environment. The consolidated financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Bank. The future business environment may differ from management's assessment.

(Thousands of Russian Roubles)

2. Basis of preparation

Statement of compliance

The accompanying consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS").

The Bank is required to maintain its records and prepare its financial statements for regulatory purposes in Russian Roubles in accordance with the Russian accounting and banking legislation and related instructions ("RAL"). These consolidated financial statements are based on the Bank's RAL books and records, as adjusted and reclassified in order to comply with IFRS.

Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except for trading securities, available-for-sale securities and derivative financial instruments are stated at fair value.

Functional and presentation currency

The functional currency of the Bank and its subsidiary is the Russian Rouble ("RUB") as, being the national currency of the Russian Federation it reflects the economic substance of the majority of underlying events and circumstances relevant to them.

The RUB is also the presentation currency for the purposes of these consolidated financial statements.

All financial information presented in RUB is rounded to the nearest thousand, except where indicated.

Use of estimates and judgments

The preparation of these consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies is described in the following notes:

- loan impairment estimates - Note 8
- net investments in finance leases impairment estimates – Note 9
- estimates of fair values of financial instruments – Note 26.

3. Summary of accounting policies

The following accounting policies are consistently applied in the preparation of the consolidated financial statements except for changes in accounting policies which are described at the end of this Note.

Basis of consolidation

Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Bank.

The Bank measures goodwill as the fair value of the consideration transferred (including the fair value of any previously-held equity interest in the acquiree) and the recognised amount of any non-controlling interest in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as at the acquisition date. When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The Bank elects on a transaction-by-transaction basis whether to measure non-controlling interests at fair value, or at their proportionate share of the recognised amount of the identifiable net assets of the acquiree, at the acquisition date.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Bank incurs in connection with a business combination are expensed as incurred.

(Thousands of Russian Roubles)

Subsidiaries

Subsidiaries are entities controlled by the Bank. Control exists when the Bank has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases.

Acquisitions and disposals of non-controlling interests

The Bank accounts for the acquisitions and disposals of non-controlling interests as transactions with equity holders in their capacity as equity holders. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the parent.

Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency of the Bank at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, amounts due from the CBR, excluding mandatory cash balances with the CBR, and accounts which can be converted into cash within one day and are free from contractual encumbrances. All short-term interbank placements are included in amounts due from other banks.

Mandatory cash balances with the CBR

Credit institutions are required to maintain a non-interest earning cash deposit (mandatory cash balances) with the CBR, the amount of which depends on the level of funds attracted by the credit institution. The Bank's ability to withdraw such a deposit is significantly restricted by the statutory legislation. Mandatory cash balances with the CBR 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 consolidated statement of cash flows.

Financial instruments

Classification

Financial instruments at fair value through profit or loss are financial assets or liabilities that are:

- acquired or incurred principally for the purpose of selling or repurchasing in the near term
- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking
- derivative financial instruments (except for derivative financial instruments that are designated and effective hedging instruments) or,
- upon initial recognition, designated as at fair value through profit or loss.

The Bank may designate financial assets and liabilities at fair value through profit or loss where either:

- the assets or liabilities are managed, evaluated and reported internally on a fair value basis
- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise or,
- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

All trading derivatives in a net receivable position (positive fair value), as well as options purchased, are reported as assets. All trading derivatives in a net payable position (negative fair value), as well as options written, are reported as liabilities.

Management determines the appropriate classification of financial instruments in this category at the time of the initial recognition. Derivative financial instruments and financial instruments designated as at fair value through profit or loss upon initial recognition are not reclassified out of at fair value through profit or loss category.

(Thousands of Russian Roubles)

Financial assets that would have met the definition of loans and receivables may be reclassified out of the fair value through profit or loss or available-for-sale category if the Bank has an intention and ability to hold them for the foreseeable future or until maturity. Other financial instruments may be reclassified out of at fair value through profit or loss category only in rare circumstances. Rare circumstances arise from a single event that is unusual and highly unlikely to recur in the near term.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Bank:

- intends to sell immediately or in the near term
- upon initial recognition designates as at fair value through profit or loss
- upon initial recognition designates as available-for-sale or,
- may not recover substantially all of its initial investment, other than because of credit deterioration.

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Bank has the positive intention and ability to hold to maturity, other than those that:

- the Bank upon initial recognition designates as at fair value through profit or loss
- the Bank designates as available-for-sale or,
- meet the definition of loans and receivables.

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial instruments at fair value through profit or loss.

Recognition

Financial assets and liabilities are recognised in the consolidated statement of financial position when the Bank becomes a party to the contractual provisions of the instrument. All regular way purchases of financial assets are accounted for at the settlement date.

Measurement

A financial asset or liability is initially measured at its fair value plus, in the case of a financial asset or liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability.

Subsequent to initial recognition, financial assets, including derivatives that are assets, are measured at their fair values, without any deduction for transaction costs that may be incurred on sale or other disposal, except for:

- loans and receivables which are measured at amortised cost using the effective interest method
- held-to-maturity investments that are measured at amortised cost using the effective interest method
- investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured which are measured at cost.

All financial liabilities, other than those designated at fair value through profit or loss and financial liabilities that arise when a transfer of a financial asset carried at fair value does not qualify for derecognition, are measured at amortised cost.

'Day 1' profit

Where the transaction price in a non-active market is different to the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets, the Bank immediately recognises the difference between the transaction price and fair value (a 'Day 1' profit) in the consolidated statement of comprehensive income. In cases where data used is not observable, the difference between the transaction price and model value is only recognised in the consolidated statement of comprehensive income when the inputs become observable, or when the instrument is derecognised.

Amortised cost

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

(Thousands of Russian Roubles)

Fair value measurement principles

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 on the measurement date.

When available, the Bank measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, the Bank establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Bank, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e., the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognised in profit or loss on an appropriate basis over the life of the instrument but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

Assets and long positions are measured at a bid price; liabilities and short positions are measured at an asking price. Where the Bank has positions with offsetting risks, mid-market prices are used to measure the offsetting risk positions and a bid or asking price adjustment is applied only to the net open position as appropriate. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Bank and the counterparty where appropriate. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that the Bank believes a third-party market participant would take them into account in pricing a transaction.

Gains and losses on subsequent measurement

A gain or loss arising from a change in the fair value of a financial asset or liability is recognised as follows:

- a gain or loss on a financial instrument classified as at fair value through profit or loss is recognised in profit or loss
- a gain or loss on an available-for-sale financial asset is recognised as other comprehensive income in equity (except for impairment losses and foreign exchange gains and losses on debt financial instruments available-for-sale) until the asset is derecognised, at which time the cumulative gain or loss previously recognised in equity is recognised in profit or loss. Interest in relation to an available-for-sale financial asset is recognised in profit or loss using the effective interest method.

For financial assets and liabilities carried at amortised cost, a gain or loss is recognised in profit or loss when the financial asset or liability is derecognised or impaired, and through the amortisation process.

Derecognition

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognised as a separate asset or liability in the statement of financial position. The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

The Bank enters into transactions whereby it transfers assets recognised on its consolidated statement of financial position, but retains either all risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised.

In transactions where the Bank neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, it derecognises the asset if control over the asset is lost.

In transfers where control over the asset is retained, the Bank continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred assets.

(Thousands of Russian Roubles)

If the Bank purchases its own debt, it is removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from early retirement of debt.

The Bank writes off assets deemed to be uncollectible.

Repurchase and reverse repurchase agreements

Securities sold under sale and repurchase ("repo") agreements are accounted for as secured financing transactions, with the securities retained in the consolidated statement of financial position and the counterparty liability included in amounts payable under repo transactions within amounts due to credit institutions or amounts due to customers, as appropriate. The difference between the sale and repurchase prices represents interest expense and is recognized in profit or loss over the term of the repo agreement using the effective interest method.

Securities purchased under agreements to resell ("reverse repo") are recorded as amounts receivable under reverse repo transactions within due to banks or loans to customers, as appropriate. The difference between the purchase and resale prices represents interest income and is recognized in profit or loss over the term of the reverse repo agreement using the effective interest method.

If assets purchased under an agreement to resell are sold to third parties, the obligation to return securities is recorded as a trading liability and measured at fair value.

Offsetting

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

Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include amounts due to government, amounts due to credit institutions, amounts due to customers, other borrowed funds, subordinated debt and debt securities issued. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the consolidated statement of comprehensive income when the borrowings are derecognised as well as through the amortisation process.

Leases

Finance - Bank as a lessor

The Bank recognises lease receivables at a value equal to the net investment in the lease, starting from the date of commencement of the lease term.

Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding. Initial direct costs are included in the initial measurement of the lease receivables.

When the Bank takes possession of the collateral under terminated lease contracts, it measures the assets at the lower of net realizable value and amortized historical cost of the inventory.

Operating – Bank as a lessee

Leases of assets under which the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognised as expenses on a straight-line basis over the lease term and included in other operating expenses.

Property and equipment

Items of property and equipment are stated at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing part of equipment when that cost is incurred if the recognition criteria are met.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

(Thousands of Russian Roubles)

Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Land is not depreciated. Depreciation is calculated on a straight-line basis over the following estimated useful lives of the assets using the following rates:

	<u>per annum, %</u>
Premises	3
Office and computer equipment	20
Intangible assets	20-33

The residual values of the assets, useful lives and methods are reviewed, and adjusted as appropriate, at each reporting period.

Costs related to repairs and renewals are charged when incurred and included in other operating expenses, unless they qualify for capitalisation.

Equipment purchased for leasing purposes

The Bank accounts for capital expenditures related to acquisition of equipment subject to leasing as equipment purchased for leasing purposes. These expenditures are accumulated until the equipment is ready for use and transferred to the lessee.

Intangible assets

Intangible assets include computer software and licences.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. Following initial recognition, intangible assets are stated at cost less accumulated amortisation and accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with a finite useful life are amortised over the useful economic life, not exceeding a period of 5 years, and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

Amortisation is charged to profit or loss on a straight-line basis.

Intangible assets with an indefinite useful life are not amortized. The useful life of such assets is reviewed at each reporting period to determine whether events and circumstances continue to support an indefinite useful life assessment for such assets.

The Bank tests intangible assets with an indefinite useful life for impairment by comparing their recoverable amounts with the corresponding carrying amounts annually, and whenever there is an indication that an intangible asset may be impaired.

Reposessed collateral

Reposessed collateral represents financial and non-financial assets obtained by the Bank in the settlement of overdue loans. These assets are initially recognised at fair value when obtained and can be included in property and equipment, other financial assets, inventories or investment property 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 assets categories.

Impairment of financial assets

The Bank assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Financial assets carried at amortised cost

Impairment allowance for loans and net investments in finance leases is established if there is an objective evidence that the Bank will not be able to collect the amounts due according to the original contractual terms. Objective evidence includes actual breach of a contract, financial difficulties of the borrower, probability of bankruptcy or other financial reorganisation of the borrower, adverse changes in the payment status of the borrower or deterioration of economic conditions which the borrower operates in. The amount of the allowance is measured as the difference between the carrying amount of the financial asset and the estimated recoverable amount, calculated as the present value of the estimated future cash flows, including amounts recoverable from guarantees and collateral, discounted at the financial asset's original effective interest rate.

(Thousands of Russian Roubles)

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

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of relevant observable data to reflect the effects of current economic conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment statistic, or other factors that are indicative of incurred losses in the group or their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

When a loan or investment in finance lease is uncollectible, it is written off against the related impairment allowance. Loans and net investments in finance leases are written off on an individual basis at the decision of the Asset Quality Session and ultimately approved by the Board of Directors of the Bank.

If the amount of impairment allowance for loan and net investments in finance leases subsequently decreases due to an event occurring after write-off, the release of the allowance is credited to the allowance for loan and net investments in finance leases in the consolidated statement of comprehensive income.

Financial assets carried at cost

Financial assets carried at cost include unquoted equity instruments included in available-for-sale securities that are not carried at fair value because their fair value cannot be reliably measured. If there is objective evidence that such investments are impaired, the impairment loss is calculated as the difference between the carrying amount of the investment and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset.

All impairment losses in respect of these investments are recognised in profit or loss and cannot be reversed.

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its acquisition cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is transferred from the other comprehensive income to profit or loss. Reversals in respect of equity instruments classified as available-for-sale are not recognised in profit or loss. Reversals of impairment losses on debt instruments are reversed through profit or loss if the increase in the fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in profit or loss.

Non financial assets

Other non financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of non financial assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

All impairment losses in respect of non financial assets are recognised in profit or loss and reversed only if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss reversed is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. An impairment loss in respect of goodwill is not reversed.

Provisions

A provision is recognised in the consolidated statement of financial position when the Bank has a present legal or constructive obligation as a result of a past event, and 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. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(Thousands of Russian Roubles)

Contingencies and credit related commitments

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

In the normal course of business, the Bank enters into credit related commitments including undrawn loan commitments, guarantees and letters of credit. Guarantees are initially recognised in the consolidated statement of financial position at fair value net of associated transaction costs within other liabilities, and subsequently are measured at the higher of the amortised premium or the amount of provision for losses under the guarantee.

Provisions are recognised against credit related commitments when losses are considered probable and can be measured reliably.

Any increase in the liability relating to credit related commitments is recognised in profit or loss. The premium received is recognised in profit or loss on a straight-line basis over the life of the guarantee.

Non-credit related commitments are disclosed if the amount is more than RUB 1 000 thousand per each commitment. In case the total amount of commitments that are less than RUB 1 000 thousand is more than RUB 10 000 thousand each commitment more than RUB 500 thousand is disclosed. In case the total amount of commitments that are less than RUB 500 thousand is more than RUB 10 000 thousand each commitment more than RUB 100 thousand is disclosed. This criterion is applicable for the one year when the lowest amount of RUB 100 thousand is not more than 5% of net profit for the reporting period.

Retirement and other employee benefit obligations

The Bank does not have any pension arrangements other than with the State pension system of the Russian Federation, which requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged in the period the related salaries are earned. The Bank has no significant post-retirement benefits to its employees.

Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of new shares, other than on a business combination, are recognised as a deduction from equity, net of any tax effects.

Share premium

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

Other capital reserve

Funds provided by the Bank's shareholders in the form of debt free financing are classified as other capital reserves.

Dividends

The ability of the Bank to declare and pay dividends is subject to the rules and regulations of the Russian legislation.

Dividends in relation to ordinary shares are reflected as an appropriation of retained earnings in the period when they are declared.

Taxation

The current income tax expense is calculated in accordance with the regulations of the Russian Federation.

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred income tax is not provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference can be controlled by the parent and it is probable that the temporary difference will not reverse in the foreseeable future.

(Thousands of Russian Roubles)

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and unused tax losses can be utilised. Deferred tax assets and liabilities are measured based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date.

The Russian Federation also has various operating taxes that are assessed on the Bank's activities. These taxes are included as a component of other operating expenses.

Recognition of income and expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Gains and losses from a change in the fair value of a financial asset or liability

A gain or loss arising from a change in the fair value of a financial asset or liability is recognised as follows:

- a gain or loss on a financial instrument classified as at fair value through profit or loss is recognised in profit or loss
- a gain or loss on an available-for-sale financial asset is recognised in equity as other comprehensive income (except for impairment losses and foreign exchange gains and losses on debt financial instruments available-for-sale) until the asset is derecognised, at which time the cumulative gain or loss previously recognised in equity is transferred to profit or loss. Interest in relation to an available-for-sale financial asset is recognised in profit or loss using the effective interest method.

For financial assets and liabilities carried at amortised cost, a gain or loss is recognised in profit or loss when the financial asset or liability is derecognised or impaired, and through the amortisation process.

Interest and similar income and expense

Interest income and expense are recognised in profit or loss using the effective interest method.

When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument, but does not consider future credit losses. The calculation includes all fees directly related to the loan issuance and amounts paid or received between the parties to the contract that are an integral part of the effective interest rate, including incremental directly attributable loan origination costs, such as bonuses for loan issuance. Once the balance value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the original effective interest rate applied to the new carrying amount.

Fee and commission income

The Bank earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

Fee income earned from services that are provided over a certain period of time

Fees earned for the provision of services over a period of time are amortised over that period. These fees include commission income and asset management, custody and other management and advisory fees. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loan.

Fee income from providing transaction services

Fees arising from negotiating or participating in the negotiation of a transaction for a third party – such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses – are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

Segment reporting

An operating segment is a component of the Bank that engaged in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the Bank); whose operating results are regularly reviewed by the chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. Substantially all of the Bank's activities relate to provision of financial services mostly to corporate customers (small, medium and large business). Therefore, management concluded that the Bank has a single reportable segment.

(Thousands of Russian Roubles)

Changes in accounting policies

With effect from 1 January 2012 the Bank has applied amendment to IFRS 7 *Financial Instruments: Disclosures* in disclosing transfers of financial assets in situations where assets are not derecognised in their entirety or where the assets are derecognised in their entirety but a continuing involvement in the transferred assets is retained. This amendment has no impact on disclosures as at 31 December 2012 and 2011.

Reclassifications of comparative information

As at 31 December 2012 the presentation of certain items of the consolidated statement of comprehensive income is changed in order to better present the substance of the underlying transactions. Comparative information is reclassified to conform to changes in presentation in the current year.

The effect of these reclassifications and changes in presentation as at and for the year ended 31 December 2011 is as follows:

	<i>As previously reported</i>	<i>Reclassification</i>	<i>Reclassified</i>
Consolidated statement of comprehensive income			
Fee and commission expense	(175 998)	17 164	(158 834)
Net losses from other operating activities	(125 624)	(17 164)	(142 788)
Other general administrative expenses	(1 643 138)	52 873	(1 590 265)
Personnel expenses	(1 719 393)	(52 873)	(1 772 266)
Consolidated statement of cash flows			
Net cash flows used in operating activities before income tax	(4 688 054)	(87 273)	(4 775 327)
Cash flows used in financing activities	-	(15 862)	(15 862)
Net gains less losses from other operating activities	(115 306)	103 135	(12 171)
Net increase in other assets	(21 020)	(103 135)	(124 055)

There is no effect of these reclassifications on the consolidated statement of financial position as at 31 December 2010 and therefore management decided not to include a consolidated statement of financial position as at 31 December 2010 in these consolidated financial statements.

New standards and interpretations not yet adopted

The following new standards, amendments to standards and interpretations are not yet effective as at 31 December 2012, and are not applied in preparing these consolidated financial statements. The Bank plans to adopt these pronouncements when they become effective. The Bank has analysed the likely impact of these pronouncements on its financial statements in respect to its current operations, analysis of the impact on further operations will be conducted in the future.

- **IAS 19 *Employee Benefits*.** The amended standard will introduce a number of significant changes to IAS 19. First, the corridor method is removed and, therefore, all changes in the present value of the defined benefit obligation and in the fair value of plan assets will be recognised immediately as they occur. Secondly, the amendment will eliminate the current ability for entities to recognise all changes in the defined benefit obligation and in plan assets in profit or loss. Thirdly, the expected return on plan assets recognised in profit or loss will be calculated based on the rate used to discount the defined benefit obligation. The amended standard shall be applied for annual periods beginning on or after 1 January 2013 and early adoption is permitted. The amendment generally applies retrospectively.
- **IAS 27 *Separate Financial Statements*** will become effective for annual periods beginning on or after 1 January 2013. The amended standard carries forward the existing accounting and disclosure requirements of IAS 27 (2008) for separate financial statements with some clarifications. The requirements of IAS 28 (2008) and IAS 31 for separate financial statements have been incorporated into IAS 27 (2011). Early adoption of IAS 27 (2011) is permitted provided the entity also early-adopts IFRS 10, IFRS 11, IFRS 12 and IAS 28 (2011).
- **IAS 28 *Investments in Associates and Joint Ventures*** combines the requirements in IAS 28 (2008) and IAS 31 that were carried forward but not incorporated into IFRS 11 and IFRS 12. The amended standard will become effective for annual periods beginning of or after 1 January 2013 with retrospective application required. Early adoption of IAS 28 (2011) is permitted provided the entity also early-adopts IFRS 10, IFRS 11, IFRS 12 and IAS 27 (2011).
- **Amendments to IFRS 7 *Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities*** contain new disclosure requirements for financial assets and liabilities that are offset in the statement of financial position or subject to master netting arrangements or similar agreements. The amendments are effective for annual periods beginning on or after 1 January 2013, and are to be applied retrospectively.

(Thousands of Russian Roubles)

- IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2015. The new standard is to be issued in phases and is intended ultimately to replace IAS 39 *Financial Instruments: Recognition and Measurement*. The first phase of IFRS 9 was issued in November 2009 and relates to the classification and measurement of financial assets. The second phase regarding classification and measurement of financial liabilities was published in October 2010. The remaining parts of the standard are expected to be issued during 2013. The Bank recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on the consolidated financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued. The Bank does not intend to adopt this standard early. The Standard has not yet been endorsed in the Russian Federation.
- IFRS 10 *Consolidated Financial Statements* will be effective for annual periods beginning on or after 1 January 2013. The new standard supersedes IAS 27 *Consolidated and Separate Financial Statements* and SIC-12 *Consolidation – Special Purpose Entities*. IFRS 10 introduces a single control model which includes entities that are currently within the scope of SIC-12. Under the new three-step control model, an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with that investee, has the ability to affect those returns through its power over that investee and there is a link between power and returns. Consolidation procedures are carried forward from IAS 27 (2008). When the adoption of IFRS 10 does not result in a change in the previous consolidation or non-consolidation of an investee, no adjustments to accounting are required on initial application. When the adoption results in a change in the consolidation or non-consolidation of an investee, the new standard may be adopted with either full retrospective application from date that control was obtained or lost or, if not practicable, with limited retrospective application from the beginning of the earliest period for which the application is practicable, which may be the current period. Early adoption of IFRS 10 is permitted provided an entity also early-adopts IFRS 11, IFRS 12, IAS 27 (2011) and IAS 28 (2011).
- *Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)* will be effective for annual periods beginning on or after 1 January 2014. The amendments introduce a mandatory consolidation exception for certain qualifying investment entities. A qualifying investment entity is required to account for investments in controlled entities, as well as investments in associates and joint ventures, at fair value through profit or loss. The consolidation exception will not apply to subsidiaries that are considered an extension of the investment entity's investing activities. The amendments are to be applied retrospectively unless impracticable. The amendments have not yet been endorsed in the Russian Federation.
- IFRS 11 *Joint Arrangements* will be effective for annual periods beginning on or after 1 January 2013 with retrospective application required. The new standard supersedes IAS 31 *Interests in Joint Ventures*. The main change introduced by IFRS 11 is that all joint arrangements are classified either as joint operations, in which case these arrangements are treated similarly to jointly controlled assets/operations under IAS 31, or as joint ventures, for which the equity method only is applied. The type of arrangement is determined based on the rights and obligations of the parties to the arrangement arising from joint arrangement's structure, legal form, contractual arrangement and other facts and circumstances. When the adoption of IFRS 11 results in a change in the accounting model, the change is accounted for retrospectively from the beginning of the earliest period presented. Under the new standard all parties to a joint arrangement are within the scope of IFRS 11 even if all parties do not participate in the joint control. Early adoption of IFRS 11 is permitted provided the entity also early-adopts IFRS 10, IFRS 12, IAS 27 (2011) and IAS 28 (2011).
- IFRS 12 *Disclosure of Interests in Other Entities* will be effective for annual periods beginning on or after 1 January 2013. The new standard contains disclosure requirements for entities that have interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. Interests are widely defined as contractual and non-contractual involvement that exposes an entity to variability of returns from the performance of the other entity. The expanded and new disclosure requirements aim to provide information to enable the users to evaluate the nature of risks associated with an entity's interests in other entities and the effects of those interests on the entity's financial position, financial performance and cash flows. Entities may early present some of the IFRS 12 disclosures without a need to early-adopt the other new and amended standards. However, if IFRS 12 is early-adopted in full, then IFRS 10, IFRS 11, IAS 27 (2011) and IAS 28 (2011) must also be early-adopted.
- IFRS 13 *Fair Value Measurement* will be effective for annual periods beginning on or after 1 January 2013. The new standard replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It provides a revised definition of fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. IFRS 13 does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurement that currently exist in certain standards. The standard is applied prospectively with early adoption permitted. Comparative disclosure information is not required for periods before the date of initial application.

(Thousands of Russian Roubles)

- Amendment to IAS 1 *Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income*. The amendment requires that an entity present separately items of other comprehensive income that may be reclassified to profit or loss in the future from those that will never be reclassified to profit or loss. Additionally, the amendment changes the title of the statement of comprehensive income to statement of profit or loss and other comprehensive income. However, the use of other titles is permitted. The amendment shall be applied retrospectively from 1 July 2012 and early adoption is permitted.
- Amendments to IAS 32 *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities* do not introduce new rules for offsetting financial assets and liabilities; rather they clarify the offsetting criteria to address inconsistencies in their application. The amendments specify that an entity currently has a legally enforceable right to set-off if that right is not contingent on a future event; and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties. The amendments are effective for annual periods beginning on or after 1 January 2014, and are to be applied retrospectively.
- Various Improvements to IFRSs have been dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect not earlier than 1 January 2013.

4. Cash and cash equivalents

Cash and cash equivalents as at 31 December comprise:

	2012	2011
Cash on hand	645 542	698 088
Current accounts with the CBR	2 242 096	1 908 254
Current accounts and overnight placements with other credit institutions		
- OECD banks	3 754 928	473 281
- Largest 30 Russian banks	242 123	102 084
- Other Russian banks	2 431	2 450
Cash and cash equivalents	6 887 120	3 184 157

As at 31 December 2012 the Bank has two banks (2011: one bank), whose balances individually exceed 10% of equity. The gross value of these balances as at 31 December 2012 is RUB 4 595 310 thousand (2011: RUB 1 908 254 thousand) including current accounts with the CBR in the amount of RUB 2 242 096 thousand (2011: RUB 1 908 254 thousand).

Amounts of cash and cash equivalents include balances with related parties, which are disclosed in Note 27.

No cash and cash equivalents are impaired or past due.

5. Amounts due from credit institutions

Amounts due from credit institutions as at 31 December comprise:

	2012	2011
Time deposits with credit institutions		
- OECD banks	7 667 098	8 043 645
- Other Russian banks	3 072 999	3 245 227
- Largest 30 Russian banks	660 675	2 481 522
- Due from the CBR	-	200 022
Amounts due from credit institutions	11 400 772	13 970 416

As at 31 December 2012 the Bank has two banks (2011: two banks), whose balances individually exceed 10% of equity. The gross value of these balances as at 31 December 2012 is RUB 10 484 954 thousand (2011: RUB 11 288 872 thousand).

No amounts due from credit institutions are impaired or past due.

Amounts due from credit institutions include loans placed with related parties. The gross value of these balances as at 31 December 2012 is RUB 7 667 098 thousand (2011: RUB 8 043 645 thousand). They bear annual interest rates 6.85% for RUB and up to 0.75% for USD (2011: up to 0.5% for USD and up to 1.3% for EUR).

(Thousands of Russian Roubles)

6. Available-for-sale securities

Available-for-sale securities comprise:

	2012	2011
Russian State bonds ("OFZ")	2 982 892	3 107 720
Corporate Rouble bonds	40 868	258 572
Corporate shares	4 410	4 410
Available-for-sale securities	3 028 170	3 370 702

As at 31 December 2012 Russian State bonds are Rouble denominated securities issued by the Ministry of Finance of the Russian Federation. Russian State bonds have maturity dates from 23 January 2013 to 15 July 2015 (2011: from 11 July 2012 to 24 March 2013), annual coupon rates from 6.7% to 12% (2011: from 6.1% to 12%) and annual yields to maturity from 5.6% to 6.3% (2011: from 6.1% to 6.7%), depending on the bond issue.

As at 31 December 2012 and 2011 corporate Rouble bonds are issued by the largest Russian company. Corporate bonds have maturity date on 9 April 2013 (2011: from 13 December 2012 to 9 April 2013), annual coupon rate of 7.2% (2011: from 7.2% to 9.2%) and annual yields to maturity from 6.2% to 6.5% (2011: 7.7%), depending on the bond issue.

No available-for-sale securities are impaired or past due.

As at 31 December 2012 available-for-sale securities totalling RUB 2 057 747 thousand are eligible for pledge within the limits of refinancing from the CBR (2011: RUB 2 103 618 thousand). As at 31 December 2012 and 2011 the Bank has no loans from the CBR therefore the eligible available-for-sale securities are not pledged.

7. Derivative financial instruments

The Bank enters into derivative financial instruments for trading purposes. The notional amount, recorded gross, is the amount of a derivative's underlying asset, and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are not indicative of the credit risk.

The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts.

	2012			2011		
	Notional amount	Fair values Asset	Liability	Notional amount	Fair value Asset	Liability
Foreign exchange contracts						
Spot deals – foreign counterparties	499 551	–	(449)	3 000 000	–	(5 072)
Spot deals – domestic counterparties	1 063 045	–	(1 577)	481 260	–	(2 224)
Forwards – foreign counterparties	5 200 000	78 034	–	1 000 000	–	(31 073)
Forwards – domestic counterparties	624 700	16 142	–	2 681 022	33 489	(32 284)
Total derivative financial assets (liabilities)		94 176	(2 026)		33 489	(70 653)

As at 31 December 2012 foreign exchange contracts have remaining contractual maturity less than 3 months (2011: less than 1 year).

Amounts of derivative financial instruments include balances with related parties, which are disclosed in Note 27.

(Thousands of Russian Roubles)

8. Loans to customers

Loans to customers as at 31 December comprise:

	2012	2011
Loans to corporate customers		
Large corporate loans	17 450 935	25 829 444
Small loans	16 143 554	17 210 268
Medium loans	10 797 907	12 718 241
Micro loans	8 702 894	8 202 427
Overdrafts	903 758	785 852
Total loans to corporate customers	53 999 048	64 746 232
Loans to retail customers		
Consumer loans	1 509 068	1 890 902
Mortgage loans	1 496 442	1 829 817
Credit cards	112 003	91 021
Total loans to retail customers	3 117 513	3 811 740
Gross loans to customers	57 116 561	68 557 972
Less: Loan impairment allowance	(3 842 795)	(6 332 034)
Net loans to customers	53 273 766	62 225 938

Movements in the loan impairment allowance for the year ended 31 December are as follows:

	2012	2011
Loan impairment allowance as at 1 January	6 332 034	5 451 777
Net charge	510 740	923 134
Amounts written off	(2 999 979)	(42 877)
Loan impairment allowance as at 31 December	3 842 795	6 332 034

As at 31 December 2012 the total amount of overdue outstanding payments on loans is RUB 4 508 498 thousand (2011: RUB 7 003 404 thousand).

The majority of loans to customers have monthly principal and interest repayments.

Amounts of loans to customers include balances with related parties, which are disclosed in Note 27.

Concentration of loans to customers

Economic sector risk concentrations within loans to customers are as follows:

	2012		2011	
	Amount	%	Amount	%
Trading companies	24 891 881	44%	30 414 593	44%
Services	15 016 267	26%	13 530 827	20%
Manufacturing	13 159 302	23%	19 623 392	29%
Individuals	3 117 513	5%	3 811 740	5%
Other	931 598	2%	1 177 420	2%
Total loans to customer, gross	57 116 561	100%	68 557 972	100%

As at 31 December 2012, the Bank has the 20 largest borrowers with an aggregate loan amount for each of them above RUB 200 416 thousand (2011: above RUB 250 330 thousand). The total aggregate amount of these loans is RUB 10 408 372 thousand or 18.2% of the gross loan portfolio (2011: RUB 18 591 144 thousand or 27.1%), with the impairment allowance of RUB 198 179 thousand (2011: 114 546 thousand).

9. Net investments in finance leases

Net investments in finance leases at 31 December 2012 comprise:

	Within 1 year	From 1 to 5 years	Total
Gross investments in finance leases	1 266 401	695 229	1 961 630
Unearned future finance income on finance leases	(92 655)	(244 036)	(336 691)
	1 173 746	451 193	1 624 939
Less: Impairment allowance	(335 791)	(178 024)	(513 815)
Net investments in finance leases	837 955	273 169	1 111 124

(Thousands of Russian Roubles)

Net investments in finance leases at 31 December 2011 comprise:

	<i>Within 1 year</i>	<i>From 1 to 5 years</i>	<i>Total</i>
Gross investments in finance leases	1 566 874	1 043 810	2 610 684
Unearned future finance income on finance leases	(141 949)	(366 793)	(508 742)
	1 424 925	677 017	2 101 942
Less: Impairment allowance	(312 679)	(216 011)	(528 690)
Net investments in finance leases	1 112 246	461 006	1 573 252

Movements in the allowance for impairment of investments in finance leases for the year ended 31 December are as follows:

	<i>2012</i>	<i>2011</i>
Impairment allowance as at 1 January	528 690	387 650
Net charge	7 893	185 244
Amounts written off	(22 768)	(44 204)
Impairment allowance as at 31 December	513 815	528 690

The leased assets are effectively pledged, as the rights to the leased asset revert to the lessor in the event of default. Lease payments are due on a monthly basis. The Bank holds title to the leased property during the lease term. Risks related to the leased property such as damage caused by various reasons, theft and other are generally insured under finance lease agreements.

As at 31 December 2012, the Bank has the 20 largest lessees with an aggregate amount for each of them above RUB 11 119 thousand (2011: above RUB 13 350 thousand). The total aggregate amount of net investments in finance leases related to these leases is RUB 541 406 thousand or 33.3% of the total net investments in finance leases portfolio (2011: RUB 560 427 thousand or 26.7%), with the impairment allowance of RUB 181 861 thousand (2011: RUB 144 013 thousand).

There is no unguaranteed residual value related to lease contracts outstanding as at 31 December 2012 and 2011.

10. Property and equipment

The movements in property and equipment for the year ended 31 December are as follows:

	<i>Premises</i>	<i>Office and computer equipment</i>	<i>Total</i>
Cost as at 1 January 2011	426 028	1 086 723	1 512 751
Accumulated depreciation as at 1 January 2011	(83 714)	(717 755)	(801 469)
Carrying amount as at 1 January 2011	342 314	368 968	711 282
Additions	15 396	59 627	75 023
Disposals (net of accumulated depreciation)	–	(8 955)	(8 955)
Depreciation charge for the year	(14 289)	(165 856)	(180 145)
Cost as at 31 December 2011	441 424	1 075 891	1 517 315
Accumulated depreciation as at 31 December 2011	(98 003)	(822 107)	(920 110)
Carrying amount as at 31 December 2011	343 421	253 784	597 205
Additions	2 080	67 624	69 704
Disposals (net of accumulated depreciation)	–	(9 981)	(9 981)
Depreciation charge for the year	(14 721)	(147 443)	(162 164)
Cost as at 31 December 2012	443 504	1 060 722	1 504 226
Accumulated depreciation as at 31 December 2012	(112 724)	(896 738)	(1 009 462)
Carrying amount at 31 December 2012	330 780	163 984	494 764

Capital expenditure commitments related to property and equipment are disclosed in note 21.

(Thousands of Russian Roubles)

11. Intangible assets

The movements in intangible assets for the year ended 31 December are as follows:

	Computer software and licenses
Cost as at 1 January 2011	1 626 264
Accumulated amortisation as at 1 January 2011	(356 355)
Carrying amount as at 1 January 2011	1 269 909
Additions	305 128
Impairment losses	(26 716)
Amortisation for the year	(333 326)
Cost as at 31 December 2011	1 885 593
Accumulated amortisation as at 31 December 2011	(670 598)
Carrying amount as at 31 December 2011	1 214 995
Additions	250 329
Amortisation for the year	(369 928)
Cost as at 31 December 2012	2 135 922
Accumulated amortisation as at 31 December 2012	(1 040 526)
Carrying amount as at 31 December 2012	1 095 396

As at 31 December 2012 and 2011 computer software "T 24" totalling RUB 833 434 thousand is included in intangible assets. Amortisation of this software started in August 2010 and amounts to RUB 402 827 thousand as at 31 December 2012 (2011: RUB 236 140 thousand).

Impairment losses in 2011 represent the software developed for the Bank in prior periods, because the Bank has no plans to use it in its operations.

Capital expenditure commitments related to intangible assets are disclosed in note 21.

12. Taxation

The corporate income tax expense for the year ended 31 December comprises:

	2012	2011
Current tax	464 338	131 693
Deferred tax – origination and reversal of temporary differences	(115 889)	95 734
Total income tax expense	348 449	227 427

The Bank is liable for current income tax in Russia on its taxable profit and capital gains other than profits on certain types of securities at a rate of 20% (2011 – 20%). Pursuant to Russian income tax law interest income on certain types of securities is subject to income tax at a rate of 15%, 9% or nil. As at 31 December 2012 the rate of tax applicable for deferred taxes is 20% (2011– 20%).

The effective income tax rate differs from the statutory income tax rates. A reconciliation of the income tax expense based on statutory rates with actual for the year ended 31 December is as follows:

	2012	2011
Profit before income tax expense	1 542 801	1 232 399
Income tax expense at the applicable tax rate	308 560	246 480
Income on government securities taxed at different rates	(12 542)	(11 809)
Non-deductible expenses	15 902	6 484
Non-taxable income	(4 447)	-
Under provided in prior year	41 461	-
Change in unrecognised deferred tax asset	(485)	(13 728)
Total income tax expense	348 449	227 427
Effective tax rate	22.6%	18.4%

(Thousands of Russian Roubles)

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax assets and liabilities as at 31 December 2012 and 2011, accordingly.

The deductible temporary differences do not expire under the current tax legislation. As at 31 December 2012 and 2011 the Bank has no tax losses carried forward.

The Bank and ZAO "Intesa Leasing" calculate net deferred tax assets (liabilities) separately and cannot offset them.

As at 31 December 2012 ZAO "Intesa Leasing" has no tax losses carry-forwards (2011: RUB 1 299 thousand).

Movement in temporary differences during the year ended 31 December 2012 are as follows:

	1 January 2012	Recognised in profit or loss	Recognised in other comprehensive income	31 December 2012
Tax effect of temporary differences				
Available-for-sale securities	20 006	(7 405)	(4 399)	8 202
Derivative financial instruments	7 026	(24 782)	-	(17 756)
Loans and advances to customers	(194 811)	69 592	-	(125 219)
Net investments in finance leases	48 526	9 453	-	57 979
Premises, equipment and intangible assets	(67 416)	35 720	-	(31 696)
Other assets	38 184	996	-	39 180
Other liabilities	80 841	32 315	-	113 156
Unrecognised deferred tax assets	(485)	485	-	-
Tax loss carry-forwards	485	(485)	-	-
Net deferred tax assets (liabilities)	(67 644)	115 889	(4 399)	43 846

Movement in temporary differences during the year ended 31 December 2011 are as follows:

	1 January 2011	Recognised in profit or loss	Recognised in other comprehensive income	31 December 2011
Tax effect of temporary differences				
Available-for-sale securities	2 550	17 244	212	20 006
Derivative financial instruments	(940)	7 966	-	7 026
Loans and advances to customers	24 505	(219 316)	-	(194 811)
Net investments in finance leases	(136 376)	184 902	-	48 526
Premises, equipment and intangible assets	(65 010)	(2 406)	-	(67 416)
Trading securities	197	(197)	-	-
Other assets	13 434	24 750	-	38 184
Other liabilities	113 499	(32 658)	-	80 841
Unrecognised deferred tax assets	(14 213)	13 728	-	(485)
Tax loss carry-forwards	90 232	(89 747)	-	485
Net deferred tax assets (liabilities)	27 876	(95 734)	212	(67 644)
Deferred tax assets which cannot be offset	58 333	(105 973)	212	-
Deferred tax liabilities	(30 456)	10 239	-	(67 644)

Tax effect relating to components of other comprehensive income comprises:

	2012			2011		
	Amount before tax	Tax expense	Amount net of tax	Amount before tax	Tax expense	Amount net of tax
Net change in fair value of available-for-sale securities	29 761	(4 329)	25 432	4 047	(639)	3 408
Net change in fair value of available-for-sale securities transferred to profit or loss	418	(70)	348	(5 109)	851	(4 258)
Other comprehensive income	30 179	(4 399)	25 780	(1 062)	212	(850)

(Thousands of Russian Roubles)

13. Other impairment and provisions

Movements in the other impairment allowances and provisions for the year ended 31 December are as follows:

	<i>Intangible assets</i>	<i>Other assets</i>	<i>Credit related commitments</i>	<i>Provisions for other claims</i>	<i>Total</i>
1 January 2011	–	–	10 275	–	10 275
Net charge (recovery)	26 716	31 321	(490)	15 000	72 547
Amounts written off	(26 716)	(10 699)	–	–	(37 415)
31 December 2011	–	20 622	9 785	15 000	45 407
Net charge	–	111 801	25 993	51 141	188 935
Amounts written off	–	(64 953)	–	(17 521)	(82 474)
31 December 2012	–	67 470	35 778	48 620	151 868

Impairment allowances for assets are deducted from the carrying amounts of the related assets. Provisions for claims, guarantees and commitments are recorded in other liabilities.

14. Other assets and liabilities

Other assets as at 31 December comprise:

	2012	2011
Reposessed collateral	182 898	125 472
Settlements on currency conversion operations	178 903	193 394
Leasehold improvements	173 889	266 998
Prepayments	169 366	133 662
Settlements with suppliers and customers	105 801	92 721
Deferred expenses	7 831	35 602
Claims on guarantees	538	20 598
Other	76 054	56 601
	895 280	925 048
Less: Impairment allowance	(67 470)	(20 622)
Other assets	827 810	904 426

Other liabilities as at 31 December comprise:

	2012	2011
Trade creditors	178 172	159 819
Settlements with suppliers and customers	139 110	166 360
Settlements with employees	87 641	122 431
Provision for other claims	48 620	15 000
Provision for losses on credit related commitments	35 778	9 785
Other	26 139	40 939
Other liabilities	515 460	514 334

15. Amounts due to credit institutions

Amounts due to credit institutions as at 31 December comprise:

	2012	2011
Time deposits and loans	26 472 894	36 705 630
Current accounts	326 336	1 141 319
Amounts due to credit institutions	26 799 230	37 846 949

As at 31 December 2012 the Bank has two banks (2011: three banks), whose balances individually exceed 10% of equity. The gross value of these balances as at 31 December 2012 is RUB 22 580 537 thousand (2011: RUB 37 225 384 thousand).

(Thousands of Russian Roubles)

Amounts due to credit institutions include loans from related parties. The gross value of these balances as at 31 December 2012 is RUB 19 788 988 thousand (2011: RUB 33 085 120 thousand). They bear fixed annual interest rates varying from 7.06% to 7.98% for RUB (2011: from 3.75% to 9.26%) and 2.82% for USD (2011: from 1.70% to 2.82%). Floating interest rates are based on 1-month MOSPRIME plus 3.95%, 1-month LIBOR plus 1.49%, 3 month-LIBOR plus 0.80%-2.00% (2011: 3-month MOSPRIME plus 0.77%-2.26%, 3-month LIBOR plus 0.51%-2.10% and 1-month LIBOR plus 1.49%).

16. Amounts due to customers

The amounts due to customers as at 31 December include the following:

	2012	2011
Legal entities	13 774 979	14 841 668
- current accounts	11 740 736	10 303 674
- term deposits	2 034 243	4 537 994
Individuals	5 163 586	4 788 094
- current accounts	1 511 976	1 252 711
- term deposits	3 651 610	3 535 383
State and non-profit organisations	88 636	122 235
- current accounts	83 836	111 805
- term deposits	4 800	10 430
Amounts due to customers	19 027 201	19 751 997

State and non-profit organisations exclude government-owned profit oriented organisations.

As at 31 December 2012, the Bank has one customer (2011: one customer), whose balances exceed 10% of equity. The gross value of these balances as at 31 December 2012 is RUB 1 519 853 thousand (2011: RUB 1 457 564 thousand).

As at 31 December 2012, included in term deposits are deposits of individuals of RUB 3 651 610 thousand (2011: RUB 3 535 383 thousand). In accordance with the Russian Civil Code, the Bank is obliged to repay such deposits upon demand of a depositor. In case a term deposit is repaid upon demand of the depositor prior to maturity, interest on it is paid based on the interest rate for demand deposits, unless a different interest rate is specified in the agreement.

17. Debt securities issued

In April 2012, the Bank completed the issue of non-convertible documentary bonds totalling RUB 5 000 000 thousand, maturing in April 2015 with a current annual coupon rate of 9% and payable semi-annually.

In October 2012, the Bank completed the issue of non-convertible documentary bonds totalling RUB 3 000 000 thousand, maturing in October 2015 with a current annual coupon rate of 9.75% and payable semi-annually.

18. Other borrowed funds

Other borrowed funds are represented by long-term loans from Intesa Sanpaolo Holding International SA with the aim to finance the lending operations of the Bank.

As at 31 December 2012 and 2011 these long-term loans mature in 2013– 2015. Loans bear fixed annual interest rates varying from 2.8% to 3.6% for USD and from 7.5% to 7.6% for RUB, or floating annual interest rates based on 3 or 6-month LIBOR plus 0.4%-2.0%.

19. Subordinated debt

As at 31 December 2012 and 2011, subordinated debt is represented by loans from ISP and Intesa Sanpaolo Holding International SA. These subordinated loans are denominated in US dollars and mature in January 2014 and December 2015 (2011: between August 2012 and December 2015). As at 31 December 2012 the annual interest rates on these subordinated loans are based on 3-month LIBOR plus 1.6%-3.5% and 6-month LIBOR plus 2.4% (2011: from 3-month LIBOR plus 1.6%-3.5% and 6-month LIBOR plus 2.4%-4.0%).

The claims of the Bank's creditors on subordinated debt shall only be satisfied after all claims of other creditors of the Bank are satisfied in full.

(Thousands of Russian Roubles)

20. Equity

There were no movements in share capital for the years ended 31 December 2012 and 2011.

As at 31 December 2012 and 2011 the share capital of BANCA INTESA (CLOSED JOINT-STOCK COMPANY) is represented by 876 128 ordinary shares with a nominal value of RUB 12 350 per share.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at annual and general meetings of the Bank.

Other capital reserve

As at 31 December 2012 and 2011 other capital reserve of RUB 1 803 914 thousand (or 41 400 000 Euro) is represented by funds provided in June 2009 to the Bank by its shareholder Intesa Sanpaolo Holding International SA in the form of debt free financing. These funds are not repayable to the Bank's shareholder.

Revaluation reserve for available-for-sale securities

Revaluation reserve for available-for-sale securities records fair value changes on available-for-sale securities.

Retained earnings

In accordance with RAL, the Bank distributes profit as dividends or transfers it to retained earnings on the basis of accounting reports prepared in accordance with RAL. The Bank's retained earnings under RAL as at 31 December 2012 are RUB 1 736 206 thousand (2011: RUB 997 918 thousand).

During 2012, the Bank declared and paid dividends in respect of the year ended 31 December 2011 in the amount of RUB 188 per one share totalling RUB 164 878 thousand (2011: nil).

21. Commitments and contingencies

Legal

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

Taxation

Major part of the Bank's business activity is carried out in the Russian Federation. Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Bank may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and application of this legislation and assessments and as a result, it is possible that transactions and activities of the Bank that have not been challenged in the past may be challenged at any time in the future. As such, significant additional taxes, penalties and interest may be assessed by the relevant authorities. Fiscal periods remain open and subject to review by the tax authorities for a period of three calendar years preceding the year in which the decision to conduct a tax review is taken. Under certain circumstances tax reviews may cover longer periods.

New transfer pricing legislation enacted in the Russian Federation starting from 1 January 2012 provides for major modifications making local transfer pricing rules closer to OECD guidelines, but creating additional uncertainty in practical application of tax legislation in certain circumstances.

Since there is no practice of applying the new transfer pricing rules by the tax authorities and courts, it is difficult to predict the effect of the new transfer pricing rules on these consolidated financial statements.

As at 31 December 2012 management believes that its interpretation of the relevant legislation is appropriate and that the Bank's tax, currency and customs positions will be sustained. The tax review held in 2011 for 2009 period resulted in the correction of the tax base for that period by RUB 207 303 thousand. This resulted in additional amount of income tax to be paid by the Bank for that period.

(Thousands of Russian Roubles)

Commitments

As at 31 December the Bank's commitments and contingencies comprise the following:

	2012	2011
Credit related commitments		
Guarantees issued	6 097 898	6 366 236
Undrawn overdraft loan commitments	1 063 037	1 040 970
Undrawn credit line commitments	1 157 631	1 858 312
Letters of credit	407 697	319 468
Commitments to issue loans	68 722	84 214
	8 794 985	9 669 200
Operating lease commitments		
Not later than 1 year	549 666	561 543
Later than 1 year but not later than 5 years	972 137	850 625
Later than 5 years	119 126	119 278
	1 640 929	1 531 446
Capital expenditure commitments – property and equipment	4 612	14 546
Capital expenditure commitments – intangible assets	6 286	3 000
	10 898	17 546
Other commitments and contingencies	18 247	16 489
Less: Impairment allowance	(35 778)	(9 785)
Commitments and contingencies	10 429 281	11 224 896

The primary purpose of credit related commitments is to ensure that funds are available to a customer as required. Guarantees and 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.

Insurance

The Bank's premises and other property are insured for the total amount of RUB 6 464 641 thousand as at 31 December 2012 (2011: RUB 6 230 743 thousand).

The Bank has not currently obtained insurance coverage related to liabilities arising from errors or omissions. This type of liability insurance is generally not available in Russia at present.

22. Net fee and commission income

Net fee and commission income for the year ended 31 December comprises:

	2012	2011
Fee and commission income		
Settlement transactions	312 548	298 450
Cash collection transactions	199 534	190 508
Accounts remote administration	108 832	104 220
Guarantees issued and letters of credit	108 422	101 688
Lending transactions	96 183	65 059
Other	49 213	38 882
Fee and commission income	874 732	798 807
Fee and commission expense		
Settlement transactions	77 568	71 044
Guarantees received	36 557	67 526
Cash collection transactions	22 760	19 199
Other	743	1 065
Fee and commission expense	137 628	158 834
Net fee and commission income	737 104	639 973

(Thousands of Russian Roubles)

Included in commission on lending transactions are fees and commissions charged during the life of the loan, for example, commission for amendments to the original terms and conditions of the loan agreement; commission for loan repayment prior to maturity and commission for information letters to the borrower.

23. Net losses from other operating activities

	2012	2011
Depreciation of capital expenditures	(105 157)	(103 134)
Obligatory deposit insurance system contributions	(19 033)	(17 164)
Professional services	(8 587)	(9 885)
Net loss on disposal of property and equipment	(7 888)	(10 839)
Notarial and state duties expenses	(6 362)	(6 178)
Operations of prior years	(3 443)	(14 204)
Net gain on disposal of leased assets	7 793	12 069
Net other operating income	6 557	6 547
Net losses from other operating activities	(136 120)	(142 788)

24. Personnel and other general administrative expenses

Personnel expenses and other general administrative expenses for the year ended 31 December comprise:

	2012	2011
Salaries and bonuses	1 475 502	1 498 424
Social security costs	299 996	273 842
Personnel expenses	1 775 498	1 772 266
Operating lease	624 169	625 186
Legal and consultancy expenses	257 470	263 543
Data processing	207 539	196 324
Communications	94 360	105 015
Office materials	87 737	97 888
Security	55 114	60 580
Operating taxes	46 626	53 552
Repair and maintenance of property and equipment	34 773	33 651
Marketing and advertising	34 395	46 359
Business travel and related expenses	19 339	24 893
Charity	12 302	12 423
Insurance	11 883	12 435
Personnel training	8 788	8 310
Other	32 787	50 106
Other general administrative expenses	1 527 282	1 590 265

25. Risk management

Risk is inherent in the Bank's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is essential to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank is exposed to credit risk, liquidity risk and market risk. Operational, business and other non-financial risks are also inherent in the Bank's activities.

Risk management is the process of identification, measurement and monitoring of risks faced by the Bank, conducted in accordance with its particular organisational and functional structure and established for the appropriate management of the risk appetite expressed by the shareholders.

The independent risk control process does not cover business risks such as changes in the environment, technology and industry. They are monitored through the Bank's strategic planning process.

The Bank has the risk management function to preserve and enhance value for the shareholders by optimizing the overall risk-adjusted return subject to growth constraint and to reduce earnings volatility within the main business areas.

Risk management function is based on the following general principles:

- **Independence** from the business lines
- **Entity wide approach**

(Thousands of Russian Roubles)

- **Coherence** at all aggregation levels through the use of consistent measuring models
- **Timing** in providing the data to support the decision-making and control processes
- **Transparency** in assessment methodologies and criteria used for a better understanding of applied risk measures
- **Segregation of duties** between the Board of Directors, CEO, Divisions and Departments

These are considered fundamental principles of governance rules with reference to the characteristics of internal management and control systems.

Risk management structure

The Board of Directors is ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks.

Board of Directors

The Board of Directors is responsible for the overall risk management process and for approving risk strategies and principles, including setting a framework for limit structure of the Bank.

Executive Committee

The Executive Committee sets general limits on credit risk exposures of the Bank to a single borrower and affiliated entities/related parties, exceeding the Credit Committee's limits, taking into consideration ISP advisory opinion and amounts of impaired loans written off proposed by the Asset Quality Session.

Management Board

The Management Board has the responsibility to define and monitor the overall risk management process within the Bank.

Financial Risks Committee

The Financial Risk Committee is responsible for the protection and allocation of the Bank's equity and assets and liabilities taking into consideration pricing structure and maturity profile as well as the legislation, relevant internal regulations and ISP guidelines. It regularly monitors and evaluates the structure of assets and liabilities, compares expected yields with the actual, evaluates general market conditions and assesses the Bank versus its competitors. It ensures that individual transactions comply with policies, established risk limits and other requirements set out for each of the business lines coherently with ISP.

Credit Committee and Asset Quality Session

The Credit Committee is the superior credit approval authority in the Bank. It takes credit decisions on proposals made by the Credit Risk Management Division and considers their terms of issuance. For credit exposures above certain limit the final approval has to be provided by the Executive Committee taking into consideration an opinion provided by the Credit Department of ISP.

The Asset Quality Session ("AQS") assesses the quality of the credit portfolio and its trends, approves assets' classification, level of impairment allowance, performs an analysis of settlement strategies for impaired loans, and monitors collection process and its results.

Risk Management Group

The Risk Management Group is responsible for implementing and maintaining risk management related procedures to ensure an independent control process.

Treasury Division

The Treasury Division is responsible for managing the Bank's assets and liabilities and their structure. It is also primarily responsible for funding and liquidity risk management.

Internal Audit

Risk management processes are audited annually by the Internal Audit Department. It reviews risk management policies and procedures and reports its findings and recommendations to the Audit Committee.

(Thousands of Russian Roubles)

Risk measurement and reporting systems

Risk monitoring and controlling are primarily performed based on the established limits. These limits reflect the business strategy and market environment as well as the level of the risk that the Bank is willing to accept, with additional emphasis on selected industries. In addition, the Bank monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risks types and activities.

Information compiled from all business units is examined and processed in order to analyse, control and identify risks. This information is reported to the Management Board, Financial Risks Committee and Credit Committee. The report is prepared quarterly and includes aggregate credit exposures, credit metric forecasts, hold limit exceptions, market risk exposures, liquidity ratios and risk profile changes. The Management Board analyses risk reports and where necessary reallocates risk limits to achieve target strategic risk profile.

Risk mitigation

As part of its overall risk management process, the Bank uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, and exposures arising from forecasted transactions.

The Bank actively uses collateral to reduce its credit risks.

Risk concentrations

Concentrations arise when a number of counterparties are engaged in similar business activities or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes of the same economic factors. Concentrations indicate the relative sensitivity of the Bank's performance to changes affecting a particular segment or geographical location.

In order to avoid excessive concentrations of risks, the Bank's policies and procedures include specific guidelines to focus on maintaining diversified portfolios. Identified concentrations of credit risks are controlled and managed accordingly.

Credit risk

Credit Risk is the risk of a financial loss to the Bank if a counterparty of a financial instrument fails to meet its contractual obligations.

The Bank has policies and procedures for the management of credit exposures (both for recognised financial assets and unrecognised credit related commitments), including guidelines to limit portfolio concentration and the establishment of the Credit Committee, which actively monitors credit risk. The credit policy is reviewed and approved by the Management Board.

The credit policy establishes:

- procedures for review and approval of loan credit applications
- methodology for the credit assessment of borrowers (corporate and retail)
- methodology for the credit assessment of counterparties, issuers and insurance companies
- methodology for the evaluation of collateral
- credit documentation requirements
- procedures for the ongoing monitoring of loans and other credit exposures.

Corporate loan applications are originated by the relevant client managers and are then passed on to the Loan Department, which is responsible for the corporate loan portfolio. Analysis reports are based on a structured analysis focusing on the customer's business and financial performance. The loan application and the report are then independently reviewed by the Risk Management Group and a second opinion is given accompanied by verification that credit policy requirements are met. The Credit Committee reviews the loan credit application on the basis of submissions by the Loan Department and the Risk Management Group. Individual transactions are also reviewed by the Legal, Accounting and Tax departments depending on the specific risks and pending final approval of the Credit Committee.

The Bank continuously monitors the performance of individual credit exposures and regularly reassesses the creditworthiness of its customers. The review is based on the customer's most recent financial statements and other information submitted by the borrower, or otherwise obtained by the Bank. Retail loan applications are reviewed by the Retail Lending Department through the use of scoring models and application data verification procedures developed together with the Risk Management Group.

Apart from individual customer analysis, the credit portfolio is assessed by the Risk Management Group with regard to credit concentration and market risks.

(Thousands of Russian Roubles)

The maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets in the consolidated statement of financial position and unrecognised credit related commitment amounts. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

Derivative financial instruments

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the consolidated statement of financial position.

Credit related commitments

The Bank provides financial guarantees and letters of credit to its customers which may require the Bank to make payments on their behalf. Such payments are further collected from customers based on the terms of financial guarantees and letters of credit. They expose the Bank to credit risk and are mitigated by the same credit risk management policies and procedures.

The credit quality of loans to customers and net investments in financial leases is managed using internal classification. The following table shows the information on the credit quality of loans to customers and net investments in financial leases based on this classification as at 31 December.

	2012				2011			
	Gross loans	Impairment allowance	Net loans	Impairment allowance to gross loans, %	Gross loans	Impairment allowance	Net loans	Impairment allowance to gross loans, %
Loans to corporate customers								
Neither past due nor impaired	47 816 411	(369 512)	47 446 159	0.8	56 576 076	(335 669)	56 240 407	0.6
Past due but not impaired:	511 556	(125 871)	385 685	24.6	430 983	(32 728)	398 255	7.6
- past due less than 90 days	444 253	(67 493)	376 760	15.2	430 579	(32 432)	398 147	7.5
- past due more than 90 days but less than 1 year	67 303	(58 378)	8 925	86.7	404	(296)	108	73.3
Impaired loans:	5 671 081	(3 127 283)	2 543 798	55.1	7 739 173	(5 377 764)	2 361 409	69.5
- past due less than 90 days	1 172 775	(314 818)	857 957	26.8	638 280	(40 534)	597 746	6.4
- past due more than 90 days but less than 1 year	720 609	(356 552)	364 057	49.5	1 156 070	(595 392)	560 678	51.5
- past due more than 1 year	3 777 697	(2 455 913)	1 321 784	65.0	5 944 823	(4 741 838)	1 202 985	79.8
Total loans to corporate customers	53 998 048	(3 622 666)	50 376 382	6.7	64 746 232	(5 746 161)	59 000 071	8.9
Loans to retail customers								
Neither past due nor impaired	2 799 152	(9 882)	2 789 270	0.4	3 112 182	(9 167)	3 103 015	0.3
Past due but not impaired:	43 533	(6 889)	36 644	15.8	51 844	(5 615)	46 229	10.8
- past due less than 90 days	42 384	(5 834)	36 550	13.8	51 017	(4 973)	46 044	9.7
- past due more than 90 days but less than 1 year	1 149	(1 055)	94	91.8	827	(642)	185	77.6
Impaired loans:	274 828	(203 358)	71 470	74.0	647 714	(571 091)	76 623	88.2
- past due less than 90 days	30 102	(14 373)	15 729	47.7	11 783	(3 061)	8 722	26.0
- past due more than 90 days but less than 1 year	64 082	(58 633)	5 449	91.5	55 247	(38 910)	16 337	70.4
- past due more than 1 year	180 644	(130 352)	50 292	72.2	580 684	(529 120)	51 564	91.1
Total loans to retail customers	3 117 513	(220 129)	2 897 384	7.1	3 811 740	(585 873)	3 225 867	15.4
Total loans to customers	57 116 561	(3 842 795)	53 273 766	6.7	68 557 972	(6 332 034)	62 225 938	9.2
Net investments in finance leases								
Neither past due nor impaired	1 049 784	(6 909)	1 042 875	0.7	1 465 016	(12 065)	1 452 951	0.8
Past due but not impaired:	64 144	(20 352)	43 792	31.7	74 236	(15 338)	58 898	20.7
- past due less than 90 days	41 469	(4 231)	37 238	10.2	64 359	(7 070)	57 289	11.0
- past due more than 90 days but less than 1 year	22 675	(16 121)	6 554	71.1	9 877	(8 268)	1 609	83.7
Impaired loans:	511 011	(486 554)	24 457	95.2	562 690	(501 287)	61 403	89.1
- past due less than 90 days	13 283	(13 283)	—	100.0	65 662	(24 583)	41 079	37.4
- past due more than 90 days but less than 1 year	90 822	(83 900)	6 922	92.4	162 227	(143 010)	19 217	88.2
- past due more than 1 year	406 906	(389 371)	17 535	95.7	334 801	(333 694)	1 107	99.7
Total net investments in finance leases	1 624 939	(513 815)	1 111 124	31.6	2 101 942	(528 690)	1 573 252	25.2

(Thousands of Russian Roubles)

Key assumptions and judgements for estimating the loan impairment

The Bank estimates loan impairment for impaired loans to corporate customers, net investments in finance leases and retail customers based on an analysis of the future cash flows. In determining the impairment allowance management assumes a delay from 9 to 36 months in obtaining proceeds from the foreclosure of collateral and discounts the estimated fair value of collateral based on the type of asset. For not individually significant impaired loans to corporate and retail customers in the absence of collateral the Bank estimates the loan impairment collectively based on its internal model which takes into account historical loss experience on each type of loan.

The Bank estimates loan impairment for loans to corporate customers, net investments in finance leases and retail customers for which no evidence of impairment has been identified based on its internal model which takes into account historical loss experience on each type of loan.

To determine the amount of the impairment allowance for loans assessed collectively management makes the assumption that loss migration rates are constant and can be estimated based on the historic loss migration pattern for the past 12 months.

Changes in these estimates could effect the loan impairment allowance. For example, to the extent that the net present value of the estimated cash flows differs by plus/minus three percent, the impairment allowance on loans to corporate customers, net investments in finance leases and retail customers as at 31 December 2012 would be RUB 1 511 269 thousand, RUB 33 334 thousand, RUB 86 944 thousand, respectively lower/higher (2011: RUB 1 770 002 thousand, RUB 47 198 thousand and RUB 96 776 thousand).

In determining the impairment allowance for guarantees issued and letters of credit management uses the same procedures as for loans to customers.

Analysis of collateral and other credit enhancements

The Bank accepts property and equipment as collateral for loans to customers, which the Bank is not permitted to sell or re-pledge in the absence of default.

The amount and type of collateral required depends on the credit quality of the counterparty.

Depending on the type of loans the Bank requires the following types of collateral:

- corporate lending: real estate, inventories, trade receivables, machinery and equipment, guarantees and sureties, securities
- retail lending: real estate.

The Bank has procedures for monitoring the fair value of collateral, which include requesting for additional collateral in case the current value of collateral declines.

During the year ended 31 December 2012, the Bank obtained certain assets by taking possession of collateral for loans to customers and net investments in finance leases. As at 31 December 2012, the carrying amount of such assets is RUB 182 898 thousand (2011: RUB 125 472 thousand), which consisted of real estate of RUB 166 415 thousand (2011: RUB 54 252 thousand) and other assets of RUB 16 483 thousand (2011: RUB 71 220 thousand). The Bank's policy is to dispose of these assets as soon as it is practicable.

(Thousands of Russian Roubles)

The following tables provide information on collateral and other credit enhancements securing loans to customers, net of impairment, by types of collateral or other credit enhancement as at 31 December.

2012						
	Real estate	Motor vehicles	Equipment	Guarantees	Total collateralised loans	Total not collateralised loans
Loans to corporate customers						
Neither past due nor impaired	19 900 486	2 025 311	5 322 768	1 623 862	28 872 427	18 574 472
Past due but not impaired	168 814	54 033	62 429	-	285 276	100 409
Impaired loans	1 867 712	194 757	241 468	-	2 303 937	239 861
Total loans to corporate customers	21 937 012	2 274 101	5 626 665	1 623 862	31 461 640	18 914 742
Loans to retail customers						
Neither past due nor impaired	1 208 210	-	-	-	1 208 210	1 581 060
Past due but not impaired	3 978	-	-	-	3 978	32 666
Impaired loans	59 313	-	-	-	59 313	12 157
Total loans to retail customers	1 271 501	-	-	-	1 271 501	1 625 883
Total loans to customers	23 208 513	2 274 101	5 626 665	1 623 862	32 733 141	20 540 625
Net investments in finance lease						
Neither past due nor impaired	32 296	551 845	458 734	-	1 042 875	-
Past due but not impaired	-	34 064	9 257	-	43 321	471
Impaired loans	-	735	2 027	-	2 762	21 695
Total net investments in finance leases	32 296	586 644	470 018	-	1 088 958	22 166
2011						
	Real estate	Motor vehicles	Equipment	Guarantees	Total collateralised loans	Total not collateralised loans
Loans to corporate customers						
Neither past due nor impaired	17 810 039	2 370 716	4 102 112	2 432 477	26 715 344	29 525 063
Past due but not impaired	257 166	29 794	46 035	-	332 995	65 260
Impaired loans	1 866 991	105 406	142 870	-	2 115 267	246 142
Total loans to corporate customers	19 934 196	2 505 916	4 291 017	2 432 477	29 163 606	29 839 465
Loans to retail customers						
Neither past due nor impaired	1 648 250	-	-	-	1 648 250	1 454 765
Past due but not impaired	15 073	-	-	-	15 073	31 156
Impaired loans	69 304	-	-	-	69 304	7 319
Total loans to retail customers	1 732 627	-	-	-	1 732 627	1 493 240
Total loans to customers	21 666 823	2 505 916	4 291 017	2 432 477	30 896 233	31 329 705
Net investments in finance lease						
Neither past due nor impaired	-	818 285	634 666	-	1 452 951	-
Past due but not impaired	-	41 763	12 876	-	54 639	4 259
Impaired loans	-	1 220	44 421	-	45 641	15 762
Total net investments in finance leases	-	861 268	691 963	-	1 553 231	20 021

(Thousands of Russian Roubles)

The tables above are presented on the basis of fair value of collateral as described below excluding over collateralisation.

The recoverability of loans which are not impaired or past due is primarily dependent on the creditworthiness of the borrowers rather than the value of collateral, and the Bank does not necessarily update the valuation of collateral performed at the loan inception date as at each reporting date.

For impaired, past due and other certain loans the fair value of collateral is updated as at the reporting date.

For loans secured by multiple types of collateral, collateral that is most relevant for the impairment assessment is disclosed. Guarantees and sureties received from individuals, such as shareholders of SME borrowers, are not considered for impairment assessment purposes. Accordingly, such loans and unsecured portions of partially secured exposures are presented as loans without collateral or other credit enhancement.

Mortgage loans to individuals are secured by the underlying housing real estate. The Bank's policy is to issue mortgage loans with a loan-to-value ratio of a maximum of 80%.

For certain mortgage loans the Bank updates the appraised values of collateral obtained at inception of the loan to the current values considering the approximate changes in property values. The Bank may also obtain a specific individual valuation of collateral at each reporting date where there are indications of impairment. For the remaining mortgage loans the fair value of collateral was estimated at inception of the loans and was not adjusted for subsequent changes to the reporting date.

Geographical concentration

The geographical concentration of assets and liabilities as at 31 December 2012 is as follows:

	<i>Russia</i>	<i>OECD</i>	<i>CIS and other countries</i>	<i>Total</i>
Assets				
Cash and cash equivalents	3 132 192	3 754 928	–	6 887 120
Mandatory cash balances with the CBR	374 992	–	–	374 992
Amounts due from credit institutions	3 733 674	7 667 098	–	11 400 772
Available-for-sale securities	3 028 170	–	–	3 028 170
Derivative financial assets	16 142	78 034	–	94 176
Loans to customers	53 002 727	12 193	258 846	53 273 766
Net investments in finance leases	1 111 124	–	–	1 111 124
Property and equipment	494 764	–	–	494 764
Intangible assets	1 095 396	–	–	1 095 396
Current income tax assets	2 245	–	–	2 245
Deferred income tax assets	43 846	–	–	43 846
Tax assets other than income tax	36 629	–	–	36 629
Other assets	507 041	320 736	33	827 810
Total assets	66 578 942	11 832 989	258 879	78 670 810
Liabilities				
Amounts due to credit institutions	6 690 591	20 102 507	6 132	26 799 230
Derivative financial liabilities	1 577	449	–	2 026
Amounts due to customers	16 857 323	2 021 538	148 340	19 027 201
Debt securities issued	8 132 583	–	–	8 132 583
Other borrowed funds	–	8 698 962	–	8 698 962
Current income tax liabilities	61 911	–	–	61 911
Tax liabilities other than income tax	19 421	–	–	19 421
Other liabilities	440 635	74 825	–	515 460
Subordinated debt	–	548 344	–	548 344
Total liabilities	32 204 041	31 446 625	154 472	63 805 138
Net position	34 374 901	(19 613 636)	104 407	14 865 672
Credit related commitments	8 393 866	401 119	–	8 794 985

(Thousands of Russian Roubles)

Assets, liabilities and credit related commitments are allocated based on the country in which the counterparty performs its business activities. Cash on hand and property and equipment are allocated based on the country in which they are physically held. The Bank's operations include transactions with counterparties that operate in OECD countries, primarily Italy, Luxemburg, Germany, United States and United Kingdom.

The geographical concentration of assets and liabilities as at 31 December 2011 is as follows:

	<i>Russia</i>	<i>OECD</i>	<i>CIS and other countries</i>	<i>Total</i>
Net position	54 388 837	(41 940 157)	1 361 738	13 810 418
Credit related commitments	9 213 829	4 626	450 745	9 669 200

Liquidity risk

Liquidity risk is the risk of a potential loss arising in the case the Bank is unable to meet its financial obligations as they fall due.

Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to liquidity management. It is unusual for financial institutions 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 Bank maintains liquidity management with the objective to ensure that funds will be available at all times to honor all cash flow obligations as they become due. The liquidity policy is reviewed and approved by the Board of Directors.

The Bank seeks to actively support a diversified and stable funding base comprising debt securities in issue, long-term and short-term loans from other banks, core corporate and retail customer deposits, accompanied by diversified portfolios of highly liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The Treasury Division receives liquidity reports from the Market Risk Department on a daily basis. In addition, the Treasury Division prepares its own managerial reports and calculations. Based on them the Treasury Division monitors Bank's Liquidity position within the defined limits in order to meet the CBR and ISP liquidity ratio requirements and payment obligations resulting from deposit withdrawals and financial commitments of the Bank.

The daily liquidity position is monitored and regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions is performed by the Treasury Division. Under the normal market conditions, liquidity reports covering the liquidity position are presented to senior management on a monthly basis. Decisions on liquidity management are made by the Financial Risk Committee and implemented by the Treasury Division.

The liquidity position is also assessed and managed by the Bank, based on certain liquidity ratios calculated on a daily basis in accordance on the requirements of the CBR.

As at 31 December, these ratios are as follows:

	<i>Requirement</i>	<i>2012, %</i>	<i>2011, %</i>
Instant Liquidity Ratio (N2)	Not less than 15%	75.7	51.3
Current Liquidity Ratio (N3)	Not less than 50%	91.4	85.6
Long-Term Liquidity Ratio (N4)	Not more than 120%	67.5	102.4

The table below shows the structure of assets and liabilities as at 31 December 2012 in accordance with their contractual maturity with the exception of available-for-sale securities that are shown in the category "Less than 1 month" because of their high liquidity.

(Thousands of Russian Roubles)

Included in overdue loans to customers are wholly overdue loans and partially overdue loans but only in the amount of overdue payments.

	<i>On demand</i>	<i>Less than 1 month</i>	<i>From 1 to 3 months</i>	<i>From 3 months to 1 year</i>	<i>From 1 to 5 years</i>	<i>Over 5 years</i>	<i>Overdue or no stated maturity</i>	<i>Total</i>
Assets								
Cash and cash equivalents	6 887 120	-	-	-	-	-	-	6 887 120
Mandatory cash balances with the CBR	265 238	32 982	11 776	52 593	11 378	1 025	-	374 992
Amounts due from credit institutions	-	8 327 773	-	3 072 999	-	-	-	11 400 772
Available-for-sale securities	-	3 023 760	-	-	-	-	4 410	3 028 170
Derivative financial assets	-	89 513	4 663	-	-	-	-	94 176
Loans to customers	-	2 300 524	6 164 044	20 580 427	20 796 605	1 374 841	2 057 325	53 273 766
Net investments in finance leases	-	59 658	162 635	547 414	273 169	-	68 248	1 111 124
Property and equipment	-	-	-	-	-	-	494 764	494 764
Intangible assets	-	-	-	-	-	-	1 095 396	1 095 396
Current income tax assets	-	2 245	-	-	-	-	-	2 245
Deferred income tax assets	-	-	-	-	-	-	43 846	43 846
Tax assets other than income tax	-	26 613	-	10 016	-	-	-	36 629
Other assets	44 788	209 844	105 974	51 204	52 565	-	363 435	827 810
Total assets	7 197 146	14 072 912	6 449 092	24 314 653	21 133 717	1 375 866	4 127 424	78 670 810
Liabilities								
Amounts due to credit institutions	326 336	6 683 905	4 820 505	9 237 996	5 730 488	-	-	26 799 230
Derivative financial liabilities	-	2 026	-	-	-	-	-	2 026
Amounts due to customers	13 458 275	1 673 528	597 500	2 668 580	577 318	52 000	-	19 027 201
<i>incl. amounts due to individuals</i>	<i>1 623 953</i>	<i>341 154</i>	<i>315 214</i>	<i>2 344 709</i>	<i>538 556</i>	-	-	<i>5 163 586</i>
Debt securities issued	-	-	-	-	8 132 583	-	-	8 132 583
Other borrowed funds	-	-	-	2 708 290	5 990 672	-	-	8 698 962
Current income tax liabilities	-	2 713	59 198	-	-	-	-	61 911
Tax liabilities other than income tax	-	10 111	8 056	1 254	-	-	-	19 421
Other liabilities	110 174	-	145 969	158 854	-	-	100 463	515 460
Subordinated debt	-	-	-	-	548 344	-	-	548 344
Total liabilities	13 894 785	8 372 283	5 631 228	14 774 974	20 979 405	52 000	100 463	63 805 138
Net position	(6 697 639)	5 700 629	817 864	9 539 679	154 312	1 323 866	4 026 961	14 865 672
Accumulated gap as at 31 December 2012	(6 697 639)	(997 010)	(179 146)	9 360 533	9 514 845	10 838 711	14 865 672	
Accumulated gap as at 31 December 2011	(9 288 786)	(2 295 355)	(1 792 491)	213 314	3 264 588	5 571 826	13 810 418	

In the Russian marketplace, many short-term credits are granted with the expectation of renewing the loans at maturity. As such, the ultimate maturity of assets may be different from the analysis presented above.

Overdue liabilities, such as term deposits not withdrawn by the customers, are classified within the "On demand" category. Mandatory cash balances with the CBR are allocated between the different maturity categories in accordance with the maturities of the liabilities to which they relate.

Repayments which are subject to notice are treated as if notice is to be given immediately. However, the Bank expects that many customers will not request early repayment.

(Thousands of Russian Roubles)

Management does not consider liquidity gaps as a threat to the Bank, as most part of the maturing liabilities represents funding from ISP or Intesa Sanpaolo Holding International SA. Currently, there are no indicators that they will discontinue funding the Bank and credit lines will be prolonged, if needed.

The maturity profile of financial liabilities and credit related commitments as at 31 December 2012 based on contractual undiscounted repayment obligations is as follows:

	On demand	Less than 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Total	Carrying amount
Financial liabilities								
Amounts due to credit institutions	326 336	6 768 895	5 006 850	9 761 462	6 231 644	—	28 095 187	26 799 230
Amounts due to customers	13 458 275	1 677 006	601 641	2 819 459	662 805	52 000	19 271 186	19 027 201
<i>incl. amounts due to individuals</i>	1 623 955	341 922	317 472	2 487 846	622 176	—	5 393 371	5 163 586
Debt securities issued	—	—	—	752 784	9 276 826	—	10 029 610	8 132 583
Other borrowed funds	—	—	—	2 817 929	6 548 063	—	9 365 992	8 698 962
Other liabilities	210 637	—	145 969	158 854	—	—	515 460	515 460
Subordinated debt	—	1 983	—	17 392	579 010	—	598 385	548 344
Derivative financial instruments								
- inflow	—	(7 175 201)	(198 841)	—	—	—	(7 374 042)	(94 176)
- outflow	—	7 087 714	194 178	—	—	—	7 281 892	2 026
Total financial liabilities	13 995 248	8 360 397	5 749 797	16 327 880	23 298 348	52 000	67 783 670	63 629 630
Credit related commitments	8 794 985	—	—	—	—	—	8 794 985	8 794 985

The maturity profile of financial liabilities and credit related commitments as at 31 December 2011 based on contractual undiscounted repayment obligations is as follows:

	On demand	Less than 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Total	Carrying amount
Financial liabilities								
Amounts due to credit institutions	1 141 319	5 615 313	4 063 715	10 692 573	17 597 936	—	39 110 856	37 846 949
Amounts due to customers	11 744 823	3 058 192	1 038 224	2 964 892	1 192 447	7 721	20 006 299	19 751 997
<i>incl.: amounts due to individuals</i>	1 298 203	381 560	465 678	1 675 778	968 691	—	4 789 910	4 788 094
Other borrowed funds	—	—	—	2 622 364	13 393 731	—	16 016 095	14 793 731
Other liabilities	22 291	—	129 725	344 711	17 607	—	514 334	514 334
Subordinated debt	—	—	—	117 782	657 023	—	774 805	695 671
Derivative financial instruments								
- inflow	—	(4 834 792)	(2 308 963)	—	—	—	(7 143 755)	(33 489)
- outflow	—	4 878 825	2 302 094	—	—	—	7 180 919	70 653
Total financial liabilities	12 908 433	8 717 538	5 224 795	16 742 322	32 858 744	7 721	76 459 553	73 639 846
Credit related commitments	9 669 200	—	—	—	—	—	9 669 200	9 669 200

The total gross inflow and outflow disclosed in the tables above is the contractual, undiscounted cash flow on the financial liability or commitment.

In accordance with the Russian Civil Code, the Bank is obliged to repay time deposits to individuals upon demand of a depositor. In the tables above these deposits are classified in accordance with their stated maturity and are disclosed by each time band.

(Thousands of Russian Roubles)

Market risk

Market risk is the risk that the fair value of assets or future cash flows of financial instruments will diminish due to changes in the interest rates, currency rates and equity prices. Market risk includes currency risk, interest rate risk and other price risks.

Market risks arises from open positions in interest rate, currency and equity financial instruments, which are exposed to general and specific market movements.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters whilst optimizing the return of risk.

Overall authority for market risk is vested in the Financial Risk Committee. Market risk limits are approved by the Board of Directors based on recommendations of the Risk Management Group and the Financial Risk Committee.

The Bank manages its market risk by setting open position limits in relation to financial instruments, interest rate maturity and currency positions and stop-loss limits. These are monitored on a regular basis and reviewed and approved by the Board of Directors.

The Bank classifies exposures to market risk into either trading or non-trading positions. For risk management purposes the Bank calculates risk indicators on the available-for-sale portfolio the same as for the trading portfolio. The market risk for the trading portfolio is managed and monitored based on Value at Risk ("VaR") methodology, which reflects the interdependency between risk variables. Non-trading positions are managed and monitored using other sensitivity analysis.

Market risk – Trading positions

The Bank applies a VaR methodology to assess the market risk positions held and to estimate the potential economic loss based upon a number of parameters and assumptions for various changes in market conditions. VaR is a technique that estimates the potential losses that could occur on risk positions as a result of movements in market rates and prices over a specified time horizon and to a given level of confidence. The VaR model used by the Bank is based upon a 99 percent confidence level and assumes a 1-day holding period.

For the purposes of interest rate risk calculations for fixed income securities the information on interest rates volatility and correlation is received from ISP on a daily basis.

Although VaR is a valuable tool in measuring risk exposures, it has a number of limitations:

- the use of historical data as a basis for determining future events may not encompass all possible scenarios, particularly those that are of an extreme nature
- a 1-day holding period assumes that all positions can be liquidated or hedged within that period. This is considered to be a realistic assumption in almost all cases but may not be the case in situations in which there is severe market illiquidity for a prolonged period
- the use of a 99% confidence level does not take into account losses that may occur beyond this level. There is a one percent probability that the loss could exceed the VaR estimate
- VaR is only calculated on the end-of-day balances and does not necessarily reflect exposures that may arise on positions during the trading day
- the VaR measure is dependent upon the position and the volatility of market prices. The VaR of an unchanged position reduces if market volatility declines and vice versa.

To determine the reliability of the VaR model, actual outcomes are monitored regularly to test the validity of the assumptions and the parameters used in the VaR model. Market risk positions are also subject to regular stress tests to ensure that the Bank would withstand an extreme market event.

VaR limits have been established for available-for-sale portfolio, and exposure is calculated and monitored daily against the limits set by the Board of Directors. As at 31 December 2012 VaR for available-for-sale portfolio is RUB 2 382 thousand (2011: RUB 3 976 thousand).

Market risk – Non-Trading positions

Interest rate risk

Interest rate risk is the risk of a potential loss due to adverse changes in the market interest rates affecting the assets, liabilities and unrecognised positions sensitive to such changes.

(Thousands of Russian Roubles)

Interest rate risk includes the following:

- **Repricing Risk** - the risk linked to the time differences in maturities (for fixed rate positions) and in the repricing dates (for floating rate positions)
- **Yield Curve Risk** - the risk linked to changes in the slope and shape of the yield curve
- **Basis Risk** - the risk linked to the mismatch in the rates to be received and paid on different instruments, with similar repricing characteristics. When interest rates change, these differences can give rise to unexpected changes in the cash flows and interest margins for assets, liabilities and unrecognised positions with similar maturities or repricing frequencies.

The Bank uses the following methods to measure interest rate risk:

Sensitivity of the Fair Value measures the changes in the fair value of assets, liabilities and unrecognised positions resulting from a parallel rise in the discount curves by 100 b.p. To calculate the fair value, the discount curves which are suitable for measuring individual financial instruments are applied. The total value of this sensitivity is broken down by time bucket (**bucket analysis**) to identify the distribution of risk over the time axis.

An analysis of sensitivity of the fair value as at 31 December is as follows:

Currency	2012	2011
RUB	(209 905)	(123 395)
USD	8 962	22 071
EUR	1 428	(3 943)
Total	(199 515)	(105 267)

A parallel fall in the discount curves by 100 b.p. would have had the equal but opposite effect on the fair value of assets, liabilities and unrecognised positions.

Sensitivity of the Interest Margin measures a one-year impact on the interest margin resulting from a parallel rise of the interest rate curves by 50 b.p. This measure highlights the effect of changes in interest rates on the portfolio being divided into current and term products excluding assumptions on future changes in the structure of assets and liabilities. Therefore, it cannot be considered as a predictor of the future levels of the interest margin.

An analysis of sensitivity of the interest margin as at 31 December is as follows.

Currency	2012	2011
RUB	(18 820)	(58 650)
USD	23 856	20 420
EUR	(14 817)	(1 266)
Total	(9 781)	(39 496)

A parallel fall in the discount curves by 50 b.p. would have had the equal but opposite effect on the fair value of assets, liabilities and unrecognised positions.

The Bank is exposed to interest rate risk, principally as a result of lending at fixed interest rates, in amounts and for periods, which differ from those of term borrowings at floating interest rates. In practice, interest rates are generally fixed on a short-term horizon. To reduce the interest rate risk the Bank includes in its loan contracts a clause providing for a change in the interest rate in the event of a significant change in the market interest rates. Additionally, interest rates for long-term loans in foreign currencies are linked to LIBOR and EURIBOR.

The Board of Directors sets limits on the potential loss from interest rate risk that may be undertaken. These limits are monitored weekly.

(Thousands of Russian Roubles)

Currency risks

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. The Board of Directors sets limits on the level of exposure for each currency for both overnight and intra-day positions, which are monitored daily. The following table shows the foreign currency exposure structure of financial assets and liabilities as at 31 December 2012:

	<i>RUB</i>	<i>USD</i>	<i>Euro</i>	<i>Other currencies</i>	<i>Total</i>
Assets					
Cash and cash equivalents	2 950 520	1 093 863	2 837 643	5 094	6 887 120
Mandatory cash balances with the CBR	374 992	—	—	—	374 992
Amounts due from credit institutions	915 818	10 484 954	—	—	11 400 772
Available-for-sale securities	3 028 170	—	—	—	3 028 170
Derivative financial assets	94 176	—	—	—	94 176
Loans to customers	43 278 898	8 625 164	1 369 704	—	53 273 766
Net investments in finance leases	1 094 308	6 612	10 204	—	1 111 124
Property and equipment	494 764	—	—	—	494 764
Intangible assets	1 095 396	—	—	—	1 095 396
Current income tax assets	2 245	—	—	—	2 245
Deferred income tax assets	43 846	—	—	—	43 846
Tax assets other than income tax	36 629	—	—	—	36 629
Other assets	646 717	166 390	14 703	—	827 810
Total assets	54 056 479	20 376 983	4 232 254	5 094	78 670 810
Liabilities					
Amounts due to credit institutions	17 256 824	9 542 406	—	—	26 799 230
Derivative financial liabilities	2 026	—	—	—	2 026
Amounts due to customers	12 857 669	1 949 094	4 215 521	4 917	19 027 201
Debt securities issued	8 132 583	—	—	—	8 132 583
Other borrowed funds	3 820 401	4 878 561	—	—	8 698 962
Current income tax liabilities	61 911	—	—	—	61 911
Tax liabilities other than income tax	19 421	—	—	—	19 421
Other liabilities	398 118	33 594	81 037	2 711	515 460
Subordinated debt	—	548 344	—	—	548 344
Total liabilities	42 548 953	16 951 999	4 296 558	7 628	63 805 138
Net recognised position	11 507 526	3 424 984	(64 304)	(2 534)	14 865 672
Net unrecognised position	4 155 027	(4 155 027)	—	—	—
Credit related commitments	4 447 165	2 174 227	2 173 593	—	8 794 985

The exposure to currency risk as at 31 December 2011 is as follows:

	<i>RUB</i>	<i>USD</i>	<i>Euro</i>	<i>Other currencies</i>	<i>Total</i>
Net recognised position	10 229 378	2 862 798	718 042	200	13 810 418
Net unrecognised position	4 639 490	(3 870 653)	(768 837)	—	—
Credit related commitments	5 564 222	2 298 250	1 806 728	—	9 669 200

(Thousands of Russian Roubles)

The net unrecognised position represents the notional currency position on deliverable forward and spot foreign exchange contracts outstanding as at 31 December 2012 and 2011. As the borrowings in foreign currencies from international financial institutions represent a significant part of the Bank's liabilities, it is the Bank's policy to effectively hedge against risks associated with its net currency position. Such activities do not qualify as hedging relationships in accordance with IFRS.

The Bank has significant part of loans to customers denominated in foreign currencies. Depending on the revenue sources of the borrower, the appreciation of the currencies against the RUB may adversely affect the borrowers' repayment ability and therefore increases the likelihood of future loan losses.

The following table indicates the currencies to which the Bank had significant exposure at 31 December 2012 and 2011 on its non-trading positions and foreign currency derivatives. The analysis calculates the effect of a reasonably possible movement of the currency rates against the RUB, with all other variables held constant on the profit or loss and equity before income tax expense.

Currency	2012	2011
10% appreciation of USD against RUB	(73 004)	(100 785)
10% appreciation of EUR against RUB	(6 430)	(5 080)
Total	(79 434)	(105 865)

Operational risk

Operational risk is the risk of direct or indirect losses arising from failures in internal processes, human errors, IT systems and technical failures or external events. This definition includes legal risk but does not include strategic and reputation risks.

Operational risks are managed by using ISP operational risk guidelines and methodologies developed in accordance with Basel II recommendations.

The operational risk management procedures within the Bank are aimed at the prevention, monitoring and mitigation of operational risk as well as at minimisation (where possible) of frequency and/or severity of operational risk events.

These procedures are performed on two levels:

- through the heads of organisational and business units who are responsible for management of operational risks within the areas of their responsibility – decentralised operational risk management function
- through the operational risk unit which is responsible for development of methodologies, detection, analysis and monitoring of operational risk, verification of business processes, procedures and generation of optional solutions to prevent and mitigate operational risk.

26. Fair values of financial instruments

Fair values of financial instruments as of 31 December 2012 and 2011 approximate their carrying values.

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements.

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or having a short-term maturity it is assumed that the carrying amounts approximate their fair values. This assumption is also applied to demand deposits, savings accounts without a specific maturity and variable rate financial instruments.

Fixed rate financial instruments

The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates offered for similar financial instruments. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money market interest rates for debts with similar credit risk and maturity. For quoted debt issued the fair values are calculated based on quoted market prices. For those notes issued where quoted market prices are not available, a discounted cash flow model is used based on a current interest rate yield curve appropriate for the remaining term to maturity.

(Thousands of Russian Roubles)

Financial instruments recorded at fair value

The Bank uses the following fair value hierarchy for measuring fair values of financial instruments:

- Level 1: quoted market prices (unadjusted) in an active market for an identical instrument
- Level 2: valuation techniques for which all significant inputs are observable, either directly or indirectly
- Level 3: valuation techniques which use significant unobservable inputs.

The table below analyses financial instruments recorded at fair value as at 31 December 2012, by the level in the fair value hierarchy:

	Level 1	Level 2	Total
Financial assets			
Derivative financial assets	–	94 176	94 176
Available-for-sale securities	3 023 760	–	3 023 760
	3 023 760	94 176	3 117 936
Financial liabilities			
Derivative financial liabilities	–	2 026	2 026
	–	2 026	2 026

The table below analyses financial instruments recorded at fair value as at 31 December 2011 by the level in the fair value hierarchy:

	Level 1	Level 2	Total
Financial assets			
Derivative financial assets	–	33 489	33 489
Available-for-sale securities	3 366 292	–	3 366 292
	3 366 292	33 489	3 399 781
Financial liabilities			
Derivative financial liabilities	–	70 653	70 653
	–	70 653	70 653

27. Related party transactions

In accordance with IAS 24 *Related Party Disclosures*, parties are considered to be related if one party directly, or indirectly through one or more intermediaries controls, is controlled by, or is under common control with, the entity; has an interest in the entity that gives it significant influence over the entity; the party is an associate of the entity; the party is a member of the key management personnel of the entity or its parent.

Banking transactions are entered into in the normal course of business with the Bank's shareholders and key management personnel. These transactions include loans, deposits and other transactions. These transactions are performed at market prices.

Since 2005 the Bank is a member of Intesa Sanpaolo Group. Intesa Sanpaolo Group members are entities comprising a banking group which has a leading position on the Italian market and a strong international presence, mainly in Central-Eastern Europe and the Mediterranean region.

Intesa Sanpaolo Holding International SA (Luxembourg) is an entity with significant influence over the Bank as at 31 December 2012 and 2011 owning 39.7670% of shares.

Intesa Sanpaolo S.p.A. (Italy) is the ultimate controlling party of the Bank as at 31 December 2012 and 2011.

(Thousands of Russian Roubles)

The outstanding balances with the related parties as at 31 December are as follows:

	2012				2011			
	Ultimate controlling party	Entities with significant influence over the Bank	Intesa Sanpaolo Group members	Key management personnel	Ultimate controlling party	Entities with significant influence over the Bank	Intesa Sanpaolo Group members	Key management personnel
Cash and cash equivalents								
Current accounts and overnight placements with other credit institutions	2 331 630	—	22 388	—	172 753	—	32 322	—
Amounts due from credit institutions								
Time deposits	6 622 264	—	1 044 834	—	7 689 488	—	354 157	—
Loans to customers								
Loans to customers as at 1 January, gross	—	—	—	8 165	—	—	—	11 467
Loans issued during the year	—	—	—	—	—	—	—	350
Loans repaid during the year	—	—	—	(3 393)	—	—	—	(3 641)
Other movements	—	—	—	(9)	—	—	—	(10)
Loans to customers as at 31 December, gross	—	—	—	4 763	—	—	—	8 166
Less: loan impairment allowance as at 31 December	—	—	—	(9)	—	—	—	(1)
Loans to customers as at 31 December, net	—	—	—	4 754	—	—	—	8 165
Amounts due to credit institutions								
Current accounts	219 570	—	100 080	—	1 125 518	—	14 495	—
Time deposits and loans	304 410	—	19 484 579	—	1 322 871	—	31 762 249	—
Other borrowed funds								
Other borrowed funds as at 1 January	—	14 793 731	—	—	—	14 206 988	—	—
Other borrowed funds received during the year	—	—	—	—	—	5 070 000	—	—
Other borrowed funds repaid during the year	—	(5 570 686)	—	—	—	(5 070 000)	—	—
Other movements	—	(524 083)	—	—	—	586 743	—	—
Other borrowed funds as at 31 December	—	8 698 962	—	—	—	14 793 731	—	—
Subordinated debt								
Subordinated debt as at 1 January	178 560	402 497	—	—	168 775	380 961	—	—
Other movements	(9 875)	(22 838)	—	—	9 784	21 536	—	—
Subordinated debt as at 31 December	168 685	379 659	—	—	178 560	402 497	—	—
Derivative financial instruments								
Notional amount of foreign exchange contracts	5 699 551	—	—	—	4 000 000	—	—	—
Derivative financial assets	78 034	—	—	—	—	—	—	—
Derivative financial liabilities	(449)	—	—	—	(36 144)	—	—	—
Guarantees received by the Bank on loans to customers	1 659 073	—	—	—	3 158 128	—	—	—

(Thousands of Russian Roubles)

The related profit or loss amounts of transactions with the related parties for the year ended 31 December are as follows:

	2012				2011			
	Ultimate controlling party	Entities with significant influence over the Bank	Intesa Sanpaolo Group companies	Key management personnel	Ultimate controlling party	Entities with significant influence over the Bank	Intesa Sanpaolo Group companies	Key management personnel
Interest income								
Amounts due from credit institutions	47 013	–	2 351	–	8 975	–	61	–
Loans to customers	–	–	–	676	–	–	–	977
Impairment of loans	–	–	–	(8)	–	–	–	(1)
Interest expense								
Amounts due to credit institutions	(10 488)	–	(1 354 638)	–	(14 447)	–	(1 587 695)	–
Other borrowed funds	–	(506 685)	–	–	–	(589 439)	–	–
Subordinated debt	(4 280)	(15 633)	–	–	(3 532)	(14 165)	–	–
Net gains (losses) from foreign currencies	307 448	–	–	–	(41 552)	–	–	–
Fee and commission expense	(8 014)	–	(255)	–	(7 219)	–	(219)	–
Other general administrative expenses	–	–	(155 087)	–	–	–	(127 755)	–

Total remuneration of the Management Board members included in the personnel expenses for the year ended 31 December 2012 is RUB 24 497 thousand, including social contributions of RUB 1 760 thousand (2011: RUB 34 866 thousand, including social contributions of RUB 557 thousand).

Total remuneration of the Board of Directors for the year ended 31 December 2012 is RUB 10 534 thousand (2011: RUB 10 349 thousand).

As at 31 December 2012 included in guarantees received is the amount of RUB 1 880 976 thousand (2011: RUB 1 969 276 thousand), which is provided by an Intesa Sanpaolo Group company as counter-guarantees to the guarantees provided by the Bank. The Bank counter-guaranteed RUB 32 814 thousand in relation to guarantees issued by another Intesa Sanpaolo Group company as at 31 December 2012 (2011: RUB 45 881 thousand).

28. Capital adequacy

The primary objectives of the Bank's capital management are the following:

- full compliance with the capital requirements imposed by the CBR and Russian legislation
- maintaining the Bank's ability to continue as a going concern in order to maximise shareholder value and provide economic benefits to other parties
- ensuring that the amount of capital is sufficient for business expansion and development.

The Bank monitors its capital adequacy using, among other measures, the ratios established by the Basel Capital Accord 1988, with subsequent amendments ("Basel Capital Accord"), and the ratios established by the CBR.

The Bank has complied with all externally imposed capital requirements during the years ended 31 December 2012 and 2011.

The Bank manages its capital structure and makes adjustments to reflect changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payments to the shareholders, return on capital to the shareholders or issue equity securities. No changes were

(Thousands of Russian Roubles)

made in the objectives, policies and processes from the previous year.

Capital adequacy under Russian Legislation

The CBR requires banks to maintain a minimum capital adequacy ratio of 10% with respect to risk-weighted assets as computed in accordance with Russian Accounting Standards. As at 31 December 2012 and 2011, the Bank's CBR-defined capital adequacy ratio exceeds the required statutory minimum and is as follows:

	2012	2011
Core capital	11 762 044	11 395 908
Additional capital	859 986	711 288
Total regulatory capital	12 622 030	12 107 196
Risk-weighted assets	77 656 980	81 718 845
Capital adequacy ratio	16.3%	14.8%

Capital adequacy ratio under the Basel Capital Accord (unaudited)

The Bank's capital adequacy ratio as computed in accordance with the Basel Capital Accord as at 31 December is as follows:

	2012	2011
Share capital	10 820 181	10 820 181
Retained earnings	4 030 765	3 001 291
Retained earnings	14 726	(11 054)
Tier 1 capital	14 865 672	13 810 418
Subordinated debt (unamortised portion)	253 612	396 012
Less shares of credit institutions	(4 410)	(4 410)
Total capital	15 114 874	14 202 020
Banking book	63 301 926	71 099 979
Trading book	2 359 477	2 476 975
Risk-weighted assets	65 661 403	73 576 954
Tier 1 capital ratio	22.6%	18.8%
Total capital ratio	23.0%	19.3%

The risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the nature and reflecting an estimate of credit, market and other risks associated with each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for unrecognised contractual commitments, with some adjustments to reflect the more contingent nature of the potential losses.