Financial report

Contents

Independent auditors' report **2**
Consolidated Statement of Financial Position 4
Consolidated Income Statement 5
Consolidated Statement of Comprehensive Income 6
Consolidated Statement of Changes in Equity 7
Consolidated Statement of Cash Flows 8

Notes to consolidated financial statements **10**

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Independent auditor's report

To the Shareholders and Supervisory Board of Sberbank

We have audited the accompanying consolidated financial statements of Sberbank and its subsidiaries, whitch comprise the consolidated statement of financial position as at 31 December 2012, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statements of cash flows for the year 2012, and a summary of significant accounting policies and other explanatory information.

Audited entity's responsibility for the consolidated financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on the fairness of these consolidated financial statements based on our audit.

We conducted our audit in accordance with the Federal Standards on Auditing effective in the Russian Federation and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing audit procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The audit 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 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 of the audited entity, as well as evaluating the overall presentation of the consolidated financial statements.

ERNST & YOUNG

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

Opinion

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

S.M. Taskaev,
Partner
Ernst & Young Vneshaudit CJSC
27 March 2013

Details of the audited entity

Name: Sberbank of Russia
Information about state registration of the credit institution by the Bank of Russia: #1481, dated 20 June 1991.
Information about the State Register of Legal Entities Concerning a Legal Entity: certificate of state registration #1027700132195 dated 16 August 2002.
Address: 19 Vavilova St., 117997 Moscow, Russia.

Details of the auditor

Name: Ernst & Young Vneshaudit CJSC.
Main State Registration Number 1027739199333.
Address: Russia 115035, Moscow, Sadovnicheskaya naberezhnaya, 77, building 1.
Ernst & Young Vneshaudit CJSC is a member of Non Profit partnership «Russian Audit Chamber» («NP APR»). Ernst & Young Vneshaudit CJSC is registered in the register of auditors and audit organizations of NP APR, number 3027, and also included in the control copy of the register of auditors and audit organizations, main registration number 10301017410.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

In billions of Russian Roubles	Note	31 December 2012	31 December 2011
ASSETS			
Cash and cash equivalents	7	1,290.8	625.6
Mandatory cash balances with central banks		211.2	101.2
Trading securities	8	90.4	102.0
Securities designated at fair value through profit or loss	9	19.2	52.0
Due from banks		114.8	35.1
Loans and advances to customers	10	10,499.3	7,719.7
Securities pledged under repurchase agreements	11	949.7	300.8
Investment securities available for sale	12	804.5	884.5
Investment securities held to maturity	13	105.9	286.5
Deferred income tax asset	28	7.5	7.8
Premises and equipment	14	436.0	359.9
Other financial assets	15	227.6	163.1
Other non financial assets	15	340.5	196.9
TOTAL ASSETS		**15,097.4**	**10,835.1**
LIABILITIES			
Due to banks	16	1,452.4	532.4
Due to individuals	17	6,983.2	5,726.3
Due to corporate customers	17	3,196.1	2,205.8
Debt securities in issue	18	691.7	268.7
Other borrowed funds	19	469.2	244.0
Deferred income tax liability	28	33.2	21.2
Other financial liabilities	20	199.7	222.8
Other non-financial liabilities	20	63.4	42.4
Subordinated debt	21	384.7	303.5
TOTAL LIABILITIES		**13,473.6**	**9,567.1**
EQUITY			
Share capital	22	87.7	87.7
Treasury shares	22	(7.6)	(7.0)
Share premium		232.6	232.6
Revaluation reserve for office premises		79.0	81.5
Fair value reserve for investment securities available for sale		37.3	(7.5)
Foreign currency translation reserve		(4.7)	(5.7)
Retained earnings		1,186.7	882.9
Total equity attributable to shareholders of the Bank		**1,611.0**	**1,264.5**
Non-controlling interest		12.8	3.5
TOTAL EQUITY		**1,623.8**	**1,268.0**
TOTAL LIABILITIES AND EQUITY		**15,097.4**	**10,835.1**

Approved for issue and signed on behalf of the Management Board on 27 March 2013.

Herman Gref, Chairman of the Management Board and CEO

Andrey Kruzhalov, Chief Accountant

CONSOLIDATED INCOME STATEMENT

In billions of Russian Roubles	Note	Year ended 31 December	
		2012	2011
Interest income	23	1,157.3	850.6
Interest expense	23	(428.6)	(269.5)
Deposit insurance expenses	23	(23.9)	(20.1)
Net interest income		**704.8**	**561.0**
(Net provision charge) / net recovery of provision for loan impairment	10	(21.5)	1.2
Net interest income after provision charge / recovery of provision for loan impairment		**683.3**	**562.2**
Fee and commission income	24	189.2	151.9
Fee and commission expense	24	(18.9)	(11.2)
Net gains/(losses) arising from trading securities		3.2	(1.4)
Net losses arising from securities designated at fair value through profit or loss		(0.7)	(2.8)
Net gains arising from investment securities available for sale		7.5	12.1
Impairment of investment securities available for sale	12	(5.0)	(1.1)
Net gains arising from trading in foreign currencies. operations with foreign currency derivatives and foreign exchange translation	25	19.6	9.5
Net gains arising from operations with precious metals and precious metals derivatives		5.8	5.1
Net gains arising from operations with other derivatives		4.2	5.0
Net losses from revaluation of office premises	14	—	(11.3)
Goodwill impairment	15	(1.7)	(1.2)
Net provision charge for impairment of other assets	15	(4.1)	(1.9)
Revenue of non-core business activities	26	51.2	66.1
Cost of sales of non-core business activities	26	(38.2)	(54.6)
Other operating income		3.9	11.1
Operating income		**899.3**	**737.5**
Operating expenses	27	(451.4)	(341.8)
Profit before tax		**447.9**	**395.7**
Income tax expense	28	(100.0)	(79.8)
Profit for the reporting period		**347.9**	**315.9**
Attributable to:			
– shareholders of the Bank		348.8	316.2
– non-controlling interest		(0.9)	(0.3)
Earnings per ordinary share for profit attributable to the shareholders of the Bank, basic and diluted (expressed in RUB per share)	**29**	**16.03**	**14.59**

Approved for issue and signed on behalf of the Management Board on 27 March 2013.

Herman Gref, Chairman of the Management Board and CEO

Andrey Kruzhalov, Chief Accountant

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

In billions of Russian Roubles	Note	2012	2011
Profit for the year recognised in the income statement		**347.9**	**315.9**
Components of other comprehensive income:			
Office premises remeasurement:			
– Gains from revaluation of office premises	14	—	36.9
Investment securities available for sale:			
– Net gains/(losses) on revaluation of investment securities available for sale		58.2	(28.8)
– Impairment of investment securities available for sale transferred to Income statement	12	5.0	1.1
– Accumulated gains transferred to Income statement upon disposal of securities		(7.5)	(12.1)
Net foreign currency translation gains/(losses)		0.9	(4.6)
Deferred income tax relating to components of other comprehensive income:			
– Office premises remeasurement	28	—	(7.3)
– Investment securities available for sale	28	(10.9)	7.9
Total components of other comprehensive income for the year, net of tax		**45.7**	**(6.9)**
Total comprehensive income for the year		**393.6**	**309.0**
Attributable to:			
– shareholders of the Bank		394.6	309.4
– non-controlling interest		(1.0)	(0.4)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

In billions of Russian Roubles	Note	Attributable to shareholders of the Bank								Non-controlling interest	Total equity
		Share capital	Treasury shares	Share premium	Revaluation reserve for office premises	Fair value reserve for investment securities available for sale	Foreign currency translation reserve	Retained earnings	Total		
BALANCE AS AT 31 DECEMBER 2010		**87.7**	**—**	**232.6**	**53.6**	**24.4**	**(1.1)**	**585.8**	**983.0**	**4.1**	**987.1**
Changes in equity for the year ended 31 December 2011											
Dividends declared	30	—	—	—	—	—	—	(21.0)	(21.0)	—	(21.0)
Amortisation of revaluation reserve for office premises		—	—	—	(1.8)	—	—	1.8	—	—	—
Business combinations		—	(7.0)	—	—	—	—	—	(7.0)	0.3	(6.7)
Disposals of subsidiaries		—	—	—	—	—	—	—	—	(0.1)	(0.1)
Acquisition of non-controlling interests in subsidiaries		—	—	—	—	—	—	0.1	0.1	(0.1)	—
Recalculation of non-controlling interest due to final price purchase allocation of the subsidiary		—	—	—	—	—	—	—	—	(0.3)	(0.3)
Total comprehensive income for the year ended 31 December 2011		—	—	—	29.7	(31.9)	(4.6)	316.2	309.4	(0.4)	309.0
BALANCE AS AT 31 DECEMBER 2011		**87.7**	**(7.0)**	**232.6**	**81.5**	**(7.5)**	**(5.7)**	**882.9**	**1 264.5**	**3.5**	**1,268.0**
Changes in equity for the year ended 31 December 2012											
Purchase of treasury shares		—	(0.6)	—	—	—	—	—	(0.6)	—	(0.6)
Dividends declared	30	—	—	—	—	—	—	(47.5)	(47.5)	—	(47.5)
Amortisation of revaluation reserve for office premises		—	—	—	(2.5)	—	—	2.5	—	—	—
Business combinations		—	—	—	—	—	—	—	—	10.2	10.2
Disposals of subsidiaries		—	—	—	—	—	—	—	—	0.4	0.4
Acquisition of non-controlling interests in subsidiaries		—	—	—	—	—	—	—	—	(0.3)	(0.3)
Total comprehensive income for the year ended 31 December 2012		—	—	—	—	44.8	1.0	348.8	394.6	(1.0)	393.6
BALANCE AS AT 31 DECEMBER 2012		**87.7**	**(7.6)**	**232.6**	**79.0**	**37.3**	**(4.7)**	**1,186.7**	**1,611.0**	**12.8**	**1,623.8**

CONSOLIDATED STATEMENT OF CASH FLOWS

In billions of Russian Roubles	Note	2012	2011
Cash flows from operating activities			
Interest received		1,135.7	826.6
Interest paid		(384.5)	(231.7)
Expenses paid directly attributable to deposit insurance		(22.9)	(19.3)
Fees and commissions received		188.3	152.2
Fees and commissions paid		(16.7)	(10.7)
Net gains received from trading securities		5.9	0.4
Net (losses incurred) / gains received from securities designated at fair value through profit or loss		(1.7)	0.2
Net gains received from trading in foreign currencies and from operations with foreign currency derivatives		16.6	2.1
Net (losses incurred) / gains received from operations with other derivatives		(0.7)	1.5
Net gains received from operations with precious metals and precious metals derivatives		5.0	7.0
Revenue of non-core business activities		48.7	66.8
Cost of sales of non-core business activities		(34.4)	(50.0)
Other operating income received		8.5	7.9
Operating expenses paid		(370.7)	(303.1)
Income tax paid		(100.1)	(71.9)
Cash flows from operating activities before changes in operating assets and liabilities		**477.0**	**378.0**
Changes in operating assets and liabilities			
Net increase in mandatory cash balances with central banks		(36.2)	(49.6)
Net decrease in trading securities		6.8	14.2
Net decrease in securities designated at fair value through profit or loss		31.1	41.5
Net increase in due from banks		(62.3)	(26.6)
Net increase in loans and advances to customers		(2,003.3)	(2,163.3)
Net increase in other assets		(69.8)	(39.9)
Net increase in due to banks		820.9	384.5
Net increase in due to individuals		867.8	869.8
Net increase in due to corporate customers		664.3	337.8
Net increase / (decrease) in debt securities in issue		257.3	(19.1)
Net (decrease) / increase in other liabilities		(34.6)	28.4
Net cash from / (used in) operating activities		**919.0**	**(244.3)**
Cash flows from investing activities			
Purchase of investment securities available for sale		(474.9)	(852.6)
Proceeds from disposal and redemption of investment securities available for sale		232.2	1 122.8
Purchase of investment securities held to maturity		(8.0)	(98.7)
Proceeds from redemption of investment securities held to maturity		61.1	40.0

In billions of Russian Roubles	Note	2012	2011
Acquisition of premises and equipment		(144.4)	(109.4)
Acquisition of investment property		(0.1)	—
Proceeds from disposal of investment property		—	(0.2)
Proceeds from disposal of premises and equipment including insurance payments		4.5	10.9
Acquisition of subsidiaries net of cash acquired		(93.2)	27.3
Proceeds from disposal of subsidiaries net of cash disposed		8.6	0.7
Dividends received		5.1	3.5
Net cash (used in) / from investing activities		**(409.1)**	**144.3**
Cash flows from financing activities			
Other borrowed funds received		141.9	154.4
Redemption of other borrowed funds		(98.8)	(98.2)
Repayment of interest on other borrowed funds		(5.4)	(2.4)
Subordinated debt received		66.0	—
Redemption of subordinated debt		(0.2)	—
Repayment of interest on subordinated debt		(19.8)	(19.5)
Funds received from loan participation notes issued under the MTN programme		144.3	27.9
Redemption of loan participation notes issued under the MTN programme		(8.1)	(22.9)
Repayment of interest on loan participation notes issued under the MTN programme		(11.8)	(8.9)
Purchase of treasury shares		(0.6)	—
Dividends paid	30	(47.3)	(20.9)
Net cash from financing activities		**160.2**	**9.5**
Effect of exchange rate changes on cash and cash equivalents		(4.2)	5.4
Effect of inflation on cash and cash equivalents		(0.7)	(8.9)
Net increase/(decrease) in cash and cash equivalents		**665.2**	**(94.0)**
Cash and cash equivalents at the beginning of the year		625.6	719.6
Cash and cash equivalents as at the end of the reporting period	**7**	**1,290.8**	**625.6**

1. INTRODUCTION

These consolidated financial statements of Sberbank of Russia (Sberbank, "the Bank") and its subsidiaries (together referred to as "the Group" or "Sberbank Group") have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2012. Principal subsidiaries include foreign commercial banks and other Russian and foreign companies controlled by the Group. A list of principal subsidiaries included in these consolidated financial statements is disclosed in Note 39.

The Bank is an open joint-stock commercial bank established in 1841 and operating in various forms since then. The Bank was incorporated and is domiciled in the Russian Federation. The Bank's principal shareholder, the Central Bank of the Russian Federation ("Bank of Russia"), owns 52.3% of ordinary shares or 50.0% plus 1 voting share of the issued and outstanding shares as at 31 December 2012 (31 December 2011: 60.3% of ordinary shares or 57.6% of the issued and outstanding shares). The decrease by 7.6% was due to the sale of shares and global depository receipts by the Bank of Russia to institutional investors in September 2012.

As at 31 December 2012 the Supervisory Board of the Bank is headed by the Chairman of the Bank of Russia. Two First Deputy Chairmen of the Bank of Russia are Deputy Chairmen of the Supervisory Board. The Supervisory Board also includes independent directors.

The Bank operates under a full banking license issued by the Bank of Russia since 1991. In addition, the Bank holds licenses required for trading and holding securities and engaging in other securities-related activities, including acting as a broker, a dealer, a custodian, and provision of asset management services. The Bank is regulated and supervised by the Bank of Russia and by the Federal Service for Financial Markets. The Group's foreign banks operate under the banking regulatory regimes of their respective countries.

The Group's principal business activity is corporate and retail banking. This includes, but is not limited to, deposit taking and commercial lending in freely convertible currencies, local currencies of countries where the subsidiary banks operate and in Russian roubles, support of clients' export/import transactions, foreign exchange, securities trading, and trading in derivative financial instruments. The Group's operations are conducted in both Russian and international markets. As at 31 December 2012 the Group conducts its business in Russia through Sberbank with its network of 17 (31 December 2011: 17) regional head offices, 193 (31 December 2011: 505) branches and 18,377 (31 December 2011: 18,727) sub-branches, and through principal subsidiaries located in Russia such as CJSC Sberbank Leasing, LLC Sberbank Capital, companies of Troika Dialog Group Ltd. and BNP Paribas Vostok LLC. The Group carries out banking operations in Turkey, Ukraine, Belarus, Kazakhstan, Austria, Switzerland and other countries of Central and Eastern Europe and also conducts operations through a branch office in India, representative offices in Germany and China and companies of Troika Dialog Group Ltd. located in the United States of America, the United Kingdom, Cyprus and certain other jurisdictions.

The actual headcount of the Group's employees as at 31 December 2012 was 286,019 (31 December 2011: 266,187).

Registered address and place of business. The Bank's registered address is: Vavilova Str., 19, Moscow, Russian Federation.

Presentation currency. These consolidated financial statements are presented in billions of Russian Roubles ("billions RUB") unless otherwise stated.

2. OPERATING ENVIRONMENT OF THE GROUP

Mostly the Group conducts its business in the Russian Federation, Turkey, CIS region (Ukraine, Belarus, Kazakhstan), Austria, Switzerland and other countries of Central and Eastern Europe.

The Russian Federation. The most part of the Group operations are conducted in the Russian Federation. Russian economy saw a significant slow-down in 2012 with the quarterly growth rates decelerating from 4.9% in 1Q12 to 2.2% in 4Q12. Such dynamic was driven by a combination of both internal and external factors, with the turbulent global markets and declining domestic investment activity being among the key drivers.

Of the key GDP components, consumption was the only one significantly contributing to the growth, while all other factors made a very limited contribution to GDP growth. In such an environment Russian banking system saw a decline in demand for corporate loans with the annual growth figure falling from 26% in 2011 to 12.7% in 2012. Among other factors that contributed to slower lending growth was a rapid development of the local bond market and the favorable conditions in external debt capital markets, which both allowed major Russian corporate borrowers to source significant amounts of debt financing outside of the traditional loan market.

At the same time, the strong consumption patterns in the Russian economy revealed themselves in a continuing rapid expansion of the retail lending market, with the aggregate volume of loans to individuals increasing 39,4% year-on-year in 2012. Towards the second half of the year Russian regulators started paying an increased attention to the retail lending market developments, announcing the plans to introduce regulations aimed at more carefully managing the risks, associated with such market expansion.

On the funding side, Russian banking system saw a slow-down in deposit inflows in 2012. Both the Central Bank of Russian Federation (CBR) and Ministry of Finance maintained their liquidity supporting activities in 2012, covering banks' need in the periods of heightened liquidity deficit. Throughout 2012 CBR repos remained the key source of liquidity for Russian banks, which has become a new norm given the shift towards floating exchange rate and inflation targeting policy. Given the importance of liquidity creation mechanisms under floating exchange rate regime, the CBR has announced some plans to further expand refinancing system in 2013.

Turkey. Significant part of the Group's operations were conducted in Turkey following the acquisition of DenizBank in September 2012. The macro-prudential measures mainly applied by the Central Bank of Turkey in 2012 yielded the intended results, decreasing Turkey's twin imbalances: internal (inflation) and more importantly external (current account deficit). Inflation and Current Account Deficit to GDP ratio were down to 6.2% and 6.1% in 2012, respectively, from 10.4% and 9.9% a year ago. As a result of this policy success and the achievement of soft landing in 2012, Fitch increased Turkey's sovereign rating to investment grade. Due to the macro-prudential measures taken, the economic growth has eased to 3% in 2012 from 8.5% a year ago. At the same time the authorities have enough ammunition to stimulate the economic activity through fiscal and monetary policies when needed.

Other jurisdictions. In addition to Russia and Turkey the Group conducts operations in CIS (Ukraine, Belarus, Kazakhstan), CEU countries (Austria, Czech Republic, Slovakia, Bosnia and Herzogovina, Slovenia, Serbia, Hungary, Croatia), Switzerland and some other countries. Tough economic and liquidity situation in many jurisdictions led to decrease or insignificant growth of GDP followed by shrinking in consumption as well as in investment activities. The primary targets of the local regulators were support of monetary stability, management of GDP deficit and inflation level regulation. In 2012 economy of the Republic Belarus remained hyperinflatory.

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

Basis of Preparation. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, as modified by the revaluation of office premises, investment property, available for sale financial assets and financial instruments at fair value through profit or loss.

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

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

Business combinations are accounted for using the acquisition method. For each business combination, the acquirer measures the non-controlling interest in the acquiree that are present ownership interests either at fair value or at the proportionate share of the acquiree's identifiable net assets and other components of non-controlling interests at their acquisition date fair value.

Non-controlling interest is the interest in subsidiaries not held by the Group. Acquisition costs incurred are expensed. Non-controlling interest is presented within equity.

Goodwill is initially measured at cost being the excess of the aggregate of consideration transferred, any non-controlling interest in the acquiree and the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If the aggregate of consideration transferred, any non-controlling interest in the acquiree and the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree is lower than the fair value of the net assets of the subsidiary acquired, the difference ("gain from bargain purchase") is recognised in profit or loss. After initial recognition, goodwill is measured at cost less any accumulated impairment.

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

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

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition and includes transaction costs. Measurement at cost is only applicable to investments in equity instruments that do not have a quoted market price and whose fair value cannot be reliably measured, derivatives that are linked to and must be settled by delivery of such unquoted equity instruments and fixed assets except for office premises.

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

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair value is the current bid price for financial assets, current ask price for financial liabilities and the average of current bid and ask prices when the Group is both in short and long position for the financial instrument. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange or other institution and those prices represent actual and regularly occurring market transactions on an arm's length basis.

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

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

The effective interest method is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. Premiums and discounts on variable interest instruments are amortised to the next interest repricing date except for premiums and discounts which reflect the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument.

The present value calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (refer to income and expense recognition policy).

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

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

Cash and cash equivalents. Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Cash and cash equivalents include interbank deposits and reverse sale and repurchase agreements with original maturity up to 30 days. Amounts, which relate to funds that are of a restricted nature, are excluded from cash and cash equivalents.

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

Precious metals. Physical precious metals and deposits in precious metals are recorded at the lower of cost and net realiz able value on the reporting date.

Plastic cards settlements. Plastic cards settlements are accounted for on the accruals basis and are carried at amortised cost. Plastic cards settlements are recorded when the legal right to receive the payment or legal obligation to execute payment arise under the agreement.

Trading securities. Trading securities are securities, which are either acquired for generating a profit from short-term fluctuations in price or trader's margin, or are securities on initial recognition included in a portfolio in which a pattern of short-term trading exists. The Group classifies securities into trading securities if it has an intention to sell them within a short period after purchase, i.e. within six months.

Trading securities are carried at fair value. Interest earned on trading securities calculated using the effective interest rate method is accounted for in the consolidated income statement as interest income. Dividends are included in dividend income within other operating income when the Group's right to receive the dividend payment is established. Translation differences are included in Net gains arising from trading in foreign currencies, operations with foreign currency derivatives and foreign exchange translation. All other elements of the changes in the fair value and gains or losses on derecognition are recorded in the consolidated income statement as net gains/ (losses) arising from trading securities in the period in which they arise.

Securities designated at fair value through profit or loss. Securities designated at fair value through profit or loss are securities designated irrevocably, at initial recognition, into this category. Management designates securities into this category only if a group of financial assets is managed and its performance is evaluated on a fair value basis and information on that basis is regularly provided to and reviewed by the Group's key management personnel. Recognition and measurement of this category of financial assets is consistent with the above policy for trading securities.

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

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

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

A loan is considered past due when the borrower fails to make any payment due under the loan at the reporting date. In this case a past due amount is recognized as the aggregate amount of all amounts due from borrower under the respective loan agreement including accrued interest and commissions. As defined by the Group for the purposes of internal credit risk assessment, loans fall into the "non-performing" category when a principal and/or interest payment becomes more than 90 days overdue.

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

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

Write-off of assets at amortised cost. Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined.

Impairment of loans and advances to legal entities. Estimating loan portfolio impairment provision for corporate loans involves the following steps:

- identification of loans that are individually significant and contain signs of impairment, i.e. those loans, that, if fully impaired, would have a material impact on the Group's expected average level of operating income;
- determination of whether an individually significant loan shows objective evidence of impairment. This requires estimating the expected timing and amount of cash flows from interest and principal payments and other cash flows, including amounts recoverable from guarantees and collateral, and discounting them at the loan's original effective interest rate. The loan is considered impaired if its carrying amount materially exceeds its estimated recoverable amount. A separate impairment loss is recorded on an individually significant impaired loan;

- all remaining loans and individually significant loans without objective evidence of impairment are assessed on a portfolio basis.

The Group applies the portfolio provisioning methodology prescribed by IAS 39, *Financial Instruments: Recognition and Measurement*, and creates portfolio provisions for impairment losses that were incurred but have not been specifically identified with any individual loan by the reporting date. Total impairment provisions may exceed the gross amount of individually impaired loans as a result of this methodology.

For the purposes of credit risk measurement and analysis the Group internally classifies loans depending on their quality. The quality of a corporate loan is monitored regularly on the basis of a comprehensive analysis of the borrower's financial position and includes analysis of liquidity, profitability and sufficiency of own funds. The capital structure, organisational structure, credit history and business reputation of the borrower are also taken into consideration. The Group takes into account the customer's position in the industry and the region, production equipment and level of the technology used as well as the general efficiency of management. Upon analysis corporate borrowers are assigned internal ratings and classes. For the purpose of collective assessment of not past due loans and advances the Group analyses loans of each class in terms of its historical loss and recovery rate separately for renegotiated and non-renegotiated loans. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods and to remove the effects of past conditions that do not exist currently. For the purpose of collective assessment of past due loans and advances Group analyses ageing of past due debts.

Impairment of loans and advances to individuals. For the purpose of credit quality analysis, loans to individuals are grouped by type of credit product into homogeneous sub-portfolios with similar risk characteristics. The Group analyses each portfolio by the ageing of past due debts.

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

Investment securities available for sale are carried at fair value. Interest income on available for sale debt securities is calculated using the effective interest method and recognised in profit or loss. Dividends on available-for-sale equity instruments are recognised in profit or loss in other operating income when the Group's right to receive payment is established and inflow of economic benefits is probable. Exchange differences arising on debt investment securities available for sale are recognised in profit or loss in the period in which they arise. All other elements of changes in the fair value are recognised in other comprehensive income until the investment is derecognised or impaired, at which time the cumulative gain or loss is reclassified to profit or loss.

Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of investment securities available for sale. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss — is reclassified from other comprehensive income and recognised in profit or loss. Recognised impairment losses on equity instruments are not reversed through profit or loss in a subsequent period. As for debt instrument classified as available for sale, if, in a subsequent period, the fair value of such instrument increases and the increase can be objectively related to an event, occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through current period's profit or loss. The unrealised gains/(losses) on revaluation of investment securities available for sale other than impairment losses are presented in other comprehensive income as Net gains/(losses) on revaluation of investment securities available for sale.

If the Group has both the intention and ability to hold investment securities available for sale to maturity, they may be reclassified as investment securities held to maturity. In this case the fair value of securities as at the date of reclassification becomes their new amortised cost. For instruments with a fixed maturity the revaluation reserve as at the date of reclassification is amortised to profit or loss during the period until maturity using the effective interest rate method.

Sale and repurchase agreements. Sale and repurchase agreements ("repo agreements") are treated as secured financing transactions. Securities sold under sale and repurchase agreements are not derecognised. The securities are not reclassified in the statement of financial position unless the transferee has the right by contract or custom to sell or repledge the securities, in which case they are reclassified as securities pledged under repurchase agreements. The corresponding liability is presented within amounts due to banks or due to corporate customers.

Loans granted under reverse repo agreements are recorded as cash and cash equivalents, due from banks or loans and advances to customers, in accordance with the nature of the counterparty and the term of the deal.

The difference between the sale and repurchase price is treated as interest income/expense and accrued over the life of repo agreements using the effective interest rate method.

Securities lent to counterparties are retained in the consolidated financial statements in their original statement of financial position category unless the counterparty has the right by contract or custom to sell or repledge the securities, in which case they are reclassified and presented separately. Securities borrowed are not recorded in the consolidated financial statements, unless these are sold to third parties, in which case the sale proceeds are recorded as a liability held for trading representing the obligation to repurchase and return the securities. The liability is carried at fair value with effects of remeasurement presented as net gains/(losses) arising from trading securities in the consolidated income statement.

Investment securities held to maturity. This classification includes quoted non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has both the intention and ability to hold to maturity. Management determines the classification of investment securities held to maturity at their initial recognition or upon reclassification from available for sale category when the Group changes its expectations and has the ability to hold investment securities which were previously classified as available for sale to maturity. The investment securities held to maturity are carried at amortised cost.

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

Renegotiated financial assets. From time to time in the normal course of business the Group performs restructuring of financial assets, mostly of loans.

Accounting treatment of renegotiations which do not lead to derecognition of financial assets. If terms of an agreement are not materially modified, restructuring of financial instruments leads to reassessment of effective interest rate based on current carrying amount and modified future cash flows.

Accounting treatment of renegotiations which lead to derecognition of financial assets. Material modifications of agreement terms lead to derecognition of a financial asset and a recognition of a new asset at fair value. The following principal modifications in terms are considered to be material:

- Change of currency in which cash flows are denominated;
- Consolidation or separation of several financial instruments;
- Present value of the cash flows under the new terms discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial asset.

In all cases if the restructuring of financial assets is due to financial difficulties of a borrower, financial assets are assessed for impairment before recognition of a renegotiation.

Goodwill. Goodwill represents the excess of the aggregate of consideration transferred, any non-controlling interest in the acquiree and the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. Goodwill on acquisitions of subsidiaries is included in other assets or separately disclosed on the face of the statement of financial position if material. Goodwill on acquisitions of associates is included as part of investment in associates. Goodwill is carried at cost less accumulated impairment losses, if any. The Group tests goodwill for impairment at least annually and whenever there are indications that goodwill may be impaired. Goodwill is allocated to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the business combination. Such units or group of units represent the lowest level at which the Group monitors goodwill and are not larger than a segment before aggregation. Gains or losses on disposal of an operation within a cash generating unit to which goodwill has been allocated include the carrying amount of goodwill associated with the operation disposed of, generally measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit which is retained.

Premises and equipment. Equipment and premises other than office premises are stated at cost less accumulated depreciation. Office premises of the Group are held at revalued amount subject to revaluation to market value on a regular basis. The revaluation gains are recognised in other comprehensive income. The frequency of revaluation depends upon the movements in the fair values of the premises being revalued. The revaluation reserve for office premises included in equity is transferred directly to retained earnings on a straight-line basis as the asset is used by the Group. On the retirement or disposal of the asset the remaining revaluation reserve is immediately transferred to the retained earnings.

Construction in progress is carried at cost, less provision for impairment where required. Upon completion, assets are transferred to office premises, other premises or equipment at their carrying amount. Construction in progress is not depreciated until the asset is available for use.

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

If impaired premises are written down to the higher of their value in use and fair value less costs to sell. The decrease in carrying amount is charged to profit or loss to the extent it exceeds the previous revaluation surplus in other comprehensive income.

Positive revaluation shall be recognised in profit or loss to the extent that it reverses a negative revaluation of the same asset previously recognised in profit or loss. The amount that exceeds negative revaluation previously charged to profit or loss shall be recognised in other comprehensive income.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss.

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

- Office premises 2.5-3.3%;
- Other premises 2.5%;
- Office and computer equipment 25%; and
- Vehicles and other equipment 18%.

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

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

Investment property is stated at fair value which reflects current market value and represents potential price between knowledgeable, willing parties in an arm's length transaction. Revaluation of investment property is held on each reporting date and recognised in consolidated income statement as gains/losses on investment property revaluation. Earned rental income is recorded in consolidated income statement within other operating income.

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

If an investment property becomes occupied by the Group, it is reclassified to premises and equipment, and its carrying value at the date of reclassification becomes its deemed cost to be subsequently revalued and depreciated.

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

Finance leases. A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Where the Group is a lessor lease receivables are recognised at 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. The net investment in finance lease is recorded within loans and advances to customers.

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

Due to individuals and corporate customers. Amounts due to individuals and corporate customers are non-derivative liabilities to individuals and corporate customers (including state agencies) and are carried at amortised cost.

Debt securities in issue. Debt securities in issue include promissory notes, certificates of deposit, savings certificates and other debt securities issued by the Group. Debt securities in issue except structured notes which are described below are stated at amortised cost. If the Group repurchases its debt securities in issue, they are removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in other operating income.

Structured notes. Structured notes are issued by the Group and are stated at fair value. The underlying assets of structured notes are securities issued by Russian companies which cannot be purchased by the Group's foreign clients directly from the market. Recognition and measurement of these financial liabilities is consistent with the policy for trading securities stated above in this Note. Structured notes are included in Debt securities in issue.

Other borrowed funds. Other borrowed funds represent syndicated loans attracted by the Group on financial markets and trade finance deals. Other borrowed funds are carried at amortised cost.

Securities sold, not yet purchased. Securities sold, not yet purchased are transactions in which the Group sells securities which it does not own, and which it is obligated to deliver at a future date. Such transactions are initially recorded at cost as liabilities and then are carried at fair value. Any unrealized gain or loss is recorded in the consolidated income statement in net gains/ (losses) arising from trading securities for the difference between the proceeds receivable from the sale and the value of the open short position. The Group realizes a gain or loss when the short position is closed. Valuation of securities sold, not yet purchased is consistent with the accounting policy of the Group for trading securities.

Subordinated debt. Subordinated debt represents long-term funds attracted by the Group on the international financial markets or domestic market. The holders of subordinated debt would be subordinate to all other creditors to receive repayment on debt in case of the Bank liquidation. Subordinated debt is carried at amortised cost.

Derivative financial instruments. Derivative financial instruments, including forward and future contracts, option contracts on financial instruments and Swap contracts are carried at their fair value. All derivative instruments are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of foreign exchange derivative financial instruments are included in the Consolidated income statement in net gains/ (losses) arising from trading in foreign currencies, operations with foreign currency derivatives and foreign exchange translation; changes in the fair value of derivative financial instruments on precious metals are included in net gains/(losses) arising from operations with precious metals and precious metals derivatives; changes in the fair value of derivatives on securities, interest rates and other derivatives — in net gains/(losses) arising from operations with other derivatives. The Group does not apply "hedge accounting" according to IAS 39.

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

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxes, other than on income, are recorded within operating expenses.

Deferred income tax is recognised for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recognised for temporary differences on initial recognition of goodwill or any other asset or liability if the transaction, when initially recorded, affects neither accounting nor taxable profit.

Deferred tax balances are measured at tax rates enacted or substantively enacted at the reporting date which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group.

Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded in the statement of financial position only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

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

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

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

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

Preference shares. Preference shares are not redeemable. Dividend payments are at the discretion of the Bank. When a dividend is paid, the preference shares attract a minimum payment of annual dividends of 15% of their nominal value, subject to confirmation of the shareholders' meeting. Preference shares are classified as a part of equity.

Treasury shares. Where the Bank or its subsidiaries purchase the Bank's equity instruments, the consideration paid including any attributable incremental external costs net of income taxes is deducted from equity until they are cancelled or disposed of. Where such shares are subsequently disposed or reissued, any consideration received is included in equity.

Dividends. Dividends are recorded in equity in the period in which they are declared. Dividends declared after the reporting date and before the consolidated financial statements are authorised for issue are disclosed in the subsequent events note. Dividends are calculated based on IFRS net profit and distributed out from statutory net results.

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

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

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

Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, which are earned on execution of the underlying transaction are recorded on its completion. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-proportion basis. Trust and custody services fees related to investment funds are recorded proportionally over the period the service is provided.

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

Credit related commitments. The Group enters into credit related commitments, including letters of credit and financial guarantees. Financial guarantees represent irrevocable assurances to make payments in the event that a customer cannot meet its obligations to third parties and carry the same credit risk as loans. Financial guarantees and commitments to provide a loan are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitment, except for commitments to originate loans if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination; such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition.

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

Monetary assets and liabilities are translated into each entity's functional currency at the applicable exchange rate at the respective reporting dates. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into each entity's functional currency are recognised in profit or loss. Effects of exchange rate changes on the fair value of equity instruments are recorded as part of the fair value gain or loss.

The results and financial position of each group entity (except for the subsidiary bank in Belarus the economy of which is considered hyperinflationary) are translated into the presentation currency as follows:

(I) assets and liabilities for each statement of financial position presented are translated at the applicable closing rate at the respective reporting date;

(II) income and expenses for each statement of comprehensive income are translated either at the rates prevailing at the dates of the transactions or at average exchange rates (in case this average is a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates).

The results and financial position of an entity whose functional currency is the currency of a hyperinflationary economy shall be translated into a different presentation currency using the following procedure: all amounts (ie assets, liabilities, equity items, income and expenses, including comparatives) shall be translated at the closing rate at the date of the most recent statement of financial position.

When amounts are translated into the currency of a non-hyperinflationary economy, comparative amounts shall be those that were presented as current year amounts in the relevant prior year financial statements (ie not adjusted for subsequent changes in the price level or subsequent changes in exchange rates).

Exchange differences arising on the translation of results and financial position of each of the Group's consolidated entities are included in other components of comprehensive income and taken to a separate component of equity.

The cumulative balance of currency translation differences presented in equity at 31 December 2012 amounted to a loss of 4.7 billion RUB (31 December 2011: a loss of 5.7 billion RUB).

At 31 December 2012 the principal rates of exchange used for translating each entity's functional currency into the Group's presentation currency and foreign currency monetary balances were as follows:

	/RUR	/UAH	/BYR	/KZT	/EUR	/CHF	/TRY
RUR/	1	0.266	282.985	4.948	0.025	0.030	0.059
USD/	30.373	8.080	8,595.009	150.280	0.755	0.912	1.790
EUR/	40.229	10.702	11,384.078	199.046	1	1.208	2.371

At 31 December 2011 the principal rates of exchange used for translating each entity's functional currency into the Group's presentation currency and foreign currency monetary balances were as follows:

	/RUR	/UAH	/BYR	/KZT	/EUR	/CHF	/TRY
RUR/	1	0.250	259.348	4.611	0.024	0.029	0.059
USD/	32.196	8.038	8,350.001	148.455	0.773	0.940	1.913
EUR/	41.671	10.404	10,807.403	192.146	1	1.217	2.477

Accounting for the effects of hyperinflation. With the effect from 1 January 2011, the Belorusian economy is considered to be hyperinflationary in accordance with the criteria in IAS 29 *Financial Reporting in Hyperinflationary Economies* ("IAS 29"). The standard requires that the financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the reporting date.

In applying IAS 29, the Group has used conversion factors derived from the Belorusian consumer price index ("CPI"), published by the State Committee on Statistics of the Republic of Belarus. The CPIs for the six year period and respective conversion factors after Belarus previously ceased to be considered hyperinflationary on 1 January 2006 were as follows:

Year	Index, %	Conversion factors
2006	106.5	389.9
2007	112.0	348.2
2008	113.5	306.9
2009	109.9	279.4
2010	110.0	253.9
2011	208.7	121.7
2012	121.7	100.0

Monetary assets and liabilities are not restated because they are already expressed in terms of the monetary unit current as of 31 December 2012. Non-monetary assets and liabilities (items which are not already expressed in terms of the monetary unit current as of 31 December 2012) are restated by applying the relevant index. The effect of inflation on the Group's net monetary position is included in profit or loss.

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

Assets under management. The Group has set up mutual investment funds and acts as the manager of their assets. The assets of these funds do not represent assets of the Group and therefore are not reported on the consolidated statement of financial position. The management fee income is recorded in the consolidated income statement within fee and commission income.

Contingent assets. Contingent assets are possible assets that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. Contingent assets are not recognised by the Group in its consolidated statement of financial position, but disclosed in the notes to the consolidated financial statements if inflow of economic benefits is probable.

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

Earnings per share. Preference shares are not redeemable and are not considered to be participating shares. Earnings per share are determined by dividing the profit or loss attributable to equity holders of the Bank by the weighted average number of ordinary shares outstanding during the reporting period, excluding treasury shares.

Staff costs and related contributions. Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid annual leave and sick leave, pensions, bonuses, and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the Group.

Segment reporting. The Group determined its operating segments on the basis of organizational structure of the Group and geographical areas. Operating segments are reported in a manner consistent with the internal reporting provided to the Management Board. Segments whose revenue, result or assets are 10% or more of all the segments are reported separately.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

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

Also, the Group's management accounting system in some cases does not allow collecting all necessary information on incurred losses for certain groups of loans. Management uses estimates and incurred loss models for groups of loans with similar credit risk profile. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Held-to-maturity financial assets. Management applies judgement in assessing whether financial assets can be categorised as held-to-maturity, in particular (a) its intention and ability to hold the assets to maturity and (b) whether the assets are quoted in an active market. If the Group fails to keep these investments to maturity other than in certain specific circumstances — for example, selling an insignificant amount or settle a position close to maturity — it will be required to reclassify the entire category as available-for-sale. The investments would therefore be measured at fair value rather than amortised cost. For the estimated fair value of investment securities held to maturity as at 31 December 2012 refer to Note 35.

Evidence of an active market exists if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

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

Deferred income tax asset recognition. The recognised deferred tax asset represents income taxes recoverable through future deductions from taxable profits and is recorded in the statement of financial position. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. The future taxable profits and the amount of tax benefits that are probable in the future are based on management expectations that are believed to be reasonable under the circumstances.

Fair value of financial instruments. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price. The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. To the extent practical, models use only observable data, however certain areas require Management to make estimates. Changes in assumptions about these factors could affect reported fair values. The Russian Federation continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore sometimes not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

Related party transactions. The Group's principal shareholder is the Bank of Russia (refer to Note 1). Disclosures are made in these consolidated financial statements for transactions with state-controlled entities and government bodies. Currently the Government of the Russian Federation does not provide to the general public or entities under its ownership/control a complete list of the entities which are owned or controlled directly or indirectly by the State. Judgement is applied by the Management in determining the scope of operations with related parties to be disclosed in the consolidated financial statements. Refer to Notes 37 and 38.

Revaluation of office premises. The Group regularly reviews the value of its office premises for compliance with fair value and performs revaluation to ensure that the current carrying amount of office premises does not materially differ from its fair value. Office premises have been revalued to market value at 31 December 2011. The revaluation was performed based on the reports of independent appraisers, who hold a recognised and relevant professional qualification and who have recent experience in valuation of assets of similar location and category. The basis used for the appraisal was market value. Revalued premises are depreciated in accordance with their remaining useful life since 1 January 2012.

Impairment of available-for-sale equity investments. The Group determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value of the investment below its cost. Determination of what is significant or prolonged requires judgement. In making this judgement, the Group evaluates among other factors, the volatility in share price. In addition, impairment may be appropriate when there is evidence of changes in technology or deterioration in the financial health of the investee, industry and sector performance, or operational or financing cash flows.

Changes in presentation and reclassifications. For a more detailed and direct disclosure of revenues and cost of sales of non-core business activities, the presentation of the comparative figures has been adjusted to be consistent with the new presentation. The effect of changes on the consolidated income statement for the year ended 31 December 2011 is as follows:

In billions of Russian Roubles	As previously reported	Reclassification	As reclassified
Revenue of non-core business activities	—	66.1	66.1
Cost of sales of non-core business activities	—	(54.6)	(54.6)
Other operating income	29.1	(18.0)	11.1
Operating expenses	(348.3)	6.5	(341.8)

The effect of corresponding reclassifications on disclosure of operating expenses for the year ended 31 December 2011 is as follows:

In billions of Russian Roubles	As previously reported	Reclassification	As reclassified
Operating expenses			
– Staff costs	(203.8)	2.5	(201.3)
– Depreciation of premises and equipment	(43.6)	1.2	(42.4)
Cost of sales of non-core business activities			
– Depreciation of fixed assets	—	(1.2)	(1.2)
– Staff costs	—	(2.5)	(2.5)

The effect of corresponding reclassifications on disclosure of the consolidated statement of cash flows for the year ended 31 December 2011 is as follows:

In billions of Russian Roubles	As previously reported after deposit insurance reclassification	Reclassification	As reclassified
Revenue of non-core business activities	—	66.8	66.8
Cost of sales of non-core business activities	—	(50.0)	(50.0)
Other operating income received	74.7	(66.8)	7.9
Operating expenses paid	(353.2)	50.1	(303.1)
Income tax paid	(71.8)	(0.1)	(71.9)

The corresponding effect on the segment reporting of the Group's income and expenses for the year ended 31 December 2011 is as follows:

In billions of Russian Roubles	Moscow	Central and Northern Regions of European part of Russia	Volga Region and South of European part of Russia	Ural, Siberia and Far East of Russia	Other countries	Total
As previously reported						
Revenue of non-core business activities	—	—	—	—	—	—
Cost of sales of non-core business activities	—	—	—	—	—	—
Other net operating gains/ (losses)	15.7	(1.5)	(0.5)	0.8	1.4	15.9
Operating expenses	(93.5)	(80.5)	(70.4)	(101.8)	(8.8)	(355.0)
Reclassification						
Revenue of non-core business activities	26.1	10.3	21.2	6.4	2.1	66.1
Cost of sales of non-core business activities	(21.4)	(8.2)	(19.2)	(4.2)	(1.6)	(54.6)
Other net operating gains/(losses)	(6.1)	(2.7)	(3.3)	(5.2)	(0.7)	(18.0)
Operating expenses	1.3	0.5	1.3	3.1	0.3	6.5
As reclassified						
Revenue of non-core business activities	26.1	10.3	21.2	6.4	2.1	66.1
Cost of sales of non-core business activities	(21.4)	(8.2)	(19.2)	(4.2)	(1.6)	(54.6)
Other net operating gains/(losses)	9.6	(4.2)	(3.8)	(4.4)	0.7	(2.1)
Operating expenses	(92.2)	(80.0)	(69.1)	(98.7)	(8.5)	(348.5)

5. ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS

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

Deferred tax: Recovery of underlying assets — Amendment to IAS 12. (issued in December 2010 and effective for annual periods beginning on or after 1 January 2012). IAS 12 has been updated to include a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale and a requirement that deferred tax on non-depreciable assets, measured using the revaluation model in IAS 16, should always be measured on a sale basis.

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

The above mentioned new or revised standards and interpretations effective from 1 January 2012 did not have a material impact on the accounting policies, financial position or performance of the Group.

6. NEW ACCOUNTING PRONOUNCEMENTS

Certain new standards and interpretations have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2013 or later periods and which the Group has not early adopted:

IFRS 9 Financial Instruments. In November 2009 and 2010 the IASB issued the first phase of IFRS 9 Financial Instruments. This Standard will eventually replace IAS 39 Financial Instrument: Recognition and Measurement. IFRS 9 becomes effective for financial years beginning on or after 1 January 2015. The first phase of IFRS 9 introduces new requirements on classification and measurement of financial instruments. In particular, for subsequent measurement all financial assets are to be classified at amortised cost or at fair value through profit or loss with the irrevocable option for equity instruments not held for trading to be measured at fair value through other comprehensive income. For financial liabilities designated at fair value through profit or loss using fair value option IFRS 9 requires the amount of change in fair value attributable to changes in credit risk to be presented in other comprehensive income.

IFRS 10 Consolidated Financial Statements. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27. In addition IFRS 10 introduces specific application guidance for agency relationships. IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 Consolidation — Special Purpose Entities. It is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted.

IFRS 11 Joint Arrangements. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. IFRS 11 supersedes IAS 31 *Interests in Joint Ventures and SIC-13 Jointly Controlled Entities — Non-monetary Contributions by Venturers* and is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted.

IFRS 12 Disclosure of Interests in Other Entities. IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures is also required. IFRS 12 is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. Adoption of the standard will require new disclosures to be made in the financial statements of the Group but will have no impact on its financial position or performance.

IFRS 13 Fair Value Measurement. IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. IFRS 13 is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. The adoption of the IFRS 13 may have effect on the measurement of the Group's assets and liabilities accounted for at fair value.

IAS 27 Separate Financial Statements (as revised in 2011). As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

IAS 28 Investments in Associates and Joint Ventures (as revised in 2011). IAS 28 has been renamed IAS 28 *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

Amendments to IAS 19 Employee Benefits. The IASB has published amendments to IAS 19 *Employee Benefits*, effective for annual periods beginning on or after 1 January 2013, which proposes major changes to the accounting for employee benefits, including the removal of the option for deferred recognition of changes in pension plan assets and liabilities (known as the "corridor approach"). In addition, these amendments will limit the changes in the net pension asset (liability) recognised in profit or loss to net interest income (expense) and service costs.

Amendments to IAS 1 Changes to the Presentation of Other Comprehensive Income. The amendments to IAS 1 *Presentation of Financial Statements,* effective for annual periods beginning on or after 1 July 2012, change the grouping of items presented in other comprehensive income. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. These amendments will change presentation in the statement of comprehensive income but will have no effect on the financial position and performance.

Offsetting Financial Assets and Financial liabilities — Amendments to IAS 32 Financial Instruments: Presentation. (issued in December 2011; effective for annual periods beginning on or after 1 January 2014, with retrospective application). These amendments clarify the meaning of "currently has a legally enforceable right to set-off" and also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous.

Disclosures — Offsetting Financial Assets and Financial liabilities — Amendments to IFRS 7 Financial instruments: Disclosures (issued in December 2011 and effective for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods, with retrospective application). These disclosures, which are similar to the new US GAAP requirements, would provide users with information that is useful in (a) evaluating the effect or potential effect of netting arrangements on an entity's financial position and (b) analysing and comparing financial statements prepared in accordance with IFRSs and US GAAP.

Improvements to IFRS. The amendments are effective for annual periods beginning on or after 1 January 2013.

- *IFRS 1 First-time Adoption of International Financial Reporting Standards:* This improvement clarifies that an entity that stopped applying IFRS in the past and chooses, or is required, to apply IFRS, has the option to re-apply IFRS 1. If IFRS 1 is not re-applied, an entity must retrospectively restate its financial statements as if it had never stopped applying IFRS;
- *IAS 1 Presentation of Financial Statements:* This improvement clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative information is the previous period;
- *IAS 16 Property Plant and Equipment:* This improvement clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory;
- *IAS 32 Financial Instruments, Presentation:* This improvement clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 *Income Taxes;*
- *IAS 34 Interim Financial Reporting:* The amendment aligns the disclosure requirements for total segment assets with total segment liabilities in interim financial statements. This clarification also ensures that interim disclosures are aligned with annual disclosures.

The Group is considering the implications of the new standards, the impact on the Group and the timing of their adoption by the Group.

7. CASH AND CASH EQUIVALENTS

In billions of Russian Roubles	2012	2011
Cash on hand	680.8	438.7
Cash balances with the Bank of Russia (other than mandatory reserve deposits)	260.4	51.3
Correspondent accounts and placements with other banks with original maturities up to 30 days:		
– Russian Federation	53.1	25.3
– Other countries	215.4	88.6
Reverse-repo agreements with original maturities up to 30 days	81.1	21.7
Total cash and cash equivalents	**1,290.8**	**625.6**

Correspondent accounts and placements with other banks and reverse-repo agreements with original maturities up to 30 days mostly represent balances with the top and well-known foreign and Russian banks and financial companies. Analysis by credit quality of the balances with counterparty banks and financial companies at 31 December 2012 made on the basis of ratings of international rating agencies is as follows:

In billions of Russian Roubles	Investment rating	Speculative rating	Not rated	Total
Correspondent accounts and placements with other banks with original maturities up to 30 days:				
– Russian Federation	32.8	0.4	19.9	53.1
– Other countries	191.1	10.7	13.6	215.4
Reverse-repo agreements with original maturities up to 30 days	24.0	22.1	35.0	81.1
Total correspondent accounts and placements with other banks and reverse-repo agreements with original maturity up to 30 days	**247.9**	**33.2**	**68.5**	**349.6**

Analysis by credit quality of the balances with counterparty banks and financial companies at 31 December 2011 made on the basis of ratings of international rating agencies is as follows:

In billions of Russian Roubles	Investment rating	Speculative rating	Not rated	Total
Correspondent accounts and placements with other banks with original maturities up to 30 days:				
– Russian Federation	7.1	3.7	14.5	25.3
– Other countries	69.6	18.2	0.8	88.6
Reverse-repo agreements with original maturities up to 30 days	1.7	16.1	3.9	21.7
Total correspondent accounts and placements with other banks and reverse-repo agreements with original maturity up to 30 days	**78.4**	**38.0**	**19.2**	**135.6**

Rating definitions in the tables above represent the rating scale developed by the international rating agencies.

Refer to Note 36 for the information on amounts in cash and cash equivalents which are collateralised by securities received under reverse sale and repurchase agreements.

As at 31 December 2012 and 31 December 2011 all cash and cash equivalents are neither past due nor impaired.

Currency and maturity analyses of cash and cash equivalents are disclosed in Note 32. The information on related party balances is disclosed in Note 37.

8. TRADING SECURITIES

In billions of Russian Roubles	2012	2011
Federal loan bonds (OFZ bonds)	26.6	26.0
Corporate bonds	19.6	26.6
Foreign government bonds	15.1	3.9
Russian Federation Eurobonds	12.4	6.3
Municipal and subfederal bonds	0.8	7.2
Total debt trading securities	**74.5**	**70.0**
Corporate shares	14.8	29.7
Investments in mutual funds	1.1	2.3
Total trading securities	**90.4**	**102.0**

Fair value of trading securities is based on their market quotations and valuation models with use of data both observable and not observable on the open market and reflects credit risk related write downs.

As trading securities are carried at fair value the Group does not analyse or monitor impairment indicators separately for these securities.

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

In billions of Russian Roubles	Investment rating	Speculative rating	Not rated	Total
Federal loan bonds (OFZ bonds)	26.6	—	—	26.6
Corporate bonds	9.5	8.9	1.2	19.6
Foreign government bonds	7.8	7.3	—	15.1
Russian Federation Eurobonds	12.4	—	—	12.4
Municipal and subfederal bonds	—	0.8	—	0.8
Total debt trading securities	**56.3**	**17.0**	**1.2**	**74.5**

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

In billions of Russian Roubles	Investment rating	Speculative rating	Not rated	Total
Corporate bonds	9.0	9.2	8.4	26.6
Federal loan bonds (OFZ bonds)	26.0	—	—	26.0
Municipal and subfederal bonds	0.9	6.1	0.2	7.2
Russian Federation Eurobonds	6.3	—	—	6.3
Foreign government bonds	0.4	3.5	—	3.9
Total debt trading securities	**42.6**	**18.8**	**8.6**	**70.0**

Credit quality in the tables above is based on the rating scale developed by the international rating agencies.

At 31 December 2012 and 31 December 2011 there were no renegotiated trading debt securities that would otherwise be past due. Trading debt securities are not collateralised. All trading debt securities are not past due.

Currency and maturity analyses of trading securities are disclosed in Note 32. The information on trading securities issued by related parties is disclosed in Note 38.

9. SECURITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

In billions of Russian Roubles	2012	2011
Federal loan bonds (OFZ bonds)	8.5	30.5
Foreign government bonds	0.9	0.2
Corporate bonds	0.8	—
Municipal and subfederal bonds	—	0.1
Total debt securities designated at fair value through profit or loss	**10.2**	**30.8**
Corporate shares	7.0	21.2
Investments in mutual funds	2.0	—
Total securities designated at fair value through profit or loss	**19.2**	**52.0**

The Group irrevocably designated the above securities that are not part of its trading book, as at fair value through profit or loss. The securities meet the criteria for classification as at fair value through profit or loss because Management of the Group assesses performance of these investments based on their fair values in accordance with the Policy of the Group for securities portfolios classification. Fair value of securities designated at fair value through profit or loss is based on their market quotations and valuation models with use of data both observable and not observable on the open market.

Securities designated at fair value through profit or loss are carried at fair value, which also reflects credit risk related write downs. Analysis by credit quality of debt securities designated at fair value through profit or loss outstanding at 31 December 2012 is as follows:

In billions of Russian Roubles	Investment rating	Speculative rating	Not rated	Total
Federal loan bonds (OFZ bonds)	8.5	—	—	8.5
Foreign government bonds	—	0.8	0.1	0.9
Corporate bonds	0.6	0.2	—	0.8
Total debt securities designated at fair value through profit or loss	**9.1**	**1.0**	**0.1**	**10.2**

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

In billions of Russian Roubles	Investment rating	Speculative rating	Not rated	Total
Federal loan bonds (OFZ bonds)	30.5	—	—	30.5
Foreign government bonds	—	0.2	—	0.2
Municipal and subfederal bonds	—	0.1	—	0.1
Total debt securities designated at fair value through profit or loss	**30.5**	**0.3**	**—**	**30.8**

Credit quality in the tables above is based on the rating scale developed by the international rating agencies.

At 31 December 2012 and 31 December 2011 there are no renegotiated balances that would otherwise be past due. Debt securities designated at fair value through profit or loss are not collateralised. All debt securities designated at fair value through profit or loss are not past due.

Currency and maturity analyses of securities designated at fair value through profit or loss are disclosed in Note 32. The information on securities designated at fair value through profit or loss issued by related parties is disclosed in Note 38.

10. LOANS AND ADVANCES TO CUSTOMERS

For the purposes of these consolidated financial statements a loan is considered past due when the borrower fails to make any payment due under the loan agreement at the reporting date. In this case the aggregate amount of all amounts due from borrower under the respective loan agreement including accrued interest and commissions is recognised as past due.

31 December 2012:

In billions of Russian Roubles	Not past due loans	Past due loans	Total
Commercial loans to legal entities	5,033.7	247.8	5,281.5
Specialised loans to legal entities	2,836.0	110.3	2,946.3
Consumer and other loans to individuals	1,472.6	97.1	1,569.7
Mortgage loans to individuals	1,094.6	48.8	1,143.4
Car loans to individuals	118.2	5.2	123.4
Total loans and advances to customers before provision for loan impairment	**10,555.1**	**509.2**	**11,064.3**
Less: Provision for loan impairment	(237.1)	(327.9)	(565.0)
Total loans and advances to customers net of provision for loan impairment	**10,318.0**	**181.3**	**10,499.3**

31 December 2011:

In billions of Russian Roubles	Not past due loans	Past due loans	Total
Commercial loans to legal entities	3,828.8	184.1	4,012.9
Specialised loans to legal entities	2,347.9	215.8	2,563.7
Consumer and other loans to individuals	898.7	45.3	944.0
Mortgage loans to individuals	741.6	35.8	777.4
Car loans to individuals	80.7	3.5	84.2
Total loans and advances to customers before provision for loan impairment	**7,897.7**	**484.5**	**8,382.2**
Less: Provision for loan impairment	(281.6)	(380.9)	(662.5)
Total loans and advances to customers net of provision for loan impairment	**7,616.1**	**103.6**	**7,719.7**

Commercial lending to legal entities comprises corporate loans, loans to individual entrepreneurs, federal bodies and municipal authorities of the Russian Federation. Loans are granted for current needs (working capital financing, acquisition of movable and immovable property, portfolio investments, expansion and consolidation of business, etc.). Majority of commercial loans are provided for periods up to 5 years depending on the borrowers' risk assessment. Commercial lending also includes overdraft lending and lending for export-import transactions. The repayment source is cash flow from current production and financial activities of the borrower.

Specialised lending to legal entities includes investment and construction project financing and also developers' financing. As a rule, loan terms are linked to payback periods of investment and construction projects, contract execution periods and exceed the terms of commercial loans to legal entities. The principal and interest may be repaid from cash flows generated by the investment project at the stage of its commercial operation.

Consumer and other individual loans comprise loans to individuals other than housing acquisition, construction and repair of real estate as well as car loans. These loans include loans for current needs and overdrafts.

Mortgage loans to individuals include loans for acquisition, construction and reconstruction of real estate. These loans are mostly long-term and are collateralized by real estate.

Car loans to individuals include loans for purchasing a car or other vehicle. Car loans are provided for periods of up to 5 years.

The table below shows the analysis of loans and provisions for loan impairment as at 31 December 2012:

In billions of Russian Roubles	Gross loans	Provision for impairment	Net loans	Provision for impairment to gross loans
COMMERCIAL LOANS TO LEGAL ENTITIES				
Collectively assessed				
– Not past due	4,972.5	(105.9)	4,866.6	2.1%
– Loans up to 30 days overdue	29.3	(3.5)	25.8	11.9%
– Loans 31 to 60 days overdue	11.0	(3.1)	7.9	28.2%
– Loans 61 to 90 days overdue	6.6	(2.3)	4.3	34.8%
– Loans 91 to 180 days overdue	14.9	(8.2)	6.7	55.0%
– Loans over 180 days overdue	133.2	(121.8)	11.4	91.4%
Total collectively assessed loans	**5,167.5**	**(244.8)**	**4 ,922.7**	**4.7%**
Individually impaired				
– Not past due	61.2	(26.1)	35.1	42.6%
– Loans up to 30 days overdue	5.0	(2.5)	2.5	50.0%
– Loans 31 to 60 days overdue	4.0	(2.6)	1.4	65.0%
– Loans 61 to 90 days overdue	1.5	(0.5)	1.0	33.3%
– Loans 91 to 180 days overdue	1.5	(0.1)	1.4	6.7%
– Loans over 180 days overdue	40.8	(33.3)	7.5	81.6%
Total individually impaired loans	**114.0**	**(65.1)**	**48.9**	**57.1%**
Total commercial loans to legal entities	**5,281.5**	**(309.9)**	**4,971.6**	**5.9%**
SPECIALISED LOANS TO LEGAL ENTITIES				
Collectively assessed				
– Not past due	2,772.8	(76.1)	2 696.7	2.7%
– Loans up to 30 days overdue	12.3	(1.4)	10.9	11.4%
– Loans 31 to 60 days overdue	2.2	(0.4)	1.8	18.2%
– Loans 61 to 90 days overdue	1.4	(0.7)	0.7	50.0%
– Loans 91 to 180 days overdue	3.4	(2.2)	1.2	64.7%
– Loans over 180 days overdue	43.7	(39.6)	4.1	90.6%
Total collectively assessed loans	**2,835.8**	**(120.4)**	**2,715.4**	**4.2%**
Individually impaired				
– Not past due	63.2	(26.1)	37.1	41.3%
– Loans up to 30 days overdue	5.8	(0.5)	5.3	8.6%
– Loans 31 to 60 days overdue	1.9	(1.5)	0.4	78.9%
– Loans 61 to 90 days overdue	3.5	(2.5)	1.0	71.4%
– Loans 91 to 180 days overdue	2.9	(1.4)	1.5	48.3%
– Loans over 180 days overdue	33.2	(28.2)	5.0	84.9%
Total individually impaired loans	**110.5**	**(60.2)**	**50.3**	**54.5%**
Total specialised loans to legal entities	**2,946.3**	**(180.6)**	**2,765.7**	**6.1%**
TOTAL LOANS TO LEGAL ENTITIES	**8,227.8**	**(490.5)**	**7, 737.3**	**6.0%**

In billions of Russian Roubles	Gross loans	Provision for impairment	Net loans	Provision for impairment to gross loans
CONSUMER AND OTHER LOANS TO INDIVIDUALS				
Collectively assessed				
– Not past due	1,472.6	(2.0)	1,470.6	0.1%
– Loans up to 30 days overdue	35.1	(2.1)	33.0	6.0%
– Loans 31 to 60 days overdue	9.7	(1.9)	7.8	19.6%
– Loans 61 to 90 days overdue	6.4	(2.1)	4.3	32.8%
– Loans 91 to 180 days overdue	11.2	(7.0)	4.2	62.5%
– Loans over 180 days overdue	34.7	(30.4)	4.3	87.6%
Total consumer and other loans to individuals	**1,569.7**	**(45.5)**	**1,524.2**	**2.9%**
MORTGAGE LOANS TO INDIVIDUALS				
Collectively assessed				
– Not past due	1,094.6	(0.8)	1,093.8	0.1%
– Loans up to 30 days overdue	13.6	(0.5)	13.1	3.7%
– Loans 31 to 60 days overdue	3.8	(0.4)	3.4	10.5%
– Loans 61 to 90 days overdue	2.4	(0.4)	2.0	16.7%
– Loans 91 to 180 days overdue	2.9	(1.0)	1.9	34.5%
– Loans over 180 days overdue	26.1	(23.4)	2.7	89.7%
Total mortgage loans to individuals	**1,143.4**	**(26.5)**	**1,116.9**	**2.3%**
CAR LOANS TO INDIVIDUALS				
Collectively assessed				
– Not past due	118.2	(0.1)	118.1	0.1%
– Loans up to 30 days overdue	2.0	(0.1)	1.9	5.0%
– Loans 31 to 60 days overdue	0.4	(0.1)	0.3	25.0%
– Loans 61 to 90 days overdue	0.3	(0.1)	0.2	33.3%
– Loans 91 to 180 days overdue	0.4	(0.2)	0.2	50.0%
– Loans over 180 days overdue	2.1	(1.9)	0.2	90.5%
Total car loans to individuals	**123.4**	**(2.5)**	**120.9**	**2.0%**
Total loans to individuals	**2,836.5**	**(74.5)**	**2,762.0**	**2.6%**
TOTAL LOANS AND ADVANCES TO CUSTOMERS AS AT 31 DECEMBER 2012	**11,064.3**	**(565.0)**	**10,499.3**	**5.1%**

The table below shows the analysis of loans and provisions for loan impairment as at 31 December 2011:

In billions of Russian Roubles	Gross loans	Provision for impairment	Net loans	Provision for impairment to gross loans
COMMERCIAL LOANS TO LEGAL ENTITIES				
Collectively assessed				
– Not past due	3,795.5	(117.4)	3,678.1	3.1%
– Loans up to 30 days overdue	11.3	(3.1)	8.2	27.4%
– Loans 31 to 60 days overdue	4.7	(2.2)	2.5	46.8%
– Loans 61 to 90 days overdue	3.4	(1.8)	1.6	52.9%
– Loans 91 to 180 days overdue	7.4	(4.8)	2.6	64.9%
– Loans over 180 days overdue	115.6	(111.8)	3.8	96.7%
Total collectively assessed loans	**3,937.9**	**(241.1)**	**3,696.8**	**6.1%**
Individually impaired				
– Not past due	33.3	(22.3)	11.0	67.0%
– Loans up to 30 days overdue	7.0	(7.0)	—	100.0%
– Loans 31 to 60 days overdue	0.5	(0.2)	0.3	40.0%
– Loans 61 to 90 days overdue	4.1	(0.3)	3.8	7.3%
– Loans 91 to 180 days overdue	0.1	—	0.1	—
– Loans over 180 days overdue	30.0	(28.7)	1.3	95.7%
Total individually impaired loans	**75.0**	**(58.5)**	**16.5**	**78.0%**
Total commercial loans to legal entities	**4,012.9**	**(299.6)**	**3,713.3**	**7.5%**
SPECIALISED LOANS TO LEGAL ENTITIES				
Collectively assessed				
– Not past due	2,276.1	(86.7)	2 189.4	3.8%
– Loans up to 30 days overdue	5.2	(0.8)	4.4	15.4%
– Loans 31 to 60 days overdue	3.3	(1.2)	2.1	36.4%
– Loans 61 to 90 days overdue	1.6	(0.7)	0.9	43.8%
– Loans 91 to 180 days overdue	2.1	(1.3)	0.8	61.9%
– Loans over 180 days overdue	59.3	(52.8)	6.5	89.0%
Total collectively assessed loans	**2,347.6**	**(143.5)**	**2,204.1**	**6.1%**
Individually impaired				
– Not past due	71.8	(38.7)	33.1	53.9%
– Loans up to 30 days overdue	4.0	(2.8)	1.2	70.0%
– Loans 31 to 60 days overdue	2.2	(1.6)	0.6	72.7%
– Loans 91 to 180 days overdue	0.4	(0.3)	0.1	75.0%
– Loans over 180 days overdue	137.7	(106.8)	30.9	77.6%
Total individually impaired loans	**216.1**	**(150.2)**	**65.9**	**69.5%**
Total specialised loans to legal entities	**2,563.7**	**(293.7)**	**2,270.0**	**11.5%**
Total loans to legal entities	**6,576.6**	**(593.3)**	**5,983.3**	**9.0%**

In billions of Russian Roubles	Gross loans	Provision for impairment	Net loans	Provision for impairment to gross loans
CONSUMER AND OTHER LOANS TO INDIVIDUALS				
Collectively assessed				
– Not past due	898.7	(10.9)	887.8	1.2%
– Loans up to 30 days overdue	12.5	(0.2)	12.3	1.6%
– Loans 31 to 60 days overdue	3.1	(0.2)	2.9	6.5%
– Loans 61 to 90 days overdue	1.7	(0.2)	1.5	11.8%
– Loans 91 to 180 days overdue	2.8	(0.6)	2.2	21.4%
– Loans over 180 days overdue	25.2	(25.2)	—	100.0%
Total consumer and other loans to individuals	**944.0**	**(37.3)**	**906.7**	**4.0%**
MORTGAGE LOANS TO INDIVIDUALS				
Collectively assessed				
– Not past due	741.6	(4.6)	737.0	0.6%
– Loans up to 30 days overdue	8.2	(0.2)	8.0	2.4%
– Loans 31 to 60 days overdue	2.0	(0.2)	1.8	10.0%
– Loans 61 to 90 days overdue	0.9	(0.1)	0.8	11.1%
– Loans 91 to 180 days overdue	1.3	(0.3)	1.0	23.1%
– Loans over 180 days overdue	23.4	(23.4)	—	100.0%
Total mortgage loans to individuals	**777.4**	**(28.8)**	**748.6**	**3.7%**
CAR LOANS TO INDIVIDUALS				
Collectively assessed				
– Not past due	80.7	(1.0)	79.7	1.2%
– Loans up to 30 days overdue	1.0	—	1.0	—
– Loans 31 to 60 days overdue	0.2	—	0.2	—
– Loans 61 to 90 days overdue	0.1	—	0.1	—
– Loans 91 to 180 days overdue	0.1	—	0.1	—
– Loans over 180 days overdue	2.1	(2.1)	—	100.0%
Total car loans to individuals	**84.2**	**(3.1)**	**81.1**	**3.7%**
Total loans to individuals	**1,805.6**	**(69.2)**	**1,736.4**	**3.8%**
Total loans and advances to customers as at 31 December 2011	**8,382.2**	**(662.5)**	**7,719.7**	**7.9%**

The table below shows the credit quality analysis of the Group's not past due collectively assessed loans before provision for loan impairment as at 31 December 2012:

In billions of Russian Roubles	1 group	2 group	3 group	Total
Commercial loans to legal entities	522.7	2,620.7	1,829.1	4,972.5
Specialised loans to legal entities	151.3	1,336.7	1,284.8	2,772.8
Consumer and other loans to individuals	36.8	1,405.8	30.0	1,472.6
Mortgage loans to individuals	43.2	1,036.4	15.0	1,094.6
Car loans to individuals	2.5	113.6	2.1	118.2
Total	**756.5**	**6,513.2**	**3,161.0**	**10,430.7**

The table below shows the credit quality analysis of the Group's not past due collectively assessed loans before provision for loan impairment as at 31 December 2011:

In billions of Russian Roubles	1 group	2 group	3 group	Total
Commercial loans to legal entities	159.1	2,125.2	1,511.2	3,795.5
Specialised loans to legal entities	98.6	1,141.7	1,035.8	2,276.1
Consumer and other loans to individuals	5.6	892.6	0.5	898.7
Mortgage loans to individuals	5.0	735.4	1.2	741.6
Car loans to individuals	0.5	80.1	0.1	80.7
Total	**268.8**	**4,975.0**	**2,548.8**	**7,792.6**

For the purpose of these consolidated financial statements, all not past due collectively assessed loans to legal entities are classified in three quality groups presented in the tables above with group 1 loans being of the highest quality. The 1-st group includes borrowers with sound level of liquidity and profitability as well as high capital adequacy ratio. The probability of breach of loan agreement terms is assessed as low. The 2-nd group includes borrowers with average level of liquidity and profitability as well as average capital adequacy ratio. The probability of breach of loan agreement terms is assessed as moderate. The 3-rd group includes borrowers with satisfactory level of liquidity and profitability as well as moderate capital adequacy ratio. The probability of breach of loan agreement terms is assessed as above moderate.

For the purpose of these consolidated financial statements, all not past due loans to individuals are combined into three groups presented in the tables above. The 1-st group of these loans to individuals is represented by loans with good debt servicing and excellent financial position of a borrower. The 2-nd group is represented by loans with good/average debt servicing and excellent/moderate financial position of a borrower. The 3-rd group is represented by loans with average debt servicing and moderate financial position of a borrower.

As defined by the Group for the purposes of internal credit risk assessment, loans fall into the "non-performing" category when a principal and/or interest payment becomes more than 90 days overdue.

As at 31 December 2012 the outstanding non-performing loans were as follows:

In billions of Russian Roubles	Gross loans	Provision for impairment	Net loans	Provision for impairment to gross loans
Commercial loans to legal entities	190.4	(163.4)	27.0	85.8%
Specialised loans to legal entities	83.2	(71.4)	11.8	85.8%
Consumer and other loans to individuals	45.9	(37.4)	8.5	81.5%
Mortgage loans to individuals	29.0	(24.4)	4.6	84.1%
Car loans to individuals	2.5	(2.1)	0.4	84.0%
Total non-performing loans and advances to customers as at 31 December 2012	**351.0**	**(298.7)**	**52.3**	**85.1%**

As at 31 December 2011 the outstanding non-performing loans were as follows:

In billions of Russian Roubles	Gross loans	Provision for impairment	Net loans	Provision for impairment to gross loans
Commercial loans to legal entities	153.1	(145.3)	7.8	94.9%
Specialised loans to legal entities	199.5	(161.2)	38.3	80.8%
Consumer and other loans to individuals	28.0	(25.8)	2.2	92.1%
Mortgage loans to individuals	24.7	(23.7)	1.0	96.0%
Car loans to individuals	2.2	(2.1)	0.1	95.5%
Total non-performing loans and advances to customers as at 31 December 2011	**407.5**	**(358.1)**	**49.4**	**87.9%**

Provisions for loan impairment. The analysis of changes in provisions for loan impairment for the year ended 31 December 2012 is presented in the table below:

In billions of Russian Roubles	Commercial loans to legal entities	Specialised loans to legal entities	Consumer and other loans to individuals	Mortgage loans to individuals	Car loans to individuals	Total
Provision for loan impairment as at 1 January 2012	**299.6**	**293.7**	**37.3**	**28.8**	**3.1**	**662.5**
Net provision charge/ (net recovery of provision) for loan impairment during the reporting period	41.2	(29.9)	11.2	(0.8)	(0.2)	21.5
Foreign currencies translation	—	(0.2)	—	(0.2)	—	(0.4)
Loans and advances written off during the reporting period	(30.9)	(83.0)	(3.0)	(1.3)	(0.4)	(118.6)
Provision for loan impairment as at 31 December 2012	**309.9**	**180.6**	**45.5**	**26.5**	**2.5**	**565.0**

The analysis of changes in provisions for loan impairment for the year ended 31 December 2011 is presented in the table below:

In billions of Russian Roubles	Commercial loans to legal entities	Specialised loans to legal entities	Consumer and other loans to individuals	Mortgage loans to individuals	Car loans to individuals	Total
Provision for loan impairment as at 1 January 2011	**312.9**	**320.8**	**36.1**	**29.3**	**3.4**	**702.5**
Net provision charge/ (net recovery of provision) for loan impairment during the reporting period	10.7	(15.7)	3.0	1.1	(0.3)	(1.2)
Foreign currencies translation	(0.5)	(1.1)	(0.2)	—	0.1	(1.7)
Loans and advances written off during the reporting period	(23.5)	(10.3)	(1.6)	(1.6)	(0.1)	(37.1)
Provision for loan impairment as at 31 December 2011	**299.6**	**293.7**	**37.3**	**28.8**	**3.1**	**662.5**

Renegotiated loans. Information on loans whose terms have been renegotiated, as at 31 December 2012 and 31 December 2011 is presented in the table below. It shows the amount for renegotiated loans before provision for loan impairment by class.

In billions of Russian Roubles	Commercial loans to legal entities	Specialised loans to legal entities	Consumer and other loans to individuals	Mortgage loans to individuals	Car loans to individuals	Total
31 December 2012:						
Not past due collectively assessed loans	477.2	379.8	3.0	8.2	0.5	868.7
Other renegotiated loans	90.4	37.1	2.0	6.4	0.6	136.5
Total renegotiated loans before provision for loan impairment	**567.6**	**416.9**	**5.0**	**14.6**	**1.1**	**1,005.2**
31 December 2011:						
Not past due collectively assessed loans	552.0	329.5	7.0	5.4	0.5	894.4
Other renegotiated loans	85.1	42.1	3.3	6.0	0.7	137.2
Total renegotiated loans before provision for loan impairment	**637.1**	**371.6**	**10.3**	**11.4**	**1.2**	**1,031.6**

Disclosure of corporate loans before provision for loan impairment by business size of borrowers. Sberbank Group members apply its own management policies in allocating corporate borrowers according to business size.

In billions of Russian Roubles	2012	2011
Major clients	4,164.6	3,557.0
Large clients	1,964.4	1,439.3
Medium business	1,379.5	1,099.2
Small business	719.3	481.1
Total loans and advances to legal entities before provision for loan impairment	**8,227.8**	**6,576.6**

Investments in finance lease. Included in specialised loans to legal entities are net investments in finance lease. The analysis of net investments in finance lease as at 31 December 2012 and as at 31 December 2011 is as follows:

In billions of Russian Roubles	2012	2011
Gross investment in finance lease	152.4	134.9
Unearned future finance income on finance lease	(46.5)	(46.6)
Net investment in finance lease before provision for impairment	**105.9**	**88.3**
Less provision for impairment	(3.3)	(2.3)
Net investment in finance lease after provision for impairment	**102.6**	**86.0**

The contractual maturity analysis of net investments in finance lease as at 31 December 2012 is as follows:

In billions of Russian Roubles	Net investment in finance lease before provision for impairment	Provision for impairment	Net investment in finance lease after provision for impairment
Not later than 1 year	31.3	(1.4)	29.9
Later than 1 year but not later than 5 years	62.8	(1.6)	61.2
Later than 5 years	11.8	(0.3)	11.5
Total as at 31 December 2012	**105.9**	**(3.3)**	**102.6**

The contractual maturity analysis of net investments in finance lease as at 31 December 2011 is as follows:

In billions of Russian Roubles	Net investment in finance lease before provision for impairment	Provision for impairment	Net investment in finance lease after provision for impairment
Not later than 1 year	26.6	(0.7)	25.9
Later than 1 year but not later than 5 years	48.9	(1.3)	47.6
Later than 5 years	12.8	(0.3)	12.5
Total as at 31 December 2011	**88.3**	**(2.3)**	**86.0**

The analysis of minimal finance lease receivables as at 31 December 2012 and as at 31 December 2011 per contractual maturity is as follows:

In billions of Russian Roubles	2012	2011
Not later than 1 year	34.5	28.5
Later than 1 year but not later than 5 years	88.9	72.0
Later than 5 years	29.0	34.4
Total	**152.4**	**134.9**

Economic sector risk concentration. Economic sector risk concentrations within the customer loan portfolio as at 31 December 2012 and as at 31 December 2011 are as follows:

In billions of Russian Roubles	2012		2011	
	Amount	%	Amount	%
Individuals	2,836.5	25.6	1,805.6	21.5
Services	1,962.5	17.7	1,658.5	19.8
Trade	1,304.3	11.8	1,134.8	13.5
Food and agriculture	862.4	7.8	703.9	8.4
Machine building	528.6	4.8	355.6	4.2
Energy	512.2	4.6	379.9	4.5
Telecommunications	489.2	4.4	332.0	4.0
Metallurgy	410.6	3.7	299.4	3.6
Construction	402.7	3.6	451.3	5.4
Transport, aviation, space industry	387.0	3.5	285.4	3.4
Chemical industry	378.2	3.4	340.2	4.1
Government and municipal bodies	370.4	3.3	268.1	3.2
Oil and gas	162.2	1.5	164.7	2.0
Timber industry	72.3	0.7	50.4	0.6
Other	385.2	3.6	152.4	1.8
Total loans and advances to customers before provision for loan impairment	**11,064.3**	**100.0**	**8,382.2**	**100.0**

"Services" category includes financial, insurance and other service companies, as well as loans granted to holding and multi-industry companies.

Refer to Note 36 for the information on amounts in loans and advances to customers which are collateralised by securities received under reverse sale and repurchase agreements.

As at 31 December 2012 the Group had 20 largest corporate borrowers with aggregated loan amounts due from each of these borrowers exceeding 59.1 billion RUB (2011: 20 largest borrowers with loan amounts due from each of these borrowers exceeding 47.9 billion RUB). The total aggregate amount of these loans was 2,140.3 billion RUB or 19.3% of the total gross loan portfolio of the Group (2011: 1,956.2 billion RUB or 23.3%).

Interest income accrued on loans, for which individual impairment has been recognised, for the year ended 31 December 2012, comprised 7.3 billion RUB (2011: 8.9 billion RUB).

For the year ended 31 December 2012 in interest income on loans and advances to customers in the consolidated income statement are included fines and penalties received from borrowers in the amount of 6.3 billion RUB (2011: 8.7 billion RUB).

The estimated fair value of loans and advances to customers is disclosed in Note 35. Currency and maturity analyses of loans and advances to customers are disclosed in Note 32. The information on related party balances is disclosed in Notes 37 and 38.

11. SECURITIES PLEDGED UNDER REPURCHASE AGREEMENTS

In billions of Russian Roubles	2012	2011
Trading securities pledged under repurchase agreements		
Federal loan bonds (OFZ bonds)	19.7	0.4
Corporate bonds	19.5	6.1
Corporate shares	8.0	34.3
Foreign government bonds	6.0	—
Municipal and subfederal bonds	3.4	—
Russian Federation Eurobonds	0.5	7.0
Investments in mutual funds	—	0.3
Total trading securities pledged under repurchase agreements	**57.1**	**48.1**
Securities designated at fair value through profit or loss pledged under repurchase agreements		
Federal loan bonds (OFZ bonds)	8.7	8.1
Municipal and subfederal bonds	0.1	—
Corporate shares	—	1.3
Total securities designated at fair value through profit or loss pledged under repurchase agreements	**8.8**	**9.4**
Investment securities available for sale pledged under repurchase agreements		
Federal loan bonds (OFZ bonds)	401.7	25.5
Corporate bonds	150.2	30.8
Foreign government bonds	26.7	0.3
Municipal and subfederal bonds	25.4	—
Russian Federation Eurobonds	11.1	29.4
Corporate shares	1.2	20.1
Total investment securities available for sale pledged under repurchase agreements	**616.3**	**106.1**
Investment securities held to maturity pledged under repurchase agreements		
Federal loan bonds (OFZ bonds)	160.3	136.4
Municipal and subfederal bonds	60.1	—
Corporate bonds	47.1	0.8
Total investment securities held to maturity pledged under repurchase agreements	**267.5**	**137.2**
Total securities pledged under repurchase agreements	**949.7**	**300.8**

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

In billions of Russian Roubles	Investment rating	Speculative rating	Not rated	Total
Federal loan bonds (OFZ bonds)	590.4	—	—	590.4
Corporate bonds	89.2	102.8	24.8	216.8
Municipal and subfederal bonds	72.4	16.6	—	89.0
Foreign government bonds	32.7	—	—	32.7
Russian Federation Eurobonds	11.6	—	—	11.6
Total debt securities pledged under repurchase agreements	**796.3**	**119.4**	**24.8**	**940.5**

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

In billions of Russian Roubles	Investment rating	Speculative rating	Not rated	Total
Federal loan bonds (OFZ bonds)	170.4	—	—	170.4
Corporate bonds	24.9	11.5	1.3	37.7
Russian Federation Eurobonds	36.4	—	—	36.4
Foreign government bonds	—	0.3	—	0.3
Total debt securities pledged under repurchase agreements	**231.7**	**11.8**	**1.3**	**244.8**

Credit quality in the tables above is based on the rating scale developed by the international rating agencies.

Refer to Note 36 for the detailed information on securities pledged under sale and repurchase agreements with banks and corporate customers.

All corporate bonds pledged under repurchase agreements are not past due. None of the securities pledged under repurchase agreements were renegotiated.

Currency and maturity analyses of securities pledged under repurchase agreements are disclosed in Note 32. The information on related party balances is disclosed in Note 38.

12. INVESTMENT SECURITIES AVAILABLE FOR SALE

In billions of Russian Roubles	2012	2011
Corporate bonds	320.2	320.3
Foreign government bonds	150.2	22.0
Federal loan bonds (OFZ bonds)	149.6	410.9
Russian Federation Eurobonds	117.7	23.6
Municipal and subfederal bonds	21.3	47.6
Total debt investment securities available for sale	**759.0**	**824.4**
Corporate shares	45.5	60.1
Total investment securities available for sale	**804.5**	**884.5**

Investment securities available for sale are carried at fair value which also reflects credit risk related write downs. Fair value of investment securities available for sale is based on their market quotations and valuation models with use of data both observable and not observable on the open market. According to the assessment of the Group as at 31 December 2012 impairment of investment securities available for sale comprised 5.0 billion RUB (2011: 1.1 billion RUB) and was recognised in profit or loss. The unrealised gains/(losses) on revaluation of investment securities available for sale other than impairment loss are recognised in other comprehensive income and presented in equity as fair value reserve for investment securities available for sale as at 31 December 2012 in the cumulative gain of 37.3 billion RUB (2011: loss of 7.5 billion RUB).

As at 31 December 2012 included in investment securities available for sale are past due fully impaired corporate bonds with nominal value of 0.1 billion RUB (2011: 0.1 billion).

None of the investment securities available for sale were renegotiated.

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

In billions of Russian Roubles	Investment rating	Speculative rating	Not rated	Total
Corporate bonds	219.9	95.1	5.2	320.2
Foreign government bonds	126.9	21.2	2.1	150.2
Federal loan bonds (OFZ bonds)	149.6	—	—	149.6
Russian Federation Eurobonds	117.7	—	—	117.7
Municipal and subfederal bonds	8.1	13.0	0.2	21.3
Total debt investment securities available for sale	**622.2**	**129.3**	**7.5**	**759.0**

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

In billions of Russian Roubles	Investment rating	Speculative rating	Not rated	Total
Federal loan bonds (OFZ bonds)	410.9	—	—	410.9
Corporate bonds	163.9	140.0	16.4	320.3
Municipal and subfederal bonds	28.8	18.5	0.3	47.6
Russian Federation Eurobonds	23.6	—	—	23.6
Foreign government bonds	8.2	13.8	—	22.0
Total debt investment securities available for sale	**635.4**	**172.3**	**16.7**	**824.4**

Credit quality in the tables above is based on the rating scale developed by the international rating agencies.

Currency and maturity analyses of investment securities available for sale are disclosed in Note 32. The information on related party balances is disclosed in Note 38.

13. INVESTMENT SECURITIES HELD TO MATURITY

In billions of Russian Roubles	2012	2011
Corporate bonds	84.2	130.1
Federal loan bonds (OFZ bonds)	8.8	74.7
Municipal and subfederal bonds	6.8	79.6
Foreign government bonds	6.1	0.1
Promissory notes	—	2.0
Total investment securities held to maturity	**105.9**	**286.5**

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

In billions of Russian Roubles	Investment rating	Speculative rating	Not rated	Total
Corporate bonds	17.7	55.8	10.7	84.2
Federal loan bonds (OFZ bonds)	8.8	—	—	8.8
Municipal and subfederal bonds	0.1	6.7	—	6.8
Foreign government bonds	3.7	1.8	0.6	6.1
Total investment securities held to maturity	**30.3**	**64.3**	**11.3**	**105.9**

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

In billions of Russian Roubles	Investment rating	Speculative rating	Not rated	Total
Corporate bonds	27.3	48.2	54.6	130.1
Municipal and subfederal bonds	63.3	16.3	—	79.6
Federal loan bonds (OFZ bonds)	74.7	—	—	74.7
Promissory notes	—	—	2.0	2.0
Foreign government bonds	—	0.1	—	0.1
Total investment securities held to maturity	**165.3**	**64.6**	**56.6**	**286.5**

Credit quality in the table above is based on the rating scale developed by the international rating agencies.

At 31 December 2012 and 31 December 2011 there are no renegotiated debt investment securities held to maturity that would otherwise be past due. All debt investment securities held to maturity are not past due.

The estimated fair value of investment securities held to maturity is disclosed in Note 35. Currency and maturity analyses of investment securities held to maturity are disclosed in Note 32. The information on related party balances is disclosed in Note 38.

14. PREMISES AND EQUIPMENT

In billions of Russian Roubles	Note	Office premises	Other premises	Office and equipment	Vehicles and other equipment	Construction in progress	Total
Cost or revalued amount at 1 January 2011		199.9	7.6	136.8	22.0	23.1	389.4
Accumulated depreciation		(6.3)	(0.1)	(89.9)	(9.3)	—	(105.6)
Carrying amount at 1 January 2011		**193.6**	**7.5**	**46.9**	**12.7**	**23.1**	**283.8**
Additions		10.5	1.2	49.4	5.8	42.5	109.4
Acquisitions through business combinations		0.8	0.1	0.6	—	0.3	1.8
Transfers		26.9	7.7	0.1	1.7	(36.4)	—
Disposals — at cost or revalued amount		(4.9)	(4.4)	(6.2)	(5.9)	(2.7)	(24.1)
Disposals — accumulated depreciation		0.2	0.2	5.8	1.9	—	8.1
Depreciation charge	26.27	(6.7)	(0.8)	(32.7)	(3.4)	—	(43.6)
Impairment of construction in progress recognised in profit or loss		—	—	—	—	(0.1)	(0.1)
Revaluation of office premises recognised in profit or loss		(11.3)	—	—	—	—	(11.3)
Revaluation of office premises recognised in other comprehensive income		36.9	—	—	—	—	36.9
Foreign currencies translation		(1.0)	—	—	—	—	(1.0)
Carrying amount at 31 December 2011		**245.0**	**11.5**	**63.9**	**12.8**	**26.7**	**359.9**
Cost or revalued amount at 31 December 2011		245.0	12.2	180.7	23.6	26.7	488.2
Accumulated depreciation		—	(0.7)	(116.8)	(10.8)	—	(128.3)
Additions		17.5	7.6	58.0	7.8	57.2	148.1
Acquisitions through business combinations		4.1	1.0	6.7	2.2	5.5	19.5
Transfers		27.2	0.4	—	0.1	(27.7)	—
Transfers to investment property from fixed assets		—	(0.1)	—	—	—	(0.1)
Disposals — at cost or revalued amount		(12.7)	(16.7)	(7.1)	(5.8)	(8.1)	(50.4)
Disposals — accumulated depreciation		0.4	2.7	7.7	4.4	—	15.2
Depreciation charge	26.27	(8.3)	(2.4)	(40.6)	(4.8)	—	(56.1)
Foreign currencies translation		0.1	—	(0.2)	—	—	(0.1)
Carrying amount at 31 December 2012		**273.3**	**4.0**	**88.4**	**16.7**	**53.6**	**436.0**
Cost or revalued amount at 31 December 2012		281.1	4.3	238.1	28.0	53.6	605.1
Accumulated depreciation		(7.8)	(0.3)	(149.7)	(11.3)	—	(169.1)

Construction in progress consists of construction or refurbishment of the Group's premises and equipment. Upon completion, assets are transferred to office premises, other premises or equipment categories.

Office premises have been revalued to market value at 31 December 2011. At 31 December 2012 the carrying amount of office premises would have been 183.6 billion RUB (2011: 156.5 billion RUB) had the premises been carried at cost less depreciation.

At 31 December 2012 included in office and computer equipment were fully depreciated items in the amount of 5.2 billion RUB (2011: 22.1 billion RUB). At 31 December 2012 included in vehicles and other equipment were fully depreciated items in the amount of 1.1 billion RUB (2011: nil).

15.OTHER ASSETS

In billions of Russian Roubles	2012	2011
Other financial assets		
Receivables on plastic cards settlements	107.5	78.8
Derivative financial instruments	74.4	51.1
Settlements on currency conversion operations	16.7	6.5
Settlements on operations with securities	10.1	15.2
Funds in settlement	5.7	0.2
Accrued fees and commissions	4.5	3.9
Trade receivables	4.4	2.7
Other	6.7	6.9
Provision for impairment of other financial assets	(2.4)	(2.2)
Total other financial assets	**227.6**	**163.1**
Other non-financial assets		
Precious metals	84.8	66.0
Prepayments for premises and other assets	67.7	29.9
Inventory of non-banking subsidiaries	58.9	12.7
Intangible assets acquired through business combinations	35.8	12.2
Goodwill	25.0	15.1
Investment property	15.3	11.8
Non-exclusive licences	13.3	8.9
Investments in associates	8.6	4.7
Prepaid expenses	8.6	3.8
Tax settlements (other than on income)	8.0	9.8
Non-current assets held for sale and assets of the disposal group	5.1	14.4
Prepayment on income tax	2.4	1.5
Other	13.1	10.0
Provision for impairment of other non-financial assets	(6.1)	(3.9)
Total other non-financial assets	**340.5**	**196.9**
Total other assets	**568.1**	**360.0**

As at 31 December 2012 receivables on plastic cards settlements of 107.5 billion RUB (2011: 78.8 billion RUB) represent receivables due within 30 days on operations of the Group`s customers with plastic cards.

As at 31 December 2012 and 31 December 2011 intangible assets acquired through business combinations are as follows:

In billions of Russian Roubles	2012	2011
Core deposit intangible	15.6	5.4
Brand	10.3	—
Client base	4.0	—
Bank licenses	1.0	—
Licenses for oil exploitation	—	2.4
Other	4.9	4.4
Total intangible assets acquired through business combinations	**35.8**	**12.2**

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

In billions of Russian Roubles	Funds in settlement	Other financial assets	Prepayments for premises and other assets	Other non-financial assets	Total
Provision for impairment at 1 January 2012	**0.1**	**2.1**	**1.0**	**2.9**	**6.1**
Net provision charge for impairment during the year	—	0.5	0.1	3.5	4.1
Other assets written off during the year as uncollectible	—	(0.3)	—	(1.4)	(1.7)
Provision for impairment at 31 December 2012	**0.1**	**2.3**	**1.1**	**5.0**	**8.5**

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

In billions of Russian Roubles	Funds in settlement	Other financial assets	Prepayments for premises and other assets	Other non-financial assets	Total
Provision for impairment at 1 January 2011	**0.1**	**2.1**	**1.1**	**1.5**	**4.8**
Net provision charge for impairment during the year	—	0.3	(0.1)	1.7	1.9
Other assets written off during the year as uncollectible	—	(0.3)	—	(0.3)	(0.6)
Provision for impairment at 31 December 2011	**0.1**	**2.1**	**1.0**	**2.9**	**6.1**

Provision for impairment of other assets is recognised by the Group on operations conducted in the normal course of the Group's business. Provision is accessed on the basis of the Group's best estimates of recoverability of other assets.

Movements in goodwill arising on the acquisition of subsidiaries are:

In billions of Russian Roubles	Note	2012	2011
Carrying amount at 1 January		**15.1**	**8.3**
Acquisition of subsidiaries	39	16.7	8.0
Disposal of subsidiaries		(5.1)	—
Impairment loss		(1.7)	(1.2)
Carrying amount at 31 December		**25.0**	**15.1**

The estimated fair value of other financial assets is disclosed in Note 35. Currency and maturity analyses of other assets are disclosed in Note 32. The information on related party balances is disclosed in Note 37.

16. DUE TO BANKS

In billions of Russian Roubles	2012	2011
Sale and repurchase agreements with banks	854.9	232.9
Term placements of banks	518.2	240.4
Correspondent accounts and overnight placements of banks	79.3	59.1
Total due to banks	**1,452.4**	**532.4**

Term placements of other banks represent funds received on interbank market.

Refer to Note 36 for information on the amounts in due to other banks received under sale and repurchase agreements and fair value of securities pledged.

The estimated fair value of due to other banks is disclosed in Note 35. Currency and maturity analyses of due to other banks are disclosed in Note 32. The information on related party balances is disclosed in Note 37.

17. DUE TO INDIVIDUALS AND CORPORATE CUSTOMERS

In billions of Russian Roubles	2012	2011
Individuals:		
Current/demand accounts	1,401.1	1,077.0
Term deposits	5,582.1	4,649.3
Total due to individuals	**6,983.2**	**5,726.3**
State and public organisations:		
Current/settlement accounts	99.0	142.2
Term deposits	270.1	39.6
Total due to state and public organisations	**369.1**	**181.8**
Other corporate customers:		
Current/settlement accounts	1,130.1	1,230.1
Term deposits	1,696.9	793.9
Total due to other corporate customers	**2,827.0**	**2,024.0**
Total due to corporate customers	**3,196.1**	**2,205.8**
Total due to individuals and corporate customers	**10,179.3**	**7,932.1**

Economic sector concentrations within customer accounts are as follows:

In billions of Russian Roubles	2012		2011	
	Amount	%	Amount	%
Individuals	6,983.2	68.6	5,726.3	72.2
Services	826.3	8.1	450.2	5.7
Oil and gas	453.7	4.5	311.9	3.9
Trade	404.8	4.0	305.6	3.9
Construction	253.8	2.5	182.7	2.3
Municipal bodies and state organisations	208.4	2.0	58.3	0.7
Energy	167.4	1.6	122.2	1.5
Machine building	165.6	1.6	132.2	1.7
Transport, aviation, space industry	118.5	1.2	79.7	1.0
Chemical	96.6	0.9	56.3	0.7
Food and agriculture	84.3	0.8	61.7	0.8
Metallurgy	77.2	0.8	43.3	0.5
Telecommunications	59.4	0.6	48.7	0.6
Timber industry	26.2	0.3	17.2	0.2
Other	253.9	2.5	335.8	4.3
Total due to individuals and corporate customers	**10,179.3**	**100.0**	**7,932.1**	**100.0**

As at 31 December 2012 included in Due to corporate customers are deposits of 79.0 billion RUB (31 December 2011: 95.0 billion RUB) held as collateral for irrevocable commitments under import letters of credit. Refer to Note 33.

As at 31 December 2012 the Group had 20 largest customers with balances above 13.1 billion RUB (31 December 2011: 20 customers with balances above 11.5 billion RUB). The aggregate balance of these customers was 914.2 billion RUB (31 December 2011: 621.1 billion RUB) or 9.0% (31 December 2011: 7.8%) of total due to individuals and corporate customers.

Refer to Note 36 for information on the amounts in due to corporate customers received under sale and repurchase agreements and fair value of securities pledged. The estimated fair value of due to individuals and corporate customers is disclosed in Note 35. Currency and maturity analyses of due to individuals and corporate customers are disclosed in Note 32. The information on related party balances is disclosed in Notes 37 and 38.

18. DEBT SECURITIES IN ISSUE

In billions of Russian Roubles	2012	2011
Loan participation notes issued under the MTN programme	291.6	169.6
Savings certificates	227.2	9.8
Promissory notes	110.1	77.2
Bonds issued	44.3	9.9
Notes issued under the ECP programme	16.1	—
Structured notes	2.3	1.5
Other debt securities issued	0.1	0.7
Total debt securities in issue	**691.7**	**268.7**

At 31 December 2012 included in loan participation notes issued under the MTN programme are notes issued by the Group under 10 billion USD loan participation notes MTN issuance programme launched in 2006. In 2012 the limit for the issues under the programme was extended to 30 billion USD.

In May 2006 the Group issued the first series of notes under this programme in the amount of 0.5 billion USD equivalent to 13.5 billion RUB as at the date of issue. As at 31 December 2012 these notes were accounted for at amortised cost of 15.3 billion RUB (2011: 16.4 billion RUB). The notes mature in May 2013 and have contractual fixed interest rate of 6.5% p.a. As at 31 December 2012 the effective interest rate on the notes was 6.6% p.a. (2011: 6.6% p.a.).

In July 2008 the Group issue the third series of notes under the MTN issuance programme in the amount of 0.5 billion USD equivalent to 11.7 billion RUB as at the date of issue. As at 31 December 2012 these notes were accounted for at amortised cost of 15.7 billion RUB (2011: 16.7 billion RUB). These notes mature in July 2013 and have contractual fixed interest rate of 6.5% p.a. As at 31 December 2012 the effective interest rate on the notes was 6.6% p.a. (2011: 6.6% p.a.).

In July 2010 the Group issued the fourth series of loan participation notes under the MTN issuance programme in the amount of 1 billion USD equivalent to 31.1 billion RUB as at the date of issue. The notes mature in July 2015 and have contractual fixed interest rate of 5.5% p.a. Additional notes of 0.5 billion USD (equivalent to 15.1 billion RUB as at the date of issue) were issued In August 2010 with a premium and form a single series with the fourth series issue. Additional notes have the same interest rate and maturity date. As at 31 December 2012 the notes were accounted for at amortised cost of 46.9 billion RUB (2011: 49.7 billion RUB); the effective interest rate on the notes was 5.4% p.a. (2011: 5.4% p.a.).

In September 2010 the Group issued the fifth series of loan participation notes under the MTN issuance programme in the amount of 1 billion USD equivalent to 31.0 billion RUB as at the date of issue. The notes mature in March 2017 and have contractual fixed interest rate of 5.4% p.a. In October 2010 the Group issued additional notes for 0.25 billion USD (equivalent to 7.6 billion RUB as at the date of issue) with a premium which form a single series with the fifth series issue and have the same interest rate and maturity. As at 31 December 2012 the notes were accounted for at amortised cost of 38.6 billion RUB (2011: 40.9 billion RUB); the effective interest rate was 5.4% p.a. (2011: 5.4% p.a.).

In November 2010 the Group issued the sixth series of loan participation notes under the MTN issuance programme in the amount of 0.4 billion CHF equivalent to 12.6 billion RUB as at the date of issue. The notes mature in November 2014 and have contractual fixed interest rate of 3.5% p.a. As at 31 December 2012 the notes were accounted for at amortised cost of 13.4 billion RUB (2011: 13.7 billion RUB); the effective interest rate was 3.6% p.a. (2011: 3.6% p.a.).

In June 2011 the Group issued the seventh series of loan participation notes under the MTN issuance programme in the amount of 1 billion USD equivalent to 27.9 billion RUB as at the date of issue. The notes mature in June 2021 and have contractual fixed interest rate of 5.7% p.a. As at 31 December 2012 the notes were accounted for at amortised cost of 30.4 billion RUB (2011: 32.2 billion RUB); the effective interest rate on the notes was 5.8% p.a. (2011: 5.8% p.a.).

In February 2012 the Group issued the eighth series of loan participation notes under the MTN issuance programme in the amount of 1 billion USD equivalent to 30.2 billion RUB as at the date of issue. The notes mature in February 2017 and have contractual fixed interest rate of 5.0% p.a. In August 2012 the Group issued additional notes for 0.3 billion USD (equivalent to 9.6 billion RUB as at the date of issue) which form a single series with the eighth series issue and have the same interest rate and maturity. As at 31 December 2012 the notes were accounted for at amortised cost of 38.9 billion RUB; the effective interest rate on the notes was 4.8% p.a.

In February 2012 the Group issued the ninth series of loan participation notes under the MTN issuance programme in the amount of 0.75 billion USD equivalent to 22.7 billion RUB as at the date of issue. The notes mature in February 2022 and have contractual fixed interest rate of 6.1% p.a. In July 2012 the Group issued additional notes for 0.75 billion USD (equivalent to 24.3 billion RUB as at the date of issue) which form a single series with the ninth series issue and have the same interest rate and maturity. As at 31 December 2012 the notes were accounted for at amortised cost of 48.4 billion RUB; the effective interest rate on the notes was 5.6% p.a.

In March 2012 the Group issued the tenth series of loan participation notes under the MTN issuance programme in the amount of 0.41 billion CHF equivalent to 13.2 billion RUB as at the date of issue. The notes mature in September 2015 and have contractual fixed interest rate of 3.1% p.a. As at 31 December 2012 the notes were accounted for at amortised cost of 13.7 billion RUB; the effective interest rate on the notes was 3.2% p.a.

In June 2012 the Group issued the eleventh series of loan participation notes under the MTN issuance programme in the amount of 1 billion USD equivalent to 32.8 billion RUB as at the date of issue. The notes mature in June 2019 and have contractual fixed interest rate of 5.2% p.a. As at 31 December 2012 the notes were accounted for at amortised cost of 30.3 billion RUB; the effective interest rate on the notes was 5.3% p.a.

Promissory notes are interest-bearing or discount securities issued by the Group. They are denominated in Russian roubles, US Dollars and Euro and have maturity dates from two weeks to three years (2011: from two weeks to three years). Interest or discount rates on promissory notes issued by the Group vary from 4.7% to 8.3% p.a. (2011: from 0.1% to 6.5% p.a.). Promissory notes are freely tradable on the Russian financial market.

Savings certificates are interest-bearing securities issued by the Group. They are denominated in Russian Roubles and have maturity dates from three months to three years (2011: from three months to three years). Interest rates on these securities vary from 0.01% to 10.5% p.a. (2011: from 4.1% to 7.2% p.a.).

In November 2012 the Group launched Euro-Commercial Paper programme (ECP programme) for the total amount of issues limited by 3 billion USD. The notes issued under ECP programme will have maturity of one year or less. As at 31 December 2012 the Group has launched three issues under the programme for the total amount of 0.5 billion USD equivalent to 16.3 billion RUB as at the date of issue. As at 31 December 2012 these notes were accounted for at amortised cost of 16.1 billion RUB. The notes have maturity dates from November 2013 to December 2013; floating nominal discount rates for the two issues are 12 months LIBOR + 0.9% p.a., for the third issue — fixed discount rate of 1.6% p.a.; effective interest rates vary from 1.6%p.a. to 1.8% p.a.

Structured notes represent interest-bearing and non-interest-bearing securities issued by the Group. They are denominated in Russian Roubles and have maturity dates from ”on demand” to June 2021 (2011: from ”on demand” to August 2018). Interest rates on these securities vary from 0.0% to 13.3% p.a. (2011: from 0.0% to 17% p.a.).

Bonds issued represent interest-bearing securities issued by the Group. They are denominated in Turkish Lyra, Belorussian roubles, US dollars, Euro, Ukranian Hryvnia and have maturity dates from ”on demand” to September 2023 (2011: from “on demand” to 2019). Interest rates on these securities vary from 0.0% to 8.0% p.a. (2011: from 5.5% to 12.8% p.a.).

19. OTHER BORROWED FUNDS

In billions of Russian Roubles	2012	2011
Trade finance deals	306.3	141.9
Syndicated loans received	162.9	102.1
Total other borrowed funds	**469.2**	**244.0**

In December 2010 the Group received a syndicated loan in the amount of 2 billion USD from a consortium of foreign banks equivalent to 61.5 billion RUB as at the date of issue. As at 31 December 2012 the loan was accounted for at amortised cost of 60.6 billion RUB (2011: 61.5 billion RUB). This loan matures in December 2013 and had contractual floating interest rate of 6 months LIBOR + 1.5% p.a. As at 31 December 2012 the effective interest rate on the loan was 2.4% p.a. (2011: 2.7% p.a.).

In November 2011 the Group received a multicurrency syndicated loan in the total amount of 1.2 billion USD from a consortium of foreign banks equivalent to 37.6 billion RUB as at the date of issue. The loan was received in two tranches in two different currencies: c. 90% of the above sum was received in USD dollars and the remaining part in Euro. The loan matures in November 2014 and has contractual floating interest rates of 3 months LIBOR + 1.5% p.a. for the tranche in USD dollars and 3 months EURIBOR + 1.1% p.a. for the tranche in Euro. As at 31 December 2012 the loan was accounted for at amortised cost of 36.1 billion RUB (2011: 38.1 billion RUB); the effective interest rate on the tranche in USD dollars was 2.2% p.a. (2011: 2.4% p.a.), on the tranche in Euro — 1.6% p.a. (2011: 2.9% p.a.).

In October 2012 the Group received a syndicated loan in the amount of 1.5 billion USD from a consortium of foreign banks equivalent to 47.2 billion RUB as at the date of issue. As at 31 December 2012 the loan was accounted for at amortised cost of 45.0 billion RUB. This loan matures in October 2015 and had contractual floating interest rate of 3 months LIBOR + 1.5% p.a. As at 31 December 2012 the effective interest rate on the loan was 2.3% p.a.

In November 2012 the Group received a syndicated loan in the amount of EUR 0.4 billion from a European bank equivalent to 15.8 billion RUB as at the date of issue. As at 31 December 2012 the loan was accounted for at amortised cost of 15.6 billion RUB. This loan matures in November 2013 and had contractual floating interest rate of 6 months EURIBOR + 0.75% p.a. As at 31 December 2012 the effective interest rate on the loan was 1.1% p.a.

In November 2012 the Group received a syndicated loan in the amount of 0.2 billion USD from a European bank equivalent to 5.7 billion RUB as at the date of issue. As at 31 December 2012 the loan was accounted for at amortised cost of 5.6 billion RUB. This loan matures in November 2013 and had contractual floating interest rate of 6 months LIBOR + 0.75% p.a. As at 31 December 2012 the effective interest rate on the loan was 1.3% p.a.

As at 31 December 2012 trade finance deals were accounted for at amortised cost of 306.3 billion RUB (2011: 141.9 billion RUB), had interest rates varying from 0.3% to

12.4% p.a. (2011: from 0.9% to 8.3% p.a.) and maturity dates from January 2013 to December 2021 (2011: from January 2012 to December 2021).

The estimated fair value of other borrowed funds is disclosed in Note 35. Currency and maturity analyses of other borrowed funds are disclosed in Note 32.

20. OTHER LIABILITIES

In billions of Russian Roubles	2012	2011
Other financial liabilities		
Payables on plastic card settlements	63.7	45.8
Derivative financial instruments	41.7	26.7
Funds in settlement	36.5	10.1
Securties sold, not yet purchased	18.6	67.4
Trade payables	11.7	13.1
Deposit insurance system fees payable	6.2	5.2
Settlements on operations with securities	4.1	10.5
Deferred consideration on acquisition of subsidiaries	2.7	36.1
Deferred commissions received on guarantees issued	1.3	1.4
Other	13.2	6.5
Total other financial liabilities	**199.7**	**222.8**
Other non-financial liabilities		
Accrued employee benefit costs	29.3	17.9
Taxes payable other than on income	18.1	9.5
Income tax payable	3.3	1.5
Advances received	2.8	1.8
Deferred gains on initial recognition of financial instruments	0.4	0.8
Liabilities of the disposal group	—	8.5
Other	9.5	2.4
Total other non-financial liabilities	**63.4**	**42.4**
Total other liabilities	**263.1**	**265.2**

Defined benefit plans of the Group. The Group applies IAS 19 Employee Benefits for accounting for its pension liabilities. As at 31 December 2012 the Group operates two benefit plans — benefit plan with defined pension payments and benefit plan with defined pension contributions. The Group takes direct liability to provide pension payments and contributions defined according to the Group's pension programmes.

All the employees of the Bank (including retired) who are entitled for state pension payments or have five years or less to retirement as at 1 January 2011 participate in the benefit plan with defined pension payments. The amount of payments is determined based on employee staying with the Bank at the date of retirement. As at 31 December 2012 the Bank operates 18 separate pension programmes with defined payments, for Central Head Office and each Regional Head Office.

All the employees of the Bank with three years of continuous employment with the Bank except the Management Board members, those employees who have five years or less to retirement as at 1 January 2011 or those who are already entitled for state pension payments participate in the benefit plan with defined pension contributions (which are calculated as a percent of wage). According to the programme employees whose continuous employment with the Bank reaches seven years become unconditionally entitled for these contributions upon retirement.

As at 31 December 2012 pension liabilities of the Group comprised 8.1 billion RUB (2011: 4.7 billion RUB). Pension expenses for 2012 amounted to 4.4 billion RUB (2011: 0.7 billion RUB) and were included in staff costs within operating expenses.

The estimated fair value of other financial liabilities is disclosed in Note 35. Currency and maturity analyses of other liabilities are disclosed in Note 32.

21.SUBORDINATED DEBT

In billions of Russian Roubles	2012	2011
Subordinated debt received from the Bank of Russia	303.3	303.3
Subordinated debt received under the MTN programme	61.1	—
Other subordinated debts	20.3	0.2
Total subordinated debt	**384.7**	**303.5**

In December 2008 the Group received a subordinated loan of 500 billion RUB from the Bank of Russia with a contractual fixed interest rate of 8.0% p.a. The transaction was structured in three tranches. In May 2010 the Group paid back 200 billion RUB of the loan. The remaining part of the loan matures in two tranches: in October 2019 and December 2019. On 30 July 2010 under the additional agreement with the Bank of Russia the interest rate was changed to 6.5% p.a. As at 31 December 2012 the loan was accounted for at amortised cost of 303.3 billion RUB (2011: 303.3 billion RUB); the effective interest rate on the loan was 6.5% p.a. (2011: 6.5% p.a.).

In October 2012 the Group issued the twelfth series of loan participation notes under the MTN issuance programme in the amount of 2 billion USD equivalent to 63.0 billion RUB as at the date of issue. The notes have the status of subordinated. The notes mature in October 2022 and have contractual fixed interest rate of 5.1% p.a. As at 31 December 2012 the notes were accounted for at amortised cost of 61.1 billion RUB; the effective interest rate on the notes was 5.2% p.a.

In the event of the Bank's liquidation the holders of these debts would be subordinated to all other creditors.

The estimated fair value of subordinated debt is disclosed in Note 35. Currency and maturity analyses of subordinated debt are disclosed in Note 32. The information on related party balances is disclosed in Note 37.

22.SHARE CAPITAL AND TREASURY SHARES

In billions of Russian Roubles, except for number of shares	2012			2011		
	Number of shares, in millions	Nominal amount	Inflation adjusted amount	Number of shares, in millions	Nominal amount	Inflation adjusted amount
Ordinary shares	21,587	64.8	83.3	21,587	64.8	83.3
Preference shares	1,000	3.0	4.4	1,000	3.0	4.4
Total share capital	**22,587**	**67.8**	**87.7**	**22,587**	**67.8**	**87.7**

As at 31 December 2012 all ordinary shares have a nominal value of RUB 3 per share and rank equally. Each ordinary share carries one vote. All issued ordinary shares are fully paid. Preference shares have a nominal value of RUB 3 per share and carry no voting rights but rank ahead of the ordinary shares in the event of the Bank's liquidation. Preference shares are not redeemable. Dividend payments are at the discretion of the Bank. When a dividend is paid, the preference shares attract a minimum payment of annual dividends of 15% of their nominal value, subject to confirmation of the shareholders meeting. If preference dividends are not declared, the preference shareholders obtain the right to vote as ordinary shareholders, but lose this right when the next dividend is paid. Preference share dividends are set at 86.3% of nominal value in 2012 for the year ended 31 December 2011 (2011: 38.3% of nominal value for the year ended 31 December 2010). Preference share dividends rank above ordinary dividends.

On 22 March 2013 Supervisory Board in accordance with the Dividend policy recommended to the General Shareholders Meeting to pay 58.7 billion RUB to shareholders as dividends for the year ended 31 December 2012.

The treasury shares as at 31 December 2012 and 31 December 2011 were as follows:

In billions of Russian Roubles, except for number of shares	2012			2011		
	Number of shares, in millions	Inflation adjusted amount	Acquisition cost	Number of shares, in millions	Inflation adjusted amount	Acquisition cost
Ordinary shares	56.4	0.2	5.4	32.2	0.1	4.3
Preference shares	32.1	0.1	2.2	44.8	0.2	2.7
Total treasury shares	**88.5**	**0.3**	**7.6**	**77.0**	**0.3**	**7.0**

23.INTEREST INCOME AND EXPENSE

In billions of Russian Roubles	2012	2011
Interest income		
Interest income on financial assets carried at amortised cost and on financial assets available for sale:		
– Loans and advances to customers	1,037.4	741.8
– Debt investment securities available for sale	76.8	67.4
– Debt investment securities held to maturity	28.9	26.8
– Due from banks	6.0	6.9
– Correspondent accounts with banks	0.7	0.1
	1,149.8	**843.0**
Interest income on financial assets carried at fair value through profit or loss:		
– Debt trading securities	5.7	4.0
– Debt securities designated at fair value through profit or loss	1.6	3.6
– Other interest income	0.2	—
	7.5	**7.6**
Total interest income	**1,157.3**	**850.6**
Interest expense		
Term deposits of individuals	(230.6)	(186.2)
Term deposits of legal entities	(73.1)	(26.0)
Term placements of banks	(45.4)	(5.0)
Debt securities in issue	(25.1)	(12.8)
Subordinated debt	(20.9)	(19.5)
Current/settlement accounts of legal entities	(16.7)	(10.5)
Current/demand accounts of individuals	(8.0)	(4.7)
Other borrowed funds	(6.9)	(4.2)
Correspondent accounts of banks	(1.2)	(0.6)
Other interest expense	(0.7)	—
Total interest expense	**(428.6)**	**(269.5)**
Deposit insurance expenses	(23.9)	(20.1)
Total interest expense including deposit insurance expenses	**(452.5)**	**(289.6)**
Net interest income	**704.8**	**561,0**

24. FEE AND COMMISSION INCOME AND EXPENSE

In billions of Russian Roubles	2012	2011
Fee and commission income		
Plastic cards operations	51.9	35.1
Cash and settlements transactions with individuals	48.7	41.5
Cash and settlements transactions with legal entities	47.5	42.5
Agent commissions on selling insurance contracts	17.0	14.0
Guarantees issued	7.3	4.4
Operations with foreign currencies	5.2	6.5
Cash collection	5.1	4.7
Transactions with securities	2.6	1.1
Other	3.9	2.1
Total fee and commission income	**189.2**	**151.9**
Fee and commission expense		
Settlement transactions	(12.3)	(7.5)
Operations with foreign currencies	(0.5)	(0.4)
Cash collection	(0.3)	(0.3)
Other	(5.8)	(3.0)
Total fee and commission expense	**(18.9)**	**(11.2)**
Net fee and commission income	**170.3**	**140.7**

25. NET GAINS ARISING FROM TRADING IN FOREIGN CURRENCIES, OPERATIONS WITH FOREIGN CURRENCY DERIVATIVES AND FOREIGN EXCHANGE TRANSLATION GAINS

In billions of Russian Roubles	2012	2011
Net gains arising from trading in foreign currencies	10.6	5.5
Net gains on revaluation of foreign currency derivatives	8.4	2.6
Net foreign exchange translation gains	0.6	1.4
Total net gains arising from trading in foreign currencies, foreign exchange translation and revaluation of foreign currency derivatives	**19.6**	**9.5**

26. NET INCOME/(EXPENSES) OF NON-CORE BUSINESS ACTIVITIES

In billions of Russian Roubles	2012	2011
Revenue from sale of goods	45.8	54.6
Revenue from completed construction contracts	1.5	7.8
Revenue from other activities	3.9	3.7
Total revenue of non-core business activities	**51.2**	**66.1**
Cost of sales:		
– cost of goods sold	(23.2)	(41.7)
– depreciation of fixed assets	(4.3)	(1.2)
– staff costs	(1.7)	(2.5)
– transport costs	(0.7)	(1.4)
– maintenance of premises and eqiupment	(0.5)	(0.2)
– customs duties and taxes	(4.9)	(2.8)
– other costs	(2.9)	(4.8)
Total cost of sales	**(38.2)**	**(54.6)**
Total net income/(expense) of non-core business activities	**13.0**	**11.5**

27. OPERATING EXPENSES

In billions of Russian Roubles	Note	2012	2011
Staff costs		245.8	201.3
Depreciation of premises and equipment	14	51.8	42.4
Administrative expenses		30.7	22.5
Repairs and maintenance of premises and equipment		29.8	24.8
Taxes other than on income		19.3	11.7
Telecommunication expenses		19.1	10.8
Operating lease expenses for premises and equipment		16.8	10.4
Advertising and marketing services		9.6	5.1
Consulting and assurance services		7.3	3.5
Other		21.2	9.3
Total operating expenses		**451.4**	**341.8**

28. INCOME TAXES

Income tax expense comprises the following:

In billions of Russian Roubles	2012	2011
Current tax	101.0	75.7
Deferred tax	9.9	3.5
Less: Deferred tax recognised in other comprehensive income	(10.9)	0.6
Income tax expense for the year	**100.0**	**79.8**

The income tax rate applicable to the major part of the Group's income for 2012 is 20% (2011: 20%).

Reconciliation between the expected and the actual taxation charge is provided below:

In billions of Russian Roubles	2012	2011
IFRS profit before tax	**447.9**	**395.7**
Theoretical tax charge at statutory rate (2012: 20%; 2011: 20%)	89.6	79.2
Tax effect on income on government securities taxed at different rates	(3.2)	(3.3)
Tax effect of items which are not deductible or assessable for taxation purposes:		
Non-deductible staff costs	1.7	2.6
Unrecognised tax assset of subsidiaries	9.8	0.6
Non-deductible losses on cessions	1.1	0.6
Other non-temporary differences	1.0	0.1
Income tax expense for the year	**100.0**	**79.8**

Differences between IFRS and Russian statutory taxation regulations give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 20% (2011: 20%), except for income on state, municipal and certain other types of securities that is taxed at 15%, 9% and 0% (2011: 15%, 9% and 0%) and on dividends that is taxed at a standard rate of 9% (2011: 9%).

In billions of Russian Roubles	31 December 2011	Business combinations	Credited/ (charged) to profit or loss	Recognised in other comprehensive income	Unrecognised currency translation differences	31 December 2012
Tax effect of deductible temporary differences						
Deferred fees and commissions income	5.1	0.5	(0.3)	—	—	5.3
Accrued employee benefit costs	0.1	0.4	0.4	—	—	0.9
Low value items write-off	1.9	—	0.6	—	—	2.5
Accrued interest on loans	5.2	(0.4)	(1.0)	—	—	3.8
Fair valuation of trading securities and securities designated at fair value through profit or loss	9.3	—	7.7	—	—	17.0
Other	(8.6)	—	14.5	—	—	5.9
Gross deferred tax asset	**13.0**	**0.5**	**21.9**	**—**	**—**	**35.4**
Tax effect of taxable temporary differences						
Loan impairment provision	(4.5)	3.0	(12.1)	—	(0.1)	(13.7)
Premises and equipment	(22.4)	0.7	1.0	—	—	(20.7)
Fair valuation of investment securities available for sale	2.4	—	1.3	(10.9)	—	(7.2)
Other	(1.9)	(6.7)	(11.1)	—	0.2	(19.5)
Gross deferred tax liability	**(26.4)**	**(3.0)**	**(20.9)**	**(10.9)**	**0.1**	**(61.1)**
Total net deferred tax asset / (liability)	**(13.4)**	**(2.5)**	**1.0**	**(10.9)**	**0.1**	**(25.7)**

In billions of Russian Roubles	31 December 2010	Business combinations	Credited/ (charged) to profit or loss	Recognised in other comprehensive income	31 December 2011
Tax effect of deductible temporary differences					
Deferred fees and commissions income	5.8	—	(0.7)	—	5.1
Accrued employee benefit costs	—	—	0.1	—	0.1
Low value items write-off	1.3	—	0.6	—	1.9
Accrued interest on loans	6.6	—	(1.4)	—	5.2
Fair valuation of investment securities available for sale	4.2	—	5.1	—	9.3
Other	—	—	(8.6)	—	(8.6)
Gross deferred tax asset	**17.9**	**—**	**(4.9)**	**—**	**13.0**
Tax effect of taxable temporary differences					
Loan impairment provision	(2.9)	—	(1.6)	—	(4.5)
Premises and equipment	(17.9)	—	2.8	(7.3)	(22.4)
Fair valuation of trading securities and securities designated at fair value through profit or loss	(5.5)	—	—	7.9	2.4
Other	—	(1.5)	(0.4)	—	(1.9)
Gross deferred tax liability	**(26.3)**	**(1.5)**	**0.8**	**0.6**	**(26.4)**
Total net deferred tax asset / (liability)	**(8.4)**	**(1.5)**	**(4.1)**	**0.6**	**(13.4)**

As at 31 December 2012, the temporary difference associated with investments in subsidiaries in the statement of financial position of the parent company amounted to 27.3 billion RUB (2011: 20.5 billion RUB). In accordance with IAS 12 Income Taxes respective deferred tax asset of 5.5 billion RUB (2011: respective deferred tax asset of 4.1 billion RUB) was not recognized in the financial statements.

29. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to shareholders of the Bank by the weighted average number of ordinary shares in issue during the period, excluding treasury shares. The Bank has no dilutive potential ordinary shares; therefore the diluted earnings per share equals the basic earnings per share.

In billions of Russian Roubles	2012	2011
Profit for the reporting period attributable to the shareholders of the Bank	348.8	316.2
Less preference dividends declared	(2.6)	(1.1)
Profit attributable to the ordinary shareholders of the Bank	**346.2**	**315.1**
Weighted average number of ordinary shares in issue (billions)	21.6	21.6
Earnings per ordinary share, basic and diluted (expressed in RUB per share)	**16.03**	**14.59**

30. DIVIDENDS

In billions of Russian Roubles	2012		2011	
	Ordinary	Preference	Ordinary	Preference
Dividends payable at 1 January	0.1	—	0.1	—
Dividends declared during the year ended 31 December	44.9	2.6	19.9	1.1
Dividends paid during the year ended 31 December	(44.8)	(2.5)	(19.8)	(1.1)
Dividends payable as at 31 December	**0.2**	**0.1**	**0.2**	**—**
Dividends per share declared during the year (RUB per share)	**2.08**	**2.60**	**0.92**	**1.15**

All dividends were declared and paid in Russian Roubles.

31. SEGMENT ANALYSIS

For the purposes of management the Group is divided into operating segments of activity — central head office, 17 regional banks and subsidiaries — which are defined on the basis of organizational structure of the Group and geographical areas. The principal activity of all operating segments is banking operations. For the purposes of presentation in these consolidated financial statements the operating segments are aggregated in the following reportable segments:

- Moscow, including:
  - Central head office of the Group;
  - Regional bank of Moscow;
  - Subsidiaries of the Group located in the region.

- Central and Northern Regions of European part of Russia, including:

Regional banks:
  - Severny — Yaroslavl;
  - Severo-Zapadny — St. Petersburg;
  - Tsentralno-Chernozemny — Voronezh;
  - Srednerussky — Moscow;

Subsidiaries of the Group located in the region.

- Volga Region and South of European part of Russia, including:

Regional banks:
  - Volgo-Vyatsky — Nizhniy Novgorod;
  - Povolzhsky — Samara;
  - Severo-Kavkazsky — Stavropol;
  - Yugo-Zapadny — Rostov-on-Don;

Subsidiaries of the Group located in the region.

- Ural, Siberia and Far East of Russia, including:

Regional banks:
  - Zapadno-Uralsky — Perm;
  - Uralsky — Ekaterinburg;

- Sibirsky — Novosibirsk;
- Zapadno-Sibirsky — Tumen;
- Severo-Vostochny — Magadan;
- Dalnevostochny — Khabarovsk,
- Vostochno-Sibirsky — Krasnoyarsk;
- Baikalsky — Irkutsk.

Subsidiaries of the Group located in the region.

- Other countries, including:
  - Subsidiaries located in Turkey;
  - Subsidiaries located in CIS (Ukraine, Kazakhstan, Belarus);
  - Subsidiaries located in Austria and Switzerland;
  - Subsidiaries of Sberbank Europe AG (former Volksbank International AG ("VBI") located in Central and Eastern Europe;
  - Companies of CJSC Sberbank CIB located in the USA, the United Kingdom, Cyprus and certain other jurisdictions;
  - A branch office in India.

The Management of the Group analyses operating results of every segment of activity for the purposes of making decision about allocation of resources and assessment of segments' business results. The segments' reporting and operating results which are provided to the Management of the Group for analysis are prepared under Russian accounting standards, except the segments' reporting of the subsidiaries which is prepared under International Financial Reporting Standards.

Intersegment operations are performed on the basis of internal transfer pricing rates which are established, approved and regularly revised by the Management of the Group.

The subsidiaries' activity is controlled by the Group integrally.

Segment reporting of the Group's assets and liabilities as at 31 December 2012 is as follows:

In billions of Russian Roubles	Moscow	Central and Northern Regions of European part of Russia	Volga Region and South of European part of Russia	Ural, Siberia and Far East of Russia	Other countries	Total
Total assets	**6,226.8**	**2,299.7**	**1,971.7**	**2,694.2**	**1,913.9**	**15,106.3**
Total liabilities	**5,651.6**	**2,395.3**	**1,725.9**	**2,213.2**	**1,497.8**	**13,483.8**

Segment reporting of the Group's assets and liabilities as at 31 December 2011 is as follows:

In billions of Russian Roubles	Moscow	Central and Northern Regions of European part of Russia	Volga Region and South of European part of Russia	Ural, Siberia and Far East of Russia	Other countries	Total
Total assets	**4,849.0**	**1,877.8**	**1,530.8**	**2,110.4**	**445.5**	**10,813.5**
Total liabilities	**3,825.7**	**2,045.3**	**1,434.0**	**1,876.4**	**349.5**	**9,530.9**

Reconciliation of total assets and total liabilities as per the reportable segments with the Group's total assets and total liabilities under IFRS as of 31 December 2012 and 31 December 2011 is as follows:

In billions of Russian Roubles	Total assets		Total liabilities	
	2012	2011	2012	2011
Total amount per segment information	**15,106.3**	**10,813.5**	**13,483.8**	**9,530.9**
Adjustment of provisions	96.4	73.0	(16.4)	(17.2)
Additional interest accrued on loans	4.6	4.2	0.1	0.5
Deferred commission income on loans	(23.7)	(25.5)	0.4	0.7
Adjustment of depreciation and cost or revalued amount of premises and equipment including effect of deferred tax	(57.1)	(51.2)	(2.0)	3.4
Differencies arising on securities classification	—	—	10.5	(8.4)
Loaned repo securities	(36.0)	—	(36.0)	—
Accounting for derivatives at fair value	2.4	17.4	(0.1)	17.2
Staff expenses accrued related to the reporting period (bonuses, annual leave, pension liabilities)	0.2	0.2	17.5	13.8
Adjustment of income tax	0.4	—	7.8	18.9
Deferred comission income on guarantees	—	-	1.3	1.3
Other adjustments	3.9	3.5	6.7	6.0
The Group's total amount under IFRS	**15,097.4**	**10,835.1**	**13,473.6**	**9,567.1**

Segment reporting of the Group's income and expenses for the year ended 31 December 2012 is as follows:

In billions of Russian Roubles	Moscow	Central and Northern Regions of European part of Russia	Volga Region and South of European part of Russia	Ural, Siberia and Far East of Russia	Other countries	Total
Interest income	413.9	207.1	180.0	256.3	84.7	1,142.0
Interest expense	(198.6)	(75.9)	(53.0)	(67.2)	(34.0)	(428.7)
Inter-segment (expense) / income	(24.3)	31.8	1.1	(8.6)	—	—
Fee and commission income	46.4	42.2	36.2	52.3	13.0	190.1
Fee and commission expense	(13.4)	(0.4)	(0.6)	(0.7)	(4.0)	(19.1)
Net gains arising from securities	5.2	—	—	—	2.1	7.3
Net gains arising from trading in foreign currencies, operations with foreign currency derivatives and foreign exchange translation	8.7	3.9	2.6	3.1	5.6	23.9
Net gains arising from operations with other derivatives	—	—	—	—	3.0	3.0
Net gains/ (losses) arising from operations with precious metals	0.7	0.4	0.4	0.7	(0.3)	1.9
Revenue of non-core business activities	15.3	2.8	14.2	18.8	0.1	51.2
Cost of sales of non-core business activities	(11.9)	(2.1)	(13.4)	(10.6)	(0.1)	(38.1)
Other net operating gains/ (losses)	10.6	4.6	1.6	(1.1)	(1.6)	14.1
Operating income before provision charge for loan impairment	**252.6**	**214.4**	**169.1**	**243.0**	**68.5**	**947.6**
Net provision charge for loan impairment	(0.2)	(12.8)	(16.4)	(1.7)	(21.1)	(52.2)
Operating income	**252.4**	**201.6**	**152.7**	**241.3**	**47.4**	**895.4**
Operating expenses	(136.2)	(92.2)	(76.4)	(116.6)	(40.1)	(461.5)
Profit before tax (Segment result)	**116.2**	**109.4**	**76.3**	**124.7**	**7.3**	**433.9**
Other disclosures						
Capital expenditure incurred (additions of fixed assets)	39.9	27.5	27.2	48.5	3.5	146.6
Depreciation of premises and equipment	(11.5)	(7.1)	(6.5)	(13.1)	(2.0)	(40.2)

Segment reporting of the Group's income and expenses for the year ended 31 December 2011 is as follows:

In billions of Russian Roubles	Moscow	Central and Northern Regions of European part of Russia	Volga Region and South of European part of Russia	Ural, Siberia and Far East of Russia	Other countries	Total
Interest income	323.6	160.2	138.8	186.2	23.3	832.1
Interest expense	(113.6)	(58.1)	(40.3)	(48.8)	(8.6)	(269.4)
Inter-segment (expense) / income	(35.5)	24.5	5.8	5.2	—	—
Fee and commission income	29.6	39.4	31.7	45.0	4.5	150.2
Fee and commission expense	(2.8)	(2.2)	(2.0)	(3.4)	(1.0)	(11.4)
Net gains/ (losses) arising from securities	7.5	—	—	—	(0.1)	7.4
Net gains arising from trading in foreign currencies, operations with foreign currency derivatives and foreign exchange translation	12.6	3.7	2.3	2.8	2.2	23.6
Net gains arising from operations with other derivatives	0.7	—	—	—	—	0.7
Net gains/ (losses) arising from operations with precious metals	3.1	1.0	0.9	1.4	(0.1)	6.3
Revenue of non-core business activities	26.1	10.3	21.2	6.4	2.1	66.1
Cost of sales of non-core business activities	(21.4)	(8.2)	(19.2)	(4.2)	(1.6)	(54.6)
Other net operating gains/ (losses)	9.6	(4.2)	(3.8)	(4.4)	0.7	(2.1)
Operating income before recovery of provision / provision charge for loan impairment	**239.5**	**166.4**	**135.4**	**186.2**	**21.4**	**748.9**
Net recovery of provision/ (net provision charge) for loan impairment	25.3	(13.6)	(8.5)	7.6	(3.7)	7.1
Operating income	**264.8**	**152.8**	**126.9**	**193.8**	**17.7**	**756.0**
Operating expenses	(92.2)	(80.0)	(69.1)	(98.7)	(8.5)	(348.5)
Profit before tax (Segment result)	**172.6**	**72.8**	**57.8**	**95.1**	**9.2**	**407.5**
Other disclosures						
Capital expenditure incurred (additions of fixed assets)	19.7	18.7	17.1	24.7	2.6	82.8
Depreciation of premises and equipment	(6.9)	(6.2)	(5.6)	(7.9)	(1.3)	(27.9)

Reconciliation of profit before tax, interest income and expense, fee and commission income, gains from operations with securities and gains from operations with foreign currencies for the reportable segments with the Group's consolidated income statement items under IFRS for the year ended 31 December 2012 is as follows:

In billions of Russian Roubles	Profit before tax	Interest income	Interest expense	Fee and commission income	Net gains arising from operations with securities	Net gains arising from trading in foreign currencies, operations with foreign currency derivatives and foreign exchange translation gains
Total amount per reportable segment	**433.9**	**1,142.0**	**(428.7)**	**190.1**	**7.3**	**23.9**
Adjustment of provisions	24.4	(1.4)	—	—	—	—
Staff expenses accrued for the year (bonuses, annual leave, pension liabilities)	(5.1)	—	—	—	—	—
Differences arising on reporting of fee and commission income and expense	—	11.9	—	(1.9)	—	(4.5)
Differencies arising on securities classification	6.1	1.3	—	—	(2.3)	—
Accounting for derivatives at fair value	3.9	—	—	—	—	0.2
Additional interest accrued on loans	0.5	0.5	—	—	—	—
Adjustment of depreciation and cost or revalued amount of premises and equipment	(9.0)	—	—	—	—	—
Adjustment of amortised cost and partial repurchase of other borrowed funds	(1.4)	—	(0.1)	—	—	—
Other adjustments	(5.4)	3.0	0.2	1.0	—	—
The Group's total amount under IFRS	**447.9**	**1,157.3**	**(428.6)**	**189.2**	**5.0**	**19.6**

Reconciliation of profit before tax, interest income and expense, fee and commission income, gains from operations with securities and gains from operations with foreign currencies for the reportable segments with the Group's consolidated income statement items under IFRS for the year ended 31 December 2011 is as follows:

In billions of Russian Roubles	Profit before tax	Interest income	Interest expense	Fee and commission income	Net gains arising from operations with securities	Net gains arising from trading in foreign currencies, operations with foreign currency derivatives and foreign exchange translation gains
Total amount per reportable segment	**407.5**	**832.0**	**(269.4)**	**150.3**	**7.3**	**23.7**
Adjustment of provisions	11.2	(2.8)	—	—	—	—
Staff expenses accrued for the year (bonuses, annual leave, pension liabilities)	2.1	—	—	—	—	—
Differences arising on reporting of fee and commission income and expense	3.3	18.5	—	1.3	—	(6.0)
Differences arising on securities classification	1.0	(0.3)	—	—	1.4	(0.1)
Accounting for derivatives at fair value	(4.2)	—	—	—	—	(6.6)
Additional interest accrued on loans	2.2	2.2	—	—	—	—
Adjustment of depreciation and cost or revalued amount of premises and equipment	(19.2)	—	—	—	—	—
Adjustment of amortised cost and partial repurchase of other borrowed funds	—	—	(0.1)	—	(1.0)	—
Other adjustments	(8.2)	1.0	—	0.3	(0.9)	(1.5)
The Group's total amount under IFRS	**395.7**	**850.6**	**(269.5)**	**151.9**	**6.8**	**9.5**

The differences shown above arise from classification variances as well as different accounting policies.

Adjustment of provisions is related to the difference between estimation methodology applied in statutory accounting records used as a basis for management reporting and estimation methodology according to IFRS.

Differences arising on securities' classification relate to gains/(losses) on revaluation of securities designated at fair value through profit or loss in IFRS reporting but classified as available for sale in statutory accounting records used as a basis for management reporting.

For the year ended 31 December 2012 the Group's revenues from customers in the Russian Federation amounted to 1,345.1 billion RUB (for the year ended 31 December 2011: 1,073.0 billion RUB); revenues from customers in all foreign countries from which the Group derives revenues amounted to 96.1 billion RUB (for the year ended 31 December 2011: 34.2 billion RUB).

As at 31 December 2012 the carrying value of premises and equipment located in the Russian Federation amounted to 413.5 billion RUB (2011: 350.7 billion RUB). Carrying value of premises and equipment of the Group located in foreign countries amounted to 22.5 billion RUB (2011: 9.2 billion RUB).

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Group's total revenue during the year ended 31 December 2012 and during the year ended 31 December 2011.

32. FINANCIAL RISK MANAGEMENT

Integrated risk management system (IRMS) of the Group is defined by Integrated risk management policy of the Bank stated in the Resolution of The Bank's Management Board in February 2012. In accordance with its Policy risk management for the Group is represented as three-level process defined below:

- first management level (performed by The Bank's Management Board, The Group's Risk Committee of the Bank) — is management of aggregated risk. This process results in setting requirements and limits to the management of specific groups of risks, to the management of the Group members' risks as well as appointment of collective bodies and subdivisions of the Group responsible for the management of certain risk groups;
- second management level (performed by the appropriate Bank's committees) — the management of specific groups of risks considering requirements and limits stated on the first management level;
- third management level (performed by collective bodies and structural subdivisions of the Group) — the management of specific groups of risks in the companies of the Group considering requirements and limits stated on the first and second management level.

Integrated risk management process includes five core group steps:

- risk identification and measurement of its materiality for the Group — aimed to identify all the significant risks which the Group is exposed to;
- developing system for managing significant risks — aimed to allocate functions (or actualize such allocation) of risk management between executives, subdivisions and collective bodies of the Bank and its subsidiaries as well as developing (or actualize such development) methodological framework regulating risk management for the Group;
- forecasting risk exposure level — aimed to define target risk level using risk-metrics in business-plan of the Group and each of its members;
- setting risk appetite for the Group and each of its members — aimed to confirm by the Bank and then by its Supervisory Board maximum allowable risk exposure for the Group and launch of limit and restriction system that will enable not to exceed the maximum risk level;
- management of aggregated risk level of the Group — aimed to provide correspondence between risk level and target values.

In order to implement IRMS the following initiatives were realised during 2012:

- risk identification was performed resulting in definition of significant risks divided into specific groups for the management purposes: credit, country, market and credit risks of the operations on financial markets, interest rate risk and currency risk of non-trading positions; risk of losses in case of changes in property value, operational risk, legal and regulatory risk, compliance risk, liquidity risk, risk of impairment of goodwill, strategic and business risks, risk of models and tax risk;
- due to the decision of The Group's Risk Committee of The Bank significant risk management functions are allocated between collegial authorities and structural subdivisions of the Bank;
- methodological framework was developed defining risk-metrics which characterize aggregate risk level for the Group, their calculation procedure and the way of stress-test performance;
- risk-metrics which characterize aggregate risk level for the Group are included in Bank business-plan for the 2013-2015;
- bank risk appetite is stated in accordance with the resolution of the Group's Risk Commitee.

Distribution of methodology and integrated risk management processes between Group's members is planned on year 2013.

The Group is constantly developing risk management system in order to correspond to the best practices and recommendations of regulators. In accordance with these decisions it is expected that during 2013-2015 risk management methods and processes would be integrated and improved on aggregate level as well as on the level of specific risks management systems.

Credit Risk. The Group is exposed to credit risk, which is a risk of a counterparty being unable to meet its credit obligations in whole or in part when due. The Group's risk management policy is performed in accordance with IRMS and aims at increasing competitive advantage of the Group by expanding the list of counterparties and the range of credit products, implementing systemic approach to credit risk to maintain or bring down the level of credit risk losses, optimization of credit portfolio structure by industry, region and product.

The Group applies the following basic methods of credit risk management:

- prevention of credit risk by identifying, analyzing and assessing potential risks before entering the transaction creating risk exposure;
- planning the level of credit risk by assessing the level of expected losses;
- implementation of common assessment processes and identification of risks;
- limiting credit risk by setting exposure or risk limits;
- structuring of transactions;
- collateral management for transactions on financial markets;
- monitoring and control of credit risk level;
- application of the system of decision-making authority;
- provisions for impairment losses.

Assessment of the Group's credit risk is made in aggregate, by individual portfolios of credit risk bearing assets, by individual counterparties, transactions and groups, by country, geographic region and by industry.

The Group operates a system of internal ratings based on economic-mathematical models for estimating the probability of default of counterparties and transactions. Assessment of individual credit risks of the Group's counterparties in transactions which carry credit risks depends on the counterparty category:

- corporate customers, credit institutions, financial companies, individual entrepreneurs, sovereigns, subjects of the Russian Federation and municipal entities, insurance and leasing companies are assessed on the basis of the system of credit ratings and expected cash flow models or other important indicators;
- individuals are assessed based on their creditworthiness in accordance with the Bank's internal regulatory documents and express assessment.

The Group's system of credit ratings provides a differentiated assessment of probability of default/non-execution by the counterparties of their obligations by analyzing quantitative (financial) and qualitative factors of credit risk, materiality of their impact on the ability of the counterparty to serve and repay their obligations.

The Group's internal procedures provide for a multi-factor approach, the factor list being standardized depending on the counterparty category.

Risk factors related to counterparty's creditworthiness and its volatility, ownership structure, business reputation, credit history, cash flow and financial risks control, transparency, position of the client in the industry and the region, strength of support from local administration and parent companies (in case of a holding) as well as the so-called early warning factors are subject to mandatory monitoring and control. Based on the analysis of these risk factors the probability of default is assessed and graded by counterparty/transaction with their subsequent classification ratings.

The Group closely monitors its credit risk concentration and compliance with prudential regulations of the Bank of Russia, making analysis and forecast of credit risk level. In analysis, monitoring and management of credit risk concentration the following methods are used:

- a distributed criteria mechanism for identifying legally and economically related borrowers, followed by the centralized maintenance of a uniform hierarchical list of groups of related borrowers;
- control of large loans per borrower in groups of related borrowers;
- identifying groups of borrowers by industry, country and region.

The system of controlling and monitoring credit risk level is based on the principles stipulated by the Group's internal regulatory documents that provide for a preliminary, current and follow-up control of transactions creating exposure to credit risk, of keeping within set risk limits and their timely update.

The Group developed a multi-tier system of limits to separate credit risk of lending business and operations on financial markets.

The Group usually requires collateral for granted loans. Different kinds of collateral could be approved in order to limit credit risk simultaneously. In accordance with Group's policy collateral for loans provided to legal entities (pledge amount and/or liability amount (limit of responsibilities) through surety agreement and/or guarantee amount) should cover the amount of credit and interests, accrued during not less than 3 months.

One of the concepts concerning hedge of credit deals risks is represented by developed Pledge policy (as a part of Credit policy) which defines basis principles and elements of work organization for pledges in case of loan granting.

Pledge policy is concentrated on the improvement of quality of credit portfolio in the part of collateral. Collateral quality depends on the probability of cash receipt in amount of supporting pledge in case of enforcement or realization of pledge. Collateral quality can be indirectly characterized by the list and materiality of risks conjugated to the pledge and is represented by the range of factors (liquidity, reliability of cost determination, impairment risks, susceptibility to the risks of loss and damage, law risks and others).

Pledge amount assessment is performed on the base of internal expert valuation of Group experts, assessment of independent valuers or pledge amount stated in borrower's financial reports with discount correction. Using surety of creditworthiness legal entities as the collateral requires risk assessment from the side of guarantor as well as from borrower's side.

For the purpose of effective management of credit risk on transactions with legal entities Group defines two main types of operations:
- corporate lending operations;
- financial market transactions with clients and counterparties — legal entities (corporate clients and financial institutions).

In 2012, the common Group's credit risk management process on financial market transactions was drafted and approved. Implementation of this process in the Group as well as common principles of identifying, evaluating and limiting of credit risks on financial market transactions will be carried out in 2013. Also, the strategic IT-programme "Automatization of risk management system on Corporate-Investment unit" was launched making the base for automated common risk management process on financial markets, including credit risk.

At the same time, the Group operates a multi-dimensional system of authority to determine the level of decision-making for each loan application. Each territorial unit is assigned a risk profile, which defines the discretionary powers of the unit to take independent decisions, depending on the risk category of the requested loan. In its turn, the risk category of the requested loan depends on the aggregate risk limit and the risk category of the borrower/group of related borrowers and also on loan product category. Thus, existing systems of limits and decision-making authority allows to optimize the lending process and provides for proper management of credit risk.

In 2012, the Group has spread credit risk management methods used by the Bank to its subsidiaries. However, the Group is working to further improve the methodology for setting limits, including through implementation of Basel II in the Bank. In particular, in December 2012, the Bank has developed and approved approaches to set portfolio limits on consumption of economic capital for the industries, largest borrowers and retail products in order to control risk concentrations.

Considering the focus of the Bank and the Group for the using of modern technics and instruments of credit risk managing, the Bank is in the process of constructing the most common standardized processes of retail lending considering the customer segmentation by risk profile and minimizing the number of participants in the process by centralizing and automatizing. In particular, in 2012, the risk management system of retail customers based on «Credit factory» technology was further developed at the Bank and at the Group level.

The Bank provides basic types of loan products to individual customers — consumer loans, auto and mortgage loans, credit cards under «Credit Factory» technology.

In 2012, in the technology at the Bank's level the following changes were made:

- scoring assessment of credit history of individual clients on the basis of the statistical approach has been implemented under «Credit Factory» technology for mortgage loans;
- Risk-Based-Pricing technology, used for consumer loans, spread to new customer segments;
- rating models of reliability customers estimating introduced for all products;
- integrated scoring model introduced for car loans, mortgage loans and credit cards;
- regional scoring cards of risk level by accounting regional specificity of risk profile have been implemented for the purpose of consumer loans;
- fraud-monitoring system introduced in the pre-credit data processing. It will be further developed in 2013.

At the Group's level the implementation of the "Credit Factory" technology is continued in the subsidiaries — Belpromstroy Bank OJSC (OAO BPS Bank) (Belarus), Sberbank of Russia JSC (Ukraine), Sberbank SB JSC (Kazakhstan).

In addition, in 2012, the process of transfer to the "Credit factory" technology of retail loan products in subsidiaries of Sberbank Europe has started. Thus, in December 2012 consumer loans were launched in the Czech Republic, new projects were initiated in Slovakia, Serbia and the Czech Republic.

As part of the introduction of Basel II in the Bank, the complete set of behavioral models of Basel for all retail lending products has been developed. Also, there were identified indicators required to calculate economic capital (total developed 42 models PD, 21 LGD models and 18 EAD models).

During 2010-2011, the Bank progressed towards an intra-bank automated lending system resulted to achieve end-to-end automation of the lending process. During 2012, works under optimizing and expanding the functionality of this system have been continued. In particular, significant changes in the accounting credit risk methodology, aiming in compliance methods with recommendations of the Basel Committee on Banking Supervision, were taken into account.

In addition, in 2012, the Group progressed towards a complex automated systems:

- credit risk management systems, which allows to assess the current status, dynamics and prediction of credit risks;
- corporate credit limits management system, which is able to provide a flexible mechanism for controlling the structure of limits, in case of further development of a methodology, to optimize the process of preparation of analytical materials.

Integration of existing and implementing automated systems, scheduled for 2013-2014, will ensure adequacy of the credit risk management process to requirements of the Basel Committee on Banking Supervision.

Using the macroeconomic scenarios, the Group conducts sensitivity analyses of credit risk level by both counterparty and credit portfolio to identify macro factors of maximum correlation with the counterparties' probability of default. Statistics on radical changes of macro factors is used in stress-scenario for ratings models for the purpose of stress-testing.

The Group monitors debt recovery at all phases of debt collection. In case of identification of problem areas/phases in the process of debt recovery, drop in debt recovery ratio and non-performing loans growth in territorial units, customer or product segments, the optimization of lending/collection process is performed.

Following performances have been taken in 2012 in order to improve the effectiveness of the debt recovery process for overdue loans to individuals the number of actions has been taken. In particular, functional improvements of the "Tallyman" system, making the base for automated debt collection process for individual loans at an early stage of delays in loan repayments, were implemented. Also, the automated system of outgoing call (PDS) on the base of AVAYA PROACTIVE CONTACT programme complex were implemented. This system has led to a substantial increase of the number of overdue loans that are processed by a single operator.

Also in 2012, implementation of the "Development and automation of business process of debt collection of individuals at an early stage" program in the subsidiaries of the Bank (in particular in BPS Sberbank OJSC(Belarus)), was continued.

Country risk is the risk of losses due to the default by sovereign and other counterparties in a particular country for reasons other than the standard risks (caused by the Government actions but beyond the control of the counterparties).

Risk exposure of the Group when financing non-residents or foreign Governments is minimized by assessment of the country related risk and setting country risk limits. Assessment of country risks is based on the ratings by international rating agencies (Fitch, Moody's, S&P), the nominal GDP, the level of economic development of the country and its strategic relevance for the group. Countries without international ratings are assessed in accordance with internal procedures, which include the analysis of risk factors related to sovereign solvency, current development trends, efficiency of external debt management, offshore status and international reputation, public policy and domestic political situation. To reduce the country risk, transactions with counterparties are conducted within the risk limits on the countries concerned.

Market risk is the possibility of the Group's financial losses as a result of unfavorable movements in exchange rates, equity prices, interest rates, precious metal prices and other market indicators. The main goal of Market Risk Management is the optimization of market risk level within the Group, compliance of the risk level risk with limits set and minimization of loss in case of unfavorable scenario realization.

The Group categorises market risk into:

- ***Currency risk*** is the risk of losses or reduction of income due to fluctuations in the prevailing foreign currency exchange rates;
- ***Interest rate risk*** is the risk of losses or reduction of income due to fluctuations in interest rates;
- ***Equity price risk*** is the risk of losses or reduction of income due to changes in fair value of equity securities, for example, ordinary and preference shares;
- ***Commodity risk*** is the risk of losses or reduction of income due to changes in value of commodity assets, in particular, precious metals;
- ***Volatility risk*** is the risk of losses or reduction of income on option operations due to changes in imputed option volatility of underlying assets;
- ***Liquidity risk*** is the risk of inability to open / close or change of a market position on the market, exchange, or in case of market quotation against a particular counterparty, and an inability to fulfill contractual obligations in time without incurring losses unacceptable to the financial stability.

The Group manages its market risks through securities portfolios management and control over open positions in currencies, interest rates and derivatives. For this purpose the Committee on Assets and Liabilities Management (the ALMC) sets limits on securities portfolios, open positions, stop-loss and other limits. Authorized bodies and departments determine the methodology for the market risk management and set limits on particular transactions.

Market risk limits are set on the basis of the value-at-risk analysis (VaR), scenario analysis and stress-testing as well as regulatory requirements of the Bank of Russia and recommendations of the Basel Committee on Banking Supervision. The Group calculates VaR for the operations on financial markets both by components and in aggregate, determining the diversification effect.

The Group divides the principles of market risk management under the trading and banking book. Authority to manage the market risks are divided between the ALMC and Trading Risk Committee (TRC) by type of market risk on a group of operations (trading and non-trading operations).

Market risk management is carried out in accordance with the “Policy for managing market and credit risk operations on financial markets” and “Policy for managing interest rate and currency risk of the banking book”.

Market risk on non-trading positions

Interest rate risk on non-trading assets and liabilities. The Group accepts risk on market interest rate fluctuations effect on cash flows. Interest rate risk of non-trading positions is a result of unfavourable interest rate movement and includes:

- the risk of a parallel shift, change in the slope and shape of the yield curve resulting from the maturities (repricing) mismatch of assets and liabilities sensitive to interest rate changes;
- basis risk, which results from a mismatch in the degree of interest rate sensitivity, of assets and liabilities with similar maturity (repricing term); and
- risk of early repayment (repricing) of interest rate sensitive assets and liabilities.

Increasing interest rates can drive the cost of borrowed funds up faster and at a higher growth rate than return on investments, thus worsening financial results and interest rate margin, whereas decreasing interest rates can decrease return on working assets faster than the cost of borrowed funds.

The objective of managing this type of market risk is minimization of potential losses caused by realization of interest rate risk and currency risk and stabilization of bank interest margin regardless of market conditions. To manage interest rate risk the ALMC sets maximum interest rates on corporate deposits/ current accounts and minimum rates on corporate loans, minimum rate of return on investments into securities and limits on investments into long-term assets bearing inherently the maximum interest rate risk. The Bank's Management Board approves fixed interest rates on deposits for the Bank's Head Office and Regional Head Offices, which require preliminary approval from the ALMC. Interest rates on deposits depend on loan or deposit maturity date, amount and the client's category. Interest rates on loans for individuals are confirmed by ALMC.

ALMC of each regional bank approves interest rates for corporate clients taking into account the regional market situation and the efficiency of the regional bank's transactions on the assets and liabilities side as well as the limits on interest rates set by the ALMC of the Bank's Head Office for corporate funds and placements.

This type of interest rate risk is assessed using the standardized shock in accordance with Basel Committee for Banking Supervision (BCBS) recommendations. Forecasting of possible changes in interest rates is carried out separately for Russian Rouble positions and positions in foreign currency. The shock of interest rates is calculated as 1% and 99% of the allocation quantile of average annual interest rate's change by historical simulations method on the base of data for the last 5 years. As basic rate for the purpose of shock assessment in RUR the indicative rate is used for interest swap in RUB with 1 year terms (RUB IRS 1Y) as well as LIBOR 3M for the foreign currency position.

The table below shows the impact of bps interest rates increase and decrease on profit before tax as at 31 December 2012:

Change in profit before tax as at 31 December 2012 (in billions of Russian Roubles)	RUB positions	Foreign currency positions	Total
Decrease in interest rates by 302 bps	50.7	—	50.7
Increase in interest rates by 583 bps	(98.0)	—	(98.0)
Decrease in interest rates by 20 bps	—	0.3	0.3
Increase in interest rates by 85 bps	—	(1.4)	(1.4)

In calculation of the impact of interest rates increase and decrease on profit before tax as of 31 December 2012 new methodology for the estimation of interest rates volatility in RUR and foreign currency was used:

- the estimation of interest rate changes scenario has changed in comparison with the report dated 31 December 2011. In the report for the previous year interest rates decrease and increase were calculated as 10% and 90% of the allocation quantile of interest rate's change by historical simulations method on the base of data for the last 1 year;
- as the indicative rate in RUR as of 31 December 2011 was used rate for 3 month-term loans at the Moscow interbank market (MOSPRIME 3M).

The table below shows the impact of bps interest rates increase and decrease on profit before tax as at 31 December 2011:

Change in profit before tax as at 31 December 2012 (in billions of Russian Roubles)	RUB positions	Foreign currency positions	Total
Decrease in interest rates by 290 bps	22.2	—	22.2
Increase in interest rates by 412 bps	(31.5)	—	(31.5)
Decrease in interest rates by 31 bps	—	1.0	1.0
Increase in interest rates by 83 bps	—	(2.6)	(2.6)

In order to ensure in correspondence between comparative data for the 2012 and 2011 the table of impact of bps interest rates increase and decrease on profit before tax as at 31 December 2011, calculated on the base of interest rate volatility in RUB and foreign currency in accordance with methodology stated in 2012, is presented below:

Change in profit before tax as at 31 December 2012 (in billions of Russian Roubles)	RUB positions	Foreign currency positions	Total
Decrease in interest rates by 299 bps	22.9	—	22.9
Increase in interest rates by 599 bps	(45.9)	—	(45.9)
Decrease in interest rates by 38 bps	—	1.2	1.2
Increase in interest rates by 167 bps	—	(5.2)	(5.2)

The sensitivity analysis above shows changes in profit before tax given a parallel shift of the yield curve across all interest rate sensitive positions, i.e. when interest rates move by the same value for all maturities. In addition, interest rate risk is assessed considering the following simplifications: the calculation disregards possible early repayment or call of instruments.

From the beginning of 2012 the Group has started the development of Interest rate risk of non-trading positions management system in accordance with BCBS recommendations. New approaches for measurement, stress-testing, setting limit and hedging of interest rate risk of non-trading positions are being developed within the framework of this project. The methodology and models of assessment of sensitivity to interest rate risk based on client behavior that allows to increase the accuracy and efficiency of interest rate and currency risks of non-trading positions management significantly are also being developed. At the same time there is the project of ALMC system integration, which will cover all the goals of management over assets and liabilities of the Group members including goals of management of interest rate risk for non-trading positions.

Currency risk of non-trading assets and liabilities. Currency risk results from fluctuations in the prevailing foreign currency exchange rates. The Group is exposed to foreign exchange risk on open positions (mainly US dollar/RUB and EUR/RUB exchange rate fluctuations).

As part of managing foreign exchange risk the Group sets sublimits for open foreign exchange positions for Regional Head Offices. Besides, limits and control system are in place for arbitrage operations which sets open position limits for foreign currencies, limits on operations on the international and domestic markets, and stop-loss limits.

The Bank's Treasury Department undertakes daily aggregation of the currency position of the Group and takes measures for maintaining of the Group's currency risk exposure at a minimum level. The Group uses swaps, forwards and USD futures contracts tradable on MICEX as the main instruments for risk management.

Market risk on the operations on financial markets. Among credentials of TRC there is management over market risk of the trade operations, concerning liquidity risk TRC obeys to ALMC.

Market risks are controlled by monitoring of operations on foreign exchange and securities market by departments independent of trading divisions. Monitoring of market risks implies continual control over trading deals at all steps of operational process.

For the purposes of market risk management of the financial markets' operations, trade operations are aggregated in portfolios with hierarchical structure defined in accordance with risk types and responsibilities allocation. Market risk management of the trade operations in Group is performed through the system of authorized bodies, making decisions depending on risk level and portfolio hierarchy, such system allows to reach efficiency and flexibility of decision making.

The Group derives following most important types of market risk of the trade operations.

Interest rate risk on the trade operations. The Group is exposed to interest rate risk of its trade operations with debt securities and derivatives.

For managing and limiting interest rate risk in accordance with the "Policy for managing market and credit risk operations on financial markets" TRC as well as persons authorized by it set following types of limits and restrictions: limits on investments, limits on sensitivity to interest rate changes (DV01), concentration limits, limits on losses of trade operations, VaR limits, limits on direct and reverse REPO-deals.

Equity Price Risk. The Group is exposed to equity price risk through changes in fair value of corporate lobar securities as well as its derivatives in case of Group having positions in them. In order to limit equity price risk the TRC and persons authorized by it set common position limits, limits on losses of trade operations, VaR limits, sensitivity limits. Regional Head Offices does not take part in trade operations with shares.

Currency Risk. In order to limit the foreign exchange risk of financial market operations TRC as well as persons authorised by it set VaR limits and limits for open foreign exchange positions for all operations, which are sensitive to currency risk.

Value-at-Risk, VaR. The VaR methodology is one of the main instruments of assessing market risk of the Group. VaR allows to estimate the maximum financial loss with a defined confidence level of probability and time horizon.

The Group calculates VaR using the historical modeling methodology. This method allows to evaluate probability scenarios of future price fluctuations on the basis of past changes taking into account market indicators correlations (e.g. interest rates and foreign exchange rates) as well as changes in price of specific instruments not due to changes in the market situation.

VaR is calculated using the following assumptions:

- historical data on changes in financial market indicators comprise 2 years preceding the reporting date;
- the market indicators used include currency exchange rates, bond, equity and precious metal prices as well as interest rates levels;
- movements in financial market indicators are calculated over a 10-day period, i.e. an average period when the Group is able to close or hedge its positions exposed to market risk; and
- a 99% one-way confidence level is used, which means that losses in the amount exceeding VaR are expected by the Group maximum once every 100 trading days.

For evaluating the adequacy of the applied VaR calculation model the Group regularly back-tests the model by comparing the modeled losses with actual losses.

Despite the fact that VaR allows to measure risk, its shortcomings must be taken into account such as:

- past price fluctuations are not sufficient to assess accurately future price fluctuations;
- calculation of financial market price indicators over a 10-day period is based on the assumption that the Group will be able to close (or hedge) all positions within this period. This assessment may be far from accurate in measuring risk exposure at the time of reduced market liquidity, when the period of closing (or hedging) the Group's positions may increase;
- using 99% one-way confidence level of probability does not provide for estimating losses with a probability below 1%; and
- VaR is calculated based on end-of-day position and misses the intra-day risks accepted by the Group.

Taking into account the shortcomings of the VaR methodology the Group applies scenario analysis and stress-testing to have a better understanding of market risk exposure.

The table below shows the interest rate, equity and currency risk calculation using the VaR methodology as at 31 December 2012:

In billions of Russian Roubles	Value as at 31 December 2012	Average value for 2012	Maximum value for 2012	Minimum value for 2012	Impact on equity	Impact on profit
Interest rate risk on debt securities	18.1	16.6	21.7	12.1	1.1%	5.2%
Equity price risk	4.0	9.0	12.6	4.3	0.2%	1.2%
Currency risk	5.3	3.1	7.0	1.4	0.3%	1.5%
Market risk including diversification effect	19.6	17.6	24.5	12.1	1.2%	5.7%
Diversification effect	7.8	—	—	—	0.5%	2.3%

In 2012 a new model of calculation was confirmed in accordance with which more accurate way of VaR estimation for debt instruments portfolio was developed. Weighted average number of days to maturity of debt securities (duration) are used in this calculation that allows to significantly decrease the market risk of the debt instruments portfolio. The new model more accurately defines equity risks of illiquid securities which can increase equity risk.

The table below shows the interest rate, equity and currency risk calculation using the VaR methodology as at 31 December 2011:

In billions of Russian Roubles	Value as at 31 December 2011	Average value for 2011	Maximum value for 2011	Minimum value for 2011	Impact on equity	Impact on profit
Interest rate risk on debt securities	41.7	35.3	63.5	21.8	2.8%	13.4%
Equity price risk	9.9	9.3	10.7	7.4	0.7%	3.2%
Currency risk	5.4	5.4	6.9	2.5	0.4%	1.7%
Market risk including diversification effect	43.0	37.6	64.6	28.8	2.8%	13.8%
Diversification effect	14.0	—	—	—	0.9%	4.5%

In order to ensure in correspondence between comparative data for the 2012 and 2011 the table below shows the interest rate. equity and currency risk calculation using the VaR method as at 31 December 2011 based on the methodology accepted in 2012:

In billions of Russian Roubles	Value as at 31 December 2011	Average value for 2011	Maximum value for 2011	Minimum value for 2011	Impact on equity	Impact on profit
Interest rate risk on debt securities	12.7	12.6	15.5	10.7	1.0%	4.1%
Equity price risk	10.3	11.7	14.8	9.3	0.8%	3.3%
Currency risk	2.0	1.5	2.0	0.8	0.2%	0.6%
Market risk including diversification effect	13.9	15.0	17.2	13.2	1.1%	4.5%
Diversification effect	11.1	—	—	—	0.9%	3.6%

Data in the tables above are calculated on the basis of the Bank's internal management accounting system which is based on the statutory accounting reports of the Bank.

The table below summarizes the Group's exposure to foreign exchange risk in respect of monetary assets, liabilities and notional positions on currency derivatives as at 31 December 2012. Foreign exchange risk on forward and future contracts is represented by their notional positions. Foreign exchange options are disclosed in the amount that reflects theoretical sensitivity of their fair value to reasonable change in exchange rates.

In billions of Russian Roubles	Russian Roubles	USD	Euro	Turkish Lyra	Other	Total
Assets						
Cash and cash equivalents	946.0	125.6	118.8	19.8	80.6	1,290.8
Mandatory cash balances with central banks	122.6	32.8	31.5	5.6	18.7	211.2
Debt trading securities	40.5	23.9	0.4	7.3	2.4	74.5
Debt securities designated at fair value through profit or loss	8.9	0.6	—	—	0.7	10.2
Due from banks	60.6	1.7	39.6	—	12.9	114.8
Loans and advances to customers	7,714.9	1,783.9	366.4	367.9	266.2	10,499.3
Debt securities pledged under repurchase agreements	882.1	25.8	—	32.6	—	940.5
Debt investment securities available for sale	356.1	216.9	71.4	77.6	37.0	759.0
Debt investment securities held to maturity	85.0	13.2	2.5	2.4	2.8	105.9
Other financial assets (less fair value of derivatives)	123.8	18.7	3.0	6.5	1.2	153.2
Total monetary assets	**10,340.5**	**2,243.1**	**633.6**	**519.7**	**422.5**	**14,159.4**
Liabilities						
Due to banks	1,289.4	52.7	57.7	22.3	30.3	1,452.4
Due to individuals	5,660.1	521.8	452.1	170.5	178.7	6,983.2
Due to corporate customers	1,958.3	747.8	171.6	153.3	165.1	3,196.1
Debt securities in issue	297.7	327.3	17.2	12.9	36.6	691.7
Other borrowed funds	0.7	362.9	76.8	25.4	3.4	469.2
Other financial liabilities (less fair value of derivatives)	97.2	21.9	4.5	20.5	2.0	146.1
Subordinated debt	303.4	71.6	4.7	—	5.0	384.7
Total monetary liabilities	**9,606.8**	**2,106.0**	**784.6**	**404.9**	**421.1**	**13,323.4**
Net monetary assets/ (liabilities)	**733.7**	**137.1**	**(151.0)**	**114.8**	**1.4**	**836.0**
Net foreign exchange derivatives	**(323.3)**	**223.9**	**178.9**	**(39.1)**	**(7.6)**	**32.8**
Credit related commitments (Note 33)	**1,848.2**	**621.7**	**236.8**	**258.4**	**64.6**	**3,029.7**

The table below summarizes the Group's exposure to foreign exchange risk in respect of monetary assets, liabilities and notional positions on currency derivatives as at 31 December 2011.

In billions of Russian Roubles	Russian Roubles	USD	Euro	Other	Total
Assets					
Cash and cash equivalents	488.7	58.9	20.9	57.1	625.6
Mandatory cash balances with central banks	99.5	0.6	0.1	1.0	101.2
Debt trading securities	47.9	17.1	2.4	2.6	70.0
Debt securities designated at fair value through profit or loss	30.6	—	—	0.2	30.8
Due from other banks	23.7	8.1	0.1	3.2	35.1
Loans and advances to customers	6,074.4	1,385.5	157.4	102.4	7 719.7
Debt securities pledged under repurchase agreements	178.4	65.8	0.1	0.5	244.8
Debt investment securities available for sale	696.6	73.4	39.5	14.9	824.4
Debt investment securities held to maturity	273.4	12.9	0.1	0.1	286.5
Other financial assets (less fair value of derivatives)	93.1	17.1	1.3	0.5	112.0
Total monetary assets	**8,006.3**	**1,639.4**	**221.9**	**182.5**	**10,050.1**
Liabilities					
Due to other banks	404.6	98.9	21.0	7.9	532.4
Due to individuals	4,959.6	366.6	265.2	134.9	5,726.3
Due to corporate customers	1,517.5	524.6	88.2	75.5	2,205.8
Debt securities in issue	64.4	181.8	1.8	20.7	268.7
Other borrowed funds	0.3	222.3	19.8	1.6	244.0
Other financial liabilities (less fair value of derivatives)	145.5	48.3	0.8	1.5	196.1
Subordinated debt	303.3	0.2	—	—	303.5
Total monetary liabilities	**7,395.2**	**1,442.7**	**396.8**	**242.1**	**9,476.8**
Net monetary assets/ (liabilities)	**611.1**	**196.7**	**(174.9)**	**(59.6)**	**573.3**
Net foreign exchange derivatives	**6.0**	**(167.4)**	**167.6**	**16.2**	**22.4**
Credit related commitments (Note 33)	**1,406.3**	**594.1**	**113.3**	**41.8**	**2,155.5**

The Group provides loans and advances to customers in foreign currency. Fluctuations of foreign currency exchange rates may negatively affect the ability of borrowers to repay loans, which will in turn increase the probability of loan loss.

Liquidity risk. Liquidity risk is defined as the risk of mismatch between the maturities of assets and liabilities. The Group is exposed to daily calls on its available cash resources from overnight deposits, customer's current accounts, term deposits, loan drawdowns, guarantees and from margin and other calls on cash settled derivative instruments. The Group does not maintain cash resources to meet all of the above mentioned needs, as according to historical data a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. Liquidity risk is managed by the ALMC.

The Group liquidity risk management is aimed at ensuring timely and complete fulfillment of its payment obligations at minimum cost. For this purpose the Group:
- maintains a stable and diversified liabilities structure including both term resources and funds on demand;
- reserves capacity for immediate borrowing of funds on financial markets; and
- invests in highly liquid assets diversified by currencies and maturities for quick and effective coverage of unexpected gaps in liquidity.

Policy and Procedures. The Treasury performs analysis and forecasts and advices Management on regulation of current, short-term, medium-term and long-term liquidity of the Group. Liquidity position and execution of requirements on managing the liquidity risk are controlled by the ALMC of the Bank. Liquidity risk is assessed, managed and controlled on the basis of “Policies of the Bank for Management and Control of Liquidity” and the guidelines of the Bank of Russia and the Basel Committee for Banking Supervision.

Provisions of this Policy lay down the guidelines for organizing the liquidity management in the Regional Head Offices of the Bank and subsidiaries. The Management Board of the Bank’s Regional Head Office and subsidiaries are responsible for efficiently managing and controlling the Regional Head Office liquidity. They are also responsible for monitoring limits and controls required by the Group’s internal regulations. Guided by the limits, controls, requirements and policies, the Regional Head Office selects evaluation methods and the necessary level of liquidity and develops and implements measures to ensure liquidity. In case of an insufficient liquidity the Treasury provides funds to the Regional Head Office or subsidiary (according to an established procedure) in the required amount.

Liquidity risk management includes the following procedures:
- forecasting payment flows by major currencies to ensure the necessary volume of liquid assets to cover liquidity deficit;
- forecasting assets and liabilities structure based on scenario analysis to control the required volume of liquid assets in medium-term and long-term perspective;
- forecasting and monitoring liquidity ratios compliance with regulatory and internal policy requirements;
- control over liquidity reserves of the Group to assess maximum opportunities for the Group to attract funds from various sources in different currencies;
- diversification of funding sources in different currencies taking into account maximum amounts, cost of funding and maturity;
- stress-testing and planning actions for restoring the required liquidity level in unfavorable conditions or during crisis periods; and
- setting limits on risk metrics including but not only components of risk appetite of the Group.

The tables below show distribution of undiscounted contractual cash flows (taking into account future interest payments) on liabilities by remaining contractual maturities.

The analysis of undiscounted cash flows on the Group's liabilities by remaining contractual maturity at 31 December 2012 is set out below:

In billions of Russian Roubles	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 1 to 3 years	More than 3 years	Total
Liabilities						
Due to banks	1,050.3	230.8	123.0	24.4	39.9	1,468.4
Due to individuals	1,871.6	1,252.4	1,159.6	2,599.8	361.4	7,244.8
Due to corporate customers	1,271.1	375.1	91.0	1,558.5	5.7	3,301.4
Debt securities in issue	74.3	145.7	159.0	163.1	242.1	784.2
Other borrowed funds	29.6	75.7	174.4	192.6	42.3	514.6
Other liabilities (including derivative financial instruments)	137.1	41.4	11.7	45.2	37.9	273.3
Subordinated debt	—	1.8	22.0	46.0	500.3	570.1
Total liabilities	**4,434.0**	**2,122.9**	**1,740.7**	**4,629.6**	**1,229.6**	**14,156.8**
Credit related commitments	3 029.7	—	—	—	—	3,029.7

The analysis of undiscounted cash flows on the Group's liabilities by remaining contractual maturity at 31 December 2011 is set out below:

In billions of Russian Roubles	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 1 to 3 years	More than 3 years	Total
Liabilities						
Due to banks	356.2	119.8	48.2	12.7	1.6	538.5
Due to individuals	1,639.7	1,584.9	1,271.5	1,757.4	229.4	6,482.9
Due to corporate customers	1,626.0	194.3	78.5	341.6	14.7	2,255.1
Debt securities in issue	42.1	38.5	18.9	62.1	144.4	306.0
Other borrowed funds	0.3	23.4	54.1	160.9	20.4	259.1
Other liabilities (including derivative financial instruments)	187.4	18.7	2.6	13.1	5.0	226.8
Subordinated debt	—	0.1	19.5	39.2	400.9	459.7
Total liabilities	**3,851.7**	**1,979.7**	**1,493.3**	**2,387.0**	**816.4**	**10,528.1**
Credit related commitments	2,155.5	—	—	—	—	2,155.5

Following principles underlying gap analysis presentation and the Group liquidity risk management are based on the mix of CBR initiatives and the Bank's practice:

- cash and cash equivalents represent highly liquid assets and are classified as "on demand and less than 30 days";

- trading securities, securities designated at fair value through profit or loss and highly liquid portion of investment securities available for sale, including those pledged under repurchase agreements are considered to be liquid assets as these securities could be easily converted into cash within short period of time. Such financial instruments are disclosed in gap analysis table as “on demand and less than 30 days”;
- investment securities available for sale which are less liquid are disclosed according to remaining contractual maturities (for debt instruments) or as “no stated maturity” (for equities);
- investment securities held to maturity including those pledged under repurchase agreements are classified based on the remaining maturities;
- loans and advances to customers, amounts due from other banks, other assets, debt securities in issue, amounts due to other banks, other borrowed funds and other liabilities are included into gap analysis table based on remaining contractual maturities;
- customer deposits aren’t disclosed as “on demand and less than 30 days” although customers have an opportunity to withdraw money from any account, including term deposits, before maturity date, losing the right on accrued interest. Customer deposits diversification by number and type of depositors and the past experience of the Group indicate that such accounts and deposits provide a long-term and stable source of funding, and as a result they are allocated per expected time of funds outflow in the gap analysis table on the basis of statistical data accumulated by the Group during the previous periods and assumptions regarding the “permanent” part of current account balances.

The liquidity position of the Group's assets and liabilities as at 31 December 2012 is set out below.

In billions of Russian Roubles	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 1 to 3 years	More than 3 years	No stated maturity	Total
Assets							
Cash and cash equivalents	1,290.8	—	—	—	—	—	1,290.8
Mandatory cash balances with central banks	61.4	32.4	25.6	80.7	11.1	—	211.2
Trading securities	90.4	—	—	—	—	—	90.4
Securities designated at fair value through profit or loss	19.2	—	—	—	—	—	19.2
Due from banks	57.0	46.2	0.6	2.4	8.6	—	114.8
Loans and advances to customers	469.5	1,403.5	1,538.5	3,496.5	3,591.3	—	10,499.3
Securities pledged under repurchase agreements	723.6	21.4	39.4	89.4	75.9	—	949.7
Investment securities available for sale	788.3	2.7	2.6	8.4	2.2	0.3	804.5
Investment securities held to maturity	0.2	5.8	8.8	38.5	52.6	—	105.9
Deferred income tax asset	—	—	—	—	—	7.5	7.5
Premises and equipment	—	—	—	—	—	436.0	436.0
Other assets	174.3	72.7	36.3	94.3	46.3	144.2	568.1
Total assets	**3,674.7**	**1,584.7**	**1,651.8**	**3,810.2**	**3,788.0**	**588.0**	**15,097.4**
Liabilities							
Due to banks	1,046.3	226.6	115.4	18.5	45.6	—	1,452.4
Due to individuals	1,848.2	1,162.9	1,091.2	2,521.1	359.8	—	6,983.2
Due to corporate customers	1,245.5	363.4	82.3	1,500.7	4.2	—	3,196.1
Debt securities in issue	70.9	140.6	142.5	131.2	206.5	—	691.7
Other borrowed funds	29.1	69.9	169.6	160.1	40.5	—	469.2
Deferred income tax liability	—	—	—	—	—	33.2	33.2
Other liabilities	135.5	53.4	21.2	21.9	6.0	25.1	263.1
Subordinated debt	—	0.1	0.7	—	383.9	—	384.7
Total liabilities	**4,375.5**	**2,016.9**	**1,622.9**	**4,353.5**	**1,046.5**	**58.3**	**13,473.6**
Net liquidity (gap)/ surplus	**(700.8)**	**(432.2)**	**28.9**	**(543.3)**	**2,741.5**	**529.7**	**1,623.8**
Cumulative liquidity (gap)/ surplus at 31 December 2012	**(700.8)**	**(1,133.0)**	**(1,104.1)**	**(1,647.4)**	**1,094.1**	**1,623.8**	**—**

The liquidity position of the Group's assets and liabilities as at 31 December 2011 is set out below.

In billions of Russian Roubles	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 1 to 3 years	More than 3 years	No stated maturity	Total
Assets							
Cash and cash equivalents	625.6	—	—	—	—	—	625.6
Mandatory cash balances with central banks	27.7	10.7	8.9	47.7	6.2	—	101.2
Trading securities	102.0	—	—	—	—	—	102.0
Securities designated at fair value through profit or loss	52.0	—	—	—	—	—	52.0
Due from other banks	19.0	13.8	1.8	0.2	0.3	—	35.1
Loans and advances to customers	253.2	1,043.4	1,243.3	2,477.6	2,702.2	—	7 719.7
Securities pledged under repurchase agreements	163.7	—	39.0	82.1	16.0	—	300.8
Investment securities available for sale	869.3	—	2.8	3.1	8.4	0.9	884.5
Investment securities held to maturity	0.7	11.7	9.0	116.9	148.2	—	286.5
Deferred income tax asset	—	—	—	—	—	7.8	7.8
Premises and equipment	—	—	—	—	—	359.9	359.9
Other assets	138.3	35.7	29.9	39.7	19.1	97.3	360.0
Total assets	**2,251.5**	**1,115.3**	**1,334.7**	**2,767.3**	**2,900.4**	**465.9**	**10,835.1**
Liabilities							
Due to other banks	373.1	118.9	36.7	3.2	0.5	—	532.4
Due to individuals	1,243.7	739.2	654.1	2,726.0	363.3	—	5 726.3
Due to corporate customers	973.9	88.0	50.8	1,081.8	11.3	—	2 205.8
Debt securities in issue	35.3	36.7	17.9	53.5	125.3	—	268.7
Other borrowed funds	0.2	19.7	52.3	152.0	19.8	—	244.0
Deferred income tax liability	—	—	—	—	—	21.2	21.2
Other liabilities	186.0	47.5	9.6	11.9	6.5	3.7	265.2
Subordinated debt	—	—	—	0.2	303.3	—	303.5
Total liabilities	**2,812.2**	**1,050.0**	**821.4**	**4,028.6**	**830.0**	**24.9**	**9,567.1**
Net liquidity (gap) / surplus	**(560.7)**	**65.3**	**513.3**	**(1,261.3)**	**2,070.4**	**441.0**	**1,268.0**
Cumulative liquidity (gap)/ surplus at 31 December 2011	**(560.7)**	**(495.4)**	**17.9**	**(1,243.4)**	**827.0**	**1,268.0**	**—**

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

Operational Risk. Operational risk management is performed by the Group in accordance with CBR recommendations and requirments of Basel Committee on Banking Supervision and defined by the Group's Policy for operational risk management aimed at prevention or/and decrease of losses arised from deficiencies in operational management, technologies and information systems in use, unauthorised actions or errors of the staff, or by external events.

In order to prevent or/and decrease losses arised from operational risk the Group has developed and used mechanisms and procedures such as overall reglamentation of business-processes and procedures, segregation of duties, rules and procedures for deals and transactions execution, control over credit limit discipline, action plan for information security, continuity, improvement of an audit procedures and quality control over performance of automatized systems and hardware complex, property and assets insurance, ongoing professional development of staff across the Group's hierarchy, etc.

Accordingly there are risk-coordinators in the Bank's Head Office, Regional Head Offices, all subdivisions responsible for interaction with operational risk subdivisions concerning identification, valuation, monitoring and control over operational risk.

In 2012 the Bank was continuing collection and sistematization of information concerning realized risk actions, development of internal data base of realized risk actions and losses.

During the period of data base development valuation, forecast and monitoring of operational risk level are performed using base indicative method, recommended by Basel Committee on Banking Supervision, on the basis of income statement and with expert assessments. Current operational risk level for the Group is estimated as acceptable.

33.CONTINGENCIES AND COMMITMENTS

Legal proceedings. From time to time and in the normal course of business, claims against the Group are received. On the basis of its own estimates and internal professional advice the Management is of the opinion that no material losses will be incurred in respect of claims and accordingly no provision has been made in these consolidated financial statements.

Tax legislation. Russian tax, currency and customs legislation as currently in effect is vaguely drafted and is subject to varying interpretations, selective and inconsistent application and changes, which can occur frequently, at short notice and may apply retrospectively. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. It is therefore possible that transactions and activities of the Group that have not been challenged in the past may be challenged. As a result, 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 immediately preceding the year in which the decision to conduct a tax review is taken. Under certain circumstances tax reviews may cover longer periods.

The new Russian transfer pricing legislation, which came into force on 1 January 2012, allows the Russian tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of all "controlled" transactions if the transaction price deviates from the market prices determined for tax purposes. The list of "controlled" transactions includes transactions concluded with Russian and foreign related parties and certain types of cross-border transactions concluded with independent parties concluded starting 1 January 2012 or earlier if related income and expenses were recognized in 2012 or thereafter. Russian transfer pricing rules which are currently in effect have considerably increased the compliance burden for the taxpayers as compared to the transfer pricing rules which were in effect before 2012 due to, inter alia, shifting the burden of proof from the Russian tax authorities to the taxpayers. Special transfer pricing rules continue to apply to securities transactions and derivatives.

In 2012 the Group determined its tax liabilities arising from "controlled" transactions using actual transaction prices and making appropriate transfer pricing adjustments (where applicable).

Due to the uncertainty and absence of any stable practice of the application of the current Russian transfer pricing legislation the Russian tax authorities may challenge the level of prices applied by the Group under the "controlled" transactions and accrue additional tax liabilities, unless the Group is able to demonstrate the use of market prices with respect to the "controlled" transactions, and that there has been proper reporting to the Russian tax authorities, supported by appropriate available transfer pricing documentation.

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.

Capital expenditure commitments. At 31 December 2012 the Group has contractual capital expenditure commitments in respect of premises and equipment totaling 38.9 billion RUB (2011: 21.6 billion RUB) and in respect of computer equipment acquisition of 2.1 billion RUB (2011: 1.9 billion RUB). The Group has already allocated the necessary resources in respect of these commitments. The Group believes that future net income and funding will be sufficient to cover these and any similar commitments.

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

In billions of Russian Roubles	2012		2011	
	Lease payments under cancellable operating lease	Lease payments under non-cancellable operating lease	Lease payments under cancellable operating lease	Lease payments under non-cancellable operating lease
Not later than 1 year	10.8	1.4	7.2	1.2
Later than 1 year and not later than 5 years	19.0	3.2	12.2	2.9
Later than 5 years	14.5	3.3	11.1	2.4
Total operating lease commitments	**44.3**	**7.9**	**30.5**	**6.5**

Compliance with covenants. The Group is subject to certain covenants related primarily to its borrowings. Non-compliance with such covenants may result in negative consequences for the Group. The Group is in compliance with covenants as at 31 December 2012 and as at 31 December 2011.

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

Commitments to extend credit represent unused portions of authorisations to extend credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to a loss equal to the total amount of unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the maturities of credit related commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments. Outstanding credit related commitments are as follows:

In billions of Russian Roubles	2012	2011
Commitments to extend credit	1,112.0	741.9
Guarantees issued	934.2	490.6
Undrawn credit lines	495.2	378.0
Export letters of credit	302.8	364.5
Import letters of credit and letters of credit for domestic settlements	185.5	180.5
Total credit related commitments	**3,029.7**	**2,155.5**

At 31 December 2012 included in Due to corporate customers are deposits of 79.0 billion RUB (31 December 2011: 95.0 billion RUB) held as collateral for irrevocable commitments under import letters of credit. Refer to Note 17.

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

Fiduciary assets. These assets are not included in the consolidated statement of financial position as they are not assets of the Group. Nominal values disclosed below are normally different from the fair values of respective securities. The fiduciary assets fall into the following categories:

In billions of Russian Roubles	2012	2011
	Nominal value	Nominal value
State savings bonds and OFZ bonds	711.6	599.8
Corporate shares	416.7	317.2
Promissory notes	22.3	13.4
Corporate bonds	41.2	8.9
Foreign government bonds	3.7	1.2
Debt securities of municipal and subfederal bodies of the Russian Federation	3.6	0.3
Eurobonds of the Russian Federation	3.4	—
Other securities	4.2	0.3
Total fiduciary assets	**1,206.7**	**941.1**

Assets under management. As at 31 December 2012 and 31 December 2011 several asset management companies of the Group were managing assets of various investment entities. The net value of such assets was as follows:

In billions of Russian Roubles	2012	2011
Pension funds	47.7	—
Mutual investment funds	17.5	17.4
Designated funds	4.3	7.6
Hedge funds	3.7	5.1
Venture funds	2.7	3.4
Private equity funds	0.9	1.5
Other	8.5	—
Total	**85.3**	**35.0**

34. DERIVATIVE FINANCIAL INSTRUMENTS

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

Fair value of forward contracts is calculated as present value of amounts receivable less present value of amounts payable. The inputs in the discounted cash flows model used are forward exchange rate quotations and quoted implied depo rates. Such instruments are classified as level 2 of fair value hierarchy. Refer to Note 35.

Fair value of option contracts is calculated using the Black-Scholes model. Adjustments for credit risk are made where appropriate. The main inputs of this model are current market price and implied volatility. Where these inputs could be observed on the open market, the carrying amounts are disclosed as level 2 of fair value hierarchy. Otherwise, the amounts are disclosed as level 3. Refer to Note 35.

The table reflects gross positions before the netting of any counterparty positions (and payments) and covers the contracts with settlement dates after the respective reporting date. The contracts are short term in nature.

As at 31 December 2012 (In billions of Russian Roubles)	Principal or agreed amount at fair value of assets receivable	Principal or agreed amount at fair value of assets payable	Assets positive fair value	Liabilities negative fair value
Foreign currency:				
Market options	0.3	(0.3)	—	—
Market swaps	(6.7)	6.7	(0.1)	0.1
OTC options	246.1	(245.5)	9.7	(9.1)
OTC swaps	1,018.6	(1,000.9)	30.7	(13.0)
Forwards	203.2	(203.7)	1.8	(2.3)
Futures	13.1	(13.1)	0.4	(0.4)
Total	**1,474.6**	**(1,456.8)**	**42.5**	**(24.7)**
Interest rate:				
Market swaps	2.1	(1.9)	0.2	—
OTC options	0.6	(0.6)	—	—
OTC swaps	406.6	(403.4)	16.9	(13.7)
Forwards	0.3	(0.3)	—	—
Futures	14.4	(14.4)	—	—
Total	**424.0**	**(420.6)**	**17.1**	**(13.7)**
Commodities including precious metals:				
OTC options	2.5	(2.5)	2.3	(2.3)
OTC swaps	21.3	(12.8)	8.7	(0.2)
Forwards	3.2	(3.2)	—	—
Futures	2.5	(2.5)	—	—
Total	**29.5**	**(21.0)**	**11.0**	**(2.5)**
Equities:				
Market options	0.6	(0.6)	0.1	(0.1)
OTC options	9.6	(6.4)	3.5	(0.3)
Forwards	2.5	(2.4)	0.2	(0.1)
Futures	7.8	(7.8)	—	—
Total	**20.5**	**(17.2)**	**3.8**	**(0.5)**
Debt securities:				
Forwards	0.2	(0.2)	—	—
Total	**0.2**	**(0.2)**	—	—
Other:				
OTC swaps	—	(0.3)	—	(0.3)
Total	**—**	**(0.3)**	**—**	**(0.3)**
Total	**1,948.8**	**(1,916.1)**	**74.4**	**(41.7)**

As at 31 December 2012 (In billions of Russian Roubles)	Principal or agreed amount at fair value of assets receivable	Principal or agreed amount at fair value of assets payable	Assets positive fair value	Liabilities negative fair value
Foreign currency:				
Market options	27.7	(27.2)	0.5	(0.7)
OTC swaps	394.8	(397.7)	4.9	(7.8)
Forwards	218.8	(207.5)	14.9	(3.6)
Futures	33.0	(33.0)	2.3	(0.4)
Total	**674.3**	**(665.4)**	**22.6**	**(12.5)**
Interest rate:				
OTC swaps	272.3	(269.6)	14.5	(11.8)
Futures	71.6	(71.6)	—	—
Total	**343.9**	**(341.2)**	**14.5**	**(11.8)**
Commodities including precious metals:				
Market options	0.8	(1.0)	—	(0.2)
Forwards	35.3	(28.4)	8.3	(1.4)
Futures	0.6	(0.6)	—	—
Total	**36.7**	**(30.0)**	**8.3**	**(1.6)**
Equities:				
OTC options	16.6	(18.5)	5.5	(0.2)
Forwards	4.0	(3.8)	0.2	—
Futures	12.9	(12.9)	—	—
Total	**33.5**	**(35.2)**	**5.7**	**(0.2)**
Debt securities:				
OTC options	(5.3)	(4.7)	—	(0.6)
Futures	0.1	(0.1)	—	—
Total	**(5.2)**	**(4.8)**	**—**	**(0.6)**
Total	**1,083.2**	**(1,076.6)**	**51.1**	**(26.7)**

During the year the Group has incurred a net gain on foreign currency derivatives in the amount of 8.4 billion RUB (2011: a net gain of 2.6 billion RUB) and earned net gain on precious metals derivatives in the amount of 6.0 billion RUB (2011: a net gain of 6.5 billion RUB), which is recorded in the Group's consolidated income statement within net gains arising from trading in foreign currencies, operations with foreign currency derivatives and foreign exchange translation, and net gains arising from operations with precious metals and precious metals derivatives correspondingly.

35. FAIR VALUE OF FINANCIAL INSTRUMENTS

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.

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The following tables show an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

As at 31 December 2012 (In billions of Russian Roubles)	Level 1	Level 2	Level 3	Total
Financial assets				
Trading securities	81.5	8.0	0.9	90.4
Securities designated at fair value through profit or loss	11.5	0.6	7.1	19.2
Securities pledged under repurchase agreements	677.9	4.3	—	682.2
Investment securities available for sale	734.3	52.1	18.1	804.5
Derivative financial instruments	—	52.2	22.2	74.4
Total financial assets at fair value	**1,505.2**	**117.2**	**48.3**	**1,670.7**
Financial liabilities				
Derivative financial instruments	—	41.4	0.3	41.7
Securties sold. not yet purchased	15.9	2.7	—	18.6
Structured notes	—	1.3	1.0	2.3
Total financial liabilities at fair value	**15.9**	**45.4**	**1.3**	**62.6**

As at 31 December 20121 (In billions of Russian Roubles)	Level 1	Level 2	Level 3	Total
Financial assets				
Trading securities	94.6	4.7	2.7	102.0
Securities designated at fair value through profit or loss	32.2	14.4	5.4	52.0
Securities pledged under repurchase agreements	163.0	0.7	—	163.7
Investment securities available for sale	842.6	27.6	14.3	884.5
Derivative financial instruments	2.3	25.3	23.6	51.2
Total financial assets at fair value	**1,134.7**	**72.7**	**46.0**	**1,253.4**
Financial liabilities				
Securties sold, not yet purchased	65.9	1.3	0.3	67.5
Derivative financial instruments	0.5	25.6	0.6	26.7
Structured notes	0.6	—	0.9	1.5
Total financial liabilities at fair value	**67.0**	**26.9**	**1.8**	**95.7**

Level 2 includes debt securities of first-class borrowers that are not actively traded on the market. Fair value of the securities was calculated using techniques for which all inputs which have a significant effect on the recorded fair value are observable. Financial characteristics of comparable financial instruments actively traded on the market were used as inputs for the fair valuation models.

The following table shows a reconciliation of the opening and closing amount of Level 3 financial assets and liabilities which are recorded at fair value as at 31 December 2012:

In billions of Russian Roubles	At 1 January 2012	Total gains reported in income statement	Foreign currency revaluation	Changes in fair value due to deferred gains	Purchases	Sales	Transfers from Level 3	Transfers to Level 3	At 31 December 2012
Financial assets									
Trading securities	2.7	(0.5)	—	—	0.5	(1.9)	—	0.1	0.9
Securities designated at fair value through profit or loss	5.4	(2.3)	—	—	7.6	(0.5)	(3.5)	0.4	7.1
Investment securities available for sale	14.3	—	—	—	5.3	(1.5)	—	—	18.1
Derivative financial instruments	23.6	3.3	(2.1)	0.2	0.1	(2.9)	—	—	22.2
Total level 3 financial assets	**46.0**	**0.5**	**(2.1)**	**0.2**	**13.5**	**(6.8)**	**(3.5)**	**0.5**	**48.3**
Financial liabilities									
Structured notes	0.9	—	—	—	0.1	—	—	—	1.0
Derivative financial instruments	0.6	(0.6)	—	—	0.3	—	—	—	0.3
Securties sold, not yet purchased	0.3	(0.3)	—	—	—	—	—	—	—
Total level 3 financial liabilities	**1.8**	**(0.9)**	**—**	**—**	**0.4**	**—**	**—**	**—**	**1.3**

Transfers from Level 3 during the year ended 31 December 2012 were due to receipt of control over construction company. The carrying amount of the total assets transferred was 3.5 billion RUB.

For the year ended 31 December 2012 the losses in the amount of 1.8 billion RUB reported in income statement on Level 3 financial assets were unrealized.

Total gains recognized as profit or loss on trading securities which are presented in the table above are reported in income statement within net gains arising from trading securities.

Total gains recognized as profit or loss on securities designated at fair value through profit or loss which are presented in the table above are reported in income statement within net losses arising from securities designated at fair value through profit or loss.

Total gains recognized as profit or loss on derivative financial instruments which are presented in the table above are reported in income statement within net gains from operations with other derivatives.

Valuation of available for sale shares in a stock exchange of 13.7 billion RUB using valuation techniques based on non-observable inputs

The Group determined the fair value of the investments based on discounted cash flow model with the following principal assumptions underlying the estimation of the fair value: type of WACC and estimated future operating cash flows.

Should the WACC used by the Group in the valuation model increase/decrease by 1%, the carrying value of the financial instrument would be 1.2 billion RUB lower / 1.4 billion RUB higher.

Valuation of investments in shares of an associated company involved in innovation business at fair value through profit and loss of 4.4 billion RUB using a valuation technique based on non-observable inputs

The Group determined the fair value of the investments based on discounted cash flow model with the following principal assumptions underlying the estimation of the fair value: type of the weighted average cost of capital (hereinafter — «WACC»); volume of production, sale price of goods sold (in particular crystal polisilicon), cost of sales. When determining the sale price of goods sold the Group used current market prices and forecasts of analytical companies. As at 31 December 2012 the estimated value of the WACC used by the Group comprised 18.38%.

Should the WACC used by the Group in the valuation model increase/decrease by 1%, the carrying value of the financial instrument would be 0.3 billion RUB lower / 0.3 billion RUB higher.

Valuation of available for sale shares in a real estate company of 3.1 billion RUB using valuation techniques based on non-observable inputs

The Group determined fair value of investments based on discounted cash flow model using the following key assumptions: type of WACC and estimated capitalization rate which depend on forecasts on property prices.

Should the discount rate used by the Group in the valuation model increase/decrease by 1%, the carrying value of the financial instrument would be 0.1 billion RUB lower / 0.1 billion RUB higher. Should the capitalization rate used by the Group in the valuation model increase/decrease by 1%, the carrying value of the financial instrument would be 0.3 billion RUB lower / 0.3 billion RUB higher.

Valuation of available for sale non-voting shares in a special investment fund (SIF) of 1.6 billion RUB using valuation techniques based on non-observable inputs

The Group determined fair value of investments based on discounted cash flow model using the following key assumptions: type of WACC and estimated guaranteed fixed yield on exit.

Guaranteed fixed yield has not linked to the market and so has immaterial influence on the value of the financial instrument.

Should the discount rate used by the Group in the valuation model increase/decrease by 1%, the carrying value of the financial instrument would be 0.03 billion RUB lower / 0.03 billion RUB higher.

Valuation of foreign currency derivatives contracts of 19.8 RUB billion using non-observable inputs

The inputs used for estimation of fair values of foreign currency derivatives were the yield to maturity of the Belarusian Eurobonds in USD (7.44%). The obligations in Belarusian roubles were estimated against the prevailing rate of attracting funds in Belarusian roubles at the reporting date (37.0%). Should the input rate for Belarusian roubles decrease for 1000 base points the carrying value of the foreign currency derivatives would be 3.1% lower.

The following table shows a reconciliation of the opening and closing amount of Level 3 financial assets and liabilities which are recorded at fair value as at 31 December 2011:

In billions of Russian Roubles	At 1 January 2011	Total gains reported in income statement	Purchases	Business combinations	Sales	At 31 December 2011
Financial assets						
Trading securities	—	—	—	2.7	—	2.7
Securities designated at fair value through profit or loss	3.4	0.3	0.5	1.2	—	5.4
Investment securities available for sale	11.9	(0.2)	8.5	—	(5.9)	14.3
Derivative financial instruments	5.0	20.6	—	—	(2.0)	23.6
Total level 3 financial assets	**20.3**	**20.7**	**9.0**	**3.9**	**(7.9)**	**46.0**
Financial liabilities						
Securties sold, not yet purchased	—	—	—	0.3	—	0.3
Derivative financial instruments	—	—	0.6	—	—	0.6
Structured notes	—	—	—	0.9	—	0.9
Total level 3 financial liabilities	**—**	**—**	**0.6**	**1.2**	**—**	**1.8**

For the year ended 31 December 2011 the gains in the amount of 21.4 billion RUB reported in income statement on Level 3 financial assets were unrealized. All the gains reported in other comprehensive income on Level 3 financial assets were unrealized.

Total gains recognized as profit or loss on securities designated at fair value through profit or loss which are presented in the table above are reported in income statement within net (losses)/gains arising from securities designated at fair value through profit or loss.

Total gains recognized as profit or loss on investment securities available for sale which are presented in the table above are reported in income statement within net gains arising from investment securities available for sale.

Total gains recognized as profit or loss on derivative financial instruments which are presented in the table above are reported in income statement within net gains arising from operations with other derivatives.

Investments in shares of a company involved in construction business at fair value through profit and loss of 3.6 billion RUB using a valuation technique based on non-observable inputs

The Group determined the fair value of the investments based on discounted cash flow model with the following principal assumptions underlying the estimation of the fair value: type of the weighted average cost of capital (hereinafter — "WACC"); volume of construction of housing premises and hotels, terms of construction and subsequent sale, sale price per square meter of housing premises and respective cost of sale, booking rates for hotel rooms.

When determining the sale prices per square meter of housing premises and booking rates for hotel rooms the Group used comparable analogues and estimation of the annual increase in prices. As at 31 December 2011 the estimated value of the WACC used by the Group comprised 17.02%.

Should the WACC used by the Group in the valuation model increase/decrease by 1%, the carrying value of the financial instrument would be 0.3 billion RUB lower / 0.3 billion RUB higher.

Valuation of available for sale shares in a stock exchange of 13.2 billion RUB using valuation techniques based on non-observable inputs

The Group determined the fair value of the investments based on discounted cash flow model with the following principal assumptions underlying the estimation of the fair value: type of WACC and estimated future operating cash flows.

Should the WACC used by the Group in the valuation model increase/decrease by 1%, the carrying value of the financial instrument would be 1.1 billion RUB lower / 0.9 billion RUB higher.

Valuation of forward foreign currency contracts and forward precious metals contracts of 20.1 billion RUB using non-observable inputs

Fair values for forward foreign currency contracts and forward precious metals contracts are obtained from the interest rates parity model, using rates prevailing on the market of the Republic of Belarus and international markets with comparable business conditions.

The inputs used for estimation of fair values of foreign currency derivatives were the quotes of sovereign credit default swaps of the countries with the same credit rating as the rating of the Republic of Belarus (10.2%).

Claims in precious metals were estimated against the rate of attracting cashless precious metals in term deposits (6%).

The obligations in Belorusian Roubles were estimated against the prevailing rate of attracting funds in Belorusian Roubles at the reporting date (57.9%).

Should the input rate for Belorusian Roubles decrease/increase for 10 p.p. the carrying value of the foreign currency derivatives would be 2.7% lower / 2.2% higher.

Valuation of a put option on unquoted retail trading company shares of 1.2 billion RUB using non-observable inputs

The fair value of the option was determined using the Black-Scholes option pricing model. The inputs of the model include current market price of underlying shares and its historical volatility, option strike price and market risk-free rate of return, the principal input being the price of the shares.

Fair value of the underlying shares as at 31 December 2011 was estimated using the discounted cash flow model and comprised 9.1 billion RUB. Should the estimated value of shares used by the Group in the valuation model increase/decrease by 1%, the carrying value of the financial instrument would be 0.02 billion RUB lower / 0.02 billion RUB higher.

Valuation of a put/call option on shares of 2.6 billion RUB using non-observable inputs

The fair value of the option was determined using the Black-Scholes option pricing model. The principal inputs of the model include share price volatility of publicly traded companies operating in the same industry, share price valuation made using the discounted cash flow model and market risk-free rate of return.

Fair values of financial assets are as follows:

In billions of Russian Roubles	2012		2011	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets carried at amortised cost				
Cash and cash equivalents:				
– Cash on hand	680.8	680.8	438.7	438.7
– Cash balances with the Bank of Russia (other than mandatory reserve deposits)	260.4	260.4	51.3	51.3
– Correspondent accounts and overnight placements with other banks with original maturities up to 30 days	268.5	268.5	113.9	113.9
– Reverse-repo agreements with original maturities up to 30 days	81.1	81.1	21.7	21.7
– Mandatory cash balances with the Bank of Russia	211.2	211.2	101.2	101.2
Due from other banks	114.8	114.8	35.1	35.1
Loans and advances to customers:				
– Commercial loans to legal entities	4,971.6	5,029.4	3,713.3	3,658.1
– Specialized loans to legal entities	2,765.7	2,734.4	2,270.0	2,215.4
– Consumer and other loans to individuals	1,524.2	1,464.2	906.7	930.3
– Mortgage loans to individuals	1,116.9	1,094.1	748.6	778.6
– Car loans to individuals	120.9	118.2	81.1	82.3
Securities pledged under repurchase agreements:				
– Investment securities held to maturity pledged under repurchase agreements	267.5	266.8	137.2	136.1
Investment securities held to maturity	105.9	105.5	286.5	278.9
Other financial assets:				
– Receivables on plastic cards settlements	107.5	107.5	78.8	78.8
– Settlements on currency conversion operations	16.7	16.7	6.5	6.5
– Settlements on operations with securities	10.1	10.1	15.2	15.2
– Funds in settlement	5.6	5.6	0.1	0.1
– Accrued fees and commissions	4.5	4.5	3.9	3.9
– Trade receivables	4.4	4.4	2.7	2.7
– Other	4.4	4.4	4.8	4.8
Total financial assets carried at amortised cost	**12,642.7**	**12,582.6**	**9,017.3**	**8,953.6**

Fair values of financial liabilities are as follows:

In billions of Russian Roubles	2012		2011	
	Carrying value	Fair value	Carrying value	Fair value
Financial liabilities carried at amortised cost				
Due to other banks:				
– Sale and repurchase agreements with other banks	854,9	854,9	232,9	232,9
– Term placements of other banks	518,2	518,2	240,4	240,4
– Correspondent accounts and overnight placements of other banks	79,3	79,3	59,1	59,1
Due to Individuals:				
– Current/demand accounts	1 401,1	1 401,1	1 077,0	1 077,0
– Term deposits	5 582,1	5 541,7	4 649,3	4 667,9
Due to corporate customers:				
– Current/settlement accounts of state and public organisations	99,0	99,0	142,2	142,2
– Term deposits of state and public organisations	270,1	273,9	39,6	39,5
– Current/settlement accounts of other corporate customers	1 130,1	1 130,1	1 230,2	1 230,2
– Term deposits of other corporate customers	1 696,9	1 722,1	793,9	837,0
Debt securities in issue:				
– Loan participation notes issued under the MTN programme	291,6	315,0	169,6	168,1
– Savings certificates	227,2	231,6	9,8	9,8
– Promissory notes	110,1	109,7	77,2	70,8
– Bonds issued	44,3	44,5	9,9	10,0
– Notes issued under the ECP programme	16,1	16,1	—	—
– Other debt securities except for structured notes	0,1	0,1	0,7	0,7
Other borrowed funds:				
– Trade finance deals	306,3	304,7	141,9	141,9
– Syndicated loans received	162,9	162,7	102,1	102,1
Other financial liabilities:				
– Payables on plastic card settlements	63,7	63,7	45,8	45,8
– Funds in settlement	36,5	36,5	10,1	10,1
– Trade payables	11,7	11,7	13,1	13,1
– Deposit insurance system fees payable	6,2	6,2	5,2	5,2
– Settlements on operations with securities	4,1	4,1	10,5	10,5
– Deferred commissions received on guarantees issued	1,3	1,3	1,4	1,4
Other	13,2	13,2	6,5	6,5
Subordinated debt:				
– Subordinated debt received by the Group from the Bank of Russia	303,3	303,3	303,3	303,3
– Subordinated debt received under the MTN programme	61,1	62,3	—	—
– Other subordinated debts	20,3	19,0	0,2	0,2
Total financial liabilities carried at amortised cost	**13 311,7**	**13 326,0**	**9 371,9**	**9 425,7**

Financial instruments carried at fair value. Trading securities, other assets at fair value through profit or loss, financial derivatives, available for sale financial assets are carried in the consolidated statement of financial position at fair value.

Cash and cash equivalents are carried at amortised cost which approximately equals their current fair value.

Refer to Note 3 for accounting policy on financial instruments carried at fair value.

Loans and receivables carried at amortised cost. The fair value of floating rate instruments is normally their carrying amount. Due to significant changes in market situation interest rates for loans and advances to customers and due from other banks issued at fixed interest rates can be revised. Therefore interest rates for loans issued just before reporting date do not differ significantly from interest rates for new credit instruments with similar credit risk and remaining maturity. If under the Group assessment interest rates for the loans issued before reporting date differ significantly from current interest rates for similar credit instruments the fair value for these loans is estimated. The estimation is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on currency, maturity of the instrument and credit risk of the counterparty.

Contractual interest rates on loans and advances to customers and due from banks as at 31 December 2012 and 31 December 2011 were as follows:

	2012	2011
Due from banks	0.01% to 11.0% p.a.	1.5% to 8.5% p.a.
Loans and advances to customers:		
Corporate loans	5.2% to 18.7% p.a.	5.3% to 17.1% p.a.
Loans to individuals	7.4% to 24.0% p.a.	8.0% to 21.0% p.a.

Estimated fair value of other financial assets including trade debtors equals their carrying amount considering short-term nature of these assets.

Liabilities carried at amortised cost. The fair value is based on quoted market prices, if available. The estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The fair value of liabilities repayable on demand or after a notice period ("demandable liabilities") is estimated as the amount payable on demand, discounted from the first date that the amount could be required to be paid. Discount rates used were consistent with the Group's credit risk and also depend on currency and maturity of the instrument and ranged from 0.0% p.a. to 13.3% p.a. (2011: from 0.1% p.a. to 17.0% p.a.).

Derivative financial instruments. All derivative financial instruments are carried at fair value as assets when the fair value is positive and as liabilities when the fair value is negative. Refer to Note 34.

36. TRANSFERRED FINANCIAL ASSETS AND ASSETS HELD OR PLEDGED AS COLLATERAL

The following note provides a summary of financial assets which have been transferred in such a way that part or all of the transferred financial assets do not qualify for derecognition.

The table below shows the amount of operations under sale and repurchase agreements which the Group enters into in the normal course of business.

In billions of Russian Roubles	2012				2011			
	Due to banks		Due to customers		Due to banks		Due to customers	
	Assets pledged	Related liabilities	Assets pledged	Related liabilities	Assets pledged	Related liabilities	Assets pledged	Related liabilities
Securities pledged under repurchase agreements	919,2	845.9	30.5	23.8	254.7	232.9	46.1	38.1
Securities of clients	10.2	8.8	17.6	11.9	—	—	5.1	3.9
Total	**929.4**	**854.7**	**48.1**	**35.7**	**254.7**	**232.9**	**51.2**	**42.0**

Refer to Note 11 for detailed information on types of securities pledged under repurchase agreements.

Assets pledged and restricted. As at 31 December 2012 the Group has pledged loans to corporate customers with the Bank of Russia as collateral against interbank borrowings to support its everyday operations in terms of liquidity for the amount of 223.2 billion RUB. Funds attracted amounted to 168.5 billion RUB (2011: nil).

As at 31 December 2012 the Group has pledged loans to corporate customers with the KfW as collateral against interbank borrowings for the amount of 1.6 billion RUB. Funds attracted amounted to 2.2 billion RUB (2011: nil).

As at 31 December 2012 the Group has pledged Eurobonds of the Russian Federation for the amount of 20.0 billion RUB as collateral against interbank borrowings for the amount of 17.6 billion RUB from European Investment Bank (2011: nil).

As at 31 December 2012 the Group has pledged collateral and guarantees against loans received for the amount of 17.7 billion RUB as well as a 50.029% share in OJSC Krasnaya Polyana as collateral against loans received from GK Vneshekonombank.

As at 31 December 2012 the Group has also pledged federal loan bonds (OFZ bonds) and Eurobonds of the Russian Federation on the special accounts with the Bank of Russia as collateral against overnight interbank borrowings that the Group attracts on a regular basis from the Bank of Russia. The carrying value of assets pledged is as follows:

In billions of Russian Roubles	Notes	2012	2011
Trading securities	8		
– Federal loan bonds (OFZ bonds)		5.4	15.8
Securities designated at fair value through profit or loss	9		
– Federal loan bonds (OFZ bonds)		8.3	28.6
Investment securities available for sale	12		
– Federal loan bonds (OFZ bonds)		142.5	203.9
– Russian Federation Eurobonds		56.8	—
– Corporate bonds		2.5	—
Investment securities held to maturity	13		
– Federal loan bonds (OFZ bonds)		11.3	36.7
Total		**226.8**	**285.0**

Mandatory cash balances with the Bank of Russia in the amount of 211.2 billion RUB (2011: 101.2 billion RUB) represent mandatory reserve deposits, which are not available to finance the Group's day-to-day operations.

The Group also enters into reverse sale and repo agreements. The summary of such operations is provided in the table below:

In billions of Russian Roubles	2012		2011	
	Amount of loans granted under repo agreements	Fair value of securities received as collateral	Amount of loans granted under repo agreements	Fair value of securities received as collateral
Cash and cash equivalents	81.1	88.7	21.7	27.0
Due from banks	9.8	12.1	—	—
Loans and advances to customers	133.5	167.3	189.9	295.1
Total	**244.4**	**268.1**	**211.6**	**322.1**

37. RELATED PARTY TRANSACTIONS

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

The Group's principal shareholder is the Bank of Russia (refer to Note 1). Other related parties in the tables below comprise key management personnel, their close family members, associated companies of the Group. Disclosures are made in Note 38 for significant transactions with state-controlled entities and government bodies.

As at 31 December 2012 and 31 December 2011, the outstanding balances with the Bank of Russia and other related parties were as follows:

In billions of Russian Roubles	Note	2012		2011	
		the Bank of Russia	Other related parties	the Bank of Russia	Other related parties
Assets					
Cash and cash equivalents		260.4	—	51.3	0.9
Mandatory cash balances with the Bank of Russia		122.6	—	99.5	—
Due from banks (contractual interest rates: 2.0% p.a. – 6.5% p.a.)		—	—	—	0.8
Gross amount of loans and advances to customers (contractual interest rates: 7.5% p.a. 21.0% p.a.)		—	0.1	—	0.3
Other assets		—	0.1	—	0.1
Liabilities					
Due to banks (contractual interest rates: 5.5% p.a. – 8.0% p.a.)		1,070.8	—	265.6	—
Due to individuals		—	8.3	—	—
Due to corporate customers (contractual interest rates: 1.0% p.a. – 8.4% p.a.)		—	0.9	—	1.5
Subordinated debt (effective interest rate: 6.5% p.a.)	21	303.3	—	303.3	—
Other liabilities		—	—	—	0.3

The income and expense items with the Bank of Russia and other related parties for the year ended 31 December 2012 and 31 December 2011 were as follows:

In billions of Russian Roubles	2012		2011	
	the Bank of Russia	Other related parties	the Bank of Russia	Other related parties
Interest income	—	—	9.0	—
Interest expense on subordinated debt	(19.6)	—	(19.5)	—
Interest expense other than on subordin ated debt	(38.6)	(0.3)	(3.3)	—
Operating expenses	(1.4)	(0.2)	(1.3)	(0.1)

For the year ended 31 December 2012, remuneration of the members of the key management personnel comprised salaries and bonuses totaling 2.4 billion RUB (for the year ended 31 December 2011: 2.2 billion RUB).

38. OPERATIONS WITH STATE-CONTROLLED ENTITIES AND GOVERNMENT BODIES

In the normal course of business, the Group enters into contractual agreements with the government of the Russian Federation and entities controlled or significantly influenced by it. The Group provides the government-related entities with a full range of banking services including, but not limited to, lending, deposit-taking, issue of guarantees, operations with securities, cash and settlement transactions. Operations with government-related entities are carried out on general market terms and constitute the minority of the Group's operations.

Balances with government-related entities which are significant in terms of the carrying amount as at 31 December 2012 are disclosed below:

In billions of Russian Roubles		31 December 2012		
Client	Sector	Loans and advances to customers/ Due from banks	Due to corporate customers/ Due to banks	Guarantees issued
Client 1	Oil and gas	77.0	23.4	—
Client 2	Oil and gas	4.3	16.7	—
Client 3	Energy	110.9	23.7	—
Client 4	Energy	106.7	35.0	0.6
Client 5	Energy	62.5	63.3	—
Client 6	Telecommunications	137.4	—	—
Client 7	Machine building	84.2	25.0	—
Client 8	Machine building	81.5	25.1	8.4
Client 9	Machine building	79.0	—	8.9
Client 10	Machine building	—	—	17.6
Client 11	Transport, aviation, space industry	—	—	21.6
Client 12	Transport, aviation, space industry	3.1	—	17.3
Client 13	Transport, aviation, space industry	—	—	15.1
Client 14	Government and municipal bodies	—	73.8	—
Client 15	Government and municipal bodies	—	55.7	—
Client 16	Government and municipal bodies	—	32.0	—
Client 17	Government and municipal bodies	—	15.0	—
Client 18	Banking	0,9	20.2	100.0
Client 19	Banking	33.3	25.2	—
Client 20	Services	—	17.6	—

Balances with government-related entities which are significant in terms of the carrying amount as at 31 December 2011 are disclosed below:

In billions of Russian Roubles		31 December 2011		
Client	Sector	Loans and advances to customers/ Due from banks	Due to corporate customers/ Due to banks	Guarantees issued
Client 2	Oil and gas	—	44.2	—
Client 3	Energy	79.3	37.9	—
Client 4	Energy	87.4	12.5	—
Client 5	Energy	52.6	11.6	—
Client 6	Telecommunications	93.4	—	—
Client 7	Machine building	65.4	13.5	—
Client 9	Machine building	51.1	—	—
Client 10	Machine building	—	—	19.5
Client 14	Government and municipal bodies	—	11.7	—
Client 18	Banking	—	3.9	100.0
Client 19	Banking	29.1	—	—
Client 20	Services	—	13.0	—

As at 31 December 2012 and 31 December 2011 the Group's investments in securities issued by government-related corporate entities were as follows:

In billions of Russian Roubles	31 December 2012		31 December 2011	
	Corporate bonds	Corporate shares	Corporate bonds	Corporate shares
Trading securities	11.2	1.4	8.2	8.1
Securities designated at fair value through profit or loss	0.1	—	—	2.7
Securities pledged under repurchase agreements	98.9	3.9	11.6	40.5
Investment securities available for sale	166.9	15.2	139.2	20.7
Investment securities held to maturity	8.9	—	45.9	—

For disclosures on investments in government debt securities please refer to Notes 8, 9, 11, 12 and 13.

39. PRINCIPAL SUBSIDIARIES

The table below provides details on principal subsidiaries of the Bank as at 31 December 2012:

Name	Nature of business	Percentage of ownership, %	Country of registration
Subsidiaries:			
DenizBank AS	banking	99.85	Turkey
Sberbank Europe AG (former Volksbank International AG ("VBI"))	banking	100.00	Austria
OJSC BPS-Sberbank (former OJSC Belpromstroy Bank)	banking	97.91	Belarus
SB JSC Sberbank	banking	100.00	Kazakhstan
JSC Sberbank of Russia	banking	100.00	Ukraine
Sberbank (Switzerland) AG (former SLB Commercial Bank AG)	banking	99.15	Switzerland
BNP Pariba Vostok LLC	banking	70.00	Russia
CJSC Sberbank Leasing	leasing	100.00	Russia
LLC Sberbank Capital	finance	100.00	Russia
Troika Dialog Group Ltd.	finance	100.00	Cayman islands
CJSC Rublevo-Archangelskoe	construction	100.00	Russia
LLC Sberbank Investments	finance	100.00	Russia
LLC Aukcion	services	100.00	Russia
OJSC Krasnaya Polyana	construction	50.03	Russia
LLC Khrustalnye Bashni	construction	50.01	Russia

In September 2012 the Bank completed the acquisition of 99.85% of DenizBank AS (DenizBank) following the entering into the sale and purchase agreement in June 2012 with the shareholders of DenizBank — Dexia NV/SA and Dexia Participation Belgique SA (together "Dexia"). DenizBank is ranked 6th among private and 9th among all Turkish banks by consolidated total assets. The deal represents a major step in the implementation of the Group's strategy and allows the Group to enter the fast-growing Turkish banking market.

Consideration paid by the Bank amounted to 6.5 billion TRY. Payments were performed in Euro at the exchange rate as of the date of payment. In December 2012 the Bank paid to Dexia a further 0.4 billion TRY.

The goodwill is primarily attributable to the potential synergies of the business as well as well established business processes. The goodwill will not be deducted for tax purposes in future periods.

Gross amount of loans and receivables acquired through this business combination amounted to 637.3 billion RUB. The amount of cash flows not expected to be received was assessed at 23.0 billion RUB.

The Group's consolidated net profit for the year ended 31 December 2012 would be 354.2 billion RUB if the acquisition occurred on 1 January 2012.

Profit of DenizBank since the acquisition date amounted to 3.9 billion RUB.

For the purpose of determining goodwill from the business combination preliminary fair values of identifiable assets and liabilities of DenizBank based on the results of an independent external appraisal at the acquisition date were as follows:

In billions of Russian Roubles	Preliminary fair value
Cash and cash equivalents	47.2
Mandatory cash balances with central banks	64.7
Trading securities	7.4
Loans to banks	2.2
Loans and advances to customers	616.1
Securities pledged under repurchase agreements	22.7
Investment securities available for sale	95.7
Investment securities held to maturity	4.3
Deferred income tax asset	3.4
Premises and equipment	7.1
Other assets	50.0
Total assets	**920.8**
Due to banks	(45.1)
Due to individuals	(342.1)
Due to corporate customers	(238.6)
Debt securities in issue	(27.7)
Other borrowed funds	(103.8)
Deferred income tax liability	(6.4)
Other liabilities	(28.4)
Subordinated debt	(14.1)
Total liabilities	**(806.2)**
Fair value of net assets of subsidiary	**114.6**
Calculation of goodwill:	
Total purchase consideration	**118.7**
Non-controlling interest at fair value	0.4
Fair value of net assets of subsidiary	**(114.6)**
Goodwill on acquisition	**4.5**

In August 2012 the Bank and BNP Paribas Personal Finance, the consumer lending division of the BNP Paribas Group and leading provider of consumer loans in France and Europe. closed the transaction on the creation of the Russian POS (Point of Sale) finance bank. The bank BNP Paribas Vostok LLC will operate under the Cetelem brand. The Bank has 70% share in BNP Paribas Vostok LLC with the remaining 30% stake being owned by BNP Paribas Personal Finance France, which owns the Cetelem brand. The bank will allow the Group to take up a leading position in the Russian POS market. Consideration paid by the Bank amounted to 5.2 billion RUB.

The goodwill is primarily attributable to the potential synergies of the business as well as well-established business processes. The goodwill will not be deducted for tax purposes in future periods.

Gross amount of loans and receivables acquired through this business combination amounted to 16.9 billion RUB. The amount of cash flows not expected to be received was assessed at 0.1 billion RUB.

Loss of BNP Paribas Vostok LLC since the acquisition date amounted to 0.2 billion RUB.

For the purpose of determining goodwill from the business combination fair values of identifiable assets and liabilities of BNP Paribas Vostok LLC based on the preliminary results of an independent external appraisal at the acquisition date were as follows:

In billions of Russian Roubles	Fair value
Cash and cash equivalents	1.3
Mandatory cash balances with central banks	0.2
Due from banks	0.3
Loans and advances to customers	16.8
Premises and equipment	0.2
Other assets	1.3
Total assets	**20.1**
Due to banks	(11.7)
Due to customers	(0.8)
Other liabilities	(0.6)
Total liabilities	**(13.1)**
Fair value of net assets of subsidiary	**7.0**
Calculation of goodwill:	
Total purchase consideration	**5.2**
Non-controlling interest at fair value	2.1
Fair value of net assets of subsidiary	**(7.0)**
Goodwill on acquisition	**0.3**

In February 2012 following the entering into sale and purchase agreement in September 2011 the Bank has completed its acquisition of 100% of Sberbank Europe AG (former Volksbank International AG ("VBI")). Consideration paid by the Bank amounted to Euro 0.5 billion.

This transaction represents the Bank's first major acquisition outside the CIS and is another step in its transformation from a dominant domestic financial institution to a leading international bank. Sberbank Europe AG has 295 branches and over 600.000 clients. VBI's subsidiaries are within the top 10 financial institutions (by total assets) in each of Bosnia and Herzegovina, Croatia. Czech Republic, and Slovakia, and within the top 15 financial institutions (by total assets) in each of Hungary, Serbia and Slovenia. It also has presence in Ukraine and holds a limited banking license in Austria.

The goodwill is primarily attributable to the potential synergies and profitability of the business as well as set up business processes. The goodwill will not be deducted for tax purposes in future periods.

Gross amount of loans and receivables acquired through this business combination amounted to 301,2 billion RUB. The amount of cash flows not expected to be received was assessed at 18.2 billion RUB.

Loss of Sberbank Europe AG since the acquisition date amounted to 8.0 billion RUB.

The Group's consolidated net profit would not change if the acquisition occurred on 1 January 2012.

For the purpose of determining goodwill from the business combination fair values of identifiable assets and liabilities of Sberbank Europe AG based on the final results of an independent external appraisal at the acquisition date were as follows:

In billions of Russian Roubles	Fair value
Cash and cash equivalents	42.8
Mandatory cash balances with central banks	10.5
Trading securities	0.4
Loans to banks	15.9
Loans and advances to customers	251.0
Securities pledged under repurchase agreements	4.9
Investment securities available for sale	14.9
Investment securities held to maturity	1.9
Deferred income tax asset	1.2
Premises and equipment	4.5
Other assets	13.9
Total assets	**361.9**
Due to banks	(50.5)
Due to individuals	(109.4)
Due to corporate customers	(77.3)
Debt securities in issue	(9.4)
Other borrowed funds	(92.1)
Deferred income tax liability	(0.6)
Other liabilities	(4.4)
Subordinated debt	(3.4)
Total liabilities	**(347.1)**
Fair value of net assets of subsidiary	**14.8**
Calculation of goodwill:	
Total purchase consideration	**20.0**
Non-controlling interest at fair value	0.3
Fair value of net assets of subsidiary	**(14.8)**
Goodwill on acquisition	**5.5**

In June 2012 under the settlement of the loan to its borrower the Group repossessed a 100% share in CJSC Rublevo-Archangelskoe, a construction development company operating in Russia. The details of the fair value of net assets of CJSC Rublevo-Archangelskoe based on the results of the appraisal at the acquisition date were as follows:

In billions of Russian Roubles	Fair value
Other non-financial assets	37.5
Total assets	**37.5**
Due to corporate customers	(0.2)
Deferred income tax liability	(0.3)
Total liabilities	**(0.5)**
Fair value of net assets of subsidiary	**37.0**
Calculation of goodwill: **Total purchase consideration**	**37.0**
Fair value of net assets of subsidiary	**(37.0)**
Goodwill on acquisition	**—**

Net loss of CJSC Rublevo-Archangelskoe since the date of acquisition amounted to 0.2 billion RUB. The Group's consolidated net profit would not change if the acquisition occurred on 1 January 2012.

During the year ended 31 December 2012 the Group acquired controlling interests in OJSC Krasnaya Polyana and several other companies. The preliminary fair value of net assets of these companies was as follows:

In billions of Russian Roubles	Preliminary fair value
Cash and cash equivalents	1.5
Due from banks	0.6
Loans and advances to customers	1.1
Premises and equipment	5.8
Advances to developers	7.5
Other assets	8.3
Total assets	**24.8**
Borrowed funds	(5.8)
Advances received	(1.5)
Other liabilities	(1.2)
Total liabilities	**(8.5)**
Fair value of net assets of subsidiary	16.3
Calculation of goodwill:	
Total purchase consideration	**14.6**
Non-controlling interest at fair value	7.4
Fair value of net assets of subsidiary	**(16.3)**
Goodwill on acquisition	**6.4**
Bargain purchase on acquisition	**(0.7)**

Net loss of the acquired companies since the date of acquisition amounted 1.1 billion RUB. The Group's consolidated net profit would not change if the acquisition occurred on 1 January 2012.

In 2012 the Group disposed of the 100.0% share in OJSC Holding company GVSU Centre for 5.4 billion RUB. The gain from this operation amounted to 0.1 billion RUB.

In April 2012 the Group disposed of a 60.00% share in CJSC GOTEK Group Management Company, a company involved in production and sale of packaging materials, for 0.06 billion RUB. The gain from this operation amounted to 0.5 billion RUB.

In December 2012 the Group disposed of a 100.00% share in CJSC NK Dulisma for 2.0 billion RUB and 27 million USD. The loss from this operation amounted to 3,6 billion RUB.

In December 2012 the Group disposed of a 38% share in Vester Retail N.V., a company specializing in retail trading, for the amount of 1.6 billion RUB. As at 31 December 2012 a remaining 16% share of Vester Retail N.V. were classified as investment securities available for sale.

The share of the subsidiaries of the Bank in the consolidated assets of the Group as at 31 December 2012 was 14.5% (31 December 2011: 7.1%).

40. CAPITAL ADEQUACY RATIO

The Group's objectives when managing capital are (i) to comply with the regulatory capital requirements set by the Bank of Russia and (ii) to safeguard the Group's ability to continue as a going concern.

According to requirements set by the Bank of Russia statutory capital ratio has to be maintained above the minimum level of 10%. As at 31 December 2012 the regulatory capital adequacy ratio was 12.6% (31 December 2011: 15.0%). Compliance with capital adequacy ratios set by the Bank of Russia is monitored monthly with reports outlining the calculation.

The Group also monitors capital adequacy ratio based on Basel Accord to make sure it maintains a level of at least 8%. As at 31 December 2012 and 31 December 2011, Capital Adequacy Ratios calculated by the Group in accordance with the International Convergence of Capital Measurement and Capital Standards (July 1988, updated to November 2005) and Amendment to the Capital Accord to incorporate market risks (updated November 2005), commonly known as Basel 1 requirements, were as follows:

In billions of Russian Roubles	2012	2011
Tier 1 capital		
Share capital	87.7	87.7
Share premium	232.6	232.6
Retained earnings	1,186.7	882.9
Treasury shares	(7.6)	(7.0)
Less goodwill	(25.0)	(15.1)
Total Tier 1 capital	**1,474.4**	**1,181.1**
Tier 2 capital		
Revaluation reserve for premises	79.0	81.5
Fair value reserve for investment securities available for sale	16.8	(3.4)
Foreign currency translation reserve	(4.7)	(5.7)
Subordinated capital	382.7	303.5
Less investments in associates	(8.6)	(4.7)
Total Tier 2 capital	**465.2**	**371.2**
Total capital	**1,939.6**	**1,552.3**
Risk weighted assets (RWA)		
Credit risk	13,693.1	9,867.8
Market risk	452.5	349.0
Total risk weighted assets (RWA)	**14,145.6**	**10,216.8**
Core capital adequacy ratio (Total Tier 1 capital to Total RWA)	**10.4**	**11.6**
Total capital adequacy ratio (Total capital to Total RWA)	**13.7**	**15.2**

41. SUBSEQUENT EVENTS

In January 2013 the Group Group issued the thirteenth series of loan participation notes under the MTN issuance programme in the amount of 25 billion RUB equivalent. The notes mature in January 2016 and have contractual fixed interest rate of 7.0% p.a.

In February 2013 the Group issued the fourteenth series of loan participation notes under the MTN issuance programme in the amount of 0.25 billion CHF equivalent to 8.2 billion RUB as at the date of issue. The notes mature in February 2017 and have contractual fixed interest rate of 2.065% p.a.

In March 2013 the Group issued the fifteenth series of loan participation notes under the MTN issuance programme in the amount of 0.55 billion TRY equivalent to 9.4 billion RUB as at the date of issue. The notes mature in March 2018 and have contractual fixed interest rate of 7.4% p.a.

On 22 March 2013 Supervisory Board in accordance with the Dividend policy recommended to the General Shareholders Meeting to pay 58.7 billion RUB to shareholders as dividends for the year ended 31 December 2012.

In March 2013, Republic of Cyprus experienced financial and economic crisis. Sberbank of Russia, through it's subsidiaries has presence in Cyprus. The Central Bank of Cyprus mandated additional bank holidays and the government and the parliament of Cyprus undertake measures, including certain capital transfer restrictions and restructure of certain largest Cypriot banks, aimed at averting the default of the country. Although currently it is not possible to fully predict further developments in Cyprus and potential economic, tax and banking regulatory measures and restrictions, management of Sberbank of Russia believes based on all available information that the financial and economic crisis in Cyprus will not have material effect on the financial standing and the results of operations of the Group. Management of Sberbank of Russia will continue to monitor further developments in Cyprus and take measures to protect the economic interests of the Group.