UNISTREAM COMMERCIAL BANK (JSC)

Financial Statements

for the year ended 31 December 2012

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Auditors' Report

To the Shareholders and the Board of Directors of UNISTREAM COMMERCIAL BANK (JSC)

We have audited the accompanying financial statements of UNISTREAM COMMERCIAL BANK (JSC) (the "Bank"), which comprise the statement of financial position as at 31 December 2012, and the statements of comprehensive income, changes in equity and cash flows for 2012, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Audited entity: UNISTREAM COMMERCIAL BANK (JSC).

Registered by the Central Bank of the Russian Federation on 16 August 2006, Registration No. 3467.

Entered in the Unified State Register of Legal Entities on 31 May 2006 by Moscow Inter-Regional Inspectorate of the Ministry of Taxes and Duties of the Russian Federation No. 39, Registration No. 1067711004437, Certificate series 77 No. 010075230.

Address of the audited entity: 20/2, Verhnyaya Maslovka street, Moscow, Russian Federation, 127083.

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

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

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

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

Opinion

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

Lukashova N.V.
Director
power of attorney dated 1 October 2010 No. 41/10
Licence No. 01-000456
ZAO KPMG
Moscow, Russian Federation

17 June 2013

	Notes	2012 RUB'000	2011 RUB'000
Interest income		29 654	19 311
Interest expense		(2)	(2)
Net interest income	4	**29 652**	**19 309**
Fee and commission income	5	2 183 942	2 073 676
Fee and commission expense	6	(1 359 036)	(1 228 100)
Net fee and commission income		**824 906**	**845 576**
Net foreign exchange income	7	355 725	240 899
Other operating income		36 751	2 773
Operating income		**1 247 034**	**1 108 557**
Net charge for impairment	8	(3 462)	(1 172)
Personnel expenses	9	(534 814)	(451 499)
Other general administrative expenses	10	(559 484)	(514 801)
Profit before income tax		**149 274**	**141 085**
Income tax expense	11	(39 033)	(35 974)
Profit for the period		**110 241**	**105 111**
Total comprehensive income for the period		**110 241**	**105 111**

Palchun K.V.
Acting Chairman of the Management Board

Mosina M.A.
Chief Accountant

The statement of comprehensive income is to be read in conjunction with the notes to, and forming part of, the financial statements.

	Notes	2012 RUB'000	2011 RUB'000
ASSETS			
Cash and cash equivalents	12	2 080 882	1 461 066
Mandatory reserve deposit with the Central Bank of the Russian Federation		20 251	16 822
Loans to banks and other financial institutions	13	799 385	643 523
Property, equipment and intangible assets	14	208 893	171 007
Other assets	15	185 447	81 623
Total assets		**3 294 858**	**2 374 041**
LIABILITIES			
Deposits and balances from banks and other financial institutions	16	2 426 216	1 614 420
Deferred tax liabilities	11	15 957	14 542
Other liabilities	17	116 162	118 797
Total liabilities		**2 558 335**	**1 747 759**
EQUITY			
Share capital	18	208 999	208 999
Share premium		315 950	315 950
Retained earnings		211 574	101 333
Total equity		**736 523**	**626 282**
Total liabilities and equity		**3 294 858**	**2 374 041**

Palchun K.V.
Acting Chairman of the Management Board

COMMERCIAL BANK (JSC)
КОММЕРЧЕСКИЙ БАНК
ЮНИСТРИМ
ДЕНЕЖНЫЕ ПЕРЕВОДЫ
UNISTREAM
MOSCOW

Mosina M.A.
Chief Accountant

The statement of financial position is to be read in conjunction with the notes to, and forming part of, the financial statements.

	Notes	2012 RUB'000	2011 RUB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest receipts		27 672	18 480
Interest payments		(2)	(2)
Fee and commission receipts		2 183 942	2 073 676
Fee and commission payments		(1 359 036)	(1 228 100)
Net receipts from foreign exchange		378 863	279 804
Other income receipts		36 543	2 614
Other general administrative and personnel expenses paid		(1 046 545)	(933 361)
(Increase) decrease in operating assets			
Mandatory reserve deposit with the Central Bank of the Russian Federation		(3 429)	(9 187)
Loans to banks and other financial institutions		(159 621)	(44 655)
Other assets		(125 021)	(43 684)
Increase (decrease) in operating liabilities			
Deposits and balances from banks and other financial instutions		849 737	262 004
Financial instruments at fair value through profit or loss		-	(169)
Other liabilities		(9 163)	15 393
Net cash flows provided from operating activities before income tax paid		**773 940**	**392 813**
Income tax paid		(15 923)	(46 391)
Net cash flows provided from operating activities		**758 017**	**346 422**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property, equipment and intangible assets		(81 871)	(58 623)
Proceeds from sale of property and equipment		541	2 466
Net cash flows used in investing activities		**(81 330)**	**(56 157)**
Net increase in cash and cash equivalents		**676 687**	**290 265**
Effect of changes in exchange rates on cash and cash equivalents		(56 871)	9 202
Cash and cash equivalents as at the beginning of the period		1 461 066	1 161 599
Cash and cash equivalents as at the end of the period	12	**2 080 882**	**1 461 066**

Palchun K.V.
Acting Chairman of the Management Board

Mosina M.A.
Chief Accountant

The statement of cash flows is to be read in conjunction with the notes to, and forming part of, the financial statements.

RUB'000	Share capital	Share premium	Retained earnings	Total
Balance as at 1 January 2011	**208 999**	**315 950**	**11 658**	**536 607**
Total comprehensive income				
Profit for the period	-	-	105 111	105 111
Total comprehensive income for the period	**-**	**-**	**105 111**	**105 111**
Transactions with shareholders, recorded directly in equity				
Distributions to shareholders, net of deferred tax (note 18)	-	-	(15 436)	(15 436)
Total transactions with shareholders, recorded directly in equity	**-**	**-**	**(15 436)**	**(15 436)**
Balance as at 31 December 2011	**208 999**	**315 950**	**101 333**	**626 282**
Balance as at 1 January 2012	**208 999**	**315 950**	**101 333**	**626 282**
Total comprehensive income				
Profit for the period	-	-	110 241	110 241
Total comprehensive income for the period	**-**	**-**	**110 241**	**110 241**
Balance as at 31 December 2012	**208 999**	**315 950**	**211 574**	**736 523**

Palchun K.V.
Acting Chairman of the Management Board

Mosina M.A.
Chief Accountant

The statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the financial statements.

1 Background

(a) Organisation and operations

UNISTREAM COMMERCIAL BANK (JSC) (the Bank) was established in the Russian Federation as a joint-stock company in 2006 and was granted its banking licence #3467 for Russian Roubles and foreign currency operations on 16 August 2006. The principal activity is to provide money transfer services to individuals. The activities of the Bank are regulated by the Central Bank of the Russian Federation (the CBR).

Shareholders	**2012**	**2011**
	Ownership,%	**Ownership,**
Zakaryan G.T.	37.00	37.00
Piskov G.I.	37.00	37.00
AURORA RUSSIA LIMITED	26.00	26.00
	100.00	**100.00**

(b) Russian business environment

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

2 Basis of preparation

(a) Statement of compliance

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

(b) Basis of measurement

The financial statements are prepared on the historical cost basis except that financial instruments at fair value through profit or loss and available-for-sale financial assets are stated at fair value.

(c) Functional and presentation currency

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

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

Financial information presented in RUB is rounded to the nearest thousand.

(d) Use of estimates and judgments

The preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results could differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected. Information about significant areas of estimation uncertainty and critical judgments made by management in the application of IFRS that have significant effect on these financial statements are described in note 13 in respect of the loan impairment allowance.

3 Significant accounting policies

The accounting policies set out below are applied consistently to all periods presented in these financial statements.

(a) Foreign currency

Transactions in foreign currencies are translated to the functional currency of the Bank at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments or qualifying cash flow hedges, which are recognised in other comprehensive income.

(b) Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances (nostro accounts) held with the CBR and other banks. The mandatory reserve deposit with the CBR is not considered to be a cash equivalent due to restrictions on its withdrawability.

(c) Financial instruments

(i) Classification

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

- acquired or incurred principally for the purpose of selling or repurchasing in the near term

- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking

- derivative financial instruments (except for derivative financial instruments that are designated and effective hedging instruments) or,

- upon initial recognition, designated as at fair value through profit or loss.

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

- the assets or liabilities are managed, evaluated and reported internally on a fair value basis

- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise or,

- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

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

Management determines the appropriate classification of financial instruments in this category at the time of the initial recognition. Derivative financial instruments and financial instruments designated as at fair value through profit or loss upon initial recognition are not reclassified out of at fair value through profit or loss category. Financial assets that would have met the definition of loan and receivables may be reclassified out of the fair value through profit or loss or available-for-sale category if the Bank has an intention and ability to hold it for the foreseeble future or until maturity. Other financial instruments may be reclassified out of at fair value through profit or loss category only in rare circumstances. Rare circumstances arise from a single event that is unusual and highly unlikely to recur in the near term.

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

- intends to sell immediately or in the near term

- upon initial recognition designates as at fair value through profit or loss

- upon initial recognition designates as available-for-sale or,

- may not recover substantially all of its initial investment, other than because of credit deterioration.

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

- the Bank upon initial recognition designates as at fair value through profit or loss

- the Bank designates as available-for-sale or,

- meet the definition of loans and receivables.

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

(ii) Recognition

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

(iii) Measurement

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

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

- loans and receivables which are measured at amortised cost using the effective interest method

- held-to-maturity investments that are measured at amortised cost using the effective interest method

- investments in equity instruments that do not have a quoted market price in an active market and whose fair value can not be reliably measured, which are measured at cost.

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

(iv) Amortised cost

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

Financial assets or liabilities originated at interest rates different from market rates are re-measured at origination to their fair value, being future interest payments and principal repayment(s) discounted at market interest rates for similar instruments. The difference is credited or charged to profit or loss or to equity, as appropriate, as gains or losses on origination of financial instruments at rates different from market rates. Subsequently, the carrying amount of such assets or liabilities is adjusted for amortisation of the gains/losses on origination and the related income/expense is recorded in interest income/expense within profit or loss using the effective interest method.

(v) Fair value measurement principles

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s length transaction on the measurement date.

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

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

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

Assets and long positions are measured at a bid price; liabilities and short positions are measured at an asking price. Where the Bank has positions with offsetting risks, mid-market prices are used to measure the offsetting risk positions and a bid or asking price adjustment is applied only to the net open position as appropriate.

(vi) Gains and losses on subsequent measurement

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

- a gain or loss on a financial instrument classified as at fair value through profit or loss is recognised in profit or loss

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

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

(vii) Derecognition

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

The Bank writes off assets deemed to be uncollectible.

(viii) Offsetting

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

(d) Property and equipment

(i) Owned assets

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses.

Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

(ii) Leased assets

Leases under which the Bank assumes substantially all the risks and rewards of ownership are classified as finance leases. Equipment acquired by way of finance lease is stated at the amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

(iii) Depreciation

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Land is not depreciated.

The estimated useful lives are as follows:

- equipment	7 years
- fixtures and fittings	3 to 10 years
- motor vehicles	6 years

(e) Intangible assets

Acquired intangible assets are stated at cost less accumulated amortisation and impairment losses.

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Amortisation is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful live is 5 years.

(f) Impairment

(i) Financial assets carried at amortised cost

Financial assets carried at amortised cost consist principally of loans and other receivables (loans and receivables). The Bank reviews its loans and receivables to assess impairment on a regular basis. A loan or receivable is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the loan or receivable and that event (or events) has had an impact on the estimated future cash flows of the loan that can be reliably estimated.

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, breach of loan covenants or conditions, restructuring of a loan on terms that the Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, deterioration in the value of collateral, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers in the group, or economic conditions that correlate with defaults in the group.

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

If there is objective evidence that an impairment loss on a loan or receivable has been incurred, the amount of the loss is measured as the difference between the carrying amount of the loan or receivable and the present value of estimated future cash flows including amounts recoverable from guarantees and collateral discounted at the loan or receivable's original effective interest rate. Contractual cash flows and historical loss experience adjusted on the basis of relevant observable data that reflect current economic conditions provide the basis for estimating expected cash flows.

In some cases the observable data required to estimate the amount of an impairment loss on a loan or receivable may be limited or no longer fully relevant to current circumstances. This may be the case when a borrower is in financial difficulties and there is little available historical data relating to similar borrowers. In such cases, the Bank uses its experience and judgement to estimate the amount of any impairment loss.

All impairment losses in respect of loans and receivables are recognised in profit or loss and are only reversed if a subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

When a loan is uncollectable, it is written off against the related allowance for loan impairment. The Bank writes off a loan balance (and any related allowances for loan impairment) when management determines that a loan is uncollectible and when all necessary steps to collect the loan are completed.

(ii) Financial assets carried at cost

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

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

(iii) Available-for-sale financial assets

Impairment losses on available-for-sale financial assets are recognised by transferring the cumulative loss that is recognised in other comprehensive income to profit or loss as a reclassification adjustment. The cumulative loss that is reclassified from other comprehensive income to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment allowance attributable to time value are reflected as a component of interest income.

For an investment in an equity security available-for-sale, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security 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, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

(iv) Non financial assets

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

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

(g) Provisions

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

A provision for restructuring is recognised when the Bank has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

(h) Share capital

(i) Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

(ii) Dividends

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

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

(i) Taxation

Income tax comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items of other comprehensive income or transactions with shareholders recognised directly in equity, in which case it is recognised within other comprehensive income or directly within equity.

Current tax expense is the expected tax payable on the taxable profit for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and temporary differences related to investments in subsidiaries where the parent is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences, unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(j) Income and expense recognition

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

Commission income and expense are recognised on a gross basis as all credit risks concerning money transfer transactions are carried out by the Bank; all commission tariffs are determined by the Bank; the Bank determines which banks-partners may take part in money transfer transactions.

Other fees, commissions and other income and expense items are recognised in profit or loss when the corresponding service is provided.

Dividend income is recognised in profit or loss on the date that the dividend is declared.

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

(k) New standards and interpretations not yet adopted

The following new standards, amendments to standards and interpretations are not yet effective as at 31 December 2012, and are not applied in preparing these financial statements. Of these pronouncements, potentially the following will have an impact on the financial position and performance. The Bank plans to adopt these pronouncements when they become effective. The Bank has not yet analysed the likely impact of the new standards and amendments to standards on its financial position or performance.

- Amendments to IFRS 7 *Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities* contain new disclosure requirements for financial assets and liabilities that are offset in the statement of financial position or subject to master netting arrangements or similar agreements. The amendments are effective for annual periods beginning on or after 1 January 2013, and are to be applied retrospectively.

- IFRS 13 *Fair Value Measurement* will be effective for annual periods beginning on or after 1 January 2013. The new standard replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It provides a revised definition of fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. IFRS 13 does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurement that currently exist in certain standards. The standard is applied prospectively with early adoption permitted. Comparative disclosure information is not required for periods before the date of initial application.

- Amendment to IAS 1 *Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income.* The amendment requires that an entity present separately items of other comprehensive income that may be reclassified to profit or loss in the future from those that will never be reclassified to profit or loss. Additionally, the amendment changes the title of the statement of comprehensive income to statement of profit or loss and other comprehensive income. However, the use of other titles is permitted. The amendment shall be applied retrospectively from 1 July 2012 and early adoption is permitted.

- IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2015. The new standard is to be issued in phases and is intended ultimately to replace IAS 39 *Financial Instruments: Recognition and Measurement*. The first phase of IFRS 9 was issued in November 2009 and relates to the classification and measurement of financial assets. The second phase regarding classification and measurement of financial liabilities was published in October 2010. The remaining parts of the standard are expected to be issued during 2013. The Bank recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on Bank's financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued. The Bank does not intend to adopt this standard early.

- Amendments to IAS 32 *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities* do not introduce new rules for offsetting financial assets and liabilities; rather they clarify the offsetting criteria to address inconsistencies in their application. The amendments specify that an entity currently has a legally enforceable right to set-off if that right is not contingent on a future event; and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties. The amendments are effective for annual periods beginning on or after 1 January 2014, and are to be applied retrospectively.

Various *Improvements to IFRSs* have been dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect not earlier than 1 January 2013. The Bank has not yet analysed the likely impact of the improvements on its financial position or performance.

4 Net interest income

	2012 RUB'000	2011 RUB'000
Interest income		
Loans to banks and other financial institutions	29 654	19 311
Interest expense		
Deposits and balances from banks and other financial institutions	(2)	(2)
	29 652	**19 309**

5 Fee and commission income

	2012 RUB'000	2011 RUB'000
Money transfer transactions	2 182 286	2 072 384
Cash operations	1 656	1 292
	2 183 942	**2 073 676**

6 Fee and commission expense

	2012 RUB'000	2011 RUB'000
Money transfer transactions	1 332 550	1 211 294
Cash operations	26 486	16 806
	1 359 036	**1 228 100**

7 Net foreign exchange income

	2012 RUB'000	2011 RUB'000
Income on spot and forward foreign exchange transactions	378 863	279 804
Loss from revaluation of financial assets and liabilities	(23 138)	(38 905)
	355 725	**240 899**

8 Net charge for impairment

	2012 RUB'000	2011 RUB'000
(Charge for) recovery of impairment		
Loans to banks and other financial institutions	137	(1 205)
Other assets	(3 599)	33
	(3 462)	**(1 172)**

9 Personnel expenses

	2012 RUB'000	2011 RUB'000
Employee compensation	428 899	359 838
Payroll related taxes	105 915	91 661
	534 814	**451 499**

10 Other general administrative expenses

	2012 RUB'000	2011 RUB'000
Rent	212 234	183 487
Advertising and marketing	76 791	69 609
Communication and information services	61 962	67 968
Security	58 036	53 059
Depreciation and amortisation	42 334	32 169
Repairs and maintenance	17 461	15 661
Materials	13 228	23 155
Software maitenance	12 066	9 387
Professional services	8 543	4 472
Insurance	5 580	5 158
Taxes other than on income tax	5 331	6 558
Travel expenses	4 576	3 165
Transport expenses	2 772	2 496
Other	38 570	38 457
	559 484	**514 801**

11 Income tax expense

	2012 RUB'000	2011 RUB'000
Current year tax expense	(37 618)	(22 073)
Deferred taxation movement due to origination and reversal of temporary differences	(1 415)	(13 901)
Total income tax expense	**(39 033)**	**(35 974)**

In 2012, the applicable tax rate for current and deferred tax is 20% (2011: 20%).

Reconciliation of effective tax rate for the year ended 31 December:

	2012 RUB'000	%	2011 RUB'000	%
Profit before income tax	149 274		141 085	
Income tax at the applicable tax rate	(29 855)	20.0%	(28 217)	20.00%
Non-deductible costs net of non-taxable income	(9 178)	6.1%	(7 757)	5.5%
	(39 033)	**26.1%**	**(35 974)**	**25.5%**

Deferred tax assets and liabilities

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax liabilities as at 31 December 2012 and 31 December 2011. Deductible temporary differences do not expire under current tax legislation.

Movements in tax effect on temporary differences during the years ended 31 December 2012 and 31 December 2011 are presented as follows:

RUB'000	**Balance 1 January 2012**	**Recognised in profit or loss**	**Balance 31 December 2012**
Loans to banks and other financial institutions	(2 381)	2 003	(378)
Other liabilities	(12 161)	(3 418)	(15 579)
	(14 542)	**(1 415)**	**(15 957)**

RUB'000	**Balance 1 January 2011**	**Recognised in profit or loss**	**Recognised in equity**	**Balance 31 December 2011**
Loans to banks and other financial institutions	4 019	(10 259)	3 859	(2 381)
Other liabilities	(8 519)	(3 642)	-	(12 161)
	(4 500)	**(13 901)**	**3 859**	**(14 542)**

12 Cash and cash equivalents

	2012 RUB'000	2011 RUB'000
Cash	**732 198**	**640 242**
Nostro accounts with the CBR	**360 226**	**124 947**
Nostro accounts with banks and other financial institutions		
OECD banks	792 976	551 018
Other foreign banks	36 141	26 828
30 largest Russian banks	136 445	80 939
Other Russian banks	22 896	37 092
Total nostro accounts with banks and other financial institutions	**988 458**	**695 877**
	2 080 882	**1 461 066**

No cash and cash equivalents are impaired or past due.

Concentration of cash and cash equivalents

As at 31 December 2012, the Bank has 1 bank (31 December 2011: 1 bank), whose balances exceed 10% of cash and cash equivalents. The gross value of these balances as at 31 December 2012 is RUB 645 281 thousand (31 December 2011: RUB 486 061 thousand).

13 Loans to banks and other financial institutions

	2012 RUB'000	2011 RUB'000
Loans		
OECD banks	44 089	45 522
30 largest Russian banks	200 087	200 308
Other Russian banks	350 402	250 409
Total loans	**594 578**	**496 239**
Settlements on money transfers transactions		
OECD banks	45 918	33 097
Other foreign banks	64 232	75 017
30 largest Russian banks	36 009	3 816
Other Russian banks	79 810	56 652
Total settlements on money transfers transactions	**225 968**	**168 582**
Impairment allowance	**(21 161)**	**(21 298)**
Net loans to banks and other financial institutions	**799 385**	**643 523**

The following table provides information on the credit quality of loans to banks and other financial institutions as at 31 December 2012:

	Gross loans RUB'000	Impairment allowance RUB'000	Net loans RUB'000	Impairment allowance to gross loans, %
Loans				
Loans without individual signs of impairment	594 578	-	594 578	0
Total loans	**594 578**	**-**	**594 578**	**0**
Settlements on money transfers transactions				
Settlements on money transfers transactions without individual signs of impairment	204 807	-	204 807	0
Impaired:				
- overdue more than 1 year	21 161	(21 161)	-	100
Total impaired	21 161	(21 161)	-	100
Total settlements on money transfers transactions	**225 968**	**(21 161)**	**204 807**	**9**
Total loans to banks and other financial institutions	**820 546**	**(21 161)**	**799 385**	**3**

The following table provides information on the credit quality of loans to banks and other financial institutions as at 31 December 2011:

	Gross loans RUB'000	Impairment allowance RUB'000	Net loans RUB'000	Impairment allowance to gross loans, %
Loans				
Loans without individual signs of impairment	496 239	-	496 239	0
Total loans	**496 239**	**-**	**496 239**	**0**
Settlements on money transfers transactions				
Settlements on money transfers transactions without individual signs of impairment	147 284	-	147 284	0
Impaired:				
- overdue more than 1 year	21 298	(21 298)	-	100
Total impaired	21 298	(21 298)	-	100
Total settlements on money transfers transactions	**168 582**	**(21 298)**	**147 284**	**13**
Total loans to banks and other financial institutions	**664 821**	**(21 298)**	**643 523**	**3**

In determining the impairment allowance for loans to corporate customers, management makes the following key assumptions:

- historic annual loss rate of 0.031% as at 31 December 2012.

Changes in these estimates could affect the impairment allowance. For example, to the extent that the net present value of the estimated cash flows differs by one percent, the impairment allowance for loans to banks and other financial institutions as at 31 December 2012 would be RUB 7 994 thousand lower/higher (31 December 2011: RUB 6 435 thousand lower/higher).

Concentration of loans to banks and other financial institutions

As at 31 December 2012, the Bank has 4 banks (31 December 2011: 2 banks), whose balances individually exceed 10% of total loans to banks and other financial institutions. The gross value of these balances as at 31 December 2012 is RUB 550 489 thousand (31 December 2011: RUB 412 597 thousand).

Analysis of movements in the impairment allowance

	2012 RUB'000	2011 RUB'000
Balance at the beginning of the year	21 298	20 093
Net (recovery) charge	(137)	1 205
Balance at the end of the year	**21 161**	**21 298**

14 Property, equipment and intangible assets

RUB'000	Equipment	Fixtures and fittings	Motor vehicles	Intangible assets	Construction in progress	Total
Cost						
Balance at 1 January 2012	56 954	151 359	15 639	42 265	3 954	270 171
Additions	14 999	40 915	4 770	16 175	5 012	81 871
Disposals	(2 061)	(1 603)	(336)	-	-	(4 000)
Balance at 31 December 2012	**69 892**	**190 671**	**20 073**	**58 440**	**8 966**	**348 042**
Depreciation and amortisation						
Balance at 1 January 2012	(23 693)	(58 640)	(5 198)	(11 633)	-	(99 164)
Depreciation and amortisation charge for the year	(8 996)	(22 827)	(3 179)	(7 332)	-	(42 334)
Disposals	1 524	609	216	-	-	2 349
Balance at 31 December 2012	**(31 165)**	**(80 858)**	**(8 161)**	**(18 965)**	**-**	**(139 149)**
Carrying amount						
At 31 December 2012	**38 727**	**109 813**	**11 912**	**39 475**	**8 966**	**208 893**

RUB'000	Equipment	Fixtures and fittings	Motor vehicles	Intangible assets	Construction in progress	Total
Cost						
Balance at 1 January 2011	46 103	127 258	14 567	26 709	4 305	218 942
Additions	11 469	24 789	7 700	15 556	-	59 514
Disposals	(618)	(688)	(6 628)	-	(351)	(8 285)
Balance at 31 December 2011	**56 954**	**151 359**	**15 639**	**42 265**	**3 954**	**270 171**
Depreciation and amortisation						
Balance at 1 January 2011	(17 611)	(41 063)	(6 456)	(6 794)	-	(71 924)
Depreciation and amortisation charge for the year	(6 456)	(17 894)	(2 980)	(4 839)	-	(32 169)
Disposals	374	317	4 238	-	-	4 929
Balance at 31 December 2011	**(23 693)**	**(58 640)**	**(5 198)**	**(11 633)**	**-**	**(99 164)**
Carrying amount						
At 31 December 2011	**33 261**	**92 719**	**10 441**	**30 632**	**3 954**	**171 007**

15 Other assets

	2012 RUB'000	2011 RUB'000
Other non-financial assets		
Prepayments	179 808	63 014
Settlements with employees	6 991	1 558
Taxes other than income tax	3 632	3 599
Income tax receivable	-	14 837
Impairment allowance	(4 984)	(1 385)
Total other non-financial assets	**185 447**	**81 623**

Analysis of movements in the impairment allowance

	2012 RUB'000	2011 RUB'000
Balance at the beginning of the year	1 385	1 418
Net charge (recovery)	3 599	(33)
Balance at the end of the year	**4 984**	**1 385**

As at 31 December 2012, included in other assets are receivables overdue less than 90 days with a gross value of RUB 1 862 thousand (31 December 2011: RUB 622 thousand), receivables overdue for more than 90 days but less than one year with a gross value of RUB 3 883 thousand (31 December 2011: RUB 315 thousand), receivables overdue for more than one year with a gross value of RUB 2 548 thousand (31 December: RUB 2 122 thousand). The Bank created impairment allowance for receivables overdue less than 90 days of RUB nil (31 December 2011: RUB nil), for receivables overdue for more than 90 days but less than one year of RUB 3 677 thousand (31 December 2011: RUB 63 thousand) and for receivables overdue for more than one year of RUB 1 307 thousand (31 December 2011: RUB 1 322 thousand).

16 Deposits and balances from banks and other financial institutions

	2012 RUB'000	2011 RUB'000
Vostro accounts	2 426 216	1 614 420
	2 426 216	**1 614 420**

Concentration of deposits and balances from banks and other financial institutions

As at 31 December 2012 and 31 December 2011, the Bank has no counterparties, whose balance's individually exceed 10% of total deposits and balances from banks and other financial institutions.

17 Other liabilities

	2012 RUB'000	2011 RUB'000
Other financial liabilities		
Unsettled money transfers	87 053	105 450
Settlements with agents and suppliers	16 928	8 317
Settlements with employees	5 102	4 279
Total other financial liabilities	**109 083**	**118 046**
Other non-financial liabilities		
Income tax payable	6 858	-
Taxes other than income tax	221	751
Total other non-financial liabilities	**7 079**	**751**
	116 162	**118 797**

18 Share capital

(a) Issued capital

The authorised, issued and outstanding share capital comprises 208 999 ordinary shares (31 December 2011: 208 999). All shares have a nominal value of RUB 1 000.

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

(b) Dividends

Dividends payable are restricted to the maximum retained earnings of the Bank, which are determined according to the legislation of the Russian Federation. As at 31 December 2012, funds available for distribution amounted to RUB 71 260 thousand (31 December 2011: nil).

(c) Transaction with shareholders, recorded directly in equity

During the year ended 31 December 2011 the Bank made distributions of RUB 15 436 thousand to its shareholders in the form of:

- acquisition of loan claims to third parties at price of RUR 9 854 thousand, net of deferred tax of RUB 2 463 thousand, above its fair value as at the day of acquisition
- granting a loan to the entity under control of shareholders at rate below market, resulting in a loss on origination of RUB 5 582 thousand, net of deferred tax of RUB 1 396 thousand.

19 Risk management

Management of risk is fundamental to the business of banking and is an essential element of the Bank's operations. The major risks faced by the Bank are those related to market risk, credit risk and liquidity risk.

(a) Risk management policies and procedures

The risk management policies aim to identify, analyse and manage the risks faced by the Bank, to set appropriate risk limits and controls, and to continuously monitor risk levels and adherence to limits. Risk management policies and procedures are reviewed regularly to reflect changes in market conditions, products and services offered and emerging best practice.

The Board of Directors has overall responsibility for the oversight of the risk management framework, overseeing the management of key risks and reviewing its risk management policies and procedures as well as approving significantly large exposures.

The Management Board is responsible for monitoring and implementation of risk mitigation measures and making sure that the Bank operates within the established risk parameters. The Head of the Risk Department is responsible for the overall risk management and compliance functions, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting both financial and non-financial risks. He reports directly to the Chairman of the Management Board and indirectly to the Board of Directors.

Credit, market and liquidity risks both at the portfolio and transactional levels are managed and controlled through the Asset and Liability Management Committee (the ALCO).

Both external and internal risk factors are identified and managed throughout the organisation. Particular attention is given to identifying the full range of risk factors and determination of the level of assurance over the current risk mitigation procedures. Apart from the standard credit and market risk analysis, the Risk Department monitors financial and non-financial risks by holding regular meetings with operational units in order to obtain expert judgments in their areas of expertise.

(b) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises currency risk, interest rate risk and other price risks. Market risk arises from open positions in interest rate, currency and equity financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices.

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

Overall authority for market risk is vested in the ALCO, which is chaired by the Chairman of the Management Board. Market risk limits are approved by the ALCO based on recommendations of the Risk Department.

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

(i) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Bank is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may also reduce or create losses in the event that unexpected movements occur.

Average interest rates

The table below displays average effective interest rates for interest bearing assets as at 31 December 2012 and 31 December 2011. These interest rates are an approximation of the yields to maturity of these assets.

	2012 Average effective interest rate, %			**2011 Average effective interest rate, %**		
	RUB	**USD**	**Other currencies**	**RUB**	**USD**	**Other currencies**
Interest bearing assets						
Nostro accounts with banks and other financial institutions	3.2%	0.9%	0.02%	1.1%	0.0%	0.6%
Loans to banks and other financial institutions	5.2%	-	3.0%	6.3%	-	3.0%

Interest rate sensitivity analysis

The management of interest rate risk based on interest rate gap analysis is suplemented by monitoring the sensitivity of financial assets and liabilities. An analysis of sensitivity of profit or loss and equity (net of income tax) to changes in interest rates (repricing risk) based on a simplified scenario of a 500 basis point (bp) symmetrical fall or rise in all yield curves and positions of interest bearing assets and liabilities existing as at 31 December 2012 and 31 December 2011 is as follows:

	2012 RUB'000	**2011 RUB'000**
500 bp parallel fall	(21 518)	(17 611)
500 bp parallel rise	21 518	17 611

(ii) Currency risk

The Bank has assets and liabilities denominated in several foreign currencies.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign currency exchange rates. Although the Bank hedges its exposure to currency risk, such activities do not qualify as hedging relationships in accordance with IFRS.

The following table shows the foreign currency exposure structure of financial assets and liabilities as at 31 December 2012:

	RUB RUB'000	**USD RUB'000**	**EUR RUB'000**	**Other currencies RUB'000**	**Total RUB'000**
ASSETS					
Cash and cash equivalents	878 672	1 009 067	173 425	19 718	2 080 882
Mandatory reserve deposit with the Central Bank of the Russian Federation	20 251	-	-	-	20 251
Loans to banks and other financial institutions	641 811	73 861	65 290	18 423	799 385
Total financial assets	**1 540 734**	**1 082 928**	**238 715**	**38 141**	**2 900 518**

	RUB RUB'000	USD RUB'000	EUR RUB'000	Other currencies RUB'000	Total RUB'000
LIABILITIES					
Deposits and balances from banks and other financial institutions	1 053 089	1 118 548	248 254	6 325	2 426 216
Other financial liabilities	60 217	45 617	3 225	24	109 083
Total financial liabilities	**1 113 306**	**1 164 165**	**251 479**	**6 349**	**2 535 299**
Net position	**437 428**	**(81 237)**	**(12 764)**	**31 792**	**365 219**

The following table shows the currency structure of financial assets and liabilities as at 31 December 2011:

	RUB RUB'000	USD RUB'000	EUR RUB'000	Other currencies RUB'000	Total RUB'000
ASSETS					
Cash and cash equivalents	573 523	773 922	89 930	23 691	1 461 066
Mandatory reserve deposit with the Central Bank of the Russian Federation	16 822	-	-	-	16 822
Loans to banks and other financial institutions	502 877	58 612	47 989	34 045	643 523
Total financial assets	**1 093 222**	**832 534**	**137 919**	**57 736**	**2 121 411**
LIABILITIES					
Deposits and balances from banks and other financial institutions	680 106	775 046	157 703	1 565	1 614 420
Other financial liabilities	67 662	41 949	8 435	-	118 046
Total financial liabilities	**747 768**	**816 995**	**166 138**	**1 565**	**1 732 466**
Net position	**345 454**	**15 539**	**(28 219)**	**56 171**	**388 945**

A strengthening of the RUB, as indicated below, against the following currencies at 31 December 2012 and 31 December 2011 would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis is on net of tax basis and is based on foreign currency exchange rate variances that the Bank considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

A weakening of the RUB against the same currencies at 31 December 2012 and 31 December 2011 would have had the equal but opposite effect on the same currencies to the amounts shown below, on the basis that all other variables remain constant.

	2012 RUB'000	2011 RUB'000
10% appreciation of RUB against USD	6 499	(1 243)
10% appreciation of RUB against EUR	1 021	2 257

(c) Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Bank has policies and procedures for the management of credit exposures (both for recognised financial assets and unrecognised contractual commitments), including guidelines to limit portfolio concentration.

The Bank continuously monitors the performance of individual credit exposures and regularly reassesses the creditworthiness of its customers and counterparties. The review is based on the most recent financial statements and other information submitted by customers and counterparties, or otherwise obtained by the Bank.

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

(d) Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to liquidity management. It is unusual for financial institutions ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

The Bank maintains liquidity management with the objective of ensuring that funds will be available at all times to honor all cash flow obligations as they become due. The liquidity policy is reviewed and approved by the Management Board.

The liquidity management policy requires:

- projecting cash flows by major currencies and considering the level of liquid assets necessary in relation thereto
- maintaining a diverse range of funding sources
- managing the concentration and profile of debts
- maintaining debt financing plans
- maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any interruption to cash flow
- maintaining liquidity and funding contingency plans
- monitoring liquidity ratios against regulatory requirements.

The Treasury Department receives information from business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. The Treasury Department then provides for an adequate portfolio of short-term liquid assets to be maintained, largely made up of loans to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole.

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

The following tables show the undiscounted cash flows on financial assets and liabilities on the basis of their earliest possible contractual maturity. The total gross inflow (outflow) disclosed in the tables is the contractual, undiscounted cash flow on the financial assets and liabilities.

The maturity analysis for financial assets and liabilities as at 31 December 2012 is as follows:

RUB'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total gross amount of inflow (outflow)	Carrying amount
Financial assets							
Cash and cash equivalents	2 080 882	-	-	-	-	2 080 882	2 080 882
Mandatory reserve deposit with the Central Bank of the Russian Federation	-	20 251	-	-	-	20 251	20 251
Loans to banks and other financial institutions	755 421	237	366	739	50 334	807 097	799 385
Total financial assets	**2 836 303**	**20 488**	**366**	**739**	**50 334**	**2 908 230**	**2 900 518**
Financial liabilities							
Deposits and balances from banks and other financial institutions	(2 426 216)	-	-	-	-	(2 426 216)	(2 426 216)
Other financial liabilities	(109 083)	-	-	-	-	(109 083)	(109 083)
Total financial liabilities	**(2 535 299)**	**-**	**-**	**-**	**-**	**(2 535 299)**	**(2 535 299)**
Net position	**301 004**	**20 488**	**366**	**739**	**50 334**	**372 931**	**365 219**

The maturity analysis for financial assets and liabilities as at 31 December 2011 is as follows:л

RUB'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total gross amount of inflow (outflow)	Carrying amount
Financial assets							
Cash and cash equivalents	1 461 066	-	-	-	-	1 461 066	1 461 066
Mandatory reserve deposit with the Central Bank of the Russian Federation	-	16 822	-	-	-	16 822	16 822
Loans to banks and other financial institutions	598 135	258	392	792	55 636	655 213	643 523
Total financial assets	**2 059 201**	**17 080**	**392**	**792**	**55 636**	**2 133 101**	**2 121 411**
Financial liabilities							
Deposits and balances from banks and other financial institutions	(1 614 420)	-	-	-	-	(1 614 420)	(1 614 420)
Other financial liabilities	(118 046)	-	-	-	-	(118 046)	(118 046)
Total financial liabilities	**(1 732 466)**	**-**	**-**	**-**	**-**	**(1 732 466)**	**(1 732 466)**
Net position	**326 735**	**17 080**	**392**	**792**	**55 636**	**400 635**	**388 945**

The table below shows an analysis, by expected maturities, of the amounts recognised in the statement of financial position as at 31 December 2012:

RUB'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	No maturity	Overdue	Total
ASSETS							
Cash and cash equivalents	2 080 882	-	-	-	-	-	2 080 882
Mandatory reserve deposit with the Central Bank of the Russian Federation	-	20 251	-	-	-	-	20 251
Loans to banks and other financial institutions	755 296	-	-	44 089	-	-	799 385
Property, equipment and intangible assets	-	-	-	-	208 893		208 893
Other assets	89 066	4 206	88 866	-	-	3 309	185 447
Total assets	**2 925 244**	**24 457**	**88 866**	**44 089**	**208 893**	**3 309**	**3 294 858**
LIABILITIES							
Deposits and balances from banks and other financial institutions	2 426 216	-	-	-	-	-	2 426 216
Deferred tax liabilities	-	-	-	-	15 957	-	15 957
Other liabilities	116 162	-	-	-	-	-	116 162
Total liabilities	**2 542 378**	**-**	**-**	**-**	**15 957**	**-**	**2 558 335**
Net position	**382 866**	**24 457**	**88 866**	**44 089**	**192 936**	**3 309**	**736 523**

The table below shows an analysis, by expected maturities, of the amounts recognised in the statement of financial position as at 31 December 2011:

RUB'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	No maturity	Overdue	Total
ASSETS							
Cash and cash equivalents	1 461 066	-	-	-	-	-	1 461 066
Mandatory reserve deposit with the Central Bank of the Russian Federation	-	16 822	-	-	-	-	16 822
Loans to banks and other financial institutions	598 002	-	-	45 521	-	-	643 523
Property, equipment and intangible assets	-	-	-	-	171 007	-	171 007
Other assets	30 141	3 599	46 209	-	-	1 674	81 623
Total assets	**2 089 209**	**20 421**	**46 209**	**45 521**	**171 007**	**1 674**	**2 374 041**
LIABILITIES							
Deposits and balances from banks and other financial institutions	1 614 420	-	-	-	-	-	1 614 420
Deferred tax liabilities	-	-	-	-	14 542	-	14 542
Other liabilities	118 797	-	-	-	-	-	118 797
Total liabilities	**1 733 217**	**-**	**-**	**-**	**14 542**	**-**	**1 747 759**
Net position	**355 992**	**20 421**	**46 209**	**45 521**	**156 465**	**1 674**	**626 282**

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

- instant liquidity ratio (N2), which is calculated as the ratio of highly liquid assets to liabilities payable on demand
- current liquidity ratio (N3), which is calculated as the ratio of liquid assets to liabilities maturing within 30 calendar days
- long-term liquidity ratio (N4), which is calculated as the ratio of assets maturing after 1 year to the equity and liabilities maturing after 1 year.

The following table shows the mandatory liquidity ratios calculated as at 31 December 2012 and 31 December 2011.

	Requirement	**2012, %**	**2011, %**
Instant liquidity ratio (N2)	not less than 15%	81.5%	83.7%
Current liquidity ratio (N3)	not less than 50%	103.2%	110.6%
Long-term liquidity ratio (N4)	not more than 120%	1.7%	0.0%

20 Capital management

The CBR sets and monitors capital requirements for the Bank.

The Bank defines as capital those items defined by statutory regulation as capital for credit institutions. Under the current capital requirements set by the CBR, banks have to maintain a ratio of capital to risk weighted assets (statutory capital ratio) above the prescribed minimum level. As at 31 December 2012, this minimum level is 10%. As at 31 December 2012, the value of the Bank’s capital was RUB 552 127 thousand (31 December 2011: RUB 479 822 thousand). As at 31 December 2012, the ratio of capital to risk weighted assets (statutory capital ratio – N1) was 21.3% (31 December 2011: 35.4%).

21 Operating leases

Leases as lessee

The Bank leases a number of cash desks and offices under operating leases. All agreements for rent premises for cash desks and offices are signed for a period of 11 months. All operating lease liabilities can be canceled unilaterally.

During 2012 and 2011 RUB 212 234 thousand and RUB 183 487 thousand, respectively, is recognised as an expenses in profit or loss in respect of operating leases.

22 Contingencies

(a) Insurance

The insurance industry in the Russian Federation is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Bank does not have full coverage for its premises and equipment, business interruption, or third party liability in respect of property or environmental damage arising from accidents on its property or relating to operations. Until the Bank obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on operations and financial position.

(b) Litigation

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

(c) Taxation contingencies

The taxation system in the Russian Federation continues to evolve and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities who have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

Starting from 1 January 2012 new transfer pricing rules came into force in Russia. They provide the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controllable transactions if their prices deviate from the market interval or profitability range. According to the provisions of transfer pricing rules, the taxpayer should sequentially apply 5 methods of market price determination prescribed by the Tax Code.

Controlled transactions between two individual related entities, one within the Russian Federation and one in an overseas jurisdiction are only subject to the transfer pricing legislation if the aggregate activity between the two entities (determined based on arm’s length prices) exceeds RUB 100 million for 2012, RUB 80 million for 2013, and all transactions despite their volume for the subsequent years. The definition of a foreign entity includes a Russian branch or representative office of a foreign company.

Tax liabilities arising from transactions between companies are determined using actual transaction prices. It is possible with the evolution of the interpretation of the transfer pricing rules in the Russian Federation and the changes in the approach of the Russian tax authorities, that such transfer prices could be challenged.

Given the short period since the current Russian transfer pricing rules became effective, the impact of any such challenge cannot be reliably estimated; management believes that it should not significantly affect the financial position and/or the overall operations of the Bank.

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on the financial position of the Bank, if the authorities were successful in enforcing their interpretations, could be significant.

23 Related party transactions

(a) Transactions with the members of the Board of Directors and the Management Board

Total remuneration included in personnel expenses for the years ended 31 December 2012 and 31 December 2011 is as follows:

	2012 RUB'000	2011 RUB'000
Members of the Board of Directors	1 360	1 404
Members of the Management Board	14 160	9 677
	15 520	**11 081**

(b) Transactions with other related parties

Other related parties include entities under common control: Uniastrum Bank, CJSC Unibank (Armenia), UNISTREAM UK Limited, UNISTREAM Cyprus Limited, UNISTREAM Germany GmbH, UNISTREAM Greece Limited.

The outstanding balances and the related average effective interest rates as at 31 December 2012, and amounts included in profit or loss in relation to transactions with other related parties for the year ended 31 December 2012 are as follows.

	Other related parties	
	RUB'000	**Average effective interest rate, %**
Statement of financial position		
ASSETS		
Nostro accounts	165 196	0.21
Loans to banks and other financial institutions	44 089	3.0
LIABILITIES		
Deposits and balances from banks and other financial institutions	105 418	0.0
Other liabilities	24	0.0
Statement of comprehensive income		
Interest income	3 623	
Fee and commission income	173 563	
Fee and commission expense	(35 170)	

The outstanding balances and the related average effective interest rates as at 31 December 2011, and amounts included in profit or loss in relation to transactions with other related parties for the year ended 31 December 2011 are as follows.

	Other related parties	
	RUB'000	**Average effective interest rate, %**
Statement of financial position		
ASSETS		
Nostro accounts	100 823	0.0
Loans to banks and other financial institutions	45 552	3.0
LIABILITIES		
Deposits and balances from banks and other financial institutions	56 840	0.0
Other liabilities	12 318	0.0
Statement of comprehensive income		
Interest income	4	
Fee and commission income	236 946	
Fee and commission expense	(45 693)	

The majority of balances resulting from transactions with related parties mature within one year. Transactions with related parties are not secured.

24 Financial assets and liabilities: fair values and accounting classifications

The Bank estimated the fair value of its financial assets and liabilities in accordance with the requirements of IFRS 7 *Financial Instruments: Disclosures*.

The estimated fair value of all financial assets and liabilities are calculated using discounted cash flow techniques on estimated future cash flow and discount rates for similar instruments at the reporting date.

The estimates of fair value are intended to approximate the amount for which a financial instrument could be exchanged between knowledgeable, willing parties in an arm's length transaction. However given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realisable in an immediate sale of the assets or settlement of liabilities. Based on the assessment of the nature of the Bank's business and very short-term nature of financial instruments, management concluded that fair values of financial instruments are not materially different from their carrying values.

Palchun K.V.
Acting Chairman of the Management Board

Mosina M.A.
Chief Accountant