ABH FINANCIAL LIMITED

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

31 December 2012

CONTENTS

INDEPENDENT AUDITOR'S REPORT

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Statement of Financial Position....1
Consolidated Statement of Comprehensive Income....2
Consolidated Statement of Changes in Equity....3
Consolidated Statement of Cash Flows....4

Notes to the Consolidated Financial Statements

1 Introduction....5
2 Operating Environment of the Group....5
3 Summary of Significant Accounting Policies....6
4 Critical Accounting Estimates and Judgements in Applying Accounting Policies....16
5 Adoption of New or Revised Standards and Interpretations....18
6 New Accounting Pronouncements....18
7 Cash and Cash Equivalents....21
8 Trading Securities and Repurchase Receivables....22
9 Due from Other Banks....24
10 Loans and Advances to Customers....25
11 Investments....32
12 Other Financial Assets....34
13 Other Assets....36
14 Premises and Equipment....37
15 Due to Other Banks....38
16 Customer Accounts....39
17 Debt Securities Issued....40
18 Syndicated and Other Debt....41
19 Subordinated Debt....42
20 Other Financial Liabilities....43
21 Other Liabilities....43
22 Share Capital....44
23 Net Margin....44
24 Fee and Commission Income and Expense....45
25 Gains Less Losses Arising from Foreign Currencies and Precious Metals....45
26 Other Operating Income....45
27 Operating Expenses....46
28 Income Taxes....46
29 Segment Analysis....48
30 Financial Risk Management....52
31 Management of Capital....68
32 Contingencies and Commitments....68
33 Transfers of Financial Assets....71
34 Derivative Financial Instruments....72
35 Fair Value of Financial Instruments....74
36 Related Party Transactions....79
37 Subsequent Events....83

Independent Auditor's Report

To the Shareholders and Board of Directors of ABH Financial Limited:

1 We have audited the accompanying consolidated financial statements of ABH Financial Limited and its subsidiaries (the "Group") which comprise the consolidated statement of financial position as at 31 December 2012 and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

ZAO PricewaterhouseCoopers Audit

29 March 2013
Moscow, Russian Federation

ZAO PricewaterhouseCoopers Audit, White Square Office Center, 10 Butyrsky Val, Moscow, Russian Federation, 125047, Telephone +7 (495) 967 6000, Fax +7 (495) 967 6001, www.pwc.ru

In millions of US Dollars	Note	31 December 2012	31 December 2011
ASSETS			
Cash and cash equivalents	7	5 218	2 707
Mandatory cash balances with central banks		444	316
Trading securities	8	1 098	1 206
Repurchase receivables relating to trading securities	8	1 869	568
Due from other banks	9	3 298	2 242
Loans and advances to customers	10	30 564	21 804
Investments	11	1 963	1 381
Other financial assets	12	555	576
Other assets	13	364	221
Premises and equipment	14	559	340
Deferred tax asset	28	-	4
TOTAL ASSETS		**45 932**	**31 365**
LIABILITIES			
Due to other banks	15	5 502	2 384
Customer accounts	16	26 842	18 254
Debt securities issued	17	5 949	4 619
Syndicated and other debt	18	125	396
Subordinated debt	19	2 170	1 335
Other financial liabilities	20	741	533
Other liabilities	21	361	353
Deferred tax liability	28	90	56
TOTAL LIABILITIES		**41 780**	**27 930**
EQUITY			
Share capital	22	1 265	1 265
Fair value reserve for investments available for sale		68	(15)
Revaluation reserve for premises		25	28
Cumulative translation reserve		(403)	(416)
Retained earnings		3 196	2 572
Net assets attributable to the Company's owners		**4 151**	**3 434**
Non-controlling interests		**1**	**1**
TOTAL EQUITY		**4 152**	**3 435**
TOTAL LIABILITIES AND EQUITY		**45 932**	**31 365**

These consolidated financial statements were approved for issue by the Board of Directors of ABH Financial Limited on 29 March 2013 and any further changes require approval of this body.

In millions of US Dollars	Note	2012	2011
Interest income	23	3 110	2 625
Interest expense	23	(1 395)	(1 169)
Expenses directly attributable to leasing and deposit insurance	23	(37)	(42)
Net margin		**1 678**	**1 414**
Provision for loan impairment	10	(95)	(148)
Net margin after provision for loan impairment		**1 583**	**1 266**
Fee and commission income	24	769	617
Fee and commission expense	24	(189)	(162)
Gains less losses arising from trading securities		-	(42)
Gains less losses arising from interest based derivatives		8	6
Gains less losses arising from foreign currencies and precious metals	25	(44)	(18)
Gains less losses arising from investments	11	(3)	49
Losses less gains arising from acquisition of own debts		(5)	-
Other provisions	12,13,32	(43)	(6)
Other operating income	26	32	29
Operating expenses	27	(1 039)	(977)
Profit before tax		**1 069**	**762**
Income tax expense	28	(240)	(121)
Profit for the year		**829**	**641**
Other comprehensive income:			
Available for sale investments:			
- Fair value gains less losses during the year	11	84	(73)
- Reclassification adjustments for losses included in profit or loss	11	4	(4)
Effect of translation of the financial statements of foreign operations		154	(161)
Net change in hedge of net investment in foreign operations	34	(141)	76
Income tax recordered directly in other comprehensive income	28	(5)	7
Other comprehensive income/(loss) for the year		**96**	**(155)**
Total comprehensive income for the year		**925**	**486**
Profit for the year attributable to the Company's owners		**829**	**641**
Total comprehensive income for the year attributable to the Company's owners		**925**	**486**

	Attributable to the Company's owners						Non-controlling interests	Total equity
In millions of US Dollars	**Share capital (Note 22)**	**Fair value reserve for investments available for sale**	**Revaluation reserve for premises**	**Cumulative translation reserve**	**Retained earnings**	**Total**		
Balance as at 1 January 2011	**1 265**	**55**	**30**	**(331)**	**2 060**	**3 079**	**-**	**3 079**
Profit for the year	-	-	-	-	641	641	-	641
Other comprehensive loss for the year	-	(70)	-	(85)	-	(155)	-	(155)
Total comprehensive (loss)/income for the year	-	(70)	-	(85)	641	486	-	486
Realised revaluation reserve	-	-	(2)	-	2	-	-	-
Dividends declared (Note 22)	-	-	-	-	(131)	(131)	-	(131)
Acquisition of subsidiary	-	-	-	-	-	-	1	1
Balance as at 31 December 2011	**1 265**	**(15)**	**28**	**(416)**	**2 572**	**3 434**	**1**	**3 435**
Profit for the year	-	-	-	-	829	829	-	829
Other comprehensive income for the year	-	83	-	13	-	96	-	96
Total comprehensive income for the year	-	83	-	13	829	925	-	925
Realised revaluation reserve	-	-	(3)	-	3	-	-	-
Dividends declared (Note 22)	-	-	-	-	(182)	(182)	-	(182)
Other distributions (Note 22)	-	-	-	-	(26)	(26)	-	(26)
Balance as at 31 December 2012	**1 265**	**68**	**25**	**(403)**	**3 196**	**4 151**	**1**	**4 152**

In millions of US Dollars	Note	2012	2011
Cash flows from operating activities			
Interest received		3 108	2 684
Interest paid, other than on debt securities issued, syndicated and other debt and subordinated debt		(902)	(693)
Expense directly attributable to the lending operations		(37)	(42)
Fees and commissions received		787	619
Fees and commissions paid		(193)	(163)
Net income received from trading securities		(31)	(37)
Net income received from trading in foreign currencies		(176)	85
Net income received from interest rate derivatives		3	(6)
Other operating income received		24	26
Staff costs paid		(595)	(550)
Other operating expenses paid		(352)	(365)
Income tax paid		(235)	(59)
Cash flows from operating activities before changes in operating assets and liabilities		**1 401**	**1 499**
Changes in operating assets and liabilities			
Net increase in mandatory cash balances with central banks		(104)	(151)
Net (increase)/decrease in trading securities and repurchase receivables		(1 104)	486
Net (increase)/decrease in due from other banks		(984)	497
Net increase in loans and advances to customers		(7 792)	(6 126)
Net increase in other assets and receivables		(185)	(41)
Net increase in due to other banks		2 932	370
Net increase in customer accounts		7 633	2 181
Net increase in other liabilities and payables		66	17
Net cash from/(used in) operating activities		**1 863**	**(1 268)**
Cash flows from investing activities			
Acquisition of investments available for sale		(1 366)	(620)
Proceeds from disposal and redemption of investments available for sale		847	1 029
Acquisition of investments at fair value through profit and loss		(19)	-
Disposal of investments at fair value through profit and loss		14	40
Acquisition of investments held to maturity		-	(49)
Proceeds from redemption of investments held to maturity		47	251
Acquisition of premises, equipment and intangible assets		(281)	(118)
Proceeds from disposal of premises, equipment and intangible assets		17	8
Dividend income received		1	1
Net cash (used in)/from investing activities		**(740)**	**542**
Cash flows from financing activities			
Proceeds from syndicated and other debt		-	247
Repayment of syndicated and other debt		(279)	(32)
Interest paid on syndicated and other debt		(18)	(12)
Proceeds from debt securities issued		2 597	2 323
Repayment of debt securities issued		(1 394)	(1 750)
Interest paid on debt securities in issue		(341)	(324)
Proceeds from subordinated debt		758	-
Repayment of subordinated debt		(13)	(9)
Interest paid on subordinated debt		(114)	(119)
Net cash from financing activities		**1 196**	**324**
Net increase/(decrease) in cash and cash equivalents		**2 319**	**(402)**
Cash and cash equivalents at the beginning of the year	7	2 707	3 182
Effect of exchange rate changes on cash and cash equivalents		192	(73)
Cash and cash equivalents as at the end of the year	**7**	**5 218**	**2 707**

The notes set out on pages 5 to 83 form an integral part of these consolidated financial statements.

1 Introduction

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2012 for ABH Financial Limited (the “Company”) and its subsidiaries (the “Group”).

The Company is a limited liability company registered in the Republic of Cyprus. The Company is wholly owned by ABH Russia Limited, a Cyprus company, which is in turn a wholly owned subsidiary of ABH Holdings S.A. (“ABHH”), a Luxembourg company, owned by six individuals. Mr. Fridman, Mr. Khan and Mr. Kuzmichev (the “Controlling Shareholders”) collectively control and own a 77.86% interest in ABHH. None of the Controlling Shareholders individually controls and/or owns a 50% or more interest in ABHH. The Controlling Shareholders also own a 100% interest in CTF Holdings Limited (“CTFH”). ABHH and CTFH are parent companies of Alfa Group.

The Company is registered at Elenion Building, 5 Themistocles Dervis Street, 2nd floor, CY-1066 Nicosia, Cyprus.

The Group comprises three main segments: corporate and investment banking, retail banking and treasury operations (Note 29). The corporate banking, retail banking and treasury operations of the Group are carried out principally by Open Joint Stock Company Alfa-Bank (“Alfa-Bank”) and its subsidiaries. The investment banking activities of the Group are carried out mainly by Alfa Capital Holdings (Cyprus) Limited together with certain other subsidiaries. A substantial part of the Group’s activities are carried out in the Russian Federation.

As at 31 December 2012 the Group had 511 offices (including branches, regional branches and outlets), most of which were operated by Alfa-Bank (2011: 465 offices).

Alfa-Bank is a wholly owned subsidiary of the Company. It is registered in the Russian Federation to carry out banking and foreign exchange activities and has operated under a full banking license issued by the Central Bank of the Russian Federation (the “CBRF”) since 1991. Alfa-Bank operates in all banking sectors of the Russian financial markets, including interbank, corporate and retail loans and deposits, foreign exchange operations and debt and equity trading. In addition, a complete range of banking services is provided in Russian Roubles (“RR”) and foreign currencies to its customers. Alfa-Bank participates in the State deposit insurance scheme. The State Deposit Insurance Agency guarantees repayment of 100% of individual deposits up to RR 0.7 million per individual in case of the withdrawal of a license of a bank or a CBRF imposed moratorium on payments. Alfa-Bank is licensed by the Federal Commission on Securities Market for trading in securities. Alfa-Bank’s major subsidiary is Amsterdam Trade Bank N.V. (Netherlands). Alfa-Bank’s registered office is located at 27 Kalanchyovskaya Street, Moscow 107078, Russian Federation. Alfa-Bank’s principal place of business is 9 Mashi Poryvaevoy Street, Moscow 107078, Russian Federation.

Alfa Capital Holdings (Cyprus) Limited is primarily involved in the investment banking business including proprietary trading and brokerage activities, investment and merchant banking and asset management. Alfa Capital Holdings (Cyprus) Limited is regulated by the Cyprus Securities and Exchange Commission and licensed principally for brokerage activities and proprietary trading (own trading in shares and debentures). The license entitles Alfa Capital Holdings (Cyprus) Limited to operate both locally (with certain restrictions) and outside Cyprus. Alfa Capital Holdings (Cyprus) Limited is registered at Elenion Building, 5 Themistocles Dervis Street, 2nd floor, CY-1066 Nicosia, Cyprus.

2 Operating Environment of the Group

The Group, through its operations, has a significant exposure to the economy and financial markets of the Russian Federation.

Russian Federation. The Russian Federation displays certain characteristics of an emerging market. Its economy is particulary sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to varying interpretation (Note 32).

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

3 Summary of Significant Accounting Policies

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

Alfa-Bank maintains its accounting records in accordance with Russian banking regulations. Other subsidiaries maintain their accounting records in accordance with accounting regulations or applicable companies' law in their respective jurisdictions. These consolidated financial statements have been prepared from those accounting records and adjusted as necessary in order to be in accordance with IFRS.

Presentation currency. These consolidated financial statements are presented in millions of US Dollars. The US Dollar has been selected as the presentation currency of the Group as US Dollar is the currency which Management of the Group uses to manage business risks and exposures, and measure the performance of its businesses.

Functional currencies. Different entities within the Group may have different functional currencies, based on the underlying economic conditions of their operations. In particular, Alfa-Bank has Russian Roubles as its functional currency, as its activities are mostly based in the Russian Federation and are dependent on the condition of the Russian economy. Amsterdam Trade Bank N.V. has Euro as its functional currency, as its activities are mostly based in Europe and are dependent on the condition of the economy in Europe. ABH Financial Limited and Alfa Capital Holdings (Cyprus) Limited have US Dollars as their functional currency, as the companies operate internationally on markets mainly influenced by the US Dollar (not Russian Rouble). Management evaluates the appropriateness of the respective functional currencies for the entities of the Group from time to time, so that the functional currency of any entity of the Group may change, once the economic conditions it is reliant on so dictate. Further information regarding the basis of translation of currencies in the preparation of these consolidated financial statements is provided under "Foreign Currency Translation" section of this note.

Consolidated financial statements. Subsidiaries are those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies usually accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are presently exercisable or 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 that control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries other than those acquired from parties under common control. The consideration transferred for the acquiree is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed at the date of exchange. Transaction costs incurred for issuing equity instruments are deducted from equity; transaction costs incurred for issuing debts are deducted from its carrying amount and all other transaction costs associated with the acquisition are expensed. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

The Group measures non-controlling interest on a transaction by transaction basis, either at: (a) fair value, or (b) the non-controlling interest's proportionate share of net assets of the acquiree.

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

Intercompany transactions, balances and unrealised gains on the transactions between group companies are eliminated; unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. The Company and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

3 Summary of Significant Accounting Policies (Continued)

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

Purchases and sales of non-controlling interest. The Group applies the economic entity model to account for transactions with owners of non-controlling interest. Any difference between the purchase consideration and the carrying amount of non-controlling interest acquired is recorded as a capital transaction directly in equity. The Group recognises the difference between sales consideration and carrying amount of non-controlling interest sold as a capital transaction in the consolidated statement of changes in equity.

Foreign currency translation. Monetary assets and liabilities are translated into each entity's functional currency at the official exchange rate at the respective end of the reporting period. 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 at period-end exchange rates are recognised in profit or loss for the year. Translation at year-end rates does not apply to non-monetary items that are measured at historical cost. Non-monetary items measured at fair value in a foreign currency, including equity investments, are translated using the exchange rates at the date when the fair value was determined. Effects of exchange rate changes on non-monetary items measured at fair value in a foreign currency are recorded as part of the fair value gain or loss.

The results and financial position of each Group entity (none of which is in a hyperinflationary economy) are translated into US Dollar as presentation currency as follows:

(i) assets and liabilities for each statement of financial position presented are translated at the closing rate at the end of the respective reporting period;

(ii) income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions);

(iii) components of equity are translated at the historic rate; and

(iv) all resulting exchange differences are recognised in other comprehensive income.

When control over a foreign operation is lost, the previously recognised exchange differences on translation to a different presentation currency are reclassified from other comprehensive income to profit or loss for the year as part of the gain or loss on disposal. On partial disposal of a subsidiary without loss of control, the related portion of accumulated currency translation differences is reclassified to non-controlling interest within equity.

As at 31 December 2012 the principal rate of exchange used for translating foreign currency balances was USD 1 = RR 30.3727 (2011: USD 1 = RR 32.1961), the average exchange rate was USD 1 = RR 31.0930 (2011: USD 1 = RR 29.3874).

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

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

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

3 Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

Derecognition of financial assets. The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise 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.

Cash and cash equivalents. Cash and cash equivalents are items which can be converted into cash within a day. All short-term placements with other banks, beyond overnight placements, are included in due from other banks. Amounts which relate to funds that are of a restricted nature are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortised cost.

Mandatory cash balances with central banks. Mandatory balances with central banks represent mandatory reserve deposits with the Central Bank of the Russian Federation and other local central banks, which are not available to finance the Group's day-to-day operations and hence are not considered as part of cash and cash equivalents for the purposes of the consolidated statement of cash flows.

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

3 Summary of Significant Accounting Policies (Continued)

The Group may choose to reclassify a non-derivative trading financial asset out of the fair value through profit or loss category if the asset is no longer held for the purpose of selling it in the near term. Financial assets other than loans and receivables are permitted to be reclassified out of fair value through profit or loss category only in rare circumstances arising from a single event that is unusual and highly unlikely to reoccur in the near term. Financial assets that would meet the definition of loans and receivables may be reclassified if the Group has the intention and ability to hold these financial assets for the foreseeable future or until maturity.

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

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. The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets are impaired. Impairment losses are recognised in profit or loss when incurred as a result of one or more 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. This assessment is carried out individually on financial assets that are considered individually significant, or collectively for financial assets that are not individually significant. 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 for collective assessment. The primary factors that the Group considers whether a financial asset is impaired are its overdue status and realisability of related collateral, if any.

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

- delinquency in contractual payments of principal and interest except delay caused by the settlement systems;
- breach of loan covenants or conditions;
- the borrower experiences significant financial difficulty as evidenced by the borrower's financial information that Management obtains;
- initiation of bankruptcy proceedings or a financial reorganisation;
- there is an adverse change in the payment status of the borrower as a result of changes in the national or local economic conditions that impact the borrower;
- the value of collateral significantly decreases as a result of deteriorating market conditions;
- there are significant changes in the borrower's management structure which is likely to cause late payment or no payment;
- third party actions: legal and/or tax claims against the borrower (guarantor, underwriter), arrest or seizure of the borrower's (guarantor's, underwriter's) property including property pledged with the Group;
- any encumbrance of the borrower's property (pledge, rent, trust management, etc.) without the Group's written approval, where required;
- damage or loss of collateral obtained;
- disablement or death of the borrower (guarantor, underwriter) or business owner (more than 50% of share capital);

3 Summary of Significant Accounting Policies (Continued)

- change of the borrower's (guarantor's, underwriter's) place of residence and/or place of work without written notice sent to the Group;
- there is reliable information that the borrower (guarantor, underwriter) or business owner (more than 50% of share capital) is missing or has been abroad for more than 1 year;
- the borrower (guarantor, underwriter) or business owner (more than 50% of share capital) is imprisoned or arrested;
- termination or change of the borrower's commercial activity.

The estimated period between a loss occurring and its identification is determined by Management for each identified portfolio, based on analysis of historical data. For the purposes of a collective impairment assessment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtor's ability to pay all amounts due according to the contractual terms of the assets being evaluated.

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

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

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

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

Uncollectible assets including accrued interest 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. Necessary procedures to recover the asset include: (i) sending a notification on the repayment of debt to the borrower and the surety, (ii) negotiations with the borrower's management and owners, (iii) analysing liquidity of the borrower's assets, which can be foreclosed to settle the debt, (iv) review condition of the pledged property, (v) submitting legal claims through the courts, and (vi) sale of foreclosed property. Loans to individuals are written off after 180 days of non-payment except for mortgage loans which are written off after 540 days of non-payment.

Subsequent recoveries of amounts previously written off are credited to the provision for loan impairment in profit or loss for the year.

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

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

3 Summary of Significant Accounting Policies (Continued)

Credit related commitments. In the normal course of business, 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 does not meet its obligations to third parties and carry the same credit risk as loans. Credit related commitments are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitment, except for commitments to originate loans if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination; such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition. At the end of each reporting period, the commitments are measured at the higher of (i) the unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at the end of each reporting period. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgement of Management.

Investments available for sale. This classification includes investments 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 market prices. The Group classifies investments as available for sale at the time of purchase.

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

Impairment losses are recognised in profit or loss when incurred as a result of one or more events that occurred after the initial recognition. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss - is reclassified from other comprehensive income to profit or loss for the year. Impairment losses on equity instruments are not reversed and subsequent gains are recognised in other comprehensive income. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss for the year.

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

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

Securities purchased under agreements to resell are recorded as due from other banks or loans and advances to customers as appropriate.

Securities lent to counterparties are retained in the consolidated financial statements in their original category in the consolidated statement of financial position 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 purchase and sale are recorded within gains less losses arising from trading securities in profit or loss for the year. The obligation to return them is recorded at fair value as a trading liability.

3 Summary of Significant Accounting Policies (Continued)

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 and reassesses the appropriateness of that classification at the end of each reporting period. Investment securities held to maturity are carried at amortised cost.

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

Premises of the Group are subject to revaluation on a regular basis. Revaluations are made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Increases in the carrying amount arising on revaluation are credited to other comprehensive income and increase the revaluation surplus in equity. Decreases that offset previous increases of the same asset are recognised in other comprehensive income and decrease the previously recognised revaluation surplus in equity; all other decreases are charged to profit or loss for the year. The revaluation reserve for premises included in equity is transferred directly to retained earnings when the surplus is realised (i.e. as the asset is used by the Group). The amount of the surplus realised is the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost.

Premises and equipment of acquired subsidiaries are initially recorded in the consolidated statement of financial position at their estimated fair value at the date of acquisition of the acquired subsidiary, being their cost to the Group.

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

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

At each reporting date the Group assesses whether there is any indication of impairment of premises and equipment. If any such indication exists, the Group estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell or its value in use. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down to its recoverable amount and the difference is charged to profit or loss for the year, unless it has previously been revalued, in which case the revaluation surplus is eliminated first and any additional loss is charged in profit or loss for the year. An impairment loss recorded for an asset in prior periods is reversed if there has been a change in the estimates used to determine the asset's recoverable amount.

Gains and losses on disposal of premises and equipment are determined by comparing their carrying amount with the sale proceeds and are recognised in profit or loss for the year.

Customer relationship. Customer relationship includes relationships with the corporate and individual customers which kept current accounts with the bank at the time of the business combination. Customer relationship is amortised on a diminishing balance basis reflecting the pattern in which the asset's future economic benefits are expected to be consumed.

Computer software. Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Costs associated with maintaining computer software programmes are recorded as an expense as incurred. Internal development costs that are directly associated with identifiable and unique software products controlled by the Group which will probably generate economic benefits exceeding costs beyond one year are recorded as intangible assets.

3 Summary of Significant Accounting Policies (Continued)

Expenditure which enhances or extends the performance of computer software programmes beyond their original specifications is recorded as a capital improvement and added to the original cost of the software.

Computer software development costs recorded as assets are amortised using the straight-line method over their useful lives, not exceeding a period of ten years.

Depreciation. Depreciation is applied on a straight-line basis over the estimated useful lives of the assets using the following rates:

Premises	2% per annum;
Office equipment	16% - 20% per annum;
Computer equipment	25% - 33% per annum;
Leasehold improvements	over the term of the underlying lease;
Equipment under operating lease	10% per annum.

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

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. Operating leases include long-term leases of land with rental payments contingent on cadastral values regularly reviewed by the government.

When assets are leased out under an operating lease, the lease payments receivable are recognised as rental income on a straight-line basis over the lease term.

Finance leases. Where the Group is a lessor in a lease which transfers substantially all the risks and rewards incidental to ownership to the lessee, the assets leased out are presented as a finance lease receivable and carried at the present value of the gross investment in the lease. Finance lease receivables are initially recognised at commencement (when the lease term begins) using a discount rate determined at inception (the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease).

The difference between the gross receivable and the present value represents unearned finance income. This income is recognised over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return. Incremental costs directly attributable to negotiating and arranging the lease are included in the initial measurement of the finance lease receivable and reduce the amount of income recognised over the lease term. Finance income from leases is recorded within interest income in profit or loss for the year.

Impairment losses are recognised in profit or loss for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of finance lease receivables. The Group uses the same principal criteria to determine whether there is objective evidence that an impairment loss has occurred as for loans carried at amortised cost. Impairment losses are recognised through an allowance account to write down the receivables' net carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the interest rates implicit in the finance leases. The estimated future cash flows reflect the cash flows that may result from obtaining and selling the assets subject to the lease.

Due to other banks. Amounts due to other 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.

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

Debt securities issued. Debt securities issued include promissory notes, bonds, commercial paper and term notes. Promissory notes issued by the Group have a fixed date of repayment. These may be issued against cash deposits or as a payment instrument, which the purchaser can discount in the over-the-counter secondary market. Debt securities are stated at amortised cost.

3 Summary of Significant Accounting Policies (Continued)

If the Group purchases its own debt securities issued, they are removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is recorded in profit or loss for the year as gains less losses arising from acquisition of own debts.

Syndicated loans. Syndicated loans are loans in which a group of financial institutions provides funds to the Group. Syndicated loans are carried at amortised cost.

Subordinated debt. Subordinated debt ranks behind all other creditors in case of liquidation. Subordinated debt is carried at amortised cost.

Acquired own subordinated notes are removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is recorded in profit or loss for the year as gains less losses arising from acquisition of own debts.

Government grants. Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to the loans provided by the State at rates below market are recorded as deferred income and are credited to interest expense for the year using a method achieving matching with respective expenses or losses. Such government grants are initially measured as the difference between the proceeds and the initial fair value of the loan, net of transaction costs.

Share capital. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

Dividends. Dividends are recorded in equity in the period in which they are approved by the shareholders of the Company. Dividends that are declared after the end of the reporting period are disclosed as subsequent events.

Derivative financial instruments and hedge accounting. Derivative financial instruments including foreign exchange contracts, currency and interest rate swaps and other derivative financial instruments are carried at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and options pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative financial instruments are included in profit or loss for the year in gains less losses arising from foreign currencies and precious metals and gains less losses arising from trading securities, depending on the related contracts, unless the derivatives qualify as hedging instruments.

The Group applies hedge accounting for its existing hedge by foreign currency exchange forward contracts of part of the Group's net investment in subsidiaries of the Group that have Russian Rouble as a functional currency.

The Group documents, at the inception of the transaction, the relationship between the hedged items and hedging instruments, as well as its risk management objective and strategy for undertaking the hedge. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting the exposures to the hedged risks.

The hedge effectiveness is measured by reference to changes in RR/USD spot rates. Only the change in the fair value of the foreign currency exchange forward contracts due to changes in spot rates is reported in other comprehensive income and the remaining change in the fair value of those contracts is included in profit or loss.

Accumulated hedging gains or losses recorded through other comprehensive income are recycled from other comprehensive income to profit or loss in the period when the hedged item is disposed of.

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

3 Summary of Significant Accounting Policies (Continued)

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

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Taxation rates enacted or substantively enacted at the end of the reporting period which are expected to apply when the temporary difference reverses are used to determine deferred income tax balances. Deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax liabilities are not recorded for temporary differences on initial recognition of goodwill and subsequently for goodwill which is not deductible for tax purposes. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

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

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

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

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

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

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

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. Asset management fees related to investment funds are recorded over the period the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continuously provided over an extended period of time.

3 Summary of Significant Accounting Policies (Continued)

Expenses directly attributable to leasing and deposit insurance. Expenses directly attributable to leasing and deposit insurance comprise of property tax and insurance costs relating to the leased assets as well as contributions paid to the State Deposit Insurance Agency. These expenses are not incremental transaction costs that would have to be recognized as part of the effective interest rate.

Property tax and insurance costs relating to the leased assets are not subject to deduction from or offsetting with the minimum lease payments receivable because they are not reimbursable to the lessor. The lease contract has an option for the lessor to change lease payments if property tax, insurance, and borrowing costs change, but there is no obligation to do so, and the lessor has a primary responsibility for the payment of insurance and property tax.

Contributions paid to the State Deposit Insurance Agency are not linked to particular customer deposits or deposit products.

Fiduciary assets. The Group commonly acts as trustee and in other fiduciary capacities that result in the holding of assets on behalf of individuals and institutions. These assets and liabilities arising thereon are excluded from the consolidated financial statements, as they are not assets and liabilities of the Group. For the purposes of disclosure fiduciary activities do not encompass safe custody function. Commissions received from fiduciary activities are shown in fee and commission income.

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

Provisions for liabilities and charges. Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount which 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.

Staff costs and related contributions. Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in accordance with the existing employee compensation plans. Discretionary employee compensations are subject to Management's approval and are disclosed within staff costs. The Group has no legal or constructive obligation to make pension or similar benefit payments beyond the payments to the statutory defined contribution scheme.

Segment reporting. Operating segments are reported in a manner consistent with the internal reporting provided to the Group's chief operating decision maker. Segments whose revenue, result or assets are ten percent or more of all segments are reported separately.

Presentation of consolidated statement of financial position in order of liquidity. The Group does not have a clearly identifiable operating cycle and therefore does not present current and non-current assets and liabilities separately in the consolidated statement of financial position. Instead, analysis of assets and liabilities by their expected maturirties is presented in Note 30.

4 Critical Accounting Estimates and Judgements in Applying Accounting Policies

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

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

Impairment of 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 for the year, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in 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. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. A 10% increase or decrease between actual loss experience and the loss estimates used will result in an additional or lower charge for loan loss impairment of USD 126 million (2011: USD 137 million), respectively.

Fair value of financial instruments. The fair values of financial instruments that are not quoted in active markets are determined using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require the Management to make estimates. Changes in assumptions about these factors could affect reported fair values. Refer to Note 35.

Income taxes. There are many transactions and calculations in the ordinary course of business for which the ultimate tax determination is uncertain (Note 32). The Group records liabilities for completed and anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences impact the current and deferred taxation in the period in which such determination is made.

Functional currencies of different entities of the Group. Different entities within the Group have different functional currencies, based on the underlying economic conditions of their operations. This determination of what the specific underlying economic conditions are requires judgement. In making this judgement, the Group evaluates among other factors, the location of activities, the sources of revenue, risks associated with activities and denomination of currencies of operations of different entities.

Specifically, in determination of the functional currencies of ABH Financial Limited and Alfa Capital Holdings (Cyprus) Limited, the Group based its judgement on the fact that the companies operate internationally on markets mainly influenced by the US Dollar (not Russian Rouble) and their major activities include provision of services to foreign investors. Moreover, the majority of their operations are denominated in US Dollars. The US Dollar is also the currency in which their business risks and exposures are managed and the performance of their business is measured.

Balances receivable from ABH Ukraine Group. As at 31 December 2012 and 2011 the Group had balances outstanding from ABH Ukraine Group (Note 36). The majority of these obligations is guaranteed by ABHH and ABH Russia Limited, shareholders of the Group (Note 1). The recent global financial crisis had a significant negative impact on Ukraine and the financial position of ABH Ukraine Group. Taking into account the support of ABH Ukraine Group by ABHH, the management of the Group concluded that the balances receivable from ABH Ukraine Group will be repaid in accordance with their contractual terms.

Accounting for investments in subsidiaries of ABHH. Refer to Note 33.

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

5 Adoption of New or Revised Standards and Interpretations

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

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

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

6 New Accounting Pronouncements

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

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

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

While adoption of IFRS 9 is mandatory from 1 January 2015, earlier adoption is permitted. The Group is considering the implications of the amendment, the impact on the Group and the timing of its adoption by the Group.

IFRS 10, Consolidated Financial Statements, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013) replaces all of the guidance on control and consolidation in IAS 27 “Consolidated and separate financial statements” and SIC-12 “Consolidation - special purpose entities”. IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control. This definition is supported by extensive application guidance. The Group is currently assessing the impact of the standard on its consolidated financial statements.

6 New Accounting Pronouncements (Continued)

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

IFRS 12, Disclosure of Interests in Other Entities, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013) applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. It replaces the disclosure requirements currently found in IAS 28 "Investments in associates". IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. To meet these objectives, the new standard requires disclosures in a number of areas, including significant judgements and assumptions made in determining whether an entity controls, jointly controls, or significantly influences its interests in other entities, extended disclosures on share of non-controlling interests in group activities and cash flows, summarised financial information of subsidiaries with material non-controlling interests, and detailed disclosures of interests in unconsolidated structured entities. The Group does not expect the amendments to have any material effect on its consolidated financial statements.

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

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

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

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

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

Disclosures - Offsetting Financial Assets and Financial Liabilities - Amendments to IFRS 7 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2013). The amendment requires disclosures that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off. The Group is currently assessing the impact of the standard on its consolidated financial statements.

6 New Accounting Pronouncements (Continued)

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

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

Transition Guidance Amendments to IFRS 10, IFRS 11 and IFRS 12 (issued in June 2012 and effective for annual periods beginning 1 January 2013). The amendments clarify the transition guidance in IFRS 10 "Consolidated Financial Statements". Entities adopting IFRS 10 should assess control at the first day of the annual period in which IFRS 10 is adopted, and if the consolidation conclusion under IFRS 10 differs from IAS 27 and SIC 12, the immediately preceding comparative period (that is, year 2012 for a calendar year-end entity that adopts IFRS 10 in 2013) is restated, unless impracticable. The amendments also provide additional transition relief in IFRS 10, IFRS 11 "Joint Arrangements" and IFRS 12 "Disclosure of Interests in Other Entities", by limiting the requirement to provide adjusted comparative information only for the immediately preceding comparative period.

Further, the amendments will remove the requirement to present comparative information for disclosures related to unconsolidated structured entities for periods before IFRS 12 is first applied. The Group is currently assessing the impact of the standard on its consolidated financial statements.

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

Amendments to IFRS 10, IFRS 12 and IAS 27 - Investment entities (issued on 31 October 2012 and effective for annual periods beginning 1 January 2014). The amendment introduced a definition of an investment entity as an entity that (i) obtains funds from investors for the purpose of providing them with investment management services, (ii) commits to its investors that its business purpose is to invest funds solely for capital appreciation or investment income and (iii) measures and evaluates its investments on a fair value basis. An investment entity will be required to account for its subsidiaries at fair value through profit or loss, and to consolidate only those subsidiaries that provide services that are related to the entity's investment activities. IFRS 12 was amended to introduce new disclosures, including any significant judgements made in determining whether an entity is an investment entity and information about financial or other support to an unconsolidated subsidiary, whether intended or already provided to the subsidiary. The Group does not expect the amendments to have any material effect on its consolidated financial statements.

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

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

7 Cash and Cash Equivalents

In millions of US Dollars	2012	2011
Cash on hand	1 067	769
Cash balances with central banks (other than mandatory cash balances)	1 309	749
Correspondent and settlement accounts with banks and financial institutions		
- Russian Federation	150	132
- Europe and USA	802	620
- Other countries	10	5
Overnight placements with other banks		
- Russian Federation	1 429	332
- Other countries	451	100
Total cash and cash equivalents	**5 218**	**2 707**

The credit quality of balances on correspondent and settlement accounts with banks and financial institutions is managed through a system of qualitative risk management procedures comprising credit risk assessment before acceptance. After establishing a correspondent account, depending on the magnitude of the balance, Management carries out regular monitoring of the financial position and performance of the counterparties.

The analysis by credit quality of overnight placements is based on their stratification by set limits. Higher limits are assigned to counterparties whose credit quality is better. Analysis by credit quality of overnight placements was as follows:

In millions of US Dollars	2012	2011
Neither past due nor impaired		
- limit above USD 200 million	1 313	332
- limit from USD 100 to 200 million	487	98
- limit below USD 100 million	80	2
Total overnight placements	**1 880**	**432**

As at 31 December 2012 the ten largest aggregate balances on correspondent and settlement accounts and overnight placements with other banks and financial institutions amounted to USD 2 491 million (2011: USD 1 164 million) or 87.6% (2011: 97.9%) of the correspondent and settlement accounts and overnight placements.

For the purposes of measurement the Group classified all balances included in cash and cash equivalents as loans and receivables. Currency, maturity and interest rate analyses of cash and cash equivalents are disclosed in Note 30. The information on related party balances is disclosed in Note 36.

8 Trading Securities and Repurchase Receivables

In millions of US Dollars	**2012**	**2011**
Trading securities		
Promissory notes	600	77
Corporate bonds	210	576
Corporate Eurobonds	205	238
Municipal bonds	18	153
Eurobonds of other states	4	18
Russian Federation Bonds and Eurobonds	4	74
Total debt trading securities	**1 041**	**1 136**
Corporate shares	44	47
ADRs and GDRs	13	23
Total trading securities	**1 098**	**1 206**
Repurchase receivables		
Corporate bonds	903	8
Corporate Eurobonds	558	304
Russian Federation Bonds and Eurobonds	171	196
Eurobonds of other states	43	30
Municipal bonds	-	27
Repurchase receivables relating to debt trading securities	**1 675**	**565**
Corporate shares	169	3
ADRs and GDRs	25	-
Total repurchase receivables relating to trading securities	**1 869**	**568**
Total trading securities and repurchase receivables	**2 967**	**1 774**

Repurchase receivables represent securities sold under sale and repurchase agreements with other banks (Note 15). The counterparty financial institutions have a right to resell or pledge these securities.

Corporate bonds are interest-bearing securities issued by large Russian companies, denominated in Russian Roubles and freely tradable in the Russian Federation. As at 31 December 2012 these bonds have maturity dates ranging from March 2013 to February 2032 (2011: February 2012 to November 2023), coupon rates from 3.3% to 16.5% p.a. (2011: from 6.9% to 19.0% p.a.) and yields to maturity from 0.3% to 35.1% p.a. (2011: from 1.2% to 21.5% p.a.).

Corporate Eurobonds are interest-bearing securities denominated in US Dollars, Russian Roubles, Euro, issued mainly by large Russian and CIS companies and freely tradable internationally. As at 31 December 2012 these bonds have maturity dates ranging from January 2013 to April 2044 (2011: from February 2012 to June 2035), coupon rates from nil to 13.0% p.a. (2011: from 0% to 13.0% p.a.) and yields to maturity from 1.9% to 42.6% p.a. (2011: from 4.3% to 32.5% p.a.).

Promissory notes are non interest-bearing securities issued by large Russian banks and international companies, denominated in Russian Roubles and US Dollars and freely tradable in the Russian Federation. As at 31 December 2012 these securities have maturity dates ranging from March 2013 to December 2013 (2011: from February 2012 to August 2012), and yields to maturity from 5.0% to 13.3% p.a. (2011: from 5.2% to 15.5% p.a.).

8 Trading Securities and Repurchase Receivables (Continued)

Russian Federation bonds and Eurobonds are interest-bearing securities issued by Ministry of Finance of the Russian Federation, denominated in US Dollars and Russian Roubles and freely tradable internationally. As at 31 December 2012 these bonds have maturity dates ranging from March 2018 to March 2030 (2011: from March 2013 to June 2028), coupon rates from 7.5% to 12.8% p.a. (2011: from 6.9% to 12.8% p.a.) and yields to maturity from 2.6% to 7.0% (2011: from 6.0% to 8.3% p.a.).

Analysis by credit quality of debt trading securities and repurchase receivables was as follows as at 31 December 2012:

In millions of US Dollars	Corporate bonds	Corporate Eurobonds	Promis-sory notes	Russian Federation bonds and Eurobonds	Eurobonds of other states	Municipal bonds	Total
Neither past due nor impaired (at fair value)							
- limit above USD 50 million	449	270	47	175	24	-	965
- limit from USD 10 to 50 million	146	69	34	-	-	-	249
- limit below USD 10 million	8	-	-	-	-	-	8
- position hedged by derivatives	510	420	519	-	23	18	1 490
- other	-	4	-	-	-	-	4
Total debt trading securities and repurchase receivables	**1 113**	**763**	**600**	**175**	**47**	**18**	**2 716**

Analysis by credit quality of debt trading securities and repurchase receivables was as follows as at 31 December 2011:

In millions of US Dollars	Corporate Eurobonds	Corporate bonds	Promis-sory notes	Russian Federation Eurobonds	Municipal bonds	Eurobonds of other states	Total
Neither past due nor impaired (at fair value)							
- limit above USD 50 million	31	243	72	157	-	32	535
- limit from USD 10 to 50 million	163	35	-	-	-	-	198
- position hedged by derivatives	335	301	5	113	180	16	950
- other	13	5	-	-	-	-	18
Total debt trading securities and repurchase receivables	**542**	**584**	**77**	**270**	**180**	**48**	**1 701**

The above analysis by credit quality is based on the stratification by set limits. Larger limits are assigned to counterparties whose credit quality is better.

As at 31 December 2012 and 2011 the long balance sheet position of the Group in trading securities and repurchase receivables was partially hedged by an opposite position in derivative financial instruments for those securities. These economic hedges significantly reduce credit risk related to respective securities and therefore such securities are not covered by individual limits and disclosed separately in the table above. Refer to Note 34.

Trading securities and repurchase receivables are carried at fair value which also reflects any credit risk related write-downs.

For the purposes of measurement the Group classified all balances included in trading securities and repurchase receivables as financial assets at fair value through profit or loss held for trading. Currency, maturity and interest rates analyses of trading securities and repurchase receivables are disclosed in Note 30. The information on securities issued by related parties and owned by the Group is disclosed in Note 36.

9 Due from Other Banks

In millions of US Dollars	Note	2012	2011
Term placements with other banks		2 940	1 446
Reverse sale and repurchase agreements with other banks		215	664
Subordinated loans to related parties	4,36	143	132
Total due from other banks		**3 298**	**2 242**

As at 31 December 2012 reverse sale and repurchase agreements with other banks were effectively collateralised by securities with estimated fair value of USD 259 million (2011: USD 730 million), all of which the Group had the right to sell or repledge.

As at 31 December 2012 the ten largest aggregate balances due from other banks amounted to USD 2 473 million (2011: USD 1 752 million) or 75.0% (2011: 78.1%) of total due from other banks.

Analysis by credit quality of amounts due from other banks outstanding as at 31 December 2012 was as follows:

In millions of US Dollars	**Term placements with other banks**	**Reverse sale and repurchase agreements with other banks**	**Subordinated loans to related parties**	**Total**
Neither past due nor impaired				
- limit above USD 200 million	1 020	1	-	1 021
- limit from USD 100 to 200 million	1 067	127	-	1 194
- limit below USD 100 million	853	87	-	940
- subordinated loans to related parties	-	-	143	143
Total due from other banks	**2 940**	**215**	**143**	**3 298**

Analysis by credit quality of amounts due from other banks outstanding as at 31 December 2011 was as follows:

In millions of US Dollars	**Term placements with other banks**	**Reverse sale and repurchase agreements with other banks**	**Subordinated loans to related parties**	**Total**
Neither past due nor impaired				
- limit above USD 200 million	768	255	-	1 023
- limit from USD 100 to 200 million	177	226	-	403
- limit below USD 100 million	501	183	-	684
- subordinated loan to related parties	-	-	132	132
Total due from other banks	**1 446**	**664**	**132**	**2 242**

The above analysis by credit quality is based on the stratification by set limits. Larger limits are assigned to counterparties whose credit quality is better. The subordinated loan to PAO Alfa-Bank Ukraine is guaranteed by ABH Russia Limited (Note 1) and is presented separately in the above analysis (Note 36).

As at 31 December 2012 included within term placements with other banks are margin call deposits in the amount of USD 325 million (2011: USD 223 million) placed as collateral under transactions with derivatives and securities. Refer to Note 34.

As at 31 December 2012 and 2011 the fair value of each class of financial assets included in due from other banks approximated their carrying value. Refer to Note 35.

For the purposes of measurement the Group classified all balances included in due from other banks as loans and receivables. Currency, maturity and interest rate analyses of due from other banks are disclosed in Note 30. The information on related party balances is disclosed in Note 36.

10 Loans and Advances to Customers

In millions of US Dollars	2012	2011
Corporate loans	24 328	18 041
Reverse sale and repurchase receivables	1 270	1 075
Finance lease receivables	1 084	719
Loans to small and medium-size enterprises (“SMEs”)	474	572
Advances on lease operations	21	10
Total gross loans and advances to corporate customers	**27 177**	**20 417**
Less: Provision for loan impairment	(1 128)	(1 310)
Total loans and advances to corporate customers	**26 049**	**19 107**
Loans to individuals - Credit cards and personal instalment loans (“PILs”)	2 905	1 370
Loans to individuals - Consumer loans	1 371	924
Loans to individuals - Mortgage loans	295	321
Loans to individuals - Car loans	40	90
Reverse sale and repurchase receivables	37	50
Total gross loans and advances to individuals	**4 648**	**2 755**
Less: Provision for loan impairment	(133)	(58)
Total loans and advances to individuals	**4 515**	**2 697**
Total loans and advances to customers	**30 564**	**21 804**

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

					Loans to individuals				
In millions of US Dollars	Corporate loans	Finance lease receivables	Loans to SMEs	Advances on lease operations	Credit cards and PILs	Consumer loans	Mortgage loans	Car loans	Total
Provision for loan impairment as at 1 January 2012	**1 161**	**80**	**68**	**1**	**21**	**29**	**6**	**2**	**1 368**
Provisions during the year	6	(42)	(23)	(1)	87	94	1	1	123
Amounts written off as uncollectible	(169)	(6)	(1)	-	(38)	(72)	(4)	(1)	(291)
Effect of translation to functional currency	(29)	(3)	-	-	-	-	-	-	(32)
Effect of translation to presentation currency	75	10	1	-	3	5	(1)	-	93
Provision for loan impairment as at 31 December 2012	**1 044**	**39**	**45**	**-**	**73**	**56**	**2**	**2**	**1 261**

10 Loans and Advances to Customers (Continued)

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

	Corporate loans	Finance lease recei-vables	Loans to SMEs	Advan-ces on lease opera-tions	Loans to individuals				
In millions of US Dollars					Credit cards and PILs	Consu-mer loans	Mortgage loans	Car loans	Total
Provision for loan impairment as at 1 January 2011	**1 098**	**204**	**20**	**2**	**17**	**24**	**10**	**5**	**1 380**
Provisions during the year	148	(81)	52	(1)	33	56	7	1	215
Amounts written off as uncollectible	(38)	(32)	(1)	-	(27)	(46)	(9)	(4)	(157)
Effect of translation to functional currency	8	-	-	-	-	-	-	-	8
Effect of translation to presentation currency	(55)	(11)	(3)	-	(2)	(5)	(2)	-	(78)
Provision for loan impairment as at 31 December 2011	**1 161**	**80**	**68**	**1**	**21**	**29**	**6**	**2**	**1 368**

The provision for loan impairment during 2012 differs from the amount presented in profit or loss for the year due to USD 28 million (2011: USD 67 million) recovery during 2012 of amounts previously written off as uncollectible. This amount was credited directly to the provisions line in profit or loss for the year.

Economic sector risk concentrations within the loans and advances to customers were as follows:

	31 December 2012		31 December 2011	
In millions of US Dollars	**Amount**	**%**	**Amount**	**%**
Trade and commerce	6 994	22	3 614	16
Individuals	4 648	15	2 755	12
Finance and investment companies	2 480	8	2 234	10
Power generation	2 404	8	1 551	7
Ferrous metallurgy	2 327	7	1 870	8
Armament production	1 570	5	1 468	6
Railway transport	1 201	4	929	4
Construction	1 187	4	2 340	10
Food industry	1 183	4	997	4
Coal Industry	882	3	881	4
Mass media and telecommunications	857	3	448	2
Oil industry	856	3	958	4
Non-ferrous metallurgy	788	2	253	1
Machinery and metal working	784	2	233	1
Natural gas industry	652	2	73	-
Aviation transport	530	1	357	1
Chemistry and petrochemistry	384	1	166	1
Agriculture	345	1	285	1
Diamond extraction and processing	305	1	141	1
Nuclear industry	294	1	617	3
Water transport	84	-	103	-
Other	1 070	3	899	4
Total gross loans and advances to customers	**31 825**	**100**	**23 172**	**100**

10 Loans and Advances to Customers (Continued)

As at 31 December 2012 aggregate loans and advances to the ten largest borrowers (or groups of related borrowers) amounted to USD 6 720 million (2011: USD 5 370 million) or 21.1% (2011: 23.2%) of the gross loans and advances to customers, while aggregate loans and advances to the 20 largest borrowers (or groups of related borrowers) amounted to USD 9 787 million (2011: USD 8 291 million) or 30.8% (2011: 35.8%) of the gross loans and advances to customers.

As at 31 December 2012 loans and advances to customers in the total amount of USD 130 million (2011: USD 161 million) were pledged as collateral for the financing received from the State Deposit Insurance Agency (Note 18).

Analysis by credit quality of loans to corporate customers outstanding as at 31 December 2012 was as follows:

In millions of US Dollars	Corporate loans	Reverse sale and repurchase receivables	Finance lease receivables	Loans to SMEs	Advances on lease operations	Total
Neither past due nor impaired						
- A and A-	7 086	28	188	26	9	7 337
- B and B-	7 904	1 242	564	222	6	9 938
- C and C-	7 432	-	197	190	3	7 822
- D	1 403	-	19	20	3	1 445
Total gross neither past due nor impaired	**23 825**	**1 270**	**968**	**458**	**21**	**26 542**
Past due but not impaired						
- less than 30 days overdue	7	-	-	-	-	7
Total gross past due but not impaired	**7**	**-**	**-**	**-**	**-**	**7**
Individually determined to be impaired						
- not past due	209	-	93	2	-	304
- less than 30 days overdue	1	-	-	1	-	2
- 30 to 90 days overdue	5	-	23	1	-	29
- 90 to 180 days overdue	10	-	-	3	-	13
- 180-360 days overdue	56	-	-	1	-	57
- over 360 days overdue	215	-	-	8	-	223
Total gross individually impaired loans	**496**	**-**	**116**	**16**	**-**	**628**
Total gross loans and advances	**24 328**	**1 270**	**1 084**	**474**	**21**	**27 177**
Provision for loan impairment	**(1 044)**	**-**	**(39)**	**(45)**	**-**	**(1 128)**
Total loans and advances to corporate customers	**23 284**	**1 270**	**1 045**	**429**	**21**	**26 049**

Refer to Note 30 for the description of credit quality ratings.

The Group created portfolio provisions for impairment losses that were incurred but have not been specifically identified with any individual loan by the end of reporting period. The Group's policy is to classify each loan as "neither past due nor impaired" until specific objective evidence of impairment of the loan is identified.

10 Loans and Advances to Customers (Continued)

Analysis by credit quality of loans to corporate customers outstanding as at 31 December 2011 was as follows:

In millions of US Dollars	**Corporate loans**	**Reverse sale and repurchase receivables**	**Finance lease receivables**	**Loans to SMEs**	**Advances on lease operations**	**Total**
Neither past due nor impaired						
- A and A-	5 821	-	104	42	1	5 968
- B and B-	6 302	1 041	68	314	3	7 728
- C and C-	4 048	34	365	129	6	4 582
- D	900	-	47	32	-	979
Total gross neither past due nor impaired	**17 071**	**1 075**	**584**	**517**	**10**	**19 257**
Past due but not impaired						
- less than 30 days overdue	25	-	-	23	-	48 -
Total gross past due but not impaired	**25**	**-**	**-**	**23**	**-**	**48**
Individually determined to be impaired						
- not past due	536	-	112	9	-	657
- less than 30 days overdue	49	-	-	-	-	49
- 30 to 90 days overdue	75	-	23	1	-	99
- 90 to 180 days overdue	21	-	-	1	-	22
- 180-360 days overdue	57	-	-	17	-	74
- over 360 days overdue	207	-	-	4	-	211
Total gross individually impaired loans	**945**	-	**135**	**32**	**-**	**1 112**
Total gross loans and advances	**18 041**	**1 075**	**719**	**572**	**10**	**20 417**
Provision for loan impairment	**(1 161)**	**-**	**(80)**	**(68)**	**(1)**	**(1 310)**
Total loans and advances to corporate customers	**16 880**	**1 075**	**639**	**504**	**9**	**19 107**

10 Loans and Advances to Customers (Continued)

Analysis by credit quality of loans to individuals outstanding as at 31 December 2012 was as follows:

In millions of US Dollars	**Credit cards and PILs**	**Consumer loans**	**Morgage loans**	**Car loans**	**Reverse sale and repurchase receivables**	**Total**
Neither past due nor impaired	2 806	1 299	282	38	37	4 462
Total gross neither past due nor impaired	**2 806**	**1 299**	**282**	**38**	**37**	**4 462**
Past due but not impaired						
- less than 30 days overdue	45	28	6	1	-	80
Total gross past due but not impaired	**45**	**28**	**6**	**1**	**-**	**80**
Individually determined to be impaired						
- 30 to 90 days overdue	28	21	4	1	-	54
- 90 to 180 days overdue	26	23	1	-	-	50
- 180 to 360 days overdue	-	-	1	-	-	1
- over 360 days overdue	-	-	1	-	-	1
Total gross individually impaired loans	**54**	**44**	**7**	**1**	**-**	**106**
Total gross loans and advances to individuals	**2 905**	**1 371**	**295**	**40**	**37**	**4 648**
Provision for loan impairment	(73)	(56)	(2)	(2)	-	**(133)**
Total loans and advances to individuals	**2 832**	**1 315**	**293**	**38**	**37**	**4 515**

Neither past due nor impaired loans to individuals represent loans without signs of individual impairment and originated on the basis of defined underwriting procedures (Note 30).

The primary factors that the Group considers in determining whether a loan has become impaired are ability of borrowers to service their debt, loans and interest overdue status and realisability of related collateral, if any.

10 Loans and Advances to Customers (Continued)

Analysis by credit quality of loans to individuals outstanding as at 31 December 2011 was as follows:

In millions of US Dollars	Credit cards and PILs	Consumer loans	Mortgage loans	Car loans	Reverse sale and repurchase receivables	Total
Neither past due nor impaired	1 338	881	307	86	50	2 662
Total gross neither past due nor impaired	**1 338**	**881**	**307**	**86**	**50**	**2 662**
Past due but not impaired						
- less than 30 days overdue	17	19	5	2	-	43
Total gross past due but not impaired	**17**	**19**	**5**	**2**	**-**	**43**
Individually determined to be impaired						
- 30 to 90 days overdue	8	12	3	1	-	24
- 90 to 180 days overdue	7	12	1	1	-	21
- over 360 days overdue	-	-	5	-	-	5
Total gross individually impaired loans	**15**	**24**	**9**	**2**	**-**	**50**
Total gross loans and advances to individuals	**1 370**	**924**	**321**	**90**	**50**	**2 755**
Provision for loan impairment	**(21)**	**(29)**	**(6)**	**(2)**	**-**	**(58)**
Total loans and advances to individuals	**1 349**	**895**	**315**	**88**	**50**	**2 697**

Maturities of gross and net investments in finance lease are analysed as follows:

In millions of US Dollars	Within 1 year	Between 1 and 5 years	More than 5 years	Total
Gross finance lease receivable as at 31 December 2012	**336**	**795**	**458**	**1 589**
Less future finance income on finance leases	(79)	(347)	(79)	(505)
Net investment in finance leases as at 31 December 2012	**257**	**448**	**379**	**1 084**
Gross finance lease receivable as at 31 December 2011	**186**	**555**	**316**	**1 057**
Less future finance income on finance leases	(47)	(229)	(62)	(338)
Net investment in finance leases as at 31 December 2011	**139**	**326**	**254**	**719**

10 Loans and Advances to Customers (Continued)

The financial effect of collateral is presented by disclosing impact of collateral and other credit enhancements on impairment provisions recognised at the end of the reporting period. Without holding collateral and other credit enhancements, the impairment provisions would be higher by the following amounts:

In millions of US Dollars	2012	2011
Corporate loans	505	522
Finance lease receivables	105	93
Loans to small and medium-size enterprises (SMEs)	4	8
Advances on lease operations	-	-
Loans to individuals - Credit cards and personal instalment loans (PILs)	-	-
Loans to individuals - Consumer loans	-	-
Loans to individuals - Car loans	-	-
Total difference on provision for loan impairment	**614**	**623**

Reverse sale and repurchase receivables and mortgage loans are not included in the above table since the Group would not originate these instruments without collateral.

In the normal course of business the Group obtains collateral and/or guarantees and sureties for loans to legal entities. Acceptable collateral includes real estate, property, equipment, inventories, securities, contractual rights and certain other assets. Guarantees and sureties can be provided by controlling shareholders, government entities, banks and other solvent legal entities.

As at 31 December 2012 corporate loans in the amount of USD 8 571 million (2011: USD 4 957 million) were not secured (or were secured by low quality collateral which does not allow to classify the loan as secured using criteria of the Group) and loans in the amount of USD 9 377 million (2011: USD 5 430 million) were secured only by third party guarantees where guarantors are considered to be related to the borrower itself.

As at 31 December 2012 and 2011 most of the loans to small and medium size enterprises were secured by collateral or sureties. Finance lease receivables are secured by the leased equipment the title to which is normally retained by the Group for the duration of the lease. Reverse sale and repurchase agreements are effectively collateralised by securities purchased under those agreements. As at 31 December 2012 reverse sale and repurchase agreements were collateralised by securities purchased with estimated fair value of USD 1 704 million (2011: USD 1 664 million) all of which the Group had the right to sell or repledge.

Credit cards, personal instalment and consumer loans to individuals are not secured. Car loans and mortgage loans to individuals are collateralised respectively by cars and property acquired.

The estimated fair value of loans and advances to customers was as follows:

	2012		2011	
In millions of US Dollars	Fair value	Carrying value	Fair value	Carrying value
Corporate loans	23 000	23 284	16 562	16 880
Loans to individuals - credit cards and PILs	2 922	2 832	1 413	1 349
Loans to individuals - consumer loans	1 419	1 315	1 049	895
Reverse sale and repurchase receivables - corporate customers	1 270	1 270	1 075	1 075
Finance lease receivables	1 050	1 045	628	639
Loans to SMEs	452	429	505	504
Loans to individuals - mortgage loans	257	293	288	315
Reverse sale and repurchase receivables - individuals	37	37	50	50
Loans to individuals - car loans	33	38	82	88
Advances on lease operations	21	21	9	9
Total loans and advances to customers	**30 461**	**30 564**	**21 661**	**21 804**

Refer to Note 35 for the discount rates used for fair value calculation. For the purposes of measurement the Group classified all balances included in loans and advances to customers as loans and receivables. Currency, maturity and interest rate analyses of loans and advances to customers are disclosed in Note 30. The information on related party balances is disclosed in Note 36.

11 Investments

In millions of US Dollars	2012	2011
Debt investments available for sale	1 417	868
Equity investments available for sale	365	298
Equity investments at fair value through profit and loss	104	98
Investments held to maturity	77	117
Total investments	**1 963**	**1 381**

Debt investments available for sale

In millions of US Dollars	2012	2011
Russian Federation Eurobonds	745	-
Bonds of other states	250	47
Corporate Eurobonds	227	324
Russian Federation bonds	95	462
Eurobonds of other states	92	-
Corporate bonds	8	35
Total debt investments available for sale	**1 417**	**868**

Russian Federation Eurobonds are interest-bearing securities denominated in US Dollars and are freely tradable in the Russian Federation and internationally. As at 31 December 2012 these bonds have maturity dates ranging from April 2015 to April 2017, coupon rates from 3.25% to 3.63% p.a. and yields to maturity from 1.2% to 1.7% p.a.

Bonds of other states are interest-bearing securities denominated in US Dollars, issued by government of the United States and freely tradable internationally. As at 31 December 2012 these bonds have maturity dates ranging from May 2017 to September 2017, coupon rates at 0.6% p.a. and yields to maturity from 0.6% to 0.7% p.a.

Corporate Eurobonds are interest-bearing securities denominated in US Dollars, Russian Roubles or Euro, issued mainly by large Russian and Europe companies, and freely tradable internationally. As at 31 December 2012 these bonds have maturity dates ranging from March 2013 to April 2018 (2011: from March 2012 to July 2016), coupon rates from 0.5% to 9.6% p.a. (2011: from 2.6% to 15.0% p.a.) and yields to maturity from 0.2% to 13.6% p.a. (2011: from 2.8% to 12.7% p.a.).

Eurobonds of other states are interest-bearing securities denominated in US Dollars, issued by the Governments of France and Italy and freely tradable internationally. As at 31 December 2012 these bonds have maturity dates ranging from January 2013 to March 2021, coupon rates from 1.8% to 11.0% p.a. and yields to maturity from 0.1% to 7.4% p.a.

As at 31 December 2012 the analysis by credit quality of debt investments available for sale was as follows:

In millions of US Dollars	Russian Federation Eurobonds	Bonds of other states	Corporate Eurobonds	Russian Federation bonds	Eurobonds of other states	Corporate bonds	Total
Neither past due nor impaired (at fair value)							
- limit above USD 100 million	745	250	28	95	76	8	1 202
- limit from USD 50 to 100 million	-	-	122	-	-	-	122
- limit below USD 50 million	-	-	77	-	16	-	93
Total debt investments available for sale	**745**	**250**	**227**	**95**	**92**	**8**	**1 417**

11 Investments (Continued)

As at 31 December 2011 the analysis by credit quality of debt investments available for sale was as follows:

In millions of US Dollars	**Russian Federation bonds**	**Corporate Eurobonds**	**Bonds of other states**	**Corporate bonds**	**Total**
Neither past due nor impaired (at fair value)					
- limit above USD 100 million	462	177	-	24	663
- limit from USD 50 to 100 million	-	71	-	11	82
- limit below USD 50 million	-	76	47	-	123
Total debt investments available for sale	**462**	**324**	**47**	**35**	**868**

Equity investments available for sale

Pamplona Credit Opportunities Fund is a multi-strategy credit fund investing in corporate and structured credit with a European focus. The fund is managed by Pamplona Capital Management LLP, an independent investment manager. The Chief Executive Officer of Pamplona Capital Management LLP was a member of the Board of Directors of Alfa-Bank until December 2012. The Group is an investor in the fund but has no involvement in its management.

Movements in investments available for sale were as follows:

In millions of US Dollars	**2012**	**2011**
Carrying amount at 1 January	**1 166**	**1 687**
Acquisition	1 382	620
Disposals and redemption	(847)	(1 029)
Fair value gains less losses	84	(73)
Interest income accrued	58	105
Interest income received	(67)	(110)
Effect of exchange rates changes	(31)	15
Effect of translation to presentation currency	37	(49)
Carrying amount at 31 December	**1 782**	**1 166**

Investments held to maturity

In millions of US Dollars	**2012**	**2011**
Bonds of other states	54	98
Corporate Eurobonds	23	19
Total investments held to maturity	**77**	**117**

Bonds of other states are interest-bearing securities issued by governments of different European countries. As at 31 December 2012 these bonds have maturity dates ranging from September 2013 to July 2014 (2011: from January 2012 to July 2014) and coupon rates from 3.1% to 4.3% p.a. (2011: from 2.5% to 5.0% p.a.).

As at 31 December 2012 the analysis by credit quality of investments held to maturity was as follows:

In millions of US Dollars	**Bonds of other states**	**Corporate Eurobonds**	**Total**
Neither past due nor impaired			
- limit from USD 50 to 100 million	54	-	54
- limit below USD 50 million	-	23	23
Total investments held to maturity	**54**	**23**	**77**

11 Investments (Continued)

As at 31 December 2011 the analysis by credit quality of investments held to maturity was as follows:

In millions of US Dollars	Bonds of other states	Corporate Eurobonds	Total
Neither past due nor impaired			
- limit from USD 50 to 100 million	58	-	58
- limit below USD 50 million	40	19	59
Total investments held to maturity	**98**	**19**	**117**

There were no provisions for impairment of investments held to maturity as at 31 December 2012 and 2011.

As at 31 December 2012 and 2011 the fair value of each class of investments held to maturity approximated their carrying value. Refer to Note 35.

Equity investments at fair value through profit or loss

Equity investments at fair value through profit or loss are those designated in this category at inception and represented mainly by the Group's non-controlling interest in OJSC "Moscow Exchange MICEX-RTS", which was sold during the IPO in February 2013 at value approximating its carrying value as at 31 December 2012.

Gains less losses arising from investments

The table below represents an analysis of gains less losses arising from investments:

In millions of US Dollars	2012	2011
Gains less losses from equity investments designated at fair value through profit or loss	1	45
Gains less losses on disposed investments available for sale	(4)	4
Total gains less losses arising from investments	**(3)**	**49**

Currency, maturity and interest rate analyses of investments are disclosed in Note 30. Information on related party balances is disclosed in Note 36.

12 Other Financial Assets

In millions of US Dollars	Note	2012	2011
Derivative financial instruments	34	427	226
Receivables on operations with securities		47	124
Restricted cash		18	19
Receivables at fair value through profit or loss		16	15
Plastic card debtors		13	4
Trade debtors		5	179
Other		43	20
Less: Provision for impairment		(14)	(11)
Total other financial assets		**555**	**576**

As at 31 December 2012 derivative financial instruments included USD 294 million (2011: USD 123 million) related to instruments contracted with large international banks.

As at 31 December 2012 the Group held margin call deposits pledged by its counterparties as collateral under transactions with derivative financial instruments and operations with securities. Refer to Notes 15 and 16.

12 Other Financial Assets (Continued)

Movements in the provision for impairment of other financial assets were as follows:

In millions of US Dollars	2012	2011
Provision for impairment as at 1 January	**11**	**22**
Provision for impairment during the year	13	(6)
Amounts written off during the year as uncollectible	(10)	(5)
Provision for impairment as at 31 December	**14**	**11**

Analysis by credit quality of other financial assets outstanding as at 31 December 2012 was as follows:

In millions of US Dollars	Derivative financial instruments	Receivables on operations with securities	Restricted cash	Receivables at fair value through profit and loss	Plastic card debtors	Trade debtors	Other	Total
Neither past due nor impaired with credit history	427	47	-	16	-	-	25	515
Neither past due nor impaired without credit history	-	-	-	-	8	5	14	27
Not past due, but impaired	-	-	18	-	-	-	-	18
Past due and impaired	-	-	-	-	5	-	4	9
Total gross other financial assets	**427**	**47**	**18**	**16**	**13**	**5**	**43**	**569**
Provision for impairment	-	-	(5)	-	(5)	-	(4)	(14)
Total other financial assets	**427**	**47**	**13**	**16**	**8**	**5**	**39**	**555**

Analysis by credit quality of other financial assets outstanding as at 31 December 2011 was as follows:

In millions of US Dollars	Derivative financial instruments	Receivables on operations with securities	Restricted cash	Receivables at fair value through profit and loss	Plastic card debtors	Trade debtors	Other	Total
Neither past due nor impaired with credit history	226	124	-	15	-	84	11	460
Neither past due nor impaired without credit history	-	-	-	-	4	94	5	103
Not Past due but impaired	-	-	19	-	-	-	-	19
Past due and impaired	-	-	-	-	-	1	4	5
Total gross other financial assets	**226**	**124**	**19**	**15**	**4**	**179**	**20**	**587**
Provision for impairment	-	-	(6)	-	-	(1)	(4)	(11)
Total other financial assets	**226**	**124**	**13**	**15**	**4**	**178**	**16**	**576**

“Entities with credit history" are those entities of which the Group is aware of their credit history over more than one year.

12 Other Financial Assets (Continued)

As at 31 December 2012 and 2011 the fair value of each class of financial assets included in other financial assets approximated their carrying value. Refer to Note 35.

For the purposes of measurement the Group classified all balances included in other financial assets, except for derivative financial instruments and receivables at fair value through profit or loss, as loans and receivables. Refer to Note 34 for information on derivative financial instruments. Currency and maturity analyses of other financial assets are disclosed in Note 30. The information on related party balances is disclosed in Note 36.

13 Other Assets

In millions of US Dollars	2012	2011
Prepayments	120	-
Prepayment of taxes, other than on income	77	57
Goodwill	64	60
Computer software	43	34
Prepayment of current income tax	29	29
Customer relationship	21	28
Repossessed collateral	21	13
Less: Provision for impairment	(11)	-
Total other assets	**364**	**221**

Movements in the provision for impairment of other assets were as follows:

In millions of US Dollars	2012	2011
Provision for impairment as at 1 January	**-**	**-**
Provision for impairment during the year	11	-
Provision for impairment as at 31 December	**11**	**-**

Movements in intangible assets during 2012 were as follows:

In millions of US Dollars	Goodwill	Customer relationship	Computer software	Total
Carrying amount as at 1 January 2012	**60**	**28**	**34**	**122**
Cost				
Opening balance	60	72	114	246
Additions	-	-	28	28
Disposals	-	-	(5)	(5)
Translation movement	4	4	5	13
Closing balance	**64**	**76**	**142**	**282**
Accumulated depreciation				
Opening balance	-	44	80	124
Amortisation (Note 27)	-	8	16	24
Disposals	-	-	(1)	(1)
Translation movement	-	3	4	7
Closing balance	**-**	**55**	**99**	**154**
Carrying amount as at 31 December 2012	**64**	**21**	**43**	**128**

13 Other Assets (Continued)

Movements in intangible assets during 2011 were as follows:

In millions of US Dollars	Goodwill	Customer relationship	Computer software	Banking license	Total
Carrying amount as at 1 January 2011	**64**	**40**	**23**	**3**	**130**
Cost					
Opening balance	64	76	94	3	237
Additions	-	-	26	-	26
Disposals	-	-	(2)	(3)	(5)
Translation movement	(4)	(4)	(4)	-	(12)
Closing balance	**60**	**72**	**114**	**-**	**246**
Accumulated depreciation					
Opening balance	-	36	71	-	107
Amortisation (Note 27)	-	11	13	-	24
Translation movement	-	(3)	(4)	-	(7)
Closing balance	**-**	**44**	**80**	**-**	**124**
Carrying amount as at 31 December 2011	**60**	**28**	**34**	**-**	**122**

The recoverable amount of goodwill for the purposes of impairment testing was estimated based on value in use calculation.

14 Premises and Equipment

In millions of US Dollars	Premises	Leasehold improve-ments	Office and computer equipment	Construc-tion in progress	Total
Carrying amount as at 31 December 2011	**190**	**2**	**134**	**14**	**340**
Cost					
Opening balance	227	25	226	14	492
Additions	22	5	92	120	239
Disposals	(1)	(2)	(14)	-	(17)
Translation movement	15	1	12	1	29
Closing balance	**263**	**29**	**316**	**135**	**743**
Accumulated depreciation					
Opening balance	37	23	92	-	152
Depreciation (Note 27)	5	4	33	-	42
Disposals	-	(2)	(14)	-	(16)
Translation movement	2	1	3	-	6
Closing balance	**44**	**26**	**114**	**-**	**184**
Carrying amount as at 31 December 2012	**219**	**3**	**202**	**135**	**559**

Premises have been recorded at fair value as at December 2012 and 2011. The valuation is based on the report of an independent firm of valuers, 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. The market value of premises was assessed using the sales comparison method.

Included in the above carrying amount is USD 31 million (2011: USD 34 million) representing revaluation surplus relating to premises of the Group. As at 31 December 2012 the carrying amount of premises would have been USD 188 million (2011: USD 156 million) had the assets been carried at cost less depreciation.

14 Premises and Equipment (Continued)

Construction in progress consists mainly of an office building acquired by the Group in 2012 for future own use.

In millions of US Dollars	Premises	Leasehold improve-ments	Equipment under operating leases	Office and computer equipment	Construc-tion in progress	Total
Carrying amount as at 31 December 2010	**158**	**3**	**5**	**130**	**8**	**304**
Cost						
Opening balance	191	24	5	210	8	438
Additions	47	2	-	44	6	99
Disposals	-	-	(5)	(19)	-	(24)
Translation movement	(11)	(1)	-	(9)	-	(21)
Closing balance	**227**	**25**	**-**	**226**	**14**	**492**
Accumulated depreciation						
Opening balance	33	21	-	80	-	134
Depreciation (Note 27)	6	3	-	36	-	45
Disposals	-	-	-	(17)	-	(17)
Translation movement	(2)	(1)	-	(7)	-	(10)
Closing balance	**37**	**23**	**-**	**92**	**-**	**152**
Carrying amount as at 31 December 2011	**190**	**2**	**-**	**134**	**14**	**340**

15 Due to Other Banks

In millions of US Dollars	2012	2011
Correspondent accounts and overnight placements of other banks		
- Russian Federation	308	128
- Other countries	102	42
Term placements of other banks	3 220	1 425
Sale and repurchase agreements	1 872	789
Total due to other banks	**5 502**	**2 384**

As at 31 December 2012 the ten largest aggregate balances due to other banks amounted to USD 3 359 million (2011: USD 1 553 million) or 61.1% (2011: 65.1%) of total due to other banks, of which USD 1 412 million (2011: USD 214 million) represented balances outstanding to the CBRF.

As at 31 December 2012 sale and repurchase agreements with CBRF and other banks were effectively secured by trading securities in the amount of USD 1 869 million (2011: USD 568 million) (Note 8) and trading securities purchased under reverse sale and repurchase agreements with a fair value of USD 685 million (2011: USD 375 million). As at 31 December 2012 balances outstanding to CBRF were mainly represented by sale and repurchase agreements in the amount USD 1 408 million (2011: USD 203 million).

As at 31 December 2012 included within term placements of other banks are margin call deposits in the amount of USD 140 million (2011: USD 48 million) received by the Group as collateral under transactions with derivatives and operations with securities with other banks.

As at 31 December 2012 and 2011 the fair value of each class of financial liabilities included in due to other banks approximated their carrying value. As at 31 December 2012 the estimated fair value of due to other banks was USD 5 502 million (2011: USD 2 384 million). Refer to Note 35.

Currency, maturity and interest rate analyses of due to other banks are disclosed in Note 30. The information on related party balances is disclosed in Note 36.

16 Customer Accounts

In millions of US Dollars	2012	2011
Commercial organisations		
- Current/settlement accounts	3 894	3 002
- Term deposits	8 354	4 546
Individuals		
- Current/demand accounts	6 595	4 993
- Term deposits	5 594	4 359
State and public organisations		
- Current/settlement accounts	11	84
- Term deposits	2 394	1 270
Total customer accounts	**26 842**	**18 254**

Economic sector concentrations within customer accounts were as follows:

	2012		2011	
In millions of US Dollars	Amount	%	Amount	%
Individuals	12 189	45	9 352	51
Finance and investment companies	5 325	20	2 972	16
State and public organisations	2 405	9	1 354	7
Manufacturing	1 546	6	1 028	6
Trade and commerce	1 285	5	1 285	7
Energy and oil and gas	1 146	4	640	4
Transport	278	1	114	1
Mass media and telecommunication	160	1	273	1
Other	2 508	9	1 236	7
Total customer accounts	**26 842**	**100**	**18 254**	**100**

As at 31 December 2012 the aggregate balances of ten largest customers (or groups of related customers) amounted to USD 6 526 million (2011: USD 4 612 million) or 24.3% (2011: 25.3%) of the total customer accounts, of which USD 3 273 million (2011: USD 2 435 million) represented balances outstanding to Alfa Group, its associates, joint ventures and its shareholders (Note 36).

Included in customer accounts are balances in the amount of USD 74 million (2011: USD 13 million) held as collateral for irrevocable commitments under import letters of credit. Refer to Note 32.

As at 31 December 2012 included within customer accounts are margin call deposits in the amount of USD 241 million (2011: USD 219 million) received by the Group as collateral under transactions with derivatives and operations with securities with customers.

As at 31 December 2012 sale and repurchase agreements in the amount of USD 36 million (2011: USD 8 million) were effectively secured by trading securities purchased under reverse sale and repurchase agreements with a fair value of USD 40 million (2011: USD 7 million).

As at 31 December 2012 and 2011 the fair values of customer accounts (Note 35) were as follows:

	2012		2011	
In millions of US Dollars	Fair value	Carrying value	Fair value	Carrying value
Commercial organisations				
- Current/settlement accounts	3 894	3 894	3 002	3 002
- Term deposits	8 336	8 354	4 591	4 546
Individuals				
- Current/demand accounts	6 595	6 595	4 993	4 993
- Term deposits	5 606	5 594	4 369	4 359
State and public organisations				
- Current/settlement accounts	11	11	84	84
- Term deposits	2 395	2 394	1 271	1 270
Total customer accounts	**26 837**	**26 842**	**18 310**	**18 254**

Currency, maturity and interest rate analyses of customer accounts are disclosed in Note 30. The information on related party balances is disclosed in Note 36.

17 Debt Securities Issued

In millions of US Dollars	**2012**	**2011**
Promissory notes	1 813	1 125
Notes maturing in 2017	1 014	989
Notes maturing in 2021	1 009	977
Rouble denominated bonds	766	285
Notes maturing in 2015	591	587
Euro Commercial Paper Notes	463	-
Euro Medium Term Notes maturing in 2013	293	294
Euro Medium Term Notes maturing in 2012	-	346
Notes issued under the DPR Programme	-	16
Total debt securities issued	**5 949**	**4 619**

Promissory notes comprise of securities in Russian Roubles, US Dollars and Euros issued by the Group with a discount to face value or with interest accrual and bear an effective interest rate from 0.0% p.a to 12.3% p.a depending on the type of issue and currency of the security (2011: from 0.0% p.a. to 14.3% p.a.). As at 31 December 2012 these promissory notes have maturity dates ranging January 2013 to May 2025 (2011: from January 2012 to May 2025).

On 24 September 2010 the Group issued USD 1 000 million Notes with maturity date on 25 September 2017 and interest rate of 7.875% p.a. The issue proceeds net of transaction costs were equal to USD 996 million and effective rate at origination was 8.11% p.a. As at 31 December 2012 balance of notes repurchased by the Group on the market amounted to USD 4 million at amortised cost (2011: USD 28 million).

On 28 April 2011 the Group issued USD 1 000 million Notes with maturity date on 28 April 2021 and interest rate of 7.75% p.a. The issue proceeds net of transaction costs were equal to USD 997 million and effective rate at origination was 7.94% p.a. As at 31 December 2012 balance of notes repurchased by the Group on the market amounted to USD 1 million (2011: USD 33 million) at amortised cost.

On 18 March 2010 the Group issued USD 600 million Notes with maturity date on 18 March 2015 and interest rate of 8.0% p.a. The issue proceeds net of transaction costs were equal to USD 597 million and effective interest rate at origination was 8.29% p.a. As at 31 December 2012 balance of notes repurchased by the Group on the market amounted to USD 21 million at amortised cost (2011: USD 24 million).

On 9 December 2011 the Group issued RR 5 000 million (equivalent of USD 160 million) bonds with maturity date on 2 December 2016 and interest rate of 9.25% p.a. The issue proceeds net of transaction costs were equal to RR 4 998 million (equivalent of USD 160 million) and effective interest rate at origination was 9.48% p.a. The bonds are puttable at nominal on 11 June 2013. As at 31 December 2011 balance of bonds repurchased by the Group on the market amounted to USD 32 million.

On 2 February 2011 the Group issued RR 5 000 million (equivalent of USD 169 million) bonds with maturity date on 2 February 2016 and interest rate of 8.25% p.a. The issue proceeds net of transaction costs were equal to RR 4 997 million (equivalent of USD 169 million) and effective interest rate at origination was 8.43% p.a. The bonds are puttable at nominal value on 6 February 2014.

On 31 August 2012 the Group issued RR 5 000 million (equivalent of USD 155 million) bonds with maturity date on 31 August 2015 and interest rate of 8.6% p.a. The issue proceeds net of transaction costs were equal to RR 4 999 million (equivalent of USD 155 million) and effective interest rate at origination was 8.8% p.a. The bonds are puttable at nominal value on 4 March 2014.

On 28 September 2012 the Group issued RR 10 000 million (equivalent of USD 321 million) bonds with maturity date on 28 September 2015 and interest rate of 8.45% p.a. The issue proceeds net of transaction costs were equal to RR 9 999 million (equivalent of USD 323 million) and effective interest rate at origination was 8.63% p.a. The bonds are puttable at nominal value on 1 October 2013. As at 31 December 2012 balance of bonds repurchased by the Group on the market amounted to USD 75 million at amortised cost.

17 Debt Securities Issued (Continued)

On 22 June 2004 the Group established a Euro Medium Term Note Programme (the "MTN Programme") with a limit of the aggregate principal amount of outstanding notes issued under the MTN Programme of USD 1 000 million which was increased in November 2006 to USD 2 000 million. On 24 June 2008 the Group issued USD 400 million notes under the MTN Programme with maturity date on 24 June 2013 and interest rate of 9.25% p.a. The issue proceeds net of transaction costs were equal to USD 398 million and the effective interest rate at origination was 9.6% p.a. As at 31 December 2012 the balance of notes issued under the MTN Programme and repurchased by the Group on the market amounted to USD 107 million at amortised cost (2011: USD 105 million).

On 2 February 2012 the Group established a new Euro Commercial Paper Programme (the "ECP Programme") with a limit of the aggregate principal amount of outstanding notes issued under the ECP Programme of USD 1 400 million. Notes issued under ECP Programme are repayable in 364 days from the issue date.

The details of Notes outstanding as at 31 December 2012 are disclosed below:

Currency of denomination	Nominal value of the issue	Issue proceeds net of transaction costs	Amortised cost as at 31 December 2012	Issue date	Maturity date	Zero-coupon bonds, yield at pricing
USD	200	190	187	14 June 2012	18 June 2013	4.88%
USD	100	96	98	18 July 2012	22 July 2013	4.00%
USD	140	135	128	11 September 2012	13 September 2013	3.88%
USD	51	50	50	20 December 2012	23 September 2013	3.63%

As at 31 December 2012 the balance of notes issued under ECP Programme and repurchased by the Group on the market amounted to USD 16 million at amortised cost (2011: nil).

As at 31 December 2012 and 2011 the fair values of debt securities issued determined using either market price if security is quoted or estimated using valuation techniques (Note 35) if security is unquoted were as follows:

	2012		2011	
In millions of US Dollars	Fair value	Carrying value	Fair value	Carrying value
Promissory notes	1 800	1 813	1 121	1 125
Notes maturing in 2017	1 140	1 014	949	989
Notes maturing in 2021	1 128	1 009	876	977
Rouble denominated bonds	770	766	285	285
Notes maturing in 2015	645	591	598	587
Euro Commercial Paper Notes	460	463	-	-
Euro Medium Term Notes maturing in 2013	305	293	311	294
Euro Medium Term Notes maturing in 2012	-	-	354	346
Notes issued under the DPR Programme	-	-	16	16
Total debt securities issued	**6 248**	**5 949**	**4 510**	**4 619**

Currency, maturity and interest rate analyses of debt securities issued are disclosed in Note 30.

18 Syndicated and Other Debt

In millions of US Dollars	Note	2012	2011
Loan from the State Deposit Insurance Agency maturing on 9 December 2013 (secured by loans to customers)	10	125	149
Syndicated loan maturing on 21 December 2012		-	247
Total syndicated and other debt		**125**	**396**

As at 31 December 2012 the estimated fair value of syndicated and other debt was USD 125 million (2011: USD 396 million). Refer to Note 35 for the discount rates used for fair value calculation. Currency, maturity and interest rate analyses of syndicated and other debt are disclosed in Note 30.

19 Subordinated Debt

In millions of US Dollars	2012	2011
Subordinated loan from VEB maturing in 2020	854	797
Subordinated loan from VEB maturing in 2019	316	296
Subordinated notes maturing in 2019	750	-
Subordinated notes maturing in 2017	250	242
Total subordinated debt	**2 170**	**1 335**

In 2008 the Russian government provided assistance to the Russian financial system by instructing the Russian State Corporation Bank Razvitiya i Vneshneekonomicheskoy Deyatelnosti ("VEB") to grant subordinated loans to selected banks.

On 29 January 2009 the Group received a subordinated loan from VEB in the amount of RR 10 201 million (equivalent of USD 307 million) bearing a fixed interest rate of 8% per annum payable quarterly until maturity on 25 December 2019, followed by the second tranche of that subordinated loan in the amount of RR 231 million (equivalent of USD 8 million) received on 19 October 2009.

In October 2009 the Group received another subordinated loan from VEB in the amount of RR 29 181 million (equivalent of USD 994 million) bearing a fixed interest rate of 9.5% per annum plus a fee of 0.03% per annum, which matures on 25 December 2020.

The Group has an option to repay these loans at any time subject to approvals from the CBRF and VEB.

Since 25 August 2010 the interest rates on the above subordinated loans were reduced from 8% per annum to 6.5% per annum on the loan maturing on 25 December 2019 and from 9.5% per annum to 7.5% per annum on the loan maturing on 25 December 2020. All other terms of these loans remain unchanged.

The Group accounted for such reduction in accordance with IAS 20 "Accounting for Government Grants and Disclosure of Government Assistance". The revised carrying value of the loans as at 25 August 2010 of USD 1 148 million represented the future revised cash flows relating to the loans discounted at the loans' original effective interest rates. The difference in the amount of USD 157 million between the previous and revised carrying value of the loans was recorded on 25 August 2010 as government grant deferred income within other liabilities and is amortised through interest expense until the loans' maturity dates.

In accordance with the terms of the loan agreements Alfa-Bank is required (i) to maintain a portfolio of loans with a term of not less than six months issued to priority sectors of economy in Russia in the amount of the January 2009 subordinated loan outstanding; (ii) to maintain a portfolio of loans with a term of not less than one year issued to priority sectors of the economy in Russia in the amount of the October 2009 subordinated loan outstanding at interest rates less than or equal to the CBRF refinancing rate plus three percent; (iii) to obtain approval from VEB for certain significant transactions and (iv) to include VEB nominees in Alfa-Bank's management bodies.

On 26 September 2012 the Group issued subordinated notes in the amount of USD 750 million. The notes bear a fixed interest rate of 7.50% per annum payable semi-annually from the issuance until maturity on 26 September 2019. The issue proceeds net of transaction costs were equal to USD 748 million and effective interest rate at origination was 7.71% per annum. As at 31 December 2012 balance of bonds repurchased by the Group on the market amounted to USD 13 million at amortised cost.

On 22 February 2007 the Group issued subordinated notes in the amount of USD 300 million. The notes bear a fixed interest rate of 8.64% per annum payable semi-annually from the issuance until 22 February 2012 and a floating interest rate thereafter set at the US Treasury Rate plus 5.46% per annum payable semi-annually until maturity on 22 February 2017. The Group had an option to repay these notes at nominal on 22 February 2012. The Group has not exercised the option. The issue proceeds in 2007 net of transaction costs were equal to USD 299 million and effective interest rate at origination was 9.0% per annum. As at 31 December 2012 balance of bonds repurchased by the Group on the market amounted to USD 57 million at amortised value (2011: USD 67 million).

19 Subordinated Debt (Continued)

As at 31 December 2012 and 2011 the fair value of subordinated debt determined using a market price if the security is quoted or estimated using valuation techniques (Note 35) for unquoted loans was as follows:

	2012		2011	
In millions of US Dollars	Fair value	Carrying value	Fair value	Carrying value
Fair value determined using valuation techniques				
Subordinated loan from VEB maturing in 2020	854	854	797	797
Subordinated loan from VEB maturing in 2019	316	316	296	296
Fair value determined using a market price				
Subordinated notes maturing in 2019	801	750	-	-
Subordinated notes maturing in 2017	258	250	217	242
Total subordinated debt	**2 229**	**2 170**	**1 310**	**1 335**

Currency, maturity and interest rate analyses of subordinated debt are disclosed in Note 30.

20 Other Financial Liabilities

In millions of US Dollars	Note	2012	2011
Derivative financial instruments	34	450	344
Payable on operations with securities		92	58
Trade creditors		67	39
Provision for losses on credit related commitments	32	37	17
Plastic card and other settlements with clients		12	8
Other		83	67
Total other financial liabilities		**741**	**533**

As at 31 December 2012 and 2011 the fair value of each class of financial liabilities included in other financial liabilities approximated their carrying value. As at 31 December 2012 the estimated fair value of other financial liabilities was USD 741 million (2011: USD 533 million). Refer to Note 35.

Currency and maturity analyses of other financial liabilities are disclosed in Note 30. The information on related party balances is disclosed in Note 36.

21 Other Liabilities

In millions of US Dollars	2012	2011
Accrued staff costs	185	150
Government grant (Note 19)	134	139
Taxation payable, other than on income	17	26
Current income tax payable	15	38
Other	10	-
Total other liabilities	**361**	**353**

22 Share Capital

As at 31 December 2012, 2011 and 2010 authorised, issued and fully paid share capital of ABH Financial Limited comprised 1 264 800 000 ordinary shares. All shares have a nominal value of USD 1 per share and rank equally. Each share carries one vote.

In December 2012 the Company declared dividends of USD 182 million (approximately USD 0.14 per share). By 31 December 2012 this liability was settled by (i) netting with accounts receivable from ABH Russia Limited (Note 1) in the amount of USD 49 million, (ii) transfer of USD 40 million receivable from ADA Group (Note 36) and (iii) transfer of USD 93 million receivable from ABH Holdings (Note 33).

In December 2011 the Company declared dividends of USD 131 million (approximately USD 0.10 per share). On 31 December 2011 dividends payable to ABH Russia Limited were netted against accounts receivable from ABH Russia Limited.

In December 2012 in the course of restructuring of indebtedness of ADA Group the Group waived its right for USD 26 million receivable from ADA Group. Since the transaction was performed between companies under common control and with same effective ownership the Group treated this transaction as other distribution to shareholders and recorded this amount directly in equity.

23 Net Margin

In millions of US Dollars	2012	2011
Interest income		
Loans and advances to corporate customers	2 033	1 683
Loans and advances to individuals	785	581
Trading securities and repurchase receivables	157	163
Due from other banks	74	86
Debt investments available for sale	58	105
Debt investments held to maturity	3	7
Total interest income	**3 110**	**2 625**
Interest expense		
Term deposits of legal entities	(394)	(335)
Debt securities issued	(352)	(344)
Term deposits of individuals	(236)	(210)
Due to other banks	(168)	(74)
Subordinated debt	(123)	(119)
Current/settlement accounts	(104)	(74)
Syndicated and other debts	(18)	(13)
Total interest expense	**(1 395)**	**(1 169)**
Expenses directly attributable to leasing and deposit insurance	(37)	(42)
Net margin	**1 678**	**1 414**

Expenses directly attributable to leasing and deposit insurance include property tax and insurance costs relating to the finance lease operations which are directly attributable to finance leasing operations and regular contributions to the State Deposit Insurance Agency.

Refer to Note 36 for details of related party transactions.

24 Fee and Commission Income and Expense

In millions of US Dollars	2012	2011
Fee and commission income		
Commission on settlement transactions	512	423
Agency commission on insurance operations	84	62
Commission on guarantees issued	72	39
Commission on cash and foreign currency exchange transactions	62	49
Commission for consulting services	13	19
Commission on transactions with securities	7	10
Commission from fiduciary activities	3	3
Other	16	12
Total fee and commission income	**769**	**617**
Fee and commission expense		
Commission on settlement transactions	(155)	(132)
Commission for consulting services	(12)	(9)
Commission on cash and foreign currency exchange transactions	(9)	(9)
Commission on transactions with securities	(3)	(4)
Commission from fiduciary activities	(1)	(1)
Other	(9)	(7)
Total fee and commission expense	**(189)**	**(162)**
Net fee and commission income	**580**	**455**

Refer to Note 36 for details of related party transactions.

25 Gains Less Losses Arising from Foreign Currencies and Precious Metals

In millions of US Dollars	2012	2011
Term deals	3	(160)
Spot deals	12	74
Foreign exchange translation gains less losses	(59)	68
Total gains less losses arising from foreign currencies and precious metals	**(44)**	**(18)**

26 Other Operating Income

In millions of US Dollars	2012	2011
Gains from sale of acquired distressed receivables	10	8
Gains from sale of repossessed collateral and non-core assets	4	3
Dividend income	1	1
Gain from sale of acquiring business	-	12
Other	17	5
Total other operating income	**32**	**29**

Refer to Note 36 for details of related party transactions.

27 Operating Expenses

In millions of US Dollars	2012	2011
Staff costs	630	556
Rent	99	87
Computer and telecommunications expenses	43	48
Depreciation of premises and equipment (Note 14)	42	45
Expenses related to premises and equipment	40	52
Consulting and professional services	36	32
Maintenance	32	30
Administrative expenses	29	24
Advertising and marketing	25	33
Amortisation of intangible assets (Note 13)	24	24
Taxes other than income tax	6	10
Travel expenses	6	6
Other	27	30
Total operating expenses	**1 039**	**977**

Staff costs include contributions to the Russian state pension plan made by the Group for its personnel employed in Russia in the amount of USD 85 million (2011: USD 61 million). The state pension plan is classified as a defined contribution plan because the Group does not have any legal or constructive obligation to make further contributions if the state pension plan would not hold sufficient assets to pay all employee benefits relating to employees' past service. Included within staff costs are long-term bonuses in the amount of USD 49 million (2011: USD 47 million).

Refer to Note 36 for details of related party transactions.

28 Income Taxes

Income tax expense comprises the following:

In millions of US Dollars	2012	2011
Current tax	212	161
Deferred tax	28	(40)
Income tax expense for the year	**240**	**121**

The statutory income tax rate applicable to the majority of Alfa-Bank's income is 20% (2011: 20%). The income tax rate applicable to the majority of income from investment banking operations ranges from 0% to 15% (2011: from 0% to 15%).

In millions of US Dollars	2012	2011
IFRS profit before tax	**1 069**	**762**
Theoretical tax charge at the statutory rate (2012: 20%; 2011: 20%)	214	152
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Non-deductible expenses	28	19
- Net result on activities taxed at different rates	(2)	(20)
- Credit for excess prior year tax charge	-	(21)
- Use of unrecognised tax loss carry forwards	-	(9)
Income tax expense for the year	**240**	**121**

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

28 Income Taxes (Continued)

In millions of US Dollars	31 December 2011	Translation movement recorded in other comprehen-sive income	Recorded in profit or loss	Recorded in other comprehen-sive income	31 December 2012
Tax effect of deductible temporary differences					
Accruals	50	3	5	-	58
Investments available for sale	2	-	-	(2)	-
Tax loss carry forwards	28	1	(19)	-	10
Trading securities	21	-	(19)	-	2
Other impairment provisions	5	-	7	-	12
Derivative financial instruments	19	1	(4)	-	16
Gross deferred tax asset	**125**	**5**	**(30)**	**(2)**	**98**
Deferred tax netted off within individual entities	(121)	-	23	-	(98)
Deferred tax asset	**4**	**5**	**(7)**	**(2)**	**-**
Tax effect of taxable temporary differences					
Premises and equipment	(52)	(3)	(2)	-	(57)
Intangible assets and other fair value adjustments	(5)	-	1	-	(4)
Investment available for sale	-	-	-	(3)	(3)
Investments at fair value through profit and loss	(15)	(1)	2	-	(14)
Provision for loan impairment	(98)	(6)	(6)	-	(110)
Other	(7)	-	7	-	-
Gross deferred tax liability	**(177)**	**(10)**	**2**	**(3)**	**(188)**
Deferred tax netted off within individual entities	121	-	(23)	-	98
Deferred tax liability	**(56)**	**(10)**	**(21)**	**(3)**	**(90)**
Total net deferred tax liability	**(52)**	**(5)**	**(28)**	**(5)**	**(90)**

28 Income Taxes (Continued)

In millions of US Dollars	31 December 2010	Translation movement recorded in other comprehen-sive income	Business combi-nations	Recorded in profit or loss	Recorded in other comprehen-sive income	31 December 2011
Tax effect of deductible temporary differences						
Accruals	44	(3)	-	9	-	50
Investments available for sale	-	-	-	-	2	2
Tax loss carry forwards	28	(2)	-	2	-	28
Fair value adjustments on origination of financial assets	3	-	-	(3)	-	-
Trading securities	4	(2)	-	19	-	21
Other impairment provisions	6	-	-	(1)	-	5
Derivative financial instruments	3	(2)	-	18	-	19
Gross deferred tax asset	**88**	**(9)**	**-**	**44**	**2**	**125**
Deferred tax netted off within individual entities	(43)	-	-	(78)	-	(121)
Deferred tax asset	**45**	**(9)**	**-**	**(34)**	**2**	**4**
Tax effect of taxable temporary differences						
Premises and equipment	(39)	3	(6)	(10)	-	(52)
Intangible assets and other fair value adjustments	(7)	-	-	2	-	(5)
Investment available for sale	(11)	-	-	6	5	-
Investments at fair value through profit and loss	(14)	1	-	(2)	-	(15)
Provision for loan impairment	(111)	5	-	8	-	(98)
Other	-	1	-	(8)	-	(7)
Gross deferred tax liability	**(182)**	**10**	**(6)**	**(4)**	**5**	**(177)**
Deferred tax netted off within individual entities	43	-	-	78	-	121
Deferred tax liability	**(139)**	**10**	**(6)**	**74**	**5**	**(56)**
Total net deferred tax liability	**(94)**	**1**	**(6)**	**40**	**7**	**(52)**

In the context of the Group's current structure, tax losses and current tax assets of different companies may not be offset against current tax liabilities and taxable profits of other companies and, accordingly, taxes may accrue even where there is a net consolidated tax loss. Therefore, a deferred tax asset of one company of the Group may not be offset against a deferred tax liability of another company.

29 Segment Analysis

The Group's reportable segments are strategic business units that offer different products and services:

- Corporate and investment banking - comprises corporate lending, leasing, corporate deposit services, trade finance operations and structured corporate lending, securities trading, debt and equity capital markets services, derivative products, corporate finance advisory services and merger and acquisition advice.

29 Segment Analysis (Continued)

- Retail banking - comprises retail demand and term deposit services, credit and debit card services, retail lending (including consumer loans and personal instalment loans, car loans and mortgages), money transfers and private banking services.
- Treasury - comprises the Group's wholesale funding, internal funding reallocation, liquidity and risk management activities.

These segments are managed separately because each of them requires formulating a different strategy and uses different operational platforms. The Group evaluates segment performance on the basis of profit or loss before tax. Segment performance is regularly reviewed by the Group's Chief Operating Decision Maker ("CODM"). The CODM has been identified as the members of the Group's Executive Board.

The accounting policies of the operating segments are materially the same as those described in the summary of significant accounting policies except for: (i) the fair value changes in available for sale securities that are reported within the segments' profits or losses rather than in other comprehensive income; (ii) use of a transfer pricing system, (iii) different classification of certain lines of income and expenses and (iv) some balances and operations are excluded from segment analysis since they are monitored separately and on a less regular basis (including situations when balance is not allocated and related income or expense are allocated for the segment analysis and vice versa). In accordance with the transfer pricing system used by the Group funds are generally reallocated at internal interest rates set by the Treasury Department of the Group, which are determined by reference to market interest rate benchmarks, contractual maturities for loans and observed actual maturities of customer accounts balances.

Segment information for the reportable segments of the Group for the year ended 31 December 2012 is set out below:

Segment assets and liabilities are reported to the CODM net of inter-segment assets and liabilities.

In millions of US Dollars	**Corporate and Investment banking**	**Retail banking**	**Treasury**	**Total**
2012				
Segment revenues				
External revenues				
Interest income	2 090	767	100	2 957
Fee and commission income	206	534	13	753
Other operating income	31	9	1	41
Total external revenues	**2 327**	**1 310**	**114**	**3 751**
Interest income from other segments	648	554	2 595	3 797
Total segment revenues	**2 975**	**1 864**	**2 709**	**7 548**
Interest expense to other segments	(1 436)	(354)	(2 012)	(3 802)
Gains less losses from investments	24	-	5	29
Gains less losses from foreign currencies and precious metals	60	1	(129)	(68)
Interest expense	(483)	(307)	(579)	(1 369)
Provision for loan impairment	59	(157)	-	(98)
Fee and commission expense	(21)	(159)	(4)	(184)
Other provisions	(23)	(14)	-	(37)
Operating expenses	(201)	(356)	(8)	(565)
Allocated operating expenses	(120)	(180)	(7)	(307)
Segment profit/(loss) before tax	**834**	**338**	**(25)**	**1 147**
31 December 2012				
Segment assets	**28 565**	**4 474**	**6 034**	**39 073**
Segment liabilities	**14 687**	**9 528**	**12 630**	**36 845**

29 Segment Analysis (Continued)

Segment information for the reportable segments of the Group for the year ended 31 December 2011 is set out below:

In millions of US Dollars	**Corporate and Investment banking**	**Retail banking**	**Treasury**	**Total**
2011				
Segment revenues				
External revenues				
Interest income	1 749	564	161	2 474
Fee and commission income	164	439	5	608
Other operating income	24	24	-	48
				-
Total external revenues	**1 937**	**1 027**	**166**	**3 130**
Interest income from other segments	402	410	2 248	3 060
Total segment revenues	**2 339**	**1 437**	**2 414**	**6 190**
Interest expense to other segments	(1 121)	(241)	(1 690)	(3 052)
Gains less losses from investments	(8)	-	(30)	(38)
Gains less losses from foreign currencies and precious metals	35	(2)	(139)	(106)
Interest expense	(278)	(249)	(634)	(1 161)
Provision for loan impairment	(17)	(32)	-	(49)
Fee and commission expense	(13)	(143)	(8)	(164)
Other provisions	(12)	-	-	(12)
Operating expenses	(200)	(388)	(8)	(596)
Allocated operating expenses	(93)	(118)	(9)	(220)
Segment profit/(loss) before tax	**632**	**264**	**(104)**	**792**
31 December 2011				
Segment assets	**20 476**	**2 633**	**2 855**	**25 964**
Segment liabilities	**8 745**	**7 197**	**8 107**	**24 049**

A reconciliation of the revenue for reportable segments to the Group's total revenue for the year is as follows:

In millions of US Dollars	**2012**	**2011**
Segment revenues	**7 548**	**6 190**
Interest income from other segments	(3 797)	(3 060)
Subsidiary banks' external revenues	155	127
Other non-reportable segments' unallocated amounts	28	31
Differences in translation to presentation currency	(10)	(9)
Gains less losses from interest rate derivatives reported within segment revenues	(13)	(8)
Total Group's revenues	**3 911**	**3 271**
Interest income	3 110	2 625
Fee and commission income	769	617
Other operating income	32	29
Total Group's revenues	**3 911**	**3 271**

29 Segment Analysis (Continued)

A reconciliation of the profit for reportable segments to the Group's total profit for the year is as follows:

In millions of US Dollars	2012	2011
Segments' profit before tax for the period	**1 147**	**792**
Provision for loan impairment unallocated to segments (except related to subsidiary banks)	13	(141)
Subsidiary banks' profit before tax	27	81
Other non-reportable segments' unallocated results	(10)	70
Differences in translation to presentation currency	5	-
Staff costs accruals unallocated to segments	(101)	(70)
Gains less losses on available for sale investments recorded in the statement of comprehensive income	(12)	30
Profit before tax	**1 069**	**762**

Reportable segments' assets are reconciled to total assets as follows:

In millions of US Dollars	2012	2011
Segments' assets	**39 073**	**25 964**
Items unallocated to segments:		
Assets related to subsidiary banks	3 743	3 053
Cash on hand and settlement accounts with trading systems	1 194	891
Mandatory cash balances with central banks	444	316
Other financial assets	555	576
Other assets	364	221
Premises and equipment	559	340
Deferred tax asset	-	4
Total Group's assets	**45 932**	**31 365**

Reportable segments' liabilities are reconciled to total liabilities as follows:

In millions of US Dollars	2012	2011
Segments' liabilities	**36 845**	**24 049**
Items unallocated to segments:		
Liabilities related to subsidiary banks	3 743	2 939
Other financial liabilities	741	533
Other liabilities	361	353
Deferred tax liability	90	56
Total Group's liabilities	**41 780**	**27 930**

Reportable segments' interest income is reconciled to total interest income as follows:

In millions of US Dollars	2012	2011
Segments' interest income	**2 957**	**2 474**
Interest income related to subsidiary banks	152	128
Other non-reportable segments' interest income	20	32
Fair value adjustments related to purchase price allocation for an acquired subsidiary bank	4	8
Fair value gains less losses from interest rate derivatives reported within segment revenues	(13)	(8)
Differences in translation to presentation currency	(4)	7
Other	(6)	(16)
Total Group's interest income	**3 110**	**2 625**

29 Segment Analysis (Continued)

Reportable segments' interest expense is reconciled to total interest expense as follows:

In millions of US Dollars	2012	2011
Segments' interest expense	**(1 369)**	**(1 161)**
Interest expense related to subsidiary banks	(71)	(64)
Other non-reportable segments' interest expense	(9)	-
Expenses directly attributable to leasing and deposit insurance	37	42
Differences in translation to presentation currency	3	1
Other	14	13
Total Group's interest expense	**(1 395)**	**(1 169)**

Reportable segments' provision for loan impairment is reconciled to total provision for loan impairment as follows:

In millions of US Dollars	2012	2011
Segments' provision for loan impairment	**(98)**	**(49)**
Provision for loan impairment related to subsidiary banks	(10)	42
Provision for loan impairment unallocated to segments	13	(141)
Total Group's provision for loan impairment	**(95)**	**(148)**

Reportable segments' operating expenses are reconciled to total Group's operating expenses as follows:

In millions of US Dollars	2012	2011
Segments' operating expenses and allocated operating expenses	**(872)**	**(816)**
Operating expense related to subsidiary banks	(35)	(69)
Staff costs accruals unallocated to segments	(101)	(70)
Other non-reportable segments' operating expense	(21)	(16)
Differences in translation to presentation currency	4	2
Other	(14)	(8)
Total Group's operating expense	**(1 039)**	**(977)**

The Group's revenues for external customers are analysed by products and services in Notes 23, 24 and 26.

The majority of the Group's revenues from external customers are attributed to customers domiciled in the Russian Federation. Revenues from external customers domiciled in other countries are below the threshold for separate disclosure in these consolidated financial statements.

30 Financial Risk Management

The Group systematically exploits the opportunities available to it to achieve its growth targets without losing sight of the related risks. The Group applies across all product lines a unified risk management practice comprising credit risk, market risk, currency risk, interest rate risk, liquidity risk and operational risk management. The primary objective of the Group's risk management is to achieve an optimal level of risk-return for its operations.

The financial risk management function establishes risk limits and ensures that exposure to risks stays within these limits. The operational risk management functions are intended to ensure proper functioning of internal processes and procedures to minimise the Group's exposure to internal and external risk factors other than those from financial instruments.

30 Financial Risk Management (Continued)

The Group's approach to managing risks is composed of three key elements: (i) risk governance, (ii) risk identification, and (iii) risk assessment, management and control.

Risk governance. The Board of Directors of the Group has overall responsibility for the oversight of the risk management framework, overseeing the management of key risks and approving significant large exposures.

The Audit Committee is responsible for overseeing the internal control framework, assessing the adequacy of risk management and compliance policies and procedures. It convenes regularly and provides recommendations to the Board of Directors on development of the risk management framework as well as its views on the quality of risk management and compliance.

The Executive Board of the Group is responsible for monitoring and implementation of risk mitigation measures and making sure that the Group operates within the established risk parameters. The Risk Management Department is responsible for the overall risk management functions, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting risks.

Credit, market and liquidity risks at both portfolio and transaction levels are managed and controlled through a system of Credit Committees and through the Treasury Department, the Risk Management Department, the Retail Risk Management Department and Asset and Liability Management Committee (“ALCO”). In order to facilitate efficient decision-making, the Group has established a hierarchy of credit committees depending on the type and amount of the exposure. The Risk Management Department deals with credit risk for corporate clients, financial institutions, small and medium-size enterprises, mortgages along with market risk and operational risk. The Retail Risk Management Department deals with credit cards and personal instalment loans, car loans and consumer loans portfolios. The department structure now is geared to bring more focus on proactive portfolio management and bad debt management. The Group has established the Problem Loans Department and the Problem Loans Committee to improve the workout and the collection of problem loans to corporate customers.

The Problem Loans Committee considers and approves the strategy of problem loans workout. The Problem Loans Department implements the approved strategy. These units report to the Head of Corporate and Investment Banking and the Main Credit Committee.

Amsterdam Trade Bank N.V. has its own Risk Management and Treasury Departments.

Risk identification. Both external and internal risk factors are identified and managed throughout the Group's organisational structure. Particular attention is given to developing risk overviews that are used to identify the full range of risk factors and serve as a basis for determining the level of assurance over the current risk mitigation procedures. An overview of the key risks is regularly reported to the Executive Board and the Board of Directors of the Group.

Risk assessment, management and control. The Group's risk assessment, reporting and control procedures vary by type of risk, but share a common methodology developed and updated by the Group’s Risk Management Department and Retail Risk Management Department. Compliance with the Group’s standards is supported by periodic reviews undertaken by the Internal Audit Department. The results of Internal Audit reviews are discussed with the management of the business unit to which they relate and presented to the Audit Committee and senior management of the Group.

There were no significant changes to the system of risk management in year 2012 compared to year 2011. The Group uses empirical data to actively modify the risk management policies and procedures to minimize the adverse impact of potential market turbulence.

Credit risk. The Group takes on exposure to credit risk that is the risk that a counterparty will be unable to pay amounts in full when due. The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry sectors, etc. Such risks are monitored on a revolving basis and subject to regular review. The Executive Board regularly approves limits on the level of credit risk by product, borrower and industry sectors.

The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on and off-balance sheet exposures and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily.

30 Financial Risk Management (Continued)

The analysis by credit quality of financial assets is based on their stratification by set limits: higher limits are assigned to the counterparties whose credit quality is better.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and principal repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed, in part, by obtaining collateral and corporate and personal guarantees.

The Group defines its risk appetite by approving a Lending Policy, assigning authority to decide on risk taking issues to committees, and granting specific approval of large transactions. The Lending Policy sets forth the framework for monitoring exposure to credit risk, including portfolio concentration limits and definition of responsibilities.

Following the philosophy of the continuous risk management improvement targeted to adopt the Group's policies and procedures for the changing economical environment in the beginning of 2011 the Group has introduced changes to the Lending Policy. Amongst other changes the number of possible ratings has been increased, the structure of parameters influencing the final ratings was reassessed, the focus in the internal rating assignment process has been shifted to the sufficiency of borrowers EBITDA or contract proceedings for servicing the debt.

The Group’s credit committees are responsible for approving credit exposures. Each credit committee conducts its activity based on special instructions approved by the Board of Directors.

- Depending on the magnitude of credit risk, the decisions on transactions with corporate clients are approved either by the Main Credit Committee or Supplementary Credit Committees. The ceiling of risk level is approved by the Executive Board. These committees convene weekly and their members are representatives of the Credit Department, the Risk Management Department, the Legal Department, Treasury Department and other relevant departments. The membership of the committees reflects the balanced approach to credit risk undertaken. The most material transactions above USD 200 million have to be approved by the Executive Board. In certain circumstances (for example, based on tenure or size) loans approved by the Main Credit Committee are required to be approved by the Executive Board or Board of Directors.
- The Retail Credit Committee monitors the performance of the retail portfolio and trends for future consideration. The retail lending portfolio includes the following classes of loans to individuals: credit cards and personal instalment loans, car loans, consumer loans. The Retail Credit Committee approves new retail credit products, effective margins on all retail products, controls the provisioning level for the retail portfolio and write offs for the retail portfolio and makes other decisions regarding retail lending. The committee convenes monthly.

Credit Process. In corporate wholesale lending, all transactions undergo a standardized underwriting procedure, including a thorough examination of a prospective borrower’s creditworthiness, quality of proposed collateral and transaction’s structure compliance with the Group’s policies and limits.

The Credit Department examines a probable transaction thoroughly with special attention being paid to the analysis of financial stability, cash-flow adequacy, long-term viability, credit history, competitive position and quality of collateral. During 2012 there were no significant changes in requirements regarding the borrowers’ creditability. In spite of improvements in the macroeconomic environment, the borrowers’ cash-flow, robustness and stability, business model viability and industry prospects were still scrupulously analysed. Based on the assessment of the transaction’s and borrower’s risks, an internal rating is assigned to the borrower.

The rating assignment is governed by an internal rating methodology which has been changed as compared to 2011. The main change to the rating methodology is to have more focus on the debt burden of the borrower, increase in granularity to 8 ratings, the use of a different model due to the business type of the borrower, and the introduction of 12 components of the borrowers' rating assessment with a fixed weighting for each component.

30 Financial Risk Management (Continued)

In accordance with the internal rating methodology for the purposes of impairment provisioning the transaction is assigned a rating category from A to E.

- Rating A – top rated borrower: the rating is assigned to credit transactions with minimum credit risk due to optimal financial condition, low debt burden or great safety cushion of cash flows and low risks of industry the borrower operates in;
- Rating A- – good borrower: the rating is assigned to high quality credit transactions of robust borrowers with low debt burden and sound financial condition;
- Rating B – standard borrower: the rating is assigned to standard quality credit transactions; assignment of such rating usually means low probability of default due to an optimal combination of financial condition, debt burden and industry risk factors of the borrower;
- Rating B- – acceptable borrower with stable outlook: stable quality credit transaction; assignment of such rating usually means borrower of a high industry risk with robust and stable financial condition or acceptable but not optimal debt burden;
- Rating C – acceptable borrower with unstable outlook: assignment of such rating usually means acceptable but non optimal debt burden or high industry risk while financial condition of the borrower is still acceptable;
- Rating C- – unsatisfactory borrower: the rating assumes that borrower has high debt burden or high industry risk or unsatisfactory financial condition;
- Rating D – weak borrower: low quality credit transaction; such transactions have rather high probability of default because of the poor quality of borrower’s financial condition, high debt burden and industry risk;
- Rating E – non-viable transaction; credit risk of the transaction is estimated as high, the incentive to grant such loans usually lies beyond the usual parity of risk and rewards. The Group normally does not enter into transactions with initial rating E.

The Risk Management Department reviews the analysis and the appropriateness of the ratings assignment and draws a conclusion. The conclusion of the Risk Management Department and the financial analysis of the client are given to the consideration of the relevant Credit Committee. The Credit Committees review the loan applications for approval of a credit limit on the basis of information provided. A limit is proposed to accommodate the exposure to a client within the guidelines set for maximum customer exposure and concentration limits.

For the purposes of more efficient credit risk management, the Group stratifies the loan portfolio to the following pools:

- Current loans pool includes current loans, technically overdue loans and loans overdue for less than 30 days.
- Watch-list loans pool includes loans which demonstrated early signs of possible future deterioration of credit quality.
- Problem loans pool includes loans which are considered to be impaired and loans overdue for more than 30 days. Problem loan pool is managed by the Problem Loans Committee within the corporate segment of the Group.

Retail lending decisions are based on acceptance through use of credit and fraud scores. The application and fraud scores are bespoke developments based on internal lending performance history. The scores are developed based on historical performance which is available only after a statistically significant number of transactions. The scores are administered in a secure automated environment, all approve/decline decisions are subject to risk determined cut offs, and no overrides are permitted. The scores are monitored for their stability and effectiveness every month and suitable amendments are made should there be a need.

Retail lending procedures are amended from time to time to reflect reaction to the economic climate by way of calibrating score acceptance cut offs, credit limits and permissible debt burden ratios, and verification standards before approval. In addition to this, behaviour scoring was introduced in 2010 with a view to optimise upsell and collection process. This has enabled the Group to be more responsive to customer expectations and being more competitive, in all areas of retail lending.

30 Financial Risk Management (Continued)

Monitoring. The level of credit risk exposure of the Group is subject to a monitoring process.

Exposure to credit risk is managed by the Credit Department through regular analysis of the ability of borrowers and potential borrowers to meet interest and principal repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed, in part, by obtaining collateral and corporate and personal guarantees. The Credit Department identifies potentially problematic deals using an unambiguous set of criteria to assign a problem status to a transaction, as well as escalation procedures based on problem status. Any significant exposures to a customer with a deteriorating creditworthiness are reported to and reviewed by the relevant Credit Committee.

Relationship managers and credit managers visit clients monthly/quarterly/semi-annually depending on credit quality of the customers and magnitude of the exposure. Analysis of clients' sales, margins and loan portfolio dynamics is carried out on a monthly or quarterly basis depending on the borrower's risk profile.

Monitoring of retail portfolios is conducted by the Retail Risk Management Department every month end or earlier based on the need. Such monitoring includes tracking the following indicators: approval/decline rates across products/customer segments; delinquency (both lagged and coincident); roll rates (transition of overdue balances across various stages); contact and promise rates to track collection efficiency; vintage loss rates by product and origination; special pilot programs; sector caps identified for each of the retail portfolios; charge off rates across each of the product portfolios; recoveries for each of the product portfolios; application scorecard stability; and performance across products where such cards are used; and efficiency of the verification segmentation. The above monitoring focuses on risk adjusted margins, with a view to optimise profitability of retail portfolios.

Portfolio concentration limits are checked on a weekly basis and reported to the Main Credit Committee, as well as situations where limits utilization is close to maximum. The Main Credit Committee ensures that the impact of new transactions on the concentration within the portfolio is commensurate with the Group's risk appetite and portfolio limit structure. The Group pays attention to the workout of problem loans, which are subject to weekly reporting to the Main Credit Committee.

On a weekly basis the Committee for Collection of Corporate Overdue Loans monitors the problem loans: the perspectives of repayment, repossessing collateral, legal processes on collection cases, restructuring terms, claiming for additional collateral to secure loans.

Control. There is a control environment established in the Group, in which all of its activities relating to credit exposure are taking place. The purpose of the implemented controls is to ensure a strict adherence to the Group's policies and procedures.

The Group has implemented control mechanisms that promote the delivery of effective risk management. Such mechanisms include: (i) producing regular portfolio monitoring reports and regularly presenting those to the relevant Credit Committees, (ii) setting credit policy core principles that govern the detailed department-level policies, (iii) subjecting policies to regular review, (iv) establishing lending guidelines that provide for a disciplined and focused approach to decision-making, (v) using statistically-based decision-making techniques such as credit scoring for retail portfolios with clear understanding of risk adjusted margins, and (vi) continuous monitoring by the Risk Management Department to measure effectiveness and administer changes as required.

In order to improve the collection of loans to individuals and to control delinquencies more effectively, the Retail Risk Management Department uses collection scorecards across different stages of the collection process and closer monitoring of collection cure rates within different segments.

Credit risk mitigation. The Group uses a wide range of techniques to reduce credit risk on its lending operations managing both individual transaction loss drivers, such as probability of default, loss given default and exposure at default, and systemic risk drivers on a portfolio basis.

At transaction level, an assessment of a borrower's ability to service the proposed level of debt is performed. Also the Group obtains collateral, such as a mortgage, pledge of assets, or floating charge over inventories. Various forms of legal protection are used, such as netting agreements and covenants in commercial lending agreements, and credit enhancements techniques.

Credit exposure is a subject of active management. Procedures are in place that ensure timely recognition and prompt reaction to transactions showing signs of deterioration. Responses include reduction of the exposure, obtaining additional collateral, restructuring, or other steps, as appropriate.

30 Financial Risk Management (Continued)

A credit risk premium is incorporated in risk assessment and lending decisions. The risk premium seeks to provide a fair compensation for the amount of each credit risk assumed by the Group.

At a portfolio level, diversification is managed to avoid excessive concentrations. Portfolio concentration limits include: (i) maximum exposure per borrower limit, (ii) industry concentration limit, (iii) loan maturity concentration limit, (iv) unsecured lending limit and (v) internal rating limit. The latter two limits are non-obligatory but subject to monitoring and reporting. Portfolio concentration limits are set to protect against unwanted concentration risk.

Market risk. The Group takes on exposure to market risks. Market risks arise from open positions in equity, currency and interest rate products, all of which are exposed to general and specific market movements.

The Group manages its market risk through notional-based and risk-based limits for the Group's sub-positions. Overall Group's position is split between (i) Corporate and Retail Banking positions, (ii) Investment Banking position and (iii) Treasury position. The exposure of Corporate Banking (loans, deposits, current accounts, and other non-trading operations) and Retail Banking operations to market risks is managed through the system of limits monitored by the Treasury Department. The exposure to the market risk of Investment Banking operations is managed through market value, value at risk ("VaR") limits and extreme loss limits which are set for both aggregated position of Investment Banking in equities, fixed income, foreign currency and derivative instruments (treated as separate "trading desks") and for individual trading desks. In addition, sub-limits are set for exposures to various types of securities (including both equity and debt securities) and markets and position limits for issuers and individual instruments. Limits on securities positions are approved by ALCO. Additional issuer limits on debt securities are approved separately by the relevant Credit Committees. Both the Group's proprietary and trading portfolios consist predominantly of liquid, traded securities. For content of the trading portfolio refer to Note 8. The Group's derivative operations are driven by two major factors: (i) the need of the Group to hedge its own risks, principally using foreign currency, securities and interest rate derivatives, and (ii) customer demand, principally for foreign currency, securities and commodities derivatives.

Risk-based limits are monitored on a daily basis by the Risk Management Department with respect to individual (foreign currency, equity, fixed income, derivatives) trading desks. The overall VaR of Investment Banking is monitored on a weekly basis by the Risk Management Department. The limit for the overall 1-day, 99% confidence level VaR is USD 47 million (2011: USD 46 million). However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

Equity price risk. As noted above, for the purpose of quantifying the Group's equity price risks which is attributed to Investment Banking trading position only, the Group uses a VaR model.

Although VaR is a valuable tool in measuring market risk exposures, it has a number of limitations, especially in less liquid markets:

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

The effectiveness of the VaR model is subject to back-test assessment. Back-testing compares the frequency of bigger-than-VaR loss occurrence and compares it to the set confidence level.

The major advantage of VaR risk assessment, its reliance on the empirical data, is at the same time its major drawback. Extreme market moves that may cause substantial deterioration of the Group's position have to be assessed by putting a stress on the number of standard deviations of market returns. The resulting figures serve as a rough indicator of magnitude of a likely loss under the corresponding scenario. The Group uses stress tests to model the financial impact of a variety of exceptional market scenarios on individual trading portfolios and the Group's overall position. Stress tests provide an indication of the potential size of losses that could arise in extreme conditions.

30 Financial Risk Management (Continued)

The daily equity price VaR measure is an estimate, with a confidence level set at 99%, of the potential loss that might arise under normal market conditions if the current positions of the Group were to be held unchanged for one business day.

According to the assessments made by the Group as at 31 December 2012 and 2011 VaR estimates for trading position in respect of equity price risk do not exceed USD 10 million.

Currency risk. In respect of currency risk, the Treasury Department of the Group is responsible for the centralised management of the currency risk of the Group. ALCO sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily by the Treasury Department of the Group based on the management reports provided on open currency position. The Group uses derivatives to manage current and forecast exposures resulting from foreign currencies. The table below summaries the Group's exposure to foreign currency exchange rate risk as at 31 December 2012:

In millions of US Dollars	**USD**	**RR**	**EUR**	**Other currencies**	**Non-monetary**	**Total**
Assets						
Cash and cash equivalents	1 072	3 168	926	52	-	5 218
Mandatory cash balances with central banks	-	404	40	-	-	444
Trading securities	759	273	9	-	57	1 098
Repurchase receivables relating to trading securities	500	1 175	-	-	194	1 869
Due from other banks	1 723	1 261	312	2	-	3 298
Loans and advances to customers	9 497	20 031	1 002	34	-	30 564
Investments	1 197	109	188	-	469	1 963
Other financial assets	304	208	41	2	-	555
Other assets	5	200	6	4	149	364
Premises and equipment	-	-	-	-	559	559
Total assets	**15 057**	**26 829**	**2 524**	**94**	**1 428**	**45 932**
Liabilities						
Due to other banks	1 842	2 835	816	9	-	5 502
Customer accounts	6 009	17 794	2 966	73	-	26 842
Debt securities issued	3 400	2 522	27	-	-	5 949
Syndicated and other debt	-	125	-	-	-	125
Subordinated debt	1 000	1 170	-	-	-	2 170
Other financial liabilities	307	412	19	3	-	741
Other liabilities	107	243	11	-	-	361
Deferred tax liability	-	-	-	-	90	90
Total liabilities	**12 665**	**25 101**	**3 839**	**85**	**90**	**41 780**
Net balance sheet position	**2 392**	**1 728**	**(1 315)**	**9**	**1 338**	**4 152**
Net balance sheet position less fair value of foreign exchange derivatives	**2 395**	**1 838**	**(1 334)**	**9**	**1 338**	**4 246**
Foreign exchange derivatives (fair value of currencies receivable or payable) (Note 34)	**393**	**(2 152)**	**1 672**	**(7)**	**-**	**(94)**
Net balance sheet and derivatives position as at 31 December 2012	**2 788**	**(314)**	**338**	**2**	**1 338**	**4 152**

30 Financial Risk Management (Continued)

The table below summaries the Group's exposure to foreign currency exchange rate risk as at 31 December 2011:

In millions of US Dollars	USD	RR	EUR	Other currencies	Non-monetary	Total
Assets						
Cash and cash equivalents	530	1 382	724	71	-	2 707
Mandatory cash balances with central banks	-	315	1	-	-	316
Trading securities	392	744	-	-	70	1 206
Repurchase receivables relating to trading securities	333	231	1	-	3	568
Due from other banks	1 506	507	229	-	-	2 242
Loans and advances to customers	7 634	13 273	858	39	-	21 804
Investments	308	502	175	-	396	1 381
Other financial assets	382	141	44	9	-	576
Other assets	3	61	22	-	135	221
Premises and equipment	-	-	-	-	340	340
Deferred tax asset	-	-	-	-	4	4
Total assets	**11 088**	**17 156**	**2 054**	**119**	**948**	**31 365**
Liabilities						
Due to other banks	806	1 242	333	3	-	2 384
Customer accounts	3 511	11 731	2 951	61	-	18 254
Debt securities issued	3 219	1 303	97	-	-	4 619
Syndicated and other debt	247	149	-	-	-	396
Subordinated debt	242	1 093	-	-	-	1 335
Other financial liabilities	294	152	81	6	-	533
Other liabilities	103	233	17	-	-	353
Deferred tax liability	-	-	-	-	56	56
Total liabilities	**8 422**	**15 903**	**3 479**	**70**	**56**	**27 930**
Net balance sheet position	**2 666**	**1 253**	**(1 425)**	**49**	**892**	**3 435**
Net balance sheet position less fair value of foreign exchange derivatives	**2 724**	**1 280**	**(1 384)**	**49**	**892**	**3 561**
Foreign exchange derivatives (fair value of currencies receivable or payable) (Note 34)	**(106)**	**(1 681)**	**1 740**	**(79)**	**-**	**(126)**
Net balance sheet and derivatives position as at 31 December 2011	**2 618**	**(401)**	**356**	**(30)**	**892**	**3 435**

Derivatives represent the fair value, as at the end of the reporting period, of the respective currency that the Group agreed to buy (positive amount) or sell (negative amount) before netting of positions and payments with the counterparty. The amounts by currency are presented gross as stated in Note 34.

Different entities within the Group have different functional currencies, based on the underlying economic conditions of their operations (Note 4). For the purpose of currency risk sensitivity analysis the Group splits its assets, liabilities and notional amounts of foreign currency receivable and payable at the reporting dates into three currency zones depending on the functional currencies of the entities included in the zone:

- Russian Rouble zone (includes all Russian Federation subsidiaries);
- Euro zone (includes Amsterdam Trade Bank N.V.);
- US Dollar zone (includes ABH Financial Limited and all other foreign subsidiaries operating internationally).

30 Financial Risk Management (Continued)

Sensitivity analysis presented below indicates the potential effect of the change in foreign exchange market conditions on the profit or loss for the year. Risk arising out of translation of the financial statements of subsidiaries into the presentation currency of the Group is excluded from the sensitivity analysis.

As the Group exposure to currencies other than US Dollar, Euro and Russian Rouble is not considerable in comparison to other exposures (Note 34), in performing sensitivity analysis the Group includes its net position in other currencies into the net position in US Dollars. As at 31 December 2012 the Group's net currency position including foreign currency derivatives was as follows:

In millions of US Dollars	**USD/RR**	**USD/EUR**	**EUR/RR**
Russian Rouble zone	(184)	-	(275)
Euro zone	-	(540)	47
US Dollar zone	2 539	(103)	-
Total exposure	**2 355**	**(643)**	**(228)**

As at 31 December 2012 if either of USD/RR, USD/EUR and EUR/RR rate changed by +/-10% respectively, this would have affected the profit or loss for the year (pre-tax) of the Group in the following way:

In millions of US Dollars	**USD/RR**	**USD/EUR**	**EUR/RR**
+ 10% change in all foreign exchange rates	236	(64)	(23)
- 10% change in all foreign exchange rates	(236)	64	23

As at 31 December 2011 the Group's net currency position including foreign currency derivatives was as follows:

In millions of US Dollars	**USD/RR**	**USD/EUR**	**EUR/RR**
Russian Rouble zone	(758)	-	(583)
Euro zone	-	(3)	2
US Dollar zone	2 029	(489)	-
Total exposure	**1 271**	**(492)**	**(581)**

At 31 December 2011 if USD/RR, USD/EUR and EUR/RR rate changed by +/-10% respectively, this would affect the profit or loss for the year (pre-tax) of the Group in the following way:

In millions of US Dollars	**USD/RR**	**USD/EUR**	**EUR/RR**
+ 10% change in all foreign exchange rates	127	(49)	(58)
- 10% change in all foreign exchange rates	(127)	49	58

Interest rate risk. The Group is exposed to interest rate risk, principally as a result of lending to customers and other banks at fixed interest rates in amounts and for periods that differ from those of term deposits and debt securities in issue at fixed or variable interest rates. Due to changes in interest rates, the Group's liabilities may have disproportionately high interest rates compared to those of its assets and vice versa. One of the Group's objectives is to minimize losses from unexpected negative changes in interest margins.

30 Financial Risk Management (Continued)

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

In millions of US Dollars	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Non-monetary	Total
31 December 2012						
Total financial assets	12 091	9 762	6 205	16 231	720	45 009
Total financial liabilities	(20 381)	(8 577)	(5 136)	(7 235)	-	(41 329)
Effect of interest based derivatives	204	13	-	(217)		-
Net interest sensitivity gap as at 31 December 2012	**(8 086)**	**1 198**	**1 069**	**8 779**	**720**	**3 680**
31 December 2011						
Total financial assets	8 343	5 891	2 671	13 426	469	30 800
Total financial liabilities	(13 287)	(5 435)	(2 672)	(6 127)	-	(27 521)
Effect of interest based derivatives	201	156	(84)	(273)	-	-
Net interest sensitivity gap as at 31 December 2011	**(4 743)**	**612**	**(85)**	**7 026**	**469**	**3 279**

Refer to Note 34 for the information on interest rate derivatives used to manage the Group's interest rate exposure.

The Group's interest rate risk is managed by the Treasury Department within the limits set by ALCO. Such limits are monitored on a weekly basis by the Assets Liabilities Management unit of the Treasury Department. ALCO sets two sensitivity limits. The first limit is set in terms of "present value to 100 basis points interest rate shift" which measures the impact of a 100 basis points rise of interest rates along the various maturities on the yield curve on the present value of the Group's assets, liabilities and off-balance sheet instruments. The second limit is "earnings-at-risk to 100 basis points interest rate shift" which measured the impact on the net interest revenue for the nearest year of a 100 basis points rise of interest rates along the various maturities on the yield curve. ALCO sets such limits for the Group's Russian Rouble, US Dollar and Euro positions and for the Group's overall exposure. The Treasury Department also uses foreign exchange forwards to manage interest rate positions in different currencies and interest rate derivatives such as USD and RR interest swaps.

For the year ended 31 December 2012, if interest rates at that date had been 100 basis points lower, with all other variables held constant, pre-tax profit would have been USD 15 million lower (2011: USD 23 million lower based on 100 basis points decrease), mainly as a result of lower interest income on loans and advances to customers. Other components of equity (also pre-tax) would have been USD 11 million higher (2011: USD 5 million higher based on a 100 basis points decrease), as a result of an increase in the fair value of fixed interest rate debt investments classified as available for sale.

If interest rates had been 100 basis points higher, with all other variables held constant, pre-tax profit for the year would have been USD 15 million higher (2011: USD 23 million higher based on 100 basis points increase), mainly as a result of higher interest income on loans and advances to customers). Other components of equity (also pre-tax) would have been USD 11 million lower (2011: USD 5 million lower based on a 100 basis points increase) lower, as a result of a decrease in the fair value of fixed interest rate debt investments classified as available for sale.

30 Financial Risk Management (Continued)

The Group monitors interest rates for its financial instruments. The table below summarises interest rates based on reports reviewed by key management personnel:

	2012				2011			
In % per annum	**USD**	**RR**	**Euro**	**Other**	**USD**	**RR**	**Euro**	**Other**
Assets								
Cash balances with central banks	-	0.0	0.0	-	-	0.0	0.0	-
Correspondent accounts and overnight placements with other banks	0.2	4.6	0.3	0.0	0.1	3.9	0.3	0.1
Mandatory cash balances with central banks	-	0.0	0.0	-	-	0.0	0.0	-
Debt trading securities	5.7	9.7	11.4	-	7.7	9.3	-	-
Repurchase receivables relating to trading debt securities	8.3	9.2	-	-	7.7	8.9	5.1	-
Due from other banks	2.8	5.9	0.4	3.6	1.6	5.8	0.7	-
Loans and advances to customers	6.6	13.6	6.0	9.7	7.0	12.0	6.0	18.0
Debt investments available for sale	3.4	7.3	4.5	-	7.0	9.9	4.1	-
Investments held to maturity	5.0	-	3.8	-	6.4	-	3.7	-
Liabilities								
Due to other banks	1.5	5.9	2.5	1.9	2.0	5.8	3.7	0.0
Customer accounts								
- current and settlement accounts	0.3	1.3	1.4	0.1	0.2	0.5	1.3	0.1
- term deposits	2.2	7.9	3.4	0.0	2.2	6.5	3.8	0.0
Debt securities issued	7.7	7.8	2.5	-	8.3	7.4	4.2	-
Syndicated and other debt	-	6.7	-	-	3.8	6.7	-	-
Subordinated debt	7.4	7.7	-	-	8.9	7.7	-	-

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

Geographical risk concentrations. The geographical concentration of the Group’s assets and liabilities as at 31 December 2012 is disclosed in table below:

In millions of US Dollars	**Russia**	**Europe**	**CIS**	**USA**	**Other**	**Total**
Assets						
Cash and cash equivalents	3 368	1 372	3	468	7	5 218
Mandatory cash balances with central banks	404	40	-	-	-	444
Trading securities	1 021	54	15	8	-	1 098
Repurchase receivables relating to trading securities	1 789	-	80	-	-	1 869
Due from other banks	1 316	1 423	551	-	8	3 298
Loans and advances to customers	26 459	3 182	624	18	281	30 564
Investments	1 076	598	4	263	22	1 963
Other financial assets	182	370	1	-	2	555
Other assets	352	8	2	2	-	364
Premises and equipment	539	20	-	-	-	559
Total assets	**36 506**	**7 067**	**1 280**	**759**	**320**	**45 932**
Liabilities						
Due to other banks	3 834	1 312	156	63	137	5 502
Customer accounts	22 262	3 838	128	54	560	26 842
Debt securities issued	2 577	3 370	-	-	2	5 949
Syndicated and other debt	125	-	-	-	-	125
Subordinated debt	1 170	1 000	-	-	-	2 170
Other financial liabilities	377	299	1	1	63	741
Other liabilities	338	17	5	1	-	361
Deferred tax liability	90	-	-	-	-	90
Total liabilities	**30 773**	**9 836**	**290**	**119**	**762**	**41 780**
Net balance sheet position as at 31 December 2012	**5 733**	**(2 769)**	**990**	**640**	**(442)**	**4 152**

30 Financial Risk Management (Continued)

The geographical concentration of the Group's assets and liabilities as at 31 December 2011 is disclosed in table below:

In millions of US Dollars	Russia	Europe	CIS	USA	Other	Total
Assets						
Cash and cash equivalents	1 594	1 013	4	92	4	2 707
Mandatory cash balances with central banks	315	1	-	-	-	316
Trading securities	1 055	-	151	-	-	1 206
Repurchase receivables relating to trading securities	537	-	31	-	-	568
Due from other banks	547	1 371	222	33	69	2 242
Loans and advances to customers	18 054	2 620	744	53	333	21 804
Investments	856	507	5	9	4	1 381
Other financial assets	400	169	4	2	1	576
Other assets	198	23	-	-	-	221
Premises and equipment	325	15	-	-	-	340
Deferred tax asset	-	4	-	-	-	4
Total assets	**23 881**	**5 723**	**1 161**	**189**	**411**	**31 365**
Liabilities						
Due to other banks	1 302	867	56	18	141	2 384
Customer accounts	15 807	2 104	100	38	205	18 254
Debt securities issued	1 404	3 211	-	-	4	4 619
Syndicated and other debt	149	247	-	-	-	396
Subordinated debt	1 093	242	-	-	-	1 335
Other financial liabilities	174	355	2	-	2	533
Other liabilities	330	20	2	1	-	353
Deferred tax liability	53	3	-	-	-	56
Total liabilities	**20 312**	**7 049**	**160**	**57**	**352**	**27 930**
Net balance sheet position as at 31 December 2011	**3 569**	**(1 326)**	**1 001**	**132**	**59**	**3 435**

CIS represents the countries of the Commonwealth of Independent States, of which the Group's primary exposure is to the Ukraine, Kazakhstan and Belarus.

The majority of credit related commitments were issued in favour of Russian counterparties and their offshore companies both as at 31 December 2012 and 2011.

Assets and liabilities have generally been allocated based on the country in which the counterparty is located. Balances with Russian counterparties actually outstanding to/from offshore companies of these Russian counterparties are allocated to the caption "Russia". Cash on hand, precious metals and premises, equipment and intangible assets have been allocated based on the country in which they are physically held.

The majority of the Group's revenues are generated from counterparties domiciled in the Russian Federation as well as substantially all of capital expenditure of the Group relates to operations of the Group in the Russian Federation.

Liquidity risk. Liquidity risk is defined as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Group is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw downs and from margin and other calls on derivative instruments. The Group does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. Liquidity risk is managed by the Treasury Department and ALCO of the Group.

The Group seeks to maintain a stable funding base comprising primarily amounts due to corporate and retail customer deposits, debt securities in issue and due to other banks and maintain an adequate diversified portfolios of liquid assets in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

30 Financial Risk Management (Continued)

The liquidity management of the Group requires considering the level of liquid assets necessary to settle obligations as they fall due; maintaining access to a range of funding sources; maintaining funding contingency plans, monitoring liquidity ratios against regulatory requirements, monitoring liquidity factors against Alfa-Bank requirements. Alfa-Bank calculates liquidity ratios on a daily basis in accordance with the requirement of the CBRF. These ratios are: (i) instant liquidity ratio (N2), which is calculated as the ratio of highly-liquid assets to liabilities payable on demand; (ii) current liquidity ratio (N3), which is calculated as the ratio of liquid assets to liabilities maturing within 30 calendar days; (iii) long-term liquidity ratio (N4), which is calculated as the ratio of assets maturing after one year to regulatory capital and liabilities maturing after one year. Alfa-Bank calculates liquidity factors bi-monthly: (i) liquidity factor (M2), which is calculated as the ratio of high-liquid assets to customer funds; (ii) CBRF loans REPO cover ratio (ML2) which is calculated as the ratio of accessible CBRF loan REPO amount (in accordance with 312-П CBRF directive) to customer funds.

The Treasury Department prepares the liquidity profile of the financial assets and liabilities. The Treasury Department then builds up an adequate portfolio of short-term liquid assets, largely made up of short-term liquid trading securities, deposits with banks (including CBRF and Federal Treasury for Russian Roubles and central banks for other currencies) and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole.

The daily liquidity position is monitored and regular liquidity stress testing under Crisis Scenarios covering severe market conditions is performed by the Treasury Department.

The Treasury Department runs liquidity forecast models for different financial instruments on a daily basis. Different scenarios are tracked: including or disregarding projected new lending. Information on the level of delinquencies that result in late payments is regularly updated for the liquidity forecast.

The table below shows liabilities as at 31 December 2012 by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows, including gross finance lease obligations (before deducting future finance charges), prices specified in deliverable forward agreements to purchase financial assets for cash, contractual amounts to be exchanged under a gross settled currency swaps, and gross loan commitments. Such undiscounted cash flows differ from the amounts included in the consolidated statement of financial position because the amounts in the consolidated statement of financial position are based on discounted cash flows. Net settled derivatives are included at the net amounts expected to be paid.

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

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

In millions of US Dollars	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**More than 1 year**	**Total**
Liabilities					
Due to other banks	3 715	680	815	364	5 574
Customer accounts - individuals	7 229	2 546	1 607	1 047	12 429
Customer accounts - other	8 945	3 466	1 582	1 004	14 997
Debt securities issued	167	1 577	826	4 826	7 396
Syndicated and other debt	1	3	129	-	133
Subordinated debt	-	82	83	3 316	3 481
Other non-derivative financial liabilities	241	50	-	2	293
Gross settled swaps and forwards:					
- inflows	(5 536)	(1 133)	(350)	(869)	(7 888)
- outflows	5 595	1 117	347	866	7 925
Net settled derivatives	32	137	74	2	245
Guarantees issued	6 417	-	-	-	6 417
Import letters of credit	373	-	-	-	373
Total potential future payments for financial obligations	**27 179**	**8 525**	**5 113**	**10 558**	**51 375**

30 Financial Risk Management (Continued)

Payments in respect of gross settled forwards will be accompanied by related cash inflows as disclosed above. Customer accounts are classified in the above analysis based on contractual maturities. However, in accordance with Russian Civil Code, individuals have a right to withdraw their deposits prior to maturity if they forfeit their right to accrued interest.

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

In millions of US Dollars	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**More than 1 year**	**Total**
Liabilities					
Due to other banks	1 437	496	336	142	2 411
Customer accounts - individuals	5 779	1 519	1 187	1 333	9 818
Customer accounts - other	5 492	2 168	452	994	9 106
Debt securities issued	339	857	425	4 509	6 130
Syndicated and other debt	1	7	289	125	422
Subordinated debt	-	54	55	2 249	2 358
Other non-derivative financial liabilities	165	18	1	5	189
Gross settled swaps and forwards:					
- inflows	(7 569)	(1 296)	(234)	(256)	(9 355)
- outflows	7 580	1 309	232	256	9 377
Net settled derivatives	22	151	46	8	227
Guarantees issued	2 923	-	-	-	2 923
Import letters of credit	149	-	-	-	149
Total potential future payments for financial obligations	**16 318**	**5 283**	**2 789**	**9 365**	**33 755**

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

30 Financial Risk Management (Continued)

The following table represents analysis of assets and liabilities as at 31 December 2012 by their expected maturities as determined by the Group. This analysis was prepared on the basis of contractual maturities except for adjustments in relation to (i) trading securities and (ii) part of customer accounts. The entire portfolio of trading securities was classified within "demand and less than 1 month" based on the Management's assessment of the portfolio's realisability. Part of current/settlement/demand accounts was reallocated from "demand and less than 1 month" category to baskets with later maturities. On the basis of past experience Management believes that (i) diversification of these accounts by number and type of customers and (ii) constant inflow of new deposits indicate that at least part of these current/demand/settlement accounts would provide a long-term and stable source of funding for the Group.

In millions of US Dollars	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**More than 1 year**	**No stated maturity**	**Total**
Assets						
Cash and cash equivalents	5 218	-	-	-	-	5 218
Mandatory cash balances with central banks	444	-	-	-	-	444
Trading securities	1 098	-	-	-	-	1 098
Repurchase receivables relating to trading securities	1 472	20	377	-	-	1 869
Due from other banks	1 688	1 156	153	301	-	3 298
Loans and advances to customers	2 769	6 186	5 538	16 071	-	30 564
Investments	112	121	43	1 218	469	1 963
Other financial assets	151	96	87	221	-	555
Other assets	182	33	-	-	149	364
Premises and equipment	-	-	-	-	559	559
Total assets	**13 134**	**7 612**	**6 198**	**17 811**	**1 177**	**45 932**
Liabilities						
Due to other banks	3 710	671	780	341	-	5 502
Customer accounts	7 532	6 474	3 489	9 347	-	26 842
Debt securities issued	167	1 534	799	3 449	-	5 949
Syndicated and other debt	1	3	121	-	-	125
Subordinated debt	-	80	78	2 012	-	2 170
Other financial liabilities	355	203	103	80	-	741
Other liabilities	14	172	-	175	-	361
Deferred tax liability	-	-	-	-	90	90
Total liabilities	**11 779**	**9 137**	**5 370**	**15 404**	**90**	**41 780**
Net expected liquidity gap as at 31 December 2012	**1 355**	**(1 525)**	**828**	**2 407**	**1 087**	**4 152**
Cumulative expected liquidity gap as at 31 December 2012	**1 355**	**(170)**	**658**	**3 065**	**4 152**	

30 Financial Risk Management (Continued)

The following table represents analysis of assets and liabilities as at 31 December 2011 by their expected maturities as determined by the Group.

In millions of US Dollars	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	No stated maturity	Total
Assets						
Cash and cash equivalents	2 707	-	-	-	-	2 707
Mandatory cash balances with central banks	316	-	-	-	-	316
Trading securities	1 206	-	-	-	-	1 206
Repurchase receivables relating to trading securities	548	-	20	-	-	568
Due from other banks	942	944	163	193	-	2 242
Loans and advances to customers	2 594	4 072	2 471	12 667	-	21 804
Investments	124	12	146	703	396	1 381
Other financial assets	417	100	15	44	-	576
Other assets	45	40	-	1	135	221
Premises and equipment	-	-	-	-	340	340
Deferred tax asset	-	-	-	-	4	4
Total assets	**8 899**	**5 168**	**2 815**	**13 608**	**875**	**31 365**
Liabilities						
Due to other banks	1 435	491	328	130	-	2 384
Customer accounts	5 793	4 042	1 856	6 563	-	18 254
Debt securities issued	338	835	406	3 040	-	4 619
Syndicated and other debt	1	7	278	110	-	396
Subordinated debt	-	53	51	1 231	-	1 335
Other financial liabilities	249	206	49	29	-	533
Other liabilities	14	100	-	239	-	353
Deferred tax liability	-	-	-	-	56	56
Total liabilities	**7 830**	**5 734**	**2 968**	**11 342**	**56**	**27 930**
Net expected liquidity gap as at 31 December 2011	**1 069**	**(566)**	**(153)**	**2 266**	**819**	**3 435**
Cumulative expected liquidity gap as at 31 December 2011	**1 069**	**503**	**350**	**2 616**	**3 435**	

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

The 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 term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Group and its exposure to changes in interest and exchange rates.

31 Management of Capital

The Group's main objectives when managing capital are: (i) to comply with the capital requirements set by the respective central banks and debt covenants, (ii) to safeguard the Group's ability to continue as a going concern, and (iii) to maintain a sufficient capital base to achieve a capital adequacy ratio of the Group based on Basel I (International Convergence of Capital Management and Capital Standards dated July 1988 (as subsequently amended and updated)) of at least 8%. Capital adequacy ratio of Alfa-Bank is monitored daily for compliance with the requirements set by the CBRF and monthly for other objectives of capital management.

The Group's policy of capital management is designated to maintain the capital base sufficient to keep the confidence of investors, creditors, other market participants and to secure the future development of the Group. The CBRF establishes and monitors capital adequacy limits for Alfa-Bank. Capital adequacy limits for Amsterdam Trade Bank N.V. are established and monitored by the Dutch Central Bank. Capital adequacy limits of Alfa Capital Holdings (Cyprus) Limited are monitored by the Cyprus Securities and Exchange Commission.

The Group plans its capital needs to be able to comply with both the regulators' requirements and Basel I with a one year horizon. The Group performs medium and long term planning of growth in the asset side considering sufficiency of capital. When necessary, the Group develops and implements measures to increase its capital base.

To ensure compliance with the capital adequacy ratios in the short run, the Group monitors use of capital by business segments. Responsibility for approval procedures and monitoring of the capital use is with the Financial Planning and Analysis Department of the Group.

The Group and Alfa-Bank are also subject to covenants stated in various loan agreements, including capital adequacy calculated in accordance with Basel I. The composition of the Group's capital which is managed by the Group's management and calculated in accordance with Basel I was as follows:

In millions of US Dollars	**2012**	**2011**
Tier 1 capital		
Paid up share capital	1 265	1 265
Retained earnings, cumulative translation reserve and non-controlling interest	2 794	2 157
Less: Goodwill	(64)	(60)
Total tier 1 capital	**3 995**	**3 362**
Tier 2 capital		
Asset revaluation reserves	93	13
Subordinated debt	1 998	1 335
Total tier 2 capital	**2 091**	**1 348**
Total capital	**6 086**	**4 710**

Management of the Group is of the opinion that the Group complied with all the external capital adequacy requirements during 2012 and 2011.

32 Contingencies and Commitments

Legal proceedings. From time to time and in the normal course of business, claims against the Group are received. As at 31 December 2012 such claims included a customer's claim in the amount of USD 52 million related to a settlement of the client's overdue indebtness. On the basis of its own estimates and both internal and external professional advice, Management is of the opinion that no material losses exceeding provision of USD 4 million (2011: nil) as at 31 December 2012 will be incurred in respect of claims against the Group.

32 Contingencies and Commitments (Continued)

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

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

The transfer pricing legislation that is applicable to transactions on or prior to 31 December 2011, also provided the possibility for tax authorities to make transfer pricing adjustments and to impose additional tax liabilities in respect of all controllable transactions, provided that the transaction price differs from the market price by more than 20%. Controllable transactions included transactions with interdependent parties, as determined under the Russian Tax Code, all cross-border transactions (irrespective of whether performed between related or unrelated parties), transactions where the price applied by a taxpayer differed by more than 20% from the price applied in similar transactions by the same taxpayer within a short period of time, and barter transactions. Significant difficulties existed in interpreting and applying that transfer pricing legislation in practice.

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, that such transfer prices could be challenged. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the Group.

The Group includes companies incorporated outside of Russia. The tax liabilities of the Group are determined on the assumption that these companies are not subject to Russian profits tax, because they do not have a permanent establishment in Russia. This interpretation of relevant legislation may be challenged but the impact of any such challenge cannot be reliably estimated currently; however, it may be significant to the financial position and/or the overall operations of the entity.

As Russian tax legislation does not provide definitive guidance in certain areas, the Group adopts, from time to time, interpretations of such uncertain areas that reduce the overall tax rate of the Group. While management currently estimates that the tax positions and interpretations that it has taken can probably be sustained, there is a possible risk that outflow of resources will be required should such tax positions and interpretations be challenged by the relevant authorities. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the Group.

In addition to the aforementioned risks, the Group estimates that as at 31 December 2012 it had no other material possible obligations from exposure to other than remote tax risks (2011: USD 49 million). These exposures are estimates that result from uncertainties in interpretation of applicable legislation and related documentation requirements. Management will vigorously defend the entity's positions and interpretations that were applied in determining taxes recognised in these consolidated financial statements if these are challenged by the authorities.

Capital commitments. As at 31 December 2012 the Group had capital commitments of USD 68 million (2011: USD 14 million), of which USD 42 million (2011: USD 5 million) related to construction expenditure and modernisation of premises and USD 26 million (2011: USD 9 million) related to purchase and installation of new computer systems. Management has already allocated the necessary resources in respect of these commitments. Management believes that future income and funding will be sufficient to cover these and any similar commitments.

32 Contingencies and Commitments (Continued)

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

In millions of US Dollars	2012	2011
Not later than 1 year	68	45
Later than 1 year and not later than 5 years	128	83
Later than 5 years	23	16
Total operating lease commitments	**219**	**144**

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

Outstanding credit related commitments were as follows:

In millions of US Dollars	2012	2011
Guarantees issued	6 417	2 923
Import letters of credit	373	149
Export letters of credit	29	19
Total credit related commitments	**6 819**	**3 091**

The total outstanding contractual amount of guarantees and letters of credit does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded. The fair value of credit related commitments was USD 37 million as at 31 December 2012 (2011: USD 17 million).

Movements in the provision for losses on credit related commitments were as follows:

In millions of US Dollars	2012	2011
Provision for losses on credit related commitments as at 1 January	**17**	**5**
Provision for losses on credit related commitments during the year	19	12
Effect of translation to presentation currency	1	-
Provision for losses on credit related commitments as at 31 December (Note 20)	**37**	**17**

Compliance with covenants. In accordance with agreements for attracting long-term financing the Group should comply with financial and non-financial covenants. The most significant covenants are:

- to comply with the ratios and requirements of the CBRF;
- to maintain a ratio of capital to risk-weighted assets as defined by Basel I;
- to maintain a minimum level of net assets;
- to maintain a minimum ratio of aggregated financial indebtedness;
- to ensure that all related party transactions are on an arm's length basis; and
- to maintain a maximum level of long-term debt securities issued.

32 Contingencies and Commitments (Continued)

The Group was in compliance with these covenants during 2012 and 2011.

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

In millions of US Dollars	Notes	2012	2011
Loans and advances to customers pledged to the SDIA	10,18	130	161
Margin call deposits	9	325	223
Trading securities classified as repurchase receivables	8,15	1 869	568
Term deposits with other banks placed under the Diversified Payment Rights Secured Debt Issuance Programme	9,17	-	28
Restricted cash	12	13	13
Total		**2 337**	**993**

As at 31 December 2012 the estimated fair value of securities purchased under reverse sale and repurchase agreements (Notes 9 and 10), which the Group has the right to sell or re-pledge in the absence of default of the counterparty was USD 1 963 million (2011: USD 2 394 million). As at 31 December 2012 the fair value of such securities sold under sale and repurchase agreements with other banks and customers amounted to USD 725 million (2011: USD 382 million) (Notes 15 and 16).

Mandatory cash balances with central banks in the amount of USD 444 million (2011: USD 316 million) represent mandatory reserve deposits, which are not available to finance the Group's day-to-day operations.

33 Transfers of Financial Assets

Accounting for investment in ABH Kazakhstan Limited. Until 29 June 2009 the subsidiary of the Group owned 100% interest in JSC SB Alfa-Bank Kazakhstan. On 29 June 2009 the Group signed a call option agreement with ABHH (Note 1), whereby in exchange for an option premium of USD 63 million ABHH received a right to acquire for a fixed consideration, and at any time until 29 June 2014, shares representing a 100% interest in JSC SB Alfa-Bank Kazakhstan. Also, in accordance with the call option agreement (i) the Group is required to ensure that during the option period ABHH has a majority in the Board of Directors of JSC SB Alfa-Bank Kazakhstan and (ii) any income received by the Group from JSC SB Alfa-Bank Kazakhstan after 29 June 2009 is to be transferred to ABHH following the execution of the option. This agreement effectively transferred to ABHH all potential voting rights and economic benefits relating to JSC SB Alfa-Bank Kazakhstan. As at 31 December 2012 and 2011 the legal title for the respective shares was registered in the name of a subsidiary of the Group.

Accounting for investment in ABH Russia Limited. During 2011 the Group acquired for cash consideration of USD 93 million shares of ABH Russia Limited, the immediate parent of the Group, and simultaneously entered into a sale and purchase agreement with ABHH (Note 1), whereby (i) the Group agreed to transfer immediately to ABHH all voting rights, rights for representation in governance bodies of ABH Russia Limited and rights for future distributions arising from the shares, (ii) the Group agreed not to transfer the shares to any other party other than ABHH and (iii) the Group and ABHH agreed to execute transfer of the shares from the Group to ABHH at any date indicated by the Group or by ABHH but before 31 December 2014 and in exchange for payment by ABHH of USD 93 million consideration.

The management of the Group concluded that as a result of the above transactions the Group in substance purchased and immediately sold the shares. As at 31 December 2011 the balance receivable from ABHH in the amount of USD 93 million was recorded within other financial assets and carried no interest. In December 2012 the Group declared dividends, which were partially settled by USD 93 million receivable from ABHH (Note 22). As at 31 December 2012 and 2011 the legal title for the respective shares was registered in the name of a subsidiary of the Group.

The Group transferred financial assets in transactions that did not qualify for derecognition in the current and prior periods:

Sale and repurchase transactions. At 31 December 2012 the Group had trading securities in the amount of USD 1 869 million that are subject to obligation to repurchase the securities for a fixed pre-determined price. As at 31 December 2012 the carrying value of the liabilities associated with these sale and repurchase transactions was USD 1 365 million. The estimated fair value of associated liabilities is approximately equal to their carrying value.

34 Derivative Financial Instruments

Derivative financial instruments are generally traded in an over-the-counter market with professional market counterparties on standardised or specific contractual terms and conditions.

The principal or agreed amounts of certain types of financial instruments provide a basis for comparison with instruments recorded on the consolidated statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates, foreign exchange rates or other variables relative to their terms. The aggregate contractual or principal amount of derivative financial instruments held and the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

The principal or agreed amounts and fair values of derivative instruments other than foreign exchange forward, swap contracts are set out in the following table. This table reflects gross positions before the netting of any counterparty positions by type of instrument and covers the contracts with a maturity date subsequent to respective reporting period.

	2012			2011		
	Principal or agreed amount	Assets	Liabilities	Principal or agreed amount	Assets	Liabilities
In millions of US Dollars		Positive fair value	Negative fair value		Positive fair value	Negative fair value
Deliverable forwards						
Securities						
-sale of securities	1 281	14	(75)	982	31	(12)
-purchase of securities	27	4	-	16	2	-
Non-deliverable forwards						
Securities						
-sale of securities	427	2	(1)	257	2	(1)
Precious metals						
-sale of precious metals	5	-	-	20	-	-
-purchase of precious metals	4	-	-	21	-	-
Other base assets						
-sale of other base assets	14	-	-	1	-	-
-purchase of other base assets	14	-	-	1	-	-
Futures						
Other base assets						
-sale of other base assets	6	-	-	3	-	-
Call options						
Securities						
-written call options	3	-	(3)	-	-	-
-purchased call options	2	2	-	-	-	-
Commodities						
-written call options	230	-	(15)	111	-	(2)
-purchased call options	230	15	-	112	2	-
Foreign currency						
-written call options	676	-	(21)	15	-	-
-purchased call options	667	21	-	15	-	-
Index						
-written call options	-	-	-	48	-	-
-purchased call options	-	-	-	48	-	-
Put options						
Foreign currency						
-written put options	625	-	(9)	-	-	-
-purchased put options	612	9	-	-	-	-
Commodities						
-written put options	244	-	(24)	85	-	(4)
-purchased put options	244	23	-	83	2	-
Swaps						
Interest rate swaps - pay fixed interest, receive floating interest	274	-	(5)	357	1	(13)
Credit default swaps	453	134	-	-	-	-
Foreign currency swap with embedded written option	269	-	(41)	-	-	-
Foreign currency swap with embedded purchased option	269	41	-	-	-	-
Total		**265**	**(194)**		**40**	**(32)**

34 Derivative Financial Instruments (Continued)

The table below sets out fair values, as at the end of the reporting period, of currencies receivable or payable under foreign exchange contracts and precious metals based contracts (excluding options) entered into by the Group. 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 dates.

	2012		2011	
In millions of US Dollars	Contracts with positive fair value	Contracts with negative fair value	Contracts with positive fair value	Contracts with negative fair value
Deliverable forwards				
- USD receivable on settlement	1 197	1 065	834	2 371
- USD payable on settlement	(1 934)	(851)	(2 936)	(1 813)
- EUR receivable on settlement	1 609	565	2 420	1 089
- EUR payable on settlement	(806)	(471)	(86)	(1 791)
- RR receivable on settlement	205	45	130	673
- RR payable on settlement	(4)	(203)	(646)	(43)
- Other currencies receivable on settlement	342	436	444	137
- Other currencies payable on settlement	(577)	(596)	(111)	(715)
Non-deliverable forwards				
- USD receivable on settlement	1 079	4 932	3 207	2 662
- USD payable on settlement	(3 447)	(1 553)	(2 267)	(2 071)
- EUR receivable on settlement	557	1 750	1 719	772
- EUR payable on settlement	(847)	(685)	(217)	(2 167)
- RR receivable on settlement	2 914	453	581	1 947
- RR payable on settlement	(506)	(5 149)	(3 255)	(1 161)
- Other currencies receivable on settlement	750	380	394	61
- Other currencies payable on settlement	(378)	(364)	(37)	(252)
Deliverable swaps				
- USD receivable on settlement	-	40	-	-
- USD payable on settlement	(71)	(64)	(93)	-
- EUR receivable on settlement	140	-	140	-
- EUR payable on settlement	-	(140)	-	(139)
- RR receivable on settlement	76	197	93	128
- RR payable on settlement	(137)	(43)	(128)	-
Net fair value of foreign exchange derivatives	**162**	**(256)**	**186**	**(312)**

Starting 11 January 2011 the Group decided to start hedge accounting. As at 31 December 2012 derivative financial instruments included currency forwards with a contractual amount of USD 2 264 million (2011: USD 1 740 million) which were designated and qualified as hedge of the Group's net investment in subsidiaries of the Group that have Russian Rouble as a functional currency. The total amount of the effective portion of the foreign currency exchange losses recorded during 2012 on these hedging instruments amounted to USD 141 million. The total amount of the effective portion of the foreign currency exchange gains recorded during 2011 on these hedging instruments amounted to USD 76 million. As at 31 December 2012 the negative fair value of these hedging instruments amounted to USD 146 million (2011: the positive fair value amounted to USD 63 million). No amounts were reclassified from other comprehensive income during 2012 and 2011, as there were no disposals of subsidiaries, which the hedge related to.

Forward positions in securities are summarised below. As at 31 December 2012 and 2011 the respective securities' long balance sheet positions, particially reduced risks related to the securities' short forward positions. Refer to Note 8.

34 Derivative Financial Instruments (Continued)

	2012		2011	
	Principal or agreed amount		Principal or agreed amount	
In millions of US Dollars	Sale	Purchase	Sale	Purchase
Promissory notes	519	-	5	-
Corporate bonds	504	-	332	-
Corporate Eurobonds	411	-	431	-
Corporate shares	200	7	37	-
ADRs and GDRs	33	2	1	-
Eurobonds of other states	23	3	19	-
Municipal bonds	18	-	178	-
Russian Federation Eurobonds	-	15	70	16
Russian Federation Bonds	-	-	165	-
Bonds of other states	-	-	1	-
Total	**1 708**	**27**	**1 239**	**16**

The information on transactions with related parties is disclosed in Note 36.

35 Fair Value of Financial Instruments

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, 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 Russian Federation continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

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

Loans and receivables carried at amortised cost. The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments 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. Refer to Notes 9 and 10 for the estimate fair value of due from other banks and loans and advances to customers.

Liabilities carried at amortised cost. 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 estimated fair value of balances with no stated maturity is the amount repayable on demand. Refer to Notes 15 and 16 for the estimated fair values of due to other banks and customer accounts respectively. Discount rates used were consistent with the credit risk of the individual entities depending on currency and maturity of the instrument.

Investments held to maturity. The fair value of investments held to maturity has been determined by reference to published price quotations or estimated on the basis of discounted cash flows using interest rates for similar instruments.

Debt securities issued. The fair value of traded debt has been determined by reference to published price quotations. The fair value of the rest of the debt was estimated on the basis of discounted cash flows using interest rates for similar instruments.

Syndicated and other debt. The estimated fair value of syndicated and other debt is based on discounted cash flows using interest rate of new debts with similar remaining maturity.

35 Fair Value of Financial Instruments (Continued)

Subordinated debt. The fair value of traded subordinated debt has been determined by reference to published price quotations.

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. Their fair values are based on observable market prices. The fair values of financial derivatives that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data. The fair value of derivative financial instruments is disclosed in Note 34.

Discount rates used in determination of fair values depend on currency, maturity of the instrument and credit risk of the counterparty and were as follows:

	2012	**2011**
Due from other banks		
- Term placements	0.0 - 11.9	0.0 - 10.5
- Reverse sale and repurchase agreements	0.2 - 8.3	1.5 - 9.2
Loans and advances to customers		
- Corporate loans	3.1 - 12.2	3.0 - 11.8
- Finance lease receivables and advances on lease operations	10.3 - 23.1	11.0 - 22.0
- Loans to small and medium size enterprises	3.1 - 12.2	3.0 - 11.8
- Loans to individuals	9.4 - 26.5	7.8 - 27.0
Due to other banks		
- Correspondent accounts and overnight placements of other banks	0.0 - 3.7	0.0 - 6.8
- Term placements of other banks	0.0 - 10.5	0.0 - 8.0
- Sale and repurchase agreements with other banks	0.5 - 6.9	0.3 - 6.8
Customer accounts		
- Current/settlement accounts of legal entities	0.0 - 15.0	0.0 - 7.0
- Term deposits of legal entities	0.1 - 13.5	0.1 - 14.5
- Current/settlement accounts of individuals	0.0 - 12.0	0.0 - 7.1
- Term deposits of individuals	0.0 - 12.0	0.0 - 16.1
Debt securities issued (excluding quoted instruments)		
- Promissory notes and domestic bonds issued	0.0 - 12.6	0.0 - 14.3
- Euro-Commercial Papers	3.6 - 4.9	-
- Notes issued under a DPR Programme	-	2.6 - 3.3
Syndicated and other debt		
- Syndicated loans	-	3.8
- Loan from SDIA	6.7	6.7

35 Fair Value of Financial Instruments (Continued)

For financial instruments carried at fair value, the levels in the fair value hierarchy, which the fair values are attributed to, were as follows:

	2012			2011		
In millions of US Dollars	Quoted prices in active markets (Level 1)	Valuation technique with inputs observa-ble in markets (Level 2)	Valuation technique with signifi-cant un-observable inputs (Level 3)	Quoted prices in active markets (Level 1)	Valuation technique with inputs observa-ble in markets (Level 2)	Valuation technique with signifi-cant un-observa-ble inputs (Level 3)
Financial assets						
Trading securities	***1 069***	***29***	***-***	***891***	***243***	***72***
- Promissory notes	600	-	-	5	-	72
- Corporate Eurobonds	180	25	-	120	118	-
- Corporate bonds	210	-	-	451	125	-
- Municipal bonds	18	-	-	153	-	-
- Eurobonds of other states	-	4	-	18	-	-
- Russian Federation Bonds and Eurobonds	4	-	-	74	-	-
- Corporate shares	44	-	-	47	-	-
- ADRs and GDRs	13	-	-	23	-	-
Repurchase receivables	***1 571***	***298***	***-***	***456***	***112***	***-***
- Corporate bonds	903	-	-	8	-	-
- Corporate Eurobonds	280	278	-	222	82	-
- Russian Federation Bonds and Eurobonds	171	-	-	196	-	-
- Eurobonds of other states	23	20	-	-	30	-
- Municipal bonds	-	-	-	27	-	-
- Corporate shares	169	-	-	3	-	-
- ADRs and GDRs	25	-	-	-	-	-
Debt investment securities available for sale	***1 417***	***-***	***-***	***868***	***-***	***-***
- Russian Federation Eurobonds	745	-	-	-	-	-
- Bonds of other states	250	-	-	47	-	-
- Corporate Eurobonds	227	-	-	324	-	-
- Russian Federation bonds	95	-	-	462	-	-
- Eurobonds of other states	92	-	-	-	-	-
- Corporate bonds	8	-	-	35	-	-
Equity investments available for sale	***-***	***-***	***365***	***-***	***-***	***298***
Equity investments through profit and loss	***14***	***11***	***79***	***-***	***7***	***91***
Other financial assets	***14***	***429***	***-***	***35***	***206***	***-***
- Foreign exchange forward contracts	-	154	-	-	172	-
- Other financial derivatives	14	259	-	35	19	-
- Receivables at fair value through profit and loss	-	16	-	-	15	-
Total financial assets carried at fair value	**4 085**	**767**	**444**	**2 250**	**568**	**461**

35 Fair Value of Financial Instruments (Continued)

Methods and assumptions for valuation of financial assets included in Level 2 and Level 3 of the fair valuation hierarchy

Level 2. The fair value of financial derivatives allocated to Level 2 was determined based on the discounted cash flows (DCF) models with all significant inputs observable in the market. The fair value of securities with insignificant trading volumes is based on adjusted market quotes.

Level 3. Equity investments available for sale in the amount of USD 361 million (2011: USD 298 million) and equity investments at fair value through profit or loss in the amount of USD 4 million (2011: USD 4 million) allocated to Level 3 represent investments in funds and have been valued using the net assets values reported to the Group by the respective fund managers. These net assets values in respect of all instruments held by those funds have been in all cases determined either on the basis of market quotes for the instruments held by the funds where available, or on the basis of indicative quotes provided by reputable brokerage houses dealing in such unquoted instruments.

As at 31 December 2012 the fair value of equity investments at fair value through profit or loss in the amount of USD 70 million was estimated based on price of transaction completed shortly after 31 December 2012.

Main assumptions used in the DCF models were future revenues, capital expenditures and operating costs of the investees, their weighted average cost of capital and forecasts of relevant main macroeconomic indicators.

	2012			**2011**		
In millions of US Dollars	**Quoted prices in active markets (Level 1)**	**Valuation technique with inputs observable in markets (Level 2)**	**Valuation technique with significant unobser-vable inputs (Level 3)**	**Quoted prices in active markets (Level 1)**	**Valuation technique with inputs observable in markets (Level 2)**	**Valuation technique with signifi-cant un-observable inputs (Level 3)**
Financial liabilities						
Other financial liabilities	**76**	**374**	**-**	**11**	**333**	**-**
- Foreign exchange forward contracts	-	246	-	-	301	-
- Other derivative financial instruments	76	128	-	11	32	-
Total financial liabilities carried at fair value	**76**	**374**	**-**	**11**	**333**	**-**

Management applies judgement in categorising financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement. Significance of a valuation input is assessed against the fair value measurement in its entirety.

35 Fair Value of Financial Instruments (Continued)

A reconciliation of movements in Level 3 of the fair value hierarchy by class of financial instruments for the year ended 31 December 2012 is as follows:

In millions of US Dollars	**Trading securities**	**Equity investments available for sale**	**Equity investments at fair value through profit or loss**
Fair value at 1 January 2012	**72**	**298**	**91**
Gains or losses recognised in profit or loss for the year	3	-	(2)
Gains or losses recognised in other comprehensive income	-	65	-
Acquisition	-	2	-
Disposals	-	-	(10)
Redemption at nominal value	(75)	-	-
Fair value at 31 December 2012	**-**	**365**	**79**
Revaluation gains less losses recognised in profit or loss for the year for assets held at 31 December 2012	**-**	**-**	(6)
Revaluation gains less losses recognised in other comprehensive income for the year for assets held at 31 December 2012	**-**	**65**	**-**

A reconciliation of movements in Level 3 of the fair value hierarchy by class of financial instruments for the year ended 31 December 2011 is as follows:

In millions of US Dollars	**Trading securities**	**Equity investments available for sale**	**Equity investments at fair value through profit or loss**	**Other financial assets**
Fair value at 1 January 2011	**110**	**336**	**92**	**62**
Gains or losses recognised in profit or loss for the year	12	-	35	-
Gains or losses recognised in other comprehensive income	-	(38)	-	-
Disposals	(50)		(36)	
Redemption at nominal value	-	-		(62)
Fair value at 31 December 2011	**72**	**298**	**91**	**-**
Revaluation gains less losses recognised in profit or loss for the year for assets held at 31 December 2011	**7**	**-**	**27**	**-**
Revaluation gains less losses recognised in other comprehensive income for the year for assets held at 31 December 2011	**-**	**(38)**	**-**	**-**

36 Related Party Transactions

For the purposes of these consolidated financial statements, parties are generally 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 as defined by IAS 24 "Related Party Disclosures". In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

ABHH (Note 1) and CTF Holdings Limited (Note 1) and their subsidiaries constitute the Alfa Group. Banking transactions are entered into in the normal course of business with significant shareholders, directors, associated companies and companies with which the Group has significant shareholders in common, including other companies in Alfa Group and other related parties. These transactions include settlements, loans, deposit taking, guarantees, trade finance, corporate finance, foreign currency exchange and other transactions. Related party transactions are reflected in the tables below.

The most significant (by volume of transactions) related parties of the Group are Alfa Group, ABH Ukraine Group (a Ukrainian banking subsidiary of ABHH), TNK-BP Limited (an oil and gas company 25% owned by Alfa Group) and Alfa DA Limited.

ADA Group is a sub-holding of Alfa Group established in 2009. ADA's main objective is accumulating and managing non-core assets obtained by the Group and sold to ADA in the course of restructuring of impaired loans to customers. The sale price for these non-core assets is determined by negotiations between the Group and ADA and reflects the fair value of these assets. The purchase of these assets is partially financed by the Group through loans to ADA. ADA is managed by a subsidiary of Alfa Group. ADA's underlying assets form the main source of repayment of liabilities to the Group.

The outstanding balances as at the end of year and income and expense items as well as other transactions for the year with related parties were as follows:

	2012					
In millions of US Dollars	TNK-BP	Alfa Group, its associates and shareholders*	ADA Group and its associates	ABH Holdings S.A.	ABH Ukraine Group	Key management
Trading securities as at the year end	**-**	**175**	**-**	**-**	**-**	**-**
Investment securities available for sale as at the year end	**-**	**5**	**-**	**-**	**-**	**-**
Correspondent accounts with other banks as at the year end	**-**	**1**	**-**	**-**	**1**	**-**
Term placements with other banks as at the year end	**-**	**102**	**-**	**-**	**186**	**-**
RUR, effective contractual rate of 6.0% - 9.0%	-	7	-	-	-	-
USD, effective contractual rate of 2.0% - 11.9%	-	95	-	-	175	-
EUR, effective contractual rate of 6.9% - 7.8%	-	-	-	-	10	-
CHF, effective contractual rate of 6.3%	-	-	-	-	1	-
Subordinated loans in USD, effective contractual rate of 5.5% - 8.0%	**-**	**11**	**-**	**-**	**132**	**-**

36 Related Party Transactions (Continued)

	2012					
In millions of US Dollars	**TNK-BP**	**Alfa Group, its associates and shareholders***	**ADA Group and its associates**	**ABH Holdings S.A.**	**ABH Ukraine Group**	**Key management**
Loans and advances to customers as at the year end (gross of provision for impairment)	**-**	**1 007**	**314**	**-**	**-**	**2**
RUR, effective contractual rate of 5.5% - 17.0%	-	571	93	-	-	-
USD, effective contractual rate of 5.2% - 20.7%	-	433	221	-	-	1
EUR, effective contractual rate of 6.1% - 7.1%	-	3	-	-	-	1
Provision for loan impairment as at 1 January 2012	**-**	**(42)**	**(200)**	**-**	**-**	**-**
Reversal of provision for loan impairment during the year	-	19	56	-	-	-
Amounts written-off	-	-	115	-	-	-
Provision for loan impairment as at 31 December 2012	**-**	**(23)**	**(29)**	**-**	**-**	**-**
Receivables as at the year end	**-**	**5**	**2**	**-**	**1**	**-**
Correspondent accounts of other banks as at the year end	**-**	**7**	**-**	**-**	**8**	**-**
Term placements of other banks as at the year end						
RUR, effective contractual rate of 8.0% - 9.0%	-	2	-	-	-	-
Customer accounts						
Current/settlement accounts as at the year end	**46**	**453**	**36**	**-**	**1**	**11**
RUR, effective contractual rate of 0.0% - 13.5%	45	220	11	-	-	1
USD, effective contractual rate of 0.0% - 0.4%	1	222	25	-	1	10
EUR, effective contractual rate of 0.0% - 2.5%	-	11	-	-	-	-
Term deposits as at the year end	**249**	**2 477**	**6**	**-**	**5**	**1**
RUR, effective contractual rate of 0.0% - 13.5%	24	168	6	-	-	1
USD, effective contractual rate of 0.4% - 10.5%	225	2 246	-	-	5	-
EUR, effective contractual rate of 0.0% - 7.2%	-	36	-	-	-	-
Other, effective contractual rate of 0.0% - 5.8%	-	27	-	-	-	-
Payables as at the year end	**-**	**12**	**-**	**-**	**3**	**65**
Interest income for the year	**1**	**92**	**52**	**-**	**18**	**-**
Interest expense for the year	**(8)**	**(32)**	**-**	**-**	**-**	**-**
Fee and commission income for the year	**1**	**110**	**-**	**-**	**-**	**-**
Fee and commission expense for the year	**-**	**(3)**	**-**	**-**	**(2)**	**-**
Gains less losses arising from trading securities for the year	**2**	**(1)**	**-**	**-**	**-**	**-**
Gains less losses arising from trading in foreign currencies for the year	**15**	**-**	**-**	**-**	**-**	**-**

36 Related Party Transactions (Continued)

	2012					
In millions of US Dollars	**TNK-BP**	**Alfa Group, its associates and shareholders***	**ADA Group and its associates**	**ABH Holdings S.A.**	**ABH Ukraine Group**	**Key mana-gement**
Other income for the year	**-**	**4**	**-**	**-**	**-**	**-**
Other expenses for the year	**-**	**(12)**	**-**	**-**	**-**	**(50)**
Guarantees issued by the Group at the year end	**-**	**8**	**275**	**-**	**-**	**-**
Guarantees received by the Group at the year end	**-**	**132**	**264**	**-**	**-**	**-**
Import letters of credit as at the year end	**2**	**15**	**-**	**-**	**-**	**-**

*excluding ABH Holdings S.A., ABH Ukraine Group, ADA Group and TNK-BP disclosed separately above.

The outstanding balances as at 31 December 2011 and income and expense items as well as other transactions for the year ended 31 December 2011 with related parties were as follows:

	2011					
In millions of US Dollars	**TNK-BP**	**Alfa Group, its associates and shareholders***	**ADA Group and its associates**	**ABH Holdings S.A.**	**ABH Ukraine Group**	**Key mana-gement**
Trading securities as at the year end	**8**	**61**	**-**	**-**	**1**	**-**
Investment securities available for sale as at the year end	**32**	**21**	**-**	**-**	**2**	**-**
Correspondent accounts with other banks as at the year end	-	**1**	**-**	**-**	**2**	**-**
Term placements with other banks as at the year end	**-**	**44**	**-**	**-**	**28**	**-**
RUR, effective contractual rate of 10.5%	-	9	-	-	-	-
USD, effective contractual rate of 5.9% -10.0%	-	35	-	-	25	-
EUR, effective contractual rate of 5.0%	-	-	-	-	3	-
Subordinated loan in USD, effective contractual rate of 5.75%	**-**	**-**	**-**	**-**	**132**	**-**
Loans and advances to customers as at the year end (gross of provision for impairment)	**-**	**855**	**453**	**-**	**15**	**2**
RUR, effective contractual rate of 5.5% - 22.0%	-	503	207	-	-	-
USD, effective contractual rate of 4.5% -20.0%	-	349	246	-	15	2
EUR, effective contractual rate of 7.3%	-	3	-	-	-	-

36 Related Party Transactions (Continued)

	2011					
In millions of US Dollars	TNK-BP	Alfa Group, its associates and shareholders*	ADA Group and its associates	ABH Holdings S.A.	ABH Ukraine Group	Key management
Provision for loan impairment as at 1 January 2011	-	**(18)**	**(252)**	-	-	-
Provision for loan impairment during the year	-	(24)	52	-	-	-
Provision for loan impairment as at 31 December 2011	-	**(42)**	**(200)**	-	-	-
Receivables as at the year end	-	**11**	**81**	**93**	**-**	**-**
Correspondent accounts of other banks as at the year end	**-**	**5**	**-**	**-**	**17**	**-**
Term placements of other banks as at the year end in RUR, effective contractual rate of 3.5% - 8.0%	**-**	**7**	**-**	**-**	**-**	**-**
Customer accounts						
Current/settlement accounts as at the year end	**51**	**706**	**53**	**1**	**7**	**15**
RUR, effective contractual rate of 0.0% - 7.7%	50	167	23	-	-	1
USD, effective contractual rate of 0.0% - 3.1%	1	142	30	1	5	14
EUR, effective contractual rate of 0.0% - 0.1%	-	397	-	-	2	-
Term deposits as at the year end	**265**	**1 343**	**9**	**-**	**-**	**3**
RUR, effective contractual rate of 2.5% - 14.0%	9	217	7	-	-	2
USD, effective contractual rate of 0.2% - 6.6%	254	1 083	2	-	-	1
EUR, effective contractual rate of 2.4% - 5.8%	2	43	-	-	-	-
Payables as at the year end	**-**	**7**	**10**	**3**	**1**	**37**
Interest income for the year	**3**	**78**	**90**	**-**	**16**	**-**
Interest expense for the year	**(25)**	**(30)**	**-**	**-**	**-**	**-**
Fee and commission income for the year	**2**	**94**	**-**	**-**	**-**	**-**
Fee and commission expense for the year	**-**	**(4)**	**-**	**-**	**(3)**	**-**
Gains less losses arising from trading securities for the year	**-**	**(1)**	**2**	**-**	**-**	**-**
Gains less losses arising from securities available for sale for the year	**1**	**2**	**-**	**-**	**1**	**-**
Gains less losses arising from trading in foreign currencies for the year	**12**	**5**	**-**	**-**	**-**	**-**
Other expenses for the year	**-**	**(14)**	**-**	**-**	**-**	**(36)**
Guarantees issued by the Group at the year end	**31**	**52**	**-**	**-**	**5**	**-**
Guarantees received by the Group at the year end	**-**	**132**	**376**	**-**	**-**	**-**
Import letters of credit as at the year end	**2**	**6**	**-**	**-**	**1**	**-**

*excluding ABH Holdings S.A., ABH Ukraine Group, ADA Group and TNK-BP disclosed separately above.

36 Related Party Transactions (Continued)

Key management of the Group represents members of the Board of Directors and the Executive Board of Alfa-Bank and the Board of Directors the Company. Key management compensation is presented below:

In millions of US Dollars	**2012**	**2011**
Key management compensation accrued as at the reporting date	**65**	**37**
- short-term bonuses	11	-
- long-term bonuses	54	37
Key management compensation expense for the year	**50**	**36**
- salaries	9	10
- short-term bonuses	11	6
- long-term bonuses	30	20

The long-term bonuses are settled within three years period following date of granting.

As at 31 December 2012 liabilities of the Group classified as "Alfa Group, its associates and its shareholders" included USD 104 million (2011: USD 37 million) of third parties funds managed by subsidiaries of CTFH.

Also, refer to Note 22 for the information on dividends declared and distributions made by the Company.

In addition, refer to Note 11 for the information on investment in Pamplona Credit Opportunities Fund.

37 Subsequent Events

In January 2013 the Group issued USD 20 million Euro Commercial Paper Notes under ECP Programme (Note 17) with maturity date in 364 days and at a discount to the nominal value of 2.75%.

In January 2013 the Group sold its entire interest in Pamplona Capital Opportunity Fund to a subsidiary of CTFH for consideration approximating the carrying value of the interest as at 31 December 2012.

In February 2013 the Group issued RR 5 000 million (equivalent of USD 165 million) bonds with maturity date on 26 February 2016 and interest rate of 8.65% p.a.