UniCredit Bank

Clear answers for real benefits.

2012 Annual Report

UniCredit Bank

Customer testimonials are the common thread of this year's annual report to illustrate the concrete solutions we provide every day. These true stories were told first-hand and collected by the colleagues who worked with them to offer real benefits.

Each story lends an authentic voice to how we are having a positive impact on our stakeholders. We are making a difference by recognizing everyday challenges and opportunities, and by contributing to the economic, social and cultural well-being of the communities we serve.

This report's creative concept reflects our commitment by displaying two pieces that fit together. This represents the union between the real-life needs of our clients and the practical solutions that we offer.

Above all, we believe that being a commercial bank means engaging in meaningful dialogue with those with whom we come into contact. This enables us to provide simple, quick and effective responses that perfectly meet customer needs.

Inside you will find some of these stories. We hope the next one will be yours.

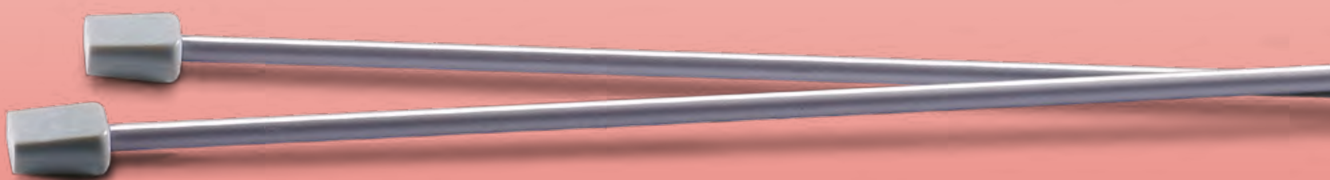
2012 Annual Report

Meeting customers’ specific needs with flat fee

CUSTOMIZED

“Even when it comes to fairly simple banking transactions like payments, we know that UniCredit Bank finds solutions that are mutually beneficial. Their customized payment system, flat fee, not only helps us to understand and plan our monthly expenses but also saves our accountant’s time.”

Pauls Ābele, Head of Finance, Accounting and IT Board Member of AS “Latvijas Finieris,” customer of UniCredit Bank in Baltics



Financial Highlights

	2012	2011	change 2011-2012
ASSETS AT THE END OF THE YEAR, RUB million			
Total assets, including	**868 476**	**771 977**	**12.5%**
Loans to customers and lease receivables	504 195	472 698	6.7%
Investments in securities	63 261	45 826	38%
LIABILITIES AT THE END OF THE YEAR, RUB million			
Total liabilities, including	**755 222**	**683 669**	**10.5%**
Amounts due to customers	503 869	462 923	8.8%
Amounts due to credit institutions	187 524	165 827	13.1%
CAPITAL (BASEL II CAPITAL ACCORD) AT THE END OF THE YEAR, RUB million			
Total capital	**113 253**	**88 308**	**28%**
PROFIT FOR THE YEAR, RUB million			
Net interest income	23 258	21 772	7%
Non-interest income	12 868	11 014	17%
Operating income	**36 126**	**32 785**	**10%**
Loan impairement	-2 783	-2 662	5%
Net income from financial activities	**33 342**	**30 124**	**11%**
Operating costs	-11 142	-10 289	8%
Gains/losses on associate and disposal of investments	42	31	35%
Profit before income tax expense	**22 243**	**19 866**	**12%**
Income tax expense	-4 764	-4 078	17%
Total profit for the year	**17 478**	**15 788**	**11%**
KEY PERFORMANCE INDICATORS, %			
Return on average equity (ROE)	17.83	20.38	
Return on average assets (ROA)	2.26	2.56	
Total capital ratio (Basel II)	15.0	12.8	
Central Bank of Russia N1 capital adequacy ratio	13.25	12.4	
Cost/income ratio	33.8	35.2	
STAFF			
Number	3 666	3 886	-6%
GEOGRAPHY			
Branches in Moscow	41	41	0%
Regional branches	51	50	2%
RepOffices	14	14	0%
Offices abroad	1	1	0%
Total Number of Offices	**107**	**106**	**1%**

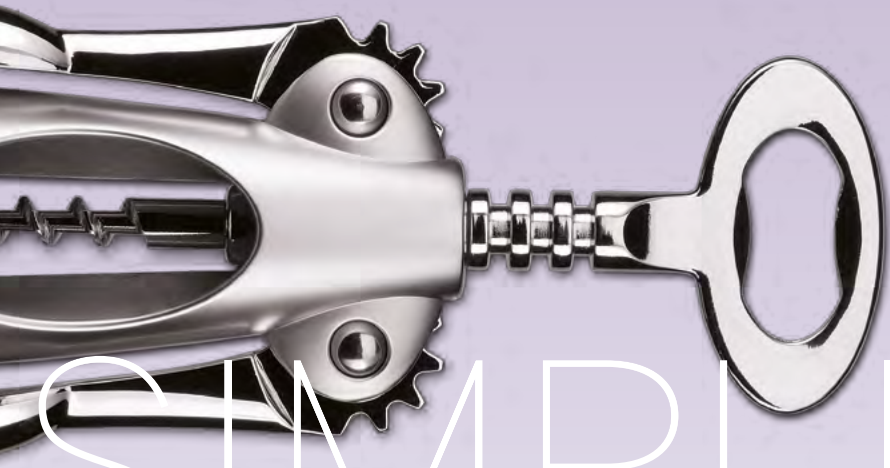
UTILITY

Helping artisans recraft their business

"I've been a craftsman for many years and I am very satisfied with my relationship with Zagrebačka Banka. I believe the bank recognizes the economic potential of craftsmanship. They helped me to expand my activities and to adapt my business model to meet EU conditions. This was done through a program that provided me with financial assistance, as well as consulting services so that I could make the best financing choices."

Ivan Obad, President of the Chamber of Trades and Crafts Zagreb, customer of Zagrebačka Banka in Croatia

Contents



SIMPLICITY

Home loans made easy

“Zagrebačka Banka helped me to resolve my personal and professional financing challenges. I previously worked in Zagreb, where I lived in a rented apartment. When I found another job in my hometown of Split, the bank helped me to secure a state-subsidized loan that allowed me to move back and buy a house. My personal banker was highly skilled and engaged, and my loan application was processed quickly and approved immediately.”

Goran Dlaka, customer of Zagrebačka Banka in Croatia

Introduction

Statement by the Chairman of the Supervisory Board

ERICH HAMPEL,
Chairman of the Supervisory Board

"In 2012, UniCredit Bank continues to be the largest foreign bank in Russia and one of the most effective Russian banks."

Ladies and Gentlemen,
Dear Clients, Friends and Colleagues,

I am proud to present the 2012 Annual Report on behalf of the Supervisory Board of UniCredit Bank.

2012 became another successful year for the whole Russian banking system. Thanks to our very professional and experienced management, it was also very successful for UniCredit Bank. The net profit reached 17.49 billion rubles, which is a new all-time high for the Bank and third in a row of record results over the last three years.

UniCredit Bank continues to be the largest foreign bank in Russia and one of the most effective Russian banks. It is important to mention that the Bank continued to maintain a broadly diversified funding base as well as a solid balance sheet structure. In 2012 the Bank achieved the optimal loan-to-deposit ratio of 100%.

In 2012, UniCredit Bank further improved the quality of customer service. The wide range of banking products and the high quality of services for a variety of customer segments as well as being a part of a leading international financial group allowed the Bank to successfully meet customer needs and to attract new clients, increasing its customer base in both segments, private individuals and corporate customers.

According to the Strategic Plan of UniCredit, Russia is one of the most promising countries for further development of the Group's business. It is our goal to support our presence in the Russian financial market, providing our clients with the clear answers for real benefits with the most advanced financial products and services as well as the opportunities of an international network of the Group.

I would like to thank the Management Board and the employees of UniCredit Bank for their good work and excellent results achieved in 2012. In 2013, we will continue to implement the Strategic Plan for the benefit of our customers, the shareholder and other stakeholders.

Erich Hampel,
Chairman of the Supervisory Board

Highlights

UniCredit operates in 22 Countries with more than 156,000 employees and more than 9,300 branches.

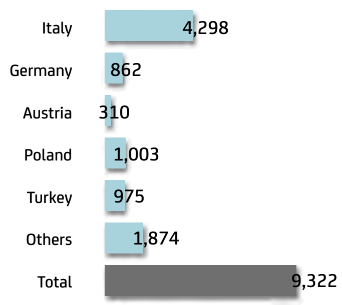
UniCredit benefits from a strong European identity, extensive international presence and broad customer base.

Its strategic position in Western and Eastern Europe gives the Group one of the region's highest market shares.

EMPLOYEES[1]
over 156,000

BRANCHES[2]
more than 9,300

BRANCHES BY COUNTRY[2]

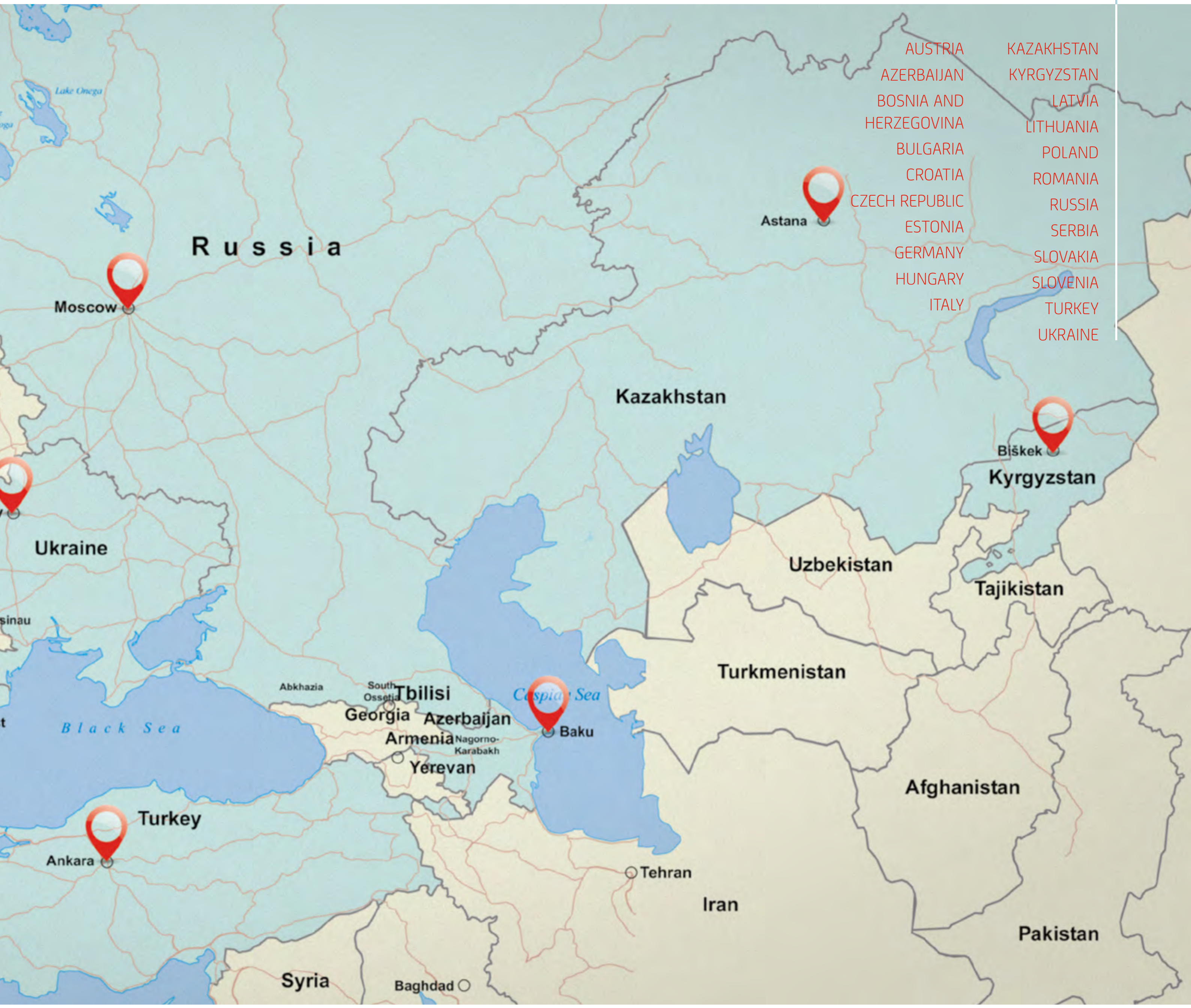


1. Data as at December 31, 2012. FTE = "Full Time Equivalent": number of employees counted for the rate of presence. Figures include all employees of subsidiaries consolidated proportionately, such as Koç Financial Services Group employees.
2. Figures include all branches of subsidiaries consolidated proportionately, such as Koç Financial Services Group branches.

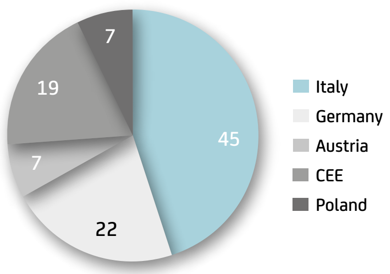
* Data as at December 31, 2012.

WHERE WE OPERATE*

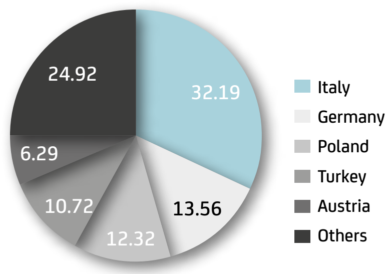
AUSTRIA
AZERBAIJAN
BOSNIA AND HERZEGOVINA
BULGARIA
CROATIA
CZECH REPUBLIC
ESTONIA
GERMANY
HUNGARY
ITALY
KAZAKHSTAN
KYRGYZSTAN
LATVIA
LITHUANIA
POLAND
ROMANIA
RUSSIA
SERBIA
SLOVAKIA
SLOVENIA
TURKEY
UKRAINE



REVENUES BY REGION* (%)



EMPLOYEES BY COUNTRY[1] (%)



Focus

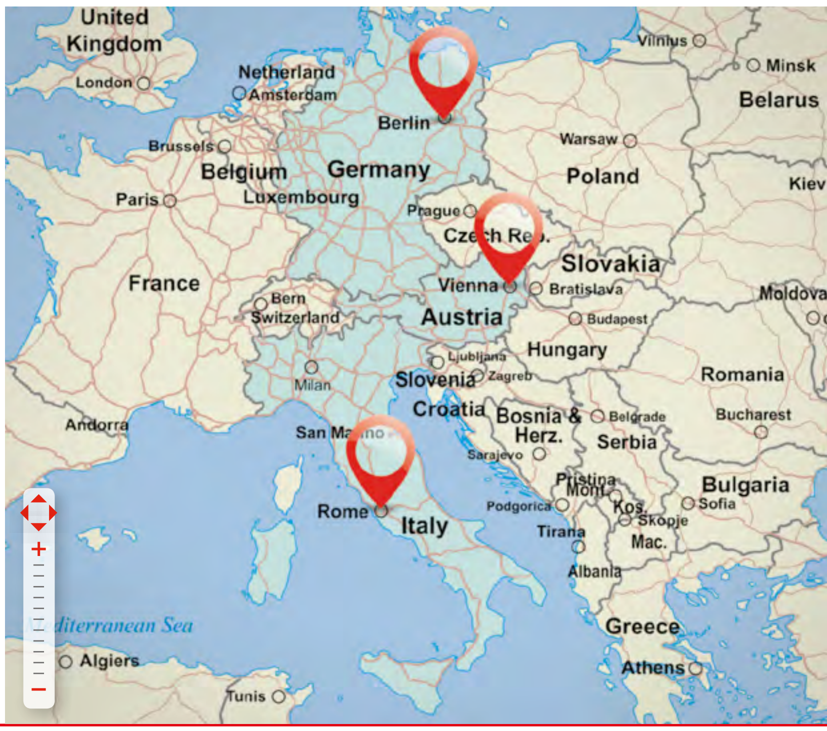
AUSTRIA, GERMANY AND ITALY

UniCredit occupies a strategic position in Italy, Germany and Austria. With about 310 branches in Austria, 860 in Germany and 4,300 in Italy, UniCredit comprises one of the largest banking networks in the heart of Europe. Accounting for more than one-third of the GDP of the European Union, these three countries benefit from their close ties to the growing economies of Central and Eastern Europe.

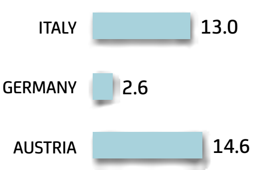
While 2013 may prove to be another challenging year for this region, sequential economic growth is projected to accelerate gradually. The ECB's announcement of the Outright Monetary Transactions (OMT) bond purchase program has significantly diminished tail risks in the eurozone, and the outlook has improved in tandem with market sentiment since August 2012. With the ECB providing an effective and credible backstop, financial markets are increasingly likely to reflect fundamentals. Italy's economy is projected to modestly expand in the second half of 2013. The factors underpinning these expectations are namely the lesser drag from fiscal consolidation in 2013 compared to the 2012, the gradual improvement in financial market conditions, which should soon start to positively affect sentiment and, most importantly, financing conditions for the private sector, which posed particular challenges to Italy in 2012.

Finally, the third factor is the projected re-acceleration in global trade which is likely to be a key driver of economic growth for all euro area countries. It will also result in a moderate upward trend in consumption, thanks to rising wages and a solid labor market. In Austria, stronger trade and the international competitiveness of its industrial sector will likely foster an upswing in 2013, boosted by a slight increase in investment.

In the medium and long term, the OMT has helped to create a more favorable environment for politicians to implement structural reforms. These remain essential to achieving a sufficient degree of macroeconomic and fiscal convergence across the eurozone, while efforts continue to shape a credible pan-European architecture. This process is vital to making the eurozone stronger and more competitive moving forward. In Italy, the sustainability of the recovery will largely depend on the quick and effective implementation of reforms to restore long-term competitiveness and reduce public debt. Taking into account the reforms that have already been implemented in Italy, we expect real economic growth to continue at an average annual rate of roughly 1% in Italy and 1.8% in Austria and Germany from 2014 to 2017.



MARKET SHARE[1] (%)



1. Market Share in terms of Total Customer Loans as at December 31, 2012.
Source: Eurostat, UniCredit Research.

CENTRAL AND EASTERN EUROPE

UniCredit is a market leader in Central and Eastern Europe, it has a broad network of roughly 3,800 branches.

Its regional footprint is diverse, and include a direct presence in 19 countries. It is ranked in the top five in 11 of these counties*. In fact the CEE now accounts for 26 percent of the Group's revenues.

The region's economic environment is expected to improve, with GDP growth forecast to rise from 2.5 percent in 2012 to 2.9 percent in 2013 and to 3.4 percent in 2014. With Q4 2012 representing the bottom of the cycle, a sequential improvement in the numbers should be evident by Q1 2013.

Among the factors expected to aid recovery following a weak 2012, is a gradual improvement in external demand, with the potential to drive an increase in industrial production and exports across the region. Domestic demand should be supported by easier financing conditions, as central banks have cut interest rates and governments now have ample access to external financing.

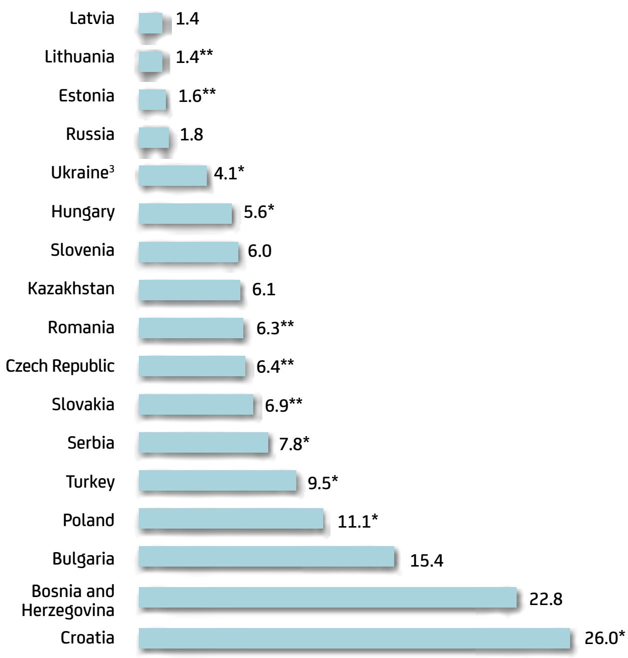
It is not forecast an increase in interest rates in any CEE country for 2013. At the same time, lower inflation in some countries will boost purchasing power, and the positive trend in private credit should support an increase in activity in comparison with 2012. The region will also benefit from significant recent progress in narrowing budget deficits and stabilizing the ratio of public debt to GDP at relatively low levels.

In most cases, the turnaround will rely initially on strong external demand, with domestic demand to follow. Turkey is an exception, with domestic demand already showing signs of recovery. In Russia, domestic demand, which has lagged behind the rest of the region, remained relatively strong for much of 2012, but is at risk of a moderate slowdown in 2013.

From a medium- to long- term perspective, we believe that the majority of Central and Eastern Europe economies will continue to see an increase

in living standards as growth is supported by competitive labor costs, flexible labor markets and a gradual recovery in foreign direct investment. Nevertheless, the primary challenge for the region remains a structural shortfall in savings, with the exception of Russia.

MARKET SHARE[2] (%)



* as at 30 September, 2012.

** as at 31 December 2011.

2. Market Share in terms of Total Assets as at December 31, 2012. Market Share in Azerbaijan and Kyrgyzstan not available.

3. Pro-forma (Ukrsotsbank + UniCredit Bank Ukraine).

Source: UniCredit Research, UniCredit CEE Strategic Analysis.

Business Model

The UniCredit business model is based on the following principles:

- maintaining the so-called "global" Divisions / functions (Corporate Investment Banking (CIB)/ Global Banking Services (GBS)/ Central and Eastern Europe (CEE)) which allow the Group to maintain and increase a competitive advantage in terms of costs and competencies, while envisaging the refocusing of CIB Division on selected customers with a strong demand for "Investment Banking" products;
- higher responsibility of the Countries/ local Banks, through increased autonomy and decision levers, in order to guarantee increased proximity to the client and faster decision processes (direct management of marketing activities and of certain businesses);
- confirmation of the steering, coordination and control role of the Holding Company, in particular through a focus on internal control topics, a supervision of Group key processes and a global coordination of some functions (Planning, Finance & Administration, Risk Management and Legal & Compliance).

Organizational Structure

UniCredit Group organization reflects an organizational and business model which maintains a divisional structure for the government of the Corporate Investment Banking business/products and the business in the CEE Countries, as well as a global control over the Global Banking Services functions, while ensuring the autonomy of the Countries/Banks on specific activities, in order to guarantee increased proximity to the client and faster decision processes:

- the **Chief Executive Officer** (CEO), while maintaining the overall responsibility on all regional businesses reporting to him (Italy, Germany, Austria, Poland and CEE), oversees directly the Italian business and delegates the supervision of Austria, Poland and CEE Division to the General Manager and the supervision of Germany to the Deputy General Manager responsible for the CIB Division.

- The **CIB Division**, which maintains the role as a Global Division, with a coverage role for the multinational customers ("Multinational"), for selected "Large corporate" clients with a strong potential demand for investment banking products, for the Financial and Institutional Groups (FIG) customers and for the Global Lines "Global Transaction Banking (GTB)", "Global Financing & Advisory (F&A)" and "Markets".

- The **General Manager** is responsible for some cross-Group topics/ areas such as: i) managing strategic marketing activities ii) assisting the Chief Executive Officer in the Internal Control System ("ICS System") management, in order to ensure its effective functioning and iii) fostering, also through the other competent functions, an ongoing dialogue and relationship with the Group regulators.

- The **CEE Division coordinates** the Group activities in 19 countries of Central and Eastern Europe, aligning them to a single comprehensive business vision in the area.

- The **Chief Operating Officer** ("COO") concentrates under a sole responsibility all the managerial levers regarding the organizational, operational and service functions (included HR Management) – such as Organization, ICT, Operations, Workout, Security – responsible for supporting, also through the Group Global Service Factories, the sustainable business growth of the Group, ensuring the utmost quality of services provided and optimizing cost structures and Group's internal processes.

- As far as the Italian perimeter is concerned, within the major responsibility and autonomy of the local countries/banks, the **Country Chairman Italy** is responsible for all the coordination, control and development activities of the segments so called "Individuals" (Mass Market, Personal Banking and Private Banking), Small Business and Corporate segments (now including the former segment Medium Enterprises) of the Italian perimeter, leveraging on a Network breaking down into 7 "Regions", a "Direzione Network Real Estate" and a Network dedicated to the Private Banking segment.

- The **Asset Management** Product Line is responsible for the development of asset management in all geographic areas by guiding, coordinating and monitoring the development of business activities on a global level.

- Lastly, the functions called **Competence Lines** (Planning, Finance & Administration, Risk Management, Legal & Compliance, Internal Audit, Human Resources, Organization and Identity & Communications) oversee the guidance, coordination and control of UniCredit's activities and manage the related risks.

RECHARGING

Supporting enterprise with concrete actions
UniCredit International

"I own a small business that produces equipment for recycling precious metals. After winning a bid for a project with the Indian government last year, we were in need of a qualified partner to manage our complex operations abroad. UniCredit believed in us and our work, providing us with the initial warranty request, a letter of credit and the loans we needed. Thanks to their support, we successfully completed the project."

Paolo Balestri, Balestri impianti,
customer of UniCredit in Italy

General Information

- UniCredit Bank is the first bank in Russia with majority foreign ownership.
- Until 20 December 2007, the Bank was called International Moscow Bank, registered by the State Bank of the USSR on 20 October 1989, General License No.1.
- On 20 December 2007, International Moscow Bank officially changed its name to ZAO UniCredit Bank
- The Central Bank of Russia issued UniCredit Bank General License No.1 for banking operations.
- UniCredit Bank is 100% owned (voting shares) by UniCredit Bank Austria AG, Vienna, Austria, a member of the European group UniCredit (UniCredit S.p.A).
- Today, UniCredit Bank is one of Russia's largest commercial banks, offering a wide range of corporate and retail services, as well as services for SMEs and financial institutions.

2012

Main Achievements in 2012

UniCredit Bank implements 3D Secure technology to enhance the security of Internet credit card transactions

UniCredit Bank is striving to ensure the maximum level of security for client funds. 3D Secure technology provides additional data protection for VISA and MasterCard holders when making payments via the Internet, thereby minimizing the risk of unsanctioned operations with UniCredit Bank cards.

UniCredit Bank launches official Twitter-account and Foursquare office

In May 2012, Twitter UniCredit Bank opened an official Twitter account, which allows clients of the Bank to quickly receive answers to questions that interest them or professional advice from banking experts, to find out the Bank's latest news, and take part in special offers and competitions. In April 2012, UniCredit Bank also appeared on Foursquare, where it is now possible to find information about the locations of the Bank's nearest offices and ATMs along with their work hours and services offered, as well as information about stores and restaurants in the immediate vicinity, etc. offering discounts under the «Discount Cards» loyalty program.

UniCredit Bank opens new operations office in Omsk

In April 2012 in Omsk, UniCredit Bank opened the Levoberezhny operations office of its Novosibirsk branch. The new office will provide services to private clients and SMEs.

UniCredit Bank now a Top-Five bank for client service quality

UniCredit Bank took 4th place in the "Client Impressions Index – 2012", which evaluates the quality of service provided at Russian banks; the Bank finish nine places lower in 2010. The survey was conducted by the global consulting company Senteo, which analyzed the result of 300 visits by "secret" clients to 39 major Russian banks.

UniCredit Bank upgrades Enter.UniCredit Internet system

On August 6, 2012, UniCredit Bank launched client access to the upgraded version of the Internet banking system Enter.UniCredit. The new version differs by offering modern design and improved interface, as well as by including a more convenient navigation system and new functional capacities.

UniCredit Bank offers first 15-year fixed interest rate mortgage loan in Russia

On September 1, 2012, UniCredit Bank became the first bank in Russia to offer clients 30-year mortgage loans with 15-year fixed interest rates. This option, which incorporates average mortgage loan life statistics, enables clients to use mortgage loans with some of the lowest interest rates currently available on the market.

UniCredit Bank wins 10th JPMorgan Chase Bank "For High Quality" award

UniCredit Bank received this award for providing impeccable quality for outgoing payment orders in US dollars. For many years, 99% of UniCredit Bank's client payments have been automated, making it possible to service US dollar accounts quickly and efficiently.

UniCredit Bank Management Board Chairman Mikhail Alekseev wins “Reputation of the Year 2012” award

On September 12, 2012, the awards ceremony for the financial prize “Reputation of the Year - 2012” was held as part of the nationwide “Financiers’ Day’’ celebration. UniCredit Bank Management Board Chairman Mikhail Alekseev was the winner in the «Reputation of the Year» category, confirming the recipient’s strong professional and personal qualities. The winner was chosen based on the opinions of members of the financial community, whose assessments are collected during an open voting process conducted every year. The organizers were the Society of Financial Market Professionals and the International Public Organization Financiers’ Guild, with support from the Russian Ministry of Finance and the Federal Financial Markets Service’s Expert Group on Financial Education.

UniCredit Bank increases charter capital to RUB 41.788 billion

UniCredit Bank increased its charter capital to RUB 41.788 billion. The decision was approved by UniCredit Bank’s shareholder UniCredit Bank Austria, part of UniCredit Group. UniCredit Bank placed 594,530 shares with a face value of RUB 16,820 each for a total face value of RUB 9,999.99 million. The Central Bank of Russia registered the share issue on October 2, 2012.

UniCredit Bank launches new mobile application Home Finder

On October 12, 2012, iPhone, iPad and Android mobile device owners received access to the new Home Finder application from UniCredit Bank. This application can help users find apartments in any Russian city, view detailed information about selected properties, and receive statements regarding monthly mortgage loan payments.

UniCredit Bank website wins third straight Golden Site award

On October 18, 2012, the results of the XII All-Russian Internet Competition «Golden Site» were announced in Moscow. UniCredit Bank’s website was the champion in the «Company Trade Mark» category and a prize winner in the «Banks and Finances» category. The “Golden Site» competition has been held since 1997 and is the first award for Russian Internet projects. Every year more than 1,000 sites participate, and the best sites are chosen by a panel of judges – leading experts in the sector, led by a chairman.

Main Achievements in 2012 (Continued)

Standard & Poor's raises its short-term rating for UniCredit Bank

On November 13, 2012, the international ratings agency Standard & Poor's (S&P) raised its short-term rating for UniCredit Bank from A-3 to A-2 and confirmed its long-term rating of BBB and its rating forecast of «stable». Confirmation of UniCredit Bank's long-term rating reflects the opinion of S&P analysts that the Bank has a strong business position, solid indicators of capitalization and profitability, a suitable risk position, and good liquidity indicators. S&P analysts also note the Bank' strongly competitive business position and excellent brand recognition on the Russian market.

SME Bank and UniCredit Bank sign agreement on targeted credit for SMEs

In November 2012, UniCredit Bank and SME Bank signed a new Agreement on Targeted Credit for the SME Financial Support Program. Funds distributed under the agreement will be used to finance UniCredit Bank's SME loan programs.

UniCredit Bank launches World Elite™ MasterCard®, organizes art exhibit for the occasion

In November 2012, UniCredit Bank presented the exhibition «Post-Avant-Garde: Russian Paintings and Drawings from the UniCredit Bank Art Collection and Private Collections". The event was held at the Multimedia Art Museum in Moscow and was timed to coincide with the issue of UniCredit Bank's World Elite™ MasterCard® for UniCredit Private Banking clients.

At the heart of the new card's design was one of the key works from the UniCredit Bank Art Collection « "Tsar's Courtiers» (illustrations for a book of fairy tales) by the famous Russian painter, graphic artist, and theatrical decorator Konstantin Chebotarev (1892-1974).

The exhibition include paintings and graphic works by Russian artists whose creative activity is linked to the 1920s and 1930s – a total of over 70 works by post avant-garde artists, including Alexander Drevin, Nadezhda Udaltsova, Daniil Cherkes, and Alexander Labas from the UniCredit Bank Art Collection, along with works by masters such as Boris Golopolosov, Nikolai Prokoshev, Alexander Rittikh, Arseny Shultz and Georgiy Shchetinin held in private collections.

UniCredit Bank in Top Five in Corporate Charity Leaders, Financial Sphere ranking

UniCredit Bank took 5th place in the survey "Corporate Charity Leaders" in the subcategory "Financial Sphere," which evaluates the effectiveness of companies' charitable activities. In 2012 for the fifth time the ranking was prepared by the non-profit partnership of grant organizations "Donors' Forum" jointly with the newspaper Vedomosti and PwC.

UniCredit Bank launches Android application for mobile devices

Since December 19, 2012, UniCredit Bank clients have had access to the specialized banking application Mobile.UniCredit for mobile devices on the Android platform. The attachment can help users find the Bank's nearest offices and ATMs, as well as places offering discounts for payments using UniCredit Bank cards. Users can also receive information about exchange rates, news and product offers, and cab order calls at convenient times from Bank specialists.

UniCredit Bank was acknowledged as The Best Trade Finance Bank in Russia

UniCredit Bank was acknowledged as The Best Trade Finance Bank in Russia according to the Global Finance magazine who has named the "Best Trade Finance Banks" by region and country in an exclusive survey. Global Finance editors — with input from industry analysts, corporate executives and technology experts — selected the best trade finance banks in 83 countries or regions. Criteria for choosing the winners included: transaction volume, scope of global coverage, customer service, competitive pricing and innovative technologies.

UniCredit Bank still one of Russia's most reliable banks, says Forbes

Forbes published its traditional Top 100 Banks rating for 2012. For the fifth year in a row, UniCredit Bank was named one of Russia's most reliable banks. The Bank took 8th place by asset volume, maintaining its position as the largest foreign bank in Russia, and was ranked 7th by capital.

UniCredit Bank named European Top Employer 2013

In a study by CRF Institute, UniCredit Bank, for the second straight year, was recognized as the European Top Employer, and UniCredit became the only company in the history of the independent international CRF Institute to win the award three years in a row.

PROTECTION

Supporting communities in critical times

"After one of our town's largest employers closed its doors, our local communities went through a very tough time. UniCredit worked closely with government officials on an innovative initiative that helped those who had lost their jobs, like me, gain prompt access to unemployment benefits. The bank quickly facilitated funding for entitlements, protecting families from collapse."

Franco F., customer of UniCredit in Italy

Strategy and Results in 2012

Management Statement

MIKHAIL ALEKSEEV,
Chairman of the Management Board

"The year 2012 confirmed UniCredit Bank's strong positions on the Russian banking services market. Net profit after taxes reached RUB 17.48 billion, a new all-time record for the Bank."

Ladies and Gentlemen,

The year 2012 confirmed UniCredit Bank's strong positions on the Russian banking services market. For many years the Bank has been the largest Russian bank with foreign ownership and one the most profitable. The year 2012 was no exception: net profit after taxes reached RUB 17.48 billion, a new all-time record for the Bank.

The growth of net income from financial activity made a significant contribution to the achievement of this result, but the continuing improvement in the efficiency of the Bank's operations also played its part. The cost/income ratio contracted to 33.8%, one of the best efficiency indicators among Russian banks.

In 2012, UniCredit Bank continued its work with major companies, SMEs, and private clients. During the year, the Bank's loan portfolio increased by 6.7%, and it is important to note the expanding role of the retail business - last year the growth of the retail loan portfolio, which expanded by 34.62% year-on-year, had a strong impact on the Bank's performance. We would also emphasize that the Bank continues to maintain the high quality of its loan portfolio.

In 2012, UniCredit Bank continued to support the diversification of its sources of funding. In addition to raising funds by issuing bonds, the Bank successfully attracted client funds, which rose by 9% year-on-year. Moreover, in 2012 the Bank increased its equity to RUB 113.25 billion, for year-on-year growth of 28%.

In 2012, the Bank continued to develop its retail business, resulting in growth of the retail segment's contribution to the Bank's overall result. Moreover, considerable attention was devoted to optimizing the Bank's business processes, as a result of which further business and service quality enhancement were achieved without an increase in staff size.

In 2012, the Bank continued its practice of conducting customer satisfaction surveys in all the main segments. The results confirmed the consistently high quality of our products and services. Following these tendencies, in 2012 UniCredit Bank actively developed its distance banking services for private and corporate clients, in part by significantly upgrading Enter.UniCredit, which is popular with private clients.

In 2012, UniCredit Bank continued its participation in the cultural and social life of the country. In November, the Bank presented the exhibition «Post-Avant-Garde: Russian Paintings and Drawings from the UniCredit Bank Art Collection and Private Collections,» held at the Multimedia Art Museum in Moscow and timed to coincide with the issue of UniCredit Bank's WorldElite MasterCard® for Private Banking clients.

On behalf of the Management Board, I would like to thank the Bank's staff for their excellent work, professionalism and allegiance to UniCredit Group's corporate values, enabling all of us to look forward to the future with confidence as we pursue our strategy of sustainable development for the good of society, our shareholders, and our clients..

Mikhail Alekseev,
Chairman of the Management Board

Report on the Bank's Activities

Macroeconomics and the Russian Banking Sector in 2012

Macroeconomics

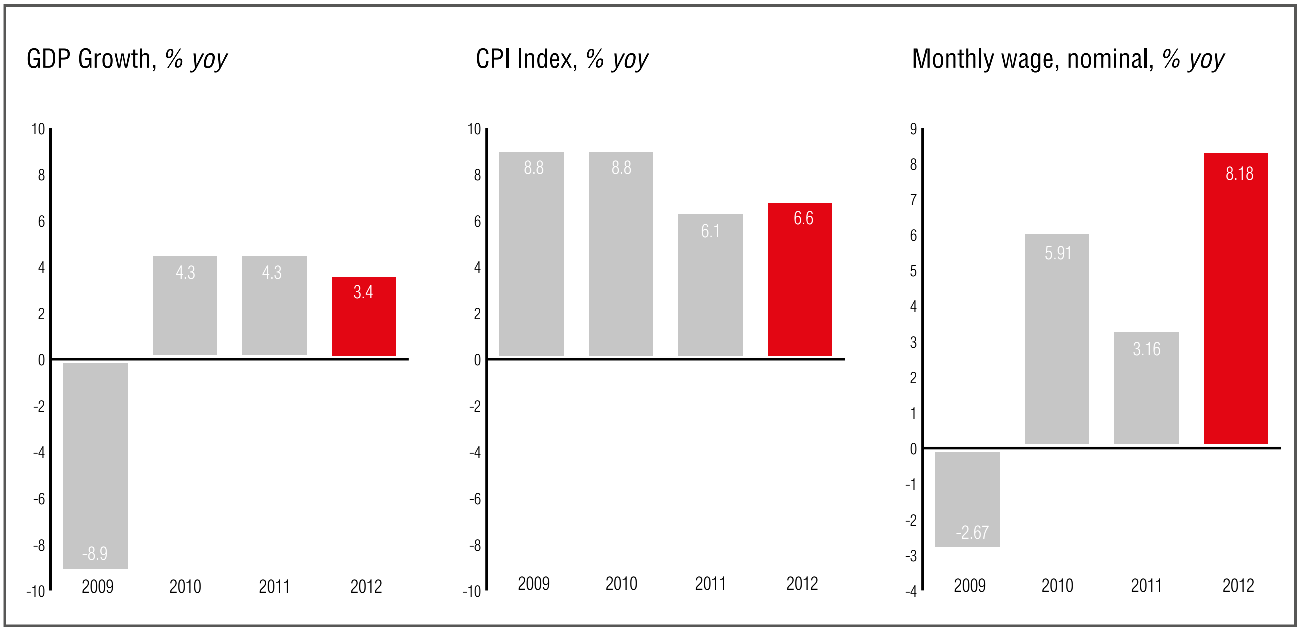
The year 2012 can be considered transitional in terms of economic growth and reforms. Russian GDP growth slowed from 4.3% in 2011 to 3.4%. Higher bank lending and trade gave the economy a boost, but the weak harvest prevented the local economy from matching last year's growth. We note a shift from extensive to intensive growth, most notably in the real exports sector. Following the significant growth in 2000-2007, the growth of physical export volumes has been close to zero over the past two years. Given that resource commodities account for more than 70% of exports and that prices for those goods were generally flat or slightly lower in 2012, Russia continued to take steps aimed at stability amid the new state of affairs, including epy significant reforms undertaken by the government.

First, in 2012 Russia became a member of the World Trade Organization, the culmination of 18 years of negotiations. Second, the Ministry of Finance insisted on reintroducing budget rules cancelled during the crisis period. Third, the Central Bank of Russia (CBR) held to its plans for a transition to inflation targeting by 2015 and, in the context of this process, continued to refine its monetary policy and expand the boundaries of free ruble fluctuation. Additionally, a technological and legal foundation for providing Russian securities market access to foreign depositories was prepared (Euroclear access to trading in Federal Loan Bonds was announced in February 2013).

Two key events in late 2011 and early 2012 were Russia's State Duma elections and presidential elections. The election outcomes were in line with expectations, likewise the state's focus on social stability. In 2012, the salaries of employees at state-funded organizations were raised by 20-40% and pensions were indexed up by 50%. Presidential decrees announced after the inauguration set the tone for the government's work over the next several years. One of the most important tasks is the clearly ambitious goal of raising Russia's rank in the World Bank's "Doing Business" rating from 120th place to 20th place by 2018. Additionally, new social indicators for the Russian population's standard of living were also put into place.

In 2012, capital outflow from Russia slowed considerably to USD 56.8 billion, largely thanks to the CBR's monetary and credit policy, which stimulated banks to raise more overseas capital. The Russian population remained a net buyer of hard currencies, but data on services imports indicate that people's main reason for purchasing hard currency is overseas travel rather than accumulating funds against any possible devaluation of the ruble. Public opinion surveys give the same indication, with a higher share of people choosing deposits as their preferred form of savings.

Lower inflation also increased people's faith in the ruble: inflation dipped to a record low of 3.2% in early 2012, mainly due to the shift of tariff indexation to mid-year. Higher inflation in H2 2012 resulted



not only from tariffs, but also from the weak global grain harvest. In response to rising inflation expectations the CBR raised its refinancing rates, thereby convincing the market of its firm intention to move towards targeted inflation, while also making the ruble freer. Now, external shocks are mainly reflected in exchange rate movements, rather than in interest rates or the real economy.

We expect that in 2013 the Russian economy will continue to grow at about 3.5%, but we project a moderate slowdown in consumer activity following the strong 6.6% growth in 2012, due in part to budgetary policy aimed at restraining the growth of spending. The state of the global economy and the price of oil will determine how the ruble moves, and there is a risk that political events in developed countries could put pressure on the exchange rate.

In 2013, the work on reforms continues, with pension reform as the most important item on the government's agenda. Proper resolution of this issue should give savings a boost, while increasing the average employment period length. Pension reform will be tightly linked to budgetary and investment policy, since oil revenues (once the Reserve Fund reaches 7% of GDP) will accumulate in the National Well-being Fund (NWF), which was created to ensure the stability of the pension system. Plans call for 50% of NWF receipts to be used for infrastructure projects, but it is likely that the government will develop measures to bolster investment. Moreover, securities market liberalization and foreign investor access to the Russian market are a necessary condition for the proper functioning of the financial system. International financial integration plays an important part in the country's development, as well as in the assessment of associated risks and opportunities for attracting capital.

Banking Sector

Despite the weaker growth, 2012 was a successful year for the Russian banking system. Pre-tax profit reached a historical high of over RUB 1 trillion, and the aggregate loan portfolio demonstrated confident annual growth of 18%.

However, the growth of the system's components was uneven. The growth of lending to the real sector contracted by 50% year-on-year to 12.7%. The total volume of corporate loans in 2012 reached RUB 19.9 trillion. Lower demand for loans from corporate clients prompted banks to shift their focus to the retail segment.

Retail lending rose at a more rapid pace, up 39% for the year, with some segments showing even more impressive growth – unsecured consumer lending rose by 60%. On the one hand, this fact caused concern at the CBR due to the accumulation of potential risks; in response to this, in 2013 the CBR is using higher reserves standards and risk coefficients for such loans. On the other hand, higher consumer lending is a reasonable tendency, as this segment is less developed in Russia than other segments and is greatly influenced by the low base effect. In Russia, the total retail loan portfolio as a percentage of GDP is about 13.5%, compared to 20-30% in CEE countries and 90% in the US. It is important to note that the strong growth of consumer lending is also due to the post-crisis recovery of consumer demand and greater confidence in the banking system.

Given all of this, consumer behavior shows a marked tendency towards reduced accumulation. Various studies and surveys indicate that the portion of the population with long-term deposits fell to 9% in 2012 compared to 12% in 2011. Additionally, the strong growth resulted in a lower share of overdue loans to individuals (down 1.2pp to 4%).

Solid growth was also registered in the volume of capital in the banking sector, which increased to RUB 6.1 trillion, up by 16.6%. Despite an overall drop of 1% in the level of capital sufficiency due to the strong pace of asset growth, the indicator stood at 13.7%, demonstrating the banking system's stability and its ability to surmount potential risks.

In terms of banking sector liquidity, 2012 can be deemed satisfactory. On the one hand, there was no clear liquidity deficit; on the other hand, banks made more frequent use of CBR refinancing instruments, which had the effect of more than doubling related bank liabilities categories (their share was 5%). At the same time, the banks' main sources of funding – the accounts and deposits of legal entities and the

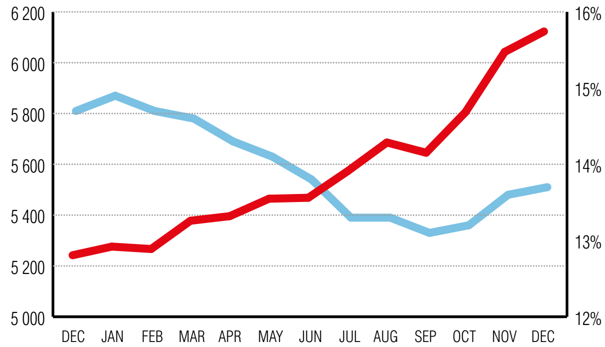
Report on the Bank's Activities (Continued)

Macroeconomics and the Russian Banking Sector in 2012 (Continued)

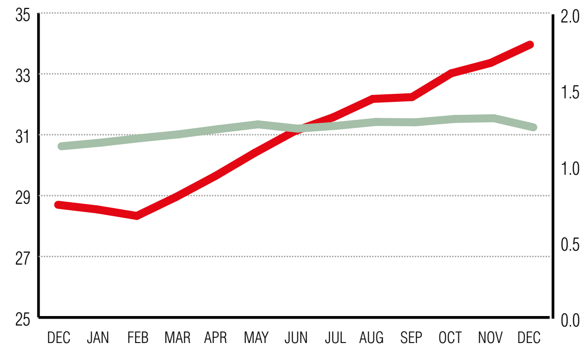
deposits of individuals – demonstrated steady growth from Q2 onward, following a modest downturn early in the year. Despite the reduced inclination to save, the population increased its deposit volume by 19.9%, just slightly lower than the 2011 level of 20.9%. Funds on company accounts rose by 11.9% in 2012, well below the previous year's level of 25.8%.

In 2013, we expect moderate growth in banking sector indicators. Asset growth could be somewhat slower compared to 2012, but it should be higher than the growth of GDP. Our forecasts call for an increase in corporate lending growth to 14-15%, due a shift in banks' focus away from retail lending in response to CBR measures (a contraction of as much as 25-30%). We expect important funding issues to remain at the system level and see acceleration in main liabilities from clients as unlikely. We expect profits for 2013 close to those for the preceding year, though perhaps not quite as strong as the record highs achieved in 2012.

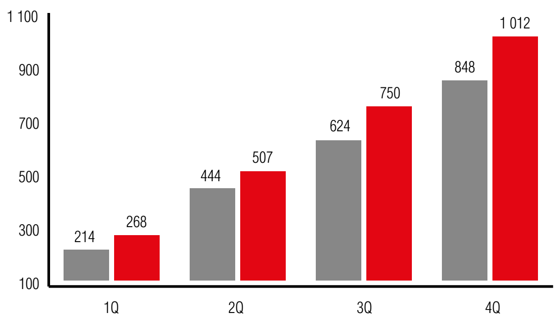
The volume of capital in the banking sector, *RUB billion – l.s.*
Capital adequacy, *% – r.s.*



Loan portfolio, *RUB trillion – l.s.*
Share of overdue loans in portfolio, *% – r.s.*



Russian Banks' Pretax Income, *RUB billion*
2012
2011



Financial Results in 2012

The shareholders AGM, held on April 27 2012, voted to assign the amount of RUB 15,787.84 million as retained earnings for the year.

Major Transactions

Under the Russian Federal Law "On Joint-Stock Companies", a major transaction is one with a value in excess of 25% of a company's total asset value. A major transaction for UniCredit Bank would therefore be a transaction worth more than RUB 217,119 million (under 2012 RAS accounting statements filed with the CBR). The Bank had no transactions of this magnitude in 2012.

Related Party Transactions

UniCredit Bank did not enter into any transactions in 2012 in which the Bank's directors, top managers, or other parties listed in the Law "On Joint-Stock Companies" had an interest. More detailed information on related-party transactions is provided in the Bank's audited consolidated financial statements.

Footnote 28 of the consolidated statements lists related-party transactions made in the normal course of business according to IAS 24 "Related Party Disclosures".

Net Profit

UniCredit Bank generated RUB 17,478 million in 2012 IFRS after-tax net profit – a 10.7% improvement on 2011 (RUB 15,788 million).

The strong result was achieved thanks to higher operating income, which was RUB 36,126 million. Operating costs increased moderately (8.3%) to RUB 11,142 million. The Bank maintained a high level of profitability in 2012: return on equity (ROE) was 17.8% (vs. 20.4% in 2011), and return on assets (ROA) was 2.3% (2.6% in 2011). The still low cost/income ratio of 33.8% (35.2% in 2011) attests to the efficiency of the Bank's operations.

Net Interest Income

UniCredit Bank's total 2012 net interest income increased year-on-year by RUB 1,486 million (or by 6.8%) to RUB 23,258 million (from RUB 21,772 million in 2011).

Interest income increased by RUB 11,966 million to RUB 50,592 million, as a result of client lending growth, which accounted for 80% of total interest income, and from the high volume of interbank operations. Interest income from trading and securities

"The strong result was achieved thanks to higher operating income, which was RUB 36,126 million. The Bank maintained a high level of profitability. The still low cost/income ratio of 33.8% attests to the efficiency of the Bank's operations."

Konrad Kozik
Member of the Board

Report on the Bank's Activities (Continued)

Financial Results in 2012 (Continued)

investments rose by 49%, reaching RUB 3,262 million, thanks to expansion of the traded securities portfolio last year compared to 2011.

Interest expense was RUB 27,334 million, up RUB 10,480 million year-on-year due to the growth of client funds with additional interest expense of RUB 4,866 million, as well as placement of UniCredit Bank bonds.

Non-Interest Income

Net fee and commission income increased by 19% in 2012 to RUB 4,723 million (13% of operating income). Income from client conversion operations, which accounted for about 44% of net fee income, is now recognized as part of the trading result. In 2012 the Bank also achieved strong growth in income from documentary operations and income from retail business operations.

The volume of financial assets and liabilities held for trading operations rose by 30% compared to the trading result for 2011, based on earnings from conversion operations and the high profitability of client interest from derivatives (RUB 4,797 million).

In 2012, UniCredit Bank sold part of its MICEX shares, for a pre-tax gain of RUB 3,007 million.

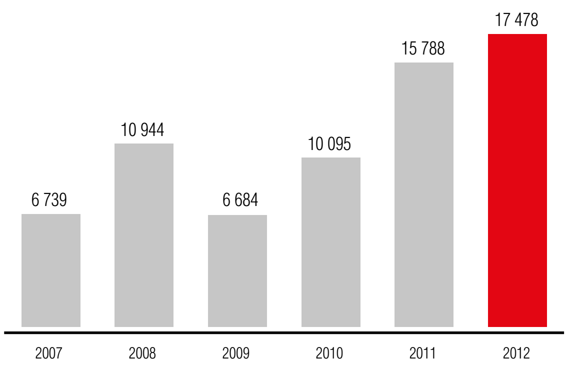
Operating Costs

The efficient cost management system resulted in an excellent cost/income ratio of 33.8%, one of the best among Russian banks. Total operating costs were RUB 11,142 million, up a modest 8.3% compared to 2011.

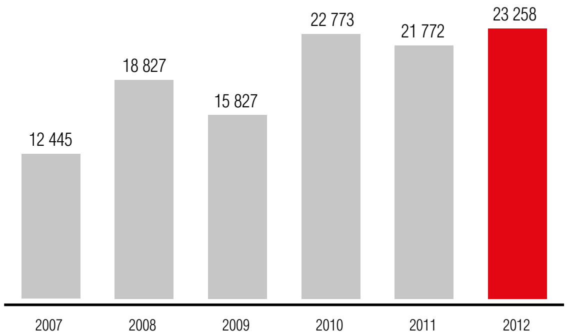
Loan Impairment

The total allowances for loan impairment rose by RUB 130 million in 2012 to RUB 15,908 million (RUB 15,777 million as of end-2011). This change was caused by a RUB 600 million reduction in net charges for impaired loans and a RUB 470 million increase in the allowances for not impaired loans. UniCredit Bank's loan portfolio quality improved in 2012: the weight of the impaired loans in total portfolio declined to 4.6% as of end-2012 from 5.5% as of end-2011, reducing the loan impairment allowances to total portfolio coverage ratio from 3.2% at end-2011 to 3.1% at end-2012. The loan impairment charge increased from RUB 2,662 in 2011 to RUB 2,783 million.

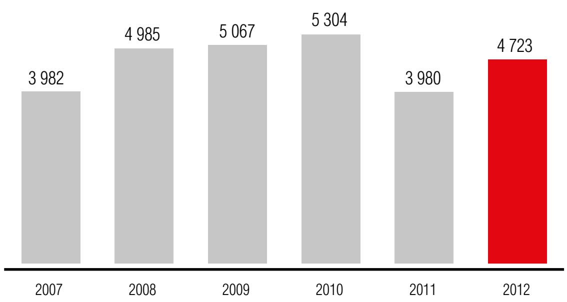
NET PROFIT, *RUB million*

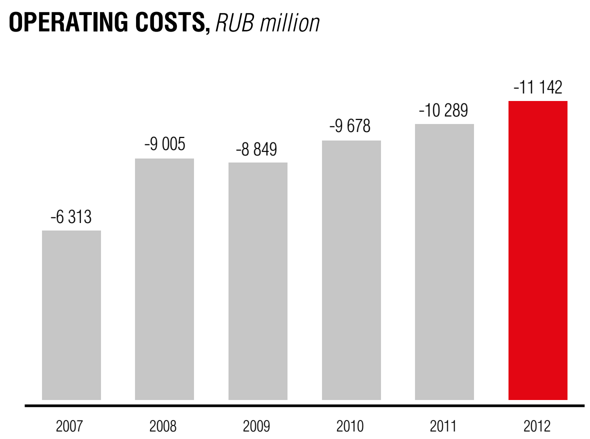


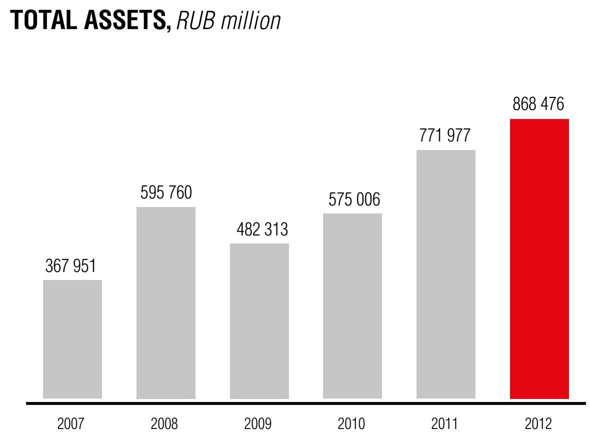
NET INTEREST INCOME, *RUB million*



NET INCOME FROM FEES AND COMMISSIONS, *RUB million*







Assets

In 2012, UniCredit Bank's assets rose by 12.5% to RUB 868,476 million, driven largely by expansion of the loan portfolio and the volume of interbank loans. The gross loan portfolio (before provisioning) was RUB 520,103 million in 2012, up 6.5% year-on-year, mostly on the growth of the retail loan portfolio from RUB 87,324 million as of end-2011 to RUB 117,555 million as of end-2012. The corporate loan portfolio accounts for 77% of the Bank's total loan portfolio, and as of end-2012 stood at RUB 402,548 million, including funds held under reverse repo agreements with clients in the amount of RUB 16,663 million.

Interbank loans reached RUB 246,446 million in 2012 – 23% higher than as of end-2011, mostly due to an increase in term deposits.

The trading securities portfolio grew from RUB 1,939 million in 2011 to RUB 4,341 million in 2012, while the portfolio of investment-grade securities available for sale expanded from RUB 43,575 million to RUB 58,609 million.

Liabilities

In 2012, UniCredit Bank devoted considerable attention to diversifying its funding sources. Client deposits rose by 9% year-on-year to RUB 503,869 million, thereby reducing the loan/deposit ratio to 100%. Corporate deposits, which account for 81% of the total deposit portfolio, were RUB 409,310 million as of end-2012, while retail deposits stood at RUB 94,559 million. Ruble-based deposits remained steady at 46-47% in 2012.

In order to diversify its borrowed funds, in 2012 UniCredit Bank issued bonds for RUB 15,000 million, and the total volume of debt securities was RUB 40,793 million. Funds raised from credit institutions rose to RUB 187,524 million in 2012.

Shareholder Equity

In the last quarter of the year, UniCredit Bank increased its shareholder equity by RUB 9,999.99 million to RUB 41,788 million by issuing 594,530 ordinary shares with a face value of RUB 16,820 each. The N1 capital adequacy ratio, calculated using CBR methodology, was 13.5% as of end-2012, significantly higher than the CBR's 10% minimum.

Report on the Bank's Activities (Continued)

Financial Results in 2012 (Continued)

Managing Assets, Liabilities and Capital

The year 2012 featured strong growth in retail lending throughout the system, while corporate lending expanded more moderately. A similar tendency was seen in UniCredit Bank's loan portfolio. In order to support the growth of its long-term assets, the Bank actively diversified its sources of stable financing. The volume of long-term bonds rose to a level exceeding RUB 40 billion, and funds from clients rose by more than RUB 40 billion during the year.

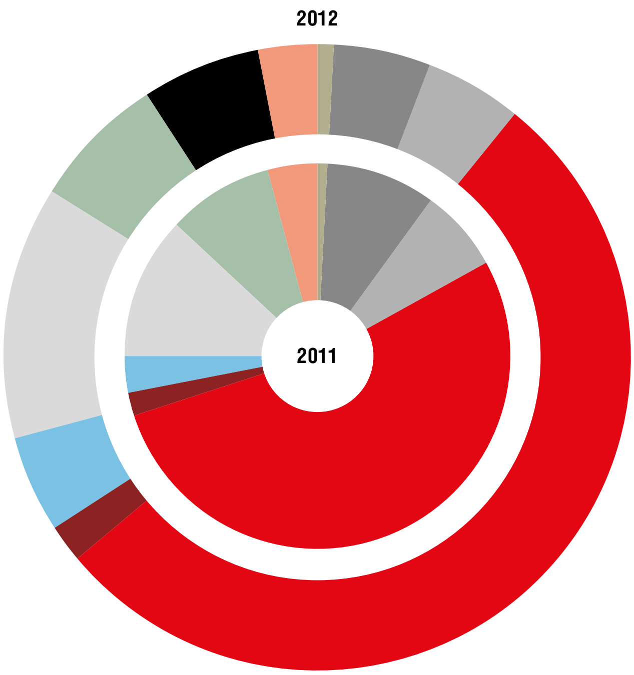
As part of the optimization of its interest income result, the Bank made active use of the most profitable sources of funding, notably by participating in Ministry of Finance auctions and bringing in funds from the Central Bank of Russia (CBR) secured by non-market assets. In this manner, UniCredit Bank significantly strengthened its liquidity position, which allowed its N2, N3 and N4 liquidity standards to finish the year with the requisite reserve cushion.

In order to improve its liquidity profile and diversify its reserves liquidity, the Bank worked closely with the CBR within the framework of Provision 312-P, which provides for the possibility of refinancing secured by non-market assets. A large loan portfolio was created meeting all the regulator's requirements and available for use, as necessary, as collateral for attracting liquidity.

Liquidity management took place in the context of the Group paradigm, which includes stricter liquidity standards compared to those of the regulator. Monitoring was carried out on a daily basis, with the Committee for Asset and Liability Management reviewing the results every week. Observance of the limits was monitored by an independent division – Market Risk Unit.

The Bank also continued to expand its funding from internal sources, which led to a drop in Group funding from 9% to 5% of the total.

STRUCTURE OF LIABILITIES AS OF 31 DECEMBER, *%*



	2011	2012
Syndicated loans	1	1
Group funding	9	5
Finance Ministry deposit	7	5
Funds from non-financial organizations and individuals	53	53
Subordinated loans	2	2
Bond issues	3	5
Equity	12	13
Deposits of other financial organizations	9	7
Central Bank of Russia deposits	0	6
Other liabilities	4	3

Corporate & Investment Banking

In 2012, UniCredit Bank reaffirmed its position as a leading Russian bank working with corporate clients. The Bank continued to strengthen its relations with existing clients, while also adding new clients. The Bank actively expanded its relations with international companies, and one of the most important trends of the year was the continuing growth of the Bank's regional corporate business.

The main results of 2012 include balanced growth of the loan portfolio, structural diversification, improvement of revenue quality, as well as unique solutions offered to the market in the area of raising capital and cash management. In 2012, the corporate portfolio reached RUB 402.6 billion, or 77% of the Bank's total loan portfolio. The average volume of the portfolio in 2012 rose by 11% year-on-year. The dynamics of the Bank's corporate loan portfolio in 2012 was influenced by market conditions, including pressure from the high level of competition. Some effect on the dynamics came from the currency structure of the portfolio, with hard-currency loans once again accounting for a considerable portion.

UniCredit Bank's business with corporate clients in Russia's regions continued to expand, including growth of regional clients' loan portfolio and their contribution to the overall structure of the CIB's revenue which exceeded 33%.

The creation and development of non-loan products, as well as treasury and transactional instruments along with structural solutions to satisfy client's most complex requirements, remained among the Bank's top priorities. As a result, the contribution of non-loan products to the Bank's total corporate business revenue continued to increase in 2012, rising to more than 45%. Major expansion of the transactional business was another contributing factor.

The year saw a stable inflow of funds from corporate clients. In 2012, the average balance on the accounts of corporate clients including the volume of time deposits, rose by 13% to RUB 355.5 billion.

High service standards remain among the Bank's main priorities. In 2012, all UniCredit Group banks in Central and Eastern Europe conducted two customer satisfaction surveys, the results of which reaffirmed not only the positive perception of the Bank's image among clients, but also the constant rise in clients' assessment of the staff's work with corporate clients.

Despite the strong pressure from the market, the development strategy for 2013 envisions selective growth of the loan portfolio, as well as attracting new clients with the potential for cross-selling, including innovative transactional services. The Bank will continue to take full advantage of its international presence in

“The main results of 2012 include balanced growth of the loan portfolio, structural diversification, improvement of revenue quality, as well as unique solutions offered to the market in the area of raising capital and cash management.”

Kirill Zhukov-Emelyanov
Member of the Board

Report on the Bank's Activities (Continued)

Corporate & Investment Banking (Continued)

UniCredit countries for the purpose of providing clients with the most attractive product offers.

International Companies

In 2012, the Bank's business segment for international companies achieved very strong results, with revenue growth of 44% year-on-year. The main driver of this success was the Bank's focus on client satisfaction and a special service model, including close, smooth cooperation between the UniCredit Bank team, Russian subsidiaries of international companies, their head offices and coverage teams in foreign banks of the UniCredit Group.

The revenue structure in the international company segment is dominated by non-loan income, which accounted for 95% of the total in 2012, as this includes the major portion of revenue generated by cash management and related products.

In the context of growing foreign interest in the Russian market, the Bank's main task for 2013 is focusing on its strong cross-border ties to increase the client base and offer clients products at increasingly higher levels.

Structured and Project Finance

In 2012, UniCredit Bank continued its active lending to corporate clients, increasing the share of structured transactions in the portfolio. International lending standards are used extensively in the Bank's practice, leading to lower credit risks for the Bank and lower borrowing costs for clients. Additionally, structured finance deals have higher liquidity than traditional loans and allow the Bank to manage its loan portfolio dynamically.

In 2012, UniCredit Bank participated in the financing of most of the major projects on the syndicated lending market and offered structured loans to Russian producer companies on a bilateral basis.

The Bank provided support for financial transactions with Rosneft, Slavneft, SUEK and TNK-BP. International syndicates were closed successfully with major Russian industrial groups VSMPO-Avisma, RusAl and Russian Copper Company.

For the third straight year UniCredit received the "Best Arranger of Syndicated Loans in CEE and Russia" award by Euroweek magazine. Moreover, several deals in which UniCredit banks took part received the "Best Deal of the Year" awards, including the "Best Russian Deal" for the transaction providing Rosneft with two loans from international banks for a total of USD 16.8 billion, announced in December 2012.

Also nominated for this award was an RUB 18 billion syndicated loan arranged for Dixy Group, where UniCredit acted as Sole Coordinator and Facility Agent.

In 2013, the Bank intends to strengthen its positions as a leading financial institution on the Russian market, in part by increasing the share of structured loans in its portfolio and offering financial advisory services. The development of cross-selling with the current client base remains a key priority for UniCredit Bank.

Real Estate Finance

In 2012, the Bank's main efforts in the real estate finance segment were aimed at increasing the portfolio's profitability while reducing risks. During the year the Bank made a smooth transition from fully paid loans to new, more profitable loans with higher quality collateral and more conservative risk profile.

The Bank continued its work with large international investors and developers. Worth mentioning the signing of syndicated loan documents with the EBRD for construction of the Aura retail shopping center in Yaroslavl, a project handled jointly with the Bank's long-time partner Renaissance Construction.

The 2012 saw no major fluctuations in the volume of loans issued to finance real estate. By the end of 2012, the real estate portfolio slightly decreased, but still the average value of the portfolio during the year was higher than in 2011.

In 2013, the Bank intends to continue focusing on portfolio quality and cooperation with large, highly reliable players on the Russian real estate market.

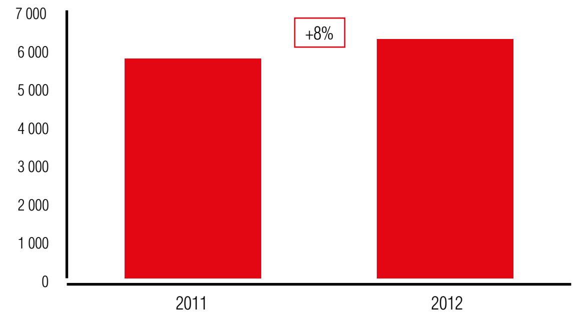
Factoring

UniCredit Bank's factoring business continued its steady expansion, thanks to which the Bank remains solidly within the Top 10 Russian factoring market participants (according to AFK) and is also one of the market leaders in international factoring being a member of FCI (Factor Chain International).

In early 2012, the Bank successfully completed the integration of an upgraded version of a specialized IT platform, making it possible to offer clients high quality, technologically sophisticated services.

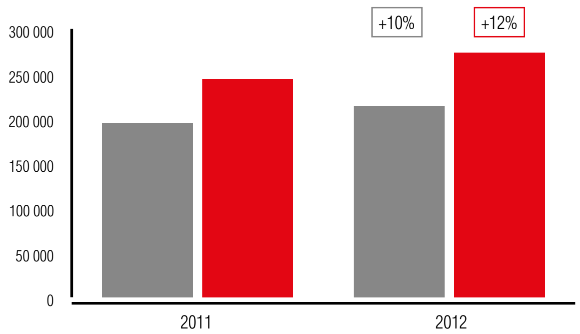
In 2012, the Bank provided factoring services to over 140 clients, many of whom were offered unique factoring products and solutions with no analogues on the Russian market. The portfolio of assigned receivables

NUMBER OF CORPORATE CLIENTS



CORPORATE LOAN PORTFOLIO STRUCTURE BY CURRENCY

RUSSIAN RUBLES
FOREIGN CURRENCY



was RUB 7.5 billion as of end-2012, and turnover was more than RUB 40 billion. Overall, the Bank financed over 63,000 shipments, and the import factoring turnover exceeded EUR 50 million.

Cash Management Products

In 2012, UniCredit Bank significantly upgraded its list of products and services in the area of cash management. Thanks to its constant efforts at creating and promoting new products, the Bank maintained the strong quantitative and qualitative growth of new corporate clients using its settlement and cash-management services. The middle-segment corporate client base also increased significantly, confirming the correctness of the Bank's strategy of active promotion of its solutions and services in Russia's regions. Despite the stronger competition, UniCredit Bank was the main settlements bank in many successful tenders of various major international companies. The Bank maintained its business relations with existing large company clients and expanded its range of services offered.

When developing products, the Bank always devotes considerable attention to satisfying UniCredit's international clients' requirements for modern technological solutions for remote centralized management of subsidiaries' accounts. The Bank created or optimized channels such as SWIFT MT101, EuropeanGate, expanded MT940 statements, and others. The Bank continued its work at developing and offering to clients new high quality outsourcing-based services. New agreements were reached with market leaders for collection and handling of cash funds in Moscow and the regions, as well as trade point and Internet acquiring. The existing Bank-Client systems were significantly modernized, the Group's new international system of distance banking services UniCredit-Business.Net (GWS project) was moved to test regime. For its largest clients the Bank successfully tested Host-to-Host modern integrated solutions based on XML message formats compatible with the newest ISO20022 standard and various data exchange channels (from SFTP to SWIFT).

During the year the Bank steadily strengthened its training activity in the area of informing Russian and overseas staff and clients about solutions and extensive capabilities in the area of transactional services. In Russia and overseas the Bank gave presentations, seminars and teleconferences where audiences were told about the full range of products in this segment, new information materials were developed and distributed, and the content of the Bank's corporate site and internal data bases was upgraded. Last year's achievements moved the Bank significantly closer to its goal of becoming the leader on the Russian market for advanced transactional banking services.

Correspondent Banking

In 2012, UniCredit Bank continued to strengthen its positions on the market of clearing services for correspondent banks, servicing over 460 accounts opened by banks in 40 different countries. The Bank is also a Russian market leader in terms of payment volume in Russian rubles by non-resident banks.

Amid the deterioration on global financial markets, which inevitably impacted the Russian financial market as well, the issue of supporting a sufficient level of liquidity became even more important for Russian banks. In this context, it is important to highlight the Bank's cooperative work with the Central Bank of Russia (CBR) on the

Report on the Bank's Activities (Continued)

Corporate & Investment Banking (Continued)

signing of the required documentation for transacting operations under CBR Resolution №312-P of November 12, 2007 "On the Procedures for the Lending by the CBR to Credit Organizations of Funds Secured by Assets or Guarantee", as well as with a number of leading Russian banks for concluding transactions, which allowed the Bank to attract additional ruble liquidity. As a result, the Bank completed over 10 transactions with CBR loans in rubles for a term of 3-6 months using guarantees from a number of leading Russian banks. The total volume of ruble loans raised by the Bank in 2012 from the CBR under CBR №312-P was RUB 44 billion.

Trade Finance

The year 2012 was also very successful for the Bank in the area of trade finance: business volume increased significantly, and the Bank continued to expand its client base, making full use of its potential. The Bank once again received official recognition for its achievements in trade finance (Best Trade Finance Bank in Russia in 2013) in a survey conducted by the authoritative US magazine Global Finance.

The total volume of documentary transactions exceed the 2011 level by nearly 20%, and commission income rose by an even more impressive 28%. The Bank's regional network made a particularly strong contribution to the total effort, with transaction volume rising by 67%.

Guarantees were also among the Bank's most popular products: the volume of guaranteed liabilities issued rose almost 50% year-on-year, and commission income by more than 33%. As a result, the share of the guarantee business in total income reached nearly 75%. As before, most of the guarantees were related to Russian domestic economic activity.

Regarding letters of credit, there was a clear shift of emphasis to servicing consumer goods imports and significant quantitative growth of this type of LOC, as well as the development of LOC-based settlements for the purchase and sale of real estate in Russia.

Active use was made of UniCredit Group capabilities available on preferential terms for confirming the Bank's obligations and financing using letters of credit, and the Bank plans to continue actively developing this form of cooperation going forward.

In 2013, the Bank plans to further strengthen its market positions, improve its work with clients (in part via regional market development and training), enhance the credit elements of its business (various LOC-based financing programs), and upgrade its automated operations.

CORPORATE PORTFOLIO STRUCTURE

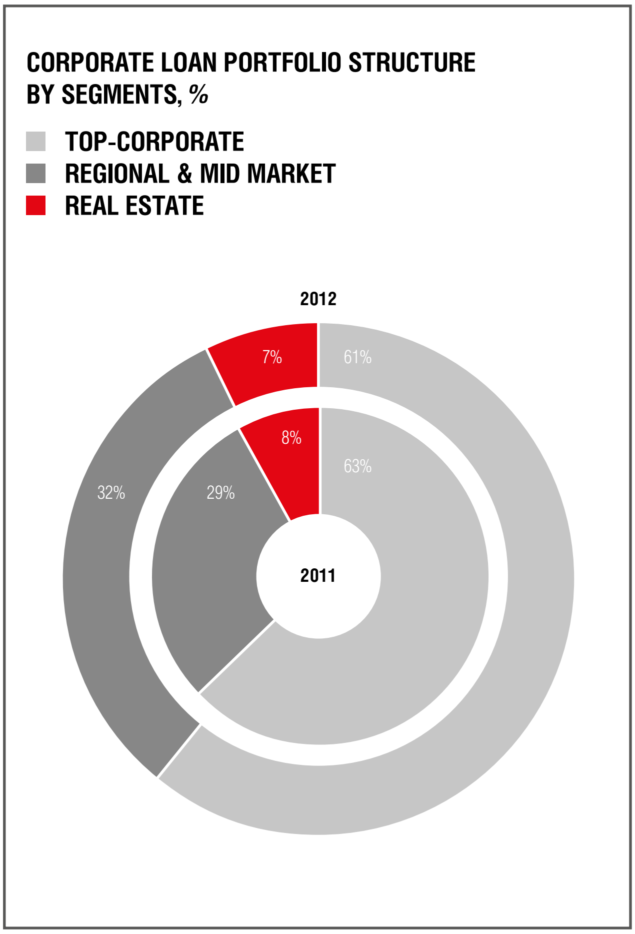
Metals and Mining	14.84%
Financial Institutions	12.99%
Wholesale and Retail Trade	12.65%
Agriculture and Food Processing	11.97%
Gas, oil and petrochemical	9.28%
Chemicals and Fertilizers	7.62%
Consumer Goods ans Services	5.58%
Other	5.57%
Transport and Infrastructure	4.53%
Real estate and construction	4.45%
Pulp and Paper, Timber	3.82%
Machinery and Equipment	2.92%
Telecommunication	2.06%
Energy	1.71%

Export Finance

In 2012, UniCredit Bank continued its active work in the area of providing services related to organizing long-term targeted financing covered by foreign Export Credit Agencies. Work was completed on a number of large loans covered by traditional UniCredit Group ECAs: Euler Hermes, SACE, OeKB and EGAP. The Bank also expanded its ECAs in Eastern European countries.

UniCredit Bank's position as a leading player on the Russian export finance market was further strengthened in 2012: the Bank was chosen as financing bank for a large number of transactions in key sectors of the economy.

In 2013, the Bank intends to expand its range of work with second-tier companies and regional clients, who currently find it difficult to access international markets by themselves. To support the financing of the investment programs of this client segment the Bank is



implementing a product, under which it will act as beneficiary under ECA policies.

We wish to call particular attention to the Bank's cooperation with Export Insurance Agency of Russia EXIAR: in 2013, the Bank plans to begin working with Russian clients to finance their export deliveries under coverage by EXIAR, which should strengthen our client's positions on the global market.

Custody Services

The Bank's custody is part of UniCredit Group's Global Securities Services (GSS) division. This division currently covers 14 markets, including Russia, and is the largest depository network in the CEE, with universal standards and procedures. This enables the Bank to provide high-level services to leading international financial institutions, including brokers and dealers, as well as global custodians and investment funds, using UniCredit Group's global approach to marketing and client relations.

The depository offers a full range of settlement and depository services with securities, including reliable storage and inventory; settlements free of charge and on DVP (delivery versus payment) terms in Russian and foreign currencies; execution of corporate acts; representation of investor interests in dealings with securities issuers; securities collateral support; and structured deals. The depository performs operations on Russian and overseas securities markets, including exchange platforms, and non-exchange trading and settlement systems.

In 2012, the depository expanded its client base and began actively providing services to individual clients of the Bank, mainly Private Banking clients, related to Russian and international securities, including support for acquisition operations with foreign fund shares via the Fund Settle (Euroclear) system. The depository also began working with Russian investment banks, providing depository services for their operations on Eastern European markets, using the capabilities of the GSS regional depository network.

The year 2012 brought fundamental changes in the structure of the Russian stock market. The National Settlement Depository (NSD) received the official status of Central Depositary, and the transfer of assets and operations to NSD was initiated. The Moscow Exchange is preparing for transition to T+2 regime with partial security coverage of transactions. By the middle of next year, securities booking on the accounts of foreign nominal holders will be possible, and all these changes should promote higher activity on the stock market and attract new investors, which would in turn help develop the depository business.

Representatives of UniCredit Bank's depository participate actively in efforts to improve market legislation and infrastructure, and represent the Bank on various committees of the National Settlement Depository, the Depository Clearing Company, the Moscow Exchange, the National Securities Market Association and ROSSWIFT. The head of the Bank's depository participates actively in the Project Group for Improving the Financial Infrastructure and Regulating the Financial Market of the Working Group for Creating an International Financial Center (IFC), and is a member of the Exchange Council of the Moscow Exchange and the Committee of Principal NSD users.

Financial Markets

Operations with the Bank's corporate clients in 2012 were stable. Despite unfavorable global market conditions, the Bank managed to overcome the falling tendency in FX and cash money market operations. In 2012, the Bank also concluded a number of derivative deals with clients, which clearly confirms the correctness of the

Report on the Bank's Activities (Continued)

Corporate & Investment Banking (Continued)

Bank's strategy of offering clients access to instruments for insuring interest rates and currency risks.

We note that in 2012, UniCredit Bank was very visible on a local debt capital market and therefore moved up significantly in respective ratings of public debt originators.

The continuing financial crisis, which has led to tighter regulatory requirements, influenced the Bank's own trading operations. The main priority has been maintaining a sufficiently high level of liquidity and a balanced risk appetite. Nevertheless, the Bank managed to achieve a strong trading result by using market volatility on the interest rate derivatives market amid solid price growth on the sovereign bonds market.

Corporate Finance and Capital Markets

In 2012, the structure of UniCredit Bank was expanded to include a Corporate Finance and Capital Markets Department. In accordance with UniCredit Group policy, services in the area of corporate finance advisory (M&A) and services related to client activities on capital markets are now an integral part of the services offered to the Bank's client base. The Bank's main advantages include: the team's extensive experience, access to the Group's network of contacts and resources (particularly in Western and Eastern Europe), political neutrality, lack of dependence on any financial or industrial groups, the absence of any interest in acquiring industrial assets, and a policy of non-participation in hostile takeovers.

In 2012, UniCredit Bank's CFA and CM Department successfully executed a number of transactions, including consulting for shareholders of the grain terminal at Taman, a deep water port on the Russian Black Sea coast; consulting for Rosgosstrakh during the sale of Moldasig SA, the largest insurance company in Moldova; consulting for Zapadnaya Gold Mining on raising private equity capital and arranging debt financing to fund further development; consulting for the Buket Group and arranging financing and advising Buket Group on the acquisition of 49% stake in Svoboda Cosmetics Concern; and advising Mechel on the sale of 100% stake in electricity station Toplofikatsia Rousse in Bulgaria (deal's closing pending receipt of regulatory approval). The Department was also involved in active promotion of debt capital markets financing through both local and international bond placements for the clients of the Bank.

UniCredit Leasing

In 2012, UniCredit Leasing continued to develop as a universal leasing company, offering leasing services throughout Russia with a special focus on cities where UniCredit Bank has offices working with corporate clients. The Bank's corporate clients were given the opportunity to raise leasing finance for virtually every kind of asset, ranging from automotive to special equipment and leased real estate. Close cooperation with the Bank made it possible to significantly increase the integration of leasing services into the product lines for corporate clients of the Bank's head office, as well as branches and offices in the regions.

In 2012, the Bank handled over 1,240 leasing deals, a 43% increase year-on-year. The Bank also increased its diversification in terms of the number of clients financed and their regional distribution.

As part of its regional development strategy, UniCredit Leasing opened an office in Chelyabinsk and took organizational steps necessary for opening an office in Krasnodar.

In order to develop its work with leading global suppliers of automotive and special equipment under exclusive contracts, in 2012 the company launched the special programs Renault Leasing and Nissan Finance Program Leasing, which were accessible to clients at all official dealerships so designated by auto producers. In the coming year, the company plans to actively develop this area of business.

In 2012, UniCredit Leasing confirmed its position as one of the leaders among the leasing subsidiaries of international financial and banking groups in Central and Eastern Europe, and in 2013 the company will continue its development as a universal leasing company with a particular focus on offering a full set of leasing services for corporate clients of UniCredit Bank.

Private Banking

In 2012, the primary task of Private Banking was preserving and multiplying capital, paying particular attention to the quality of services offered and the development of reliable and safe individual programs, taking client interests fully into account.

Despite the high volatility and uncertainty on the financial market, in 2012 the Private Banking division achieved positive results both for clients and the Bank, increasing the volume of its investment portfolio. The portfolio of structured instruments with capital protection increased by 200%. In its daily operations – and this is one of UniCredit Private Banking's clear advantages – division staff made extensive use of the experience and expertise of Global Investment Strategy (GIS) specialists. In addition to investment products from Pioneer Investments, Franklin Templeton Investments and Schroder Investment Management, 2012 brought new, effective offers from partners such as BNP Paribas Investment Partners and J.P. Morgan Asset Management, as well as improvement in the terms of its cooperation with Russian companies.

Confident in its belief that life insurance products are undervalued in Russia and hold great potential for clients, UniCredit Private Banking, jointly with ERGO, performed a large-scale analysis of the market and client needs in 2012, as a result of which interesting new programs were added to the cumulative life insurance offerings.

The division's upgraded deposits line includes Multicurrency Plus, a unique solution capable of diversifying client funds simultaneously in 7 of 11 possible currencies. The credit product range for privileged clients was expanded by the ability to receive loans secured by bonds.

As part of its efforts to give clients access to better payment instruments, UniCredit Private Banking jointly with MasterCard, prepared an issue of the premium card World Elite MasterCard. The designer card was issued in limited numbers and includes an exclusive collection of privileges and services, making it possible enhance the level of service for debit card holders and increase revenue from commission operations.

As in the past, in 2012 Private Banking worked to increase client loyalty and expand its client base (which grew by 12.3% in 2012), devoting greater attention to service quality and non-financial services, including exclusive closed events and inviting clients to cultural activities. Overall, in 2012 UniCredit Private Banking met its goals and laid the foundation for successful future development.

Report on the Bank's Activities (Continued)

Retail Banking

In 2012, UniCredit Bank made considerable progress towards achieving its goal of becoming the bank of choice in Russia for private individual clients as well as small and medium-sized enterprises by ensuring that working with the Bank is a positive experience for all customers. By introducing, among other innovations, sophisticated CRM platforms, the Bank intends to enhance its client service, offering a more customer-tailored approach than previously. Using a specially designed multichannel approach, UniCredit Bank aims to provide convenient 24/7 service to all its clients.

It is also important to note that recent market research reaffirms the Bank's the high quality of services the Bank provides to private clients. UniCredit Bank remains the industry benchmark in this area and has increased its lead on other market players. The creation of simplified, speedy, customer-focused products and services remains the key driver of the Bank's retail business.

Work with the SME Segment

In 2012, UniCredit Bank continued to successfully develop its work with the Small and Medium-sized Business segment. The borders of the segment were extended in Moscow and the Moscow Region, as well as and in St. Petersburg and the Leningrad Region. Additionally, the number of Bank offices working with the segment increased to 84. The Bank also continued to enhance its SME service model, launching new partner sales channels. Furthermore, in 2012 the Bank signed a cooperation agreement with the Moscow SME Support Fund and continued its successful work with SME Bank, making it possible to offer loans to SME customers on very favorable terms.

In 2012, the Bank continued to expand its product range for SME clients, optimizing the lending process and significantly improving the product terms, for example by reducing the discounts on loan collateral. Moreover, an extensive program of SME staff training was carried out to improve quality of services provided to SME clients. As a result, credit portfolios in the SME segment grew by 50%, while credit quality remained stable, and the number new clients exceeded 3,300, reaching a total of 21,800; the SME deposit portfolio rose to over RUB 34.9 billion.

The year 2013 will also be one of great significance for UniCredit Bank's SME clients, as the Bank plans to radically enhance and simplify its service processes and improve its service quality for loans, investments and cash and settlement operations by using dedicated Relationship Managers and convenient direct service channels.

Serving Private Individual Clients

Auto Lending

In 2012, UniCredit Bank continued to strengthen its position as a Top-4 player in the Russian new car loan market, maintaining its significant market share. The Bank's car lending activity grew 44% year-on-year, and 92,000 clients acquired new cars with UniCredit Bank loans. Last year the Bank also continued its close cooperation with global car makers, providing loans for the purchase of popular brands such as Renault, Nissan, Infiniti, Hyundai, Jaguar, Land Rover, Mitsubishi, Honda and Volvo.

Consumer Loans and Credit Cards

In 2012, the unsecured loan segment continued to grow steadily. UniCredit Bank issued more than 44,500 consumer loans for a total of about RUB 15 billion. Credit cards also remain a priority growth area for the retail business: in 2012, the Bank issued nearly twice as many as in the previous year, and the credit card portfolio rose by 56% year-on-year.

During the year, the Bank devoted significant efforts to enhancing the attractiveness of these products. The application procedure was simplified and the waiting time for approval was reduced. Additionally, the Bank implemented a new loan application procedure, which greatly simplifies the process for clients and the Bank.

Continuing to develop its product line in the credit card segment, in October UniCredit Bank successfully launched its AutoCard credit card with a cash-back function and an expanded assortment of additional services – Driver Package. Demand for the new card is strong, and we expect its popularity to continue increasing in 2013.

Mortgage Lending

In 2012, UniCredit Bank continued its successful development of mortgage lending. New loan volume increased by 14% year-on-year, and the mortgage loan portfolio expanded by 7.6%.

Additionally, the Bank implemented a new special mortgage program for payroll and corporate clients, offering special terms and a simplified loan application procedure. To make mortgage programs more accessible to clients, especially in Russia's regions, the Bank now offers clients the chance to use a letter of comfort as a down payment when taking a loan. Thanks to the continued growth of the primary real estate market in 2012, the Bank launched a special program for purchasing housing on the primary real estate market.

Savings and Investment Products

In 2012, UniCredit Bank continued to enhance its services for Affluent Customers, introducing a new package called Prime. Prime offers a wide number of solutions for both savings and transactions, including the World MasterCard black edition debit card.

The Bank attracted a significant number of new depositors, increasing the attractiveness of its deposit product line, and introduced a new online product series – Click Deposits. These products offer attractive terms as well as simple and speedy customer experience, making them an immediate hit among the Bank's clients. An additional product innovation was Savings Account, combining strong returns and flexibility.

The Bank further simplified its line of deposit products in 2012, making them more convenient for clients. As a result the Bank's retail term deposit volume grew 59% year-on-year.

In 2012, the Bank significantly expanded its offer of investment and savings products through collaboration with TKB BNP Paribas Investment Partners (JSC). The Bank is supporting its customers with convenient insurance solutions, recently introducing, among others, credit protection insurance for credit cards.

During the year, the Bank carried out over 200 targeted marketing campaigns. For the campaigns various promotion channels were used, including letters, emails, SMS messages, phone calls, and special offers in online banking or at branches. An on-boarding process was launched to enable clients to receive customized services from the very beginning, thereby enhancing customer service quality.

The Bank is currently implementing an Analytical and Operational CRM system to improve its understanding of client goals in order to exceed their expectations for service and product quality. UniCredit Bank also plans to use distance service channels such as ATMs and Internet banking to achieve this aim.

Report on the Bank's Activities (Continued)

Retail Banking (Continued)

Multi-Channel Banking Services

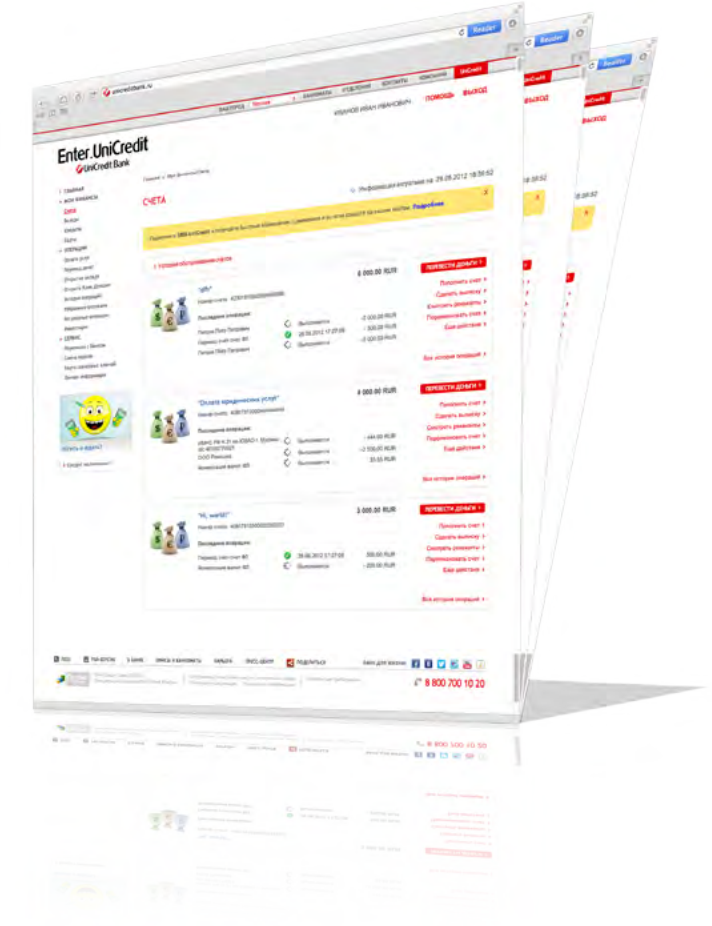
In 2012, the Bank continued to expand the services available via its remote service channels. The number of Enter.UniCredit Internet banking system users increased by 23%, and the number of transactions and documents submitted by clients via Enter.UniCredit rose even more substantially – by 30%.

The Bank launched a new, upgraded version of Enter.UniCredit, offering a more modern design as well as improved functionality, interface, usability and other features. Additionally, the Bank implemented a system for instantaneous transfers of our clients' money to their card accounts. Enter.UniCredit was also used to launch a series of new Click Deposits, which quickly became popular among clients.

In response to client needs, in Q4 2012 UniCredit Bank launched a specialized banking application Mobile.UniCredit for the Android mobile platform. Clients can use it to view information on accounts, cards, loans and deposits, as well as to make transfers between accounts, carry out conversion operations, pay over 250 companies for services, create transaction templates, etc. The application also helps users find the nearest branches and ATMs of UniCredit Bank, check exchange rates and Bank news, and find the addresses of the nearest companies offering discounts on payment for services using UniCredit Bank cards.

As of end-2012, client activity via Mobile.UniCredit and PDA.UniCredit had doubled year-on-year.

In October, UniCredit Bank launched the unique Home Finder mobile application, available in Apple Store and Google Play, which enables users to find information on residential real estate and acquisition terms using mortgage financing in quick, easy ways.



Risk Management

The key risks related to the Bank's operations are credit risks, liquidity risks, risks associated with changes in market conditions and in exchange rates, and operational risks. The goals of the Bank's risk management policy are: identification, analysis and assessment of all significant risks the Bank faces; determination of acceptable risk levels; constant control of risk levels; and utilization of timely measures as needed.

UniCredit Bank's risk management system is regulated by Russian and European law. The Bank was one of the first in Russia to begin implementing international standards for the management of risks and capital established by the Basel Committee on Banking Supervision (Basel II requirements). All the Bank's main subdivisions – both business subdivisions and risk subdivisions – have been included in the process of implementing leading international risk management standards.

As part of the process of implementing Basel II requirements, the Bank is upgrading its internal risk assessment procedures, as well as developing and implementing rating models and economic capital assessment models making it possible to more effectively manage the main risks and capital in accordance with Component I and Component II. The Bank's risk management policy is analyzed on a regular basis, taking into account changes in market conditions, products and services, and new, improved risk management methods.

Corporate Credit Risks

Risk assessment for the corporate segment involves comprehensive analysis of financial and qualitative borrowing indicators, making it possible to derive a complete picture of a client's activities and giving authorized bodies the opportunity to make sound decisions.

To assess the probability of default by corporate clients, the Bank uses rating models developed for corporate client subsegments, taking into account their distinctive features. Client ratings are performed on a quarterly/annual basis using all available information. The rating models and corresponding rating processes have been developed in accordance with the requirements of Basel II standards for calculating capital requirements based on internal ratings.

To optimize its corporate risk management, the Bank uses a model of sector specialization including divisions, each of which is responsible for the risks of specific sectors. The model makes it possible to quickly and accurately analyze changes in specific sectors, modify strategies, and make well-founded decisions. In addition to the sector principle, effective loan portfolio management is also promoted by a system of regional risk managers who can collect and analyze information on

“Continuing its tradition of previous years, in 2012 the Bank strengthened its competitive advantage by developing its infrastructure and improving its risk management techniques, thereby reducing its dependence on market conditions and contributing to the stability of the Bank's financial result.”

Dmitry Mokhnachev
Member of the Board

the state of affairs in the Bank's main operational regions and effectively manage the loan portfolio by region as well as by sector.

In 2012, the Bank continued to improve its decision-making system for loan transactions for the corporate segment (excluding transactions with problem or potential problem clients) by incorporating independence of the approving body's level not only from the limit of the risk being considered, but also from the risk level (probability of default) of clients/client groups.

To monitor risks in the corporate segment the Bank has a specialized subdivision (Monitoring Division) that includes a system for spotting and evaluating negative signals, making it possible to identify potential problem borrowers at an early stage and take appropriate measures.

In order to increase the effectiveness of its management of UniCredit Bank's corporate loan risks, the Monitoring Division is continuing its efforts to automate its monitoring of potential problem borrowers in the context of implementing the Group project "Golden Rules: Watch List and Monitoring of Corporate Clients". The Bank's new IT-Platform makes it possible to standardize the interaction of Bank subdivisions involved in the lending process; increase the speed and transparency of decision making; and create a unified base for registration of negative signals, classification of clients, and development and control of the execution of planned measures and the strategy for working with potential problem clients.

In 2012, the Monitoring Division developed the basic principles for its work with the potential problem portfolio of individual borrowers and began to implement IT decisions for identifying and classifying potential problem borrowers in the Bank's retail business segment.

During the year, UniCredit Bank continued its effective work with problem loans. The volume of problem corporate debt fell by more than RUB 7.6 billion to RUB 19.6 billion, and the share of problem debt in the Bank's corporate loan portfolio continued to contract – from 5% as of end-2011 to 3.5% as of end-2012. It is important to note that the effectiveness of the Bank's identification of problem debt improved, accompanied by a significant reduction in the cost of this process. In the retail problem portfolio the Bank achieved a significant increase in identification volume: from RUB 1.1 billion in 2011 to RUB 1.32 billion in 2012, with a concomitant drop in the share of total identification costs from 16.7% in 2011 to 11.8% in 2012. The Bank optimized its procedures, making full use of its accumulated experience at working with the problem loans of companies in various sectors and segments. The results of its efforts and its experience at constructing this mechanism in Russia are being used at the UniCredit level for a group-wide project for standardizing and enhancing the system for working with problem debt.

Retail Credit Risks

While changing its borrower assessment rules, improving its infrastructure and automating the instrumentation process for making credit decisions, the Bank recorded no signs in 2012 of significant deterioration in portfolio quality despite significant portfolio growth. In terms of reserves created, the level of expected loss was 1% (for the year). The level of accumulated loans overdue for more than 90 days fell to 6.5% as of end-2012.

Particularly important achievements in the area of retail credit risk management in 2012 include:

- successful development of a new model for calculating the probability of non-fulfillment of obligations, meeting all Basel II requirements, with implementation planned for 2013;
- implementation of a new technological solution for identifying the overdue debt of individuals and SMEs. This solution is already in use and has achieved impressive results at other Group banks, as it combines operational and analytical components, making it possible to use a full range of channels for working with borrowers;
- development of a scoring model for SME clients that takes into account application and behavior scoring data;
- introduction of integrated fraud risk reduction systems for the lending process;
- organization of regular events aimed at improving and developing fraud prevention in the individual and SME loan segments, as a result of which the Bank's financial losses were cut significantly;
- implementation of a system for automated assessment of creditworthiness and credit decision making for credit applications for non-secured loans, credit cards, and car loans, thereby reducing decision-making time, further concentrating the Bank's resources, and reducing operational risks.

In 2013, the Bank plans to continue enhancing its retail loan risk management, concentrating on implementing a rating model for borrowers with segmentation in the loan analysis process, as well as in reserve creation and price formation. The Bank is also continuing to upgrade its system for automated assessment of borrowers' creditworthiness and extending its use to the entire product line of the retail banking business.

Market Risks

Constructing an adequate market risk management system that is effective from the standpoint of Russian and European regulators, as well as from the standpoint of shareholders, remains a priority area that allows the Bank to demonstrate its stability and reliability even in unstable conditions. Continuing its tradition of previous years, in 2012 the Bank strengthened its competitive advantage by developing its infrastructure and improving its risk management techniques, thereby reducing its dependence on market conditions and contributing to the stability of the Bank's financial result.

Adherence to Group liquidity management standards and the mandatory standards of the Central Bank of Russia enabled UniCredit Bank to effectively manage the time structure of its assets and liabilities. The Bank regularly performs stress testing on its short-term liquidity, using scenarios provided by UniCredit Group, as well as local methodology that takes into account the specific nature of the Russian market. The results of short-term liquidity analysis, including information derived from stress testing, are regularly reviewed by the Assets and Liabilities Management Committee. The Bank is actively implementing the Basel III approach according to the requirements of the Austria regulator and the preliminary requirements of the CBR. Calculation of new indicators for short-term liquidity (coverage of possible outflows of highly liquid assets during a 30-day period) and net stable funding has also been introduced.

In 2012, the Bank implemented new Group risk assessment methods related to the requirements of the regulatory standards of the Basel Committee (2.5 and 3). For example, the Bank launched implementation of Group CVA calculation methodology (modification of the market value of the instrument for calculating counterparty credit risk) and the corresponding additional capital requirement. In connection with this, minimum client transaction margin requirements were introduced.

In order to improve the analysis and subsequent control of the trading strategy and its impact on profits and losses for the Assets and Liabilities Management Committee, the Bank developed and implemented regular reporting procedures for positions and their financial results in terms of the sensitivity of change in the financial results to the trading position relative to change in risk factors. This analysis is presented for discussion to the Bank's Assets and Liabilities Management Committee.

The Bank divided interest rates into base (market rate) and spread components in its systems for calculating the interest rate risk of the banking book. This step makes it possible to improve the procedure for managing the interest rate risk of the banking book, enhancing the effectiveness of calculating interest rate hedging by fair value and leading to a significant reduction in the sensitivity of the Bank's interest income relative to the uncertainty of the future cost of funding.

In 2012, the Bank continued modernizing Group and internal methods in accordance with international standards and new market challenges. Processes, which making possible to assess and control market risk and liquidity risk, became an integral part of existing business processes, reflecting the search for an optimal balance between adequate risk assessment and the requisite, timely support of the relevant business subdivisions, thereby improving the quality and reliability of control procedures and the management of market and liquidity risks.

Operational Risks

The Bank's main operating risk management task in 2012 was preparing for the transition from The Standardized Approach (TSA) to the Advanced Management Approach for regulatory capital under operational risk for the purpose of ensuring full compliance with Group requirements.

In the preliminary stage the Bank undertook a partial reorganization of internal control processes for operational risks analogous to the Group's structure:

- incorporation of part of the Group's functions for confirming the quality of data on losses;
- formation and launch of the Operational Risk Management Committee, which has been given the Management Board's authority for continuous control of the effective functioning of the operational risk management system;
- as part of the eventual decentralization of the Bank's system, divisional operational risk managers have been appointed as the links between functional blocks/subdivisions and Operational Risk Management to deal with issues related to the operational risks of existing functional blocks/subdivisions;
- creation of a permanent working group to ensure effective cooperation among subdivisions directly receiving and/or carrying risks in order to provide for joint risk avoidance and development of measures to reduce the most significant operational risks;
- optimization of the selection of key operational risk indicators for inclusion in the calculation of operational capital.

The Bank's operational risk control process is developing dynamically and can later be reviewed and modified, as necessary, in response to situational changes and the requirements applied.

In 2013, the Bank faces a new important task – harmonious integration of a compliance risks management system into UniCredit Bank's smoothly functioning risk control mechanism.

Report on the Bank's Activities (Continued)

Operations

Organizational Structure

In 2012, UniCredit Bank continued its efforts to simplify the organizational structure to create "lighter" organization and bring us closer to our clients without compromising on quality and customer service.

While organizational changes were relevant to all Competence Lines, the major focus of 2012 efforts was Retail Division and GBS. In Retail, new organizational structure was implemented to provide customers with clearer points of contact, to accelerate decision making process as well as support product and service innovation.

In GBS, the goal was streamlining of operations to increase overall efficiency and productivity. Rightsizing efforts together with process optimization and automation delivered outstanding results. The Bank was able to support the growth of Retail volumes and at the same time to reduce the number of FTE by 5%.

Last year was equally important for the Project Management Office, too. We continued to nurture project management culture in the Bank to ensure timely delivery of both local and Group projects. In 2012 we have successfully completed 33 Bank-wide projects which is almost double in comparison to 2011. One of the most important achievements was merging back-office and support functions of the Bank in a single operational center in Moscow (Nagatino). Not only did this project unlock synergies between different functions and reduce the overall complexity of operations but it also delivered significant cost saving opportunities.

Information Technology

In 2012 UniCredit Bank upgraded its ICT system in accordance with the ICT Strategy adopted in 2011 and aimed at creating a flexible, efficient ICT landscape to support the Bank's business development. As part of this strategy, the Bank implemented a unified corporate DataWarehouse facility and renovated its Internet Bank and Mobile channels aimed primarily at providing electronic banking services for Retail and SME clients. The Bank also launched projects for replacing its dealing system and implementing analytics and operational CRM systems in its Retail and Corporate business segments. In 2012 the Bank took steps to enhance its financial reporting systems, strictly following the latest regulations of the Central Bank of Russia and the Federal Financial Monitoring Service. In the risk management area, great attention was paid to automate Unicredit Group Golden Rules, and develop new dedicated risk scoring engine, in order to improve on-the-fly control over credit risks and monitoring borrower quality in both Retail and Corporate segments. In order to serve clients more timely, optimize its operational processes and reduce paper usage, the Bank continues to increase volume of services providing electronic document processing.

Development of the network infrastructure was aimed at standardizing the structure of the Bank's network in accordance with UniCredit Group standards. The highly adaptable nature of the network infrastructure led to successful completion of the project to relocate major operational subdivisions of the Bank in a new building in Technopark Nagatino i-Land, Moscow, in early 2012. The Bank is reviewing the effectiveness of its ICT systems with an eye to enhancing its operational reliability and paving the way for further infrastructure development. The Bank has entered the final stage of its efforts to create a failure-proof Data Processing Center, which will ensure that ICT systems continue to operate even in case of emergency.

The ICT Department devotes particular attention to reinforce its project management structure and enhance resource planning. The reorganization carried out in 2012 ensures greater specialization of Bank subdivisions in specific areas of the program systems life cycle. Relying on the new structure, the ICT Department is rapidly enhancing internal practices.

In 2013, UniCredit Bank is initiating efforts to replace the core of its corporate information system, making the transition from the current architecture to a set of dedicated product factories. The first results are to be applied in the Bank's money and documentary business segments. In 1H 2013, the Bank is launching its CRM systems in the Retail and Corporate segments, the new "GWS" electronic banking channel for SMEs and Corporate segments, and further establishing its mobile presence by entering in the Apple AppStore.

The Bank is also pioneering the use of Swift standards in Russia for the benefit of large Corporate clients, as it is the first bank to introduce ISO20022 XML format for ruble payments over Swift in the country.

Operations

In 2012, UniCredit Bank continued the intensive transformation of its business processes in order to increase productivity and reduce the internal cost of operations.

In the retail client service segment, the Bank completed its optimization of the lending process and launched its first-ever loan products with fully automated credit analysis and decision making processes. As a result, by end-2012 the Bank had doubled its credit card volume while maintaining the high quality of its credit profile. At the same time, the waiting period for issuing consumer loan funds was improved significantly. In 2012, the Bank also completed a project to optimize its cash window operations related to cash deposit orders, making it possible to free up work time for the Bank's retail sales staff and reduce queue length at Bank offices.

In the corporate business segment, the Bank upgraded its business process for administering overdraft loans, completed the automation of routing corporate client payment orders into the electronic time payments system, and launched efforts to optimize the currency control process.

In 2013, UniCredit Bank intends to continue enhancing its internal business processes while maintaining the high quality of its operations in all segments.

Card Business

In 2012, UniCredit Bank expanded its ATM network, to 1,005, including 272 with the cash receipt function. The Bank installed additional self-service terminals, which now include a more customer-friendly interface. As of end-2012, 46 terminals had been installed; they offer the same functions as other UniCredit ATM terminals, with the exception of cash withdrawal.

Visa and MasterCard volume rose by 12% year-on-year in 2012 to more than 700,000; 84% are debit cards and 16% are credit cards. In 2012, the Bank made impressive progress on its transition to chip cards, which now account for more than 90% of all UniCredit Bank cards. Additionally, the Bank successfully launched its 3D Secure project for Visa and MasterCard, which enables clients to complete Internet-based operations with minimal risk and significantly reduces the level of bank-card fraud. Chip cards can now be processed by the Bank's POS terminals.

In mid-2012, the Bank began offering its MasterCard clients PayPass technology, and the Bank offers five types of cards, enabling clients to execute direct PayPass operations, and the number of cards will be increased. In 2012, the Bank completed projects for the launch of World MasterCard Black Edition debt cards for Affluent clients, as well as Autocards.

In 2013, UniCredit Bank plans to issue Visa cards with PayWave technology, which are currently in the certification process. The Bank also plans to continue enhancing its unique card design line for Private Banking clients, along with co-brand cards.

“In 2012 UniCredit Bank continued its effort to simplify the organizational structure, increase productivity and reduce operational costs, reinforcing its market position as one of the most efficient banks in Russia.”

Luca Rubaga
Member of the Board, Senior Vice-President

Report on the Bank's Activities (Continued)

Operations (Continued)

Real Estate

In 2012, UniCredit Bank successfully completed one of its most important projects for optimizing the location of its subdivisions and consolidating its operations in a unified center – several divisions completed their move to Technopark Nagatino i-Land. The move enabled the Bank to significantly reduce its leasing costs for premises.

The Bank opened a new office in Omsk in 2012, and the representative office in Yaroslavl was moved to new leased premises. The representative office in Krasnoyarsk was also moved to a new location, which enabled it to reduce its leasing expense.

Despite the level of inflation, in 2012 the Bank managed to reduce the contractual cost of technical services for premises by around 7% and keep flat the overall renting cost of premises.

The Bank's real estate management plans for 2013 include, along with ensuring uninterrupted operations at its subdivisions and other facilities, active efforts to implement Bank network development plans, further optimization of leasing and maintenance costs for premises, and continued rational use of the Bank's own real estate.

In 2012 Unicredit Bank Russia continued its effort to simplify the organizational structure, increase productivity and reduce operational costs, reinforcing its market position as one of the most efficient foreign banks in Russia.

Brand

In 2012, UniCredit Bank continued promoting its brand in accordance with the brand positioning "Real Life Banking," which is also the basis for all advertising campaigns to promote the Bank's products and services for the full range of client segments.

In the autumn of 2012, UniCredit launched its Real Life Banking Certification project in Russia, where – as in all countries where UniCredit operates – it is designed to increase staff awareness and loyalty to the UniCredit Bank brand and ensure that the brand positioning promise "Real Life Banking" – a bank it is easy to work with – is kept. Staff team projects at various subdivisions of the Bank were evaluated using a specially created instrument (brand filter), making it possible to check whether initiatives correspond to UniCredit Bank brand promises and the corporate image. Wherever the answer was positive, the project/product received a certificate. Another brand positioning initiative was an internal competition timed to coincide with UniCredit Day, as part of which a group-wide selection was made of stories illustrating UniCredit's approach to working with clients. The best stories were included in this year's Annual Report.

One interesting project in UniCredit's brand promotion campaign in Russia, following the Ups and Downs conception, was "Ups and Downs. Unique Stories," using social networks. Participants in the competition created their own stories (in video or text format) with a story about the ups and downs of their life. The competition took part in two stages – the main prize in the first stage was a climb up Mt. Kilimanjaro, while the second stage winner was awarded a diving tour in Mexico. To promote the competition a special site was created where stars from the world of fashion, Russian sport, and television told about the ups and downs of their lives and how they overcame their difficulties and kept pressing forward.

An important part of UniCredit's brand promotion is the Group's cooperation with the UEFA Champions League, which continued successfully in 2012. Last year, UniCredit was given the right to call itself "The Official Bank of the UEFA Champions League" along with the opportunity to issue an official UEFA Champions League Match Coin from UniCredit, and these advantages were also used for UniCredit brand promotion during football matches of the UEFA Champions League in Russia.

Another significant part of UniCredit Bank's brand promotion in Russia has long been support for cultural and arts events. In March 2012, at the Rolan Cinema in Moscow, the 3rd Festival of Italian Film "From Venice to Moscow" was held with support from UniCredit Bank. The festival was organized by the Italian Embassy in Russia and the Italian Institute of Culture in Moscow. The festival program traditionally includes the best Italian films – laureates from the Venice Film Festival. Additionally, as part of the "Russian Program," films by Soviet and Russian directors shown at various times in Venice were presented, and there was also a special showing of films from Alexander Sokurov's "Tetralogy on Power".

In view of UniCredit's longstanding partner relations with the La Scala Philharmonic Orchestra, in July 2012 UniCredit Bank organized an event for clients as part of the St. Petersburg tour by soloists of the orchestra.

In September 2012 at the State Central Museum of Modern History in Moscow an exhibition of works by the renowned Italian photographer Mimmo Iodice titled "Myth of the Mediterranean" was held, organized by the Institute of Italian Culture. UniCredit served as General Partner for the exhibition, which featured 20 works by Iodice from the UniCredit corporate collection, one of the largest collections in Europe. Among those invited to the reception for the exhibition were key clients of UniCredit Bank, for whom excursions at the exhibition and the museum were organized. In addition to Moscow, the exhibition was also shown in St. Petersburg and Yekaterinburg.

UniCredit Bank Art Collection

UniCredit Bank is an active and successful participant in the cultural and musical life of society, following the modern European model for major financial organizations in the area of culture. One of the Bank' special projects is its corporate collection of works by Russian artists of the 1920s and 1930s.

Special attention is devoted to this area of Russian art due to the aesthetic significance of art born of the dialogue with the avant-garde and the special role this art has long played in Russia. UniCredit Bank's corporate collection includes works of independent art which received no official recognition at the time of their creation but which today hold special artistic value. The best works are on display at UniCredit Bank's head office in Moscow.

The collection contains rare works by Russian post avant-garde artists such as Daniil Cherkes, Leonid Zusman, Rostislav Barton, Nadezhda Udaltsova, Antonina Sofronova and others. Among the most valuable masterpieces are: "The Dream" by Leonid Chupyatov, "Woman for All Time" by Daniil Cherkes, "Landscape with Railroad Bridge" and "In the Mountains of Armenia" by Alexander Drevin, as well as a rare work by Nadezhda Udaltsova "Still Life with a Hunting Bag and a Gun," one version of which is housed at the Tretyakov Gallery in Moscow.

Works from the UniCredit Bank collection were displayed in Moscow in 2009 at the exhibition "Twenty Bright Russian Years: Russian Art of the 20s and 30s from the UniCredit Bank Collection and Private Collections," and also at the 2011 exhibition "People and the City."

Report on the Bank's Activities (Continued)

Brand (Continued)

In November 2012, the Bank for the third time displayed works from its collection for the general public, this time at the exhibition called "Post-Avant-Garde: Russian Paintings and Drawings from the UniCredit Bank Art Collection and Private Collections" at the Multimedia Art Museum in Moscow. The exhibition featured over 70 works by artists of the post-avant-garde period from the Bank's corporate art collection, as well as works by masters of this period from private collections, including paintings by Boris Golopolosov, Niklolai Prokoshev, Alexander Rittikh and Arsenii Shultz. The exhibition was timed to coincide with the issue of UniCredit Bank's World Elite™ MasterCard® for UniCredit Private Banking, with a design based on one of the key works in the Bank's collection "Tsar's Courtiers" (illustrations for a book of fairy tales) by the well-known Russian painter, graphic artist and theatrical decorator Konstantin Chebotarev (1892-1974).

Alexander Balashov, Curator of the UniCredit Bank Art Collection, conducts a tour of the exhibition "Post-Avant-Garde: Russian Paintings and Drawings from the UniCredit Bank Collection and Private Collections" in the Multimedia Art Museum.

The Cloud B.A. Smirnov-Rusetsky, 1958

UniCredit Bank in Social Networks

As in the previous year, in 2012 UniCredit Bank continued to develop its presence in the main social networks. In March, as part of the promotion strategy for its brand and services, the Bank opened an official UniCredit Bank Twitter account, which clients can use to quickly receive answers to questions that interest them or professional advice from Bank experts, find out the Bank's latest news, and take part in special offers and competitions by signing up for this communications channel.

In April 2012, UniCredit Bank also appeared on Foursquare, where it is now possible to find information about the location of the Bank's nearest offices or ATMs, indicating hours of operation and services offered, as well as information about shops, restaurants, sport clubs and many other organizations offering discounts when payment is made using UniCredit Bank cards under the loyalty program "Discount Card." During the year, Foursquare users were given the opportunity to participate in a number of special offers as part of the Bank's promotion of its presence in this social network.

In 2012, social networks were included for the first time in the promotion of UniCredit Bank's flagship charity program UniColours (for more information about this program see the "Social Responsibility" section of this Annual Report). In order to draw attention to its art therapy program and help as many people as possible learn about the interesting and unusual works created by children with disabilities, UniCredit Bank offered users of the social networks Facebook, Twitter and Russia's highly popular VKontakte the chance to indicate "like" for the pictures and poems placed on the Bank's pages in social networks. For every "like" the Bank contributed 10 rubles to the art therapy program for disabled children. During the offer period, 56,611 "likes" were collected, including over 10,000 on the first day, resulting in a contribution to the UniColours charity program of 566,110 rubles. Most of the "likes" (nearly 50,000) were received through VKontakte. The offer was also notable for the fact that while it was under way, visitation at the "Social Responsibility" section of the Bank's website was 20 times higher than usual, making the UniColours post at that moment the all-time record holder for any brand in VKontakte and attracting new participants to the Bank's social network groups.

It gives us particular pleasure to note that through special offers in social networks, the Bank managed to attract people's attention to the issue of rehabilitation – not only the treatment of children with illnesses, that is, not simply emergency care for specific children, but also systematic art therapy, enabling children to fight effectively against the effects of various diseases.

Personnel Management

In 2012, UniCredit Bank continued to enhance its personnel management system in order to increase the Bank's attractiveness as an employer, optimize staff structure and costs, and raise the level of staff involvement and effectiveness.

In response to the findings of a UniCredit Bank staff survey, a number of steps were taken for the purpose of achieving even better results. Notably, the banking school continued working in its new format, bringing in experts in specific areas of banking practice to actively share the secrets of their craft with their colleagues.

Programs for the training and development of managerial skills in the framework of Group initiatives received a strong boost, and the number of participants in these programs in Russia increased.

In 2012, a number of new trainings and programs were launched in response to the needs of the corporate and retail business segments, and greater attention was paid to raising the professional level of staff in the area of risk management and compliance.

The Bank continued to optimize its labor compensation system and unify its personnel management policies, particularly the employee benefits distribution system.

As part of development of the social partnership process, in late 2012 the Bank successfully held talks and signed, together with staff representatives, a new Collective Agreement for the next three years.

In confirmation of its status as a leading Russian financial market employer, in 2012 for the second straight year UniCredit Bank was designated "European Top Employer" as part of the annual certification process conducted by the CRF Institute.

Report on the Bank's Activities (Continued)

Social Responsibility

In 2012, UniCredit Bank undertook many different projects within the scope of the main focus of its charitable activities "People and Health." The principal areas include development of corporate volunteer work, acquisition of medical equipment and medicines for healthcare facilities, improving the quality of life for war veterans, long-term social programs of charitable funds, and aid for disaster victims. The Bank actively developed its flagship charity program UniColours – art therapy for children with health disabilities.

UniCredit Bank's charitable activities were widely acclaimed by the public in 2012. The Bank took 5th place in the "Corporate Charity Leaders" survey's "Financial Sphere" sub-ranking, assessing the effectiveness of companies' charitable activities. The ranking was prepared by the non-profit partnership of grant-awarding organizations "Donors' Forum" and the newspaper Vedomosti jointly with PwC. In a survey conducted by the international non-profit organization Charities Aid Foundation (CAF), UniCredit Bank was a leader among banks for qualitative charity criteria, taking third place.

UniColours

UniCredit Bank's flagship charity program UniColours organizes art therapy for disabled children. Program participants include children undergoing treatment at sanatoriums in St. Petersburg (the R. M. Gorbacheva Institute of Children's Hematology, the N. N. Petrova Scientific Research Institute for Oncology, City Clinical Hospital No. 31 and the Children's Hospice Medical Institution) and Moscow (the Russian Children's Clinical Hospital), as well as students at the Lobnya City Correction School, Pavlovsk City Orphanage No. 4, and patients at the Yaroslavl Region public organization for the disabled "Face to the World."

During the art therapy activities children not only develop their creative abilities, but also fight their diseases. Unfortunately, it is not always possible to help children overcome disabilities, but it is possible to help them discover their unlimited inherent abilities and live a full life.

UniCredit Bank's volunteers in the Pavlovsk City Orphanage No. 4.

Volunteer Work

Corporate volunteer work was one of UniCredit Bank's top social responsibility priorities again in 2012. Volunteers made 12 visits to orphanages and educational institutions (Bezhetskaya Special/Correctional Boarding School for orphans and children deprived of parental care, Type VIII; Pereslavl-Zalessky Orphanage; Kolychevskaya Boarding School for orphans with mental disabilities; Pavlovsk Orphanage No. 4; and Zernograd Boarding School). During these visits volunteers held master classes aimed at helping children learn how to successfully adapt to adult life. The Bank also organized two bus excursions to Kostroma and Tver for children from Pereslavl-Zalessky Orphanage and Bezhetskaya Boarding School.

In 2012, a large number of UniCredit Bank employees took part in charitable sporting events. In August the Bank's corporate team participated for the second time in the "Red Square" charity bicycle race, organized by the Downside Up Fund in support of Down's Syndrome children and their families. Two cyclists from the Bank's staff – Aleksei Sokolov and Danil Proshchenko – completed the entire Kaluga Region section of over 180 kilometers. During the next stage of the race they were joined by other Bank staff, and they all covered the final 11 kilometers together along river embankment roads in Moscow. Overall, the UniCredit Bank team took first place in the Amateur League. The torch was then passed to UniCredit Bank colleagues from Ufa, who on September 15 took part in a charity bicycle race also organized to help children with Down's Syndrome. Ufa's first such sporting event was held by Regional Public Organization "CoOperation" of the Bashkortostan Republic, with support from the Downside Up Charitable Fund. Another notable sporting event was Race 5,275, held on September 23 in Moscow. More than 20 members of the UniCredit Bank corporate team ran the 5,275 meters – 1/8 of the distance of a full marathon. The race was organized by the Life Line and Road Together funds along with Reach for Change. UniCredit Bank runners and other participants started and finished in Moscow's Gorky Park.

On April 26, 2012, many employees from UniCredit Bank's Prechistenskaya and Butikovsky central offices in Moscow came to work in bright clothing or adorned their somber office suits with bright accessories in connection with the Bank's participation in "Bright Day" aimed at improving the diagnosis and treatment of primary immunodeficiency diseases in Russia. Bringing together hundreds of people, the Sunflowers Fund's "Bright Day" was timed to coincide in Russia with World Primary Immunodeficiency Week, which drew the public's attention to the problems of these rare diseases.

Report on the Bank's Activities (Continued)

Social Responsibility (Continued)

UniCredit Bank also took part in the nationwide event "Financial Literacy Day" on September 7-8. As part of the event, employees from the Bank's Bashkiria and Stavropol branches conducted open classes at educational institutions: Lyceum No. 6 and School No. 159 in Ufa, and at the Nevinnomyssky Agrotechnological College.

Another fine tradition is the charity fairs at UniCredit Bank's head office. In 2012, three fairs were held. All the funds collected from the sale of souvenirs went to the charity programs of the various funds taking part in the fair.

Volunteers also collected and delivered to children's institutions four sets of essential items and gifts collected with the participation of Bank staff.

Health Care

Year after year, UniCredit Bank helps hospitals acquire costly equipment and provides assistance for various rehabilitation programs. In 2012, the Bank purchased surgical loupes for the Department of Thoracic Surgery of the Nizhegorodsk Regional Oncodispensary and for the Children's Oncohematological Center of the Volgograd Regional Oncological Health Center.

UniCredit Bank and UniCredit Foundation (UniCredit's charity fund), jointly with the public organization Rotary Club Krasnodar, gave medical equipment to the Nizhnebakansk Outpatient Clinic, which suffered losses during major flooding in the Krymsky District of the Krasnodar Region. The biochemical analyzer, reagents and serums will enable the clinic to significantly increase the quality of the medical assistance it provides to residents of the Nizhnebakansk Medical District, which includes the towns and villages of Neberdzhaevsk, Nizhnebakansk, Verkhneadagum, Gaponovsky and Zhemchuzhny.
For children undergoing treatment at the Moscow Regional Psychoneurological Hospital for Children with CNS Afflictions and Mental Disturbances and the St. Petersburg Children's Hospice, the Bank organized a series of theatrical shows to lend variety to the children's hospital regime and give them a chance to receive a strong emotional boost to assist with their recovery.

Helping Veterans

For many years, UniCredit Bank has been providing funds on a regular basis to veterans' organizations including: the Russian Public Charitable Fund for Veterans (Pensioners) of War, Labor, and the Armed Forces; the Moscow Committee of War Veterans; the Interregional Public Organization of Disabled War And Military

UniCredit Bank's corporate team participated in the «Red Square" charity bicycle race, organized by the Downside Up Fund in support of Down's Syndrome children.

Veterans of Russia; and the Regional Public Organization "Association of Veterans, Disabled Veterans, And Veterans of the Leningrad Blockade." The Bank has provided support for visitation programs for solitary and seriously wounded veterans, as well as for holiday concerts.

Protecting the Historical Heritage

For the past five years, one of UniCredit Bank's key projects has been the Cherdyn project, aimed at restoring the cultural heritage of the Cherdyn Region, preparing new staff, and increasing the flow of tourists to the City of Cherdyn, one of the most interesting historical sites in the region. UniCredit Bank, together with its client, Solikamskbumprom (paper and pulp), and with the cooperation of the Perm Regional government, finances and organizes instruction for students at Cherdyn's Solikamsk Pedagogical Institute in the area of Sociocultural Service and Tourism. The Cherdyn project was launched in 2007, and the Bank's efforts continued in 2012.

Personal Contribution from Your Heart

Realization of many of the projects listed here was accomplished within the scope of the corporate charitable program "Personal Contribution from Your Heart," launched by the Bank in 2004. The program includes an internal data base accessible to Bank staff and containing information about all charitable projects approved by the Bank's management and open for contributions. Employees wishing to participate in the program choose one or more projects to which personal funds will be transferred. In response, UniCredit Bank adds a contribution double the amount given by each staff member.

You Can Help

For the straight third year, UniCredit Bank held a competition for the best charity project idea among Bank employees titled "You Can Help." When selecting the winners, the members of the panel of judges, which includes top managers of the Bank and leading external experts in the field of charitable activities, considered factors such as the possibility of achieving a specific, measurable, long-term result, the extent to which the proposal is realistic, the geographic area covered, and the opportunity to include Bank staff and partners in the project's implementation. The three winners chosen by the panel were:

- 1st place: a water heating system project at Petrovsk Boarding School to compensate for the lack of a central hot water supply;
- 2nd place: equipment for a treatment and rehabilitation Sponsors Room at the Central Office of the Children's Anti-tuberculosis Sanatorium in Ufa;
- 3rd place: acquisition of medical equipment (bronchial suction apparatus) for treatment and immunity support for preemies and newborns at the Neonatal Emergency Center of N. F. Filatov City Clinical Hospital No. 13.

Work on implementing these projects began in 2012 and continues in 2013.

Greeting Cards of Kindness

In 2012 as in the previous year, UniCredit Bank's clients and partners received not only holiday gifts but also unusual greeting cards. Each card was made by children at Russian orphanages (a total of 6,000 cards). For the work they did, each child received a sum of money to spend on New Year's gifts. This initiative was carried out in cooperation with the Social Metres project, whose participants teach children at regional orphanages to make uncomplicated souvenirs, with the creators receiving a percentage of the proceeds from sales. Once a month the children, accompanied by volunteers, visit a shopping center to purchase gifts using the money they earned. In this way, the program helps prepare children at orphanages for their future independent lives. By participating in the master class project, children get used to working, develop their creative potential, and gain their first employment experience and earning skills.

Support for Charitable Activity in Society

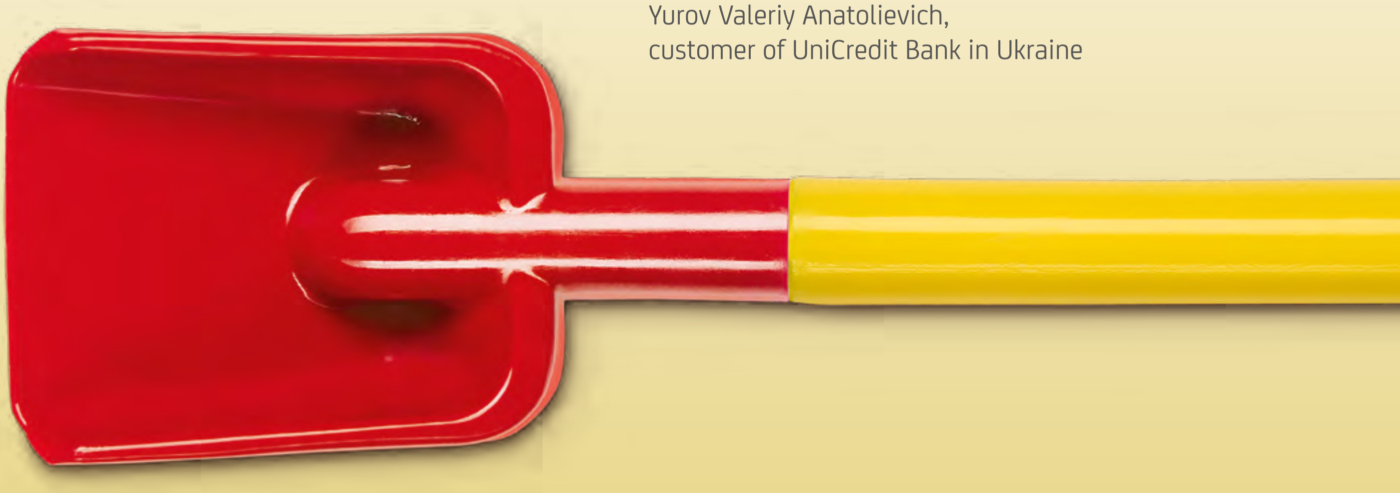
In 2012, UniCredit Bank served as a partner for several events aimed at developing support for charitable activities in society and the business community. On August 9, 2012, UniCredit Bank's central office in Moscow was the setting for the Third All-Russian Conference "Corporate Volunteer Work as Innovation and Management of Change," the main goal of which is popularization of this area of corporate social responsibility (CSR). The event was organized by the information and analysis journal "Business and Society" and the Solidarity Center for the Development of Philanthropy, with support from UniCredit Bank. On December 10, 2012, also with support from the Bank, a round table titled "New Opportunities for Social Media and the Internet in CSR Development" was held. Talks were given at the round table by representatives of social networks and communications agencies, as well as CSR managers from major Russian and overseas companies.

PEACE OF MIND

How to save a Customer's holiday

“When I lost my Visa card while on vacation abroad, UniCredit Bank's emergency cash disbursal service saved me from what could have been a disastrous situation.
I used the service twice while visiting Paris and Moscow and it exceeded my expectations, allowing me to pay for my hotel, entertainment and other expenses. I was impressed by the service's quality and speed – I was able to have cash in-hand in less than an hour.
This experience taught me that my bank is 100 percent prepared to support me at anytime, even in the most difficult of situations. I know now that I can count on UniCredit's professional advice and real solutions for whatever I need.”

Yurov Valeriy Anatolievich,
customer of UniCredit Bank in Ukraine



Supplementary Information

Management

Supervisory Board (as of January 1, 2013)

Erich Hampel, Chairman of the Supervisory Board

Age – 61 years. Graduate of University of Economics and Business Administration in Vienna, doctor of social sciences and economics. He has been working in banking business for more than 35 years. From 2004 to 2009 he was Chairman of the Managing Board of Bank Austria Creditanstalt AG. In 2005 he was appointed Head of CEE Division of UniCredito Italiano S.p.A. From 20.02.2007 to 20.12.2007 he was Chairman of the Board of Directors of CJSC International Moscow Bank; from 20.12.2007 till now he is Chairman of the Supervisory Board of ZAO UniCredit Bank. Mr. Hampel is Chairman of the Supervisory Board of UniCredit Bank Austria AG.

Gianni Franco Papa, Member of the Supervisory Board

Age – 56 years. Graduate of the Catholic University of Milan.

Mr. Papa started his career in 1979 at Credito Italiano. In 1998 and 1999 he was Deputy General Manager at Singapore Branch of Credito Italiano, and then was Director for Asia (ex China) for UniCredit. From 2003 to 2005 Mr. Papa was General Manager of New York Branch and Director for the Americas for UniCredit. From July 2005 to March 2007 he was General Manager and COO of UniBanka a.s., and in this capacity was responsible for integration of UniBanka and HVB Slovakia, and then fulfilled the duties of Vice-Chairman of the Board of Directors and General Manager of UniCredit Bank, Slovakia (April 2007 to January 2008). From February 2008 to November 2010 Gianni Franco Papa was First Deputy Chairman of the Board and General Manager of Ukrsotsbank, and then was appointed Executive Vice President, Head of CEE Corporate and Investment Banking, UniCredit Bank Austria. From December 2010 Mr. Papa was Senior Executive Vice President, Head of CEE Division, UniCredit, and from January 2011 – Deputy Chairman of the Board of UniCredit Bank Austria.

Gianfranco Bisagni, Member of the Supervisory Board

Age – 54 years. Has an Accounting & Programming Diploma (58/60) and degree with Distinction in Business Administration. Since March 2011 he is Head of Corporate and Investment Banking – Central Eastern Europe, and Deputy Head of Central Eastern Europe Division at UniCredit. He started his career at different branches at UniCredit Group in Italy (Genoa and La Spezia), where he performed all various tasks (retail and corporates).Then he was Manager of Business Development, for the group of branches belonging to Novara Regional Hub (IItaly), subsequently Chief Manager of Novara Main Branch. From September 1989 up to July 1991 he occupied position Senior Area Manager & Deputy Chief Area Manager – Global Financial Institutions – Head Office Milan (Italy). In July 1991 he moved to the position Initially Assistant Representative, and in 1994 promoted to VP & Chief Representative of the local Rep. Office of UniCredit Group in Chicago. In July 1997 he was appointed First Vice President & Deputy Chief Executive in New York, where he worked up to July 2001, when he moved to the position Chief Executive of Hong Kong (UniCredit Group). In September 2007, he was appointed Head of Corporate Banking Asia Pacific and Chief Executive of Hong Kong (UniCredit Group). From March 2010 up to March 2011 he was Head of Corporate and Investment Banking & Private Banking Division & Member of the Management Board of UniCredit Tiriac Bank.

Roberto Nicastro, Member of the Supervisory Board

Age – 48 years. Graduate of Universita commerciale Luigi Bocconi, Milan (Italy).

In 1997 he joined Credito Italiano and then occupied different positions within UniCredit Group. In July 2007 he was appointed Deputy Chairman of the Board of UniCredit Group.

From 11.02.2008 he is a member of the Supervisory Board of ZAO UniCredit Bank. From 01.11.2010 he is General Manager of UniCredit S.p.A.

Paolo Cederle, Member of the Supervisory Board

Age – 51 years. Graduated from Politecnico di Milano. From 2011 to 2006 Mr. Cederle was Executive Director of i-Faber S.p.A. and in 2007 he became Member of the Board of the company. From 2010 Chairman of UniCredit Business Integrated Solutions, member of the Supervisory Board of Ukrsotsbank Public Company, Ukraine.

From 30.04.2010 he is a member of the Supervisory Board of ZAO UniCredit Bank.

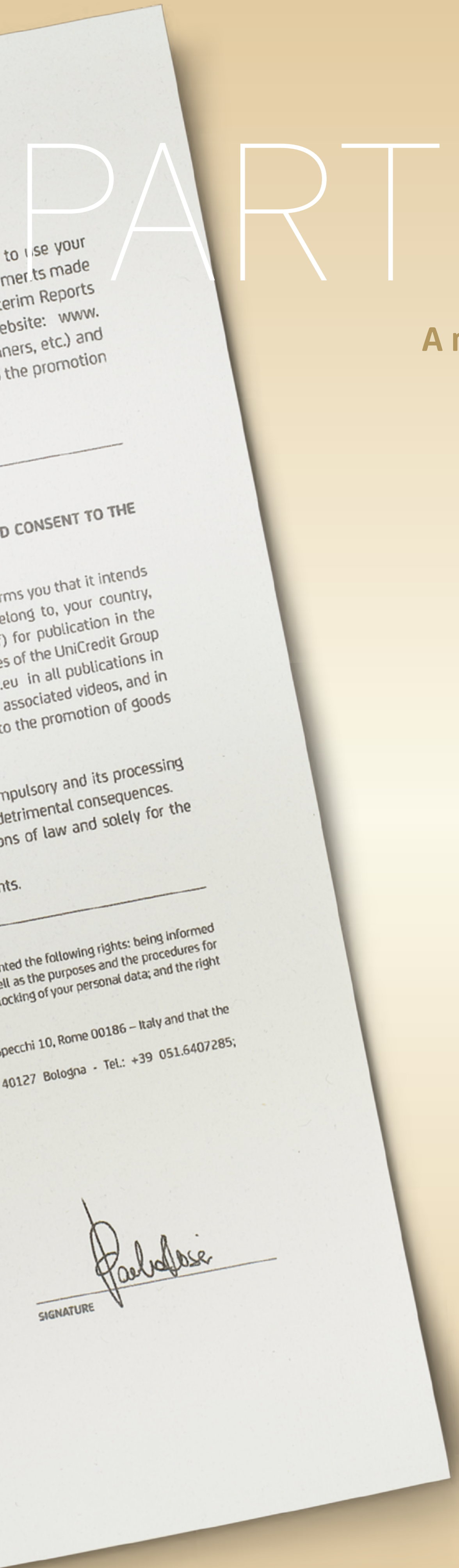
Marco Radice, Member of the Supervisory Board

Age – 55 years. Graduate of J.D., Parma Law School, 1980, Accademia Guardia di Finanza, Rome, 1982, New York Law School, New York, 1983. From1992 up to 2006 he occupied position Non executive director, Itas s.p.a., Insurance Company, Trento. From 1994 up to 2001 was Chairman of the Board of Statutory Internal Auditors, Cassa di Risparmio di Trento e Rovereto, Member / Chairman of the Board of Statutory Internal Auditors of Industrial and Financial Services Companies (Pioneer Alternative Investments S.g.r.p.a., Milano Innovazione S.g.r.p.a., Vivacity S.p.a., Iniziative Urbane s.p.a., Valore S.I.M. s.p.a., Metalsistem s.p.a, Rovimpex s.p.a. and others). From 1998 up to 2006 he was Professor of Financial Services Regulation Law, University of Trento. At present time he is Co-Principal at Perno & Cremonese / Radice & Cereda, in charge of the Banking, Financial Services and Corporate Governance Team. He is also Non executive Director and Chairman of Audit and Risk Committee of Unicredit Private Banking, Turin, Director and member of the executive Committee, Itas Mutua, Insurance Company, Trento, Non executive Director, Itas Vita s.p.a., Insurance Company, Trento.

Karl Guha, Member of the Supervisory Board

Age – 48 years. He graduated from Boston University with a master's degree in economics and finance. From 1989 to 2008 worked at ABN Amro, where he has served in various capacities in Structured Products, Cross Border Risk Trading, Risk Management and Group Treasury; the geography of his work includes US, UK, Australia and the Netherlands. From 2009 he has been working at UniCredit in the capacity of Risk Management Director, Member of the Executive Committee, Member of the Supervisory Board and Chairman of the Audit Committee, Supervisory Board of UniCredit Bank Austria. Until 2010 he was a member of HVB Supervisory Board.

In 2012, Carlo Marini and Elisabetta Magistretti resigned from the Supervisory Board, while Gianfranco Bisagni and Marco Radice were appointed to the Supervisory Board.
No shares of ZAO UniCredit Bank are held by any member of the Supervisory Board.



PARTNERSHIP

A new, versatile and flexible, investment concept

HVB Private Banking Vermögensportfolio Flex Select is a new kind of joint investment with a long-term investment horizon. It is based on the idea that the customer and the Bank invest together in an investment fund ("Private Banking Vermögensportfolio Flex Select 70 PI"; launched by the capital investment company, Pioneer Investments KAG mbH, Munich). The Bank has injected €20 million of its own capital in the fund and through the joint investment both the Bank and its customers participate in the performance of the respective unit classes.

*Only the sales prospectus is binding, as well as the Key Investor Document, which you can receive free of charge in German from UniCredit Bank AG, Arabellastrasse 12, Munich.

Management

Board of Management (as of January 1, 2013)

Mikhail Yurievich Alekseev, Chairman of the Management Board

Age – 48 years. Mr. Alekseev, doctor of economics, started he career in the USSR Ministry of Finance. In 1992 he was elected to the Management Board of Mezhkombank. In 1995, he moved to Oneximbank to the position of the Deputy Chairman of the Management Board. From 1999 to 2006 Mikhail Alekseev held the positions of Senior Vice-President and Deputy Chairman of the Management Board of Rosbank and was responsible for strategic development, small and medium business, operations and IT. His next place of employment was Rosprombank (from 2006), where he held the position of President and Chairman of the Board. In July 2008, in accordance with resolution of the Supervisory Board he was appointed Chairman of the Management Board and is responsible for general management of the Bank's operations.

Konrad Kozik, Member of the Management Board

Age – 42 years. Mr. Kozik started his career in 1999 at UniCredito Italiano Group, where he held different positions, from Deputy Manager of the Foreign Banks Planning Department to executive financial officer at UniCredit Romania. In 2004, Konrad Kozik moved to Kredyt Bank S.A., Warsaw, Poland (owned by KBC Group, Brussels, Belgium), where in 2006 he became Vice-President, Deputy Chairman of the Bank's Management Board. In May 2007 he came back to UniCredit Group and was appointed Chief Financial Officer and Member of the Management Board of UniCredit Bank.

Kirill O. Zhukov-Emelyanov, Member of the Management Board

Age – 42 years. Mr. Zhukov-Emelyanov started his career in 1994 with UniCredit Bank (former International Moscow Bank) in the field of corporate finance. From 1999 he managed credit business of Bank Austria Creditanstalt Russia. Following its merger with International Moscow Bank in 2001, he held executive positions at corporate banking division of International Moscow Bank. From 2003, he was responsible for the development of the regional network and corporate business of International Moscow Bank, and then of UniCredit Bank in regions. In December 2008, in accordance with resolution of the Supervisory Board he was appointed Member of the Management Board and is responsible for corporate banking business of UniCredit Bank.

Dmitry Viktorovich Mokhnachev, Member of the Management Board

Age – 48 years. Mr. Mokhnachev started his career in 1992 at International Moscow Bank (former name of UniCredit Bank) in the field of credit risks, and then he held various positions at International Moscow Bank connected with risk management and corporate business.

In 2003 he was appointed Member of the Management Board of International Moscow Bank. In October 2006 Mr. Mokhnachev moved to Uralsib Financial Corporation in the capacity of 1st Vice-President and Member of the Board of Management. From August 2008 to late June 2009 Dmitry Mokhnachev was Director of Credit to private clients, Sberbank of Russia. In September 2009 he became Member of the Management Board of UniCredit Bank. Mr. Mokhnachev's area of responsibilities includes risk management.

Luca Rubaga, Member of the Management Board, Senior Vice-President

Age – 42 years. Luca Rubaga joined UniCredit's team in 2003 in the capacity of Executive Director of Organization Department and Head of Private Banking Project Management Group, UniCredit Bank (UniCredit Group). In 2005, Mr. Rubaga was appointed Executive Vice President, head of the Organization, Logistic and Cost Management Department, YapiKredi Bank (UniCredit Group), Turkey, and in 2011 moved to ZAO UniCredit Bank (Russia).

In 2012, Eduard Issopov resigned from the Management Board.
No shares of ZAO UniCredit Bank are held by any member of the Management Board.

LISTENING

Making a difference from anywhere, even in a taxi

> *One day while driving my taxi, I struck up conversation with my passengers and found out they worked at UniCredit.*
> *I told them that I was one of their customers and that I owned a fleet of taxis.*
> *I also explained that I was trying to expand my business and had asked for a loan, but had yet to learn if my request was successful.*
> *The next day one of them called me to follow up with the information I needed. She cared about helping me solve my problem, and I could not have been more satisfied with her support.*
> *I thanked her and said that if she ever needed a taxi in Vienna - even to Milan - I would be there for her, as she was for me.*

Taxi driver, customer of UniCredit Bank in Vienna

Contact Details

Head Office

9, Prechistenskaya Embankment, Moscow, 119034, Russia

Telephone:	+7 (495) 258-7258 Call center
	+7 (495) 258-7200 Enquiries
Fax:	+7 (495) 258-7272
Telex:	412284 IMBA RU, 412285 IMBA RU
SWIFT code:	IMBKRUMM
E-mail:	unicredit@unicreditgroup.ru
URL:	www.unicreditbank.ru

Branches

Alexeevskaya Office

97, Prospekt Mira, Moscow, 129085, Russia

Altufievo Office

89, Altufievskoe shosse, Moscow, 127576, Russia

Aeroport Office

44, Leningradskiy Prospekt Moscow, 125167, Russia

Babushkinskaya Office

11, Eniseyskaya street, Moscow, 129344, Russia

Bolshaya Gruzinskaya Office

58-60, Bolshaya Gruzinskaya Street, Moscow, 123056, Russia

Bolshaya Nikitskaya Office

Building 1, 15, Bolshaya Nikitskaya Street, Moscow, 125009, Russia

Vorontsovskiy park Office

99, Leninsky Prospekt, Moscow, 119421, Russia

Dmitrovka Office

Building 4, 10/2, Bolshaya Dmitrovka Street, Moscow, 103031, Russia

Zemlyanoy Val Office

Building 1, 25, Zemlyanoy Val, Moscow, 119048, Russia

Zubovsky Boulevard Office

29, Zubovsky Boulevard, Moscow, 119021, Russia

Kazachy Office

9/1, Pervyi Kazachy Pereulok, Moscow, 109017, Russia

Kosmodamianskaya Office

Riverside Business Center
52/2, Kosmodamianskaya Embankment, Moscow, 113054, Russia

Krasnaya Presnya

21, Krasnaya Presnya Street, Moscow, 123022, Russia

Komsomolskaya Office

Building 1, 3-5, Krasnoprudnaya street, Moscow, 107140, Russia

Kutuzovsky Prospekt Office

Building 1, 22, Kutuzovsky Prospekt, Moscow, 121151, Russia

Leninsky Office

Park Place Business Center
113/1 Leninsky Prospekt, Moscow, 117198, Russia

Lomonosovsky Prospekt Office

70/11, Leninsky Prospekt, Moscow, 119261, Russia

Mayakovskaya Office

10, Bolshaya Sadovaya Street, Moscow, 123001, Russia

Myasnitskaya Office

Building 2, 24/7, Myasnitskaya Street, Moscow, 101000, Russia

Mytishchi office

2, Mira street, Mytishchi, Moscow region, 141008, Russia

Neskuchny Sad Office

12, Leninsky Prospekt, Moscow, 119071, Russia

Novoslobodskaya Office

40, Dolgorukovskaya Street, Moscow, 127030, Russia

Ostozhenka Office

5, Ostozhenka street, Moscow, 119034, Russia

Otradnoe Office

20, Khachaturyana street, Moscow, 127273, Russia

Odintsovo office

112a, Mozhayskoe Shosse, Odintsovo, Moscow region, 143005, Russia

Petrovskiy Boulevard Office

23, Petrovsky Boulevard, Moscow, 127051, Russia

Pokrovka Office

Building 2, 1/13/6, Pokrovka Street, Moscow, 101000, Russia

Podolsk office

64/105, Revolutsionny prospekt, Podolsk,
Moscow region, 142100, Russia

Prechistenskaya Office

9, Prechistenskaya Embankment, Moscow, 119034, Russia

Prospekt Vernadskogo Office

33, Prospekt Vernadskogo, Moscow, 119331, Russia

Prospekt Mira Office

Building 1, 26, Mira Prospekt, Moscow, 129090, Russia

Contact Details (Continued)

Regional Branches

Pyatnitskaya Office

14/1, Pyatnitskaya Street, Moscow, 115035, Russia

Rechnoy Vokzal Office

94, Leningradskoe Shosse, Moscow, 125565, Russia

Rogozhskaya zastava office

8, Rogozhskaya zastava street, Moscow, 105120, Russia

Taganskaya Office

Building 1, 1, Marksistskaya Street, Moscow, 109147, Russia

Tverskaya Office

Building 1, 28, First Tverskaya Yamskaya Street,
Moscow, 125445, Russia

Khamovniki Office

44, Komsomolsky Prospekt, Moscow, 119048, Russia

Khimki office

Building 1, 19, Panfilova Street, Khimki,
Moscow region, 141407, Russia

Shuvalovsky office

7, Michurinsky prospekt, Moscow, 119192, Russia

Yartsevskaya Office

Building 1, 22, Yartsevskaya Street, Moscow, 121351, Russia

St. Petersburg Full Branch

48/2 Fontanka Embankment, St. Petersburg, 191025, Russia
Telephone: 8 (800) 200-7300
Fax: +7 (812) 346-8420
SWIFT code: IMBKRUMMPET

Branches

Akademicheskaya Office

19/2, Nauki prospekt, St. Petersburg, 195220, Russia

Chernaya rechka Office

3 lit. A, Savushkina Street, St. Petersburg, 197183, Russia

Fontanka Office

48/2 Fontanka Embankment, St. Petersburg, 191025, Russia

Kirochnaya Office

11A Kirochnaya Street, St. Petersburg, 191104, Russia

Komendantskiy prospekt office

11, Komendantskiy prospekt, St. Petersburg, 197227, Russia

Leninsky prospekt office

8, lit. A, Novatorov boulevard, St. Petersburg, 196191, Russia

Moskovskaya office

193, Moskovsky prospekt, St. Petersburg, 196066, Russia

Park Pobedy Office

192-194, lit. A, Moskovsky Prospekt, St. Petersburg, 196070, Russia

Petrogradskaya Storona Office

48, Bolshoi Prospekt, P.S., St. Petersburg, 197198, Russia

Prospekt Bolshevikov office

3, building 1, Bolshevikov Prospekt, St. Petersburg, 193231, Russia

Prospekt Prosveschenia Office

34, Prospekt Prosvescheniya, St.Petersburg, 194358, Russia

Prospekt Slavy Office

52, Prospekt Slavy, St. Petersburg, 192241, Russia

Sennaya Ploshchad Office

4A, Efimov Street, St. Petersburg, 190031, Russia

Vasilevsky Ostrov Office

49, Sredny Prospekt, St. Petersburg, 199178, Russia

Zanevskaya ploschad Office

43/17, lit. A,Novocherkassky prospekt, St. Petersburg, 195196, Russia

Chelyabinsk full branch

38, Karl Marx Street,
Chelyabinsk, 454091, Russia
Telephone: +7 (351) 247-9170
Fax: +7 (351) 247-9108

Severo-Zapad Office

31, 40 Let Pobedy Street, Chelyabinsk, 454021, Russia
Telephone: +7 (351) 247-2020
Fax: +7 (351) 247-2022

Ulitsa Svobodi Office

80, Ulitsa Svobodi Street, Chelyabinsk, 454091, Russia
Telephone: +7 (351) 247-2015
Fax: +7 (351) 247-2016

Magnitogorsky Office

6, Gertsen Street, Magnitogorsk, Chelyabinsk Region, 455001, Russia
Telephone: +7 (3519) 43-8611
Fax: +7 (3519) 43-8619

Miassky Office

20, Prospekt Avtozavodcev, Miass,
Chelyabinsk Region, 456304, Russia
Telephone: +7 (3513) 55-6804
Fax: +7 (3513) 57-2256

Ekaterinburg full Branch

4, Nikonov Street, Ekaterinburg, 620027, Russia
Telephone: +7 (343) 356-5997
Fax: +7 (343) 370-0095

Palladium Office

10, Khokhryakova Street, Palladium office center,
Ekaterinburg, 620014, Russia
Telephone: +7(343) 344-3660
Fax: +7(343) 344-3656

Krasnodar full Branch

41, Stavropolskaya Street, Krasnodar, 350033, Russia
Telephone: +7 (861) 210-1040
Fax: +7 (861) 210-1045

Pokrovsky Office

64/1, Krasnoarmeyskaya Street, Krasnodar, 350000, Russia
Telephone: +7 (861) 210-1285
Fax: +7 (861) 210-1045

Novorossiysky Office

39, Leitenanta Shmidta Street, Novorossiysk, Krasnodar Territory,
353905, Russia
Telephone: +7 (8617) 301-336
Fax: +7 (8617) 301-334

Sochinsky Office

26, Maksima Gorkogo Street, Sochi,
Krasnodar Territory, 354000, Russia
Telephone: +7 (8622) 90-2680
Fax: +7 (861) 210-1045

Nizhniy Novgorod full Branch

20, Kostina Street, Nizhniy Novgorod, 603134, Russia
Telephone: +7 (831) 275-8080
Fax: +7 (831) 421-6009

Novosibirsk full Branch

27 Sovetskaya/53 Gorkogo Street, Novosibirsk, 630099, Russia
Telephone: +7 (383) 230-0163
Fax: +7 (383) 230-0169

Perm full Branch

41, Ordzhonikidze Street, Perm, 614045, Russia
Telephone: +7 (342) 218-3850
Fax: +7 (342) 218-3857

Stroganovsky Office

59, Lenina Street, Perm,
614068, Russia
Telephone: +7 (342) 218-1434
Fax: +7 (342) 233-0137

Sibirskaya Office

46, Sibirskaya Street, Pem, 614007, Russia
Telephone: +7 (342) 259-0630
Fax: +7 (342) 216-2282

Rostov-on-Don full Branch

58/51, Socialisticheskaya Street,
Rostov-on-Don, 344002, Russia
Telephone: +7 (863) 263-0900
Fax: +7 (863) 263-0905

Bolshaya Sadovaya Office

113, Bolshaya Sadovaya Street, Rostov-on-Don, 344002, Russia
Telephone: +7 (863) 263-0970
Fax: +7 (863) 263-0905

Ulitsa Tekucheva Office

139/94 Tekucheva Street, Rostov-on-Don, 344018, Russia
Telephone: +7 (863) 206-2075
Fax: +7 (863) 263-0905

Contact Details (Continued)

Samara full Branch

178/12, Chapaevskaya/Krasnoarmeyskaya Street,
Samara, 443010, Russia
Telephone: +7 (846) 267-3350
Fax: +7 (846) 267-3360

Ulitsa Pobedi Office

93, Pobedy Street, Samara, 443058, Russia
Telephone: +7 (846) 273-8873
Fax: +7 (846) 267-3360

Stavropol full Branch

38a, Dovatortsev Street, Stavropol, 355037, Russia
Telephone: +7 (8652) 95-1125
Fax: +7 (8652) 95-1126

Ufa full Branch

27, Kirova Street, Ufa, Bashkortostan Republic, 450000, Russia
Telephone: +7 (347) 292-0840
Fax: +7 (347) 292-0842

Prospekt Oktyabrya Office

37, Prospekt Oktyabrya, Ufa, Bashkortostan Republic, 450058, Russia
Telephone: +7 (347) 223-5070
Fax: +7 (347) 223-5662

Volgograd full Branch

11, Novorossiyskaya Street, Volgograd, 400131, Russia
Telephone: +7 (8442) 96-8268
Fax: +7 (8442) 96-8271

Voronezh full Branch

13, Komissarzhevskaya Street, Voronezh, 394036, Russia
Telephone: +7 (473) 220-5364
Fax: +7 (473) 235-5929

Operational Offices

Arkhangelsky

104, Voskresenskaya Street,
Arkhangelsk, 163051, Russia
Telephone: +7 (8182) 65-7725
Fax: +7 (8182) 20-2500

Barnaulsky

28, Prospekt Lenina, Barnaul, Altai, 656056, Russia
Telephone: +7 (3852) 63-0021
Fax: +7 (3852) 63-1070

Belgorodsky

45 A, Prospekt Slavy, Belgorod, 308000, Russia
Telephone: +7 (4722) 58-6048
Fax: +7 (4722) 58-6047

Kaluzhsky

1/20 Pushkina Street,
Kaluga, 248000, Russia
Telephone: +7 (4842) 211-063

Krasnoyarsky

36, Prospekt Mira, Krasnoyarsk, 660049, Russia
Telephone: +7 (391) 265-3102
Fax: +7 (391) 265-3103

Lipetsky

5, Voroshilova Street, Lipetsk, 398050, Russia
Telephone: +7 (4742) 22-2191
Fax: +7 (4742) 22-4600

Levoberezhny

18, 70 Let Oktyabrya street, Omsk, 644123, Russia
Telephone: +7 (3812) 35-6496

Omsky

17, Karl Marx Prospekt, Omsk, 644010, Russia
Telephone: +7 (3812) 43-3505
Fax: +7 (3812) 43-3507

Saratovsky

52, Chapaeva Street, Saratov, 410056, Russia
Telephone: +7 (8452) 33-9407
Fax: +7 (8452) 33-9405

Tyumensky

155/2, Respubliki Street, Tyumen, 625026, Russia
Telephone: +7 (3452) 389-504
Fax: +7 (3452) 389-512

Representative Offices

Arkhangelsk

Office 411, 7, Pomorskaya Street / 38, Troitsky prospect,
Arkhangelsk, 163000, Russia
Telephone: +7 (8182) 636-006
Fax: +7 (8182) 65-7781

Barnaul

91, Proletarskaya Street, Barnaul, 656049, Russia
Telephone: +7(3852) 63-7181
Fax: +7(3852) 63-6975

Belgorod

45a, Prospect Slavy, Belgorod, 308600, Russia
Telephone: +7 (4722) 58-6040
Fax: +7 (4722) 58-6043

Cheboksary

35B, Gagarina Street, Cheboksary, 428012, Chuvashiya, Russia
Telephone: +7 (8352) 63-1345
Fax: +7 (8352) 24-0393

Irkutsk

49, Partizanskaya street, Irkutsk, 664047, Russia
Telephone: +7 (3952) 78-0094
Fax: +7 (3952) 78-0089

Kazan

11a, Dzerzhinskogo Street, Kazan, 420111, Tatarstan, Russia
Telephone: +7 (843) 292-1501
Fax: +7 (843) 292-5889

Kemerovo

24a, Vesennyaya Street, Kemerovo, 650000, Russia
Telephone: +7 (3842) 49-6750
Fax: +7 (3842) 49-6752

Krasnoyarsk

3, Vesny Street, Krasnoyarsk, 660077, Russia
Telephone: +7 (3912) 777-224
Fax: +7 (3912) 777-226

Minsk

51, Korolya Street, Minsk, 220004, Republic Belarus
Telephone: +375 (17) 200-0554
Fax: +375 (17) 200-0552

Omsk

Building 1
65, Gertsen Street, Omsk, 644007, Russia
Telephone: +7 (3812) 22-0282
Fax: +7 (3812) 24-9415

Orenburg

1/11, Kobozeva Street/Kazarmenniy per, Orenburg, 460000, Russia
Telephone: +7 (3532) 34-1811
Fax: +7 (3532) 34-1808

Saratov

Office 324, 1, Tankistov Street, Saratov, 410005, Russia
Telephone: +7 (8452) 724-860
Fax: +7 (8452) 724-858

Tyumen

155/2, Respubliki Street, Tyumen, 625000, Russia
Telephone: +7 (3452) 38-9508
Fax: +7 (3452) 38-9511

Yaroslavl

163/2, Moskovsky prospekt, Yaroslavl, 150057, Russia
Telephone: +7 (4852) 58-71-33
Fax: +7 (4852) 58-71-34

A bank account that’s always within a reach

FREEDOM

“The Pekao24Mobile app is user-friendly, quick and efficient. It’s particularly handy when it comes to managing my account, such as checking my balance, following specific transactions and managing transfers or deposits. And its wheel-type interface is modern, eye-catching and very functional. I would say the app meets all my needs.”

Daniel Lipski, customer of Bank Pekao in Poland

Consolidated Financial Statements

Year ended 31 December 2012

Auditors' Report

ZAO KPMG
10 Presnenskaya Naberezhnaya
Moscow, Russia 123317

Telephone +7 (495) 937 4477
Fax +7 (495) 937 4400/99
Internet www.kpmg.ru

To the Shareholder and Supervisory Board
ZAO UniCredit Bank

We have audited the accompanying consolidated financial statements of ZAO UniCredit Bank 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 2012, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Audited entity: ZAO UniCredit Bank.

Licensed by the Central Bank of the Russian Federation on 23 March 2012, Licence No. 1.

Entered in the Unified State Register of Legal Entities on 19 August 2002 by the Moscow Inter-Regional Tax Inspectorate No.39 of the Ministry for Taxes and Duties of the Russian Federation, Registration No. 1027739082106, Certificate series 77 No. 005721432.

9, Prechistenskaya emb., Moscow, Russia 119034.

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

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

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

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

Opinion

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

Malyutina M.S.
Director
power of attorney dated 1 October 2010 No. 43/10
licence No. 01-000066
ZAO KPMG
18 February 2013
Moscow, Russian Federation

Consolidated Statement of Financial Position

As at 31 December 2012
(Thousands of Russian Roubles)

	Notes	2012	2011
Assets			
Cash and cash balances	6	24 020 106	24 491 991
Trading securities	7	4 340 528	1 938 722
Amounts due from credit institutions	8	246 446 188	200 143 375
Derivative financial assets	9	10 064 303	12 867 079
Derivative financial assets designated for hedging	9	7 350 086	3 776 683
Changes in fair value of portfolio hedged items	9	1 142 230	495 370
Loans to customers	10	504 195 074	472 698 094
Investment securities:	11		
- available-for-sale			
- held by the Group		31 918 591	43 575 124
- pledged under repurchase agreements	12	26 690 399	–
- held-to-maturity	11	311 805	311 662
Investments in associate		979 435	929 032
Fixed assets	13	6 792 727	6 583 910
Intangible assets	14	1 974 557	1 744 158
Other assets	16	2 249 553	2 421 714
Total assets		**868 475 582**	**771 976 914**
Liabilities			
Amounts due to credit institutions	17	187 523 705	165 826 669
Derivative financial liabilities	9	7 309 978	12 893 794
Derivative financial liabilities designated for hedging	9	6 222 442	7 273 366
Amounts due to customers	18	503 869 222	462 922 550
Debt securities issued	19	40 792 747	25 833 182
Deferred income tax liabilities	15	2 810 119	2 854 232
Current income tax liabilities		724 314	297 952
Other liabilities	16	5 969 924	5 767 025
Total liabilities		**755 222 451**	**683 668 770**
Equity	21		
Share capital		41 787 806	31 787 811
Share premium		437 281	437 281
Cash flow hedge reserve		(960 582)	(1 302 369)
Revaluation reserve for available-for-sale securities		4 721 389	7 596 368
Retained earnings		67 267 237	49 789 053
Total equity		**113 253 131**	**88 308 144**
Total equity and liabilities		**868 475 582**	**771 976 914**

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

K. Zhukov-Emelyanov Acting Chairman of the Board of Management

O. Goncharova Chief Accountant

18 February 2013

The accompanying notes on pages 76 to 128 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2012
(Thousands of Russian Roubles)

	Notes	2012	2011
Interest income			
Loans to customers		40 274 293	32 897 534
Amounts due from credit institutions		4 058 869	3 343 096
Trading and investment securities		3 262 042	2 187 918
Other		2 996 310	196 931
		50 591 514	**38 625 479**
Interest expense			
Amounts due to customers		(15 835 206)	(10 969 271)
Amounts due to credit institutions		(8 668 563)	(4 632 916)
Debt securities issued		(2 830 163)	(1 251 615)
		(27 333 932)	**(16 853 802)**
Net interest income		23 257 582	21 771 677
Fee and commission income	24	5 468 307	4 642 161
Fee and commission expense		(745 026)	(661 695)
Net fee and commission income		**4 723 281**	**3 980 466**
Dividend income		59 478	23 134
Gains on financial assets and liabilities held for trading	23	4 797 090	3 576 862
Fair value adjustments in portfolio hedge accounting		(406)	339
Gains on disposal of:			
- loans		134 227	184 793
- available-for-sale financial assets		3 154 569	3 248 218
OPERATING INCOME		**36 125 821**	**32 785 489**
Impairment on loans	10	(2 783 324)	(2 661 838)
NET INCOME FROM FINANCIAL ACTIVITIES		**33 342 497**	**30 123 651**
Personnel expenses	25	(5 949 934)	(5 248 444)
Other administrative expenses	25	(3 964 239)	(3 979 686)
Depreciation of fixed assets	13	(711 695)	(814 281)
Amortization of intangible assets	14	(452 845)	(348 408)
Other provisions		(5 196)	(38 171)
Net other operating (expense) income		(58 188)	140 367
Operating costs		**(11 142 097)**	**(10 288 623)**
Share of gains of associate		50 403	35 978
Losses on disposal of fixed assets		(8 157)	(4 735)
PROFIT BEFORE INCOME TAX EXPENSE		**22 242 646**	**19 866 271**
Income tax expense	15	(4 764 462)	(4 078 434)
PROFIT FOR THE YEAR		**17 478 184**	**15 787 837**
Other comprehensive income			
Cash flow hedge reserve - effective portion of changes in fair value	15	341 787	(626 522)
Revaluation reserve for available-for-sale securities - net change	15	(2 874 979)	7 646 707
Other comprehensive (loss) income for the period, net of tax		**(2 533 192)**	**7 020 185**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**14 944 992**	**22 808 022**

The accompanying notes on pages 76 to 128 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2012
(Thousands of Russian Roubles)

	Share capital	Share premium	Cash flow hedge reserve	Revaluation reserve for available-for-sale securities	Retained earnings	Total equity
1 January 2011	**28 613 826**	**437 281**	**(675 847)**	**(50 339)**	**41 432 382**	**69 757 303**
Total comprehensive income						
Profit for the year	–	–	–	–	15 787 837	15 787 837
Other comprehensive income						
Change in cash flow hedge reserve, net of tax	–	–	(626 522)	–	–	(626 522)
Net change in revaluation reserve for available-for-sale assets, net of tax	–	–	–	7 646 707	–	7 646 707
Total other comprehensive income	–	–	(626 522)	7 646 707	–	7 020 185
Total comprehensive income	**-**	**-**	**(626 522)**	**7 646 707**	**15 787 837**	**22 808 022**
Transactions with owner, recorded directly in equity						
Increase of share capital (Note 21)	3 173 985	–	–	–	–	3 173 985
Dividends paid on ordinary shares	–	–	–	–	(7 409 580)	(7 409 580)
Purchase of subsidiary under common control	–	–	–	–	(21 586)	(21 586)
Total transactions with owners	**3 173 985**	**-**	**-**	**-**	**(7 431 166)**	**(4 257 181)**
31 December 2011	**31 787 811**	**437 281**	**(1 302 369)**	**7 596 368**	**49 789 053**	**88 308 144**
1 January 2012	**31 787 811**	**437 281**	**(1 302 369)**	**7 596 368**	**49 789 053**	**88 308 144**
Total comprehensive income						
Profit for the year	–	–	–	–	17 478 184	17 478 184
Other comprehensive income						
Change in cash flow hedge reserve, net of tax	–	–	341 787	–	–	341 787
Net change in revaluation reserve for available-for-sale assets, net of tax	–	–	–	(2 874 979)	–	(2 874 979)
Total other comprehensive income	–	–	341 787	(2 874 979)	–	(2 533 192)
Total comprehensive income	**-**	**-**	**341 787**	**(2 874 979)**	**17 478 184**	**14 944 992**
Transactions with owner, recorded directly in equity						
Increase of share capital (Note 21)	9 999 995	–	–	–	–	9 999 995
Total transactions with owners	**9 999 995**	**-**	**-**	**-**	**-**	**9 999 995**
31 December 2012	**41 787 806**	**437 281**	**(960 582)**	**4 721 389**	**67 267 237**	**113 253 131**

The accompanying notes on pages 76 to 128 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2012
(Thousands of Russian Roubles)

	Notes	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest received		46 578 568	39 129 896
Interest paid		(20 283 662)	(12 437 908)
Fees and commissions received		5 468 307	4 642 161
Fees and commissions paid		(745 026)	(661 695)
Net receipts from trading securities		145 300	32 405
Net payments from derivatives and dealing in foreign currencies		(1 843 108)	(4 122 008)
Other income received		3 253 687	2 007 376
Salaries and benefits paid		(4 985 260)	(4 068 599)
Other operating expenses paid		(3 358 392)	(2 302 750)
Cash flows from operating activities before changes in operating assets and liabilities		**24 230 414**	**22 218 878**
Net decrease (increase) in operating assets			
Obligatory reserve with the CBR		2 193 874	(4 913 826)
Trading securities		(2 437 411)	32 600 522
Amounts due from credit institutions		(57 700 192)	(99 263 908)
Loans to customers		(44 798 399)	(69 065 455)
Other assets		(176 519)	(203 334)
Net increase (decrease) in operating liabilities			
Amounts due to credit institutions		32 707 076	19 584 530
Amounts due to customers		49 092 142	122 585 626
Promissory notes		63 777	289 961
Other liabilities		(668 614)	732 145
Net cash flows from operating activities before income tax		**2 506 148**	**24 565 139**
Income tax paid		(3 748 860)	(2 912 008)
Net cash (used in) from operating activities		**(1 242 712)**	**21 653 131**
CASH FLOWS FROM INVESTING ACTIVITIES			
Dividends received		59 478	23 134
Net purchase of available-for-sale securities		(20 316 233)	(30 055 821)
Proceeds from redemption of held-to-maturity securities		–	265 000
Proceeds from sale of fixed and intangible assets		9 538	10 435
Purchase of fixed and intangible assets		(1 462 214)	(3 536 053)
Net cash used in investing activities		**(21 709 431)**	**(33 293 305)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Purchase of subsidiary under common control		–	(846 000)
Proceeds from issuance of bonds	19	20 000 000	10 000 000
Redemption of bonds issued		(5 479 788)	–
Redemption of subordinated debt		(1 958 127)	(58 707)
Increase of share capital	21	9 999 995	3 173 985
Dividends paid		–	(7 409 580)
Net cash from financing activities		**22 562 080**	**4 859 698**
Effect of exchange rates changes on cash and cash balances		(81 822)	65 831
Net decrease in cash and cash balances		**(471 885)**	**(6 714 645)**
Cash and cash balances, beginning		**24 491 991**	**31 206 636**
Cash and cash balances, ending	**6**	**24 020 106**	**24 491 991**

The accompanying notes on pages 76 to 128 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

(Thousands of Russian Roubles)

1. Principal activities

These consolidated financial statements include the financial statements of ZAO UniCredit Bank (hereinafter – the “Bank”), its subsidiary and associate. ZAO UniCredit Bank, its subsidiary and associate are hereinafter collectively referred to as the “Group”.

The Bank (the former International Moscow Bank) was established as a closed joint stock company under the laws of the Russian Federation in 1989. The Bank operates under General Banking License No. 1 reissued by the Central Bank of Russia (hereinafter – the “CBR”) on 23 March 2012 as well as the CBR license for operations with precious metals issued on 20 December 2007. The Bank also possesses licenses for securities transactions and custody services from the Federal Service for the Securities Market issued on 25 April 2003, the license to act as an exchange broker on transactions with futures and options issued on 27 May 2008 and Russian Federal Customs Service permission to act as a guarantor in relation to customs authorities issued on 1 October 2010. The Bank is a member of the state deposit insurance system in the Russian Federation.

The Bank’s registered legal address is 9, Prechistenskaya Embankment, Moscow, Russian Federation, 119034.

As at 31 December 2012 the Bank has 13 branches and 13 representative offices throughout the Russian Federation and one representative office in the Republic of Belarus.

As at 31 December 2012 the Group comprises the Bank, the leading operating entity of the Group, CJSC Bank Sibir and LLC UniCredit Leasing Company, a leasing company.

The primary activities of the Group are deposit taking, lending, providing payments and settlement services, transactions with foreign currencies and securities and providing finance leases.

As at 31 December 2012 the sole shareholder of the Group is UniCredit Bank Austria AG. UniCredit Bank Austria AG, a member of UniCredit Group, is responsible for the commercial banking in Central and Eastern Europe within the UniCredit Group.

2. Basis of preparation

Statement of compliance

These consolidated financial statements are prepared in accordance with International Financial Reporting Standards (hereinafter - “IFRS”).

Basis of measurement

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

Presentation currency

These consolidated financial statements are presented in Russian Roubles (“RUB”). Amounts in Russian Roubles are rounded to the nearest thousand.

3. Summary of accounting policies

The following significant accounting policies are applied in the preparation of the consolidated financial statements.

Principles of consolidation

Subsidiaries are those enterprises controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The control is normally evidenced when the Group owns, either directly or indirectly, more than 50% of voting rights of a company’s share capital and is able to govern financial and operating policies of an enterprise. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases.

Associates are those enterprises in which the Bank has significant influence, but not control, over the financial and operating policies. The significant influence is normally evidenced when the Group owns, either directly or indirectly, between 20% and 50%. The consolidated financial statements include the Bank’s share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence effectively commences until the date that significant influence effectively ceases. When the Bank’s share of losses exceeds the Bank’s interest in the associate, that interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Bank has incurred obligations in respect of the associate. Intra-group balances and transactions, and any unrealised gains arising from intra-Group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains resulting from transactions with associates are eliminated against the investment in the associate. Unrealised losses are eliminated in the same way as unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment.

Where necessary, accounting policies of subsidiary and associate are changed to conform with the accounting policies adopted by the Group.

The consolidated financial statements include the following subsidiary and associate:

Entities	Ownership, % 2012	Ownership, % 2011	Country	Industry
CJSC Bank Sibir	100%	100%	Russia	Finance
LLC UniCredit Leasing Company	40%	40%	Russia	Finance

Financial assets

Initial recognition

Financial assets in the scope of International Accounting Standard 39 Financial Instruments: Recognition and Measurement are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets upon initial recognition. Derivative financial instruments and financial instruments designated as at fair value through profit or loss upon initial recognition are not reclassified out of at fair value through profit or loss category. Financial assets that would have met the definition of loan and receivables may be reclassified out of the fair value through profit or loss or available-for-sale category if the entity has an intention and ability to hold it for the foreseeable future or until maturity. Other financial instruments may be reclassified out of fair value through profit or loss category only in rare circumstances. Rare circumstances arise from a single event that is unusual and highly unlikely to recur in the near term.

The Group recognises financial assets and liabilities on its consolidated statement of financial position when it becomes a party to the contractual provisions of the instrument. All regular way purchases of financial assets and liabilities are recognised at the settlement date.

Financial instruments at fair value through profit or loss

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

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

The Group designates financial assets and liabilities at fair value through profit or loss where either:

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

Gains or losses on financial assets held for trading are recognised in profit or loss.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold them to maturity other than those that:

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

Held-to-maturity investments are subsequently measured at amortised cost. Gains and losses are recognised in profit or loss when the investments are impaired, as well as through the amortisation process.

Loans and receivables

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

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

Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition available-for-sale financial assets are measured at fair value with gains or losses being recognised as other comprehensive income in equity until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in profit or loss. Interest income calculated using the effective interest method is recognised in profit or loss.

Available-for-sale assets are subsequently measured at fair value. Non-marketable equity instruments, for which it is impracticable to determine fair value, are stated at cost.

Determination of fair value

The fair value for financial instruments traded in an active market at the reporting date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. If a quoted market price is not available, the fair value of the instrument is estimated using valuation techniques with a maximum use of market inputs. Such valuation techniques include reference to recent arm's length market transactions, current market prices of substantially similar instruments, discounted cash flow and option pricing models and other techniques commonly used by market participants to price the instrument.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate at the reporting date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the reporting date.

The fair value of derivatives that are not exchange-traded is estimated at the amount that the Group would receive or pay to terminate the contract at the reporting date taking into account current market conditions and the current creditworthiness of the counterparties.

Offsetting

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

Cash and cash balances

The Group considers cash and nostro accounts with the CBR to be cash and cash balances. The obligatory reserve deposit with the CBR is not considered to be in this category due to restrictions on its availability.

Derivative financial instruments

In the normal course of business, the Group enters into various derivative financial instruments including futures, forwards, foreign exchange and interest rate swaps. Such financial instruments are held for trading and are recorded at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments, except for derivatives designated for hedging, are included in profit or loss as gains or losses on financial assets and liabilities held for trading.

Hedge accounting

In hedge accounting, the Group distinguishes between cash flow hedges and fair value hedges. To qualify for hedge accounting in accordance with IAS 39, hedges must be highly effective. Derivatives used for hedging purposes are measured at fair value in the consolidated statement of financial position.

At inception of the hedge relationship, the Group formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk, the objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship.

Also at the inception of the hedge relationship, a formal assessment is undertaken to ensure the hedging instrument is expected to be highly effective in offsetting the designated risk in the hedged item. Hedges are formally assessed for effectiveness on monthly basis. A hedge is regarded as highly effective if the changes in the fair value of cash flows attributable to the hedged risk are expected to offset in a range of 80% to 125% during the hedging period.

Where a derivative is designated as a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognised as other comprehensive income in equity. The amount recognised in equity is removed and included in profit or loss in the same period as the hedged cash flows affect profit or loss. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss.

If the derivative expires or is sold, terminated, or exercised, or no longer meets the criteria for cash flow hedge accounting, or the designation is revoked, hedge accounting is discontinued and the amount recognised in equity remains in equity until the forecast transaction affects profit or loss. If the forecast transaction is no longer expected to occur, hedge accounting is discontinued and the balance in equity is recognised immediately in profit or loss.

Fair value hedge is defined as a hedge of the exposure to changes in fair value of a recognised asset or liability that is attributable to a particular risk and could affect profit or loss. In a fair value hedge assets or liabilities are hedged against future fair value changes, if those changes affect the Group`s results and are caused by a determinable risk. The hedging instrument is stated at its fair value, and any gains or losses on the hedging instrument are recognised in profit or loss as gains or losses on financial assets and liabilities held for trading. Gains and losses which are attributable to the hedged risk adjust the carrying value of the hedged item. Changes in the fair value of portfolio hedged items are presented separately in the consolidated statement of financial position and recognized in the consolidated statement of comprehensive income as gains or losses on financial assets and liabilities held for trading.

Repurchase and reverse repurchase agreements and securities lending

Repurchase and reverse repurchase agreements are utilized by the Group as an element of its treasury management and trading business. These agreements are treated as secured financing transactions. Securities sold under repurchase agreements are retained in the consolidated statement of financial position and, in case the transferee has the right by contract or custom to sell or repledge them, reclassified as securities pledged under repurchase agreements. The corresponding liability is presented within amounts due to credit institutions or customers. Securities purchased under agreements to resell ("reverse repo") are recorded as amounts due from credit institutions or loans to customers, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of repurchase agreements using the effective interest method.

Securities lent to counterparties are retained in the consolidated statement of financial position. Securities borrowed are not recorded in the consolidated statement of financial position, unless they are sold to third parties, in which case the purchase and sale are recorded within net gains or losses from trading securities in profit or loss. The obligation to return them is recorded at fair value as a trading liability.

Securities purchased under agreements to resell ("reverse repo") and then sold under repurchase agreements are not recorded in the consolidated statement of financial position.

Borrowings

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

If the Group purchases its own debt, it is removed from the statement of financial position and the difference between the carrying amount of the liability and the consideration paid is recognised in profit or loss.

Leases

Operating lease

Where the Group is the lessee in a lease agreement where the lessor does not transfer substantially all of the risks and rewards incidental to ownership of the asset, the arrangement is accounted for as an operating lease. The leased asset is not recognised in the consolidated financial statements, and lease payments are recognised in profit or loss on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Amounts due from credit institutions and loans to customers

For amounts due from credit institutions and loans to customers carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risks characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is an objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to allowance account in profit or loss.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

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.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Bank's internal credit grading system that considers credit risk characteristics such as asset type, borrower's financial position, industry, geographical location, collateral type, past-due status and other relevant factors.

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

Held-to-maturity financial investments

For held-to-maturity investments the Group assesses individually whether there is objective evidence of impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss.

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognised, any amounts formerly charged are credited to profit or loss.

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

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

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded in profit or loss. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss.

Renegotiated loans

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an impairment assessment, calculated using the loan's original effective interest rate.

Non-financial assets

Other non-financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment.

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

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

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; and
- the Group either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another financial liability from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

Taxation

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

The current income tax expense is calculated in accordance with the regulations of the Russian Federation and of the regions in which the Group has offices, or where its branches, subsidiaries and associates are located. Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the reporting date. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefits will be realised.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised.

Russia also has various operating taxes that are assessed on the Group's activities. These taxes are included as a component of other administrative expenses in the consolidated statement of comprehensive income.

New transfer pricing legislation enacted in the Russian Federation starting from 1 January 2012 provides for major modifications making local transfer pricing rules closer to OECD guidelines, but creating additional uncertainty in practical application of tax legislation in certain circumstances. Since there is no practice of applying the new transfer pricing rules by the tax authorities and courts, it is difficult to predict the effect of the new transfer pricing rules on these consolidated financial statements.

Notes to Consolidated Financial Statements (Continued)

3. Summary of accounting policies (Continued)

Fixed assets

Fixed assets are carried at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any accumulated impairment. Depreciation of an asset begins when it is available for use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	Years
Buildings	20-30
Furniture and fixtures	5
Computer equipment	5
Leasehold improvements	lesser of the useful life of the asset and period of lease
Other fixed assets	3-5

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

Intangible assets including goodwill

Intangible assets other than goodwill include licenses and computer software. Licenses are stated at historical cost net of accumulated amortisation and any accumulated impairment losses. Amortisation is provided so as to write down the cost of an asset on a straight-line basis over its estimated useful economic life. The useful life is currently assessed as not more than 10 years.

Software development costs (relating to the design and testing of new or substantially improved software) are recognised as intangible assets only when the Group can demonstrate the technical feasibility of completing the software so that it will be available for use or sale, its intention to complete and its ability to use the asset, how the asset will generate future economic benefits, the availability of resources to complete and the ability to measure reliably the expenditure during the development. Other software development costs are recognised as an expense as incurred. Computer software development costs recognised as intangible assets, as well as acquired computer software, are initially recorded at historical cost and are subsequently amortised using the straight-line method over their useful lives, but not exceeding a period of three years.

Goodwill is initially measured at cost, being the excess of the cost of an acquisition over the net fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiary or associate at the date of acquisition. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired. For the purpose of impairment testing, goodwill is allocated to the Group's cash-generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than its carrying amount, an impairment loss is recognised.

Negative goodwill arising on an acquisition is recognised immediately in profit or loss.

Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in normal course of business, or for the use in production or supply of goods or services or for administrative purposes. Investment property is measured at cost less accumulated depreciation and any accumulated impairment. Depreciation is calculated on a straight-line basis over the useful life applicable for the fixed assets.

Credit related commitments

In the normal course of business, the Group enters into credit related commitments, comprising undrawn loan commitments, letters of credit and guarantees, and provides other forms of credit insurance.

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

A financial guarantee liability is recognised initially at fair value net of associated transaction costs, and is measured subsequently at the higher of the amount initially recognised less cumulative amortisation or the amount of provision for losses under the guarantee. Provisions for losses under financial guarantees and other credit related commitments are recognised when losses are considered probable and can be measured reliably.

Financial guarantee liabilities and provisions for other credit related commitment are included in other liabilities.

Other provisions

Provisions are recognised 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 obligation can be made.

Retirement and other employee benefit obligations

The Group makes contributions to the State pension system of the Russian Federation, which requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged in the period the related salaries are earned.

The Group also provides defined contribution pension coverage for employees. The coverage provided does not represent contributions into a separate legal entity, nor are its assets and liabilities segregated from the assets and liabilities of the Group. Contributions accrued by the Group during the period are included in profit or loss as personnel expenses, and related liabilities to employees are recorded within other liabilities.

Share capital

Ordinary shares are classified as equity. Any excess of the fair value of consideration received over the par value of shares issued is recognised as share premium.

Dividends are recognised as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the consolidated financial statements are authorised for issue.

Segment reporting

An operating segment is a component of a Group that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same Group); whose operating results are regularly reviewed by the chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Contingencies

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

Recognition of income and expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured.

Interest and similar income and expense

For all financial instruments measured at amortised cost and interest bearing securities classified as trading or available-for-sale, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the original effective interest rate applied to the new carrying amount.

Fee and commission income

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

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

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

- *Fee income from providing transaction services*

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

Dividend income

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

Foreign currency translation

Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Management determined the functional currency for all Group entities to be the RUB as it reflects the economic substance of the underlying events and circumstances of the Group. Transactions in foreign currencies are translated to the functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in profit or loss as gains or losses on financial assets and liabilities held for trading. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Differences between the contractual exchange rate of a transaction in a foreign currency and the CBR exchange rate on the date of the transaction are included in gains or losses on financial assets and liabilities held for trading.

New standards and interpretations not yet adopted

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

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

- IFRS 10 *Consolidated Financial Statements* will be effective for annual periods beginning on or after 1 January 2013. The new standard supersedes IAS 27 *Consolidated and Separate Financial Statements* and SIC-12 *Consolidation – Special Purpose Entities*. IFRS 10 introduces a single control model which includes entities that are currently within the scope of SIC-12. Under the new three-step control model, an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with that investee, has the ability to affect those returns through its power over that investee and there is a link between power and returns. Consolidation procedures are carried forward from IAS 27 (2008). When the adoption of IFRS 10 does not result in a change in the previous consolidation or non-consolidation of an investee, no adjustments to accounting are required on initial application. When the adoption results in a change in the consolidation or non-consolidation of an investee, the new standard may be adopted with either full retrospective application from date that control was obtained or lost or, if not practicable, with limited retrospective application from the beginning of the earliest period for which the application is practicable, which may be the current period. Early adoption of IFRS 10 is permitted provided an entity also early-adopts IFRS 11, IFRS 12, IAS 27 (2011) and IAS 28 (2011).

- IFRS 11 *Joint Arrangements* will be effective for annual periods beginning on or after 1 January 2013 with retrospective application required. The new standard supersedes IAS 31 *Interests in Joint Ventures*. The main change introduced by IFRS 11 is that all joint arrangements are classified either as joint operations, which are consolidated on a proportionate basis, or as joint ventures, for which the equity method is applied. The type of arrangement is determined based on the rights and obligations of the parties to the arrangement arising from joint arrangement's structure, legal form, contractual arrangement and other facts and circumstances. When the adoption of IFRS 11 results in a change in the accounting model, the change is accounted for retrospectively from the beginning of the earliest period presented. Under the new standard all parties to a joint arrangement are within the scope of IFRS 11 even if all parties do not participate in the joint control. Early adoption of IFRS 11 is permitted provided the entity also early-adopts IFRS 10, IFRS 12, IAS 27 (2011) and IAS 28 (2011).

- IFRS 12 *Disclosure of Interests in Other Entities* will be effective for annual periods beginning on or after 1 January 2013. The new standard contains disclosure requirements for entities that have interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. Interests are widely defined as contractual and non-contractual involvement that exposes an entity to variability of returns from the performance of the other entity. The expanded and new disclosure requirements aim to provide information to enable the users to evaluate the nature of risks associated with an entity's interests in other entities and the effects of those interests on the entity's financial position, financial performance and cash flows. Entities may early present some of the IFRS 12 disclosures without a need to early-adopt the other new and amended standards. However, if IFRS 12 is early-adopted in full, then IFRS 10, IFRS 11, IAS 27 (2011) and IAS 28 (2011) must also be early-adopted.

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

- IAS 27 (2011) *Separate Financial Statements* will become effective for annual periods beginning on or after 1 January 2013. The amended standard carries forward the existing accounting and disclosure requirements of IAS 27 (2008) for separate financial statements with some clarifications. The requirements of IAS 28 (2008) and IAS 31 for separate financial statements have been incorporated into IAS 27 (2011). Early adoption of IAS 27 (2011) is permitted provided the entity also early-adopts IFRS 10, IFRS 11, IFRS 12 and IAS 28 (2011).

- IAS 28 (2011) *Investments in Associates and Joint Ventures* combines the requirements in IAS 28 (2008) and IAS 31 that were carried forward but not incorporated into IFRS 11 and IFRS 12. The amended standard will become effective for annual periods beginning of or after 1 January 2013 with retrospective application required. Early adoption of IAS 28 (2011) is permitted provided the entity also early-adopts IFRS 10, IFRS 11, IFRS 12 and IAS 27 (2011).

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

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

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

Reclassifications

With effect from 31 March 2012, the Group presents the client related part of foreign currency exchange and derivative transactions within gain on financial assets and liabilities held for trading in the consolidated statement of comprehensive income. The Group previously presented the client related part of foreign currency exchange and derivative transactions within fee and commission income in the consolidated statement of comprehensive income for the year ended 31 December 2011.

The following reclassifications are made to the consolidated statement of comprehensive income for the year ended 31 December 2011 to conform to the 2012 presentation:

	As previously reported	Effect of reclassifications	As adjusted
Consolidated statement of comprehensive income for the year ended 31 December 2011			
Fee and commission income	6 770 315	(2 128 154)	4 642 161
Gains on financial assets and liabilities held for trading	1 448 708	2 128 154	3 576 862

4. Significant accounting judgements and estimates

Management makes a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these consolidated financial statements in conformity with IFRS. Actual results could differ from those estimates.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies related to loan impairment is described in the Note 10.

5. Operating segments

For management purposes, the Group has three reporting business segments:

- **Corporate and Investment banking (hereinafter – "CIB")** includes corporate lending, project and commodity and corporate structured finance, corporate sight and term deposit services, securities, foreign currency and derivatives trading and custody services.
- **Retail banking** comprises private banking services, credit and debit card services, retail sight and term deposit services, retail lending (consumer loans, car loans and mortgages).
- **Other –** represents the Group's funding activities and other unallocated items.

Information about each segment is measured on the same basis as the information used for decision making purposes for allocating resources to segments and assessing segment performance and is prepared on the same basis as the consolidated financial statements.

Transactions between the business segments are on normal commercial terms and conditions. Funds are ordinarily reallocated between segments, resulting in funding cost transfers included in segment revenue. Interest charged for these funds is based on the Group's funds transfer pricing policy.

Segment breakdown of assets and liabilities is set out below:

	31 December 2012	31 December 2011
ASSETS		
CIB	577 773 209	494 536 132
Retail banking	111 526 692	82 245 432
Other	179 175 681	195 195 350
Total assets	**868 475 582**	**771 976 914**
LIABILITIES		
CIB	439 303 604	403 622 397
Retail banking	94 553 138	88 303 350
Other	221 365 709	191 743 023
Total liabilities	**755 222 451**	**683 668 770**

Segment information for the operating segments for the year ended 31 December 2012 and 2011 is set out below:

	CIB	Retail Banking	Other	Total
Net interest income (expense) from external customers for the year ended 31 December 2012	12 875 374	10 600 086	(217 878)	**23 257 582**
Net interest income (expense) from external customers for the year ended 31 December 2011	17 664 940	8 105 730	(3 998 993)	**21 771 677**
Inter-segment (expense) income for the year ended 31 December 2012	(1 827 444)	(3 611 404)	5 438 848	**–**
Inter-segment (expense) income for the year ended 31 December 2011	(4 329 030)	(2 088 920)	6 417 950	**–**
Net interest income for the year ended 31 December 2012	**11 047 930**	**6 988 682**	**5 220 970**	**23 257 582**
Net interest income for the year ended 31 December 2011	**13 335 910**	**6 016 810**	**2 418 957**	**21 771 677**
Net fee and commission income (expenses) from external customers for the year ended 31 December 2012	2 295 198	2 428 279	(196)	**4 723 281**
Net fee and commission income (expense) from external customers for the year ended 31 December 2011	2 070 070	1 967 622	(57 226)	**3 980 466**
Dividend income for the year ended 31 December 2012	–	–	59 478	**59 478**
Dividend income for the year ended 31 December 2011	–	–	23 134	**23 134**
Gains on financial assets and liabilities held for trading from external customers for the year ended 31 December 2012	4 265 007	530 604	1 479	**4 797 090**
Gains on financial assets and liabilities held for trading from external customers for the year ended 31 December 2011	2 928 809	593 911	54 142	**3 576 862**
Fair value adjustments in portfolio hedge accounting for the year ended 31 December 2012	–	–	(406)	**(406)**
Fair value adjustments in portfolio hedge accounting for the year ended 31 December 2011	–	–	339	**339**
Gains on disposals of financial assets for the year ended 31 December 2012	270 788	10 958	3 007 050	**3 288 796**
Gains on disposals of financial assets for the year ended 31 December 2011	217 403	4 342	3 211 266	**3 433 011**
Operating income for the year ended 31 December 2012	**17 878 923**	**9 958 523**	**8 288 375**	**36 125 821**
Operating income for the year ended 31 December 2011	**18 552 192**	**8 582 685**	**5 650 612**	**32 785 489**
(Impairment) recovery on loans for the year ended 31 December 2012	(1 604 014)	(1 224 068)	44 758	**(2 783 324)**
Impairment of loans for the year ended 31 December 2011	(2 168 695)	(239 107)	(254 036)	**(2 661 838)**
Net income from financial activities for the year ended 31 December 2012	**16 274 909**	**8 734 455**	**8 333 133**	**33 342 497**
Net income from financial activities for the year ended 31 December 2011	**16 383 497**	**8 343 578**	**5 396 576**	**30 123 651**
Operating costs for the year ended 31 December 2012	(3 639 979)	(7 182 877)	(319 241)	(11 142 097)
Operating costs for the year ended 31 December 2011	(3 092 135)	(7 037 545)	(158 943)	(10 288 623)
Share of gains of associate for the year ended 31 December 2012	–	–	50 403	**50 403**
Share of gains of associate for the year ended 31 December 2011	–	–	35 978	**35 978**
Losses on disposal of fixed assets for the year ended 31 December 2012	–	–	(8 157)	**(8 157)**
Losses on disposal of fixed assets for the year ended 31 December 2011	–	–	(4 735)	**(4 735)**
Profit before income tax expense for the year ended 31 December 2012	**12 634 930**	**1 551 578**	**8 056 138**	**22 242 646**
Profit before income tax expense for the year ended 31 December 2011	**13 291 362**	**1 306 033**	**5 268 876**	**19 866 271**
Income tax expense for the year ended 31 December 2012				**(4 764 462)**
Income tax expense for the year ended 31 December 2011				**(4 078 434)**
Profit for the year ended 31 December 2012				**17 478 184**
Profit for the year ended 31 December 2011				**15 787 837**
Cash flow hedge reserve for the year ended 31 December 2012				341 787
Cash flow hedge reserve for the year ended 31 December 2011				(626 522)
Revaluation reserve for available-for-sale securities for the year ended 31 December 2012				(2 874 979)
Revaluation reserve for available-for-sale securities for the year ended 31 December 2011				7 646 707
Total comprehensive income for the year ended 31 December 2012				**14 944 992**
Total comprehensive income for the year ended 31 December 2011				**22 808 022**

5. Operating segments (Continued)

Information about major customers and geographical areas

The Group operates in the Russian Federation and foreign countries. In presenting geographical information the allocation of revenue is based on the geographical location of customers and assets.

Geographical information on revenues and assets for 2012 is presented below:

	Revenues	Assets
Russian Federation	49 862 313	630 941 574
OECD countries	9 695 399	214 971 301
Non-OECD countries	1 299 199	22 562 707
Total	**60 856 911**	**868 475 582**

Geographical information on revenues and assets for 2011 is presented below:

	Revenues	Assets
Russian Federation	39 109 937	554 303 664
OECD countries	6 139 474	192 221 299
Non-OECD countries	1 595 091	25 451 951
Total	**46 844 502**	**771 976 914**

6. Cash and cash balances

Cash and cash balances comprise:

	2012	2011
Cash on hand	8 308 350	7 696 175
Current accounts with the CBR	15 711 756	16 795 816
Cash and cash balances	**24 020 106**	**24 491 991**

Included in cash and cash balances as at 31 December 2012 is amount of RUB 862 000 thousand (31 December 2011: RUB 500 000 thousand) pledged as collateral for mortgage-backed bonds issued by the Group in September 2011 (see Note 19 for details).

7. Trading securities

Trading securities comprise:

	2012	2011
USD denominated		
Russian Government Eurobonds	3 827	3 450
Corporate bonds	–	84 555
RUB denominated		
Russian Government Bonds	2 504 247	1 253 984
Corporate bonds	1 832 454	596 733
Trading securities	**4 340 528**	**1 938 722**

As at 31 December 2012 approximately 88% of trading securities held by the Group were issued by organisations rated not lower than “BBB-“ (31 December 2011: 80%).

Nominal interest rates and maturities of trading securities are as follows:

	2012	2011		
	%	Maturity	%	Maturity
Russian Government Bonds	6.8 – 11.2%	2014 – 2027	6.7 – 11.3%	2012 – 2018
Russian Government Eurobonds	7.5 – 12.75%	2018, 2028, 2030	7.5 – 12.75%	2018, 2028, 2030
Corporate bonds	8.5 – 9.4%	2022	7.5 – 8.75%	2014, 2022 – 2023

8. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	2012	2011
Current accounts with credit institutions	29 361 664	8 524 623
Time deposits	200 825 815	161 892 332
Reverse repurchase agreements with credit institutions	9 616 833	20 890 670
Obligatory reserve with the CBR	6 641 876	8 835 750
Amounts due from credit institutions	**246 446 188**	**200 143 375**

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

As at 31 December 2012, there are four counterparties with balances that individually exceeded 10% of equity. As at 31 December 2012, the aggregate amount of these balances is RUB 198 765 111 thousand (31 December 2011: two counterparties with aggregate amount of RUB 153 857 978 thousand).

As at 31 December 2012, the Group entered into reverse repurchase agreements with a number of Russian banks. Pledged under these agreements are Russian Government bonds, municipal bonds and corporate and bank bonds issued by Russian companies and banks with the total fair value of RUB 10 524 122 thousand (31 December 2011: RUB 22 454 878 thousand).

As at 31 December 2012 approximately 96% (31 December 2011: 84%) of current accounts with credit institutions and term deposits were placed with banks rated not lower than "BBB-". As at 31 December 2012 100% (31 December 2011: 89%) of total amount of reverse repurchase agreements with credit institutions were placed with non-rated banks or banks rated lower than "BBB-" .

As at 31 December 2012 the Group has term placements with CBR of RUB 25 006 148 thousand (31 December 2011: none).

9. Derivative financial instruments

The Group enters into derivative financial instruments principally for trading and hedging purposes. The tables below show the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset or notional amount to which reference rate or index is applied and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are indicative of neither the market risk nor the credit risk.

The Bank values the derivative financial instruments using widely accepted valuation techniques which are based on market interest rates and forward currency rates. Significant changes in these variables could cause the fair value of the derivatives to change materially.

The table below shows the fair value derivative instruments held for trading, recorded as assets or liabilities, together with their notional amounts.

9. Derivative financial instruments (Continued)

	2012			2011		
	Notional principal	Fair value Asset	Fair value Liability	Notional principal	Fair value Asset	Fair value Liability
Cross-currency interest rate swaps	120 279 430	3 204 544	1 899 534	100 384 731	5 258 181	4 061 327
Interest rate swaps and options	306 839 794	5 317 432	4 714 982	301 725 380	4 143 272	4 729 554
Foreign exchange forwards	69 837 962	1 542 327	695 462	177 093 920	3 465 626	4 102 913
Futures on foreign exchange and securities	2 837 500	–	–	8 060 000	–	–
Total derivative assets/liabilities		**10 064 303**	**7 309 978**		**12 867 079**	**12 893 794**

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

	2012			2011		
	Notional principal	Fair value Asset	Fair value Liability	Notional principal	Fair value Asset	Fair value Liability
Cash flow hedge						
Interest rate swaps	113 217 772	2 712 468	117 466	80 625 660	1 142 153	16 595
Cross-currency interest rate swaps	60 666 859	1 909 910	585 421	46 919 330	172 679	2 520 389
Total cash flow hedge		**4 622 378**	**702 887**		**1 314 832**	**2 536 984**
Fair value hedge						
Interest rate swaps	283 365 959	2 727 708	5 519 555	281 538 885	2 461 851	4 736 382
Total fair value hedge		**2 727 708**	**5 519 555**		**2 461 851**	**4 736 382**
Total derivative financial assets/liabilities designated for hedging		**7 350 086**	**6 222 442**		**3 776 683**	**7 273 366**

Portfolio Fair Value Hedge Accounting (hereinafter – the “PFVHA”) is a part of interest rate risk hedging strategy of the Group that helps to avoid discrepancies between the economic substance of deals concluded for hedging purposes and their accounting treatment. PFVHA allows managing interest rate risks associated with a portfolio of financial assets or financial liabilities designated as hedged items. The Group designates interest rate swaps as hedging instruments. The hedging instruments are stated at their fair value and changes in fair value are recognized in the consolidated statement of comprehensive income.

Hedging instruments to hedge variability of fair value are measured at fair value with changes in fair value of RUB 1 142 636 thousand recognised as a loss in the consolidated statement of comprehensive income in fair value adjustments in portfolio hedge accounting for the year ended 31 December 2012 (31 December 2011: RUB 495 031 thousand). The changes in the fair value of hedged items (portfolio of financial assets and financial liabilities) that are attributable to the hedged risk are recognised as gains of RUB 1 142 230 thousand in the consolidated statement of comprehensive income in fair value adjustments in portfolio hedge accounting for the year ended 31 December 2012 (31 December 2011: RUB 495 370 thousand).

Along with PFVHA the Group uses the Portfolio Cash Flow hedging.

The Group designates certain interest rate swaps and cross-currency interest rate swaps as hedging instruments to hedge variability in cash flows and fair value resulting from interest rate mismatch of the banking book position. The hedged cash flows are expected to occur and to affect the statement of comprehensive income until 2024 for interest rate swaps. As at 31 December 2012, the effective portion of changes in the fair value of derivative financial instruments designated as hedging instruments recognised as part of other comprehensive income in equity was RUB 960 582 thousand (31 December 2011: RUB 1 302 369 thousand), net of tax RUB 240 146 thousand (31 December 2011: RUB 325 593 thousand).

The Group recognised RUB 2 996 310 thousand of gains on the cash flows and fair value hedging instruments in other interest income for the year ended 31 December 2012 in relation to the interest rate swaps and cross-currency interest rate swaps (31 December 2011: RUB 196 931 thousand).

10. Loans to customers

Loans to customers comprise:

	2012	2011
Corporate customers	385 884 479	392 480 466
Retail customers, including SME	117 555 112	87 323 721
Reverse repurchase agreements with companies	16 663 201	8 122 974
Other	–	548 242
Gross loans to customers	**520 102 792**	**488 475 403**
Allowance for loan impairment	(15 907 718)	(15 777 309)
Loans to customers	**504 195 074**	**472 698 094**

A reconciliation of the provisions for impairment by classes of loans to customers for the year ended 31 December 2012 is as follows:

	Corporate customers	Retail customers	Other	Total
At 1 January 2012	10 482 898	5 097 041	197 370	**15 777 309**
Charge for the year	1 695 307	1 259 403	(171 386)	**2 783 324**
Loans sold during the year	(2 319 470)	(8 021)	(25 407)	**(2 352 898)**
Loans written-off during the year	(23 545)	(7 133)	(577)	**(31 255)**
Effect of exchange rate changes	(168 906)	(99 856)	–	**(268 762)**
At 31 December 2012	**9 666 284**	**6 241 434**	**–**	**15 907 718**

A reconciliation of the provisions for impairment by classes of loans to customers for the year ended 31 December 2011 is as follows:

	Corporate customers	Retail customers	Other	Total
At 1 January 2011	10 417 619	4 897 669	–	**15 315 288**
Acquisition of subsidiary	–	–	116 328	**116 328**
Charge for the year	2 288 248	142 641	230 949	**2 661 838**
Loans sold during the year	(2 115 447)	(3 417)	(149 907)	**(2 268 771)**
Loans written-off during the year	(219 947)	(35 790)	–	**(255 737)**
Effect of exchange rate changes	112 425	95 938	–	**208 363**
At 31 December 2011	**10 482 898**	**5 097 041**	**197 370**	**15 777 309**

Notes to Consolidated Financial Statements (Continued)

10. Loans to customers (Continued)

The following table shows gross loans and related impairment as at 31 December 2012:

	Gross loans	Impairment	Net loans
CORPORATE CUSTOMERS			
Loans for which no indications of impairment have been identified on an individual basis, not past due	369 488 719	(1 226 750)	368 261 969
Loans for which no specific impairment is identified, past due			
- Past due less than 31 days	201 688	(1 942)	199 746
Impaired loans			
- Not past due	6 873 711	(956 204)	5 917 507
- Past due less than 31 days	361 481	(29 057)	332 424
- Past due 31 - 90 days	496 113	(122 785)	373 328
- Past due 90 - 180 days	1 124 753	(882 562)	242 191
- Past due over 180 days	7 338 014	(6 446 984)	891 030
Total loans to corporate customers	**385 884 479**	**(9 666 284)**	**376 218 195**
RETAIL CUSTOMERS			
Standard loans, not past due	106 465 077	(748 649)	105 716 428
Standard loans, past due			
- Past due less than 31 days	2 495 983	(166 015)	2 329 968
- Past due 31 - 90 days	774 562	(124 516)	650 046
Impaired loans			
- Not past due	178 571	(132 350)	46 221
- Past due 31 - 90 days	6 038	(5 818)	220
- Past due 90 - 180 days	474 203	(202 843)	271 360
- Past due over 180 days	7 160 678	(4 861 243)	2 299 435
Total loans to retail customers	**117 555 112**	**(6 241 434)**	**111 313 678**
REVERSE REPURCHASE AGREEMENTS WITH COMPANIES			
Loans for which no indications of impairment have been identified on an individual basis, not past due	16 663 201	–	16 663 201
TOTAL LOANS TO CUSTOMERS	**520 102 792**	**(15 907 718)**	**504 195 074**

The following table shows gross loans and related impairment as at 31 December 2011:

	Gross loans	Impairment	Net loans
CORPORATE CUSTOMERS			
Loans for which no indications of impairment have been identified on an individual basis, not past due	373 190 313	(1 128 535)	372 061 778
Loans for which no specific impairment is identified, past due			
- Past due 31 - 90 days	4 199	(38)	4 161
Impaired loans			
- Not past due	7 628 049	(849 045)	6 779 004
- Past due less than 31 days	89 627	(49 339)	40 288
- Past due 31 - 90 days	838 080	(564 629)	273 451
- Past due 90 - 180 days	453 694	(281 338)	172 356
- Past due over 180 days	10 276 504	(7 609 974)	2 666 530
Total loans to corporate customers	**392 480 466**	**(10 482 898)**	**381 997 568**
RETAIL CUSTOMERS			
Standard loans, not past due	77 832 941	(287 838)	77 545 103
Standard loans, past due			
- Past due less than 31 days	1 254 445	(88 862)	1 165 583
- Past due 31 - 90 days	637 780	(123 047)	514 733
Impaired loans			
- Not past due	13 832	(3 605)	10 227
- Past due 31 - 90 days	195	(23)	172
- Past due 90 - 180 days	449 722	(139 807)	309 915
- Past due over 180 days	7 134 806	(4 453 859)	2 680 947
Total loans to retail customers	**87 323 721**	**(5 097 041)**	**82 226 680**
REVERSE REPURCHASE AGREEMENTS WITH COMPANIES			
Loans for which no indications of impairment have been identified on an individual basis, not past due	8 122 974	–	8 122 974
Other			
Loans for which no indications of impairment have been identified on an individual basis, not past due	234 596	(39 245)	195 351
Impaired loans			
- Not past due	294 192	(142 839)	151 353
- Past due less than 31 days	2 961	(1 184)	1 777
- Past due 31 - 90 days	15 684	(13 293)	2 391
- Past due 90 - 180 days	809	(809)	–
Total other	**548 242**	**(197 370)**	**350 872**
TOTAL LOANS TO CUSTOMERS	**488 475 403**	**(15 777 309)**	**472 698 094**

Key assumptions and judgments for estimating the loan impairment

Loan impairment results from one or more events that occurred after the initial recognition of the loan and that have an impact on the estimated future cash flows associated with the loan, and that can be reliably estimated. Loans without individual signs of impairment do not have objective evidence of impairment that can be directly attributed to them.

The objective indicators of loan impairment for loans to corporate customers include the following:
- a breach of contract, such as a default or delinquency in interest or principal payments;
- significant difficulties in the financial conditions of the borrower;
- deterioration in business environment, negative changes in the borrower's markets.

The Group estimates loan impairment for loans to corporate customers based on an analysis of the future cash flows for impaired loans and based on its past loss experience for portfolios of loans for which no indications of impairment has been identified.

In determining the impairment allowance for loans to corporate customers, management makes the following general key assumptions:
- The principal collateral taken into account in the estimation of future cash flows comprises marketable collateral, mainly real estate. Valuations for real estate have been discounted by 30-40 percent depending on type of the real estate to reflect current market conditions.
- a delay of 12 months in obtaining proceeds from the foreclosure of collateral.

Changes in these estimates could affect the loan impairment provision. For example, to the extent that the net present value of the estimated cash flows differs by one percent, the impairment allowance on loans to corporate customers as at 31 December 2012 would be RUB 3 762 181 thousand lower/higher (2011: RUB 3 819 976 thousand lower/higher).

The Group estimates loan impairment for loans to retail customers based on its internal model which takes into account historical loss experience on each type of loan, probability of default and loss given default.

In determining the impairment allowance for loans to retail customers, management makes the following key assumptions:
- loss given default rate varies from 10% to 100% depending on the risk profile of the portfolio;
- probability of default varies from 0.11% to 100 %.

Changes in these estimates could effect the loan impairment provision. For example, to the extent that the net present value of the estimated cash flows differs by plus minus one percent, the impairment allowance on loans to retail customers as at 31 December 2012 would be RUB 1 113 137 thousand lower/higher (2011: RUB 822 267 thousand).

Impaired loans

Accrued interest income on impaired loans as at 31 December 2012 comprised RUB 722 617 thousand (31 December 2011: RUB 718 461 thousand).

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty as well as on the nature of the transaction. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:
- for reverse repurchase transactions, securities;
- for commercial lending to corporate customers, pledge over real estate properties, inventories and trade receivables;
- for retail lending, mortgages over residential properties and motor vehicles.

The primary purpose of collateral arrangements is to reduce the potential credit loss in case of a workout of the credit exposure. Estimates of value are based on the value of collateral assessed at the time of borrowing.

The following table shows the fair value of collateral and other credit enhancements, excluding overcollateralization, securing loans to corporate customers (including Reverse repurchase agreements with companies), net of impairment, by types of collateral as at 31 December 2012:

	Fair value of collateral – for collateral assessed as of reporting date	Fair value of collateral – for collateral assessed as of loan inception date	Loans to customers, carrying amount
Loans for which no indications of impairment have been identified on an individual basis			
Securities	–	18 896 916	18 896 916
Real estate	36 654 895	–	36 654 895
Motor vehicles	–	7 862 270	7 862 270
Guarantees	–	8 183 107	8 183 107
Other collateral	–	140 526 111	140 526 111
No collateral or other credit enhancement	–	–	174 230 309
Gross loans for which no indications of impairment have been identified on an individual basis	**36 654 895**	**175 468 404**	**386 353 608**
Impaired loans			
Securities	–	105 943	105 943
Real estate	3 796 472	–	3 796 472
Motor vehicles	–	119 761	119 761
Guarantees	–	33 082	33 082
Other collateral	–	7 991 785	7 991 785
No collateral or other credit enhancement	–	–	4 147 029
Gross impaired loans	**3 796 472**	**8 250 571**	**16 194 072**
Total gross loans to corporate customers	**40 451 367**	**183 718 975**	**402 547 680**
Allowance for loan impairment			(9 666 284)
Total loans to corporate customers			**392 881 396**

Notes to Consolidated Financial Statements (Continued)

10. Loans to customers (Continued)

The following table shows the fair value of collateral and other credit enhancements, excluding overcollateralization, securing loans to corporate customers (including Reverse repurchase agreements with companies), net of impairment, by types of collateral as at 31 December 2011:

	Fair value of collateral – for collateral assessed as of reporting date	Fair value of collateral – for collateral assessed as of loan inception date	Loans to customers, carrying amount
Loans for which no indications of impairment have been identified on an individual basis			
Securities		12 904 697	12 904 697
Real estate	38 662 614	–	38 662 614
Motor vehicles	–	5 763 449	5 763 449
Guarantees	–	7 380 187	7 380 187
Other collateral	–	151 213 342	151 213 342
No collateral or other credit enhancement	–	–	165 393 197
Gross loans for which no indications of impairment have been identified on an individual basis	**38 662 614**	**177 261 675**	**381 317 486**
Impaired loans			
Securities		719 315	719 315
Real estate	3 142 297	–	3 142 297
Motor vehicles	–	119 327	119 327
Guarantees	–	28 600	28 600
Other collateral	–	6 267 879	6 267 879
No collateral or other credit enhancement	–	–	9 008 536
Gross impaired loans	**3 142 297**	**7 135 121**	**19 285 954**
Total gross loans to corporate customers	**41 804 911**	**184 396 796**	**400 603 440**
Allowance for loan impairment			(10 482 898)
Total loans to corporate customers			**390 120 542**

The following table shows the fair value of collateral and other credit enhancements, excluding overcollateralization, securing loans to retail customers, net of impairment, by types of collateral as at 31 December 2012:

	Fair value of collateral – for collateral assessed as of reporting date	Fair value of collateral – for collateral assessed as of loan inception date	Loans to customers, carrying amount
Standard loans, including past due			
Real estate	24 647 519	–	24 647 519
Motor vehicles	–	60 641 950	60 641 950
Guarantees	–	40 251	40 251
Other collateral	–	2 213 182	2 213 182
No collateral or other credit enhancement	–	–	22 192 720
Gross standard loans	**24 647 519**	**62 895 383**	**109 735 622**
Impaired loans			
Real estate	3 072 840	–	3 072 840
Motor vehicles	–	1 711 869	1 711 869
Other collateral	–	62 281	62 281
No collateral or other credit enhancement	–	–	2 972 500
Gross overdue or impaired loans	**3 072 840**	**1 774 150**	**7 819 490**
Total gross loans to retail customers	**27 720 359**	**64 669 533**	**117 555 112**
Allowance for loan impairment			(6 241 434)
Total loans to retail customers			**111 313 678**

The following table shows the fair value of collateral and other credit enhancements, excluding overcollateralization, securing loans to retail customers, net of impairment, by types of collateral as at 31 December 2011:

	Fair value of collateral – for collateral assessed as of reporting date	Fair value of collateral – for collateral assessed as of loan inception date	Loans to customers, carrying amount
Standard loans, including past due			
Real estate	22 142 298	–	22 142 298
Motor vehicles	–	33 909 430	33 909 430
Guarantees	–	247 921	247 921
Other collateral	–	1 450 436	1 450 436
No collateral or other credit enhancement	–	–	21 975 081
Gross standard loans	**22 142 298**	**35 607 787**	**79 725 166**
IMPAIRED LOANS			
Real estate	2 608 391	–	2 608 391
Motor vehicles	–	238 699	238 699
Other collateral	–	35 225	35 225
No collateral or other credit enhancement	–	–	4 716 240
Gross overdue or impaired loans	**2 608 391**	**273 924**	**7 598 555**
Total gross loans to retail customers	**24 750 689**	**35 881 711**	**87 323 721**
Allowance for loan impairment			(5 097 041)
Total loans to retail customers			**82 226 680**

The following table shows the fair value of collateral and other credit enhancements, excluding overcollateralization, securing loans to other customers, net of impairment, by types of collateral as at 31 December 2011:

	Fair value of collateral – for collateral assessed as of reporting date	Fair value of collateral – for collateral assessed as of loan inception date	Loans to customers, carrying amount
Loans for which no indications of impairment have been identified on an individual basis			
Real estate	154 195	–	154 195
Other collateral	–	15 362	15 362
No collateral or other credit enhancement	–	–	65 039
Gross loans for which no indications of impairment have been identified on an individual basis	**154 195**	**15 362**	**234 596**
IMPAIRED LOANS			
Real estate	35 120	–	35 120
No collateral or other credit enhancement	–	–	278 526
Gross impaired loans	**35 120**	**-**	**313 646**
Total gross loans to other customers	**189 315**	**15 362**	**548 242**
Allowance for loan impairment			(197 370)
Total loans to other customers			**350 872**

When lending to the legal entities is belonging to one economic group, the Group normally also obtains guarantees from other group members.

Included in retail loans as at 31 December 2012 are mortgage loans with gross amount of RUB 4 626 925 thousand (31 December 2011: RUB 5 147 035 thousand) pledged as collateral for mortgage-backed bonds issued by the Group in September 2011 (see Note 19 for details).

10. Loans to customers (Continued)

Repossessed collateral

During the year ended 31 December 2012, the Group obtained certain assets by taking control of collateral for loans to customers with a net carrying amount of RUB 143 402 thousand. As at 31 December 2012, the repossessed collateral is comprised of real estate with a fair value of RUB 148 840 thousand (31 December 2011: nil). The Group's policy is to sell these assets as soon as it is practicable.

Reverse repurchase agreements

As at 31 December 2012 and 2011, the Group entered into reverse repurchase agreements with a number of Russian companies. Pledged under these agreements are Russian Government bonds, municipal bonds and corporate and bank bonds issued by Russian companies and banks with the total fair value of RUB 17 591 689 thousand (31 December 2011: RUB 8 597 773 thousand).

Concentration of loans to customers

As at 31 December 2012, the Group had RUB 85 132 076 thousand due from the ten largest borrowers (16% of gross loan portfolio) (31 December 2011: RUB 79 549 149 thousand or 16%). An allowance of RUB 102 158 thousand was recognised against these loans (31 December 2011: RUB 105 541 thousand).

As at 31 December 2012, the Group had two borrowers with aggregate loan amounts that individually exceeded 10% of equity (31 December 2011: two borrowers). As at 31 December 2012, the aggregate amount of these loans is RUB 27 682 773 thousand (31 December 2011: RUB 29 460 038 thousand).

Loans to customers are made principally within Russia in the following industry sectors:

	2012	**2011**
Mining and metallurgy	78 232 542	69 995 713
Agriculture and food	50 114 795	43 956 013
Energy	44 639 023	44 047 754
Finance	44 324 063	32 396 351
Trade	42 184 701	52 728 107
Chemicals	31 156 933	39 254 950
Other manufacturing	22 319 400	28 306 960
Transportation	21 224 167	19 175 889
Real estate and construction	19 302 905	23 003 292
Machinery construction	17 490 839	14 149 468
Timber processing	14 217 552	9 220 145
Telecommunications	8 483 901	15 269 916
Other	12 375 786	12 186 695
	406 066 607	**403 691 253**
Loans to individuals	114 036 185	84 784 150
Gross loans to customers	**520 102 792**	**488 475 403**

11. Investment securities

Available-for-sale investment securities comprise:

	2012	2011
Debt and other fixed income investments available-for-sale		
USD denominated		
Corporate Eurobonds	1 277 364	1 540 504
Bank bonds	539 512	–
RUB denominated		
Russian Government Bonds	31 198 188	25 576 848
Corporate and bank bonds	17 842 988	3 183 792
Total debt and other fixed income investments available-for-sale	**50 858 052**	**30 301 144**
Equity investments available-for-sale		
RUB denominated		
Equity investments in financial institutions	7 748 448	13 272 949
EUR denominated		
Equity investments in financial institutions	2 490	1 031
Total equity investments available-for-sale	**7 750 938**	**13 273 980**
Total available-for-sale investment securities	**58 608 990**	**43 575 124**

As at 31 December 2012 included in Russian Government bonds, corporate and bank bonds are securities sold under repurchase agreements with the CBR in the amount of RUB 26 690 399 thousand (31 December 2011: none).

Nominal interest rates and maturities of these securities are as follows:

	2012		2011	
	%	Maturity	%	Maturity
Russian Government Bonds	6.7 – 12%	2013 – 2017	6.7 – 12%	2012 – 2015
Corporate and bank bonds	0.1 – 10.15%	2014 – 2032	6.41 – 9.4%	2012 – 2014
Corporate Eurobonds	9.63%	2013	7.88 – 9.63%	2012 – 2013

As at 31 December 2012 approximately 93% of debt and other fixed income investments available-for-sale were issued by organisations rated not lower than “BBB-“ (31 December 2011: 99%).

As at 31 December 2012 included in debt and other fixed income investments available-for-sale are bonds blocked as collateral for “overnight” loans with the CBR in the amount of RUB 14 166 678 thousand (31 December 2011: RUB 18 460 096 thousand).

As at 31 December 2012 the Group has 135 835 335 shares in MICEX-RTS Open Joint Stock Company (hereinafter – “MICEX-RTS”), corresponding to 6.182% stake in the company. The revaluation of the Group’s stock is based on the price of RUB 57 per share. The Group reviewed information on actual market deals with MICEX-RTS shares during the second half of 2012, financial indicators of MICEX-RTS and other applicable market information and concluded that price of RUB 57 per share to be a best estimate of fair value of MICEX-RTS share as at 31 December 2012.

Net change in revaluation reserve for available-for-sale assets recognized in other comprehensive income in the amount of RUB 2 874 979 thousand includes RUB 2 320 363 thousand reclassified from equity to profit and loss and the remaining amount of RUB 554 616 thousand which relates to fair value changes of available-for-sale assets.

11. Investment securities (Continued)

Held-to-maturity investment securities comprise:

	2012		2011	
	Nominal value	Carrying value	Nominal value	Carrying value
Corporate bonds	300 000	311 805	300 000	311 662
Held-to-maturity investment securities		**311 805**		**311 662**

Nominal interest rates and maturities of these securities are as follows:

	2012		2011	
	%	Maturity	%	Maturity
Corporate bonds	7.95%	2014	7.95%	2014

12. Transfers of financial assets

As at 31 December 2012 transferred financial assets that are not derecognized in their entirety comprise:

	Financial assets available for sale
Carrying amount of assets	26 690 399
Carrying amount of associated liabilities	25 357 504

The Group has transactions to sell securities classified as available-for-sale under agreements to repurchase and to purchase securities under agreements to resell (Note 11).

The securities sold under agreements to repurchase are transferred to a third party and the Group receives cash in exchange. These financial assets may be repledged or resold by counterparties in the absence of default by the Group, but the counterparty has an obligation to return the securities at the maturity of the contract. The Group has determined that it retains substantially all the risks and rewards of these securities and therefore has not derecognised them. These securities are presented as “pledged under sale and repurchase agreements” in Note 11. In addition, the Group recognises a financial liability for cash received as collateral included in deposits and balances from banks (Note 17).

These transactions are conducted under terms that are usual and customary to standard lending, as well as requirements determined by exchanges where the Group acts as intermediary.

13. Fixed assets

The movements in fixed assets were as follows:

	Buildings	Computers and equipment	Other fixed assets	Leasehold improvements	Total
Cost					
1 January 2012	**6 326 793**	**3 326 131**	**642 097**	**773 519**	**11 068 540**
Additions	284 265	612 432	52 287	3 987	952 971
Disposals	(23 648)	(98 521)	(51 832)	–	(174 001)
31 December 2012	**6 587 410**	**3 840 042**	**642 552**	**777 506**	**11 847 510**
Accumulated depreciation					
1 January 2012	**(974 999)**	**(2 362 056)**	**(510 214)**	**(637 361)**	**(4 484 630)**
Depreciation charge	(175 540)	(399 046)	(65 519)	(71 590)	(711 695)
Disposals	2 657	92 423	46 462	–	141 542
31 December 2012	**(1 147 882)**	**(2 668 679)**	**(529 271)**	**(708 951)**	**(5 054 783)**
Net book value:					
31 December 2012	**5 439 528**	**1 171 363**	**113 281**	**68 555**	**6 792 727**

	Buildings	Computers and equipment	Other fixed assets	Leasehold improvements	Total
Cost					
1 January 2011	**4 214 454**	**2 758 283**	**628 535**	**769 962**	**8 371 234**
Acquisition of subsidiary	282 660	16 527	4 747	–	303 934
Additions	2 102 135	628 900	50 985	3 557	2 785 577
Disposals	(272 456)	(77 579)	(42 170)	–	(392 205)
31 December 2011	**6 326 793**	**3 326 131**	**642 097**	**773 519**	**11 068 540**
Accumulated depreciation					
1 January 2011	**(814 355)**	**(2 008 443)**	**(477 968)**	**(530 234)**	**(3 831 000)**
Acquisition of subsidiary	(19 248)	(12 793)	(2 696)	–	(34 737)
Depreciation charge	(234 158)	(402 599)	(70 397)	(107 127)	(814 281)
Disposals	92 762	61 779	40 847	–	195 388
31 December 2011	**(974 999)**	**(2 362 056)**	**(510 214)**	**(637 361)**	**(4 484 630)**
Net book value:					
31 December 2011	**5 351 794**	**964 075**	**131 883**	**136 158**	**6 583 910**

14. Intangible assets

The movements in intangible assets and goodwill were as follows:

	Intangible assets	Goodwill	Total
Cost			
1 January 2012	**2 642 048**	**389 911**	**3 031 959**
Additions	683 244	–	683 244
Disposals	(13)	–	(13)
31 December 2012	**3 325 279**	**389 911**	**3 715 190**
Accumulated amortisation			
1 January 2012	**(1 287 801)**	**–**	**(1 287 801)**
Amortisation charge	(452 845)	–	(452 845)
Disposals	13	–	13
31 December 2012	**(1 740 633)**	**–**	**(1 740 633)**
Net book value:			
31 December 2012	**1 584 646**	**389 911**	**1 974 557**

	Intangible assets	Goodwill	Total
Cost			
1 January 2011	**2 147 541**	**389 911**	**2 537 452**
Acquisition of subsidiary	18 099	–	18 099
Additions	494 598	–	494 598
Disposals	(18 190)	–	(18 190)
31 December 2011	**2 642 048**	**389 911**	**3 031 959**
Accumulated amortisation			
1 January 2011	**(950 407)**	**–**	**(950 407)**
Acquisition of subsidiary	(7 176)	–	(7 176)
Amortisation charge	(348 408)	–	(348 408)
Disposals	18 190	–	18 190
31 December 2011	**(1 287 801)**	**–**	**(1 287 801)**
Net book value:			
31 December 2011	**1 354 247**	**389 911**	**1 744 158**

15. Taxation

The corporate income tax expense comprises:

	2012	2011
Current tax charge	4 175 276	2 856 832
Deferred tax charge - origination of temporary differences	589 186	1 221 602
Income tax expense	**4 764 462**	**4 078 434**

Russian legal entities must file individual tax declarations. The tax rate for banks and companies for profits other than on state securities was 20% for 2012 and 2011. The tax rate for interest income on state securities was 15% for 2012 and 2011.

The effective income tax rate differs from the statutory income tax rates. A reconciliation of the effective income tax rate and the statutory income tax rate is as follows:

	2012	2011
Profit before tax	**22 242 646**	**19 866 271**
Statutory tax rate	20%	20%
Theoretical income tax expense at the statutory rate	**4 448 529**	**3 973 254**
Effect of income taxed at lower tax rates	(133 829)	(88 285)
Non-deductible costs and non-taxable income	449 762	199 145
Tax refund	–	(5 680)
Income tax expense	**4 764 462**	**4 078 434**

Deferred tax assets and liabilities as at 31 December 2012 and 2011 comprise:

	Assets		Liabilities		Net	
	2012	**2011**	**2012**	**2011**	**2012**	**2011**
Fixed and intangible assets	389 277	349 006	(858 511)	(1 043 213)	(469 234)	(694 207)
Trading securities and derivatives	2 815 422	2 427 709	(3 468 323)	(2 410 475)	(652 901)	17 234
Available-for-sale securities	–	–	(1 478 454)	(2 566 879)	(1 478 454)	(2 566 879)
Loan impairment and credit related commitments	651 715	720 363	(929 468)	(1 549 132)	(277 753)	(828 769)
Deferred revenue	267 606	430 019	–	–	267 606	430 019
Other items	692 828	908 349	(892 211)	(119 979)	(199 383)	788 370
Total deferred tax assets/(liabilities)	**4 816 848**	**4 835 446**	**(7 626 967)**	**(7 689 678)**	**(2 810 119)**	**(2 854 232)**

Movement in deferred tax assets and liabilities during the year ended 31 December 2012 is presented in the table below:

	1 January 2012	Recognised in profit or loss	Recognised in other comprehensive income	31 December 2012
Fixed and intangible assets	(694 207)	224 973	–	(469 234)
Trading securities and derivatives	17 234	(584 689)	(85 446)	(652 901)
Available-for-sale securities	(2 566 879)	369 680	718 745	(1 478 454)
Loan impairment and credit related commitments	(828 769)	551 016	–	(277 753)
Deferred revenue	430 019	(162 413)	–	267 606
Other items	788 370	(987 753)	–	(199 383)
	(2 854 232)	**(589 186)**	**633 299**	**(2 810 119)**

15. Taxation (Continued)

Movement in deferred tax assets and liabilities during the year ended 31 December 2011 is presented in the table below:

	1 January 2011	Recognised in profit or loss	Recognised in other comprehensive income	31 December 2011
Fixed and intangible assets	(284 695)	(409 512)	–	(694 207)
Trading securities and derivatives	366 358	(505 755)	156 631	17 234
Available-for-sale securities	–	(655 203)	(1 911 676)	(2 566 879)
Loan impairment and credit related commitments	(542 429)	(286 340)	–	(828 769)
Deferred revenue	264 010	166 009	–	430 019
Other items	319 171	469 199	–	788 370
	122 415	**(1 221 602)**	**(1 755 045)**	**(2 854 232)**

Tax effect relating to components of other comprehensive income comprise:

	2012			2011		
	Amount before tax	Tax expense	Amount net-of-tax	Amount before tax	Tax expense	Amount net-of-tax
Cash flow hedge reserve	427 233	(85 446)	341 787	(783 153)	156 631	(626 522)
Revaluation reserve for available-for-sale securities	(3 593 724)	718 745	(2 874 979)	9 558 383	(1 911 676)	7 646 707
Other comprehensive income	**(3 166 491)**	**633 299**	**(2 533 192)**	**8 775 230**	**(1 755 045)**	**7 020 185**

16. Other assets and liabilities

Other assets comprise:

	2012	2011
Advances, prepayments and deferred expenses	1 295 863	1 525 579
Settlements with derivatives clearers	255 758	435 658
Repossessed collateral	148 840	–
Other	549 092	460 477
Other assets	**2 249 553**	**2 421 714**

Other liabilities comprise:

	2012	2011
Accrued compensation expense	2 459 454	2 094 652
Liability arising on initial designation of fair value macro hedge	1 585 630	2 002 315
Accounts payable	902 960	606 961
Deferred income	584 339	574 548
Transit accounts	154 894	190 963
Taxes payables	174 695	156 922
Other provisions	16 327	66 991
Other	91 625	73 673
Other liabilities	**5 969 924**	**5 767 025**

17. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	2012	2011
Current accounts	13 954 824	5 526 661
Time deposits and loans	128 467 349	142 646 788
Repurchase agreements with credit institutions	30 010 875	–
Subordinated debt (Note 20)	15 090 657	17 653 220
Amounts due to credit institutions	**187 523 705**	**165 826 669**

As at 31 December 2012, the ten largest deposits (excluding subordinated debt) represented 85% of total amounts due to credit institutions (31 December 2011: 94%).

As at 31 December 2012, the Group had three counterparties with aggregate balances that individually exceeded 10% of equity (31 December 2011: two counterparties). As at 31 December 2012, the aggregate amount of these balances is RUB 123 568 043 thousand (31 December 2011: RUB 105 970 692 thousand).

As at 31 December 2012 the Group has term deposits due to the CBR in the amount of RUB 26 057 855 thousand and repurchase agreements with CBR in the amount of 29 898 989 thousand (31 December 2011: none).

18. Amounts due to customers

The amounts due to customers include the following:

	2012	2011
Current accounts	90 662 208	83 133 578
Time deposits	413 207 014	379 574 924
Subordinated debt (Note 20)	–	214 048
Amounts due to customers	**503 869 222**	**462 922 550**

As at 31 December 2012, approximately 56% of total amounts due to customers (excluding subordinated debt) was placed with the Group by its ten largest customers (31 December 2011: 62%).

Analysis of customer accounts by type of customer is as follows:

	2012	2011
Corporate		
Current accounts	32 149 917	25 898 985
Time deposits	377 159 952	353 854 069
Subordinated debt	–	214 048
Total corporate accounts	**409 309 869**	**379 967 102**
Retail		
Current accounts	58 512 291	57 234 593
Time deposits	36 047 062	25 720 855
Total retail accounts	**94 559 353**	**82 955 448**
Amounts due to customers	**503 869 222**	**462 922 550**

Included in retail time deposits are deposits of individuals in the amount of RUB 23 344 972 thousand (31 December 2011: RUB 17 522 930 thousand). In accordance with the Russian Civil Code, the Group is obliged to repay such deposits upon demand of the depositor.

In case a term deposit is repaid upon demand of the depositor prior to maturity, the related interest rate on it is paid based on the interest rate for demand deposits, unless a different interest rate is specified in the contract. The remaining part of retail time deposits in the amount of RUB 12 702 090 thousand (31 December 2011: RUB 8 197 925 thousand) is represented by deposits placed by small business enterprises.

19. Debt securities issued

Debt securities issued consisted of the following:

	2012	2011
Bonds issued	40 251 779	25 320 325
Promissory notes	540 968	512 857
Debt securities issued	**40 792 747**	**25 833 182**

On 2 March 2012 the Group placed a RUB 5 000 000 thousand bonds issue with a three-year maturity. The bonds each have a face value of RUB one thousand and carry six semi-annual interest coupons. The coupon rate was set as 8.5% for the first three semi-annual periods. In August 2013 the coupon rate will be set for the remaining three semi-annual periods. The Group has an obligation to buy the bonds back at their nominal value upon the bond holders request just before the end of the third semi-annual period.

On 7 March 2012 the Group placed a RUB 5 000 000 thousand bonds issue with a three-year maturity. The bonds each have a face value of RUB one thousand and carry six semi-annual interest coupons. The coupon rate was set as 8.5% for the first three semi-annual periods. In September 2013 the coupon rate will be set for the remaining three semi-annual periods. The Group has an obligation to buy the bonds back at their nominal value upon the bond holders request just before the end of the third semi-annual period.

On 26 October 2012 the Group placed a RUB 5 000 000 thousand bonds issue with a three-year maturity. The bonds each have a face value of RUB one thousand and carry six semi-annual interest coupons. The coupon rate was set as 9.1% for the first four semi-annual periods. In October 2014 the coupon rate will be set for the remaining two semi-annual periods. The Group has an obligation to buy the bonds back at their nominal value upon the bond holders request just before the end of the fourth semi-annual period.

On 30 October 2012 the Group placed a RUB 5 000 000 thousand bonds issue with a three-year maturity. The bonds each have a face value of RUB one thousand and carry six semi-annual interest coupons. The coupon rate was set as 9.1% for the first four semi-annual periods. In October 2014 the coupon rate will be set for the remaining two semi-annual periods. The Group has an obligation to buy the bonds back at their nominal value upon the bond holders request just before the end of the fourth semi-annual period.

As at 31 December 2012 mortgage-backed bonds with the carrying value of RUB 5 123 224 thousand (31 December 2011: RUB 5 121 315 thousand) are secured by a pool of mortgage loans with the carrying value of RUB 4 626 925 thousand (31 December 2011: RUB 5 147 035 thousand) and by cash in the amount of RUB 862 000 thousand (31 December 2011: RUB 500 000 thousand) (see Note 6 and Note 10 for details).

20. Subordinated debt

	2012	2011
UniCredit Bank Austria AG, Vienna		
USD 30 000 thousand, semi-annual interest payment, maturing November 2012, LIBOR+2.5% p.a.;		
USD 50 000 thousand, semi-annual interest payment, maturing November 2013, LIBOR+1.43%p.a.;		
USD 100 000 thousand, semi-annual interest payment, maturing June 2014, LIBOR+1.43%p.a.;		
EUR 100 000 thousand, semi-annual interest payment, maturing November 2017, EURIBOR+1.83% p.a.;		
EUR 100 000 thousand, semi-annual interest payment, maturing February 2018, EURIBOR+2.15% p.a.	12 655 191	14 214 639
UniCredit Bank AG		
USD 30 000 thousand, semi-annual interest payment, maturing February 2013, LIBOR+2.3% p.a.;		
USD 50 000 thousand, semi-annual interest payment, maturing August 2013, LIBOR+1.5%p.a.	2 435 466	2 582 390
Deutsche Investitions-und Entwicklungsgesellschaft (DEG)		
EUR 20 000 thousand, semi-annual interest payment, maturing January 2012, EURIBOR+4% p.a.	–	856 191
Finnish Fund for Industrial Cooperation Ltd., Helsinki		
EUR 5 000 thousand, semi-annual interest payment, maturing January 2012, EURIBOR+4% p.a.	–	214 048
Subordinated Debt	**15 090 657**	**17 867 268**

21. Shareholder's equity

As at 31 December 2012, the authorised, issued and outstanding share capital comprises 2 404 181 ordinary shares (31 December 2011: 1 809 651 ordinary shares) with a par value of RUB 16 820 each. During 2012, 594 530 ordinary shares were issued at their nominal value (2011: 188 703 ordinary shares).

22. Commitments and contingencies

Credit related commitments

	2012	2011
Undrawn loan commitments	184 423 053	147 427 274
Guarantees issued	105 248 952	65 018 063
Letters of credit	13 502 933	15 646 415
Gross undrawn commitments, guarantees and letters of credit	**303 174 938**	**228 091 752**
Provisions for unrecognised commitments	(21 978)	–
Total undrawn commitments, guarantees and letters of credit	**303 152 960**	**228 091 752**

The Group issues guarantees and letters of credit for its customers. These instruments bear a credit risk similar to that of loans granted. With respect to the documentary instruments shown above, as at 31 December 2012, collateral deposits of RUB 4 039 772 thousand were held by the Group (31 December 2011: RUB 5 528 605 thousand).

Operating lease commitments

	2012	2011
Not later than 1 year	679 697	660 807
Later than 1 year but not later than 5 years	978 676	842 623
Later than 5 years	301 802	79 148
	1 960 175	**1 582 578**

Operating environment

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

Taxation

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

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

Based on the facts available, no provision for potential tax liabilities is made in these consolidated financial statements, as management believes that it is not likely that an outflow of funds will be required to settle such obligations.

23. Gains on financial assets and liabilities held for trading

Gains on financial assets and liabilities held for trading comprise:

	2012	2011
Net gains from trading securities	141 360	32 206
Net gains from foreign exchange and interest based derivatives		
- spot and derivative instruments	838 647	987 325
- translation of other foreign currency assets and liabilities	3 817 083	2 557 331
Gains on financial assets and liabilities held for trading	**4 797 090**	**3 576 862**

24. Fee and commission income

Fee and commission income comprises:

	2012	2011
Customer accounts handling and settlements	1 905 236	1 550 919
Retail services	1 862 637	1 568 321
Documentary business	1 435 294	1 177 172
Loan fees that are not part of the effective interest rate	213 199	293 653
Other	51 941	52 096
Fee and commission income	**5 468 307**	**4 642 161**

25. Personnel and other administrative expenses

Personnel and other administrative expenses comprise:

	2012	2011
Salaries and bonuses	4 519 048	4 057 689
Social security costs	329 457	334 067
Other compensation expenses	240 980	195 941
Other employment taxes	860 449	660 747
Personnel expenses	**5 949 934**	**5 248 444**
Rent, repairs and maintenance	1 418 782	1 397 999
Communication and information services	601 425	579 302
Advertising and marketing	450 704	632 005
Security expenses	273 393	261 667
Other taxes	162 090	129 304
Legal, audit and other professional services	91 380	204 953
Insurance	63 960	50 515
Other	902 505	723 941
Other administrative expenses	**3 964 239**	**3 979 686**

26. Risk management

Management of risk is fundamental to the banking business and is an essential element of the Group's operations. The Group has exposure to risks, which include credit, market, foreign exchange, liquidity, and operational risks. The Group's aim is to maintain an appropriate balance between risks and return and to minimise potential adverse effect on the Group's financial performance.

Risk management structure

The Group's risk management policies aim to identify, analyse, measure and manage the risks taken by the Group, to establish appropriate risk limits and methods of monitoring, and to continuously monitor risk levels and compliance with the established limits. Risk management policies and procedures are reviewed regularly to reflect changes in market conditions, products and services offered and emerging best practice in risk management.

The operational risk management functions are aimed at developing and ensuring proper functioning of internal processes and procedures that minimise the Group's exposure to internal and external risk factors.

The Supervisory Board of the Bank has overall responsibility for the oversight of the risk management framework, overseeing the management of key risks.

The Board of Management has overall responsibility for monitoring and implementation of risk mitigation measures and making sure that the Bank operates within the established risk parameters.

The Chief Risk Officer (hereinafter – "CRO") is responsible for the overall risk management function, ensuring the implementation of common principles and methods for identifying, underwriting, measuring, managing and risk reporting for both financial and non-financial risks. The CRO is the Member of the Board of Management of the Bank.

Credit, market and liquidity risks, both at portfolio and transactional levels, are managed through a system of Credit Approval Authorities as well as an Asset and Liability Management Committee. In order to facilitate efficient decision-making, the Bank has established a hierarchy of Credit Approval Authorities, which includes four Credit Committees, including Large Credit Committee, Small Credit Committee, Special

Credit Committee and Credit Committee of the Small and Medium Enterprises and several levels of joint and single personal approval authority, depending on amount of exposure, type and risk associated with a customer.

Credit risk policies and underwriting guidelines are under the CRO's responsibility. Internal local policies, rules, guidelines and operational instructions for lending to individuals and to the Small and Medium Enterprises (hereinafter – "SME") are in line with Group Credit Policies and agreed with CRO and approved by the Board of Management of the Bank (excluding operational instructions which are approved by the Head of responsible Unit). The four-eyes principle is applied for the credit decision-making process. Credit approval authority is exercised through the submission and approval of a credit application. For standardized products in lending process to individuals decision-making is done by Operations Function, to which CRO Function delegates authority through respective underwriting guidelines and rules and/or implementation of credit scoring. For standardized products in lending process to SMEs decision-making is done by Business Function, to which CRO Function delegates authority through respective guidelines and rules. All deviations/exceptions from standardized products have to be approved by the CRO.

The Group's risk underwriting, assessment, reporting and control procedures vary by risk type, but share a common principle to be concentrated under the supervision of the CRO.

Credit risk

Credit risk is the risk of financial loss occurring as a result of default by a borrower or counterparty on their obligation to the Group and arises principally from the Group's loans to customers and credit institutions and other unrecognised credit exposures.

For risk management purposes, credit risk arising from positions in trading securities is managed and reported on a daily basis.

Credit risk governance

Credit risk management policies, procedures and manuals are approved by the Board of Management of the Bank.

The following Credit Committees are responsible for approving corporate and retail credit risk exposures:

- The Large Credit Committee reviews and approves all loan/credit applications from customers and issuers above EUR 10 million or equivalent in other currencies. It is chaired by President of the Board of Management and meets on a weekly basis;
- The Small Credit Committee reviews and approves all loan/credit applications from customers in the amount up to EUR 10 million or equivalent in other currencies. It is chaired by the Head of Credit Underwriting Department and meets on a weekly basis;
- The Credit Committee of the SME is responsible for approval of the loan applications of SME in the amount up to EUR 1 million or equivalent in other currencies. The Committee meets once in a two-week period;
- The Special Credit Committee is responsible for considerations of the applications related to restructuring/refinancing of problem debts.

The Bank also has a system of personal credit approval authorities with the four-eyes principle in place – approval is done jointly by representatives from both business and risk functions; for SME lending process proposal is done by business function and approval is done by risk function.

All credit exposures above EUR 30 million or equivalent in other currencies as well as restructuring/refinancing applications above EUR 15 million have to be approved by the UniCredit Group (by the authorized members of Supervisory Board).

The Group limits concentrations of exposure to individual customers, counterparties and issuers (for securities), as well as groups of related customers. Exposure to credit risk is managed through regular analysis of the borrower's creditworthiness and by changing/adjusting lending limits where appropriate.

The Group's credit policies and product guidelines establish:

- procedures and standards for approval and review of loan/credit applications;
- methodology for the credit assessment of borrowers (corporate, retail);
- methodology for the credit assessment of counterparties, issuers and insurance companies;
- methodology for the evaluation of collateral;

- credit documentation requirements;
- procedures for the ongoing monitoring of loans and other credit exposures.

The relevant relationship managers and Corporate Lending Department originate corporate loan/credit applications jointly. The application could be solely prepared by relationship managers, depending on the respective authority granted to a given relationship manager. The credit applications consist of a structured analysis focusing on the customer's business and financial performance. The loan/credit applications are then independently reviewed by the Credit Underwriting and a second opinion is given accompanied by a check that credit policy requirements have been met. The relevant Approval Authority reviews the loan/credit application accompanied by the Credit Underwriting opinion.

In order to provide better assessment of customers' creditworthiness, separate units specialising on analysis of different industries were created within the Credit Underwriting department. This business model allows the Bank to quickly and thoroughly analyse changes in various industries, adjust strategies and take adequate decisions. Along with the industry divisioning there is also a set of regional risk managers that monitor the situation in the main regions of Bank's operations. This allows the Bank to manage its credit portfolio both on industry and regional levels.

Credit portfolio diversification by client types (large corporate clients, SME, individual clients) and industries allows the Bank to maintain high credit portfolio quality. In order to provide an adequate risk assessment, the Bank uses various internal rating models which take into account specifics of different client segments, provides effective differentiation of clients by credit risk level and precise assessment of their probability of default in accordance with Basel II principles. Internal ratings are used in credit decision-making, pricing, capital allocation and risk management processes.

All existing credit deals/approved limits for corporate clients are subject to annual review according to the procedure similar to that for the approval of the credit application.

The Bank continuously monitors the performance of individual credit exposures and regularly reassesses the creditworthiness of its customers. The review is based on the customer's most recent financial statements and other information submitted by the borrower, or otherwise obtained by the Bank. As the result of the review, the borrower's internal credit rating may be changed. The Bank monitors concentrations of credit risk by industry/sector and by the exposure to top 10, 50 and 100 borrowers.

Retail loan applications are approved according to internal local policies, rules, guidelines and operational instructions for lending to individuals and SME. Information is obtained on every customer. The extent of the information required and frequency of its update depend on the regulatory requirements, the customer category, creditworthiness of the customer and type of a transaction. The business unit obtains and analyzes the information from different sources (information from the customer, on-site visits, internal/external sources).

In order to reduce the risk of potential losses in the Bank's credit transactions a Monitoring Unit was established. The Unit implements procedures for systematic identification and assessment of negative signals, analysis and situation monitoring as well as strategies and action plans for potentially troubled corporate borrowers.

The Group continues active work to manage and decrease the problem loan portfolio. During 2011 the Restructuring Department of the Bank further developed and improved the systemic approach for handling problem loans. Under Watch List procedures monitoring of corporate customers and warning signals were applied on a daily basis.

Settlement risk

The Group's activities may give rise to settlement risk at the time of settlement of transactions. Settlement risk is the risk of loss due to the failure of counterparty to honour its obligations to deliver cash, securities or other assets as contractually agreed.

For certain types of transactions the Group mitigates this risk by conducting settlements through settlement/clearing agents to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations. Acceptance of settlement risk on free settlement transactions requires transaction specific and/or counterparty specific settlement limits that form part of the counterparty limit approval/monitoring process described above.

26. Risk management (Continued)

The table below shows the maximum exposure to credit risk for the components of the statement of financial position, including derivatives. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements.

	Notes	Maximum gross exposure 31 December 2012	Maximum gross exposure 31 December 2011
Cash and cash balances (excluding cash on hand)	6	15 711 756	16 795 816
Trading securities	7	4 340 528	1 938 722
Amounts due from credit institutions	8	246 446 188	200 143 375
Derivative financial assets	9	10 064 303	12 867 079
Derivative financial assets designated for hedging	9	7 350 086	3 776 683
Loans to customers	10	504 195 074	472 698 094
Investment securities:	11		
available-for-sale			
held by the Group		31 918 591	43 575 124
pledged under repurchase agreement		26 690 399	–
held-to-maturity		311 805	311 662
Investments in associate		979 435	929 032
Other assets	16	1 551 621	1 961 237
		849 559 786	**754 996 824**
Financial commitments and contingencies	22	303 152 960	228 091 752
Total credit risk exposure		**1 152 712 746**	**983 088 576**

Where financial instruments are recorded at fair value, the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

The credit quality of financial assets is managed by the Bank using internal credit ratings. The table below shows the credit quality by class of asset for consolidated statement of financial position items, based on the Bank's credit rating system as at 31 December 2012 and 2011:

		Neither past due nor impaired			
	Notes	High grade	Standard	Past due or impaired	Total 2012
Cash and cash balances (excluding cash on hand)	6	15 711 756	–	–	**15 711 756**
Trading securities	7	4 340 528	–	–	**4 340 528**
Amounts due from credit institutions	8	246 446 188	–	–	**246 446 188**
Derivative financial assets	9	10 064 303	–	–	**10 064 303**
Derivative financial assets designated for hedging	9	7 350 086	–	–	**7 350 086**
Loans to customers	10				
Corporate customers		205 348 641	162 913 328	7 956 226	**376 218 195**
Retail customers		82 858 599	22 857 829	5 597 250	**111 313 678**
Reverse repurchase agreements with companies		16 663 201	–	–	**16 663 201**
Investment securities:	11				
available-for-sale					
held by the Group		31 918 591	–	–	**31 918 591**
pledged under repurchase agreement		26 690 399	–	–	**26 690 399**
held-to-maturity		311 805	–	–	**311 805**
Total		**647 704 097**	**185 771 157**	**13 553 476**	**847 028 730**

	Notes	High grade	Standard	Past due or impaired	Total 2011
	Neither past due nor impaired				
Cash and cash balances (excluding cash on hand)	6	16 795 816	–	–	**16 795 816**
Trading securities	7	1 938 722	–	–	**1 938 722**
Amounts due from credit institutions	8	200 143 375	–	–	**200 143 375**
Derivative financial assets	9	12 867 079	–	–	**12 867 079**
Derivative financial assets designated for hedging	9	3 776 683	–	–	**3 776 683**
Loans to customers	10				
Corporate customers		356 422 748	15 639 030	9 935 790	**381 997 568**
Retail customers		75 047 870	2 497 233	4 681 577	**82 226 680**
Reverse repurchase agreements with companies		8 122 974	–	–	**8 122 974**
Other		–	195 351	155 521	**350 872**
Investment securities:	11				
available-for-sale		43 575 124	–	–	**43 575 124**
held-to-maturity		311 662	–	–	**311 662**
Total		**719 002 053**	**18 331 614**	**14 772 888**	**752 106 555**

Liquidity risk and funding management

Liquidity risk refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments associated with financial instruments as they actually fall due. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of financial institutions. It is unusual for financial institutions ever to be completely matched since a lot of business transactions are of uncertain term and different types. An unmatched position could potentially enhance profitability, but also could increase the risk of failure to meet obligations.

The approach to liquidity management is to ensure, as far as possible, that the Group always has sufficient liquidity to meet its obligations, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group reputation.

Assets and Liabilities Committee (hereinafter – "ALCO") is responsible for management of liquidity risk of the Bank. ALCO delegates to the Finance Department and Markets Department the responsibility to monitor and maintain within limits the Bank's liquidity profile on a daily basis. At the same time Market Risk Unit controls compliance with liquidity limits and informs ALCO in case of limit breaches. Both Finance Department and Market Risk Unit report to local and to the UniCredit Group ALCO on a weekly basis.

According to the liquidity management policy:

1. The approach to funding and structural liquidity is described in the annual funding plan, which is based on annual budget data. On a monthly basis, the funding plan is updated taking into account the current recognised and unrecognised positions, changes in the asset and liability mismatches of the Bank, available funding sources and market analysis. The Bank has adopted contingency funding plans, the UniCredit Group standard risk management instrument, which describes potential funding sources in case of crisis situation. The contingency funding plan is updated in the event of crisis, but at least once a year by ALCO, after annual funding plan approval.

2. Structural liquidity of the Bank is analysed by Finance Department using the liquidity gap approach and reported to local ALCO and to the UniCredit Group on a weekly basis. Liquidity limits and requirements both established by the UniCredit Group and the CBR are taken into account.

3. Short-term liquidity is monitored on the basis of cash flow models in total and separately by major currencies:

    - Scenarios (going concern, market crisis, foreign exchange market crisis scenario, etc.) are assessed to forecast future cash flows and corresponding liquidity needs for the nearest three months. Market crisis scenario includes "haircuts" to liquid security positions, failure of Bank's counterparties to meet their obligations with regard to money market deals, run on retail deposits, inability to make swaps at reasonable prices, etc. Decisions with regard to switches between going-concern and crisis scenarios are taken by ALCO;

Notes to Consolidated Financial Statements (Continued)

26. Risk management (Continued)

- ALCO sets limits on cash flow positions that depend on available liquidity sources and level of liquid assets (portfolio of assets that can be quickly liquidated to meet obligations without significant price decline).

4. Funding structure concentration is monitored and managed on a constant basis:

- ALCO sets an internal limit on the maximum volume of borrowings from a single group of clients;
- Reports on customer funds concentration are reported to management and analyzed on a weekly basis.

5. Liquidity ratios in line with regulatory requirements (the CBR) are to be monitored and met:

- On daily basis Finance Department evaluates N2 and calculates projections of N4 ratio for one month horizon. Markets Department calculates projections of N3 ratio for one month horizon:
  - Instant liquidity Ratio (N2) is the ratio of liquid assets to sight and overnight liabilities;
  - Current liquidity ratio (N3) is the ratio of liquid assets to liabilities maturing within 30 calendar days;
  - Long-term liquidity ratio (N4) is the ratio of assets maturing after one year to the sum of capital and liabilities maturing after one year.

As at 31 December 2012 and 2011, these ratios were as follows:

	2012, %	2011, %
N2 “Instant liquidity Ratio” (minimum 15%)	85.0	108.9
N3 “Current Liquidity Ratio” (minimum 50%)	84.4	66.4
N4 “Long-Term Liquidity Ratio” (maximum 120%)	92.7	98.5

The following table shows the liquidity gap profile as at 31 December 2012. This information is prepared using the internal Assets and Liabilities Management system according to the approved internal approach. The mapping approach is compliant with the requirements of the UniCredit Group liquidity policy. This information is used internally for risk management purposes and differs from financial statement amounts.

The information presented below relates to assets and liabilities of the Bank only prepared using statutory accounting methods. The table below presents the liquidity gap profile according to the approved internal approach as at 31 December 2012:

	2012							
	Less than 1 month	**1 month to 3 months**	**3 months to 6 months**	**6 months to 1 year**	**1 year to 3 years**	**More than 3 years**	**No stated maturity**	**Total**
Assets								
Cash and cash balances	24 020 106	–	–	–	–	–	–	**24 020 106**
Trading securities	3 040 854	–	–	1 300 000	–	–	–	**4 340 854**
Amounts due from credit institutions	228 764 840	17 496 012	–	–	–	–	–	**246 260 852**
Loans to customers	58 954 315	24 613 023	37 923 894	106 670 883	172 375 747	103 004 837	–	**503 542 699**
Investment securities:								
- available-for-sale	1 450 865	7 607 592	–	–	24 407 672	17 476 004	7 742 614	**58 684 747**
- held-to-maturity	–	–	–	–	302 430	–	–	**302 430**
Fixed assets	–	–	–	–	–	–	6 793 444	**6 793 444**
Other assets	106	–	–	5 914 902	–	–	–	**5 915 008**
Total assets	**316 231 086**	**49 716 627**	**37 923 894**	**113 885 785**	**197 085 849**	**120 480 841**	**14 536 058**	**849 860 140**
Liabilities								
Amounts due to credit institutions	106 168 653	10 650 450	8 264 719	4 165 200	45 665 264	12 437 419	–	**187 351 705**
Amounts due to customers								
- current accounts	48 709 370	3 765 925	3 765 925	4 518 393	7 262 792	21 664 608	–	**89 687 013**
- time deposits	244 515 038	49 131 447	30 370 688	33 306 777	38 515 523	17 479 054	–	**413 318 527**
Debt securities issued	–	–	–	514 439	34 520 212	5 000 000	–	**40 034 651**
Other liabilities	6 723	–	–	6 318 963	–	–	–	**6 325 686**
Equity	–	–	–	–	–	–	113 142 558	**113 142 558**
Total equity and liabilities	**399 399 784**	**63 547 822**	**42 401 332**	**48 823 772**	**125 963 791**	**56 581 081**	**113 142 558**	**849 860 140**
Net position	**(83 168 698)**	**(13 831 195)**	**(4 477 438)**	**65 062 013**	**71 122 058**	**63 899 760**	**(98 606 500)**	**-**
Accumulated gap	**(83 168 698)**	**(96 999 893)**	**(101 477 331)**	**(36 415 318)**	**34 706 740**	**98 606 500**	**-**	

The Group estimates that the negative accumulated gap in 1 month to 1 year periods will be sufficiently covered by the Group's money market daily borrowing capacity, issue of unsecured bonds and secured refinancing with the CBR.

Notes to Consolidated Financial Statements (Continued)

26. Risk management (Continued)

The table below presents the liquidity gap profile according to the approved internal approach as at 31 December 2011:

	2011							
	Less than 1 month	1 month to 3 months	3 months to 6 months	6 months to 1 year	1 year to 3 years	More than 3 years	No stated maturity	Total
Assets								
Cash and cash balances	24 468 219	–	–	–	–	–	–	**24 468 219**
Trading securities	1 536 718	–	240 000	162 004	–	–	–	**1 938 722**
Amounts due from credit institutions	88 864 121	1 054 433	5 070 000	8 164 231	96 508 909	149 119	–	**199 810 813**
Loans to customers	18 625 579	24 710 798	46 858 279	93 141 957	196 212 739	92 258 403	–	**471 807 755**
Investment securities:								
- available-for-sale	26 732 310	–	1 268 221	2 300 612	–	–	13 273 230	**43 574 373**
- held-to-maturity	–	–	–	–	311 964	–	–	**311 964**
Fixed assets	–	–	–	–	–	–	6 583 910	**6 583 910**
Other assets	10 676	–	–	4 663 127	–	–	–	**4 673 803**
Total assets	**160 237 623**	**25 765 231**	**53 436 500**	**108 431 931**	**293 033 612**	**92 407 522**	**19 857 140**	**753 169 559**
Liabilities								
Amounts due to credit institutions	55 455 024	39 835 575	10 854 806	6 690 612	35 751 622	18 076 406	–	**166 664 045**
Amounts due to customers								
- current accounts	48 925 782	3 785 124	3 683 502	7 047 308	697 343	18 881 860	–	**83 020 919**
- time deposits	181 916 404	14 603 865	10 298 981	15 764 778	152 805 942	3 947 163	–	**379 337 133**
Debt securities issued	–	–	–	10 832 852	10 000 000	5 000 330	–	**25 833 182**
Other liabilities	98 142	–	–	9 081 390	–	10 899	–	**9 190 431**
Equity	–	–	–	–	–	–	89 123 849	**89 123 849**
Total equity and liabilities	**286 395 352**	**58 224 564**	**24 837 289**	**49 416 940**	**199 254 907**	**45 916 658**	**89 123 849**	**753 169 559**
Net position	**(126 157 729)**	**(32 459 333)**	**28 599 211**	**59 014 991**	**93 778 705**	**46 490 864**	**(69 266 709)**	**-**
Accumulated gap	**(126 157 729)**	**(158 617 062)**	**(130 017 851)**	**(71 002 860)**	**22 775 845**	**69 266 709**	**-**	

Analysis of financial assets and liabilities by remaining contractual maturities

The tables below summarise the maturity profile of financial assets and liabilities as at 31 December 2012 and 31 December 2011 based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Group expects that many customers will not request repayment on the earliest date the Group could be required to pay. The tables do not reflect the expected cash flows indicated by the Bank's deposit retention history.

	Less than 1 month	1 month to 3 months	3 months to 6 months	6 to 12 months	1 year to 3 years	More than 3 years	Total
FINANCIAL ASSETS AS AT 31 DECEMBER 2012							
Cash and cash balances	24 020 106	–	–	–	–	–	**24 020 106**
Trading securities	4 340 528	–	–	–	–	–	**4 340 528**
Amounts due from credit institutions	225 980 319	19 172 622	455 486	495 743	554 768	965 922	**247 624 860**
Derivative financial assets:							
- Contractual amounts payable	(20 095 181)	(4 404 466)	(4 697 136)	(13 915 991)	(6 243 326)	(2 332 412)	**(51 688 512)**
- Contractual amounts receivable	20 578 058	6 909 406	6 825 545	14 581 445	11 462 009	4 613 492	**64 969 955**
Derivative financial assets designated for hedging:							
- Contractual amounts payable	(13 916)	(17 594)	(30 359)	(2 049 097)	(1 929 634)	(625 760)	**(4 666 360)**
- Contractual amounts receivable	3 084 669	1 790 054	1 045 339	2 021 844	3 380 924	1 627 618	**12 950 448**
Loans to customers	29 746 947	46 353 249	53 776 645	105 360 236	259 311 933	144 806 041	**639 355 051**
Investment securities							
- available-for-sale							
- held by the Group	1 541 366	2 442 907	424 472	841 507	15 136 760	10 697 026	**31 084 038**
- pledged under repurchase agreements	111 666	5 634 256	573 260	780 105	13 724 604	11 526 356	**32 350 247**
- held-to-maturity	11 892	–	–	23 784	311 892	–	**347 568**
Total undiscounted financial assets	**289 306 454**	**77 880 434**	**58 373 252**	**108 139 576**	**295 709 930**	**171 278 283**	**1 000 687 929**
FINANCIAL LIABILITIES AS AT 31 DECEMBER 2012							
Amounts due to credit institutions	85 148 903	32 485 461	8 729 432	4 602 864	48 558 949	12 659 618	**192 185 227**
Derivative financial liabilities:							
- Contractual amounts payable	12 188 808	9 259 486	6 599 446	7 979 855	7 427 614	7 404 143	**50 859 352**
- Contractual amounts receivable	(12 188 304)	(8 118 250)	(4 340 942)	(7 393 108)	(2 095 966)	(869 636)	**(35 006 206)**
Derivative financial liabilities designated for hedging:							
- Contractual amounts payable	197 915	1 790 597	2 794 546	1 103 839	5 887 390	5 104 535	**16 878 822**
- Contractual amounts receivable	(5 261)	(102 790)	(108 051)	(462 314)	(1 154 195)	(180 883)	**(2 013 494)**
Amounts due to customers	375 690 126	36 460 877	28 663 744	31 197 087	34 911 564	1 711 990	**508 635 388**
Debt securities issued	501 765	–	–	1 719 262	41 681 794	5 813 279	**49 716 100**
Total undiscounted financial liabilities	**461 533 952**	**71 775 381**	**42 338 175**	**38 747 485**	**135 217 150**	**31 643 046**	**781 255 189**

Notes to Consolidated Financial Statements (Continued)

26. Risk management (Continued)

The maturity profile of the financial assets and liabilities at 31 December 2011 was the following:

	Less than 1 month	1 month to 3 months	3 months to 6 months	6 to 12 months	1 year to 3 years	More than 3 years	Total
FINANCIAL ASSETS AS AT 31 DECEMBER 2011							
Cash and cash balances	24 491 991	–	–	–	–	–	**24 491 991**
Trading securities	1 938 722	–	–	–	–	–	**1 938 722**
Amounts due from credit institutions	84 674 771	1 394 240	6 201 494	7 875 431	103 955 217	425 638	**204 526 791**
Derivative financial assets:							
- Contractual amounts payable	(20 558 804)	(48 908 164)	(21 790 105)	(14 374 831)	(31 706 405)	(1 958 600)	**(139 296 909)**
- Contractual amounts receivable	21 553 464	50 628 919	24 714 093	14 454 930	34 676 049	3 875 693	**149 903 148**
Derivative financial assets designated for hedging:							
- Contractual amounts payable	(432 352)	(147 704)	(656 827)	(2 741 464)	(8 695 574)	(819 422)	**(13 493 343)**
- Contractual amounts receivable	1 935 003	328 180	1 356 116	1 685 371	10 649 625	2 060 099	**18 014 394**
Loans to customers	7 970 509	36 145 997	48 383 167	82 782 092	173 771 346	215 526 269	**564 579 380**
Investment securities:							
- available-for-sale	149 495	921 118	351 986	5 693 867	26 888 006	191 172	**34 195 644**
- held-to-maturity	11 892	–	–	11 892	347 568	–	**371 352**
Total undiscounted financial assets	**121 734 691**	**40 362 586**	**58 559 924**	**95 387 288**	**309 885 832**	**219 300 849**	**845 231 170**
FINANCIAL LIABILITIES AS AT 31 DECEMBER 2011							
Amounts due to credit institutions	56 388 107	40 904 349	11 474 287	9 470 902	30 544 383	22 865 838	**171 647 866**
Derivative financial liabilities:							
- Contractual amounts payable	15 109 864	46 329 106	35 069 123	14 514 437	35 842 318	7 841 600	**154 706 448**
- Contractual amounts receivable	(15 159 367)	(44 631 956)	(31 755 840)	(13 593 471)	(31 898 513)	(1 786 818)	**(138 825 965)**
Derivative financial liabilities designated for hedging:							
- Contractual amounts payable	193 188	3 897 728	7 211 299	4 187 099	29 978 722	15 270 544	**60 738 580**
- Contractual amounts receivable	(228 842)	(2 997 167)	(6 165 108)	(3 435 386)	(27 865 008)	(11 662 090)	**(52 353 601)**
Amounts due to customers	265 808 874	13 987 752	11 215 806	10 493 214	169 667 564	1 419 049	**472 592 259**
Debt securities issued	–	392 040	572 238	1 509 825	8 107 951	22 614 973	**33 197 027**
Total undiscounted financial liabilities	**322 111 824**	**57 881 852**	**27 621 805**	**23 146 620**	**214 377 417**	**56 563 096**	**701 702 614**

The maturity analysis does not reflect the historical pattern of stable balances on current accounts. Withdrawals of current accounts historically are taking place over a longer period than indicated in the tables above. These balances are included in amounts due in less than one month in the tables above.

Included in due to customers are term deposits of individuals. In accordance with the Russian legislation, the Group is obliged to repay such deposits upon demand (please refer to Note 18).

The table below shows the contractual expiry by maturity of financial commitments and contingencies.

	Less than 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 3 years	More than 3 years	Total
2012	22 453 552	39 841 451	75 898 568	96 951 136	57 253 829	10 754 424	**303 152 960**
2011	12 635 241	15 892 889	53 648 502	83 786 610	40 133 020	21 995 490	**228 091 752**

The Group expects that not all of the contingent liabilities or commitments will be drawn before expiry of the commitments.

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates and equity prices.

The Group distinguishes four market risk categories:
1. Interest Rate Risk is the risk that changes in interest rates will affect future cash flows or fair values of financial instruments.
2. Currency Risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates.
3. Spread Risk is the risk that changes in credit spreads will affect bond prices.
4. Residual Risk is the risk that a price of a particular instrument will change due to its specific characteristics.

On a daily basis the Group assesses interest rate and currency risks for both the trading portfolio and banking book. Moreover, spread and residual risks are calculated for fixed income positions.

The Group applies a Value-at-Risk (hereinafter – "VAR") methodology for the measuring of all risks mentioned above. VAR measure adopted by the Group estimates the potential negative change in the market value of a portfolio at a 99% confidence level over a 1-day horizon. The Group distinguishes the following types of VAR:

1. Total VAR is calculated for all risk factors taken in aggregate;
2. Interest Rate VAR is originated from interest rate risk exposure of the portfolio;
3. Foreign exchange VAR is originated from currency risk exposure of the portfolio;
4. Spread VAR is originated from spread risk exposure of the bond portfolio;
5. Residual VAR is originated from other factors exposure of the bond portfolio.

The Group also started to calculate Incremental Risk Charge (hereinafter – "IRC") that complements additional standards being applied to VAR modelling framework according to amendments to Basel II. IRC is an estimate of the default and migration risks of unsecured credit products over a one year capital horizon at 99.9% confidence level.

For interest rate risk management and control the Group also uses a Basis Point Value (hereinafter – "BPV") measure, which shows a change of present value of the Group's position if interest rate changes by one basis point. The measure is calculated for all currencies in which the Group has interest rate exposures. In addition, for bonds the Group established Credit Point Value (hereinafter – "CPV") measure that reflects a change of the bond position present value in case of credit spread changes by one basis point.

Since monitoring of VAR, BPV and CPV is an integral part of the risk management procedures, VAR, CPV and BPV limits have been established and exposures are reviewed daily against the limits by Market Risk Unit (hereinafter – "MRU"). IRC exposure is reviewed weekly.

The Group has adopted the following limits:
- Total VAR limit for whole portfolio;
- IRC limit for total bond position;
- Total BPV limit for whole portfolio;
- BPV limit split by currencies;
- Open foreign exchange position limits;
- CPV limit for total bond position.

Usage of VAR enables management of a position taking into consideration complex relationships and interdependencies between different risk factors. Typically MRU analyses VAR figures and sets BPV limits which help traders and the Finance Department to optimize risk profiles in volatile market environments. On a monthly basis MRU provides stress-testing of all four market risk categories, in other words, the estimation of total portfolio present value change according to several predefined scenarios of market risk factor movements. In addition, the MRU monitors on a daily basis the financial result of the trading operations and thoroughly investigates any significant variances.

All limit violations are analyzed by the MRU on a daily basis, and all limit breaches are escalated and reported to local ALCO and to UniCredit Bank Austria AG.

26. Risk management (Continued)

In 2012 MRU significantly improved the control of economical and regulatory open foreign currency position that is performed on a daily basis. MRU continued to upgrade the internal methodologies and procedures according to international standards and UniCredit Group methodologies. In particular, new methodologies of risk estimation based on Basel 2.5 were implemented and implementation of Basel 3 regulatory standards was started. Thus, implementation of Credit Valuation Adjustment (modification of derivatives market value taking into account counterparty credit risk) and corresponded impact on Capital was done. Also, the requirements of minimum mark-up of derivatives were applied. To improve the control of the Bank's trading strategy the sensitivity analysis of statement of comprehensive income in terms of risk factors was created and implemented.

Interest rate risk management of the banking book

The Bank uses the active interest rate risk management concept, which aims to minimize the net interest income volatility of the banking book.

In banking book interest rate risk position there is a discrepancy between economic (behavioural) and contractual maturities of financial instruments. It concerns both instruments with fixed contractual maturities (loans and time deposits) and instruments without contractual maturities (current accounts, capital). Based on historical observation the Bank developed models that allowed applying behavioural approach to such kinds of banking book items for construction of interest rate risk position with the aim of better interest rate risk management by means of preventing over-hedging and encouraging self-hedging. The Bank applies behavioural models to current accounts, short-term customer time deposits and time deposits with auto-rollover option as well as to capital. The Bank has developed prepayment model for retail loans and implemented it in interest rate risk position. For avoiding accounting discrepancy between hedged items of banking book calculated on accrual basis and hedging instruments calculated on mark-to-market basis and, as a result, to stabilize net interest income the Bank uses hedge accounting methodology. During the period from 2008 until 2011 the Bank sequentially implemented the following hedge accounting approaches: Micro Cash Flow Hedge, Macro Cash Flow Hedge, Micro Fair Value Hedge, Portfolio Fair Value Hedge for interest rate risk management.

Objectives and limitation of VAR methodology

The Group uses a Basel II compliant VAR methodology based on historical simulations. Historical simulation is a method that allows to calculate VAR without making any assumptions about the a priori statistical distribution of the portfolio value movements. This approach involves the construction of the hypothetical distribution of the yields (profit and losses) of a portfolio of financial instruments directly by means of the historical fluctuations of the market prices. Once the hypothetical distribution has been calculated, the VAR is given by the percentile evaluation with the 99% confidence interval.

The VAR methodology described above replaces the previous approach based on historical and Monte-Carlo simulations, where 1000 scenarios of joint risk factors behaviour are modelled. The portfolios were revalued according to the scenarios set. The VAR measure resulted as the 99% quantile of the above distribution. Interest and exchange rates were modelled on a historical data basis. Bonds credit spread changes were modelled using the Student 5 distribution.

VAR estimates are based on historical data and therefore have some limitations. The volatility of interest and exchange rates observed in the past might not match the current market conditions, which could lead to underestimation of the future losses. The VAR measure does not account for any losses that may occur beyond the 99% confidence level.

The adequacy of the models used by the Group is controlled using a back-testing method, which compares VAR measures with realized mark-to-market revaluation for traded instruments and mark-to-model revaluation for non-traded instruments. This analysis is provided by MRU on a monthly basis.

Computational results

The following table shows estimation of the potential losses that could occur on all risk positions as a result of movements in market rates and prices by one BPV:

	2012	2011
Total VAR	283 825	199 286
Interest Rate VAR	209 654	161 371
Spread VAR	200 816	137 748
Foreign exchange VAR	6 413	16 897

The banking book includes corporate and retail loans and bonds from the investment portfolio on the asset side and deposits on the liability side offset by internal interest rate swaps to transfer interest rate risk to the trading book. A new prepayment model for retail loans has been implemented in 2011.

The following table shows estimation of the potential losses that could occur on banking book risk positions as a result of movements in market rates and prices by one BPV:

	2012	2011
Total VAR	24 920	56 261
Interest Rate VAR	24 842	58 693
Spread -VAR [1]	2 019	2 972
Foreign exchange VAR [2]	–	–

[1] Spread risk in the banking book arises from bonds comprising investment portfolio.
[2] Foreign exchange risk is defined as the risk arising from the net open position of the Bank and allocated to the trading book. The foreign exchange risk component of the banking book is therefore considered to be zero.

The following table shows estimation of the potential losses that could occur on trading book risk positions as a result of movements in market rates and prices by one BPV:

	2012	2011
Total VAR	273 178	184 490
Interest Rate VAR	201 589	146 319
Spread VAR	200 089	135 651
Foreign exchange VAR	6 413	16 897

The following table shows estimation of the potential losses that could occur on trading bond portfolio position as a result of movements in market rates and prices by one BPV:

	2012	2011
Total VAR	282 982	213 487
Interest Rate VAR	185 482	130 518
Spread VAR	168 591	136 723

Operational risk

Operational Risk Definition and Risk Management Principles

The UniCredit Group and the Bank define as "operational" the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The definition of Operational Risk includes legal risk but excludes strategic and reputation risk. Legal risk includes but is not limited to exposure to fines, penalties or punitive damages resulting from supervisory actions as well as private settlements.

The management of Operational Risk as defined above is based on the following fundamental principles:

- involvement of corporate governing bodies in all the relevant decisions regarding the Operational Risk management framework;
- independence of Operational Risk management function from the risk taking functions;
- effective system of controls at different control levels (line, second level and third level);
- involvement of Operational Risk management function in evaluation the risks of new products, process and markets;
- efficient escalation and decision-making process;
- adequate and periodical disclosure and reporting process.

26. Risk management (Continued)

Operational Risk Management Framework

The Bank is fully compliant with the UniCredit Group's operational risk management framework in its guiding standards and principles as well as with the legislation of the Russian Federation.

Management Board of the Bank holds the responsibility for the establishment, governance and monitoring of the effective and efficient Operational Risk management system. The Management Board establishes the general policies of the Bank's Operational Risk management system and has control over its due implementation and its actual operations including but not limiting to:

- approval of the Operational Risk framework and any essential changes to it as well as all internal normative documents of the Bank guiding the Operational Risk management system;
- establishment of an Operational Risk management function being of appropriate independence of judgement and having the adequate personnel and other resources;
- assurance that the tasks and responsibilities of the functions involved in the Operational Risk management system are assigned in a clear and appropriate manner with special regard to avoidance of conflicts of interest;
- establishment of informing and reporting system providing accurate, complete and timely information on Operational Risk exposure and other significant Operational Risk management issues.

Operational Risk Committee of the Bank is a governing body primarily responsible for making decisions on Operational Risk topics and ongoing monitoring of developments affecting the Bank's business and promoting the exchange of information among the divisions and individual operating functions (Retail Banking, CIB, CFO, Legal, HR, Security) representing line controls.

The Bank's Operational Risk Management Unit (hereinafter – "ORM Unit") performing the second level controls is fully independent from risk taking functions performing the line level controls. The ORM's main methodologies, tools and activities to identify, assess, monitor and mitigate Operational Risk are focused on but not limited to:

- loss data collection including general ledger analysis, accounts reconciliation, transitory and suspense accounts monitoring, data quality control;
- key Operational Risk indicators;
- scenario analysis;
- Operational Risk limits control;
- insurance coverage;
- capital at risk allocation according to the Basel II Standardized Approach;
- new products/processes analysis from the Operational Risk impact perspective;
- credit bureaus cooperation;
- reporting and escalating any of the essential Operational Risk issues to the Management Board, Internal Audit Department and competent UniCredit Group functions.

In order to assure the efficacy of the Operational Risk identification and mitigation processes, a Permanent Workgroup is established at the Bank which aims at identifying the source of Operational Risk and reduce the Operational Risk exposure of the Bank, leveraging mainly on the expertise of the ORM and Organization functions.

The Internal Audit Department performing the third level controls cooperates with the ORM Unit in terms of setting, development, implementation and maintenance of the Operational Risk management system, Operational Risk identification and the inherent local internal validation process.

27. Fair values of financial instruments

The following disclosure of the estimated fair value of financial instruments is made in accordance with the requirements of IFRS 7 Financial Instruments: Disclosures. Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties on arm's length conditions, other than in forced sale or liquidation. As no readily available market exists for a significant part of the Group's financial instruments, judgment is necessary in arriving at fair value, based on current economic conditions and the specific risks attributable to the instrument. The estimates presented herein are not necessarily indicative of the amounts the Group could realise in a market exchange from the sale of its full holdings of a particular instrument.

The estimated fair values of trading securities, bonds issued, and liquid investment securities are based on quoted market prices at the reporting date without any deduction for transaction costs. For securities and derivative financial instruments not traded in an active market, the fair value is estimated by using valuation techniques that include the use of recent arm's length transactions and discounted cash flow analysis.

The estimated fair values of all other financial assets and liabilities are calculated using discounted cash flow techniques based on estimated future cash flows.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and applicable interest rates as at 31 December 2012 (Mosprime rates varying from 8% to 11.21%, LIBOR rates – from 2.51% to 6.16%, EURIBOR rates – from 1.99% to 5.22% for RUB, USD and EUR instruments respectively, and discount rates varying from 1% to 25.33%).

The following table summarises the carrying amounts and fair values of those financial assets and liabilities not presented in the consolidated statement of financial position at fair value.

	2012		2011	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Amounts due from credit institutions	246 446 188	246 446 188	200 143 375	200 143 375
Loans to customers	504 195 074	484 170 598	472 698 094	468 924 332
Investment securities held-to-maturity	311 805	305 826	311 662	311 697
Financial liabilities				
Amounts due to credit institutions	187 523 705	187 523 705	165 826 669	165 826 669
Amounts due to customers	503 869 222	502 403 373	462 922 550	463 908 528
Debt securities issued	40 792 747	40 307 268	25 833 182	24 715 781

Financial instruments recorded at fair value

The Group measures fair values for financial instruments recorded on the consolidated statement of financial position using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.

Level 2: Valuation techniques based on observable inputs, either directly (i.e, as prices) or indirectly (i.e, derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

27. Fair values of financial instruments (Continued)

The table below analyses financial instruments measured at fair value at 31 December 2012, by the level in the fair value hierarchy into which the fair value measurement is categorised:

	Level 1	Level 2	Level 3	Total 2012
Financial assets				
Trading securities	4 340 528	–	–	**4 340 528**
Available-for-sale securities				
held by the Group	22 630 017	1 537 635	7 742 614	**31 910 266**
pledged under repurchase agreement	25 779 069	911 330	–	**26 690 399**
Derivative financial assets	–	10 064 303	–	**10 064 303**
Derivative financial assets designated for hedging	–	7 350 086	–	**7 350 086**
	52 749 614	**19 863 354**	**7 742 614**	**80 355 582**
Financial liabilities				
Derivative financial liabilities	–	7 309 978	–	**7 309 978**
Derivative financial liabilities designated for hedging	–	6 222 442	–	**6 222 442**
	–	**13 532 420**	**–**	**13 532 420**

The table below analyses financial instruments measured at fair value at 31 December 2011, by the level in the fair value hierarchy into which the fair value measurement is categorised:

	Level 1	Level 2	Level 3	Total 2011
Financial assets				
Trading securities	1 646 189	292 533	–	**1 938 722**
Available-for-sale securities	28 242 821	2 058 323	13 267 115	**43 568 259**
Derivative financial assets	–	12 867 079	–	**12 867 079**
Derivative financial assets designated for hedging	–	3 776 683	–	**3 776 683**
	29 889 010	**18 994 618**	**13 267 115**	**62 150 743**
Financial liabilities				
Derivative financial liabilities	–	12 893 794	–	**12 893 794**
Derivative financial liabilities designated for hedging	–	7 273 366	–	**7 273 366**
	–	**20 167 160**	**–**	**20 167 160**

Financial instruments of Level 3 represent equity investment in MICEX-RTS which is not quoted on an active market and is revalued based on the price of RUR 57 per share.

The following table shows reconciliation for the years ended 31 December 2012 and 2011 for fair value measurements in Level 3 of the fair value hierarchy:

	2012	2011
	Equity investments available-for-sale	Equity investments available-for-sale
Balance at beginning of the year	13 267 115	–
Total gains or losses:		
- in profit or loss	3 007 049	3 211 266
- in other comprehensive income	(4 256 550)	9 702 731
Disposals	(4 275 000)	–
Transfers into level 3	–	353 118
Balance at the end of the year	**7 742 614**	**13 267 115**

Loss on financial instruments of Level 3 of RUB 4 256 550 thousand is presented in other comprehensive income within revaluation reserve for available-for-sale securities.

28. Related party disclosures

The Bank's ultimate parent is the UniCredit Group. The Bank's immediate parent is UniCredit Bank Austria AG. Both entities produce publicly available financial statements.

In accordance with IAS 24 *Related Party Disclosures*, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

Balances and transactions with UniCredit Bank Austria AG (the immediate parent) and more senior parents within the UniCredit Group were as follows:

	31 December 2012	Average interest rate, %	31 December 2011	Average interest rate, %
Amounts due from credit institutions				
- In Russian Roubles	1 805 998	6.8%	7 313 510	6.8%
- In EUR	94 207 212	2.5%	143 482 611	2.8%
- In USD	63 788 242	0.2%	3 061 857	0.4%
Other assets	78 232		85 450	
Amounts due to credit institutions				
- In Russian Roubles	9 366 136	7.1%	23 736 953	7.3%
- In EUR	8 241 285	2.4%	37 592 789	2.0%
- In USD	44 566 913	2.3%	25 684 219	2.0%
Derivative financial liabilities	–		–	
Debt securities issued	1 004 672	9.0%	1 004 192	9.0%
Other liabilities	179 527		94 216	
Commitments and guarantees issued	1 879 274		2 276 613	
Commitments and guarantees received	1 781 822		1 189 686	

	2012	2011
Interest income	3 129 230	1 977 662
Interest expense	(2 634 271)	(2 805 220)
Fee and commission income	12 267	12 264
Fee and commission expense	(19 366)	(22 323)
Gains on financial assets and liabilities held for trading	45 804	595 691
Personnel expenses	(33 533)	(29 782)

Notes to Consolidated Financial Statements (Continued)

28. Related party disclosures (Continued)

Balances and transactions with other companies controlled by the UniCredit Group are as follows:

	31 December 2012	Average interest rate, %	31 December 2011	Average interest rate, %
Amounts due from credit institutions				
- In EUR	10 844 253	0.0%	567 409	0.0%
- In USD	294	0.0%	–	
- In other currencies	55 244	0.0%	20 129	0.0%
Derivative financial assets	2 262 301		3 537 856	
Derivative financial assets designated for hedging	4 130 765		3 573 532	
Loans to customers				
- In EUR	1 618 669	6.2%	600 216	6.6%
Other assets	621 326		626 152	
Amounts due to credit institutions				
- In Russian Roubles	551 111	2.3%	821 587	0.0%
- In EUR	–		602 489	3.3%
- In USD	6 104 863	2.3%	5 824 153	2.4%
- In other currencies	1 903	0.0%	–	
Derivative financial liabilities	4 548 547		5 023 326	
Derivative financial liabilities designated for hedging	3 905 127		5 904 556	
Amounts due to customers				
- In Russian Roubles	114 411	5.7%	519 989	2.2%
- In EUR	311 594	0.6%	251 961	1.6%
- In USD	253 268	1.2%	486 478	1.2%
Debt securities issued	–		3 873 877	7.0%
Other liabilities	76 375		69 221	
Commitments and guarantees issued	15 961 786		16 267 095	
Commitments and guarantees received	2 974 011		1 356 662	

	2012	2011
Interest income	5 212 239	3 586 040
Interest expense	(3 426 256)	(2 890 527)
Fee and commission income	31 145	27 474
Fee and commission expense	(21 515)	(9 535)
Losses on financial assets and liabilities held for trading	(764 513)	(2 297 332)
Other income	895	398
Personnel expenses	(46 105)	(7 504)
Other administrative expenses	(20 972)	(16 117)

Subordinated loans from the members of the UniCredit Group were as follows for 2012 and 2011:

	2012		2011	
	UniCredit Bank Austria AG and more senior parents within the UniCredit Group	Other companies controlled by the UniCredit Group	UniCredit Bank Austria AG and more senior parents within the UniCredit Group	Other companies controlled by the UniCredit Group
Subordinated loans at the beginning of the year	14 214 639	2 582 390	13 621 564	2 444 330
Subordinated debt repaid during the year	(949 665)	–	–	–
Accrual of interest, net of interest paid	(47 713)	(1 054)	15 959	524
Effect of exchange rates changes	(562 070)	(145 870)	577 116	137 536
Subordinated loans at the end of the year	**12 655 191**	**2 435 466**	**14 214 639**	**2 582 390**

Total compensation of the key management personnel included in personnel expenses for the years ended 31 December 2012 and 2011 comprised short-term benefits in the amount of RUB 101 741 thousand and other long-term benefits in the amount of RUB 67 505 thousand (2011: RUB 85 269 thousand and RUB 75 996 thousand, respectively) and post-employment benefits in the amount of RUB 985 thousand (2011: RUB 1 232 thousand).

There were no outstanding balances for transactions with the key management personnel as at 31 December 2012. As at 31 December 2011 outstanding balances for transactions with the key management personnel are as follows:

	2011	Average interest rate, %
Loans outstanding at 31 December, gross	**7 718**	**9.5%**
Less loan impairment at 31 December	(8)	
Loans outstanding at 31 December, net	**7 710**	

29. Capital

The Group maintains an actively managed capital base to cover risks inherent in the business. The adequacy of capital is monitored using, among other measures, the ratios established by the Basel Capital Accord 1988 and the ratios established by the CBR.

The primary objectives of capital management are to ensure that the Group complies with externally imposed capital requirements and that the Group maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value.

CBR capital adequacy ratio

The CBR requires banks to maintain a capital adequacy ratio of 10% of risk-weighted assets, computed using amounts in statutory financial statements prepared in accordance with Russian accounting legislation. As at 31 December 2012 and 2011, the Bank's capital adequacy ratio on this basis was as follows:

	2012	2011
Main capital	83 018 263	66 437 322
Additional capital	32 544 376	19 984 356
Subordinated loans granted	(477 045)	(486 071)
Total capital	**115 085 594**	**85 935 607**
Risk weighted assets	**853 083 834**	**691 840 524**
Capital adequacy ratio	13.5%	12.4%

Main capital comprises share capital, share premium, reserve fund and retained earnings including current year profit confirmed by external auditors. Additional capital includes subordinated debt, preferred shares, current year profit not included in the main capital and revaluation reserves.

Capital adequacy ratio under the Basel II requirements

Starting from the reporting period 1 January 2009 the Group calculates risk weighted assets under Basel II requirements following UniCredit Bank Austria AG internal policies.

The capital adequacy ratio, computed in accordance with the Basel II requirements, as at 31 December 2012 and 2011, was as follows (unaudited):

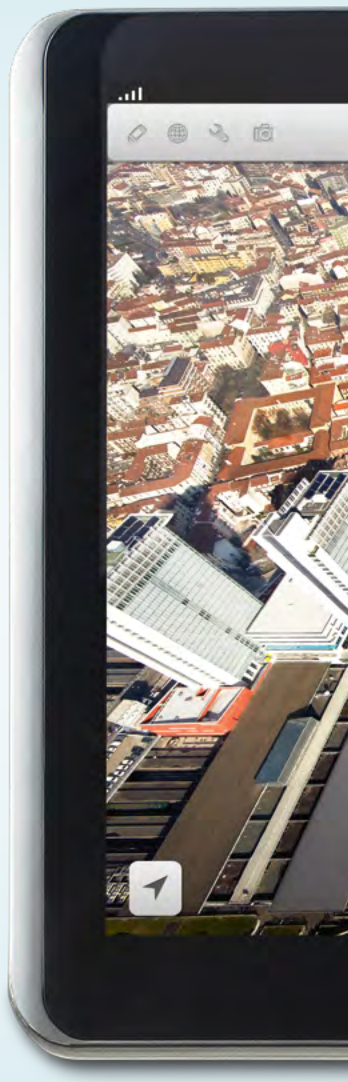
	2012	2011
Tier 1 capital	99 972 596	74 581 168
Tier 2 capital	7 816 453	10 427 076
Tier 3 capital	2 192 663	2 377 603
Total capital	**109 981 712**	**87 385 847**
Risk weighted assets	**731 287 819**	**683 406 886**
Tier 1 capital ratio	13.7%	10.9%
Total capital ratio	15.0%	12.8%

During 2012 and 2011 the Group complied with all external capital requirements.

Sorter pages: UniCredit
Creative concept: Marco Ferri

Design, Graphic development and Composition:
MERCURIO GP© - Milan

UniCredit Bank



Notes to Consolidated Financial Statements (Continued)

29. Capital (Continued)

29. Capital (Continued)