

CJSC Bank “Ipotechniy”
Consolidated Financial Statements

For the year 2012

Together with Independent Auditors’ Report

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Ernst & Young Audit Services LLC
Khrushchatskyi Street, 19A
Kyiv, 01001, Ukraine
Tel: +380 (44) 490 3000
Fax: +380 (44) 490 3030
Ukrainian Chamber of Auditors
Certificate: 3516
www.ey.com/ukraine

ТОВ «Ернст енд Янг
Аудиторські Послуги»
Україна, 01001, Київ
вул. Хрещатик, 19А
Тел.: +380 (44) 490 3000
Факс: +380 (44) 490 3030
Свідоцтво Аудиторської
Палати України: 3516

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS AND THE BOARD OF DIRECTORS OF

CLOSED JOINT STOCK COMPANY BANK "IPOTECHNIY"

We have audited the accompanying consolidated financial statements of Closed Joint Stock Company Commercial Bank "Ipotekhnii" and its subsidiaries (the "Bank") as at and for the year ended 31 December 2012, which comprise the consolidated statement of financial position as at 31 December 2012 and 31 December 2011 and 1 January 2011, consolidated statements of comprehensive income, of changes in equity and of cash flows for the years ended 31 December 2012 and 31 December 2011, and 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 these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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 provide a basis for our audit opinion.



Opinion

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

Emphasis of matter

We draw attention to Note 18 to the consolidated financial statements, which describes the uncertainty of operating environment of the Bank. Our opinion is not qualified in respect of this matter.

Ernst & Young Audit Services LLP

5 August 2013

Consolidated statement of financial position
As at 31 December 2012
(thousands of PMR Rubles)

	Note	2012	2011	2010
Assets				
Cash and cash equivalents	5	88,729	68,077	105,859
Precious metals		40	80	98
Amounts due from credit institutions	6	30,884	25,220	17,485
Loans to customers	7	272,011	223,514	238,077
Assets held for sale	8	770	779	155
Investments in non-controlling interests	9	1,162	1,162	-
Restricted cash to be contributed to the share capital		3,330	-	-
Property and equipment	10	33,929	10,679	8,326
Intangible assets		-	-	15
Deferred income tax assets	11	1,509	1,011	791
Other assets	12	12,239	26,976	1,063
Total assets		444,603	357,498	371,869
Liabilities				
Amounts due to credit institutions	13	13,247	23,740	9,005
Amounts due to customers	14	382,181	291,533	326,992
Debt securities issued	15	4,137	2,179	612
Other borrowed funds	16	5,308	5,249	6,928
Advance payments to the share capital		3,330	-	-
Other liabilities	12	2,369	1,523	4,783
Total liabilities		410,572	324,244	348,320
Equity				
Share capital	17	42,335	42,335	42,335
Accumulated deficit		(11,097)	(11,636)	(21,341)
Other reserves		2,793	2,555	2,555
Total equity		34,031	33,254	23,549
Total equity and liabilities		444,603	357,498	371,869

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

E.A. Kozhokar

Chairman of the Management Board

N.V. Mazur

Chief Accountant

5 August 2013



Consolidated statement of comprehensive income
For the year ended 31 December 2012
(thousands of PMR Rubles)

	<i>Note</i>	2012	2011
Interest income			
Loans to customers		62,017	55,361
Cash and cash equivalents		162	147
		62,179	55,508
Interest expense			
Amounts due to customers		(18,923)	(18,417)
Amounts due to credit institutions		(784)	(346)
Debt securities issued		(189)	(56)
Other borrowed funds		(982)	(1,502)
		(20,878)	(20,321)
Net interest income		41,301	35,187
Allowance / (reversal of allowance) for loan impairment	7	18,593	(3,409)
Net interest income after allowance for loan impairment		59,894	31,778
Net fee and commission income	19	9,705	6,951
Net gains from foreign currencies:			
- dealing		15,337	12,194
- translation differences		4,181	1,587
Gains from initial recognition of financial liabilities		788	261
Other income	20	3,098	2,814
Non-interest income		30,851	23,807
Personnel expenses	21	(22,630)	(16,924)
Loss on initial recognition of financial assets		(13,435)	(9,016)
Depreciation of property, equipment and intangible assets	10	(1,496)	(1,156)
Other operating expenses	21	(17,445)	(12,590)
Non-interest expense		(55,006)	(39,687)
Profit before income tax expense		35,739	15,898
Income tax expense	11	(6,116)	(4,277)
Profit for the year		29,623	11,621
Total comprehensive income for the year		29,623	11,621

The accompanying notes on pages 5 to 31 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity**For the year ended 31 December 2012***(thousands of PMR Rubles)*

	<i>Share capital</i>	<i>Accumulated deficit</i>	<i>Other reserves</i>	<i>Total equity</i>
31 December 2010	42,335	(21,341)	2,555	23,549
Total comprehensive income for the year		11,621		11,621
Dividends to shareholders of the Bank (Note 18)		(1,916)		(1,916)
31 December 2011	42,335	(11,636)	2,555	33,254
Total comprehensive income for the year		29,623		29,193
Dividends to shareholders of the Bank (Note 18)		(28,846)		(28,846)
Allocations to other reserves		(238)	238	-
31 December 2012	42,335	(11,097)	2,793	34,031

Consolidated statement of cash flows
For the year ended 31 December 2012
(thousands of PMR Rubles)

	Note	2012	2011
Cash flows from operating activities			
Interest received		51,004	47,876
Interest paid		(19,460)	(18,819)
Fees and commissions received		10,945	9,424
Fees and commissions paid		(1,240)	(2,473)
Realised gains less losses from dealing in foreign currencies		15,337	12,194
Other income received		836	2,814
Personnel expenses paid		(22,277)	(16,863)
Other operating expenses paid		(17,443)	(12,591)
Cash flows from operating activities before changes in operating assets and liabilities		17,702	21,562
<i>Net (increase) / decrease in operating assets</i>			
Precious metals		41	18
Amounts due from credit institutions		(5,664)	(7,735)
Loans to customers		(42,874)	20,206
Other assets		1,427	(2,007)
<i>Net increase / (decrease) in operating liabilities</i>			
Amounts due to credit institutions		(11,522)	14,828
Amounts due to customers		74,759	(42,178)
Other borrowed funds		(875)	(2,976)
Other liabilities		4,076	(5,732)
Net cash flows from operating activities before income tax		37,070	(4,014)
Income tax paid		(6,614)	(4,497)
Net cash flows from / (used in) operating activities		30,456	(8,511)
Cash flows from investing activities			
Purchase of property and equipment		(11,846)	(6,042)
Proceeds from sale of property and equipment		3,444	2,430
Proceeds from sale of assets held for sale		(761)	(1,403)
Net cash flows from / (used in) investing activities		(9,163)	(5,015)
Cash flows from financing activities			
Acquisition of non-controlling interests		-	(1,162)
Proceeds from debt securities issued		1,720	1,509
Dividends paid to shareholders of the Bank		(5,083)	(25,679)
Net cash flows from / (used in) financing activities		(3,363)	(25,332)
Effect of exchange rates changes on cash and cash equivalents		2,722	1,076
Net increase / (decrease) in cash and cash equivalents		20,652	(37,782)
Cash and cash equivalents, beginning	5	68,077	105,859
Cash and cash equivalents, ending	5	88,729	68,077

The accompanying notes on pages 5 to 31 are an integral part of these consolidated financial statements.

1. Principal activities

CJSC Bank "Ipotechniy" (the "Bank") is the parent company in the Group. It was formed on 20 December 1993 as a closed joint stock company under the laws of the Pridnestrovian Moldavian Republic ("PMR"). The Bank operates under a general banking license issued by the Pridnestrovian Republican Bank ("PRB") on 25 July 2000.

The Bank accepts deposits from the public and extends credit, transfers payments, exchanges currencies and provides other banking services to its commercial and retail customers. Its main office is in Tiraspol, and as at 31 December 2012 it has 4 branches, 5 operating outlets in Tiraspol, Bendery, Dubossary, Rybnitsa and Dnestrovsk and 42 currency exchange offices. The Bank's registered legal address is at 103-B, 25 Oktyabria Street, Tiraspol, Pridnestrovian Moldavian Republic.

Starting from 20 June 1996, the Bank is a member of the deposit insurance system. The insurance covers the Bank's liabilities to individual depositors for the amount up to USD 3,000 for each individual in case of business failure or revocation of the PRB banking license.

The company "Leasing Service" was formed by the Bank as a closed joint stock company under the laws of the Pridnestrovian Moldavian Republic on 17 August 1999. On 23 October 2000, the company was reorganised into IMT LLC. The company's principal activity is finance leases, advisory, real estate transactions. The company is a subsidiary of the Bank and was consolidated in these financial statements.

As at 31 December 2012 (2011, 2010), 4,876 (97.33%) shares of the Bank were owned by Goodhouse limited.

As at 31 December 2012 and 31 December 2011, the Group was actually controlled by the Head of the Bank's Council, Mr. D.B. Bashkatov (as at 31 December 2010 – Mr. V.B. Zadorin and Mr. P.B. Zadorin).

2. Basis of preparation

General

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The Group has transitioned to International Financial Reporting Standards ("IFRS") on 1 January 2011 using the provisions of IFRS 1, "First-time Adoption of International Financial Reporting Standards".

As a first-time adopter of IFRS, the Group applies IFRS 1 and has chosen the year ending 31 December 2011 to be the first year when the Bank adopts IFRS as issued by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB

The Bank's financial statements for the year ended 31 December 2012 were the first financial statements to be prepared by the Bank according to IFRS.

IFRS 1 requires first-time adopters to prepare an opening IFRS statement of financial position at the date of transition to IFRS. This is the starting point for its accounting under IFRS. According to IFRS 1, for companies adopting IFRS in 2012, the opening statement of financial position will be as at 1 January 2011, which is the beginning of the first comparative period included in their financial statements. In accordance with IFRS 1, the Bank applies the same accounting policies in its opening statement of financial position and throughout all periods presented in its first complete set of financial statements. Those accounting policies should comply with each IFRS effective at the reporting date for its first complete set of IFRS financial statements (i.e., as at 31 December 2012).

The Bank and its subsidiary are required to maintain their accounting records and prepare their financial statements for regulatory purposes in accordance with the PMR accounting standards ("PMRAS"). These consolidated financial statements for the year ended 31 December 2012 were the first financial statements to be prepared by the Bank and its subsidiary according to IFRS. These consolidated financial statements are based on PMRAS as adjusted and reclassified in order to comply with IFRS. These consolidated financial statements have been prepared under the historical cost convention.

These consolidated financial statements are presented in thousands of PMR Rubles ("PMRR"), unless otherwise indicated.

3. Summary of accounting policies

Basis of consolidation

Subsidiaries, which are those entities in which the Group has an interest of more than one half of the voting rights, or otherwise has power to exercise control over their operations, are consolidated. Subsidiaries are consolidated from the

date on which control is transferred to the Group and are no longer consolidated from the date that such control ceases. All intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated in full.

To prepare the PMRAS financial statements, the Bank does not consolidate its subsidiaries.

Investments in non-controlling interests

Investments in non-controlling interests are accounted for under the equity method and are initially recognised at the cost of acquisition, including goodwill, if the Group is able to exercise significant influence on the entity's operations.

Should the Group exercise no significant influence on the entity, such investments are accounted for at fair value. Should it be impossible to determine the fair value, such investments are accounted for at cost less any impairment.

Financial assets

Initial recognition

Financial assets in the scope of IAS 39 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 investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets upon initial recognition, and subsequently can reclassify financial assets in certain cases as described below.

The difference between the consideration, either paid or received, and fair value of the financial instruments issued at the rate below the market, is recognised in the consolidated statement of comprehensive income as loss or gains on initial recognition of financial instruments.

Date of recognition

All regular way purchases and sales of financial assets that require the delivery of assets within the period generally established by regulation or convention in the marketplace ("standard" sales and purchases) are recognised on the trade date, i.e. the date that the Bank receives or transfers the financial asset.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as trading securities or designated as investment securities available-for-sale. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the consolidated statement of comprehensive income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Determination of fair value

The fair value for financial instruments traded in 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.

For all other financial instruments not listed in an active market, the fair value is determined by using the appropriate valuation techniques. The valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, options pricing models and other relevant valuation models

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 realise the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the consolidated statement of financial position.

Reclassification of financial assets

Financial assets are reclassified at their fair value on the date of reclassification. Any gain or loss already recognised in the statement of comprehensive income is not reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortised cost, as applicable.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, amounts due from the PRB, excluding obligatory reserves, and amounts due from credit institutions that mature within ninety days of the date of origination and are free from contractual encumbrances.

Precious metals

Gold and other precious metals are recorded at the lower of the cost of acquisition and cost of sales and, less any sales expenses.

Borrowings

Issued 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 the PRB and Government, amounts due to credit institutions, amounts due to customers and debt securities issued. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the consolidated statement of comprehensive income when the borrowings are derecognised as well as through the amortisation process.

Leases***Operating – Group as a lessee***

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

Operating – Group as a lessor

The Group presents assets subject to operating leases in the consolidated statement of financial position according to the nature of the asset. Lease income from operating leases is recognised in the consolidated statement of comprehensive income on a straight-line basis over the lease term as other income.

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 the 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 the consolidated income statement. 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 future write-off is later recovered, the recovery is credited to the consolidated income statement.

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, whether or not foreclosure is probable.

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 timely payments.

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. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

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.

The accounting treatment of such restructuring is as follows:

- ▶ If the currency of the loan has been changed the old loan is derecognised and the new loan is recognised in the statement of financial position;
- ▶ If the loan restructuring is not caused by the financial difficulties of the borrower the Group uses the same approach as for financial liabilities described below;
- ▶ If the loan restructuring is due to the financial difficulties of the borrower and the loan is impaired after restructuring, the Group recognises the difference between the present value of the new cash flows discounted using the original effective interest rate and the carrying amount before restructuring in the impairment charges for the period. In case the loan is not impaired after restructuring the Group recalculates the effective interest rate.

Once the terms have been renegotiated, the loan is no longer considered past due. The management of the Bank continuously reviews the 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 individual or collective impairment assessment, and their recoverable amount is calculated using the loan's original effective interest rate.

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; or
- ▶ the Group has transferred its rights to receive cash flows from the asset or 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 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 the consolidated statement of comprehensive income.

Financial guarantees

In the ordinary course of business, the Group gives financial guarantees consisting of letters of credit and guarantees. Financial guarantees are initially recognised in the consolidated financial statements at fair value, in "Other liabilities", being the premium received. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amortised premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the consolidated statement of comprehensive income. The premium received is recognised in the consolidated statement of comprehensive income on a straight-line basis over the life of the guarantee.

Taxation

The current income tax expense is calculated in accordance with the regulations of the Pridnestrovian Moldavian Republic.

Deferred tax assets and liabilities are calculated in respect of all temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying 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.

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. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date.

The Pridnestrovian Moldavian Republic also has various operating taxes that are assessed on the Group's activities. These taxes are included as a component of other operating expenses.

Property and equipment

Property and equipment are carried at cost, excluding the costs of day-to-day servicing, less accumulated depreciation. Such cost includes the cost of replacing part of equipment when that cost is incurred if the recognition criteria are met.

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

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:

	<u>Years</u>
Buildings	50
Furniture and fixtures	5-15
Computers and office equipment	5-10
Motor vehicles	6-9

The residual value, estimated useful life and depreciation method are evaluated at the end of each annual reporting period and adjusted prospectively, if appropriate.

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

Intangible assets

Intangible assets include computer software and licenses.

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be finite. Intangible assets with finite lives are amortised over the useful economic lives of 1 to 3 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

Assets held for sale

The Group classifies a non-current asset (or a disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the non-current asset (or disposal group) must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups) and its sale must be highly probable.

The sale qualifies as highly probable if the Bank's management is committed to a plan to sell the non-current asset (or disposal group) and an active program to locate a buyer and complete the plan must have been initiated. Further, the non-current asset (or disposal group) must have been actively marketed for a sale at price that is reasonable in relation to its current fair value and in addition the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification of the non-current asset (or disposal group) as held for sale.

The Group measures an asset (or disposal group) classified as held for sale at the lower of its carrying amount and fair value less costs to sell. The Group recognises an impairment loss for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell if events or changes in circumstance indicate that their carrying amount may be impaired.

Retirement and other employee benefit obligations

The Group does not have any pension arrangements separate from the State pension system of the Pridnestrovian Moldavian Republic, 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. In addition, the Bank has no significant post-retirement benefits.

Share capital

Share capital

Ordinary shares and non-redeemable preference shares with discretionary dividends are both classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity.

Dividends

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 financial statements are authorised for issue.

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. The following specific recognition criteria must also be met before revenue is recognised:

Interest and similar income and expense

For all financial instruments 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. 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 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.

Foreign currency translation

The consolidated financial statements are presented in the PMR Rubles, which is the Group's functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange 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 the consolidated income statement as gains less losses from foreign currencies - translation differences. 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. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Differences between the contractual exchange rate of a transaction in a foreign currency and the Pridnestrovian Republican Bank's exchange rate on the date of the transaction are included in gains less losses from dealing in foreign currencies. The official PRB's exchange rates as at 31 December 2012, 2011 and 2010 were PMRR 11.1, PMRR 10.5 and PMRR 10.2 per one US Dollar (1 USD), respectively. The official PRB's exchange rates as at 31 December 2012, 2011 and 2010 were PMRR 14.672, PMRR 13.585 and PMRR 13.505 per one Euro (1 EUR), respectively. The official PRB's exchange rates as at 31 December 2012, 2011 and 2010 were PMRR 0.366, PMRR 0.327 and PMRR 0.335 per one Russian Ruble (1 RUR), respectively.

Future changes in accounting policies

Standards and interpretations issued but not yet effective

IFRS 9 Financial Instruments

IFRS 9, as issued, reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after 1 January 2013, but *Amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures*, issued in December 2011 moved the mandatory effective date to 1 January 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The Group will quantify the effect of the adoption of IFRS 9 in conjunction with the other phases, when issued, to present a comprehensive picture.

IFRS 10 Consolidated Financial Statements

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

IFRS 11 Joint Arrangements

IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. IFRS 11 supersedes

IAS 31 Interests in Joint Ventures and SIC-13 Jointly Controlled Entities—Non-Monetary Contributions by Venturers and is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. Currently the Group evaluates possible effect of the adoption of IFRS 11 on its financial position and performance.

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 is effective for annual periods beginning on or after 1 January 2013. IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. In particular, the Bank will need to disclose more information about the consolidated and unconsolidated structured entities with which it is involved or which it has sponsored. However, the standard will have no impact on the Group's financial position or performance.

IFRS 13 Fair Value Measurement

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

IAS 27 Separate Financial Statements (as revised in 2011)

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

IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)

As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed *IAS 28 Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

Amendments to IAS 19 Employee Benefits

The IASB has published amendments to *IAS 19 Employee Benefits*, effective for annual periods beginning on or after 1 January 2013, which involve major changes to the accounting for employee benefits, including the removal of the option for deferred recognition of changes in pension plan assets and liabilities (known as the "corridor approach"). In addition, these amendments will limit the changes in the net pension asset (liability) recognised in profit or loss to net interest income (expense) and service costs. These amendments will have no impact on the Group's financial position and performance.

Amendment to IAS 1 Changes to the Presentation of Other Comprehensive Income

The amendment to IAS 1 changes the grouping of items presented in other comprehensive income. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, net losses or gains on available-for-sale financial assets) would be presented separately from items that will never be reclassified (for example, revaluation of buildings). The amendment affects presentation only and has no impact on the Group's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012.

Amendments to IFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities

These amendments require an entity to disclose the information about the rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide the users with the information useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with *IAS 32 Financial Instruments: Presentation*. The disclosures also apply to the recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreements, irrespective of whether they are set off in accordance with IAS 32. These amendments will not impact the Group's financial position or performance and will become effective for annual periods beginning on or after 1 January 2013.

Amendments to IAS 32 – Offsetting Financial Assets and Financial Liabilities

These amendments clarify the meaning of "currently has a legally enforceable right to set-off". It will be necessary to assess the impact to the Group by reviewing settlement procedures and legal documentation to ensure that offsetting is still possible in cases where it has been achieved in the past. In certain cases, offsetting may no longer be achieved. In other cases, contracts may have to be renegotiated. The requirement that the right of set-off be available for all counterparties to the netting agreement may prove to be a challenge for contracts where only one party has the right to offset in the event of default.

The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. While many settlement systems are expected to meet the new criteria, some may not. As the impact of the adoption depends on the Group's

examination of the operational procedures applied by the central clearing houses and settlement systems it deals with to determine if they meet the new criteria, it is not practical to quantify the effects.

These amendments become effective for annual periods beginning on or after 1 January 2014.

Amendments to IFRS 1 – Government loans

These amendments require the first-time adopters to apply the requirements of *IAS 20 Accounting for Government Grants and Disclosure of Government Assistance*, prospectively to government loans existing at the date of transition to IFRS. The amendments will have no impact on the Group's financial statements.

Improvements to IFRS

The amendments are effective for annual periods beginning on or after 1 January 2013. They will not have an impact on the Group.

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

4. Significant accounting judgments and estimates

In the process of applying the Group's accounting policies, the management has used its judgments and made estimates in determining the amounts recognised in the financial statements. The most significant use of judgments and estimates are as follows:

Allowance for loan impairment

The Group regularly reviews its loans and receivables to assess impairment. The Group uses its experienced judgment to estimate the amount of any impairment loss in cases where a borrower is in financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Group estimates changes in future cash flows based on the observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. The management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans and receivables. The Group uses its experienced judgment to adjust observable data for a group of loans or receivables to reflect current circumstances.

Recognition of deferred tax assets

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. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date.

5. Cash and cash equivalents

Cash and cash equivalents comprise:

	2012	2011	2010
Cash on hand	33,446	25,906	39,005
Current accounts with the PRB	17,746	16,110	19,641
Current accounts with other credit institutions	37,537	26,061	47,213
Cash and cash equivalents	88,729	68,077	105,859

As at 31 December 2012, the amount equivalent to PMRR 28,294 thousand (2011: PMRR 20,663 thousand, 2010: PMRR 40,191 thousand) or 75% (2011: 5 or 79%, 2010: 5 or 85%) was placed on current accounts with five Russian banks, which are the main counterparties of the Group in performing international settlements.

6. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	2012	2011	2010
Obligatory reserves with the PRB	30,884	25,220	17,485

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

Obligatory reserves with the PRB consist of two funds: the obligatory insurance fund ("OIF") which depends on the amount of individuals' funds and the obligatory reserves fund ("ORF") which depends on the amount of legal entities' funds. When an insured event occurs, the payment is only possible from the OIF. The base rates of contributions to the obligatory reserves as at 31 December 2012 were as follows: OIF - 8% of the borrowings in foreign currencies, 0% - in national currency, ORF - 6% in national currency and 12% in foreign currency (2011: OIF - 4% in national and foreign currencies, ORF - 11% in national and foreign currencies, 2010: OIF - 4% in national and foreign currencies, ORF - 9% in the national and foreign currencies).

Obligatory reserves may be formed in PMR Roubles and foreign currency. The standard ratio of funds in PMRR and foreign currency is established by the Bank Board of the PRB. As at 31 December 2012, the ratio between national and foreign currency in the obligatory reserves was 36% and 64% (2011: 53% and 47%, 2010: 100% and 0%).

7. Loans to customers

Loans to customers comprise:

	2012	2011	2010
Corporate lending	180,710	189,644	211,191
Consumer lending	115,325	76,704	66,800
Residential mortgages	239	64	97
Gross loans to customers	296,274	266,412	278,087
Less – Allowance for impairment	(24,263)	(42,898)	(40,011)
Loans to customers	272,011	223,514	238,077

Allowance for impairment of loans to customers

A reconciliation of the allowance for impairment of loans to customers by class is as follows:

	Corporate lending 2012	Consumer lending 2012	Residential mortgages 2012	Total 2012
At 1 January 2012	42,141	757	-	42,898
(Reversal) / charge for the year	(19,448)	855	-	(18,593)
Amounts written off	-	(42)	-	(42)
At 31 December 2012	22,693	1,570	-	24,263
Individual impairment	20,910	563	-	21,473
Collective impairment	1,783	1,007	-	2,790
	22,693	1,570	-	24,263
Gross amount of loans, individually determined to be impaired, before deducting any impairment allowance	29,245	4,912	-	34,157

	Corporate lending 2011	Consumer lending 2011	Residential mortgages 2011	Total 2011
At 1 January 2011	39,078	933	-	40,011
(Reversal) / charge for the year	3,419	(10)	-	3,409
Amounts written off	(356)	(166)	-	(522)
At 31 December 2011	42,141	757	-	42,898
Individual impairment	41,973	377	-	42,351
Collective impairment	168	380	-	547
	42,141	757	-	42,898
Gross amount of loans, individually determined to be impaired, before deducting any impairment allowance	54,156	5,099	-	59,255

Individually impaired loans

Interest income accrued on loans, for which individual impairment allowances have been recognised, for the year ended 31 December 2012, comprised PMRR 2,806 thousand (2011: PMRR 1,448 thousand).

In accordance with the PRB requirements, loans may only be written off if the required and sufficient legal and actual actions have been taken for their recovery and enforcement of the rights arising from the availability of collateral on a loan. The loans write-off is substantiated if there are documents confirming the borrower's default for a period of not less than one year before the date of making a decision to write off.

In the event of writing off the loan, the amount of which exceeds one percent of the equity, the acts of state authorities (judicial acts, acts of judicial custodians, acts of the state registration authorities), proving the impossibility of collecting bad debts, are required.

Loans are written off under the authorized body decision – the Bank's Council.

Collateral and other credit enhancements

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

The main types of the collateral obtained are as follows:

- ▶ For commercial lending, charges over commercial and production properties;
- ▶ For retail lending, mortgages over residential properties.

Management monitors the value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the value of collateral obtained during its review of the adequacy of the allowance for loan impairment.

During the year, the Group took possession of the non-residential properties and equipment with the contractual value of PMRR 9,722 thousand. It is the Group's policy to dispose of repossessed properties and equipment in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Group does not occupy and does not use the repossessed properties and equipment for business use.

Concentration of loans to customers

As at 31 December 2012, the Group had a concentration of loans represented by PMRR 99,450 thousand due from ten largest groups of borrowers-related parties (34% of gross loan portfolio) (2011: PMRR 118,459 thousand (44% of gross loan portfolio), 2010: PMRR 117,368 thousand (42% of gross loan portfolio)). The allowance of PMRR 15,300 thousand (2011: PMRR 33,653 thousand, 2010: PMRR 29,093 thousand) was recognised against these loans.

Loans are made principally within the PMR in the following industry sectors:

	2012	2011	2010
Individuals	115,564	76,768	66,897
Trade	99,941	90,772	120,209
Manufacturing, transport, communications	38,882	53,059	62,670
Services	23,058	2,953	2,866
Construction	13,471	5,95	4,934
Agriculture and food processing	5,128	22,800	18,568
Housing and utilities	230	1,063	100
Budgetary organisations	-	-	1,822
Other	-	13,502	22
	296,274	266,867	278,088

As at 31 December 2011, "Other" includes the loan issued to the non-resident company.

8. Assets held for sale

	2012	2011	2010
Assets held for sale as at 1 January	779	155	-
Additions	770	779	155
Disposals	(779)	(155)	-
Assets held for sale as at 31 December	770	779	155

As at 31 December 2012, assets held for sale comprise the residential apartment (2011: non-residential premises, 2010: residential apartment). The Group intends to dispose these assets by the end of 2013.

9. Investments in non-controlling interests

Movement in investments in non-controlling interests was as follows:

Company	Ownership, %	Industry	Acquisition date
"SB – Universal systems of insurance"	19.99%	Insurance activities	9 December 2011

On 24 November 2011 and 9 December 2011, the Group acquired 19.99% of the company "SB - Universal systems of insurance". The purpose of acquisition was to get access to the insured events base of the company for the identification of insolvent borrowers in the market. As at 31 December 2012, the Group was not represented in the governing body of the company and was not able to influence the operating policies of the company and profits distribution. On 28 June 2013, the Group introduced its representative into the governing body of the company (the Company's Supervisory Board).

Insofar as the fair value of the investment can not be measured reliably, the Group continues to recognize it at cost, net of impairment.

10. Property, plant and equipment

The movements in property and equipment were as follows:

	<i>Buildings</i>	<i>Furniture and fixtures</i>	<i>Computers and office equipment</i>	<i>Motor vehicles</i>	<i>Assets under construction</i>	<i>Total</i>
Cost						
31 December 2011	3,836	2,912	4,624	6,771	-	18,143
Additions	21,614	1,496	3,708	3,769	208	30,795
Disposals	(161)	(491)	(94)	(6,125)	-	(6,871)
31 December 2012	25,289	3,917	8,238	4,415	208	42,067
Accumulated depreciation						
31 December 2011	699	2,112	3,149	1,504		7,464
Depreciation charge	225	467	442	362		1,496
Disposals	(3)	(64)	(81)	(674)		(822)
31 December 2012	921	2,515	3,510	1,192		8,138
Net book value						
31 December 2011	3,138	800	1,476	5,267	-	10,679
31 December 2012	24,368	1,402	4,728	3,223	208	33,929

	<i>Buildings</i>	<i>Furniture and fixtures</i>	<i>Computers and office equipment</i>	<i>Motor vehicles</i>	<i>Assets under construction</i>	<i>Total</i>
Cost						
31 December 2010	6,838	3,158	3,761	2,217	-	15,974
Additions	177	575	1,097	4,626	-	6,475
Disposals	(3,179)	(821)	(234)	(72)	-	(4,306)
31 December 2011	3,836	2,912	4,624	6,771	-	18,143
Accumulated depreciation:						
31 December 2010	1,152	2,159	3,113	1,224		7,648
Depreciation charge	171	366	265	354		1,156
Disposals	(624)	(413)	(229)	(74)		(1,340)
31 December 2011	699	2,112	3,149	1,504		7,464
Net book value						
31 December 2010	5,686	999	648	993	-	8,326
31 December 2011	3,137	800	1,475	5,267	-	10,679

11. Taxation

The corporate income tax expense comprises:

	2012	2011
Current tax charge	6,614	4,497
Deferred tax credit – origination and reversal of temporary differences	(498)	(220)
Income tax expense	6,116	4,277

Commercial banks in the PMR are required to pay tax on income, which consists of two parts: income from sales (sales of services) and other operating income (rental income, fines, penalties, proceeds from the sale of property and equipment).

Banks have to file individual income tax assessment to the tax authorities. The standard rate of tax on income from sales comprised 12% in 2010-2012. The standard rate of tax on other operating income comprised 6.5% in 2010-2012.

When calculating the taxable base, revenues are reduced by the amount of expenses associated with the attraction of credit resources and the cost of trade in foreign currency. Also, the taxable base is reduced by the cost of production and non-production capital investment and contributions to the risk fund (credit risk reserves) in the amount of 30% of the taxable base.

Income (including dividends) on shares, stocks and other securities, interest on loans, income on deposit and other accounts with banks received by non-resident entities are not subject to taxation.

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

	2012	2011
Profit before tax	35,739	15,898
Statutory tax rate	12%	12%
Theoretical income tax expense at the statutory rate	4,289	1,908
Non-deductible expenditures	1,857	4,077
Change in unrecognised deferred tax assets	(30)	(1,708)
Income tax expenses	6,116	4,277

Deferred tax assets and liabilities as at 31 December and their movements for the respective years comprise:

	<i>2010</i>	<i>Origination and reversal of temporary differences in the statement of comprehensive income</i>	<i>2011</i>	<i>Origination and reversal of temporary differences in the statement of comprehensive income</i>	<i>2012</i>
Tax effect of temporary differences:					
Accrued interest expenses, other liabilities	62	-	62	52	114
Allowance for impairment	3,854	(1,708)	2,146	(30)	2,116
Unamortised discounts on loans	1,162	274	1,436	280	1,716
Deferred tax assets	5,078	(1,434)	3,644	302	3,946
Unrecognised deferred tax asset	(3,854)	1,708	(2,146)	30	(2,116)
Deferred tax assets, net	1,224	274	1,498	332	1,830
Tax effect of temporary differences:					
Accrued interest income	(117)	(202)	(319)	142	(177)
Unamortised premium on funds attracted	(316)	148	(168)	24	(144)
Deferred tax liability	(433)	(54)	(487)	166	(321)
Deferred tax asset	719	220	1,011	498	1,509

12. Other assets and liabilities

Other assets comprise:

	2012	2011	2010
Reposessed assets	8,948	-	-
Prepayments	2,032	2,390	401
Inventories	888	683	567
Advance payments on dividends (Note 17)	-	23,763	-
Other	371	140	95
Other assets	12,239	26,976	1,063

Reposessed assets include equipment reposessed by the Group as loan debt repayment in 2012.

Other liabilities comprise:

	2012	2011	2010
Unused vacation reserve	1,039	686	625
Advance payments for assets and services	813	514	353
Transit accounts	392	258	134
Deferred income	99	48	40
Settlements on salary	21	13	1,112
Dividends payable to the Bank's shareholders	-	-	1,844
Liabilities to the budget	5	4	675
Other liabilities	2,369	1,523	4,783

Transit accounts are used for transactions with payment cards.

13. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	2012	2011	2010
Current accounts	482	8,547	29
Time deposits and loans	12,765	15,192	8,976
Amounts due to credit institutions	13,247	23,740	9,005

14. Amounts due to customers

Amounts due to customers comprise:

	2012	2011	2010
Time deposits	279,103	202,774	234,150
Current accounts	103,078	88,779	92,842
Amounts due to customers	382,181	291,553	326,992

At 31 December 2012, amounts due to customers of PMRR 51,700 thousand (14%) were due to the ten largest customers (2011: PMRR 38,468 thousand (13%), 2010: PMRR 37,249 thousand (11%)).

Included in time deposits are deposits of individuals in the amount of PMRR 266,527 thousand (2011: PMRR 192,733 thousand, 2010: PMRR 232,321 thousand). In accordance with the Civil Code, the Group is obliged to repay such deposits upon demand of a depositor. In case a term deposit is repaid upon demand of the depositor prior to maturity, interest on it is paid based on the interest rate for demand deposits, unless a different interest rate is specified in the agreement.

The analysis of customer accounts by economic sector is as follows:

	2012	2011	2010
Individuals	288,589	218,915	259,465
Trade	44,627	27,053	19,595
Manufacturing, transport and communications	24,433	12,318	7,470
Construction	9,540	5,965	7,243
Services	4,106	2,785	2,696
Insurance	3,641	4,380	8,816
Health care	3,564	3,991	3,933
Public organisations	1,581	1,074	859
Agriculture	641	651	2,957
Housing and utilities	267	2,011	1,594
Budgetary organisations	75	8,595	4,018
Fuel and energy industry	-	1,041	2,868
Other	1,117	2,774	5,478
Amounts due to customers	382,181	291,553	326,992

15. Debt securities issued

Debt securities issued consisted of the following:

	2012	2011	2010
Promissory notes	4,137	2,179	612

As of 31 December 2012, the Group had issued promissory notes having an aggregate nominal value of PMRR 3,985 thousand (2011: PMRR 2,153 thousand, 2010: PMRR 612 thousand). As at 31 December 2012, debt securities bear annual interest rates ranging from 5% to 9% p.a. (2011: from 5% to 7% p.a. 2010: 9% p.a.).

16. Other borrowed funds

Other borrowed funds comprise:

	2012	2011	2010
Other borrowings	5,308	5,249	6,928
Other borrowed funds	5,308	5,249	6,928

Included in other borrowings are loans received from the Russian Fund "State Reserve of PMR", which are used by the Group for the directed lending of agricultural companies and small business enterprises.

17. Equity

Movements in shares outstanding, issued and fully paid were as follows:

	<i>Number of ordinary shares</i>	<i>Nominal value</i>
31 December 2010	<u>5,010</u>	<u>42,335</u>
31 December 2011	<u>5,010</u>	<u>42,335</u>
31 December 2012	<u><u>5,010</u></u>	<u><u>42,335</u></u>

The number of authorised ordinary shares are 5,010 (2011: 5,010, 2010: 5,010) with a nominal value per share of USD 1,000. All authorised shares have been issued and fully paid.

The share capital of the Bank was contributed by the shareholders in USD, at that the shareholders residents of the PMR are entitled to dividends in PMRR, and the shareholders non-residents of the PMR are entitled to dividends in foreign currency.

Based on the Decision of the Bank's Council of 27 December 2011, in order to reduce the inflation costs of shareholders caused by the expected devaluation of the national currency, as defined in the "Monetary Policy of the PMR for 2012", on 29 December 2011, the Bank paid dividends to shareholders in advance in the amount of USD 2,263 thousand (PMRR 23,762 thousand).

At the Shareholders' Meeting in April 2012, the Bank declared dividends for the 1Q of 2012 totalling PMRR 24,966 thousand. At the Shareholders' Meeting in November 2012, the Bank declared dividends for the 2Q-3Q of 2012, totalling PMRR 3,880 thousand.

Statutory general reserve

The statutory general reserve is created as required by the regulations in respect of general banking risks, including future losses and other unforeseen risks or contingencies. The reserve has been created in accordance with the Bank's Charter, which provides for the creation of a reserve for these purposes of not less than 5% of the Bank's share capital.

18. Political and economic environment, commitments and contingencies

Political and economic environment

The Group is registered and carries out its operations in the Prednistrovian Moldavian Republic (PMR), which declared its independence from the Republic of Moldova in 1991.

High risks of PMR due to the non-recognition of its status in the international community and political conflict with the Republic of Moldova impede investments in the PMR's economy and significantly limit the Group's access to the international capital markets. Any change in the status of PMR in the future could have a material impact on its economy, legislation (including in the area of property rights) and, as a consequence, the possibility of continuing normal operating activities of the Group.

At the same time, PMR implements economic reforms and steps to develop the legal, tax and regulatory framework, which would meet the requirements of a market economy. In addition to maintaining the political status, the economic stability of PMR is largely dependent upon the development of these reforms and the effectiveness of the Government's actions in the field of economy, financial and monetary policies. The Government is focusing on restoring the economic growth, improving its efficiency, supporting the national currency, maintaining the controlled inflation, reducing the foreign trade deficit and state budget deficit.

For many years, Russia has been the main trading partner of the PMR, the main investor in its economy, as well as the main creditor of the Government of the PMR. Thus, the economy of PMR is dependent on the fluctuations and economic development in neighbouring countries, first of all, the Russian economy and the economies of Ukraine and a number of EU countries. The management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances.

Litigation

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

Taxation

The Group's business activity is carried out in the PMR. The tax legislation as currently in effect is vaguely drafted and is subject to varying interpretations, selective and inconsistent application and changes, which can occur frequently, at short notice and may apply retrospectively. The management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the tax authorities at any time in the future. It is possible that transactions and activities of the Group that have not been challenged in the past may be challenged. As a result, significant additional taxes, penalties and interest may be assessed by the relevant authorities.

Fiscal periods remain open and subject to review by the tax authorities for a period of three calendar years immediately preceding the year in which the decision to conduct a tax review is taken. Under certain circumstances tax reviews may cover longer periods.

As at 31 December 2012, the management believes that its interpretation of the relevant legislation is appropriate and that the Group's tax, currency and customs positions will be sustained.

Commitments and contingencies

As at 31 December, the Group's commitments and contingencies comprised the following:

	2012	2011	2010
Credit related commitments			
Guarantees	-	1,113	6,124
	-	1,113	6,124
Operating Finance lease liabilities			
Not later than 1 year	355	149	50
Later than 1 year but not later than 5 years	2	357	507
Later than 5 years	-	-	-
	357	1,619	6,681
Commitments and contingencies	357	1,619	6,681

19. Net fee and commission income

Net fee and commission income comprises:

	2012	2011
Settlement operations	10,458	8,658
Cash collection	483	743
Other	4	23
Fee and commission income	10,945	9,424
Credit operations insurance	(948)	(2,145)
Settlement operations	(269)	(210)
Other	(23)	(118)
Fee and commission expenses	(1,240)	(2,473)
Net fee and commission income	9,705	6,951

20. Other income

	2012	2011
Gain on disposal of property and equipment and intangible assets	341	1,130
Income on sale of coins	161	98
Fines, penalties, forfeits received	126	25
Income on operating lease	110	19
Income on insurance premiums received	-	1,435
Other	102	107
Total other income	840	2,814

21. Personnel and other operating expenses

Personnel and other operating expenses comprise:

	2012	2011
Salaries and bonuses	18,475	13,569
Social security costs	4,155	3,355
Personnel expenses	22,630	16,924
Legal and consultancy	7,868	6,000
Marketing and advertising	2,172	301
Repair and maintenance of property and equipment	1,488	1,074
Security	1,425	1,825
Communications	1,064	838
Occupancy and rent	992	710
Operating expenses	498	452
Office supplies	314	336
Personnel training	274	31
Charity	226	518
Business travel and related	162	44
Entertainment	115	64
Other	848	398
Other operating expenses	17,446	12,591

22. Risk management**Introduction**

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

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

Risk management structure

The Bank's Council is ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks.

Bank's Council

The Bank's Council is responsible for the overall risk management approach and for approving the risk strategies and principles.

Management Board

The Management Board has the responsibility to monitor the overall risk process within the Group. It is responsible for implementing and maintaining risk related procedures to ensure an independent control process.

Bank Treasury

The Bank Treasury is responsible for managing the Group's assets and liabilities and the overall financial structure. It is also primarily responsible for the funding and liquidity risks of the Group.

Internal audit

Risk management processes throughout the Group are audited annually by the internal audit function, that examines both the adequacy of the procedures and the Group's compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Bank's Council.

Risk measurement and reporting system

The Group's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment.

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Management Board. The report includes aggregate credit exposure, credit metric forecasts, liquidity ratios and risk profile changes. Senior management assesses the appropriateness of the allowance for credit losses on a monthly basis. The Bank's Council receives a comprehensive risk report once a year which is designed to provide all the necessary information to assess and conclude on the risks of the Bank.

A daily briefing is given to the Management Board and other relevant employees on the utilisation of market limits, proprietary investments, liquidity and credit risks.

Risk mitigation

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

The Bank actively uses collateral to reduce its credit risks.

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry.

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

Credit risk

Credit risk is the risk that the Bank will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations. The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties.

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process allows the Bank to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Bank internal credit ratings. The table below shows the credit quality by class of asset for loan-related lines in the statement of financial position, based on the Bank's credit rating system.

In the table below loans to banks and customers of high grade are those having a minimal level of credit risk, normally with a credit rating on or close to sovereign level or very well collateralized. Other borrowers with good financial position and good debt service are included in the standard grade. Sub-standard grade comprises loans below standard grade but not individually impaired.

	<i>Notes</i>	<i>Neither past due nor impaired</i>			<i>Past due but not impaired</i>	<i>Individually impaired</i>	<i>Total</i>
		<i>High grade</i>	<i>Standard grade</i>	<i>Sub-standard grade</i>			
		<i>2012</i>	<i>2012</i>	<i>2012</i>	<i>2012</i>	<i>2012</i>	<i>2012</i>
Amounts due from credit institutions	6	30,884	-	-			
Loans to customers	7						
Corporate lending		13,801	17,623	101,727	18,314	29,245	180,710
Consumer lending		103,768	653	4,393	1,599	4,912	115,325
Residential mortgages		238	-	1	-	-	239
		117,807	18,276	106,121	19,913	34,157	296,274
Total		148,691	18,276	106,121	19,913	34,157	327,158

	Notes	<i>Neither past due nor impaired</i>					Total 2011
		High grade 2011	Standard grade 2011	Sub-standard grade 2011	Past due but not impaired 2011	Individually impaired 2011	
Amounts due from credit institutions	6	25,220	-	-	-	-	25,220
Loans to customers	7						
Corporate lending		19,622	34,484	81,117	265	54,156	189,644
Consumer lending		70,293	289	131	892	5,099	76,704
Residential mortgages		64	-	-	-	-	64
Total		115,199	34,773	81,248	1,157	59,255	

	Notes	<i>Neither past due nor impaired</i>					Total 2010
		High grade 2010	Standard grade 2010	Sub-standard grade 2010	Past due but not impaired 2010	Individually impaired 2010	
Amounts due from credit institutions	6	17,485	-	-	-	-	17,485
Loans to customers	7						
Corporate lending		8,999	15,493	127,522	-	59,177	211,191
Consumer lending		61,935	-	1,229	262	3,373	66,799
Residential mortgages		97	-	-	-	-	97
Total		88,516	15,493	128,751	262	62,550	295,572

Past due loans to customers include those that are only past due by a few days. The analysis of past due loans, by age, is provided below. The majority of the past due loans are not considered to be impaired.

It is the Bank's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Bank's rating policy. The attributable risk ratings are assessed and updated regularly.

Aging analysis of past due but not impaired loans per class of financial assets

	<i>Less than 30 days 2012</i>	<i>31 to 60 days 2012</i>	<i>61 to 90 days 2012</i>	<i>More than 90 days 2012</i>	<i>Total 2012</i>
Loans to customers					
Corporate lending	18,083	-	-	230	18,314
Consumer lending	420	222	101	856	1,599
Residential mortgages	-	-	-	-	-
Total	18,503	222	101	1,086	19,913
	<i>Less than 30 days 2011</i>	<i>31 to 60 days 2011</i>	<i>61 to 90 days 2011</i>	<i>More than 90 days 2011</i>	<i>Total 2011</i>
Loans to customers					
Corporate lending	219	-	-	46	265
Consumer lending	576	121	165	29	892
Residential mortgages	-	-	-	-	-
Total	795	121	165	75	1,156
	<i>Less than 30 days 2010</i>	<i>31 to 60 days 2010</i>	<i>61 to 90 days 2010</i>	<i>More than 90 days 2010</i>	<i>Total 2010</i>
Loans to customers					
Corporate lending	-	-	-	-	-
Consumer lending	-	-	-	262	262
Residential mortgages	-	-	-	-	-
Total	-	-	-	262	262

See Note 7 for more detailed information with respect to the allowance for impairment of loans to customers.

Impairment assessment

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than 7 days or there was any debt restructuring on loan transactions due to the deterioration of the client's financial position, an enforcement procedure has been initiated against the client, the client bankruptcy procedure has been initiated. The Bank addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

Individually assessed allowances

The Bank determines the allowances appropriate for each individually significant loan or advance on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the realisable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Collectively assessed allowances

Allowances are assessed collectively for losses on loans to customers that are not individually significant and for individually significant loans where there is not yet objective evidence of individual impairment. Allowances are evaluated on each reporting date.

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is no yet objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration the historical losses on the portfolio.

The geographical concentration of monetary assets and liabilities is set out below:

	2012			2011			2010		
	PMR	Other countries	Total	PMR	Other countries	Total	PMR	Other countries	Total
Assets									
Cash and cash equivalents	51,192	37,537	88,729	53,055	15,022	68,077	58,646	47,213	105,859
Amounts due from credit institutions	30,884	-	30,884	25,220	-	25,220	17,485	-	17,485
Loans to customers	272,011	-	272,011	212,186	11,328	223,514	215,040	23,037	238,077
Other assets	2,403	-	2,403	3,167	23,126	26,293	496	-	496
	356,490	37,537	394,027	293,628	49,476	343,104	291,667	70,250	361,917
Liabilities									
Amounts due to credit institutions	13,247	-	13,247	23,740	-	23,740	9,005	-	9,005
Amounts due to customers	372,694	9,487	382,181	281,438	10,115	291,533	314,284	12,708	326,992
Debt securities issued	4,137	-	4,137	2,179	-	2,179	612	-	612
Other borrowed funds	-	5,308	5,308	-	5,249	5,249	-	6,928	6,928
Other liabilities	1,205	-	1,205	772	-	772	487	-	487
	391,283	14,795	406,078	308,129	15,364	323,473	324,388	19,636	344,024
Net assets/(liabilities)	(34,793)	22,742	(12,051)	(14,501)	34,112	19,631	(32,721)	50,614	17,893

Liquidity risk and funding management

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The liquidity position is assessed and managed by the Group based on certain liquidity ratios established by the PRB. As at 31 December, these ratios were as follows:

	2012, %	2011, %	2010, %
N2.1 "Instant Liquidity Ratio" (assets receivable or realisable within one day / liabilities repayable on demand: minimum 20%)	89.45%	74.75%	139.03%
N2.2 "Current Liquidity Ratio" (assets receivable or realisable within 30 days / liabilities repayable within 30 days: minimum 50%)	69.65%	55.31%	89.68%
N2.3 "Long-Term Liquidity Ratio" (assets receivable in more than one year / liabilities repayable in more than one year: maximum 120%)	86.35%	92.40%	96.63%

Analysis of financial liabilities by remaining contractual maturities

The table below summarizes the maturity profile of the Group's financial liabilities at 31 December 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 and the table does not reflect the expected cash flows indicated by the Group's deposit retention history.

Financial liabilities As at 31 December 2012	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Amounts due to credit institutions	13,439	74	-	-	13,513
Amounts due to customers	162,208	181,465	66,833	9	410,515
Debt securities issued	2,428	599	1,110	-	4,137
Other borrowed funds	2	711	5,801	-	6,514
Other liabilities	2,369	-	-	-	2,369
Total undiscounted financial liabilities	178,018	182,250	72,634	9	432,911

Financial liabilities As at 31 December 2011	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Amounts due to credit institutions	9,006	1,385	15,939	-	26,330
Amounts due to customers	149,853	100,806	66,241	73	316,973
Debt securities issued	-	-	2,179	-	2,179
Other borrowed funds	7	617	6,068	-	6,692
Other liabilities	1,523	-	-	-	1,523
Total undiscounted financial liabilities	160,389	102,808	90,427	73	353,697

Financial liabilities As at 31 December 2010	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Amounts due to credit institutions	8,529	757	-	-	9,286
Amounts due to customers	158,487	144,761	51,471	9	354,728
Debt securities issued	-	612	-	-	612
Other borrowed funds	15	47	9,653	-	9,715
Other liabilities	4,783	-	-	-	4,783
Total undiscounted financial liabilities	171,814	146,177	61,124	9	379,124

The table below shows the contractual expiry by maturity of the Group's financial commitments and contingencies. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
2011	1,113	-	-	-	1,113
2010	6,124	-	-	-	6,124

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

The Group's capability to repay its liabilities relies on its ability to realise an equivalent amount of assets within a certain period of time.

The maturity analysis does not reflect the historical stability of current accounts. Their liquidation has historically taken place over a longer period than indicated in the tables above. These balances are included in amounts due in less than three months in the tables above.

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 and The market risk is managed and monitored using the sensitivity analysis. Except for the concentrations within foreign currency, the Bank has no significant concentration of market risk.

Interest rate risk

The interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Group's statement of comprehensive income.

The sensitivity of the statement of comprehensive income is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities with floating interest rate. The sensitivity of equity is calculated by revaluing fixed rate available-for-sale financial assets for the effects of the assumed changes in interest rates based on the assumption that there are parallel shifts in the yield curve.

Currency	Increase/(decrease) in basis points 2011	Sensitivity of net interest income 2011	Sensitivity of equity 2011
RUR	30% / (-30%)	15 / (15)	15 / (15)
EUR	30% / (-30%)	5 / (5)	5 / (5)
USD	30% / (-30%)	1 / (1)	1 / (1)

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Positions are monitored on a daily basis.

The table below indicates the currencies to which the Group had significant exposure at 31 December on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the PMR Rouble on the statement of comprehensive income (due to the fair value of currency sensitive non-trading monetary assets and liabilities). The effect on equity does not differ from the effect on the statement of comprehensive income. The negative amount in the table reflects a potential net reduction in the statement of comprehensive income or equity, while the positive amount reflects a net potential increase.

Currency	Change in currency rate in % 2012	Effect on profit before tax 2012	Change in currency rate in % 2011	Effect on profit before tax 2011
USD	30%	9	30%	8
EUR	30%	47	30%	44
RUR	30%	157	30%	(30)

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Group cannot expect to eliminate all operational risks, but a control framework and monitoring and responding to potential risks could be effective tools to manage the risks. Controls should include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit

23. Maturity analysis of assets and liabilities

The table below shows the analysis of assets and liabilities according to when they are expected to be recovered or settled. See Note 22 "Risk management" for the Group's contractual undiscounted repayment obligations.

	2012			2011			2010		
	Within one year	More than one year	Total	Within one year	More than one year	Total	Within one year	More than one year	Total
Cash and cash equivalents	88,729	-	88,729	68,077	-	68,077	105,859	-	105,859
Precious metals	40	-	40	80	-	80	98	-	98
Amounts due from credit institutions	-	30,884	30,884	-	25,220	25,220	-	17,485	17,485
Loans to customers	144,527	127,484	272,011	114,943	108,571	223,514	130,814	107,263	238,077
Assets held for sale	770	-	770	779	-	779	155	-	155
Restricted cash to be contributed to the share capital	3,330	-	3,330	-	-	-	-	-	-
Investments in non-controlling interests	-	1,162	1,162	-	1,162	1,162	-	-	-
Property and equipment	-	33,929	33,929	-	10,679	10,679	-	8,326	8,326
Intangible assets	-	-	-	-	-	-	-	15	15
Deferred income tax assets	-	1,509	1,509	-	1,011	1,011	-	791	791
Other assets	12,239	-	12,239	26,976	-	26,976	1,063	-	1,063
Total	249,635	194,968	444,603	210,855	146,643	357,498	237,989	133,880	371,869
Amounts due to credit institutions	13,247	-	13,247	23,740	-	23,740	9,005	-	9,005
Amounts due to customers	323,333	58,848	382,181	233,515	58,038	291,553	277,431	49,561	326,992
Debt securities issued	2,418	1,719	4,137	-	2,179	2,179	612	-	612
Other borrowed funds	677	4,631	5,308	527	4,722	5,249	-	6,928	6,928
Other liabilities	2,369	-	2,369	1,523	-	1,523	4,783	-	4,783
Total	342,044	65,198	407,242	259,305	64,939	324,244	291,831	56,489	348,320
Net	(92,409)	129,770	37,361	(48,450)	81,704	33,254	(53,842)	77,391	23,549

The Group's capability to repay its liabilities relies on its ability to realise an equivalent amount of assets within a certain period of time. The table above shows a significant deficit in the period less than one year due to the high concentration of individual deposits with the original maturity less than one year. Any significant withdrawal of these funds would have an adverse impact on the operations of the Group. Management believes that this level of funding will remain with the Group for the foreseeable future and that in the event of withdrawal of funds, the Group would be given sufficient notice so as to realise its liquid assets to enable repayment.

The maturity analysis does not reflect the historical stability of current accounts and short-term deposits. Their liquidation has historically taken place over a longer period than indicated in the table above. These balances are included in amounts due within one year in the table above.

24. Related party disclosures

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.

The outstanding balances of related party transactions as at the end of the reporting period are as follows:

	2012			
	Parent	Entities under	Key	Other related parties
		common control	management personnel	
Loans outstanding at 1 January, gross	3,832	26,377	-	249
Loans issued during the year	962	11,440	2,629	2,106
Loan repayments during the year	(983)	(16,861)	-	(51)
Loans outstanding at 31 December, gross	3,811	20,956	2,629	2,304
Less: allowance for impairment at 31 December	(2)	(13)	(2)	(1)
Loans outstanding at 31 December, net	3,809	20,943	2,627	2,303
Deposits at 1 January	-	6,006	-	-
Deposits received during the year	3,015	343	-	-
Deposits repaid during the year	-	-	-	-
Deposits at 31 December	3,015	6,349	-	-
Current accounts at 31 December	3,678	385	236	1
Other liabilities at 31 December	-	-	-	-
	2011			
	Parent	Entities under	Key	Other related parties
		common control	management personnel	
Loans outstanding at 1 January, gross	2,220	26,908	43	17
Loans issued during the year	2,395	26,377	-	249
Loan repayments during the year	(783)	(26,908)	(43)	(17)
Loans outstanding at 31 December, gross	3,832	26,377	-	249
Less: allowance for impairment at 31 December	(2)	(16)	-	-
Loans outstanding at 31 December, net	3,830	26,361	-	249
Deposits at 1 January	-	-	-	-
Deposits received during the year	-	6,006	-	-
Deposits repaid during the year	-	-	-	-
Deposits at 31 December	-	6,006	-	-
Current accounts at 31 December	5,046	246	192	-
Other liabilities at 31 December	23,763	-	-	-

The income and expense arising from related party transactions are as follows:

	For the year ended 31 December							
	2012				2011			
	Parent	Entities under common control	Key management personnel	Other related parties	Parent	Entities under common control	Key management personnel	Other related parties
Interest income on loans	674	3,063	41	45	607	815	-	36
Loss on initial recognition of financial assets	(38)	(8,184)	(289)	(737)	(235)	(6,987)	-	-
Interest expense on deposits	5	224	-	-	-	203	-	-

The Group considers the related party transactions significant if their amount exceeds 1% of the balance-sheet total.

As at 31 December 2012, significant loans in EUR to entities under common control with the Group amount to the equivalent of PMRR 5,599 thousand. The loans were granted under the nominal interest rate of 7% per annum,

maturing in 2015. Loans in USD to entities under common control in the amount equivalent to PMRR 19,466 thousand were issued under the nominal interest rate of 7% maturing in 2014 and 2015. The effective interest rates on these significant lending transactions in 2012 were within the range of 17-23%.

As at 31 December 2011, significant loans to entities under common control were issued in USD for the amount equivalent to PMRR 32,032 thousand under the nominal interest rate of 7-9% maturing in 2014. The effective interest rates on these significant lending transactions in 2011 were within the range of 17-20%.

As at 31 December 2010, significant loans to entities under common control were issued in USD for the amount equivalent to PMRR 28,611 thousand under the nominal interest rate of 10% per annum maturing in 2011-2013. The effective interest rates on these significant lending transactions in 2010 were within the range of 17-20%.

Compensation of key management personnel was comprised of the following:

	<u>2012</u>	<u>2011</u>
Salaries and other short-term benefits	3,758	2,349
Social security costs	886	560
Total key management personnel compensation	<u>4,626</u>	<u>2,909</u>

Subsidiaries

The consolidated financial statements include the following subsidiary:

2010-2012

Subsidiary	<u>Ownership, %</u>	<u>Country</u>	<u>Date of incorporation</u>	<u>Industry</u>
IMT LLC	100%	PMR	17/08/1999	Financial services

25. Capital adequacy

The Group maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Group's capital is monitored using, among other measures, the ratios established by the Basel Capital Accord 1988 and the ratios established by the PRB in supervising the Group.

During the past two years, the Group had complied in full with all its externally imposed capital requirements.

The primary objectives of the Group's 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.

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

PRB capital adequacy ratio

The PRB requires banks to maintain a capital adequacy ratio of 8% of risk-weighted assets. As of 31 December 2012 and 2011, the Bank's capital adequacy ratio on this basis was as follows:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Main capital	58,236	54,885	53,066
Additional capital	3,912	4,253	1,235
Less: deductions from capital	(88)	(1,856)	(29,395)
Total capital	<u>62,060</u>	<u>57,282</u>	<u>29,906</u>
Risk weighted assets	<u>175,639</u>	<u>153,462</u>	<u>168,538</u>
Capital adequacy ratio	35.33%	37.33%	17.74%

Capital adequacy ratio under Basel Capital Accord 1988

The Bank's capital adequacy ratio, computed in accordance with the Basel Capital Accord 1988, as at 31 December 2012, 2011 and 2010, comprised:

	2012	2011	2010
Tier 1 capital	34,031	33,254	23,549
Tier 2 capital	-	-	-
Total capital	34,031	33,254	23,549
Risk weighted assets	335,886	269,903	260,066
Tier 1 capital adequacy ratio	10.13%	12.32%	9.06%
Total capital adequacy ratio	10.13%	12.32%	9.06%

26. Impact of transition to IFRS

The following table explains the principal adjustments made by the Bank in restating its NAR statement of financial position as at 1 January 2011, 31 December 2011 and 31 December 2012 and its previously published NAR statement of financial performance for the year ended 31 December 2011 and 31 December 2012 :

	<i>Accumulated deficit as at 1 January 2011</i>	<i>Profit / (loss) for the year ended 31 December 2011</i>	<i>Accumulated deficit at 31 December 2011</i>	<i>Profit for the year ended 31 December 2012</i>	<i>Accumulated deficit as at 31 December 2012</i>
National accounting regulations (unaudited)	18,690	(2,251)	14,523	31,349	17,026
Allowance for loan impairment	(32,119)	14,237	(17,882)	259	(17,623)
Accrued interest on loans	(6,718)	6,690	(28)	7,223	7,195
Accrued interest on deposits and borrowings	1,054	(9,454)	(8,400)	(11,208)	(19,608)
Personnel expense and unused vacation allowance	(2,605)	1,919	(686)	516	(170)
Deferred tax	791	220	1,011	401	1,412
Administrative expenses cut-off	(113)	45	(68)	(148)	(216)
Depreciation of property and equipment	(51)	-	(51)	-	(51)
Other accruals	(270)	215	(55)	993	938
IFRS	(21,341)	11,621	(11,636)	29,385	(11,097)

27. Events after the reporting period

In January 2013, the Bank issued additional 300 shares with nominal value of USD 1,000 per share. The shares were purchased by a new shareholder, an individual D.B. Bashkatov, at the nominal value.

In June 2013, the Bank issued additional 171 shares with nominal value of USD 1,000 per share. 21 shares were purchased by the existing shareholder of TIRAET CJSC at the nominal value. The remaining 150 shares were purchased by a new shareholder, an individual N. Tomai, at the nominal value.