LLC "VTB Capital Finance"

Financial Statements

Year ended 31 December 2012
Together with Independent Auditors' Report

Contents

Ernst & Young

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Independent auditors' report

To the participants and the Board of Directors of Limited liability company "VTB Capital Finance"

We have audited the accompanying financial statements of Limited liability company "VTB Capital Finance", which comprise the statement of financial position as at 31 December 2012, and the statements of comprehensive income, of changes in equity and of cash flows for the year 2012, and a summary of significant accounting policies and other explanatory information.

Audited entity's responsibility for the financial statements

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

Auditors' responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Limited liability company "VTB Capital Finance" as at 31 December 2012, and its financial performance and cash flows for the year 2012 in accordance with International Financial Reporting Standards.

Ernst & Young LLC

29 April 2013

LLC "VTB Capital Finance"
Statement of Financial Position as of 31 December 2012
(Thousands of Russian Rubles)

	Notes	2012	2011
Assets			
Cash and cash equivalents	4	35,145	3,483
Amounts due from financial institutions	5	9,975,354	–
Derivative financial assets	6	1,266,644	–
Option premium receivable		19,637	–
Intangible assets		47	59
Other assets and prepayments	7	536	5,689
Deferred tax asset	8	–	341
Taxes receivables		742	391
Total assets		**11,298,105**	**9,963**
Liabilities			
Bonds issued	9	8,445,318	–
Derivative financial liabilities	6	1,129,521	–
Option premium payable		1,675,838	–
Other payables		24,842	3,023
Audit fee payable		896	950
Deferred tax liabilities	8	2,935	–
Other		1	3
Total liabilities		**11,279,351**	**3,976**
Net assets, attributable to participants			
Charter capital	10	8,161	8,161
Retained earning/(Accumulated deficit)		10,593	(2,174)
Total net assets, attributable to participants		**18,754**	**5,987**
Total liabilities, including net assets attributable to participants		**11,298,105**	**9,963**

Signed and authorized for release on behalf of the Management Board of the Company

D. S. Suspitsyn General Director

U.V. Panyukhina Chief Accountant

29 April 2013

The accompanying notes on pages 5 to 32 are an integral part of these financial statements.

(Thousands of Russian Rubles)

	Notes	2012	Period from 31 May 2011 to 31 December 2011
Interest income	11	297,718	–
Interest expense	11	(243,832)	–
Fee and comission expense		(1,897)	–
Net trading income	12	(34,726)	–
Foreign exchange translation gains less losses		166	–
Total operating income		**17,429**	**–**
Compensation and benefits		(92)	(47)
General administrative and operating expenses	13	(1,294)	(2,468)
Total operating expenses		**(1,386)**	**(2,515)**
Gain/(Loss) before income tax		**16,043**	**(2,515)**
Income tax benefit	8	(3,276)	341
Gain/(Loss) for the period		**12,767**	**(2,174)**
Other comprehensive income		–	–
Total comprehensive gain\(loss) for the period		**12,767**	**(2,174)**

The accompanying notes on pages 5 to 32 are an integral part of these financial statements.

(Thousands of Russian Rubles)

	Charter capital	**Retained earnings/ (accumulated deficit)**	**Total**
Balance as of 31 May 2011	**–**	**–**	**–**
Increase in share capital (Note 10)	8,161	–	8,161
Comprehensive loss for the year	–	(2,174)	(2,174)
Balance as of 31 December 2011	**8,161**	**(2,174)**	**5,987**
Comprehensive income for the year	–	12,767	12,767
Balance as of 31 December 2012	**8,161**	**10,593**	**18,754**

The accompanying notes on pages 5 to 32 are an integral part of these financial statements.

(Thousands of Russian Rubles)

	Notes	2012	Period from 31 May 2011 to 31 December 2011
Cash flows from operating activities			
Interest received		290,663	–
Interest paid		(2,666)	–
Fees and commissions paid		(1,906)	–
Administrative and other operating expenses paid		(1,327)	(2,207)
Personnel expenses paid		(85)	(30)
Cash flows from operating activities before changes in operating assets and liabilities		**284,679**	**(2,237)**
(Increase)/decrease in operating assets:			
Derivative financial assets		389	–
Prepayments		–	(2,441)
Other assets		(878)	–
(Decrease) / increase in operating liabilities:			
Option premium payable		(249,279)	–
Other liabilities		(34,932)	–
Net cash used in operating activities		(21)	(4,678)
Cash flows from investing activities			
Amounts due from financial institutions	5	(9,968,300)	–
Purchase of intangible assets		(17)	–
Net cash used in investing activities		**(9,968,317)**	**–**
Cash flows from financing activities			
Proceeds from issue of share capital	10	–	8,161
Proceeds from other borrowed funds		12,150	–
Redemption of other borrowed funds		(12,150)	–
Proceeds from debt securities issued	9	10,000,000	–
Net cash used in investing activities		**10,000,000**	**8,161**
Net increase in cash and cash equivalents		**31,662**	**3,483**
Cash and cash equivalents, beginning		**3,483**	**–**
Cash and cash equivalents, ending	4	**35,145**	**3,483**

The accompanying notes on pages 5 to 32 are an integral part of these financial statements.

1. Principal activities

LLC “VTB Capital Finance” (the “Company”) was formed on 31 May 2011 as a limited liability company under the laws of the Russian Federation.

The Company was formed specifically for the purpose of issuance of Russian Roubles denominated structured bonds to be placed on the MICEX-RTS.

The Company is ultimately controlled (through LLC “VTB Capital IB Holding” and VTB Bank (Germany) AG) by Bank VTB. Bank VTB’s majority shareholder is the Russian Federation, acting through the Federal Property Agency, which held 75.50% of VTB’s issued and outstanding shares as of 31 December 2012 (31 December 2011: 75.50%).

Participants’ structure of the Company is presented below:

Participant	**31 December 2012, %**
VTB Capital IB Holding, Limited	81
VTB Bank (Germany), AG	19
Total	**100.0**

The Company’s registered office is the Russian Federation, Moscow, 123100, Presnenskaya emb.12.

2. Basis of preparation

General

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

The financial statements are presented in thousands of Russian Rubles (or “RUR”), which is the Company’s functional and presentation currency.

The financial statements have been prepared under the historical cost convention.

3. Summary of accounting policies

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 recognized 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 Company determines the classification of its financial assets upon initial recognition, and subsequently can reclassify financial assets in certain cases as described below.

3. Summary of accounting policies (continued)

Financial assets (continued)

Date of recognition

All regular way purchases and sales of financial assets are recognized on the trade date i.e. the date that the Company commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Offsetting

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

Cash and cash equivalents

Cash and cash equivalents are recognized and measured at the fair value of consideration received. Cash and cash equivalents consist of cash on hand and current accounts with credit institutions.

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 recognized in the statement of comprehensive income when the loans and receivables are derecognized or impaired, as well as through the amortisation process.

Derivative financial instruments

In the normal course of business, the Company can enter into various derivative financial instruments: futures, forwards, swaps and options in the foreign exchange and capital markets. Such financial instruments are held for trading and are recorded at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in the statement of comprehensive income as gains less losses from trading securities or gains less losses from foreign currencies dealing, depending on the nature of the instrument.

Derivatives embedded in other financial instruments are treated as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contract, and the host contract is not itself held for trading or designated at fair value through profit or loss. The embedded derivatives separated from the host are carried at fair on the trading portfolio with changes in fair value recognised in the income statement.

3. Summary of accounting policies (continued)

Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Company having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include amounts due to credit institutions, amounts due to customers, debt securities issued, and other borrowed funds and are initially recognized at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognized in the statement of comprehensive income when the borrowings are derecognized as well as through the amortisation process.

Impairment of financial assets

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

Assets carried at amortized cost

The Company first assesses 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 Company 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 risk 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 recognized are not included in a collective assessment of impairment.

3. Summary of accounting policies (continued)

Impairment of financial assets (continued)

If there is objective evidence that an impairment loss on financial assets has been incurred, the amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred), discounted at the original effective interest rate of the financial asset. The carrying amount of the asset is reduced through use of an allowance account. The amount of the impairment loss is recognized in the statement of comprehensive income. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Financial assets together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Company. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the statement of comprehensive income, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date. When an asset is uncollectible, it is written off against the related allowance for loan impairment. Such assets are written off after all necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the charge for impairment of financial assets in the statement of comprehensive income.

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 collateralized 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 purposes of a collective evaluation of impairment financial assets are grouped on the basis of similar credit risk characteristics that are indicative of the debtors' ability to pay all amounts due according to the contractual terms (i.e. on the basis of the Company's credit risk grading process that considers loan type, geographical location, collateral type, past-due status and other relevant factors).

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and 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 period on which the historical loss experience is based and to remove effects of conditions in the historical period that do not exist currently.

3. Summary of accounting policies (continued)

Loans and borrowings

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the Effective Interest Rate method. Gains and losses are recognised in the statement of comprehensive income when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statement of comprehensive income.

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 derecognized where:

- the rights to receive cash flows from the asset have expired;
- the Company has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a ‘pass-through’ arrangement; and
- the Company 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 Company 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 recognized to the extent of the Company’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 Company could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Company’s continuing involvement is the amount of the transferred asset that the Company may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Company’s continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

3. Summary of accounting policies (continued)

Derecognition of financial assets and liabilities (continued)

Financial liabilities

A financial liability is derecognized 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 recognized in the statement of comprehensive income.

Income and expense recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

Interest and similar income and expense

For all financial instruments measured at amortised cost 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 Company 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 recognized using the original effective interest rate applied to the new carrying amount.

Net assets attributable to the participants

Net assets are classified as liabilities since participants have the right to withdraw their interests. In such cases the Company will be obliged to pay the withdrawing participant's share of net assets of the Company, determined on the basis of statutory accounting reports for the year of withdrawal, in cash or, subject to consent of the participant, by in-kind transfer of assets.

3. Summary of accounting policies (continued)

Contingencies

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

Taxation

The current income tax expense is calculated in accordance with the regulations of the Russian Federation and the City of Moscow.

Deferred tax assets and liabilities are calculated in respect of 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.

Russia also has various operating taxes that are assessed on the Company’s activities. These taxes are included as a component of other operating expenses.

Foreign currency translation

The financial statements are presented in Russian Roubles, which is the Company’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 recognized in the statement of comprehensive income 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 market exchange rate on the date of the transaction are included in gains less losses from dealing in foreign currencies. The market exchange rate (Reuters spot rate at 17.30 p.m.) at 31 December 2012 was 30.3727 Roubles to 1 USD (32.1961: as of 31 December 2011).

3. Summary of accounting policies (continued)

Changes in accounting policies

The Company has adopted the following amended IFRS during the year. The principal effects of these changes are as follows:

Amendments to IFRS 7 Financial Instruments: Disclosures

The Amendments were issued in October 2010 and are effective for annual periods beginning on or after 1 July 2011. The amendment requires additional disclosure about financial assets that have been transferred to enable the users of the Company's financial statements to evaluate the risk exposures relating to those assets. The amendment affects disclosure only and has no impact on the Company's financial position or performance.

Other amendments resulting from Improvements to the following standards did not have any impact on the accounting policies, financial position or performance of the Company:

- IAS 12 *Income Taxes (Amendment) – Deferred Taxes: Recovery of Underlying Assets*
- IFRS 1 *First-Time Adoption of International Financial Reporting Standards (Amendment) – Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopter*

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 Company will quantify the effect of the adoption of the first phase 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 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. The Company is evaluating possible effect of the adoption of IFRS 10 on its financial position and performance.

3. Summary of accounting policies (continued)

Future changes in accounting policies (continued)

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. The Company expects that adoption of IFRS 11 will have no effect on its financial position and performance.

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. IFRS 12 is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. The Company expects that adoption of IFRS 12 will have no effect on its financial position and performance.

IFRS 13 Fair Value Measurement

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

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. The Company is currently assessing the impact of the above on its financial statements.

3. Summary of accounting policies (continued)

Future changes in accounting policies (continued)

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. The Company expects that these amendments will have no impact on the Company's financial position or performance.

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

The amendments to IAS 1 change the grouping of items presented in other comprehensive income. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, 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 Company's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012.

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 Company 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 Company'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.

Amendment to IFRS 1 – Government loans

These amendments require 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 amendment will have no impact on the Company.

(Thousands of Russian Rubles)

3. Summary of accounting policies (continued)

Future changes in accounting policies (continued)

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 Company.

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

4. Cash and cash equivalents

Cash and cash equivalents comprise:

	2012	**2011**
Current accounts with credit institutions	35,145	3,483
Cash and cash equivalents	**35,145**	**3,483**

5. Amounts due from financial institutions

Amounts due from financial institutions represent cash balances in the amount RUB 9,975,354 held on deposit accounts with VTB Bank (31 December 2011: 0).

The deposits carry interest rate in the range from 8.45% to 8.80% per annum and are maturing in 2014-2016.

(Thousands of Russian Rubles)

6. Derivative financial instruments

The Company enters into derivative financial instruments. There are embedded derivatives and derivatives concluded to offset market risk. The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities.

	Fair value assets	**Fair value liabilities**
Options on index	1,119,907	992,873
Options on price of gold	146,737	136,648
Other assets	**1,266,644**	**1,129,521**

Options are contractual agreements that convey the right, but not the obligation, for the purchaser either to buy or sell a specific amount of a financial instrument at a fixed price, either at a fixed future date or at any time within a specified period.

7. Other assets

	2012	**2011**
Advances for goods and services	527	–
Fees and commissions receivables	9	–
Prepayments	–	5,689
Other assets	**536**	**5,689**

As of 31 December 2012 prepayments were represented by the legal expenses related to bonds issuance. As of 31 December 2011 bonds were not issued. As of 31 December 2012 the bonds were issued and the expenses were included in the effective rate calculation.

Prepayments are represented by the amounts which are Russian Rubles denominated.

Fair value of other assets approximate to their carrying amount, all amounts are neither part due nor impaired and have maturity less one year.

8. Taxation

The corporate income tax benefit/(charge) comprises:

	2012	**2011**
Deferred tax charge – origination and reversal of temporary differences	(3,276)	341
Income tax (charge)/benefit	**(3,276)**	**341**

(Thousands of Russian Rubles)

8. Taxation (continued)

Russian legal entities have to file individual corporate income tax declarations. Standard corporate income tax rate comprised 20% for 2012 and 2011.

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
Gain\(Loss) before tax	16,043	(2,515)
Statutory tax rate	20%	20%
Theoretical income tax benefit at the statutory rate	(3,209)	503
Non-deductible expenditures	(67)	(162)
Income tax (charge)/benefit	**(3,276)**	**341**

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

	May, 2011	Origination and reversal of temporary differences (in the income statement)	2011	Origination and reversal of temporary differences (in the income statement)	2012
Tax effect of deductible temporary differences:					
Tax loss carried forward	–	1,450	1,450	2,984	4,434
Derivative financial assets	–	–	–	81,994	81,994
Receivables under option premium	–	–	–	105	105
Other assets and prepayments	–	(1,137)	(1,137)	1,023	(114)
Gross deferred tax asset	**–**	**313**	**313**	**86,106**	**86,419**
Unrecognised deferred tax asset	–	–	–	–	–
Deferred tax asset	**–**	**313**	**313**	**86,106**	**86,419**
Tax effect of taxable temporary differences:					
Bonds issued	–	–	–	(311,183)	(311,183)
Derivative financial liabilities	–	–	–	221,821	221,821
Other liabilities	–	28	28	(20)	8
Deferred tax liability	**–**	**28**	**28**	**(89,382)**	**(89,354)**
Deferred tax asset/(liability), net	**–**	**341**	**341**	**(3,276)**	**(2,935)**

(Thousands of Russian Rubles)

9. Bonds issued

On the 8 June 2012 “VTB Capital Finance”, LLC issued RUR 5.0 billion local bonds maturing in July 2015 with a floating coupon rate linked to the MICEX index and fixed coupon rate of 0.1% payable semi-annually.

On the 21 August 2012 “VTB Capital Finance”, LLC issued RUR 1.0 billion local bonds maturing in December 2015 with a floating coupon rate linked to the MICEX index and fixed coupon rate of 0.1% payable semi-annually.

On the 3 December 2012 “VTB Capital Finance”, LLC issued RUR 1.0 billion local bonds maturing in January 2014 with a floating coupon rate linked to the MICEX index and fixed coupon rate of 0.1% payable semi-annually.

On the 26 November 2012 “VTB Capital Finance”, LLC issued RUR 1.0 billion local bonds maturing in December 2013 with a floating coupon rate linked to the price of gold and fixed coupon rate of 0.1% payable semi-annually.

On the 11 December 2012 “VTB Capital Finance”, LLC issued RUR 1.0 billion local bonds maturing in June 2014 with a floating coupon rate linked to the price of gold and fixed coupon rate of 0.1% payable semi-annually.

On the 14 December 2012 “VTB Capital Finance”, LLC issued RUR 1.0 billion local bonds maturing in December 2013 with a floating coupon rate linked to the price of gold and USD-to-RUR exchange rate and fixed coupon rate of 0.1% payable semi-annually.

Options embedded into the bonds were bifurcated and accounted separately from Bonds (refer to Note 6).

	Effective interest rate	**Nominal value**	**Amortized cost 31 December 2012**	**Maturity date**
Issuance 1	8.71%	5,000,000	4,021,400	07.03.2015
Issuance 2	8.90%	1,000,000	768,000	12.21.2015
Issuance 3	8.05%	1,000,000	928,338	12.06.2013
Issuance 4	8.11%	1,000,000	918,832	01.23.2014
Issuance 5	8.36%	1,000,000	884,648	06.20.2014
Issuance 6	8.04%	1,000,000	924,100	12.25.2013
		10,000,000	**8,445,318**	

10. Net assets attributable to participants

As of 31 December 2012 charter capital totalled RUB 8,161 (2011: RUB 8,161). Charter capital was formed by contribution of RUB 6,610 and RUB 1,551 on 31 May 2011 by VTB Capital IB Holding Ltd and VTB Bank (Germany) AG, respectively.

The charter capital is registered and fully paid.

In accordance with the Company’s charter, participants may unilaterally withdraw their interests. In such cases the Company will be obliged to pay the withdrawing participant’s share of net assets of the Company, determined on the basis of statutory accounting reports for the year of withdrawal, in cash or, subject to consent of the participant, by in-kind transfer of assets. The payment should be made no later than six months after the end of the year of the withdrawal.

(Thousands of Russian Rubles)

11. Net interest income

For the year ended 31 December 2012, net interest income/(expense) comprise:

	2012	Period from 31 May 2011 to 31 December 2011
Interest income		–
Amounts due from financial institutions	297,718	–
Total interest income	**297,718**	**–**
Interest expense		
Loan payable	(166)	–
Bonds issued, coupon	(3,451)	–
Bonds issued, discount	(240,215)	–
Total interest expense	(243,832)	**–**
Net interest income	**53,886**	**–**

12. Net trading income

For the year ended 31 December 2012, net trading income comprises:

	2012	Period from 31 May 2011 to 31 December 2011
Net losses from trading with derivatives – option on index	(33,280)	–
Net losses from trading with derivatives – option on precious metal	(1,446)	–
Net trading loss	**(34,726)**	**–**

(Thousands of Russian Rubles)

13. General administrative and operating expenses

General administrative and operating expenses comprise:

	2012	**Period from 31 May 2011 to 31 December 2011**
Audit expenses	639	1,804
Premises expenses	242	–
Consulting fees	213	424
Taxes other than income tax	123	24
Depreciation and amortization	29	119
Information technology	15	13
Professional services	10	–
Travel and entertainment	–	73
Marketing and advertising	–	9
Office supplies	–	2
Other	23	–
General administrative and operating expenses	**1,294**	**2,468**

14. Risk management

Introduction

The Company’s activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risk. Taking risk is core to the financial business, and the operational risks are an inevitable consequence of being in business. The Company’s aim is therefore to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Company’s financial performance.

The Company’s risk management policies are designed to identify and analyze these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Company regularly reviews its risk management policies and systems to reflect change in markets, products and emerging best practice.

In the course of future business activity the Company will be exposed to credit risk, liquidity risk and market risk. It will be also subject to operational risks.

The Company being part of the VTB Capital Group complies with the VTB Capital’s risk policies and procedures, including the set of Credit Policies, Market Risk Policy, Quantitative Risk Management Policy, and Operational Risk Policy.

Given that the main business of the Company will be structured notes issuance and sale them on to investors, the main focus of the Risk Management process will be to secure that the liabilities implied by the notes issued are perfectly matched by the hedges on the Company’s balance sheet. As such, the Company will not be running material risks.

14. Risk management (continued)

Credit risk

The Company takes on exposure to credit risk, which is the risk that a counterparty will be unable or unwilling to meet its contractual obligations when due. Impairment provisions are provided for losses that have been incurred at the reporting date. Significant changes in the performance of counterparty, a country's economy, or in the health of a particular industry segment that represent a concentration in the Company’s portfolio, could result in losses that are different from those provided for at the reporting date. Management therefore carefully manages its exposure to credit risk.

The Company restricts the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to a counterparty, group of counterparties and to geographical and industry segments. Such limits are monitored on a continual basis and subject to an annual or more frequent review. Limits on credit risk exposure are set by Risk Management and, for amounts over certain levels, are validated as per the Credit Authority Delegation Policy. The Company predominantly transacts with VTB Capital Group companies.

The exposure to any one counterparty or group of counterparties is established within limits set for items recorded within statement of financial position and financial commitments and contingencies, and, where relevant, daily settlement risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily by Risk Management.

Exposure to credit risk is managed through regular, and at least annual, review of the ability of counterparties to meet their contractual obligations. In certain cases exposure to credit risk is mitigated in full or in part by obtaining collateral, corporate and personal guarantees and other credit enhancements.

Financial instruments constitute the core element of the Company’s operations. The risks associated with financial instruments are a significant component of the risks faced by the Company. Financial instruments create, modify or reduce the liquidity, credit and market risks of the Company’s statement of financial position.

Credit risk measurement

It is the Company’s policy to maintain accurate and consistent internal 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 Credit policy. The attributable risk ratings are assessed and updated regularly.

For counterparties that are externally rated, these ratings can be taken into account during credit review. As part of a credit review, the credit quality of the counter party is assessed, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal ratings in accordance with the Credit Policy. The utilisation of credit limits is regularly monitored.

14. Risk management (continued)

Credit risk (continued)

The principal financial instruments of the Company are summarized as follows:

Structured Notes issuance and trading

Issuance and trading of structured notes is a significant part of the Company’s business. When selling notes to counterparties, the Company is exposed to regular counterparty settlement exposure being that the counterparty might not fulfill its contractual obligations, and the Company will suffer direct or indirect (cost of trades substitution) losses. The risk is managed by setting settlement limits to counterparts.

Deposits

As part of the hedging strategy, the Company might use deposits to hedge liabilities incorporated in the notes issued. Such deposits are placed in banks of proper credit quality as per regular Credit risk management process, predominantly in VTB Group banks.

Derivative financial instruments

Another piece of the hedging structures is hedging via derivatives that the Company concludes with the VTB Group members. The Company manages its counterparty risk towards those counterparts, as well as negotiate credit conditions of legal agreements (ISDA) as per regular approach of VTB Capital.

Risk limit control and mitigation policies

The Company manages limits and controls concentrations of credit risk wherever they are identified – in particular, to individual counterparties and groups, and to industries and countries.

The Company structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one counterparty/issuer/borrower, or groups of counterparties/issuers/borrowers, and to geographical and industry segments. As a result, appropriate limits to the maximum exposure per individual counterparty are set. Such risks are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary.

Exposure to credit risk is also managed through regular analysis of the ability of actual and potential counterparties/issuers/borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate.

14. Risk management (continued)

Credit risk (continued)

The credit approval process is based upon a process of quantitative and qualitative exposure verification tailored to the operational environment of the Company. In some cases, reviews by the Legal and Compliance Department are preconditions to granting the approval.

Higher risk limits are usually set for large international banks, brokers and well known corporations. Trading with smaller counterparties is executed on prepayment/pre-delivery basis or delivery-versus-payment ("DVP") basis with smaller limits covering the pre-settlement risk of transactions.

Impairment and provisioning policies

The internal and external rating systems described in above focus more on credit-quality mapping from the transactions initiation. In contrast, impairment provisions are recognized for financial reporting purposes only for losses that have been incurred at the reporting date based on objective evidence of impairment. Due to the different methodologies applied, the amount of incurred credit losses provided for in the financial statements are usually lower than the amount determined from the expected loss model that is used for internal operational management and regulatory purposes.

A financial asset or portfolio of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the asset and prior to the reporting date ("a loss event") and that the loss event or events has had an impact on the estimated future cash flows of the financial asset or the portfolio that can be reliably estimated. Objective evidence that a financial asset or a portfolio is impaired includes observable data that comes to the attention of the Company. Exposure to credit risk equals to carrying value of assets presented in Statement of Financial Position as of 31 December 2012 and 2011.

For all of the periods presented, the Company has had no past due, individually impaired or renegotiated assets.

Liquidity risk

Liquidity risk is the risk that the Company is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn.

The Company uses various methods, including predictions of daily cash positions, to measure and manage its cash flow commitments on a daily basis.

Sources of liquidity are regularly reviewed by Risk Management Department and Economic Budgeting and Analysis Department.

The table below shows an analysis of assets and liabilities according to when they are expected to be recovered or settled.

(Thousands of Russian Rubles)

14. Risk management (continued)

Liquidity risk (continued)

	2012									
	On demand and less or equal 1 month	**More 1 month and less or equal 3 months**	**More 3 months and less or equal 6 months**	**More 6 months and less or equal 1 year**	**Subtotal less than 12 months**	**More than 1 year and less or equal 5 years**	**More than 5 years**	**Subtotal over 12 months**	**Maturity underfined**	**Total**
Assets										
Cash and cash equivalents	35,145	–	–	–	**35,145**	–	–	**–**	–	**35,145**
Amounts due from financial institutions	–	7,054	–	–	**7,054**	9,968,300	–	**9,968,300**	–	**9,975,354**
Derivative financial assets	–	–	–	76,905	**76,905**	1,189,739	–	**1,189,739**	–	**1,266,644**
Receivables under option premium	–	4,591	4,807	9,579	**18,977**	660	–	**660**	–	**19,637**
Intangible assets	–	–	–	–	**–**	–	–	**–**	47	**47**
Other assets and prepayments	536	–	–	–	**536**	–	–	**–**	–	**536**
Taxes receivables	–	–	–	–	**–**	–	–	**–**	742	**742**
	35,681	**11,645**	**4,807**	**86,484**	**138,617**	**11,158,699**	**–**	**11,158,699**	**789**	**11,298,105**
Liabilities										
Bonds issued	–	–	–	1,852,151	**1,852,151**	6,593,167	–	**6,593,167**	–	**8,445,318**
Derivative financial liabilities	–	–	–	71,418	**71,418**	1,058,103	–	**1,058,103**	–	**1,129,521**
Payable under option premium	–	208,859	219,818	428,452	**857,129**	818,709	–	**818,709**	–	**1,675,838**
Other payables	24,842	–	–	–	**24,842**	–	–	**–**	–	**24,842**
Audit fee payable	–	–	896	–	**896**	–	–	**–**	–	**896**
Deferred tax liabilities	–	–	–	–	**–**	–	–	**–**	2,935	**2,935**
Other	1	–	–	–	**1**	–	–	**–**	–	**1**
	24,843	**208,859**	**220,714**	**2,352,021**	**2,806,437**	**8,469,979**	**–**	**8,469,979**	**2,935**	**11,279,351**
Net balance sheet position	**10,838**	**(197,214)**	**(215,907)**	**(2,265,537)**	**(2,667,820)**	**2,688,720**	**–**	**2,688,720**	**(2,146)**	**18,754**
Accumulated gap	***10,838***	***(186,376)***	***(402,283)***	***(2,667,820)***		***20,900***	***20,900***		***18,754***	

(Thousands of Russian Rubles)

14. Risk management (continued)

Liquidity risk (continued)

The company is going to cover liquidity gap through early termination of deposit agreements.

	2011									
	On demand and less or equal 1 month	**More 1 month and less or equal 3 months**	**More 3 months and less or equal 6 months**	**More 6 months and less or equal 1 year**	**Subtotal less than 12 months**	**More than 1 year and less or equal 5 years**	**More than 5 years**	**Subtotal over 12 months**	**Maturity underfined**	**Total**
Assets:										
Cash and cash equivalents	3,483	–	–	–	**3,483**	–	–	**–**	–	**3,483**
Intangible assets	–	–	–	–	**–**	–	–	**–**	59	**59**
Other assets and prepayments	–	–	5,689	–	**5,689**	–	–	**–**	–	**5,689**
Deferred tax asset	–	–	–	–	**–**	–	–	**–**	341	**341**
Taxes receivables	–	–	–	–	**–**	–	–	**–**	391	**391**
	3,483	**–**	**5,689**	**–**	**9,172**	**–**	**–**	**–**	**791**	**9,963**
Liabilities										
Other payables	–	3,023	–	–	**3,023**	–	–	**–**	–	**3,023**
Audit fee payable	–	–	950	–	**950**	–	–	**–**	–	**950**
Other	–	–	–	–	**–**	–	–	**–**	3	**3**
	–	**3,023**	**950**	**–**	**3,973**	**–**	**–**	**–**	**3**	**3,976**
Net balance sheet position	**3,483**	**(3,023)**	**4,739**	**–**	**5,199**	**–**	**–**	**–**	**788**	**5,987**
Accumulated gap	***3,483***	***460***	***5,199***	***5,199***		***5,199***	***5,199***		***5,987***	

(Thousands of Russian Rubles)

14. Risk management (continued)

Liquidity risk (continued)

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Company’s financial liabilities at 31 December 2012 and 2011 based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Company expects that many customers will not request repayment on the earliest date the Company could be required to pay.

Financial liabilities As at 31 December 2012	On demand and less or equal 1 month	Over 1 month and less or equal 3 months	Over 3 months and less or equal 6 months	Over 6 months and less or equal 1 year	Over 1 year and less or equal 5 years	Total
Bonds issued	–	–	4,986	2,000,918	8,014,036	**10,019,940**
Derivative financial liabilities	–	–	–	71,418	1,058,103	**1,129,521**
Option premium payable	–	208,859	219,818	428,452	818,709	**1,675,838**
Other payables	24,842	–	–	–	–	**24,842**
Audit fee payable	–	–	896	–	–	**896**
Other	1	–	–	–	–	**1**
Total undiscounted financial liabilities	**24,843**	**208,859**	**225,700**	**2,500,788**	**9,890,848**	**12,851,038**

Financial liabilities As at 31 December 2011	On demand and less or equal 1 month	Over 1 month and less or equal 3 months	Over 3 months and less or equal 6 months	Over 6 months and less or equal 1 year	Over 1 year and less or equal 5 years	Total
Other payables	–	3,023	–	–	–	**3,023**
Audit fee payable	–	–	950	–	–	**950**
Total undiscounted financial liabilities	**–**	**3,023**	**950**	**–**	**–**	**3,973**

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates, and equity prices. The Company classifies exposures to market risk into either trading or non-trading portfolios.

The principal objective of the Company’s market risk management is to limit and reduce possible losses on open market positions that may be incurred by the Company due to adverse changes in currency exchange rates, interest rates and market prices. Given the Company’s business focus on dealing with structured notes, the Company takes only moderate market risk exposures on its balance sheet by hedging its outstanding risks.

(Thousands of Russian Rubles)

14. Risk management (continued)

Market risk (continued)

Interest rate risk

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 Company has no trading assets or liabilities exposed to interest rate risk. All non-trading assets and liabilities of the Company have fixed interest rates. As of 31 December 2012 and 2011 the sensitivity of the net income to interest rate changes is zero.

Currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Company is exposed to fluctuations in prevailing foreign currency exchange rates on its total financial position and cash flows. The exposure of currency risk is immaterial for the Company in 2012 because most of balance presented in Russian Roubles.

The tables below indicate the currencies to which the Company had significant exposure at 31 December 2012 and 2011 on its monetary assets and liabilities. The analysis calculates the effect of a reasonably possible movement of the currency rate against USD, with all other variables held constant in 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. A negative amount in the table reflects a potential net reduction in statement of comprehensive income or equity, while a positive amount reflects a net potential increase.

	Change in currency rate in %	**Effect on profit before tax**	**Change in currency rate in %**	**Effect on profit before tax**
Currency	**2012**		**2011**	
USD	10.7%	(669)	12.5%	(464)
USD	-10.7%	669	-12.5%	464

Price risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or factors affecting all instruments traded in the market. Price risk arises when the Company takes a long or short position in a financial instrument. As of year end 2012 financial asset and liabilities of the Company are presented by derivatives linked to MICEX index and Gold price. Simultaneously the host terms of derivative assets and liabilities are perfectly matched, which levels up possible inflows and outflows.

14. Risk management (continued)

Operational risk

The Company follows the VTB Capital’s approach to managing operational risks. Operational risk is the risk of not achieving the Company’s strategic goals (including losses) resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk, but excludes strategic and reputation risk. The Company monitors its operational risk profile and material exposures to operational losses on a regular basis. An effective monitoring process is essential for adequately managing operational risk. Regular monitoring activities help in detecting and correcting deficiencies in policies, business processes and procedures. Promptly detecting and addressing these deficiencies is aimed to reduce the likelihood, frequency and materiality of a loss event.

The Company maintains the operational risk management policy and internal controls which are built into the new products development process that the Company follows. The Company cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Company is able to manage the risks. Controls include segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes, including the use of internal audit. The Company’s system of regular reporting of information to senior management supports its risk management.

Following are major elements of the Company’s operational Risk Management:

- Staff training on operational risk management. All Company’s employees are subject to obligatory onsite training arranged by the Company’s Risk Management staff. On top of that, an online intranet-based training is about to be introduced for regular periodic follow-on Operational risk knowledge update; it implies a test to be completed. The training, among other topics, covers employees’ responsibility on risk events reporting.
- IT system for operational Risk Management. The Company uses a system (“Accelerate” by ChaseCooper) for logging risk events, KRIs maintenance and Risk and Control Self-Assessment results and corrective actions.
- Risk Events reporting. Every employee is obliged to report on operational risk events discovered – both these resulted in real losses and these that could have resulted in losses or other type of damage (reputational, regulatory, etc.) – so called “near misses”. This is done through the Company’s portal whereby reports go directly to the Accelerate system and distributed to the Company’s management. Appropriate remedial actions are also defined during risk events reporting and are then tracked.
- Key Risk Indicators (KRIs). They are used to monitor high-level trends in operational risk profile of the Company. KRIs are reported on a monthly basis.

15. Commitments and contingencies

Operating environment

Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

The Russian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. The global financial crisis has resulted in uncertainty regarding further economic growth, availability of financing and cost of capital, which could negatively affect the Company’s future financial position, results of operations and business prospects. Management believes it is taking appropriate measures to support the sustainability of the Company’s business in the current circumstances.

Legal

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

Taxation

Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Company may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in its interpretation of the legislation and assessments and, as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. As such, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

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

(Thousands of Russian Rubles)

16. Related party transactions

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 volumes of related party transactions for the period ended 31 December 2012, are as follows:

	2012			2011		
	Ultimate parent	*Parent*	*Other related parties*	*Ultimate parent*	*Parent*	*Other related parties*
Cash and cash equivalents - opening	3,483	-	-	-	-	-
Cash and cash equivalents placed	10,358,701	-	-	8,160	-	-
Cash and cash equivalents withdrawn	(10,327,039)	-	-	(4,677)	-	-
Cash and cash equivalents - closing	35,145	-	-	3,483	-	-
Amounts due from financial institutions - opening	-	-	-	-	-	-
Amounts due from financial institutions placed	10,266,018	-	-	-	-	-
Amounts due from financial institutions withdrawn	(290,664)	-	-	-	-	-
Amounts due from financial institutions - closing	9,975,354	-	-	-	-	-
Derivative financial assets- opening	-	-	-	-	-	-
Derivative financial assets placed	-	-	183,572,589	-	-	-
Derivative financial assets withdrawn	-	-	(182,305,945)	-	-	-
Derivative financial assets - closing	-	-	1,266,644	-	-	-
Receivables under option premium - opening	-	-	-	-	-	-
Receivables under option premium placed	-	-	20,026	-	-	-
Receivables under option premium withdrawn	-	-	(389)	-	-	-
Receivables under option premium - closing	-	-	19,637	-	-	-
Derivative financial liabilities- opening	-	-	-	-	-	-
Derivative financial liabilities placed	-	-	(20,026)	-	-	-
Derivative financial liabilities withdrawn	-	-	4,470	-	-	-
Derivative financial liabilities - closing	-	-	(15,556)	-	-	-
Loan payable - opening	-	-	-	-	-	-
Loan payable placed	-	2,196	10,120	-	-	-
Loan payable withdrawn	-	(2,196)	(10,120)	-	-	-
Loan payable - closing	-	-	-	-	-	-
Payable under option premium - opening	-	-	-	-	-	-
Payable under option premium placed	-	-	1,925,117	-	-	-
Payable under option premium withdrawn	-	-	(249,279)	-	-	-
Payable under option premium - closing	-	-	1,675,838	-	-	-
Other paybles - opening	-	-	-	-	-	-
Other paybles issued	-	-	-	-	8,161	366
Other paybles repaid	-	-	-	-	(8,161)	(111)
Other paybles - closing	-	-	-	-	-	-
Interest income	297,718	-	-	-	-	-
Interest expense	-	(46)	(120)	-	-	-
Fee and comission expense	225	-	-	-	-	-
Net trading income	-	-	(654,003)	-	-	-

17. Fair values of financial instruments

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by a quoted market price.

The estimated fair values of financial instruments are determined by the Company using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. While Management has used available market information in estimating the fair value of financial instruments, the market information may not be fully reflective of the value that could be realized in the current circumstances.

Financial instruments carried at fair value

Financial assets and liabilities at fair value held for trading, derivative financial instruments and financial assets available-for-sale are carried in the statement of financial position at their fair value. The Company assesses whether the market is active using the model of market activity tests which is based on the statistics of the existing trading. The model is consistently applied by the Company. For financial instruments that are actively traded in organized financial markets quoted market bid prices for long positions and ask price for short positions at the close of business on the reporting date are used for estimation of fair value. For financial instruments where there is no active market, fair value is determined using valuation techniques.

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements.

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or having a short term maturity (less than three months) it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits, savings accounts without a specific maturity, variable rate financial instruments.

As of 31 December 2012 the carrying amounts of all financial assets and financial liabilities in the statement of financial position of the Company approximate to their fair value.

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by the significance of the inputs used in making the measurements:

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

(Thousands of Russian Rubles)

17. Fair values of financial instruments (continued)

Assets for which fair value approximates carrying value (continued)

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy as of 31 December 2012:

At 31 December 2012	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial assets	–	1,266,644	–	**1,266,644**
Financial liabilities				
Derivative financial liabilities	–	1,129,521	–	**1,129,521**

18. Capital management

The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and capital ratio in order to support its business and maximize the value of net assets, attributable to participants.

The Company manages its capital structure and makes adjustments to it in the light of changes in economic conditions, growth of business and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Company may raise new capital, return capital to participants, etc.

The Company's operations are currently funded by issued charter capital.