CREDIT BANK OF MOSCOW
(open joint-stock company)

Consolidated Financial Statements
for the year ended 31 December 2013

Contents

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Auditors' Report

To the Shareholders and Supervisory Board of CREDIT BANK OF MOSCOW (open joint-stock company)

We have audited the accompanying consolidated financial statements of CREDIT BANK OF MOSCOW (open joint-stock company) and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2013, and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for 2013, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Audited entity: Credit Bank of Moscow (open joint-stock company).

Registered by the Central Bank of the Russian Federation on 18 August 1999, Registration No.1978.

Entered in the Unified State Register of Legal Entities on 18 November 2002 by the Department of Federal Tax Service, Registration No. 1027739555282, Certificate series 77 No. 004840877.

Address of audited entity: 2 (bldg. 1), Lukov pereulok, Moscow, Russia, 107045.

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

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2013, and its financial performance and its cash flows for 2013 in accordance with International Financial Reporting Standards.

Kolosov A.E.

Director

Power of attorney dated 3 October 2011 No. 37/11

ZAO KPMG

Moscow, Russian Federation

12 March 2014

	Notes	31 December 2013 RUB'000	31 December 2012 RUB'000
Interest income	4	42 012 905	28 466 331
Interest expense	4	(24 632 660)	(16 224 968)
Net interest income	4	**17 380 245**	**12 241 363**
Provision for impairment of loans	13	(5 498 815)	(1 864 717)
Net interest income after provision for impairment of loans		**11 881 430**	**10 376 646**
Fee and commission income	5	7 205 235	4 283 129
Fee and commission expense	5	(779 625)	(428 053)
Net gain on financial instruments at fair value through profit or loss		59 075	353 703
Net realized gain on available-for-sale assets		18 686	14 704
Net foreign exchange gains (losses)		407 456	(385 136)
State deposit insurance scheme contributions		(490 583)	(370 287)
Other operating income, net		738 629	243 007
Non-interest income		**7 158 873**	**3 711 067**
Operating income		**19 040 303**	**14 087 713**
Salaries and employment benefits	6	(4 468 191)	(3 513 896)
Administrative expenses	6	(2 723 215)	(2 630 010)
Depreciation of property and equipment	14	(470 891)	(407 903)
Other provisions	7	(184 177)	(288 856)
Operating expense		**(7 846 474)**	**(6 840 665)**
Profit before income taxes		**11 193 829**	**7 247 048**
Income tax	8	(2 313 766)	(1 469 166)
Profit for the period		**8 880 063**	**5 777 882**

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

	Notes	31 December 2013 RUB'000	31 December 2012 RUB'000
Profit for the period		**8 880 063**	**5 777 882**
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Revaluation reserve for buildings		-	769 380
Items that are or may be reclassified subsequently to profit or loss:			
Revaluation reserve for available-for-sale securities			
- Net change in fair value		(44 329)	131 726
- Net change in fair value transferred to profit or loss		(22 796)	(45 379)
Income tax related to other comprehensive income		13 425	(171 145)
Other comprehensive (loss) income for the year, net of tax		**(53 700)**	**684 582**
Total comprehensive income for the year		**8 826 363**	**6 462 464**
Basic earnings per share (in RUB per share)	33	**0.68**	**0.51**

Chairman of the Management Board — Vladimir A. Chubar

Chief Accountant — Svetlana V. Sass

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

	Notes	31 December 2013 RUB'000	31 December 2012 RUB'000
ASSETS			
Cash and cash equivalents	9	67 064 920	47 459 075
Obligatory reserves with the Central Bank of the Russian Federation		2 798 987	2 545 772
Due from credit institutions	10	10 466 017	12 520 791
Financial instruments at fair value through profit or loss	11	37 412 185	31 684 816
Available-for-sale securities	12	18 533 564	5 447 594
Loans to customers	13	308 940 610	201 234 522
Property and equipment	14	6 079 029	6 079 620
Goodwill	32	301 089	-
Other assets	15	2 605 717	1 755 195
Total assets		**454 202 118**	**308 727 385**
LIABILITIES AND EQUITY			
Deposits by the Central Bank of the Russian Federation	16	14 566 171	-
Deposits by credit institutions	17	24 398 112	35 183 733
Deposits by customers	18	274 872 004	189 014 104
Debt securities issued	19	84 553 516	40 013 790
Deferred tax liability	8	1 880 127	2 608 594
Current tax liability	8	196 917	125 817
Other liabilities	20	3 077 224	2 489 054
Total liabilities		**403 544 071**	**269 435 092**
Equity			
Share capital	21	15 329 692	13 539 763
Additional paid-in capital		9 768 757	9 019 295
Revaluation surplus for buildings		1 115 928	1 115 928
Revaluation reserve for available-for-sale securities		(37 639)	16 061
Retained earnings		24 481 309	15 601 246
Total equity		**50 658 047**	**39 292 293**
Total liabilities and equity		**454 202 118**	**308 727 385**

Commitments and Contingencies 22-24

Chairman of the Management Board — Vladimir A. Chubar

Chief Accountant — Svetlana V. Sass

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

	Notes		31 December 2013 RUB'000		31 December 2012 RUB'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit for the period			**8 880 063**		**5 777 882**
Out of which:					
- Interest income received		41 103 313		29 020 623	
- Interest expense paid		(16 328 369)		(16 328 369)	
- Income tax paid		(1 707 078)		(1 120 573)	
Adjustments to reconcile net income to net cash provided by operating activities:					
Provision for impairment of loans	13		5 498 815		1 864 717
Depreciation and amortization			471 001		408 007
Deferred taxation	8		534 010		1 910
Revaluation of financial instruments at fair value through profit or loss			(102 428)		(693 185)
Provision for impairment of other assets and credit related commitments	7		184 177		288 856
Change in accrued interest income			(909 592)		554 292
Change in accrued interest expense			2 184 346		125 671
Other			124 041		(76 257)
Operating cash flows before changes in operating assets and liabilities			**16 864 433**		**8 251 893**
(Increase) decrease in operating assets					
Obligatory reserves with the Central Bank of the Russian Federation			(253 215)		(286 602)
Due from credit institutions			2 041 014		(7 501 432)
Financial instruments at fair value through profit or loss			(5 390 966)		(8 267 817)
Loans to customers			(110 006 159)		(47 401 634)
Other assets			(994 428)		(495 664)
Increase (decrease) in operating liabilities					
Deposits by the Central Bank of the Russian Federation			14 566 171		-
Deposits by credit institutions			(1 489 466)		7 554 193
Deposits by customers			84 633 748		44 767 553
Promissory notes			(1 497 313)		1 628 721
Other liabilities			422 476		(21 910)
Net cash used in operations			**(1 103 705)**		**(1 772 699)**
CASH FLOWS FROM INVESTING ACTIVITIES					
Net purchase of available-for-sale securities			(13 010 970)		(3 369 770)
Net purchase of property and equipment and intangible assets			(572 730)		(612 644)
Net payment on acquisition of subsidiary	32		(99 180)		-
Net cash used in investing activities			**(13 682 880)**		**(3 982 414)**

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

	Notes	31 December 2013 RUB'000	31 December 2012 RUB'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Issuance of common stock		7 535 600	5 762 075
Proceeds from subordinated deposits		-	1 316 216
Repayment of subordinated deposits		(7 393 842)	(625 076)
Proceeds from syndicated borrowings		-	9 493 638
Repayment of syndicated borrowings		(9 580 768)	(4 360 792)
Proceeds from issuance of subordinated bonds		17 722 171	3 000 000
Proceeds from issuance of other bonds		26 071 484	8 122 989
Repayment of other bonds		(856 101)	(3 602 205)
Net cash from financing activities		**33 498 544**	**19 106 845**
Effect of exchange rates changes on cash and cash equivalents		893 886	(326 076)
Change in cash and cash equivalents		**19 605 845**	**13 025 656**
Cash and cash equivalents, beginning of the period		47 459 075	34 433 419
Cash and cash equivalents, end of the period	9	**67 064 920**	**47 459 075**

Chairman of the Management Board — Vladimir A. Chubar

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

	Share capital RUB'000	Additional paid-in capital RUB'000	Revaluation surplus for buildings RUB'000	Revaluation reserve for available-for-sale RUB'000	Retained earnings RUB'000	Total equity RUB'000
1 January 2012	**11 638 088**	**3 699 047**	**500 424**	**(53 017)**	**9 823 364**	**25 607 906**
Total comprehensive income for the year	-	-	**615 504**	**69 078**	**5 777 882**	**6 462 464**
Transactions with owners, recorded directly in equity						
Shares issued	1 901 675	3 860 400	-	-	-	**5 762 075**
Contribution from the majority shareholder (net of deferred tax of RUB 364 962 thousand) (note 21)	-	1 459 848	-	-	-	**1 459 848**
Total transactions with owners, recorded directly in equity	**1 901 675**	**5 320 248**	-	-	-	7 221 923
31 December 2012	**13 539 763**	**9 019 295**	**1 115 928**	**16 061**	**15 601 246**	**39 292 293**
Total comprehensive income for the year	-	-	-	**(53 700)**	**8 880 063**	**8 826 363**
Transactions with owners, recorded directly in equity						
Shares issued (note 21)	1 789 929	5 745 671	-	-	-	**7 535 600**
Repayment of subordinated loans to the majority shareholder (net of deferred tax of RUB 1 249 052 thousand) (note 21)	-	(4 996 209)	-	-	-	**(4 996 209)**
Total transactions with owners, recorded directly in equity	**1 789 929**	**749 462**	-	-	-	**2 539 391**
31 December 2013	**15 329 692**	**9 768 757**	**1 115 928**	**(37 639)**	**24 481 309**	**50 658 047**

Chairman of the Management Board — Vladimir A. Chubar

Chief Accountant — Svetlana V. Sass

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

1 Background

Principal activities

These consolidated financial statements include the financial statements of CREDIT BANK OF MOSCOW (open joint-stock company) (the Bank) and its subsidiaries (together referred to as the Group).

The Bank was formed on 5 August 1992 as an open joint-stock company, then re-registered as a limited liability company under the legislation of the Russian Federation. On 18 August 1999 the Bank was reorganized as an open joint-stock company. The Bank's registered legal address is 2 (bldg. 1) Lukov pereulok, Moscow, Russia. The Bank operates under a general banking license from the Central Bank of the Russian Federation (the CBR), renewed on 21 January 2013. In December 2004 the Bank was admitted to the state program for individual deposit insurance.

The Bank is among the 15 largest banks in Russia by assets and conducts its business in Moscow and the Moscow region with a branch network comprising 60 branches, 710 ATMs and 5 200 payment terminals.

The principal subsidiaries of the Group are as follows:

Name	Country of incorporation	Principal activities	Degree of control, % 31 December 2013	Degree of control, % 31 December 2012
CBOM Finance p.l.c.	Ireland	Raising finance	100%	100%
MKB-Invest	Russia	Transactions with securities	100%	100%
MKB-Leasing	Russia	Finance leasing	100%	100%
M-Leasing	Russia	Finance leasing	100%	0%

The Bank does not have any direct or indirect shareholdings in the subsidiaries "CBOM Finance p.l.c." and "MKB Invest". "CBOM Finance p.l.c." was established to raise capital by the issue of debt securities and to use the proceeds of each such issuance to advance loans to the Bank. MKB-Invest is controlled by the Group through an option agreement. In 2013 the Bank exercised its option and acquired 100% of the shares of MKB-Leasing. During 2013 the Group also acquired 100% of the shares of M-Leasing.

Shareholders

In September 2013 there was an additional share issue subscribed by the existing shareholders.

As a result, the stake of each shareholder in the capital remained unchanged.

The Bank's shareholders as at 31 December 2013 are:

Concern Rossium, LLC – 85.00%

European Bank for Reconstruction and Development (EBRD) – 7.50%

RBOF Holding Company I Ltd. – 4.61%

International Finance Corporation (IFC) – 2.89%

The sole shareholder of Concern Rossium, LLC, is Roman I. Avdeev, who is ultimate controlling party of the Group.

Related party transactions are detailed in note 26.

Russian business environment

The Group's operations are primarily located in the Russian Federation. Consequently, the Group is exposed to the economic and financial markets of the Russian Federation, which display emerging-market characteristics. Legal, tax and regulatory frameworks continue to be developed, but are subject to varying interpretations and frequent changes that, together with other legal and fiscal impediments, contribute to the challenges faced by entities operating in the Russian Federation. In addition, the contraction felt after the 2008 economic downturn in the capital and credit markets and the impact of this on the Russian economy further increased the level of economic uncertainty in the environment. The consolidated financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

2 Basis of preparation

Statement of compliance

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

Basis of measurement

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

Functional and presentation currency

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

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

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

Use of estimates and judgments

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies is described in note 13 in respect of loan impairment estimates, in note 31 in respect of estimates of fair values of financial assets and liabilities and in note 3 in section "income and expense recognition" in respect of commission income on insurance contracts processing.

3 Significant accounting policies

The following significant accounting policies are applied in the preparation of the consolidated financial statements. The accounting policies are consistently applied by the Group entities to all periods presented in these consolidated financial statements except changes which are described at the end of this note.

Basis of consolidation

Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group.

The Group measures goodwill at the acquisition date as the fair value of the consideration transferred (including the fair value of any previously-held equity interest in the acquiree if the business combination is achieved in stages) and the recognised amount of any non-controlling interest in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

The Group elects on transaction-by-transaction basis whether to measure non-controlling interests at fair value, or at their proportionate share of the recognised amount of the identifiable net assets of the acquiree, at the acquisition date.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Subsidiaries

Subsidiaries are investees controlled by the Group. The Group controls an investee when it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. In particular, the Group consolidates investees that it controls on the basis of de facto circumstances. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Structured entities

A structured entity is an entity designed so that its activities are not governed by way of voting rights. In assessing whether the Group has power over such investees in which it has an interest, the Group considers factors such as the purpose and design of the investee; its practical ability to direct the relevant activities of the investee; the nature of its relationship with the investee; and the size of its exposure to the variability of returns of the investee.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates are eliminated to the extent of the Group’s interest in the enterprise. Unrealised gains resulting from transactions with associates are eliminated against the investment in the associate. Unrealised losses are eliminated in the same way as unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment.

Goodwill

Goodwill arises on acquisitions of subsidiaries.

Goodwill is allocated to cash-generating units for impairment testing purposes and is stated at cost less impairment losses.

Gains and losses on the disposal of an entity include the carrying amount of goodwill related to the entity sold.

Foreign currency

Transactions in foreign currencies are translated to the appropriate functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the foreign exchange rate ruling at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated to the functional currency at the foreign exchange rate ruling at the date of the transaction. Non-monetary assets and liabilities that are stated at fair value and whose appraised value is denominated in foreign currencies are translated to the functional currency at the foreign exchange rate ruling at the dates the fair values were determined. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments or qualifying cash flow hedges, which are recognised in other comprehensive income.

Inflation accounting

The Russian Federation ceased to be hyperinflationary with effect from 1 January 2003 and accordingly no adjustments for hyperinflation are made for periods subsequent to this date. The hyperinflation-adjusted carrying amounts of assets, liabilities and equity items as at 31 December 2002 became their carrying amounts as at 1 January 2003 for the purpose of subsequent accounting.

Cash and cash equivalents

The Group includes cash and nostro accounts with the Central Bank of the Russian Federation, and due from credit institutions with maturity of less than one month in cash and cash equivalents. The minimum reserve deposit with the Central Bank of the Russian Federation is not considered to be a cash equivalent due to restrictions on its withdrawability.

Financial instruments

Classification

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

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

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

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

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

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

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

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

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

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

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

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

- intends to sell immediately or in the near term

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

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

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

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

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

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

- meet the definition of loans and receivables.

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

Recognition

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

Measurement

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

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

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

- held-to-maturity investments which are measured at amortized cost using the effective interest method

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

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

Amortized cost

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

Fair value measurement principles

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Group measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

When there is no quoted price in an active market, the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account in these circumstances.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price, i.e., the fair value of the consideration given or received. If the Group determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument, but no later than when the valuation is supported wholly by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, the Group measures assets and long positions at the bid price and liabilities and short positions at the ask price.

Gains and losses on subsequent measurement

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

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

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

For financial assets and liabilities carried at amortized cost, a gain or loss is recognized in profit or loss when the financial asset or liability is derecognized or impaired, and through the amortization process.

Derecognition

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

If the Group purchases its own debt, it is removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from early retirement of debt.

The Group writes off assets deemed to be uncollectible.

Repurchase and reverse repurchase agreements

Securities sold under sale and repurchase (repo) agreements are accounted for as secured financing transactions, with the securities retained in the consolidated statement of financial position and the counterparty liability included in amounts payable under repo transactions within deposits by credit institutions. The difference between the sale and repurchase prices represents interest expense and is recognized in the profit or loss over the term of the repo agreement using the effective interest method.

Securities purchased under agreements to resell (reverse repo) are recorded as amounts receivable under reverse repo transactions within due from credit institutions. The difference between the purchase and resale prices represents interest income and is recognized in profit or loss over the term of the repo agreement using the effective interest method.

If assets purchased under an agreement to resell are sold to third parties, the obligation to return securities is recorded as a trading liability and measured at fair value.

Offsetting

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

Leases

Finance leases

Leases under which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases.

The inception of the lease is the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease. At the inception of the lease the amounts to be recognized at the commencement of the lease term are determined.

The commencement of the lease term is the date from which the lessee is entitled to exercise its right to use the leased asset. The commencement of the lease is considered to be the date of the lease agreement, or commitment if earlier. For purposes of this definition, a commitment should be in writing, signed by the parties with interest in the transaction, and should specifically set forth the principal terms of the transaction. However, if the property covered by the lease has yet to be constructed, installed or has not been acquired by the Group at the date of the lease agreement or commitment, the commencement of the lease is deemed to be the date when construction and installation of the property is completed or the property is acquired by the Group.

On commencement of the lease term, when the Group enters into a finance lease as a lessor, the present value of the lease payments ("net investment in leases") is recorded as part of loans to customers. The difference between the gross receivable and the present value of the receivable is unearned finance income. Finance income is recognized over the term of the lease using the effective interest method, which reflects a constant periodic rate of return.

Any advance payments made by the lessee prior to commencement of the lease are recorded as a reduction in the net investment in the lease.

Operating leases

Where the Group is the lessee, the total payments made under operating leases are charged to profit or loss on a straight-line basis over the period of the lease.

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

Property and equipment

Owned assets

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses, except for buildings, which are stated at revalued amounts as described below.

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

Leased assets

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

Revaluation

Buildings are subject to revaluation on a regular basis. The frequency of revaluation depends on the movements in the fair values of the buildings being revalued. A revaluation increase on a building is recognised as other comprehensive income except to the extent that it reverses a previous revaluation decrease recognised in profit or loss, in which case it is recognised in profit or loss. A revaluation decrease on a building is recognised in profit or loss except to the extent that it reverses a previous revaluation increase recognised as other comprehensive income directly in equity, in which case it is recognised as other comprehensive income.

Depreciation

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

	Years
Buildings	50
Furniture and other property	4-6
Computers and office equipment	4
Vehicles	5

When a building is revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

Intangible assets

Intangible assets, which are acquired by the Group, are stated at cost less accumulated amortisation and impairment losses.

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

Amortisation is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets, typically between 1 and 5 years.

Assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. Immediately before classification as held for sale, the assets, or components of a disposal group, are remeasured in accordance with the Group's accounting policies. Thereafter generally, the assets, or disposal group, are measured at the lower of their carrying amount and fair value less cost to sell.

Impairment

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. If any such evidence exists, the Group determines the amount of any impairment loss.

A financial asset or a group 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 events that occurred after the initial recognition of the financial asset (a loss event) and that event (or events) has had an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

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

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

Financial assets carried at amortized cost

Financial assets carried at amortised cost consist principally of loans and other receivables (loans and receivables). The Group reviews its loans and receivables to assess impairment on a regular basis.

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

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

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

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

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

Financial assets carried at cost

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

All impairment losses in respect of these investments are recognized in the profit or loss and cannot be reversed.

Available-for-sale financial assets

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

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

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

Non financial assets

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

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

Provisions

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

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

Credit related commitments

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

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

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

Share capital

Ordinary shares

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

Repurchase of share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a decrease in equity.

Dividends

The ability of the Bank to declare and pay dividends is subject to the rules and regulations of the Russian legislation. Dividends in relation to ordinary shares are reflected as an appropriation of retained earnings in the period when they are declared.

Taxation

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

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

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

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

Income and expense recognition

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

Loan origination fees, loan servicing fees and other fees that are considered to be integral to the overall profitability of a loan, together with the related direct costs, are deferred and amortized to the interest income over the estimated life of the financial instrument using the effective interest method.

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

The Bank acts as an agent for insurance providers offering their insurance products to consumer loan borrowers. Commission income from insurance represents commissions for such agency services received by the Bank from such partners. It is not considered to be integral to the overall profitability of consumer loans because it is determined and recognized based on the Bank's contractual arrangements with the insurance provider rather than with the borrower. The Bank does not participate in the insurance risk, which is entirely borne by the partner; commission income from insurance is recognized in profit or loss when the Bank provides the agency service to the insurance company. The borrowers have a choice whether to purchase the insurance policy. A consumer loan customer's decision whether or not to purchase an insurance policy does not effect the stated interest rate offered to that customer.

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

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

Segment reporting

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

Comparative information

The presentation of certain captions relating to fee and commission income, foreign exchange gains (losses), net other operating income and administrative expenses was changed for the year ended 31 December 2013 in comparison with the year ended 31 December 2012 to better present the nature of the underlying transactions. Comparative information is reclassified to conform to changes in presentation in the current year. The effect of this change in presentation is as follows:

	31 December 2012 as previously reported RUB'000	**Reclassification amounts RUB'000**	**31 December 2012 as currently reported RUB'000**
Reclassification of foreign exchange transaction related fees from "Foreign exchange gains (losses), net" to "Fee and commission income"			
Fee and commission income	4 106 221	176 908	4 283 129
Net foreign exchange gains (losses)	(208 228)	(176 908)	(385 136)
Reclassification of write-off of low-value fixed assets from "Other operating expenses" to "Administrative expenses" and presentation of other operating income and expense in one line "Other operating income, net"			
Other operating expenses	(366 543)	366 543	-
Other operating income	467 248	(467 248)	-
Other operating income, net	-	243 007	243 007
Administrative expenses	(2 487 708)	(142 302)	(2 630 010)

Changes in accounting policies and presentation

The Group has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2013.

- IFRS 10 *Consolidated Financial Statements*

Subsidiaries, including structured entities

As a result of adoption of IFRS 10, the Group changed its accounting policy with respect to determining whether it has control over and consequently whether it consolidates its investees. IFRS 10 introduces a new control model that is applicable to all investees, including structured entities.

In accordance with the transitional provisions of IFRS 10, the Group reassessed the control conclusion for its investees as at 1 January 2013. The Group determined that its consolidated group structure remained unchanged under IFRS 10, and as a result, the consolidated financial statements are unaffected.

- IFRS 12 *Disclosure of Interests in Other Entities*

The new standard contains disclosure requirements for entities that have interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. Interests are widely defined as contractual and non-contractual involvement, which expose an entity to a variability of returns from the performance of the other entity. The expanded and new disclosure requirements aim to provide information to enable users to evaluate the nature of risks associated with an entity's interests in other entities and the effects of those interests on the entity's financial position, financial performance and cash flows. IFRS 12 does not have a significant impact on the consolidated financial statements.

- IFRS 13 *Fair Value Measurements*

IFRS 13 establishes a single framework for measuring fair value and making disclosures about fair value measurements, when such measurements are required or permitted by other IFRS requirements. In particular, it unifies the definition of fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It also replaces and expands the disclosure requirements about fair value measurements in other IFRS requirements, including IFRS 7 *Financial Instruments: Disclosures* (see note 31).

As a result, the Group adopted a new definition of fair value, as set out in note 3. The change did not have a significant impact on the measurements of assets and liabilities. However, the Group included new disclosures in the consolidated financial statements that are required under IFRS 13.

- *Presentation of Items of Other Comprehensive Income* (Amendments to IAS 1 *Presentation of Financial Statements*)

As a result of the amendments to IAS 1, the Group modified the presentation of items of other comprehensive income in its consolidated statement of profit or loss and other comprehensive income, to present separately items that would be reclassified to profit or loss in the future from those that would never be. Comparative information is also re-presented accordingly.

- *Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities* (Amendments to IFRS 7)

Amendments to IFRS 7 *Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities* introduced new disclosure requirements for financial assets and liabilities that are offset in the statement of financial position or subject to master netting arrangements or similar agreements.

The Group included new disclosures in the consolidated financial statements that are required under amendments to IFRS 7 and provided comparative information for new disclosures (see note 29).

New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective as at 31 December 2013, and are not applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the financial position and performance. The Group plans to adopt these pronouncements when they become effective. The Group has not yet analysed the likely impact of new standards on its financial position or performance.

- IFRS 9 *Financial Instruments* is to be issued in phases and is intended ultimately to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 will be effective for annual periods beginning on or after 1 January 2018. The first phase of IFRS 9 was issued in November 2009 and relates to the classification and measurement of financial assets. The second phase regarding the classification and measurement of financial liabilities was published in October 2010. The third phase of IFRS 9 was issued in November 2013 and relates general hedge accounting. The standard is expected to be finalized in 2014. The Group recognises that the new standard introduces many changes to accounting for financial instruments and is likely to have a significant impact on the consolidated financial statements. The impact of these changes will be analysed during the course of the project, as further phases of the standard are issued. The Group does not intend to adopt this standard early.

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

- Various *Improvements to IFRS* are dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect not earlier than 1 January 2014. The Group has not yet analysed the likely impact of the improvements on its financial position or performance.

4 Net interest income

	31 December 2013 RUB'000	31 December 2012 RUB'000
Interest income		
Loans to customers	37 055 112	24 742 808
Financial instruments at fair value through profit or loss and available-for-sale securities	3 837 720	2 968 379
Due from credit institutions and the Central Bank of the Russian Federation	1 120 073	755 144
	42 012 905	**28 466 331**
Interest expense		
Deposits by customers	(16 810 152)	(11 600 160)
Debt securities issued	(6 116 438)	(2 970 572)
Deposits by credit institutions and the Central Bank of the Russian Federation (incl. international programmers)	(1 706 070)	(1 654 236)
	(24 632 660)	**(16 224 968)**
Net interest income	**17 380 245**	**12 241 363**

5 Net fee and commission income

	31 December 2013 RUB'000	31 December 2012 RUB'000
Fee and commission income		
Insurance contracts processing	2 319 732	770 246
Settlements and wire transfers	1 211 626	852 401
Cash handling	1 183 623	1 003 921
Guarantees and letters of credit	1 154 130	739 994
Plastic cards	671 001	354 122
Other cash operations	229 213	132 861
Currency exchange commission	219 208	176 985
Other	216 702	252 597
	7 205 235	**4 283 129**
Fee and commission expense		
Settlements and wire transfers	(550 314)	(325 348)
Other	(229 311)	(102 705)
	(779 625)	**(428 053)**
Net fee and commission income	**6 425 610**	**3 855 076**

6 Salaries, employment benefits and administrative expenses

	31 December 2013 RUB'000	31 December 2012 RUB'000
Salaries	3 530 518	2 843 875
Social security costs	843 989	636 429
Other	93 684	33 592
Salaries and employment benefits	**4 468 191**	**3 513 896**
Occupancy	755 171	848 172
Advertising and business development	570 957	507 380
Operating taxes	351 782	453 733
Security	262 392	211 153
Property maintenance	245 214	199 645
Write-off of low-value fixed assets	213 896	142 302
Computer maintenance and software expenses	71 860	43 488
Transport	64 277	59 210
Communications	57 149	53 555
Other	130 517	111 372
Administrative expenses	**2 723 215**	**2 630 010**

The Group does not have pension arrangements separate from the State pension system of the Russian Federation. The Russian Federation system requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged to profit or loss in the period the related compensation is earned by the employee.

7 Provision for impairment of other assets and credit related commitments

	31 December 2013 RUB'000	31 December 2012 RUB'000
Provision for impairment of credit related commitments	12 900	203 057
Provision for impairment of other assets	171 277	85 799
	184 177	**288 856**

8 Income tax

	31 December 2013 RUB'000	31 December 2012 RUB'000
Current tax charge	1 779 756	1 471 076
Deferred taxation	534 010	(1 910)
Income tax expense	**2 313 766**	**1 469 166**

Russian legal entities must report taxable income and remit income taxes thereon to the appropriate authorities. The statutory income tax rate for the Bank is 20% in 2013 and 2012.

The effective income tax rate differs from the statutory income tax rate. A reconciliation of income taxes based on the statutory rate with the actual income tax expense is presented below:

	31 December 2013 RUB'000	**%**	**31 December 2012 RUB'000**	**%**
Income before tax	11 193 829		7 247 048	
Applicable statutory tax rate	20%		20%	
Income tax using the applicable tax rate	2 238 766	20.0%	1 449 410	20.0%
Income taxed at lower rates	(33 059)	(0.3%)	(31 876)	(0.4%)
Net non-deductible costs	108 059	1.0%	51 632	0.7%
Income tax expense	**2 313 766**	**20.7%**	**1 469 166**	**20.3%**

Income tax liabilities are recorded in the consolidated statement of financial position as follows:

	31 December 2013 RUB'000	**31 December 2012 RUB'000**
Current tax liability	196 917	125 817
Deferred tax liability	1 880 127	2 608 594
Income tax liability	**2 077 044**	**2 734 411**

Movements in temporary differences during the years ended 31 December 2013 and 2012 are presented as follows.

RUB'000	**Balance 1 January 2013**	**Recognised in profit or loss**	**Recognised in other comprehensive income and equity**	**Balance 31 December 2013**
Due from credit institutions	2 100	11 469	-	13 569
Financial instruments at fair value through profit or loss	17 059	53 451	-	70 510
Available-for-sale securities	(5 171)	4 982	(13 425)	(13 614)
Loans to customers	958 180	675 348	-	1 633 528
Property and equipment	406 641	18 559	-	425 200
Other assets	(49 498)	10 041	-	(39 457)
Deposits by credit institutions	34 809	(32 531)	-	2 278
Deposits by customers	1 215 249	33 803	(1 249 052)	-
Debt securities issued	14 015	32 380	-	46 395
Other liabilities	15 210	(273 492)	-	(258 282)
Total deferred tax liability (deferred tax asset)	**2 608 594**	**534 010**	**(1 262 477)**	**1 880 127**

RUB'000	Balance 1 January 2012	Recognised in profit or loss	Recognised in other comprehensive income and equity	Balance 31 December 2012
Due from credit institutions	(5 772)	7 872	-	2 100
Financial instruments at fair value through profit or loss	(9 653)	26 712	-	17 059
Available-for-sale securities	2 225	(24 665)	17 269	(5 171)
Loans to customers	832 348	125 832	-	958 180
Property and equipment	265 806	(13 041)	153 876	406 641
Other assets	673	(50 171)	-	(49 498)
Deposits by credit institutions	22 592	12 217	-	34 809
Deposits by customers	876 864	(26 577)	364 962	1 215 249
Debt securities issued	24 556	(10 541)	-	14 015
Other liabilities	64 758	(49 548)	-	15 210
	2 074 397	**(1 910)**	**536 107**	**2 608 594**

Income tax recognised in other comprehensive income

The tax effects relating to components of other comprehensive income comprise the following:

RUB'000	2013 Amount before tax	2013 Tax benefit	2013 Amount net-of-tax	2012 Amount before tax	2012 Tax expense	2012 Amount net-of-tax
Revaluation reserve for available-for-sale securities	(67 125)	13 425	(53 700)	86 347	(17 269)	69 078
Revaluation of property and equipment	-	-	-	769 380	(153 876)	615 504
Other comprehensive income	**(67 125)**	**13 425**	**(53 700)**	**855 727**	**(171 145)**	**684 582**

9 Cash and cash equivalents

	31 December 2013 RUB'000	31 December 2012 RUB'000
Cash on hand	10 312 841	10 829 487
Correspondent account with the Central Bank of the Russian Federation	13 719 643	7 380 087
Nostro accounts with other banks		
rated from AA+ to AA-	721 960	2 356 479
rated from A+ to A-	3 168 085	3 661 702
rated from BBB+ to BBB-	1 548 056	2 772 663
rated from BB+ to BB-	1 412 775	11 150
rated from B+ to B-	58 601	54 111
not rated	478 463	169 090
Total nostro accounts with other banks	**7 387 940**	**9 025 195**

	31 December 2013 RUB'000	31 December 2012 RUB'000
Due from credit institutions with maturity of less than 1 month		
Deposits with the Central Bank of the Russian Federation	12 000 000	-
rated from A+ to A-	6 689 761	3 057 049
rated from BBB+ to BBB-	2 500 437	12 003 049
rated from B+ to B-	11 441 144	2 727 184
not rated	3 013 154	2 437 024
Total due from credit institutions with maturity of less than 1 month	**35 644 496**	**20 224 306**
Total cash and cash equivalents	**67 064 920**	**47 459 075**

Ratings are based on Standard & Poor's rating system.

No cash and cash equivalents are impaired or past due.

The correspondent account with the Central Bank of the Russian Federation represents balances held with the Central Bank of the Russian Federation related to settlement activity, and was available for withdrawal at the period end.

As at 31 December 2013 receivables under reverse sale and repurchase agreements included in cash and cash equivalents are RUB 13 876 923 thousand (31 December 2012: RUB 3 337 412 thousand).

Balances with stock exchanges are included in not rated nostro accounts in the amount of RUB 52 777 thousand as at 31 December 2013 (31 December 2012: RUB 25 914 thousand).

As at 31 December 2013, not rated due from credit institutions with maturity of less than 1 month includes term deposits secured by highly liquid debt securities under agreements to resell (reverse repo) in the amount of RUB 3 013 154 thousand (31 December 2012: RUB 610 228 thousand).

As at 31 December 2013, the Group has one counterparty (31 December 2012: two counterparties) whose nostro accounts and deposits with maturity of less than 1 month exceed 10% of total cash and cash equivalents. The gross value of these balances as at 31 December 2013 is RUB 25 719 643 thousand (31 December 2012: RUB 10 813 160 thousand).

Information about the currency and maturity of cash and cash equivalents is presented in note 29.

10 Due from credit institutions

	31 December 2013 RUB'000	31 December 2012 RUB'000
Term deposits		
rated from B+ to B-	9 134 652	8 634 326
not rated	1 331 365	3 886 465
Total due from credit institutions	**10 466 017**	**12 520 791**

No due from credit institutions are impaired or past due.

As at 31 December 2013, the Group has two counterparties (31 December 2012: three counterparties) whose deposit balances exceed 10% of total due from credit institutions. The gross value of these balances as at 31 December 2013 is RUB 7 036 270 thousand (31 December 2012: RUB 9 391 730 thousand).

Information about the currency and maturity and effective interest rates on amounts due from credit institutions is presented in note 29.

11 Financial instruments at fair value through profit or loss

	31 December 2013 RUB'000	31 December 2012 RUB'000
Held by the Group		
Government and municipal bonds		
Russian Government Federal bonds (OFZ)	697 718	3 575 134
Moscow Government bonds	529 188	384 119
Regional authorities and municipal bonds	6 883 716	3 770 072
Russian Government Eurobonds	-	72
Corporate bonds		
rated AAA	152 669	151 919
from BBB+ to BBB-	5 003 704	6 514 582
from BB+ to BB-	1 974 860	8 646 144
from B+ to B-	9 812 311	7 877 210
not rated	4 606 902	746 721
Derivative financial instruments	197 313	18 826
Equity investments	-	17
Total held by the Group	**29 858 381**	**31 684 816**
Pledged under sale and repurchase agreements		
Regional authorities and municipal bonds	2 228 405	-
Corporate bonds		
from BBB+ to BBB-	2 974 542	-
from BB+ to BB-	2 142 751	-
not rated	208 106	-
Total pledged under sale and repurchase agreements	**7 553 804**	**-**
Total financial instruments at fair value through profit or loss	**37 412 185**	**31 684 816**

No financial instruments at fair value through profit or loss are impaired or past due.

As at 31 December 2013, debt instruments in the amount of RUB 25 583 495 thousand are qualified to be pledged against borrowings from the Central Bank of the Russian Federation (31 December 2012: RUB 25 419 690 thousand).

Derivative financial instruments

The table below summarises, by major currencies, the contractual amounts of spot and forward exchange contracts outstanding as at 31 December 2013 and 2012 with details of the contractual exchange rates and remaining periods to maturity. Foreign currency amounts presented below are translated at rates ruling at the reporting date. The resulting unrealised gains and losses on these unmatured contracts, along with the amounts payable and receivable on the matured but unsettled contracts, are recognised in profit or loss and in financial instruments at fair value through profit or loss or other liabilities, as appropriate.

	Notional amount		Weighted average contractual exchange rates	
	2013 RUB'000	**2012 RUB'000**	**2013**	**2012**
Buy USD sell RUB				
Less than 3 months	4 058 439	8 835 418	32.1414	30.3639
Buy RUB sell USD				
Less than 3 months	2 120 852	8 048 766	32.8823	30.3354
Buy RUB sell EUR				
Less than 3 months	16 864	522 972	44.8600	40.3054
Buy EUR sell RUB				
Less than 3 months	15 339	-	45.1134	-
Buy EUR sell USD				
Less than 3 months	674	-	1.3743	-
Buy gold sell RUB				
Between 3 months and 1 year	-	1 294 848	-	1 619.78

12 Available-for-sale securities

	31 December 2013 RUB'000	31 December 2012 RUB'000
Held by the Group		
Corporate bonds		
from BBB+ to BBB-	915 894	1 005 788
from BB+ to BB-	815 781	1 727 976
from B+ to B-	1 483 679	320 678
not rated	60 385	62 032
Promissory notes		
from BBB+ to BBB-	1 404 848	1 175 991
from BB+ to BB-	3 208 017	688 723
from B+ to B-	1 723 193	-
not rated	941 440	-
Equity investments	4 661	26 006
Total held by the Group	**10 557 898**	**5 007 194**
Pledged under sale and repurchase agreements		
Corporate bonds		
from BBB+ to BBB-	5 842 803	-
from BB+ to BB-	1 159 761	-
from B+ to B-	504 820	-
Total pledged under sale and repurchase agreements	**7 507 384**	**-**

	31 December 2013 RUB'000	31 December 2012 RUB'000
Pledged as collateral for interbank and other loans		
Promissory notes		
from BBB+ to BBB-	468 282	440 400
Total pledged as collateral for interbank and other loans	**468 282**	**440 400**
Total available-for-sale securities	**18 533 564**	**5 447 594**

No available-for-sale securities are impaired or past due.

As at 31 December 2013, debt instruments in the amount of RUB 4 230 210 thousand are qualified to be pledged against borrowings from the Central Bank of the Russian Federation (31 December 2012: RUB 2 893 914 thousand).

13 Loans to customers

	31 December 2013 RUB'000	31 December 2013 RUB'000	31 December 2012 RUB'000	31 December 2012 RUB'000
	Loans	**Impairment allowance**	**Loans**	**Impairment allowance**
Loans to corporate clients	**220 010 070**	**(4 453 275)**	**155 540 928**	**(3 058 623)**
Loans to individuals				
Auto loans	10 305 656	(111 366)	10 978 394	(56 800)
Mortgage loans	15 677 650	(186 329)	10 442 450	(219 648)
Credit card loans	3 680 456	(309 052)	1 089 835	(81 576)
Other loans to individuals	68 185 781	(3 858 981)	27 881 641	(1 282 079)
Total loans to individuals	**97 849 543**	**(4 465 728)**	**50 392 320**	**(1 640 103)**
Gross loans to customers	**317 859 613**	**(8 919 003)**	**205 933 248**	**(4 698 726)**
Net loans to customers	**308 940 610**		**201 234 522**	

Credit quality of loan portfolio

The following table provides information on credit quality of the loan portfolio as at 31 December 2013:

	Gross loans RUB'000	Impairment allowance RUB'000	Net loans RUB'000	Impairment to gross loans %
Loans to customers				
- Not past due	303 860 751	(4 249 525)	299 611 226	1.4
- Not past due but impaired	6 161 291	(618 744)	5 542 547	10.0
- Overdue less than 31 days	2 138 075	(235 572)	1 902 503	11.0
- Overdue 31-60 days	832 030	(345 263)	486 767	41.5
- Overdue 61-90 days	673 036	(400 432)	272 604	59.5
- Overdue 91-180 days	1 576 806	(1 044 964)	531 842	66.3
- Overdue 181-360 days	1 765 664	(1 421 261)	344 403	80.5
- Overdue more than 360 days	851 960	(603 242)	248 718	70.8
Total loans to customers	**317 859 613**	**(8 919 003)**	**308 940 610**	**2.8**

The following table provides information on credit quality of the loan portfolio as at 31 December 2012:

	Gross loans RUB'000	Impairment allowance RUB'000	Net loans RUB'000	Impairment to gross loans %
Loans to customers				
- Not past due	202 820 574	(2 885 123)	199 935 451	1.4
- Overdue less than 31 days	683 080	(137 607)	545 473	20.1
- Overdue 31-60 days	261 210	(127 177)	134 033	48.7
- Overdue 61-90 days	201 221	(113 965)	87 256	56.6
- Overdue 91-180 days	528 310	(343 851)	184 459	65.1
- Overdue 181-360 days	678 840	(537 605)	141 235	79.2
- Overdue more than 360 days	760 013	(553 398)	206 615	72.8
Total loans to customers	**205 933 248**	**(4 698 726)**	**201 234 522**	**2.3**

As at 31 December 2013, the gross amount of overdue loans with payments that are overdue at least one day totals RUB 7 837 571 thousand, which represents 2.5% of the gross loan portfolio (31 December 2012: RUB 3 112 674 thousand and 1.5%, respectively).

Nonperforming loans (NPLs), or loans with payments that are overdue over ninety days, amount to RUB 4 194 430 thousand or 1.3% of the gross loan portfolio (31 December 2012: RUB 1 967 163 thousand and 1.0%, respectively).

NPLs together with restructured loans amount to RUB 4 955 223 thousand or 1.6% of the gross loan portfolio (31 December 2012: RUB 2 192 308 thousand and 1.1%, respectively).

As at 31 December 2013, the ratio of total impairment allowance to overdue loans equals 113.8%, the ratio of total impairment allowance to NPLs equals 212.6% and the ratio of total impairment allowance to NPLs together with restructured loans equals 180.0% (31 December 2012: 151.0%, 238.9% and 214.3%, respectively).

Movements in the loan impairment allowance for the years ended 31 December 2013 and 31 December 2012 are as follows:

	2013 RUB'000	2012 RUB'000
Balance at the beginning of the period	**4 698 726**	**3 682 432**
Net charge	5 498 815	1 864 717
Net write-offs	(1 278 538)	(848 423)
Balance at the end of the period	**8 919 003**	**4 698 726**

As at 31 December 2013, interest accrued on overdue and impaired loans amounts to RUB 547 321 thousand (31 December 2012: RUB 350 243 thousand).

Credit quality of loans to corporate clients portfolio

The following table provides information on credit quality of loans to corporate clients as at 31 December 2013:

	Gross loans RUB'000	Impairment allowance RUB'000	Net loans RUB'000	Impairment to gross loans %
Loans to corporate clients				
- Not past due	213 315 950	(3 697 256)	209 618 694	1.7
- Not past due but impaired	6 161 291	(618 744)	5 542 547	10.0
- Overdue less than 31 days	120 135	(34 303)	85 832	28.6
- Overdue 31-60 days	24 475	(5 322)	19 153	21.7
- Overdue 61-90 days	29 566	(6 088)	23 478	20.6
- Overdue 91-180 days	239 256	(42 503)	196 753	17.8
- Overdue 181-360 days	96 508	(38 436)	58 072	39.8
- Overdue more than 360 days	22 889	(10 623)	12 266	46.4
Total loans to corporate clients	**220 010 070**	**(4 453 275)**	**215 556 795**	**2.0**

The following table provides information on credit quality of loans to corporate clients as at 31 December 2012:

	Gross loans RUB'000	Impairment allowance RUB'000	Net loans RUB'000	Impairment to gross loans %
Loans to corporate clients				
- Not past due	155 137 958	(2 739 712)	152 398 246	1.8
- Overdue less than 31 days	8 060	(1 105)	6 955	13.7
- Overdue 31-60 days	4 313	(1 220)	3 093	28.3
- Overdue 61-90 days	38 224	(16 958)	21 266	44.4
- Overdue 91-180 days	92 045	(56 689)	35 356	61.6
- Overdue 181-360 days	124 602	(107 414)	17 188	86.2
- Overdue more than 360 days	135 726	(135 525)	201	99.9
Total loans to corporate clients	**155 540 928**	**(3 058 623)**	**152 482 305**	**2.0**

Included in not past due loans to corporate clients as at 31 December 2013 are loans in the amount of RUB 6 472 157 thousand for which there have been some indications of impairment following certain negative developments in financial position of the borrower during 2013. Management estimated loan impairment allowance rate for these loans as 4% in accordance with the Group's methodology. Management monitors the situation and based on the understanding of the current developments, analysis of collateral and other factors believes that impairment allowance is appropriate. Also as the Group is the largest lender to this company, it has the ability to monitor operating activities of this borrower in order to protect its rights as a lender.

During 2013, management revised the methodology used to estimate the impaiment allowance for the finance lease portfolio. The revised methodology is intended to provide a more accurate estimate of the impairment allowance by using historical data specific to the finance lease portfolio. As a result of applying this new methodology, the impairment allowance for the finance lease portfolio is approximately RUB 165 676 thousand higher than it would have been if the previous methodology had been applied.

The following table represents information about concentration of loans to corporate clients as at 31 December 2013 and 31 December 2012:

	31 December 2013		31 December 2012	
	RUB'000	**% of total loan portfolio**	**RUB'000**	**% of total loan portfolio**
Top 5 clients	30 093 795	9.5	23 020 203	11.2
Top 10 clients	53 166 671	16.7	40 757 027	19.8
Top 20 clients	87 790 694	27.6	61 793 777	30.0

The Group estimates loan impairment for loans to corporate clients based on an analysis of the future cash flows for impaired loans and based on its past loss experience adjusted for recent changes in the economic environment for portfolios of loans for which no indications of impairment have been identified. The key assumptions used in the analysis of future cash flows for impaired loans are based on the assessment of the value of collateral pledged to secure these loans when applicable. To estimate net realizable value of collateral for sale, management generally relies on market prices and professional judgment of internal appraisers, applying discount where appropriate.

Changes in these estimates could effect the loan impairment allowance. For example, to the extent that the net present value of the estimated cash flows differs by one percent, the impairment allowance as at 31 December 2013 would increase/decrease by RUB 2 155 568 thousand (31 December 2012: RUB 1 524 823 thousand).

Analysis of collateral

Corporate loans are secured by the following types of collateral, depending on the type of transaction: real estate (manufacturing premises, warehouses), equipment and motor vehicles, inventories, receivables, guarantees and sureties, securities, promissory notes.

The following table provides information on collateral securing loans to corporate customers, net of impairment, by types of collateral as at 31 December 2013 and 31 December 2012:

	31 December 2013	**31 December 2012**
	RUB'000	**RUB'000**
Real estate	36 255 555	28 114 584
Securities	30 487 469	13 970 269
Goods in turnover	29 305 369	23 412 380
Claims for contract receivables	16 822 515	12 034 429
Equipment and motor vehicles	8 374 778	6 128 842
Bank's own debt securities	1 787 670	-
Guarantees by other banks	-	344 878
Corporate guarantees and no collateral	92 523 439	68 476 922
	215 556 795	**152 482 304**

The Group generally does not consider corporate guarantees for impairment assessment purposes.

The amounts in the table above represent the carrying value of the related loan, and do not necessarily represent the fair value of the collateral.

The recoverability of loans which are neither past due nor impaired is primarily dependent on the creditworthiness of the borrowers rather than the value of collateral, and the Group does not necessarily update the valuation of collateral as at each reporting date.

For loans secured by multiple types of collateral, collateral that is most relevant for impairment assessment is disclosed. Guarantees and sureties received from individuals, such as shareholders of SME borrowers, are not considered for impairment assessment purposes. Accordingly, such loans and unsecured portions of partially secured exposures are presented as loans without collateral or other credit enhancement.

Management estimates that the impairment allowance for loans to corporate customers would have been approximately RUB 5 542 547 thousand higher without any collateral (31 December 2012: RUB 821 839 thousand).

Collateral obtained

During the year ended 31 December 2013, the Group obtained certain assets by taking possession of collateral for loans to corporate customers. As at 31 December 2013, the carrying amount of such assets was RUB 2 996 thousand (31 December 2012: RUB 4 572 thousand). The Group's policy is to sell these assets as soon as it is practicable.

Analysis of movements in the impairment allowance

Movements in the loan impairment allowance for loans to corporate clients for the years ended 31 December 2013 and 31 December 2012 are as follows:

	2013 RUB'000	**2012 RUB'000**
Balance at the beginning of the period	3 058 623	2 624 407
Net charge	1 804 774	642 917
Net write-offs	(410 122)	(208 701)
Balance at the end of the period	**4 453 275**	**3 058 623**

Credit quality of loans to individuals

The following table provides information on the credit quality of loans to individuals as at 31 December 2013:

	Gross loans RUB'000	**Impairment allowance RUB'000**	**Net loans RUB'000**	**Impairment to gross %**
Auto loans				
- Not past due	10 004 501	(2 513)	10 001 988	0.03
- Overdue less than 31 days	63 942	(1 016)	62 926	1.6
- Overdue 31-60 days	23 243	(655)	22 588	2.8
- Overdue 61-90 days	27 721	(2 247)	25 474	8.1
- Overdue 91-180 days	45 339	(17 798)	27 541	39.3
- Overdue 181-360 days	97 141	(56 789)	40 352	58.5
- Overdue more than 360 days	43 769	(30 348)	13 421	69.3
Total auto loans	**10 305 656**	**(111 366)**	**10 194 290**	**1.1**

	Gross loans	Impairment allowance	Net loans	Impairment to gross
	RUB'000	RUB'000	RUB'000	%
Mortgage loans				
- Not past due	15 096 667	(11 880)	15 084 787	0.1
- Overdue less than 31 days	114 877	(698)	114 179	0.6
- Overdue 31-60 days	34 942	(274)	34 668	0.8
- Overdue 61-90 days	32 312	(600)	31 712	1.9
- Overdue 91-180 days	19 383	(2 473)	16 910	12.8
- Overdue 181-360 days	45 867	(12 859)	33 008	28.0
- Overdue more than 360 days	333 602	(157 545)	176 057	47.2
Total mortgage loans	**15 677 650**	**(186 329)**	**15 491 321**	**1.2**
Credit card loans				
- Not past due	2 637 275	(23 943)	2 613 332	0.9
- Overdue less than 31 days	620 353	(39 046)	581 307	6.3
- Overdue 31-60 days	92 872	(26 959)	65 913	29.0
- Overdue 61-90 days	55 190	(28 285)	26 905	51.3
- Overdue 91-180 days	141 249	(88 370)	52 879	62.6
- Overdue 181-360 days	110 698	(83 326)	27 372	75.3
- Overdue more than 360 days	22 819	(19 123)	3 696	83.8
Total credit card loans	**3 680 456**	**(309 052)**	**3 371 404**	**8.4**
Other loans to individuals				
- Not past due	62 806 358	(513 933)	62 292 425	0.8
- Overdue less than 31 days	1 218 768	(160 509)	1 058 259	13.2
- Overdue 31-60 days	656 498	(312 053)	344 445	47.5
- Overdue 61-90 days	528 247	(363 212)	165 035	68.8
- Overdue 91-180 days	1 131 579	(893 820)	237 759	79.0
- Overdue 181-360 days	1 415 450	(1 229 851)	185 599	86.9
- Overdue more than 360 days	428 881	(385 603)	43 278	89.9
Total other loans to individuals	**68 185 781**	**(3 858 981)**	**64 326 800**	**5.7**
Total loans to individuals	**97 849 543**	**(4 465 728)**	**93 383 815**	**4.6**

The following table provides information on the credit quality of loans to individuals as at 31 December 2012:

	Gross loans	Impairment allowance	Net loans	Impairment to gross loans
	RUB'000	RUB'000	RUB'000	%
Auto loans				
- Not past due	10 816 865	(3 883)	10 812 982	0.04
- Overdue less than 31 days	59 753	(4 250)	55 503	7.1
- Overdue 31-60 days	20 388	(4 415)	15 973	21.7
- Overdue 61-90 days	19 289	(5 814)	13 475	30.1
- Overdue 91-180 days	23 182	(9 822)	13 360	42.4
- Overdue 181-360 days	26 855	(17 298)	9 557	64.4
- Overdue more than 360 days	12 062	(11 318)	744	93.8
Total auto loans	**10 978 394**	**(56 800)**	**10 921 594**	**0.5**

	Gross loans	Impairment allowance	Net loans	Impairment to gross loans
	RUB'000	RUB'000	RUB'000	%
Mortgage loans				
- Not past due	9 894 216	(10 195)	9 884 021	0.1
- Overdue less than 31 days	35 018	(792)	34 226	2.3
- Overdue 31-60 days	8 572	(738)	7 834	8.6
- Overdue 61-90 days	4 454	(582)	3 872	13.1
- Overdue 91-180 days	53 376	(9 265)	44 111	17.4
- Overdue 181-360 days	63 681	(10 847)	52 834	17.0
- Overdue more than 360 days	383 133	(187 229)	195 904	48.9
Total mortgage loans	**10 442 450**	**(219 648)**	**10 222 802**	**2.1**
Credit card loans				
- Not past due	990 263	(4 801)	985 462	0.5
- Overdue less than 31 days	201	(45)	156	22.4
- Overdue 31-60 days	19 356	(10 259)	9 097	53.0
- Overdue 61-90 days	8 831	(5 746)	3 085	65.1
- Overdue 91-180 days	20 890	(15 607)	5 283	74.7
- Overdue 181-360 days	33 592	(29 128)	4 464	86.7
- Overdue more than 360 days	16 702	(15 990)	712	95.7
Total credit card loans	**1 089 835**	**(81 576)**	**1 008 259**	**7.5**
Other loans to individuals				
- Not past due	25 981 272	(126 533)	25 854 740	0.5
- Overdue less than 31 days	580 048	(131 415)	448 633	22.7
- Overdue 31-60 days	208 581	(110 545)	98 036	53.0
- Overdue 61-90 days	130 423	(84 865)	45 558	65.1
- Overdue 91-180 days	338 817	(252 468)	86 349	74.5
- Overdue 181-360 days	430 110	(372 918)	57 192	86.7
- Overdue more than 360 days	212 390	(203 336)	9 054	95.7
Total other loans to individuals	**27 881 641**	**(1 282 079)**	**26 599 562**	**4.6**
Total loans to individuals	**50 392 320**	**(1 640 103)**	**48 752 217**	**3.3**

During 2013, management revised the methodology used to estimate the impairment allowance for loans to individuals. The revised methodology is intended to provide a more precise estimate of the impairment allowance by using historical data specific to the individual portfolios. As a result of applying this new methodology the impairment allowance for loans to individuals is RUB 420 078 thousand lower than it would have been if the previous methodology had been applied.

Management estimates loan impairment based on historical loss experience for these types of loans using historical loss migration patterns for the past twenty four months and the fair value of collateral. The significant assumptions used by management in determining the impairment losses for loans to individuals include:

- loss migration rates and recovery rates are stable and can be estimated based on the historic loss migration pattern for the past 24 months
- in respect of mortgage loan loss migration rates and recovery rates, a decrease of 50% is applied as these loans are collateralised with real estate for which the fair value of collateral is estimated on a regular basis.

Changes in these estimates could affect the loan impairment allowance. For example, to the extent that the net present value of the estimated cash flows differs by one percent, the impairment allowance as at 31 December 2013 would increase/decrease by RUB 933 838 thousand (31 December 2012: RUB 487 522 thousand).

Analysis of collateral

Mortgage loans are secured by the underlying housing real estate. Auto loans are secured by the underlying car. Credit card overdrafts and other loans to individuals are not secured.

For the allowance on a portfolio basis, management does not estimate loan impairment based on a specific analysis of the fair value of collateral but instead applies actual historical loss experience. However once a loan becomes impaired, management considers the fair value of collateral when assessing the impairment allowance for each individual loan.

As at 31 December 2013, impaired mortgage loans in the gross amount of RUB 580 983 thousand are secured by collateral with a fair value of RUB 484 151 thousand (31 December 2012: RUB 548 234 thousand and RUB 451 018 thousand, respectively). As at 31 December 2013, the Group estimates the fair value of private real estate undergoing foreclosure to be RUB 113 342 thousand (31 December 2012: RUB 137 708 thousand).

Analysis of movements in the impairment allowance

Movements in the loan impairment allowance by classes of loans to individuals for the year ended 31 December 2013 are as follows:

	Auto loans RUB'000	**Mortgage loans RUB'000**	**Credit card loans RUB'000**	**Other loans to individuals RUB'000**	**Total RUB'000**
Balance at the beginning of the period	56 800	219 648	81 576	1 282 079	1 640 103
Net charge (recovery)	99 125	(33 319)	281 106	3 347 129	3 694 041
Net write-offs	(44 559)	-	(53 630)	(770 227)	(868 416)
Balance at the end of the period	**111 366**	**186 329**	**309 052**	**3 858 981**	**4 465 728**

Movements in the loan impairment allowance by classes of loans to individuals for the year ended 31 December 2012 are as follows:

	Auto loans RUB'000	**Mortgage loans RUB'000**	**Credit card loans RUB'000**	**Other loans to individuals RUB'000**	**Total RUB'000**
Balance at the beginning of the period	23 778	261 229	63 980	709 038	1 058 025
Net charge (recovery)	46 175	(41 581)	71 942	1 145 264	1 221 800
Net write-offs	(13 153)	-	(54 346)	(572 223)	(639 722)
Balance at the end of the period	**56 800**	**219 648**	**81 576**	**1 282 079**	**1 640 103**

Industry and geographical analysis of the loan portfolio

Loans to customers were issued primarily to customers located within the Russian Federation, who operate in the following economic sectors:

	31 December 2013 RUB'000	31 December 2012 RUB'000
Loans to individuals	97 849 543	50 392 320
Food and farm products	28 148 042	17 920 338
Consumer electronics, appliances and computers	26 902 297	25 737 636
Residential and commercial construction and development	23 347 068	17 411 616
Metallurgical	20 133 322	8 071 462
Automotive, motorcycles and spare parts	19 114 136	5 264 206
Oil and industrial chemicals	14 935 835	4 083 585
Services	12 589 630	9 708 122
Pharmaceutical and medical products	11 774 075	6 859 278
Clothing, shoes, textiles and sporting goods	11 121 156	10 189 443
Paper, stationery and packaging products	7 692 161	5 233 871
Industrial and infrastructure construction	8 342 728	2 660 923
Construction and decorative materials, furniture	6 581 178	10 608 236
Industrial equipment and machinery	6 341 601	9 714 082
Financial	6 245 239	2 946 641
Property rental	5 545 992	5 622 270
Consumer chemicals, perfumes and hygiene products	2 235 989	4 250 319
Equipment leasing	1 748 930	2 649 336
Electric utility	1 310 007	1 117 228
Telecommunications	1 241 131	392 750
Gardening and pet products	970 578	1 032 346
Products for home, gifts, jewelry and business accessories	560 088	404 207
Books, video, print and copy	282 476	531 924
Other	2 846 411	3 131 109
	317 859 613	**205 933 248**
Impairment allowance	(8 919 003)	(4 698 726)
	308 940 610	**201 234 522**

Finance lease

Finance lease receivables included in loans to customers are as follows:

	31 December 2013 RUB'000	31 December 2012 RUB'000
Gross investment in finance lease	7 843 462	5 130 373
Unearned interest income	(1 803 523)	(1 121 566)
Net investment in finance lease before allowance	**6 039 939**	**4 008 807**
Impairment allowance	(319 888)	(110 706)
Net investment in finance lease	**5 720 051**	**3 898 101**

The contractual maturity of the net investment in leases is as follows:

	31 December 2013 RUB'000	31 December 2012 RUB'000
Less than 1 year	2 911 102	1 903 526
Between 1 and 5 years	2 483 340	1 915 664
More than 5 years	325 609	78 911
	5 720 051	**3 898 101**

Loan maturities

The maturity of the loan portfolio is presented in note 29.

14 Property and equipment

The movement in property and equipment for the year ended 31 December 2013 is presented in the table below:

RUB'000	Buildings	Vehicles	Computers and office equipment	Furniture and other property	Construction in progress	Total
Cost/revalued amount						
At 1 January 2013	**4 755 123**	**369 460**	**341 639**	**1 321 655**	**62 716**	**6 850 593**
Additions	15 692	106 714	45 008	230 433	99 115	**496 962**
Disposals	-	(21 431)	(13 463)	(59 820)	(1 508)	**(96 222)**
Transfers	-	2 498	(112 386)	163 808	(53 920)	-
At 31 December 2013	**4 770 815**	**457 241**	**260 798**	**1 656 076**	**106 403**	**7 251 333**
Accumulated depreciation						
At 1 January 2013	**-**	**112 198**	**137 930**	**520 845**	**-**	**770 973**
Depreciation charge	103 623	82 204	45 345	239 719	-	**470 891**
Disposals	-	(17 460)	(13 421)	(38 679)	-	**(69 560)**
Transfers	-	1 051	(15 587)	14 536	-	-
At 31 December 2013	**103 623**	**177 993**	**154 267**	**736 421**	**-**	**1 172 304**
Carrying value						
At 31 December 2013	**4 667 192**	**279 248**	**106 531**	**919 655**	**106 403**	**6 079 029**

The movement in property and equipment for the year ended 31 December 2012 is presented in the table below:

RUB'000	Buildings	Vehicles	Computers and office equipment	Furniture and other property	Construction in progress	Total
Cost/revalued amount						
At 1 January 2012	**2 230 452**	**255 891**	**259 371**	**1 113 697**	**1 757 962**	**5 617 373**
Additions	62 137	134 860	85 859	249 915	239 065	**771 836**
Disposals	(1 523)	(21 291)	(3 591)	(41 957)	-	**(68 362)**
Transfers	1 934 311	-	-	-	(1 934 311)	-
Revaluation	769 380	-	-	-	-	**769 380**
Elimination of accumulated depreciation on revalued buildings	(239 634)	-	-	-	-	**(239 634)**
At 31 December 2012	**4 755 123**	**369 460**	**341 639**	**1 321 655**	**62 716**	**6 850 593**
Accumulated depreciation						
At 1 January 2012	**141 348**	**68 232**	**78 910**	**358 951**	**-**	**647 441**
Depreciation charge	98 461	60 709	62 611	186 122	-	**407 903**
Disposals	(175)	(16 743)	(3 591)	(24 228)	-	**(44 737)**
Elimination of accumulated depreciation on revalued buildings	(239 634)	-	-	-	-	**(239 634)**
At 31 December 2012	**-**	**112 198**	**137 930**	**520 845**	**-**	**770 973**
Carrying value						
At 31 December 2012	**4 755 123**	**257 262**	**203 709**	**800 810**	**62 716**	**6 079 620**

Revalued assets

At 31 December 2012 buildings were revalued based on the results of an independent appraisal performed by OOO "MEF-Audit". The basis used for the appraisal was the market approach. The market approach is based upon an analysis of the results of comparable sales and/or offers of similar buildings. The carrying value of buildings as of 31 December 2013, if the buildings would not have been revalued, would be RUB 3 272 281 thousand (31 December 2012: RUB 3 360 213 thousand).

15 Other assets

	31 December 2013 RUB'000	31 December 2012 RUB'000
Receivables and settlements with suppliers	1 306 302	925 797
Receivables for commissions	415 232	200 405
Impairment allowance	(102 445)	(56 983)
Total other financial assets	**1 619 089**	**1 069 219**
Advance for purchase of building	472 000	-
Real estate held for sale	187 728	190 411
Intangible assets	150 680	74 870
Deferred expenses	113 712	329 746

	31 December 2013 RUB'000	31 December 2012 RUB'000
Profit tax receivable	-	1 578
Other	62 508	89 371
Total other non-financial assets	**986 628**	**685 976**
Total other assets	**2 605 717**	**1 755 195**

In December 2013, the Group agreed to purchase a building in Moscow and paid RUB 472 000 thousand. The title to the building was transferred to the Group in January 2014.

Analysis of movements in the impairment allowance

Movements in the impairment allowance for the years ended 31 December 2013 and 2012 are as follows:

	2013 RUB'000	2012 RUB'000
Balance at the beginning of the year	**56 983**	**44 196**
Net charge	171 277	85 799
Write-offs	(125 815)	(73 012)
Balance at the end of the year	**102 445**	**56 983**

16 Deposits by the Central Bank of the Russian Federation

	31 December 2013 RUB'000	31 December 2012 RUB'000
Term deposits	8 513 459	-
Payables under repurchase agreements or collateralised loans	6 052 712	-
Total deposits by the Central Bank of the Russian Federation	**14 566 171**	**-**

Information about the currency and maturity and effective interest rates on deposits by the Central Bank of Russian Federation is presented in note 29.

17 Deposits by credit institutions

	31 December 2013 RUB'000	31 December 2012 RUB'000
Demand deposits	335 793	949 181
Term deposits	15 832 104	23 377 902
Payables under repurchase agreements or collateralised loans	6 909 639	-
Syndicated loans	650 756	10 231 524
Subordinated debt	669 820	625 126
Total deposits by credit institutions	**24 398 112**	**35 183 733**

Syndicated loans represent loans denominated in USD with an effective interest rate of 5.1% (31 December 2012: from 4.8% to 5.2%) and maturity from 2014 to 2015 (31 December 2012: from 2013 to 2015).

Subordinated debt represents loans denominated in USD with an effective interest rate of 7.0% (31 December 2012: 8.9%) and maturity in 2017 (31 December 2012: from 2016 to 2017).

The Group is required to meet certain covenants attached to syndicated loans, subordinated debt and bilateral loans from the IFC, EBRD and the Black Sea Trade And Development Bank. As at 31 December 2013 and 2012, the Group fully meets all covenants of the loan agreements.

As at 31 December 2013, the Group has two counterparties (31 December 2012: one counterparty) whose deposits balance exceed 10% of deposits by credit institutions. The gross value of this balance as at 31 December 2013 is RUB 7 036 270 thousand (31 December 2012: RUB 6 482 959 thousand).

Information about the currency and maturity and effective interest rates on deposits by credit institutions is presented in note 29.

18 Deposits by customers

		31 December 2013 RUB'000	31 December 2012 RUB'000
Corporate customers	Demand	42 456 110	24 212 584
	Term	96 342 152	52 344 888
	Subordinated	-	2 219 428
	Term notes	1 607 146	3 225 262
Total corporate customers		**140 405 408**	**82 002 162**
Individuals	Demand	9 682 192	7 285 758
	Term	124 784 404	99 726 184
Total individuals		**134 466 596**	**107 011 942**
Total deposits by customers		**274 872 004**	**189 014 104**

Industry analysis of the deposit portfolio

	31 December 2013 RUB'000	31 December 2012 RUB'000
Deposits by individuals	134 466 596	107 011 942
Financial	58 348 702	32 030 998
Oil and industrial chemicals	23 457 877	1 173 250
Residential and commercial construction and development	14 805 435	2 201 562
Metallurgical	9 872 121	8 799 501
Services	8 018 748	7 008 374
Food and farm products	4 041 971	1 690 508
Consumer electronics, appliances and computers	3 933 489	8 434 799
Clothing, shoes, textiles and sporting goods	2 092 184	3 186 241
Electric utility	1 797 045	1 887 741
Industrial equipment and machinery	1 451 196	1 046 415
Industrial and infrastructure construction	1 125 409	863 545
Telecommunications	765 418	79 589
Construction and decorative materials, furniture	591 878	527 188
Automotive, motorcycles and spare parts	577 086	263 413
Pharmaceutical and medical products	558 279	973 649

	31 December 2013 RUB'000	31 December 2012 RUB'000
Property rental	550 404	213 594
Consumer chemicals, perfumes and hygiene products	514 253	303 028
Products for home, gifts, jewelry and business accessories	270 965	364 501
Books, video, print and copy	88 435	96 483
Equipment leasing	84 673	87 968
Gardening and pet products	24 373	65 253
Paper, stationery and packaging products	23 455	403 877
Other	7 412 012	10 300 685
	274 872 004	**189 014 104**

The following table represents information about concentration of deposits from corporate clients as at 31 December 2013 and 31 December 2012:

	31 December 2013		31 December 2012	
	RUB'000	% of total deposits	RUB'000	% of total deposits
Top 5 clients	50 277 334	18.3	21 550 842	11.4
Top 10 clients	68 684 183	25.0	32 894 377	17.4
Top 20 clients	88 474 620	32.2	46 080 283	24.4

As at 31 December 2013 and 2012, there are no demand or term deposits from customers that individually exceed 10% of total customer accounts.

Information about the currency and maturity and effective interest rates on deposits by customers is presented in note 29.

19 Debt securities issued

	31 December 2013 RUB'000	31 December 2012 RUB'000
Promissory notes issued at nominal value	6 925 845	8 420 770
Accrued interest	7 118	18 723
Unamortized discount	(274 384)	(283 601)
Total promissory notes issued	**6 658 579**	**8 155 892**
Subordinated bonds	21 562 286	3 015 000
Bonds	56 332 651	28 842 898
Total bonds issued	**77 894 937**	**31 857 898**
Total debt securities issued	**84 553 516**	**40 013 790**

The table below provides a summary of bonds issued as at 31 December 2013 and 2012:

	Nominal amount of the initial issue RUB'000/ USD'000	Amount of the issue outstanding 31 December 2013 RUB'000	Amount of the issue outstanding 31 December 2012 RUB'000	Issue date	Maturity date	Coupon rate	Next early redemption date
RUB denominated bonds issue 07	2 000 000	2 077 196	2 081 065	20.07.2010	14.07.2015	10.25%	18.01.2014
RUB denominated bonds issue 08	3 000 000	2 908 262	1 696 892	14.04.2010	08.04.2015	8.65%	At maturity
RUB denominated subordinated bonds issue 11	3 000 000	3 016 965	3 015 000	11.12.2012	05.06.2018	12.25%*	At maturity
RUB denominated bonds issue BO-01	3 000 000	3 073 630	2 942 475	22.02.2011	22.02.2014	9.50%	At maturity
RUB denominated bonds issue BO-02	3 000 000	2 615 549	3 073 907	25.09.2012	25.09.2015	8.85%	At maturity
RUB denominated bonds issue BO-03	4 000 000	3 696 947	4 061 554	27.04.2012	27.04.2015	9.4%	At maturity
RUB denominated bonds issue BO-04	5 000 000	4 800 584	3 943 020	15.04.2011	15.04.2014	10.25%	At maturity
RUB denominated bonds issue BO-05	5 000 000	4 973 059	5 002 327	23.06.2011	23.06.2014	9.20%	At maturity
RUB denominated bonds issue BO-06	5 000 000	5 049 858	-	24.10.2013	24.10.2018	8.95%	28.10.2015
RUB denominated bonds issue BO-07	5 000 000	4 991 669	-	30.10.2013	30.10.2018	9.1%	26.10.2016
RUB denominated subordinated bonds issue 12	2 000 000	2 083 900	-	27.02.2013	22.08.2018	12.25%*	At maturity
USD denominated Eurobonds issue	200 000	5 959 479	6 041 658	28.07.2011	05.08.2014	8.25%*	At maturity
USD denominated Eurobonds issue	500 000	16 186 418	-	01.02.2013	01.02.2018	7.7%*	At maturity
USD denominated subordinated Eurobonds issue	500 000	16 461 421	-	13.05.2013	13.11.2018	8.7%*	At maturity
		77 894 937	**31 857 898**				

** Fixed coupon rate*

Bondholders are entitled to demand early redemption of certain bonds at their nominal value.

All coupon payments are made semi-annually, and selected coupon rates are subject to change in accordance with terms of the issuance within a predetermined range.

Information about the currency and maturity and effective interest rates on debt securities issued is presented in note 29.

20 Other liabilities

	31 December 2013 RUB'000	31 December 2012 RUB'000
Payables to suppliers	688 584	206 990
Cash collection payables	317 843	411 036
Other liabilities	114 998	194 006
Total other financial liabilities	**1 121 425**	**812 032**
Allowance for credit related commitments	700 354	687 454
Deferred income	536 118	403 044
Payable to employees	323 001	186 160
Taxes payable	263 768	180 062
Payables to Deposit Insurance Agency	132 194	99 923
Other liabilities	364	120 379
Total other non-financial liabilities	**1 955 799**	**1 677 022**
Total other liabilities	**3 077 224**	**2 489 054**

21 Share capital

Share capital consists of ordinary shares and was contributed by the shareholders in Roubles. The shareholders are entitled to dividends and capital distributions. Issued, outstanding and paid share capital comprises 14 467 761 735 shares (31 December 2012: 12 677 832 952 shares) with par value of 1 RUB per share. In addition, at 31 December 2013 the Bank has 21 808 396 273 authorized but unissued ordinary shares with an aggregate nominal value of RUB 21 808 million. The total hyperinflation adjustment related to equity as at 31 December 2002 was RUB 861 930 thousand.

On 25 September 2013 the CBR registered the Bank's additional share issue. The issue comprised 1 789 928 783 ordinary shares with a par value of 1 RUB per share. The share issue is part of a series of related transactions, which also included subsequent sale by the majority shareholder of part of his shares to EBRD, RBOF Holding Company I Ltd. and IFC in October 2013. The shaholder structure remained the same: Concern Rossium, LLC – 85.0% of shares, EBRD – 7.5%, RBOF Holding Company I Ltd. – 4.9%, IFC – 2.6%. The shares were acquired at a price above par value, and proceeds totaled RUB 7 536 million. The majority shareholder of the Bank, Mr. Roman I. Avdeev, acquired new shares using funds raised from early repayment by the Bank of the subordinated loans previously granted by Mr. Avdeev via Wellcreek Corporation. A fair value adjustment on subordinated loans from the majority shareholder received in 2011 and 2012 was recognised as additional paid-in-capital due to the fact that the interest rates applicable to these loans were substantially lower than the market rates. These subordinated loans were fully repaid in August 2013 before the contractual maturity date.

22 Commitments

The Group has outstanding commitments to extend loans. These commitments take the form of approved loans and credit card limits and overdraft facilities.

The Group provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to five years.

The Group applies the same credit risk management policies and procedures when granting credit commitments, financial guarantees and letters of credit as it does for granting loans to customers.

The contractual amounts of commitments are set out in the following table by category. The amounts reflected in the table for guarantees and letters of credit represent the maximum accounting loss that would be recognised at the reporting date if counterparties failed completely to perform as contracted.

	31 December 2013 RUB'000	**31 December 2012 RUB'000**
Guarantees and letters of credit	70 165 586	40 586 746
Undrawn loan commitments	5 745 077	1 968 320
Other contingent liabilities	225 573	216 175
	76 136 236	**42 771 241**

The total outstanding contractual commitments above do not necessarily represent future cash requirements, as these commitments may expire or terminate without being funded.

23 Operating leases

Leases as lessee

Future minimum lease payments on non-cancellable lease agreements are as follows:

	31 December 2013 RUB'000	**31 December 2012 RUB'000**
Less than 1 year	496 963	346 301
Between 1 and 5 years	754 773	646 944
More than 5 years	86 011	79 380
	1 337 747	**1 072 625**

24 Contingencies

Insurance

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

Litigation

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

Taxation contingencies

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

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

Tax liabilities arising from transactions between companies are determined using actual transaction prices. It is possible, with the evolution of the interpretation of transfer pricing rules in the Russian Federation and changes in the approach of the Russian tax authorities, that such transfer prices could be challenged. Since the current Russian transfer pricing rules became effective relatively recently, the impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the Group.

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

25 Custody activities

The Group provides custody services to its customers, whereby it holds securities on behalf of customers and receives fee income for providing these services. These securities are not assets of the Group and are not recognised in the consolidated statement of financial position.

26 Related party transactions

The outstanding balances with related parties and related average interest rates as at 31 December 2013 and 2012 are as follows:

	31 December 2013		31 December 2012	
	Amount RUB'000	**Average effective interest rate**	**Amount RUB'000**	**Average effective interest rate**
Loans to customers				
Majority shareholder	-	-	350 110	15.0
Under control of majority shareholder	713 175	13.6	1 006	16.0
Management	187 581	14.0	88 892	11.2
Total loans	**900 756**		**440 008**	
Deposits by customers				
Majority shareholder	3 773 757	8.2	320 310	8.6
Parent company	41 350	11.0	265 752	8.0
Under control of majority shareholder	18 838	14.8	2 342 880	6.7
Management	167 823	7.1	89 066	6.7
Total deposits	**4 001 768**		**3 018 008**	
Guarantees issued				
Under control of majority shareholder	4 606 435		-	
Total guarantees	**4 606 435**		-	

Amounts included in profit or loss and other comprehensive income for the years ended 31 December 2013 and 2012 in relation to transactions with related parties are as follows:

	31 December 2013 RUB'000	**31 December 2012 RUB'000**
Interest income on loans to customers		
Majority shareholder	8 926	4 563
Under control of majority shareholder	68 922	5 085
Management	8 025	8 049
Total interest income	**85 873**	**17 697**
Interest expense on deposits by customers		
Majority shareholder	33 304	17 738
Parent company	36 017	22 252
Under control of majority shareholder	60 796	95 058
Management	9 336	2 697
Total interest expense	**139 453**	**137 745**

Total remuneration of the Supervisory Board and the Management Board included in employee compensation for the years ended 31 December 2013 and 2012 (refer to note 6) is as follows:

	31 December 2013 RUB'000	31 December 2012 RUB'000
Members of the Supervisory Board	76 735	33 088
Members of the Management Board	154 407	186 064
	231 142	**219 152**

27 Capital management

The Central Bank of the Russian Federation sets and monitors capital requirements for the Bank.

The Bank defines as capital those items defined by statutory regulation as capital for credit institutions. Under the current capital requirements set by the CBR, banks have to maintain a ratio of capital to risk weighted assets (statutory capital ratio) above the prescribed minimum level. As at 31 December 2013 and 2012, this minimum level is 10%. The Bank was in compliance with the statutory capital ratio as at the years ended 31 December 2013 and 2012.

The Group also monitors its capital adequacy levels calculated in accordance with the requirements of the Basel Accord, as defined in the International Convergence of Capital Measurement and Capital Standards (updated April 1998) and Amendment to the Capital Accord to incorporate market risks (updated November 2007), commonly known as Basel I.

The following table shows the composition of the capital position calculated in accordance with the requirements of the Basel Accord, as at 31 December:

	31 December 2013 RUB'000	31 December 2012 RUB'000
Tier 1 capital		
Share capital and additional paid-in capital	25 098 449	22 559 058
Retained earnings	24 481 309	15 601 246
Goodwill	(301 089)	-
Total tier 1 capital	**49 278 669**	**38 160 304**
Tier 2 capital		
Revaluation surplus for buildings	1 115 928	1 115 928
Revaluation reserve for investments available-for-sale	(37 639)	16 061
Subordinated loans		
Subordinated loans from Black Sea Trade And Development Bank	392 750	485 963
Subordinated loans from Wellcreek Corporation	-	2 217 635
Subordinated bonds	21 156 395	3 000 000
Total tier 2 capital	**22 627 434**	**6 835 587**
Total capital	**71 906 103**	**44 995 891**
Risk-weighted assets		
Banking book	383 956 170	245 565 378
Trading book	65 310 150	40 067 912
Total risk weighted assets	**449 266 320**	**285 633 290**
Total capital expressed as a percentage of risk-weighted assets (total capital ratio)	**16.0**	**15.8**
Total tier 1 capital expressed as a percentage of risk-weighted assets (tier 1 capital ratio)	**11.0**	**13.4**

The risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the nature of – and reflecting an estimate of credit, market and other risks associated with – each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for unrecognised exposures, with some adjustments to reflect the more contingent nature of the potential losses.

The Group is subject to minimum capital adequacy requirements calculated in accordance with Basel I established by covenants in borrowing agreements. The Group complied with all externally imposed capital requirements during the years ended 31 December 2013 and 2012.

Beginning 1 April 2013 the Bank calculates the amount of capital and capital adequacy ratios in accordance with the CBR requirements based on Basel III methodology and using financial statements prepared in accordance with Russian Accounting Principles. The amount of capital and capital adequacy ratios were used by the CBR in 2013 for informational purposes and not for supervision purposes.

Beginning 1 January 2014, the CBR will use the new capital adequacy rules based on Basel III methodology for supervision purposes. Under new CBR regulations minimum level of base capital adequacy ratio, core capital adequacy ratio and total capital adequacy (own funds) ratio calculated based on Russian Accounting Principles are 5%, 5.5% and 10%, respectively. In addition, the new capital adequacy rules in accordance with Basel III result in accelerated amortisation of the capital treatment of certain subordinated debt.

Management does not expect these changes to result in material requirements for additional capital or any failure to meet applicable requirements.

As per the Basel III requirements as adopted in the Russian Federation, the capital adequacy ratio of the Group based on IFRS financial statements as at 31 December 2013 is as follows:

	31 December 2013 RUB’000
Tier 1 capital	
Share capital and additional paid-in capital	25 098 449
Retained earnings	24 481 310
Goodwill	(301 089)
Intangible assets	(150 680)
Core tier 1	**49 127 990**
Additional capital	-
Total tier 1 capital	**49 127 990**
Tier 2 capital	
Revaluation surplus for buildings	1 115 928
Revaluation reserve for investments available-for-sale	(37 639)
Subordinated loans	
Subordinated loans from Black Sea Trade And Development Bank	353 475
Subordinated bonds	20 504 600
Total tier 2 capital	**21 936 365**
Total capital	**71 064 355**
Risk-weighted assets	
Banking book	383 956 170
Trading book	65 310 150
Operational risk	32 943 246
Total risk weighted assets	**482 209 566**

Total capital expressed as a percentage of risk-weighted assets (total capital ratio)	**14.8**
Total tier 1 capital expressed as a percentage of risk-weighted assets (Core tier 1 capital ratio)	**10.2**
Total tier 1 capital expressed as a percentage of risk-weighted assets (tier 1 capital ratio)	**10.2**

Included in subordinated bonds in tier 2 capital are subordinated bonds in the amount of RUB 16 461 421 thousand which are fully in compliance with Basel III requirements as adopted in the Russian Federation. Other subordinated loans are subject to accelerated amortization beginning in April 2013, following the transition rules applied by the CBR for inclusion in tier 2 capital of subordinated loans received before March 2013.

28 Analysis by segment

The Group has five reportable segments, as described below, which are strategic business units. The strategic business units offer different products and services, and are managed separately because they require different technology and marketing strategies. For each of the strategic business units, the Chairman of the Management Board reviews internal management reports on at least a quarterly basis. The following summary describes the operations in each of the reportable segments:

- Corporate banking: comprises corporate lending, overdraft lending, factoring, leasing, letters of credit, guaranties, corporate deposit taking, settlements and money transfer, currency conversion
- Retail banking: comprises retail demand and term deposit services; retail lending, including other loans to individuals, car loans and mortgages, money transfers and private banking services; banking card products, settlement and money transfer, currency conversion for individuals
- Treasury: comprises interbank lending and borrowings from banks, securities trading and brokerage in securities, repo transactions, foreign exchange services, issuance of domestic bonds and promissory notes
- International business: comprises borrowings from international financial institutions and trade finance operations
- Cash operations: comprises all operations connected with cash, cash handling, calculation and transportation.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before income tax, which is calculated based on financial information prepared in accordance with IFRS, as included in the internal management reports that are reviewed by the Chairman of the Management Board. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to others who operate within these industries. Inter-segment pricing is determined on an arm’s length basis.

The segment breakdown of assets and liabilities is set out below:

	31 December 2013 RUB'000	**31 December 2012 RUB'000**
ASSETS		
Corporate banking	217 129 590	153 576 987
Retail banking	94 755 319	50 203 307
Treasury	123 163 845	86 282 788
Cash operations	10 312 841	10 829 487
Unallocated assets	8 840 523	7 834 816
Total assets	**454 202 118**	**308 727 385**
LIABILITIES		
Corporate banking	140 405 408	82 002 162
Retail banking	134 466 596	107 011 942
Treasury	75 244 548	46 927 405
International business	48 273 251	28 270 118
Unallocated liabilities	5 154 268	5 223 465
Total liabilities	**403 544 071**	**269 435 092**

Segment information for the main reportable segments for the year ended 31 December 2013 is set below:

RUB'000	**Corporate banking**	**Retail banking**	**Treasury**	**International business**	**Cash operations**	**Unallocated**	**Total**
External interest income	25 180 471	11 874 640	4 957 794	-	-	-	42 012 905
Fee and commission income	2 053 608	3 683 815	54 587	-	1 413 225	-	7 205 235
Net gain on securities	-	-	77 761	-	-	-	77 761
Net foreign exchange gains	192 223	40 034	175 199	-	-	-	407 456
Other operating income	227 887	445 215	65 527	-	-	-	738 629
(Expenses) revenue from other segments	(9 742 512)	5 012 552	1 207 885	3 358 534	163 541	-	-
Revenue	**17 911 677**	**21 056 256**	**6 538 753**	**3 358 534**	**1 576 766**	**-**	**50 441 986**
Impairment losses on loans	(1 804 774)	(3 694 041)	-	-	-	-	(5 498 815)
Interest expense	(5 513 172)	(11 296 980)	(5 004 530)	(2 817 978)	-	-	(24 632 660)
Fee and commission expense	(583 251)	(160 126)	(19 806)	(15 763)	(679)	-	(779 625)
General administrative and other expenses	(924 938)	(3 548 580)	(74 298)	(68 505)	(1 240 738)	(2 479 998)	(8 337 057)
Expense	**(8 826 135)**	**(18 699 727)**	**(5 098 634)**	**(2 902 246)**	**(1 241 417)**	**(2 479 998)**	**(39 248 157)**
Segment result	**9 085 542**	**2 356 529**	**1 440 119**	**456 288**	**335 349**	**(2 479 998)**	**11 193 829**

Segment information for the main reportable segments for the year ended 31 December 2012 is set below:

RUB'000	**Corporate banking**	**Retail banking**	**Treasury**	**International business**	**Cash operations**	**Unallocated**	**Total**
External interest income	17 891 104	6 851 704	3 723 523	-	-	-	28 466 331
Fee and commission income	1 538 737	1 374 341	233 269	-	1 136 782	-	4 283 129
Net loss on securities	-	-	368 407	-	-	-	368 407
Net foreign exchange gains	-	-	(385 136)	-	-	-	(385 136)
Other operating income, net	115 087	121 487	6 433	-	-	-	243 007
(Expenses) revenue from other segments	(6 658 926)	4 238 716	526 656	1 797 275	96 279	-	-
Revenue	**12 886 002**	**12 586 248**	**4 473 152**	**1 797 275**	**1 233 061**	**-**	**32 975 738**
Impairment losses on loans	(642 917)	(1 221 800)	-	-	-	-	(1 864 717)
Interest expense	(3 391 846)	(8 208 314)	(3 523 688)	(1 101 120)	-	-	(16 224 968)
Fee and commission expense	(101 446)	(257 640)	(65 398)	(2 991)	(578)	-	(428 053)
General administrative and other expenses	(658 553)	(2 213 701)	(25 931)	(22 556)	(982 688)	(3 307 523)	(7 210 952)
Expense	**(4 794 762)**	**(11 901 455)**	**(3 615 017)**	**(1 126 667)**	**(983 266)**	**(3 307 523)**	**(25 728 690)**
Segment result	**8 091 240**	**684 793**	**858 135**	**670 608**	**249 795**	**(3 307 523)**	**7 247 048**

Information about major customers and geographical areas

The majority of revenues from external customers relate to residents of the Russian Federation. The majority of non-current assets are located in the Russian Federation.

29 Risk management, corporate governance and internal control

Corporate governance framework

The Bank is established as an open joint-stock company in accordance with Russian law. The supreme governing body of the Bank is the general shareholders' meeting that is called for annual or extraordinary meetings. The general shareholders' meeting makes strategic decisions on the Bank's operations.

The general shareholders' meeting elects the Supervisory Board. The Supervisory Board is responsible for overall governance of the Bank's activities.

Russian legislation and the charter of the Bank establish decisions that are exclusively approved by the general shareholders' meeting and that are approved by the Supervisory Board.

As at 31 December 2013, the Supervisory Board includes:

William F. Owens – Chairman

Members:

Richard D. Glasspool

Genadi Lewinski

Andrew S. Gazitua

Vadim N. Sorokin

Roman I. Avdeev

Alexander N. Nikolashin

Anton R. Avdeev

Nikolay V. Kosarev

Vladimir A. Chubar

Mikhail E. Kuznetsov

Nicholas D. Haag

During the year ended 31 December 2013 the following changes occurred in the composition of the Supervisory Board:

Sandy Vaci – resigned

Mustafa Boran – resigned

Mikhail E. Kuznetsov – new member

Nicholas D. Haag – new member

General activities of the Bank are managed by the sole executive body of the Bank (Chairman of the Management Board) and collective executive body of the Bank (Management Board). The Supervisory Board meeting elects the Chairman of the Management Board. The executive bodies are responsible for implementation of decisions of the general shareholders' meeting and the Supervisory Board. Executive bodies report to the Supervisory Board and to the general shareholders' meeting.

As at 31 December 2013, the Management Board includes:

Vladimir A. Chubar – Chairman of the Management Board

Dmitry A. Eremin – First Deputy Chairman of the Management Board

Yury A. Ubeev – Deputy Chairman of the Management Board

Yulia B. Podobrazhnykh – Deputy Chairperson of the Management Board

Alexey V. Kosyakov – Deputy Chairman of the Management Board

Daria A. Galkina – Deputy Chairperson of the Management Board

Marina M. Nastashkina – Deputy Chairperson of the Management Board

Evgeny V. Sandler – Deputy Chairman of the Management Board

Svetlana Sass – Chief Accountant, Member of the Management Board

During the year ended 31 December 2013 the following changes occurred in composition of the Management Board:

Alexey V. Kosyakov – new member

Internal control policies and procedures

The Supervisory Board and the Management Board have responsibility for the development, implementation and maintenance of internal controls in the Bank that are commensurate with the scale and nature of operations.

The purpose of internal controls is to ensure:

- proper and comprehensive risk assessment and management
- proper business and accounting and financial reporting functions, including proper authorization, processing and recording of transactions
- completeness, accuracy and timeliness of accounting records, managerial information, regulatory reports, etc.
- reliability of IT-systems, data and systems integrity and protection
- prevention of fraudulent or illegal activities, including misappropriation of assets
- compliance with laws and regulations

Management is responsible for identifying and assessing risks, designing controls and monitoring their effectiveness. Management monitors the effectiveness of internal controls and periodically implements additional controls or modifies existing controls as considered necessary.

The Bank developed a system of standards, policies and procedures to ensure effective operations and compliance with relevant legal and regulatory requirements, including the following areas:

- requirements for appropriate segregation of duties, including the independent authorization of transactions
- requirements for the recording, reconciliation and monitoring of transactions
- compliance with regulatory and other legal requirements
- documentation of controls and procedures
- requirements for the periodic assessment of operational risks, and the adequacy of controls and procedures to address the risks identified

- requirements for the reporting of operational losses and proposed remedial action
- development of contingency plans
- training and professional development
- ethical and business standards, and
- risk mitigation, including insurance where this is effective

Compliance with Bank standards is supported by a program of periodic reviews undertaken by Internal Audit. The Internal Audit function is independent from management and reports directly to the Supervisory Board. The results of Internal Audit reviews are discussed with relevant business process managers, with summaries submitted to the Audit Committee and Supervisory Board and senior management of the Group.

Russian legislation, including the Federal Law dated 2 December 1990 No 395-1 *On banks and banking activity*, establishes the professional qualifications, business reputation and other requirements for members of the Board of Directors, Management Board, Head of internal audit function and other key management personnel. All members of the Bank's governing and management bodies meet these requirements.

Management believes that the Bank complies with the CBR requirements related to risk management and internal control systems, including requirements related to the internal audit function, and that risk management and internal control systems are appropriate for the scale, nature and complexity of operations.

Risk management policies and procedures

Management of risk is fundamental to the banking business and is an essential element of operations. The main risks inherent in the Group's operations are those related to credit exposures, liquidity and market movements in interest rates and foreign exchange rates.

Credit risk

Credit risk is the risk of financial loss occurring as a result of default by a borrower or counterparty on their obligation to the Group. The Group has policies and procedures for the management of credit exposures (both for recognised and unrecognised exposures), including guidelines to limit portfolio concentration and the establishment of a Credit Committee, which actively monitors credit risk. The credit policy is reviewed and approved by the Management Board.

The credit policy establishes:

- procedures for review and approval of loan credit applications
- methodology for the credit assessment of borrowers (corporate and individuals)
- methodology for the credit assessment of counterparties, issuers and insurance companies
- methodology for the evaluation of collateral
- credit documentation requirements
- procedures for the ongoing monitoring of loans and other credit exposures.

Retail loan credit applications are reviewed by the Retail Lending Division through the use of scoring models and procedures to evaluate borrowers' credit worthiness developed together with the Risk Division.

Apart from individual customer analysis, the credit portfolio is assessed by the Risk Division with regard to credit concentration and market risks.

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

The maximum exposure to credit risk in relation to assets recognized at 31 December 2013 and 2012 is as follows:

	31 December 2013 RUB'000	**31 December 2012 RUB'000**
ASSETS		
Cash and cash equivalents	56 752 079	36 629 588
Obligatory reserves with the Central Bank of the Russian Federation	2 798 987	2 545 772
Due from credit institutions	10 466 017	12 520 791
Financial instruments at fair value through profit or loss	37 214 872	31 665 973
Available-for-sale securities	18 528 903	5 421 588
Loans to customers	308 940 610	201 234 522
Other financial assets	1 619 089	1 069 219
Total maximum exposure to credit risk on statement of financial position	**436 320 557**	**291 087 453**

For the analysis of concentration of credit risk in respect of loans to customers refer to note 13.

The maximum exposure to credit risk in relation to guarantees and commitments at the reporting date is presented in note 22.

Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorizing a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, can be covered by the funds deposited by customers and therefore bear limited credit risk.

With respect to undrawn loan commitments the Group is potentially exposed to loss in an amount equal to the total amount of such commitments. However, the likely amount of loss is less than that, since most commitments are contingent upon certain conditions set out in the loan agreements.

Offsetting financial assets and financial liabilities

The disclosures set out in the tables below include financial assets and financial liabilities that:

- are offset in the Group's statement of financial position or
- are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the statement of financial position.

Similar agreements include derivative clearing agreements, global master repurchase agreements. Similar financial instruments include derivatives, sales and repurchase agreements, and reverse sale and repurchase agreements.

The Group's derivative transactions that are not transacted on an exchange are entered into under International Derivative Swaps and Dealers Association (ISDA) Master Netting Agreements. In general, under such agreements the amounts owed by each counterparty that are due on a single day in respect of transactions outstanding in the same currency under the agreement are aggregated into a single net amount payable by one party to the other. In certain circumstances, for example when a credit event such as a default occurs, all outstanding transactions under the agreement are terminated, the termination value is assessed, and only a single net amount is due or payable in settlement transactions.

Sale and repurchase, reverse sale and repurchase transactions are covered by master agreements with netting terms similar to those of ISDA Master Netting Agreements.

These ISDA and similar master netting arrangements do not meet the offsetting criteria in the consolidated statement of financial position. This is because they create a right of set-off of recognised amounts that is enforceable only following an event of default, insolvency or bankruptcy of the Group or the counterparties. In addition, the Group and its counterparties do not intend to settle on a net basis or to realise the assets and settle the liabilities simultaneously.

The Group receives and accepts collateral in the form of cash and marketable securities in respect of sale and repurchase, and reverse sale and repurchase agreements.

Such collateral is subject to the standard industry terms of the ISDA Credit Support Annex. This means that securities received/given as collateral can be pledged or sold during the term of the transaction, but must be returned on maturity of the transaction. The terms also give each counterparty the right to terminate the related transactions upon the counterparty’s failure to post collateral.

The tables below shows financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar arrangements as at 31 December 2013 and 2012:

31 December 2013

Types of financial assets/liabilities	Gross amounts of recognised financial asset/liability RUB'000	Gross amount of recognised financial liability/asset offset in the consolidated statement of financial position RUB'000	Net amount of financial assets/liabilities presented in the consolidated statement of financial position RUB'000	Related amounts subject to offset under specific conditions: Financial instruments RUB'000	Related amounts subject to offset under specific conditions: Cash collateral received RUB'000	Net amount RUB'000
Reverse sale and repurchase agreements	15 757 655	-	15 757 655	15 757 655	-	-
Derivative financial instruments - assets	197 313	-	197 313	3 514	-	193 799
Total financial assets	**15 954 968**	-	**15 954 968**	**15 761 169**	-	**193 799**
Sale and repurchase agreements	12 962 351	-	12 962 351	12 962 351	-	-
Derivative financial instruments - liabilities	3 514	-	3 514	3 514	-	-
Total financial liabilities	**12 965 865**	-	**12 965 865**	**12 965 865**	-	-

31 December 2012

Types of financial assets/liabilities	Gross amounts of recognised financial asset/liability RUB'000	Gross amount of recognised financial liability/asset offset in the consolidated statement of financial position RUB'000	Net amount of financial assets/liabilities presented in the consolidated statement of financial position RUB'000	Related amounts subject to offset under specific conditions: Financial instruments RUB'000	Related amounts subject to offset under specific conditions: Cash collateral received RUB'000	Net amount RUB'000
Reverse sale and repurchase agreements	7 335 094	-	7 335 094	7 335 094	-	-
Derivative financial instruments - assets	18 826	-	18 826	18 826	-	-
Total financial assets	**7 353 920**	-	**7 353 920**	**7 353 920**	-	-
Derivative financial instruments - liabilities	26 110	-	26 110	18 826	-	7 284
Total financial liabilities	**26 110**	-	**26 110**	**18 826**	-	**7 284**

The gross amounts of financial assets and financial liabilities and their net amounts as presented in the consolidated statement of financial position that are disclosed in the above tables are measured in the consolidated statement of financial position on the following basis:

- derivative assets and liabilities – fair value
- assets and liabilities resulting from sale and repurchase agreements, reverse sale and repurchase agreements – amortised cost

The table below reconciles the "Net amounts of financial assets and financial liabilities presented in the consolidated statement of financial position", as set out above, to the line items presented in the consolidated statement of financial position as at 31 December 2013.

Types of financial assets/liabilities	**Net amount RUB'000**	**Line item in the consolidated statement of financial position RUB'000**	**Carrying amount in the consolidated statement of financial position RUB'000**	**Financial asset/liability not in the scope of offsetting disclosure RUB'000**	**Note**
Reverse sale and repurchase agreements	13 876 923	Cash and cash equivalents	67 064 920	53 187 997	9
	1 880 732	Due from credit institutions	10 466 017	8 585 285	10
Sale and repurchase agreements	6 052 712	Deposits by the Central Bank of the Russian Federation	14 566 171	8 513 459	16
	6 909 639	Deposits by credit institutions	24 398 112	17 488 473	17
Derivative financial instruments - assets	197 313	Financial instruments at fair value through profit or loss	37 412 185	37 214 872	11
Derivative financial instruments - liabilities	3 514	Other liabilities	3 077 224	3 073 709	20

The table below reconciles the "Net amounts of financial assets and financial liabilities presented in the consolidated statement of financial position", as set out above, to the line items presented in the consolidated statement of financial position as at 31 December 2012.

Types of financial assets/liabilities	**Net amount RUB'000**	**Line item in the consolidated statement of financial position RUB'000**	**Carrying amount in the consolidated statement of financial position RUB'000**	**Financial asset/liability not in the scope of offsetting disclosure RUB'000**	**Note**
Reverse sale and repurchase agreements	3 337 412	Cash and cash equivalents	47 459 075	44 121 663	9
	3 997 682	Due from credit institutions	12 520 791	8 523 108	10
Derivative financial instruments - assets	18 826	Financial instruments at fair value through profit or loss	31 684 816	31 665 990	11
Derivative financial instruments - liabilities	26 110	Other liabilities	2 489 054	2 462 944	20

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

The Group is exposed to several types of operational risk, including unauthorised transactions by employees, operational errors by employees such as clerical or record keeping errors, errors resulting from faulty computer or telecommunications systems and the risk that the Group will be used for money laundering and financing of terrorist activities.

The Group's Operational Risk Management Policy is based on Russian statutory requirements, recommendations of the CBR and the Basel Committee on Banking Supervision, and internationally recognised principles. The Group gathers data on operational risk occurrences and monitors key risk indicators, and organisational units carry out self-assessment of risk and subsequently provide operational risk mapping across the Group.

The Group also seeks to manage its operational risks by recruiting qualified staff, provides training, regularly updating operational procedures, monitoring the security of its IT systems and ensuring that its infrastructure systems are robust.

The Group established an Operational Risk Unit as a part of the Internal Control Department. The Operational Risk Unit determines policies and procedures in the area of operational risks.

The Unit collects information in relation to the circumstances leading to losses and uses this information for necessary corrections of processes and control tools. The Operational Risk Unit reports to the Head of Internal Control Department on important developments and issues. The Head of Internal Control Department reports directly to the Supervisory Board.

Liquidity risk

Liquidity risk is defined as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Group is exposed to daily calls on its available cash resources from overnight deposits, current deposits, maturing deposits, loan draw downs and guarantees. The Group maintains liquidity management with the objective of ensuring that funds will be available at all times to honor all cash flow obligations as they become due.

The Asset and Liability Management Committee (ALCO) sets limits on the minimum proportion of maturing funds available to cover such cash outflows and on the minimum level of interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

The Group calculates liquidity ratios on a daily basis in accordance with the requirements of the CBR. These ratios are: (i) instant liquidity ratio (N2), which is calculated as the ratio of highly-liquid assets to liabilities payable on demand; (ii) current liquidity ratio (N3), which is calculated as the ratio of liquid assets to liabilities maturing within 30 calendar days; (iii) long-term liquidity ratio (N4), which is calculated as the ratio of assets maturing after one year to regulatory capital and liabilities maturing after one year. The Bank was in compliance with these ratios during the years ended 31 December 2013 and 2012.

The following tables as at 31 December 2013 and 2012 show the undiscounted cash flows from financial liabilities on the basis of their contractual maturity. These expected cash flows can vary significantly from the actual future cash flows.

Foreign currency payments are translated using the spot exchange rate at the reporting date.

31 December 2013	**Less than 1 month RUB'000**	**1 to 6 months RUB'000**	**6 months to 1 year RUB'000**	**Over 1 year RUB'000**	**Total RUB'000**	**Carrying value RUB'000**
LIABILITIES						
Deposits by the CBR	6 066 569	3 558 323	5 195 115	-	**14 820 007**	**14 566 171**
Deposits by credit institutions	4 933 634	5 014 512	9 629 839	6 701 733	**26 279 718**	**24 398 112**
Deposits by customers	85 899 016	58 409 609	74 006 663	75 915 235	**294 230 523**	**274 872 004**
Debt securities issued	625 501	18 870 039	13 078 087	73 093 306	**105 666 933**	**84 553 516**
Other financial liabilities	1 001 143	81 185	39 097	-	**1 121 425**	**1 121 425**
Total contractual future payments for financial obligations as at 31 December 2013	**98 525 863**	**85 933 668**	**101 948 801**	**155 710 274**	**442 118 606**	**399 511 228**
Guarantees and letters of credit	70 165 586	-	-	-	**70 165 586**	
Credit related commitments	5 745 077	-	-	-	**5 745 077**	

31 December 2012	**Less than 1 month RUB'000**	**1 to 6 months RUB'000**	**6 months to 1 year RUB'000**	**Over 1 year RUB'000**	**Total RUB'000**	**Carrying value RUB'000**
LIABILITIES						
Deposits by credit institutions	2 244 139	9 942 417	17 590 603	7 449 609	**37 226 768**	**35 183 733**
Deposits by customers	65 778 158	45 930 212	53 275 369	36 852 290	**201 836 029**	**189 014 104**
Debt securities issued	3 175 259	12 049 741	8 038 267	21 244 152	**44 507 419**	**40 013 790**
Other financial liabilities	721 567	69 121	21 344	-	**812 032**	**812 032**
Total contractual future payments for financial obligations as at 31 December 2012	**71 919 123**	**67 991 491**	**78 925 583**	**65 546 051**	**284 382 248**	**265 023 659**
Guarantees and letters of credit	40 586 746	-	-	-	**40 586 746**	
Credit related commitments	1 968 320	-	-	-	**1 968 320**	

In accordance with Russian legislation, individuals can withdraw their term deposits at any time, losing in most of the cases the accrued interest. Management believes term deposits from individuals to be a stable source of funding based on the past experience, thus classifiing them in accordance with their stated maturity dates. The amount of such deposits, by each time band, is as follows:

	31 December 2013 RUB'000	**31 December 2012 RUB'000**
Demand and less than 1 month	9 861 156	7 570 437
From 1 to 6 months	31 588 153	32 475 794
From 6 to 12 months	32 086 641	36 813 219
More than 1 year	51 248 454	22 866 734
	124 784 404	**99 726 184**

In accordance with terms of issuance of bonds and promissory notes the holders are entitled to demand early redemption of bonds and promissory notes at their nominal value at certain dates. Management believes debt securities issued to be a stable source of funding based on the past experience, thus classifying them in accordance with their stated maturity dates. Maturity based on early redemption dates for 31 December 2013 and 2012 is shown in the tables below:

31 December 2013	**Less than 1 month RUB'000**	**1 to 6 months RUB'000**	**6 months to 1 year RUB'000**	**1 to 3 years RUB'000**	**3 to 5 years RUB'000**	**Over 5 years RUB'000**	**No maturity RUB'000**	**Total RUB'000**
Promissory notes issued	530 932	2 790 331	3 337 316	-	-	-	-	**6 658 579**
Bonds issued	2 077 196	12 847 273	5 959 479	19 262 285	37 748 704	-	-	**77 894 937**

31 December 2012	**Less than 1 month RUB'000**	**1 to 6 months RUB'000**	**6 months to 1 year RUB'000**	**1 to 3 years RUB'000**	**3 to 5 years RUB'000**	**Over 5 years RUB'000**	**No maturity RUB'000**	**Total RUB'000**
Promissory notes issued	1 081 497	4 091 297	2 399 572	583 526	-	-	-	**8 155 892**
Bonds issued	2 081 065	7 004 029	4 770 799	14 987 005	-	3 015 000	-	**31 857 898**

The following tables show all assets and liabilities as at 31 December 2013 and 2012 by their remaining contractual maturities, including term deposits with individuals and debt securities issued, with the exception of securities included in financial instruments at fair value through profit or loss and available-for-sale securities that qualify as collateral for borrowing from the Central Bank of the Russian Federation as collateral for its loans. Such securities are shown in the category "Less than 1 month" as management believes they are liquid assets which can be sold quickly in response to liquidity needs, if necessary. The amounts shown here represent carrying amounts on the reporting dates and do not include cash flows associated with future interest and coupon payments.

As at 31 December 2013 and 2012 the contractual maturities of all securities included in financial instruments at fair value through profit or loss and available-for-sale securities were as follows:

31 December 2013	Less than 1 month RUB'000	1 to 6 months RUB'000	6 months to 1 year RUB'000	1 to 3 years RUB'000	3 to 5 years RUB'000	Over 5 years RUB'000	No maturity RUB'000	Total RUB'000
Financial instruments at fair value through profit or loss	766 131	3 169 199	5 890 731	12 499 667	13 807 416	1 279 041	-	**37 412 185**
Available-for-sale securities	1 990 647	3 452 409	3 414 644	3 204 647	5 155 984	1 310 572	4 661	**18 533 564**

31 December 2012	Less than 1 month RUB'000	1 to 6 months RUB'000	6 months to 1 year RUB'000	1 to 3 years RUB'000	3 to 5 years RUB'000	Over 5 years RUB'000	No maturity RUB'000	Total RUB'000
Financial instruments at fair value through profit or loss	18 826	1 562 877	3 194 256	14 053 183	7 183 554	5 672 103	17	**31 684 816**
Available-for-sale securities	-	1 864 715	687 633	1 887 854	760 771	220 615	26 006	**5 447 594**

31 December 2013	Less than 1 month RUB'000	1 to 3 months RUB'000	3 to 6 months RUB'000	6 to 9 months RUB'000	9 months to 1 year RUB'000	1 to 2 years RUB'000	2 to 3 years RUB'000	3 to 5 years RUB'000	Over 5 years RUB'000	No maturity RUB'000	Overdue RUB'000	Total RUB'000
ASSETS												
Cash and cash equivalents	67 064 920	-	-	-	-	-	-	-	-	-	-	**67 064 920**
Obligatory reserves with the CBR	-	-	-	-	-	-	-	-	-	2 798 987	-	**2 798 987**
Due from credit institutions	2 521 799	7 841 121	103 097	-	-	-	-	-	-	-	-	**10 466 017**
Financial instruments at fair value through profit or loss	25 593 349	477 336	401 986	187 460	-	2 028 775	352 951	8 370 328	-	-	-	**37 412 185**
Available-for-sale securities	6 220 857	1 492 740	1 570 102	134 896	2 617 780	141 245	1 669 164	3 584 180	1 097 939	4 661		**18 533 564**
Loans to customers	14 809 970	58 596 040	47 411 689	24 999 029	15 418 199	42 652 781	26 951 612	40 867 026	33 447 427	-	3 786 837	**308 940 610**
Property and equipment	-	-	-	-	-	-	-	-	-	6 079 029	-	**6 079 029**
Goodwill	-	-	-	-	-	-	-	-	-	301 089	-	**301 089**
Other assets	773 813	249 535	847 417	336 284	398 668	-	-	-	-	-	-	**2 605 717**
	116 984 708	**68 656 772**	**50 334 291**	**25 657 669**	**18 434 647**	**44 822 801**	**28 973 727**	**52 821 534**	**34 545 366**	**9 183 766**	**3 786 837**	**454 202 118**
LIABILITIES												
Deposits by the CBR	6 052 712	3 504 531	-	4 507 798	501 130	-	-	-	-	-	-	**14 566 171**
Deposits by credit institutions	4 930 001	3 775 209	1 189 886	1 795 745	7 216 320	1 468 023	788 646	2 619 368	614 914	-	-	**24 398 112**
Deposits by customers	85 800 492	21 367 042	35 574 530	35 830 042	33 800 466	20 831 174	32 225 438	9 442 820	-	-	-	**274 872 004**
Debt securities issued	530 933	4 261 993	11 375 612	7 987 198	1 309 599	11 297 954		47 790 227	-	-	-	**84 553 516**
Income tax liability	-	196 917	-	-	-	-	-	-	-	1 880 127	-	**2 077 044**
Other liabilities	1 441 375	222 680	162 713	162 713	162 514	-	-	-	-	925 229	-	**3 077 224**
	98 755 513	**33 328 372**	**48 302 741**	**50 283 496**	**42 990 029**	**33 597 151**	**33 014 084**	**59 852 415**	**614 914**	**2 805 356**	**-**	**403 544 071**
Net position	**18 229 195**	**35 328 400**	**2 031 550**	**(24 625 827)**	**(24 555 382)**	**11 225 650**	**(4 040 357)**	**(7 030 881)**	**33 930 452**	**6 378 410**	**3 786 837**	**50 658 047**
Cumulative position	**18 229 195**	**53 557 595**	**55 589 145**	**30 963 318**	**6 407 936**	**17 633 586**	**13 593 229**	**6 562 348**	**40 492 800**	**46 871 210**	**50 658 047**	

31 December 2012	Less than 1 month RUB'000	1 to 3 months RUB'000	3 to 6 months RUB'000	6 to 9 months RUB'000	9 months to 1 year RUB'000	1 to 2 years RUB'000	2 to 3 years RUB'000	3 to 5 years RUB'000	Over 5 years RUB'000	No maturity RUB'000	Overdue RUB'000	Total RUB'000
ASSETS												
Cash and cash equivalents	47 459 075	-	-	-	-	-	-	-	-	-	-	**47 459 075**
Obligatory reserves with the CBR	-	-	-	-	-	-	-	-	-	2 545 772	-	**2 545 772**
Due from credit institutions	2 536 527	1 508 415	1 502 705	3 370 390	602 754	3 000 000	-	-	-	-	-	**12 520 791**
Financial instruments at fair value through profit or loss	25 438 516	-	401 448	148 332	1 715 575	735 758	467 427	2 677 065	100 678	17	-	**31 684 816**
Available-for-sale securities	2 893 914	1 576 703	288 011	51 950	440 400	62 032	108 578	-	-	26 006	-	**5 447 594**
Loans to customers	13 149 864	45 218 291	28 329 898	18 037 254	17 417 652	27 448 151	19 511 111	20 604 008	10 219 222	-	1 299 071	**201 234 522**
Property and equipment	-	-	-	-	-	-	-	-	-	6 079 620	-	**6 079 620**
Other assets	979 047	144 178	185 595	214 898	231 477	-	-	-	-	-	-	**1 755 195**
	92 456 943	**48 447 587**	**30 707 657**	**21 822 824**	**20 407 858**	**31 245 941**	**20 087 116**	**23 281 073**	**10 319 900**	**8 651 415**	**1 299 071**	**308 727 385**
LIABILITIES												
Deposits by credit institutions	2 242 563	2 660 566	7 060 489	3 541 251	13 333 972	2 034 905	2 413 372	1 691 156	205 459	-	-	**35 183 733**
Deposits by customers	65 679 680	23 468 706	21 471 840	22 263 078	27 278 714	10 316 432	13 582 461	4 033 344	919 849	-	-	**189 014 104**
Debt securities issued	1 081 497	2 834 560	1 256 736	1 939 099	460 474	18 513 007	10 913 417	-	3 015 000	-	-	**40 013 790**
Income tax liability	-	125 817	-	-	-	-	-	-	-	2 608 594	-	**2 734 411**
Other liabilities	1 030 522	298 492	120 954	120 954	120 956	-	-	-	-	797 176	-	**2 489 054**
	70 034 262	**29 388 141**	**29 910 019**	**27 864 382**	**41 194 116**	**30 864 344**	**26 909 250**	**5 724 500**	**4 140 308**	**3 405 770**	**-**	**269 435 092**
Net position	**22 422 681**	**19 059 446**	**797 638**	**(6 041 558)**	**(20 786 258)**	**381 597**	**(6 822 134)**	**17 556 573**	**6 179 592**	**5 245 645**	**1 299 071**	**39 292 293**
Cumulative position	**22 422 681**	**41 482 127**	**42 279 765**	**36 238 207**	**15 451 949**	**15 833 546**	**9 011 412**	**26 567 985**	**32 747 577**	**37 993 222**	**39 292 293**	

Market risk

Market risk is the risk that movements in market prices, including foreign exchange rates, interest rates, credit spreads and equity prices will affect income or the value of portfolios. Market risk comprises currency risk, interest rate risk and other price risks. Market risk arises from open positions in interest rate currency and equity financial instruments which are exposed to general and specific market movements and changes in the level of volatility of market prices.

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

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

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

In addition, the Group uses a wide range of stress tests to model the financial impact of a variety of exceptional market scenarios on individual trading portfolios and the overall position. Stress tests provide an indication of the potential size of losses that could arise in extreme conditions.

Interest rate risk is also managed by monitoring the interest rate gap and is supplemented by monitoring the sensitivity of net interest margin to various standard and non-standard interest rate scenarios.

Interest rate risk

Interest rate risk is the risk that movements in interest rates will affect income or the value of financial instruments.

The Group is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may also reduce or create losses in the event that unexpected movements occur.

Interest rate risk arises when the actual or forecasted assets of a given maturity period are either greater or less than the actual or forecasted liabilities in that maturity period.

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

	Less than 1 month	**1 to 6 months**	**6 months to 1 year**	**Over 1 year**	**Overdue**	**Total**
	RUB'000	**RUB'000**	**RUB'000**	**RUB'000**	**RUB'000**	**RUB'000**
31 December 2013						
Interest-bearing assets	47 009 850	120 085 189	49 525 290	181 176 172	3 786 837	**401 583 338**
Interest-bearing liabilities	44 512 830	79 857 920	92 594 137	126 984 425	-	**343 949 312**
Net interest sensitivity gap as at 31 December 2013	**2 497 020**	**40 227 269**	**(43 068 847)**	**54 191 747**	**3 786 837**	**57 634 026**
31 December 2012						
Interest-bearing assets	35 910 697	79 986 901	43 309 939	110 560 570	1 299 071	**271 067 178**
Interest-bearing liabilities	39 233 012	65 756 926	73 587 387	53 866 131	-	**232 443 456**
Net interest sensitivity gap as at 31 December 2012	**(3 322 315)**	**14 229 975**	**(30 277 448)**	**56 694 439**	**1 299 071**	**38 623 722**

An analysis of sensitivity of profit or loss and equity to changes in market interest rates based on a simplified scenario of a 100 bp symmetrical fall or rise in all yield curves and positions of interest-bearing assets and liabilities existing as at 31 December 2013 and 2012 is as follows:

	2013		2012	
	Profit or loss RUB'000	**Equity RUB'000**	**Profit or loss RUB'000**	**Equity RUB'000**
100 bp parallel rise	102 073	102 073	(5 811)	(5 811)
100 bp parallel fall	(102 073)	(102 073)	5 811	5 811

An analysis of sensitivity of profit or loss and equity as a result of changes in the fair value of financial instruments at fair value though profit or loss and financial assets available-for-sale due to changes in the interest rates based on positions existing as at 31 December 2013 and 2012 and a simplified scenario of a 100 bp symmetrical fall or rise in all yield curves is as follows:

	2013		2012	
	Profit or loss RUB'000	**Equity RUB'000**	**Profit or loss RUB'000**	**Equity RUB'000**
100 bp parallel rise	(740 293)	(875 522)	(263 831)	(299 027)
100 bp parallel fall	740 293	875 522	263 831	299 027

Currency risk

The Group has assets and liabilities denominated in several foreign currencies. Foreign currency risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liabilities in that currency.

An analysis of sensitivity of profit or loss and equity to changes in the foreign currency exchange rates based on positions existing as at 31 December 2013 and 2012 and a simplified scenario of a 10% change in USD to RUB exchange rates is as follows:

	2013		2012	
	Profit or loss RUB'000	**Equity RUB'000**	**Profit or loss RUB'000**	**Equity RUB'000**
10% appreciation of USD against RUB	81 544	81 544	53 674	53 674
10% depreciation of USD against RUB	(81 544)	(81 544)	(53 674)	(53 674)

Equity price risk

Price risk is the risk that the value of an equity 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 Group takes a long or short position in an equity financial instrument.

An analysis of sensitivity of profit or loss and equity to changes in securities prices based on positions existing as at 31 December 2013 and 2012 and a simplified scenario of a 5% change in all securities prices is as follows:

	2013		2012	
	Profit or loss RUB'000	**Equity RUB'000**	**Profit or loss RUB'000**	**Equity RUB'000**
5% increase in securities prices	-	186	1	1 040
5% decrease in securities prices	-	(186)	(1)	(1 040)

Interest rate analysis

The interest rate policy is reviewed and approved by ALCO. The average effective interest rates for interest bearing financial instruments are as follows:

	31 December 2013			31 December 2012		
	USD	**RUB**	**Other foreign currencies**	**USD**	**RUB**	**Other foreign currencies**
Interest bearing assets						
Cash and cash equivalents	0.4%	6.6%	-	-	6.3%	-
Due from credit institutions	3.7%	9.2%	-	3.9%	11.4%	-
Financial instruments at fair value through profit or loss – government bonds	-	7.9%	-	2.7%	6.3%	-
– corporate notes and municipal bonds	3.3%	10.2%	-	-	9.5%	-
Available-for-sale securities – corporate notes and municipal bonds	5.7%	8.8%	4.5%	4.8%	9.5%	-
Loans to customers	8.7%	14.6%	9.9%	9.5%	14.5%	9.3%
Interest bearing liabilities						
Deposits by the CBR	-	6.0%	-	-	-	-
Deposits by credit institutions						
– term deposits	2.6%	8.3%	2.6%	4.2%	8.2%	3.0%
– syndicated loans	5.1%	-	-	4.9%	-	-
– subordinated debt	7.0%	-	-	8.9%	-	-
Term deposits by customers	3.8%	9.5%	4.3%	5.0%	10.2%	5.1%
Debt securities issued	8.2%	9.5%	4.0%	8.3%	9.5%	5.2%

Currency analysis

The Group is exposed to effects of fluctuation in the prevailing foreign currency exchange rates on its financial position and cash flows. The Supervisory Board sets limits on the level of exposure by currencies. These limits also comply with the minimum requirements of the Central Bank of the Russian Federation. The exposure of assets and liabilities to foreign currency exchange rate risk is as follows:

	31 December 2013				**31 December 2012**			
	USD	**RUB**	**Other currencies**	**Total**	**USD**	**RUB**	**Other currencies**	**Total**
	RUB'000	**RUB'000**	**RUB'000**	**RUB'000**	**RUB'000**	**RUB'000**	**RUB'000**	**RUB'000**
ASSETS								
Cash and cash equivalents	10 356 327	54 061 089	2 647 504	**67 064 920**	6 526 493	36 895 421	4 037 161	**47 459 075**
Obligatory reserves with the Central Bank of the Russian Federation	-	2 798 987	-	**2 798 987**	-	2 545 772	-	**2 545 772**
Due from credit institutions	4 018 358	6 447 659	-	**10 466 017**	3 027 050	9 493 741	-	**12 520 791**
Financial instruments at fair value through profit or loss	563 620	36 848 565	-	**37 412 185**	1 835 687	29 849 129	-	**31 684 816**
Available-for-sale securities	4 681 234	12 956 148	896 182	**18 533 564**	2 234 037	3 213 557	-	**5 447 594**
Loans to customers	50 834 296	253 305 358	4 800 956	**308 940 610**	28 419 960	166 113 500	6 701 062	**201 234 522**
Property and equipment	-	6 079 029	-	**6 079 029**	-	6 079 620	-	**6 079 620**
Goodwill	-	301 089	-	**301 089**	-	-	-	-
Other assets	32 957	2 527 328	45 432	**2 605 717**	32 264	1 688 149	34 782	**1 755 195**
	70 486 792	**375 325 252**	**8 390 074**	**454 202 118**	**42 075 491**	**255 878 889**	**10 773 005**	**308 727 385**

	31 December 2013				**31 December 2012**			
	USD	**RUB**	**Other currencies**	**Total**	**USD**	**RUB**	**Other currencies**	**Total**
	RUB'000	**RUB'000**	**RUB'000**	**RUB'000**	**RUB'000**	**RUB'000**	**RUB'000**	**RUB'000**
LIABILITIES								
Deposits by the CBR	-	14 566 171	-	**14 566 171**	-	-	-	**-**
Deposits by credit institutions	9 076 297	13 053 025	2 268 790	**24 398 112**	21 701 901	10 459 968	3 021 864	**35 183 733**
Deposits by customers	23 386 492	244 810 247	6 675 265	**274 872 004**	14 271 818	167 087 563	7 654 723	**189 014 104**
Debt securities issued	38 697 552	45 846 249	9 715	**84 553 516**	6 043 178	33 959 910	10 702	**40 013 790**
Income tax liability	-	2 077 044	-	**2 077 044**	-	2 734 411	-	**2 734 411**
Other liabilities	244 066	2 795 001	38 157	**3 077 224**	171 752	2 178 774	138 528	**2 489 054**
	71 404 407	**323 147 737**	**8 991 927**	**403 544 071**	**42 188 649**	**216 420 626**	**10 825 817**	**269 435 092**
Net position before hedging	**(917 615)**	**52 177 515**	**(601 853)**	**50 658 047**	**(113 158)**	**39 458 263**	**(52 812)**	**39 292 293**
Derivative financial instruments	1 936 913	(1 936 062)	(851)	-	786 652	(1 558 528)	771 876	-
Net position	**1 019 298**	**50 241 453**	**(602 704)**	**50 658 047**	**673 494**	**37 899 735**	**719 064**	**39 292 293**

Geographical risk

The geographical risk is the risk due to political economic or social instability in the respective country.

The geographical concentration of financial assets and liabilities as at 31 December 2013 and 2012 is disclosed in the table below:

	31 December 2013				31 December 2012			
	Russia	OECD	Other non-OECD	Total	Russia	OECD	Other non-OECD	Total
	RUB'000	RUB'000	RUB'000	RUB'000	RUB'000	RUB'000	RUB'000	RUB'000
ASSETS								
Cash and cash equivalents	55 958 355	10 369 448	737 117	**67 064 920**	37 194 041	10 261 265	3 769	**47 459 075**
Obligatory reserves with the Central Bank of the Russian Federation	2 798 987	-	-	**2 798 987**	2 545 772	-	-	**2 545 772**
Due from credit institutions	8 678 154	822 412	965 451	**10 466 017**	11 012 376	763 114	745 301	**12 520 791**
Financial instruments at fair value through profit or loss	37 412 185	-	-	**37 412 185**	31 532 897	151 919	-	**31 684 816**
Available-for-sale securities	18 533 564	-	-	**18 533 564**	5 447 594	-	-	**5 447 594**
Loans to customers	294 449 218	4 417 611	10 073 781	**308 940 610**	196 582 729	2 362 253	2 289 540	**201 234 522**
	417 830 463	**15 609 471**	**11 776 349**	**445 216 283**	**284 315 409**	**13 538 551**	**3 038 610**	**300 892 570**
LIABILITIES								
Deposits by the CBR	14 566 171	-	-	**14 566 171**	-	-	-	-
Deposits by credit institutions	14 710 970	9 665 933	21 209	**24 398 112**	12 984 941	22 198 792	-	**35 183 733**
Deposits by customers	271 431 196	459 722	2 981 086	**274 872 004**	185 721 020	81 319	3 211 765	**189 014 104**
Debt securities issued	45 946 198	38 607 318	-	**84 553 516**	37 350 929	2 273 174	389 687	**40 013 790**
	346 654 535	**48 732 973**	**3 002 295**	**398 389 803**	**236 056 890**	**24 553 285**	**3 601 452**	**264 211 627**
Net position	**71 175 928**	**(33 123 502)**	**8 774 054**	**46 826 480**	**48 258 519**	**(11 014 734)**	**(562 842)**	**36 680 943**

30 Transfers of financial assets

Transferred financial assets that are not derecognised in their entirety

2013 **RUB'000**	**Financial assets at fair value through profit or loss**	**Financial assets available for sale**
Carrying amount of assets	7 553 804	7 507 384
Carrying amount of associated liabilities	7 276 108	4 959 865

Securities

The Group has transactions to sell securities under agreements to repurchase and to purchase securities under agreements to resell. Sale and repurchase agreements are transactions in which the Group sells a security and simultaneously agrees to repurchase it (or an asset that is substantially the same) at a fixed price on a future date.

The securities sold under agreements to repurchase are transferred to a third party and the Group receives cash in exchange. These financial assets may be repledged or resold by counterparties in the absence of any default by the Group, but the counterparty has an obligation to return the securities when the contract matures. The Group has determined that it retains substantially all the risks and rewards related to these securities and therefore has not derecognised them. These securities are presented as "pledged under sale and repurchase agreements" in notes 11 and 12. The cash received is recognised as a financial liability for the obligation to repay the purchase price for this collateral, and is included in deposits by the Central Bank of Russian Federation (note 16) and deposits by credit institutions (note 17). Because the Group sells the contractual rights to the cash flows of the securities, it cannot use the transferred assets during the term of the agreement.

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

There were no transfers of financial assets that are not derecognized in their entirety in 2012.

31 Financial assets and liabilities: fair values and accounting classifications

Accounting classifications and fair values

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2013:

RUB'000	**Designated at fair value**	**Loans and receivables**	**Available-for-sale**	**Other amortised cost**	**Total carrying amount**	**Fair value**
Cash and cash equivalents	-	67 064 920	-	-	67 064 920	67 064 920
Obligatory reserves with the CBR	-	2 798 987	-	-	2 798 987	2 798 987
Due from credit institutions	-	10 466 017	-	-	10 466 017	10 466 017
Financial instruments at fair value through profit or loss	37 412 185	-	-	-	37 412 185	37 412 185
Available-for-sale financial assets	-	-	18 533 564	-	18 533 564	18 533 564
Loans to customers	-	308 940 610	-	-	308 940 610	313 331 013
Other financial assets	-	1 619 089	-	-	1 619 089	1 619 089
	37 412 185	**390 889 623**	**18 533 564**	**-**	**446 835 372**	**451 225 775**

RUB'000	**Designated at fair value**	**Loans and receivables**	**Available-for-sale**	**Other amortised cost**	**Total carrying amount**	**Fair value**
Deposits by the CBR	-	-	-	14 566 171	14 566 171	14 566 171
Deposits by credit institutions	-	-	-	24 398 112	24 398 112	24 398 112
Deposits by customers	-	-	-	274 872 004	274 872 004	275 378 789
Debt securities issued	-	-	-	84 553 516	84 553 516	86 022 257
Other financial liabilities	-	-	-	1 121 425	1 121 425	1 121 425
	-	**-**	**-**	**399 511 228**	**399 511 228**	**401 486 754**

The main assumptions are used by management to estimate the fair values of financial instruments as at 31 December 2013:

- discount rates of 12.0% (roubles) and 7.4% (foreign currency) are used for discounting future cash flows from corporate loans
- discount rates of 17.0% (roubles) and 10.9% (foreign currency) are used for discounting future cash flows from loans to individuals
- discount rates of 9.8% (roubles) and 3.7% (foreign currency) are used for discounting future cash flows from retail deposits.

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2012:

RUB'000	**Designated at fair value**	**Loans and receivables**	**Available-for-sale**	**Other amortised cost**	**Total carrying amount**	**Fair value**
Cash and cash equivalents	-	47 459 075	-	-	47 459 075	47 459 075
Obligatory reserves with the CBR	-	2 545 772	-	-	2 545 772	2 545 772
Due from credit institutions		12 520 791			12 520 791	12 520 791
Financial instruments at fair value through profit or loss	31 684 816	-	-	-	31 684 816	31 684 816
Available-for-sale financial assets	-	-	5 447 594	-	5 447 594	5 447 594
Loans to customers		201 234 522			201 234 522	199 151 689
Other financial assets	-	1 069 219	-	-	1 069 219	1 069 219
	31 684 816	**264 829 379**	**5 447 594**	**-**	**301 961 789**	**299 878 956**
Deposits by credit institutions	-	-	-	35 183 733	35 183 733	35 183 733
Deposits by customers	-	-	-	189 014 104	189 014 104	189 367 830
Debt securities issued	-	-	-	40 013 790	40 013 790	40 274 945
Other financial liabilities	-	-	-	812 032	812 032	812 032
	-	**-**	**-**	**265 023 659**	**265 023 659**	**265 638 540**

The main assumptions are used by management to estimate the fair values of financial instruments as 31 December 2012:

- discount rates of 14.0% (roubles) and 8.5 % (foreign currency) are used for discounting future cash flows from corporate loans
- discount rates of 17.0% (roubles) and 12.2% (foreign currency) are used for discounting future cash flows from loans to individuals
- discount rates of 10.0% (roubles) and 4.4% (foreign currency) are used for discounting future cash flows from retail deposits.

The estimates of fair value are intended to approximate the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants at the measurement date. However, given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realisable in an immediate sale of the assets or transfer of liabilities.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Group determines fair values using other valuation techniques.

Valuation techniques include net present value and discounted cash flow models and comparison to similar instruments for which market-observable prices exist. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates used in estimating discount rates and foreign currency exchange rates.

The Group uses widely recognised valuation models to determine the fair value of common and more simple financial instruments, such as interest rate and currency swaps that use only observable market data and require little management judgment and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange-traded derivatives, and simple over-the-counter derivatives such us interest rate swaps.

There is no active market for loans to customers. The estimation of fair value for loans to customers is based on management's assumptions.

The fair value of unquoted equity securities available-for-sale with a carrying value of RUB 4 661 thousand (31 December 2012: RUB 26 000 thousand) cannot be determined.

Fair value hierarchy

The Group measures fair values for financial instruments recorded on the consolidated statement of financial position using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: Valuation techniques based on observable inputs, either directly (i.e, as prices) or indirectly (i.e, derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The tables below analyse assets measured at fair value on recurring basis as at 31 December 2013 and 2012, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the consolidated statement of financial position.

31 December 2013	**Level 1 RUB'000**	**Level 2 RUB'000**	**Valuation technique used for Level 2**	**Total RUB'000**
Financial assets at fair value through profit or loss	37 214 872	197 313	Discounted cash flows	**37 412 185**
Available-for-sale securities	10 783 123	7 745 780	Discounted cash flows	**18 528 903**
Buildings included in property and equipment	-	4 667 192	Market approach	**4 667 192**

31 December 2012	**Level 1 RUB'000**	**Level 2 RUB'000**	**Valuation technique used for Level 2**	**Total RUB'000**
Financial assets at fair value through profit or loss	31 444 556	240 260	Discounted cash flows	**31 684 816**
Available-for-sale securities	3 007 896	2 413 692	Discounted cash flows	**5 421 588**
Buildings included in property and equipment	-	4 755 123	Market approach	**4 755 123**

During 2013 there were no transfers of assets between Level 1 and Level 2.

The following tables analyse the fair value of financial assets and liabilities not measured at fair value and for which the carrying value does not approximate fair value, by the level in the fair value hierarchy into which each fair value measurement is categorised as at 31 December 2013 and 2012:

RUB'000	**Level 1**	**Level 2**	**Level 3**	**Fair value**	**Total carrying amount**
Loans to customers	-	-	313 331 013	313 331 013	308 940 610
	-	**-**	**313 331 013**	**313 331 013**	**308 940 610**
Deposits by customers	-	275 378 789	-	275 378 789	274 872 004
Debt securities issued	79 363 678	6 658 579	-	86 022 257	84 553 516
	79 363 678	**282 037 368**	**-**	**361 401 046**	**359 425 520**

RUB'000	**Level 1**	**Level 2**	**Level 3**	**Fair value**	**Total carrying amount**
Loans to customers	-	-	199 151 689	199 151 689	201 234 522
	-	**-**	**199 151 689**	**199 151 689**	**201 234 522**
Deposits by customers	-	189 367 830	-	189 367 830	189 014 104
Debt securities issued	32 119 053	8 155 892	-	40 274 945	40 013 790
	32 119 053	**197 523 722**	**-**	**229 642 775**	**229 027 894**

32 Acquisitions and disposals

On 8 October 2013 the Group acquired 100% of the shares in M-Leasing, a company operating in financial leasing. The purchase consideration was RUB 310 000 thousand, which was settled in cash.

Taking control of M-Leasing will enable the Group to reinforce its position in the market of financial leasing services.

The fair value amounts of assets and liabilities of the acquired subsidiary were provisionally recognized in the consolidated financial statements were as follows at the date of acquisition:

	Recognized amounts on acquisition RUB'000
ASSETS	
Cash and cash equivalents	210 820
Loans to customers	1 563 507
Deferred tax assets	2 128
Other assets	105 997
LIABILITIES	
Deposits and balances from banks	(1 299 411)
Other liabilities	(574 130)
Net identifiable assets and liabilities	**8 911**
Goodwill on acquisition	301 089
Consideration paid	(310 000)
Cash acquired	210 820
Net cash outflow	**(99 180)**

The goodwill is attributable mainly to the skills and technical talent of the work force, and the synergies expected to be achieved from integrating the company into the Group's existing leasing business. None of the goodwill recognized is expected to be deductible for income tax purposes.

The amounts of revenue and profit or loss of M-Leasing since the acquisition date and for the year ended 31 December 2013 as though the acquisition had been as of the beginning of the reporting year do not have a significant effect on consolidated revenue and profit or loss.

33 Earnings per share

Basic earnings per share are calculated by dividing profit for the period by the weighted average number of ordinary shares in issue during the year.

Basic earnings per share are calculated as follows:

	31 December 2013 RUB'000	31 December 2012 RUB'000
Profit for the period	8 880 063	5 777 882
Weighted average number of ordinary shares in issue	13 125 315 148	11 410 049 656
Basic earnings per share (in RUB per share)	**0.68**	**0.51**

The Group has no dilutive potential ordinary shares.

34 Events subsequent to the reporting date

In January 2014 the Bank paid out the seventh coupon in the amount of RUB 10 220 thousand or RUB 51.11 per bond on domestic bonds series 07. The issue was originally placed on 20 July 2010 in the amount of RUB 2 000 000 thousand with a maturity of 5 years.

In January 2014, debt instruments held by the Group on 31 December 2013 in the amount of RUB 10 432 664 thousand became qualified to be pledged against borrowings from the CBR.

In February 2014 the Bank redeemed its domestic exchange bonds series BO-01. The issue was placed on 22 February 2011 in the amount of RUB 3 000 000 thousand with a maturity of 3 years.

In February 2014 the Bank paid out the second coupon in the amount of RUB 122 160 thousand or RUB 61.08 per bond on domestic subordinated bonds series 12. The issue was placed on 27 February 2013 in the amount of RUB 2 000 000 thousand with a maturity of 5.5 years.

In January 2014 the Bank announced a decision to increase its share capital by placement of 9 645 174 490 additional ordinary registered shares with par value of 1 RUB per share by way of a public offering.

In February 2014 the Bank announced a decision to apply to the Moscow Exchange for listing of its ordinary registered shares.

In February 2014 the Bank applied to the CBR for permission to place, and (or) arrange for trading of, its securities outside of the Russian Federation at the London Stock Exchange plc.

Chairman of the Management Board	Vladimir A. Chubar
Chief Accountant	Svetlana V. Sass

12 March 2014