Novosibirsk Social Commercial Bank “Levoberezhny”
(Open Joint Stock Company)

Financial Statements and Independent Auditors’ Report

31 December 2013

This is a translation of Russian original. In case of disputes, prevails the Russian version of financial statements

Contents

STATEMENT OF MANAGEMENT RESPONSIBILITIES

Management has prepared and is responsible for the financial statements and related notes of the Novosibirsk Social Commercial Bank "Levoberezhny" OJSC ("the Bank"). They have been prepared in accordance with International Financial Reporting Standards ("IFRS") and necessarily include amounts based on judgements and estimates by management.

The Bank maintains internal accounting control systems and related policies and procedures designed to provide reasonable assurance that assets are safeguarded, that transactions are executed in accordance with management's authorisation and properly recorded, and that accounting records may be relied upon for the preparation of financial statements and other financial information. The system contains self-monitoring mechanisms that allow management to be reasonably confident that controls, as well as the Bank's administrative procedures and internal reporting requirements operate effectively. There are inherent limitations in the effectiveness of any system of internal control, including the possibility of human error or the circumvention or overriding of controls. Accordingly, even an effective internal control system can provide only reasonable assurance with respect to financial statement preparation.

Approved on behalf of the Board on 30 April 2014

Shaporenko V.V.	Kolesnikova S. V.
General Director	Chief Accountant

INDEPENDENT AUDITORS' REPORT

To the Shareholders, Management Board and Board of Directors of Novosibirsk Social Commercial Bank "Levoberezhny" (OJSC):

Report on the financial statements

We have audited the accompanying financial statements of the Novosibirsk Social Commercial Bank "Levoberezhny" (OJSC) (further "the Bank"), which comprise the Statement of Financial Position as at 31 December 2013, and the Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2013, and its financial performance and its cash flows for the year then ended in accordance with IFRS.

OOO Moore Stephens

OOO Moore Stephens
38, Stremyanny Pereulok
Moscow, 115054
Russian Federation

30 April 2014

In thousands of Russian Roubles

	Notes	31 December 2013	31 December 2012
Assets			
Cash and cash equivalents	5	3,863,999	4,427,130
Mandatory cash balances with the CBRF	6	289,174	283,204
Financial assets at fair value through profit or loss	7	3,259,586	2,470,599
Due from financial institutions	8	338,204	1,882,593
Financial assets held to maturity	9	30,389	76,705
Loans and advances to customers	10	23,047,622	20,378,631
Other assets	11	102,616	80,231
Investment property	12	3,142	3,142
Property, plant and equipment	13	1,421,018	1,152,743
Deferred tax assets	27	110,845	79,002
Total assets		**32,466,595**	**30,833,980**
Liabilities			
Due to financial institutions	14	36,562	135,996
Customer accounts	15	27,551,112	26,623,945
Debt securities issued	16	74,518	153,793
Other liabilities	17	112,403	139,047
Subordinated debt	18	505,000	505,000
Deferred tax liabilities	27	236,432	177,116
Total liabilities		**28,516,027**	**27,734,897**
Equity			
Share capital	19	549,956	549,956
Premises revaluation reserve		221,806	217,959
Retained earnings		3,178,806	2,331,168
Total equity		**3,950,568**	**3,099,083**
Total liabilities and equity		**32,466,595**	**30,833,980**
Total credit related commitments	30	**3,392,036**	**3,400,035**

Approved on behalf of the Board on 30 April 2014

Shaporenko V.V.
General Director

Kolesnikova S.V.
Chief Accountant

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In thousands of Russian Roubles

	Notes	2013	2012
Interest income	20	4,923,950	3,508,703
Interest expense	20	(2,252,830)	(1,446,385)
Net interest income		**2,671,120**	**2,062,318**
Allowance for impairment of interest bearing assets	10	(724,221)	(263,216)
Net interest income after allowance for impairment of interest bearing assets		**1,946,899**	**1,799,102**
Net losses from dealing with securities	21	(2,086)	(898)
Net gains from operations with foreign currencies	22	134,180	132,353
Net gains from revaluation of assets/ liabilities denominated in foreign currencies		5,449	10,230
Value transfer on loans given at less than commercial rates		-	(17,612)
Commission income	23	959,137	762,942
Commission expense	23	(149,194)	(117,473)
Net gains arising from sales of mortgage loans		25,071	11,503
Other operating income	24	204,488	115,331
Net operating income		**3,123,944**	**2,695,478**
Staff costs	25	(988,248)	(868,382)
Operating expenses	26	(852,195)	(650,052)
Movement on allowance for other assets	11	(2,057)	(2,412)
Profit before taxation		**1,281,444**	**1,174,632**
Income tax	27	(272,669)	(236,797)
Net profit		**1,008,775**	**937,835**
Other comprehensive income			
Gains on revaluation of premises		12,310	-
Profit tax component of other comprehensive income (Note 27)		(2,462)	-
Other comprehensive income, net of tax		**9,848**	**-**
Comprehensive income		**1,018,623**	**937,835**

Approved on behalf of the Board on 30 April 2014

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Novosibirsk Social Commercial Bank "Levoberezhny" (OJSC)
Statement of Cash Flows for the year ended 31 December 2013
In thousands of Russian Roubles

	Notes	2013	2012
Cash flow from operating activities			
Interest received		4,328,289	3,077,317
Interest paid		(2,069,061)	(1,268,318)
Commissions received		963,713	766,785
Commissions paid		(149,194)	(117,473)
Gains from dealing with securities		2,284	31,407
Gains from dealing with foreign currency		134,558	129,213
Other operating income		229,559	126,834
Operating expense		(1,776,322)	(1,447,720)
Income tax paid		(246,637)	(220,878)
Operating profit before changes in operating assets and liabilities		**1,417,189**	**1,077,167**
Cash flows from changes in operating assets and liabilities			
Net (increase) / decrease in assets:			
Mandatory cash balances with the CBRF		(5,970)	(97,869)
Due from financial institutions		(788,987)	(1,087,838)
Financial assets at fair value through profit or loss		1,544,389	(731,447)
Loans and advances to customers		(2,801,917)	(7,265,603)
Other assets		(23,051)	20,972
Net (decrease) / increase in liabilities:			
Due to financial institutions		(99,434)	(113,782)
Customer accounts		743,398	10,388,612
Debt securities issued		(79,275)	59,633
Other liabilities		(43,088)	35,003
Net cash (used in) / generated from operating activities		**(136,746)**	**2,284,848**
Cash flow from investing activities			
Purchase of financial assets held to maturity		-	(28,852)
Proceeds from redemption of financial assets held to maturity		46,312	354,744
Proceeds from sale of investment property	12	-	18,794
Proceeds from sale of premises and equipment	13	2,392	133,769
Purchase of premises and equipment	13	(313,400)	(479,044)
Net cash used in investing activities		**(264,696)**	**(589)**
Cash flow from financing activities			
Receipt of subordinated loans	17	-	250,000
Dividends paid	19	(167,138)	(88,464)
Net cash (used in) / generated from financing activities		**(167,138)**	**161,536**
Effect of foreign exchange movements on cash and cash equivalents		5,449	10,230
Net (decrease) / increase in cash and cash equivalents		**(563,131)**	**2,456,025**
Cash and cash equivalents at the beginning of the year		**4,427,130**	**1,971,105**
Cash and cash equivalents at the end of the year	5	**3,863,999**	**4,427,130**

Approved on behalf of the Board on 30 April 2014

Shaporenko V.V.
General Director

Kolesnikova S.V.
Chief Accountant

In thousands of Russian Roubles

	Notes	Share capital	Premises revaluation reserve	Retained earnings	Total equity
31 December 2011		**549,956**	**223,696**	**1,476,060**	**2,249,712**
Total comprehensive income		-	-	937,835	937,835
Transfer of annual release from premises revaluation reserve		-	(5,737)	5,737	-
Dividends declared	19	-	-	(88,464)	(88,464)
31 December 2012		**549,956**	**217,959**	**2,331,168**	**3,099,083**
Total comprehensive income		-	9,848	1,008,775	1,018,623
Transfer of annual release from premises revaluation reserve		-	(6,001)	6,001	-
Dividends declared	19	-	-	(167,138)	(167,138)
31 December 2013		**549,956**	**221,806**	**3,178,806**	**3,950,568**

Approved on behalf of the Board on 30 April 2014

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In thousands of Russian Roubles

1. Principal Activities

Commercial Bank "Levoberezhny" Open Joint-Stock Company was registered as a commercial bank with the Central Bank of the Russian Federation ("CBRF") in 1991. The Bank is a commercial bank owned by shareholders whose liability is limited.

The main activities of the Bank include cash services, loan transactions, dealing with securities, attraction of deposits, and dealing in foreign currencies. The main locations where the Bank actively operates are Novosibirsk city and Novosibirsk region. The headquarters of the Bank is situated at 25/1 Plakhotnogo Street, Novosibirsk, 630054, Russian Federation. The Bank also has 44 additional offices, 13 credit – cash offices and 10 operational outlets.

As at 31 December 2013, the Bank held the following licenses:

- § License № 1343 dated 09 June 2012 (no expiry date) to carry out banking and foreign exchange activities (excluding receipt of deposits of individuals); issued by the CBRF.
- § License № 1343 dated 09 June 2012 (no expiry date) to carry out activities on receiving deposits from individuals in Russian Roubles ("RUB") and foreign currency; issued by the CBRF.
- § License as professional participant of the securities' stock exchange №054-02932-100000 dated 27 November 2000 to carry out broker activity; issued by the Federal Commission for the Securities' Stock Exchange.
- § License as professional participant of the securities' stock exchange №054-03039-010000 dated 27 November 2000 to carry out dealing activity; issued by the Federal Commission for the Securities' Stock Exchange.
- § License of professional participant of the securities' stock exchange №054-03158-000100 dated 4 December 2000 to carry out deposit activity; issued by the Federal Commission for the Securities' Stock Exchange.

The General Director of the Bank is Mr. Vladimir Viktorovich Shaporenko and the Board of Directors is headed by Mr. Dmitriy Borisovich Yarovoy.

The major shareholders of the Bank as at 31 December 2013 and 31 December 2012 were:

Shareholder	31 December 2013 %	31 December 2012 %
Dmitriy Borisovich Yarovoy	61.81	61.81
Ratto Holdings Limited	10.00	10.00
Alexander Dmitrievich Yarovoy	7.84	7.84
Primorsk Social Company (LLC)	5.35	5.35
Vyacheslav Mikhailovich Pertsev	5.00	5.00
Mikhail Fyodorovich Robkanov	5.00	5.00
Others (less than 5% - 17 shareholders)	5.00	5.00
	100.00	**100.00**

Mr. Dmitriy Borisovich Yarovoy is the ultimate controlling party by virtue of his shareholding. In accordance with the Russian legislation Dmitriy Borisovich Yarovoy is deemed to be a beneficial owner of the Bank because he controls over 61% of the Bank's share capital.

In 2013 the average number of employees of the Bank was 1,426 (2012: 1,282). As at 31 December 2013 the Bank employed 1,496 members of staff (31 December 2012: 1,364).

2. Operating Environment of the Bank

In 2013, the development of the Russian banking sector was overshadowed by the presence of adverse factors, such as the slowdown of the economy, a reduced lending activity in the corporate sector, the growth of the share of overdue loans in the banks' loan portfolios.

For 2013, GDP grew by 1.3 % (in 2012 - 3.4%). Growth rate of the total banking assets in 2013 also decreased and amounted to 16.0% compared to 18.9 % in 2012. The absolute value of the assets as at 01.01.2014 amounted to 57.4 trillion rubles.

The slowing down of the growth in banking assets in 2013 also led to lower profits as the Russian credit organisations over the past year earned a profit of 994 billion rubles. Compared to the result of 2012 this indicator decreased by 1.8% (2012: 1,012 billion rubles).

The average capital adequacy ratio within the banking system over the past year decreased from 13.7% to 13.5%. To a large extent the decline was a result of a slow growth in equity compared to a significant increase of the amount of risk-weighted assets as well as of certain changes introduced by the Bank of Russia to the way the capital adequacy ratio is calculated. The return on equity of the banking sector in 2013 was estimated at 16.7% (in 2012: 18.2%).

One of the fundamental reasons behind the decline in profits of credit institutions was the higher level of loan loss provision for unsecured consumer loans in early 2013 as well as the deterioration of credit quality of the overall loan portfolio. By the end of 2013 loans to individuals increased by 28.7% compared with growth of almost 40% a year earlier. Corporate portfolio growth in 2013 remained at the level of 2012 and amounted to 12.7%.

Situation with overdue loans was not the same in different segments of lending. Whilst for corporate loans in 2013 the share of overdue loans decreased from 4.6% to 4.1%, in retail lending that indicator went up by 0.4 percentage points and reached 4.4% as of 01.01.2014.

The rate of growth in deposits in 2013 was lower than in previous year and amounted to 19.0% (in 2012: 20.0%). This was due to the reduced retail customer activity, as well as to the tightened control by the Bank of Russia over the attracting resources from individuals. During the year of 2013 weighted average interest rate on deposits in the ten largest banks fell from 9.65% to 8.38% per annum.

An opposite situation was observed with corporate deposits where the growth rate for 2013 amounted to 13.7% (2012: 11.8%).

Further development of the Russian banking sector in 2014 will reflect the state of the Russian economy as a whole, taking into account the impact of macroeconomic factors and political situation in the world.

Although, at the date of signing these financial statements, Management cannot fully determine the impact of the current economic situation on the Bank with any certainty it is clear that significant uncertainties are still present. The financial information reflects Management’s assessment of the impact on the operations and the financial position of the Bank. The future business environment may differ from Management’s assessment. In order to assess the impact of possible events on the financial position of the Bank Management uses the modelling of negative scenarios. At the same time, they are unable to predict all developments that could have an impact on the banking sector and therefore the financial position of the Bank.

3. Basis of Presentation

a) Basis of Presentation

These financial statements have been prepared on a going concern basis in accordance with International Financial Reporting Standards (“IFRS”) which comprise standards and interpretations approved by the International Accounting Standards Board (“IASB”) and International Accounting Standards (“IAS”) and Standing Interpretations Committee Interpretations (“SIC”) approved by the International Accounting Standards Committee that remain in effect. The Bank maintains its accounting records in accordance with the Russian Accounting Standards (“RAS”).

3. Basis of Presentation (continued)

These financial statements are based on the Bank's RAS records adjusted and reclassified in order to comply with IFRS.

The Bank does not have any subsidiary companies and therefore does not prepare consolidated financial statements.

b) Use of estimates

In these financial statements, the Bank uses a number of different methods of estimation:

§ Cost method (actual cost of purchase). Assets are recorded at the amount of cash paid or their current cost set by mutual agreements between parties. Liabilities are recorded at the amount of assets or rights received in return of an obligation or in some circumstances at the amount of cash that will be necessary to repay the obligations in the normal course of business.

§ Current cost (recovery cost). Assets are recorded at the amount of cash that would need to be paid if these assets were purchased at the present date. Liabilities are recorded at the amount of non-discounted cash that will be required to settle the liability.

§ Realisable value (possible selling/ repurchase price (fair value)). Assets are recorded at the amount of cash that can be received from sale. Liabilities are recorded at settlement value, which is the undiscounted amount of cash required for settling the liabilities.

§ Amortised cost/ (expenses), assets/ (liabilities) are recorded at the current estimate of future net receipt (disposals) of cash in the normal course of business according to market interest rates effective at the moment of transaction.

§ Book value. This is the value of assets and liabilities recorded in the statement of financial position at the reporting date.

It is assumed that the future cash flows and the term of a pool of similar financial instruments can be reliably estimated. However, when cash flows or the term of a financial instrument is impossible to estimate, the Bank uses the contractual estimated cash flows under the term determined by the agreement.

In the opinion of the Bank, the market interest rate is defined as the "best" interest rate (the highest interest rate for financial assets and the lowest one for financial liabilities) between the two following rates:

§ Interest rate on similar financial instruments operating in an active markets

§ Interest rate on similar financial instruments in the portfolio of the Bank at the reporting date or transactions performed during the reporting period.

Under similar financial instruments stand financial instruments which have similar conditions including borrowing capacity of a debtor, remaining maturity period, currency of repayment and so on.

c) Impairment of assets

The Bank creates allowance for possible impairment for all types of financial assets, except for financial assets at fair value through profit or loss.

Financial assets are considered impaired and losses from the impairment occur if objective factors of impairment occurred as a result of one or more events taking place after the initial recognition of assets ("loss event"); and the event can impact the expected future cash flows of the financial assets and its effect can be reliably estimated.

The main factors according to which the Bank considers a financial asset to be impaired or not are the existence of overdue amounts and, eventually, the possibility of realisation of the corresponding collateral. A financial asset is considered overdue if the counterparty did not fulfil its payment obligations at the date stated in the contract.

3. Basis of Presentation (continued)

Among other main factors of determination of objective evidence of impairment are the following:

§ Delinquency in contractual payments of principal or interest not related to technical problems in the payment system

§ A borrower or an issuer has serious financial problems that can be evident from their financial statements received by the Bank

§ Initiation of bankruptcy proceedings

§ Deterioration of the borrower's competitive position

§ Deterioration in the value of the collateral

§ An active market for the particular financial asset has disappeared as a result of financial difficulties of an issuer (not due to the fact that the asset does not operate on the market any more)

§ There is information that an issuer or a borrower has a tendency to violate the conditions of contracts on similar financial assets.

Losses from impairment of financial assets reflected at amortised cost are recognised in the statement of comprehensive income as they occur because of one or more events ("loss event") taking place after the original recognition of an asset. The Bank does not recognise losses from impairment at initial recognition.

Subsequently, the Bank assesses whether objective evidence of impairment exists individually for financial assets which are individually significant, and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of comprehensive income. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

The current methodology for assessing the impairment of financial assets is to combine them into groups of financial assets based on indicators of credit risk. The estimated future cash flows of each group are subject to changes depending on the risk factors that could reduce the capacity of the customers to repay the debts under the contractual terms.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for the assets with credit risks characteristics similar to those in the group. They can also be determined on the basis of Management's statistics about the volumes of overdue debts that can occur as result of loss events and also about the possibility of recovery of overdue debts. Previous year's statistics are adjusted on the basis of current observable data to reflect the effects of current conditions that did not influence the previous periods as well to eliminate the effect of previous events that do not currently exist.

3. Basis of Presentation (continued)

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's payment ability), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the statement of comprehensive income as part of the movement in impairment charge for credit losses.

Uncollectible financial assets in respect of which all necessary procedures are finished for the purpose of full or partial recovery and the final amount of loss is defined, are written off against the allowance for impairment created in the statement of financial position.

Losses from impairment of financial assets available for sale are recognised in the statement of comprehensive income as they occur as a result of one or more events ("loss event") taking place after the initial recognition of assets available for sale.

The Bank assesses at least at each statement of financial position date whether there is objective evidence that a financial asset or group of financial assets classified as available for sale is impaired. In the case of equity instruments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available for sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised as profit or loss – is removed from equity and recognised in the statement of comprehensive income.

Impairment losses recognised in the statement of comprehensive income on equity instruments are not reversed through the statement of comprehensive income. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases, and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the statement of comprehensive income.

In respect of debt instruments classified as available for sale, evidence of impairment is estimated in accordance with the same criteria ("loss events") as in respect of financial assets at amortised cost. The amount of loss that is to be transferred to statement of comprehensive income is equal to the difference between initial cost of the asset (less repayments of principal debt and adjusted for amortisation on assets estimated with the use of effective interest rate method) and the current fair value less losses from impairment on the asset, recognised earlier in statement of comprehensive income. Interest income on impaired assets is charged according to amortised expenses taking into account recognition of loss from impairment with the interest rate used for discounting of future cash flows to evaluate losses from impairment.

Interest income is reflected within "Interest income" in the statement of comprehensive income. When in the next reporting period the fair value of a debt instrument classified as available for sale increases and such increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the statement of comprehensive income.

Loans that are either subject to collective impairment assessment or individually significant and whose terms have been renegotiated are no longer considered to be past due but are treated as new loans. In subsequent years, the asset is considered to be past due and disclosed only if renegotiated.

d) Functional and presentation currency

The Bank considers RUB to be its functional currency given the fact that all operations of the Bank are carried out in the Russian Federation and significant part of them and its cash flows are denominated in Russian Roubles. Management of the Bank believes this currency best reflects the economic substance of the underlying events and circumstances relevant to the Bank.

The RUB has been selected as the presentation currency for the financial statements of the Bank and amounts have been rounded to the nearest thousand.

3. Basis of Presentation (continued)

e) Standards, interpretations and amendments that are not yet effective

A number of new standards and interpretations have been issued, some of which became effective for the period starting from 1 January 2013 or after that date. A description of new standards and interpretations that are relevant to the Bank is presented below:

IFRS 13 "Fair Value Measurement" (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013) improved consistency and reduced complexity by providing a revised definition of fair value, and a single source of fair value measurement and disclosure requirements for use across IFRSs. The Standard did not have any material impact on the Bank's financial statements.

Amendments to IAS 1 "Presentation of Financial Statements" (issued in June 2011, effective for annual periods beginning on or after 1 July 2013) changed the disclosure of items presented in other comprehensive income. The amendments require entities to separate items presented in other comprehensive income into two groups, based on whether or not they may be reclassified to profit or loss in the future. The suggested title used by IAS 1 has changed to "statement of profit or loss and other comprehensive income". The amended standard resulted in changed presentation of financial statements, but did not have any impact on measurement of transactions and balances.

Amended IAS 19 "Employee Benefits" (issued in June 2011, effective for periods beginning on or after 1 January 2013) makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. The standard requires recognition of all changes in the net defined benefit liability (asset) when they occur, as follows: (i) service cost and net interest in profit or loss; and (ii) re-measurements in other comprehensive income. The amended standard did not have any material impact on the Bank's financial statements.

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

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

f) Standards, **interpretations** *and amendments that are not yet effective*

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2014 or later, and which the Bank has not early adopted.

3. Basis of Presentation (continued)

IFRS 9 "Financial Instruments: Classification and Measurement". Key features of the standard issued in November 2009 and amended in October 2010, December 2011 and November 2013 are:

- § Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
- § An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent payments of principal and interest only (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.
- § All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.
- § Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
- § Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

The amendments made to IFRS 9 in November 2013 removed its mandatory effective date, thus making application of the standard voluntary. The Bank does not intend to adopt the existing version of IFRS 9.

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

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

3. Basis of Presentation (continued)

IFRIC 21 – "Levies" (issued on 20 May 2013 and effective for annual periods beginning 1 January 2014). The interpretation clarifies the accounting for an obligation to pay a levy that is not income tax. The obligating event that gives rise to a liability is the event identified by the legislation that triggers the obligation to pay the levy. The fact that an entity is economically compelled to continue operating in a future period, or prepares its financial statements under the going concern assumption, does not create an obligation. The same recognition principles apply in interim and annual financial statements. The application of the interpretation to liabilities arising from emissions trading schemes is optional. The Bank is currently assessing the impact of the amendments on its financial statements.

Amendments to IAS 36 – "Recoverable amount disclosures for non-financial assets" (issued in May 2013 and effective for annual periods beginning 1 January 2014; earlier application is permitted if IFRS 13 is applied for the same accounting and comparative period). The amendments remove the requirement to disclose the recoverable amount when a CGU contains goodwill or indefinite lived intangible assets but there has been no impairment. The Bank is currently assessing the impact of the amendments on the disclosures in its financial statements.

Amendments to IAS 39 – "Novation of Derivatives and Continuation of Hedge Accounting" (issued in June 2013 and effective for annual periods beginning 1 January 2014).The amendments will allow hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is novated (i.e parties have agreed to replace their original counterparty with a new one) to effect clearing with a central counterparty as a result of laws or regulation, if specific conditions are met. The Bank is currently assessing the impact of the amendments on the disclosures in its financial statements.

Amendments to IAS 19 – "Defined benefit plans: Employee contributions" (issued in November 2013 and effective for annual periods beginning 1 July 2014). The amendment allows entities to recognise employee contributions as a reduction in the service cost in the period in which the related employee service is rendered, instead of attributing the contributions to the periods of service, if the amount of the employee contributions is independent of the number of years of service. The amendment is not expected to have any material impact on the Bank's financial statements.

IFRS 14 – "Regulatory Deferral Accounts" (issued in January 2014 and effective for annual periods beginning on or after 1 January 2016). IFRS 14 permits first-time adopters to continue to recognise amounts related to rate regulation in accordance with their previous GAAP requirements when they adopt IFRS. However, to enhance comparability with entities that already apply IFRS and do not recognise such amounts, the standard requires that the effect of rate regulation must be presented separately from other items. An entity that already presents IFRS financial statements is not eligible to apply the standard. Annual Improvements to IFRSs 2012 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014, unless otherwise stated below). The improvements consist of changes to seven standards.

The basis for conclusions on IFRS 13 was amended to clarify that deletion of certain paragraphs in IAS 39 upon publishing of IFRS 13 was not made with an intention to remove the ability to measure short-term receivables and payables at invoice amount where the impact of discounting is immaterial.

IAS 16 – "Fixed Assets" and IAS 38 – "Intangible Assets" were amended to clarify how the gross carrying amount and the accumulated depreciation are treated where an entity uses the revaluation model.

IAS 24 – "Related Party Disclosures" was amended to include, as a related party, an entity that provides key management personnel services to the reporting entity or to the parent of the reporting entity ('the management entity'), and to require to disclose the amounts charged to the reporting entity by the management entity for services provided. The Bank is currently assessing the impact of the amendments on its financial statements.

3. Basis of Presentation (continued)

Annual Improvements to IFRSs 2013 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014). The improvements consist of changes to four standards.

The basis for conclusions on IFRS 1 is amended to clarify that, where a new version of a standard is not yet mandatory but is available for early adoption; a first-time adopter can use either the old or the new version, provided the same standard is applied in all periods presented.

IFRS 3 was amended to clarify that it does not apply to the accounting for the formation of any joint arrangement under IFRS 11. The amendment also clarifies that the scope exemption only applies in the financial statements of the joint arrangement itself.

The amendment of IFRS 13 clarifies that the portfolio exception in IFRS 13, which allows an entity to measure the fair value of a group of financial assets and financial liabilities on a net basis, applies to all contracts (including contracts to buy or sell non-financial items) that are within the scope of IAS 39 or IFRS 9.

IAS 40 was amended to clarify that IAS 40 and **IFRS 3** are not mutually exclusive. The guidance in IAS 40 assists preparers to distinguish between investment property and owner-occupied property. Preparers also need to refer to the guidance in IFRS 3 to determine whether the acquisition of an investment property is a business combination.

The Bank is currently assessing the impact of the amendments on its financial statements.

Unless stated otherwise, it is expected that the new standards and interpretations will not have a significant impact on the financial statements of the Bank.

g) Foreign currency translation

Transactions denominated in currencies other than Russian Roubles are recorded at the exchange rate prevailing at the date of transaction. Translation differences occurring as a result of transactions performed in foreign currencies are recorded in the statement of comprehensive income at the exchange rate prevailing on that date.

The official CBRF exchange rates at 31 December 2013 were 32.7292 (not thousands) RUB per 1 USD (31 December 2012: 30.3727 (not thousands) RUB per 1 USD) and 44.9699 (not thousands) RUB per 1 EUR (31 December 2012: 40.2286 (not thousands) RUB per 1 EUR).

Translation differences related to debt securities and other monetary financial assets denominated in foreign currencies recorded at fair value are included in the statement of comprehensive income in the line of gains less losses arising from revaluation of assets / liabilities denominated in foreign currencies. Translation differences related to non-monetary items such as equity securities, included in financial assets carried at fair value through profit or loss are recorded as part of gains less losses from revaluation at fair value. Translation differences on non-monetary financial assets available for sale are recorded in equity through revaluation reserve of financial assets available for sale.

4. Significant Accounting Policies

a) Cash and cash equivalents

Cash and cash equivalents are items that can be converted into cash in one day. They include cash balances, non-mandatory cash balances with the CBRF, cash in correspondent accounts with banks of high reliability and non-bank credit institutions, as well as deposits in other banks with maturity date not later than the first working day following the reporting date. All other inter-bank deposits are disclosed as due from financial institutions. Amounts, which relate to funds that are of restricted nature, are excluded from cash and cash equivalents.

b) Mandatory cash balances with the CBRF

Mandatory balances with the CBRF represent mandatory reserve deposits, which are not available to finance the Bank's day-to-day operations and hence are not considered as part of cash and cash equivalents for the purposes of cash flow statement.

4. Significant Accounting Policies (continued)

c) *Financial assets at fair value through profit or loss*

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception.

A financial asset is classified as held for trading if its acquired or incurred principally for the purpose of selling or repurchasing in the near term or if it is 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. Derivatives are also categorised as held for trading unless they are designated as hedging instruments. The Bank classifies financial assets as trading in cases where it aims to sell them in less than 180 days from the moment of purchase.

Trading financial assets that operate on the Moscow Interbank Currency Exchange ("MICEX") and the Siberian Interbank Currency Exchange ("SICEX") apart from those mentioned in the paragraph below are measured on the basis of market prices set by MICEX or SICEX.

Trading financial assets whose nominal value is denominated in foreign currency, operating on the currency exchanges of European countries (financial assets of the Russian Federation, of entities of the Russian Federation, other Russian issuers, or financial assets issued under the guarantee of the above mentioned entities), are measured on the basis of sale prices, quoted by Reuters or (if these data are unavailable) on the basis of other information agencies or leading market operators that publish their information on sale and purchase rates daily.

Trading financial assets which are recognised as debt instruments and are not mentioned above are measured according to market conditions current on the date of their acquisition and using the interest rates set by the Bank or by leading participants of the market for similar debt instruments and which are published by these participants daily. Subsequently if the credit risk of the debtor remains the same the estimation of the current market interest rate is made based on a benchmark interest rate.

The benchmark interest rate records the yield of debt instruments measured using similar instruments (with similar maturity dates, schedule of cash payments, currency of payments etc.) but with a higher level of borrowing capacity. The current level of the benchmark interest rate on the date of estimation is set based on objective data from independent sources. The interest rate that is used for calculating the fair value of a financial asset is measured by summarising the current benchmark interest rate and the spread between the rate at which this financial asset was purchased and the benchmark interest rate which was effective on the date of the asset's acquisition. Costs of acquisition of financial instruments at fair value through profit or loss are not added to the fair value of the respective financial instruments at their initial recognition.

Changes in fair value are recognised in the statement of comprehensive income in the period when they occurred as net gains or losses from transactions with trading financial assets. Coupon and interest income on trading financial assets are recorded in the statement of comprehensive income as interest income on financial assets. Dividends received are recorded as other operating income.

Sale and purchase of trading financial assets whose delivery is to be performed in terms set by the legislation or by rules of the current market are recorded on the date of transaction, which is considered for the Bank the date of recognition of its obligations on asset's sale or purchase. In all other cases, such transactions are recorded as derivative financial instruments until the moment of settling the accounts.

The Bank's Management, using its professional judgement and based on reliable objective information of specific operations and transactions, decided to refer all debt and equity securities to the category of financial assets and liabilities at the fair value through profit or loss except those investments into equity securities which have no market prices and are not quoted in active markets, loans granted and instruments held to maturity. Assets are allocated into this category on the date of initial recognition and then are re-measured at fair value based on market value. For determining its market value, all financial assets at fair value through profit or loss are measured according to the latest bid price.

4. Significant Accounting Policies (continued)

At initial recognition a financial asset or liability is classified by the Bank as at fair value through profit or loss if the economical specifications of any embedded derivative are not connected to the economical specifications and risks of the principal agreement.

Financial assets classified into this category cannot be reclassified.

Financial assets at fair value through profit or loss include mortgage loans designated to be sold to other financial institutions under specific existing agreements.

The fair value of these loans is estimated based on the discounted anticipated sale price less the discounted value of the guarantee that would be given plus or minus the present value of any cash flows anticipated to occur between the current time and the anticipated sale date.

The gain or loss from the sale of these mortgage loans is equal to the received cash funds less the fair value of the guarantee and the present value of the loans.

d) Sale and purchase agreements and borrowing of debt securities

Securities sold subject to repurchase agreements ("repos") are reclassified in the financial statements as pledged assets when the transferee has the right by contract or custom to sell or repledge the collateral; the counterparty liability is included in amounts due to other banks, deposits from banks, other deposits or deposits due to customers, as appropriate.

Securities purchased under agreements to resell ("reverse repos") are recorded as loans and advances to other banks or customers, as appropriate. When these securities are sold to third parties the financial result from purchase and resale is recorded in "Net gains from dealing with securities". Liabilities on repurchase of securities are recorded at fair value as trading liabilities.

The difference between sale and repurchase price is treated as interest and accrued over the life of the agreement using the effective interest method.

Securities provided by the Bank as loans to counterparties continue to be treated as securities in the financial statements of the Bank. Securities received as loans are not recorded in the financial statements apart from the case when these securities are sold to third parties. In this case the financial result from purchase and resell of securities is recorded in the statement of comprehensive income as part of net gains from dealing with trading securities. Liabilities on repurchase of these securities are recorded at fair value as trading financial liabilities.

e) Amounts due from financial institutions

In the normal course of business, the Bank maintains current accounts or deposits for various terms in other credit institutions. Amounts granted are recorded from the moment of granting funds to a borrower. Initially items with a fixed maturity term are measured at fair value calculated based on the amount of discounted cash flows using market interest rates for instruments with similar level of credit risk and maturity term. Subsequently these loans are measured at amortised cost less allowance for impairment. Amortised cost is measured based on the yield to maturity calculated using the effective interest rate method.

Those loans that do not have fixed maturities (granted according to their agreements "on demand" or as a credit line) are carried at cost, which is considered a reasonable approximation to their fair value.

The amounts outstanding from credit institutions are carried less the allowance for impairment, calculated in accordance with the internal documents regulating the creation of allowances for possible losses on loans and other similar debts according to IAS 39.

f) Loans and receivables

This category includes non-derivative financial assets with fixed or determinable schedule of payments that are not quoted in an active market apart from those:

4. Significant Accounting Policies (continued)

- Intended for sale directly or in the near future and which should be recognised as trading measured at initial recognition at fair value through profit or loss;
- That after initial recognition are classified as available for sale;
- For which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

Loans are stated at amortised cost, net of allowances for impairment. Amortised cost is calculated as the amount outstanding after amortisation of the premium or discount over fair value arising at initial recognition using the effective interest method.

Application of impairment is discussed under Note 3 (c).

g) Promissory notes purchased

The Bank also purchases promissory notes from its customers and on the stock exchange. These promissory notes are included in either of the following categories: loans and receivables, financial assets carried at fair value through profit or loss, investments held to maturity or available-for-sale securities, depending on their substance. Subsequently they are re-measured and accounted for in accordance with the accounting policies of the respective categories.

h) Financial assets held to maturity

This category includes non-derivative financial assets with fixed or determinable payments and fixed maturity which the Bank has both the intent and the ability to hold to maturity.

After initial recognition such securities are re-measured to amortised cost as at the date of the financial statements. At each reporting date the Bank also evaluates whether there are any objective signs of impairment of securities carried at amortised cost with the purpose of determining whether an impairment loss calculation is necessary.

Impairment losses are calculated as being equal to the difference between the statement of financial position value and anticipated future cash flows discounted at the effective interest rate that was applicable on initial recognition. Impairment loss is recognised in the statement of comprehensive income for the period.

i) Financial guarantee contracts and other credit related commitments

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

Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. Subsequent to initial recognition, the Bank's liabilities under such guarantees are measured at the higher of the initial measurement, less amortisation calculated to recognise in the statement of comprehensive income the fee income earned on a straight line basis over the life of the guarantee, and the best estimate of the expenditure required to settle any financial obligation arising at the statement of financial position date. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgment of management.

Any increase in the liability relating to guarantees is taken to the statement of comprehensive income under other operating expenses.

In the normal course of business, the Bank enters into other credit related commitments including loan commitments.

4. Significant Accounting Policies (continued)

j) Property, plant and equipment

Land and buildings comprise mainly branches and offices. Property, plant and equipment are recorded at purchase cost adjusted (where appropriate) to the equivalent of the purchase power of the Russian Rouble as at 31 December 2002 (since after this date the Russian economy ceased to be hyperinflationary) or at revalued cost less accumulated depreciation and allowance for impairment. Where the carrying amount of an asset is higher than its estimated recoverable amount, it is written down to its recoverable amount and the difference after eliminating any revaluation reserve balances, is charged to the statement of comprehensive income.

The estimated recoverable amount is the higher of the assets' net realisable value and its value in use.

An independent appraiser regularly values the premises of the Bank. The frequency of revaluations depends on changes of the estimated fair value of the revalued items. The balance of revaluation reserve included in equity is transferred directly to retained earnings on the date of assets' disposals or realisation. The amount of realised gain arising from revaluation is the difference between the depreciation calculated based on the revalued cost of the asset and the depreciation calculated based on its historical cost. If an individual item is revalued the entire group of property and equipment to which it relates is also revalued.

At the end of construction, assets are transferred into premises and are recognised at their carrying value at the date of transfer. Construction in progress is not depreciated until introduction into use of respective assets.

Gains and losses arising as a result of disposal or sale of fixed assets are determined by comparing proceeds with carrying amount. Repair and maintenance cost are charged to other operating expenses when the expenditure is incurred.

k) Depreciation

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

Premises	50
Improvement of rented premises	10
Intangible assets	10
Vehicles	6
Office and computer equipment	3 to 6
Other	5 to 20

Land and assets under construction are not depreciated.

Depreciation is charged from the month following the month of introduction into service of a fixed or intangible asset.

Depreciation is charged to the statement of comprehensive income as operating expense.

l) Investment property

Investment property comprises freehold properties that are held to earn rentals or for capital appreciation or both. Property that is being constructed or developed for future use as investment property is also classified as investment property. It is not depreciated but is stated at fair value based on valuations by independent registered valuers. Fair value is based on current prices for similar properties in the same location and condition. Any gain or loss arising from a change in fair value is recognised in the Statement of Comprehensive Income. Rental income from investment property is recognised on a straight-line basis over the term of the lease.

If an investment property becomes owner occupied, it is reclassified as property, plant and equipment and its fair value at the date of reclassification becomes its cost for accounting purposes.

4. Significant Accounting Policies (continued)

m) Subordinated loans

Subordinated loans are carried at amortised cost. Under the terms of the subordinated loans, in the event of liquidation of the Bank, the repayment of these loans is subordinated to all other creditors of the Bank. Subordinated loans are included in the calculation of capital in accordance with Russian Accounting Rules.

n) Borrowed funds

Borrowed funds include amounts due to customers, due to Banks and other borrowed funds. Borrowed funds are initially carried at fair value, which includes the amount of received funds less transaction costs.

Subsequently borrowed funds are recorded at amortised cost and the difference between the amount of received funds and the amount of repayments is charged to the statement of comprehensive income during the period of borrowing using the effective interest method. Fair value of borrowed funds with interest rate different from market interest rates is estimated at the date of inception, with reference to future interest payments and principal discounted at market interest rates for similar borrowings. The difference between fair value and nominal cost at the date of inception is recorded in the statement of comprehensive income as gain from attracting borrowed funds at rates less than commercial or as losses from attracting borrowed funds at rates higher than commercial. Subsequently the carrying value of borrowed funds is adjusted for the amortisation of their initial gain or loss and the corresponding expenses are recorded as interest expenses in the statement of comprehensive income using the effective interest rate method.

o) Debt securities issued

The Bank issues promissory notes and deposit certificates to its customers. Debt securities issued by the Bank are recognised initially at sale cost that includes proceeds from selling those securities (fair value of the consideration received) less transaction costs. Subsequently debt securities are carried at amortised cost, and the difference between the consideration received from the sale of those debt securities and their redemption amount is recorded in the statement of comprehensive income along its term, using the effective interest rate method.

When the Bank repurchases its own debt securities issued before their maturity date, the income received is recorded as commission income in the statement of comprehensive income.

p) Share capital

Share capital is recorded at the adjusted value taking into account the purchasing power of the Russian Rouble as at 31 December 2002.

q) Dividends

When dividends are declared after the reporting date but before the approval of the financial statements, the information on dividends is disclosed in the notes to the financial statements. Outstanding dividends are recorded in the statements of changes in equity in the period when they were approved by the general shareholders' meeting.

r) Operating leases

An operating lease is defined as one where the lessor reserves risks and gains related to the asset. When the Bank acts as lessee, the amount of payments due to the agreements of operating lease is recorded in the statement of comprehensive income using the method of amortisation on a straight-line basis during the term of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

4. Significant Accounting Policies (continued)

s) Taxes

Taxation is recorded in the financial statements in accordance with Russian legislation currently in force. Tax charges in the statement of comprehensive income of the period comprise current profit tax and changes in deferred tax. Current profit tax is calculated on the basis of expected taxable profit for the year, using the tax rates enacted at the statement of financial position date. Taxes, other than profit tax, are recorded in operating expenses in the statement of comprehensive income.

Deferred income tax is provided in full, using the balance sheet liability method, for all temporary differences arising between the value of taxable assets and liabilities and their carrying values according to these financial statements. A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax liabilities are recognised in full. Deferred tax assets and liabilities are determined at tax rates that are expected to be applied in the period when the assets would be realised or the liabilities settled, based on tax rates that would be effective in that period.

Deferred tax liabilities arising from revaluation of premises are recorded directly to the revaluation reserve in equity. Changes of deferred tax arising as a result of decreasing the amount of revaluation reserve are recorded against retained earnings. Changes of deferred tax occurring due to reasons other than changes of the revaluation reserve are recorded in the statement of comprehensive income.

Deferred tax arising from revaluation of available for sale securities to their fair value by recording it as decrease or increase of equity is also recognised in the equity. When realising such securities the corresponding amounts of deferred tax are recorded in the statement of comprehensive income.

t) Income and expense recognition

Interest income and expense for all interest-bearing financial instruments, except for those classified as held for trading or designated at fair value through profit or loss, are recognised within interest income and interest expense in the statement of comprehensive income using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or liability.

When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options), but does not consider future credit losses.

This calculation includes all commissions and fees paid or received by the parties according to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. Once a financial asset or group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan.

Commission and fees arising from negotiating, or participating in the negotiation of, a transaction for third parties, such as the arrangement for the acquisition of loans, shares or other securities or sell or purchase of businesses- are recognised on completion of the underlying transaction.

In thousands of Russian Roubles

4. Significant Accounting Policies (continued)

Commission and fee income from management of investment portfolio and from other managing and consulting services is recognised based on the applicable service contracts, usually on a time-proportional basis.

Fee income arising from services related to management of assets and investment funds is recognised in accordance with the agreement at the date when the Bank receives the right on receipt of income and the amount of income can be reliably determined. Income from rendering long term services is recognised in each reporting period proportionally to the volume of services rendered.

Accrued interest income and expenses including accrued coupon and discount are included in the carrying value of corresponding assets and liabilities.

Expenses on audit services and payments for the deposit insurance scheme are recognised when incurred on accrual basis.

Supplies are accounted as they acquired and are included in operating expenses.

u) Offsetting

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

v) Staff costs

The Bank contributes to the Russian Federation state pension scheme, social insurance and medical insurance funds in respect of its employees. These costs are expensed as incurred and are included in staff costs.

w) Gains arising on mortgage loans sold

The Bank periodically sells portfolios of mortgages that it has written, to third parties, simultaneously providing a guarantee on the credit risk of the mortgages sold for a limited, defined period of time. The gain or loss arising on sale is defined as the fair value of consideration received for the mortgages less the amortised cost of the mortgage portfolio less the fair value of the guarantee it has written on the sold mortgages. The nominal value of the amounts under guarantee is disclosed under credit related commitments and the fair value of the guarantee is treated in accordance with Note 4 (i).

5. Cash and Cash Equivalents

	31 December 2013	**31 December 2012**
Cash on hand	2,121,408	1,769,639
Deposits placed with CBRF	-	1,600,393
Cash balances with CBRF (other than mandatory reserve deposits)	1,560,861	734,397
Other market placements	107,350	167,931
Correspondent accounts and overnight deposits with other banks:		
Russian Federation	37,029	22,568
Other countries	37,351	132,202
	74,380	154,770
	3,863,999	**4,427,130**

As at 31 December 2013 no deposits were placed with CBRF.

In thousands of Russian Roubles

5. Cash and Cash Equivalents (continued)

As at 31 December 2012 deposits were placed with CBRF under the following conditions:

	Maturity date	Interest rate (%)	31 December 2012
CBRF	09.01.2013	4.5	100,024
CBRF	09.01.2013	4.5	1,500,369
			1,600,393

Information about credit quality of NOSTRO accounts (based on Fitch ratings) with banks included in cash and cash equivalents is as follows:

	31 December 2013	31 December 2012
AA- to AA+ rated	21,150	80,216
A- to A+ rated	16,137	50,453
BBB- to BBB+ rated	13,364	13,327
BB- to BB+ rated	307	3,826
B- to B+ rated	14,090	1,026
Other (including banks that do not have a credit rating)	9,332	5,922
	74,380	**154,770**

Transactions that did not require the use of cash and cash equivalents and were excluded from the statement of cash flows are as follows:

	31 December 2013	31 December 2012
Non-cash operation activities		
Other assets received by the Bank in settlement of overdue loans and advances to customers (Note 30)	1,385	4,305
Repayment of loans and advances to customers by non-monetary assets	(1,385)	(4,305)
	-	**-**

Geographical, currency, maturity and interest rate analysis on cash and cash equivalents are disclosed in Note 29. The information on related party balances is disclosed in Note 32.

6. Mandatory Balances with the CBRF

Mandatory balances represent amounts deposited with the CBRF and not available for use in the Bank's day to day operations. Credit institutions are required to maintain a non-interest earning cash deposit with the CBRF, the amount of which depends on the level of funds attracted by the credit institution. The Bank’s ability to withdraw such deposits is significantly restricted by legislation.

In thousands of Russian Roubles

7. Financial Assets at Fair Value through Profit or Loss

	31 December 2013	31 December 2012
Investments in municipal debt securities	139,959	-
Bonds of other banks	1,694,523	748,778
Corporate bonds	546,664	258,907
Promissory notes	-	982,248
Corporate shares	40,583	40,583
Mortgage portfolio for sale	837,857	440,083
	3,259,586	**2,470,599**

Investments in municipal debt securities comprise bonds issued in Russia and denominated in RUB.

Bonds of other banks comprise interest bearing securities issued by leading Russian banks that have a credit rating between BBB+ and B+ based on Fitch ratings.

Corporate bonds comprise interest bearing securities issued by non-bank legal entities and are denominated in RUB.

As at 31 December 2012 promissory notes comprised RUB denominated debt securities of the biggest Russian credit institutions included in the Top-100 according to net assets that have been issued at a discount to nominal value.

Corporate shares comprise unquoted shares of Russian companies.

Mortgage portfolio for sale comprises mortgages of individuals and denominated in RUB. The Bank has the intent and ability to sell them in the foreseeable future.

The following table provides details of the Bank's trading debt securities as at 31 December 2013:

	Maturity		Coupon rate per annum		Yield to maturity	
	Minimum	**Maximum**	**Minimum**	**Maximum**	**Minimum**	**Maximum**
Bonds of Russian banks	19.12.2014	11.10.2022	7.65%	11.35%	2.13%	13.81%
Corporate bonds	06.03.2014	27.11.2023	8.5%	15.0%	5.92%	7.46%
Municipal debt securities	16.04.2014	16.04.2014	8.0%	8.0%	7.66%	7.66%

The following table provides details of the Bank's trading debt securities as at 31 December 2012:

	Maturity		Coupon rate per annum		Yield to maturity	
	Minimum	**Maximum**	**Minimum**	**Maximum**	**Minimum**	**Maximum**
Bonds of other banks	29.04.2013	14.08.2015	8.9%	12.5%	8.6%	11.8%
Corporate bonds	01.04.2013	21.10.2013	6.5%	13.0%	6.3%	12.5%
Promissory notes	14.01.2013	25.03.2013	-	-	7.1%	8.9%

Information about credit quality of trading debt securities (based on Fitch ratings) is as follows:

	31 December 2013	31 December 2012
BBB- to BBB+ rated	2,170,061	734,717
BB- to BB+ rated	139,959	405,260
B- to B+ rated	71,126	333,627
Other (including entities that do not have a credit rating (Fitch))	878,440	996,995
	3,259,586	**2,470,599**

In thousands of Russian Roubles

7. Financial Assets at Fair Value through Profit or Loss (continued)

Following the amendments to IAS 39 and IFRS 7, the Bank in 2008 reclassified certain trading securities into investment securities held-to-maturity as the Bank no longer held these securities for the purpose of selling or repurchasing in the near term. These financial assets were reclassified upon occurrence of "rare circumstances".

Financial Committee of the Bank acknowledged the occurrence of "rare circumstances" due to the crisis in the international financial markets. The declines in market prices that occurred in the third quarter of 2008 represented a rare event, as they significantly exceeded historical volatilities observed in financial markets. Therefore the Bank made reclassification effective from 1 July 2008.

The table below shows interest income as well as revaluation gains or losses from the reclassified financial assets as at 31 December 2013, that would be recognised had the financial assets not been reclassified (from financial assets at fair value though profit or loss to financial assets held to maturity):

Reclassified	Issuer	Carrying value	Fair value	Interest income	Revaluation loss that would have been recognised if not reclassified	Effective interest rate
FVPL to HTM	Mikhailovsky Broiler (CJSC)	30,389	30,333	4,117	920	12.6%

The table below shows interest income as well as revaluation gains or losses from the reclassified financial assets as at 31 December 2012, that would be recognised had the financial assets not been reclassified (from financial assets at fair value though profit or loss to financial assets held to maturity):

Reclassified	Issuer	Carrying value	Fair value	Interest income	Revaluation loss that would have been recognised if not reclassified	Effective interest rate
FVPL to HTM	OFZ	7,156	7,185	431	80	6.1%
FVPL to HTM	Mikhailovsky Broiler (CJSC)	30,383	29,413	3,543	(312)	12.6%

Geographical analysis, currency and maturity analyses as well as interest rate analysis on financial assets at fair value though profit or loss are disclosed in Note 29.

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Bank's market assumptions. The hierarchy is as follows:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges and exchanges traded derivatives like futures.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). This level includes the majority of the OTC derivative contracts, traded loans and issued structured debt. The sources of input parameters like LIBOR yield curve or counterparty credit risk are Bloomberg and Reuters.
- Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

This hierarchy requires the use of observable market data when available. The Bank considers relevant and observable market prices in its valuations where possible.

In thousands of Russian Roubles

7. Financial Assets at Fair Value through Profit or Loss (continued)

The following table provides information on the classification of financial assets at fair value through profit or loss as at 31 December 2013 based on data obtained from the sources of information about their fair values:

	Level 1	Level 2	Level 3	Total
Investments in municipal debt securities	139,959	-	-	139,959
Bonds of other banks	1,694,523	-	-	1,694,523
Corporate bonds	546,664	-	-	546,664
Corporate shares	-	-	40,583	40,583
Mortgage loan portfolio for sale	-	-	837,857	837,857
	2,381,146	**-**	**878,440**	**3,259,586**

Reconciliation of Level 3 items in 2013 is presented below:

	Corporate shares	Mortgage loan portfolio for sale	Total
At 1 January	**40,583**	**440,083**	**480,666**
Gains recognised in profit or loss for the year	-	25,071	25,071
Purchases and additions	-	2,627,914	2,627,914
Settlements and disposals	-	(2,255,211)	(2,255,211)
At 31 December	**40,583**	**837,857**	**878,440**
Total losses for the year included in profit or loss for assets held at 31 December 2013	**-**	**-**	**-**

The following table provides information on the classification of financial assets at fair value through profit or loss as at 31 December 2012 based on data obtained from the sources of information about their fair values:

	Level 1	Level 2	Level 3	Total
Bonds of other banks	748,778	-	-	748,778
Corporate bonds	258,907	-	-	258,907
Promissory notes	-	982,248	-	982,248
Corporate shares	-	-	40,583	40,583
Mortgage loan portfolio for sale	-	-	440,083	440,083
	1,007,685	**982,248**	**480,666**	**2,470,599**

Reconciliation of Level 3 items in 2012 is presented below:

	Corporate shares	Mortgage loan portfolio for sale	Total
At 1 January	**41,671**	**339,789**	**381,460**
(Losses) / gains recognised in profit or loss for the year	(573)	11,503	10,930
Purchases and additions	-	1,601,034	1,601,034
Settlements and disposals	(515)	(1,512,243)	(1,512,758)
At 31 December	**40,583**	**440,083**	**480,666**
Total losses for the year included in profit or loss for assets held at 31 December 2012	**(573)**	**-**	**(573)**

In thousands of Russian Roubles

8. Due from Financial Institutions

	31 December 2012	31 December 2012
Term deposits in other banks	150,000	1,765,155
Other funds:		
Uralsib Bank (OJSC)	118,299	81,049
CJSC AKB “NKC”	63,999	1,484
Delta Credit Bank (CJSC)	3,115	2,015
Western Union	2,491	-
National Settlement Depository	300	-
COMMERZBANK AG	-	32,890
	338,204	**1,882,593**

As at 31 December 2013 term deposits in other banks were placed in the following financial institutions:

	Original maturity date	Interest rate (%)	31 December 2013
Sberbank of Russia	09.01.2014	3.0	150,000
			150,000

As at 31 December 2012 term deposits in other banks were placed in the following financial institutions:

	Original maturity date	Interest rate (%)	31 December 2012
OJSC "MDM Bank" (OJSC) (Moscow)	09.01.2013	6.3	200,171
Bank Saint Petersburg (OJSC)	09.01.2013	6.0	200,131
"OTP Bank" (OJSC)	09.01.2013	6.0	149,122
"Raiffeizenbank" (CJSC)	09.01.2013	6.3	147,075
Absolut Bank (CJSC)	09.01.2013	6.0	132,087
AKB "Metalinvestbank" (OJSC)	09.01.2013	1.5	112,009
Bank Petrocommerce (OJSC)	09.01.2013	6.4	110,115
AKB NMB (OJSC)	11.01.2013	8.0	110,144
"ТКВ" (CJSC)	09.01.2013	2.0	96,010
Alfa-Bank (OJSC)	11.01.2013	6.0	90,044
Bank "Narodny Credit" (OJSC)	09.01.2013	6.8	82,000
Bank "ROST" (OJSC)	15.01.2013	6.5	71,076
AKB "Forshtadt" (CJSC)	14.01.2013	6.8	64,071
VTB Bank (OJSC)	11.01.2013	6.0	56,028
"Bystrobank" (OJSC)	09.01.2013	3.5	56,011
AKB "Peresvet" (CJSC)	09.01.2013	6.5	53,028
"AIKB "Tatfondbank" (OJSC)	16.01.2013	6.8	36,033
			1,765,155

Information about credit quality of banks-counterparties (based on Fitch ratings) is as follows:

	31 December 2013	31 December 2012
A- to A+ rated	2,491	32,890
BBB- to BBB+ rated	217,114	295,162
BB- to BB+ rated	-	562,429
B- to B+ rated	118,299	56,011
Other (including banks that do not have a credit rating)	300	936,101
	338,204	**1,882,593**

In thousands of Russian Roubles

8. Due from Financial Institutions (continued)

Geographical analysis, currency and maturity analyses as well as interest rate analysis on due from financial institutions are disclosed in Note 29. The information on related party balances and transactions is disclosed in Note 32.

9. Financial Assets Held to Maturity

	31 December 2013	31 December 2012
Corporate bonds	30,389	30,383
Federal bonds ("OFZ")	-	7,156
Bonds of other banks	-	39,166
	30,389	**76,705**

Corporate bonds are interest bearing securities issued by non-bank legal entities and denominated in RUB.

As at 31 December 2012 federal bonds ("OFZ") comprised securities issued by the Government of the Russian Federation and denominated in RUB.

As at 31 December 2012 bonds of other banks comprised interest bearing securities issued by Russian banks and denominated in RUB. Bonds of other banks comprise securities of leading Russian banks included in the Top-20 according to net assets and assessed by the international rating agency Fitch Ratings as BB-.

The following table provides details of the Bank's financial assets held to maturity as at 31 December 2013:

	Maturity		Coupon rate per annum		Yield to maturity	
	Minimum	Maximum	Minimum	Maximum	Minimum	Maximum
Corporate bonds	15.07.2014	15.07.2015	12.0%	12.0%	11.6%	11.6%

The following table provides details of the Bank's financial assets held to maturity as at 31 December 2012:

	Maturity		Coupon rate per annum		Yield to maturity	
	Minimum	Maximum	Minimum	Maximum	Minimum	Maximum
OFZ	17.07.2013	17.07.2013	6.1%	6.1%	6.1%	6.1%
Bonds of other banks	15.03.2013	15.03.2013	7.6%	7.6%	7.6%	7.6%
Corporate bonds	15.07.2014	15.07.2015	12.0%	12.0%	11.6%	11.6%

Information about credit quality of investment securities held to maturity (based on Fitch ratings) is as follows:

	31 December 2013	31 December 2012
BBB- to BBB+ rated	-	46,322
Other (including entities that do not have a credit rating)	30,389	30,383
	30,389	**76,705**

Geographical analysis, currency and maturity analyses as well as interest rate analysis on financial assets held to maturity are disclosed in Note 29.

In thousands of Russian Roubles

10. Loans and Advances to Customers

	31 December 2013	31 December 2012
Current loans	24,033,016	20,989,114
Overdue loans	782,352	588,404
	24,815,368	21,577,518
Less: Allowance for impairment of loan portfolio	(1,767,746)	(1,198,887)
	23,047,622	**20,378,631**

Overdue loans represent the portion of principal and interest accrued in arrears at the statement of financial position date.

The table below shows the movement in allowance for impairment of the loan portfolio:

	2013	2012
Balance as at 1 January	**(1,198,887)**	**(1,071,886)**
Charge for allowance for impairment of loan portfolio	(724,221)	(263,216)
Loans and advances to customers written off during the year as unrecoverable	155,362	136,215
Balance as at 31 December	**(1,767,746)**	**(1,198,887)**

In the year of 2013 the following debts were written off against the existing allowance: consumer loans in the amount of 131,293 and loans to 3 corporate entities in the amount of 24,069. In the year of 2012 the following debts were written off against the existing allowance: consumer loans in the amount of 134,303 and a loan to 1 corporate entity in the amount of 1,912.

Geographical analysis, currency and maturity analyses, as well as interest rate analysis on loans and advances to customers are disclosed in Note 29. Information on loans to related parties is disclosed in Note 32.

11. Other Assets

	31 December 2013	31 December 2012
Other financial assets		
Claims on other transactions	11,989	5,902
Letter of credit	8,873	12,225
Settlements in transit	1,188	4,035
Fair value of derivatives	378	3,140
	22,428	25,302
Other non-financial assets		
Debtors and prepayments	48,400	20,498
Repossessed collateral	34,613	36,528
Tax prepayments	14	46
Others	460	-
	83,487	57,072
Other assets, gross	105,915	82,374
Less: Allowance for impairment of other assets	(3,299)	(2,143)
	102,616	**80,231**

In thousands of Russian Roubles

11. Other Assets (continued)

The movement of repossessed collateral in 2013 and 2012 is presented in Note 31.

The table below shows the movement of allowance for impairment of other assets:

	2013	2012
At 1 January	**(2,143)**	**(156)**
Movement on allowance for impairment of other assets during the year	(2,057)	(2,412)
Other assets written off during the year as unrecoverable	901	425
At 31 December	**(3,299)**	**(2,143)**

In the year 2013 state duties of 901 (2012: 425) were written off against the existing allowance.

Geographical analysis, currency and maturity analyses on other assets are disclosed in Note 29.

12. Investment Property

	2013	2012
At 1 January	**3,142**	**21,936**
Additions	-	-
Transfer from premises and equipment (Note 13)	-	(18,794)
Disposals	-	-
At 31 December	**3,142**	**3,142**

The comparative sales method was used to assess the fair value of investment property. In this context the Bank analysed price and other information with regards to similar properties. The sources of information included internet publications containing advertisements on the sale of similar properties, and web-sites of real estate agencies.

Investment property comprises assets repossessed by the Bank in respect of making recoveries on its lending operations. The Bank held this asset for the purpose of capital appreciation. In 2013 and 2012 the Bank did not incur direct operating expenses in relation to investment properties.

In thousands of Russian Roubles

13. Property and Equipment

	Land and premises	Leasehold improve-ments	Office and computer equipment	Vehicles	Assets under constru-ction	Other	Total
Cost or valuation							
31 December 2011	**603,637**	**35,493**	**193,754**	**10,559**	**301,609**	**55,169**	**1,200,221**
Additions	19,361	778	58,281	5,299	390,414	4,911	479,044
Disposals	-	-	(5,793)	(2,461)	(132,606)	(1,746)	(142,606)
31 December 2012	**622,998**	**36,271**	**246,242**	**13,397**	**559,417**	**58,334**	**1,536,659**
Additions	60,345	1,135	25,511	2,697	216,955	6,757	313,400
Revaluation	15,273	-	-	-	-	-	15,273
Disposals	-	(4,849)	(10,079)	(1,004)	(109)	(674)	(16,715)
31 December 2013	**698,616**	**32,557**	**261,674**	**15,090**	**776,263**	**64,417**	**1,848,617**
Accumulated depreciation							
31 December 2011	**(172,437)**	**(22,151)**	**(117,627)**	**(6,875)**	**-**	**(27,878)**	**(346,968)**
Charge	(11,781)	(3,577)	(25,306)	(1,310)	-	(3,811)	**(45,785)**
Disposals	-	-	4,664	2,431	-	1,742	**8,837**
31 December 2012	**(184,218)**	**(25,728)**	**(138,269)**	**(5,754)**	**-**	**(29,947)**	**(383,916)**
Charge	(15,024)	(3,405)	(30,484)	(1,962)	-	(4,168)	(55,043)
Revaluation	(2,963)	-	-	-	-	-	(2,963)
Disposals	-	3,011	9,761	877	-	674	14,323
31 December 2013	**(202,205)**	**(26,122)**	**(158,992)**	**(6,839)**	**-**	**(33,441)**	**(427,599)**
Net book values							
31 December 2013	**496,411**	**6,435**	**102,682**	**8,251**	**776,263**	**30,976**	**1,421,018**
31 December 2012	**438,780**	**10,543**	**107,973**	**7,643**	**559,417**	**28,387**	**1,152,743**

Leasehold improvements include capital repairs of premises rented by the Bank under operating lease agreements.

As at 31 December 2013 the Bank has insurance in place for its offices and premises for up to 383,192, rented premises for 2,176 and equipment for 94,526. As at 31 December 2012 fixed assets of the Bank were insured for a total of 399,820.

As at 31 December 2013 the Bank's management revalued the buildings based on the results of an independent evaluation conducted by an independent company of professional valuers, LLC "Business Expert" (Novosibirsk). As a result of the revaluation the value of the buildings increased by 15,273. No independent valuation was carried out as at 31 December 2012, as previous independent revaluation was performed as at 1 January 2011.

The carrying value of premises included in category ‘land and premises’ is 495,420 (31 December 2012: 437,789). If the premises were stated at the historical cost, the NBV would be 215,466 at 31 December 2013 (31 December 2012: 153,563).

If premises were stated on the historical cost basis, the amounts would be as follows:

	31 December 2013	31 December 2012
Historical cost	261,767	194,926
Accumulated depreciation	(46,301)	(41,363)
Net book value	**215,466**	**153,563**

In thousands of Russian Roubles

14. Due to Financial Institutions

	31 December 2013	31 December 2012
VOSTRO accounts		
Bank “Kuzbasschimbank” (OJSC)	2,601	-
RNKO Payment Centre (LLC)	1,313	17,173
Commercial Bank “Taidon” (OJSC)	693	-
STANDARD CHARTERED BANK	475	517
Sibsots Bank (LLC)	402	22,623
Tomskpromstroybank (OJSC)	359	190
AGRICULTURAL BANK OF CHINA	148	46
RNKO Traditsiya	96	-
Commercial Bank “Talmenka-Bank” (LLC)	84	-
Delta Credit Bank (CJSC)	64	171
Commercial Bank “FORBANK” (OJSC)	31	-
Term deposits of other banks		
SME Bank (OJSC)	30,228	95,276
Bank "National Clearing Centre" (CJSC)	68	-
	36,562	**135,996**

As at 31 December 2013 term deposits of other banks were attracted under the following conditions:

	Maturity date	Interest rate	31 December 2013
Bank "National Clearing Centre" (CJSC)	09.01.2014	-	68
SME Bank (OJSC)	17.06.2016	7.8%	30,228
			30,296

As at 31 December 2012 term deposits of other banks were attracted under the following conditions:

	Maturity date	Interest rate	31 December 2012
SME Bank (OJSC)	18.02.2014	8.0%	22,311
SME Bank (OJSC)	19.12.2014	9.8%	28,883
SME Bank (OJSC)	17.06.2016	7.8%	44,082
			95,276

Geographical, currency, maturity and interest rate analysis on due to financial institutions are disclosed in Note 29.

In thousands of Russian Roubles

15. Customer Accounts

	31 December 2013	31 December 2012
Individuals		
Current and on demand accounts	3,116,761	2,748,711
Term deposits	17,099,347	14,677,119
	20,216,108	17,425,830
State organisations		
Current and settlement accounts	242,086	240,777
Term deposits	60,907	440,600
	302,993	681,377
Legal entities		
Current and settlement accounts	3,880,544	4,533,460
Term deposits	3,151,400	3,982,764
	7,031,944	8,516,224
Other customer accounts	67	514
	27,551,112	**26,623,945**

Other customer accounts include the following:

	31 December 2013	31 December 2012
Settlements in transit	67	506
Customer accounts for operations with other financial assets	-	8
	67	**514**

The table below shows the analysis per economic sector of customer accounts:

	31 December 2013		31 December 2012	
	Amount	%	Amount	%
Individuals	20,216,108	73.4	17,425,830	65.5
Trade	2,018,515	7.3	2,660,035	10.0
Financial sector	1,734,546	6.3	977,554	3.7
Manufacture	998,025	3.6	1,207,226	4.5
Construction	709,622	2.6	1,281,890	4.8
Social services	673,525	2.4	449,548	1.7
Transaction with property, rent and services	510,151	1.8	1,158,364	4.4
Transport and telecommunication	295,991	1.1	268,233	1.0
Agriculture	237,260	0.9	321,735	1.2
Hotels and restaurants	74,804	0.3	135,970	0.5
Heating and power production	54,008	0.2	160,950	0.6
State organisation	25,955	0.1	24,413	0.1
Mining	-	-	543,360	2.0
Other	2,602	0.0	8,837	0.0
	27,551,112	**100.0**	**26,623,945**	**100.0**

As at 31 December 2013 deposits and current accounts of the Bank’s ten largest customers accounted for 2,348,103 or 8.5% of the total customer accounts (31 December 2012: 2,621,225 or 9.9%).

Geographical, currency, maturity and interest rate analysis on customer accounts are disclosed in Note 29. Information on customer accounts of related parties is disclosed in Note 32.

In thousands of Russian Roubles

16. Debt Securities Issued

As at 31 December 2013 the Bank issued promissory notes with terms from 'on demand' to 9 months after the reporting date and at interest rates up to 11% per annum (31 December 2012: terms – from 'on demand' to 1 year 8 months, interest rates – to 11% per annum).

Geographical, currency and maturity analyses as well as interest rate analysis on debt securities issued are disclosed in Note 29.

17. Other Liabilities

	31 December 2013	31 December 2012
Other financial liabilities		
Accounts payable	31,581	27,461
Letters of credit	4,270	25,004
Other liabilities	10,647	10,705
Transit accounts	9,313	136
	55,811	63,306
Other non-financial liabilities		
Taxes payable	21,271	42,240
Salaries payable	35,321	33,501
	112,403	**139,047**

Geographical, currency and maturity analysis on other liabilities are disclosed in Note 29.

18. Subordinated Debt

	31 December 2013	31 December 2012
Subordinated loans from Primorsk Social Company (LLC)	505,000	505,000
	505,000	**505,000**

As at 31 December 2013 and 31 December 2012 subordinated debt represent long-term loans received under the following conditions:

	Maturity date	Interest rate	31 December 2012
Primorsk Social Company (LLC)	10.08.2021	9.5%	160,000
Primorsk Social Company (LLC)	15.09.2021	11.0%	95,000
Primorsk Social Company (LLC)	10.04.2022	11.95%	250,000
			505,000

The subordinated debt ranks after all other creditors in case of the Bank's liquidation.

Geographical, currency and maturity analyses as well as interest rate analysis on subordinated loans are disclosed in Note 29. Information on transactions with related parties is disclosed in Note 32.

In thousands of Russian Roubles

19. Share Capital

The share capital of the Bank has been contributed by shareholders in Russian Roubles. Shareholders are entitled to dividends and any capital distribution in Russian Roubles. As at 31 December 2013 and 31 December 2012, share capital of the Bank consisted of 350,250 authorized, issued and fully paid ordinary shares with a fixed nominal value of 1 each.

Ordinary shares carry the right to vote at annual general and extraordinary meetings, right to receive dividends. All ordinary shares provide equal rights to their owners.

Dividends payable to the Bank's shareholders are restricted to the maximum retained earnings of the Bank, which are determined in accordance with legislation of the Russian Federation. As at 31 December 2013 the Bank's reserves available for distribution amounted to 2,597,259 (31 December 2012: 1,905,937).

In 2013 the Bank declared and paid dividends in the amount of 167,138 (477.20 RUB (not thousands) per each ordinary share). In 2012 the Bank declared and paid dividends in the amount of 88,464 (252.57 RUB (not thousands) per each ordinary share).

The share capital of the Bank, as at 31 December 2013 and 31 December 2012, comprised the following:

	Nominal value	**Inflation adjustment**	**Total share capital**
Ordinary shares	350,250	199,706	549,956
	350,250	**199,706**	**549,956**

20. Net Interest Income

	2013	**2012**
Interest income		
Interest income on assets carried at amortised cost		
Loans to customers	4,535,663	3,302,629
Due from financial institutions	164,585	81,084
Financial assets held to maturity	4,366	34,159
	4,704,614	3,417,872
Interest income on assets carried at fair value through profit or loss	219,336	90,831
	4,923,950	**3,508,703**
Interest expense		
Interest expense on liabilities carried at amortised cost		
Customers' deposits	(2,181,786)	(1,381,134)
Due to financial institutions	(55,525)	(10,403)
Debt securities issued	(10,128)	(7,567)
Subordinated loans	(5,391)	(47,281)
	(2,252,830)	**(1,446,385)**
Net interest income	**2,671,120**	**2,062,318**

In thousands of Russian Roubles

21. Net Gains / (Losses) from Dealing with Securities

	2013			2012		
	Fair value adjustments	Losses realised on disposal	Total	Fair value adjustments	Losses realised on disposal	Total
Financial assets at fair value through profit or loss	(1,647)	5	(1,642)	4,786	(1,884)	2,902
Other	-	(444)	(444)	-	(3,800)	(3,800)
	(1,647)	**(439)**	**(2,086)**	**4,786**	**(5,684)**	**(898)**

22. Net Gains from Operations with Foreign Currencies

	2013	2012
Currency exchange operations	133,802	132,353
Currency forwards	378	-
	134,180	**132,353**

23. Net Commission Income

	2013	2012
Commission income		
Cash transactions	663,254	523,905
Settlement transactions	136,189	100,934
Transactions with plastic cards	100,092	91,124
Guarantees issued	11,053	3,514
Dealing with securities	8,744	5,410
Dealing with foreign currency	4,390	3,961
Premature redemption of promissory notes	4,422	3,265
Other transactions	30,993	30,829
	959,137	**762,942**
Commission expenses		
Transactions on plastic cards	(59,529)	(41,067)
Services of cash settlement centre in the CBRF	(29,356)	(23,638)
Dealing with foreign currency	(19,258)	(19,726)
Settlement transactions	(13,738)	(10,229)
Cash transactions	(13,472)	(12,942)
Dealing with securities	(4,906)	(2,746)
Other commissions	(8,935)	(7,125)
	(149,194)	**(117,473)**
Net commission income	**809,943**	**645,469**

Other commission expenses mostly comprise commission expenses for money transfers in foreign currencies for individuals and legal entities.

In thousands of Russian Roubles

24. Other Operating Income

	2013	2012
Commission income received from insurance companies	173,126	84,460
Fines, penalties and other charges	19,743	15,510
Income from sale of other assets	1,673	2,719
Other	9,946	12,642
	204,488	**115,331**

The “Other” category mostly comprises income arising from repayment of interest accrued on deposits in case of early termination of contracts in system Zolotaya Corona.

25. Staff Costs

	2013	2012
Salaries and bonuses	(798,810)	(705,710)
Statutory contributions to non-budget funds	(188,798)	(161,911)
Staff training	(286)	(200)
Other staff payments	(354)	(561)
	(988,248)	**(868,382)**

26. Operating Expenses

	2013	2012
Losses from disposals of assets	(182,292)	(29,565)
Operating leases	(107,795)	(89,441)
Insurance	(81,832)	(57,663)
Other expenses related to fixed assets	(77,860)	(109,864)
Office expenses	(77,425)	(61,913)
Taxes other than on income	(62,027)	(63,729)
Depreciation of fixed assets (Note 13)	(55,043)	(45,785)
Advertising and marketing	(50,766)	(34,281)
Security	(39,774)	(36,539)
Materials written off	(22,840)	(19,839)
Reimbursement of commissions to borrowers	(22,231)	(42,391)
Issuing plastic cards	(17,775)	(17,828)
Charity	(11,921)	(3,286)
Business trips	(10,138)	(8,879)
Professional services	(8,561)	(4,226)
Social events	(7,511)	(5,030)
Representation	(670)	(913)
Other	(15,734)	(18,880)
	(852,195)	**(650,052)**

In 2013, losses from disposals of assets for a total of 182,292 include losses incurred by the Bank under an agreement on cession of loans to LLC "Investcapital" in the amount of 172,400. At the same time there was a release of previously created allowance for impairment of those loans.

In thousands of Russian Roubles

26. Operating Expenses (continued)

Taxes other than income tax include the following:

	2013	2012
Irrecoverable VAT	(44,505)	(48,396)
Property tax	(14,839)	(14,301)
Other taxes	(2,683)	(1,032)
	(62,027)	**(63,729)**

27. Income Tax

Income tax expense comprises the following components:

	2013	2012
Current income tax	(247,658)	(221,385)
Deferred taxation movement due to the origination and reversal of temporary differences	(25,011)	(15,412)
	(272,669)	**(236,797)**

The income tax for banks except for the income arising from dealing with state securities was charged at the rate of 20% (2012: 20%). The income tax rate on income arising from transactions with state securities is 15% (2012: 15%).

Differences between IFRS and Russian statutory taxation regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for profit tax purposes.

The effective income tax rate differs from the rates determined by the Russian tax legislation. The effective income tax may be reconciled to the income tax calculated based on the rate determined by the legislation as follows:

	2013	2012
Profit according to IFRS before tax	**1,281,444**	**1,174,632**
Applicable statutory rate of income tax	20%	20%
Theoretical tax charge at statutory rate	(256,289)	234,926
Income and expenses not recognised for tax purposes:		
Income on state securities taxed at different rates	(35)	(501)
Deductible income	(52,837)	(16,536)
Not allowable expenses	36,492	18,908
	(272,669)	**(236,797)**

In thousands of Russian Roubles

27. Income Tax (continued)

The Bank's accounting profit may be reconciled to profit for taxable purposes as follows:

	2013	2012
IFRS profit before tax	**1,281,444**	**1,174,632**
Adjustments to comply with IFRS including:		
Transfer value	(59,891)	(23,475)
Allowance for impairment of financial assets	(34,383)	(94,544)
Depreciation	9,054	5,775
Revaluation of financial assets	1,910	(4,607)
Accrued interest income / expense	(73,551)	(11,421)
Accrued other income/ expense	(18,496)	10,652
Other	30	121
	(175,327)	(117,499)
Accounting profit under RAS	**1,106,117**	**1,057,133**
Adjustments for disallowable items	132,173	49,792
Taxable profit	1,238,290	1,106,925
Profit tax charge at 20% (2012: 20%)	**(247,658)**	**(221,385)**

Differences between IFRS and Russian statutory taxation regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for profit tax purposes.

At 31 December 2013 major components that comprised deferred tax assets and liabilities were as follows:

	1 January 2013	Movement charged/ (credited) to comprehensive income	Recorded directly to equity	31 December 2013
Tax effect of deductible temporary differences				
Property, plant and equipment	63,574	(2,774)	-	60,800
Other	15,428	34,617	-	50,045
Total deferred tax asset	**79,002**	**31,843**		**110,845**
Tax effect of taxable temporary differences				
Allowance for impairment	(74,935)	5,541	-	(69,394)
Property, plant and equipment	(45,854)	-	(2,462)	(48,316)
Accrued income and expenses	(38,760)	(41,439)	-	(80,199)
Other	(17,567)	(20,956)	-	(38,523)
Total deferred tax liability	**(177,116)**	**(56,854)**	**(2,462)**	**(236,432)**

In thousands of Russian Roubles

27. Income Tax (continued)

At 31 December 2012 major components that comprised deferred tax assets and liabilities are calculated as follows:

	1 January 2012	Movement charged/ (credited) to comprehensive income	Recorded directly to equity	31 December 2012
Tax effect of deductible temporary differences				
Revaluation of financial assets at fair value through profit or loss	803	(803)	-	-
Property, plant and equipment	16,342	47,232	-	63,574
Other	23,848	(8,420)	-	15,428
Total deferred tax assets	**40,993**	**38,009**	**-**	**79,002**
Tax effect of taxable temporary differences				
Allowance for impairment	(66,821)	(8,114)	-	(74,935)
Property, plant and equipment	-	(45,854)		(45,854)
Accrued income and expenses	(33,512)	(5,248)	-	(38,760)
Other	(23,362)	5,795	-	(17,567)
Total deferred tax liability	**(123, 695)**	**(53,421)**	**-**	**(177,116)**

Major components making up the deferred tax liability at the end of 31 December 2013 are calculated as follows:

	Temporary differences	Tax rate (%)	Deferred tax asset	Deferred tax liability
Allowance for impairment of assets	346,970	20	-	(69,394)
Accrued income and expenses	400,995	20	-	(80,199)
Property and equipment	(304,000)	20	60,800	-
Other current assets / liabilities	(57,610)	20	50,045	(38,523)
	386,355		110,845	(188,116)
Revaluation of fixed assets	241,580	20	-	(48,316)
	627,935		**110,845**	**(236,432)**

Major components making up the deferred tax liability at the end of 31 December 2012 were calculated as follows:

	Temporary differences	Tax rate (%)	Deferred tax asset	Deferred tax liability
Allowance for impairment of assets	374,677	20	-	(74,935)
Accrued income and expenses	193,798	20	-	(38,760)
Property and equipment	(317,872)	20	63,574	-
Other current assets / liabilities	10,695	20	15,428	(17,567)
	261,300		79,002	(131,262)
Revaluation of fixed assets	229,270	20	-	(45,854)
	490,570		**79,002**	**(177,116)**

28. Segment Reporting

The Bank's operations are organised in accordance with two basic business-segments:

§ Services to individuals – this business segment includes bank services to individual customers – opening and holding bank (settlement) accounts, acceptance of deposits, safekeeping services, management of investments, debit and credit card services, services on consumer and mortgage loans.

§ Services to organisations – this business segment includes services on running settlement and current accounts of organisations, acceptance of deposits, granting of credit lines, granting of loans and operations in foreign currency and derivative financial instruments.

The Bank has not made the relevant disclosures required under IFRS 8 '*Operating Segments*' as it does not have securities listed on a recognised stock exchange.

29. Financial Risk Management

The activities carried out by the Bank expose it to a variety of financial risks and performing those activities include analysing, evaluating, accepting and managing some degree of risk or combination of risks. Taking risks is core to the financial business, and the operational risks are an inevitable consequence of being in business.

The Bank's aim is therefore to achieve an adequate balance between risk and return and minimise potential adverse effects on the Bank's financial performance, through a set of risk management policies. These policies are designed to identify and analyse risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Bank regularly reviews its risk management policies and systems to reflect changes in markets and products, to adhere to changes in the normative issued by the CBRF and ultimately to follow emerging best practice.

The Board of Directors approves the credit policy and the policy of risk management, sets basic characteristics of loan portfolio of the Bank and limits the risks upon the factors, among which are:

§ Loan portfolio diversification by industries

§ Loan terms depending on the quality of collateral

§ Limitations on granting loans to related parties

§ Quality criteria of collateral

§ Borrowers' risk assessment principles

In addition to this, the credit policy determines the functions of separate bodies of the Bank, including:

§ Executive Board (issue of regulatory documents related to risk management procedures including credit, currency and interest risks, and financial instruments' risks on the development of the Bank's business);

§ Finance committee (determination of limits on all Bank's activities and by categories of financial instruments) and;

§ Credit committee/Small credit committee/Retail credit committee (decisions on issues such as granting, prolonging or changing conditions of loan agreements, portfolio structure). The credit committees are responsible for the overall quality of the loan portfolio.

To minimise the risks, the Bank's departments, which are involved in lending, operate within the scope of their competence, and each department is included into the system of risk management and control, among them are:

§ Business departments (collecting updated information of the client during the effective period of the contracts, monitoring of the clients' financial position, control of clients' repayment record, performing of scheduled and non-scheduled visits to clients);

29. Financial Risk Management (continued)

- § Credit officers perform evaluations of proposed collaterals, their conditions, fair value assessments along with analysis of terms of contracts and decisions upon changes of collateral;
- § Department of banking risks assessment (business risk evaluation, monitoring of risk categories of loans, advances and other financial instruments, calculation of allowance considering the provided collateral, suggestions for improvement of the existing risk assessment methodologies, operational and legal risk assessment);
- § Economic security department and legal department (legal review of documents provided by borrowers, evaluation of borrowers' business reputation, debt collection in case of default on obligations, participation in realisation of pledged collateral);
- § Internal control department (subsequent inspection of lending procedures for their compliance with internal and external requirements).

Credit risk

The Bank takes on exposure to credit risk, which is the risk that counterparty will cause a financial loss for the Bank by failing to fulfil their obligations. Credit risk is the most important risk for the Bank's business and therefore Management carefully monitors it. Credit exposures arise mainly from lending activities as well as from investing activities that bring debt securities and other bills into the Bank's assets portfolio.

There is also credit risk arising from off-balance sheet financial instruments, such as loan commitments. The credit risk management and control are centralised in the Department of banking risks assessment and reported to the Credit Committee on a regular basis.

Credit risk measurement

In measuring credit risk of loans and advances to customers and to banks at a counterparty level, the Bank takes into account the following three components:

(a) the "probability of default" by the client or counterparty on its contractual obligations;

(b) current exposures to the counterparty and its likely future development, from which the Bank derive the "exposure at default"; and

(c) the likely recovery ratio on the defaulted obligations (the "loss given default").

These credit risk measurements, which reflect expected losses (the "expected loss model") and are required by the CBRF, are embedded in the Bank's daily operational management. The operational measurements can be contrasted with impairment allowances required under IAS 39, which are based on losses that have been incurred at the statement of financial position date (the "incurred loss model") rather than expected losses.

The Bank assesses the probability of default of individual counterparties using internal rating tools tailored to the various categories of counterparty.

They have been developed internally, based on the regulations issued by the CBRF and combine statistical analysis with management judgment and are validated, where appropriate, by comparison with external available data. For this purpose the loan portfolio of the Bank is classified into five risk categories:

- § I (the highest quality - standard loans) – with absence of credit risk (possibility of losses as result of default or improper fulfilment of liabilities on loans is nil);
- § II (non-standard loans) - medium credit risk (possibility of losses as result of default determines their impairment on a variable rate between 1 to 20%)
- § III (doubtful loans) – significant credit risk (possibility of losses as result of default determines their impairment on a variable rate between 21 to 50%)
- § IV (problematic loans) - high credit risk (possibility of losses as result of default determines their impairment on a variable rate between 51 to 100%)

29. Financial Risk Management (continued)

- V the lowest quality (bad loans) – absence of repayment possibility of a loan due to the inability or unwillingness of a borrower to fulfil his credit obligations, determines the full impairment of a loan (100%)

In order to achieve a more representative classification of borrowers, each category (apart from the lowest one) includes subcategories that characterise more specifically the capability of a borrower to repay a loan.

The analysis of debt securities and other liabilities does not differ from the analyses of the Bank's borrowers and is performed with the use of similar models, although, taking into account that not all financial information is reliable or readily available from all issuers.

For that purpose, the Department of banking risks assessment applies additional methods to assess the financial position of the issuers based on fundamental and technical analysis of the stock market. The department also uses data about the liquidity and information about market prices for debt securities on the Russian stock exchange and on over-the-counter market. The department also takes into consideration the assessments of rating agencies such as: Standard & Poor's, Moody's or Fitch Ratings. Investments in those securities are considered as a means to improve the credit quality profile of the Bank's assets and, at the same time, a tool for liquidity management.

Risk limit control and mitigation policies

The Bank manages, sets limits and controls concentrations of credit risk wherever they are identified – in particular, to individual counterparties, economic groups and industries, through its loan granting policies and regulations. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry segments. Such risks are monitored through regular review (quarterly and annual inspections as well as inspection arising from impairment evidence). Risk limits are updated once a quarter, and for risk factors changing more frequently (e.g. market risks, debts of credit institutions) – once a month. The Finance committee approves the limits.

The Bank has a differential approach for the assessment of different groups of borrowers (taking into consideration the activity or industry they belong to and the specifics of the preparation of their financial statements). In particular, the Bank has specific exposure evaluation models used for:

- industrial and agricultural entities
- trade organisations
- construction companies
- state organisations
- small business
- individuals

The exposure to any borrower or economic group, including banks, is further restricted by sub-limits covering on- and off-balance sheet exposures. Actual exposures against limits are monitored daily.

Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and principal repayment obligations and by changing lending limits where appropriate.

The Bank employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of collateral for loans, which is a common practice. The Bank has set guidelines on the acceptability of specific types of collateral for credit risk mitigation. The main collateral types for loans and advances include mortgages over residential properties, charges over business assets such as premises, inventory and accounts receivable, and charges over financial instruments such as debt securities and equity instruments.

In thousands of Russian Roubles

29. Financial Risk Management (continued)

Long term finance and lending to corporate entities are generally secured; consumer individual credit facilities are generally unsecured. In addition, in order to minimise the credit loss, the Bank will seek additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances.

Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument. Debt securities, promissory notes and similar instruments are generally unsecured.

The primary purpose of credit related commitments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit carry the same credit risk as loans.

Documentary and commercial letters of credit – which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate, or by additional collaterals and therefore carry less risk than a direct loan.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments.

However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

Impairment and provisioning policies

The internal rating described above in this note is used for regulatory purposes as per the instructions of the CBRF and focuses more on credit-quality mapping from the inception of the lending and investment activities. By contrast, impairment allowances that are created for financial reporting purposes under IFRS take into account only those losses that have been incurred at the statement of financial position date based on objective evidence of impairment. Due to the different methodologies applied, the amount of incurred credit losses provided for in these financial statements are usually lower than the amount determined from the expected loss model that is used for internal operational management and statutory and tax regulation purposes.

The impairment allowance shown in the statement of financial position under IFRS at the year-end is derived from each of the five statutory risk categories. The majority of the impairment allowance comes from the last grading, in direct correlation to the impaired loans, and from the second category corresponding to loans assessed on a pool basis. The table below shows the percentage of the Bank's on-and off-balance sheet items relating to loans and advances and the associated impairment allowance for each of the Bank's internal rating categories.

The Bank's rating, determined based on regulations issued by the CBRF, was as follows:

Risk category	Loans and advances at 31 December 2013	Impairment allowance at 31 December 2013	Loans and advances at 31 December 2012	Impairment allowance at 31 December 2012
I	35.8%	-	34.3%	-
II	55.9%	11.9%	59.5%	15.6%
III	2.0%	5.7%	1.5%	5.6%
IV	0.7%	6.1%	0.5%	6.7%
V	5.6%	76.3%	4.2%	72.1%
	100.0%	**100.0%**	**100.0%**	**100.0%**

29. Financial Risk Management (continued)

The internal rating tool assists management to determine whether objective evidence of impairment exists as defined under IAS 39, based on the following criteria set out by the Bank:

- Delinquency in contractual payments of principal or interest
- Cash flow difficulties experienced by the borrower
- Breach of loan covenants or conditions
- Initiation of bankruptcy proceedings
- Deterioration of the borrower's competitive position
- Deterioration in the value of collateral, and
- Downgrading below category II

The Bank's policy requires performing a review of individual financial assets that are above the materiality thresholds at least annually or more regularly when individual circumstances require. Impairment allowances on individually assessed items are determined by an evaluation of the incurred loss at statement of financial position date on a case-by-case basis, and are applied to all individually significant accounts. The assessment usually encompasses collateral held (including review of its enforceability) and the anticipated receipts for that individual account.

Collectively assessed impairment allowances are provided for:

- Portfolios of homogenous assets that are individually below materiality thresholds; and
- Losses that have been incurred but have not yet been identified, by using the available historical experience, experienced judgment and statistical techniques.

The Bank's maximum exposure to credit risk is generally recorded in the carrying amounts of financial assets in the statement of financial position. The impact of possible netting-off of assets and liabilities to reduce potential credit exposure is not significant. For guarantees and liabilities on granting loans maximum exposure to credit risk is equal to the sum of liabilities. Providing monitoring of credit risk the specialists of the Department of banking risks assessment present regular reports based on structured analysis of business and financial results of clients. All information on significant risks in respect of client's creditworthiness is received and reviewed by the Credit committee of the Bank. The Credit committee performs maturity analysis, monitoring and control of overdue loans.

The Bank uses the same credit policies in respect of contingent liabilities as it does in respect to statement of financial position financial instruments. These policies are based on minimising risks procedures of approval of deals, using limits and monitoring.

In accordance with the results of stress testing which is performed twice a year to assess the Bank's sensitivity to changes in the structure of the loan portfolio, the Bank develops contingency plans and takes measures in order to limit the riskiest scenarios and lending schemes.

In thousands of Russian Roubles

29. Financial Risk Management (continued)

Loans and advances to customers include the following portfolios:

	31 December 2013	31 December 2012
Loans and advances to customers		
Individuals (retail customers)		
Consumer loans	11,207,361	8,733,030
Overdrafts	809,483	609,793
Auto loans	657,315	551,124
Mortgages	1,398,092	1,704,780
Corporate entities		
Large corporate customers	3,685,255	3,406,530
SMEs	6,859,910	6,261,451
Federal, state and public	197,952	310,810
Gross loans and advances	**24,815,368**	**21,577,518**
Less: Allowance for impairment	(1,767,746)	(1,198,887)
Loans and advances, net	**23,047,622**	**20,378,631**

The loan portfolio of the Bank is summarised as follows:

	31 December 2013		31 December 2012	
	Loans and advances to customers	Due from banks	Loans and advances to customers	Due from banks
Neither past due nor impaired	22,407,953	338,204	19,874,739	1,882,593
Past due but not impaired	385,263	-	255,523	-
Individually impaired	2,022,152	-	1,447,256	-
	24,815,368	338,204	21,577,518	1,882,593
Less: Allowance for impairment	(1,767,746)	-	(1,198,887)	-
	23,047,622	**338,204**	**20,378,631**	**1,882,593**

Loans and advances neither past due nor impaired

As at 31 December 2013, loans and advances neither past due nor impaired to individuals comprised:

Risk category	Overdrafts	Consumer loans	Auto loans	Mortgages	Total
I	-	685,062	-	22,574	707,636
II	749,411	8,835,299	521,761	1,259,852	11,366,323
Total	**749,411**	**9,520,361**	**521,761**	**1,282,427**	**12,073,959**

In thousands of Russian Roubles

29. Financial Risk Management (continued)

As at 31 December 2013, loans and advances neither past due nor impaired to corporate entities were:

Risk category	Large corporate customers	SMEs	Federal, state and public	Total
I	3,682,912	4,295,209	194,275	8,172,396
II	2,343	2,157,031	2,223	2,161,597
Total	**3,685,255**	**6,452,240**	**196,498**	**10,333,993**

Summarizing, the credit quality of the loan portfolio of loans and advances that were neither past due nor impaired can be assessed by reference to the statutory rating system as follows:

Risk category	Individuals	Legal entities	Total
I	707,636	8,172,396	8,880,032
II	11,366,324	2,161,597	13,527,921
Total	**12,073,960**	**10,333,993**	**22,407,953**

As at 31 December 2012, loans and advances neither past due nor impaired to individuals comprised:

Risk category	Overdrafts	Consumer loans	Auto loans	Mortgages	Total
I	-	380,611	-	9,185	389,796
II	586,145	7,394,112	511,203	1,636,788	10,128,248
Total	**586,145**	**7,774,723**	**511,203**	**1,645,973**	**10,518,044**

As at 31 December 2012, loans and advances neither past due nor impaired to corporate entities were:

Risk category	Large corporate customers	SMEs	Federal, state and public	Total
I	3,230,212	3,555,920	178,975	6,965,107
II	9,029	2,380,131	2,428	2,391,588
Total	**3,239,241**	**5,936,051**	**181,403**	**9,356,695**

Summarizing, the credit quality of the loan portfolio of loans and advances that were neither past due nor impaired can be assessed by reference to the statutory rating system as follows:

Risk category	Individuals	Legal entities	Total
I	389,796	6,965,107	7,354,903
II	10,128,248	2,391,588	12,519,836
Total	**10,518,044**	**9,356,695**	**19,874,739**

In thousands of Russian Roubles

29. Financial Risk Management (continued)

Loans and advances past due but not impaired

Loans and advances less than 90 days past due are not considered impaired unless other information is available to indicate the contrary. Gross amount of loans and advances by class to customers that were past due but not impaired as at 31 December 2013 were as follows:

	Past due up to 30 days	Past due 31-60 days	Past due 61-90 days	Past due more than 90 days	Total	Fair value of collateral
Individuals (retail clients)						
Overdrafts	12,602	-	-	-	12,602	-
Consumer loans	188,057	-	412	-	188,469	15,298
Auto loans	17,483	-	-	-	17,483	600
Mortgages	42,707	2,051	4,083	44,439	93,280	176,414
Legal entities						
SMEs	29,367	19,075	8,274	16,713	73,429	224,924
Total	**290,216**	**21,126**	**12,769**	**61,152**	**385,263**	**417,236**

As at 31 December 2012 the gross amount of loans and advances past due but not impaired was as follows:

	Past due up to 30 days	Past due 31-60 days	Past due 61-90 days	Past due more than 90 days	Total	Fair value of collateral
Individuals (retail clients)						
Overdrafts	5,346	-	-	-	5,346	-
Consumer loans	149,337	-	-	-	149,337	4,095
Auto loans	15,088	-	-	-	15,088	2,253
Mortgages	-	5,903	4,958	16,558	27,419	56,048
Legal entities						
SMEs	28,948	-	14,266	15,119	58,333	126,472
Total	**198,719**	**5,903**	**19,224**	**31,677**	**255,523**	**188,868**

In thousands of Russian Roubles

29. Financial Risk Management (continued)

Loans and advances individually impaired

The breakdown of the gross amount of individually impaired loans and advances by class, along with the fair value of related collateral held by the Bank as security, are as follows:

	2013		2012	
	Balance (gross)	**Fair value of collateral**	**Balance (gross)**	**Fair value of collateral**
Individuals (retail customers)				
Overdrafts	47,470	-	18,303	-
Consumer loans	1,498,532	16,062	808,971	2,225
Auto loans	118,072	5,360	24,833	640
Mortgage	22,386	15,766	31,388	23,561
Corporate entities				
Large corporate customers	-	-	167,288	-
SMEs	335,238	424,879	256,995	311,176
Federal, state and public organisations	454	-	129,407	342,417
Total	**2,022,152**	**462,067**	**1,431,185**	**680,019**

Summarizing, the movement of the allowance for impairment of loans and advances to individuals and corporate entities was as follows:

	Individuals	**Legal entities**	**Total**
1 January 2013	**798,194**	**400,693**	**1,198,887**
Charge for the period	840,474	(117,253)	724,221
Loans written-off	(131,293)	(24,069)	(155,362)
31 December 2013	**1,508,375**	**259,371**	**1,767,746**

In 2012 the movement of the allowance for impairment of loans and advances to individuals and corporate entities was as follows:

	Individuals	**Legal entities**	**Total**
1 January 2012	**688,335**	**383,551**	**1,071,886**
Charge for the period	244,162	19,054	263,216
Loans written-off	(134,303)	(1,912)	(136,215)
31 December 2012	**798,194**	**400,693**	**1,198,887**

Loans and advances renegotiated

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Following the restructuring, a previously overdue customer account is reset to a normal status and managed together with similar accounts. Restructuring policies and practices are based on indicators or criteria that, in the judgement of management, indicate that payment will most likely continue. These policies are kept under continuous review.

In thousands of Russian Roubles

29. Financial Risk Management (continued)

Renegotiated loans that would otherwise be past due or impaired comprised:

	31 December 2013	31 December 2012
Individuals (retail customers)		
Consumer loans	19,642	1,919
Mortgages	47,003	51,675
Corporate entities		
Federal, state and public organisations	34,883	23,500
Large corporate customers	353,371	463,293
SMEs	604,251	306,596
Total	**1,059,150**	**846,983**

Included in loans neither past due nor impaired as at 31 December 2013 were 128 renegotiated loans with total value of 238,151 which would otherwise be past due or impaired (31 December 2012: 33 loans with total value of 220,578).

Repossessed collateral
During 2013 the Bank took possession of collateral held as security in amount of 35,565 (2012: total amount of 36,528). The following table provides details of assets repossessed by the Bank in 2013:

	Residential property	Commercial property	Other	Total
1 January 2013	**32,148**	**4,380**	**-**	**36,528**
Additions	6,573	40	-	6,613
Adjustment for impairment	(952)	-	-	(952)
Disposals	(5,110)	(2,466)		(7,576)
31 December 2013	**32,659**	**1,954**	**-**	**34,613**

The following table provides details of assets repossessed by the Bank in 2012:

	Residential property	Commercial property	Other	Total
1 January 2012	**68,227**	**4,380**	**-**	**72,607**
Additions	4,042	-	263	4,305
Adjustment for impairment	(3,700)	-	-	(3,700)
Disposals	(36,421)	-	(263)	(36,684)
31 December 2012	**32,148**	**4,380**	**-**	**36,528**

At 31 December 2013 and 31 December 2012 all repossessed collateral is shown within Other assets (Note 11).

Repossessed properties may be sold as soon as practicable with the proceeds used to reduce the outstanding indebtedness or utilised by the Bank where they feel appropriate. Repossessed property to be sold is classified in the statement of financial position within other assets, and property to be utilised by the Bank is capitalised under property, plant and equipment.

In thousands of Russian Roubles

29. Financial Risk Management (continued)

Industry analysis of loans and advances to customers

The structure of the Bank's loan portfolio per economic sector is presented below:

	31 December 2013	%	31 December 2012	%
Individuals	14,072,251	56.7	11,939,404	55.3
Trade and services	6,191,928	25.0	5,769,856	26.7
Manufacturing	1,868,509	7.5	1,376,266	6.4
Construction	878,909	3.5	533,130	2.5
Transport and telecommunication	546,654	2.2	525,361	2.4
Transaction with property, rent and services	463,051	1.9	584,458	2.7
Agriculture	430,734	1.7	341,331	1.6
Social services	157,751	0.6	126,824	0.6
State organisations	111,706	0.5	114,204	0.5
Heating and power production	50,943	0.2	162,272	0.8
Hotels and restaurants	42,871	0.2	40,488	0.2
Financial activity	61	-	63,603	0.3
Extraction of natural resources	-	-	318	-
	24,815,368	**100.0**	**21,577,518**	**100.0**

Concentration of loans and advances to customers

In terms of size and number of loans, the structure of the Bank's loan portfolio is as follows:

	31 December 2013			31 December 2012		
Amount	**Number of loans**	**Total debt**	**%**	**Number of loans**	**Total debt**	**%**
More than 60,001	37	3,528,974	14.2	23	2,637,664	12.2
From 30,001 to 60,000	40	1,614,501	6.5	45	1,736,305	8.0
From 15,001 to 30,000	72	1,471,441	5.9	62	1,303,041	6.0
From 7,501 to 15,000	128	1,292,902	5.2	114	1,046,925	4.9
From 3,001 to 7,500	431	1,655,300	6.7	331	1,327,084	6.2
From 1,501 to 3,000	1 037	1,791,541	7.2	837	1,530,402	7.1
From 601 to 1,500	2 287	1,893,661	7.6	2,265	1,907,604	8.8
From 301 to 600	4 754	1,104,297	4.5	3,298	966,067	4.5
From 151 to 300	29 653	4,004,828	16.1	25,361	3,704,681	17.2
From 31 to 150	93 513	5,922,353	23.9	76,324	4,857,377	22.5
From 16 to 30	20 376	412,918	1.7	20,989	430,747	2.0
From 0 to 15	14 166	122,652	0.5	14,797	129,621	0.6
Total	**166,494**	**24,815,368**	**100.0**	**144,446**	**21,577,518**	**100.0**

As at 31 December 2013 the twenty largest borrowers had an outstanding debt totalling 4,796,833, which represents 19.3% of the total loan portfolio (31 December 2012: 3,417,302 and 15.8%, respectively).

As at 31 December 2013 the largest borrower has a total debt of 489,865 which represented 2.0% of the total loan portfolio (31 December 2012: 276,072 and 1.3%, respectively).

In thousands of Russian Roubles

29. Financial Risk Management (continued)

Fair value of collateral

Collateral taken depends on the type of exposure; for legal entities usually is represented by a charge over buildings or other assets or inventories, for mortgage loans by a charge over the property purchased and for other type of credit operations different types of collateral including cash and guarantees from third parties.

The table discloses the estimated fair value of collateral received by the Bank for its loan portfolio by type of collateral and its estimated fair value:

	31 December 2013	31 December 2012
Real estate	14,434,537	8,183,560
Cession rights	2,419,363	2,802,906
Goods in turnover	1,746,072	1,484,291
Vehicles	1,901,019	1,478,668
Fixed assets and equipment	1,605,816	1,360,910
Securities	173,201	176,798
Total amount of collateral	**22,280,008**	**15,487,133**

Market risk

The Bank takes on exposure to market risks. Market risks arise from open positions in currency, interest rate and equity instruments which are exposed to general and specific market movements. The Financial Committee sets limits on the volume of risk exposure. However, the use of this approach does not prevent losses outside of those limits in the event of more significant market movements.

The method of evaluation of market risks has developed significantly. In 2006 the Bank started evaluating the market risks related to its debt securities portfolio using the "Value at Risk" methodology ("VaR") currently accepted as best practice. As the range of financial instruments the Bank dealt with widened the Bank has developed and introduced certain rules relating to calculation of limits on groups of securities combined into pools in accordance with their specific risk features as well as the rules for obligatory closing of positions on specific types of securities.

VaR is a statistically based estimate of the potential loss on the current portfolio from adverse market movements. It expresses the 'maximum' amount the Bank might lose, but only to a certain level of confidence (99%). There is therefore a specified statistical probability (1%) that actual loss could be greater than the VaR estimate. The VaR model assumes a certain 'holding period' until positions can be closed (1 day). It also assumes that market movements occurring over one day will follow a similar pattern to those that have occurred over the periods in the past. The Bank's assessment of past movements is based on data for the past 365 days. The Bank applies these historical changes in rates, prices, indices, and so on directly to its current positions – a method known as historical simulation. Actual outcomes are monitored regularly to test the validity of the assumptions and parameters/ factors used in the VaR calculation.

The use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

As VaR constitutes an integral part of the Bank's market risk control regime, VaR limits are established by the Financial Committee on a monthly basis. Actual exposure against limits, together with a consolidated Bank-wide VaR, is reviewed daily by the Department of banking risks assessment. Average daily VaR for the Bank was 13,843 in 2013 (2012: 4,579).

The quality of the VaR model is continuously monitored by back-testing the VaR results for trading portfolios. All back-testing exceptions and any exceptional revenues on the profit side of the VaR distribution are investigated, and all back-testing results are reported to the Board of Directors.

Financial instruments sensitive to the market risk include state securities, corporate securities, and foreign currencies.

In thousands of Russian Roubles

29. Financial Risk Management (continued)

State bonds and a portion of corporate bonds were included into financial assets held to maturity. As such, no VaR was calculated for them. Risk assessment for these securities was performed through review for impairment.

Corporate bonds sensitive to market risk:

Rate	1 January 2013	31 March 2013	30 June 2013	30 September 2013	31 December 2013
Fair value of the portfolio, in RUB (*)	786,601	1,562,601	2,620,628	2,821,147	2,326,675
Possible losses, in RUB (**)	2,341	3,361	13,138	17,997	20,877
Possible losses, in % from fair value of the portfolio	0.30	0.22	0.50	0.64	0.90

(*) Fair value of the portfolio was calculated according to daily prices of Moscow Interbank Currency Exchange
(**) To evaluate 'possible losses' VaR has been calculated with the use of methodology of historical modelling (the period of historical modelling is 100 days, confidence band is 99%, holding period is 1 day).

Results of VaR calculations for foreign currencies for the years 2013 and 2012 indicate that their share of potential losses does not exceed 1% of total amount. Due to this fact, amount of potential losses on foreign currencies is accepted as 1% of total amount on the remaining financial instruments sensitive to market risk.

The sensitivity of the Bank to total market risk is presented below:

Rate	1 January 2013	31 March 2013	30 June 2013	30 September 2013	31 December 2013
Equity, in RUB (*)	3,207,820	3,441,216	3,482,476	3,721,696	3,933,037
Possible losses, in RUB (**)	2,364	3,395	13,269	18,177	21,086
Possible losses, in % from the equity (share)	0.07	0.10	0.38	0.49	0.54

(*) Equity was calculated in accordance with methodology set by the CBRF
(**) 'Possible losses' were calculated by summarizing the rates of possible losses presented in the tables at corresponding dates. This method of calculating does not fully correspond to portfolio's approach of value-at-risk calculation as it is supposed that there is no correlation between the risk factors of separate portfolios. In relation to this, the calculation gives higher estimate of the Bank's sensitivity to the market risk factors.

The Bank has not performed the analyses on sensitivity of the portfolio of the financial instruments to the changes of general level of interest rates as the Bank does not have financial instruments with variable interest rates related to the refinance rate of the CBRF, LIBOR, market indexes or any other general economic indicators. In 2013 and 2012 the Bank operated only with debt securities with fixed interest rates.

Financial instruments denominated in foreign currency were taken into consideration in calculation of currency position and their sensitivity to currency risk was accounted for in computation of amount of potential losses on foreign currencies.

Geographical risk / country risk
Country risk is the risk that the Bank may suffer losses as the result of exposure of the political or economic environment of a country in which it operates or holds assets. The Bank operates in Russia predominantly for Russian customers, and therefore, as analysed in the table below it has a significant concentration of Russia exposure.

The Bank has no specific policy, objectives or processes for managing country risk, although in general it seeks to keep exposure to countries other than Russia as low as possible. Operations of the Bank beyond the Russian Federation are represented predominantly by operations with OECD countries.

In thousands of Russian Roubles

29. Financial Risk Management (continued)

A geographical analysis of Bank's assets and liabilities as at 31 December 2013 is set out below:

	Russia	OECD	Non-OECD	Total
Assets				
Cash and cash equivalents	3,826,648	19,345	18,006	3,863,999
Mandatory cash balances with the CBRF	289,174	-	-	289,174
Financial assets at fair value through profit or loss	3,103,956	-	155,630	3,259,586
Due from financial institutions	338,204	-	-	338,204
Financial assets held to maturity	30,389	-	-	30,389
Loans and advances to customers	23,047,622	-	-	23,047,622
Other assets	93,743	8,873	-	102,616
Investment property	3,142	-	-	3,142
Property, plant and equipment	1,421,018	-	-	1,421,018
Deferred tax assets	110,845	-	-	110,845
Total assets	**32,264,741**	**28,218**	**173,636**	**32,466,595**
Liabilities				
Due to financial institutions	35,939	475	148	36,562
Customer accounts	27,551,112	-	-	27,551,112
Debt securities issued	74,518	-	-	74,518
Other liabilities	112,403	-	-	112,403
Subordinated debt	505,000	-	-	505,000
Deferred tax liability	236,432	-	-	236,432
Total liabilities	**28,515,404**	**475**	**148**	**28,516,027**
Net balance sheet position	**3,749,337**	**27,743**	**173,488**	**3,950,568**
Credit related commitments (Note 30)	**2,992,904**	**-**	**-**	**2,992,904**

Geographical analysis of the Bank's assets and liabilities as of 31 December 2013 is set out below:

	Russia	OECD	Non-OECD	Total
Net balance sheet position	**2,715,976**	**361,014**	**22,093**	**3,099,083**
Credit related commitments (Note 30)	**2,970,280**	**-**	**-**	**2,970,280**

Currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in exchange rates. The Financial Committee sets limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored daily.

Transactions are generally performed in three major currencies: the RUB, USD and Euro.

In thousands of Russian Roubles

29. Financial Risk Management (continued)

As at 31 December 2013 the Bank had the following positions in different currencies:

	RUB	USD	EUR	Other	Total
Monetary financial assets					
Cash and cash equivalents	3,224,734	481,003	109,889	48,373	3,863,999
Mandatory cash balances with the CBRF	289,174	-	-	-	289,174
Financial assets at fair value through profit or loss	3,259,586	-	-	-	3,259,586
Due from financial institutions	200,719	83,736	53,722	27	338,204
Financial assets held to maturity	30,389	-	-	-	30,389
Loans and advances to customers	23,002,561	36,072	8,989	-	23,047,622
Other assets	8,502	9,942	3,984	-	22,428
Total monetary financial assets	**30,015,665**	**610,753**	**176,584**	**48,400**	**30,851,402**
Monetary financial liabilities					
Due to financial institutions	31,611	4,104	444	403	36,562
Customer accounts	26,632,890	545,917	369,297	3,008	27,551,112
Debt securities issued	74,518	-	-	-	74,518
Other liabilities	53,376	2,435	-	-	55,811
Subordinated debt	505,000	-	-	-	505,000
Total monetary financial liabilities	**27,297,395**	**552,456**	**369,741**	**3,411**	**28,223,003**
Net balance sheet position	**2,718,270**	**58,297**	**(193,157)**	**44,989**	**2,628,399**
Credit related commitments (Note 30)	**2,992,904**	**-**	**-**	**-**	**2,992,904**

As at 31 December 2012 the Bank had the following positions in different currencies:

	RUB	USD	EUR	Other	Total
Net balance sheet position	**1,929,772**	**191,359**	**(57,275)**	**(1,732)**	**2,062,124**
Credit related commitments (Note 30)	**2,945,277**	**16,121**	**8,882**	**-**	**2,970,280**

Other currencies in assets are represented by the following currencies: Japanese Yen – the equivalent of 9,573 (31 December 2012: 1,810), Swiss Francs – the equivalent of 20 (31 December 2012: 256), Pound Sterling – the equivalent of 17 (31 December 2012: 104), Chinese Yuan – the equivalent of 7,999 (31 December 2012: 26,829).

As at 31 December 2013 other currencies in liabilities were represented by the following currencies: Chinese Yuan – the equivalent of 368 (31 December 2012: 26,660), Yen – the equivalent of 4,480 (31 December 2012: 4,061), Pound Sterling – the equivalent of 1 (31 December 2012: 10).

The following table demonstrates the sensitivity to a reasonably possible change in the RUB to USD and EUR exchange rate, with all other variables held constant, of the Bank's profit after tax and the Bank's equity. Analysis has not been provided for other currencies as there are no significant exposures.

	2013	2012
USD		
30% increase	17,489	57,408
30% decrease	(17,489)	(57,408)
EUR		
30% increase	(57,947)	(17,183)
30% decrease	57,947	17,183

In thousands of Russian Roubles

29. Financial Risk Management (continued)

Interest rate risk
The Bank 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 take place.

The Bank is exposed to this risk, principally as a result of lending and making advances to customers and other banks, at fixed interest rates, in amounts and for periods which differ from those of term deposits and other borrowed funds at fixed interest rates.

In absence of hedging instruments, the Bank usually aims to balance the interest rate margins positions.

The table below shows the general analysis of the Bank's weighted average interest rates for various financial instruments using period-end effective interest rates:

	31 December 2013					31 December 2012				
	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	More than 5 years	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	More than 5 years
Assets										
Cash and cash equivalents	-	-	-	-	-	4.5%	-	-	-	-
Financial assets at fair value through profit or loss	10.1%	8.2%	8.5%	8.7%	11.9%	8.5%	7.9%	6.3%	-	13.1%
Due from financial institutions	2.6%	-	-	-	-	5.7%	-	-	-	
Financial assets held to maturity	-	-	12.0%	12.0%	-	-	7.6%	6.0%	11.6%	-
Loans and advances to customers	15.3%	11.9%	17.2%	20.3%	12.9%	15.9%	12.8%	17.3%	21.2%	13.1%
Liabilities										
Due to financial institutions	-	-	-	7.8%	-	-	-	-	8.4%	-
Customer accounts	1.4%	8.7%	9.0%	9.9%	-	2.2%	9.1%	9.2%	9.9%	-
Debt securities issued	4.8%	9.8%	9.9%	-	-	0.1%	-	9.7%	11.0%	-
Subordinated debt	-	-	-	-	11.0%	-	-	-	-	11.0%

The table below summarises the Bank's exposure to interest rate risks as at as at 31 December 2013. It includes the Bank's interest bearing financial instruments at carrying amounts, categorised by the earlier of contractual re-pricing or maturity dates.

	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Total
Assets						
Financial assets at fair value through profit or loss	1,044,810	506,418	1,287,464	420,894	-	3,259,586
Due from financial institutions	150,000	-	-	-	-	150,000
Financial assets held to maturity	-	-	9,787	20,602	-	30,389
Loans and advances to customers	2,369,172	3,185,691	7,501,567	9,297,263	693,929	23,047,622
Total assets	**3,563,982**	**3,692,109**	**8,798,818**	**9,738,759**	**693,929**	**26,487,597**
Liabilities						
Due to financial institutions	-	-	-	30,228	-	30,228
Customer accounts	8,012,851	1,518,638	6,952,062	11,067,561	-	27,551,112
Debt securities issued	9,303	55,000	10,215	-	-	74,518
Subordinated debt	-	-	-	-	505,000	505,000
Total liabilities	**8,022,154**	**1,573,638**	**6,962,277**	**11,097,789**	**505,000**	**28,160,858**
Interest rate sensitivity gap	**(4,458,172)**	**2,118,471**	**1,836,541**	**(1,359,030)**	**188,929**	**(1,673,261)**

In thousands of Russian Roubles

29. Financial Risk Management (continued)

The table below summarises the Bank's exposure to interest rate risks as at 31 December 2012:

	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Total
Assets						
Cash and cash equivalents	1,600,393	-	-	-	-	1,600,393
Financial assets at fair value through profit or loss	1,074,467	608,586	746,963	-	-	2,430,016
Due from financial institutions	1,765,155	-	-	-	-	1,765,155
Financial assets held to maturity	-	39,166	7,156	30,383	-	76,705
Loans and advances to customers	1,637,304	2,656,562	6,549,414	8,429,589	1,105,762	20,378,631
Total assets	**6,077,319**	**3,304,314**	**7,303,533**	**8,459,972**	**1,105,762**	**26,250,900**
Liabilities						
Due to financial institutions	-	-	-	95,276	-	95,276
Customer accounts	9,612,552	1,291,354	5,837,399	9,882,640	-	26,623,945
Debt securities issued	33,610	-	112,308	7,875	-	153,793
Subordinated debt	-	-	-	-	505,000	505,000
Total liabilities	**9,646,162**	**1,291,354**	**5,949,707**	**9,985,791**	**505,000**	**27,378,014**
Interest rate sensitivity gap	**(3,568,843)**	**2,012,960**	**1,353,826**	**(1,525,819)**	**600,762**	**(1,127,114)**

The table below shows the average interest rate by major currencies on the assets and liabilities bearing interest. The analysis has been prepared on the basis of weighted average interest rates for the various financial instruments in accordance with the agreements valid at the end of the period.

	31 December 2013			31 December 2012		
	RUB	**USD**	**EURO**	**RUB**	**USD**	**EURO**
Assets						
Cash and cash equivalents	-	-	-	4.5%	-	-
Financial assets at fair value through profit or loss	10.0%	-	-	9.0%	8.5%	-
Due from financial institutions	3.0%	-	-	5.7%	-	-
Financial assets held to maturity	12.0%	-	-	9.0%	-	-
Loans and advances to customers	18.7%	8.8%	5.5%	17.9%	8.8%	5.5%
Liabilities						
Due to financial institutions	7.8%	-	-	8.4%	-	-
Customer accounts	7.3%	3.7%	5.0%	9.6%	3.8%	3.8%
Debt securities issued	9.6%	-	-	7.7%	-	-
Subordinated debt	11.0%	-	-	11.0%	-	-

The following table demonstrates the sensitivity to reasonably possible changes in interest rates, in basis points ("bp") with all other variables held constant, of the Bank's profit after tax and the Bank's equity as at 31 December 2013 and 31 December 2012:

	31 December 2013	31 December 2012
RUB		
100 bp parallel increase	22,599	1,937
100 bp parallel decrease	(22,599)	(1,937)
USD		
50 bp parallel increase	(2,151)	(1,343)
50 bp parallel decrease	2,151	1,343
EURO		
50 bp parallel increase	(1,535)	(856)
50 bp parallel decrease	1,535	856

In thousands of Russian Roubles

29. Financial Risk Management (continued)

Liquidity risk

Liquidity risk is defined as the risk that arises from the fact that the maturity of assets and liabilities does not match. Management of the Bank actively monitors liquidity risk.

The matching and/ or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank. It is unusual for banks ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Bank and its exposure to changes in interest and exchange rates.

Management believes that in spite of a substantial portion of customer accounts being on demand and less than 1 month, diversification of these deposits by number and type of clients and the past experience of the Bank would indicate that deposits provide, at least under normal circumstances a long-term and stable source of funding for the Bank.

The Bank calculates mandatory liquidity ratios on a daily basis in accordance with the requirements of the CBRF. These ratios include:

- Instant liquidity ratio (N2), which is calculated as the ratio of highly-liquid assets to liabilities payable on demand
- Current liquidity ratio (N3), which is calculated as the ratio of liquid assets to liabilities maturing within 30 calendar days
- Long-term liquidity ratio (N4), which is calculated as the ratio of assets maturing after one year to capital and liabilities maturing after one year,

The Bank was in compliance with the above ratios during the year ended 31 December 2013 and the year ended 31 December 2012. The following table represents the mandatory liquidity ratios for the Bank:

	Requirement	31 December 2013	31 December 2012
Instant liquidity ratio (N2)	Minimum 15%	64.46%	42.56%
Current liquidity ratio (N3)	Minimum 50%	102.30%	109.45%
Long-term liquidity ratio (N4)	Maximum 120%	59.73%	63.75%

The Bank's liquidity position is calculated on a daily basis for the three requirements above by Liquidity Department, and any issues are highlighted and referred to senior Management immediately. The Bank performs daily operations with its financial assets in order to ensure limits are complied with.

The Bank holds a diversified portfolio of cash and other financial instruments to support payment obligations and contingent funding. The Bank's assets held for managing liquidity comprise:

- Cash and cash equivalents
- Due from banks
- Financial assets at fair value through profit or loss

The tables below present the cash flows payable by the Bank under non-derivative financial liabilities and assets held for managing liquidity at 31 December 2013. Amounts shown are contractual undiscounted cash flows, including future interest, as required by IFRS 7 revised, although in practice the Bank manages liquidity on a different basis, as described above. Some of the assets may be of a longer term nature than presented in the table.

In thousands of Russian Roubles

29. Financial Risk Management (continued)

	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Total
Liabilities						
Due to banks	4,398	-	-	37,256	-	41,654
Customer accounts	7,921,153	1,343,212	7,507,652	13,384,157	-	30,156,174
Debt securities issued	9,523	55,891	10,988	-	-	76,402
Other liabilities	-	-	-	-	1,060,248	1,060,248
Subordinated debt	55,811	-	-	-	-	55,811
Total liabilities	**7,990,885**	**1,399,103**	**7,518,640**	**13,421,413**	**1,060,248**	**31,390,289**
Credit related commitments (Note 30)	**836,230**	**71,535**	**1,072,359**	**1,012,780**	**-**	**2,992,904**
Assets held for managing liquidity risk	**5,169,050**	**513,777**	**439,785**	**521,745**	**-**	**6,644,358**

The tables below present the cash flows payable by the Bank under non-derivative financial liabilities and assets held for managing liquidity at 31 December 2012.

	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Total
Liabilities						
Due to banks	40,720	-	-	118,143	-	158,863
Customer accounts	9,260,607	1,299,119	6,245,715	12,235,565	-	29,041,006
Debt securities issued	33,610	-	122,907	9,608	-	166,125
Other liabilities	96,807	-	-	-	-	96,807
Subordinated debt	-	-	-	-	1,060,248	1,060,248
Total liabilities	**9,431,744**	**1,299,119**	**6,368,622**	**12,363,316**	**1,060,248**	**30,523,049**
Credit related commitments (Note 30)	**767,761**	**209,176**	**877,709**	**1,115,634**	**-**	**2,970,280**
Assets held for managing liquidity risk	**7,333,359**	**650,053**	**334,101**	**40,132**	**-**	**8,357,645**

In the above tables customer accounts payable after 1 month include the amounts relating to term deposits of individuals which, under terms of relevant deposits agreements, can be withdrawn by clients without restrictions. As at the both reporting dates total amount that can be withdrawn comprised 30% of the total customer accounts payable after 1 month. They have not been disclosed in “Up to 1 month” range as in the opinion of Management the probability of those amounts being withdrawn by the clients is considered remote.

The data in the tables above does not reconcile to the discounted cash flows which form the basis of the statement of financial position at 31 December 2013 and at 31 December 2012 and IFRS 7 revised does not require such reconciliation.

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

29. Financial Risk Management (continued)

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

Other price risk

The Bank is exposed to the risk that fair value of cash flows related to financial instruments will change as a result of changes of market prices (apart from those changes caused by interest rate and currency risks) irrespectively of whether these changes are caused by the factors, specific for a particular security or its issuer, that have impact on all financial instruments operating on the market.

Operating risk

Operating risk is defined as the risk of losses occurring as a result of failures in internal control systems and in the systems of data processing, as well as a result of mistakes or intentional wrongful actions of personnel and force-majeure circumstances.

The Bank has developed special internal regulations and procedures aimed to minimise operating risk. The report on operating risks is considered quarterly by the Executive Board and once a year on the meeting of the Board of Directors of the Bank.

Legal risk

Legal risk is the risk that the Bank will incur losses as a result of non-compliance by the Bank with requirements of laws, regulations or contracts, occurrence of legal errors in the course of business activities and imperfection of the legal system.

In 2013 there no legal risks arising from changes in the existing legislation (including banking, tax and customs legislations) were identified. The Bank incurred a certain amount of exceptional losses connected with imperfections in the legal system (inconsistency of legislation, absence of legal regulations on particular issues of banking activity). The losses incurred were minimal in comparison with the Bank's equity and they did not pose a threat of financial or reputational losses to shareholders or partners of the Bank.

30. Contingencies and Commitments

Legal proceedings

In the normal course of business the Bank receives claims from customers. Management of the Bank does not consider that legal proceedings might lead to substantial losses therefore there is no need for creating a provision in this respect in the financial statements.

Tax legislation

Due to the presence in Russian commercial legislation, and tax legislation in particular, of provisions allowing more than one interpretation, and also due to the practice developed in a generally unstable environment by the tax authorities of making arbitrary judgement of business activities, Management's judgement of the Bank's business activities may not coincide with the interpretation of the same activities by tax authorities.

If a particular treatment was to be challenged by the tax authorities, the Bank may be levied with additional taxes, penalties and interest, which can be significant. Tax years remain open to review by the tax authorities for three years.

In thousands of Russian Roubles

30. Contingencies and Commitments (continued)

Russian transfer pricing implications

Russian tax legislation prior to 2012 (applies to transactions carried out prior to 31 December 2012) provided that the tax authorities have the right to verify the reasonableness of prices applied by the parties in particular transactions including the following types of transactions:

- Transactions between related parties;
- Cross-border transactions;
- Barter transactions;
- Transactions, where the price deviates by more than 20% from the price applied to identical or homogeneous goods, work or services, within a short period of time.

Should the price of the abovementioned transactions deviate from the market price by more than 20%, the tax authorities may challenge this price and recalculate the tax liabilities in relation to this transaction, based on the proven market price. As a consequence, additional tax liability and interest for late payment may be assessed.

From 1 January 2012 a new Russian transfer pricing legislation came into effect making significant changes to the previous regime.

The list of controlled transactions has been reduced (barter transactions are excluded from transfer pricing control). However, most transactions between related parties and certain transactions between third parties remain subject to transfer pricing control.

The new law introduced two new transfer pricing methods and incorporated a wider definition of related parties. The ownership threshold at which direct or indirect control is deemed to exist has been increased to 25% from 20%, however, the new rules allow the courts to deem the companies related on any other reasonable grounds.

Prices in controlled transactions are no longer permitted to deviate up to 20% from market prices – such prices should be established within the arm's length range.

Summarising the above, if the Bank carries out transactions that are subject to Russian transfer pricing regulations, it is strongly recommended to analyse prices in such transactions for 2012 and corresponding pricing methodology to verify compliance with the new law's requirements to mitigate the risk of challenging applied prices and recalculation of the tax liabilities by the tax authorities.

Capital commitments

As at 31 December 2013 and 31 December 2012 the Bank had no material capital commitments.

Operating lease commitments

In the normal course of business, the Bank enters into operating lease agreements. Most of these agreements are non-cancellable. In the table below the minimum amount of future rent obligations on irrevocable operating lease agreements are presented, where the Bank acts as a lessee:

	31 December 2013	31 December 2012
Not later than one year	102,728	88,424
Later than one year and no later than five years	184,442	156,419
Later than five years	-	952
	287,170	**245,795**

In thousands of Russian Roubles

30. Contingencies and Commitments (continued)

Credit related commitments

Credit related commitments comprise loan commitments and guarantees. The contractual amount of these commitments represents the value at risk should the contract be fully drawn upon, the client defaults, and the value of any existing collateral becomes worthless. Outstanding credit related commitments at their nominal amounts are as follows:

	31 December 2013	31 December 2012
Undrawn loan commitments	1,977,769	2,061,398
Undrawn overdrafts	837,250	655,696
Guarantees issued on mortgages sold	106,539	82,316
Letters of credit	71,346	170,870
	2,992,904	2,970,280
Other guarantees issued	399,132	429,755
Total credit related commitments	**3,392,036**	**3,400,035**

As at 31 December 2013 the impairment allowance created in respect of other credit related commitments amounted to 3,677 (31 December 2012: 1,908). Movements in impairment allowance during the year are presented within Operating expenses in the Statement of comprehensive income. The total outstanding contractual amount of loan commitments and guarantees does not necessarily represent future cash requirements as these financial instruments may expire or terminate without being funded.

Derivatives

Foreign exchange and other derivative financial instruments are generally traded in an over-the-counter market with professional market counterparties on standardised contractual terms and conditions.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the Statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Bank's exposure to credit or price risks.

The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favourable or unfavourable and, thus, the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly over time.

As at 31 December 2013 the Bank had 65 foreign currency swap contracts (31 December 2012: 74).

	Notional amount	CBRF rate	Notional amount	CBRF rate
	31 December 2013	31 December 2013	31 December 2012	31 December 2012
Buy RUR sell USD				
Less than one month	492,985	32.7292	1,111,239	30.3727
Buy USD sell RUR				
Less than one month	577,885	32.7292	218,316	30.3727
Buy EUR sell RUR				
Less than one month	193,789	44.9699	747,031	40.2286
Buy YUAN sell RUR			-	-
Less than one month	3,236	5.3993		

30. Contingencies and Commitments (continued)

In 2013 the corresponding fair value gain and a corresponding asset of 378 (2012: 3,140) have been recorded in Statement of comprehensive income within Net Gains from Operations with Foreign Currencies and in the Statement of financial position in the relevant line within Other assets.

31. Fair Value of Financial Instruments

Fair value is the amount at which a financial instrument can be exchanged in the course of business between two willing ‘arms’ length’ parties apart from forced liquidation. The best assurance of fair value is the market price of the financial instrument. The Bank, in accordance with available market information and different methods of valuation, estimated the fair value of the financial instruments it holds. However to interpret market information with the purpose of determining fair value it is necessary to exercise professional judgment. Although, for estimating the fair value of financial instruments, Management uses the most up to date market information, it may not always represent the value that can be realised in current conditions.

Financial instruments held at fair value

Cash and cash equivalents, financial assets and liabilities measured at fair value through profit or loss and financial assets available for sale are recorded in the Statement of financial position at fair value.

For some securities external market quotes are not available. The fair value of such assets has been measured by Management according to the results of recent sale of shares to unrelated third parties, an analysis of other information such as discounted cash flows and the financial information of companies as well as other methods of estimation.

Due from financial institutions

The fair value of funds deposited under a floating rate is equal to their carrying value. Fair value of funds deposited under a fixed rate is estimated based on the discounted cash flows using the market interest rates of the stock exchange of cash instruments for the instruments with similar level of credit risk and maturity. Management considers that the fair value of due from financial institutions does not differ from their book value as at 31 December 2013 and 31 December 2012. This is explained by the existing practice of revising the interest rates to reflect current market conditions, thus interest on the majority of balances are accrued under market interest rates.

Loans and advances to customers

Loans and advances to customers are recorded net of allowance for impairment. The estimated fair value of loans and advances to customers represents the discounted amount of future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value. Management considers that the fair value of loans and advances to customers did not differ significantly from their book value as at 31 December 2013 and 31 December 2012. This is explained by an existing practice of revising the interest rates to reflect current market conditions, therefore interest on the majority of balances are accrued under market interest rates.

Liabilities at amortised cost

The fair value of instruments with market value is based on market quotes. The fair value of instruments with uncertain maturity date is the amount repayable on demand. The fair value of instruments with fixed interest rate without market value is based on discounted cash flows calculated using interest rates of new instruments with similar credit risk and maturity date.

32. Related Party Transactions

For the purposes of these financial statements, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions as defined by IAS 24 "Related Party Disclosures". In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Members of the Board of Directors of the Bank, key management personnel, including members of the Executive Board are also considered related parties as they can influence the activities of the Bank.

In thousands of Russian Roubles

32. Related Party Transactions (continued)

In the normal course of business, the Bank enters into transactions with its members, directors, subsidiaries and associated companies, companies, a significant share in the capital of which belongs to the members of the Bank, as well as with other related parties.

Balances and transactions with shareholders fully reflected in this category regardless of whether shareholders belonged to different categories of stakeholders.

Balances of accounts, income and expenses from transactions with related parties were as follows (all balances are not secured, unless otherwise stated).

	31 December 2013				
Statement of Financial Position	**Share-holders**	**Other**	**Key management**	**Total balances with related parties**	**Total per category in financial statements**
NOSTRO accounts					
At the beginning of the year	-	1,026	-	**1,026**	**154,770**
Placed during the year	-	1,844,843	-	**1,844,843**	**n/a**
Repaid during the year	-	(1,844,414)	-	**(1,844,414)**	**n/a**
At the end of the year	-	1,455	-	**1,455**	**74,380**
Due from financial institutions					
At the beginning of the year	-	-	-	**-**	**1,882,593**
Placed during the year	-	100,000	-	**100,000**	**n/a**
Repaid during the year	-	100,000	-	**100,000**	**n/a**
At the end of the year	-	-	-	**-**	**338,204**
Loans and advances to customers					
At the beginning of the year	-	-	1,465	**1,465**	**20,378,631**
Granted during the year	-	-	25,780	**25,780**	**n/a**
Repaid during the year	-	-	(27,088)	**(27,088)**	**n/a**
At the end of the year	-	-	157	**157**	**23,047,622**
Due to financial institutions					
At the beginning of the year	-	-	-	**-**	**135,996**
Received during the year	-	-	-	**-**	**n/a**
Repaid during the year	-	-	-	**-**	**n/a**
At the end of the year	-	-	-	**-**	**36,562**
Customer accounts					
Customer deposits at the beginning of the year	-	-	7,699	**7,699**	**19,100,483**
Received during the year	-	-	69,460	**69,460**	**n/a**
Repaid during the year	-	-	(20,530)	**(20,530)**	**n/a**
Customer deposits at the end of the year	-	-	56,629	**56,629**	**20,311,654**
Current accounts at the beginning of the year	-	-	92,241	**92,241**	**7,523,462**
Current accounts at the end of the year	-	-	50,512	**50,512**	**7,239,458**
Subordinated loans					
At the beginning of the year	505,000	-	-	**505,000**	**505,000**
Received during the year	-	-	-	**-**	**n/a**
Repaid during the year	-	-	-	**-**	**n/a**
At the end of the year	505,000	-	-	**505,000**	**505,000**
Statement of Comprehensive Income					
Interest income from interbank loans	-	51	-	**51**	**164,585**
Interest income from loans issued	-	-	18	**18**	**4,535,663**
Interest expense from customer deposits	-	-	11,217	**11,217**	**2,181,786**
Interest expense from subordinated loans	55,525	-	-	**55,525**	**55,525**

In thousands of Russian Roubles

32. Related Party Transactions (continued)

	31 December 2012				
Statement of Financial Position	**Share-holders**	**Other**	**Key management**	**Total balances with related parties**	**Total per category in financial statements**
NOSTRO accounts					
At the beginning of the year	-	112	-	**112**	**51,620**
Placed during the year	-	7,874,699	-	**7,874,699**	**n/a**
Repaid during the year	-	(7,873,785)	-	**(7,873,785)**	**n/a**
At the end of the year	-	1,026	-	**1,023**	**154,770**
Due from financial institutions					
At the beginning of the year	-	-	-	**-**	**1,151,146**
Placed during the year	-	-	-	**-**	**n/a**
Repaid during the year	-	-	-	**-**	**n/a**
At the end of the year	-	-	-	**-**	**1,882,593**
Loans and advances to customers					
At the beginning of the year	-	-	1,623	**1,623**	**12,979,017**
Granted during the year	-	-	19,102	**19,102**	**n/a**
Repaid during the year	-	-	(19,259)	**(19,259)**	**n/a**
At the end of the year	-	-	1,465	**1,465**	**20,378,631**
Due to financial institutions					
At the beginning of the year	-	-	-	**-**	**249,778**
Received during the year	-	2,850,000	-	**2,850,000**	**n/a**
Repaid during the year	-	(2,850,000)	-	**(2,850,000)**	**n/a**
At the end of the year	-	-	-	**-**	**135,996**
Customer accounts					
Customer deposits at the beginning of the year	-	-	13,131	**13,131**	**10,673,463**
Received during the year	-	-	17,619	**17,619**	**n/a**
Repaid during the year	-	-	(23,050)	**(23,050)**	**n/a**
Customer deposits at the end of the year	-	-	7,699	**7,699**	**19,100,483**
Current accounts at the beginning of the year	-	-	8,631	**8,631**	**5,366,191**
Current accounts at the end of the year	-	-	92,241	**92,241**	**7,523,462**
Subordinated loans					
At the beginning of the year	255,000	-	-	**255,000**	**255,000**
Received during the year	250,000	-	-	**250,000**	**n/a**
Repaid during the year	-	-	-	**-**	**-**
At the end of the year	505,000	-	-	**505,000**	**505,000**
Statement of Comprehensive Income					
Interest income from interbank loans	-	788	-	**788**	**81,084**
Interest income from loans issued	-	-	44	**44**	**3,302,629**
Interest expense from customer deposits	-	-	4,433	**4,433**	**1,381,134**
Interest expense from subordinated loans	47,281	-	-	**47,281**	**47,281**

Total remuneration paid to the General Director and the 6 members of management of the Bank in their capacity as employees amounted to 130,089 (2012: 156,580), all payments – short term employee benefits. There were no long term benefits, post-employment benefits, termination benefits or share based payments. The interest of members of Management in the share capital of the Bank is shown in Note 1.

In thousands of Russian Roubles

33. Capital Management

Among the main objectives of the management of capital are the following:

- § Comply with capital requirements set by the CBRF,
- § Support the Bank in functioning as a going concern.

The compliance with the capital adequacy ratio required by the CBRF is monitored through monthly reports checked and approved by the General Director and the Chief Accountant of the Bank.

The following other targets of capital management are monitored on a daily basis:

- § Participation in the deposit insurance scheme and the compliance of the quality of capital to the standards as recommended by the Deposit Insurance Agency;
- § Increasing the volume of active operations of the Bank;
- § Control over funding of long-term investments.

As at 31 December 2013, as required by the CBRF, the banks have to maintain a ratio of capital to risk weighted assets, the total capital ratio, above the prescribed minimum of 10% (2012: 10%).

Moreover, the State Deposit Insurance Scheme requires the banks to maintain the total capital ratio of at least 11%. The Bank complied with these limits during the reporting period and the preceding year. The capital ratio of the Bank at 31 December 2013 amounted to 13.3% (31 December 2012: 11.5%).

The Bank's primary aim with regard to capital is to meet these requirements.

The Bank also periodically calculates capital in accordance with international guidelines. Its chosen measure for this is to calculate in accordance with the Basle Capital Accord, originally published in 1988, subsequently known as 'Basle I'. Basle I includes definitions of items comprising capital and a structure of risk weights to be applied to assets to give risk weighted assets. It therefore only takes account of credit risk with no allowance for market or operational risk. It was adopted by many countries in amended or non-amended forms and the Bank applies the original guidelines not adjusted to any country specific scenario. Subsequent amendments including Basel II and II have not been applied.

The structure of capital of the Bank calculated in accordance with the Basle I is presented below:

Tier 1 capital	**31 December 2013**	**31 December 2012**
Share capital	549,956	549,956
Retained earnings	3,178,806	2,331,168
Total tier 1 capital	**3,728,762**	**2,881,124**
Tier 2 capital		
Premises revaluation reserve	221,806	217,959
Subordinated debt	505,000	505,000
Total tier 2 capital	**726,806**	**722,959**
Total capital	**4,455,568**	**3,604,083**
Risk-weighted assets	**28,209,008**	**24,825,042**
Total capital expressed as percentage of risk-weighted assets ("total capital ratio")	**15.79%**	**14.52%**
Tier 1 capital expressed as percentage of risk-weighted assets ("tier 1 capital ratio")	**13.22%**	**11.61%**

In 2013 and 2012 the Bank complied with all capital requirements.

34. Events after the Statement of Financial Position Date

Non-adjusting events after the reporting period that significantly affect the financial condition, status of assets and liabilities of a credit institution did not take place.