LLC CB Aljba Alliance

Consolidated Financial Statements
for 2013 and Auditor's Report

COMMERCIAL BANK ALJBA ALLIANCE (LIMITED LIABILITY COMPANY)

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COMMERCIAL BANK ALJBA ALLIANCE (LIMITED LIABILITY COMPANY)

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of Commercial Bank Aljba Alliance (Limited Liability Company) and its subsidiaries (the "Group") as at 31 December 2013, and the consolidated results of its operations and cash flows for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

In preparing the consolidated financial statements, management is responsible for:

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's consolidated financial position and financial performance;
- Making an assessment of the Group's ability to continue as a going concern.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- Maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the consolidated financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- Maintaining statutory accounting records in compliance with the Russian legislation and accounting standards;
- Taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- Preventing and detecting fraud and other irregularities.

The consolidated financial statements of the Group for the year ended 31 December 2013 was authorized for issue by the Bank's Management Board on 29 April 2014.

On behalf of the Group

A.N. Yakimov	**L.A. Nechaeva**
Chairman of the Management Board	**Deputy Chief Accountant**
29 April 2014	29 April 2014
Moscow	Moscow

РОССИЙСКАЯ ФЕДЕРАЦИЯ * Коммерческий Банк "Альба Альянс" (Общество с ограниченной ответственностью) * Лицензия № 2593 * г. МОСКВА * ОГРН 1025000004787 ALJBA ALLIANCE

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INDEPENDENT AUDITOR'S REPORT

To the Participants and the Board of Directors of Commercial Bank Aljba Alliance (Limited Liability Company):

We have audited the accompanying consolidated financial statements of Commercial Bank Aljba Alliance (Limited Liability Company) and its subsidiaries (the “Group”), which comprise the consolidated statement of financial position as at 31 December 2013, and the consolidated statements of profit or loss, other comprehensive income and cash flows for 2013, and notes comprising a summary of significant accounting policies and other explanatory information.

Management’s Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

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Opinion

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

Deloitte & Touche

29 April 2014
Moscow, Russian Federation

Sergey Neklyudov, Partner
(Qualification Certificate No 01-000196 dated 28 November 2011)

ZAO Deloitte & Touche CIS

Entity: Commercial Bank Aljba Alliance (Limited Liability Company)
Certificate of state registration № 033.217
Issued by the Moscow Registration Chamber on 14.07.1994.

Certificate 50 № 002240480 of registration in the Unified State Register №1025000004787 as of 21.11.2002.
Issued by Russian Ministry of Taxation Inspectorate in Moscow Region.

Address: 1 bld. 2 Kremlevskaya nab., Moscow, 119019, Russia.

Audit firm: ZAO Deloitte & Touche CIS

State Registration Certificate No. 018.482 issued by the Moscow Registration Chamber on 30 October 1992.

Certificate of registration in the Unified State Register № 1027700425444 of 13.11.2002, issued by Moscow Interdistrict Inspectorate of the Russian Ministry of Taxation № 39.

Certificate of Membership in NP Audit Chamber of Russia (auditors' SRO) No. 3026 dated 20 May 2009, ORNZ 10201017407.

COMMERCIAL BANK ALJBA ALLIANCE (LIMITED LIABILITY COMPANY)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2013
(in thousands of Russian Rubles)

	Notes	31 December 2013	31 December 2012
ASSETS:			
Cash and cash equivalents	6	1,458,509	1,407,751
Mandatory cash balances with the Central Bank of the Russian Federation		195,531	178,830
Financial assets at fair value through profit or loss	7	1,212,720	663,461
Due from banks	8	101,324	465,150
Loans to customers	9	2,994,383	2,851,725
Property and equipment	10	560,971	583,036
Deferred tax assets	18	10,263	8,129
Current income tax assets		6,915	3,488
Other assets		46,062	27,393
TOTAL ASSETS		**6,586,678**	**6,188,963**
LIABILITIES:			
Deposits by customers	11	4,606,997	4,368,547
Debt securities issued	12	281,237	229,063
Deferred income tax liabilities	18	53,143	39,947
Current income tax liabilities		1,277	-
Deposits by banks		-	3,706
Other liabilities		28,949	28,512
		4,971,603	4,669,775
Net assets attributable to the participants of the Group	13	1,615,075	1,519,188
TOTAL LIABILITIES		**6,586,678**	**6,188,963**

On behalf of the Group

A.N. Yakimov
Chairman of the Management Board

29 April 2014
Moscow

L.A. Nechaeva
Deputy Chief Accountant

29 April 2014
Moscow

The notes on pages 9-47 form an integral part of these consolidated financial statements.

COMMERCIAL BANK ALJBA ALLIANCE (LIMITED LIABILITY COMPANY)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2013
(in thousands of Russian Rubles)

	Notes	Year ended 31 December 2013	Year ended 31 December 2012
Interest income	14	471,972	394,007
Interest expense	14	(215,816)	(164,741)
NET INTEREST INCOME BEFORE RECOVERY OF PROVISION /(PROVISION) FOR IMPAIRMENT LOSSES ON INTEREST BEARING ASSETS		256,156	229,266
Recovery of provision/(provision) for impairment losses on interest bearing assets	8,9	5,210	(6,250)
NET INTEREST INCOME		261,366	223,016
Net gain on financial assets at fair value through profit or loss	15	61,516	72,385
Gain/(loss) from trading in foreign currencies		71,096	(30,825)
Foreign exchange translation (loss)/gain		(25,970)	86,567
Fee and commission income	16	135,461	116,838
Fee and commission expense	16	(12,498)	(24,908)
Other income		13,789	17,537
NET NON-INTEREST INCOME		243,394	237,594
OPERATING INCOME		504,760	460,610
OPERATING EXPENSES	17	(396,484)	(397,193)
PROFIT BEFORE INCOME TAX		108,276	63,417
Income tax expense	18	(25,084)	(17,661)
NET PROFIT FOR THE YEAR		**83,192**	**45,756**

On behalf of the Group

A.N. Yakimov
Chairman of the Management Board

29 April 2014
Moscow

L.A. Nechaeva
Deputy Chief Accountant

29 April 2014
Moscow

The notes on pages 9-47 form an integral part of these consolidated financial statements.

COMMERCIAL BANK ALJBA ALLIANCE (LIMITED LIABILITY COMPANY)

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2013
(in thousands of Russian Rubles)

	Year ended 31 December 2013	Year ended 31 December 2012
NET PROFIT FOR THE YEAR	**83,192**	**45,756**
OTHER COMPREHENSIVE INCOME:		
Exchange differences on translating foreign operations	12,695	(9,819)
TOTAL COMPREHENSIVE INCOME	**95,887**	**35,937**

On behalf of the Group

A.N. Yakimov
Chairman of the Management Board

29 April 2014
Moscow

L.A. Nechaeva
Deputy Chief Accountant

29 April 2014
Moscow

РОССИЙСКАЯ ФЕДЕРАЦИЯ ★ Коммерческий Банк "Альба Альянс" (Общество с ограниченной ответственностью) ALJBA ALLIANCE ★ Лицензия № 2593 ★ г. МОСКВА ★ ОГРН 1025000004787

The notes on pages 9-47 form an integral part of these consolidated financial statements.

COMMERCIAL BANK ALJBA ALLIANCE (LIMITED LIABILITY COMPANY)

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2013
(in Russian Rubles and in thousands)

	Notes	Year ended 31 December 2013	Year ended 31 December 2012
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before income tax		108,276	63,417
Adjustments for non-cash items:			
(Recovery of provision)/provision for impairment losses on interest bearing assets	8,9	(5,210)	6,250
Depreciation of property and equipment	10,17	26,117	26,771
Net change in interest accruals		(61,310)	17,356
Loss from disposal of property and equipment		797	148
Net change in fair value of financial assets at fair value through profit or loss	15	30,449	15,020
Foreign exchange translation gain/(loss)		25,970	(86,567)
Gain/(loss) on precious metals operations		1,491	51
Other income		(137)	-
Cash flows from operating activities before changes in operating assets and liabilities		**126,443**	**42,446**
Changes in operating assets and liabilities			
(Increase)/decrease in operating assets:			
Mandatory cash balances with the Central Bank of the Russian Federation		(16,701)	(29,634)
Due from banks		377,367	302,425
Financial assets at fair value through profit or loss		(550,977)	(128,714)
Loans to customers		(77,312)	(1,313,215)
Other assets		(18,413)	(3,410)
Increase/(decrease) in operating liabilities:			
Deposits by banks		(3,706)	3,706
Deposits by customers		(24,069)	790,460
Debt securities issued		52,370	(6,642)
Other liabilities		8,415	(5,884)
Cash used in operating activities before taxation		**(126,583)**	**(348,462)**
Income tax paid		(16,172)	(2,637)
Cash used in operating activities		**(142,755)**	**(351, 099)**

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2013
(in Russian Rubles and in thousands)

	Notes	Year ended 31 December 2013	Year ended 31 December 2012
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property and equipment	10	(4,712)	(2,345)
Proceeds on disposals of property and equipment		-	7
Net cash used in investing activities		(4,712)	(2,338)
Effect of exchange rate changes on cash held in foreign currencies		198,225	53
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		50,758	(353,384)
CASH AND CASH EQUIVALENTS, beginning of year	**6**	**1,407,751**	**1,761,135**
CASH AND CASH EQUIVALENTS, end of the year	**6**	**1,458,509**	**1,407,751**

Interest paid and received by the Group during the year ended 31 December 2013 amounted to RUB 163,899 thousand and RUB 481,365 thousand, respectively.

Interest paid and received by the Group during the year ended 31 December 2012 amounted to RUB 170,541 thousand and RUB 382,451 thousand, respectively.

On behalf of the Group

A.N. Yakimov
Chairman of the Management Board

29 April 2014
Moscow

L.A. Nechaeva
Deputy Chief Accountant

29 April 2014
Moscow

РОССИЙСКАЯ ФЕДЕРАЦИЯ ★ Коммерческий Банк "Альба Альянс" (Общество с ограниченной ответственностью) ALJBA ALLIANCE ★ Лицензия № 2593 ОГРН 1025000004787 ★ г. МОСКВА

The notes on pages 9-47 form an integral part of these consolidated financial statements.

1. ORGANIZATION

Commercial Bank Aljba Alliance (Limited Liability Company) (the “Bank”) is a limited liability company, which was incorporated in the Russian Federation (the “RF”) in 1993. The Bank is regulated by the Central Bank of the Russian Federation (the “CBR”) and conducts its business under general license number 2593. In addition, the Bank holds licenses for broker, dealer, depositary and security management operations issued by the Federal Service for Financial Markets in December 2000, and a stock exchange intermediary license issued by the Federal Service for Financial Markets of Russia in 2009.

The Bank's primary business activities include commercial banking, trading with securities, foreign currencies and derivative instruments, originating loans and guarantees, settlements on customer export/import operations, broker operations, securities management, agency and other services to Russian debt and equity securities market players. The Bank conducts operations in the Russian and international markets.

The registered office of the Bank is located at: 1/2 Kremlevskaya embankment., Moscow, Russian Federation.

The Bank is a parent company of a banking group (the “Group”) which consists of the following enterprises consolidated in the financial statements:

Name	Country	Proportion of ownership interest/ voting rights, % 31 December 2013	31 December 2012	Type of operations
LLC CB Aljba Alliance	RF	Parent	Parent	Banking services
OOO SOVLINK	RF	100%	100%	Broker and dealer services, corporate finance and financial advisory services
S.L. Capital Services Limited	Cyprus	100%	100%	Investments, broker operations, securities management, agency and other services to Russian securities market players

As at 31 December 2013 and 2012 the following participants (ultimate beneficiaries) owned 100% of the Bank’s share capital:

Participants	% in share capital
Alexander Markovich Fryman	50.0
Dmitri Yurievich Pyatkin	50.0
Total	**100.0**

These consolidated financial statements for the year ended 31 December 2013 were authorized for issue on 29 April 2014 by the Management Board of Commercial Bank Aljba Alliance (Limited Liability Company).

2. SIGNIFICANT ACCOUNTING POLICIES

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

These consolidated financial statements have been prepared based on the assumption that the Group will continue as a going concern in the foreseeable future.

These financial statements are presented in thousands of Russian rubles ("RUB thousand"), unless otherwise indicated.

These consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at revalued amounts or fair values, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for measurements that have some similarities to fair value but are not fair value, such as value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The Bank and its consolidated company, registered in the Russian Federation, maintain their accounting records in accordance with Russian Accounting Standards (RAS), foreign consolidated company of the Bank maintains its accounting records in accordance with IFRS. These consolidated financial statements have been prepared based on the statutory accounting records of the Bank and its subsidiaries and have been adjusted to conform with IFRS.

The Group presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the statement of financial position date (current) and more than 12 months (non-current) is presented in Note 22.

Functional currency. Items included in the financial statements of each of the Group's entities are measured using the currency of the primary of the economic environment in which the entity operates ("the functional currency"). The functional currency of the parent of the Group is the Russian Ruble ("RUB"). The Bank's foreign subsidiary incorporated in the Republic of Cyprus determines the US dollar as its functional currency and its financial statements are measured using that functional currency. The presentational currency of the consolidated financial statements of the Group is RUB. All values are rounded to the nearest thousand rubles, except when otherwise indicated.

Offsetting. Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously. Income and expense are not offset in the consolidated statement of profit or loss and other comprehensive income unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Group.

The principal accounting policies are set out below.

Basis of consolidation. These consolidated financial statements incorporate the financial statements of the Bank and its subsidiaries. Control is achieved when the Bank:

- Has power over the investee;
- Is exposed, or has rights, to variable returns from its involvement with the investee; and
- Has the ability to use its power to affect its returns.

The Bank reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Income and expense recognition

Recognition of interest income and expense. Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income and expense are recognized on an accrual basis using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) 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 receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Once a financial asset or a group of similar financial assets has been written down (partly written down) as a result of an impairment loss, interest income is thereafter recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Interest earned on assets at fair value is classified within interest income.

Recognition of income on repurchase and reverse repurchase agreements Gain/loss on the sale of the above instruments is recognized as interest income or expense in the statement of profit and loss based on the difference between the repurchase price accrued to date using the effective interest method and the sale price when such instruments are sold to third parties. When the reverse repo/repo is fulfilled on its original terms, the effective yield/interest between the sale and repurchase price negotiated under the original contract is recognized using the effective interest method.

Recognition of fee and commission income. Loan origination fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the loan. Where it is probable that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the resulting loan. Where it is unlikely that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are recognized in profit or loss over the remaining period of the loan commitment. Where a loan commitment expires without resulting in a loan, the loan commitment fee is recognized in profit or loss on expiry. Loan servicing fees are recognized as revenue as the services are provided. Loan syndication fees are recognized in profit or loss when the syndication has been completed. All other commissions are recognized as services are rendered.

Recognition of rental income. The Group's policy for recognition of income as a lessor is set out in the "leases" section of this footnote.

Financial instruments. The Group recognizes financial assets and liabilities in its consolidated statement of financial position when it becomes a party to the contractual obligations of the instrument. Regular way purchases and sales of financial assets and liabilities are recognized using settlement date accounting. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Financial assets. Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' ("FVTPL"), 'held to maturity' investments, 'available for sale' ("AFS") financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financial assets at FVTPL. Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- It has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- It forms part of a contract containing one or more embedded derivatives, and IAS 39 *Financial Instruments*: *Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the "Net gain/(loss) on financial assets at fair value through profit or loss" line item in the income statement. Fair value is determined in the manner described in Note 20.

Loans and receivables. Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market (including due from banks, loans to customers and other financial assets) are classified as 'loans and receivables'. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Securities repurchase and reverse repurchase agreements and securities lending transactions.
In the normal course of business, the Group enters into financial assets sale and purchase back agreements ("repos") and financial assets purchase and sale back agreements ("reverse repos"). Repos and reverse repos are utilized by the Group as an element of its treasury management.

A repo is an agreement to transfer a financial asset to another party in exchange for cash or other consideration and a concurrent obligation to reacquire the financial assets at a future date for an amount equal to the cash or other consideration exchanged plus interest. These agreements are accounted for as financing transactions. Financial assets sold under repo are retained in the consolidated financial statements and consideration received under these agreements is recorded as collateralized deposit received within balances due to banks and customer accounts.

Assets purchased under reverse repos are recorded in the consolidated financial statements as cash placed on deposit collateralized by securities and other assets and are classified within due from banks and/or loans to customers.

The Group enters into securities repurchase agreements and securities lending transactions under which it receives or transfers collateral in accordance with normal market practice. Under standard terms for repurchase transactions in the RF and other CIS states, the recipient of collateral has the right to sell or repledge the collateral, subject to returning equivalent securities on settlement of the transaction.

Securities lending transaction is an agreement to transfer a financial asset to another party in exchange for cash or other reward. Financial assets transferred under loan agreements are retained in the consolidated financial statements.

The transfer of securities to counterparties is only reflected on the statement of financial position if the risks and rewards of ownership are also transferred.

Impairment of financial assets. Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For listed and unlisted equity investments classified as AFS, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- Significant financial difficulty of the issuer or counterparty; or
- Breach of contract, such as default or delinquency in interest or principal payments; or
- Default or delinquency in interest or principal payments; or
- It becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- Disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as loans and receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of loans and receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of loans and receivables, where the carrying amount is reduced through the use of an allowance account. When a loan or a receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period.

If, in a subsequent period, the amount of the impairment loss on financial assets carried at amortized cost decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through the profit and loss to the extent that the carrying amount of financial assets at the date the impairment is reversed cannot exceed what the carrying amount would have been had the impairment not been recognized.

In respect of AFS equity securities, impairment losses previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income and accumulated under the heading of investments revaluation reserve.

In respect of AFS debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

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

Write off of loans and advances. Loans and advances are written off against allowance for impairment losses when deemed uncollectible, including through repossession of collateral. Loans and advances are written off after management has exercised all possibilities available to collect amounts due to the Group and after the Group has sold all available collateral. Subsequent recoveries of amounts previously written off are reflected as an offset to the charge for impairment of financial assets in the consolidated statement of profit and loss in the period of recovery.

Derecognition of financial assets

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset’s carrying amount and the sum of the consideration received and receivable and gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

Financial liabilities and equity instruments issued

Classification as debt or equity. Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Financial liabilities. Financial liabilities are classified as either financial liabilities ‘at FVTPL’ or ‘other financial liabilities’.

Other financial liabilities. Other financial liabilities, including deposits by banks, deposits by customers, repurchase agreements, debt securities issued, and other liabilities are initially recognized at fair value, less transaction costs.

Other financial liabilities are subsequently measured at amortized cost. Interest expense is calculated using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Financial guarantee contracts. A financial guarantee contract is a contract that requires 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.

Financial guarantee contracts issued by the Group are initially measured at their fair values and, if not designated as at FVTPL, are subsequently measured at the higher of:

- The amount of the obligation under the contract, as determined in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*; and
- The amount initially recognized less, where appropriate, cumulative amortization recognized in accordance with the revenue recognition policies.

Derecognition of financial liabilities. The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, canceled or they expire. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit and loss.

Derivative financial instruments

The Group enters into a variety of derivative financial instruments to manage its exposure to foreign exchange rate risk, including foreign exchange forward contracts, futures and swaps.

<u>Forwards and futures.</u> Forward and futures contracts are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customized contracts transacted in the over-the-counter market. Futures contracts are transacted in standardized amounts on regulated exchanges and are subject to daily cash margin requirements. The main differences in the risk associated with forward and futures contracts are credit risk and liquidity risk.

The Group has credit exposure to the counterparties of forward contracts. The credit risk related to future contracts is considered minimal because the cash margin requirements of the exchange helps ensure that these contracts are always honored. Forward contracts are settled gross and are, therefore, considered to bear a higher liquidity risk than the futures contracts which are settled on a net basis. Both types of contracts result in market risk exposure.

<u>Swaps.</u> Swaps are contractual agreements between two parties to exchange streams of payments over time based on specified notional amounts, in relation to movements in a specified underlying index such as an interest rate, foreign currency rate or equity index.

Interest rate swaps relate to contracts taken out by the Group with other financial institutions in which the Group either receives or pays a floating rate of interest in return for paying or receiving, respectively, a fixed rate of interest. The payment flows are usually netted against each other, with the difference being paid by one party to the other.

In a currency swap, the Group pays a specified amount in one currency and receives a specified amount in another currency. Currency swaps are mostly gross-settled.

Leases. Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as a lessor. Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease, if any, are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

Cash and cash equivalents. Cash and cash equivalents consist of cash on hand, unrestricted balances on corresponded deposits with the Central Bank of the Russian Federation and amounts due from credit institutions with original maturity of less or equal to 90 days and are free from contractual encumbrances.

Mandatory cash balances with the Central Bank of the Russian Federation

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

Repossessed assets. In certain circumstances, assets are repossessed following the foreclosure on loans that are in default. Repossessed assets are measured at the lower of their carrying amount and fair value less costs to sell.

Property and equipment. Property and equipment are carried at initial (historical) cost less accumulated depreciation and any recognized impairment loss, if any. The cost of an item of property and equipment is the cash price equivalent at the recognition date.

Freehold land is not depreciated.

Depreciation of property and equipment is designed to write off assets (other than a land plot) on a straight-line basis over their useful economic lives. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis at the following annual rates:

Buildings and other real estate	2%-13%
Furniture and equipment	5%-33%
Motor vehicles	14%-20%

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

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax. The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax. Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognized if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognized for taxable temporary differences associated with the subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets with regard to the subsidiaries are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

<u>Current and deferred tax for the year.</u> Current and deferred tax are recognized in profit or loss, except when they relate to items that are directly recognized in other comprehensive income, in which case, the current and deferred tax are also recognized in other comprehensive income.

<u>Operating taxes.</u> The Russian Federation and the Republic of Cyprus have various other taxes, which are assessed on the Group’s activities. These taxes are included as a component of operating expenses in the consolidated statement of profit or loss.

Provisions. Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

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

Fiduciary activities. The Group provides trustee services to its customers. The Group also provides depositary services to its customers, which include transactions with securities on their depositary accounts. Assets accepted and liabilities incurred under the fiduciary activities are not included in the Group’s financial statements. The Group accepts the operational risk on these activities, but the Group’s customers bear the credit and market risks associated with such operations. Revenue for provision of trustee services is recognized as services are provided.

Foreign currencies. In preparing the financial statements of each individual entity of the group, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognized in profit or loss in the period in which they arise except for:

- Exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognized initially in other comprehensive income and reclassified from net assets to profit or loss on repayment of the monetary items.

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into RUB using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in net assets attributable to the Group's participants.

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary), all of the exchange differences accumulated in net assets attributable to the Group's participants are reclassified to profit or loss.

In relation to a partial disposal of a subsidiary that includes a foreign operation that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognized in profit or loss. For all other partial disposals (i.e. partial disposals of the Group's ownership interest in associates or jointly controlled entities that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

The exchange rates used by the Group in the preparation of the consolidated financial statements as at year-end are as follows:

	31 December 2013	31 December 2012
RUB/USD	32.7292	30.3727
RUB/EUR	44.9699	40.2286

Collateral. The Group obtains collateral in respect of customer liabilities where this is considered appropriate. The collateral normally takes the form of a lien over the customer's assets and gives the Group a claim on these assets for both existing and future customer liabilities.

***Net assets attributable to the participants of the Group*.** The Bank which is the parent company of the banking group was incorporated as a limited liability company. In accordance with the Bank's Charter, participants may leave the company at any time regardless of the agreement of other participants or the company. The company shall pay to such participant the actual value of his share of the Bank's net assets in proportion to the share of the participant or transfer property of the same value subject to agreement of the participant. For this reason, shares of the participants in the company's charter capital, and retained earnings and reserve funds of the company are reported as net assets attributable to the participants of the Group.

Non-current assets held for sale. Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset (or disposal group) and its sale is highly probable. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

3. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies the Group management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty. The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Impairment of loans and receivables. The Group regularly reviews its loans and receivables to assess them for impairment. The Group's loan impairment provisions are established to recognize incurred impairment losses in its portfolio of loans and receivables. The Group considers accounting estimates related to the provision for impairment of loans and receivables a key source of estimation uncertainty because (i) they are highly susceptible to change from period to period as the assumptions about future default rates and valuation of potential losses relating to impaired loans and receivables are based on recent performance experience, and (ii) any significant difference between the Group's estimated losses and actual losses would require the Group to record provisions which could have a material impact on its financial statements in future periods.

The Group uses management's judgments to estimate the amount of any impairment loss in cases where a borrower has financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Group estimates changes in future cash flows based on past performance, past customer behavior, observable data indicating an adverse change in the payment status of borrowers in a group, and national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans. The Group uses management's judgment to adjust observable data for a group of loans to reflect current circumstances not reflected in historical data.

The allowances for impairment of financial assets in the consolidated financial statements have been determined on the basis of existing economic and political conditions. The Group is not in a position to predict what changes in conditions will take place in the Russian Federation and what effect such changes might have on the adequacy of the allowances for impairment of financial assets in future periods.

As at 31 December 2013 and 2012 gross loans to customers totaled RUB 3,115,153 thousand and RUB 2,977,705 thousand, respectively, and allowance for impairment losses amounted to RUB 120,770 thousand and RUB 125,980 thousand, respectively.

4. AMENDMENTS TO IFRS AFFECTING AMOUNTS REPORTED IN THE FINANCIAL STATEMENTS

In the current year, the following new and revised Standards and Interpretations have been adopted and have not affected the amounts reported in these financial statements.

New and revised Standards on consolidation, joint arrangements, associates and disclosures

In May 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued comprising IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, IFRS 12 *Disclosure of Interests in Other Entities*, IAS 27 (as revised in 2011) *Separate Financial Statements* and IAS 28 (as revised in 2011) *Investments in Associates and Joint Ventures*. Subsequent to the issue of these standards, amendments to IFRS 10, IFRS 11 and IFRS 12 were issued to clarify certain transitional guidance on the first-time application of the standards.

In the current year, the Group has applied for the first time IFRS 10, IFRS 11, IFRS 12 and IAS 28 (as revised in 2011) together with the amendments to IFRS 10, IFRS 11 and IFRS 12 regarding the transitional guidance, which have not materially affected the amounts reported in consolidated financial statements

Impact of the application of IFRS 10. IFRS 10 replaces the parts of IAS 27 *Consolidated and Separate Financial Statements* that deal with consolidated financial statements and SIC-12 *Consolidation – Special Purpose Entities*. IFRS 10 changes the definition of control such that an investor has control over an investee when a) it has power over the investee, b) it is exposed, or has rights, to variable returns from its involvement with the investee and c) has the ability to use its power to affect its returns. All three of these criteria must be met for an investor to have control over an investee. Previously, control was defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Additional guidance has been included in IFRS 10 to explain when an investor has control over an investee. Some guidance included in IFRS 10 that deals with whether or not an investor that owns less than 50% of the voting rights in an investee has control over the investee.

Impact of the application of IFRS 12. IFRS 12 is a new disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the application of IFRS 12 requires more extensive disclosures in the consolidated financial statements.

The Group disclosed information on the Group's structure, interests and principal activities of the companies consolidated in the present financial statements in Note 1.

The Group did not have interests in subsidiaries, in joint ventures and unconsolidated structured entities, therefore IFRS 10, IFRS 11, IFRS 12 and IAS 28 were not applied. IAS 27 (as revised in 2011) is not applicable to the Group as it deals only with separate financial statements.

IFRS 13 *Fair Value Measurement*. The Group has applied IFRS 13 for the first time in the current year. IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The scope of IFRS 13 is broad; the fair value measurement requirements of IFRS 13 apply to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, and measurements that have some similarities to fair value but are not fair value (e.g. net realizable value for the purposes of measuring inventories or value in use for impairment assessment purposes).

IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under IFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, IFRS 13 includes extensive disclosure requirements. IFRS 13 requires prospective application from 1 January 2013.
The application of IFRS 13 has not had any material impact on the amounts recognized in the consolidated financial statements.

Amendments to IAS 1 Presentation of Financial Statements (as part of the Annual Improvements to IFRSs 2009 - 2011 Cycle issued in May 2012). The Annual Improvements to IFRSs 2009-2011 have made a number of amendments to IFRSs. The amendments that are relevant to the Group are the amendments to IAS 1 regarding when a statement of financial position as at the beginning of the preceding period (third statement of financial position) and the related notes are required to be presented. The amendments specify that a third statement of financial position is required when a) an entity applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items in its financial statements, and b) the retrospective application, restatement or reclassification has a material effect on the information in the third statement of financial position. The amendments specify that related notes are not required to accompany the third statement of financial position.

In the current year, the Group has applied a number of new and revised IFRSs (see the discussion above), which has not affected the information in the consolidated statement of financial position as at 1 January 2012.

New and revised IFRSs in issue but not yet effective

The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective:

- IFRS 9 *Financial Instruments* [2];
- Amendments to IFRS 9 and IFRS 7 IFRS 9: *Mandatory Effective Date of IFRS 9 and Transition Disclosures*[2]*;*
- Amendments to IFRS 10, IFRS 12 and IAS 27 *Investment Entities*[1];
- Amendments to IAS 32 *Offsetting Financial Assets and Financial Liabilities*[1];
- Amendments to IAS 36 *Impairment of Assets*[1];
- Amendments to IAS 39 *Financial Instruments: Recognition and Measurement* [1];
- IFRIC 21 *Levies* [1];

[1] Effective for annual periods beginning on or after 1 January 2014, with earlier application permitted.
[2] Effective for annual periods beginning on or after 1 January 2015, with earlier application permitted.

IFRS 9 Financial Instruments IFRS 9, issued in November 2009, introduced new requirements for the classification and measurement of financial assets. IFRS 9 was amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of IFRS 9:

- All recognized financial assets that are within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* must be valued after their initial recognition at amortized or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in profit or loss.
- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss is presented in profit or loss.

The management anticipates that IFRS 9 in the future may have a significant impact on amounts reported in respect of the Group’s financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until a detailed review has been completed.

Amendments to IFRS 10, IFRS 12 and IAS 27 Investment Entities. The amendments to IFRS 10 define an investment entity and require a reporting entity that meets the definition of an investment entity not to consolidate its subsidiaries but instead to measure its subsidiaries at fair value through profit or loss in its consolidated and separate financial statements.

To qualify as an investment entity, a reporting entity is required to:

- Obtain funds from one or more investors for the purpose of providing them with professional investment management services;
- Commit to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and
- Measure and evaluate performance of substantially all of its investments on a fair value basis.

Consequential amendments have been made to IFRS 12 and IAS 27 to introduce new disclosure requirements for investment entities.

The management of the Group do not anticipate that the investment entities amendments will have any effect on the Group's consolidated financial statements as the Bank is not an investment entity.

Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities. The amendments to IAS 32 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of “currently has a legally enforceable right of set-off” and “simultaneous realization and settlement.”

The management of the Group does not anticipate that the application of these amendments to IAS 32 will have a significant impact on the Group's consolidated financial statements as the Group does not have any financial assets and financial liabilities that qualify for offset.

5. RECLASSIFICATIONS

Certain reclassifications have been made to the consolidated financial statements as at 31 December 2012 to conform to the presentation as at 31 December 2013. Current year presentation provides better view of the financial position of the Group with regard to cash and cash equivalents, due from banks, mandatory cash balances with the Central Bank of the Russian Federation.

	31 December 2012		
Line item	**As previously reported**	**Adjustment**	**As reclassified**
Cash and balances with the Central Bank of the Russian Federation	686,985	(686,985)	-
Cash and cash equivalents	-	1,407,751	1,407,751
Mandatory cash balance with the Central Bank of the RF	-	178,830	178,830
Due from banks	1,364,746	(899,596)	465,150

Certain reclassifications have been made to the consolidated statement of profit and loss as at 31 December 2012 to conform to the presentation as at 31 December 2013.

	The year, ended 31 December 2012		
Line item	**As previously reported**	**Adjustment**	**As reclassified**
Net gain on foreign exchange operations	55,742	(55,742)	-
Gain/(loss) from trading in foreign currencies	-	(30,825)	(30,825)
Foreign exchange translation gain/(loss)	-	86,567	86,567

6. CASH AND CASH EQUIVALENTS

	31 December 2013	31 December 2012
Cash	138,555	116,302
Balances with the Central Bank of the Russian Federation	579,671	391,853
Correspondent accounts and time deposits with original maturities up to 30 days	740,283	899,596
Total cash and cash equivalents	**1,458,509**	**1,407,751**

As at 31 December 2013 and 2012 included in cash on correspondent accounts are balances on demand on settlement accounts with MICEX-RTS (CJSC JSCB National Clearing Centre and NCO CJSC National Settlement Depository) Russian exchanges and international exchanges in the amount of RUB 270,145 thousand and RUB 139,274 thousand, respectively.

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets at fair value through profit or loss include financial assets held for trading and comprise the following:

	31 December 2013	31 December 2012
Equity securities	769,483	319,661
Securities lending transactions	226,159	-
Debt securities	217,078	343,800
Total financial assets at fair value through profit or loss	**1,212,720**	**663,461**

	Interest rate to nominal	31 December 2013	Interest rate to nominal	31 December 2012
Corporate bonds	19.0%	172,536	19.0%	86,967
Debt instruments of the Russian Federation	7.6%	44,542	7.5%	64,738
Corporate Eurobonds		-	9.3-11.5%	192,095
Total debt securities		**217,078**		**343,800**

	31 December 2013	31 December 2012
Shares/Global depositary receipts (GDRs) on shares of non-resident entities	599,029	224,482
Shares of Russian companies	169,550	90,786
Shares of credit institutions	904	4,393
Total equity securities	**769,483**	**319,661**

	Interest rate to nominal	31 December 2013	Interest rate to nominal	31 December 2012
Eurobonds of credit institution	8.0%	142,761	-	-
Debt instruments of the Russian Federation	7.5%	83,398	-	-
Total securities lending transactions		**226,159**		**-**

8. DUE FROM BANKS

Due from banks comprise:

	31 December 2013	31 December 2012
Correspondent accounts with other banks	60,055	177,888
Term deposits	42,548	288,541
	102,603	466,429
Less allowance for impairment losses	(1,279)	(1,279)
Total due from banks	**101,324**	**465,150**

As at 31 December 2013 and 2012 included in balances due from banks are restricted balances on correspondent accounts, including guarantee deposits of RUB 40,340 thousand and RUB 24,905 thousand, respectively, placed by the Group to collateralize its operations with plastic cards, and contributions to guarantee funds and financial risk fund of CJSC JSCB National Clearing Centre in the amount of RUB 17,618 thousand and RUB 12,430 thousand, respectively.

Movements in provisions for impairment losses on balances due from banks

	Total
31 December 2011	**11,553**
Recovery of provision	(10,274)
31 December 2012	**1,279**
Provision/(recovery of provision)	-
31 December 2013	**1,279**

9. LOANS TO CUSTOMERS

The Group uses the following classification of loans by classes:

- Loans to medium-sized enterprises;
- Loans to individuals.

Loans to customers comprise:

	31 December 2013	31 December 2012
Loans to medium-sized enterprises	2,353,938	2,277,207
Loans to individuals	761,215	700,498
Gross loans to customers	**3,115,153**	**2,977,705**
Less allowance for impairment losses	(120,770)	(125,980)
Total loans to customers	**2,994,383**	**2,851,725**

As at 31 December 2013 and 2012 the Group granted loans to 6 and 8 customers, totaling RUB 1,162,208 thousand and RUB 1,512,030 thousand, respectively, which individually exceeded 10% of the Group's equity.

Analysis by credit quality of loans to medium-sized enterprise outstanding as at 31 December 2013 was as follows:

Medium - sized enterprises As at 31 December 2013	**Gross loans**	**Provision for impairment losses**	**Net loans**	**Provision for impairment to gross loans**
Collectively assessed				
Not past due loans	205,227	(4,864)	200,363	2.37%
Past due loans more than 180 days	57,917	(46,373)	11,544	80.07%
Total collectively assessed loans	**263,144**	**(51,237)**	**211,907**	**19.47%**
Individually assessed				
Not past due loans	2,090,794	(56,843)	2,033,951	2.72%
Total individually assessed loans	**2,090,794**	**(56,843)**	**2,033,951**	**2.72%**
Total medium-sized enterprises	**2,353,938**	**(108,080)**	**2,245,858**	**4.59%**

Analysis by credit quality of loans to medium-sized enterprise outstanding as at 31 December 2012 was as follows:

Medium- sized enterprises As at 31 December 2012	**Gross loans**	**Provision for impairment losses**	**Net loans**	**Provision for impairment to gross loans**
Collectively assessed				
Not past due loans	75,231	(2,377)	72,854	3.16%
Past due loans:				
- 31 to 60 days	1,400	(140)	1,260	10.00%
- Over 180 days	67,736	(53,045)	14,691	78,31%
Total collectively assessed loans	**144,367**	**(55,562)**	**88,805**	**38,49%**
Individually assessed				
Not past due loans	2,132,840	(56,244)	2,076,596	2,64%
Total individually assessed loans	**2,132,840**	(56,244)	2,076,596	2,64%
Total medium-sized enterprises	**2,277,207**	**(111,806)**	**2,165,401**	**4.91%**

Credit quality of loans to individuals outstanding as at 31 December 2013 was as follows:

Individuals As at 31 December 2013	Gross loans	Provision for impairment losses	Net loans	Provision for impairment to gross loans
Collectively assessed				
Not past due loans	349,291	(1,395)	347,896	0.40%
Past due more than180 days	1,905	(1,605)	300	84.25%
Total collectively assessed loans	**351,196**	**(3,000)**	**348,196**	**0.85%**
Individually assessed				
Not past due loans	410,019	(9,690)	400,329	2.36%
Total individually assessed loans	**410,019**	(9,690)	400,329	2.36%
Total loans to individuals	**761,215**	**(12,690)**	**748,525**	**1.67%**

Credit quality of loans to individuals outstanding as at 31 December 2012 was as follows:

Individuals As at 31 December 2012	Gross loans	Provision for impairment losses	Net loans	Provision for impairment to gross loans
Collectively assessed				
Not past due loans	267,637	(2,788)	264,849	1.04%
Past due loans:				
- 91 to 180 days	1,303	(131)	1,172	10.05%
- Over 180 days	3,142	(2,910)	232	92.62%
Total collectively assessed loans	**272,082**	**(5,829)**	**266,253**	**2.14%**
Individually assessed				
Not past due loans	428,416	(8,345)	420,071	1.95%
Total individually assessed loans	**428,416**	(8,345)	420,071	1.95%
Total loans to individuals	**700,498**	**(14,174)**	**686,324**	**2.02%**

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

	Legal entities	Individuals	Total
31 December 2011	**106,353**	**3,103**	**109,456**
Provisions	5,453	11,071	16,524
31 December 2012	**111,806**	**14,174**	**125,980**
Recovery of provisions	(3,726)	(1,484)	(5,210)
31 December 2013	**108,080**	**12,690**	**120,770**

The table below summarizes carrying value of loans to customers analyzed by type of collateral obtained by the Group:

	31 December 2013	31 December 2012
Loans collateralized by pledge of real estate or rights thereto	792,616	492,715
Loans collateralized by pledge of corporate shares	349,676	305,981
Loans collateralized by pledge of goods in turnover	258,658	178,544
Loans collateralized by cash	55,640	173,000
Loans collateralized by pledge of equipment	33,340	56,963
Loans collateralized by rights of demand	9,177	32,285
Unsecured loans	1,616,046	1,738,217
	3,115,153	2,977,705
Less allowance for impairment losses	(120,770)	(125,980)
Total loans to customers	**2,994,383**	**2,851,725**

	31 December 2013	31 December 2012
Analysis by sector/type of borrower:		
Trade	1,009,858	878,142
Individuals	761,215	700,498
Finance	760,351	567,082
Real estate	376,740	198,470
Transport and communication	127,369	124,083
Construction	56,010	140,554
Oil production	-	200,000
Food	-	140,000
Other	23,610	28,876
	3,115,153	2,977,705
Less allowance for impairment losses	(120,770)	(125,980)
Total loans to customers	**2,994,383**	**2,851,725**

Loans to individuals comprise:

	31 December 2013	31 December 2012
Investment loans	328,196	449,677
Consumer loans	259,533	53,938
Housing loans	173,451	195,316
Car loans	35	1,567
	761,215	700,498
Less allowance for impairment losses	(12,690)	(14,174)
Total loans to individuals	**748,525**	**686,324**

In July 2013 the Group received assets (land plot with the value of RUB 13,275 thousand and non-residential building with the value of RUB 6,600 thousand) by taking possession of collateral held as security for a defaulted loan. As at 31 December 2013 such assets in the amount of RUB 19,875 thousand are included in "Other assets" in the consolidated statement of financial position. The Group intends to sell the above assets within 12 months.

The table below summarizes an analysis of loans to customers by impairment:

	31 December 2013			31 December 2012		
	Carrying value before allowance	Allowance for impairment losses	Carrying value	Carrying value before allowance	Allowance for impairment losses	Carrying value
Loans to customers individually determined to be impaired	1,492,448	(66,533)	1,425,915	1,346,572	(64,589)	1,281,983
Loans to customers collectively determined to be impaired	437,516	(54,237)	383,279	357,450	(61,391)	296,059
Unimpaired loans	1,185,189	-	1,185,189	1,273,683	-	1,273,683
Total	**3,115,153**	**(120,770)**	**2,994,383**	**2,977,705**	(125,980)	**2,851,725**

As at 31 December 2013 and 2012 loans totaling RUB 1,492,448 thousand and RUB 1,346,572 thousand, respectively, that were individually determined to be impaired were collateralized by pledge of securities, real estate, equipment, inventories with fair value totaling RUB 451,105 thousand and RUB 265,326 thousand, respectively. For the purposes of estimating impairment of individual loans the Group analyses the financial position, debt service, credit history and collateral.

As at 31 December 2013 and 2012 there were no past due, but unimpaired loans.

10. PROPERTY AND EQUIPMENT

Property and equipment comprise:

	Land, buildings and other real estate	Furniture and equipment	Motor vehicles	Total
At cost				
31 December 2011	**852,347**	**61,166**	**4,567**	**918,080**
Additions	-	1,473	872	2,345
Disposals		(759)	(399)	(1,158)
31 December 2012	**852,347**	**61,880**	**5,040**	**919,267**
Additions	-	2,349	2,363	4,712
Disposals	(321)	(1,179)	-	(1,500)
31 December 2013	**852,026**	**63,050**	**7,403**	**922,479**
Accumulated depreciation				
31 December 2011	**255,812**	**52,327**	**2,323**	**310,462**
Charge for the year	23,091	3,012	668	26,771
Eliminated on disposal	-	(672)	(330)	(1,002)
31 December 2012	**278,903**	**54,667**	**2,661**	**336,231**
Charge for the year	23,085	2,162	870	26,117
Eliminated on disposal	(157)	(683)	-	(840)
31 December 2013	**301,831**	**56,146**	**3,531**	**361,508**
Net book value				
31 December 2013	**550,195**	**6,904**	**3,872**	**560,971**
31 December 2012	**573,444**	**7,213**	**2,379**	**583,036**

The Group owns an office building with the total area of 5,324.6 sq m used for administrative purposes, and a land plot with the total area of 1,262 sq m where the building is located, i.e. 1 Kremlevskaya embankment, bld. 2, Moscow.

As at 31 December 2013 and 2012 included in property and equipment were fully depreciated equipment with initial cost of RUB 43,007 thousand and RUB 42,017 thousand, respectively.

11. DEPOSITS BY CUSTOMERS

Deposits by customers comprise:

	31 December 2013	31 December 2012
Individuals:		
Current/settlement accounts	602,357	575,429
Term deposits	2,971,012	2,317,606
Legal entities:		
Current/settlement accounts	973,794	1,154,352
Term deposits	-	321,160
Sale and repurchase agreements	59,834	-
Total customer accounts	**4,606,997**	**4,368,547**

As at 31 December 2013 and 2012 customer accounts totaling RUB 1,388,096 thousand and RUB 1,247,651 thousand (30.1% and 28.6%), respectively, were due to five and four customers, which represented a significant concentration.

	31 December 2013	31 December 2012
Analysis by economic sector:		
Individuals	3,573,369	2,893,035
Finance	398,086	645,635
Transport and communication	326,375	295,587
Trade and personal services	123,461	201,048
Construction and real estate	121,122	57,971
Development services	32,036	15,938
Private sector	7,813	10,170
Printing industry	3,500	1,769
Oil and gas	2,749	-
Marketing and advertising	-	244,270
Other	18,486	3,124
Total customer accounts	**4,606,997**	**4,368,547**

12. DEBT SECURITIES ISSUED

Debt securities issued comprise:

	31 December 2013			31 December 2012		
	Maturity month/year	Annual interest rate %	Amount	Maturity month/year	Annual interest rate %	Amount
Interest-bearing promissory notes	January - July 2014	7.0-8.0	281,237	May – December 2013	7.5-8.0	229,063
Total debt securities issued			**281,237**			**229,063**

13. NET ASSETS ATTRIBUTABLE TO THE PARTICIPANTS OF THE GROUP

Net assets attributable to the participants of the Group:

	Net assets attributable to the participants
31 December 2011	**1,483,251**
Comprehensive income	35,937
31 December 2012	**1,519,188**
Comprehensive income	95,887
31 December 2013	**1,615,075**

As at 31 December 2013 and 2012 net assets attributable to the participants of the Group included paid in charter capital of the Bank (parent company of the Group) in the amount of RUB 370,907 thousand (IFRS estimation), reserve fund created by means of annual contributions from the net profit in accordance with RAS and retained earnings.

The Group's reserves distributable among participants are limited to the amount of its reserves as disclosed in its statutory accounts. Non-distributable reserves are represented by a reserve fund, which is created, as required by the statutory regulations, in respect of financial risks, including future losses and other unforeseen risks or contingencies. The reserve fund is created in accordance with the charter of the Bank and/or the Group's participants by means of annual contributions from the net profit in accordance with RAS. As at 31 December 2013 and 2012 the reserve fund amounted to RUB 34,716 thousand and RUB 34,177 thousand, respectively.

14. NET INTEREST INCOME

	Year ended 31 December 2013	Year ended 31 December 2012
Interest income		
Financial assets recorded at amortized cost:		
- impaired financial assets	273,143	191,097
- unimpaired financial assets	177,603	170,752
Financial assets at fair value through profit or loss	21,226	32,158
Total interest income	**471,972**	**394,007**
Financial assets recorded at amortized cost comprise:		
Loans to customers	440,880	333,934
Due from banks	9,866	27,915
Total interest income on financial assets recorded at amortized cost	**450,746**	**361,849**
Interest expense		
Interest on financial liabilities recorded at amortized cost	(215,816)	(164,741)
Total interest expense	**(215,816)**	**(164,741)**
Financial liabilities recorded at amortized cost comprise:		
Deposits by customers	(196,929)	(147,411)
Debt securities issued	(18,887)	(17,330)
Total interest expense on financial liabilities recorded at amortized cost	**(215,816)**	**(164,741)**
Net interest income before recovery of provision/(provision) for impairment losses on interest bearing assets	**256,156**	**229,266**

15. NET GAIN ON FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Net gain on financial assets at fair value through profit or loss includes loss on financial assets held for trading and comprises the following:

	Year ended 31 December 2013	Year ended 31 December 2012
Net gain on operations with financial assets classified as held for trading comprises:		
Dealing, net	81,852	72,683
Dividend income	10,113	14,722
Change in fair value	(30,449)	(15,020)
Total net gain on operations with financial assets through profit or loss includes loss	**61,516**	**72,385**

16. FEE AND COMMISSION INCOME AND EXPENSE

Fee and commission income and expense comprise:

	Year ended 31 December 2013	Year ended 31 December 2012
Fee and commission income:		
Consulting services	60,113	27,629
Broker operations with securities	45,874	56,904
Settlement services	19,372	21,301
Trust and fiduciary activities	7,577	9,202
Guarantees	1,458	1,100
Other operations	1,067	702
Total fee and commission income	**135,461**	**116,838**
Fee and commission expense:		
Settlement services	(4,246)	(4,434)
Trust and fiduciary activities	(3,721)	(7,731)
Broker operations with securities	(3,033)	(9,639)
Foreign exchange operations	(559)	(2,703)
Other operations	(939)	(401)
Total fee and commission expense	**(12,498)**	**(24,908)**

17. OPERATING EXPENSES

Operating expenses comprise:

	Year ended 31 December 2013	Year ended 31 December 2012
Staff costs	196,535	197,140
Social insurance contributions	37,392	37,075
Communications	32,760	27,118
Depreciation of property and equipment	26,117	26,771
Professional services	18,106	16,036
Taxes, other than income tax	18,028	22,424
Security	15,027	15,050
Payments to the Deposit Insurance Fund	13,535	10,210
Property and equipment maintenance	10,574	8,401
Operating leases	8,162	9,946
Write-off of material costs and other assets	6,523	8,194
Insurance	5,994	5,680
Data processing	3,918	4,658
Business trip expenses	1,809	2,926
Other expenses	2,004	5,564
Total operating expenses	**396,484**	**397,193**

18. INCOME TAX

The Group provides for income taxes based on the tax accounts maintained and prepared in accordance with the tax regulations of the Russian Federation which may differ from International Financial Reporting Standards.

The Group is subject to certain permanent tax differences due to the non-tax deductibility of certain expenses and certain income being treated as non-taxable for tax purposes.

Deferred taxes reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as at 31 December 2013 and 2012 relate mostly to different methods of income and expense recognition as well as to recorded values of certain assets.

The tax rate used for the years ended 31 December 2013 and 2012 reconciliations is the corporate tax rate of 20% payable by corporate entities in the Russian Federation on taxable profits under tax law in that jurisdiction and 12.5% in Cyprus.

As at 31 December 2013 and 2012 deferred income tax was calculated at the rate of 20%.

Temporary differences as at 31 December 2013 and 2012 comprise:

	31 December 2013	31 December 2012
Deferred tax assets/(liabilities) relating to:		
Financial assets at fair value through profit or loss	10,699	11,815
Debt securities issued	3,661	(1,479)
Other liabilities	942	1,450
Other assets	823	853
Due from banks	576	505
Property and equipment	(56,751)	(57,558)
Loans to customers	(12,805)	(1,246)
Deposits by customers	(288)	1,422
Tax loss carryforwards	10,263	12,420
Net deferred tax assets	10,263	8,129
Net deferred tax liabilities	(53,143)	(39,947)
Total net deferred tax liabilities	**(42,880)**	**(31,818)**

The effective tax rate reconciliation is as follows for the years ended 31 December 2013 and 2012:

	Year ended 31 December 2013	Year ended 31 December 2012
Profit before income tax	108,276	63,417
Tax at the statutory tax rate (20%)	21,655	12,683
Change in deferred tax asset not recognized	-	(6,183)
Tax effect of permanent differences	1,312	8,620
Effect of tax rate different from the prime rate of 20%	2,117	2,541
Income tax expense	**25,084**	**17,661**
Current income tax expense	14,022	2,372
Deferred tax expense recognized in the current year	11,062	15,289
Income tax expense	**25,084**	**17,661**

19. COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Group is a party to financial instruments with off-balance sheet risk in order to meet the needs of its customers. These instruments, involving varying degrees of credit risk, are not reflected in the consolidated statement of financial position.

The Group's maximum exposure to credit loss under contingent liabilities and commitments to extend credit, in the event of non-performance by another party where all counterclaims, collateral or security prove valueless, is represented by the contractual amounts of those instruments.

The Group uses the same credit control and management policies in undertaking off-balance sheet commitments as it does for on-balance operations.

As at 31 December 2013 and 2012 contingent liabilities comprise:

	31 December 2013	31 December 2012
Contingent liabilities and credit commitments		
Guarantees issued and similar commitments	163,233	166,026
Commitments on loans and unused credit lines	174,388	86,227
Letters of credit and other transaction-related contingent obligations	812,148	131,707
Total contingent liabilities and credit commitments	**1,149,769**	**383,960**

Extension of loans to customers within credit line limits is approved by the Group on a case-by-case basis and depends on borrowers' financial performance, debt service and other conditions. As at 31 December 2013 and 2012 such unused credit lines come to RUB 174,388 thousand and RUB 86,227 thousand, respectively.

Fiduciary activities – In the normal course of its business, the Group enters into agreements with limited rights on decision making with clients for asset management in accordance with specific criteria established by clients. The Group may be liable for losses due to gross negligence or willful misconduct by the Group only until such funds or securities are returned to the client. The maximum potential financial risk of the Group at any given moment is equal to the volume of the clients' funds plus/minus any unrealized income/loss on the clients' position.

As at 31 December 2013 the maximum potential financial risk on assets accepted by the Group on behalf of its clients did not exceed RUB 100,0 thousand. This amount represents clients' funds and securities under the management of the Group as at 31 December 2013, including securities under trusteeship in the amount of RUB 49 thousand. As at 31 December 2012 the Group did not have any clients' assets accepted for management.

The Group also provides depositary services to its customers. As at 31 December 2013 and 2012 the Group had 5,544,297,419 and 4,862,489,595 customer securities, respectively, in its nominal holder accounts.

Legal proceedings – From time to time and in the normal course of business, claims against the Group are received from customers and counterparties. Management is of the opinion that no material unaccrued losses will be incurred and accordingly no provision has been made in these consolidated financial statements.

Taxation – Provisions of the Russian tax legislation are sometimes inconsistent and may have more than one interpretation, which allows the Russian tax authorities to take decisions based on their own arbitrary interpretation of these provisions. In practice, the RF tax authorities often interpret the tax legislation not in favor of the taxpayers, who have to resort to court proceeding to defend their position against the tax authorities. It should be noted that the Russian tax authorities can use the clarifications issued by the judicial bodies that have introduced the concept of “unjustified tax benefit”, “primary commercial goal of transaction” and the criteria of “commercial purpose (substance) of transaction”.

Such uncertainty could, in particular, be attributed to tax treatment of financial instruments/derivatives and determination of market price of transactions for transfer pricing purposes. Additionally such uncertainty may relate to the valuation of temporary differences on the provision and recovery of the provision for impairment losses on loans to customers and receivables, as an underestimation of the taxable profit.

The management of the Group is confident that applicable taxes have all been accrued and, consequently, creation of respective provisions is not required.

Generally, taxpayers are subject to tax audits with respect to the three calendar years preceding the year of the audit. However, completed audits do not exclude the possibility of subsequent additional tax audits performed by upper-level tax inspectorates reviewing the results of tax audits of their subordinate tax inspectorates. Also according to the clarification of the RF Constitutional Court the statute of limitation for tax liabilities may be extended beyond the three year term set forth in the tax legislation, if a court determines that the taxpayer has obstructed or hindered a tax inspection.

Russia's transfer pricing legislation was amended effective 1 January 2012. The above amendments introduce additional requirements with respect to the accounting for and documenting transactions. Under the amended legislation Russian tax authorities can impose additional taxes with respect to a number of transactions, including those with related parties, if they believe that the transaction price differs from the market price. In view of the absence of application practice for the new transfer pricing rules and the uncertainty of wording of a number of their provisions, the likelihood of challenge by tax authorities of the Group's position with respect to application of those rules cannot be assessed reliably.

Operating environment

Emerging markets such as the Russian Federation are subject to diverse risks that differ from those of more developed markets, including economic, political, social, legal and legislative risks. Laws and regulations affecting businesses in the RF may change rapidly and may be subject to arbitrary interpretations. The future economic direction of the RF is heavily influenced by the economic, fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

Because Russia produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market.

In March 2014, USA and EU imposed sanctions on a number of Russian officials, businessmen, and organizations. These sanctions, especially in case of further extension, may restrict access to international capital and export markets for Russian businesses, which might provoke capital flight, weakening of the Ruble, and other negative economic consequences. The impact of these events on the Group's future performance and financial position is currently difficult to estimate.

20. FAIR VALUE OF FINANCIAL INSTRUMENTS

IFRS defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Fair value of the Group's financial assets and financial liabilities measured at fair value on a recurring basis

The fair values of financial assets and financial liabilities are determined as follows

- The fair values of non-derivative financial assets and liabilities at fair value through profit or loss are determined using quoted bid prices in an active market (Level 1 of the fair value hierarchy);
- The fair values of other financial assets available for sale are determined using quoted bid prices in an active market (Level 1 of the fair value hierarchy);
- The fair values of derivative financial assets and liabilities at fair value through profit or loss are determined using a valuation technique of discounted cash flows. Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contract forward rates, discounted at a rate that reflects the credit risk of various counterparties (Level 2 of the fair value hierarchy);
- The fair values of unquoted equities available-for-sale are determined using a valuation technique of discounted cash flows based on significant unobservable inputs and their influence on the fair value (Level 3 of the fair value hierarchy);
- The fair values of other financial assets and financial liabilities without bid prices in an active market (excluding derivatives) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments (Level 3 of the fair value hierarchy);
- For financial assets and liabilities that have a short term maturity (less than 3 months), it is assumed that the carrying amounts approximate their fair value. This assumption is also applied to demand deposits and saving accounts without a maturity.

Analysis of financial instruments recognized in the consolidated statement of financial position at fair value

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable: The levels correspond to the possibility of directly identifying fair value based on market data:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	31 December 2013		
Financial asset class	**Level 1**	**Level 2**	**Level 3**
Financial assets at fair value through profit or loss	1,163,622	49,098	-
Total	**1,163,622**	**49,098**	**-**

	31 December 2012		
Financial asset class	**Level 1**	**Level 2**	**Level 3**
Financial assets at fair value through profit or loss	663,461	-	-
Total	**663,461**	**-**	**-**

There were no transfers between the hierarchy Levels in 2013 and 2012.

As at 31 December 2013 and 2012 Level 1 of the fair value hierarchy includes financial assets at fair value through profit or loss (equity and debt securities) of which the fair value is fully determined on the basis of published price quotations in the active market. The share of Level 1 financial instruments in the total amount of financial assets at fair value through profit or loss is 95.9% and 100%, respectively.

As at 31 December 2013 the fair value of the above mentioned equity securities of three Russian issuers, recognized in the consolidated statement of financial position, is included in Level 2 of the fair value hierarchy in the amount of RUB 49,098 thousand on the basis of observable transactions on OTC market.

21. CAPITAL MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximizing the return to participants through the optimization of the debt balance and capital (net assets attributable to the Group's participants).

Management considers the structure of net assets attributable to the Group's participants on a quarterly basis. As part of this review, management considers the cost of net assets and risks associated with each class of the net assets attributable to the Group's participants.

The Group's overall capital risk management policy remains unchanged from 2012.

The Central bank of the Russian Federation requires the banks and the banking groups to observe the stipulations relating to maintaining the capital adequacy ratio calculated on the basis of the Russian Accounting Standards.

The adequacy of the Group's and the Bank's capital is monitored using the ratios established by the CBR in supervising the Group. The Bank must maintain the ratio of capital to risk weighted assets ("capital adequacy ratio") above the established minimum level of 10%. In 2013 and 2012, the Bank and the Group complied in full with all externally imposed requirements for capital/net assets attributable to the Group's participants.

22. RISK MANAGEMENT POLICIES

Management of risk is fundamental to the Group's banking business and is an essential element of the Group's operations. The main risks inherent to the Group's operations are those related to:

- Credit risk;
- Liquidity risk;
- Market risk.

The Group recognizes that it is essential to have efficient and effective risk management processes in place. To enable this, the Group has established a risk management framework, whose main purpose is to protect the Group from existing risks and allow it to achieve its performance objectives. Through the risk management framework, the Group manages the following risks:

Credit risk

The Group is exposed to credit risk which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a loss. Risk management and monitoring within set limits of authority is performed by the Credit Committee and the Group's management.

The Group structures the level of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or one group of borrowers, and to industry (and geographical) segments. Limits on the level of credit risk by borrowers and products are approved by the Bank's Management Board. The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on and off-balance sheet exposures which are set by the Group's management. Actual exposures against limits are monitored by the Group's management daily.

Where appropriate, and in the case of most loans, the Group obtains collateral and corporate and personal guarantees.

Commitments to extend credit represent unused portions of credit in the form of loans and guarantees. The credit risk on off-balance sheet financial instruments is defined as a probability of losses due to the inability of a counterparty to comply with the contractual terms and conditions.

With respect to credit risk on commitments to extend credit, the Group is potentially exposed to a loss in an amount equal to the total unused commitments. However, the likely amount of the loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group applies the same credit policy to the contingent liabilities as it does to the balance sheet financial instruments, i.e. the one based on the procedures for approving the grant of loans, using limits to mitigate the risk, and current monitoring. The Group monitors the term to maturity of off-balance sheet contingencies because longer-term commitments generally have a greater degree of credit risk than short-term commitments.

Maximum credit risk exposure

The Group's maximum exposure to credit risk varies significantly and is dependent on both individual risks and general market economy risks.

The following table presents the maximum exposure to credit risk of financial assets and contingent liabilities. For financial assets in the balance sheet, the maximum exposure is equal to the carrying amount of those assets prior to any offset or collateral. For financial guarantees and other contingent liabilities the maximum exposure to credit risk is the maximum amount the Group would have to pay if the guarantee was called on or in the case of commitments, if the loan amount was called on.

	31 December 2013		31 December 2012	
	Maximum credit risk exposure	Collateral pledged	Maximum credit risk exposure	Collateral pledged
Cash and cash equivalents	1,319,954	-	1,291,449	-
Mandatory cash balances with the Central Bank of the RF	195,531	-	178,830	-
Financial assets at fair value through profit or loss, except for equity securities	443,237	-	343,800	-
Due from banks	101,324	-	465,150	-
Loans to customers	2,994,383	1,442,127	2,851,725	1,191,584
Other financial assets	15,045	-	1,527	-
Guarantees issued and similar commitments	163,233	-	166,026	-
Commitments on loans and unused credit lines	174,388	-	86,227	-
Letters of credit and other transaction related contingent obligations	812,148	-	131,707	-

Collateral pledged is determined based on its fair value not exceeding the carrying amount of the underlying loans.

The effect of collateral and other risk mitigation techniques is shown below.

Collateral pledged

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

The main types of collateral obtained are as follows:

- For commercial lending, charges over real estate properties, inventory, securities and corporate guarantees, equipment and vehicles;
- For retail lending, mortgages over residential properties, vehicles, cash.

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

Credit quality by classes of financial assets

Financial assets other than loans to customers are graded according to the current credit rating they have been issued by an internationally regarded agency such as Fitch, Standard & Poor's and Moody's. The highest possible rating is AAA. Investment grade financial assets have ratings from AAA to BBB. Financial assets which have ratings lower than BBB are classed as speculative grade.

As at 31 December 2013 and 2012 balances with the Central Bank of the Russian Federation amounted to RUB 775,202 thousand and RUB 570,683 thousand, respectively. In 2012 and 2012 the credit rating of the Russian Federation according to the international rating agencies corresponded to investment level BBB.

The following table details credit ratings of financial assets held by the Group that are neither past due nor impaired:

	AAA	AA	A	BBB	>BBB	Not rated	31 December 2013 Total
Cash and cash equivalents	-	749	451,821	586,566	2,919	277,899	1,319,954
Mandatory cash balances with the Central Bank of the RF	-	-	-	195,531	-	-	195,531
Financial assets at fair value through profit or loss, except for equity securities	-	-	-	127,940	142,761	172,536	443,237
Due from banks	-	-	26,183	14,975	-	60,166	101,324
Other financial assets	-	-	-	-	-	15,045	15,045

	AAA	AA	A	BBB	>BBB	Not rated	31 December 2012 Total
Cash and cash equivalents	-	3,364	262,995	391,853	586,579	46,658	1,291,449
Mandatory cash balances with the Central Bank of the RF	-	-	-	178,830	-	-	178,830
Financial assets at fair value through profit or loss, except for equity securities	-	-	-	64,738	192,095	86,967	343,800
Due from banks	-	-	24,298	-	69	440,783	465,150
Other financial assets	-	-	-	-	1,527	-	1,527

The Group enters into numerous transactions where the counterparties are not rated by international rating agencies.

A methodology to determine credit ratings of borrowers has been developed in the Group to assess borrowers. The system is based on a scoring model depending on key performance indicators of the borrower with the possibility of insignificant expert adjustments in case of insufficient objectivity of the benchmark. The financial situation and business activity are the most important criteria. Therefore, the scoring model provides for overall assessment of the borrower and the loan.

The scoring assessment based on the borrower's parameters is one of the main factors for the decision-making process relating to loans.

The following table provides an analysis of unimpaired loans to customers that are classified in three categories according to internal ratings assigned to borrowers (debtors):

- The "Top performing" category with low credit risk includes loans (assets) with no past due status that are granted to borrowers (debtors) that have unexceptionable credit history with the Group and other creditors; that proved to be profitable and well performing businesses with no signs of decline of their financial sustainability.
- The "Moderately performing" category with temperate credit risk includes loans (assets) with no past due status that are granted to borrowers (debtors) with good credit history with the Group and other creditors with minor exceptions in the past; that proved to be well performing businesses in the past but average financial performance at the moment.
- The "Other" category includes loans (assets) that are not overdue and are granted to borrowers (debtors) that do not fall within the two categories described above.

	31 December 2013	31 December 2012
Unimpaired loans to corporate borrowers not rated by international rating agencies		
Top performing loans	375,048	579,937
Moderately performing loans	445,611	446,560
Other unimpaired loans	61,695	-
Total	**882,354**	**1,026,497**
Unimpaired loans to individuals		
Top performing loans	302,835	52,820
Moderately performing loans	-	194,366
Total	**302,835**	**247,186**
Total unimpaired loans to borrowers not rated by international rating agencies	**1,185,189**	**1,273,683**
Unimpaired balances with banks not rated by international rating agencies		
Top performing assets	60,166	440,783
Total unimpaired balances with banks not rated by international rating agencies	**60,166**	**440,783**

There were no past due but not impaired financial assets.

The banking industry is generally exposed to credit risk through its financial instruments and contingent liabilities. Credit risk exposure of the Group is generally concentrated within the Russian Federation. The exposure is monitored on a regular basis to ensure that the credit limits and creditworthiness guidelines established by the Group's risk management policy are not breached.

Renegotiated loans and advances

As at 31 December 2013 and 2012 loans to customers included loans totaling RUB 16,654 thousand and RUB 31,133 thousand, respectively, whose terms were renegotiated. Otherwise these loans would be past due or impaired.

Loans and advances are generally renegotiated either as part of an ongoing customer relationship or in response to an adverse change in the circumstances of the borrower. In the latter case, renegotiation can result in an extension of the due date of payment or repayment plans under which the Group offers a concessionary rate of interest to genuinely distressed borrowers. This will result in the asset continuing to be overdue and will be individually impaired where the renegotiated payments of interest and principal will not recover the original carrying amount of the asset. In other cases, renegotiation will lead to a new agreement, which is treated as a new loan.

Geographical concentration

The Group's Management Board and the Credit Committee exercise control over the risk in the legislation and regulatory arena and assess its influence on the Group's activity. This approach allows the Group to minimize potential losses from the investment climate fluctuations in the Russian Federation. The management sets country limits.

The geographical concentration of assets and liabilities is based on the counterparty's country of origin and is set out below:

	RF	OECD countries	Non-OECD countries	31 December 2013 Total
FINANCIAL ASSETS				
Cash and cash equivalents	991,808	465,507	1,194	1,458,509
Mandatory cash balance with the Central Bank of the RF	195,531	-	-	195,531
Financial assets at fair value through profit or loss	734,635	478,010	75	1,212,720
Due from banks	75,141	26,183	-	101,324
Loans to customers	2,676,409	-	317,974	2,994,383
Other financial assets	7,972	-	7,073	15,045
TOTAL FINANCIAL ASSETS	**4,681,496**	**969,700**	**326,316**	**5,977,512**
FINANCIAL LIABILITIES				
Deposits by customers	4,250,913	98,962	257,122	4,606,997
Debt securities issued	-	-	281,237	281,237
Other financial liabilities	10,455	-	3,745	14,200
TOTAL FINANCIAL LIABILITIES	**4,261,368**	**98,962**	**542,104**	**4,902,434**
NET POSITION	**420,128**	**870,738**	**(215,788)**	

	RF	OECD countries	Non-OECD countries	31 December 2012 Total
FINANCIAL ASSETS				
Cash and cash equivalents	531,237	291,631	584,883	1,407,751
Mandatory cash balance with the Central Bank of the RF	178,830	-	-	178,830
Financial assets at fair value through profit or loss	460,050	203,221	190	663,461
Due from banks	151,337	313,813	-	465,150
Loans to customers	2,735,839	-	115,886	2,851,725
Other financial assets	242	-	1,285	1,527
TOTAL FINANCIAL ASSETS	**4,057,535**	**808,665**	**702,244**	**5,568,444**
FINANCIAL LIABILITIES				
Deposits by banks	-	-	3,706	3,706
Deposits by customers	3,961,512	49,573	357,462	4,368,547
Debt securities issued	-	-	229,063	229,063
Other financial liabilities	11,608	311	2,407	14,326
TOTAL FINANCIAL LIABILITIES	**3,973,120**	**49,884**	**592,638**	**4,615,642**
NET POSITION	**84,415**	**758,781**	**109,606**	

Liquidity risk

Liquidity risk refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments associated with financial instruments as they actually fall due.

Group management and the Management Board control these types of risks by means of maturity analysis, determining the Group's strategy for the next financial period. Current liquidity is managed by the Currency Department of the Bank, which performs operations on money market for maintaining the current liquidity level and cash flows optimization.

In order to manage liquidity risk, the Group performs daily monitoring of future expected cash flows on clients' and banking operations, which is a part of assets/liabilities management process. The management sets limits on the minimum proportion of maturing funds available to meet deposit withdrawals and on the minimum level on interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

An analysis of liquidity risk as at 31 December 2013 and 2012 on the basis of carrying amounts of financial assets and liabilities is provided below.

	On demand and less than 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	31 December 2013 Total
FINANCIAL ASSETS							
Cash and cash equivalents	345	-	-	-	-	-	345
Financial assets at fair value through profit or loss	391,857	-	51,380	-	-	-	443,237
Due from banks	-	-	42,548	-	-	655	43,203
Loans to customers	24,799	235,656	1,707,595	782,880	243,453	-	2,994,383
Total interest-bearing financial assets	**417,001**	**235,656**	**1,801,523**	**782,880**	**243,453**	**655**	**3,481,168**
Cash and cash equivalents	1,458,164	-	-	-	-	-	1,458,164
Mandatory cash balance with the Central Bank of the RF	-	-	-	-	-	195,531	195,531
Financial assets at fair value through profit or loss	478,051	-	291,432	-	-	-	769,483
Due from banks	-	-	-	-	-	58,121	58,121
Other financial assets	11,743	-	-	-	-	3,302	15,045
TOTAL FINANCIAL ASSETS	**2,364,959**	**235,656**	**2,092,955**	**782,880**	**243,453**	**257,609**	**5,977,512**
FINANCIAL LIABILITIES							
Deposits by customers	1,030,739	290,043	2,223,088	89,333	-	-	3,633,203
Debt securities issued	275,706	-	5,531	-	-	-	281,237
Total interest-bearing financial liabilities	**1,306,445**	**290,043**	**2,228,619**	**89,333**	**-**	**-**	**3,914,440**
Deposits by customers	973,794	-	-	-	-	-	973,794
Other financial liabilities	-	11,981	2,219	-	-	-	14,200
TOTAL FINANCIAL LIABILITIES	**2,280,239**	**302,024**	**2,230,838**	**89,333**	**-**	**-**	**4,902,434**
Liquidity gap	84,720	(66,368)	(137,883)	693,547	243,453		
Cumulative liquidity gap	84,720	18,352	(119,531)	574,016	817,469		

	On demand and less than 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	31 December 2012 Total
FINANCIAL ASSETS							
Cash and cash equivalents	460,484	-	-	-	-	-	460,484
Financial assets at fair value through profit or loss	343,800	-	-	-	-	-	343,800
Due from banks	-	-	288,541	-	-	607	289,148
Loans to customers	117,710	280,032	1,865,296	322,966	265,721	-	2,851,725
Total interest-bearing financial assets	**921,994**	**280,032**	**2,153,837**	**322,966**	**265,721**	**607**	**3,945,157**
Cash and cash equivalents	947,267	-	-	-	-	-	947,267
Mandatory cash balance with the Central Bank of the RF	-	-	-	-	-	178,830	178,830
Financial assets at fair value through profit or loss	319,661	-	-	-	-	-	319,661
Due from banks	139,274	-	-	-	-	36,728	176,002
Other financial assets	1,527	-	-	-	-	-	1,527
TOTAL FINANCIAL ASSETS	**2,329,723**	**280,032**	**2,153,837**	**322,966**	**265,721**	**216,165**	**5,568,444**
FINANCIAL LIABILITIES							
Deposits by banks	-	3,706	-	-	-	-	3,706
Deposits by customers	1,105,608	195,523	1,221,510	551,832	-	-	3,074,473
Debt securities issued	-	-	229,063	-	-	-	229,063
Total interest-bearing financial liabilities	**1,105,608**	**199,229**	**1,450,573**	**551,832**	**-**	**-**	**3,307,242**
Deposits by customers	1,294,074	-	-	-	-	-	1,294,074
Other financial liabilities	605	13,721	-	-	-	-	14,326
TOTAL FINANCIAL LIABILITIES	**2,400,287**	**212,950**	**1,450,573**	**551,832**	**-**	**-**	**4,615,642**
Liquidity gap	(70,564)	67,082	703,264	(228,866)	265,721		
Cumulative liquidity gap	(70,564)	(3,482)	699,782	470,916	736,637		

In the table above, the terms to maturity correspond to the contractual terms. However, individuals are entitled to terminate the deposit agreement ahead of schedule according to effective laws.

The following tables detail the Group’s remaining contractual maturity for its non-derivative financial liabilities as at 31 December 2013 and 2012. The tables have been drawn up based on undiscounted cash flows of the Group's financial liabilities including interests which will be paid on these liabilities based on contractual terms of maturity, except the cases when the Group expects that cash flows will occur in a different time. The contractual maturity is based on the earliest date on which the Group may be required to pay.

	On demand and less than 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	31 December 2013 Total
FINANCIAL LIABILITIES					
Deposits by customers	1,033,724	302,390	2,299,613	94,488	3,730,215
Debt securities issued	275,736	-	5,737	-	281,473
TOTAL INTEREST BEARING FINANCIAL LIABILITIES	**1,309,460**	**302,390**	**2,305,350**	**94,488**	**4,011,688**
Deposits by customers	973,794	-	-	-	973,794
Other financial liabilities	-	11,981	2,219	-	14,200
Liabilities on financial guarantees	7,214	153,205	1,595	1,219	163,233
Commitments on loans and unused credit lines	174,388	-	-	-	174,388
Letters of credit and other transaction related contingent obligations	812,148	-	-	-	812,148
TOTAL FINANCIAL LIABILITIES AND COMMITMENTS	**3,277,004**	**467,576**	**2,309,164**	**95,707**	**6,149,451**

	On demand and less than 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	31 December 2012 Total
FINANCIAL LIABILITIES					
Deposits by banks	-	3,706	-	-	3,706
Deposits by customers	1,107,757	205,483	1,313,649	588,332	3,215,221
Debt securities issued	-	-	244,007	-	244,007
TOTAL INTEREST BEARING FINANCIAL LIABILITIES	**1,107,757**	**209,189**	**1,557,656**	**588,332**	**3,462,934**
Deposits by customers	1,294,074	-	-	-	1,294,074
Other financial liabilities	605	13,721	-	-	14,326
Liabilities on financial guarantees	17,629	140,575	7,822	-	166,026
Commitments on loans and unused credit lines	86,227	-	-	-	86,227
Letters of credit and other transaction related contingent obligations	131,707	-	-	-	131,707
TOTAL FINANCIAL LIABILITIES AND COMMITMENTS	**2,637,999**	**363,485**	**1,565,478**	**588,332**	**5,155,294**

Market risk

Market risk is that the risk that the Group's earnings or net assets or its ability to meet business objectives will be adversely affected by changes in the level or volatility of market rates or prices. Market risk covers interest rate risk, currency risk and other pricing risks that the Group is exposed to. In 2012 there have been no changes as to the risks the Group is exposed to; the Group revised the manner in which these risks are measured and managed to ensure more accurate risk measurement in accordance with the changing market environment.

Market risk arises from open positions on interest, currency and equity instruments which are subject to general and specific market fluctuations and changes in market rates volatility.

Interest rate risk

The Group measures interest rate risk by applying gap analysis and the analysis of net interest income's sensitivity to interest rate risk on interest bearing financial assets and liabilities. The Group manages fair value interest rate risk through periodic estimation of potential losses that could arise from adverse changes in market conditions. The Risk Management Department conducts monitoring of the Group's current financial performance, estimates the Group's sensitivity to interest rate risk and its influence on the Group's profit and net assets attributable to its participants.

The sensitivity analysis uses possible changes in interest rate of 10% increase and 10% decrease.

The following table presents a sensitivity analysis of the Group's pretax profit and net assets attributable to the Group's participants to interest rate risk, which has been determined based on "reasonably possible changes in the risk variable". The level of these changes is determined by the Group's management and is contained within the risk reports prepared by the Risk Management Department and provided to key management personnel.

Impact on pretax profit and net assets attributable to the Group's participants

	Interest rate +10%		Interest rate -10%	
31 December 2013	**Impact on profit before tax**	**Impact on net assets attributable to the Group's participants**	**Impact on profit before tax**	**Impact on net assets attributable to the Group's participants**
Financial assets at fair value through profit or loss	39,480	31,584	(39,480)	(31,584)
Due from banks	1,629	1,303	(1,629)	(1,303)
Loans to customers	86,049	68,840	(86,049)	(68,840)
Total financial assets	**127,158**	**101,727**	**(127,158)**	**(101,727)**
Deposits by customers	(206,315)	(165,052)	206,315	165,052
Debt securities issued	(26,629)	(21,303)	26,629	21,303
Total financial liabilities	**(232,944)**	**(186,355)**	**232,944**	**186,355**
Net impact	**(105,786)**	**(84,628)**	**105,786**	**84,628**

	Interest rate +10%		Interest rate -10%	
31 December 2012	**Impact on profit before tax**	**Impact on net assets attributable to the Group's participants**	**Impact on profit before tax**	**Impact on net assets attributable to the Group's participants**
Financial assets at fair value through profit or loss	32,947	26,358	(32,947)	(26,358)
Due from banks	54,950	43,960	(54,950)	(43,960)
Loans to customers	80,921	64,737	(80,921)	(64,737)
Total financial assets	**168,818**	**135,055**	**(168,818)**	**(135,055)**
Due to banks	(355)	(284)	355	284
Deposits by customers	(168,054)	(134,443)	168,054	134,443
Debt securities issued	(8,590)	(6,872)	8,590	6,872
Total financial liabilities	**(176,999)**	**(141,599)**	**176,999**	**141,599**
Net impact	**(8,181)**	**(6,544)**	**8,181**	**6,544**

Group's sensitivity to interest rate fluctuations in the reporting year increased primarily due to increased balances of customers accounts and debt securities issued as of December 31, 2013.

Currency risk

Currency risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group is exposed to the effects of fluctuations in the foreign currency exchange rates on its financial position and cash flows.

The Group's management controls currency risk by management of the open currency position on the estimated basis of RUB devaluation and other macroeconomic indicators, which gives the Group an opportunity to minimize losses from significant currency rates fluctuations toward its national currency. The Management Board of the Bank performs daily monitoring of the Bank's open currency position with the aim to match the requirements of the CBR.

The Group's exposure to foreign currency exchange rate risk is presented in the table below:

	RUB	USD USD 1 = RUB 32.7292	EUR EUR 1 = RUB 44.9699	Other currency	31 December 2013 Total
Non-derivative financial assets					
Cash and cash equivalents	653,231	555,194	238,273	11,811	1,458,509
Mandatory cash balance with the Central Bank of the RF	195,531	-	-	-	195,531
Financial assets at fair value through profit or loss	383,348	824,979	-	4,393	1,212,720
Due from banks	19,210	76,432	5,682	-	101,324
Loans to customers	1,873,314	1,096,407	24,662	-	2,994,383
Other financial assets	7,534	438	7,073	-	15,045
Total non-derivative financial assets	**3,132,168**	**2,553,450**	**275,690**	**16,204**	**5,977,512**
Non-derivative financial liabilities					
Deposits by customers	1,187,599	2,499,762	915,708	3,928	4,606,997
Debt securities issued	-	281,237	-	-	281,237
Other financial liabilities	3,729	5,636	4,835	-	14,200
Total non-derivative financial liabilities	**1,191,328**	**2,786,635**	**920,543**	**3,928**	**4,902,434**
OPEN BALANCE SHEET POSITION	**1,940,840**	**(233,185)**	**(644,853)**	**12,276**	
Derivatives					
Net settled:					
- foreign exchange spot contracts	(814,080)	212,473	601,607	-	
OPEN POSITION ON DERIVATIVES	**(814,080)**	**212,473**	**601,607**	**-**	
OPEN POSITION	**1,126,760**	**(20,712)**	**(43,246)**	**12,276**	

	RUB	USD USD 1 = RUB 30.3727	EUR EUR 1= RUB 40.2286	Other currency	31 December 2012 Total
Non-derivative financial assets					
Cash and cash equivalents	428,900	850,427	106,541	21,883	1,407,751
Mandatory cash balance with the Central Bank of the RF	178,830	-	-	-	178,830
Financial assets at fair value through profit or loss	241,174	413,051	-	9,236	663,461
Due from banks	26,505	438,282	363	-	465,150
Loans to customers	2,359,982	469,819	21,924	-	2,851,725
Other financial assets	1,502	23	2	-	1,527
Total non-derivative financial assets	**3,236,893**	**2,171,602**	**128,830**	**31,119**	**5,568,444**
Non-derivative financial liabilities					
Deposits by banks	-	3,706	-	-	3,706
Deposits by customers	1,335,064	1,946,913	1,074,164	12,406	4,368,547
Debt securities issued	-	229,063	-	-	229,063
Other financial liabilities	8,384	3,652	2,243	47	14,326
Total non-derivative financial liabilities	**1,343,448**	**2,183,334**	**1,076,407**	**12,453**	**4,615,642**
OPEN BALANCE SHEET POSITION	**1,893,445**	**(11,732)**	**(947,577)**	**18,666**	
Derivative financial instruments					
Net settled:					
- foreign exchange spot contracts	(932,789)	27,082	905,707	-	
OPEN POSITION ON DERIVATIVES	**(932,789)**	**27,082**	**905,707**	**-**	
OPEN POSITION	**960,656**	**15,350**	**(41,870)**	**18,666**	

Currency risk sensitivity

The Group carries out "value at risk" (VaR) analysis and an analysis of projected financial result's sensitivity to changes in currency rates by one point, their 1% volatility and to change in the amount invested by one unit of functional currency to assess the possible losses due to changes in foreign exchange rates for each currency position and in general for aggregate open currency position. The Bank uses "Financial Risk Manager" software system produced by INEC company to carry out VaR and sensitivity analyses. The report on VaR analysis provided below presents ruble estimate of loss amounts that with 95% confidence level will not be exceeded by the expected losses on the open currency position within 1 day provided that the current market trends continue.

Currency	Total open position 31 December 2013 RUB'000	Currency rate volatility
USD	(20,712)	0.3883
EUR	(43,246)	0.3598
Swiss franc	1,851	0.4398
GBP	10,366	0.4181
Japanese yen	60	0.7540
95% 1 day VaR	**461**	

Currency	Total open position 31 December 2012 RUB'000	Currency rate volatility
USD	15,350	0.6895
EUR	(41,870)	0.5058
Swiss franc	4,075	0.5371
GBP	14,320	0.5767
Japanese yen	271	0.8797
95% 1 day VaR	**820**	

Other price risks

The Group is exposed to equity price risks arising from equity investments. The Group purchases equity securities mainly for trading purposes. The Group is engaged in active trading with such instruments.

The table below presents the amount of loss from publicly traded equity and debt security portfolios of the Group which, with a 95% confidence, will not be exceeded within 1 day and 10 days provided that the current pricing trends in the securities market are preserved.

	VaR (1 day, 0.95) (RUB'000)	VaR (1 day, 0.95) %	VaR (10 days, 0.95) (RUB'000)	VaR (10 days, 0.95) %
31 December 2013				
Shares	17,550	2.28	52,191	6.78
Bonds	2,085	0.47	7,313	1.65
31 December 2012				
Shares	6,654	2.08	19,312	6.04
Bonds	2,742	3.15	8,290	9.53

Taking into consideration the volatility in equity markets, the Group used the method of stochastic modeling (Monte Carlo) to assess changes in retrospective risk factors.

The major difference of the Monte Carlo method is that scenarios of retrospective risk factors changes are generated by a random-number generator based on the use of calculated projected risk factors and their volatility with consideration of their statistical correlations. Such approach ensures more adequate measurement of the Group's possible losses within a given time horizon both for individual financial instruments and the trading portfolio as a whole.

Limitations of sensitivity analysis

The above tables demonstrate the effect of a change in a key assumption while other assumptions remain unchanged. In reality, there is a correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear, and larger or smaller impacts should not be interpolated or extrapolated from these results.

The sensitivity analyses do not take into consideration that the Group's assets and liabilities are actively managed. Additionally, the financial position of the Group may vary at the time that any actual market movement occurs. For example, the Group's financial risk management strategy aims to manage the exposure to market fluctuations. As investment markets move past various trigger levels, management actions could include selling investments, changing investment portfolio allocation and taking other protective actions. Consequently, the actual impact of a change in the assumptions may not have any impact on the liabilities, whereas assets are held at market value in the statement of financial position. In these circumstances, the different measurement bases for liabilities and assets may lead to volatility in net assets.

Other limitations in the above sensitivity analyses include the use of hypothetical market movements to demonstrate potential risk that only represent the Group's view of possible near-term market changes that cannot be predicted with any certainty; and the assumption that all interest rates move in an identical fashion.

Operational risk

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

23. RELATED PARTY TRANSACTIONS

The Group's transactions with related parties are disclosed below:

	31 December 2013		31 December 2012	
	Related party transactions	**Total category as per the financial statements caption**	**Related party transactions**	**Total category as per the financial statements caption**
Loans to customers, gross	**113,550**	**3,115,153**	**105,500**	**2,977,705**
- entities with joint control over the Group	7,000		-	
- entities under common control with the Group	103,050		105,500	
- key management personnel	3,500		-	
Allowance on loans to customers	**(13,285)**	**(120,770)**	**(10,033)**	**(125,980)**
- entities under common control with the Group	(13,285)		(10,033)	
Deposits by customers	**309,871**	**4,606,997**	**127,157**	**4,368,547**
- key management personnel	54,748		78,729	
- entities with joint control over the Group	25,335		20,684	
- entities under common control with the Group	1,417		11,640	
- other related parties	228,371		16,104	
Guarantees issued and similar commitments		**163,233**	**19,948**	**166,026**
- key management personnel	-		152	
- entities with joint control or significant influence over the Group	-		9,092	
- entities under common control with the Group	-		10,400	
- other related parties	-		304	

Included in the consolidated income statement for the years ended 31 December 2013 and 2012 are the following amounts which were recognized in transactions with related parties:

	31 December 2013		31 December 2012	
	Related party transactions	**Total category as per the financial statements caption**	**Related party transactions**	**Total category as per the financial statements caption**
Interest income	**18,908**	**471,972**	**19,029**	**394,007**
- entities with joint control over the Group	119		1,112	
- entities under common control with the Group	18,724		17,892	
- key management personnel	65		25	
Interest expense	**(23,277)**	**(215,816)**	**(4,584)**	**(164,741)**
- entities with joint control or significant influence over the Group	(5,173)		(34)	
- key management personnel	(5,599)		(4,117)	
- other related parties	(12,505)		(433)	
Recovery of provision/(provision) for impairment losses on interest bearing assets	**(10,612)**	**5,210**	**(7,360)**	**(6,250)**
- entities under common control with the Group	(10,612)		(7,360)	
Staff costs				
Short-term compensation of key management personnel	49,723	**196,535**	56,623	**197,140**