Absolut Bank Group
Consolidated financial statements

Year ended 31 December 2013
Together with independent auditors' report
March 2014

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Совершенствуя бизнес,
улучшаем мир

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Independent auditor's report

To the Shareholders and Board of Directors of Absolut Bank

We have audited the accompanying consolidated financial statements of Absolut Bank and its subsidiaries (together the "Group"), which comprise the consolidated statement of financial position as at 31 December 2013, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year 2013, and a summary of significant accounting policies and other explanatory information.

Audited entity's responsibility for the consolidated financial statements

Management of the audited entity 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 fairness of these consolidated financial statements based on our audit.

We conducted our audit in accordance with the federal standards on auditing effective in the Russian Federation and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing audit procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The audit 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 preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management of the audited entity, as well as evaluating the overall presentation of the consolidated financial statements.

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

Совершенствуя бизнес,
улучшая мир

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 the year 2013 in accordance with International Financial Reporting Standards.

Sergei Taskaev
Partner
Ernst & Young LLC

4 March 2014

Details of the audited entity

Name: Commercial bank "Absolut Bank" (OAO)
Record made in the State Register of Legal Entities on 12 July 2002, State Registration Number 1027700024560.
Address: Russia 127051, Moscow, Tsvetnoy boulevard, 18.

Details of the auditor

Name: Ernst & Young LLC
Record made in the State Register of Legal Entities on 5 December 2002, State Registration Number 1027739707203.
Address: Russia 115035, Moscow, Sadovnicheskaya naberezhnaya, 77, building 1.
Ernst & Young LLC is a member of Non Profit partnership "Russian Audit Chamber" ("NP APR"). Ernst & Young LLC is registered in the register of auditors and audit organizations of NP APR, number 3028, and also included in the control copy of the register of auditors and audit organizations, main registration number 10201017420.

Consolidated statement of financial position

As of 31 December 2013

(Millions of Russian Rubles)

	Notes	31 December 2013	31 December 2012
Assets			
Cash and cash equivalents	7	17 209	15 628
Mandatory cash balances with the Central Bank of the Russian Federation		604	619
Trading securities	8	603	599
Trading securities pledged under repurchase agreements	8	4 157	1 378
Reverse repurchase agreements	9	4 385	–
Due from other banks	10	2 013	6 376
Derivative financial assets	11	24	35
Loans to customers	12	83 514	68 765
Investment securities available-for-sale	13	9 897	7 407
Investment securities available-for-sale pledged under repurchase agreements	13	1 110	–
Property and equipment	14	2 610	2 690
Other assets	15	3 431	2 967
Total assets		**129 557**	**106 464**
Liabilities			
Due to other banks	16	14 016	26 574
Derivative financial liabilities	11	35	43
Customer accounts	17	63 285	47 309
Debt securities issued	18	33 047	11 554
Subordinated debt	19	221	1 928
Other liabilities	20	896	1 309
Total liabilities		**111 500**	**88 717**
Equity			
Share capital	21	2 455	2 455
Share premium	21	14 341	14 341
Retained earnings		1 270	950
Revaluation (deficit)/surplus of investment securities available-for-sale		(9)	1
Total equity		**18 057**	**17 747**
Total equity and liabilities		**129 557**	**106 464**

Approved for issue and signed on behalf of the Management Board on 4 March 2014

A.V. Degtyarev
Chairman of the Board, CEO

O.N. Prigornitskaya
Chief Accountant

The accompanying notes from 1 to 36 are an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income

For the year ended 31 December 2012

(Millions of Russian Rubles)

	Notes	*2013*	*2012*
Interest income	23	9 717	9 084
Interest expense	23	(5 738)	(4 868)
Net interest income		**3 979**	**4 216**
(Allowance)/reversal of allowance for loan impairment	12	(319)	682
Net interest income after allowance for loan impairment		**3 660**	**4 898**
Fee and commission income	24	1 125	1 020
Fee and commission expense	24	(172)	(147)
Net losses from operations with securities	25	(3)	(8)
Net losses from operations with derivatives	26	(376)	(107)
Net gains from trading in foreign currencies		320	171
Net foreign exchange translation differences		1 039	335
Reversal of provision for losses from credit related commitments	20, 22	–	37
Net other income	27	27	56
Non-interest income		**1 960**	**1 357**
Personnel expenses	28	(3 263)	(3 632)
Administrative and other operating expenses	28	(1 780)	(1 873)
Provision for losses from credit related commitments	20, 22	(158)	–
Non-interest expense		**(5 201)**	**(5 505)**
Profit before income tax expense		**419**	**750**
Income tax (expense)/benefit	29	(99)	432
Profit for the year		**320**	**1 182**
Other comprehensive income			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Net change of the fair value of investment securities available-for-sale		(17)	(3)
Net change of the fair value of investment securities available-for-sale reclassified to profit or loss		5	9
Income tax effect		2	–
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		**(10)**	**6**
Other comprehensive income for the year, net of tax		**(10)**	**6**
Total comprehensive income for the year		**310**	**1 188**

Approved for issue and signed on behalf of the Management Board on 4 March 2014

Абсолют Банк

A.V. Degtyarev
Chairman of the Board, CEO

O.N. Prigornitskaya
Chief Accountant

The accompanying notes from 1 to 36 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

For the year ended 31 December 2013

(Millions of Russian Rubles)

	Share capital	*Share premium*	*Retained earnings/ (accumulated deficit)*	*Revaluation surplus/ (deficit) of investment securities available for sale*	*Total shareholders equity*
31 December 2011	**2 455**	**14 341**	**(232)**	**(5)**	**16 559**
Total comprehensive income for the year	–	–	1 182	6	1 188
31 December 2012	**2 455**	**14 341**	**950**	**1**	**17 747**
Total comprehensive income for the year	–	–	320	(10)	310
31 December 2013	**2 455**	**14 341**	**1 270**	**(9)**	**18 057**

Approved for issue and signed on behalf of the Management Board on 4 March 2014

A.V. Degtyarev
Chairman of the Board, CEO

O.N. Prigornitskaya
Chief Accountant

The accompanying notes from 1 to 36 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows

For the year ended 31 December 2013

(Millions of Russian Rubles)

	Notes	2013	2012
Cash flows from operating activities			
Interest received		9 619	8 976
Interest paid		(5 544)	(4 522)
Fees and commissions received		1 149	1 045
Fees and commissions paid		(172)	(147)
Income received/(losses incurred) on operations with securities		6	(2)
Losses incurred on operations with derivatives		(373)	(185)
Income received from operations in foreign currencies		831	255
Other operating income received		27	56
Personnel expenses paid		(3 909)	(3 201)
Other operating expenses paid		(1 302)	(1 447)
Income tax paid		(93)	(81)
Cash flows from operating activities before changes in operating assets and liabilities		**239**	**747**
Net (increase)/decrease in operating assets			
Mandatory cash balances with the Central Bank of the Russian Federation		15	(70)
Trading securities		(2 736)	(4)
Reverse repurchase agreements		(4 384)	–
Due from other banks		4 372	5 742
Loans to customers		(14 616)	261
Other assets		(318)	141
Net increase/(decrease) in operating liabilities			
Due to other banks		(12 498)	(17 076)
Customer accounts		15 508	6 320
Promissory notes issued		1 572	837
Other liabilities		(82)	(105)
Net loss from operating activities		**(12 928)**	**(3 207)**
Cash flows from investing activities			
Purchase of investment securities available for sale		(10 876)	(7 113)
Acquisition of software		(138)	(168)
Purchase of property and equipment		(113)	(61)
Purchase (subsequent expenditures) of investment properties		(1)	(4)
Proceeds from sale and redemption of investment securities available for sale		7 242	4 771
Proceeds from sale of investment properties		–	51
Proceeds from sale of non-current assets held-for-sale		31	–
Proceeds from sale of property and equipment		5	3
Net cash used in investing activities		**(3 850)**	**(2 521)**
Cash flows from financing activities			
Issue of bonds		21 494	7 993
Repayment of bonds		(1 621)	–
Repayment of subordinated loans		(1 721)	(5 206)
Net cash from financing activities		**18 152**	**2 787**
Effect of exchange rates changes on cash and cash equivalents		207	(90)
Net increase/(decrease) in cash and cash equivalents		**1 581**	**(3 031)**
Cash and cash equivalents, beginning	7	**15 628**	**18 659**
Cash and cash equivalents, ending	7	**17 209**	**15 628**

Approved for issue and signed on behalf of the Management Board on 4 March 2014

A.V. Degtyarev
Chairman of the Board, CEO

O.N. Prigornitskaya
Chief Accountant

Абсолют Банк

The accompanying notes from 1 to 36 are an integral part of these consolidated financial statements.

(Millions of Russian Rubles)

1. Principal activities

These consolidated financial statements comprise the accounts of Absolut Bank (the "Bank") and its subsidiaries (together the "Group"). The Bank is the parent company in the Group. The Bank was incorporated and is domiciled in the Russian Federation. The Bank is a joint stock company limited by shares and was set up in accordance with Russian regulations.

The Bank's principal business activity is commercial and retail banking operations within the Russian Federation. The Bank is operating under a full banking license issued by the Central Bank of the Russian Federation ("CBRF") since 1993. The Bank participates in the state deposit insurance scheme, which was introduced by the Federal Law #177-FZ "Deposits of individuals insurance in Russian Federation" dated 23 December 2003.

The Bank has 13 (31 December 2012: 13) branches within the Russian Federation.

The Bank's registered address is: Tsvetnoy boulevard 18, Moscow, 127051, Russian Federation.

As of 31 December, there were the following shareholders of the Bank.

Shareholder	*2013 %*	*2012 %*
OJSC "United Credit Systems" (hereinafter – OJSC "UCS")	100	–
KBC Bank NV	–	99
International Finance Corporation (IFC)	–	1
Total	**100**	**100**

KBC Bank NV is a member of KBC Group (hereinafter – "KBC") which owned 99% shares of the Bank as of 31 December 2012. As of 31 December 2013 an ultimate controlling party of the Bank is Non-State Pension Fund Blagosostoyanie (hereinafter –"Blagosostoyanie") which does not have a single ultimate beneficiary.

In February 2013 KBC Bank NV became a single shareholder of the Bank. In May 2013, pursuant to the law, KBC Bank NV sold its shares of the Bank to OJSC "UCS", 100% shares of the latter in turn were acquired by a group of Russian companies, which manage the pension reserves of "Blagosostoyanie". During 2013 all KBC's funds granted to the Group within parental funding were returned.

Subsidiaries

As of 31 December the consolidated financial statements include the following companies under the Bank's control:

Subsidiary	*2013, stake in ownership, %*	*2012, stake in ownership, %*	*Country of operation*	*Type of operation*
LLC "Absolut Leasing"	100	100	Russian Federation	Finance lease
LLC Leasing company "Absolut"	100	100	Russian Federation	Finance lease
CJSC "IA Absolut 1"	0, control	–	Russian Federation	Mortgage agent
CJSC "IA Absolut 2"	0, control	–	Russian Federation	Mortgage agent

Mortgage agents. CJSC "IA Absolut 1" and CJSC "IA Absolut 2" are structured companies established in 2013 for mortgage loans securitization.

2. Basis of preparation

General

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

The Bank and its subsidiaries are required to maintain its accounting records and prepare financial statements for regulatory purposes in accordance with Russian accounting and banking legislation and related instructions ("RAL"). These consolidated financial statements are based on these RAL accounting records and financial statements, as adjusted and reclassified in order to comply with IFRS.

The consolidated financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below. For example, trading and available-for-sale securities, derivative financial instruments have been measured at fair value.

These consolidated financial statements are presented in millions of Russian Rubles ("RUB"), unless otherwise indicated.

(Millions of Russian Rubles)

2. Basis of preparation (continued)

Inflation accounting

The Russian economy was considered hyperinflationary until 31 December 2002. As such, the Group applied IAS 29 *Financial Reporting in Hyperinflationary Economies*. The effect of applying IAS 29 is that non-monetary items, including components of equity, were restated to the measuring units current at 31 December 2002 by applying the relevant inflation indices to the historical cost, and that these restated values were used as a basis for accounting in subsequent periods.

3. Summary of accounting policies

Changes in accounting policies

The Group has adopted the following new or amended IFRS during the year:

IFRS 10 Consolidated Financial Statements and IAS 27 Separate Financial Statements

IFRS 10 establishes a single control model that applies to all entities including special purpose entities (structured companies). IFRS 10 replaces the parts of previously existing IAS 27 *Consolidated and Separate Financial Statements* that dealt with consolidated financial statements and SIC-12 *Consolidation – Special Purpose Entities*. IFRS 10 changes the definition of control such that an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

To meet the definition of control in IFRS 10, all three criteria must be met, including: (a) an investor has power over an investee; (b) the investor has exposure, or rights, to variable returns from its involvement with the investee; and (c) the investor has the ability to use its power over the investee to affect the amount of the investor's returns. IFRS 10 had no impact on the consolidation of investments held by the Group.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The application of IFRS 13 has not materially impacted the fair value measurements carried out by the Group.

IFRS 13 also requires specific disclosures on fair values, some of which replace existing disclosure requirements in other standards, including IFRS 7 *Financial Instruments: Disclosures*. Some of these disclosures are specifically required for financial instruments by IAS 34.16A(j), thereby affecting the interim condensed consolidated financial statements. As a result of new standard adoption the Group implemented the new definition of fair value and disclosed all required information in Note 31. Comparative data were not revised.

Amendments to IAS 19 Employee Benefits

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

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. The requirements in IFRS 12 are more comprehensive than the previously existing disclosure requirements for subsidiaries. For example, where a subsidiary is controlled with less than a majority of voting rights. The Group has consolidated structured subsidiaries. Information disclosed pursuant to IFRS 12 is given in Notes 1, 4.

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

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

(Millions of Russian Rubles)

3. Summary of accounting policies (continued)

Changes in accounting policies (continued)

Amendment to IAS 1 Clarification of the Requirement for Comparative Information

These amendments clarify the difference between voluntary additional comparative information and the minimum required comparative information. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The amendments clarify that the opening statement of financial position, presented as a result of retrospective restatement or reclassification of items in financial statements does not have to be accompanied by comparative information in the related notes. The amendments affect presentation only and have no impact on the Group's financial position or performance.

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

These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognized financial instruments that are set off in accordance with IAS 32 *Financial Instruments: Presentation*. The disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or similar agreements, irrespective of whether they are set off in accordance with IAS 32. These amendments had no impact on the Group's financial position or performance.

Subsidiaries

Subsidiaries are those companies and other entities (including structured companies) in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or the Group controls these companies on other conditions. Subsidiaries are consolidated.

Intercompany transactions, balances and unrealized gains on transactions between group companies are eliminated; unrealized losses are also eliminated unless the cost cannot be recovered. The Bank and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

Initial recognition of financial instruments

Trading securities and derivatives are initially recorded at fair value. All other financial instruments are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. Gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

Date of recognition

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at settlement date, which is the date that the Group delivers a financial asset. All other purchases and sales are recognized on the settlement date with the change in value between the commitment date and settlement date not recognized for assets carried at cost or amortized cost; recognized in profit or loss for trading securities, derivatives and other financial assets at fair value through profit or loss.

Cash and cash equivalents

Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. All short-term placements beyond overnight placements are included in due from other banks. Amounts which relate to funds that are of a restricted nature are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortized cost.

Mandatory cash balances with the Central Bank of the Russian Federation

Mandatory cash balances with the CBRF are carried at amortised cost and represent non-interest bearing mandatory reserve deposits amount of which depends on the level of funds attracted by the credit institution 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.

(Millions of Russian Rubles)

3. Summary of accounting policies (continued)

Trading securities

Trading securities are securities, which are either acquired for generating a profit from short-term fluctuations in price or trader's margin, or are securities included in a portfolio in which a pattern of short-term trading exists. The Group classifies securities into trading securities if it has an intention to sell them within a short period after purchase, i.e. within one to three months. Trading securities are not reclassified out of this category even when the Group's intentions subsequently change, except for rare circumstances.

Trading securities are carried at fair value. Interest earned on trading securities calculated using the effective interest method is presented in the consolidated statement of comprehensive income as interest income. Dividends are included in dividend income when the Group's right to receive the dividend payment is established and it is probable that the dividends will be collected. All other elements of the changes in the fair value and gains or losses on derecognition are recorded in profit or loss as net gains from operations with securities in the period in which they arise.

Financial assets held to maturity

A financial asset is classified as being held to maturity if the Group intends and is able to hold the investment to maturity. Only investments with a fixed maturity and fixed or determinable payments will be classified as held to maturity.

The held to maturity category is a typical category for bonds and other interest-bearing securities that fulfill the general requirements to be classified as held to maturity.

At the time of purchase, bonds and other interest-bearing securities are recorded at acquisition cost, including transaction costs and less subscription fees. The acquisition cost of securities purchased within the context of a public or private issue is equal to the issue price less any issue, placing and acquisition fees.

Subsequently, bonds and other interest-bearing securities are measured at amortized cost. The difference between the acquisition value and the redemption value is regarded as interest and is recorded on an accruals basis in the statement of comprehensive income over the remaining term to maturity. This incorporation into the result occurs on the basis of actuarial yield, the starting-point being the effective rate of return on acquisition. Calculation of the actuarial return is based on the acquisition price, the redemption price, accrued interest and the coupons to final maturity.

Loans and receivables

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

Securities classified as loans and receivables are initially measured at fair value, including transaction costs. They are subsequently measured at amortized cost. The difference between the acquisition cost and the redemption value is recognized as interest and recorded in the consolidated statement of comprehensive income on an accruals basis over the remaining term to maturity. It is recognized in the consolidated statement of comprehensive income, based on the effective rate of interest. Individual impairment losses for securities classified as loans and receivables are recognized – according to the same method as is used for amounts receivable as described below in this note – if there is evidence of impairment at reporting date.

Derivative financial instruments

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

(Millions of Russian Rubles)

3. Summary of accounting policies (continued)

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition available-for sale financial assets are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously recognised in other comprehensive income is reclassified to profit or loss. However, interest calculated using the effective interest method is recognised in the consolidated statement of comprehensive income.

Investment property

Real estate held to earn rentals or for capital appreciation is classified as investment property. Certain properties include a portion that is held to earn rentals or for capital appreciation or operational leasing purposes and another portion that is held for use in the supply of services or for administrative purposes. If the portions cannot be sold separately, the property is investment property only if an insignificant portion is held to be used in the supply of services or for administrative purposes.

Investment property is recognized only when it is probable that future economic benefits associated with the investment property will flow to the enterprise and the cost of the investment property can be measured reliably.

The investment property is measured initially at cost, including transaction costs. Investment property is subsequently measured at cost less any accumulated depreciation and any accumulated impairment losses. It is depreciated according to the straight-line method over the economic life of the investment property concerned (i.e. 3% on a yearly basis for real estate). Depreciable leased assets are depreciated according to the normal depreciation policy for similar assets. Subsequent expenditure relating to investment property that has already been recognized is added to the carrying amount of the investment property when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing investment property, will flow to the enterprise. All other subsequent expenditure should be recognized as an expense in the period in which it is incurred.

Assets classified as held for sale

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

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

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

Impairment of financial assets

Impairment losses are recognised in profit or loss when incurred as a result of one or more events (“loss events”) that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Group determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. The primary factors that the Group considers whether a financial asset is impaired are its overdue status and realisability of related collateral, if any.

(Millions of Russian Rubles)

3. Summary of accounting policies (continued)

Impairment of financial assets (continued)

The following other principal criteria are also used to determine that there is objective evidence that an impairment loss has occurred:

- any installment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems or any other reasonable factors preventing the borrower from effecting a regular payment;
- the borrower experiences a significant financial difficulty as evidenced by borrower’s financial information that the Group obtains (overdue interest/principal payments on loans to other banks, unreasonable loan renegotiation requests on the part of the borrower);
- the borrower considers bankruptcy or a financial reorganization or the Group has information on existence of the facts which may result in the borrower’s bankruptcy (effective court rulings, considerable losses, negative cash inflows, force majeure events);
- there is an adverse change in the payment status of the borrower as a result of changes in the national or local economic conditions that impact the borrower (changes in effective legislation that may result in shrinking of the borrower’s market or increase tax burden, imposition of discriminating measures in respect of the borrower, or regulatory restriction on margin level);
- the value of collateral significantly decreases as a result of deteriorating market conditions or the borrower has partially/completely lost the collateral uncovered by insurance or insurance company refuses to pay.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors’ ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and the experience of Management in respect of the extent to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods and to remove the effects of past conditions that do not exist currently.

Impairment losses are always recognized through an allowance account to write down the asset’s carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor’s credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account through profit or loss.

Uncollectible assets are written off against the related impairment loss provision in the following cases:

- after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. The procedures include those prescribed by the law, arising out of normal course of business or agreements concluded;
- the recovery of the indebtedness is not economically feasible due to its insignificance.

Determination of fair value

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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest .A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

(Millions of Russian Rubles)

3. Summary of accounting policies (continued)

Determination of fair value (continued)

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 − Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 − Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- Level 3 − Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Reclassification of financial assets

If a non-derivative financial asset classified as held for trading is no longer held for the purpose of selling in the near term, it may be reclassified out of the fair value through profit or loss category in one of the following cases:

- a financial asset that would have met the definition of loans and receivables above may be reclassified to loans and receivables category if the Group has the intention and ability to hold it for the foreseeable future or until maturity;
- other financial assets may be reclassified to available for sale or held to maturity categories only in rare circumstances.

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

Promissory notes

Promissory notes purchased are included in trading securities, or in due from other banks or in loans and advances to customers, depending on their substance and are recorded, subsequently remeasured and accounted for in accordance with the accounting policies for these categories of assets.

Property and equipment

Property and equipment are stated at cost, restated to the equivalent purchasing power of the Russian Ruble at 31 December 2002 for assets acquired prior to 1 January 2003 less accumulated depreciation and provision for impairment, where required.

Construction in progress is carried at cost less provision for impairment where required. Upon completion, assets are transferred to property and equipment at their carrying amount. Construction in progress is not depreciated until the asset is available for use.

Costs of minor repairs and maintenance are expensed when incurred. Cost of replacing major parts or components of property and equipment items are capitalized and the replaced part is retired.

If impaired, property and equipment are written down to the higher of their value in use and fair value less costs to sell. The decrease in carrying amount is charged to profit or loss. An impairment loss recognized for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognized in profit or loss.

(Millions of Russian Rubles)

3. Summary of accounting policies (continued)

Property and equipment (continued)

Depreciation on other items of premises and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives as follows:

	% per year
Premises	2-3%
Equipment and vehicles	3-33%
Leasehold improvements	over the term of the underlying lease

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Group expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

Intangible assets

All of the Group's intangible assets have definite useful life and primarily include capitalized computer software. Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. Development costs that are directly associated with identifiable and unique software controlled by the Group are recorded as intangible assets if the inflow of incremental economic benefits exceeding costs is probable.

Capitalized costs include staff costs of the software development team and cost of services received which are incremental to the software development. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred. Capitalized computer software is amortized on a straight line basis over expected useful live.

Repurchase agreements

Sale and repurchase agreements ("repos") are treated as secured financing transactions. Securities sold under sale and repurchase agreements are retained in the consolidated statement of financial position and, in case the transferee has the right by contract or custom to sell or repledge them, reclassified as securities pledged under sale and repurchase agreements. The corresponding liability is presented within amounts due to credit institutions or customers. Securities purchased under agreements to resell ("reverse repo") are recorded as "Reverse repurchase agreements". The difference between sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective yield method.

Due to other banks

Amounts due to other banks are recorded when money or other assets are advanced to the Group by counterparty banks. The non-derivative liability is carried at amortized cost.

Customer accounts

Customer accounts are non-derivative liabilities to individuals, state or corporate customers and are carried at amortized cost.

Debt securities in issue

Debt securities in issue include promissory notes, loan participation or other notes, and bonds issued by the Group. Debt securities are stated at amortized cost. If the Group purchases its own debt securities in issue, they are removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is recorded in the consolidated statement of comprehensive income.

Subordinated debt

Subordinated debt ranks behind all other creditors in case of liquidation. Subordinated debt is carried at amortized cost.

(Millions of Russian Rubles)

3. Summary of accounting policies (continued)

Leases

i. Finance – Group as lessor

Where the Group is a lessor in a lease which transfers substantially all the risks and rewards incidental to ownership to the lessee, the assets leased out are presented as a finance lease receivable and carried at the present value of the future lease payments. Finance lease receivables are initially recognized at commencement (when the lease term begins) using a discount rate determined at inception (the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease).

The difference between the gross receivable and the present value represents unearned finance income. This income is recognized over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return. Incremental costs directly attributable to negotiating and arranging the lease are included in the initial measurement of the finance lease receivable and reduce the amount of income recognized over the lease term. Finance income from leases is recorded within interest income in the consolidated statement of comprehensive income.

Impairment losses are recognized in profit or loss when incurred as a result of one or more events (“loss events”) that occurred after the initial recognition of finance lease receivables. The Group uses the same principal criteria to determine that there is objective evidence that an impairment loss has occurred as for loans carried at amortized costs disclosed earlier in this note. Impairment losses are recognized through an allowance account to write down the receivables’ net carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the interest rates implicit in the finance leases. The estimated future cash flows reflect the cash flows that may result from obtaining and selling the assets subject to the lease.

ii. Operating – Group as lessee

Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments are charged to profit or loss on a straight-line basis over the period of the lease.

iii. Operating – Group as lessor

The Group presents assets subject to operating leases in the consolidated statement of financial position according to the nature of the asset. Lease income from operating leases is recognized in the consolidated statement of comprehensive income on a straight-line basis over the lease term as other income. The aggregate cost of incentives provided to lessees is recognized as a reduction of rental income over the lease term on a straight-line basis. Initial direct costs incurred specifically to earn revenues from an operating lease are added to the carrying amount of the leased asset.

Derecognition of financial assets and liabilities

Financial assets

The Group derecognizes financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated statement of comprehensive income.

(Millions of Russian Rubles)

3. Summary of accounting policies (continued)

Credit related commitments

The Group enters into credit related commitments, including letters of credit and financial guarantees. Financial guarantees represent irrevocable assurances to make payments in the event that a customer cannot meet its obligations to third parties and carry the same credit risk as loans. Financial guarantees are initially recognized at their fair value, which is normally evidenced by the amount of fees received. This amount is amortized on a straight line basis over the life of the commitment. At each reporting date, the guarantees are measured at the higher of (i) the unamortized balance of the amount at initial recognition and (ii) the best estimate of expenditure required settling the commitment at the reporting date. Fees received are amortized to income on a straight line basis over the life of the guarantee. Management uses best estimates of the expenditures required to settle the obligations arising at the reporting date. The estimates of outcome and financial effect are determined based on experience of similar transactions, supplemented by the judgment of Management.

Taxation

Income taxes have been provided for in the consolidated financial statements in accordance with Russian legislation enacted or substantively enacted by the reporting date. The income tax charge comprises current tax and deferred tax and is recognized in the consolidated statement of comprehensive income except if it is recognized directly in equity because it relates to transactions that are also recognized, in the same or a different period, directly in equity.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if financial statements are authorized prior to filing relevant tax returns. Taxes, other than on income, are recorded within administrative and other operating expenses.

Deferred income tax is provided using the statement of financial position liability method for temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax balances are measured at tax rates enacted or substantively enacted at the reporting date which are expected to apply to the period when the temporary differences will reverse. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilized.

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

Retirement and other employee benefit obligations

The Group does not have any pension arrangements separate from the State pension system of the Russian Federation, which requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged in the period the related salaries are earned. In addition, the Group has no significant post-retirement benefits.

Share capital and share premium

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. Any excess of the fair value of consideration received over the par value of shares issued is recognized as share premium in equity. Contributions paid by the shareholders as the additional paid in capital are recognized as share premium in equity.

Fiduciary assets

Assets held by the Group in its own name, but on the account of third parties, are not reported on the consolidated statement of financial position. For the purpose of disclosure fiduciary activities do not encompass safe custody functions. Commissions received from fiduciary activities are shown in fee and commission income.

Segment reporting

The Group’s segmental reporting is based on the following operating segments: Retail banking, Corporate banking and Financial markets.

(Millions of Russian Rubles)

3. Summary of accounting policies (continued)

Recognition of income and expenses

Interest income and expense are recorded in the consolidated statement of comprehensive income for all debt instruments on an accrual basis using the effective interest method. This method defers, as part of interest income or expense, all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for considering loan applications, opening and servicing loan account, valuation and processing transaction documents. The Group does not designate loan commitments as financial liabilities at fair value through profit or loss.

When loans and other debt instruments become doubtful of collection, they are written down to present value of expected cash inflows and interest income is thereafter recorded for the unwinding of the present value discount based on the asset's effective interest rate which was used to measure the impairment loss.

All other fees, commissions and other income and expense items are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Portfolio and other management advisory and service fees are recognized based on the applicable service contracts, usually on a time-proportion basis. Asset management fees related to investment funds are recorded over the period the service is provided. The same principle is applied for custody services that are continuously provided over an extended period of time.

Foreign currency translation

The functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. The Bank's and the subsidiaries' functional currency and the Group's presentation currency is the national currency of the Russian Federation, Russian Rubles.

Monetary assets and liabilities are translated into each entity's functional currency at the official exchange rate of the CBRF at the respective reporting dates. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities into each entity's functional currency at year-end official exchange rates of the CBRF are recognized in profit or loss. Translation at year-end rates does not apply to non-monetary items, including equity investments. Effects of exchange rate changes on the fair value of equity securities are recorded as part of the fair value gain or loss.

As of 31 December 2013 the principal rate of exchange used for translating foreign currency balances was USD 1 = RUB 32.7292 and EUR 1 = 44.9699 (31 December 2012: USD 1 = RUB 30.3727 and EUR 1 = 40.2286).

Future changes in accounting policies

IFRS 9 Financial Instruments

IFRS 9, as issued, reflects two of the three phases of the IASB project on replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities and hedge accounting. The standard has no mandatory effective date and may be applied voluntarily. The adoption of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will not have an impact on classification and measurements of the Group's financial liabilities. The Group will quantify the effect when the remaining part of the standard containing guidance on impairment of financial assets is issued.

Amendments to IFRS 10, IFRS 12 and IFRS (IAS) 27 Investment Entities

These amendments are effective for annual periods beginning on or after 1 January 2014 provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. It is not expected that this amendment would be relevant to the Group, since none of the entities in the Bank qualifies to be an investment entity under IFRS 10.

(Millions of Russian Rubles)

3. Summary of accounting policies (continued)

Future changes in accounting policies (continued)

Amendments to IFRS (IAS 32) Offsetting Financial Assets and Financial Liabilities

These amendments clarify the meaning of “currently has a legally enforceable right to set-off” and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. These are effective for annual periods beginning on or after 1 January 2014. These amendments are not expected to be relevant to the Group.

IFRIC Interpretation 21 Levies (IFRIC 21)

IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. IFRIC 21 is effective for annual periods beginning on or after 1 January 2014. The Group does not expect that IFRIC 21 will have a material impact on its financial statements.

Amendments to IFRS (IAS 39) Novation of Derivatives and Continuation of Hedge Accounting

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments are effective for annual periods beginning on or after 1 January 2014. The Group has not novated its derivatives during the current period. However, these amendments would be considered for future novations.

4. Significant accounting judgments and estimates

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on Management’s experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgments, apart from those involving estimations, in the process of applying the accounting policies. Judgments that have the most significant effect on the amounts recognized in the consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values.

Impairment losses on loans and advances

The Group regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in the statement of comprehensive income, the Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The Group uses its experienced judgment to adjust observable data for a group of loans or receivables to reflect current circumstances.

Segment reporting

The Group does not allocate its premises, equipment and software balances as well as capital expenditure between the operating segments. The Group provides services for the retail and corporate customers within the same premises and the Group believes that currently there is no reasonable basis for allocation of premises, equipment, software as well as capital expenditure.

(Millions of Russian Rubles)

4. Significant accounting judgments and estimates (continued)

Determination of control over investees

Due to adoption of the new standard *IFRS 10 Consolidated Financial Statements* by the Group since 1 January 2013 (refer to Note 3) the control indicators set out in Note 3 are subject to management's judgment, which may have a significant effect on the Group's interests in structured companies.

Mortgage agents, established for the purpose of securitisation, sponsored by the Group under its securitisation programme are run according to pre-determined criteria that are part of the initial design of the structured company. Outside of the day-to-day servicing of the receivables (which is carried out by the Group under a servicing contract), key decisions are required only when receivables in the agents go into default, and it is the Group that makes those decisions. In addition, the Group is exposed to a variability of returns from the structured companies through its holding of debt securities in them. As a result, the Group concluded that it controls these mortgage agents and they have been consolidated as of 31 December 2013.

Deferred tax

When determining the amount of deferred tax assets which may be recognised in the financial statements, the Group's management assesses the probability of use of the whole amount of the deferred tax asset. The use of the deferred tax asset depends on taxable profit obtained in periods when timing differences may be used against it. When conducting such an assessment the management takes into account the planned write-off of deferred tax liability, future expected taxable profit, as well as tax planning strategies.

Based on the historical data on income tax amounts, as well as future expected taxable profit in periods when timing differences may be used against it, the Group's management considers it possible to use the deferred tax asset recognised in the Group's financial statements.

5. Changes in presentation

The following reclassifications are made in the consolidated statement of financial position as of 31 December 2012 to present them in accordance with the form of presentation as of 31 December 2013:

Reclassification item	*Amount*	*Name of the line before reclassification*	*Name of the line after reclassification*
Consolidated statement of financial position			
Assets			
Trading securities pledged under repurchase agreements	1 378	Trading securities	Trading securities pledged under repurchase agreements

Management decided not to present the consolidated statement of financial position as of 31 December 2011, as the effect of the above reclassification to the presentation of the financial position of the Group is considered not significant.

6. Segment information

For management purposes, the Group is organised into three operating segments based on products and services as follows:

- Corporate – comprises corporate lending including sales and repurchase agreements, corporate deposit services and placement of promissory notes among corporate clients, trade finance operations, leasing services, issuing of guarantees, foreign currency exchange transactions and other transactions with corporate customers.
- Financial markets – comprises securities trading, debt capital markets services (interbank and other borrowings, placement of promissory notes and bonds on money market, raising finance on loro accounts), foreign currency exchange and derivatives transactions on stock exchange and over the counter market.
- Retail – comprises retail services of opening and maintenance of settlement accounts, raising finance in the forms of promissory notes and retail deposits, debit and credit cards servicing, lending and foreign exchange transactions with individuals, individual entrepreneurs and small and medium size entities.

Management monitors the operating results of each segment separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance, as explained in the table below, is measured differently from profit or loss in the consolidated financial statements.

(Millions of Russian Rubles)

6. Segment information (continued)

The Group allocates revenues and expenses between segments depending on the contractual counterparty and type of transaction.

The Group allocates in its internal management accounting system major part of the Group's assets and liabilities as well as income and expenses between the segments. Certain types of assets and liabilities, income and expenses that were not allocated have been presented as "unallocated" in the table below.

"Interest income from other segments" and "Interest expense relating to transactions with other segments" are defined on the basis of transfer pricing policy. According to the existing transfer pricing system, approved by the Board, funds are transferred between segments at historical market rate. Choice of market rate for each interest asset or liability depends on the currency and contractual maturity of this asset or liability.

Segment results are based on the direct and allocated revenues and expenses attributable to the assets and liabilities of the respective segment.

The Group allocates expenses on attraction and servicing of Bank's clients/products related to cost centers, which activities clearly correspond to segment activities. The remaining expense items (general banking expenses) are expenses related to management, maintenance and servicing of the Bank's infrastructure and they are not allocated.

The following table presents income and profit and certain asset and liability information regarding the Group's operating segments for the year ended 31 December 2013:

	Retail banking	*Corporate banking*	*Financial markets*	*Total*
Revenues comprise				
External interest income	5 714	3 042	961	9 717
Interest income from other segments	2 038	870	6 607	9 515
Fee and commission income	805	314	6	1 125
Net dealing and other operating income	158	(75)	727	810
Total revenues	**8 715**	**4 151**	**8 301**	**21 167**
Expenses comprise				
Interest expense from other segments	(4 381)	(2 226)	(2 908)	(9 515)
External interest expense	(1 730)	(704)	(3 304)	(5 738)
Fee and commission expense	(118)	(24)	(24)	(166)
Total expenses	**(6 229)**	**(2 954)**	**(6 236)**	**(15 419)**
Total operating revenues	**2 486**	**1 197**	**2 065**	**5 748**
Direct expenses	(2 143)	(773)	(134)	(3 050)
(Allowance)/reversal of allowance for loan impairment	101	(420)	–	(319)
Segment financial result	**444**	**4**	**1 931**	**2 379**
General banking expenses				(1 993)
Unallocated revenues				39
Unallocated expenses				(6)
Profit before tax				**419**
Income tax expense				(99)
Profit for the year				**320**
Assets and liabilities				
Segment assets	50 702	36 472	36 344	123 518
Unallocated assets				6 039
Total assets				**129 557**
Segment liabilities	(35 220)	(21 981)	(53 618)	(110 819)
Unallocated liabilities				(681)
Total liabilities				**(111 500)**
Other segment information				
Depreciation and amortisation	(220)	(67)	(23)	(310)
Other provisions	(2)	(156)	–	(158)

(Millions of Russian Rubles)

6. Segment information (continued)

The following table presents net dealing and other operating income/(loss) information regarding the Group's operating segments for the year ended 31 December 2013:

	Retail banking	*Corporate banking*	*Financial markets*	*Total*
Net dealing and other operating income/(loss)comprise				
Net foreign exchange translation differences	–	–	1 039	1 039
Net gains from trading in foreign currencies	158	85	77	320
Provision for losses on credit related commitments	(2)	(156)	–	(158)
Net losses from operations with securities	–	–	(3)	(3)
Net losses from operations with derivatives	–	–	(376)	(376)
Other income/(expenses)	2	(4)	(10)	(12)
Total net dealing and other operating income/(loss)	**158**	**(75)**	**727**	**810**

The following table presents income and profit and certain asset and liability information regarding the Group's operating segments for the year ended 31 December 2012:

	Retail banking	*Corporate banking*	*Financial markets*	*Total*
Revenues comprise				
External interest income	5 065	3 210	809	9 084
Interest income from other segments	1 744	527	5 889	8 160
Fee and commission income	717	297	6	1 020
Net dealing and other operating income/(loss)	202	123	118	443
Total revenues	**7 728**	**4 157**	**6 822**	**18 707**
Expenses comprise				
Interest expense from other segments	(3 915)	(1 974)	(2 271)	(8 160)
External interest expense	(1 373)	(353)	(3 142)	(4 868)
Fee and commission expense	(102)	(20)	(16)	(138)
Total expenses	**(5 390)**	**(2 347)**	**(5 429)**	**(13 166)**
Total operating revenues	**2 338**	**1 810**	**1 393**	**5 541**
Direct expenses	(2 079)	(801)	(106)	(2 986)
Reversal of allowance for loan impairment	227	455	–	682
Segment financial result	**486**	**1 464**	**1 287**	**3 237**
General banking expenses				(2 519)
Unallocated revenues				41
Unallocated expenses				(9)
Profit before tax				**750**
Income tax benefit				432
Profit for the year				**1 182**
Assets and liabilities				
Segment assets	45 646	27 547	27 615	100 808
Unallocated assets				5 656
Total assets				**106 464**
Segment liabilities	(35 933)	(11 058)	(40 429)	(87 420)
Unallocated liabilities				(1 297)
Total liabilities				**(88 717)**
Other segment information				
Depreciation and amortisation	(241)	(84)	(27)	(352)
Other provisions	9	28	–	37

(Millions of Russian Rubles)

6. Segment information (continued)

The following table presents net dealing and other operating income/(loss) information regarding the Group's operating segments for the year ended 31 December 2012:

	Retail banking	*Corporate banking*	*Financial markets*	*Total*
Net dealing and other operating income/(loss)comprise				
Net gains from operations with derivatives	–	–	335	335
Net gains from trading in foreign currencies	185	89	(103)	171
Recovery of provision for losses on credit related commitments	9	28	–	37
Net losses from operations with securities	–	(1)	(7)	(8)
Net foreign exchange translation differences	–	–	(107)	(107)
Other income	8	7	–	15
Total net dealing and other operating income	**202**	**123**	**118**	**443**

As of 31 December 2013 and 2012 the total direct and general banking expenses are equal to the amount of items of the consolidated statement of comprehensive income "Personnel expenses" and "Administrative and other operating expenses".

7. Cash and cash equivalents

	31 December 2013	*31 December 2012*
Current accounts with the CBRF	5 298	4 342
Current accounts with other banks	4 940	1 261
Overnight deposits with other banks and the CBRF	4 420	5 787
Cash on hand	2 002	3 875
Settlement accounts with trading systems	549	363
Cash and cash equivalents	**17 209**	**15 628**

8. Trading securities

	31 December 2013	*31 December 2012*
Promissory notes	424	514
Corporate bonds	179	85
Trading securities	**603**	**599**
Corporate bonds	4 157	1 378
Trading securities pledged under repurchase agreements	**4 157**	**1 378**

As of 31 December 2013 and 2012 corporate bonds were represented by Russian Ruble denominated securities issued by top Russian companies and banks.

As of 31 December 2013 and 2012 promissory notes represent Russian Ruble denominated securities issued by top Russian banks with a discount to face value. These securities are traded over-the-counter.

As of 31 December 2013 trading securities with the fair value of RUB 110 million or 18% of the total amount of trading securities were represented by corporate bonds of one issuer (31 December 2012: trading securities with the fair value of RUB 145 million or 24% of the total amount of trading securities were represented by promissory notes issued by one issuer).

As of 31 December 2013 trading securities pledged under repurchase agreements with the fair value of RUB 332 million or 8% of the total amount of the trading securities pledged under repurchase agreements were represented by corporate bonds of one issuer (31 December 2012: trading securities pledged under repurchase agreements with the fair value of RUB 173 million or 13% of the total amount of the trading securities pledged under repurchase agreements were represented by corporate bonds of one issuer).

The geographical concentration, analysis by credit quality, currency and interest rate risks analysis are disclosed in Note 30. Maturity analysis of trading securities is disclosed in Note 33.

(Millions of Russian Rubles)

9. Reverse repurchase agreements

	31 December 2013	*31 December 2012*
Reverse repurchase agreements with banks	3 318	–
Reverse repurchase agreements with clients	1 067	–
Reverse repurchase agreements	**4 385**	**–**

As of 31 December 2013 reverse repurchase agreements with banks were represented by the agreements concluded with the related party of the Group and secured with corporate bonds. As of 31 December 2013 the fair value of corporate bonds pledged under reverse repurchase agreements with banks was RUB 3 649 million, out of which the corporate bonds with the fair value of RUB 2 230 million were transferred as a collateral under repurchase agreements (refer to Note 16).

As of 31 December 2013 reverse repurchase agreements with clients were represented by the agreements concluded with Russian companies not related to the Group and secured with own promissory notes issued. As of 31 December 2013 the balance value of own promissory notes issued pledged under reverse repurchase agreements with clients equaled to RUB 1 071 million (refer to Note 18).

As of 31 December 2013 in all cases collateral securing individual reverse repurchase agreement equals to or exceeds the amount of receivable. As of 31 December 2012 there were no reverse repurchase agreements.

Geographic concentration, currency and interest rate risks analysis are disclosed in Note 30. Information about fair value of reverse repurchase agreements is disclosed in Note 31. Maturity analysis of reverse repurchase agreements is disclosed in Note 33. Information on transactions with related parties is disclosed in Note 34.

10. Due from other banks

As of 31 December 2013 and 2012 due from other banks comprised term deposits with other banks in the amount of RUB 2 013 million and RUB 6 376 million, respectively.

As of 31 December 2013 term deposits with other banks included a subordinated loan granted to the related party of the Group in the amount of RUB 1 006 million or 50% of total amount of term deposits with other banks. As of 31 December 2012 term deposits with other banks included balances with the Parent, as of 31 December 2012,with the total aggregate amount of RUB 3 416 million or 54% of the total amount due from other banks. This loan matures in November 2019 (31 December 2012: mature in January 2013).

Geographic concentration, analysis by credit quality, currency and interest rate risks analysis are disclosed in Note 30. Information about fair value of due from other banks is disclosed in Note 31. Maturity analysis of due from other banks is disclosed in Note 33. Information on related party balances is disclosed in Note 34.

11. Derivative financial instruments

The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are not indicative of the credit risk.

	31 December 2013			*31 December 2012*		
	Notional principal	*Fair values*		*Notional principal*	*Fair value*	
		Asset	*Liability*		*Asset*	*Liability*
Interest rate contracts						
Swaps – foreign counterparty	218	–	(8)	405	–	(23)
Equity contracts						
Equity warrants	57	–	–	53	–	–
Foreign exchange contracts						
Swaps – foreign counterparty	550	–	(1)	1 572	4	–
Swaps – domestic counterparty	7 531	3	(26)	8 258	18	(20)
Forwards – domestic counterparty	2 312	21	–	604	13	–
Total derivative assets/liabilities		**24**	**(35)**		**35**	**(43)**

(Millions of Russian Rubles)

11. Financial derivatives (continued)

Foreign and domestic counterparty in the table above stand for counterparties where foreign means non-Russian entities and domestic means Russian entities.

As of 31 December 2013 and 2012, the Group has positions in the following types of derivatives:

Forwards

Forwards 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.

Swaps

Swaps are contractual agreements between two parties to exchange movements in interest and foreign currency rates and equity indices, and (in the case of credit default swaps) to make payments with respect to defined credit events based on specified notional amounts.

During 2007 in order to hedge interest rate gap between fixed interest rate loans and advances to customers and floating interest rate interbank liabilities the Group entered into several interest rate swaps with a foreign bank. The derivatives mature in 2014.

12. Loans to customers

Loans to customers by class comprise:

	31 December 2013	***31 December 2012***
Loans to legal entities:		
Corporate loans	34 652	26 300
SME loans	2 047	2 003
Trade finance	2 298	2 342
Finance lease receivables	1 029	1 255
Corporate bonds	26	158
Loans to individuals:		
Mortgage loans	39 320	33 720
Car loans	4 191	4 663
SME loans	1 912	1 869
Credit cards	487	445
Cash loans	896	10
Gross loans to customers	**86 858**	**72 765**
Less – Allowance for impairment	(3 344)	(4 000)
Loans to customers	**83 514**	**68 765**

As of 31 December 2013 corporate bonds in the amount of RUB 26 million represent debt securities reclassified in 2008 out from trading securities portfolio (31 December 2012: RUB 158 million).

As of 31 December 2013 mortgage loans in the amount of RUB 17 778 million were the collateral under bonds issued by the Group, refer to Note 18 (31 December 2012: null).

(Millions of Russian Rubles)

12. Loans to customers (continued)

Allowance for impairment of loans to customers

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

	At 1 January 2013	*Charge for the year/ (reversal)*	*Interest accrued on impaired loans*	*Allowance for disposed loans*	*Amounts written off*	*At 31 December 2013*
Loans to legal entities:						
Corporate loans	1 650	373	(74)	(116)	(151)	1 682
Trade finance	1 019	118	–	(102)	–	1 035
SME loans	164	(10)	–	(110)	(19)	25
Corporate bonds	158	(87)	–	(45)	–	26
Finance lease receivables	62	15	(3)	(11)	–	63
Loans to individuals:						
Mortgage loans	517	(113)	–	(111)	(4)	289
Car loans	181	(23)	–	(136)	(1)	21
Credit cards	156	16	–	(1)	(6)	165
SME loans	93	10	–	(74)	(5)	24
Cash loans	–	20	–	(6)	–	14
Total	**4 000**	**319**	**(77)**	**(712)**	**(186)**	**3 344**

	At 1 January 2012	*Reversal for the year*	*Interest accrued on impaired loans*	*Allowance for disposed loans*	*Amounts written off*	*At 31 December 2012*
Loans to legal entities:						
Corporate loans	4 259	(277)	(361)	(1 971)	–	1 650
Trade finance	1 162	(143)	–	–	–	1 019
SME loans	350	(78)	–	–	(108)	164
Corporate bonds	168	(10)	–	–	–	158
Finance lease receivables	99	(25)	(8)	–	(4)	62
Loans to individuals:						
Mortgage loans	641	(93)	–	(25)	(6)	517
Car loans	233	(40)	–	–	(12)	181
Credit cards	168	(4)	–	–	(8)	156
SME loans	124	(12)	–	(3)	(16)	93
Total	**7 204**	**(682)**	**(369)**	**(1 999)**	**(154)**	**4 000**

The table below distinguishes between loans and advances to customers assessed for impairment individually and on portfolio basis:

	31 December 2013	*31 December 2012*
Loans assessed for impairment on portfolio basis	82 291	66 735
Individually determined to be impaired	3 799	5 581
Past due but not impaired	768	449
Gross loans to customers	**86 858**	**72 765**
Less – Allowance for impairment of loans assessed for impairment on portfolio basis (including past due but not impaired)	(690)	(383)
Less – Allowance for impairment of loans individually determined to be impaired	(2 654)	(3 617)
Loans to customers	**83 514**	**68 765**

Concentration of loans to customers

As of 31 December 2013 the Group had a concentration of loans represented by RUB 13 990 million due from the ten largest third party borrowers (16.1% of gross loan portfolio) (2012 – RUB 8 343 million or 11.5%). An allowance of RUB 1 113 million (2012 – RUB 970 million) was recognised against these loans.

(Millions of Russian Rubles)

12. Loans to customers (continued)

Concentration of loans to customers (continued)

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

	31 December 2013	*31 December 2012*
Individuals	46 806	40 707
Manufacturing	16 623	12 001
Trade	11 508	12 950
Construction	5 389	373
Finance	2 830	299
Services	1 794	2 354
Real estate	1 581	2 789
Other	327	1 292
Gross loans to customers	**86 858**	**72 765**

During 2013 the Group sold corporate loans carried at RUB 117 million, retail loans carried at RUB 267 million and corporate bonds, reclassified in 2008 out from trading securities, carried at RUB 93 million net of allowance (2012: corporate loans carried at RUB 409 million and retail loans carried at RUB 79 million), to third parties for a payment of RUB 178 million, 272 million and RUB 93 million respectively (2012: RUB 410 million and RUB 82 million respectively). The Group has determined that substantially all risks and rewards of the respective loans have been transferred therefore these loans and securities were derecognised. The respective financial result has been recognized in the consolidated statement of comprehensive income.

Finance lease receivables

Included in corporate lending portfolio are finance lease receivables. The analysis of finance lease receivables at 31 December 2013 is as follows:

	Not later than 1 year	*Later than 1 year and not later than 5 years*	*Total*
Gross investments in finance lease	579	657	1 236
Unearned future finance income on finance lease	(82)	(125)	(207)
	497	**532**	**1 029**
Less – Allowance for impairment	(11)	(52)	(63)
Net investments in finance lease	**486**	**480**	**966**

The analysis of finance lease receivables at 31 December 2012 is as follows:

	Not later than 1 year	*Later than 1 year and not later than 5 years*	*Total*
Gross investments in finance lease	674	854	1 528
Unearned future finance income on finance lease	(106)	(167)	(273)
	568	**687**	**1 255**
Less – Allowance for impairment	(8)	(54)	(62)
Net investments in finance lease	**560**	**633**	**1 193**

Net investments in finance lease generally comprise lease contracts on various types of equipment and vehicles.

The geographical concentration, analysis by credit quality, currency and interest rate risks analysis are disclosed in Note 30. Information about fair value of loans to customers is disclosed in Note 31. Maturity analysis of loans to customers is disclosed in Note 33. The information on related party balances is disclosed in Note 34.

(Millions of Russian Rubles)

13. Investment securities available-for-sale

	31 December 2013	*31 December 2012*
Federal loan bonds (OFZ)	6 012	5 775
Corporate bonds	3 743	1 377
Corporate shares	142	–
Municipal bonds	–	255
Investment securities available-for-sale	**9 897**	**7 407**
Corporate bonds	1 110	–
Investment securities available-for-sale pledged under repurchase agreements	**1 110**	**–**

As of 31 December 2013 and 2012 corporate bonds were represented by Russian Ruble denominated securities issued by top Russian companies and banks.

As of 31 December 2013 corporate shares were represented by shares of top Russian mining company (31 December 2012: null).

As of 31 December 2013 investment securities available-for-sale with the fair value of RUB 1 949 million or 20% of the total amount of investment securities available-for-sale were represented by corporate bonds of one issuer (as of 31 December 2012: investment securities available-for-sale with the fair value of RUB 505 million or 7% of the total amount of investment securities available-for-sale were represented by corporate bonds of one issuer).

As of 31 December 2013 investment securities available-for-sale pledged under repurchase agreements with the fair value of RUB 1 110 million or 100% of the total amount of the investment securities available-for-sale pledged under repurchase agreements were represented by corporate bonds of one issuer (31 December 2012: null).

14. Property and equipment

The movements in property and equipment for the year ended 31 December 2013 were as follows:

	Premises	*Leasehold improvement*	*Computers and office equipment*	*Total*
Cost				
31 December 2012	**2 850**	**63**	**1 310**	**4 223**
Additions	1	–	112	113
Disposals	–	(13)	(55)	(68)
31 December 2013	**2 851**	**50**	**1 367**	**4 268**
Accumulated depreciation				
31 December 2012	**400**	**59**	**1 074**	**1 533**
Depreciation charge	73	2	113	188
Disposals	–	(13)	(50)	(63)
31 December 2013	**473**	**48**	**1 137**	**1 658**
Net book value				
31 December 2012	**2 450**	**4**	**236**	**2 690**
31 December 2013	**2 378**	**2**	**230**	**2 610**

(Millions of Russian Rubles)

14. Property and equipment (continued)

The movements in property and equipment for the year ended 31 December 2012 were as follows:

	Premises	*Leasehold improvement*	*Computers and office equipment*	*Total*
Cost				
31 December 2011	**2 891**	**61**	**1 331**	**4 283**
Additions	–	2	59	61
Reclassifications to investment property	(41)	–	–	(41)
Disposals	–	–	(80)	(80)
31 December 2012	**2 850**	**63**	**1 310**	**4 223**
Accumulated depreciation				
31 December 2011	**332**	**55**	**994**	**1 381**
Depreciation charge	72	4	147	223
Disposals	–	–	(67)	(67)
Reclassifications to investment property	(4)	–	–	(4)
31 December 2012	**400**	**59**	**1 074**	**1 533**
Net book value				
31 December 2011	**2 559**	**6**	**337**	**2 902**
31 December 2012	**2 450**	**4**	**236**	**2 690**

As of 31 December 2013 premises and equipment contain fully depreciated assets in the amount of RUB 952 million (31 December 2012: RUB 745 million).

During 2012 premises of closed branches in the carrying amount of RUB 41 million were rented out and reclassified into Investment property category.

15. Other assets

	31 December 2013	*31 December 2012*
Investment property	954	948
Deferred income tax asset	516	514
Software	511	495
Restricted cash	352	12
Foreclosed assets	314	152
Precious coins	256	267
Prepayments	240	267
Settlements	143	66
Current income tax asset	39	45
Property to transfer to leasing	21	48
Accrued income	3	5
VAT on leasing operations	2	45
Due from employees	1	1
Non-current assets held for sale	–	35
Prepayments to suppliers for equipment to be leased	–	2
Other	79	65
Other assets	**3 431**	**2 967**

As of 31 December 2013 and 2012 the fair value of investment property amounted to RUB 1 067 million and RUB 950 million, respectively, which has been determined based on valuations performed by accredited independent valuers. The Group engaged an independent appraiser to determine the fair value of its buildings. More details on the fair value measurement of investment property is disclosed in Note 31.

(Millions of Russian Rubles)

15. Other assets (continued)

The movements in investment property and software for the year ended 31 December 2013 were as follows:

	Investment property	*Software*
Cost		
31 December 2012	**1 037**	**763**
Additions (subsequent expenditure)	38	138
Impairment	(7)	–
Disposals	(3)	(61)
31 December 2013	**1 065**	**840**
Accumulated depreciation		
31 December 2012	**89**	**268**
Depreciation/Amortisation charge	22	122
Disposals	–	(61)
31 December 2013	**111**	**329**
Net book value		
31 December 2012	**948**	**495**
31 December 2013	**954**	**511**

The movements in investment property and software for the year ended 31 December 2012 were as follows:

	Investment property	*Software*
Cost		
31 December 2011	**1 126**	**645**
Additions (subsequent expenditure)	4	168
Reclassifications from property and equipment	41	–
Impairment	(45)	–
Disposals	(89)	(50)
31 December 2012	**1 037**	**763**
Accumulated depreciation		
31 December 2011	**64**	**189**
Depreciation/Amortisation charge	23	129
Reclassifications from property and equipment	4	–
Disposals	(2)	(50)
31 December 2012	**89**	**268**
Net book value		
31 December 2011	**1 062**	**456**
31 December 2012	**948**	**495**

16. Due to other banks

	31 December 2013	*31 December 2012*
Repurchase agreements	6 367	1 185
Time deposits and loans	6 221	24 316
Current accounts and overnight placements of other banks	745	767
Trade finance	683	211
Special purpose finance	–	95
Due to other banks	**14 016**	**26 574**

As of 31 December 2013 and 2012 repurchase agreements were represented by agreements with the CBRF. As of 31 December 2013 repurchase agreements were secured with corporate bonds with the fair value of RUB 5 267 million and corporate bonds transferred to the Group under the first part of reverse repurchase agreements (without initial recognition) with the fair value of RUB 2 230 million (31 December 2012: corporate bonds with the fair value of RUB 1 378 million).

(Millions of Russian Rubles)

16. Due to other banks (continued)

As of 31 December 2013 time deposits and loans due to other banks included short-term funds, placed by the related party of the Group and the CBRF, comprising 37% and 24% respectively of total time deposits and loans due to other banks. As of 31 December 2012 time deposits and loans due to other banks were by 91 % funded by the Group's Parent as of 31 December 2012.

Trade finance represents funds received from foreign financial institutions either directly by the Group or by the beneficiaries under documentary operations if there is a lending arrangement between the Group and the financing bank, under which the Group is liable for the funds' repayment. Funds mature from 2014 to 2015 and have interest rates from 0.88% to 4.74% per annum (31 December 2012: from 0.97% to 1.60% per annum).

During 2013 the Group early redeemed loans due to one foreign bank granted under credit line facility agreement for the special purposes, such as mortgage lending programs and programs for development of small business in the private sector in the Russian Federation. As of 31 December 2012 loans were carried at RUB 95 million and had effective interest rates from 7.32% to 7.91% per annum.

The geographical concentration, currency and interest rate risks analysis are disclosed in Note 30. Information about fair value of due to other banks is disclosed in Note 31. Maturity analysis of due to other banks is disclosed in Note 33. The information on related party balances is disclosed in Note 34.

17. Customer accounts

	31 December 2013	*31 December 2012*
State and public organisations		
Current accounts	4	6
Term deposits	–	–
Legal entities		
Current accounts	11 903	11 975
Term deposits	25 598	8 655
Individuals		
Current accounts	3 947	3 813
Term deposits	21 833	22 860
Customer accounts	**63 285**	**47 309**

As of 31 December 2013 customer accounts of RUB 11 582 million or 18.3% (of total customer accounts) were due to the ten largest third party customers (31 December 2012: RUB 7 013 million or 14.8%).

An analysis of customer accounts by economic sector follows:

	31 December 2013	*31 December 2012*
Individuals	25 780	26 673
Financial services	11 797	3 160
Trade	6 563	6 771
Construction/real estate	5 630	2 813
Transport	4 648	799
Services	2 516	3 169
Insurance	2 077	545
Manufacturing	2 056	1 950
Oil and gas	134	71
Telecom	100	222
Agriculture	28	76
Other	1 956	1 060
Customer accounts	**63 285**	**47 309**

Included in term deposits are deposits of individuals in the amount of RUB 21 833 million (2012: RUB 22 860 million). In accordance with the Russian Civil Code, the Group is obliged to repay such deposits upon demand of a depositor. In case a term deposit is repaid upon demand of the depositor prior to maturity, interest on it is paid based on the interest rate for demand deposits, unless a different interest rate is specified in the agreement.

(Millions of Russian Rubles)

17. Customer accounts (continued)

As of 31 December 2013 customer accounts included term deposits of RUB 1 153 million representing security for irrevocable liabilities under import letters of credit (31 December 2012: RUB 84 million).

The geographical concentration, currency and interest rate risks analysis are disclosed in Note 30. Information about fair value of customer accounts is disclosed in Note 31. Maturity analysis of customer accounts is disclosed in Note 33. The information on related party balances is disclosed in Note 34.

18. Debt securities issued

	31 December 2013	***31 December 2012***
Domestic bonds issued	14 977	9 924
Bonds issued, secured with mortgage loans	14 899	–
Promissory notes	3 171	1 630
Debt securities issued	**33 047**	**11 554**

In December 2013 the Group issued bonds secured with mortgage loans on the Russian stock exchange with the nominal amount of RUB 6 909 million. Bonds have effective interest rate of 9.44% per annum and mature in 2041 with an option of early redemption quarterly, starting from May 2014. As of 31 December 2013 the bonds were carried at RUB 6 890 million (31 December 2012: null).

In May 2013 the Group issued market bonds on the Russian stock exchange with the nominal amount of RUB 5 000 million. Bonds have effective interest rate of 9.59% per annum and mature in 2018 with an option of early redemption in November 2014. As of 31 December 2013 bonds were carried at RUB 5 030 million (31 December 2012: null).

In March 2013 the Group issued bonds secured with mortgage loans on the Russian stock exchange with the nominal amount of RUB 9 584 million. Bonds have effective interest rate of 9.82% per annum and mature in 2040 with an option of early redemption quarterly, starting from August 2013. As of 31 December 2013 bonds were carried at RUB 8 009 million (31 December 2012: null).

In March and December 2012 the Group issued two tranches of the market bonds on the Russian stock exchange with the nominal amount of RUB 8 000 million. Bonds have effective interest rate from 9.84% to 10.84% per annum and mature in 2015 with an option of early redemption in March and June 2014. As of 31 December 2013 bonds were carried at RUB 8 091 million (31 December 2012: RUB 8 070 million).

In August 2011 the Group issued bonds on the Russian stock exchange with the nominal amount of RUB 1 800 million. Bonds have effective interest rate 8.25% per annum and mature in 2016 with an option of early redemption in July 2014. As of 31 December 2013 bonds were carried at RUB 1 856 million (31 December 2012: RUB 1 854 million).

Promissory notes are represented by debt securities issued by the Group with a discount to face value in Russian Rubles and foreign currencies. As of 31 December 2013 promissory notes in amount of RUB 1 071 million were pledged under reverse repurchase agreements with clients (31 December 2012: null).

The geographical concentration, currency and interest rate risks analysis are disclosed in Note 30. Information about fair value of debt securities issued is disclosed in Note 31. Maturity analysis of debt securities issued is disclosed in Note 33. The information on related party balances is disclosed in Note 34.

19. Subordinated debt

	31 December 2013	***31 December 2012***
USD 20 million subordinated loan	221	410
USD 50 million subordinated loan	–	1 518
Subordinated debt	**221**	**1 928**

(Millions of Russian Rubles)

19. Subordinated debt (continued)

In August 2006 the Group entered into a subordinated loan agreement with a foreign financial institution for the amount of USD 20 million. The loan is repayable in 6 semi-annual installments starting from 15 February 2012 and has a floating interest rate of six-months LIBOR + 3.95% per annum (31 December 2012: six-months LIBOR + 3.95%). The interest rate at 31 December 2013 was 4.41% per annum (31 December 2012: 4.67% per annum). Under this agreement the Group is obliged to comply with financial covenants which were not fully met as of 31 December 2013. As of the date of signing the financial statements the creditor has not claimed early repayment of this loan.

During 2013 the Group early redeemed a subordinated loan in the amount of USD 50 million, received in November 2007 from a Parent company as of 31 December 2012. As of 31 December 2012 the loan was carried at RUB 1 518 million, the effective interest rate was 3.27% per annum.

Interest rate analysis of subordinated debt is disclosed in Note 30. Information about fair value of subordinated debt is disclosed in Note 31. The information on related party balances is disclosed in Note 34.

20. Other liabilities

	31 December 2013	*31 December 2012*
Accrued bonuses and unused vacations including social security costs	245	891
Provisions for guarantees and commitments	213	55
Taxes payable other than income	138	60
Accounts payable	118	139
Provision for legal claims	61	4
Deferred income	53	31
Other accrued expenses	48	45
Finance lease payments received in advance	20	84
Other liabilities	**896**	**1 309**

The movements in provisions were as follows:

	Legal claims	*Guarantees and commitments*
31 December 2011	**4**	**92**
Utilization	(4)	–
Charge/(Reversal)	4	(37)
31 December 2012	**4**	**55**
Utilization	(6)	–
Charge	63	158
31 December 2013	**61**	**213**

21. Equity

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

	Number of shares (in millions)	*Ordinary shares (nominal value)*	*Ordinary shares (inflation adjustment)*	*Total*
31 December 2011, 2012, 2013	**184**	**1 845**	**610**	**2 455**

All ordinary shares have a nominal value of RUB 10 per share and rank equally. Each share carries one vote. All shares have been fully paid in.

Share premium represents the excess of contributions received over the nominal value of shares issued.

In accordance with Russian legislation, dividends may only be declared to the shareholders of the Bank from accumulated undistributed and unreserved earnings as shown in the Bank's financial statements prepared in accordance with RAL.

(Millions of Russian Rubles)

22. Commitments and contingencies

Operating environment

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

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

Legal

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

As of 31 December 2013, the Group was engaged in number of litigation proceedings. Provision of RUB 61 million has been made as it is likely that such an amount of loss will occur (Refer to Note 20).

Taxation

Group's business activity is carried out in the Russian Federation. Russian tax, currency and customs legislation as currently in effect is vaguely drafted and is subject to varying interpretations, selective and inconsistent application and changes, which can occur frequently, at short notice and may apply retrospectively. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in their interpretation and application of this legislation and assessments. It is therefore possible that transactions and activities of the Group that have not been challenged in the past may be challenged at any time in the future. As a result, significant additional taxes, penalties and interest may be assessed by the relevant authorities.

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

The new Russian transfer pricing legislation, which came into force on 1 January 2012, allows the tax Russian authority to apply transfer pricing adjustments and impose additional profits tax liabilities in respect of all "controlled" transactions if the transaction price differs from the market price. The list of "controlled" transactions includes transactions performed with related parties and certain types of cross-border transactions. In cases where the domestic transaction resulted in an accrual of additional tax liabilities for one party to the transaction, another party could correspondingly adjust its profit tax liabilities. Special transfer pricing rules apply to transactions with securities and derivatives.

The current Russian transfer pricing rules have considerably increased the compliance burden for the taxpayers compared to the transfer pricing rules which were in effect before 2012 due to, inter alia, shifting the burden of proof from the Russian tax authorities to the taxpayers. These rules are applicable not only to the transactions taking place in 2012 but also to the prior transactions with related parties if related income and expenses were recognized in 2012 (except for several types of transactions).

In 2013 the Group determined its tax liabilities arising from "controlled" transactions using actual transaction prices.

Due to the uncertainty and absence of current practice of application of the current Russian transfer pricing legislation the Russian tax authorities may challenge the level of prices applied by the Group under the "controlled" transactions and accrue additional tax liabilities unless the Group is able to demonstrate the use of market prices with respect to the "controlled" transactions, and that there has been proper reporting to the Russian tax authorities, supported by appropriate available transfer pricing documentation.

As at 31 December 2013 management of the Group believes that its interpretation of the relevant legislation is appropriate and that the Group's tax, currency and customs positions will be sustained.

Capital expenditure commitments

As of 31 December 2013 and 2012 the Group had no contractual capital expenditure commitments in respect of premises and equipment and investment property.

(Millions of Russian Rubles)

22. Commitments and contingencies (continued)

Operating lease commitments

Where the Group is the lessee, the future minimum lease payments under non-cancellable operating leases are as follows:

	31 December 2013	*31 December 2012*
Not later than 1 year	79	64
Later than 1 year and not later than 5 years	122	114
Later than 5 years	43	103
Total operating lease commitments	**244**	**281**

Credit related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate or cash deposits and therefore carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorisations in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit related commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

Outstanding credit related commitments are as follows:

	31 December 2013	*31 December 2012*
Undrawn credit lines	48 435	20 603
Guarantees issued	14 711	7 878
Import letters of credit	2 396	1 381
	65 542	**29 862**
Less – Provisions	(213)	(55)
Total credit related commitments	**65 329**	**29 807**

Fiduciary assets

The Group provides depositary services to its customers. These assets are not included in the Group's consolidated statement of financial position as they are not assets of the Group.

Trust activities

The assets under management are not reported on the Group's consolidated statement of financial position as they are not assets of the Group. They represent assets transferred to the Group for the management under individual asset management agreements or under collective investment programmes. The assets managed by the Group are disclosed at their fair value and fall into the following categories:

	31 December 2013	*31 December 2012*
Corporate bonds	131	314
Corporate shares	36	97
Cash at brokers	20	41
Total assets under management	**187**	**452**

(Millions of Russian Rubles)

23. Interest income and expense

	2013	*2012*
Interest income		
Loans to customers	8 748	8 275
Investment securities available-for-sale	590	469
Due from other banks	115	186
Investment securities held to maturity	20	–
Current accounts with other banks	2	2
	9 475	**8 932**
Debt trading securities	242	152
Interest income	**9 717**	**9 084**
Interest expense		
Debt securities issued	2 038	495
Term deposits of individuals	1 672	1 305
Term deposits of legal entities	1 248	315
Term placements of other banks	745	2 414
Subordinated debt	28	316
Current accounts of other banks	7	1
Interest component on derivatives	–	22
Interest expense	**5 738**	**4 868**

Interest income accrued on loans, for which individual impairment allowances have been recognised, for the year ended 31 December 2013, comprised RUB 77 million (2011 – RUB 369 million). Refer to Note 12.

24. Fee and commission income and expense

	2013	*201w*
Settlement transactions	388	350
Commission on plastic cards settlements	235	186
Cash transactions	166	175
Guarantees issued	130	94
Acting as currency control agent	100	105
Safe deposits rental income	40	39
Letters of credit	32	35
Commission on cash collection	9	9
Asset management	6	10
Other	19	17
Fee and commission income	**1 125**	**1 020**
Plastic card	86	74
Settlement transactions	47	42
Cash transaction	11	15
Transactions with securities	8	3
Guarantees	7	5
Letters of credit	6	2
Other	7	6
Fee and commission expense	**172**	**147**

25. Net losses from operations with securities

	2013	*2012*
Investment securities available-for-sale:		
- Corporate bonds	(4)	(9)
- Government bonds	(1)	–
Debt securities classified as loans	–	(1)
Trading securities:		
- Government bonds	3	–
- Promissory notes	1	(1)
- Corporate bonds	(2)	3
Net losses from operations with securities	**(3)**	**(8)**

(Millions of Russian Rubles)

26. Net losses from operations with derivatives

	2013	*2012*
Net losses from operations with swaps and forwards on foreign currency	(375)	(250)
Net (losses)/gains from operations with interest rate swaps	(1)	144
Net losses from operations with interest rate options	–	(1)
Net losses from operations with derivatives	**(376)**	**(107)**

27. Net other income

	2013	*2012*
Rental income	39	41
Income from operations with precious coins	2	5
Other (expense)/income	(14)	10
Net other income	**27**	**56**

Rental income received from investment property for the year ended 31 December 2013 amounted to RUB 36 million (2012: RUB 38 million).

28. Personnel and other operating expenses

	2013	*2012*
Fixed wages and salaries, bonuses and unused vacations	2 585	2 998
Social security costs	555	575
Severance payments	84	19
Other employee benefits	39	40
Personnel expenses	**3 263**	**3 632**
Taxes other than on income	227	231
IT expenses	209	183
Advertising and marketing services	195	209
Depreciation of premises and equipment	188	223
Other expenses related to premises and equipment	186	185
Amortisation of software	122	129
Rent	109	100
Contribution to state deposit insurance system	103	88
Communication expenses	74	80
Professional services	72	70
Provision for legal claims	63	4
Net losses from operations with foreclosed assets	57	52
Security services	48	48
Business trip expenses	22	28
Depreciation of investment property	22	23
Personnel related expenses	19	43
Mailing and postal services	12	9
Provision for impairment of investment property and other non-current assets	7	59
Net losses from disposals of non-current assets held for sale	4	–
Net losses from disposals of property and equipment	1	12
Charity	1	1
Net losses from sales of investment property	–	39
Other	39	57
Administrative and other operating expenses	**1 780**	**1 873**

(Millions of Russian Rubles)

29. Taxation

The corporate income tax expense/(benefit) comprises:

	2013	*2012*
Current tax charge	99	75
Deferred tax expense/(benefit) – origination and reversal of temporary differences	–	(507)
Income tax expense/(benefit)	**99**	**(432)**

Russian legal entities must file individual tax declarations. The tax rate for companies (including banks) was 20% for 2013 and 2012. The tax rate for interest (coupon) income on government bonds and bonds secured by mortgage loans was 15% for 2013 and 2012, while the tax rate for interest (coupon) income on municipal bonds was 9%. Dividends are subject to Russian income tax at a standard rate 9%, which in certain circumstances can be decreased to 0%. Income of a mortgage agent received in course of chartered activities is not subject to income tax.

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

	2013	*2012*
Profit before tax	**419**	**750**
Statutory tax rate	20%	20%
Theoretical income tax expense at the statutory rate	**84**	**150**
Change in unrecognised deferred tax assets	3	(591)
Income on state securities taxed at different rates	(31)	(23)
Non-deductible expenditures	37	22
Underpaid current tax for prior periods	–	3
Other non-temporary differences	6	7
Income tax expense/(benefit)	**99**	**(432)**

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

		Origination and reversal of temporary differences			*Origination and reversal of temporary differences*		
	31 December 2011	*In the profit or loss*	*In other compre-hensive income*	*31 December 2012*	*In the profit or loss*	*In other compre-hensive income*	*31 December 2013*
Tax effect of deductible temporary differences:							
Unutilised tax losses (begin to expire in 2018)	701	(256)	–	445	151	–	596
Deferred income/accrued expenses	340	16	–	356	(180)	–	176
Effective interest rate accrual	161	(53)	–	108	(46)	–	62
Allowance for loan impairment and other provisions	–	–	–	–	9		9
Securities	–	–	–	–	5	2	7
Derivatives	15	(15)	–	–	1	–	1
Deferred tax asset, gross	**1 217**	**(308)**	–	**909**	**(60)**	**2**	**851**
Unrecognised deferred tax asset	(823)	591	–	(232)	(3)	–	(235)
Deferred tax asset	**394**	**283**	–	**677**	**(63)**	**2**	**616**
Tax effect of taxable temporary differences:							
Property and equipment	(103)	12	–	(91)	(9)	–	(100)
Allowance for loan impairment and other provisions	(277)	205	–	(72)	72	–	–
Securities	(14)	7	7	–	–	–	–
Deferred tax liability	**(394)**	**224**	**7**	**(163)**	**63**	–	**(100)**
Deferred tax asset, net	**–**	**507**	**7**	**514**	**–**	**2**	**516**

As of 31 December 2013 the Group has RUB 596 million of tax losses carried forwards which begin to expire in 2018, if not utilised (31 December 2012: RUB 445 million).

(Millions of Russian Rubles)

30. Risk management

Introduction

Risk is inherent in the Group's activity but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing soundness and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities. The Group is exposed to credit risk, liquidity risk, market risk (both trading and non-trading) and operational risk.

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

Risk management structure

Board of Directors

The Board of Directors is responsible for the overall risk management approach and for approving the risk strategies and principles.

Management Board

The Management Board has the responsibility to monitor the overall risk process within the Group.

Risk Committees

The Risk Committees have the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits. They are responsible for the fundamental risk issues and manage and monitor relevant risk decisions. The Risk Committees of the Group include:

- Main Credit Committee;
- Small Credit Committee;
- Credit Committee of Retail business and SME;
- Assets and Liabilities Committee (combined ALCO/Trading risk committee);
- Problem loans Management Committee.

Risk Management

The "Risks" Domain is responsible for implementing and maintaining risk related procedures to ensure an independent control process.

Compliance

Compliance function in the Group is performed by a number of units involved in the process in accordance with regulations approved by the Board of Directors and is particularly dedicated to comprehensive control in the meaning of identification, assessment and analysis of the risks linked to the following domains:

- Anti-money laundering and counter – terrorism financing;
- Investor protection, i.e. market abuse (insider trading and market manipulation), transactions with financial instruments including personal transactions and incompatibility of mandates, conflicts of interests, interests of borrowers;
- Data protection, including personal data, banking secrecy, duty of confidentiality etc.;
- Ethics and anti-fraud fighting.

Asset and Liability Management Department

Asset and Liability Management Department is responsible for managing the Group's assets and liabilities and the overall financial structure. It is also primarily responsible for the funding and liquidity risks of the Group.

(Millions of Russian Rubles)

30. Risk management (continued)

Risk management structure (continued)

Audit, Risk and Compliance Committee

The Audit, Risk and Compliance Committee assists the Board of Directors. It does this by supervising, on behalf of the Board, the integrity, efficiency and effectiveness of the internal control measures and the risk management in place, paying special attention to correct financial reporting. The Audit, Risk and Compliance Committee also oversees the company's processes to comply with laws and regulations.

Internal Audit

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

Risk Measurement

The Group's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models.

The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Group also runs worst case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

Monitoring and controlling risks is primarily performed based on limits established by the Group. These limits reflect the business strategy and market environment of the Group as well as the level of risk that the Group is willing to accept, with additional emphasis on selected industries. In addition the Group monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risks types and activities.

For the purposes of managing market risk (both trading and non-trading) the Group's statement of financial position was virtually split into two parts: the Banking Book and the Trading Book.

Trading book – includes the Group's proprietary positions in financial instruments which are intentionally acquired for short-term resale and/or which are taken on by the Group with the intention of benefiting in the short term from actual and/or expected differences between their buying and selling prices.

Banking (non-trading) book – includes everything, except for the assets and liabilities of the Trading book, both financial assets and liabilities and financial commitments and contingencies,

The split of the books reflects not only the split of the items in statement of financial position, but also the risks and the limits for them. Within the Banking book all the market risks are minimised.

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. On a monthly basis this information is presented to the Management. Audit, Risk and Compliance Committee receives a comprehensive risk report once a quarter which is designed to provide all the necessary information to assess and conclude on all relevant risks of the Group.

For all levels throughout the Group, specifically tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, necessary and up-to-date information.

Risk Mitigation

As part of its overall risk management, the Group uses derivatives and other instruments to manage exposures resulting from changes in interest rates and foreign currencies rates.

The Group actively uses collateral to reduce its credit risks (see below for more details).

Excessive Risk Concentration

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

(Millions of Russian Rubles)

30. Risk management (continued)

Risk management structure (continued)

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

Credit risk

The Group takes on exposure to credit risk which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of the Group's lending and other transactions with counterparties giving rise to financial assets.

Credit risk management in the Bank is carried out by the "Risks" Domain subordinated to the Deputy Chairman of the Board responsible for the risk management. The following units of the "Risks" Domain are involved in credit risk management: Credit Risks Department responsible for review of corporate borrowers' risks; Retail Lending Department responsible for review of retail clients' risks; Counterparties' and Issuers' Risks Division and Aggregate Risks Department covering portfolio risks review, reporting, modeling and credit risks methodology. The abovementioned units serve as the second line of credit risk management. The functions of the first line are assigned to the business-units.

Individual credit limits (per borrower, or groups of borrowers) are set in the Group by the Credit committees (collegial bodies) in accordance with the approved competences.

In 2013 the Group had the following committees whose competence included setting individual credit risk limits:

- Main Credit Committee (major areas of competence cover review and approval of any credit limits and approval of limits for transactions with banking counterparties);
- Small Credit Committee (major areas of competence cover review and approval of credit limits up to RUB 600 million for transactions with corporate clients);
- Credit Committee of Retail business and SME (areas of competence cover review and approval of all credit limits for transactions with retail and SME clients).

Also Bank's employees have individual powers for approval of credit limits on Retail clients, delegated by the Credit Committee of Retail business and SME.

All the committees operate at the Head office of the Group.

A decision on credit risk limits is taken on the basis of analysing financial and non-financial information (both financial and management reporting information is used for the analysis) on the borrower's business. During the analysis special attention is paid to financial indicators of the business, including the analysis of assets and liabilities, equity, revenues and profit – both static and dynamic. When analysing financial position of individuals, the Group pays special attention to confirmation of the borrower's claimed income and availability of assets owned by the borrower, which could serve as the evidence of the solid financial position. The main goal of the analysis is to determine opportunities and sources for repayment of loans. All information on material risks relating to the customers whose credit status is deteriorating is timely analysed by the management.

Credit risk monitoring includes control of all the terms and conditions identified when the limit was set, in particular, intended purpose, account turnovers, credit portfolio, financial position and performance, etc. Corporate borrowers are monitored on quarterly basis whereas individuals are reviewed annually.

The Group accepts the following assets for pledge as collateral: residential and non-residential properties, land, construction in progress assets, production and trading equipment, vehicles and production machinery, goods (finished products), raw materials, inventories, securities, other assets. Guarantees of the business owners or the Group's revenue generating or asset holding companies are accepted as additional collateral for loans. The Group usually uses a combination of different types of collateral and applies certain discounts to the value of collateral pledged. Mortgage pledge under a risk of loss or damage is insured by one of the insurance companies accredited by the Group.

Lending is performed in accordance with the provisions and principles of the Lending policy of the Group. Lending process implies a set of thoroughly regulated procedures, which establish the order of work with a borrower.

Credit risk for financial commitments and contingencies is defined as the possibility of sustaining a loss as a result of another party to a financial instrument failing to perform in accordance with the terms of the contract. The Group uses the same credit policies in making conditional obligations as it does for financial assets through established credit approvals, risk control limits and monitoring procedures.

(Millions of Russian Rubles)

30. Risk management (continued)

Credit risk (continued)

The Group implements on a revolving basis methodological principles and procedures focused on credit risk measurement, controlling and risk mitigation.

Credit quality per class of financial assets

The Group analyses the credit quality of debt securities and counterparties in transactions on financial markets based on analysis of the companies' (groups of companies) financial statements, as well as international ratings of the issuers.

For the purpose of credit risk restriction the Group implemented the system of limits, which allows to control credit risk for a particular issuer/counterparty or a group of counterparties/issuers.

In addition to the abovementioned limits the Group sets portfolio limits for investments in securities and transactions on financial markets.

As Fitch and Standard & Poor's international rating scales are in general consistent in credit risk characteristics that they assign to particular ratings, the Group gathers and uses for the purpose of credit quality analysis ratings by either Fitch or Standard & Poor's as being complementary.

AAA – the highest credit rating assigned. The obligor's capacity to meet its financial commitment on the obligation is extremely strong.

AA – differs from the highest-rated obligations only to a small degree. The obligor's capacity to meet its financial commitment on the obligation is very strong.

A – more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher-rated categories. However, the obligor's capacity to meet its financial commitment on the obligation is still strong.

BBB – exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation.

Obligations rated 'BB', 'B', 'CCC', 'CC', and 'C' are regarded as having significant speculative characteristics. 'BB' indicates the least degree of speculation and 'C' the highest. While such obligations will likely have some quality and protective characteristics, these may be outweighed by large uncertainties or major exposures to adverse conditions.

BB – less vulnerable to nonpayment than other speculative issues. However, it faces major ongoing uncertainties or exposure to adverse business, financial, or economic conditions which could lead to the obligor's inadequate capacity to meet its financial commitment on the obligation.

B – more vulnerable to nonpayment than obligations rated 'BB', but the obligor currently has the capacity to meet its financial commitment on the obligation. Adverse business, financial, or economic conditions will likely impair the obligor's capacity or willingness to meet its financial commitment on the obligation.

Analysis by international ratings of debt investment securities available-for-sale, debt trading securities and due from other banks outstanding at 31 December 2013 and 2012 is as follows:

	31 December 2013			***31 December 2012***		
	Debt trading securities	***Debt investment securities available-for-sale***	***Due from other banks***	***Debt trading securities***	***Debt investment securities available-for-sale***	***Due from other banks***
A+ to A-	–	–	–	–	–	3 485
BBB+ to BBB-	2 770	9 899	1 007	1 156	7 407	2 891
BB+ to BB-	1 880	–	–	821	–	–
B+ to B-	110	–	1 006	–	–	–
Unrated	–	966	–	–	–	–
Total	**4 760**	**10 865**	**2 013**	**1 977**	**7 407**	**6 376**

The credit quality of loans to customers is managed by the Group based on credit ratings set in accordance with internal PD model. PD model was applied by the Group in order to divide clients into the groups based on their creditworthiness using a statistical model of default probabilities for corporate clients.

(Millions of Russian Rubles)

30. Risk management (continued)

Credit risk (continued)

Probability of Default (PD) – is the probability of insolvency of the counterparty for a specified period. In the practice of the Group the probability of default is estimated for the time horizon of one year. Rating of the probability of default (PD-rating) – is an indicator which takes values from 1 to 12 (where PDs 10, 11 and 12 – are determined to be impaired or default), which is set to each counterparty that has a calculated value of the probability of default on a special scale.

The table below shows the master scale of PD ratings:

PD rating	*Probability of default (%)*
1	Up to 0.1
2	from 0.1 to 0.2
3	from 0.2 to 0.4
4	from 0.4 to 0.8
5	from 0.8 to 1.6
6	from 1.6 to 3.2
7	from 3.2 to 6.4
8	from 6.4 to 12.8
9	from 12.8 to 100
10	100
11	100
12	100

The PD-ratings 10, 11 and 12 are not calculated using the PD-model, but are assigned according to definition of default, non-performing and uncollectable loans approved by the Bank.

The table below shows the summarized credit quality of loans to customers based on PD ratings as of 31 December 2013.

	Neither past due nor impaired loans									*Loans past due but not impaired*	*Individually Impaired loans (10-12)*	*Total*
	2	*3*	*4*	*5*	*6*	*7*	*8*	*9*	*Not rated*			
Corporate loans	298	100	1 061	4 178	8 316	6 858	6 436	5 360	–	126	1 919	34 652
Trade finance	–	–	–	126	1 056	–	49	64	–	–	1 003	2 298
SME loans	–	17	272	822	796	56	–	–	62	9	13	2 047
Finance lease receivables	141	11	23	276	238	92	11	24	–	–	213	1 029
Corporate bonds	–	–	–	–	–	–	–	–	–	–	26	26
Mortgage loans	8 856	–	55	24 153	24	3 747	7	1 501	–	552	425	39 320
Car loans	2 062	–	1 383	204	243	79	68	97	–	36	19	4 191
SME loans	–	3	112	819	851	4	1	1	120	–	1	1 912
Credit cards	–	–	–	153	1	93	1	43	2	25	169	487
Cash loans	–	–	–	–	–	–	–	–	865	20	11	896
Total	**11 357**	**131**	**2 906**	**30 731**	**11 525**	**10 929**	**6 573**	**7 090**	**1 049**	**768**	**3 799**	**86 858**

The table below shows the summarized credit quality of corporate loans and trade finance based on PD ratings as of 31 December 2012.

	Neither past due nor impaired loans									*Loans past due but not impaired*	*Individually Impaired loans (10-12)*	*Total*
	2	*3*	*4*	*5*	*6*	*7*	*8*	*9*	*Not rated*			
Corporate loans	1 039	285	1 787	7 784	8 982	3 247	345	51	–	–	2 780	26 300
Trade finance	–	–	41	22	1 105	169	–	–	–	–	1 005	2 342
SME loans	–	3	194	784	730	19	–	–	92	32	149	2 003
Finance lease receivables	256	–	83	158	280	150	13	22	4	4	285	1 255
Corporate bonds	–	–	–	–	–	–	–	–	–	–	158	158
Mortgage loans	15 693	–	98	12 891	31	2 363	9	1 529	–	341	765	33 720
Car loans	2 362	–	1 361	93	321	101	92	104	–	37	192	4 663
SME loans	–	–	123	788	777	5	2	–	83	5	86	1 869
Credit cards	–	–	–	97	–	117	1	37	2	30	161	445
Cash loans	–	–	–	–	–	–	–	–	10	–	–	10
Total	**19 350**	**288**	**3 687**	**22 617**	**12 226**	**6 171**	**462**	**1 743**	**191**	**449**	**5 581**	**72 765**

(Millions of Russian Rubles)

30. Risk management (continued)

Credit risk (continued)

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

Aging analysis of past due but not impaired loans to customers

	Less than 30 days	***31 to 90 days***	***More than 365 days***	***Total 2013***
Corporate loans	126	–	–	126
SME loans	7	2	–	9
Mortgage loans	528	14	10	552
Car loans	34	2	–	36
Credit cards	25	–	–	25
Cash loans	20	–	–	20
Total	**740**	**18**	**10**	**768**

	Less than 30 days	***31 to 90 days***	***More than 365 days***	***Total 2012***
Mortgage loans	326	14	1	341
Car loans	36	1	–	37
SME loans	18		19	37
Credit cards	30	–	–	30
Finance lease receivables	1		3	4
Total	**411**	**15**	**23**	**449**

Collateral and other credit enhancements

The required level of collateral cover is set by the Group's specialists for the groups of related borrowers with specified description of collateral types and taking into account lending limits set for these groups of related borrowers. The value of collateral is determined by application of a discount to market price of collateral. For inventory pledged, for which sales prices are readily available (cars, metals, raw materials, etc.), the evaluation basis is pricelist (adequacy review of prices is performed in accordance with internal procedures). The discount applied to these prices is from 20 to 30%. Prices on goods considerably dependent upon specific qualities of a particular product (footwear, household appliances, foods, etc.) are evaluated on the basis of carrying amounts, warehouse accounting prices, etc. with more substantial discounts. For real estate, collateral is assessed on the basis of market value as reported by the professional valuer with a discount individually determined depending on the type of the asset, except for typical corporate business products. The amount of the required collateral cover is dependent upon lending exposure. The amount of this lending exposure is in general less than the discounted value of collateral, if not decided otherwise. Credit cards loans and the majority of consumer loans are not collateralised.

Impairment assessment

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Group addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

Individually assessed allowances

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

(Millions of Russian Rubles)

30. Risk management (continued)

Credit risk (continued)

Allowances assessed on portfolio basis

Allowances are assessed on portfolio basis for losses on loans to customers that are not individually significant (including credit cards, residential mortgages and unsecured consumer lending) and for individually significant loans where there is not yet objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

The assessment on portfolio basis takes account of impairment that is likely to be present in the portfolio even though there is no yet objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration the following information: historical losses on the portfolio, current economic conditions, the appropriate delay between the time a loss is likely to have been uncured and the time it will be identified as requiring an individually assessed impairment allowance. The impairment allowance is then reviewed by credit management to ensure alignment with the Group's overall policy.

The geographical concentration of Group's financial assets and liabilities is set out below:

	31 December 2013				*31 December 2012*			
	Russia	***OECD***	***Other***	***Total***	***Russia***	***OECD***	***Other***	***Total***
Assets								
Cash and cash equivalents	13 838	3 369	2	**17 209**	11 146	4 480	2	**15 628**
Mandatory cash balances with the Central Bank of the Russian Federation	604	–	–	**604**	619	–	–	**619**
Trading securities	603	–	–	**603**	599	–	–	**599**
Trading securities pledged under repurchase agreements	4 157	–	–	**4 157**	1 378	–	–	**1 378**
Reverse repurchase agreements	4 385	–	–	**4 385**	–	–	–	–
Due from other banks	1 938	75	–	**2 013**	2 891	3 485	–	**6 376**
Derivative financial assets	24	–	–	**24**	31	4	–	**35**
Loans to customers	83 514	–	–	**83 514**	68 765	–	–	**68 765**
Investment securities available-for-sale	9 897	–	–	**9 897**	7 407	–	–	**7 407**
Investment securities available-for-sale pledged under repurchase agreements	1 110	–	–	**1 110**	–	–	–	–
Other assets	751	–	–	**751**	345	–	–	**345**
	120 821	**3 444**	**2**	**124 267**	**93 181**	**7 969**	**2**	**101 152**
Liabilities								
Due to other banks	12 892	1 124	–	**14 016**	3 320	23 254	–	**26 574**
Derivative financial liabilities	26	9	–	**35**	21	22	–	**43**
Customer accounts	61 800	1 236	249	**63 285**	46 958	70	281	**47 309**
Debt securities issued	33 047	–	–	**33 047**	11 554	–	–	**11 554**
Other liabilities	331	–	–	**331**	194	–	–	**194**
Subordinated debt	–	221	–	**221**	–	1 928	–	**1 928**
	108 096	**2 590**	**249**	**110 935**	**62 047**	**25 274**	**281**	**87 602**
Net position	**12 725**	**854**	**(247)**	**13 332**	**31 134**	**(17 305)**	**(279)**	**13 550**
Financial commitments and contingencies	**64 062**	**1 267**	**–**	**65 329**	**29 025**	**713**	**69**	**29 807**

(Millions of Russian Rubles)

30. Risk management (continued)

Liquidity risk and funding management

Liquidity risk is the risk that the Group will be unable to meet its obligations when they fall due. To limit this risk, the Group maintains sustainable funding base comprising of term deposits of legal entities and individuals and debt securities issued. The Group invests funds to the diversified portfolios of liquid assets to be able to easily meet unforeseen liquidity needs.

The management also manages assets taking into account the liquidity concept and daily monitoring of future cash flows. This incorporates an assessment of expected cash flows and the availability of high quality collateral which could be used to secure additional funding, if required.

The liquidity position is assessed and managed based on certain liquidity ratios established by the CBRF and internal regulations of the Group, including liquidity stress testing.

Due to the operational liquidity needs liquidity target consists of two parts: cash and cash equivalents and bonds of high quality Russian issuers.

- The Group maintains a required level of cash and cash equivalents to ensure continuous operations and solvency of the Group.
- Banking (non-trading) portfolio comprising of bonds of high quality Russian issuers is a liquidity reserve which, if required, can be used as collateral under transactions with the CBRF, or realised shortly with a minimum discount.

Analysis of financial liabilities by remaining contractual maturities

The table below summarizes the maturity profile of the Group's financial liabilities at 31 December 2013 and 2012 based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Group expects that many customers will not request repayment on the earliest date the Group could be required to pay and the table does not reflect the expected cash flows indicated by the Group's deposit retention history.

Financial liabilities As at 31 December 2013	***Less than 3 months***	***3 to 12 months***	***1 to 5 years***	***Over 5 years***	***Total***
Due to other banks	13 416	143	525	–	14 084
Foreign exchange derivative contracts					
- Contractual amounts payable	7 433	–	–	–	7 433
- Contractual amounts receivable	(7 406)	–	–	–	(7 406)
Customer accounts	47 436	14 759	16 047	–	78 242
Debt securities issued	4 227	18 891	12 820	1 782	37 720
Subordinated debt	114	112	–	–	226
Total undiscounted financial liabilities	**65 220**	**33 905**	**29 392**	**1 782**	**130 299**

Financial liabilities As at 31 December 2012	***Less than 3 months***	***3 to 12 months***	***1 to 5 years***	***Over 5 years***	***Total***
Due to other banks	3 805	10 298	11 415	3 149	28 667
Foreign exchange derivative contracts					
- Contractual amounts payable	3 234	35	–	–	3 269
- Contractual amounts receivable	(3 214)	(35)	–	–	(3 249)
Customer accounts	43 699	12 503	6 212	–	62 414
Debt securities issued	4 616	838	7 212	–	12 666
Subordinated debt	111	158	1 927	–	2 196
Total undiscounted financial liabilities	**52 251**	**23 797**	**26 766**	**3 149**	**105 963**

The table below shows the contractual expiry by maturity of the Group's financial commitments and contingencies.

	Less than 3 months	***3 to 12 months***	***1 to 5 years***	***Total***
2013	9 022	30 223	26 297	65 542
2012	7 721	18 436	3 705	29 862

(Millions of Russian Rubles)

30. Risk management (continued)

Liquidity risk and funding management (continued)

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

The Group's capability to repay its liabilities relies on its ability to realize an equivalent amount of assets within the same period of time.

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

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates, and security prices. The Group classifies exposures to market risk into either trading or banking (non-trading) portfolios, which is in line with the generally accepted pratice. The market risk for the trading and banking positions are managed and monitored by setting up appropriate limits and applying sensitivity analysis.

The responsible collegial bodies set limits on the level of risk that may be accepted. The Group applies sensitivity analysis both for assessment of positions subject to market risk and estimation of the potential economic losses.

For managing the price, interest rate and currency risk the sensitivity of the portfolio of homogeneous financial instruments to the reasonable possible change (RPC) of market index, yield curve and interest rates are applied.

Market risk – Trading

Price risk

There were no material equity positions in the Trading book in 2013 and 2012.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The following table demonstrates the sensitivity (calculation is based on durations of instruments) to a reasonable possible change in interest rates, with all other variables held constant, of the Trading book.

	Increase in basis points		***Sensitivity of profit/loss before tax***	
Currency	***2013***	***2012***	***2013***	***2012***
RUR	182	260	(71)	(46)

	Decrease in basis points		***Sensitivity of profit/loss before tax***	
Currency	***2013***	***2012***	***2013***	***2012***
RUR	(182)	(104)	71	18

Market risk – Non-trading

Price risk

As of 31 December 2013 the Group has equity instruments sensitive to market position changes (2012: there were no equity positions in the Banking book). The Group applies VaR (Value at Risk) model for assessment of price risk for equity instruments. VaR allows to estimate the maximum probable future losses within the set period of time with the set probability.

Financial instrument	***Amount 2013***	***VaR (99%, 1 month), 2012***
Ordinary shares	142	21

(Millions of Russian Rubles)

30. Risk management (continued)

Market risk (continued)

Interest rate risk

The sensitivity of net interest income (NII) before tax is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities. The sensitivity of equity (defined based on maturity of financial instruments/duration) estimates revaluation of fixed rate available-for-sale financial assets at 31 December for the effects of the assumed changes in interest rates based on the assumption that there are parallel shifts in the yield curve.

	Increase in basis points		*Sensitivity of NII before tax*		*Sensitivity of equity*	
Currency	***2013***	***2012***	***2013***	***2012***	***2013***	***2012***
RUR	182	260	32	65	(169)	(52)

	Decrease in basis points		*Sensitivity of NII before tax*		*Sensitivity of equity*	
Currency	***2013***	***2012***	***2013***	***2012***	***2013***	***2012***
RUR	(182)	(104)	(32)	(26)	169	21

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

The Group sets limits for each currency on currency positions both for trading and banking portfolios. The limits are monitored on a daily basis. The Group performs hedging transactions for the purpose of maintenance the currency risk at a low level.

The tables below indicate the currencies to which the Group had significant exposure at 31 December 2013 and 2012. The analysis calculates the effect of a reasonably possible movement of the currency rate against the RUR on the statement of comprehensive income.

	Increase in currency rate in %		*Effect on profit/(loss) before tax*	
Currency	***2013***	***2012***	***2013***	***2012***
USD	10.2	10.7	(69)	(190)
EUR	8.6	9.5	4	(7)

	Decrease in currency rate in %		*Effect on profit/(loss) before tax*	
Currency	***2013***	***2012***	***2013***	***2012***
USD	(10.2)	(10.7)	69	190
EUR	(8.6)	(9.5)	(4)	7

Operational risk

Operational risk is a risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. In course of operational risk management the Group considers legal risk, risk of fraud, but it does not include business risk, strategic risk and reputation risk.

The Bank currently tailors an operational risk management framework to the new management and shareholder. The main precept of operational risk management is that ultimate responsibility for managing operational risk lies with line management, which receives support from local operational risk managers ('LORM') and is supervised by the Deputy Chairman of the Board responsible for the risk management and the Chairman of the Board. Concrete risk mitigating measures are taken either via line management or by the collegial management bodies. The LORMs are specifically trained employees who also keep business functions.

The framework consists of a number of building blocks for managing operational risks. These building blocks are described in the ORM Policy, which also includes the methodology applied to define the operational risk capital charge. The building blocks consist of:

- The loss events information: since 2009 all operational losses of EUR 1 000 or more, resulted from operational risks, are recorded in a central database and reported to the Management Board monthly;
- New products (services) approval process in terms of operational risk: the main process aim is identification and evaluation all inherent risks before new product launch. Approval of a new product/amendment of the existing one is made based on risks revealed.

(Millions of Russian Rubles)

30. Risk management (continued)

Operational risk (continued)

- Key Risk Indicators ('KRI') – selected parameters, tailored to selected business processes or areas, which are assumed to have a signaling function regarding changes in the operational risk profile or adequacy of existing controls. In 2013 the following KRIs were applied:
  - For fraud control in plastic cards, internet banking and credit products,
  - For information security incidents monitoring,
  - Others.

It is an ongoing process of redevelopment of indicators (correction of calculation algorithms and thresholds) and implementation of new KRIs for other processes.

31. Fair values of financial instruments

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy. The table below analyses the fair values of assets and liabilities by the level in the fair value hierarchy as of 31 December 2013, and compares by classes the carrying amounts and fair values of the Group's assets and liabilities.

	Fair value measurement using					
	Quoted prices in active markets (Level 1)	*Significant observable inputs (Level 2)*	*Significant unobservable inputs (Level 3)*	*Total fair value*	*Carrying value*	*Unrecognised gain/(loss)*
Assets measured at fair value						
Trading securities	603	–	–	603	603	–
Trading securities pledged under repurchase agreements	4 157	–	–	4 157	4 157	–
Derivative financial assets	–	24	–	24	24	–
Investment securities available-for-sale	9 897	–	–	9 897	9 897	–
Investment securities available-for-sale pledged under repurchase agreements	1 110	–	–	1 110	1 110	–
Assets for which fair values are disclosed						
Cash and cash equivalents	12 789	4 420	–	17 209	17 209	–
Mandatory cash balances with the Central Bank of the Russian Federation	604	–	–	604	604	–
Reverse repurchase agreements	–	4 385	–	4 385	4 385	–
Due from other banks	–	2 013	–	2 013	2 013	–
Loans to customers	–	–	83 233	83 233	83 514	(281)
Investment property	–	–	1 067	1 067	954	113
Liabilities measured at fair value						
Derivative financial liabilities	–	35	–	35	35	–
Liabilities for which fair values are disclosed						
Due to other banks	–	14 017	–	14 017	14 016	(1)
Customer accounts	–	63 285	–	63 285	63 285	–
Debt securities issued	30 075	3 171	–	33 246	33 047	(199)
Subordinated debt	–	222	–	222	221	(1)
Total unrecognised change in unrealised fair value						**(369)**

(Millions of Russian Rubles)

31. Fair values of financial instruments (continued)

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

At 31 December 2012	***Level 1***	***Level 2***	***Total***
Financial assets			
Trading securities	1 977	–	1 977
Derivative financial instruments	–	35	35
Investment securities available for sale	7 407	–	7 407
	9 384	**35**	**9 419**
Financial liabilities			
Derivative financial instruments	–	43	43

Set out below is a comparison by class of the carrying amounts and fair values of the Group's financial instruments that are not carried at fair value in the consolidated statement of financial position as of 31 December 2012. The table does not include the fair values of non-financial assets and non-financial liabilities.

	31 December 2012		
	Carrying value	***Fair value***	***Unrecognised gain/(loss)***
Financial assets			
Cash and cash equivalents	15 628	15 628	–
Mandatory cash balances with the Central Bank of the Russian Federation	619	619	–
Due from other banks	6 376	6 376	–
Loans to customers	68 765	67 926	(839)
Financial liabilities			
Due to other banks	26 574	26 442	132
Customer accounts	47 309	47 308	1
Debt securities issued	11 554	11 584	(30)
Subordinated debt	1 928	1 928	–
Total unrecognised change in unrealised fair value			**(736)**

Financial instruments recorded at fair value

The following is a description of the determination of fair value for financial instruments which are recorded at fair value using valuation techniques. These incorporate the Group's estimate of assumptions that a market participant would make when valuing the instruments.

Derivatives

Derivatives valued using a valuation technique with market observable inputs are mainly interest rate swaps, currency swaps and forward foreign exchange contracts. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves.

Fair values of financial assets and financial liabilities, not recorded at fair value

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. The Russian Federation continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

Cash and cash equivalents are carried at amortised cost, which approximates current fair value.

(Millions of Russian Rubles)

31. Fair values of financial instruments (continued)

Fair values of financial assets and financial liabilities, not recorded at fair value (continued)

Loans and receivables carried at amortised cost

The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

The Group believes that the carrying amount of due from other banks and reverse repurchase agreements balances closely approximates their fair value as all such transactions are either of a short term nature, or were performed shortly before the reporting date.

Liabilities carried at amortised cost

The fair value of debt securities in issue is based on quoted market prices. The estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The fair value of liabilities repayable on demand or after a notice period ("demandable liabilities") is estimated as the amount payable on demand, discounted from the first date that the amount could be required to be paid.

Fair values of non-financial assets, not recorded at fair value

Fair value of investment property was determined by using market comparable method. This means that valuations performed by the valuer are based on market transaction prices, significantly adjusted for difference in the nature, location or condition of the specific property.

32. Transferred financial assets that are not derecognized in their entirety

The following table provides a summary of financial assets which have been transferred in such a way that part or all of the transferred financial assets do not qualify for derecognition as of 31 December 2012 and 2013:

31 December 2013	*Transferred financial asset*	*Trading securities* Corporate bonds	*Available-for-sale* Corporate bonds	*Total*
Carrying amount assets	Repurchase agreements	4 157	1 110	5 267
Total		**4 157**	**1 110**	**5 267**
Carrying amount associated liabilities	Repurchase agreements	3 357	1 000	4 357
Total		**3 357**	**1 000**	**4 357**

31 December 2012	*Transferred financial asset*	*Trading securities* Corporate bonds	*Available-for-sale* Corporate bonds	*Total*
Carrying amount assets	Repurchase agreements	1 378	–	1 378
Total		**1 378**	**–**	**1 378**
Carrying amount associated liabilities	Repurchase agreements	1 185	–	1 185
Total		**1 185**	**–**	**1 185**

Repurchase agreements

The securities sold under agreements to repurchase are transferred to a third party and the Group receives cash in exchange, or other financial assets. If the securities increase or decrease in value, the Group may, in certain circumstances, require, or be required, to pay additional cash collateral. The Group has determined that it retains substantially all the risks and rewards of these securities, which includes credit risk, market risk, country risk and operational risk, and therefore has not derecognised them. In addition, it recognised a financial liability for cash received.

(Millions of Russian Rubles)

32. Transferred financial assets that are not derecognized in their entirety (continued)

Similarly the Group may sell or re-pledge securities borrowed or purchased under agreements to resell, but has an obligation to return the securities and the counterparty retains substantially all the risks and rewards of ownership. Consequently the securities are not recognised by the Group.

The carrying amount and fair value of securities sold under agreements to repurchase at 31 December 2013 was RUB 5 267 million (2012: RUB 1 378 million), of which securities with a fair value of RUB 4 157 million (2012: RUB 1 378 million) were classified as trading and securities with a fair value of RUB 1 110 million (2012: null) were classified as available-for-sale.

The associated liabilities, which are recorded against the cash received for such transactions, are presented in the statement of financial position at 31 December 2013 as amounts due to other banks for RUB 4 357 million (2012: RUB 1 185 million).

33. Maturity analysis of assets and liabilities

In its day-to-day liquidity management performed by the Treasury and liquidity reporting to ALCO the Group uses information from management accounts, which are based on statutory financial reporting figures. The liquidity analysis based on the international financial reporting figures as adjusted above is used as a subsequent control tool and in reporting to the international finance creditors.

The tables below shows an analysis of financial assets and liabilities as of 31 December 2013 and 2012 according to when they are contracted to be recovered or settled, except for mortgage loans, which are divided based on recursion model, which uses statistic data for period of 1 year for estimation of future payments, and bonds issued secured with mortgage loans, which are divided based on maturity analysis of related mortgage loans. See Note 30 for the Group's contractual undiscounted repayment obligations.

31 December 2013	*Demand and less than 1 month*	*From 1 to 3 months*	*From 3 to 12 months*	*From 12 months to 5 years*	*Over 5 years*	*Overdue*	*No stated maturity*	*Total*
Cash and cash equivalents	17 209	–	–	–	–	–	–	17 209
Mandatory cash balances with the Central Bank of the Russian Federation	–	–	–	–	–	–	604	604
Trading securities	603	–	–	–	–	–	–	603
Trading securities pledged under repurchase agreements	4 157	–	–	–	–	–	–	4 157
Reverse repurchase agreements	4 077	308	–	–	–	–	–	4 385
Due from other banks	1 007	–	–	–	1 006	–	–	2 013
Derivative financial assets	5	12	7	–	–	–	–	24
Loans to customers	3 738	10 615	23 173	36 018	9 646	324	–	83 514
Investment securities available-for-sale	9 897	–	–	–	–	–	–	9 897
Investment securities available-for-sale pledged under repurchase agreements	1 110	–	–	–	–	–	–	1 110
Other assets	735	16	–	–	–	–	–	751
Total financial assets	**42 538**	**10 951**	**23 180**	**36 018**	**10 652**	**324**	**604**	**124 267**
Due to other banks	11 855	1 524	123	514	–	–	–	14 016
Derivative financial liabilities	25	2	–	8	–	–	–	35
Customer accounts	24 896	9 840	14 126	14 423	–	–	–	63 285
Debt securities issued	630	511	6 551	23 932	1 423	–	–	33 047
Other liabilities	331	–	–	–	–	–	–	331
Subordinated debt	–	113	108	–	–	–	–	221
Total financial liabilities	**37 737**	**11 990**	**20 908**	**38 877**	**1 423**	**–**	**–**	**110 935**
Net liquidity gap	**4 801**	**(1 039)**	**2 272**	**(2 859)**	**9 229**	**324**	**604**	**13 332**
Cumulative liquidity gap	**4 801**	**3 762**	**6 034**	**3 175**	**12 404**	**12 728**	**13 332**	

(Millions of Russian Rubles)

33. Maturity analysis of assets and liabilities (continued)

31 December 2012	*Demand and less than 1 month*	*From 1 to 3 months*	*From 3 to 12 months*	*From 12 months to 5 years*	*Over 5 years*	*Overdue*	*No stated maturity*	*Total*
Cash and cash equivalents	15 628	–	–	–	–	–	–	15 628
Mandatory cash balances with the Central Bank of the Russian Federation	–	–	–	–	–	–	619	619
Trading securities	599	–	–	–	–	–	–	599
Trading securities pledged under repurchase agreements	1 378	–	–	–	–	–	–	1 378
Due from other banks	6 376	–	–	–	–	–	–	6 376
Derivative financial assets	28	6	1	–	–	–	–	35
Loans to customers	5 194	9 753	19 541	28 027	5 538	712	–	68 765
Investment securities available-for-sale	7 407	–	–	–	–	–	–	7 407
Other assets	323	22	–	–	–	–	–	345
Total financial assets	**36 933**	**9 781**	**19 542**	**28 027**	**5 538**	**712**	**619**	**101 152**
Due to other banks	4 918	69	8 959	9 591	3 037	–	–	26 574
Derivative financial liabilities	13	7	–	23	–	–	–	43
Customer accounts	25 468	4 360	11 867	5 614	–	–	–	47 309
Debt securities issued	174	1 417	934	9 029	–	–	–	11 554
Other liabilities	194	–	–	–	–	–	–	194
Subordinated debt	–	108	104	1 716	–	–	–	1 928
Total financial liabilities	**30 767**	**5 961**	**21 864**	**25 973**	**3 037**	–	–	**87 602**
Net liquidity gap	**6 166**	**3 820**	**(2 322)**	**2 054**	**2 501**	**712**	**619**	**13 550**
Cumulative liquidity gap	**6 166**	**9 986**	**7 664**	**9 718**	**12 219**	**12 931**	**13 550**	

34. Related party disclosures

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

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

The volumes of related party transactions, outstanding balances at the year end, and related expense and income for the year are presented in the table below. During 2013 the Group didn’t perform any transactions with the Parent and the ultimate controlling party. Transactions with the Parent, as of 31 December 2012, are disclosed till the date of ultimate controlling party change in 2013. As of 31 December 2013 other related parties are companies under significant influence of the ultimate controlling party. As of 31 December 2012 other related parties are companies under control of one of the members of Board of Directors of the Bank.

(Millions of Russian Rubles)

34. Related party disclosures (continued)

	2013				2012			
	Parent as of 31 December 2012	*Other related parties*	*Entities under common control*	*Key management personnel*	*Parent*	*Other related parties*	*Entities under common control*	*Key management personnel*
Consolidated statement of financial position:								
Cash and cash equivalents (contractual interest rates: 2013: null; 2012: 0%)	–	–	–	–	1 626	–	–	–
Reverse repurchase agreements (contractual interest rates: 2013: 5.8%-10.5%; 2012: null)	–	–	3 318	–	–	–	–	–
Due from other banks (contractual interest rates: 2013: 9.8%; 2012: 0.01-6.5%)	–	–	1 006	–	3 416	–	–	–
Gross amount of loans and advances to customers (contractual interest rates: 2013: 9.2-17%; 2012: 9.55-11.25%)	–	–	1 282	2	–	2 358	–	6
Allowance for impairment of loans to customers	–	–	(8)	–	–	(27)	–	–
Derivative financial assets	–	–	4	–	4	–	–	–
Investment securities available-for-sale (contractual interest rates: 2013: 10%; 2012: null)	–	–	966	–	–	–	–	–
Due to other banks (contractual interest rates: 2013: 0-7.5%; 2012: 0.02-8.4%)	–	–	3 046	–	22 947	–	1	–
Customer accounts (contractual interest rates: 2013: 0.12-10.5%; 2012: 0-10%)	–	6	9 242	349	–	209	68	14
Other liabilities	–	–	–	3	2	–	–	229
Subordinated debt (contractual interest rate: 2013: null; 2012: 3.27%)	–	–	–	–	1 518	–	–	–
Consolidated statement of comprehensive income:								
Interest income	12	–	77	1	75	186	–	1
Interest expense	(478)	(1)	(530)	(9)	(2 257)	(9)	(1)	(1)
Allowance for loan impairment	–	–	(8)	–	–	(27)	–	–
Fee and commission income	–	–	–	–	1	7	–	–
Fee and commission expense	–	–	–	–	(1)	–	–	–
Net (losses)/gains from trading in foreign currencies	(4)	–	–	–	1	(8)	–	–
Net gains/(losses) from operations with derivatives	11	–	4	–	51	–	3	–
Administrative and other operating expenses	–	–	–	–	(19)	–	–	–
Credit related commitments:								
Undrawn credit lines	–	–	1 558	4	500	150	–	6
Guaranties issued	–	82	–	–	–	–	–	–

Compensation of key management personnel was comprised of the following:

	2013	*2011*
Salaries and other short-term benefits	145	280
Social security costs	13	28
Total key management compensation	**158**	**308**

(Millions of Russian Rubles)

35. Capital adequacy

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

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

The primary objectives of the Group's capital management are to ensure that the Group complies with externally imposed capital requirements and that the Group maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value.

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

Capital adequacy ratio under Basel II Capital Accord

The Group applies guidelines set out in June 2006 by the Basel Committee of Banking Regulation and Supervision in "International Convergence of Capital Measurement and Capital Standards: a Revised Framework" ("Basel II").

The Group uses following approaches stipulated by the Basel II:

- The minimum capital requirements for credit risk are calculated based on the standardized approach supported by an external rating assessment;
- The minimum capital requirements for market risk are calculated under standardized measurement method of assessment of weighted risk assets;
- The minimum capital requirements for operational risk are calculated based on Basic Indicator Approach.

The Group's capital adequacy ratio, computed in accordance with the Basel II Capital Accord as at 31 December 2013 and 2012, comprised:

	31 December 2013	*31 December 2012*
Tier 1 capital	18 066	17 746
Tier 2 capital	16	1 606
Regulatory capital	**18 082**	**19 352**
Weighted risks		
Credit risk	95 601	71 331
Market risk	3 313	2 279
Operational risk	9 999	11 826
Total weighted risk volume	**108 913**	**85 436**
Tier 1 capital ratio	16.6%	20.8%
Total capital ratio	16.6%	22.7%

(Millions of Russian Rubles)

36. Subsequent events

In the end of 2013 the new shareholder made a decision of reorganisation of the Bank in form of merge with KIT Finance Investment Bank (OJSC), which is under common control. Pursuant to the law the Bank notified controlling state bodies about the launch of reorganisation process. Reorganisation is planned to be completed by the end of the first half of 2014.

The shareholder of the Bank approved the decision on additional issue of 69 705 428 units of ordinary shares with the nominal value of RUB 10 each. Therefore the capital of the Bank will be increased from RUB 1 845 million to RUB 2 542 million. Shares will be placed through conversion of KIT Finance Investment Bank's (OJSC) ordinary registered uncertified shares into them.

Approved for issue and signed on behalf of the Management Board on 4 March 2014

A.V. Degtyarev
Chairman of the Board, CEO

O.N. Prigornitskaya
Chief Accountant