“Asian-Pacific Bank”

(Open joint stock company)

Consolidated Financial Statements

for the year ended 31 December 2013

Contents

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Auditors' Report

To the Shareholders and the Board of Directors of "Asian-Pacific Bank" (Open joint stock company)

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

Audited entity: "Asian-Pacific Bank" Open joint stock company.

Registered by the Central Bank of the Russian Federation on 14 February 1992, Registration No. 1810.

Entered in the Unified State Register of Legal Entities on 22 August 2002 by Amur Regional Tax Inspectorate of the Ministry of Taxes and Duties of the Russian Federation, Registration No. 1022800000079, Certificate series 28 No. 000749008.

Address of the audited entity: 225 Amurskaya St., Blagoveschensk, Amur region, Russian Federation, 675000.

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

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

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

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

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

Opinion

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

Kolosov A.E.

Director

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

ZAO KPMG

Moscow, Russian Federation

28 April 2014

	Notes	2013 RUB'000	2012 RUB'000
Interest income	4	15 940 125	11 079 208
Interest expense	4	(7 011 734)	(4 566 566)
Net interest income		**8 928 391**	**6 512 642**
Fee and commission income	5	3 530 947	2 209 602
Fee and commission expense		(258 249)	(214 811)
Net fee and commission income		**3 272 698**	**1 994 791**
Net gain on financial instruments at fair value through profit or loss and realised gain on available-for-sale financial assets		1 108 035	768 517
Net foreign exchange gain	6	363 019	289 356
Net (loss) gain on operations with precious metals	7	(5 790)	26 428
Other operating income	8	540 975	513 930
Operating income		**14 207 328**	**10 105 664**
Impairment losses	9	(4 478 297)	(1 732 257)
Personnel expenses	10	(3 897 460)	(2 997 249)
Other general administrative expenses	11	(1 965 403)	(1 393 478)
Profit before income tax		**3 866 168**	**3 982 680**
Income tax expense	12	(753 208)	(721 440)
Profit for the year		**3 112 960**	**3 261 240**
Other comprehensive income, net of income tax			
Items that are or may be reclassified subsequently to profit or loss			
Revaluation reserve for available-for-sale financial assets			
- Net change in fair value		(137 600)	9 718
- Net change in fair value transferred to profit or loss		98 055	-
Total items that are or may be reclassified subsequently to profit or loss		*(39 545)*	*9 718*
Items that will not be reclassified to profit or loss			
- Revaluation of buildings		342 262	-
Total items that will not be reclassified to profit or loss		*342 262*	-
Other comprehensive income for the year, net of income tax		**302 717**	**9 718**
Total comprehensive income for the year		**3 415 677**	**3 270 958**

The consolidated financial statements were approved by the Management Board on 28 April 2014.

Mr. S.A. Tyrtsev
Chairman of the Management Board

Mr. O.V. Marinchenko
Chief Accountant

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

	Notes	2013 RUB'000	2012 RUB'000
ASSETS			
Cash		2 752 702	2 635 977
Placements with the Central Bank of the Russian Federation	13	6 021 534	3 102 000
Financial instruments at fair value through profit or loss	14	10 676 182	12 400 814
Available-for-sale financial assets	15	6 223 872	3 412 061
Due from banks	16	3 100 556	3 627 677
Amounts receivable under reverse repurchase agreements	17	335 720	150 107
Loans to customers	18	80 424 773	58 468 269
Net investments in finance leases	19	2 411 995	2 071 329
Current tax asset		27 549	9 563
Deferred tax asset	12	51 462	25 432
Property, equipment, intangible assets and investment property	21	5 005 641	4 592 030
Other assets	22	1 524 276	1 680 550
Total assets		**118 556 262**	**92 175 809**
LIABILITIES			
Derivative financial instruments	14	16 430	160 740
Deposits and balances from banks	23	6 994 667	7 130 691
Amounts payable under repurchase agreements	24	6 809 841	2 113 126
Current accounts and deposits from customers	25	81 370 124	65 143 328
Debt securities issued	26	6 104 061	4 184 231
Subordinated borrowings	27	986 344	915 050
Current tax liability		184 630	87 204
Deferred tax liability	12	444 077	288 773
Other liabilities	28	1 055 670	623 732
Total liabilities		**103 965 844**	**80 646 875**
EQUITY			
Share capital	29	562 312	562 312
Treasury shares		(10 307)	-
Share premium		1 192 723	1 192 723
Revaluation reverve for available-for-sale financial assets		(29 827)	9 718
Revaluation surplus for buildings		1 620 178	1 280 014
Retained earnings		11 255 339	8 484 167
Total equity		**14 590 418**	**11 528 934**
Total liabilities and equity		**118 556 262**	**92 175 809**

Mr. S.A. Tyrtsev
Chairman of the Management Board

Mr. O.V. Marinchenko
Chief Accountant

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

	Notes	2013 RUB’000	2012 RUB’000
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest receipts		15 463 527	10 574 475
Interest payments		(6 830 807)	(3 839 369)
Fee and commission receipts		1 752 948	1 650 024
Fee and commission payments		(258 249)	(228 380)
Net receipts from financial instruments at fair value through profit or loss and available-for-sale financial instruments		1 052 135	785 468
Net receipts from foreign exchange		249 385	339 943
Other income receipts		539 560	513 930
Net (payments) receipts from operations with precious metals		(68 225)	26 428
General administrative expenses payments		(5 511 252)	(3 982 060)
(Increase) decrease in operating assets			
Obligatory reserves with the CBR		(332 338)	(261 674)
Financial instruments at fair value through profit or loss		1 788 975	(2 592 275)
Available-for-sale financial assets		(2 754 792)	(3 400 037)
Due from banks (excluding Nostro accounts and term deposits with other banks, which are included in Cash and cash equivalents)		(275 079)	51 016
Amounts receivable under reverse repurchase agreements		(185 498)	(150 000)
Loans to customers		(24 049 936)	(21 376 437)
Net investments in finance leases		(361 186)	(326 703)
Other assets		138 702	(225 649)
Increase (decrease) in operating liabilities			
Deposits and balances from banks		(213 477)	3 195 363
Amounts payable under repurchase agreements		4 693 021	2 112 317
Current accounts and deposits from customers		16 022 172	18 129 499
Promissory notes		(871 139)	633 014
Other liabilities		301 730	(73 860)
Cash flows from operating activities before income tax paid		**290 177**	**1 555 033**
Income tax paid		(620 174)	(829 979)
Cash flows (used in) from operations		**(329 997)**	**725 054**
CASH FLOWS FROM INVESTING ACTIVITIES			
Net purchases of property and equipment and intangible assets		(233 505)	(633 357)
Cash flows used in investing activities		**(233 505)**	**(633 357)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Purchase of treasury shares		(316 963)	-
Issue of bonds		2 663 665	2 989 608
Attraction of subordinated borrowing		-	942 789
Distributions to shareholders		(37 230)	(466 200)
Cash flows from financing activities		**2 309 472**	**3 466 197**

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

	Notes	2013 RUB'000	2012 RUB'000
Net increase in cash and cash equivalents		**1 745 970**	**3 557 894**
Effect of changes in exchange rates on cash and cash equivalents		159 200	104 097
Cash and cash equivalents as at the beginning of the year		8 180 610	4 518 619
Cash and cash equivalents as at the end of the year	36	**10 085 780**	**8 180 610**

Mr. S.A. Tyrtsev
Chairman of the Management Board

Mr. O.V. Marinchenko
Chief Accountant

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

RUB’000	**Share capital**	**Treasury shares**	**Share premium**	**Revaluation reserve for available-for-sale financial assets**	**Revaluation surplus for buildings**	**Retained earnings**	**Total equity**
Balance as at 1 January 2012	**562 312**	**-**	**1 192 723**	**-**	**1 353 464**	**5 615 677**	**8 724 176**
Total comprehensive income for the year							
Profit for the year	-	-	-	-	-	3 261 240	3 261 240
Other comprehensive income, net of income tax							
Items that are or may be reclassified subsequently to profit or loss							
Net change in fair value of available-for-sale financial assets, net of deferred tax of RUB 2 429 thousand	-	-	-	9 718	-	-	9 718
Total items that are or may be reclassified subsequently to profit or loss	-	-	-	*9 718*	-	-	*9 718*
Items that will not be reclassified to profit or loss							
Reclassification of buildings from property and equipment to investment property	-	-	-	-	(73 450)	73 450	-
Total items that will not be reclassified to profit or loss	-	-	-	-	*(73 450)*	*73 450*	-
Total comprehensive income for the year	**-**	**-**	**-**	**9 718**	**(73 450)**	**3 334 690**	**3 270 958**
Transactions with owners, recorded directly in equity							
Distributions to shareholders (note 37)	-	-	-	-	-	(466 200)	(466 200)
Total transactions with owners	**-**	**-**	**-**	**-**	**-**	**(466 200)**	**(466 200)**
Balance as at 31 December 2012	**562 312**	**-**	**1 192 723**	**9 718**	**1 280 014**	**8 484 167**	**11 528 934**
Total comprehensive income for the year							
Profit for the year	-	-	-	-	-	3 112 960	3 112 960
Other comprehensive income, net of income tax							
Items that are or may be reclassified subsequently to profit or loss							
Net change in fair value of available-for-sale financial assets, net of deferred tax of RUB 34 400 thousand	-	-	-	(137 600)	-	-	(137 600)
Net change in fair value of available-for-sale financial assets transferred to profit or loss, net of deferred tax of 24 514 thousand	-	-	-	98 055	-	-	98 055
Total items that are or may be reclassified subsequently to profit or loss	-	-	-	*(39 545)*	-	-	*(39 545)*

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

RUB'000	Share capital	Treasury shares	Share premium	Revaluation reserve for available-for-sale financial assets	Revaluation surplus for buildings	Retained earnings	Total equity
Items that will not be reclassified to profit or loss							
Revaluation of buildings, net of deferred tax of RUB 85 566 thousand	-	-	-	-	342 262	-	342 262
Transfer of revaluation surplus on disposal of buildings previously revalued	-	-	-	-	(2 098)	2 098	-
Total items that will not be reclassified to profit or loss	-	-	-	-	*340 164*	*2 098*	*342 262*
Total comprehensive income for the year, net of income tax	-	-	-	**(39 545)**	**340 164**	**3 115 058**	**3 415 677**
Transactions with owners, recorded directly in equity							
Acquisition of treasury shares	-	(10 307)	-	-	-	(306 656)	(316 963)
Distributions to shareholders (note 37)	-	-	-	-	-	(37 230)	(37 230)
Total transactions with owners	-	**(10 307)**	-	-	-	**(343 886)**	**(354 193)**
Balance as at 31 December 2013	**562 312**	**(10 307)**	**1 192 723**	**(29 827)**	**1 620 178**	**11 255 339**	**14 590 418**

Mr. S.A. Tyrtsev
Chairman of the Management Board

Mr. O.V. Marinchenko
Chief Accountant

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

1 Background

Organisation and operations

These consolidated financial statements include the financial statements of OJSC "Asian-Pacific Bank" (the Bank) and its subsidiaries (together referred to as the Group).

The Bank was established in the Russian Federation as a closed joint stock company in 1992 under the name Amurpromstroybank as a successor of Promstroybank of USSR which was founded in 1929. In 2006 the Bank was reorganised from a closed joint stock company to an open joint stock company and renamed to Asian-Pacific Bank by decision of the shareholders. On 7 May 2010 LLC "PPFIN Region", being a common majority shareholder for OJSC "Asian-Pacific Bank", OJSC "Kamchatprombank" and OJSC "Kolyma-Bank", merged the operations of these entities and therefore granted full control over OJSC "Kamchatprombank" and OJSC "Kolyma-Bank" to OJSC "Asian-Pacific Bank".

The principal activities of the Bank are deposit taking and customer accounts maintenance, lending, issuing guarantees, cash and settlement operations and operations with securities and foreign exchange. The activities of the Bank are regulated by the Central Bank of the Russian Federation (the CBR). The Bank has a general banking license, and is a member of the state deposit insurance system in the Russian Federation.

The Bank has 316 (2012: 272) offices from which it conducts business throughout the Russian Federation including a head office, 5 regional branches, 71 additional offices, 237 operational offices and 2 operational cash boxes. The registered address of the head office is 225, Amurskaya Street, Blagoveschensk, 675000. The majority of the assets and liabilities are located in the Russian Federation.

As at 31 December 2013 the following shareholders held the issued shares of Open Joint Stock Company "Asian-Pacific Bank":

Shareholder	2013 %	2012 %
LLC "PPFIN Region" (Russian Federation)	58.22	66.62
East Capital Explorer Financial Institutions Fund AB (Sweden)	17.91	17.91
TECHSUN ENTERPRISES LIMITED (Cyprus)	7.76	-
International Financial Corporation	6.99	6.99
Aksenov E.V.	4.21**	5.21
LLC "Expo-Leasing" (a 100% owned subsidiary of the Bank)	1.83*	-
Others	3.08	3.27
Total:	**100.00**	**100.00**

** Treasury shares*

*** As at 31 December 2013 Aksenov E.V. hold 3.21% of Bank's shares. At the end of December 2013 he transferred 1% of owned by him shares to LLC "Expo-Leasing", but subsequently in February 2014 this transaction was cancelled. No payments were made under this deal. As a result the Group did not recognise these shares as treasury shares as at 31 December 2013.*

Details of the subsidiaries are as follows:

Name	Country of incorporation	Principal activities	Ownership % 2013	Ownership % 2012
LLC "Expo-Leasing"	Russian Federation	Leasing	100%	100%
CJSC "Mortgage agent APB"	Russian Federation	Mortgage agent	see below	see below

On 1 October 2010 100% of the shares of LLC "Expo-Leasing" were acquired by the Bank.

LLC “Expo-Leasing” was registered in 2002 in Russia. Its head office is in Moscow and it has 13 branches (2012: 12) comprising a head office, 1 regional branch and 11 separate offices.

CJSC “Mortgage agent APB” (MA APB) is structured entity established to facilitate the Bank’s issue of mortgage backed securities (refer to note 26). This entity is not owned by the Group. Control arises through the predetermination of the entity’s activities, having rights to obtain the majority of benefits of the structured entity, and retaining the majority of the residual risks related to the entity.

In 2013 the average number of the Group’s employees was 4 359 (2012: 3 673).

Russian business environment

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

2 Basis of preparation

Statement of compliance

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

Basis of measurement

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

Functional and presentation currency

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

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

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

Use of estimates and judgments

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

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

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies is described in the following notes:

- insurance agent commission – note 3;
- loan impairment estimates - note 18;
- building revaluation estimates - note 21.

Changes in accounting policies and presentation

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

- IFRS 10 *Consolidated Financial statements*
- IFRS 13 *Fair Value Measurements*
- *Presentation of Items of Other Comprehensive Income* (Amendments to IAS 1 *Presentation of Financial Statements*)
- *Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities* (Amendments to IFRS 7)

The nature and the effect of the changes are explained below.

Subsidiaries, including structured entities

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

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

Fair value measurement

IFRS 13 establishes a single framework for measuring fair value and making disclosures about fair value measurements, when such measurements are required or permitted by other IFRS requirements. In particular, it unifies the definition of fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It also replaces and expands the disclosure requirements about fair value measurements in other IFRS requirements, including IFRS 7 *Financial Instruments: Disclosures* (see note 38).

As a result, the Group adopted a new definition of fair value, as set out in note 3. The change had no significant impact on the measurements of assets and liabilities. However, the Group included new disclosures in the consolidated financial statements that are required under IFRS 13, comparatives not restated.

Presentation of items of other comprehensive income

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

Financial instruments: Disclosures – Offsetting financial assets and financial liabilities

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

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

3 Significant accounting policies

The accounting policies set out below are applied consistently by the Group entities to all periods presented in these consolidated financial statements, except as explained in note 2, which addresses changes in accounting policies

Basis of consolidation

Business combinations

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

The Group measures goodwill as the fair value of the consideration transferred (including the fair value of any previously-held equity interest in the acquiree) and the recognised amount of any non-controlling interest in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as at the acquisition date. When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

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

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

Subsidiaries

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

Structured entities

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

Acquisitions of entities under common control

Acquisitions of controlling interests in entities that are under the control of the same controlling shareholder of the Bank are accounted for as if the acquisition had occurred at the beginning of the earliest comparative period presented or, if later, at the date that common control was established; for this purpose comparatives are restated. The assets and liabilities acquired are recognised at their previous book values as recorded in the individual financial statements of the acquiree. The components of equity of the acquired entities are added to the same components within the Bank equity, except that any share capital of the acquired entities is recognised as part of additional paid in capital. Any cash paid for the acquisition is debited to equity.

Transactions eliminated on consolidation

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

Goodwill

Goodwill on acquisitions of subsidiaries is included in intangible assets. In respect of associates, the carrying amount of goodwill is included in the carrying amount of the investment in the associate.

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

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

Foreign currency

Foreign currency transactions

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

Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances (nostro accounts) held with the CBR and other banks and amounts due from credit institutions with original maturity within ninety days and which are free from contractual encumbrances. The mandatory reserve deposits with the CBR are not considered to be a cash equivalent due to restrictions on their withdrawability. Cash and cash equivalents are carried at amortised cost in the consolidated statement of financial position.

Financial instruments

Classification

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

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

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

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

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

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

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

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

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

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

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

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

- intends to sell immediately or in the near term

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

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

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

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

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

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

- meet the definition of loans and receivables.

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

Recognition

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

Measurement

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

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

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

- held-to-maturity investments that are measured at amortised cost using the effective interest method

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

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

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

Fair value measurement principles

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

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

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

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

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

Gains and losses on subsequent measurement

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

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

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

For financial assets and liabilities carried at amortised cost, a gain or loss is recognised in profit or loss when the financial asset or liability is derecognised or impaired, and through the amortisation process.

Derecognition

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

The Group enters into transactions whereby it transfers assets recognised on its consolidated statement of financial position, but retains either all risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised.

In transactions where the Group neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, it derecognises the asset if control over the asset is lost.

In transfers where control over the asset is retained, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred assets.

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

The Group writes off assets deemed to be uncollectible.

Repurchase and reverse repurchase agreements

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

Securities purchased under agreements to resell are recorded as amounts receivable under reverse repurchase transactions, as appropriate. The difference between the purchase and resale prices represents interest income and is recognised in profit or loss over the term of the reverse repurchase agreement using the effective interest method.

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

Securitisation

For securitised financial assets, the Group considers both the degree of transfer of risks and rewards on assets transferred to another entity and the degree of control exercised by the Group over the other entity.

When the Group, in substance, controls the entity to which financial assets are transferred, the entity is included in these consolidated financial statements and the transferred assets are recognised in the consolidated statement of financial position.

When the Group transfers financial assets to another entity, but retains substantially all the risks and rewards relating to the transferred assets, the transferred assets are recognised in the consolidated statement of financial position.

When the Group transfers substantially all the risks and rewards relating to the transferred assets to an entity that it does not control, the assets are derecognised from the consolidated statement of financial position.

If the Group neither transfers nor retains substantially all the risks and rewards relating to the transferred assets, the assets are derecognised if the Group has not retained control over the assets.

Offsetting

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

Leases

The Group as a lessor initially measures finance leases at an amount equal to the net investment in the lease. Subsequently the recognition of finance income is based on a pattern reflecting a constant periodic rate of return on the Group’s net investment in the finance lease.

Property and equipment

Owned assets

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

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

Revaluation

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

Leased assets

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

Depreciation

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

-	buildings	50 years
-	computers and equipment	5 years
-	fixtures and fittings	5 years
-	vehicles	5 years
-	computer software	5 years

Intangible assets

Acquired intangible assets are stated at cost less accumulated amortisation and impairment losses.

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

Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in normal course of business, or for the use in production or supply of goods or services or for administrative purposes. Investment property is measured at fair value with any change recognised in profit or loss.

When the use of a property changes such that it is reclassified as property and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

Impairment

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

A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the financial asset (a loss event) and that event (or events) has had an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

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

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

Financial assets carried at amortised cost

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

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

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

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

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

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

Financial assets carried at cost

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

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

Available-for-sale financial assets

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

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

Non financial assets

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

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

Provisions

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

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

Credit related commitments

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

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

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

Financial guarantee liabilities and provisions for other credit related commitment are included in other liabilities.

Loan commitments are not recognised, except for the followings:

- loan commitments that the Group designates as financial liabilities at fair value through profit or loss

- if the Group has a past practice of selling the assets resulting from its loan commitments shortly after origination, then the loan commitments in the same class are treated as derivative instruments

- loan commitments that can be settled net in cash or by delivering or issuing another financial instrument

- commitments to provide a loan at a below-market interest rate.

Share capital

Ordinary shares

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

Preference share capital

Preference share capital that is non-redeemable and carries no mandatory dividends is classified as equity.

Repurchase of share capital

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

Dividends

The ability of the Group to declare and pay dividends is subject to the rules and regulations of the Russian legislation.

Dividends in relation to ordinary shares are reflected as an appropriation of retained earnings in the period when they are declared.

Taxation

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

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

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

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

Income and expense recognition

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

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

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

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

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

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

Hyperinflation accounting

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

Segment reporting

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

New standards and interpretations not yet adopted

The following new standards, amendments to standards, and interpretations are not yet effective as at 31 December 2013, and are not applied in preparing these consolidated financial statements. The Group plans to adopt these pronouncements when they become effective.

The Group has not yet analysed the likely impact of the new standard on its financial position or performance.

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

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

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

4 Interest income and expense

	2013 RUB'000	2012 RUB'000
Interest income		
Loans to customers	14 838 054	10 437 820
Net investments in finance leases	541 321	458 218
Promissory notes included in financial instruments at fair value through profit or loss	366 546	107 592
Due from banks	194 204	75 578
	15 940 125	**11 079 208**
Interest expense		
Current accounts and deposits from customers	5 307 656	3 728 697
Deposits and balances from banks	900 575	650 889
Debt securities issued	697 422	175 806
Subordinated borrowings	106 081	11 174
	7 011 734	**4 566 566**

5 Fee and commission income

	2013 RUB'000	2012 RUB'000
Insurance agent commission	1 800 035	808 385
Settlement operations	1 332 139	1 152 608
Accounts opening and maintenance	184 112	146 488
Guarantee and letter of credit issuance	68 160	50 642
Other	146 501	51 479
	3 530 947	**2 209 602**

Information on the basis of which insurance agent commission income is recognised in profit or loss is disclosed in note 3.

6 Net foreign exchange gain

	2013 RUB'000	2012 RUB'000
Gain on derivatives and spot transactions (except swaps)	286 610	369 602
Gain (loss) on swap operations	44 623	(101 761)
Gain from revaluation of financial assets and liabilities	31 786	21 515
	363 019	**289 356**

7 Net (loss) gain on operations with precious metals

	2013 RUB'000	2012 RUB'000
Gain on trading operations	50 571	48 889
Loss from revaluation of financial assets and liabilities and operations with derivatives	(56 361)	(22 461)
	(5 790)	**26 428**

8 Other operating income

	2013 RUB'000	2012 RUB'000
Penalties on loans issued	398 860	311 264
Penalties on other operations	36 491	22 653
Income from sale of loans	32 293	34 335
Rental income	25 646	27 061
Repayment of written off loans	20 038	11 038
Income from sale of repossesed collateral	-	34 800
Dividends and other participation income	-	15 200
Other income	27 647	57 579
	540 975	**513 930**

9 Impairment losses

	2013 RUB'000	2012 RUB'000
Loans to customers	(4 428 906)	(1 720 933)
Net investments in finance leases	(20 520)	(11 324)
Other assets	(28 871)	-
	(4 478 297)	**(1 732 257)**

10 Personnel expenses

	2013 RUB'000	2012 RUB'000
Employee compensation	3 168 210	2 450 906
Payroll related taxes	729 250	546 343
	3 897 460	**2 997 249**

11 Other general administrative expenses

	2013 RUB'000	2012 RUB'000
Depreciation and amortisation	248 984	234 568
Taxes other than income tax	222 544	204 631
Write-off of materials and loss on disposals of assets	218 367	165 794
Insurance	190 973	133 073
Rent	181 409	98 408
Repairs and maintenance	169 101	115 807
Communications and information services	156 378	108 736
Advertising and marketing	141 719	91 668
Agent fees for attraction of clients	70 298	1 684
IT expenses	60 698	21 157
Security	46 997	42 091
Travel expenses	46 421	38 125
Loss on termination lease agreements	40 596	5 458
Professional services	23 132	14 495
Other	147 786	117 783
	1 965 403	**1 393 478**

12 Income tax expense

	2013 RUB'000	2012 RUB'000
Current tax expense		
Current year tax expense	699 614	764 768
Origination and reversal of temporary differences	53 594	(43 328)
Total income tax expense	**753 208**	**721 440**

In 2013, the applicable tax rate for current and deferred tax is 20% (2012: 20%).

Reconciliation of effective tax rate for the year ended 31 December:

	2013 RUB'000	%	2012 RUB'000	%
Profit before tax	**3 866 168**		**3 982 680**	
Income tax at the applicable tax rate	773 234	20.0	796 536	20.0
Other differences	(3 742)	(0.1)	(60 644)	(1.5)
Income taxed at lower tax rates	(16 284)	(0.4)	(14 452)	(0.4)
	753 208	**19.5**	**721 440**	**18.1**

Deferred tax asset and liability

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to deferred tax assets and liabilities as at 31 December 2013 and 2012. Net deferred tax liabilities have been recognised in these consolidated financial statements.

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

RUB’000	Balance 1 January 2013	Recognised in profit or loss	Recognised in other comprehensive income and directly in equity	Balance 31 December 2013
Financial instruments at fair value through profit or loss	2 385	(22 182)	-	(19 797)
Available-for-sale financial assets	(2 429)	-	9 886	7 457
Derivative financial instruments	32 143	(30 170)	-	1 973
Loans to customers	(111 223)	(54 793)	-	(166 016)
Net investments in finance leases	25 432	26 030	-	51 462
Property, equipment and intangible assets	(300 582)	6 877	(85 566)	(379 271)
Current accounts and deposits from customers	-	10 901	-	10 901
Debt securities issued	(662)	(1 842)	-	(2 504)
Other liabilities	91 595	11 585	-	103 180
	(263 341)	**(53 594)**	**(75 680)**	**(392 615)**
Comprising of:				
Deferred tax asset	25 432			51 462
Deferred tax liability	(288 773)			(444 077)

RUB’000	Balance 1 January 2012	Recognised in profit or loss	Recognised in other comprehensive income and directly in equity	Balance 31 December 2012
Due from banks	(1 217)	1 217	-	-
Financial instruments at fair value through profit or loss	10 395	(8 010)	-	2 385
Available-for-sale financial assets	-	-	(2 429)	(2 429)
Derivative financial instruments	(5 058)	37 201	-	32 143
Loans to customers	(50 538)	(60 685)	-	(111 223)
Net investments in finance leases	8 660	16 772	-	25 432
Property, equipment and intangible assets	(318 095)	17 513	-	(300 582)
Debt securities issued	246	(908)	-	(662)
Other liabilities	51 367	40 228	-	91 595
	(304 240)	**43 328**	**(2 429)**	**(263 341)**
Comprising of:				
Deferred tax asset	8 660			25 432
Deferred tax liability	(312 900)			(288 773)

13 Placements with the Central Bank of the Russian Federation

	2013 RUB'000	2012 RUB'000
Nostro accounts	2 942 741	2 155 496
Term deposits	2 000 000	200 049
Obligatory reserves with the CBR	1 078 793	746 455
Total placements with the Central Bank of the Russian Federation	**6 021 534**	**3 102 000**

14 Financial instruments at fair value through profit or loss

	2013 RUB'000	2012 RUB'000
ASSETS		
Held by the Group		
Debt and other fixed-income instruments		
- Government and municipal bonds		
Russian Government Federal bonds (OFZ)	709 235	2 274 536
Regional authorities bonds	517 879	882 547
Total government and municipal bonds	**1 227 114**	**3 157 083**
- Corporate bonds		
rated from BB- to BBB+	1 684 511	6 290 939
rated below B+	102 259	851 179
not rated	-	148 896
Total corporate bonds	**1 786 770**	**7 291 014**
- Promissory notes		
rated from BB- to BBB+	1 558 241	736 756
rated below B+	2 637 827	639 637
Total promissory notes	**4 196 068**	**1 376 393**
Equity investments		
Corporate shares	-	185 718
Total equity investments	**-**	**185 718**
Derivative financial instruments		
Foreign currency contracts	-	27
	-	**27**
Total financial instruments at fair value through profit or loss held by the Group	**7 209 952**	**12 010 235**
Pledged under sale and repurchase agreements		
- Government and municipal bonds		
Russian Government Federal bonds (OFZ)	380 688	-
Regional authorities bonds	71 770	-
Total government and municipal bonds	**452 458**	**-**

	2013 RUB’000	2012 RUB’000
- Corporate bonds		
rated from BB- to BBB+	3 013 772	-
rated below B+	-	390 579
Total corporate bonds	**3 013 772**	**390 579**
Total financial instruments at fair value through profit or loss pledged under sale and repurchase agreements	**3 466 230**	**390 579**
Total financial instruments at fair value through profit or loss	**10 676 182**	**12 400 814**
LIABILITIES		
Derivative financial instruments		
Foreign currency and precious metals contracts	16 430	160 740
	16 430	**160 740**

Ratings of corporate entities are based on Standart & Poor’s or the equivalent ratings assigned by Fitch Rating and Moody’s.

All financial instruments at fair value through profit or loss are classified as held for trading.

None of financial assets at fair value through profit or loss are past due or impaired.

Foreign currency and gold contracts

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

	Notional amount		Weighted average contractual exchange rates	
	2013 RUB’000	2012 RUB’000	2013 RUB’000	2012 RUB’000
Buy USD sell RUB				
Less than 3 months	496 181	60 745	33.28	30.41
Buy USD sell RUB				
From 3 to 12 months	1 533 906	1 839 800	34.29	33.35
Buy Euro sell RUB				
Less than 3 months	-	10 057	-	40.12
Buy JPY sell RUB				
Less than 3 months	9 317	-	31.08	-
Buy Gold sell RUB				
Less than 3 months	642 264	1 884 968	1 271.92	1 696.76

15 Available-for-sale financial assets

	2013 RUB’000	2012 RUB’000
Held by the Group		
Debt and other fixed-income instruments		
- Government and municipal bonds		
Regional authorities bonds	267 370	205 336
Total government and municipal bonds	**267 370**	**205 336**
- Corporate bonds		
rated from BB- to BBB+	1 311 461	850 182
rated below B+	149 390	445 656
not rated	95 391	-
Total corporate bonds	**1 556 242**	**1 295 838**
Total available-for-sale financial instruments held by Group	**1 823 612**	**1 501 174**
Pledged under sale and repurchase agreements		
- Government and municipal bonds		
Regional authorities bonds	375 093	-
Total government and municipal bonds	**375 093**	**-**
- Corporate bonds		
rated from BB- to BBB+	3 813 394	1 910 887
rated below B+	211 773	-
Total corporate bonds	**4 025 167**	**1 910 887**
Total available-for-sale financial instruments pledged under sale and repurchase agreements	**4 400 260**	**1 910 887**
Total available-for-sale financial instruments	**6 223 872**	**3 412 061**

Ratings of corporate entities are based on Standart & Poor’s or the equivalent ratings assigned by Fitch Rating and Moody’s.

None of available-for-sale financial assets are past due or impaired.

16 Due from banks

	2013 RUB’000	2012 RUB’000
Nostro accounts		
- OECD banks	980 488	1 259 776
- Largest 30 Russian banks	582 742	228 066
- Other Russian banks	322 402	242 497
- Other foreign banks	57 631	95 081
Total nostro accounts	**1 943 263**	**1 825 420**
Term deposits		
- Largest 30 Russian banks	514 060	1 406 054
- Other foreign banks	335 431	-
- Other Russian banks	307 802	396 203
Total term deposits	**1 157 293**	**1 802 257**
	3 100 556	**3 627 677**

None of due from banks balances are impaired or past due.

As at 31 December 2013, the Group has no banks (31 December 2012: no banks), whose balances individually exceed 10% of equity.

17 Amounts receivable under reverse repurchase agreements

The table below sets out receivables under reverse repurchase agreements showing individual types of securities received as collateral under reverse repurchase agreements outstanding as at 31 December 2013:

	Corporate bonds RUB’000	Total RUB’000
Amounts receivable under reverse repurchase agreements		
- Other Russian banks	335 720	335 720
	335 720	**335 720**

The table below sets out receivables under reverse repurchase agreements showing individual types of securities received as collateral under reverse repurchase agreements outstanding as at 31 December 2012:

	Corporate bonds RUB’000	Total RUB’000
Amounts receivable under reverse repurchase agreements		
- Largest 30 Russian banks	150 107	150 107
	150 107	**150 107**

At 31 December 2013, the fair value of corporate bonds collateralising reverse repurchase agreements that the Group is permitted to sell or repledge in the absence of default is RUB 395 986 thousand (31 December 2012: RUB 166 683 thousand) out of which the Group repledged as at 31 December 2013 securities with fair value of RUB 338 752 thousand (31 December 2012: RUB 150 107 thousand) under repurchase agreements.

None of amounts receivable under reverse repurchase agreements are past due or impaired.

18 Loans to customers

	2013 RUB'000	2012 RUB'000
Loans to corporate customers	**26 969 176**	**18 118 707**
Loans to retail customers		
Consumer loans	50 582 233	37 578 136
Mortgage loans	8 684 640	5 691 261
Total loans to retail customers	**59 266 873**	**43 269 397**
Gross loans to customers	**86 236 049**	**61 388 104**
Impairment allowance	(5 811 276)	(2 919 835)
Net loans to customers	**80 424 773**	**58 468 269**

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

	Loans to corporate customers RUB'000	Loans to retail customers RUB'000	Total RUB'000
Balance at the beginning of the year	**266 267**	**2 653 568**	**2 919 835**
Net charge	437 550	3 991 356	4 428 906
Write-offs	(33 239)	(1 504 226)	(1 537 465)
Balance at the end of the year	**670 578**	**5 140 698**	**5 811 276**

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

	Loans to corporate customers RUB'000	Loans to retail customers RUB'000	Total RUB'000
Balance at the beginning of the year	**347 376**	**1 460 729**	**1 808 105**
Net (recovery) charge	(43 014)	1 763 947	1 720 933
Write-offs	(38 095)	(571 108)	(609 203)
Balance at the end of the year	**266 267**	**2 653 568**	**2 919 835**

Credit quality of loans to customers

The following table provides information on the credit quality of loans to corporate customers as at 31 December 2013 and 2012:

	2013 RUB'000	2012 RUB'000
Loans to corporate customers		
Loans without individual signs of impairment	23 452 219	16 116 693
Watch list loans	2 440 094	1 431 913
Impaired loans:		
- not overdue	144 215	186 337
- overdue less than 90 days	183 923	14 778
- overdue more than 90 days and less than 1 year	407 691	93 827
- overdue more than 1 year	341 034	275 159
Total impaired loans	1 076 863	570 101
Total gross loans to corporate customers	**26 969 176**	**18 118 707**
Impairment allowance	(670 578)	(266 267)
Net loans to corporate customers	**26 298 598**	**17 852 440**

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

	Consumer loans RUB'000	Mortgage loans RUB'000	Total loans to retail customers RUB'000
Loans to retail customers			
- not overdue	41 256 683	8 413 426	49 670 109
- overdue less than 30 days	1 920 372	222 352	2 142 724
- overdue 30-89 days	1 715 238	18 400	1 733 638
- overdue 90-179 days	1 703 765	17 967	1 721 732
- overdue more than 180 days	3 986 175	12 495	3 998 670
Total gross loans to retail customers	**50 582 233**	**8 684 640**	**59 266 873**
Impairment allowance	(5 124 569)	(16 129)	(5 140 698)
Net loans to retail customers	**45 457 664**	**8 668 511**	**54 126 175**

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

	Consumer loans RUB’000	Mortgage loans RUB’000	Total loans to retail customers RUB’000
Loans to retail customers			
- not overdue	32 768 664	5 654 942	38 423 606
- overdue less than 30 days	852 956	1 315	854 271
- overdue 30-89 days	789 077	10 574	799 651
- overdue 90-179 days	750 908	6 799	757 707
- overdue more than 180 days	2 416 531	17 631	2 434 162
Total gross loans to retail customers	**37 578 136**	**5 691 261**	**43 269 397**
Impairment allowance	(2 632 384)	(21 184)	(2 653 568)
Net loans to retail customers	**34 945 752**	**5 670 077**	**40 615 829**

Key assumptions and judgments for estimating loan impairment

Loans to corporate customers

Loan impairment results from one or more events that occurred after the initial recognition of the loan and that have an impact on the estimated future cash flows associated with the loan and that can be reliably estimated. Loans without individual signs of impairment do not have objective evidence of impairment that can be directly attributed to them.

The objective indicators of loan impairment for loans to corporate customers include the following:

- overdue payments under the loan agreement
- significant difficulties in the financial conditions of the borrower
- deterioration in the business environment, negative changes in the borrower’s markets.

The Group estimates loan impairment for loans to corporate customers based on an analysis of the future cash flows for impaired loans and based on its past loss experience for portfolios of loans for which no indications of impairment has been identified.

In determining the impairment allowance for loans to corporate customers management makes the following key assumptions:

- the principal collateral taken into account in the estimation of future cash flows represented by different types, mainly real state. Valuations for real estate have been discounted by 40 percent to reflect current market conditions and costs to sell;
- loss given default rate for unsecured loans is 75%;
- a delay of 12 to 24 months in obtaining proceeds from the foreclosure of collateral.

Changes in these estimates could affect the loan impairment allowance. For example, to the extent that the net present value of the estimated cash flows differs by plus/minus one percent, the impairment allowance on loans to corporate customers as at 31 December 2013 would be RUB 262 986 thousand lower/higher (31 December 2012: RUB 178 524 thousand lower/higher).

Loans to retail customers

The Group estimates loan impairment for loans to retail customers based on its past historical loss experience on each type of loan. The significant assumptions used by management in determining the impairment losses for loans to retail customers include:

- loss migration rates are constant and estimated based on historic loss migration pattern for the past 24 months
- the historic actual recovery rate of loans overdue more than 180 days has been taken into account when estimating future recoveries on overdue loans.

Changes in these estimates could affect the loan impairment allowance. For example, to the extent that the net present value of the estimated cash flows differs by plus/minus three percent, the impairment allowance on loans to retail customers as at 31 December 2013 would be RUB 1 623 785 thousand lower/higher (31 December 2012: RUB 1 218 475 thousand).

Analysis of collateral and other credit enhancements

Loans to corporate customers

Loans to corporate customers are secured by different types of collateral, including pledge over securities, real estate, guarantees provided by individuals, commercial enterprises or banks and other collateral.

The following table provides an analysis of loans to corporate customers, net of impairment, by types of collateral as at 31 December 2013:

	2013 RUB’000	**% of loan portfolio**	**2012 RUB’000**	**% of loan portfolio**
Real estate	10 454 908	39.75	3 468 065	19.43
Corporate and personal guarantees	8 555 541	32.53	6 338 245	35.50
Motor vehicles	1 609 358	6.12	2 028 801	11.36
Goods in turnover	1 611 561	6.13	1 047 134	5.87
Equipment	793 647	3.02	529 036	2.96
Securities	99 033	0.38	341 603	1.91
Cash balances	25 129	0.10	7 488	0.04
Promissory notes issued by the Bank	18 000	0.07	99 117	0.56
Other collateral	789 342	3.00	507 202	2.84
No collateral	2 342 079	8.91	3 485 749	19.53
	26 298 598	**100.00**	**17 852 440**	**100.00**

The amounts shown in the table above represent the carrying value of the loans and do not necessarily represent the fair value of the collateral.

Corporate and personal guarantees are not considered for impairment assessment purposes.

Loans to corporate customers that are impaired or past due

Loans with individual signs of impairment or past due with net carrying value of RUB 566 661 thousand (31 December 2012: RUB 453 982 thousand) are secured by collateral (mainly real estate) with fair value of RUB 398 554 thousand (31 December 2012: RUB 395 613 thousand), excluding the effect of over collateralisation.

Loans to retail customers

Mortgage loans are secured by the underlying housing real estate. The Group’s policy is to issue mortgage loans with a loan-to-value ratio of a maximum of 90%.

For certain mortgage loans the Group updates the appraised values of collateral obtained at inception of the loan to the current values considering the approximate changes in property values. The Group may also obtain a specific individual valuation of collateral at each reporting date where there are indications of impairment. For the remaining mortgage loans the fair value of collateral was estimated at inception of the loans and was not adjusted for subsequent changes to the reporting date.

For overdue mortgage loans management believes that the fair value of collateral is at least 100% of the carrying amount of the loans at the reporting date.

Consumer loans are mainly not secured.

Repossessed collateral

During the year ended 31 December 2013, the Group obtained certain assets by taking possession of collateral for loans to customers with a net carrying amount of RUB 1 189 thousand (2012: RUB 2 592 thousand). As at 31 December 2013, the repossessed collateral comprise:

	2013 RUB’000	**2012 RUB’000**
Real estate	6 967	9 645
Other assets	462	1 857
Total repossessed collateral	**7 429**	**11 502**

The Group’s policy is to sell these assets as soon as it is practicable.

Asset securitisation

As at 31 December 2013, the Group transferred mortgage loans of RUB 1 149 703 thousand (31 December 2012: RUB 1 458 747 thousand) to MA APB, an entity that is, in substance, controlled by the Group. Accordingly, MA APB is consolidated into these consolidated financial statements and the loans are included in the consolidated statement of financial position. These loans serve as collateral for secured mortgage backed securities issued by the Group. As at 31 December 2013, the carrying amount of liabilities on these securities is RUB 1 206 064 thousand (31 December 2012: RUB 1 498 669 thousand).

Industry and geographical analysis of the loan portfolio

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

	2013 RUB’000	**2012 RUB’000**
Wholesale and retail trade	7 688 160	4 919 057
Services	2 971 267	2 328 410
Production	2 087 437	1 842 182
Mining	2 081 655	1 257 622
Construction	1 902 577	1 133 124
Fishery	1 413 301	596 740
Energy	1 104 504	1 177 738
Investment activities	777 109	277 031
Real estate	765 916	922 597
Insurance	-	224 280
Other	6 177 250	3 439 926
Individuals	59 266 873	43 269 397
	86 236 049	**61 388 104**
Impairment allowance	(5 811 276)	(2 919 835)
	80 424 773	**58 468 269**

Significant credit exposures

As at 31 December 2013 the Group has no borrowers or groups of connected borrowers whose loan balances individually exceed 10% of equity (31 December 2012: no borrowers or group of borrowers).

For maturity analysis refer to note 31.

19 Net investments in finance leases

Net investments in finance leases comprise:

	2013 RUB’000	**2012 RUB’000**
Gross investments in finance leases	3 131 007	2 769 945
Less unearned finance lease income	(657 203)	(650 297)
	2 473 804	**2 119 648**
Less allowance for impairment	(61 809)	(48 319)
Net investments in finance leases	**2 411 995**	**2 071 329**

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

Future minimum lease payments to be received are disclosed below:

	2013 RUB’000	2012 RUB’000
Within 1 year	1 823 676	1 409 117
From 1 to 5 years	1 307 331	1 334 199
More than 5 years	-	26 629
Minimum lease payments receivable	**3 131 007**	**2 769 945**

Gross investment in leases is receivable in the following currencies:

	2013 RUB’000	2012 RUB’000
RUB	2 886 490	2 468 452
USD	243 722	301 117
EUR	795	376
Gross investments in finance leases	**3 131 007**	**2 769 945**

Movements in the impairment allowance are as follows:

	2013 RUB’000	2012 RUB’000
Balance at the beginning of the year	48 319	36 995
Net charge	20 520	11 324
Write-offs	(7 030)	-
Balance at the end of the year	**61 809**	**48 319**

20 Transfers of financial assets

The securities sold under agreements to repurchase as at 31 December 2013 are presented in the table below:

RUB’000	Financial instruments at fair value through profit or loss	Financial assets available-for-sale	Securities received under reverse repurchase agreements repledged
Carrying amount of assets	3 466 230	4 400 260	338 752
Carrying amount of associated liabilities	2 886 652	3 618 612	304 577

The securities sold under agreements to repurchase as at 31 December 2012 are presented in the table below:

RUB’000	Financial instruments at fair value through profit or loss	Financial assets available-for-sale	Securities received under reverse repurchase agreements repledged
Carrying amount of assets	390 579	1 910 887	150 107
Carrying amount of associated liabilities	292 702	1 686 994	133 430

The Group has transactions to lend securities and to sell securities under agreements to repurchase and to purchase securities under agreements to resell.

The securities lent or sold under agreements to repurchase are transferred to a third party and the Group receives cash in exchange. These financial assets may be repledged or resold by counterparties in the absence of default by the Group, but the counterparty has an obligation to return the securities at the maturity of the contract. The Group has determined that it retains substantially all the risks and rewards of these securities and therefore has not derecognised them. These securities are presented as "pledged under sale and repurchase agreements" in notes 14 and 15 and as repledged securities received under reverse repurchase agreements in note 17. The cash received is recognised as a financial asset and a financial liability is recognised for the obligation to repay the purchase price for this collateral, and is included in amounts payable under repurchase agreements (note 24).

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

21 Property, equipment, intangible assets and investment property

RUB’000	Land and buildings	Computers and equipment	Fixtures and fittings	Vehicles	Intangible assets	Construction in progress	Total
Cost/revalued amount							
Balance at 1 January 2013	3 892 179	579 286	39 750	63 431	224 224	258 058	5 056 928
Additions	183 399	72 841	4 632	9 552	84 905	190 822	546 151
Disposals	(11 294)	(9 440)	-	(17 377)	(54 115)	(258 058)	(350 284)
Revaluation	227 381	-	-	-	-	-	227 381
Transfers from investment property	95 484	-	-	-	-	-	95 484
At 31 December 2013	**4 387 149**	**642 687**	**44 382**	**55 606**	**255 014**	**190 822**	**5 575 660**
Depreciation and impairment losses							
Balance at 1 January 2013	100 806	346 501	36 664	27 026	97 336	-	608 333
Depreciation and amortisation for the year	106 033	79 920	1 170	8 594	53 267	-	248 984
Disposals	(163)	(7 230)	-	(5 279)	(24 966)	-	(37 638)
Revaluation	(200 447)	-	-	-	-	-	(200 447)
Balance at 31 December 2013	**6 229**	**419 191**	**37 834**	**30 341**	**125 637**	**-**	**619 232**
Carrying amounts							
At 31 December 2013	**4 380 920**	**223 496**	**6 548**	**25 265**	**129 377**	**190 822**	**4 956 428**
At 31 December 2012	**3 791 373**	**232 785**	**3 086**	**36 405**	**126 888**	**258 058**	**4 448 595**

There are no capitalised borrowing costs related to the acquisition or construction of property, equipment and intangible assets during 2013 (2012: nil).

RUB’000	Land and buildings	Computers and equipment	Fixtures and fittings	Vehicles	Intangible assets	Construction in progress	Total
Cost/revalued amount							
Balance at 1 January 2012	3 594 828	447 627	38 667	116 677	227 249	191 405	4 616 453
Additions	445 350	135 730	1 574	32 383	35 639	170 231	820 907
Disposals	(1 280)	(4 071)	(491)	(85 629)	(38 664)	(103 578)	(233 713)
Transfers to investment property	(146 719)	-	-	-	-	-	(146 719)
At 31 December 2012	**3 892 179**	**579 286**	**39 750**	**63 431**	**224 224**	**258 058**	**5 056 928**
Depreciation and impairment losses							
Balance at 1 January 2012	4 678	280 946	36 320	18 520	55 844	-	396 308
Depreciation and amortisation for the year	99 601	69 370	835	9 544	55 218	-	234 568
Disposals	(189)	(3 815)	(491)	(1 038)	(13 726)	-	(19 259)
Transfers to investment property	(3 284)	-	-	-	-	-	(3 284)
Balance at 31 December 2012	**100 806**	**346 501**	**36 664**	**27 026**	**97 336**	**-**	**608 333**
Carrying amounts							
At 31 December 2012	**3 791 373**	**232 785**	**3 086**	**36 405**	**126 888**	**258 058**	**4 448 595**
At 31 December 2011	**3 590 150**	**166 681**	**2 347**	**98 157**	**171 405**	**191 405**	**4 220 145**

Revalued assets

At 31 December 2013 and 31 December 2012, buildings are revalued based on the results of an independent appraisal performed by S.A.Ricci.

The basis used for the appraisal is the combination of market and income approaches weighted on 50%/50% basis.

The market approach is based upon an analysis of the results of comparable sales/offers of similar buildings. Adjustments were applied for location, size, condition, design, bargain discount, date of offer, and parking.

The following key assumptions are used in applying the income capitalisation approach:

- the rental rates applied by the appraiser were calculated based on the analysis of comparable properties’ rental rates
- the vacancy rate of 5% was assumed for the properties with the total area less than 150 m2, the vacancy rate of 7% was assumed for the properties with the total area of 150 to 500 m2, the vacancy rate of 10% was used for the properties with the total area of more than 500 m2
- the capitalisation rate of 13% was assumed for large cities (regional centres) and 14% for small cities. For the office building located in Moscow, the capitalisation rate of 10% was assumed based on the Appraiser’s internal research (S.A.Ricci).

The values assigned to the key assumptions represent management’s assessment of future business trends and are based on both external sources and internal sources of information.

Fair value measurement of buildings is categorised as Level 3 in the fair value hierarchy.

Changes in the estimates above could effect the value of the buildings. For example, to the extent that the net present value of the estimated cash flows differs by plus/minus three percent, the building valuation as at 31 December 2013 would be RUB 131 428 thousand higher/lower (2012: RUB 113 741 thousand).

The carrying value of buildings as at 31 December 2013, if the buildings would not have been revalued, would be RUB 2 431 314 thousand (2012: RUB 2 304 191 thousand).

Investment property

	2013 RUB’000	**2012 RUB’000**
Balance at 1 January	143 435	-
Transfer (to) from property, equipment and intangible assets	(95 484)	143 435
Fair value revaluation	1 262	-
Balance at 31 December	**49 213**	**143 435**

At 31 December 2013 and 31 December 2012, investment property revalued based on the results of an independent appraisal performed by S.A.Ricci. The basis used for the appraisal is the same as for buildings (see above).

Fair value measurement of investment property is categorised as Level 3 in the fair value hierarchy.

Rental income from investment property for the year ended 31 December 2013 comprised RUB 3 836 thousand (2012: RUB 11 547 thousand).

22 Other assets

	2013 RUB'000	2012 RUB'000
Other receivables	181 838	173 657
Total other financial assets	**181 838**	**173 657**
Prepayments	558 436	315 711
Advances on precious metals delivery	308 871	814 310
Prepayments for assets to be leased under finance lease	239 530	248 977
Materials and supplies	44 242	31 968
Other	220 230	95 927
Total other non-financial assets	**1 371 309**	**1 506 893**
Gross other assets	**1 553 147**	**1 680 550**
Less allowance for impairment of other non-financial assets	(28 871)	-
Net other assets	**1 524 276**	**1 680 550**

Movements in the impairment allowance are as follows:

	2013 RUB'000	2012 RUB'000
Balance at the beginning of the year	-	-
Net charge	28 871	-
Balance at the end of the year	**28 871**	**-**

23 Deposits and balances from banks

	2013 RUB'000	2012 RUB'000
Vostro accounts	281 660	40 304
Term deposits from banks	6 694 976	7 090 387
Term deposit from the CBR	18 031	-
	6 994 667	**7 130 691**

As at 31 December 2013 the Group has two banks (31 December 2012: one bank), whose balances individually exceed 10% of equity. The gross value of these balances as at 31 December 2013 is RUB 4 257 541 thousand (2012: RUB 1 716 023 thousand).

Covenants

As at 31 December 2013, the Group has term deposits from one of the banks amounting to RUB 2 019 038 thousand (31 December 2012: RUB 1 438 209 thousand) with maturities set out in the table below:

	2013 RUB’000	2012 RUB’000
- repayable on 23 December 2013	-	453 075
- repayable on 27 July 2016	230 990	483 542
- repayable on 5 July 2017	192 786	200 794
- repayable on 15 August 2017	146 872	300 798
- repayable on 19 March 2018	985 413	-
- repayable on 29 October 2018	426 967	-
- repayable on 10 November 2018	29 359	-
- repayable on 12 November 2018	6 651	-
	2 019 038	**1 438 209**

According to the terms of the agreements, the Group is subject to a debt covenant stating that funds should be used for loan issuance to small and medium size entities. The Group should comply with all ratios of the CBR and N1 statutory ratio should be not less than 10.1%.

As at 31 December 2013, the Group has term deposits from another bank amounting to RUB 142 672 thousand repayable on 15 June 2015 (31 December 2012: RUB 237 708 thousand). According to the terms of the agreement the Group is subject to a debt covenant stating that funds should be used for issuance of loans to small and medium size entities and at the end of each quarter the Group should comply with a number of financial and non-financial covenants.

As at 31 December 2013 and 2012, the Group did not breach any covenants described above.

24 Amounts payable under repurchase agreements

The table below sets out payables under direct repo agreements showing individual types of securities transferred as collateral under repo agreements outstanding as at 31 December 2013:

RUB’000	Government and municipal bonds	Corporate bonds	Total
Amounts payable under direct repo agreements			
- The CBR	727 487	6 082 354	6 809 841
	727 487	**6 082 354**	**6 809 841**

The table below sets out payables under direct repo agreements showing individual types of securities transferred as collateral under repo agreements outstanding as at 31 December 2012:

RUB’000	Corporate bonds	Total
Amounts payable under direct repo agreements		
- The CBR	2 023 180	2 023 180
- Other Russian banks	89 946	89 946
	2 113 126	**2 113 126**

Fair value of securities transferred under repo agreements as at 31 December 2013 comprised RUB 8 205 242 thousand (31 December 2013: RUB 2 301 466 thousand). For details, please, refer to note 20.

25 Current accounts and deposits from customers

	2013 RUB’000	2012 RUB’000
Current accounts and demand deposits		
- Retail	4 971 504	4 115 199
- Corporate	17 989 348	11 984 271
Term deposits		
- Retail	45 508 173	39 269 989
- Corporate	12 901 099	9 773 869
	81 370 124	**65 143 328**

As at 31 December 2013, the Group has one customer (2012: no customers), whose balances exceed 10% of equity. The amount owned comprised RUB 8 186 316 thousand.

26 Debt securities issued

	2013 RUB’000	2012 RUB’000
Bonds	5 835 360	3 022 432
Promissory notes	268 701	1 161 799
	6 104 061	**4 184 231**

Bonds are presented by two issues: one of the Bank and the other of CJSC “Mortgage agent APB”.

In April 2012, the Group issued RUB 1 500 000 thousand of bonds with a coupon rate as at 31 December 2013 of 10.4%. These bonds mature on 30 April 2015.

In December 2012, the Group issued RUB 1 521 863 thousand of mortgage backed securities with a coupon rate of 8.75%. These securities mature on 26 April 2045 (see note 18 for more details).

In February 2013, the Group issued RUB 3 000 000 thousand of bonds with a coupon rate as at 31 December 2013 of 10.4%. These bonds mature on 19 February 2016.

27 Subordinated borrowings

	2013 RUB’000	2012 RUB’000
Subordinated loan	986 344	915 050
	986 344	**915 050**

On 21 November 2012 the Bank attracted a subordinated loan in the amount USD 30 million from one of the Bank’s shareholders - IFC. The loan with interest rate 10.92% as at 31 December 2013 mature by tranches until 16 December 2019.

According to the terms of the agreement the Group is subject to a debt covenant stating that at the end of each quarter the Group should comply with a number of financial and non-financial covenants.

As at 31 December 2013 and 2012, the Group did not breach any covenants described above.

28 Other liabilities

	2013 RUB'000	2012 RUB'000
Payables to employees	463 786	431 291
Advances from lessees received	211 944	-
Other taxes payable	158 116	69 607
Payables to creditors	70 459	35 904
Deferred commission on guarantees and letters of credit issued	49 011	26 975
Other non-financial liabilities	102 354	59 955
	1 055 670	**623 732**

29 Share capital

Issued capital

Movements in share capital for the years ended 31 December 2013 and 2012 are as follows:

	Shares (thousands)	Nominal amount, RUB'000	Inflation adjustment, RUB'000	Total, RUB'000
Balance as at 1 January 2012	**4 949 019 820 939**	**554 290**	**8 022**	**562 312**
Ordinary shares	4 949 019 820 689	554 290	8 022	562 312
Preferred shares	250	-	-	-
Balance as at 1 January 2013	**4 949 019 820 939**	**554 290**	**8 022**	**562 312**
Ordinary shares	4 858 303 245 205	544 130	7 875	552 005
Preferred shares	250	-	-	-
Purchased ordinary treasury shares	90 716 575 484	10 160	147	10 307
Balance as at 31 December 2013	**4 949 019 820 939**	**554 290**	**8 022**	**562 312**

In accordance with the 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 the Russian Accounting Legislation.

The share capital of the Bank was contributed by the shareholders in Russian Roubles and they are entitled to dividends and any capital distribution in Russian Roubles.

30 Analysis by segment

The Group has seventeen divisions located in different regions of the Russian Federation, as described below, which are the Group's strategic business units. The strategic business units offer different products and services, and are managed separately. For each of the strategic business units the chief operating decision maker reviews internal management reports on at least a monthly basis. The Group combined branches into three reporting units based on geographical location: Far East region, Siberia region and West region.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before income tax as included in the internal management reports that are based on statutory financial information and that are reviewed by the Chairman of the Management Board. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to others who operate within these industries.

Segment breakdown of assets and liabilities is set out below:

	2013 RUB'000	2012 RUB'000
ASSETS		
Far East region	54 460 162	42 381 816
Siberia region	30 844 089	21 174 510
West region	28 700 692	24 015 575
Total assets	**114 004 943**	**87 571 901**
LIABILITIES		
Far East region	63 081 318	51 259 406
Siberia region	15 399 497	12 941 005
West region	22 189 149	12 828 857
Total liabilities	**100 669 964**	**77 029 268**

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

RUB'000	Far East region	Siberia region	West region	Total
External interest income	7 751 161	4 725 247	1 347 077	13 823 485
Fee and commission income	2 871 730	2 235 229	184 563	5 291 522
Net (loss) gain on financial instruments at fair value through profit or loss and realised gain on available-for-sale financial instruments	(3 376)	-	1 070 479	1 067 103
Net foreign exchange (loss)/income	(667 027)	129 774	744 421	207 168
Other operating income	329 992	164 831	4 813	499 636
Revenue	**10 282 480**	**7 255 081**	**3 351 353**	**20 888 914**
Impairment losses	3 148 715	2 497 369	311 423	5 957 507
Interest expense	4 270 428	1 137 857	1 457 426	6 865 711
Fee and commission expense	111 019	48 155	19 357	178 531
General administrative expenses	3 589 811	1 362 129	240 245	5 192 185
Segment result	**(837 493)**	**2 209 571**	**1 322 902**	**2 694 980**
Income tax expense				665 338
Profit for the year				**2 029 642**

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

RUB'000	Far East region	Siberia region	West region	Total
External interest income	5 517 096	3 186 934	683 309	9 387 339
Fee and commission income	2 173 164	1 123 204	116 949	3 413 317
Net (loss) gain on financial instruments at fair value through profit or loss and realised gain on available-for-sale financial instruments	(2 180)	-	793 130	790 950
Net foreign exchange income	309 703	101 919	85 384	497 006
Other operating income	260 989	117 349	4 179	382 517
Revenue	**8 258 772**	**4 529 406**	**1 682 951**	**14 471 129**
Impairment losses (recovery)	1 292 861	825 841	(83 745)	2 034 957
Interest expense	3 152 687	771 621	639 875	4 564 183
Fee and commission expense	67 536	25 416	17 977	110 929
General administrative expenses	3 326 121	303 494	71 286	3 700 901
Segment result	**419 567**	**2 603 034**	**1 037 558**	**4 060 159**
Income tax expense				764 768
Profit for the year				**3 295 391**

Reconciliations of reportable segment revenues, profit or loss, assets and liabilities

	2013 RUB'000	2012 RUB'000
Revenues		
Total revenues for reportable segments	20 888 914	14 471 129
IFRS accounting policy adjustments:		
- interest income on loans to customers and net investmentd in finance leases	261 899	171 304
- securities at fair value	28 686	(17 650)
- other adjustments	297 812	262 258
Consolidated revenues	**21 477 311**	**14 887 041**
Profit or loss		
Total profit or loss for reportable segments	2 029 642	3 295 391
IFRS accounting policy adjustments:		
- interest income on loans to customers	261 899	171 304
- allowance for impairment of loans to customers and net investments in finance leases	640 504	234 546
- allowance for impairment of other assets	59 478	68 154
- depreciation and amortisation of property and equipment and intangible assets	(35 434)	(52 805)
- securities at fair value	28 686	(17 650)
- other adjustments	128 185	(437 700)
Consolidated profit for the year	**3 112 960**	**3 261 240**

	2013 RUB’000	2012 RUB’000
Assets		
Total assets for reportable segments	114 004 943	87 571 901
IFRS accounting policy adjustments:		
- interest income on loans to customers	(141 092)	(24 341)
- allowance for impairment of loans to customers and net investments in finance leases	1 735 282	1 028 501
- allowance for impairment of other assets	636 507	355 056
- depreciation and amortisation of property and equipment and intangible assets and other adjustments to property cost	159 472	182 624
- securities at fair value	51 804	8 925
- repo adjustment	(338 752)	-
- deferred tax asset	51 462	25 432
- revaluation of property and equipment	364 463	125 668
- other assets of subsidiaries (net of intragroup transactions)	2 447 172	3 043 640
- other adjustments	(414 999)	(141 597)
Consolidated assets	**118 556 262**	**92 175 809**
Liabilities		
Total liabilities for reportable segments	100 669 964	77 029 268
IFRS accounting policy adjustments:		
- accounting for deferred tax liability	435 961	288 773
- liabilities of subsidiaries (net of intragroup transactions)	2 524 792	3 023 604
- other adjustments	335 127	305 230
Consolidated liabilities	**103 965 844**	**80 646 875**

Information about major customers and geographical areas

For the years ended 31 December 2013 and 2012, there were no corporate customers whose revenues individually exceed 10% of total revenue.

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

31 Risk management, corporate governance and internal control

(a) Corporate governance framework

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

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

Russian legislation and the charter of the Bank establish lists of decisions that are exclusively approved by the general shareholders’ meeting and that are approved by the Board of Directors.

As at 31 December 2013 the Board of Directors includes:

Kirill Yakubovskiy – Chairman of the Board of Directors;

Evgeniy Aksenov;

Sergey Tyrtsev;

Marc van der Plas;

Stefan Dertnig;

Andrey Vdovin;

Kestutis Sasnauskas;

Alexander Murichev.

During the year ended 31 December 2013 the following changes occurred in composition of the Board of Directors: Sergey Stepanov and Sergey Plastinin left the Board, Sergey Tyrtsev and Marc van der Plas joined the Board.

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

As at 31 December 2013 the Management Board includes:

Sergey Tyrtsev – Chairman of the Management Board;

Igor Abazov;

Alexander Nepomnyashiy;

Igor Zilberblum;

Mikhail Pavlov.

During the year ended 31 December 2013 the following changes occurred in composition of the Management Board: the new Chairman, Sergey Tyrtsev, was appointed instead of Evgeniy Aksenov, who left his position on 1 July 2013. No other changes in the Management Board took place in 2013.

(b) Internal control policies and procedures

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

The purpose of internal controls is to ensure:

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

- compliance with laws and regulations.

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

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

- requirements for appropriate segregation of duties, including the independent authorisation of transactions;
- requirements for the recording, reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documenting of controls and procedures;
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- requirements for the reporting of operational losses and proposed remedial action
- development of contingency plans;
- training and professional development;
- ethical and business standards and;
- risk mitigation, including insurance where this is effective.

There is a hierarchy of requirements for authorisation of transactions depending on their size and complexity. A significant portion of operations are automated and the Bank put in place a system of automated controls.

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

The internal control system in the Bank comprises:

- the Board of Directors and its committees, including the Audit and Risk committee;
- the Chairman of the Management Board and the Management Board;
- the Chief Accountant;
- the risk management function;
- the security function, including IT-security;
- the human resource function;
- the Internal Audit;
- other employees, division and functions that are responsible for compliance with the established standards, policies and procedures, including:
    - heads of branches and heads of business-units;
    - business processes managers;
    - the compliance officer and the compliance function, including the division responsible for compliance with anti-money laundering and anticorruption requirements;
    - professional securities market participant controller – an executive office responsible for compliance with the requirements for securities market participants;

- the legal officer – employees and a division responsible for compliance with the legal and regulatory requirements;
- other employees/divisions with control responsibilities.

Russian legislation, including Federal Law dated 2 December 1990 No 395-1 *On Banks and Banking Activity*, establishes the professional qualifications, business reputation and other requirements for members of the Board of Directors, the Management Board, the Head of Internal Audit and other key management personnel. All members of the Bank's governing and management bodies meet with these requirements.

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

(c) Risk management policies and procedures

Management of risk is fundamental to the business of banking and is an essential element of the Group's operations. The major risks faced by the Group are those related to market risk, credit risk and liquidity risk.

The risk management policies aim to identify, analyse and manage the risks faced by the Group, to set appropriate risk limits and controls, and to continuously monitor risk levels and adherence to limits. Risk management policies and procedures are reviewed regularly to reflect changes in market conditions, products and services offered and emerging best practice.

The Board of Directors has overall responsibility for the oversight of the risk management framework, overseeing the management of key risks and reviewing its risk management policies and procedures as well as approving significantly large exposures.

The Management Board is responsible for monitoring and implementation of risk mitigation measures and making sure that the Group operates within the established risk parameters. The Head of the Risk Department is responsible for the overall risk management and compliance functions, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting both financial and non-financial risks. He reports directly to the Chairman of the Management Board and indirectly to the Board of Directors.

Credit, market and liquidity risks both at the portfolio and transactional levels are managed and controlled through a system of Credit Committees and an Asset and Liability Management Committee (the ALCO). In order to facilitate efficient and effective decision-making, the Group established a hierarchy of credit committees depending on the type and amount of the exposure.

Both external and internal risk factors are identified and managed throughout the organisation. Particular attention is given to identifying the full range of risk factors and determination of the level of assurance over the current risk mitigation procedures. Apart from the standard credit and market risk analysis, the Risk Department monitors financial and non-financial risks by holding regular meetings with operational units in order to obtain expert judgments in their areas of expertise.

(d) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises currency risk, interest rate risk and other price risks. Market risk arises from open positions in interest rate, currency and equity based financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices.

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

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

The Group manages its market risk by setting open position limits in relation to financial instrument types stated above, value-at-risk based limits and stop-loss limits. These are monitored on a regular basis and reviewed and approved by the ALCO.

(i) Interest rate risk

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

Average interest rates

The table below displays average effective interest rates for interest bearing assets and liabilities as at 31 December 2013 and 2012. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	2013 Average effective interest rate, %			**2012 Average effective interest rate, %**		
	RUB	**USD**	**Other currencies**	**RUB**	**USD**	**Other currencies**
Interest bearing assets						
Term deposits with the CBR	5%	-	-	4%	-	-
Financial instruments at fair value through profit or loss	8%	-	-	9%	8%	-
Available-for-sale financial assets	8%	6%	-	9%	13%	-
Due from banks						
- nostro accounts	0%	0%	-	2%	-	-
- term deposits	5%	5%	6%	5%	7%	-
Amounts receivable under reverse repurchase agreements	7%	-	-	7%	-	-
Loans to customers						
- retail	23%	10%	-	24%	11%	-
- corporate	13%	9%	10%	13%	10%	11%
Net investments in finance leases	31%	23%	-	29%	23%	40%

	2013 Average effective interest rate, %			2012 Average effective interest rate, %		
	RUB	**USD**	**Other currencies**	**RUB**	**USD**	**Other currencies**
Interest bearing liabilities						
Deposits and balances from banks	10%	3%	2%	10%	4%	4%
Amounts payable under repurchase agreements	6%	-	-	6%	-	-
Current accounts and deposits from customers						
- retail	9%	4%	4%	10%	5%	5%
- corporate	7%	5%	2%	8%	4%	3%
Debt securities issued						
- promissory notes	7%	7%	-	10%	9%	-
- bonds	11%	-	-	10%	-	-
Subordinated borrowings	-	11%	-	-	11%	-

Interest rate sensitivity analysis

The management of interest rate risk based on interest rate gap analysis is supplemented by monitoring the sensitivity of financial assets and liabilities. An analysis of sensitivity of profit or loss and equity (net of taxes) to changes in interest rates (repricing risk) based on a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves and positions of interest-bearing assets and liabilities existing as at 31 December 2013 and 2012 is as follows:

	2013		2012	
	Profit or loss RUB'000	**Equity RUB'000**	**Profit or loss RUB'000**	**Equity RUB'000**
100 bp parallel fall	75 905	75 905	133 628	133 628
100 bp parallel rise	(75 905)	(75 905)	(133 628)	(133 628)

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

	2013		2012	
	Profit or loss RUB'000	**Equity RUB'000**	**Profit or loss RUB'000**	**Equity RUB'000**
100 bp parallel fall	85 409	135 200	97 720	125 018
100 bp parallel rise	(85 409)	(135 200)	(97 720)	(125 018)

(ii) Currency risk

The Group has assets and liabilities denominated in several foreign currencies.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign currency exchange rates. Although the Group hedges its exposure to currency risk, such activities do not qualify as hedging relationships in accordance with IFRS.

The following table shows the foreign currency structure of assets and liabilities as at 31 December 2013:

	RUB	**USD**	**EUR**	**Gold**	**Other currencies**	**Total**
	RUB’000	**RUB’000**	**RUB’000**	**RUB’000**	**RUB’000**	**RUB’000**
ASSETS						
Cash	2 227 190	299 326	177 202	-	48 984	2 752 702
Placements with the Central Bank of the Russian Federation	6 021 534	-	-	-	-	6 021 534
Financial instruments at fair value through profit or loss	10 676 182	-	-	-	-	10 676 182
Available-for-sale financial assets	5 548 516	675 356	-	-	-	6 223 872
Due from banks	1 101 413	1 562 175	403 138	7 106	26 724	3 100 556
Amounts receivable under reverse repurchase agreements	335 720	-	-	-	-	335 720
Loans to customers	77 640 340	2 435 282	347 322	-	1 829	80 424 773
Net investments in finance leases	2 242 910	168 431	654	-	-	2 411 995
Current tax asset	27 549	-	-	-	-	27 549
Deferred tax asset	51 462	-	-	-	-	51 462
Property, equipment, intangible assets and investment property	5 005 641	-	-	-	-	5 005 641
Other assets	1 385 770	118 014	20 492	-	-	1 524 276
Total assets	**112 264 227**	**5 258 584**	**948 808**	**7 106**	**77 537**	**118 556 262**

	RUB RUB’000	USD RUB’000	EUR RUB’000	Gold RUB’000	Other currencies RUB’000	Total RUB’000
LIABILITIES						
Derivative financial instruments	-	12 118	-	3 870	442	16 430
Deposits and balances from banks	6 177 074	635 599	177 196	-	4 798	6 994 667
Amounts payable under repurchase agreements	6 809 841	-	-	-	-	6 809 841
Current accounts and deposits from customers	74 433 454	5 443 106	761 635	501 015	230 914	81 370 124
Debt securities issued	6 036 022	68 039	-	-	-	6 104 061
Subordinated borrowings	-	986 344	-	-	-	986 344
Current tax liability	184 630	-	-	-	-	184 630
Deferred tax liability	444 077	-	-	-	-	444 077
Other liabilities	1 050 006	1 361	4 297	-	6	1 055 670
Total liabilities	**95 135 104**	**7 146 567**	**943 128**	**504 885**	**236 160**	**103 965 844**
Net position	**17 129 123**	**(1 887 983)**	**5 680**	**(497 779)**	**(158 623)**	**14 590 418**
The effect of derivatives held for risk management	**(2 681 668)**	**2 030 087**	**-**	**642 264**	**9 317**	**-**
Net position after derivatives held for risk management purposes	**14 447 455**	**142 104**	**5 680**	**144 485**	**(149 306)**	**14 590 418**

The following table shows the foreign currency structure of assets and liabilities as at 31 December 2012:

	RUB	USD	EUR	Gold	Other currencies	Total
	RUB’000	RUB’000	RUB’000	RUB’000	RUB’000	RUB’000
ASSETS						
Cash	2 131 583	286 975	169 062	-	48 357	2 635 977
Placements with the Central Bank of the Russian Federation	3 102 000	-	-	-	-	3 102 000
Financial instruments at fair value through profit or loss	11 450 166	950 621	27	-	-	12 400 814
Available-for-sale financial assets	3 114 299	297 762	-	-	-	3 412 061
Due from banks	1 974 698	1 199 822	356 664	84 408	12 085	3 627 677
Amounts receivable under reverse repurchase agreements	150 107	-	-	-	-	150 107
Loans to customers	56 795 489	1 416 746	256 034	-	-	58 468 269
Net investments in finance leases	1 878 252	192 718	359	-	-	2 071 329
Current tax asset	9 563	-	-	-	-	9 563
Deferred tax asset	25 432	-	-	-	-	25 432
Property, equipment, intangible assets and investment property	4 592 030	-	-	-	-	4 592 030
Other assets	1 612 342	17 595	44 717	-	5 896	1 680 550
Total assets	**86 835 961**	**4 362 239**	**826 863**	**84 408**	**66 338**	**92 175 809**

	RUB	USD	EUR	Gold	Other currencies	Total
	RUB’000	RUB’000	RUB’000	RUB’000	RUB’000	RUB’000
LIABILITIES						
Derivative financial instruments	-	94 434	-	66 306	-	160 740
Deposits and balances from banks	5 893 112	1 200 166	37 233	-	180	7 130 691
Amounts payable under repurchase agreements	2 113 126	-	-	-	-	2 113 126
Current accounts and deposits from customers	58 477 009	3 953 736	756 429	1 938 022	18 132	65 143 328
Debt securities issued	3 978 892	205 339	-	-	-	4 184 231
Subordinated borrowings	-	915 050	-	-	-	915 050
Current tax liability	87 204	-	-	-	-	87 204
Deferred tax liability	288 773	-	-	-	-	288 773
Other liabilities	609 510	13 452	765	-	5	623 732
Total liabilities	**71 447 626**	**6 382 177**	**794 427**	**2 004 328**	**18 317**	**80 646 875**
Net position	**15 388 335**	**(2 019 938)**	**32 436**	**(1 919 920)**	**48 021**	**11 528 934**
The effect of derivatives held for risk management	**(3 795 570)**	**1 900 545**	**10 057**	**1 884 968**	**-**	**-**
Net position after derivatives held for risk management purposes	**11 592 765**	**(119 393)**	**42 493**	**(34 952)**	**48 021**	**11 528 934**

A weakening of the RUB, as indicated below, against the following currencies at 31 December 2013 and 2012 would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis is on net of tax basis and is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

	2013		**2012**	
	Profit or loss RUB’000	**Equity RUB’000**	**Profit or loss RUB’000**	**Equity RUB’000**
10% appreciation of USD against RUB	11 368	11 368	(9 551)	(9 551)
10% appreciation of EUR against RUB	454	454	3 399	3 399

A strengthening of the RUB against the above currencies at 31 December 2013 and 2012 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

(iii) Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. Other price risk arises when the Group takes a long or short position in such financial instrument.

An analysis of sensitivity of profit or loss and equity (net of tax) to changes in equity securities prices based on positions existing as at 31 December 2013 and 2012 and a simplified scenario of a 10% change in all securities prices is as follows:

	2013		**2012**	
	Profit or loss RUB’000	**Equity RUB’000**	**Profit or loss RUB’000**	**Equity RUB’000**
10% increase in equity securities prices	-	-	14 858	14 858
10% decrease in equity securities prices	-	-	(14 858)	(14 858)

(e) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Group has policies and procedures for the management of credit exposures (both for recognised financial assets and unrecognised contractual commitments), including guidelines to limit portfolio concentration and the establishment of a system of Credit Committees, which actively monitor credit risk. The credit policy is reviewed and approved by the Board of Directors.

The credit policy establishes:

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

Corporate loan applications are originated by the relevant client managers and are then passed on to the Loan Department, which is responsible for the corporate loan portfolio. Analysis reports are based on a structured analysis focusing on the customer’s business and financial performance. The loan application and the report are then independently reviewed by the Risk Department and a second opinion is given accompanied by a verification that credit policy requirements are met. The Credit Committee reviews the loan application on the basis of submissions by the Loan Department and the Risk Department. Individual transactions are also reviewed by the Legal Department depending on the specific risks and pending final approval of the Credit Committee.

The Group continuously monitors the performance of individual credit exposures and regularly reassesses the creditworthiness of its customers. The review is based on the customer’s most recent financial statements and other information submitted by the borrower, or otherwise obtained by the Group. The current market value of collateral is regularly assessed by either independent appraisal companies or internal specialists, and in the event of negative movements in market prices the borrower is usually requested to put up additional security.

Retail loan applications are reviewed by the Retail Lending Department through the use of scoring models and application data verification procedures developed together with the Risk Department.

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

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

For the analysis of concentration of credit risk in respect of loans to customers refer to note 18.

The maximum exposure to credit risk from unrecognised contractual commitments at the reporting date is presented in note 33.

As at 31 December 2013, the Group has no debtors or groups of connected debtors (31 December 2012: no debtors or group of debtors), credit risk exposure to whom individually exceeds 10% of maximum credit risk exposure.

(f) Offsetting financial assets and financial liabilities

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

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

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

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

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

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

The Group receives and accepts collateral in the form of cash and marketable securities in respect of the following transactions:

- derivatives;
- sale and repurchase, and reverse sale and repurchase agreements.

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

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

RUB’000 **Types of financial assets/liabilities**	**Gross amounts of recognised financial asset/liability**	**Gross amount of recognised financial liability/asset offset in the consolidated statement of financial position**	**Net amount of financial assets/liabilities presented in the consolidated statement of financial position**	**Related amounts not offset in the consolidated statement of financial position** **Financial instruments**	**Cash collateral received**	**Net amount**
Reverse sale and repurchase agreements	335 720	-	335 720	(335 720)	-	-
Total financial assets	**335 720**	**-**	**335 720**	**(335 720)**	**-**	**-**
Sale and repurchase agreements	(6 809 841)	-	(6 809 841)	6 809 841	-	-
Total financial liabilities	**(6 809 841)**	**-**	**(6 809 841)**	**6 809 841**	**-**	**-**

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

RUB’000 **Types of financial assets/liabilities**	**Gross amounts of recognised financial asset/liability**	**Gross amount of recognised financial liability/asset offset in the consolidated statement of financial position**	**Net amount of financial assets/liabilities presented in the consolidated statement of financial position**	**Related amounts not offset in the consolidated statement of financial position** **Financial instruments**	**Cash collateral received**	**Net amount**
Reverse sale and repurchase	150 107	-	150 107	(150 107)	-	-
Total financial assets	**150 107**	**-**	**150 107**	**(150 107)**	**-**	**-**
Sale and repurchase agreements	(2 113 126)	-	(2 113 126)	2 113 126	-	-
Total financial liabilities	**(2 113 126)**	**-**	**(2 113 126)**	**2 113 126**	**-**	**-**

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

- derivative assets and liabilities – fair value;
- assets and liabilities resulting from sale and repurchase agreements, reverse sale and repurchase agreements and securities lending and borrowing – amortised cost.

(g) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to liquidity management. It is unusual for financial institutions ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

The Group maintains liquidity management with the objective of ensuring that funds will be available at all times to honor all cash flow obligations as they become due. The liquidity policy is reviewed and approved by the Board of Directors.

The Group seeks to actively support a diversified and stable funding base comprising debt securities in issue, long-term loans from other banks, core corporate and retail customer deposits. This policy is accompanied by diversified portfolios of highly liquid assets in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The liquidity management policy requires:

- projecting cash flows by major currencies and considering the level of liquid assets necessary in relation thereto;
- maintaining a diverse range of funding sources;
- managing the concentration and profile of debts;
- maintaining debt financing plans;
- maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any interruption to cash flow;
- maintaining liquidity and funding contingency plans;
- monitoring liquidity ratios against regulatory requirements.

The Treasury Department monitors liquidity position on a daily basis, aggregates information regarding the liquidity profile of assets and liabilities on past deals and receives from business units details of projected cash flows arising from future business.

The Treasury Department performs regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions. The Treasury Department then provides for an adequate portfolio of short-term liquid assets to be maintained, largely made up of short-term liquid trading securities, short-term promissory notes of highly reliable banks, stock exchange reverse repo deals, to ensure that sufficient liquidity is maintained within the Group as a whole both in normal and more severe market conditions.

Under the normal market conditions liquidity reports covering the liquidity position are presented to senior management on a weekly basis. Decisions on liquidity management are made by the ALCO and implemented by the Treasury Department.

The following tables show the undiscounted cash flows on financial liabilities and credit-related commitments on the basis of their contractual maturity. The total gross inflow and outflow disclosed in the tables is the contractual, undiscounted cash flow on the financial liability or commitment.

The maturity analysis for liabilities as at 31 December 2013 is as follows:

RUB’000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Total gross amount outflow (inflow)	Carrying amount
Non-derivative liabilities							
Deposits and balances from banks	711 432	278 733	2 604 564	4 518 492	74 381	8 187 602	6 994 667
Amounts payable under repurchase agreements	6 823 433	-	-	-	-	6 823 433	6 809 841
Current accounts and deposits from customers	26 059 146	12 337 952	30 775 988	15 896 665	-	85 069 751	81 370 124
Debt securities issued	150 465	204 739	822 062	5 990 813	23 724	7 191 803	6 104 061
Subordinated borrowings	-	-	108 412	991 919	425 274	1 525 605	986 344
Current tax liability	-	184 630	-	-	-	184 630	184 630
Other liabilities	546 617	126 503	382 550	-	-	1 055 670	1 055 670
Derivative liabilities							
Inflow	(655 607)	(496 181)	(1 533 906)	-	-	(2 685 694)	-
Outflow	659 918	499 196	1 543 010	-	-	2 702 124	16 430
Total liabilities	**34 295 404**	**13 135 572**	**34 702 680**	**27 397 889**	**523 379**	**110 054 924**	**103 521 767**
Credit related commitments	**9 664 217**	**-**	**-**	**-**	**-**	**9 664 217**	**9 664 217**

The maturity analysis for liabilities as at 31 December 2012 is as follows:

RUB'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Total gross amount outflow (inflow)	Carrying amount
Non-derivative liabilities							
Deposits and balances from banks	542 777	575 213	3 944 799	2 956 957	57 126	8 076 872	7 130 691
Amounts payable under repurchase agreements	2 116 147	-	-	-	-	2 116 147	2 113 126
Current accounts and deposits from customers	24 476 465	9 971 727	28 561 861	8 622 514	-	71 632 567	65 143 328
Debt securities issued	111 172	117 375	1 315 111	3 332 415	79 132	4 955 205	4 184 231
Subordinated borrowings	-	-	100 607	585 492	830 270	1 516 369	915 050
Current tax liability	87 204	-	-	-	-	87 204	87 204
Other liabilities	220 766	402 966	-	-	-	623 732	623 732
Derivative liabilities							
Inflow	(1 236 166)	-	(2 559 405)	-	-	(3 795 571)	(27)
Outflow	1 254 557	-	2 701 727	-	-	3 956 284	160 740
Total liabilities	**27 572 922**	**11 067 281**	**34 064 700**	**15 497 378**	**966 528**	**89 168 809**	**80 358 075**
Credit related commitments	**7 493 663**	**-**	**-**	**-**	**-**	**7 493 663**	**7 493 663**

The tables above show the undiscounted cash flows of financial liabilities, including issued financial guarantee contracts and unrecognised loan commitments, on the basis of their earliest possible contractual maturity. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

In accordance with Russian legislation, individuals can withdraw their term deposits at any time, forfeiting in most of the cases the accrued interest. These retail deposits totaling RUB 45 508 173 thousand (31 December 2012: RUB 39 269 989 thousand) are classified in accordance with their stated maturity dates, but could legally be withdrawn on demand.

The table below shows an analysis, by expected maturities, of the amounts recognised in the consolidated statement of financial position as at 31 December 2013:

RUB'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Total
ASSETS							
Cash	2 752 702	-	-	-	-	-	2 752 702
Placements with the Central Bank of Russian Federation	4 942 741	-	-	-	-	1 078 793	6 021 534
Financial instruments at fair value through profit or loss	8 262 499	2 413 683	-	-	-	-	10 676 182
Available-for-sale financial assets	6 223 872	-	-	-	-	-	6 223 872
Due from banks	2 388 076	2 260	695 158	-	-	15 062	3 100 556
Amounts receivable under reverse repurchase agreements	335 720	-	-	-	-	-	335 720
Loans to customers	3 448 367	4 695 986	23 647 019	41 177 357	7 456 044	-	80 424 773
Net investments in finance leases	349 363	184 675	831 039	1 046 918	-	-	2 411 995
Current tax asset	27 549	-	-	-	-	-	27 549
Deferred tax asset	-	-	-	-	-	51 462	51 462
Property, equipment, intangible assets and investment property	-	-	-	-	-	5 005 641	5 005 641
Other assets	512 414	501 979	457 432	14 844	-	37 607	1 524 276
Total assets	**29 243 303**	**7 798 583**	**25 630 648**	**42 239 119**	**7 456 044**	**6 188 565**	**118 556 262**
LIABILITIES							
Derivative financial instruments	4 313	3 015	9 102	-	-	-	16 430
Deposits and balances from banks	693 822	186 457	2 187 063	3 853 609	73 716	-	6 994 667
Amounts payable under repurchase agreements	6 809 841	-	-	-	-	-	6 809 841
Current accounts and deposits from customers	26 025 930	12 158 258	29 580 979	13 604 957	-	-	81 370 124
Debt securities issued	141 523	161 342	459 397	5 318 075	23 724	-	6 104 061
Subordinated borrowings	-	-	4 468	589 126	392 750	-	986 344
Current tax liability	-	184 630	-	-	-	-	184 630
Deferred tax liability	-	-	-	-	-	444 077	444 077
Other liabilities	546 617	126 503	382 550	-	-	-	1 055 670
Total liabilities	**34 222 046**	**12 820 205**	**32 623 559**	**23 365 767**	**490 190**	**444 077**	**103 965 844**
Net position	**(4 978 743)**	**(5 021 622)**	**(6 992 911)**	**18 873 352**	**6 965 854**	**5 744 488**	**14 590 418**

The table below shows an analysis, by expected maturities, of the amounts recognised in the consolidated statement of financial position as at 31 December 2012:

RUB'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Total
ASSETS							
Cash	2 635 977	-	-	-	-	-	2 635 977
Placements with the Central Bank of Russian Federation	2 355 545	-	-	-	-	746 455	3 102 000
Financial instruments at fair value through profit or loss	11 024 421	1 376 393	-	-	-	-	12 400 814
Available-for-sale financial assets	-	3 412 061	-	-	-	-	3 412 061
Due from banks	3 189 088	-	347 642	-	-	90 947	3 627 677
Amounts receivable under reverse repurchase agreements	150 107	-	-	-	-	-	150 107
Loans to customers	1 066 974	5 718 396	19 583 890	27 285 997	4 813 012	-	58 468 269
Net investments in finance leases	82 933	166 552	747 641	1 050 339	23 864	-	2 071 329
Current tax asset	9 563	-	-	-	-	-	9 563
Deferred tax asset	-	-	-	-	-	25 432	25 432
Property, equipment, intangible assets and investment property	-	-	-	-	-	4 592 030	4 592 030
Other assets	936 899	135 220	608 431	-	-	-	1 680 550
Total assets	**21 451 507**	**10 808 622**	**21 287 604**	**28 336 336**	**4 836 876**	**5 454 864**	**92 175 809**
LIABILITIES							
Derivative financial instruments	18 417	-	142 323	-	-	-	160 740
Deposits and balances from banks	534 872	503 806	3 615 619	2 419 835	56 559	-	7 130 691
Amounts payable under repurchase agreements	2 113 126	-	-	-	-	-	2 113 126
Current accounts and deposits from customers	24 476 465	9 779 765	24 971 432	5 915 666	-	-	65 143 328
Debt securities issued	111 172	109 209	1 063 546	2 824 884	75 420	-	4 184 231
Subordinated borrowings	-	-	3 869	182 236	728 945	-	915 050
Current tax liability	87 204	-	-	-	-	-	87 204
Deferred tax liability	-	-	-	-	-	288 773	288 773
Other liabilities	220 766	402 966	-	-	-	-	623 732
Total liabilities	**27 562 022**	**10 795 746**	**29 796 789**	**11 342 621**	**860 924**	**288 773**	**80 646 875**
Net position	**(6 110 515)**	**12 876**	**(8 509 185)**	**16 993 715**	**3 975 952**	**5 166 091**	**11 528 934**

In accordance with Russian legislation, individuals can withdraw their term deposits at any time, forfeiting in most of the cases the accrued interest. These retail deposits totaling RUB 45 508 173 thousand (31 December 2012: RUB 39 269 989 thousand) are classified in accordance with their stated maturity dates, but could legally be withdrawn on demand. The classification of these deposits in accordance with their stated maturity dates is presented below:

	2013 RUB'000	2012 RUB'000
Demand and less than 1 month	4 762 801	4 998 904
From 1 to 3 months	9 719 809	7 764 856
From 3 to 12 months	18 007 057	21 441 522
From 1 to 5 years	13 017 506	5 064 707
	45 508 173	**39 269 989**

Management expects that the cash flows from certain assets and liabilities will be different from their contractual terms either because management has the discretionary ability to manage the cash flows or because past experience indicates that cash flows will differ from contractual terms. In the tables below the following financial assets and liabilities are presented on a discounted basis and are based on their expected cash flows:

- Overdue and impaired loans are included in from 3 months to 1 year category based on past experience analysis of their recoverability;
- Financial instruments at fair value through profit or loss (except for promissory notes and derivative financial instruments): management holds a portfolio of trading securities that are readily marketable and can be used to meet outflows of financial liabilities. Cash flows from these trading securities, totalling RUB 6 480 114 thousand (31 December 2012: RUB 11 024 394 thousand) are included in the demand and less than 1 month category.

Contractual maturities of trading securities are as follows:

	2013 RUB'000	2012 RUB'000
From 3 to 12 months	-	848 802
From 1 to 5 years	3 383 512	3 495 789
More than 5 years	3 096 602	6 494 085
No maturity	-	185 718
	6 480 114	**11 024 394**

- Available-for-sale financial assets: management holds a portfolio of other securities that are also readily marketable and can be used to meet outflows of financial liabilities. Cash flows from these available-for-sale securities, totalling RUB 6 223 872 thousand (31 December 2012: RUB 3 412 061 thousand) are included in the demand and less than 1 month category (31 December 2012: from 1 to 3 months category) based on past experience analysis of their holding period.

Contractual maturities of available-for-sale securities are as follows:

	2013 RUB’000	2012 RUB’000
From 1 to 3 months	9 241	-
From 3 to 12 months	384 834	425 096
From 1 to 5 years	2 484 856	2 391 406
More than 5 years	3 344 941	595 559
	6 223 872	**3 412 061**

- In accordance with the Russian legislation, individuals and legal entities can withdraw the amounts from their current accounts at any time. However past experience indicates that current accounts in total population have permanent remainders. Based on the statistics cash flows from the current accounts for the year ended 31 December 2013, totalling RUB 6 650 000 thousand are included in the category from 3 to 12 months instead of the demand and less than 1 month category.

The Group maintains unused lines of credit from the CBR and other financial institutions. So when analysing liquidity position the Group considers that liquidity gaps represented in the tables above will be adequately covered by outstanding balances of customer accounts not withdrawn by depositors and unused lines of credit from the CBR and other financial institutions, mentioned above.

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

- instant liquidity ratio (N2), which is calculated as the ratio of highly liquid assets to liabilities payable on demand;
- current liquidity ratio (N3), which is calculated as the ratio of liquid assets to liabilities maturing within 30 calendar days;
- long-term liquidity ratio (N4), which is calculated as the ratio of assets maturing after 1 year to the equity and liabilities maturing after 1 year.

The Bank was in compliance with these ratios as at 31 December 2013 and 2012. The following table shows the mandatory liquidity ratios calculated as at 31 December 2013 and 2012.

	Requirement	2013, %	2012, %
Instant liquidity ratio (N2)	Not less than 15%	48.7	56.5
Current liquidity ratio (N3)	Not less than 50%	63.3	100.2
Long-term liquidity ratio (N4)	Not more than 120%	87.0	110.2

(h) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group’s processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks, such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior. Operational risks arise from all of the Group’s operations.

The Group’s objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group’s reputation with overall cost effectiveness and innovation. In all cases, the Group policy requires compliance with all applicable legal and regulatory requirements.

The Group manages operational risk by establishing internal controls that management determines to be necessary in each area of its operations.

32 Capital management

The CBR sets and monitors capital requirements for the Bank.

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

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

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

	2013 RUB'000	**2012 RUB'000**
Tier 1 capital		
Share capital less treasury shares	552 005	562 312
Share premium	1 192 723	1 192 723
Retained earnings	11 255 339	8 484 167
Total tier 1 capital	**13 000 067**	**10 239 202**
Tier 2 capital		
Revaluation reserve for available-for-sale assets	(29 827)	9 718
Revaluation surplus for buildings	1 620 178	1 280 014
Subordinated debt (unamortised portion)	841 131	915 050
Total tier 2 capital	**2 431 482**	**2 204 782**
Total capital	**15 431 549**	**12 443 984**
Risk-weighted assets		
Banking book	89 008 370	69 521 689
Trading book	11 640 081	10 789 199
Total risk weighted assets	**100 648 451**	**80 310 888**
Total capital expressed as a percentage of risk-weighted assets (total capital ratio)	**15.33%**	**15.49%**
Total tier 1 capital expressed as a percentage of risk-weighted assets (tier 1 capital ratio)	**12.92%**	**12.75%**

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

The Group is subject to minimum capital adequacy requirements calculated in accordance with the methodology of International Finance Corporation (IFC) established by covenants under liabilities incurred by the Group. The Group has complied with all externally imposed capital requirements as at 31 December 2013 and 2012.

Starting from 1 April 2013 the Bank calculates the amount of capital and capital adequacy ratios in accordance with CBR requirements based on Basel III requirements. The amount of capital and capital adequacy ratios were used by the CBR in 2013 for information purposes and not for supervision purposes.

33 Commitments

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

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

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

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

	2013 RUB'000	**2012 RUB'000**
Contracted amount		
Guarantees and letters of credit	2 965 647	2 820 942
Undrawn overdraft facilities	5 959 238	4 145 561
Loan and credit line commitments	739 332	527 160
	9 664 217	**7 493 663**

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

There is no significant credit risk concentration as at 31 December 2013 and 31 December 2012.

As at 31 December 2013, the Group has a commitment to purchase 1 738 kg of gold (31 December 2012: 1 698 kg of gold and 8 923 kg of silver) under contracts to be settled at the market price at the date of maturity.

34 Operating leases

Leases as lessee

The Group leases a number of premises and equipment under operating leases. The leases typically run for an initial period of five to ten years, with an option to renew the lease after that date. Lease payments are usually increased annually to reflect market rentals. None of the leases includes contingent rentals or non-cancellable payments.

35 Contingencies

(a) Insurance

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

(b) Litigation

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

Management is unaware of any significant actual, pending or threatened claims against the Group.

(c) Taxation contingencies

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

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

New transfer pricing legislation enacted in the Russian Federation starting from 1 January 2012 provides for major modifications making local transfer pricing rules closer to OECD guidelines, but creating additional uncertainty in practical application of tax legislation in certain circumstances.

The new transfer pricing rules introduce an obligation for the taxpayers to prepare transfer pricing documentation with respect to controlled transactions and prescribe new basis and mechanisms for accruing additional taxes and interest in case prices in the controlled transactions differ from the market level.

Since there is no practice of applying the new transfer pricing rules by the tax authorities and courts, it is difficult to predict the effect of the new transfer pricing rules on these consolidated financial statements.

36 Cash and cash equivalents

	2013 RUB’000	2012 RUB’000
Cash on hand	2 752 702	2 635 977
Nostro accounts with the CBR	2 942 741	2 155 496
Nostro accounts with other banks	1 943 263	1 825 420
Term deposits with the CBR	2 000 000	200 049
Term deposits with other banks	447 074	1 363 668
Total cash and cash equivalents	**10 085 780**	**8 180 610**

None of cash and cash equivalents are impaired or past due.

37 Related party transactions

(a) Control relationships

The Group’s parent company is LLC “PPFIN Region” (Russian Federation). As at 31 December 2013, the ultimate beneficial owners of the Group were Mr. Andrey Vdovin (the owner of 16.495%), Mr. Kirill Yakubovsky (the owner of 16.495%), Mr. Alexey Maslovsky (the owner of 16.495%), Mr. Peter Hambro (the owner of 16.495%), East Capital Explorer Financial Institution Fund (Sweden) (the owner of 17.91%), International Finance Corporation (6.99%) and Mr. Evgeniy Aksenov (the owner of 4.21%, for details of Mr. Evgeniy Aksenov ownership refer to note 1).

(b) Transactions with the members of the Board of Directors and the Management Board

Total remuneration included in personnel expenses for the years ended 31 December 2013 and 2012 is as follows:

	2013 RUB’000	2012 RUB’000
Short term employee benefits	351 065	308 677
	351 065	**308 677**

These amounts include non-cash benefits in respect of the members of the Board of Directors and the Management Board.

The outstanding balances and average effective interest rates as at 31 December 2013 and 2012 for transactions with the members of the Board of Directors and the Management Board are as follows:

	2013 RUB’000	Average effective interest rate, %	2012 RUB’000	Average effective interest rate, %
Consolidated statement of financial position				
ASSETS				
Loans to customers	821	19.42%	138	29.12%
Other assets	392	-	433	-

	2013 RUB’000	Average effective interest rate, %	2012 RUB’000	Average effective interest rate, %
LIABILITIES				
Current accounts and deposits from customers	636 539	6.41%	118 765	9.27%
Debt securities issued	-	-	100 078	9.50%
Other liabilities	11 628	-	-	-

Other amounts included in the consolidated statement of profit or loss and other comprehensive income in relation to transactions with the members of the Board of Directors and the Management Board for the year ended 31 December are as follows:

	2013 RUB’000	2012 RUB’000
Consolidated statement of of profit or loss and other comprehensive income		
Interest income	-	5
Interest expense	(30 836)	(9 884)
Commission income	26	83
Other expenses (payments to the Board of Directors)	(9 852)	(6 156)

(c) Transactions with shareholders

The outstanding balances and average effective interest rates as at 31 December 2013 and 2012 for transactions with shareholders are as follows:

	2013 RUB’000	Average effective interest rate, %	2012 RUB’000	Average effective interest rate, %
Consolidated statement of financial position				
ASSETS				
Loans to customers	-	-	38	16.00%
Other assets	-	-	500	-
LIABILITIES				
Deposits and balances from banks	142 672	13.45%	237 708	14.79%
Current accounts and deposits	79	-	88 961	11.22%
Subordinated borrowings	986 344	10.92%	915 050	10.92%

Amounts included in the consolidated statement of profit or loss and other comprehensive income in relation to transactions with shareholders for the years ended 31 December are as follows:

	2013 RUB’000	2012 RUB’000
Consolidated statement of profit or loss and other comprehensive income		
Interest expense	(136 942)	(63 821)
Commission income	69	23

During 2013 the Group made cash distribution to shareholders in the amount of RUB 37 230 thousand. During 2012 the Group declared and paid dividends of RUB 450 000 thousand (RUB 0.000000090927095 per share) and made an additional cash distribution to shareholders in the amount of RUB 16 200 thousand.

(d) Transactions with other related parties

Other related parties are represented by companies controlled by management, shareholders and the ultimate beneficial owners of the Group.

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

	2013 RUB'000	Average effective interest rate, %	2012 RUB'000	Average effective interest rate, %
Consolidated statement of financial position				
ASSETS				
Due from banks	3 336	-	938	-
Loans to customers	149 880	13.96%	1 066 968	11.91%
Other assets	292	-	9 120	-
LIABILITIES				
Deposits and balances from banks	2 179	0.26%	72 815	12.00%
Current accounts and deposits from customers	1 020 127	6.30%	798 988	9.75%
Other liabilities	482	-	3 880	-
Debt securities issued	101 623	9.28%	300 632	11.29%
Commitments				
Guarantees and letters of credit	-	-	30 502	-
Undrawn loan commitments and overdraft	90 000	-	19 150	-

Amounts included in the consolidated statement of profit or loss and other comprehensive income in relation to transactions with other related parties for the year ended 31 December are as follows:

	2013 RUB'000	2012 RUB'000
Consolidated statement of profit or loss and other comprehensive income		
Interest income	36 823	110 473
Interest expense	(42 483)	(90 845)
Commission income	4 674	11 373
Net foreign exchange income	-	3
Other income	6 788	1 021
Other expense	(8 699)	(2 939)
Impairment loss recovery	7 911	1 661

38 Financial assets and liabilities: fair values and accounting classifications

(a) Accounting classifications and fair values

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

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. The estimated fair values of all other financial assets and liabilities are calculated using discounted cash flow techniques based on estimated future cash flows and discount rates for similar instruments at the reporting date. The estimated fair values of financial assets and liabilities approximate their carrying values.

(b) Fair value hierarchy

The Group measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements:

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

The Group has a control framework with respect to the measurement of fair values. This framework includes a Market Risks Department function, which reports directly to the Deputy Chairman of the Management Board, and which has overall responsibility for independently verifying the results of trading and investment operations and all significant fair value measurements. Specific controls include:

- verification of observable pricing;
- re-performance of model valuations;
- analysis and investigation of significant daily valuation movements.

Where third-party information, such as broker quotes or pricing services, are used to measure fair value, Market Risks Department assesses and documents the evidence obtained from the third parties to support the conclusion that such valuations meet IFRS requirements. This includes:

- verifying that the broker or pricing service is approved by the Group for use in pricing the relevant type of financial instrument;

- understanding how the fair value has been arrived at the extent to which it represents actual market transactions;
- when prices for similar instruments are used to measure fair value, how these prices have been adjusted to reflect the characteristics of the instrument subject to measurement;
- where a number of quotes for the same financial instrument have been obtained, how fair value has been determined using those quotes.

The table below analyses financial instruments measured at fair value at 31 December 2013, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the consolidated statement of financial position:

RUB ’000	**Level 1**	**Level 2**	**Total**
Financial instruments at fair value through profit or loss			
- Debt and other fixed income instruments	6 480 114	4 196 068	10 676 182
- Derivative liabilities	(3 878)	(12 552)	(16 430)
Available-for-sale financial assets			
- Debt and other fixed income instruments	6 223 872	-	6 223 872

The table below analyses financial instruments measured at fair value at 31 December 2012, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the consolidated statement of financial position:

RUB ’000	**Level 1**	**Level 2**	**Total**
Financial instruments at fair value through profit or loss			
- Debt and other fixed income instruments	10 838 676	1 376 393	12 215 069
- Equity investments	185 718	-	185 718
- Derivative assets	27	-	27
- Derivative liabilities	(18 417)	(142 323)	(160 740)
Available-for-sale financial assets			
- Debt and other fixed income instruments	3 412 061	-	3 412 061

39 Events after the reporting date

In February 2014, the Group issued RUB 2 553 000 thousand of mortgage backed securities with a coupon rate of 9%. These securities mature on 1 October 2046. The carrying amount of mortgages served as collateral comprised RUB 2 497 801 thousand.

On 13 February 2014, one of the ultimate beneficial owners of the Group, Evgeniy Aksenov sold 1.0% of his voting shares of the Bank to TECHSUN ENTERPRISES LIMITED (Cyprus) ultimately controlled by the same parties as LLC “PPFIN Region”. The issued shares held by TECHSUN ENTERPRISES LIMITED after the transfer is 8.76%.

On 14 April 2014 the Group issued 206 271 120 949 312 ordinary shares with a nominal value of RUB 0.000000112 per each share and total nominal value of RUB 23 102 thousand. Total value of shares at the price of issue is RUB 609 119 thousand.