Expobank
Limited Liability Company

IFRS financial statements and independent auditor's report

for the year ended 31 December 2013

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улучшаем мир

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Independent auditor's report

To the Participants and Board of Directors of Expobank LLC

We have audited the accompanying financial statements of Expobank LLC, which comprise the statement of financial position as at 31 December 2013, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year 2013, and a summary of significant accounting policies and other explanatory information.

Audited entity's responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on the fairness of these financial statements based on our audit.

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

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

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

Opinion

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

A.V. Sorokin
Partner
Ernst & Young LLC

25 April 2014

Details of the audited entity

Name: Expobank LLC
Record made in the State Register of Legal Entities on 5 November 2002, State Registration Number 1027739504760.
Address: Russia 107078, Moscow, ul. Kalanchevskaya, 29, building 2.

Details of the auditor

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

(in thousands of Russian Rubles)	Notes	31 December 2013	31 December 2012
ASSETS			
Cash and cash equivalents	7	6,808,070	11,387,290
Obligatory reserve with the CBR		248,140	297,614
Trading securities, including:	8	8,065,424	5,166,373
- non-pledged trading securities		*3,107,958*	*908,019*
- pledged trading securities sold under direct repurchase agreements		*4,957,466*	*4,258,354*
Amounts due from other banks	9	1,085,545	860,655
Loans to customers	10	27,803,096	16,728,843
Finance lease receivables	11	1,443,367	–
Investment securities available for sale, including:	12	288,865	959,619
- non-pledged available-for-sale securities		*106,958*	*315,433*
- pledged available-for-sale securities sold under direct repurchase agreements		*181,907*	*644,186*
Prepayment for current income tax liabilities		20,482	3,969
Deferred tax assets	27	419,195	829,535
Intangible assets	14	81,584	138,225
Property and equipment	13	1,638,582	1,692,916
Other financial assets	15	66,344	296,304
Other non-financial assets	16	49,281	145,589
TOTAL ASSETS		**48,017,975**	**38,506,932**
LIABILITIES			
Amounts due to other banks	17	11,102,390	9,982,691
Amounts due to customers	18	26,135,998	20,421,267
Debt securities issued	21	2,290,773	291,268
Current income tax liabilities		–	471
Deferred tax liability		–	7,134
Other financial liabilities	19	26,139	719,271
Other non-financial liabilities	20	280,605	114,841
TOTAL LIABILITIES		**39,835,905**	**31,536,943**
EQUITY			
Share capital	22	10,413,412	10,319,835
Share premium		548,256	407,623
Accumulated loss		(3,204,088)	(4,320,363)
Unrealized losses on revaluation of available-for-sale financial assets		–	(1,039)
Revaluation reserve for property and equipment		424,490	329,723
Equity attributable to owners of the Bank		**8,182,070**	**6,735,779**
Equity instruments to be issued		**–**	**234,210**
TOTAL EQUITY		**8,182,070**	**6,969,989**
TOTAL LIABILITIES AND EQUITY		**48,017,975**	**38,506,932**

Signed on behalf of the Management Board on 25 April 2014.

K.V. Nifontov
Chairman of the Management Board

G.M. Ulanova
Chief Accountant

The accompanying notes on pages 9 to 74 are an integral part of these financial statements.

(in thousands of Russian Rubles)	Notes	2013	2012
Interest income	23	4,335,182	1,996,998
Interest expense	23	(2,177,845)	(824,900)
Net interest income		**2,157,337**	**1,172,098**
Allowance for impairment of loans to customers and finance lease receivables	10, 11	(633,059)	37,986
Net interest income after allowance for loan impairment		**1,524,278**	**1,210,084**
Fee and commission income	24	614,449	680,900
Fee and commission expense	24	(159,040)	(293,454)
Losses net of gains from trading securities		(289)	(68,744)
Losses net of gains from derivative financial instruments		(782)	(21,695)
Gains less losses from foreign currencies		15,943	176,071
Gains less losses from foreign currency translation		228,922	8,169
Losses on sale of loans and advances to customers and other banks	9-11	(22,204)	(171,376)
Gains less losses/(losses net of gains) on sale of investment securities available for sale		7,647	(1,932)
Other operating income	25	1,255,523	73,381
Other impairment and provisions	13, 16, 19	(61,920)	(17,748)
Administrative and other operating expenses	26	(1,921,547)	(1,625,731)
Excess of acquirees' net assets over cost of investments	35	–	649,663
Impairment of acquirees' licenses	14, 35	–	(137,134)
Profit before tax		**1,480,980**	**460,454**
(Income tax)/income tax benefit	27	(364,705)	850,980
Revaluation of redeemed capital	22	**–**	**(446,265)**
Profit for the year		**1,116,275**	**865,169**
Other comprehensive (loss)/income:			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Gains less losses/(losses net of gains) on investment securities available for sale		1,039	(1,039)
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Revaluation of property and equipment	13	118,459	177,734
Income tax recognized directly in other comprehensive income	27	(23,692)	(35,547)
Other comprehensive income for the year		**95,806**	**141,148**
Total comprehensive income for the year		**1,212,081**	**1,006,317**

(in thousands of Russian Rubles)	Notes	Share capital	Share premium	Unrealized losses on revaluation of available-for-sale financial assets	Revaluation reserve for property and equipment	Accumula-ted loss	Equity attributable to owners of the Bank	Non-controlling interests	Total equity
Balance at 1 January 2012		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Profit for the year		–	–	–	–	865,169	865,169	–	865,169
Other comprehensive income for the year		–	–	(1,039)	142,187	–	141,148	–	141,148
Total comprehensive income for the year		**–**	**–**	**(1,039)**	**142,187**	**865,169**	**1,006,317**	**–**	**1,006,317**
Reclassification of net assets of the Bank's owners to equity		10,009,886	–	–	187,536	(5,185,532)	5,011,890	–	5,011,890
Additional contributions from participants	22	309,949	407,623	–	–	–	717,572	–	717,572
Acquisition of non-controlling interest in subsidiaries	35	–	–	–	–	–	–	234,210	234,210
Balance at 31 December 2012		**10,319,835**	**407,623**	**(1,039)**	**329,723**	**(4,320,363)**	**6,735,779**	**234,210**	**6,969,989**
Profit for the year		–	–	–	–	1,116,275	1,116,275	–	1,116,275
Other comprehensive income for the year		–	–	1,039	94,767	–	95,806	–	95,806
Total comprehensive income for the year		**–**	**–**	**1,039**	**94,767**	**1,116,275**	**1,212,081**	**–**	**1,212,081**
Merger of a subsidiary	22	93,577	140,633	–	–	–	234,210	(234,210)	–
Balance at 31 December 2013		**10,413,412**	**548,256**	**–**	**424,490**	**(3,204,088)**	**8,182,070**	**–**	**8,182,070**

(in thousands of Russian Rubles)	Notes	2013	2012
Cash flows from operating activities			
Interest received		4,080,595	1,749,550
Interest paid		(2,239,641)	(636,976)
Fees and commissions received		798,938	774,439
Fees and commissions paid		(159,040)	(293,454)
Gains from trading securities		(289)	(68,744)
Gains from dealing in foreign currencies		15,943	176,071
Proceeds from sale of amounts due from other banks and loans and advances to customers		887,631	971,786
Other operating income received		1,268,314	114,331
Administrative and other operating expenses paid		(1,635,523)	(1,451,613)
Income tax paid		(21,221)	(13,396)
Cash flows from operating activities before changes in operating assets and liabilities		**2,995,707**	**1,321,994**
Net decrease/(increase) in mandatory cash balances with central banks		49,474	(22,753)
Net increase in trading securities		(2,809,589)	(1,655,545)
Net (increase)/decrease in amounts due from other banks		(199,374)	1,877,784
Net increase in loans and advances to customers		(13,934,205)	(5,582,089)
Net decrease in other financial and non-financial assets		366,888	325,799
Net (decrease)/increase in amounts due to other banks		1,085,085	8,568,072
Net increase in amounts due to customers		5,241,113	3,458,002
Net increase/(decrease) in debt securities issued		486,144	(50,392)
Net (decrease)/increase in other financial and non-financial liabilities		(726,097)	240,270
Net cash (used in)/from operating activities		**(7,444,854)**	**8,481,142**
Cash flows from investing activities			
Acquisition of subsidiaries, net of cash acquired	35	128,312	(199,737)
Purchase of investment securities available for sale		(101,819)	(4,062,851)
Proceeds from sale and redemption of investment securities available for sale		784,277	3,115,070
Purchase of property and equipment	13	(17,778)	(31,335)
Proceeds from sale of property and equipment		22,706	22,489
Purchase of intangible assets	14	(14,522)	(31,941)
Net cash from/(used in) investing activities		**801,176**	**(1,188,305)**
Cash flows from financing activities			
Gain from sale of interest in share capital	22	–	717,572
Proceeds from bonds issued in the domestic market	21	1,500,000	–
Net cash from financing activities		**1,500,000**	**717,572**
Effect of exchange rate changes on cash and cash equivalents		**564,458**	**3,668**
Net (decrease)/increase in cash and cash equivalents		**(4,579,220)**	**8,014,077**
Cash and cash equivalents, beginning	7	11,387,290	3,373,213
Cash and cash equivalents, ending	7	**6,808,070**	**11,387,290**

1 Introduction

These financial statements of Expobank Limited Liability Company (hereinafter, the Bank) have been prepared in accordance with International Financial Reporting Standards (hereinafter, IFRS) for the year ended 31 December 2013.

The Bank is a commercial bank which is owned by participants whose responsibility is limited with their shares. The Bank was set up in accordance with Russian regulations. As of 31 December 2013, 68.6% of the Bank's shares were owned by Igor Vladimirovich Kim (31 December 2012: 70.2%); 17.6% − by German Alekseevich Tsoy (31 December 2012: 18.1%); 8.8% − by AVTOBAN Road Construction Company, OJSC (31 December 2012: 9.0%); 2.3% − by Yuri Igorevich Koropachinsky (31 December 2012: 0%); 1.8% − by Morelam Holdings Limited (Cyprus) (31 December 2012: 1.8%); 0.9% − by Kirill Vladimirovich Nifontov (31 December 2012: 0.9%).

Principal activities. Business priorities of the Bank include comprehensive services for corporate clients and wealthy individuals, as well as mergers and acquisitions of banking assets. The Bank operates under general banking license No. 2998 issued by the Central Bank of Russia on 6 February 2012 (supersedes license No. 2998 issued on 2 December 2008). The Bank is a member of the state deposit insurance program approved by Federal Law No. 177-FZ "On Insurance of Household Deposits in Russian Banks" dated 23 December 2003. The state deposit insurance system guarantees to pay a 100% compensation under deposits totaling up to RUB 700 thousand per one individual in case the CBR revokes the banking license or enforces a moratorium on payments.

On 7 March 2013, CB Stromcombank LLC was merged with the Bank. As a result of the merger, CB Stromcombank LLC continued its operations as a branch of Expobank LLC in Krasnoyarsk (Note 22).

On 21 June 2013, Sibbusinessbank LLC was merged with the Bank (as of 31 December 2012, 100% of its shares were owned by Expobank LLC).

On 1 August 2013, the Bank acquired 100% interest in FB-LEASING Limited Liability Company (hereinafter, FB-LEASING LLC). Starting from August 2013, the Bank obtained control over financing and operating activities of the subsidiary. Pursuant to the decision on assets consolidation, FB-LEASING LLC was merged with Expobank LLC on 13 December 2013.

As of 31 December 2013, the Bank had no subsidiaries or associates (31 December 2012: two subsidiary banks).

As of 31 December 2013, the Bank had 6 branches (31 December 2012: 5 branches). All branches are located in the Russian Federation.

The Bank also operates through its additional offices and operating outlets in the Russian Federation. As of 31 December 2013, the Bank had 11 offices (31 December 2012: 27 offices).

As of 31 December 2013, the Bank employed 474 people (31 December 2012: Expobank Group employed 670 people).

On 22 November 2013, Rus-Rating agency upgraded the national credit rating to A+ with a stable outlook, and the international credit rating to BB+ with a stable outlook.

On 18 December 2013, FitchRatings (the international rating agency) confirmed the long-term issuer default rating (IDR) of the Bank at B (international scale) and BBB-(rus) (national scale) with a stable outlook.

Registered address and place of business. The Bank is registered at: Russian Federation 107078, Moscow, Kalanchevskaya ulitsa, 29, building 2.

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

2 Operating environment of the Bank

Russian Federation. The Russian Federation displays certain characteristics of an emerging market. Russian tax, currency and customs legislation is subject to varying interpretations and contributes to the challenges faced by banks operating in the Russian Federation (Note 31).

The international sovereign debt crisis, stock market volatility and other risks may negatively affect the Russian financial and corporate sector. Management determined allowances for loan impairment considering current economic situation and year-end outlook and used the "incurred loss" model required by the applicable accounting standards. According to these standards, impairment losses resulted from past events shall be recognized and impairment losses that may result from future events shall not be recognized irrespective of the likelihood of such events. Refer to Note 4.

The future economic development of the Russian Federation is dependent upon external factors and internal measures undertaken by the government to sustain growth and to change the tax, legal and regulatory environment. Management believes it is taking all appropriate measures to support the sustainability and development of the Bank's business in the current business and economic environment.

3 Summary of accounting policies

Basis of presentation. These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, as modified by initial recognition of financial instruments at fair value and revaluation of property and equipment, available-for-sale financial assets and financial instruments at fair value through profit or loss. The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated (Note 5).

Consolidated financial statements. As of 31 December 2012, the consolidated financial statements of Expobank LLC and its subsidiaries (hereinafter, the Group) were prepared. Subsidiaries are those entities in which the Group has a direct or indirect interest of more than one half of the voting rights, or otherwise has power to exercise control over their financial and operating policies so as to derive economic benefits. The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases.

Subsidiaries are consolidated under the purchase method. Identifiable assets acquired, as well as liabilities and contingencies assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

Goodwill is measured by deducting net assets of the acquiree from the aggregate of the consideration paid for the acquiree, the amount of non-controlling interest in the acquiree and the fair value of an interest in the acquiree held by the Group immediately before the acquisition date. Any negative amount ("negative goodwill") is recognized in profit after management assesses whether it identified all assets acquired and all liabilities and contingencies assumed and reviews the appropriateness of their measurement.

The consideration transferred for the acquiree is measured at the fair value of the assets transferred, equity instruments issued and liabilities assumed or incurred, including the fair value of assets and liabilities from contingent consideration arrangements, but excluding acquisition-related costs, such as fees for advisory, legal, valuation and other similar professional services. Transaction costs incurred for issuing equity instruments are deducted from equity; transaction costs incurred for issuing debt securities are deducted from their carrying amount and all other transaction costs associated with the acquisition are expensed.

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

As of 31 December 2013, the Bank had no subsidiaries.

3 Summary of accounting policies (continued)

Financial instruments – key measurement approaches. Depending on their classification, financial instruments are carried at fair value or amortized cost as described below. These valuation techniques are described below.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair value is the current bid price for financial assets and current ask price for financial liabilities which are quoted in an active market. For assets and liabilities with offsetting risks, the Bank may use mid-market prices as a basis for establishing fair values for the offsetting risk positions and apply the bid or ask price to the net open position as appropriate. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange or other institution and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Valuation techniques such as discounted cash flows models or models based on recent arm's length transactions or consideration of financial data of the investees are used to determine fair value of certain financial instruments for which external market pricing information is not available. Valuation techniques may require assumptions not supported by observable market data. Changing any such assumptions to a reasonably possible alternative would result in significantly different profit, income, total assets or total liabilities.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortized cost is the amount at which the financial instrument was recognized at initial recognition less any principal repayments, including accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortization of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortized discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items of the statement of financial position.

The effective interest method is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest re-pricing date except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortized over the whole expected life of the instrument. The present value calculation includes all fees and commissions paid and received between parties to the contract that are an integral part of the effective interest rate.

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

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way purchases and sales") are recorded at the trade date, which is the date when the Bank commits to purchase or sell the asset. All other purchases are recognized when the Bank becomes a party to the contractual provisions of the instrument.

3 Summary of accounting policies (continued)

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

Cash and cash equivalents. Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to insignificant changes in value. Cash and cash equivalents comprise interbank deposits with an original maturity of three months or less. The amounts that have any restrictions on use or placed for more than three months are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortized cost (Note 7).

Obligatory reserve with the CBR. Obligatory reserves with the CBR are carried at amortized cost and represent non-interest bearing deposits with the CBR which are not available to finance the Bank's day-to-day operations. Accordingly, they are excluded from cash and cash equivalents for the purposes of the statement of cash flows.

Trading securities. Trading securities are financial assets, which are either acquired for generating a profit from short-term fluctuations in price or trader's margin, or are securities included in a portfolio in which a pattern of short-term trading exists. The Bank classifies securities into trading securities if it has an intention to sell them within a short period after purchase, i.e. within six months. Financial assets other than those meeting the definition of loans and receivables are permitted to be reclassified from financial assets at fair value through profit or loss only in rare circumstances arising from a single event that is unusual and highly unlikely to reoccur in the near term. Financial assets that would meet the definition of loans and receivables may be reclassified if the Bank has the intention and ability to hold these financial assets for the foreseeable future or until maturity.

Trading securities are carried at fair value. Interest earned on trading securities calculated using the effective interest method is presented in profit or loss for the year as interest income. Dividends are included in dividend income in other operating income when the Bank's right to receive the dividend payment is established and it is probable that the dividends will be collected. All other elements of the changes in the fair value and gains or losses on derecognition are recorded in profit or loss for the year as gains less losses on trading securities in the period in which they arise (Note 8).

Other securities at fair value through profit or loss. Other securities at fair value through profit or loss include financial assets that have been included in this category at initial recognition. Management classifies financial assets into this category only when (a) this classification eliminates or significantly reduces the accounting mismatch that would otherwise arise from measuring assets or liabilities or recognizing relevant gains and losses on different bases; or (b) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and relevant information is disclosed to and reviewed by key management personnel of the Bank on a regular basis. Recognition and measurement of this category of financial assets is consistent with the above policy for trading securities.

Amounts due from other banks. Amounts due from other banks are recorded when the Bank lends money to counterparty banks with no intention of trading the resulting unquoted non-derivative receivables due on fixed or determinable dates. Amounts due from other banks are carried at amortized cost (Note 9).

Loans and advances to customers. Loans and advances to customers are recorded when the Bank lends money to purchase or originate an unquoted non-derivative receivable from a customer due on fixed or determinable dates and has no intention of trading the receivables.

The Bank classifies purchased Eurobonds (non-derivative financial instruments) that are not quoted in an active market as assets with fixed or determinable payments and recognizes them in loans and advances to customers. The Bank has the intention and ability to hold these financial assets for the foreseeable future or until maturity.

Loans and advances to customers are carried at amortized cost (Note 10).

3 Summary of accounting policies (continued)

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

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

- any payment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the borrower experiences a significant financial difficulty as evidenced by borrower’s financial information that the Bank obtains;
- the borrower considers bankruptcy or a financial reorganization;
- there is adverse change in the payment status of the borrower as a result of changes in the national or local economic conditions that impact the borrower;
- the value of collateral significantly decreases as a result of deteriorating market conditions.

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

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

If the terms of a financial asset held at amortized cost are renegotiated or otherwise modified because of financial difficulties of the borrower or issuer, impairment is measured using the original effective interest rate before the modification of terms.

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

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

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset fully or partially have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to impairment loss account through profit or loss for the year (Note 10).

Repossessed collateral. Repossessed collateral represents financial and non-financial assets acquired by the Bank in settlement of overdue loans. The assets are initially recognized at fair value and included in property and equipment, other financial assets or inventories within other assets depending on their nature and the Bank's intention in respect of recovery of these assets and are subsequently remeasured and accounted for in accordance with the accounting policies for these categories of assets.

3 Summary of accounting policies (continued)

Credit related commitments. The Bank assumes credit related commitments, including letters of credit, financial guarantees and loan commitments. Financial guarantees represent irrevocable assurances to make payments in the event that a customer cannot meet its obligations to third parties and carry the same credit risk as loans. Financial guarantees and commitments to originate a loan are initially recognized at their fair value, which is normally evidenced by the amount of fees received. This amount is amortized on a straight line basis over the life of the commitment, except for commitments to originate loans if it is probable that the Bank will enter into a specific loan arrangement and does not expect to sell the resulting loan shortly after origination; such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition. At the end of each reporting period, financial guarantees are measured at the higher of (i) the unamortized balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at the end of the reporting period.

Investment securities available for sale. This category includes investment securities which the Bank intends to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Investment securities available for sale are carried at fair value. Interest income on available-for-sale debt securities is calculated using the effective interest method and recognized in profit or loss for the year. Other elements of changes in the fair value are recognized in other comprehensive income until the investment is derecognized or impaired, at which time the cumulative gain or loss is reclassified from other comprehensive income to profit or loss for the year.

Impairment losses are recognized in profit or loss for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of investment securities available for sale. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognized in profit or loss – is reclassified from other comprehensive income to profit or loss for the year. Impairment losses on equity instruments are not reversed and any subsequent gains are recognized in other comprehensive income. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through profit or loss for the year.

Sale and repurchase transactions and securities lending. Sale and repurchase agreements ("repos") for securities which actually provide a lender's return to the counterparty are treated as lending transactions collaterized by securities. Securities sold under sale and repurchase agreements are continued to be recognized. Securities are not reclassified to other items of the statement of financial position. The corresponding liability is presented within amounts due to other banks (Note 17).

Securities purchased under agreements to resell ("reverse repo") which effectively provide a lender’s return to the Bank are recorded as amounts due from other banks or loans and advances to customers, as appropriate. The difference between the sale and repurchase price is treated as interest income and accrued over the life of repo agreement using the effective interest method.

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

Goodwill. Goodwill is carried at acquisition cost less accumulated impairment losses, if any. Goodwill is tested for impairment at least annually or if there is any indication that it may be impaired. Goodwill is allocated to cash-generating units, or groups of cash-generating units, that are expected to benefit from the improvement of performance as a result of business combination. These units or groups of units are treated as the basis for goodwill accounting and do not exceed the operating segment. When an asset is disposed from a cash-generating unit to which goodwill has been allocated, relevant gains and losses on the disposal include the carrying value of goodwill related to the disposed asset and are generally determined in proportion to the share of the disposed asset in the cost of the cash-generating unit.

3 Summary of accounting policies (continued)

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

Buildings of the Bank are revaluated with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using the fair value at the end of the reporting period. Increases in the carrying amount arising on revaluation are recorded in other comprehensive income as gains on revaluation of property and equipment. Decreases that offset previous increases of the same asset are recognized in other comprehensive income and decrease the previously recognized revaluation surplus in equity; all other decreases are charged to profit or loss for the year. Subsequent increase in the carrying amount is offset against previously recognized impairment losses. In case positive revaluation exceeds previously recognized decrease in cost, this excess is recognized in other comprehensive income. The revaluation reserve for buildings included in other comprehensive income is taken directly to retained earnings upon realization of the gain on revaluation when the asset is written off or disposed of. When no market information about the fair value is available, the fair value is determined based on income approach.

Management reviewed the carrying amount of buildings, which was determined by independent appraisers in accordance with the revaluation model based on market information at the end of the reporting period. Management believes that sufficient market information is available to confirm the reviewed fair value determined based on market approach.

Costs of minor repairs and maintenance are expensed when incurred. Costs of replacement of significant parts of property and equipment are capitalized with subsequent write-off of the replaced part.

At the end of each reporting period management assesses whether there is any indication of impairment of property and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset’s fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognized in profit or loss for the year to the extent it exceeds the previous revaluation surplus in equity. An impairment loss recognized for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset’s value in use or fair value less costs to sell.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognized (in other operating income or expenses) in profit or loss for the year (Notes 13, 25, 26).

Depreciation. Construction in progress is not subject to depreciation. Depreciation on other items of property and equipment is calculated using the straight-line method to write down the cost or revaluation to their residual values over their estimated useful lives:

	Useful lives (number of years)
Buildings	50
Computer equipment	5
Furniture and office equipment	10
Motor vehicles	10
Leasehold improvements	over the term of the underlying lease

The residual value of an asset is the estimated amount that the Bank would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The assets’ residual values and useful lives are reviewed and adjusted, if appropriate, at the end of the reporting period (Note 13).

Intangible assets. All the Bank’s intangible assets have definite useful lives and primarily include capitalized software and software licenses.

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. Development costs that are directly associated with identifiable and unique software controlled by the Bank are recorded as intangible assets if the inflow of incremental economic benefits exceeding costs is expected. Capitalized costs include expenses related to activities of software programming team and the respective part of overhead expenses. All other costs associated with computer software (e.g., its maintenance) are expensed when incurred. Capitalized computer software is amortized on a straight-line basis over expected useful life of three years (Note 14).

3 Summary of accounting policies (continued)

Operating leases. Where the Bank is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Bank, the total lease payments are recognized in profit or loss for the year (as rental expense in administrative and other operating expenses) on a straight-line basis during the lease term.

Amounts due to other banks. Amounts due to other banks are recorded when money or other assets are advanced to the Bank by counterparty banks. Non-derivative financial liabilities are carried at amortized cost (Note 17).

Amounts due to customers. Amounts due to customers are non-derivative financial liabilities to individuals, state, public or corporate customers and are carried at amortized cost (Note 18).

Debt securities issued. Debt securities issued include promissory notes and bonds issued by the Bank. Debt securities are carried at amortized cost.

Derivative financial instruments. Derivative financial instruments including foreign exchange contracts, interest swaps, as well as currency options and forwards, are carried at fair value.

All derivative instruments are carried as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of derivative instruments are included in profit and loss for the year (gains less losses on derivative financial instruments). The Bank does not apply hedge accounting (Note 32).

Income tax. Tax expenses were recognized in the financial statements in accordance with legislation at tax rates and legislative provisions enacted or substantively enacted at the end of the reporting period. Income tax expense comprises current tax and deferred tax and is recognized in profit or loss for the year except if it is recognized in other comprehensive income or directly in equity because it relates to transactions that are also recognized, in the same or a different period, in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to or recovered from the tax authorities in respect of taxable profits or losses for current and prior periods. Taxable profits or losses are based on estimates if financial statements are authorized prior to filing relevant tax returns. Taxes, other than income tax, are recorded within administrative and other operating expenses (Note 26).

Deferred income tax is determined using the balance sheet liability method for deferred tax losses and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit.

Deferred tax assets and liabilities are measured at tax rates enacted or substantively enacted at the end of the reporting period which are expected to apply to the period when the temporary differences will reverse or deferred tax losses will be realized.

Deferred tax assets for deductible temporary differences and deferred tax losses are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilized.

Uncertain tax positions. The Bank's uncertain tax positions are assessed by management at the end of each reporting period. Tax liabilities are recorded when management believes that additional tax liabilities may arise, if tax position of the Bank is challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted at the end of the reporting period and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognized based on management’s best estimate of the expenditure required to settle the obligations at the end of the reporting period.

Provisions for obligations and charges. Provisions for obligations and charges are non-financial liabilities of uncertain timing or amount. Provisions are recognized when the Bank has a present legal or constructive obligation as a result of past events. There is also the possibility of an outflow of economic benefits in settlement and the amount of liability can be reliably measured.

3 Summary of accounting policies (continued)

Trade and other accounts payable. Accounts payable are recognized when the counterparty has fulfilled its obligations and are carried at amortized cost (Note 20).

Redeemed capital and equity. Before 6 August 2012, participants of the Bank were entitled to request redemption of their interests in the Bank in cash. The Bank's obligation to redeem gives rise to a financial liability for the present value of the redemption amount even though the obligation is conditional on the equity participant exercising the right. This amount could not be reliably measured, as no information was available about the date when the participants decide to request for redemption of their interests in the share capital. The Bank measured this liability as a redeemed capital at carrying amount of net assets that were or could be paid to the participants determined as the greater amount calculated in accordance with Russian Accounting Standards or IFRS. The excess of the carrying amount of net assets under Russian Accounting Standards over the carrying amount of net asset under IFRS represented the accumulated equity deficit. The amount of equity deficit repayment depended on movements in temporary differences between net assets of the Bank determined in accordance with Russian legislation and IFRS (Note 22).

On 6 August 2012, the Bank updated its Charter and canceled the right of the participants to request for redemption of their interests in the share capital of the Bank. Consequently, net assets were reclassified to equity starting from that date.

Income and expense recognition. Interest income and expense are recognized for all debt bearing instruments on an accrual basis using the effective interest method. This method defers, as part of interest income or expense, all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts (Note 23).

Fees and commissions pertaining to the effective interest rate include commissions paid or received from origination or acquisition of a financial asset or issue of a financial liability (e.g., commission for creditworthiness assessment, measurement or recognition of guarantees or collateral, settlement of instruments terms and conditions, and processing transaction documents). Commitment fees received by the Bank to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Bank will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. The Bank does not classify loan commitments as financial liability at fair value through profit or loss (Note 24).

When loans and other debt instruments become doubtful of collection, they are written down to the present value of expected cash inflows, and interest income is consequently recognized based on the asset’s effective interest rate used to discount future cash flows in order to measure the impairment loss.

All other fees, commissions and other income and expense items are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided. Syndicated loan fees are recognized as income when syndication is complete, and the Bank does not retain a portion of the loan portfolio, or when the Bank retains a portion of the loan portfolio at the same effective interest rate as other parties to the transaction have. Fee and commission income that relate to transactions on behalf of third parties, e.g. acquisition of loans, shares and other securities received in the course of such transactions are recorded upon transaction closure.

Foreign currency translation. The Bank’s functional and presentation currency is the national currency of the Russian Federation, Russian Ruble.

Monetary assets and liabilities are translated into the Bank’s functional currency at the official exchange rate of the CBR at the end of the respective reporting period. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities into the Bank’s functional currency at year-end official exchange rates of the CBR are recognized in profit or loss for the year (as foreign exchange translation gains less losses). Translation at year-end rate does not apply to non-monetary items that are measured at historical cost. Non-monetary items measured at fair value in a foreign currency, including equity investments, are translated using the exchange rates at the date when the fair value was determined. Effects of exchange rate changes on non-monetary items measured at fair value in a foreign currency are recorded as part of the fair value gain or loss.

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

3 Summary of accounting policies (continued)

Fiduciary assets. Assets held by the Bank in its own name, but on the account of third parties, are not reported in the statement of financial position. Commissions received from such transactions are shown in fee and commission income.

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

Staff costs and related contributions. Salary expenses and contributions to the State Pension Fund and Social Insurance Fund and paid annual vacations and sick leaves, bonuses and non-cash benefits are accrued as the relevant services are rendered by the Bank's employees. The Bank has no legal or constructive obligation to make pension or similar benefit payments beyond defined contribution plan payments.

Segment reporting. Segments are reported in a manner consistent with the internal reporting provided to management to make operational decisions. Segments where revenue, financial performance or combined assets are ten percent or more of revenue, financial performance or combined assets of all segments of the Group are reported separately.

Amendments to the financial statements after issue. The Bank's participants and management are entitled to amend these financial statements after issue.

Changes in presentation. Where necessary, corresponding figures have been adjusted to correct erroneous classification of assets and conform to the presentation of the current year amounts.

The effect of the reclassification for the purposes of the financial statements for the year ended 31 December 2012 was as follows:

(in thousands of Russian Rubles)	**As previously reported at 31 December 2012**	**Reclassification**	**After reclassification at 31 December 2012**
Statement of financial position			
Deposits of other banks (amounts due to other banks)	2,671,066	(5,786)	2,665,280
Deposits of the CBR (amounts due to other banks)	2,500,000	5,786	2,505,786
Statement of comprehensive income			
Other impairment and provisions	–	(17,748)	(17,748)
(Impairment loss) / gain on reversal of impairment of property and equipment	(8,071)	8,071	–
Administrative and other operating expenses	(1,639,595)	13,864	(1,625,731)
Interest expense	(820,713)	4,187	(824,900)
Fee and commission income	662,855	18,045	680,900
Other operating income	91,426	(18,045)	73,381
Statement of cash flows			
Gains less losses on derivative financial instruments	(21,695)	21,695	–
Net (decrease)/increase in other financial and non-financial liabilities	261,965	(21,695)	240,270
Other operating income received	136,820	(22,489)	114,331
Proceeds from sale of property and equipment	–	22,489	22,489
(Purchase)/sale of investment securities available for sale	(945,849)	945,849	–
Expenses incurred from sale of investment securities available for sale	(1,932)	1,932	–
Purchase of investment securities available for sale	–	(4,062,851)	(4,062,851)
Proceeds from sale and redemption of investment securities available for sale	–	3,115,070	3,115,070

3 Summary of accounting policies (continued)

The reclassification had an effect on information disclosed in Note 17 (Amounts due to other banks), Note 24 (Fee and commission income), Note 25 (Other operating income) and Note 26 (Administrative and other operating expenses). The reclassification had no effect on information disclosed in other notes.

New standards, clarifications and amendment to current standards became effective on 1 January 2013 as compared to the consolidated financial statements of the Bank for the year ended 31 December 2012.

Those new or revised standards had an effect on presentation or disclosure. The amendments to IAS 1 *Presentation of Financial Statements* require entities to separate items presented in other comprehensive income into two groups, based on whether they may be reclassified to profit or loss in the future or not. The suggested title used by IAS 1 has changed to ‘statement of profit or loss and other comprehensive income’. Adoption of IFRS 13 *Fair Value Measurement* resulted in additional disclosures of the fair value of financial instruments. Other new or revised standards or clarifications had no significant effect on the notes to the financial statements of the Bank (Note 5).

4 Significant accounting estimates and judgments in applying accounting policies

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

Impairment losses on loans and advances. The Bank regularly reviews its loans to assess impairment. In determining whether an impairment loss should be recorded in profit or loss for the year, the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. A 10% increase or decrease in the actual loss compared to the estimated loss would result in an increase or decrease in loan impairment losses of RUB 68,334 thousand (2012: RUB 55,733 thousand), respectively. Impairment loss on individually significant loans is determined based on the estimated amounts of discounted future cash flows on these loans considering loan maturity and sale of assets collateralized under the relevant loan. A 10% increase or decrease in the actual loss compared to the estimated future cash flows, which could arise from differences in amounts and timing of the cash flows, would result in an increase or decrease in loan impairment losses of RUB 50,463 thousand (2012: RUB 31,626 thousand), respectively.

Recognition of a deferred tax asset. A deferred tax asset is the amount of income tax which may be offset against future income taxes and is recorded in the statement of financial position. A deferred tax asset is recorded only to the extent that the realization of the related tax benefit is probable. Future taxable income and tax benefits, which are likely to arise in future, are determined based on the medium-term business plan prepared by management, and the results of its extrapolation. The business plan was developed based on management expectations deemed reasonable under current circumstances. Management concluded that the deferred tax asset in the amount of RUB 419,195 thousand is recoverable as of 31 December 2013 (2012: RUB 829,535 thousand) and recognized it in the financial statements in full.

Initial recognition of transactions with related parties. In the normal course of business the Bank enters into transactions with related parties. IAS 39 requires initial recognition of financial instruments based on their fair values. Judgment is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgment is pricing for similar types of transactions with unrelated parties and effective interest rate analysis. Terms and conditions of related party balances are disclosed in Note 34.

4 Significant accounting estimates and judgments in applying accounting policies (continued)

Redeemed capital. In accordance with IAS 32 *Financial Instruments: Presentation*, the Bank's obligation to redeem the participants' shares in the share capital was classified as the financial liability. The fair value of this liability represented the current value of the liability. This amount could not be reliably measured, as no information was available about the date when the participants decide to request for redemption of their interests in the share capital. The Bank's accounting policy regarding the liability measurement is provided in Note 3. On 6 August 2012, the Bank canceled the right of the participants to request for redemption of their interests in the share capital of the Bank, and redeemed capital was reclassified to equity.

Premises valuation. Bank's premises are recorded at fair value which is determined based on the valuation report prepared by an independent appraiser. The valuation is performed by an independent appraiser engaged in valuation of similar assets in a similar region and of the same category. The market value of property and equipment is determined based on the market approach, because information about offers to sell similar assets is available in the market (Note 13). If, based on the valuation, the fair value of the Bank's premises increases or decreases by 10%, the carrying value of these items of property and equipment will increase or decrease by RUB 154,430 thousand (before deferred tax recognition) as of 31 December 2013 (31 December 2012: RUB 139,061 thousand).

Impairment of property and equipment and intangible assets. The Bank assesses whether there is any indication of impairment of property and equipment and intangible assets on a regular basis. As of 31 December 2013, no indications of impairment of property and equipment and intangible assets were identified. In 2012, when the Bank implemented its strategy to close regional branches exceeding the number of branches required by actual business volumes, the impairment of property and equipment totaling RUB 8,071 thousand was recognized in categories of office equipment and computers, furniture and leasehold improvements during the reporting period.

5 Adoption of new or revised standards and interpretations

The Bank has adopted the following amended IFRS during the year:

IFRS 10 Consolidated Financial Statements and IAS 27 Separate Financial Statements. IFRS 10 *Consolidated Financial Statements* establishes a single control model that applies to all entities including special purpose entities. IFRS 10 replaces the parts of previously existing IAS 27 *Consolidated and Separate Financial Statements* that dealt with consolidated financial statements. The standard also introduces guidance on the issues raised in SIC-12 *Consolidation – Special Purpose Entities*. IFRS 10 changes the definition of control so that the investor is considered to have control over an investee when the investor is entitled to variable benefit from the investment or is exposed to the risk of change in the investment, and may affect the benefit as a result of its authority for the investee. As defined in IFRS 10, the investor has control over the investee only when the following conditions are met: (a) an investor has power over an investee; (b) the investor has exposure, or rights, to variable returns from its involvement with the investee; and (c) the investor has the ability to use its power over the investee to affect the amount of the variable returns. IFRS 10 had no impact on the consolidation of investments held by the Bank.

IFRS 13 Fair Value Measurement. IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The adoption of IFRS 13 had an impact on measurement of the fair value of trading securities and investment securities available for sale. As of 31 December 2013, the fair value of these securities was measured based on weighted average prices in an active market.

IFRS 13 also requires specific disclosures on fair values, some of which replace existing disclosure requirements in other standards, including IFRS 7 *Financial Instruments: Disclosures*. Some of these disclosures are specifically required for financial instruments by IAS 34.16A(j), thereby affecting the interim condensed consolidated financial statements. The Bank provided these disclosures in Note 33.

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

5 Adoption of new or revised standards and interpretations (continued)

IFRS 12 Disclosure of Interests in Other Entities. IFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. The requirements in IFRS 12 are more comprehensive than the previously existing disclosure requirements for subsidiaries. For example, where a subsidiary is controlled with less than a majority of voting rights. The Bank has no subsidiaries with significant non-controlling interests; therefore, IFRS 12 had no significant impact on the Bank's financial position.

Amendments to IAS 1 Presentation of Items of Other Comprehensive Income. The amendment changes the grouping of items presented in other comprehensive income. Items that could be reclassified to profit or loss in the future (for example, net losses or gains on available-for-sale financial assets) should be presented separately from items that will never be reclassified (for example, revaluation of buildings). The amendment affects presentation only and has no impact on the Bank's financial position or performance.

Amendment to IAS 1 Clarification of the Requirement for Comparative Information. The amendment clarifies the difference between voluntary additional comparative information and the minimum required comparative information. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The amendment clarifies that the opening statement of financial position, presented as a result of retrospective restatement or reclassification of items in financial statements does not have to be accompanied by comparative information in the related notes. The amendment affects presentation only and has no impact on the Bank's financial position or performance.

Amendments to IFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities. These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognized financial instruments that are set off in accordance with IAS 32 *Financial Instruments: Presentation*. The disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or similar agreements, irrespective of whether they are set off in accordance with IAS 32. These amendments had no impact on the Bank's financial position or performance. The new disclosures are presented in Note 37.

IFRS 11 Joint Arrangements replaces IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly-controlled Entities – Non-monetary Contributions by Venturers*. Resulting from the changes in the definitions, IFRS 11 addresses only two forms of joint arrangements: joint operations and joint ventures. The proportionate consolidation accounting is no longer used for joint ventures. They shall apply the equity method. This standard had no impact on the financial statements.

IAS 28 Investments in Associates. IAS 28 was amended as a result of the project initiated by the IASB on the issues relating to joint ventures accounting. In the course of project discussion, the IASB decided to introduce to IAS 28 the equity method of accounting for joint ventures, as it is applied to both joint ventures and associates. No other changes were introduced except for those described above. This standard had no impact on the financial statements.

Amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards – Government Loans. The amendments, dealing with loans received from governments at a below market rate of interest, give first-time adopters of IFRSs relief from full retrospective application of IFRSs when accounting for these loans on transition. This is the same relief as was given to existing preparers of IFRS financial statements. This standard had no impact on the financial statements.

6 New accounting pronouncements

Certain new standards and interpretations have been published that are mandatory for the Bank's accounting periods beginning on or after 1 January 2014 and which the Bank has not early adopted, unless otherwise stated:

IFRS 9 Financial Instruments. IFRS 9, as issued, reflects two of the three phases of the IASB project on replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities and hedge accounting. The standard has no mandatory effective date and may be applied voluntarily. The adoption of IFRS 9 will have an effect on the classification and measurement of the Bank's financial assets but will have no impact on classification and measurement of the Bank's financial liabilities. The Bank will quantify the effect of the adoption of the first phase of IFRS 9 in conjunction with the other phases, when issued, to present a comprehensive picture.

Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27). The amendments are effective for annual periods beginning on or after 1 January 2014 and provide an exception to the consolidation requirements for entities that meet the definition of an investment entity under IFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. The amendments are not expected to have any impact on the Bank.

Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities. These amendments clarify the meaning of "currently has a legally enforceable right to set-off" and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. The amendments become effective for annual periods beginning on or after 1 January 2014. The amendments are not expected to have any impact on the Bank.

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

Amendments to IAS 39 Novation of Derivatives and Continuation of Hedge Accounting. These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. The amendments become effective for annual periods beginning on or after 1 January 2014. The Bank has not novated its derivatives during the current reporting period. However, these amendments would be considered for future novations.

Amendments to IAS 19 Employee Benefits, Defined Benefit Plan: Employee Contributions. The narrow scope amendments apply to contributions from employees or third parties to defined benefit plans. The objective of the amendments is to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. The amendments are effective from 1 July 2014 with earlier application permitted. The Bank does not expect any material impact on its financial position or performance.

IFRS 14 Regulatory Deferral Accounts. IFRS 14 permits first-time adopters to continue to recognize amounts related to rate regulation in accordance with their previous accounting standards. However, to enhance comparability with entities that already apply IFRS and do not recognize such amounts, the standard requires that the effect of rate regulation must be presented separately from other items. An entity that already presents IFRS financial statements is not eligible to apply the standard. IFRS 14 *Regulatory Deferral Accounts* is effective from 1 January 2016, with earlier application permitted. The Bank does not expect any material impact on its financial position or performance.

Amendments to IAS 36 Impairment of Assets. Amendments to IAS 36 – *Recoverable Amounts Disclosures for Non-Financial Assets* – of 29 May 2013, are applied retrospectively for annual periods beginning on or after 1 January 2014. Earlier application is permitted. An entity shall not apply these amendments during the period (including comparative periods), when it does not apply IFRS 13. These amendments no longer require disclosure of the recoverable amount when cash-generating units include goodwill or intangible assets with indefinite useful lives that are not impaired. The Bank does not expect any material impact on its financial position or performance.

7 Cash and cash equivalents

(in thousands of Russian Rubles)	2013	2012
Cash on hand	601,788	1,301,047
Cash balances with the CBR (other than obligatory reserve)	2,345,573	220,981
Settlement accounts with financial institutions	110,575	1,038,969
Correspondent accounts and overnight deposits with other banks	2,949,996	3,761,512
Loans issued to other banks with original maturities of less than three months	800,138	5,064,781
Total cash and cash equivalents	**6,808,070**	**11,387,290**

As of 31 December 2013, settlement accounts with financial institutions are mainly represented by settlements with the National Clearing Center in the amount of RUB 36,844 thousand (2012: RUB 12,195 thousand), settlements with Visa INC. in the amount of RUB 3,088 thousand (2012: RUB 912,996 thousand) and Master Card International Inc in the amount of RUB 58,941 thousand (2012: RUB 107,541 thousand).

Correspondent accounts and overnight deposits with other banks as of 31 December 2013 are represented by placements with Russian and foreign banks.

As of 31 December 2013, loans issued to other banks with original maturities of less than three months are mainly represented by loans issued to large Russian banks with a contractual interest rate from 6.0% to 6.5% and maturities on 9 January 2014.

As of 31 December 2012, loans issued to other banks with original maturities of less than three months are mainly represented by loans issued to large Russian banks with a contractual interest rate from 4.5% to 6.25% and maturities on 9 January 2013.

The Bank assesses the quality of cash and cash equivalents on the basis of ratings assigned by Standard and Poor's and, where they are not available, on the basis of ratings assigned by Moody's and Fitch Ratings as adjusted in line with categories of Standard and Poor's based on the reconciliation table.

The table below provides an analysis of cash and cash equivalents, except for cash on hand, by credit quality as of 31 December 2013:

(in thousands of Russian Rubles)	Settlement accounts with financial institutions	Cash balances with the CBR other than obligatory reserve	Correspondent accounts and overnight deposits with other banks	Amounts placed with other banks	Total cash and cash equivalents, excluding cash on hand
Neither past due nor impaired					
- Central Bank of the Russian Federation	–	2,345,573	–	–	2,345,573
- A- to A+ rated	62,029	–	1,363,045	–	1,425,074
- BBB- to BBB+ rated	–	–	1,358,962	800,138	2,159,100
- B- to BB+ rated	382	–	15,816	–	16,198
- unrated	48,164	–	212,173	–	260,337
Total cash and cash equivalents, excluding cash on hand	**110,575**	**2,345,573**	**2,949,996**	**800,138**	**6,206,282**

As of 31 December 2013 and 31 December 2012, unrated counterparties within settlement accounts with financial institutions are mainly represented by settlements with the National Settlement Depository and the National Clearing Center.

As of 31 December 2013, the Bank had 21 counterparty banks (2012: 27 counterparty banks) with cash and cash equivalents totaling RUB 3,600,541 thousand (2012: RUB 6,506,848 thousand), or 53% of cash and cash equivalents (2012: 57%).

7 Cash and cash equivalents (continued)

The table below provides an analysis of cash and cash equivalents, except for cash on hand, by credit quality as of 31 December 2012:

(in thousands of Russian Rubles)	**Settlement accounts with financial institutions**	**Cash balances with the CBR other than obligatory reserve**	**Correspondent accounts and overnight deposits with other banks**	**Amounts placed with other banks**	**Total cash and cash equivalents, excluding cash on hand**
Neither past due nor impaired					
- Central Bank of the Russian Federation	−	220,981	950,584	−	1,171,565
- A- to A+ rated	1,020,537	−	55,384	−	1,075,921
- BBB- to BBB+ rated	−	−	1,751,368	3,311,391	5,062,759
- B- to BB+ rated	5,885	−	297,386	1,350,636	1,653,907
- unrated	12,547	−	706,790	402,754	1,122,091
Total cash and cash equivalents, excluding cash on hand	**1,038,969**	**220,981**	**3,761,512**	**5,064,781**	**10,086,243**

Cash and cash equivalents are unsecured.

The analysis of cash and cash equivalents by structure of currencies and maturities, and the analysis of interest rates are presented in Note 29. Estimated fair values of each category of cash and cash equivalents are shown in Note 33. Information on related party transactions is disclosed in Note 34.

8 Trading securities

(in thousands of Russian Rubles)	**2013**	**2012**
Bonds of banks	2,516,987	696,029
Corporate bonds	585,073	211,990
Bonds of subjects of the Russian Federation	5,898	−
Total non-pledged trading securities	**3,107,958**	**908,019**
Bonds of banks	3,066,514	2,527,760
Corporate bonds	1,485,039	1,730,594
Bonds of subjects of the Russian Federation	405,913	−
Total pledged trading securities sold under direct repurchase agreements	**4,957,466**	**4,258,354**
Total trading securities	**8,065,424**	**5,166,373**

Trading securities are carried at fair value, which also reflects any write-downs due to credit risk. As trading securities are carried at fair values determined based on observable market data using bid quotations on MICEX-RTS, the Bank does not specifically analyze or monitor impairment indicators.

8 Trading securities (continued)

Bonds of banks are represented by RUB-denominated interest-bearing debt securities issued by major Russian banks and traded in the Russian market. The analysis by maturity dates and annual coupon rates is presented in the tables below.

Corporate bonds are RUB-denominated interest-bearing securities issued by large Russian companies and traded in the Russian market. The analysis by maturity dates, annual coupon rates and yield to maturity is presented in the tables below.

Bonds of subjects of the Russian Federation are represented by RUB-denominated interest-bearing debt securities issued by regional authorities of the Russian Federation and traded in the Russian market. The analysis by maturity dates and annual coupon rates is presented in the tables below.

Pledged trading securities as of 31 December 2013 are represented by securities in the amount of RUB 4,957,466 thousand (2012: RUB 4,258,354 thousand), which were sold under repurchase agreements and which can be sold or repledged by the counterparty according to contractual terms or established practice. Repurchase agreements were of short-term nature and were fully completed in due time before 15 January 2014. The Central Bank of the Russian Federation is the counterparty bank under all repurchase agreements as of 31 December 2013.

As of 31 December 2013, trading securities represented by bonds of banks with a fair value of RUB 450,526 thousand (31 December 2012: RUB 237,643 thousand) were restricted in use according to the General Loan Agreement with the Bank of Russia with the overdraft limit of RUB 3,500,000 thousand. See Note 36.

The analysis of the Bank's trading securities as of 31 December 2013 is as follows:

	Maturity		**Annual coupon rate, %**	
	from	**to**	**from**	**to**
Corporate bonds	February 2014	November 2015	7.50	9.50
Bonds of banks	January 2014	October 2015	7.20	13.00
Bonds of subjects of the Russian Federation	June 2014	May 2017	7.49	9.02

The analysis of the Group's trading securities as of 31 December 2012 is as follows:

	Maturity		**Annual coupon rate, %**	
	from	**to**	**from**	**to**
Corporate bonds	April 2013	June 2016	6.90	10.30
Bonds of banks	January 2013	April 2015	6.75	11.20

The analysis of trading securities by credit quality as of 31 December 2013 is as follows:

(in thousands of Russian Rubles)	**Corporate bonds**	**Bonds of banks**	**Bonds of subjects of the Russian Federation**	**Total**
Neither past due nor impaired (at fair value)				
- BBB- to BBB+ rated	834,790	1,780,880	–	2,615,670
- B- to BB+ rated	1,235,322	3,802,621	411,811	5,449,754
Total trading securities	**2,070,112**	**5,583,501**	**411,811**	**8,065,424**

8 Trading securities (continued)

The analysis of trading securities by credit quality as of 31 December 2012 is as follows:

(in thousands of Russian Rubles)	Corporate bonds	Bonds of banks	Total
Neither past due nor impaired (at fair value)			
- BBB- to BBB+ rated	1,203,265	1,184,543	2,387,808
- B- to BB+ rated	739,319	2,039,246	2,778,565
Total trading securities	**1,942,584**	**3,223,789**	**5,166,373**

Credit rating is based on the rating assigned by Standard & Poor's (if such rating is available) or the rating assigned by Moody's or Fitch Ratings, which is converted to the nearest equivalent value on Standard & Poor's rating scale.

Debt and equity securities are unsecured.

The analysis of trading securities by structure of currencies and maturities, and the analysis of interest rates are presented in Note 29.

9 Amounts due from other banks

(in thousands of Russian Rubles)	2013	2012
Eurobonds of banks	1,085,545	–
Promissory notes of banks	–	504,655
Loans issued to other banks with original maturities of more than three months	–	356,000
Total amounts due from other banks	**1,085,545**	**860,655**

Eurobonds of banks are represented by interest-bearing debt securities denominated in RUB and foreign currency (USD), issued by large Russian banks and circulated in European stock markets.

As of 31 December 2012, promissory notes of banks include interest-bearing promissory notes in the total amount of RUB 504,655 thousand. These promissory notes were purchased from one counterparty, and bear an interest rate of 7.25% and mature in February 2013.

As of 31 December 2012, loans issued to other banks with original maturities of more than three months include loans in the total amount of RUB 356,000 thousand issued to one counterparty with a contractual interest rate from 8.0% to 11.0% and maturities in June 2013 - April 2014.

The primary factor that the Bank considers in determining whether amounts due from other banks are impaired is their past due status.

Amounts due from other banks are unsecured.

The analysis of amounts due from other banks by credit quality as of 31 December 2013 is as follows:

(in thousands of Russian Rubles)	Eurobonds of banks	Total
Neither past due nor impaired		
- BBB- to BBB+ rated	276,586	276,586
- B- to BB+ rated	808,959	808,959
Total amounts due from other banks	**1,085,545**	**1,085,545**

9 Amounts due from other banks (continued)

The analysis of amounts due from other banks by credit quality as of 31 December 2012 is as follows:

(in thousands of Russian Rubles)	**Loans issued to other banks with original maturities of more than three months**	**Promissory notes of banks**	**Total**
Neither past due nor impaired			
- B- to BB+ rated	356,000	504,655	860,655
Total amounts due from other banks	**356,000**	**504,655**	**860,655**

The analysis of movements in allowance for impairment of loans issued to other banks with original maturities of more than three months is as follows:

(in thousands of Russian Rubles)	**2012**
Allowance for impairment as of 1 January	**2,212**
Write-off against allowance on sale of loans to banks	(2,212)
Allowance for impairment as of 31 December	**–**

In 2012, the Bank sold impaired loans with a nominal value of RUB 2,212 thousand and an allowance for impairment of RUB 2,212 thousand for RUB 1,725 thousand. A gain on sale amounted to RUB 1,725 thousand.

As of 31 December 2013 and 31 December 2012, the allowance for impairment of amounts due from other banks was not required.

Estimated fair values of each category of amounts due from other banks are shown in Note 33. The analysis of amounts due from other banks by structure of currencies and maturities, and the analysis of interest rates are presented in Note 29. Information on related party transactions is disclosed in Note 34.

10 Loans to customers

(in thousands of Russian Rubles)	**2013**	**2012**
Large businesses	7,553,337	3,524,831
Medium businesses	4,243,917	8,572,182
Small businesses	3,181,734	1,474,080
Loans to individuals	13,507,449	3,715,076
Total loans and advances to customers before allowance for loan impairment	**28,486,437**	**17,286,169**
Less: allowance for loan impairment	(683,341)	(557,326)
Total loans and advances to customers	**27,803,096**	**16,728,843**

10 Loans to customers (continued)

Loans issued by the Bank are subdivided into:

- Loans to large businesses (annual revenue of more than RUB 2 billion);
- Loans to medium businesses (annual revenue from RUB 400 million to RUB 2 billion);
- Loans to small businesses (annual revenue of up to and including RUB 400 million), and loans that were issued under the regional business lending program which the Bank had implemented before 1 January 2009;
- Retail loans – consumer loans issued to individual customers.

As of 31 December 2013, loans to large businesses comprise accounts receivable under repurchase agreements, which represent claims for repayment of funds under reverse repurchase agreements in the amount of RUB 2,509,485 thousand (2012: RUB 363,363 thousand).

As of 31 December 2013, loans to large businesses comprise Eurobonds represented by interest-bearing debt securities denominated in foreign currency (USD), issued by large Russian and foreign companies and traded in European stock markets.

The analysis of movements in allowance for loan impairment during 2013 is as follows:

(in thousands of Russian Rubles)	Large businesses	Medium businesses	Small businesses	Loans to individuals	Total
Allowance for loan impairment as of 1 January 2013	**35,048**	**151,439**	**175,093**	**195,746**	**557,326**
Allowance/(reversal of allowance) for impairment during the year	(15,967)	(58,080)	402,181	183,372	511,506
Write-off against allowance on sale of loans	(1,177)	(240)	(161,567)	(202,413)	(365,397)
Loans written off against allowance	–	(20,094)	–	–	(20,094)
Allowance for loan impairment as of 31 December 2013	**17,904**	**73,025**	**415,707**	**176,705**	**683,341**

In 2013, the Bank sold loans with a nominal value of RUB 1,264,764 thousand and an allowance for impairment of RUB 365,397 thousand for RUB 887,631 thousand. A loss on sale amounted to RUB 11,736 thousand.

The analysis of movements in allowance for loan impairment during 2012 is as follows:

(in thousands of Russian Rubles)	Large businesses	Medium businesses	Small businesses	Loans to individuals	Total
Allowance for loan impairment as of 1 January 2012	**20,267**	**321,059**	**178,649**	**270,851**	**790,826**
Allowance/(reversal of allowance) for impairment during the year	13,354	15,497	(103,865)	37,028	(37,986)
Allowance for loans of subsidiary banks	1,427	92,387	337,346	65,761	496,921
Write-off against allowance on sale of loans	–	(277,504)	(237,037)	(177,894)	(692,435)
Allowance for loan impairment as of 31 December 2012	**35,048**	**151,439**	**175,093**	**195,746**	**557,326**

In 2012, the Group sold loans with a nominal value of RUB 1,835,597 thousand and an allowance for impairment of RUB 692,435 thousand for RUB 970,061 thousand. A loss on sale amounted to RUB 173,101 thousand.

As of 31 December 2013, loans net of allowance for impairment in the amount of RUB 12,145,495 thousand (31 December 2012: RUB 1,008,856 thousand) were purchased from companies that were not under common control. Corporate counterparties guaranteed the repayment of the notional amount of loans transferred and interest accrued thereon in case of borrowers' failure to repay the debt.

10 Loans to customers (continued)

In 2013 and in previous periods, the Bank had loans in the amount of RUB 1,264,766 thousand (31 December 2012: RUB 1,835,597 thousand), which were transferred to a party that was not under common control. The Bank is not exposed to non-payment risk as it provided no guarantee for the payment of interest and principal debt. These loans were derecognized in full on the date when the agreement was signed.

Economic sector risk concentrations within the customer loan portfolio are as follows:

	2013		2012	
(in thousands of Russian Rubles)	**Amount**	**%**	**Amount**	**%**
Individuals	13,507,449	47.4	3,715,076	21.5
Finance	5,610,488	19.7	919,543	5.3
Residential construction	1,754,855	6.2	1,411,163	8.2
Wholesale trade	1,331,777	4.7	2,886,287	16.7
Retail real estate	1,123,328	3.9	813,282	4.7
Auto dealer	1,119,809	3.9	130,791	0.7
Services	1,039,049	3.7	792,577	4.6
Oil and gas industry	759,354	2.7	1,019,128	5.9
Office real estate	743,398	2.6	1,023,111	5.9
Manufacturing	535,666	1.9	982,466	5.7
Infrastructure construction	274,459	1.0	533,814	3.1
Transport and logistics	213,350	0.7	324,501	1.9
Telecommunications	195,589	0.7	310,941	1.8
Warehousing property	95,982	0.3	1,232,927	7.1
Catering	69,864	0.3	604,339	3.5
Retail trade	13,440	–	310,461	1.8
Health care	438	–	56,509	0.3
Other	98,142	0.3	219,253	1.3
Total loans and advances to customers (before allowance for loan impairment)	**28,486,437**	**100%**	**17,286,169**	**100%**

As of 31 December 2013, loans issued to 30 major borrowers amounted to RUB 12,900,324 thousand before deduction of allowance for loans impairment (31 December 2012: RUB 9,637,630 thousand), or 45% (2012: 56%) of the total amount of loans to customers.

Information on the loan portfolio by types of collateral as of 31 December 2013 is presented below:

(in thousands of Russian Rubles)	**Large businesses**	**Medium businesses**	**Small businesses**	**Loans to individuals**	**Total**
Unsecured loans	1,678,184	1,192,973	619,086	2,629,059	6,119,302
Loans secured by:					
- cash deposits	1,769,033	1,012,684	–	–	2,781,717
- promissory notes of Expobank	–	55,000	647,229	–	702,229
- securities and interests in share capital	2,509,485	33,510	37,289	–	2,580,284
- items of movable property	264,464	304,827	131,768	10,176,520	10,877,579
- items of immovable property	1,187,344	1,293,806	1,690,284	701,870	4,873,304
- goods for sale	–	–	45,270	–	45,270
- other guarantees	278	–	–	–	278
- receivables under investment contracts	144,549	351,117	10,808	–	506,474
Total loans and advances to customers	**7,553,337**	**4,243,917**	**3,181,734**	**13,507,449**	**28,486,437**

The disclosures presented above show the lower of the carrying value of the loan and collateral received; the remaining information is disclosed as unsecured loans. The carrying value of loans was allocated based on the liquidity of assets received as collateral.

10 Loans to customers (continued)

Information on the loan portfolio by types of collateral as of 31 December 2012 is presented below:

(in thousands of Russian Rubles)	Large businesses	Medium businesses	Small businesses	Loans to individuals	Total
Unsecured loans	1,599,146	3,056,758	353,855	1,464,360	6,474,119
Loans secured by:					–
- shares of borrower or interests in share capital	800,916	39,637	13,180	15,734	869,467
- items of movable property	4,574	310,157	137,115	936,311	1,388,157
- items of immovable property	1,035,659	3,167,666	834,359	1,296,215	6,333,899
- goods for sale	22,665	187,072	127,123	2,456	339,316
- receivables under investment contracts	61,871	1,810,892	8,448	–	1,881,211
Total loans and advances to customers	**3,524,831**	**8,572,182**	**1,474,080**	**3,715,076**	**17,286,169**

The analysis of loans by credit quality as of 31 December 2013 is as follows:

(in thousands of Russian Rubles)	Large businesses	Medium businesses	Small businesses	Loans to individuals	Total
Neither past due nor impaired					
- Loans renegotiated in 2013	459,074	–	281,867	22,459	763,400
- Standard portfolio	7,005,699	3,830,039	2,294,395	12,742,576	25,872,709
- Eurobonds	88,564	–	–	–	88,564
Total neither past due nor impaired	**7,553,337**	**3,830,039**	**2,576,262**	**12,765,035**	**26,724,673**
Past due but not impaired					
- less than 30 days past due	–	–	83,932	562,303	646,235
- 31 to 90 days past due	–	–	1,849	68,531	70,380
Total past due but not impaired	**–**	**–**	**85,781**	**630,834**	**716,615**
Individually impaired loans more than 90 days past due	–	413,878	519,691	111,580	1,045,149
Total individually impaired loans	**–**	**413,878**	**519,691**	**111,580**	**1,045,149**
Total loans and advances to customers (before allowance for loan impairment)	**7,553,337**	**4,243,917**	**3,181,734**	**13,507,449**	**28,486,437**
Less: allowance for impairment	(17,904)	(73,025)	(415,707)	(176,705)	(683,341)
Total loans and advances to customers	**7,535,433**	**4,170,892**	**2,766,027**	**13,330,744**	**27,803,096**

10 Loans to customers (continued)

The analysis of loans by credit quality as of 31 December 2012 is as follows:

(in thousands of Russian Rubles)	**Large businesses**	**Medium businesses**	**Small businesses**	**Loans to individuals**	**Total**
Neither past due nor impaired					
- Loans renegotiated in 2012	20,000	742,281	191,562	167,632	1,121,475
- Standard portfolio	3,504,831	7,776,280	1,064,995	3,202,908	15,549,014
Total neither past due nor impaired	**3,524,831**	**8,518,561**	**1,256,557**	**3,370,540**	**16,670,489**
Past due but not impaired					
- less than 30 days past due	–	–	3,787	84,996	88,783
- 31 to 90 days past due	–	–	4,270	61,655	65,925
Total past due but not impaired	**–**	**–**	**8,057**	**146,651**	**154,708**
Individually impaired loans more than 90 days past due	–	53,621	209,466	197,885	460,972
Total individually impaired loans	**–**	**53,621**	**209,466**	**197,885**	**460,972**
Total loans and advances to customers (before allowance for loan impairment)	**3,524,831**	**8,572,182**	**1,474,080**	**3,715,076**	**17,286,169**
Less: allowance for impairment	(35,048)	(151,439)	(175,093)	(195,746)	(557,326)
Total loans and advances to customers	**3,489,783**	**8,420,743**	**1,298,987**	**3,519,330**	**16,728,843**

Loans renegotiated during the period represent the carrying amount of renegotiated loans that would otherwise be past due or impaired.

Past due but not impaired loans mainly include secured loans, with the fair value of collateral covering past due interest and principal. Amounts recorded as past due but not impaired represent the whole balance of such loans, and not only past due amounts of certain payments.

An allowance was charged for the Bank's loan portfolio in accordance with IAS 39 *Financial Instruments: Recognition and Measurement* to cover losses from impairment identified and impairment which occurred in the reporting period but which was not yet identified as of the end of the reporting period. The Bank's policy is to classify each loan as "neither past due nor impaired" until certain objective evidence of impairment is identified for a given loan. As a result of the application of this policy and the methodology for calculation of impairment of the portfolio, allowance for impairment may exceed the total final amount of individually impaired loans.

For the purposes of assessing the level of loan portfolio risks, identifying impairment and determining the amount of allowance, the Bank relies on internal impairment criteria, and methodologies for assessment of counterparties' financial position and creation of allowances, which are consistent with the requirements of IFRS.

Estimated fair values of each category of amounts due from other banks are shown in Note 33. The analysis of loans and advances to customers by structure of currencies and maturities, and the analysis of interest rates are presented in Note 29. Information on related party transactions is disclosed in Note 34.

11 Finance lease receivables

FB-LEASING LLC is a Russian subsidiary (the Bank purchased a 100% interest on 1 August 2013) which was previously owned by VR-LEASING AG (Germany), the largest independent leasing company in Europe.

The analysis of finance lease receivables as of 31 December 2013 is as follows:

	Not later than 1 year	Later than 1 year and not later than 5 years	Total
Finance lease receivables	1,435,690	554,995	1,990,685
Unearned future finance income on finance leases	(234,020)	(25,937)	(259,957)
Net investment in finance leases	**1,201,670**	**529,058**	**1,730,728**

Expenses associated with allowance for impairment of finance lease receivables for 2013 amounted to RUB 121,553 thousand (2012: RUB 0 thousand). As of 31 December 2013, allowance for impairment of the lease portfolio amounted to RUB 287,361 thousand.

A loss on assignment of receivables under lease agreements for 2013 amounted to RUB 10,468 thousand.

12 Investment securities available for sale

(in thousands of Russian Rubles)	2013	2012
Bonds of Russian banks	1,082	315,433
Promissory notes of Russian banks	105,876	–
Total non-pledged investment securities available for sale	**106,958**	**315,433**
Bonds of Russian banks	181,907	644,186
Total pledged investment securities sold under direct repurchase agreements	**181,907**	**644,186**
Total investment securities available for sale	**288,865**	**959,619**

The analysis of debt securities by credit quality as of 31 December 2013 is as follows:

(in thousands of Russian Rubles)	Bonds of banks	Total
Neither past due nor impaired (at fair value)		
- B- to BB+ rated	182,989	182,989
- BBB- to BBB+ rated	105,876	105,876
Total debt securities available for sale	**288,865**	**288,865**

The analysis of debt securities by credit quality as of 31 December 2012 is as follows:

(in thousands of Russian Rubles)	Bonds of banks	Total
Neither past due nor impaired (at fair value)		
- BBB- to BBB+ rated	288,830	288,830
- B- to BB+ rated	670,789	670,789
Total debt securities available for sale	**959,619**	**959,619**

12 Investment securities available for sale (continued)

The fair value of investment securities available for sale is determined based on the current market price as of the end of operations on 31 December.

Credit rating is based on the rating assigned by Standard & Poor's (if such rating is available) or the rating assigned by Moody's or Fitch Ratings, as adjusted to the nearest equivalent value on Standard & Poor's rating scale.

The primary factor that the Bank considers in determining whether debt securities are impaired is their past due status. As of 31 December 2013 and 31 December 2012, the Bank had no past-due debt securities available for sale.

Pledged investment securities available for sale as of 31 December 2013 are represented by securities in the amount of RUB 181,907 thousand (2012: RUB 644,186 thousand), which were sold under repurchase agreements and which can be sold or repledged by the counterparty according to contractual terms or established practice. Repurchase agreements were of short-term nature and were fully and timely completed on 15 January 2014. The Central Bank of the Russian Federation acts as the counterparty bank under all repurchase agreements as of 31 December 2013.

As of 31 December 2012, investment securities available for sale represented by bonds of banks with a fair value of RUB 204,374 thousand were restricted in use according to the General Loan Agreement with the Bank of Russia with the overdraft limit of RUB 3,500,000 thousand. See Note 36.

The analysis by maturity dates, annual coupon rates and yield to maturity as of 31 December 2013 is presented in the table below:

	Maturity		**Annual coupon rate, %**	
	from	**to**	**from**	**to**
Bonds of banks	April 2015	October 2015	8.65	9.40
Promissory notes of banks	January 2014	January 2014	5.89	5.89

The analysis by maturity dates, annual coupon rates and yield to maturity as of 31 December 2012 is presented in the table below:

	Maturity		**Annual coupon rate, %**	
	from	**to**	**from**	**to**
Bonds of banks	January 2013	December 2013	7.95	9.80

The analysis of investment securities available for sale by structure of currencies and maturities, and the analysis of interest rates are presented in Note 29. Estimated fair values of investment securities available for sale are shown in Note 33. Information on related party transactions is disclosed in Note 34.

13 Property and equipment

(in thousands of Russian Rubles)	Notes	Buildings	Office and computer equipment	Furniture	Motor vehicles	Leasehold improve-ments	Equipment not put into operation	Total property and equipment
Cost or valuation as of 1 January 2012		1,236,596	658,932	86,045	12,107	25,556	1,630	2,020,866
Accumulated depreciation		–	(458,574)	(34,449)	(1,005)	(7,202)	–	(501,230)
Carrying amount as of 1 January 2012		**1,236,596**	**200,358**	**51,596**	**11,102**	**18,354**	**1,630**	**1,519,636**
Acquisition of subsidiary banks		80,296	22,207	576	3,031	3,215	–	109,325
Additions		1,854	3,434	5,992	10,706	7,104	2,245	31,335
Disposals		(249)	(59,948)	(7,389)	(928)	(6,330)	–	(74,844)
Reclassifications		-	81	422	–	–	(503)	–
Depreciation charges	26	(25,286)	(96,628)	(7,514)	(2,409)	(381)	–	(132,218)
Accumulated depreciation of disposed property and equipment		–	60,052	5,353	754	3,860	–	70,019
Recognition of revaluation through revaluation reserve		177,734	–	–	–	–	–	177,734
Reversal/(Recognition) of impairment through profit or loss		(3,414)	(497)	(3,045)	–	(1,115)	–	(8,071)
Carrying amount as of 31 December 2012		**1,467,531**	**129,059**	**45,991**	**22,256**	**24,707**	**3,372**	**1,692,916**
Cost or valuation as of 31 December 2012		1,467,531	624,209	82,601	24,916	28,430	3,372	2,231,059
Accumulated depreciation		–	(495,150)	(36,610)	(2,660)	(3,723)	–	(538,143)
Carrying amount as of 31 December 2012		**1,467,531**	**129,059**	**45,991**	**22,256**	**24,707**	**3,372**	**1,692,916**
Acquisition of subsidiary		–	6,854	3,276	8,458	–	–	18,588
Additions		225	77	4,076	12,089	1,311	–	17,778
Disposals		(12,049)	(44,025)	(13,452)	(17,398)	(24,921)	–	(111,845)
Reclassifications		–	618	213	–	–	(831)	–
Depreciation charges	26	(29,470)	(101,946)	(7,722)	(3,251)	(2,485)	–	(144,874)
Accumulated depreciation of disposed property and equipment		127	42,393	5,487	7,232	3,268	–	58,507
Accumulated depreciation for property and equipment of acquired subsidiary at the acquisition date		–	(4,557)	(2,190)	(4,200)	–	–	(10,947)
Recognition of revaluation through revaluation reserve		118,459	–	–	–	–	–	118,459
Carrying amount as of 31 December 2013		**1,544,823**	**28,473**	**35,679**	**25,186**	**1,880**	**2,541**	**1,638,582**
Cost or valuation as of 31 December 2013		1,544,823	587,733	76,714	28,065	4,820	2,541	2,244,696
Accumulated depreciation		–	(559,260)	(41,035)	(2,879)	(2,940)	–	(606,114)
Carrying amount as of 31 December 2013		**1,544,823**	**28,473**	**35,679**	**25,186**	**1,880**	**2,541**	**1,638,582**

Equipment not put into operation as of 31 December 2013 and as of 31 December 2012 comprises office equipment, computers and furniture purchased, which require additional costs to be prepared for operation. Upon completion of the works, these assets will be transferred to the respective categories.

Recognition of impairment through profit or loss in the amount of RUB 8,071 thousand is the item that shows the write-downs in 2012 of the equipment and furniture of all of the Group's operating and closed-down offices with signs of "obsolescence or physical deterioration".

The building was revalued to market value as of 31 December 2013 and 31 December 2012 by an independent firm of professional appraisers who have a recognized qualification and recent professional experience in valuation of similar property in terms of its location and category.

13 Property and equipment (continued)

The market value is determined based on the comparable sales method. The market value of buildings is determined based on the price that a third party would pay for an item of property of similar quality and use. The market value of buildings was determined based on information about sales and comparable properties offered in the market.

The carrying amount of the building as of 31 December 2013 includes the amount of RUB 530,612 thousand (2012: RUB 412,154 thousand), which represents the surplus from revaluation of the Bank's building. If the assets had been carried at cost less depreciation, the carrying amount of buildings as of 31 December 2013 would have been RUB 1,014,211 thousand (2012: RUB 1,055,377 thousand).

The reconciliation of this amount with the carrying amount of buildings is as follows:

(in thousands of Russian Rubles)	**31 December 2013**	**31 December 2012**
Buildings at revalued amount in the statement of financial position	1,544,823	1,467,531
Revaluation reserve presented within equity, before tax	(530,612)	(412,154)
Buildings at cost net of accumulated depreciation	**1,014,211**	**1,055,377**

14 Intangible assets

(in thousands of Russian Rubles)	**Notes**	**Software and licenses**
Carrying amount as of 1 January 2012		**171,147**
Cost		
Balance at the beginning of the period		401,654
Acquisition of subsidiary banks		159,322
Additions		31,941
Disposals		(115,017)
Balance as of 31 December 2012		**477,900**
Accumulated depreciation		
Balance at the beginning of the period		230,506
Depreciation charges	26	80,859
Disposals		(108,824)
Impairment of acquirees' licenses		137,134
Balance as of 31 December 2012		**339,675**
Carrying amount as of 31 December 2012		**138,225**
Cost		
Balance at the beginning of the period		477,900
Additions		14,522
Disposals		(55,664)
Balance at the end of the period		**436,758**
Accumulated depreciation		
Balance at the beginning of the period		339,675
Depreciation charges	26	71,158
Disposals		(55,659)
Balance at the end of the period		**355,174**
Carrying amount as of 31 December 2013		**81,584**

14 Intangible assets (continued)

Additions of intangible assets mainly represent the software and licenses purchased by the Bank during 2013 to ensure compliance with the new procedures implemented by the Bank. During 2013, intangible assets in the amount of RUB 14,522 thousand were purchased for cash (2012: RUB 31,941 thousand).

15 Other financial assets

(in thousands of Russian Rubles)	Notes	2013	2012
Credit and debit card receivables		49,094	261,863
Guarantee deposits		12,618	3,034
Accrued fees for servicing plastic cards		–	18,619
Derivative financial instruments	32	92	255
Other		4,540	12,533
Total other financial assets		**66,344**	**296,304**

As of 31 December 2013, credit and debit card receivables include a security deposit for settlements with Master Card International in the amount of RUB 49,094 thousand (2012: RUB 261,863 thousand).

The analysis of other financial assets by credit quality as of 31 December 2013 is as follows:

(in thousands of Russian Rubles)	Derivative financial instruments	Credit and debit card receivables	Guarantee deposits	Other	Total
Neither past due nor impaired					
- A- to A+ rated	–	49,094	–	–	49,094
- unrated	92	–	12,618	4,540	17,250
Total other financial assets	**92**	**49,094**	**12,618**	**4,540**	**66,344**

The analysis of other financial assets by credit quality as of 31 December 2012 is as follows:

(in thousands of Russian Rubles)	Derivative financial instruments	Credit and debit card receivables	Accrued fees for servicing plastic cards	Guarantee deposits	Other	Total
Neither past due nor impaired						
- A- to A+ rated	–	261,863	–	–	–	261,863
- BBB- to BBB+ rated	186	–	–	–	–	186
- B- to BB+ rated	33	–	–	–	5,400	5,433
- unrated	36	–	18,619	3,034	7,133	28,822
Total other financial assets	**255**	**261,863**	**18,619**	**3,034**	**12,533**	**296,304**

The primary factors that the Bank considers in determining whether receivables are impaired are their overdue status and realizability of related collateral, if any. As of 31 December 2013 and 31 December 2012, the Bank had no past-due amounts within other financial assets.

The analysis of other financial assets by structure of currencies and maturities is presented in Note 29. Information on the fair value of each category of other financial assets is disclosed in Note 33. Information on related party transactions is disclosed in Note 34.

16 Other non-financial assets

(in thousands of Russian Rubles)	2013	2012
Receivables related to misappropriated assets	61,774	11,935
Tax prepayments	20,979	7,393
Prepayment for services	9,355	14,289
Settlements with suppliers and contractors	7,634	39,888
Repossessed collateral	241	37,800
Amounts due from assignee under assignment agreements	–	44,225
Non-current assets held for sale	–	27,486
Other	11,072	20,394
Less: allowance for impairment	(61,774)	(57,821)
Total other non-financial assets	**49,281**	**145,589**

The analysis of movements in allowance for impairment of other non-financial assets during 2013 and 2012 is as follows:

(in thousands of Russian Rubles)	2013	2012
Allowance for impairment as of 1 January	**57,821**	**8,607**
Allowance for impairment during the year	48,178	3,331
Other non-financial assets written off against allowance for impairment during the year	(44,225)	–
Allowance for impairment of other non-financial assets of subsidiary bank	–	45,883
Allowance for impairment as of 31 December	**61,774**	**57,821**

The allowance for impairment of assets of the subsidiary bank mainly includes an allowance for amounts due from the assignee under assignment agreements.

Repossessed collateral represents real estate properties acquired by the Bank in settlement of overdue loans. The Bank intends to sell the assets in the foreseeable future. These assets do not meet the definition of long-term assets held for sale and are classified as inventories in accordance with IAS 2 *Inventories.* These assets were initially recognized at fair value at acquisition.

17 Amounts due to other banks

(in thousands of Russian Rubles)	2013	2012
Direct repurchase agreements with the Bank of Russia	4,768,918	4,096,838
Deposits of other banks	1,739,030	2,665,280
Deposits of the Bank of Russia	2,054,155	2,505,786
Correspondent accounts and overnight deposits of other banks	2,540,287	714,787
Total amounts due to other banks	**11,102,390**	**9,982,691**

As of 31 December 2013, deposits from the Bank of Russia bear interest rates of 5.75% and 6.75% (2012: 7.25%) and mature from January 2014 to July 2014 (2012: from February 2013 to June 2013).

As of 31 December 2013, deposits of other banks include deposits of foreign banks in the amount of RUB 20,610 thousand (2012: RUB 2,660,642 thousand), maturing in January 2014 (2012: from January 2013 to January 2014) and bearing contractual interest rates of 4.00% and 4.50% (2012: from 0.15% to 8.66%).

As of 31 December 2013, amounts due to other banks included liabilities in the amount of RUB 4,768,918 thousand under direct repurchase agreements with the Bank of Russia for securities maturing in January 2014 and bearing contractual interest rates of 5.53% and 5.66%.

17 Amounts due to other banks (continued)

As of 31 December 2012, amounts due to other banks included liabilities in the amount of RUB 4,096,838 thousand under direct repurchase agreements with the Bank of Russia for securities maturing in January 2013 and bearing a contractual interest rate of 5.75%.

The analysis of amounts due to other banks by structure of currencies and maturities, and the analysis of interest rates are presented in Note 29. Information on the fair value of each category of amounts due to other banks is disclosed in Note 33. Information on related party transactions is disclosed in Note 34.

18 Amounts due to customers

(in thousands of Russian Rubles)	2013	2012
State and public organizations		
- Current/settlement accounts	11,518	35,320
- Time deposits	42,888	20,098
Legal entities		
- Current/settlement accounts	3,163,388	4,290,197
- Time deposits	9,811,868	5,172,359
Individuals		
- Current accounts/demand accounts	1,478,745	1,857,428
- Time deposits	11,627,591	9,045,865
Total amounts due to customers	**26,135,998**	**20,421,267**

State and public organizations do not include commercial enterprises owned by the state.

A breakdown of amounts due to customers by economic sector is as follows:

	2013		2012	
(in thousands of Russian Rubles)	Amount	%	Amount	%
Individuals	13,106,336	50.2	10,903,292	53.4
Trade	3,250,516	12.4	2,058,365	10.1
Manufacturing	2,512,143	9.6	1,161,855	5.7
Financial services	2,443,375	9.3	1,846,610	9.0
Construction	1,718,524	6.6	799,193	3.9
Real estate	1,114,722	4.3	1,003,688	4.9
Consulting services	563,327	2.2	728,658	3.6
Non-for-profit organizations	233,915	0.9	164,260	0.8
Transport	157,470	0.6	601,054	2.9
Advertising and mass media	83,865	0.3	115,669	0.6
Food industry	75,263	0.3	46,858	0.2
Telecommunications	55,394	0.2	8,175	0.1
Mining industry	7,245	0.0	4,881	0.0
Other	813,903	3.1	978,709	4.8
Total amounts due to customers	**26,135,998**	**100%**	**20,421,267**	**100%**

As of 31 December 2013, amounts due to customers include the amount of RUB 587,592 thousand (2012: RUB 33,764 thousand), which is collateral for irrevocable obligations under letters of credit. See Note 31.

As of 31 December 2013, amounts due to 10 largest customers was RUB 7,304,455 thousand (2012: RUB 3,752,955 thousand), or 28% (2012: 18%) of the total amount due to customers.

The analysis by structure of currencies and maturities, and the analysis of interest rates for amounts due to customers are presented in Note 29. Information on the fair value of each category of amounts due to customers is disclosed in Note 33. Information on related party transactions is disclosed in Note 34.

19 Other financial liabilities

Other financial liabilities comprise:

(in thousands of Russian Rubles)	Notes	2013	2012
Debit and credit card payables		2,328	682,713
Derivative financial instruments	32	874	21,950
Deferred fee and commission income		2,849	8,026
Provisions for bank guarantees		−	236
Provision for credit related commitments		20,088	6,346
Total other financial liabilities		**26,139**	**719,271**

The analysis of movements in provision for credit related commitments during 2013 and 2012 is as follows:

(in thousands of Russian Rubles)	2013	2012
Provision for credit related commitments as of 1 January	**6,346**	**−**
Charge of provision during the year	13,742	6,346
Provision for credit related commitments as of 31 December	**20,088**	**6,346**

The analysis of other financial liabilities by structure of currencies and maturities, and the analysis of interest rates are presented in Note 29. Information on the fair value of each category of other financial liabilities is disclosed in Note 33. Information on related party transactions is disclosed in Note 34.

20 Other non-financial liabilities

Other non-financial liabilities comprise:

(in thousands of Russian Rubles)	2013	2012
Taxes payable other than income tax	124,090	21,326
Settlements with suppliers and contractors	89,336	34,841
Accrued employee benefit costs	49,345	38,044
Liabilities associated with contributions to the deposit insurance fund	−	1,266
Other	17,834	19,364
Total other non-financial liabilities	**280,605**	**114,841**

Information on related party transactions is disclosed in Note 34.

21 Debt securities issued

(in thousands of Russian Rubles)	2013	2012
Promissory notes	788,403	291,268
Domestic bonds issued	1,502,370	−
Total debt securities issued	**2,290,773**	**291,268**

As of 31 December 2013, debt securities issued comprised RUB-denominated bonds in the amount of RUB 1,502,370 thousand (2012: RUB 0 thousand). The nominal value of bonds issued was RUB 1,500,000 thousand. These bonds mature on 3 July 2016 and bear a coupon rate of 11.5%.

22 Share capital

As of 31 December 2013, the authorized, issued and fully paid share capital amounted to RUB 10,413,412 thousand (2012: RUB 10,319,835 thousand).

On 7 March 2013, the Bank increased its capital by RUB 234,210 thousand as a result of the merger with CB Stromcombank LLC, including RUB 93,577 thousand as an increase in the value of share capital and RUB 140,633 thousand as a share premium.

On 10 August 2012, the Bank increased its capital as a result of cash contribution from Asmodius OJSC in the amount of RUB 717,572 thousand, including RUB 309,949 thousand as an increase in the value of share capital and RUB 407,623 thousand as a share premium. On 3 September 2012, AVTOBAN Road Construction Company OJSC purchased from Asmodius OJSC its interest in the Bank's capital.

The Bank is a limited liability company. According to applicable Russian legislation, every participant of a limited liability company has the number of votes proportionate to the participant's interest in the company's share capital.

Before 6 August 2012, according to the Charter and applicable legislation, participants of the Bank were entitled to request redemption of their interests in the Bank's capital. As a result, redeemed capital was classified as liability. On 6 August 2012, changes were made to the Bank's Charter. According to the changes, participants are no longer entitled to request redemption of their interests in the Bank's capital. Thus, starting from 6 August 2012, redeemed capital has been classified as equity. Information on the Bank's accounting policy in respect of share capital is provided in Note 3.

23 Interest income and expense

(in thousands of Russian Rubles)	**2013**	**2012**
Interest income		
Loans and advances to customers	3,595,353	1,492,837
Debt trading securities	573,720	360,945
Amounts due from other banks	61,706	88,562
Debt investment securities available for sale	104,403	52,254
Due from the CBR	–	2,400
Total interest income	**4,335,182**	**1,996,998**
Interest expense		
Time deposits of individuals	998,187	353,394
Time deposits of other banks	396,619	222,386
Time deposits of legal entities	400,052	220,725
Debt securities issued	140,487	9,223
Current/settlement accounts	242,500	19,172
Total interest expense	**2,177,845**	**824,900**
Net interest income	**2,157,337**	**1,172,098**

Interest income for 2013 comprises interest income in the amount of RUB 21,565 thousand (2012: RUB 50,188 thousand) recognized for impaired loans to customers.

24 Fee and commission income and expense

(in thousands of Russian Rubles)	2013	2012
Fee and commission income		
- Plastic cards operations	94,728	301,042
- Settlement operations	207,822	229,773
- Cash operations	48,593	41,245
- Guarantees issued	20,281	14,243
- Income from consulting and information services	188,443	18,045
- Other	54,582	76,552
Total fee and commission income	**614,449**	**680,900**
Fee and commission expense		
- Plastic cards operations	50,701	230,814
- Cash operations	9,947	33,016
- Settlement operations	97,021	22,301
- Guarantees received	–	4,769
- Other	1,371	2,554
Total fee and commission expense	**159,040**	**293,454**
Net fee and commission income	**455,409**	**387,446**

25 Other operating income

(in thousands of Russian Rubles)	2013	2012
Discount on receivables purchased	1,081,583	–
Income from disposal of property	52,964	35,739
Operating lease income	40,305	16,658
Income from sale of acquiring services	23,198	–
Fines and penalties under lease agreements	18,150	–
Income received under marketing agreement	3,810	7,288
Other	35,513	13,696
Total other operating income	**1,255,523**	**73,381**

In 2013, the Bank entered into transactions to purchase receivables from credit institutions. As of 31 December 2013, income received by the Bank in the form of discount on receivables purchased amounted to RUB 1,081,583 thousand (2012: RUB 0 thousand).

26 Administrative and other operating expenses

(in thousands of Russian Rubles)	Notes	2013	2012
Staff costs		830,280	750,438
Loss from disposal of property and write-off of low-value assets		166,674	44,972
Rent expenses		152,402	256,144
Depreciation of property and equipment	13	144,874	132,218
Taxes other than income tax		131,619	49,241
Amortization of software and other intangible assets	14	71,158	80,859
Other expenses related to property and equipment		50,107	84,442
Contributions to the state deposit insurance system		35,756	25,578
Telecommunication and information services		33,924	46,252
Insurance		22,344	7,357
Expenses related to security services		18,924	17,620
Professional services		11,066	28,445
Advertising and marketing services		5,965	11,573
Penalties		–	3,205
Other		246,454	87,387
Total administrative and other operating expenses		**1,921,547**	**1,625,731**

Staff costs include insurance contributions in the amount of RUB 118,398 thousand (2012: RUB 125,295 thousand), of which RUB 93,986 thousand (2012: RUB 988,151 thousand) represent contributions to the pension fund.

Information on related party transactions is disclosed in Note 34.

27 Income tax

(a) Components of income tax expense/(credit)

Income tax expense recognized in profit and loss for the year includes the following components:

(in thousands of Russian Rubles)	2013	2012
Current income tax expense	4,237	14,102
Deferred income tax expense/(credit)	360,468	(865,082)
Income tax expense/(benefit) for the year	**364,705**	**(850,980)**

(b) Reconciliation of the amounts of tax expense with the amounts of profit or loss multiplied by applicable tax rate

The current income tax rate applicable to the majority of the Bank's income in 2013 is 20% (2012: 20%). A reconciliation of theoretical tax expense with actual is as follows:

(in thousands of Russian Rubles)	2013	2012
Profit/(loss) before taxation	**1,480,980**	**460,454**
Theoretical tax benefit at the statutory rate (20%)	296,196	92,091
Tax effect of income or expenses which are not deductible for taxation purposes:		
- Non-deductible expenses	44,326	17,417
- Non-taxable income	–	(10,848)
- Income on government securities taxable at different rates	(1,412)	(5,051)
- Other permanent differences	25,595	(49,619)
Gain from excess of acquired subsidiaries' net assets over cost of investments	–	(102,506)
Recognition of deferred tax assets	–	(792,464)
Income tax (benefit)/expense for the year	**364,705**	**(850,980)**

27 Income tax (continued)

(c) Tax losses carried forward

The Bank has potential deferred tax assets for unused tax losses carried forward in the amount of RUB 598,522 thousand (2012: RUB 1,020,499 thousand). The expiry dates for tax losses carried forward are presented below:

(in thousands of Russian Rubles)	2013	2012
Deferred tax losses which expire		
after 31 December 2019	(1,106,478)	(3,134,207)
after 31 December 2020	(251,544)	(346,400)
after 31 December 2021	(1,563,515)	(1,621,890)
after 31 December 2023	(71,073)	–
Total tax losses carried forward	**(2,992,610)**	**(5,102,497)**

(d) Analysis of deferred taxation by type of temporary differences

Differences between IFRS and Russian tax legislation give rise to temporary differences between the carrying amount of assets and liabilities for consolidated financial reporting purposes and for the purposes of income tax assessment. Detailed below are the tax effects of the movements in these temporary differences which are recorded at the rate of 20% (2012: 20%), except for income on government securities taxable at the rate of 15% (2012: 15%) and income on dividends taxable at the rate of 9% (2012: 9%).

(in thousands of Russian Rubles)	31 December 2012	Reversed/ (charged) to profit and loss	Reversed/ (charged) directly to equity	Business combination	31 December 2013
Tax effect of temporary differences decreasing / (increasing) the tax base and tax losses carried forward					
Property and equipment	(266,781)	22,876	(23,692)	–	(267,597)
Intangible assets	14,190	13,885	–	–	28,075
Other financial and non-financial liabilities	15,557	(56,942)	–	–	(41,385)
Loans and advances to customers	57,870	(11,713)	–	–	46,157
Allowance for loan impairment	(24,094)	(7,294)	–	–	(31,388)
Finance lease receivables	–	61,021	–	(19,046)	41,975
Amounts due from other banks	(9)	9	–	–	–
Fair value of trading securities	16,777	(6,437)	–	–	10,340
Securities issued	225	1,062	–	–	1,287
Other financial and non-financial assets	(11,833)	45,042	–	–	33,209
Tax losses carried forward	1,020,499	(421,977)	–	–	598,522
Net deferred tax asset/(liability)	**822,401**	**(360,468)**	**(23,692)**	**(19,046)**	**419,195**
Recognized deferred tax asset	829,535	(367,602)	(23,692)	(19,046)	419,195
Recognized deferred tax liability	(7,134)	7,134	–	–	–
Total deferred tax	**822,401**	**(360,468)**	**(23,692)**	**(19,046)**	**419,195**

The above net deferred tax assets were recognized by the Bank in 2013 based on the analysis of expected taxable income in the medium term (see Note 4).

27 Income tax (continued)

(d) Analysis of deferred taxation by type of temporary differences (continued)

In the context of the Group's current structure and the Russian tax legislation, tax losses and current tax assets of certain companies of the Bank may not be offset against current tax liabilities and taxable profit of other companies of the Group and, accordingly, taxes may be assessed even when there is a consolidated tax loss. Therefore, deferred tax assets and liabilities are offset only when they relate to the same taxable entity and the same tax authority.

(in thousands of Russian Rubles)	31 December 2011	Reversed/ (charged) to profit and loss	Reversed/ (charged) directly to equity	Business combination	31 December 2012
Tax effect of temporary differences decreasing / (increasing) the tax base and tax losses carried forward					
Property and equipment	(236,907)	7,942	(35,547)	(2,269)	(266,781)
Intangible assets	11,898	2,292	–	–	14,190
Other financial and non-financial liabilities	(19,234)	33,498	–	1,293	15,557
Loans and advances to customers	104,142	(53,694)	–	7,422	57,870
Allowance for loan impairment	(82,280)	72,380	–	(14,194)	(24,094)
Derivative financial instruments	1,507	(1,507)	–	–	–
Amounts due from other banks	(193)	184	–	–	(9)
Fair value of trading securities	25,460	(8,683)	–	–	16,777
Securities issued	–	225	–	–	225
Other financial and non-financial assets	(45,227)	32,780	–	614	(11,833)
Tax losses carried forward	1,033,298	(12,799)	–	–	1,020,499
Net deferred tax asset/(liability)	**792,464**	**72,618**	**(35,547)**	**(7,134)**	**822,401**
Unrecognized tax asset	(792,464)	792,464	–	–	–
Recognized deferred tax asset	–	–	–	–	829,535
Recognized deferred tax liability	–	–	–	–	(7,134)
Total deferred tax	**–**	**865,082**	**(35,547)**	**(7,134)**	**822,401**

The above net deferred tax assets were recognized by the Bank in 2012 based on the analysis of expected taxable income in the medium term.

(e) Effect of current and deferred taxation on components of other comprehensive income

The effect of current and deferred taxation on components of other comprehensive income is as follows:

	2013			2012		
(in thousands of Russian Rubles)	Amount before taxation	Income tax (expense) / credit	Amount net of tax	Amount before taxation	Income tax (expense) / credit	Amount net of tax
Investments available for sale:						
- Expenses for the year	1,039	–	1,039	(1,039)	–	(1,039)
Revaluation of building	118,459	–	118,459	177,734	–	177,734
Recognized tax liability	–	(23,692)	(23,692)	–	(35,547)	(35,547)
Other comprehensive income	**119,498**	**(23,692)**	**95,806**	**176,695**	**(35,547)**	**141,148**

28 Segment analysis

Operating segments are components of the company which are engaged in financial and business activities as a result of which they can receive profit or incur expenses. The results of their operating activity are regularly reviewed by the chief operating decision maker, and separate financial information is available on them. A person or a group of persons responsible for the allocation of resources and assessment of the company's performance may act as the chief operating decision maker. The functions of the chief operating decision maker are performed by the Chairman of the Management Board and executive directors from the Bank's Board of Directors.

(a) Description of products and services that generate income for the reporting segments

The Bank is organized into the following main business segments:

- Corporate banking – this segment includes taking deposits and providing loans to corporate customers, small and medium businesses, and individual entrepreneurs, servicing settlement accounts of organizations, providing credit lines in the form of overdrafts, bank guarantees, documentary and factoring operations, conducting operations with promissory notes, exercising currency control, and conducting cash management operations.
- Retail banking – this segment includes providing banking services to individual customers to open and maintain settlement accounts, take deposits, service debit and credit cards, and provide consumer, mortgage and auto loans, making money transfers, conducting settlement operations, and managing cash.
- Treasury – this business segment includes operations with securities and currencies, interbank lending, repo transactions, correspondent accounts and swap transactions.

(b) Factors used by management to identify operating segments

The Bank's segments represent strategic business units focusing on various customers. They are managed separately as every business unit requires specific marketing strategies and provides specific services to customers.

(c) Assessment of profit or loss, assets and liabilities of operating segments

Person responsible for making operational decisions analyzes financial information prepared in accordance with Russian regulatory requirements. This financial information in several aspects differs from information prepared in accordance with the IFRS:

(i) Allowances for loans are recognized on the basis of management's professional judgment rather than on the basis of incurred losses model stipulated by IAS 39

(ii) Fee and commission income from credit-related transactions is recognized immediately rather than in future periods using the effective interest rate method

(iii) Income taxes are not allocated to segments

(iv) Revaluation of property and equipment is performed triennially in accordance with RAP

(v) Property and equipment and intangible assets are not subject to impairment testing

(vi) Bank's liabilities related to payments to employees for unused vacations are not recognized.

Person responsible for making operational decisions assesses the results of segment activity in reliance on profit before tax.

28 Segment analysis (continued)

(d) Information on profit or loss, assets and liabilities of operating segments

Segment information on reporting segments for the year ended 31 December 2013 is presented in the table below:

(in thousands of Russian Rubles)	Corporate banking	Retail banking	Treasury	Total
External income				
- Interest income	1,598,228	383,731	1,973,075	3,955,034
- Fee and commission income	525,793	31,403	8,612	565,808
Income from other segments				
- Interest income	(504,288)	1,024,677	(520,389)	–
Total income	**1,619,733**	**1,439,811**	**1,461,298**	**4,520,842**
Interest expense	(458,634)	(986,883)	(495,476)	(1,940,993)
Allowance for loan impairment	304,107	(87,940)	–	216,167
Depreciation and amortization	(69,203)	(37,458)	(39,211)	(145,872)
Fee and commission expense	(31,630)	–	–	(31,630)
Gains less losses from trading securities	–	–	(289)	(289)
Gains less losses from foreign currencies	–	–	45,848	45,848
Gains less losses from foreign currency translation	–	–	160,429	160,429
Gains less losses on disposal of investment securities available for sale	–	–	7,647	7,647
Administrative and other operating expenses	(546,524)	(292,263)	(305,943)	(1,144,730)
Segment results	**817,849**	**35,267**	**834,303**	**1,687,419**

(in thousands of Russian Rubles)	Corporate banking	Retail banking	Treasury	Total
Total segment assets	**13,900,123**	**13,766,585**	**19,880,483**	**47,547,191**
Total segment liabilities	**(12,856,225)**	**(12,904,051)**	**(14,328,290)**	**(40,088,566)**

As of 31 December 2013, the Bank had no contractual capital expenditure commitments for reconstruction of buildings and acquisition of equipment.

28 Segment analysis (continued)

(d) Information on profit or loss, assets and liabilities of operating segments (continued)

Segment information on reporting segments for the year ended 31 December 2012 is presented in the table below:

(in thousands of Russian Rubles)	Corporate banking	Retail banking	Treasury	Total
External income				
- Interest income	930,643	421,891	551,823	1,904,357
- Fee and commission income	110,561	164,570	–	275,131
Income from other segments				
- Interest income	(29,179)	103,074	(73,895)	–
Total income	**1,012,025**	**689,535**	**477,928**	**2,179,488**
Interest expense	(216,113)	(317,996)	(247,492)	(781,601)
Allowance for loan impairment	82,842	(18,741)	–	64,101
Depreciation and amortization	(77,904)	(37,563)	(34,367)	(149,834)
Fee and commission expense	(25,346)	–	(4,839)	(30,185)
Gains less losses from trading securities	–	–	(64,461)	(64,461)
Gains less losses from foreign currencies	–	–	19,801	19,801
Gains less losses from foreign currency translation	–	–	160,928	160,928
Gains less losses on disposal of investment securities available for sale	–	–	(1,932)	(1,932)
Administrative and other operating expenses	(610,394)	(294,311)	(269,273)	(1,173,978)
Segment results	**165,110**	**20,924**	**36,293**	**222,327**

(in thousands of Russian Rubles)	Corporate banking	Retail banking	Treasury	Total
Total segment assets	**10,898,251**	**3,721,695**	**16,427,605**	**31,047,551**
Total segment liabilities	**(6,782,154)**	**(7,315,428)**	**(11,642,173)**	**(25,739,755)**

As of 31 December 2012, the Bank had no contractual capital expenditure commitments for reconstruction of buildings and acquisition of equipment.

28 Segment analysis (continued)

(d) Information on profit or loss, assets and liabilities of operating segments (continued)

Reconciliation of segment assets prepared in accordance with managements accounts with total assets is presented below:

(in thousands of Russian Rubles)	2013	2012
Segment assets	**47,547,191**	**31,047,551**
Recognition of subsequent events	308,514	(11,162)
Additional depreciation of property and equipment in accordance with IFRS depreciation rates	(129,792)	(94,867)
Revaluation of a building at the reporting date	158,441	380,626
Additional charge of allowance for impairment of loans to customers in accordance with IFRS	(123,550)	4,348
Recognition of deferred tax asset	419,195	829,535
Reversal of provision for other assets	314,697	68,012
Reclassification of property and equipment transferred under financial leases to finance lease receivables	(115,852)	–
Other	(360,869)	649,326
Allocation of consolidated subsidiaries	–	5,633,563
Total assets	**48,017,975**	**38,506,932**
Segment liabilities	**40,088,566**	**25,739,755**
Recognition of subsequent events	73,790	25,637
Accrual of unused vacation liabilities	49,341	29,130
Other	(375,792)	946,579
Allocation of consolidated subsidiaries	–	4,795,842
Total liabilities	**39,835,905**	**31,536,943**

Reconciliation of segment profit with profit before tax for the reporting year is presented below:

(in thousands of Russian Rubles)	2013	2012
Segment profit	**1,687,419**	**222,327**
Additional depreciation of property and equipment in accordance with IFRS depreciation rates	(62,099)	(222,614)
Amortization of fee and commission income	(17,965)	(58,998)
Amortization of intangible assets	(26,707)	(126,021)
Allowance for impairment of loans to customers	(238,263)	4,348
Other	138,595	38,338
Allocation of consolidated subsidiaries	–	603,074
Profit before tax	**1,480,980**	**460,454**

(e) Analysis of income from products and services

The analysis of income from products and services is presented in Note 23 (Interest income and expense), Note 24 (Fee and commission income and expense) and Note 25 (Other operating income).

(f) Geographical information

The Bank carries out a significant part of its operations, receives income and incurs losses, and has assets and liabilities within the territory of the Russian Federation.

29 Financial risk management

Risk taking is the essence of financial business, and risk exposure is a key condition for operating in this business. The Bank's management believes the effective risk management system is a basis for financial stability and a key factor of the Bank's competitive ability, which determines its level of profitability and shareholders' value.

The primary objective of the Bank's risk management is to maximize the Bank's shareholders' value.

The main financial risks faced by the Bank are credit risk, market risk and liquidity risk.

Risk management system

Board of Directors

The Board of Directors approves strategic objectives in risk management, determines principles for organization of risk management system and principles for risk management and monitors the risk level and effectiveness of the Bank's risk management system.

Management Board

The Management Board is responsible for effective operation of risk management system. The Management Board approves the Bank's risk appetite (risk management policies) and monitors the risk level.

Risks Department

The Bank's risk management departments are responsible for the following functions:

- Risk management methodology development
- Identification of risks
- Risk assessment / independent control over risk assessment
- Realization of risk control measures, including control over compliance with the Bank's risk management policies and preparation of risk level reports for the Board of Directors and the Management Board.

Business units

Business units are primarily responsible for risk management on a daily basis: the owner of a business process is the owner of risks attributable to this business process. Heads of business units are responsible for implementation of risk management procedures in their business processes. Employees of the Bank's business units that carry out operations related to assuming risks are personally responsible for remediation of losses on risk realization and repayment of funds placed by the Bank in operations initiated by these employees.

Internal control function

Internal control function regularly reviews risk management processes for their adequacy, and monitors the fulfillment of these processes by the Bank's units. The results of these reviews are presented to the Board of Directors and the Management Board.

Credit risk

A credit risk is the risk that the Bank will incur financial losses because its counterparties fail to discharge their financial obligations in full or in part or when due.

The Bank assumes credit risk due to credit operations and other operations exposed to credit risk.

29 Financial risk management (continued)

Credit risk (continued)

The Bank manages credit risk separately for each customer group (corporate customers, SME customers, individuals, financial institutions). Credit risk management comprises the following stages:

1. Risk identification

Risk identification is carried out during the stage of development and modification of loan products. Risk identification stage shows the Bank's exposure to credit risk and gives an opportunity to assess the potential risk level and set risk management methods.

Risk identification is carried out by employees of the risk management department.

2. Risk assessment

The Bank assesses risk both at counterparties/transactions level and whole loan portfolio level. Risk associated with counterparties is assessed through internal PD (probability of default) assessment models (rating models) and models for assessment of losses in case of default.

Risk associated with loan portfolio is assessed using an extensive list of quantitative indicators (concentration ratios, transfers ratios in buckets, vintage curves, etc.).

Counterparties risks are assessed by business units' employees upon obligatory independent control of risk management department. Loan portfolio risk is assessed by employees of the risk management department.

3. Risk controlling

The Bank uses the following instruments to control credit risk:

- Setting limits and control over compliance with limits
- Taking measures on risk mitigation (collateral, insurance, risk-based pricing)
- Risk level monitoring (counterparties, portfolio)
- Taking early response measures
- Reporting on risk level.

High-level limits (the Bank's risk appetite) are set under risk management and credit policies approved by the Board of Directors and the Management Board of the Bank. Limits for separate counterparties and groups of related counterparties, concentration limits, etc. are set by decisions of collegial management bodies (Board of Directors, Management Board, Credit Committees) or the Bank's authorized bodies depending on the sum and type of a limit. Control over compliance with limits is carried out on a continuous basis by employees of business units and risk management department.

The primary way to mitigate credit risk is to secure counterparties' liabilities by a pledge of property. The value of the collateral is assessed by independent appraisers or by the Bank's employees using internal assessment methods. Credit risk mitigation is also achieved through application of such instruments as insurance (of collateral, title or borrowers' lives) and risk-based pricing of loan products/transactions.

In order to update risk level assessment and implement early response measures, the Bank regularly monitors financial position of counterparties (analyses financial statements and their business, etc.), updates assessments of internal credit ratings, monitors safety of the collateral and its revaluation, as well as the risk level of loan portfolio.

In case the Bank reveals any evidence of risk increase, it develops and introduces early response measures in a timely manner: at the level of separate transactions - immediate financial monitoring, taking additional collateral, restructuring, etc., at the level of portfolio - review of limits, introduction of changes in loan products, etc.

Employees of risk management department prepare report on loan portfolio risk on a continuous basis and present it to business units and the Bank's management in a timely manner.

29 Financial risk management (continued)

Credit risk (continued)

Information on the loan portfolio for large and medium businesses by credit ratings as of 31 December 2013 is presented below:

(in thousands of Russian Rubles)	Large businesses	Medium businesses
Rating 3 counterparties	88,564	–
Rating 4 counterparties	186,535	203,183
Rating 5 counterparties	3,964,196	906,637
Rating 6 counterparties	3,314,042	2,720,219
Rating 7, 8, 9 counterparties (default)	–	413,878
Total loans and advances to customers (before allowance for loan impairment)	**7,553,337**	**4,243,917**
Less: allowance for impairment	(17,904)	(73,025)
Total loans and advances to customers	**7,535,433**	**4,170,892**

In 2012, the Bank implemented a new methodology for provisioning for individually assessed loans that are not impaired. Information on the loan portfolio for large and medium businesses by credit ratings as of 31 December 2012 is presented below:

(in thousands of Russian Rubles)	Large businesses	Medium businesses
Rating 4 counterparties	–	153,077
Rating 5 counterparties	1,660,298	2,954,629
Rating 6 counterparties	1,864,533	5,418,132
Rating 7, 8, 9 counterparties (default)	–	46,344
Total loans and advances to customers (before allowance for loan impairment)	**3,524,831**	**8,572,182**
Less: allowance for impairment	(35,048)	(151,439)
Total loans and advances to customers	**3,489,783**	**8,420,743**

Below is the description/characteristics of a scale of internal credit ratings applied by the Bank to large and medium corporate counterparties:

Rating 1

Rating 1 counterparties are characterized by a very high ability to fulfill their obligations in time and in full. These counterparties are mainly the largest enterprises with a stable (leading) position in the market, including enterprises that operate internationally.

Rating 2

Rating 2 counterparties are characterized by a high ability to fulfill their obligations in time and in full. These counterparties are mainly the largest national enterprises with a leading position in the market.

29 Financial risk management (continued)

Credit risk (continued)

Rating 3

Rating 3 counterparties are characterized by an adequate ability to fulfill their obligations in time and in full. These counterparties are mainly large national enterprises with an adequately stable position in the market.

Rating 4

Rating 4 counterparties fulfill their obligations in time and in full, but negative changes of economic situation may lead to a decreasing ability to fulfill obligations in the medium term. These counterparties are mainly large and medium regional enterprises with a significant market share in their region.

Rating 5

Rating 5 counterparties fulfill their obligations in time and in full, but negative changes of economic situation are likely to lead to a decreasing ability to fulfill obligations adequately. These counterparties are mainly companies that operate in local markets and risk losing their position in business, e.g., when larger players enter the market. Besides, larger companies with aggressive financial policy are also included into this category.

Rating 6

Rating 6 counterparties fulfill their obligations in time and in full, but the ability to fulfill obligations adequately may decrease even in a favorable economic environment. This group mainly comprises small companies, whose market positions are vulnerable in case larger competitors enter the market (market share increase). Larger companies with excessive debt burden or negative trends in business may also be included in this category.

Ratings 7, 8, 9

Rating 7, 8, 9 counterparties fall under criteria of default (impairment) adopted by the Bank and differentiate between themselves in accordance with sources and possibilities of repaying their debt to the Bank.

Market risk

Market risk is the risk that the Bank will incur financial losses due to changes in market prices of financial instruments, including exchange and interest rates. Market risk comprises price, currency and interest rate risk.

Market risk arises from open positions in equity, debt, currency and interest rate financial instruments exposed to general and specific changes in the market.

The Bank manages market risk centrally:

- Risk identification, assessment and control – employees of the risk management departments
- Decision making in market risk management, including setting risk limits – The Asset and Liability Committee
- Management of open positions in financial instruments exposed to market risk – Treasury

The Bank opens positions in financial markets to develop customer business and manage liquidity. Opening of own speculative positions is not allowed.

Quantitative assessment of market risk is performed on a daily basis using Value-at-Risk methodology ("VaR"). VaR is a technique that estimates the potential losses that could occur on positions, which will not be exceeded over a specified period of time at a given confidence level. The Bank uses the following parameters of VaR model: confidence level - 99%; period of time (projection horizon) – 10 working days; VaR valuation method – historical, using statistical data for the last 12 months.

29 Financial risk management (continued)

Market risk (continued)

Although VaR is a common tool in measuring market risk exposures, it has a number of limitations, especially in less liquid markets, which include the majority of the debt and equity instruments traded in Russia:

- The use of historical data as a basis for determining future events may not encompass all possible scenarios.
- A 10-day projection horizon assumes that all positions can be liquidated or hedged within that period. This is considered to be a realistic assumption in almost all cases but may not be the case in situations in which there is severe market illiquidity for a prolonged period.
- The use of a 99% confidence level does not take into account losses that may occur beyond this level. There is a 1% possibility that losses will exceed VaR.
- As VaR is only calculated on an end-of-day basis, it does not necessarily reflect exposures that may arise on positions during the trading day.

Price risk

Price risk is the risk that the Bank will incur financial losses due to changes in market prices of financial instruments.

The Bank manages price risk using the following instruments:

- Price risk assessment for open positions
- Limitation of types of financial instruments, for which opening of positions is possible
- Setting price risk limits and control over compliance with these limits
- Diversification of portfolios.

As of 31 December 2013 and 2012, the Bank had the following VaRs for the securities portfolio:

(in thousands of Russian Rubles)	**31 December 2013**	**31 December 2012**
Price risk on securities	903,640	373,272

Currency risk

Currency risk is the risk that the Bank will incur financial losses due to changes in exchange rates.

The Bank manages currency risk using the following instruments:

- Currency risk assessment for open currency positions
- Setting currency risk limits and control over compliance with these limits
- Hedging currency risk using derivative financial instruments.

As of 31 December 2013 and 2012, the Bank had the following VaRs for open currency positions:

(in thousands of Russian Rubles)	**31 December 2013**	**31 December 2012**
Currency risk	1,272	1,922

29 Financial risk management (continued)

Market risk (continued)

The table below summarizes the Bank's exposure to currency risk as at 31 December 2013:

	As of 31 December 2013			
(in thousands of Russian Rubles)	**Monetary financial assets**	**Monetary financial liabilities**	**Derivative financial instruments**	**Net position**
RUB	36,669,516	(31,647,470)	(726)	5,021,320
USD	7,141,508	(7,110,412)	92	31,188
EUR	692,130	(694,818)	(146)	(2,834)
Other	103,198	(101,726)	(2)	1,470
Total	**44,606,352**	**(39,554,426)**	**(782)**	**5,051,144**

The table below summarizes the Bank's exposure to currency risk as at 31 December 2012:

	As of 31 December 2012			
(in thousands of Russian Rubles)	**Monetary financial assets**	**Monetary financial liabilities**	**Derivative financial instruments**	**Net position**
RUB	31,498,853	(27,710,313)	(4,157)	3,784,383
USD	2,916,642	(2,912,843)	(16,217)	(12,418)
EUR	1,431,231	(1,448,209)	(1,321)	(18,299)
Other	60,031	(61,345)	–	(1,314)
Total	**35,906,757**	**(32,132,710)**	**(21,695)**	**3,752,352**

The abovementioned derivative financial instruments are monetary financial assets or monetary financial liabilities, but they are presented separately in order to demonstrate the total risk of the Bank.

Amounts disclosed in respect of derivatives represent the fair value, at the end of the reporting period, of the respective currency that the Bank agreed to buy (positive amount) or sell (negative amount) before netting of positions (and payments) with each counterparty. The amounts by currency are presented gross as stated in Note 32. The analysis presented above includes only monetary assets and liabilities.

Investments in equity instruments and non-monetary assets are not considered to give rise to any material currency risk.

The table below presents sensitivities of financial result to reasonably possible changes in exchange rates applied at the end of the reporting period, whereas all other variables remain the same:

	As of 31 December 2013		As of 31 December 2012	
(in thousands of Russian Rubles)	**Effect on profit or loss**	**Effect on equity**	**Effect on profit or loss**	**Effect on equity**
USD strengthening by 20% (2012: strengthening by 20%)	6,241	6,241	(2,484)	(2,484)
USD weakening by 20% (2012: weakening by 20%)	(6,241)	(6,241)	2,484	2,484
EUR strengthening by 20% (2012: strengthening by 20%)	(567)	(567)	(3,660)	(3,660)
EUR weakening by 20% (2012: weakening by 20%)	567	567	3,660	3,660

29 Financial risk management (continued)

Market risk (continued)

Interest rate risk

Interest risk is the risk that the Bank will incur financial losses due to changes in interest rates.

The Bank is exposed to interest rate risk, principally as a result of lending at fixed interest rates, in amounts and for periods which differ from those of term borrowings secured at fixed interest rates. Another important factor of interest risk is customers' ability to repay loans at fixed interest rates (including mortgages) prior to their maturities and early repayment/addition to the deposit at fixed interest rates.

The Bank manages interest rate risk using the following instruments:

- Interest risk assessment
- Narrowing the gap between assets and liabilities by terms of revaluation of interest rates broken down by separate currencies
- Mitigation of interest risk during development / modification of products.

The table below provides analysis of the Bank's interest rate risks. It also shows the aggregated amounts of the Bank's financial assets and liabilities at their carrying amounts, grouped by the earlier of contractual interest revision or maturity dates.

(in thousands of Russian Rubles)	On demand and less than 1 month	1 to 6 months	6 to 12 months	More than 1 year	Not sensitive to interest rate changes	Total
31 December 2013						
Total financial assets	4,528,762	7,444,315	7,060,079	23,469,619	3,306,076	45,808,851
Total financial liabilities	(15,415,785)	(9,007,270)	(5,764,860)	(9,367,385)	–	(39,555,300)
Net interest rate gap at 31 December 2013	**(10,887,023)**	**(1,562,955)**	**1,295,219**	**14,102,234**	**3,306,076**	**6,253,551**
31 December 2012						
Total financial assets	17,232,759	3,087,062	2,648,919	9,819,149	2,908,809	35,696,698
Total financial liabilities	(14,128,964)	(7,882,336)	(4,845,291)	(3,756,419)	(801,487)	(31,414,497)
Net interest rate gap at 31 December 2012	**3,103,795**	**(4,795,274)**	**(2,196,372)**	**6,062,730**	**2,107,322**	**4,282,201**

The table below shows changes in financial result due to possible 200 bp parallel rise and 200 bp parallel fall in interest rates.

	2013		**2012**	
	Effect on		**Effect on**	
(in thousands of Russian Rubles)	**Profit (after tax)**	**Equity (after tax)**	**Profit (after tax)**	**Equity (after tax)**
200 bp parallel rise	58,950	58,950	43,498	43,498
200 bp parallel fall	(58,950)	(58,950)	(43,498)	(43,498)

If at 31 December 2013 interest rates would have been 200 basis points lower with all other variables held constant, profit for the year would have been RUB 58,950 thousand less (2012: RUB 43,498 thousand less), mainly due to higher interest expenses on liabilities with variable interest rates and lower value of debt trading securities.

29 Financial risk management (continued)

Market risk (continued)

If interest rates would have been 200 basis points lower with all other variables held constant, profit for the year would have been RUB 58,950 thousand more (2012: RUB 43,498 thousand more), mainly due to lower interest expenses on liabilities with variable interest rates and higher value of debt trading securities.

The Bank monitors interest rates for its financial instruments. The table below summarizes interest rates based on reports reviewed by key management personnel of the Bank. Interest rates on securities represent yield to maturity based on market quotes as of the reporting date:

	2013				2012			
% p.a.	**RUB**	**USD**	**EUR**	**Other**	**RUB**	**USD**	**EUR**	**Other**
Assets								
Correspondent accounts and overnight deposits with other banks	4-5.3	0.1-0.5	0.1-0.5	–	4.4-7.05	0-0.12	0.59	–
Obligatory reserve with the CBR	–	–	–	–	–	–	–	–
Debt trading securities	6.65-13	–	–	–	8.3	–	–	–
Amounts due from other banks	16	5.7-7.7	–	–	5.0-5.85	–	1.0	–
Loans and advances to customers	8.9-20	8-9.5	–	–	13.4-16.4	11.0-12.8	–	–
Finance lease	15.5	–	–	–	–	–	–	–
Investment securities available for sale	9.4	–	–	–	9.4	–	–	–
Financial assets available for sale	5.89	–	–	–	–	–	–	–
Other financial assets	–	–	–	–	–	–	–	–
Liabilities								
Amounts due to other banks	5.66-9	3.27-4.5	4	–	4.8	–	1.0	–
Amounts due to customers – individuals	3-12.5	0.5-8	0.25-5.5	0.2-1.25	8.7-10.3	0.8-5.4	4.1-4.5	0.5
Amounts due to customers – legal entities	3.16-11.6	0.51-3.7	0.11-2.5	–	3.42-8.8	0.3	0.4	–
Debt securities issued	11.5	–	–	–	–	–	–	–
Other financial liabilities	6.66	–	–	–	10.29	–	–	–

The sign "–" in the table above means that the Bank does not have the respective assets or liabilities in corresponding currency.

Liquidity risk

Liquidity risk is the risk that the Bank will incur financial losses due to the Bank's inability to meet its financial obligations in time, in full and at minimal cost.

Liquidity risk exists when the maturities of assets and liabilities do not match.

The Bank manages liquidity risk centrally:

- Strategic management – the Assets and Liabilities Committee
- Operative management – Treasury.

The Bank uses the following liquidity risk management methods:

- Ensuring balanced structure of assets and liabilities in terms of maturities
- Diversification of funding sources, focus on stable customer liabilities
- Forming "liquidity cushion", which consists of highly liquid financial instruments with low level of credit risk
- Stress-testing of liquidity risk and development of action plans in case of liquidity crisis
- Projecting proceeds and payments, maintenance of payment position.

29 Financial risk management (continued)

Liquidity risk (continued)

In order to control liquidity risk, the Bank also calculates liquidity ratios on a daily basis in accordance with requirements of the Central Bank of Russia. The Bank complied with all liquidity ratios requirements as at 31 December 2013.

Treasury receives information on financial assets and liabilities, and ensures an adequate portfolio of short-term liquid assets which primarily consists of short-term liquid trade securities, bank deposits and other interbank instruments in order to keep a sufficient level of liquidity within the Bank.

Treasury controls daily liquidity position and carries out stress-testing based on different scenarios covering regular and more adverse market conditions on a regular basis.

The Bank entered into a general loan contract with the CBR to provide loans in the form of overdrafts with a limit of RUB 3,500,000 thousand secured by the collateral of securities (2012: RUB 3,500,000 thousand). As of 31 December 2013, in accordance with the contract, trading securities in the amount of RUB 450,526 thousand were blocked (2012: trading securities in the amount of RUB 237,643 thousand and investment securities available for sale in the amount of RUB 204,374 thousand). As of 31 December 2013 and 31 December 2012, the overdraft was not used by the Bank. Refer to Notes 8, 12, 36.

The table below shows liabilities as at 31 December 2013 by their remaining contractual maturities. The amounts disclosed in the maturity table are the contractual undiscounted cash flows, including total loan commitments and financial guarantees. Such undiscounted cash flows differ from the amounts included in the statement of financial position since these amounts are based on discounted cash flows.

Financial derivative instruments are included in the table at their payable/receivable contractual values, except when the Bank assumes the derivatives position will be closed before maturity. In this case, derivatives are included on the basis of expected cash flows.

In cases when the amount payable is not fixed, the amount shown in the table is determined by the conditions existing as of the reporting date. Foreign currency payments are translated using the spot exchange rate at the end of the reporting period.

The table below presents maturity analysis of undiscounted financial liabilities as at 31 December 2013:

(in thousands of Russian Rubles)	**On demand and less than 1 month**	**1 to 6 months**	**6 to 12 months**	**Over 12 months**	**Total**
Liabilities					
Amounts due to other banks	8,392,027	2,123,552	210,612	1,229,238	11,955,429
Amounts due to customers	8,851,413	5,393,850	4,451,301	9,231,645	27,928,209
Debt securities issued	51,484	97,785	1,500,000	758,640	2,407,909
Other financial liabilities	3,544	3,118	15,800	3,677	26,139
Derivative financial instruments	874	–	–	–	874
Total potential future payments for financial liabilities	**17,299,342**	**7,618,305**	**6,177,713**	**11,223,200**	**42,318,560**

29 Financial risk management (continued)

Liquidity risk (continued)

The table below presents maturity analysis of undiscounted financial liabilities as at 31 December 2012:

(in thousands of Russian Rubles)	On demand and less than 1 month	1 to 6 months	6 to 12 months	Over 12 months	Total
Liabilities					
Amounts due to other banks	8,245,982	2,874,930	117,794	19,560	11,258,266
Amounts due to customers	9,026,056	3,202,590	4,958,429	4,283,950	21,471,025
Other financial liabilities	706,608	5,303	2,590	4,770	719,271
Debt securities issued	311	127,069	119,681	65,580	312,641
Derivative financial instruments	21,950	–	–	–	21,950
Total potential future payments for financial liabilities	**18,000,907**	**6,209,892**	**5,198,494**	**4,373,860**	**33,783,153**

As of 31 December 2013 and 31 December 2012, all credit-related contingencies are included in "On demand and less than 1 month" category.

Customer accounts are classified in the above analysis by contractual maturities. However, in accordance with Russian Civil Code, individuals have a right to withdraw their deposits prior to maturity if they forfeit their right to accrued interest.

The Bank does not use the above non-discounted maturity analysis to manage liquidity. Instead of this, as of 31 December 2013, the Bank controls expected maturities and expected liquidity gap, which are reflected in the table below:

(in thousands of Russian Rubles)	On demand and less than 1 month	1 to 6 months	6 to 12 months	12 months to 5 years	Over 5 years	Total
Assets						
Cash and cash equivalents	6,808,070	–	–	–	–	6,808,070
Obligatory reserve with the CBR	248,140	–	–	–	–	248,140
Trading securities	8,065,424	–	–	–	–	8,065,424
Amounts due from other banks	1,085,545	–	–	–	–	1,085,545
Loans and advances to customers	531,393	8,130,840	6,929,225	10,026,465	2,185,173	27,803,096
Finance lease receivables	20,100	147,425	244,329	1,031,513	–	1,443,367
Investment securities available for sale	288,865	–	–	–	–	288,865
Other financial assets	66,344	–	–	–	–	66,344
Total financial assets	**17,113,881**	**8,278,265**	**7,173,554**	**11,057,978**	**2,185,173**	**45,808,851**
Liabilities						
Amounts due to other banks	8,367,485	1,851,993	82,912	–	800,000	11,102,390
Amounts due to customers	8,844,422	5,288,006	4,166,148	7,837,124	298	26,135,998
Debt securities issued	51,406	13,081	1,500,000	726,286	–	2,290,773
Other financial liabilities	3,544	3,118	15,800	3,671	6	26,139
Total financial liabilities	**17,266,857**	**7,156,198**	**5,764,860**	**8,567,081**	**800,304**	**39,555,300**
Net liquidity gap as of 31 December 2013	**(152,976)**	**1,122,067**	**1,408,694**	**2,490,897**	**1,384,869**	**6,253,551**
Cumulative liquidity gap as of 31 December 2013	**(152,976)**	**969,091**	**2,377,785**	**4,868,682**	**6,253,551**	

29 Financial risk management (continued)

Liquidity risk (continued)

As of 31 December 2012, the analysis by the expected maturities is as follows:

(in thousands of Russian Rubles)	**On demand and less than 1 month**	**1 to 6 months**	**6 to 12 months**	**12 months to 5 years**	**Over 5 years**	**Total**
Assets						
Cash and cash equivalents	11,387,290	–	–	–	–	11,387,290
Obligatory reserve with the CBR	297,614	–	–	–	–	297,614
Trading securities	5,166,373	–	–	–	–	5,166,373
Amounts due from other banks	–	749,655	–	111,000	–	860,655
Loans and advances to customers	2,129,352	2,243,323	2,648,919	8,463,548	1,243,701	16,728,843
Investment securities available for sale	959,619	–	–	–	–	959,619
Other financial assets	296,304	–	–	–	–	296,304
Total financial assets	**20,236,552**	**2,992,978**	**2,648,919**	**8,574,548**	**1,243,701**	**35,696,698**
Liabilities						
Amounts due to other banks	7,044,168	2,806,476	113,315	18,732	–	9,982,691
Amounts due to customers	7,179,365	4,945,626	4,615,803	3,679,915	558	20,421,267
Debt securities issued	310	124,931	113,583	52,444	–	291,268
Other financial liabilities	706,608	5,303	2,590	4,770	–	719,271
Total financial liabilities	**14,930,451**	**7,882,336**	**4,845,291**	**3,755,861**	**558**	**31,414,497**
Net liquidity gap as of 31 December 2012	**5,306,101**	**(4,889,358)**	**(2,196,372)**	**4,818,687**	**1,243,143**	**4,282,201**
Cumulative liquidity gap as of 31 December 2012	**5,306,101**	**416,743**	**(1,779,629)**	**3,039,058**	**4,282,201**	

In 2013, the Bank's securities portfolio is classified as "On demand and less than 1 month", as these securities are trading by their nature, and the management is convinced that this classification reflects the liquidity of securities correctly.

Eurobonds classified in loans to customers and amounts due from other banks were categorized as "On demand and less than 1 month", as the Bank may use this financial asset to raise funds during a short period of time.

Management believes that despite a substantial portion of amounts due to customers being on demand, the diversification of these deposits by number and type of depositors, and the past experience of the Bank, indicates that these amounts provide a long-term and stable source of funding for the Bank.

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

The Bank thoroughly monitors the negative cumulative liquidity gap. The Bank assesses risk attributable to its activities, sets limits on high-risk operations and analyzes actual costs against budget, which helps to control expenses.

29 Financial risk management (continued)

Liquidity risk (continued)

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

30 Capital management

The Bank's objectives when managing capital are: (i) to comply with the capital requirements set by the Central Bank of the Russian Federation and (ii) to safeguard the Bank's ability to continue as a going concern. Compliance with the capital adequacy ratio set by the Central Bank of the Russian Federation is monitored using the daily reports outlining the calculation and the monthly reports signed by the Chairman of the Management Board and Chief Accountant of the Bank. During 2013 and 2012, the Bank complied with all its externally imposed capital requirements.

31 Contingencies

Legal proceedings. From time to time and in the ordinary course of business, claims against the Bank are received. Based on its own assessment and recommendations of internal professional advisors, the Bank management believes that the related legal proceedings will not result in material losses for the Bank, and, therefore, did not provide for such legal proceedings in its financial statements.

Tax legislation. Russian tax and customs legislation which was enacted or substantively enacted at the end of the reporting period allows varying interpretations when being applied to the transactions and activities of the Bank is subject to frequent changes. Management's interpretation of such legislation as applied to the transactions and activity of the Bank may be challenged by the relevant authorities.

The Russian tax authorities may be taking a more assertive and sophisticated approach in their interpretation of the legislation and tax examinations. This includes the compliance by these authorities with the Supreme Arbitration Court guidance for anti-avoidance claims while reviewing the economic substance and business purpose of transactions. Combined with a possible increase in tax collection efforts to respond to budget pressures, the above aspects may lead to a significant increase in the level and frequency of scrutiny by the tax authorities. In particular, it is possible that transactions and activities that have not been challenged in the past may be challenged.

As such, significant additional taxes, penalties and interest may be assessed.

Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

The Russian transfer pricing legislation was amended and came into force on 1 January 2012. The new requirements are more detailed and closer to international principles developed by OECD. The new rules enable tax authorities to charge additional tax on controlled transactions, i.e. transactions entered into with related parties as well as certain types of transactions with unrelated parties, if the transaction does not comply with the arm's-length principle.

The Bank's management believes that the prices applied by the Bank are consistent with market prices and implemented internal controls to comply with the requirements of transfer pricing legislation.

Currently, law enforcement precedents based on the new rules has not yet been established, thus consequences of any disputes with tax authorities relating to prices cannot be estimated reliably, but may significantly influence the Bank's financial results and performance.

Capital expenditure commitments. As of 31 December 2013 and 31 December 2012, the Bank had no contractual capital expenditure commitments for reconstruction of buildings and acquisition of equipment.

The Bank is confident that future net revenues and funding will be sufficient to cover these or any similar commitments.

31 Contingencies (continued)

Operating lease commitments. Where the Bank is the lessee, the future minimum lease payments under non-cancellable operating leases are as follows:

(in thousands of Russian Rubles)	**2013**	**2012**
Less than 1 year	98,487	150,281
From 1 to 5 years	131,683	229,096
More than 5 years	–	25,659
Total operating lease commitments	**230,170**	**405,036**

Credit related commitments. The primary purpose of these instruments is to ensure that funds are available to customers as required. Guarantees and letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans.

In 2013 the Bank provided trade financing services for corporate customers. Data concerning guarantees and letters of credit issued relate to this type of activity.

Commitments to extend credit represent unused portions of authorizations to extend credit in the form of loans, guarantees or letters of credit. With respect to undrawn loan commitments, the Bank is potentially exposed to loss in an amount equal to the total unused commitments if unused amounts should have been used. However, the likely amount of losses is less than the total amount of unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of credit-related commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments. Credit related commitments comprise:

(in thousands of Russian Rubles)	**2013**	**2012**
Guarantees issued	1,694,053	735,128
Import letters of credit issued	447,279	27,193
Less allowance for credit related commitments	(20,088)	(6,346)
Total credit-related commitments	**2,121,244**	**755,975**

The total outstanding contractual amount of letters of credit and guarantees does not necessarily represent future cash requirements, as these liabilities may expire or terminate without being funded. As of 31 December 2013, the fair value of guarantees was RUB 28,424 thousand (2012: RUB 20,230 thousand).

As of 31 December 2013, these irrevocable letters of credit were collateralized by term deposits in the amount of RUB 587,592 thousand (2012: RUB 33,764 thousand). Refer to Note 18.

As of 31 December 2013, unused limits on guarantees amounted to RUB 366,685 thousand.

Credit related commitments are denominated in the following currencies:

(in thousands of Russian Rubles)	**2013**	**2012**
RUB	1,694,053	735,128
USD	447,279	27,193
Total	**2,141,332**	**762,321**

32 Derivative financial instruments

Derivatives have potentially favorable (assets) or unfavorable (liabilities) conditions as a result of fluctuations in market interest rates, foreign exchange rates or other variables related to their terms. The total fair values of derivative financial assets and liabilities can fluctuate significantly from time to time. The table below sets out fair values, at the reporting date, of currencies receivable or payable under foreign exchange forward contracts entered into by the Bank. The table reflects gross positions before the netting of any counterparty positions (and payments) and covers the contracts with settlement dates after the respective reporting date. The contracts are short-term in nature.

	2013			2012		
(in thousands of Russian Rubles)	**Notional or contractual amount**	**Contracts with positive fair value**	**Contracts with negative fair value**	**Notional or contractual amount**	**Contracts with positive fair value**	**Contracts with negative fair value**
Forward transactions:						
- purchase of USD against RUB	45,729	92	–	3,310,250	–	(16,217)
- purchase of RUB against USD	1,357,536	–	(726)	3,162,776	255	(1,054)
- purchase of EUR against RUB	69,849		(146)	1,241,451	–	(1,321)
- purchase of RUB against EUR	–	–	–	1,883,363	–	(3,358)
- purchase of JPY against RUB	1,120	–	(2)	–	–	–
Total derivative financial instruments	**1,474,234**	**92**	**(874)**	**9,597,840**	**255**	**(21,950)**

As of 31 December 2013, the Bank does not expect to settle these forward contracts in cash on a net basis and therefore recognizes them in the statement of financial position as an asset at net fair value in the amount of RUB 92 thousand (2012: RUB 255 thousand) and a liability in the amount of RUB 874 thousand (2012: RUB 21,950 thousand). (Refer to Notes 15 and 19).

33 Fair value of financial instruments

(a) Fair values of financial instruments carried at amortized cost

Fair values of financial instruments carried at amortized cost are presented below:

	2013		2012	
(In thousands of Russian rubles)	**Carrying value**	**Fair value**	**Carrying value**	**Fair value**
Financial assets				
Cash and cash equivalents	**6,808,070**	**6,808,132**	**11,387,290**	**11,386,604**
- Cash on hand	601,788	601,788	1,301,047	1,301,047
- Settlement accounts with financial institutions	110,575	110,575	1,038,969	1,038,969
- Cash balances with the CBR	2,345,573	2,345,573	220,981	220,981
- Correspondent accounts and overnight deposits	2,949,996	2,949,996	3,761,512	3,761,512
- Deposits with other banks with original maturities of less than three months	800,138	800,200	5,064,781	5,064,095
Obligatory reserve with the CBR	**248,140**	**248,140**	**297,614**	**297,614**
Amounts due from other banks	**1,085,545**	**1,192,560**	**860,655**	**879,238**
- Eurobonds	1,085,545	1,192,560	–	–
- Promissory notes of banks	–	–	504,655	504,655
- Loans issued to other banks with original maturities of more than three months	–	–	356,000	374,583
Loans to customers	**27,803,096**	**28,299,594**	**16,728,843**	**17,337,441**
- Large businesses	7,535,433	7,804,158	3,489,783	3,675,222
- Medium businesses	4,170,892	4,597,747	8,420,743	8,999,062
- Small businesses	2,766,027	3,231,669	1,298,987	1,339,400
- Individuals	13,330,744	12,666,020	3,519,330	3,323,757
Finance lease	**1,443,367**	**1,443,367**	**–**	**–**
Other financial assets	**66,252**	**66,252**	**296,049**	**296,049**
Credit and debit card receivables	49,094	49,094	261,863	261,863
Guarantee deposits	12,618	12,618	3,034	3,034
Accrued fees for servicing plastic cards	–	–	18,619	18,619
Other	4,540	4,540	12,533	12,533
Total financial assets carried at amortized cost	**37,454,470**	**38,058,045**	**29,570,451**	**30,196,946**

33 Fair value of financial instruments (continued)

(a) Fair values of financial instruments carried at amortized cost (continued)

	2013		2012	
(In thousands of Russian rubles)	**Carrying value**	**Fair value**	**Carrying value**	**Fair value**
Financial liabilities				
Amounts due to other banks	**11,102,390**	**11,058,622**	**9,982,691**	**10,065,906**
- Correspondent accounts and overnight deposits	2,540,287	2,540,287	714,787	714,787
- Deposits of the CBR and other banks	3,793,185	3,749,417	5,171,066	5,254,281
- Repurchase agreements with other banks	4,768,918	4,768,918	4,096,838	4,096,838
Amounts due to customers	**26,135,998**	**27,606,287**	**20,421,267**	**20,839,845**
- Current/settlement accounts of state and public organizations	11,518	11,518	35,320	35,497
- Term deposits of state and public organizations	42,888	42,888	20,098	20,098
- Current/settlement accounts of other legal entities	3,163,388	3,163,388	4,290,198	4,295,161
- Term deposits of other legal entities	9,811,868	10,217,821	5,172,359	5,248,249
- Current/demand accounts of individuals	1,478,745	1,478,745	1,857,427	1,860,963
- Term deposits of individuals	11,627,591	12,691,927	9,045,865	9,379,877
Other financial liabilities	**25,265**	**25,265**	**697,321**	**697,321**
- Credit and debit card payables	2,328	2,328	682,713	682,713
- Deferred fee and commission income	2,849	2,849	8,026	8,026
- Provision for credit related commitments	20,088	20,088	6,346	6,346
- Provisions for bank guarantees	–	–	236	236
Debt securities issued	**2,290,773**	**2,290,773**	**291,268**	**291,268**
Total financial liabilities carried at amortized cost	**39,554,426**	**40,980,947**	**31,392,547**	**31,894,340**

(b) Analysis by fair value hierarchy of financial instruments carried at fair value

The Bank applies the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

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

33 Fair value of financial instruments (continued)

(b) Analysis by fair value hierarchy of financial instruments carried at fair value (continued)

For financial instruments carried at fair value, the levels in the fair value hierarchy into which the fair values are categorized are as follows:

	2013			2012		
(in thousands of Russian Rubles)	**Quoted price in an active market (Level 1)**	**Valuation technique with inputs observable in markets (Level 2)**	**Significant unobservable inputs (Level 3)**	**Quoted price in an active market (Level 1)**	**Valuation technique with inputs observable in markets (Level 2)**	**Significant unobservable inputs (Level 3)**
Financial assets measured at fair value						
Trading securities	**2,790,602**	**317,356**	**–**	**908,019**	–	–
- Bonds of banks	2,199,631	317,356	–	696,029	–	–
- Corporate bonds	585,073	–	–	211,990	–	–
- Bonds of subjects of the Russian Federation	5,898	–	–	–	–	–
- Receivables under sale and repurchase agreements (trading securities)	**4,249,298**	**708,168**	**–**	**4,258,354**	–	–
- Bonds of banks	2,358,346	708,168	–	2,527,760	–	–
- Corporate shares	1,485,039	–	–	1,730,594	–	–
- Bonds of subjects of the Russian Federation	405,913	–	–	–	–	–
Available-for-sale investment securities	**106,958**	–	**–**	**315,433**	–	–
- Bonds of Russian banks	1,082	–	–	315,433	–	–
- Promissory notes of Russian banks	105,876	–	–	–	–	–
- Receivables under sale and repurchase agreements (securities for sale)	**181,907**	**–**	**–**	**644,186**	**–**	**–**
- Bonds of Russian banks	181,907	–	–	644,186	–	–
Other financial assets	**–**	**92**	**–**	**–**	**255**	**–**
- Derivative financial instruments (SWAP deals)	**–**	92	**–**	**–**	255	–
Total financial assets at fair value	**7,328,765**	**1,025,616**	**–**	**6,125,992**	**255**	**–**
Financial assets for which fair values are disclosed						
Cash and cash equivalents	**6,007,932**	**800,200**	**–**	**6,322,509**	**5,064,095**	**–**
Amounts due from credit institutions	**–**	**–**	**1,192,560**	**–**	**–**	**879,238**
Loans to customers	**–**	**–**	**28,299,594**	**–**	**–**	**17,337,441**
Total financial assets for which fair values are disclosed	**6,007,932**	**800,200**	**29,492,154**	**6,322,509**	**5,064,095**	**18,216,679**
Financial liabilities measured at fair value						
Other financial liabilities	**–**	**874**	**–**	**–**	**21,950**	**–**
- Derivative financial instruments (SWAP deals)	–	874	–	–	21,950	–
Total financial liabilities at fair value	**–**	**874**	**–**	**–**	**21,950**	**–**
Financial liabilities for which fair values are disclosed						
Amounts due to the CBR and other banks	**–**	**–**	**11,058,622**	**–**	–	**10,065,906**
Amounts due to customers	**–**	**–**	**27,606,287**	**–**	–	**20,839,845**
Debt securities issued	**–**	**–**	**2,290,773**	**–**	–	**291,268**
Total financials liabilities for which fair values are disclosed	**–**	**–**	**40,955,682**	**–**	**–**	**31,197,019**

Management uses professional judgments to allocate financial assets to a particular level of the fair value hierarchy. If observable inputs requiring significant adjustments are used in fair value measurement, this measurement is included in Level 2. Significance of used inputs is assessed for aggregated fair value measurement.

33 Fair value of financial instruments (continued)

(c) The methods and assumptions applied in determining fair values

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price. Fair value is best evidenced by the active quoted market price of a financial instrument. Where quoted market prices are not available, the Bank uses valuation techniques. The fair value of unquoted fixed interest rate instruments was estimated based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and maturity.

At the date of subsidiary acquisition, fair value of finance lease did not significantly differ from carrying amount. According to professional judgments of the management, as at 31 December 2013, fair value of finance lease also did not differ significantly from carrying amount.

The use of interest rates is subject to instrument currency and maturity and credit risk of the counterparty. The analysis of these rates is presented below:

	2013	**2012**
Amounts due from other banks		
Term deposits with other banks	0.2%-8.7% per annum	0.10%-10% per annum
Loans and advances to customers		
Large businesses	3.8%-10.6% per annum	5.5%-11.1% per annum
Medium businesses	3.8%-10.6% per annum	7.8%-17.0% per annum
Small businesses	3.8%-10.6% per annum	9.4%-22.0% per annum
Loans to individuals	9.6%-23.5% per annum	9.8%-23.7% per annum
Amounts due to other banks		
- Correspondent accounts and overnight deposits of other banks	0.0% per annum	0.0% per annum
- Deposits of other banks	0.3%-8.6% per annum	0.2%-8.0% per annum
- Repurchase agreements with other banks	0.3%-6.3% per annum	6.0%-6.1% per annum
Amounts due to customers		
- Term deposits of legal entities	0.4%-8.1% per annum	0.3%-8.8% per annum
- Term deposits of individuals	0.2%-7.4% per annum	0.25%-10.3% per annum

34 Related party disclosures

Parties are generally considered to be related if the parties are under common control, or one party has the ability to control the other party or can exercise significant influence over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

For the purpose of related party disclosures, participants comprise entities or individuals owning, directly or indirectly, an interest in the share capital that gives them significant influence over the Bank.

Other related parties comprise close relatives of individuals and key management personnel who can have influence on or can be influenced by such individuals in relation to transactions with the Bank.

34 Related party disclosures (continued)

At 31 December 2013, the outstanding balances with related parties were as follows:

(in thousands of Russian Rubles)	**Participants**	**Key management personnel**	**Other entities under common control**	**Other related parties**
Cash and cash equivalents	–	–	15,472	–
Trading securities	–	–	440,493	–
Loans and advances to customers (contractual interest rate: 9.0%-26.0%)	185,827	42,264	14,647	1,337
Other financial assets	–	–	92	–
Other non-financial assets	–	202	120	–
Amounts due to other banks (contractual interest rate: 0.1%-4.5%)	–	–	1,991,818	–
Amounts due to customers (contractual interest rate: 0.1%-11.3%)	1,541,226	418,655	24,288	12,489
Subordinated loans (contractual interest rate: 9.0%)	–	–	800,000	–
Other financial liabilities	–	–	872	
Other non-financial liabilities	911	8,800	1,035	90

Income and expenses for 2013 arising from transactions with related parties are disclosed below:

(in thousands of Russian Rubles)	**Participants**	**Key management personnel**	**Other entities under common control**	**Other related parties**
Interest income	17,604	5,940	104,036	170
Interest expense	(48,773)	(39,429)	(51,418)	(939)
Reversal of allowance/(allowance) for loan impairment	231	(66)	2,435	1
Gains less losses/(losses net of gains) from dealing in foreign currencies	394	146	(23,544)	44
Gains less losses/(losses net of gains) from foreign currency translation	(15,962)	(7,460)	1,418	(36)
Losses net of gains from derivative financial instruments	–	–	(780)	–
Gains less losses from sale of loans to customers and other banks	–	–	2,000	–
Fee and commission income	1,209	522	6,526	81
Fee and commission expense	–	–	(4,554)	–
Other operating income	–	1	966	–
Administrative and other operating expenses	(18,402)	(167,057)	(4,636)	(2,736)

34 Related party disclosures (continued)

Other rights and obligations under transactions with related parties as of 31 December 2013 were as follows:

(in thousands of Russian Rubles)	**Participants**	**Key management personnel**	**Other entities under common control**	**Other related parties**
Guarantees received by the Bank at the end of the year	624,480	8,050	98,188	14,986
Other contingencies	2,000	1,315	33,109	549

Aggregate amounts lent to and repaid by related parties in 2013 were as follows:

(in thousands of Russian Rubles)	**Participants**	**Key management personnel**	**Other entities under common control**	**Other related parties**
Amounts lent to related parties during the year	–	81,365	652,672	7,611
Amounts repaid by related parties during the year	–	62,634	1,230,415	6,442

At 31 December 2012, the outstanding balances with related parties were as follows:

(in thousands of Russian Rubles)	**Participants**	**Key management personnel**	**Other entities under common control**	**Other related parties**
Cash and cash equivalents	–	–	39,343	–
Loans and advances to customers (contractual interest rate: 9.0%-26.0%)	167,992	65,042	167,123	–
Other financial assets	–	1	36	–
Other non-financial assets	–	185	1,074	–
Amounts due to other banks (contractual interest rate: 0.15%-8.0%)	–	–	2,816,149	–
Amounts due to customers (contractual interest rate: 0.8%-11.0%)	749,150	309,502	102,760	3,126
Debt securities issued	–	20,681	–	–
Other financial liabilities	–	–	17,488	
Other non-financial liabilities	811	5,181	127	292

Income and expenses for 2012 arising from transactions with related parties are disclosed below:

(in thousands of Russian Rubles)	**Participants**	**Key management personnel**	**Other entities under common control**	**Other related parties**
Interest income	9,727	1,005	18,182	2
Interest expense	(61,769)	(4,140)	(52,355)	(35)
Gains less losses from foreign currencies	–	8	(174,448)	–
Gains less losses/(losses net of gains) from foreign currency translation	(3,392)	4,012	6,071	–
Gains less losses from derivative financial instruments	–	–	36,614	–
Fee and commission income	142	334	1,337	12
Fee and commission expense	–	–	(1,174)	–
Other operating income	15,063	–	861	–
Administrative and other operating expenses	(8,449)	(138,533)	(5,257)	(2,197)

34 Related party disclosures (continued)

Other rights and obligations under transactions with related parties as of 31 December 2012 were as follows:

(in thousands of Russian Rubles)	**Participants**	**Key management personnel**	**Other entities under common control**	**Other related parties**
Guarantees received by the Group at the end of the year	303,727	1,720	–	–
Other contingencies	2,000	2,201	50,000	1,456

Aggregate amounts lent to and repaid by related parties in 2012 were as follows:

(in thousands of Russian Rubles)	**Participants**	**Key management personnel**	**Other entities under common control**	**Other related parties**
Amounts lent to related parties during the year	341,704	30,454	5,473,432	5,138
Amounts lent by subsidiary banks to related parties during the year	–	42,703	–	–
Amounts repaid by related parties during the year	172,772	10,444	5,383,835	2,907

Compensations to key management are presented below:

(in thousands of Russian Rubles)	**2013**	**2012**
Short-term payments:		
- Salaries	160,725	126,611
- Short-term bonuses	3,981	14,210
Total	**164,706**	**140,821**

Short-term bonuses are payable in full within twelve months after the period when management provided the respective services.

35 Business combinations

On 1 August 2013, the Bank acquired a 100% interest in FB-Leasing LLC, following the approval given by the appropriate regulatory authorities. Key activities of the acquiree include finance leasing of motor vehicles, construction and special-purpose machinery and equipment. FB-Leasing LLC was acquired primarily to develop leasing activities, expand products range and ensure provision of the widest range of services for corporate clients. Pursuant to the decision on assets consolidation of 13 December 2013, FB-Leasing LLC was merged with Expobank LLC.

Name	**Principal activities**	**Country of registration**
Subsidiary:		
FB-Leasing LLC	Leasing	Russian Federation

The fair value of the total consideration paid and its components as of the acquisition date is as follows:

(in thousands of Russian Rubles)	
Cash paid	4,500
Total consideration paid	**4,500**

35 Business combinations (continued)

For the purpose of the financial statements, the fair value of FB-Leasing's equity was determined based on the report prepared by individual appraisers. The acquired assets and liabilities and goodwill arising from acquisition of FB-Leasing LLC are as follows:

(in thousands of Russian Rubles)	Notes	Relevant fair value
Assets		
Cash and cash equivalents		132,812
Finance lease receivables		2,396,065
Property and equipment	13	7,641
Other assets		132,581
Total assets		**2,669,099**
Liabilities		
Amounts due to credit institutions		(2,460,122)
Deferred tax liability		(19,046)
Other liabilities		(185,431)
Total liabilities		**(2,664,599)**
Fair value of the subsidiary's identifiable net assets		**4,500**
Total consideration paid		**4,500**

On 3 September 2012, the Group acquired a 100% interest in the share capital of Sibbusinessbank OJSC. The fair value of the total consideration paid and its components as of the acquisition date is as follows:

(in thousands of Russian Rubles)	
Cash paid	730,400
Total consideration paid	**730,400**

For the purpose of the Bank's financial statements, the fair value of Sibbusinessbank's equity was determined based on the report prepared by individual appraisers. The acquired assets and liabilities and goodwill arising from acquisition of Sibbusinessbank OJSC are as follows:

(in thousands of Russian Rubles)	Relevant fair value
Assets	
Cash and cash equivalents	261,634
Obligatory reserve with the CBR	96,523
Amounts due from other banks	1,389,524
Loans and advances to customers	2,509,450
Intangible assets	68,669
Property and equipment	85,005
Other assets	66,320
Total assets	**4,477,125**
Liabilities	
Amounts due to other banks	(19,898)
Amounts due to customers	(3,148,601)
Debt securities issued	(211,705)
Other liabilities	(3,781)
Total liabilities	**(3,383,985)**
Fair value of the subsidiary's identifiable net assets	**1,093,140**
Excess of the cost of acquiree's net assets over investment cost	(362,740)
Total consideration paid	**730,400**

35 Business combinations (continued)

The fair value of assets and liabilities was determined using discounted cash flows model. The valuation of identifiable intangible assets was performed by independent professional appraiser. When purchase price was allocated based on valuation reports, the following cost elements were identified:

- Banking license issued to Sibbusinessbank OJSC totaling RUB 68,567 thousand.

Based on the results of consolidation, the Bank did not recognize the banking license issued to Sibbusinessbank OJSC as an intangible asset and recognized impairment of the banking license in full. As of 31 December 2012, the Bank decided to merge Sibbusinessbank OJSC and Expobank LLC. In accordance with legislation, based on merger results, the operations of the merging bank will be discontinued and the license will be terminated.

On 6 December 2012, the Group acquired control over CB Stromcombank LLC.

The fair value of the total consideration paid and its components as of the acquisition date is as follows:

(in thousands of Russian Rubles)	
Fair value of shares issued by the acquiring Bank	234,210
Total consideration paid	**234,210**

For the purpose of the consolidated financial statements of the Group, the fair value of consideration relating to merger was calculated as a share of new participants in the equity of the merged bank measured at fair value.

The fair value of CB Stromcombank's equity was determined based on the report prepared by independent appraisers.

The fair value of Expobank's equity was determined using discounted dividends method.

Key assumptions used in calculations are as follows.

Discount rate. The cost of equity is calculated using the Capital Asset Pricing Model (CAPM). As of 6 December 2012, the cost of equity was 16.7%.

Increase in loan portfolio. For 2014-2015, increase in loan portfolio was set at 20%. Further slowdown in 2016 and 2017 was set at 17% and 13%, respectively, to achieve terminal growth rate by 2020.

Terminal growth rate. The terminal growth rate was used to calculate dividends for the terminal period after 2017. The terminal growth rate was set at the level of long-term growth forecast of the Russian Ministry of Economic Development and amounted to 3.5%.

Structure of assets. The structure of assets remained largely at the level of actual data for 2012. From 2013, the share of net loan portfolio in total assets was set at 67-65%, share of liquid assets – 28-30%, share of property and equipment – 3-4%, share of other assets – 1-2%.

Capital adequacy. For the purpose of assessment, the Bank set the minimum required capital adequacy of 10%.

Structure of liabilities. The structure of liabilities remained largely at the level of actual data of 2012 except for the fact that the Bank in its project redistributed the amounts due to the CBR to amounts due to customers, amounts due to other credit institutions and bonds issued. From 2013 the share of amounts due to customers in the total of liabilities was set at the level varying from 79% to 72%, the share of bonds – from 5% to 7%, the share of amounts due to other credit institutions – from 13% to 27% and the share of other liabilities was set at 1%.

Operating expense. The ratio of operating expense/income was set at 57%-61%.

Income tax expense. Income tax rate is 20%

35 Business combinations (continued)

Portfolio's provisioning rate. The exposure to credit risks and portfolio's provisioning rate were set at the rates applicable for 2012.

Difference between return on average interest - bearing assets and the cost of average interest-bearing liabilities (interest spread). The narrowing of interest spread from 5% in 2013 to 2% in 2017 was allowed for while determining the projected net interest income.

Non-interest income. Non-interest income represents commission income from loans to legal entities, income from cash and settlement services to legal entities and individuals, commission income from currency exchange and documentary transactions, acquiring operations and other. The actual share of net non-interest income in the total amount of interest income and net commission income according to management accounts (approximated to the IFRS) for 2012 was 26%. This projected ratio was set at 20%.

The acquired assets and liabilities and goodwill arising from acquisition of interest in CB Stromcombank LLC are as follows:

(in thousands of Russian Rubles)	**Respective fair value**
Assets	
Cash and cash equivalents	269,029
Obligatory reserve with the CBR	41,855
Amounts due from other banks	1,281,360
Loans and advances to customers	2,291,060
Intangible assets	90,750
Property and equipment	23,278
Other assets	42,684
Total assets	**4,040,016**
Liabilities	
Amounts due to other banks	(9,473)
Amounts due to customers	(3,338,597)
Securities issued	(108,999)
Deferred income tax liability	(18,774)
Other liabilities	(43,040)
Total liabilities	**(3,518,883)**
Fair value of the subsidiary's identifiable net assets	**521,133**
Excess of the cost of acquiree's net assets over investment cost	(286,923)
Total consideration paid	**234,210**

The fair value of assets and liabilities was determined using discounted cash flows model. The valuation of identifiable intangible assets was performed by independent professional appraiser. When establishing the purchase price allocation on the basis of valuation report the following value elements were determined:

- CB Stromcombank LLC banking license in the amount of RUB 68,567 thousand;
- the interactions on the current accounts, loans to individuals and legal entities in the amount of RUB 227,183 thousand.

Based on the results of consolidation, the CB Stromcombank LLC banking license is not recognized by the Group as an intangible asset and recognized impairment of the banking license in full. As a result of the merger, CB Stromcombank LLC will continue its operations as a branch of Expobank LLC in Krasnoyarsk.

36 Transferred financial assets not derecognized and assets held or pledged as collateral

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

		2013		2012	
(in thousands of Russian Rubles)	**Notes**	**Carrying amount of transferred financial asset**	**Carrying amount of associated liabilities**	**Carrying amount of transferred financial asset**	**Carrying amount of associated liabilities**
Trading securities	8,17	5,407,991	4,178,729	4,495,997	3,560,013
Investment securities available for sale	12,17	181,907	149,078	644,186	536,825
Amounts due from other banks	9, 17	452,739	366,204	–	–
Loans to customers	10, 17	88,564	74,907	–	–
Total		**6,131,201**	**4,768,918**	**5,140,183**	**4,096,838**

As of 31 December 2013 receivables arising from repurchase agreements in the amount of RUB 5,139,373 thousand (2012: RUB 4,902,540 thousand) represent securities which were sold under repurchase agreements and which can be sold or repledged by the counterparty according to contractual terms or established practice. Repurchase agreements were of short-term nature and were completed in due time before 15 January 2014.

As of 31 December 2013, trading securities in the amount of RUB 450,526 thousand (2012: trading securities in the amount of RUB 237,643 thousand and investment securities available for sale in the amount of RUB 204,374 thousand) were blocked according to the general Loan Agreement with the bank of Russia with the overdraft limit of RUB 3,500,000 thousand (2012: RUB 3,500,000 thousand). At 31 December 2013 and 31 December 2012 the overdraft was not used by the Bank.

As of 31 December 2013, the Bank created a reserve of RUB 5,005 (2012: RUB 12,661 thousand) as security deposits under operating lease agreements and RUB 63,012 (2012: RUB 264,896 thousand) as security deposits of Master Card International, AKB ROSBANK OJSC and JSCB NCC CJSC.

In addition, obligatory reserves with the CBR in the amount of RUB 248,140 thousand (2012: RUB 297,614 thousand) represent non-interest bearing deposits with the CBR which are not available to finance the Bank's day-to-day operations.

37 Offsetting of financial instruments

The tables below show the effect of enforceable master netting agreements and similar arrangements that do not result in an offset in the statement of financial position:

2013	**Net amount of financial assets recognized in the statement of financial position**	**Financial instruments not offset in the consolidated statement of financial position**	**Net amount**
Financial assets			
Reverse repurchase agreements	2,509,485	(2,509,485)	–
Loans to individuals	12,145,495	(1,711,673)	10,433,822
Loans to legal entities	3,405,732	(3,405,732)	–
Other financial instruments	92	(92)	–
Total	**18,060,804**	**(7,626,982)**	**10,433,822**
Financial liabilities			
Repurchase agreements	(4,768,918)	4,768,918	–
Correspondent accounts and overnight deposits of other banks	(2,061,849)	2,061,849	–
Time deposits of legal entities	(2,777,878)	2,777,878	–
Promissory notes issued	(627,854)	627,854	–
Other financial instruments	(874)	92	(782)
Total	**(10,237,373)**	**10,236,591**	**(782)**

37 Offsetting of financial instruments (continued)

2012	Net amount of financial assets recognized in the statement of financial position	Financial instruments not offset in the consolidated statement of financial position	Net amount
Financial assets			
Reverse repurchase agreements	363,363	(363,363)	–
Loans to individuals	1,008,856	(34,810)	974,046
Other financial instruments	255	(255)	–
Total	**1,372,474**	**(398,428)**	**974,046**
Financial liabilities			
Repurchase agreements	(4,096,838)	4,096,838	–
Correspondent accounts and overnight deposits of other banks	(34,810)	34,810	–
Other financial instruments	(21,950)	255	(21,695)
Total	**(4,153,598)**	**4,131,903**	**(21,695)**

38 Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities according to when they are expected to be recovered or settled. See Note 29 "Financial risk management" for the Bank's contractual undiscounted repayment obligations.

	31 December 2013			**31 December 2012**		
	Amounts expected to be settled/recovered			**Amounts expected to be settled/recovered**		
(in thousands of Russian Rubles)	**within twelve months after the reporting period**	**more than twelve months after the reporting period**	**Total**	**within twelve months after the reporting period**	**more than twelve months after the reporting period**	**Total**
ASSETS						
Cash and cash equivalents	6,808,070	–	**6,808,070**	11,387,290	–	**11,387,290**
Obligatory reserve with the CBR	248,140	–	**248,140**	297,614	–	**297,614**
Trading securities	8,065,424	–	**8,065,424**	5,166,373	–	**5,166,373**
Amounts due from other banks	86,514	999,031	**1,085,545**	749,655	111,000	**860,655**
Loans and advances to customers	9,502,894	18,300,202	**27,803,096**	7,021,594	9,707,249	**16,728,843**
Finance lease receivables	411,854	1,031,513	**1,443,367**	–	–	**–**
Investment securities available for sale	288,865	–	**288,865**	959,619	–	**959,619**
Prepayment for current income tax liabilities	20,482		**20,482**	3,969	–	**3,969**
Other financial assets	66,344	–	**66,344**	296,304	–	**296,304**
Other non-financial assets	49,281	–	**49,281**	145,589	–	**145,589**
Deferred tax asset	419,195	–	**419,195**	200,712	628,823	**829,535**
Property and equipment	–	1,638,582	**1,638,582**	–	1,692,916	**1,692,916**
Intangible assets	–	81,584	**81,584**	–	138,225	**138,225**
Total assets	**25,967,063**	**22,050,912**	**48,017,975**	**26,228,719**	**12,278,213**	**38,506,932**
LIABILITIES						
Amounts due to other banks	10,302,390	800,000	**11,102,390**	9,963,959	18,732	**9,982,691**
Amounts due to customers	18,298,576	7,837,422	**26,135,998**	16,740,794	3,680,473	**20,421,267**
Debt securities issued	1,564,487	726,286	**2,290,773**	238,824	52,444	**291,268**
Current income tax liabilities	–	–	**–**	471	–	**471**
Deferred tax liability	–	–	**–**	7,134	–	**7,134**
Other financial liabilities	22,462	3,677	**26,139**	714,501	4,770	**719,271**
Other liabilities	280,605		**280,605**	114,841	–	**114,841**
Total liabilities	**30,468,520**	**9,367,385**	**39,835,905**	**27,780,524**	**3,756,419**	**31,536,943**

39 Events after the reporting period

On 10 January 2014 Expobank LLC entered into agreement with LBBW Bank (Germany) to purchase 100% of shares of LBBW Bank CZ (subsidiary bank in Czech Republic). The transaction is expected to be closed during 2014 after its approval by the banking regulatory agencies in Russian and Czech Republic.

On 17 February 2014 the Bank closed its branches in Krasnoyarsk and Barnaul.