Sovcombank Group

Consolidated financial statements

for the year ended 31 December 2013

Contents

Independent auditors' report

Consolidated statement of comprehensive income 1
Consolidated statement of financial position 2
Consolidated statement of cash flows 3
Consolidated statement of changes in net assets attributable to participants 4

Notes to consolidated financial statements

1. Background 5
2. Basis of preparation 5
3. Significant accounting policies 6
4. Significant accounting judgments and estimates 18
5. Net interest income 19
6. Fee and commission income 20
7. Fee and commission expense 20
8. Net foreign exchange gain 20
9. Other operating income 20
10. Provision for loan impairment 20
11. Revaluation of buildings and investment property 21
12. Personnel expenses 21
13. Other general administrative expenses 21
14. Other impairment and provisions 21
15. Income tax expense 21
16. Cash and cash equivalents 22
17. Placements with banks 22
18. Financial instruments at fair value through profit or loss 22
19. Loans to customers 23
20. Movements in Other impairment and provisions 26
21. Investment property 26
22. Property, equipment and intangible assets 27
23. Other assets 28
24. Current accounts and deposits from customers 28
25. Amounts due to the CBR 29
26. Deposits and balances from banks 29
27. Debt securities issued 29
28. Subordinated debt 30
29. Other liabilities 30
30. Deferred tax 31
31. Charter capital and other capital contributions 31
32. Commitments 31
33. Contingencies 32
34. Risk management 33
35. Related party transactions 48
36. Fair value of financial instruments 50
37. Business combination and disposal of subsidiaries 53
38. Goodwill 53
39. Capital adequacy 53
40. Share of investments in a joint venture 54
41. Principal consolidated subsidiaries 56
42. Events subsequent to the balance sheet date 57

Ernst & Young LLC
Sadovnicheskaya Nab., 77, bld. 1
Moscow, 115035, Russia
Tel: +7 (495) 705 9700
+7 (495) 755 9700
Fax: +7 (495) 755 9701
www.ey.com/ru

ООО «Эрнст энд Янг»
Россия, 115035, Москва
Садовническая наб., 77, стр. 1
Тел.: +7 (495) 705 9700
+7 (495) 755 9700
Факс: +7 (495) 755 9701
ОКПО: 59002827

Independent auditors' report

To the shareholders and the Board of Directors of Sovcombank (LLC)

We have audited the accompanying consolidated financial statements of SovcomBank (LLC) and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2013, and the consolidated statement of comprehensive income, consolidated statement of changes in net assets attributable to participants and consolidated statement of cash flows for the year 2013, and a summary of significant accounting policies and other explanatory information.

Audited entity's responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

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

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

Opinion

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

A.V. Sorokin
Partner
Ernst & Young LLC

31 March 2014

Details of the audited entity

Name: Sovcombank ICB LLC
Information about the State Register of Legal Entities: Main State Registration number 1024400001779, date of the certificate 9 August 2002.
Address: Russia 156000, Kostroma, prospect Tekstilschikov, 46.

Details of the auditor

Name: Ernst & Young LLC
Main 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 organisations of NP APR, number 3028, and also included in the control copy of the register of auditors and audit organisations, main registration number 10201017420.

Consolidated statement of comprehensive income

for the year ended 31 December 2013

	Notes	2013 RUR'000	2012* RUR'000
Interest income	5	18,530,685	12,723,708
Interest expense	5	(7,831,536)	(5,351,536)
Net interest income		**10,699,149**	**7,372,172**
Provision for loan impairment	10	(6,358,447)	(3,731,328)
Net interest income after allowances for loan impairment and other impairment		**4,340,702**	**3,640,844**
Fee and commission income	6	7,988,057	6,425,774
Fee and commission expense	7	(249,434)	(164,233)
Net fee and commission income		**7,738,623**	**6,261,541**
Net gain on financial instruments at fair value through profit or loss		16,506	186,146
Net foreign exchange gain	8	87,938	60,118
Other impairment and provisions	14	(271,841)	(119,263)
Share of profit in car leasing joint venture	40	72,212	47,760
Other operating income	9	96,439	88,256
Operating income		**12,080,579**	**10,165,402**
Revaluation of buildings and investment property	11	112,282	281,123
Personnel expenses	12	(3,520,655)	(2,705,025)
Other general administrative expenses	13	(4,246,210)	(3,281,090)
Profit before income tax expense		**4,425,996**	**4,460,410**
Income tax expense	15	(885,669)	(944,975)
Profit for the year		**3,540,327**	**3,515,435**
Other comprehensive income			
Revaluation of buildings, net of tax		72,791	46,276
Other comprehensive income, net of tax		**72,791**	**46,276**
Total comprehensive income		**3,613,118**	**3,561,711**

* *Certain amounts shown here do not correspond to the annual consolidated financial statements as at 31 December 2012 and reflect adjustments made as detailed in Note 40.*

Mr. Sergey Khotimsky
Chief Executive Officer

Mr. Andrei Osnos
Chief Financial Officer

The consolidated statement of comprehensive income is to be read in conjunction with the notes 1 to 42, and forming part of, the consolidated financial statements.

Consolidated statement of financial position
as at 31 December 2013

	Notes	2013 RUR'000	2012* RUR'000
Assets			
Cash and cash equivalents	16	10,687,670	9,422,509
Mandatory cash balances with the CBR		772,536	776,562
Placements with banks	17	2,592,719	16,456
Financial instruments at fair value through profit or loss			
- Held by the Group	18	16,621,120	9,502,650
- Pledged under sale and repurchase agreements	18	27,710,336	21,297,296
Loans to customers	19	60,465,515	48,414,292
Investment in associates		3,000	5,880
Investment in car leasing joint venture	40	420,752	368,560
Investment property	21	1,829,002	1,679,713
Property, equipment and intangible assets	22	2,628,097	2,138,557
Goodwill	38	283,538	345,943
Deferred tax asset	30	5,492	69,173
Other assets	23	489,847	489,301
Total assets		**124,509,624**	**94,526,892**
Liabilities			
Amounts due to the CBR	25	24,024,784	17,934,364
Deposits and balances from banks	26	246,225	175,522
Current accounts and deposits from customers	24	80,775,104	62,625,681
Debt securities issued	27	4,077,782	1,753,040
Subordinated debt	28	1,615,734	1,828,499
Deferred tax liability	30	212,029	236,516
Other liabilities	29	740,358	768,780
Total liabilities excluding net assets attributable to participants		**111,692,016**	**85,322,402**
Net assets attributable to participants			
Charter capital	31	1,906,004	1,906,004
Other capital contributions		2,736,614	2,736,614
Revaluation reserve for property and equipment		133,637	60,846
Retained earnings		8,041,353	4,501,026
Total net assets attributable to participants		**12,817,608**	**9,204,490**
Total liabilities		**124,509,624**	**94,526,892**

* *Certain amounts shown here do not correspond to the annual consolidated financial statements as at 31 December 2012 and reflect adjustments made as detailed in Note 40.*

Mr. Sergey Khotimsky
Chief Executive Officer

Mr. Andrei Osnos
Chief Financial Officer

The consolidated statement of financial position is to be read in conjunction with the notes 1 to 42, and forming part of, the consolidated financial statements.

Consolidated statement of cash flows for the year ended 31 December 2013

	Notes	2013 RUR'000	2012* RUR'000
Cash flows from operating activities			
Interest and fee and commission received		25,693,772	18,602,051
Interest and fee and commission paid		(6,579,901)	(4,483,488)
Net realised gain on other financial instruments at fair value through profit or loss		87,229	189,605
Net realised loss (gain) from foreign currencies		172,771	(92,822)
Other operating income received		116,458	136,021
Personnel expenses and other general administrative expenses paid		(7,511,326)	(5,898,898)
Cash flows from operating activities		**11,979,003**	**8,452,469**
(Increase)/decrease in operating assets			
Mandatory cash balances with the CBR		4,026	(253,474)
Placements with banks and the CBR		(2,569,253)	58,558
Financial instruments at fair value through profit or loss		(13,245,564)	(16,295,274)
Loans to customers		(17,774,971)	(17,547,770)
Other assets		(134,632)	(106,439)
Increase/(decrease) in operating liabilities			
Current accounts and deposits from customers		16,025,652	19,477,057
Deposits and balances from the CBR and other banks		6,134,086	13,806,574
Promissory notes issued		281,870	128,776
Other liabilities		114,273	(61,847)
Net cash provided from operating activities before taxes paid		**814,490**	**7,658,630**
Taxes paid		(883,426)	(714,871)
Cash flows from operations		**(68,936)**	**6,943,759**
Cash flows from investing activities			
Acquisition of joint-ventures, net of cash received		–	104,644
Sale of subsidiaries and associates, net of cash disposed		2,880	307,654
Purchases of property, equipment and intangible assets		(604,761)	(2,232,608)
Proceeds from disposal of property, equipment and intangible assets		775	1,005,741
Purchases of investment property		(165,006)	–
Cash flows from investing activities		**(766,112)**	**(814,569)**
Cash flows from financing activities			
Extinguishment of participant's share		–	(961,619)
Proceeds from bonds issued		1,995,695	–
Subordinated debt received		732,918	930,169
Subordinated debt repaid		(1,145,191)	–
Distributions to participants		–	(876,741)
Cash flows from financing activities		**1,583,422**	**(908,191)**
Net increase (decrease) in cash and cash equivalents		**748,374**	**5,220,999**
Effect of changes in exchange rates on cash and cash equivalents		516,787	(136,534)
Cash and cash equivalents at the beginning of the year		9,422,509	4,338,044
Cash and cash equivalents at the end of the year	16	**10,687,670**	**9,422,509**

* *Certain amounts shown here do not correspond to the annual consolidated financial statements as at 31 December 2012 and reflect adjustments made as detailed in Note 40.*

Mr. Sergey Khotimsky
Chief Executive Officer

Mr. Andrei Osnos
Chief Financial Officer

The consolidated statement of cash flows is to be read in conjunction with the notes 1 to 42, and forming part of, the consolidated financial statements.

Consolidated statement of changes in net assets attributable to participants for the year ended 31 December 2013

	Attributable to participants				
	Charter capital RUR'000	***Other capital contributions RUR'000***	***Revaluation reserve for property RUR'000***	***Retained earnings RUR'000***	***Total net assets RUR'000***
Balance as at 1 January 2012	**2,242,358**	**2,428,960**	**14,570**	**2,487,597**	**7,173,485**
Total comprehensive income	–	–	46,276	3,515,435	**3,561,711**
Extinguishment of participant's share	(336,354)	–	–	(625,265)	**(961,619)**
Distributions to participants	–	–	–	(876,741)	**(876,741)**
Contributions by participants	–	307,654	–	–	**307,654**
Balance as at 31 December 2012	**1,906,004**	**2,736,614**	**60,846**	**4,501,026**	**9,204,490**
Total comprehensive income	–	–	72,791	3,540,327	**3,613,118**
Balance as at 31 December 2013	**1,906,004**	**2,736,614**	**133,637**	**8,041,353**	**12,817,608**

Mr. Sergey Khotimsky
Chief Executive Officer

Mr. Andrei Osnos
Chief Financial Officer

The consolidated statement of changes in net assets attributable to participants is to be read in conjunction with the notes 1 to 42, and forming part of, the consolidated financial statements.

(In thousands of Russian Rubles, unless otherwise indicated)

1. Background

Principal activities

These consolidated financial statements include the financial statements of Sovcombank (LLC) (the "Bank" or "Sovcombank") and its subsidiaries (together referred to as the "Group" or "Sovcombank Group"). The list of principal consolidated subsidiaries of Sovcombank Group is disclosed in Note 41.

Sovcombank, the parent company of the Group, was originally established in Kostroma as a limited liability company in 1990. The Bank's registered legal address is 156000, Kostroma, Russia, 46 prospect Tekstilschikov. The Bank operates under general banking licence № 963 issued by the Central Bank of the Russian Federation (the "CBR"). The Bank also has licences for operations with securities and custody services issued by the Federal Securities Market Commission (the "FSMC") on 7 February 2006. The Bank is a member of the state deposit insurance system in the Russian Federation.

The Bank accepts deposits from the public and extends credit, transfers payments in Russia and abroad, exchanges currencies and provides other banking services to its commercial and retail customers. The Group is headquartered in Kostroma. As at 31 December 2013, the Bank operates in 732 cities, towns and villages across 41 subjects of Russian Federation. The Bank had 6,673 employees as at 31 December 2013 (5,191 as at 31 December 2012).

Shareholders

As at 31 December 2013 and as at 31 December 2012, the Group's ownership was as follows:

	Ownership % 31 December 2013	***Ownership % 31 December 2012***
SovCo Capital Partners B.V.	100.0000%	100.0000%

There is no single ultimate legal entity or individual that exercised control over the Group as at 31 December 2013 and as at 31 December 2012 (Note 31).

SovCo Capital Partners B.V., a legal entity incorporated in the Netherlands, is the participant of the Group since 2003. SovCo Capital Partners B.V. is controlled by a group of Russian businessmen, including key members of Management.

Russian business environment

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

The Russian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. Management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances.

2. Basis of preparation

General

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

The Group is required to maintain its records and prepare its financial statements for regulatory purposes in Russian Rubles in accordance with Russian accounting and banking legislation and related instructions ("RAL"). These consolidated financial statements are based on the Group's RAL books and records, as adjusted and reclassified in order to comply with IFRS.

The consolidated financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below.

These consolidated financial statements are presented in thousands of Russian Rubles ("RUR") unless otherwise indicated.

(In thousands of Russian Rubles, unless otherwise indicated)

2. Basis of preparation (continued)

Inflation accounting

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

3. Significant accounting policies

Changes in accounting policies

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

IFRS 10 Consolidated Financial Statements and IAS 27 Separate Financial Statements

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. IFRS 10 replaces the parts of previously existing IAS 27 *Consolidated and Separate Financial Statements* that dealt with consolidated financial statements and SIC-12 *Consolidation – Special Purpose Entities*. IFRS 10 changes the definition of control such that an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. To meet the definition of control in IFRS 10, all three criteria must be met, including: (a) an investor has power over an investee; (b) the investor has exposure, or rights, to variable returns from its involvement with the investee; and (c) the investor has the ability to use its power over the investee to affect the amount of the investor's returns. IFRS 10 had no impact on the consolidation of investments held by the Group.

IFRS 11 Joint Arrangements and IAS 28 Investments in Associates and Joint Ventures

IFRS 11 replaces IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly-controlled Entities – Non-monetary Contributions by Venturers*. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture under IFRS 11 must be accounted for using the equity method.

The application of this new standard impacted the financial position of the Group by replacing proportionate consolidation of the joint venture in LLC "Sollers-Finance" (see Note 40) with the equity method of accounting. IFRS 11 is effective for annual periods beginning on or after 1 January 2013. The effect of IFRS 11 is described in more detail in Note 40, which includes quantification of the effect on the financial statements.

IFRS 13 Fair Value Measurement

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

IFRS 13 also requires specific disclosures on fair values, some of which replace existing disclosure requirements in other standards, including IFRS 7 *Financial Instruments: Disclosures*. Some of these disclosures are specifically required for financial instruments by IAS 34.16A(j), thereby affecting the interim condensed consolidated financial statements. The Group provides these disclosures in Note 36.

Amendments to IAS 19 Employee Benefits

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

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. The requirements in IFRS 12 are more comprehensive than the previously existing disclosure requirements for subsidiaries. The Group has subsidiaries with material non-controlling interests as well as unconsolidated structured entities. IFRS 12 disclosures are provided in Notes 4, 37-41.

(In thousands of Russian Rubles, unless otherwise indicated)

3. Significant accounting policies (continued)

Changes in accounting policies (continued)

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

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

IAS 1 Clarification of the Requirement for Comparative Information (amendment)

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

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

These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 *Financial Instruments: Presentation*. The disclosures also apply to recognised 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 Banks' financial position or performance.

Basis of consolidation

Subsidiaries, which are those entities in which the Group has an interest of more than one half of the voting rights, or otherwise has power to exercise control over their operations, are consolidated. 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. All intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated in full; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction. Losses are attributed to the non-controlling interests even if that results in a deficit balance.

If the Group looses control over a subsidiary, it derecognises the assets (including goodwill) and liabilities of the subsidiary, the carrying amount of any non-controlling interests, the cumulative translation differences, recorded in equity; recognises the fair value of the consideration received, the fair value of any investment retained and any surplus or deficit in profit or loss and reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss.

Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the acquirer measures the non-controlling interests in the acquiree that are present ownership interests either at fair value or at the proportionate share of the acquiree's identifiable net assets and other components of non-controlling interests at their acquisition date fair value. Acquisition costs incurred are expensed.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit or loss.

(In thousands of Russian Rubles, unless otherwise indicated)

3. Significant accounting policies (continued)

Business combinations (continued)

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognised in accordance with IAS 39 either in profit or loss or as change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the consideration transferred over the Group’s net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group’s cash generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Acquisition of subsidiaries from parties under common control

Acquisitions of subsidiaries from parties under common control are accounted for using the uniting of interests method.

The assets and liabilities of the subsidiary transferred under common control are recorded in these consolidated financial statements at the carrying amounts of the transferring entity (the “Predecessor”) at the date of the transfer. Related goodwill inherent in the Predecessor's original acquisition is also recorded in these consolidated financial statements. Any difference between the total book value of net assets, including the Predecessor's goodwill, and the consideration paid is accounted for in these consolidated financial statements as an adjustment to the net assets attributable to participants.

These consolidated financial statements, including corresponding figures, are presented as if the subsidiary had been acquired by the Group on the date it was originally acquired by the Predecessor.

Investments in associates

Associates are entities in which the Group generally has between 20% and 50% of the voting rights, or is otherwise able to exercise significant influence, but which it does not control or jointly control. Investments in associates are accounted for under the equity method and are initially recognised at cost, including goodwill. Subsequent changes in the carrying value reflect the post-acquisition changes in the Group’s share of net assets of the associate. The Group’s share of its associates’ profits or losses is recognised in the consolidated income statement, and its share of movements in reserves is recognised in other comprehensive income. However, when the Group’s share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless the Group is obliged to make further payments to, or on behalf of, the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Jointly controlled entitis are joint ventures that involves the establishment of a corporation, partnership or other entity in which each venturer has an interest. The entity operates in the same way as other entities, except that a contractual arrangement between the venturers establishes joint control over the economic activity of the entity. A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. A venturer shall recognise its interest in a jointly controlled entity using proportionate consolidation. The application of proportionate consolidation means that the statement of financial position of the venturer includes its share of the assets that it controls jointly and its share of the liabilities for which it is jointly responsible. The statement of comprehensive income of the venturer includes its share of the income and expenses of the jointly controlled entity. The venturer combines its share of each of the assets, liabilities, income and expenses of the jointly controlled entity with the similar items, line by line, in its financial statements. Many of the procedures appropriate for the application of proportionate consolidation are similar to the procedures for the consolidation of investments in subsidiaries. When a venturer contributes or sells assets to a joint venture, recognition of any portion of a gain or loss from the transaction shall reflect the substance of the transaction. While the assets are retained by the joint venture, and provided the venturer has transferred the significant risks and rewards of ownership, the venturer shall recognise only that portion of the gain or loss that is attributable to the interests of the other venturers. The venturer shall recognise the full amount of any loss when the contribution or sale provides evidence of a reduction in the net realisable value of current assets or an impairment loss.

(In thousands of Russian Rubles, unless otherwise indicated)

3. Significant accounting policies (continued)

Cash and cash equivalents

The Group includes cash, nostro accounts with the CBR and other banks, placements with other banks and other credit institutions with an original maturity less than 90 days in cash and cash equivalents. The minimum mandatory reserve deposit with the CBR is not considered to be a cash equivalent due to restrictions on its withdrawnability.

Financial instruments

Classification

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

- acquired or incurred principally for the purpose of selling or repurchasing in the near term;
- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking;
- derivative financial instruments (except for derivative financial instruments that are designated and effective hedging instruments); or,
- upon initial recognition, designated as at fair value through profit or loss.

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

- the assets or liabilities are managed and evaluated on a fair value basis;
- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise; or,
- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

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

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

- intends to sell immediately or in the near term;
- upon initial recognition designates as at fair value through profit or loss;
- upon initial recognition designates as available-for-sale; or,
- may not recover substantially all of its initial investment, other than because of credit deterioration.

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

- the Group upon initial recognition designates as at fair value through profit or loss;
- the Group designates as available-for-sale; or,
- meet the definition of loans and receivables.

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

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

Recognition

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

3. Significant accounting policies (continued)

Financial instruments (continued)

Measurement

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

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

- loans and receivables which are measured at amortised cost using the effective interest method;
- held-to-maturity investments that are measured at amortised cost using the effective interest method; and
- investments in equity instruments that do not have a quoted market price in an active market and whose fair value can not be reliably measured which are measured at cost.

All financial liabilities, other than those designated at fair value through profit or loss and financial liabilities that arise when a transfer of a financial asset carried at fair value does not qualify for derecognition, are measured at amortised cost. Amortised cost is calculated using the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

Where a valuation based on observable market data indicates a fair value gain or loss on initial recognition of an asset or liability, the gain or loss is recognised immediately in profit or loss. Where an initial gain or loss is not based entirely on observable market data, it is deferred and recognised over the life of the asset or liability on an appropriate basis, or when prices become observable, or on disposal of the asset or liability.

Fair value measurement principles

The fair value of financial instruments is based on their quoted market price at the reporting date without any deduction for transaction costs. Where a quoted market price is not available, fair value is determined using valuation techniques with a maximum use of market inputs. Such valuation techniques include reference to recent arm's length market transactions, current market prices of substantially similar instruments, discounted cash flow and option pricing models and other techniques commonly used by market participants to price the instrument.

Where discounted cash flow techniques are used, estimated future cash flows are based on Management's best estimates and the discount rate is a market related rate at the reporting date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the reporting date.

The fair value of derivatives that are not exchange-traded is estimated at the amount that the Group would receive or pay to terminate the contract at the reporting date taking into account current market conditions and the current creditworthiness of the counterparties and own credit risk.

Gains and losses on subsequent measurement

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

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

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

Derecognition

A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire or when the Group transfers substantially all the risks and rewards of ownership of the financial asset. Any rights or obligations created or retained in the transfer are recognised separately as assets or liabilities. A financial liability is derecognised when it is extinguished.

The Group also derecognises certain assets when it writes off balances pertaining to the assets deemed to be uncollectible.

(In thousands of Russian Rubles, unless otherwise indicated)

3. Significant accounting policies (continued)

Financial instruments (continued)

Sale and repurchase and reverse sale and repurchase agreements

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

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

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

Derivative financial instruments

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

Derivatives embedded in other financial instruments are treated as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contract, and the host contract is not itself held for trading or designated at fair value through profit or loss. The embedded derivatives separated from the host are carried at fair on the trading portfolio with changes in fair value recognised in the consolidated income statement.

Offsetting

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

Property, equipment and intangible assets

Owned assets

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

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

Leased assets

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

Revaluation

Buildings of the Group are measured at revalued amounts. The frequency of revaluation depends on the movements in fair values of the buildings being revalued. A revaluation increase on an item of building is recognised directly in other comprehensive income (in equity) except to the extent that it reverses a previous revaluation decrease recognised in profit or loss, in which case it is recognised in profit or loss. A revaluation decrease on an item of building is recognised in profit or loss except to the extent that it reverses a previous revaluation increase recognised as other comprehensive income directly in equity, in which case it is recognised directly in other comprehensive income (in equity).

(In thousands of Russian Rubles, unless otherwise indicated)

3. Significant accounting policies (continued)

Property, equipment and intangible assets (continued)

Depreciation

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

Buildings	20-50 years
Computers and ATMs	2-5 years
Motor vehicles	3-5 years
Furniture and equipment	3-7 years
Intangible assets	2-10 years

Intangible assets

Intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and impairment losses.

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

Investment property

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

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

Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the consideration transferred over the Group's net identifiable assets acquired and liabilities assumed. Goodwill on an acquisition of a subsidiary and joint venture is included in goodwill and other intangible assets. Goodwill on an acquisition of an associate is included in the investments in associates. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than the operating segment as defined in IFRS 8 *Operating Segments* before aggregation.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

Repossessed assets

The assets repossessed by the Group following litigation to recover amounts due under loans and held for sale in the near term to cover losses arising from lending activities are classified as inventories in accordance with IAS 2. In accordance with IAS 2, the Group measures these assets at the lower of cost and net realisable value.

(In thousands of Russian Rubles, unless otherwise indicated)

3. Significant accounting policies (continued)

Leases

i. Finance – Group as lessee

The Group recognises finance leases as assets and liabilities in the consolidated statement of financial position at the date of commencement of the lease term at amounts equal to the fair value of the leased property or, if lower, at the present value of the minimum lease payments. In calculating the present value of the minimum lease payments the discount factor used is the interest rate implicit in the lease, when it is practicable to determine; otherwise, the Group's incremental borrowing rate is used. Initial direct costs incurred are included as part of the asset. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to periods during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The costs identified as directly attributable to activities performed by the lessee for a finance lease, are included as part of the amount recognised as an asset under the lease.

ii. Finance – Group as lessor

The Group recognises lease receivables at value equal to the net investment in the lease, starting from the date of commencement of the lease term. Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding. Initial direct costs are included in the initial measurement of the lease receivables.

iii. Operating – Group as lessee

Leases of assets under which the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognised as expenses on a straight-line basis over the lease term and included into other operating expenses.

iv. Operating – Group as lessor

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

Promissory notes

Promissory notes purchased are included in trading securities, or in amounts due from credit institutions or in loans to customers, depending on their substance and are accounted for in accordance with the accounting policies for these categories of assets.

Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include current accounts and deposits from customers, deposits and balanced from banks, promissory notes, subordinated debts. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the consolidated income statement when the borrowings are derecognised as well as through the amortisation process.

Impairment

Financial assets carried at amortised cost

Financial assets carried at amortised cost consist principally of loans and other receivables ("loans and receivables"). The Group reviews its loans and receivables, to assess impairment on a regular basis using the traditional conservative approach. A loan or receivable is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the loan or receivable and that event (or events) has had an impact on the estimated future cash flows of the loan that can be reliably estimated.

(In thousands of Russian Rubles, unless otherwise indicated)

3. Significant accounting policies (continued)

Impairment (continued)

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

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

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Group's internal credit grading system that mainly considers credit risk characteristics such as asset type, industry, past-due status.

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

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

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

When a loan is uncollectable, it is written off against the related allowance for loan impairment. The Group writes off a loan balance (and any related allowances for loan losses) when the Management determines that the loans are uncollectible and when all necessary steps to collect the loan are completed. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the consolidated income statement.

Financial assets carried at cost

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

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

Where the transaction price in a non-active market is different to the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets, the Group immediately recognises the difference between the transaction price and fair value (a 'Day 1' profit) in the consolidated income statement. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognised in the consolidated income statement when the inputs become observable, or when the instrument is derecognised.

(In thousands of Russian Rubles, unless otherwise indicated)

3. Significant accounting policies (continued)

Impairment (continued)

Available-for-sale assets

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

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

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

Non-financial assets

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

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

Renegotiated loans

In certain circumstances, the Group renegotiates the original terms of a customer's loan, either as part of an ongoing customer relationship or in response to adverse changes in the circumstances of the borrower.. This may involve extending the payment arrangements and the agreement of new loan conditions.

The accounting treatment of such restructuring is as follows:

- ► if the currency of the loan has been changed the old loan is derecognised and the new loan is recognised;
- ► if the loan restructuring is not caused by the financial difficulties of the borrower the Group uses the same approach as for financial liabilities described below;
- ► if the loan restructuring is due to the financial difficulties of the borrower and the loan is impaired after restructuring, the Group recognises the difference between the present value of the new cash flows discounted using the original effective interest rate and the carrying amount before restructuring in the provision charges for the period. In case loan is not impaired after restructuring the Group recalculates the effective interest rate.

Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original or current effective interest rate.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of obligation can be made.

(In thousands of Russian Rubles, unless otherwise indicated)

3. Significant accounting policies (continued)

Credit related commitments

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

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

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

Any increase in the liability relating to financial guarantees is taken to the [consolidated] income statement. The premium received is recognised in the consolidated income statement on a straight-line basis over the life of the guarantee.

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

Net assets attributable to participants

In accordance with organisation charter Participants of the Group, limited liability company, have the unilateral right to withdraw their capital from the company and receive their share of the company's net assets within six months after the end of the year of the withdrawal. As a result, charter capital and other reserves attributable to participants of the Group are recorded as liabilities.

Distributions to participants

Distributions to participants are recognised in the period in which they are declared. The Group distributes profits to participants on the basis of financial statements prepared in accordance with Russian Accounting Rules.

Taxation

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

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

Deferred tax is provided using the balance sheet liability method for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and temporary differences related to investments in subsidiaries, associates and joint ventures where the parent is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the reporting date.

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

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

(In thousands of Russian Rubles, unless otherwise indicated)

3. Significant accounting policies (continued)

Taxation (continued)

Recognition of income and expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Interest and similar income and expense

For all financial instruments measured at amortised cost and interest bearing securities classified as trading or available-for-sale, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the original effective interest rate applied to the new carrying amount.

Fee and commission income

The Bank earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

- *Fee income earned from services that are provided over a certain period of time*

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loan.

- *Fee income from providing transaction services*

Fees arising from negotiating or participating in the negotiation of a transaction for a third party – such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses – are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

Dividend income

Revenue is recognised when the Groups' right to receive the payment is established.

Foreign currency transactions

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

(In thousands of Russian Rubles, unless otherwise indicated)

3. Significant accounting policies (continued)

Segment reporting

The Bank's operations are highly integrated and constitute a single industry segment, retail banking. Assets and liabilities of the Bank are primarily concentrated in the Russian Federation and a major Bank's revenues and financial result is derived from the operations within the Russian Federation.

Standards and interpretations issued but not yet effective

IFRS 9 Financial Instruments

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

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

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

IAS 32 Offsetting Financial Assets and Financial Liabilities − Amendments to IAS 32

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

IFRIC Interpretation 21 Levies (IFRIC 21)

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

IAS 39 Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39

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

4. Significant accounting judgments and estimates

Judgments

In the process of applying the Group's accounting policies, Management makes the following judgments, apart from those involving estimates, which have the most significant effect on the amounts recognised in the consolidated financial statements.

Consolidation of a subsidiary where ownership percentage is 50% or less

Group controls subsidiaries through combination of direct ownership and by virtue of an agreement with other investors.

(In thousands of Russian Rubles, unless otherwise indicated)

4. Significant accounting judgments and estimates (continued)

Estimation uncertainty

In the process of applying the Group's accounting policies, Management has used its judgments and made estimates in determining the amounts recognised in the financial statements. The most significant use of judgments and estimates are as follows:

Fair value of financial instruments

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

Allowance for loan impairment

The Group regularly reviews its loans and receivables to assess impairment. The Group uses its experienced judgment and significant accumulated knowledge to estimate the impairment losses in cases where a borrower is in financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Group estimates changes in future cash flows based on the observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans and receivables. The Group uses its experienced judgment to adjust observable data for a group of loans or receivables to reflect current circumstances.

Impairment of goodwill

The Group determines whether goodwill is impaired annually. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill was RUR 283,538 thousand as at 31 December 2013 (RUR 345,943 thousand as at 31 December 2012). More details are provided in Note 38.

Revaluation of buildings and investment property

The Group regularly reviews the value of its buildings and investment property. The Group revalues buildings and real esate typically based on independent appraisals for these properties.

5. Net interest income

	2013 RUR'000	***2012 RUR'000***
Interest income		
Loans to individuals	14,391,733	9,785,193
Financial instruments at fair value through profit or loss	3,239,939	1,657,098
Loans to corporate entities and finance lease receivables	804,813	1,261,782
Placements with banks	94,200	19,635
	18,530,685	**12,723,708**
Interest expense		
Current accounts and deposits from customers	(6,024,969)	(4,564,269)
Deposits and balances from banks	(1,403,291)	(531,888)
Debt securities issued	(145,579)	(123,468)
Subordinated debt	(134,875)	(131,911)
Domestic bonds issued	(122,822)	–
	(7,831,536)	**(5,351,536)**
Net interest income	**10,699,149**	**7,372,172**

(In thousands of Russian Rubles, unless otherwise indicated)

6. Fee and commission income

	2013 RUR'000	*2012 RUR'000*
Insurance	6,954,543	5,710,930
Credit cards	643,427	473,645
Pension funds	152,519	–
Settlement operations	98,226	92,058
Cash withdrawals	69,875	44,215
Guarantee issued	26,145	47,520
Foreign exchange operations	16,423	23,703
Operations with securities	6,509	14,167
Cash transfers	4,812	5,216
Other	15,578	14,320
	7,988,057	**6,425,774**

7. Fee and commission expense

	2013 RUR'000	*2012 RUR'000*
Credit cards	(141,126)	(86,233)
Cash transactions	(48,028)	(17,064)
Settlement operations	(22,308)	(19,000)
Depository services	(21,434)	(17,334)
Agency services	(6,255)	(6,015)
Borrowings	(583)	(679)
Guarantees received	–	(12,500)
Other	(9,700)	(5,408)
	(249,434)	**(164,233)**

8. Net foreign exchange gain

	2013 RUR'000	*2012 RUR'000*
Dealing	169,567	(91,839)
Translation difference	(81,629)	151,957
	87,938	**60,118**

Dealing represents gains and losses from spot contracts in foreign currency which the Group concluded in order to manage currency positions and to comply with requirements of the Central Bank of Russia in terms of open currency position.

9. Other operating income

	2013 RUR'000	*2012 RUR'000*
Disposal of repossessed assets	67,011	70,155
Income from operating sublease	10,233	5,496
Operating lease of investment property (Note 21)	4,425	4,773
Disposal of fixed assets	1,163	2,200
Penalties recieved	949	832
Other	12,658	4,800
	96,439	**88,256**

10. Provision for loan impairment

	2013 RUR'000	*2012 RUR'000*
Provision charge for loans to individuals (Note 19)	(6,474,177)	(3,729,803)
Reversal of provision/(charge) for loans to corporate entities and finance lease receivables (Note 19)	115,730	(1,525)
	(6,358,447)	**(3,731,328)**

(In thousands of Russian Rubles, unless otherwise indicated)

11. Revaluation of buildings and investment property

	2013 RUR'000	2012 RUR'000
Investment property (Note 21)	89,184	272,141
Buildings (Note 22)	23,098	8,982
	112,282	**281,123**

12. Personnel expenses

	2013 RUR'000	2012 RUR'000
Employee compensation, including bonuses	(2,798,377)	(2,136,171)
Payroll related taxes	(722,278)	(568,854)
	(3,520,655)	**(2,705,025)**

13. Other general administrative expenses

	2013 RUR'000	2012 RUR'000
Advertising and marketing	(1,009,117)	(930,376)
Rent	(751,317)	(580,038)
Professional and encashement sevices	(530,541)	(273,258)
Depreciation and amortisation (Note 22)	(331,524)	(247,284)
Office stationary	(251,191)	(227,130)
Communications and information services	(249,650)	(182,359)
Maintenance	(245,860)	(146,398)
Obligatory deposit insurance	(240,091)	(176,328)
Security	(181,687)	(134,503)
Transport	(124,846)	(94,164)
Taxes other than income tax	(110,376)	(54,608)
Miscellaneous IT expenses	(88,424)	(74,404)
Property insurance	(27,773)	(29,047)
Other	(103,813)	(131,193)
	(4,246,210)	**(3,281,090)**

14. Other impairment and provisions

	2013 RUR'000	2012 RUR'000
Other assets (Note 20)	(97,016)	7,134
Litigations (Note 20)	(95,414)	(60,775)
Goodwill impairment (Note 38)	(62,405)	(61,536)
Repossessed assets	(17,006)	(4,086)
	(271,841)	**(119,263)**

15. Income tax expense

	2013 RUR'000	2012 RUR'000
Current tax expense		
Current tax expense	(880,780)	(918,522)
Origination of temporary differences (Note 30)	(4,889)	(26,453)
	(885,669)	**(944,975)**

(In thousands of Russian Rubles, unless otherwise indicated)

15. Income tax expense (continued)

Deferred tax relates to items charged or credited to other comprehensive income during the year was as follows:

	2013 RUR'000	*2012 RUR'000*
Revaluation of buildings	(18,198)	(11,568)
Income tax charged to other comprehensive income (Note 30)	**(18,198)**	**(11,568)**

Russian legal entities have to file individual corporate income tax declarations. Corporate income tax rate for companies (including banks) was 20% for 2013 and 2012. Corporate income tax rate applicable to interest (coupon) income on state and mortgage-backed bonds was 15% in 2013 and 2012. Corporate income tax rate applicable to interest (coupon) income on municipal bonds was 9% in 2013 and 2012. Dividends are taxed at the corporate income tax rate of 9% which could be reduced to 0% subject to certain criteria.

Reconciliation of effective tax rate

	2013 RUR'000	*2012 RUR'000*
Income/(loss) before tax	**4,425,996**	**4,460,410**
Income tax (expense)/benefit at the applicable tax rate	(885,199)	(892,082)
Effect of non-deductible expenses	(30,396)	(25,025)
Income on state securities taxed at different rates	38,316	4,823
Other	(8,390)	(32,691)
	(885,669)	**(944,975)**

16. Cash and cash equivalents

	2013 RUR'000	*2012 RUR'000*
Cash on hand	3,892,148	3,206,815
Nostro accounts with OECD banks	3,225,387	4,326,001
Due from the CBR	2,413,582	1,246,577
Short-term placements and reverse REPO deals less than 90 days with Russian banks	632,246	118,730
Nostro accounts with Russian banks	524,307	524,386
	10,687,670	**9,422,509**

17. Placements with banks

As at 31 December 2013, placements with banks were represented by deposits of RUR 2,592,719 thousand with two domestic banks (RUR 16,456 thousand with a domestic bank as at 31 December 2012).

18. Financial instruments at fair value through profit or loss

	2013 RUR'000	*2012 RUR'000*
Held by the Group		
Corporate bonds	7,871,518	2,316,381
Government and municipal bonds	5,238,352	2,244,079
Bonds of companies with state participation	3,511,250	3,011,755
Promissory notes	–	1,930,435
Total financial instruments at fair value through profit or loss held by the Group	**16,621,120**	**9,502,650**
Pledged under sale and repurchase agreements		
Bonds of companies with state participation	10,335,029	7,317,479
Corporate bonds	8,705,177	12,748,622
Government and municipal bonds	8,670,130	1,231,195
Total financial instruments at fair value through profit or loss pledged under sale and repurchase agreements	**27,710,336**	**21,297,296**
Total financial instruments at fair value through profit or loss	**44,331,456**	**30,799,946**

(In thousands of Russian Rubles, unless otherwise indicated)

18. Financial instruments at fair value through profit or loss (continued)

The breakdown of corporate bonds and bonds of companies with state participation by sector as at 31 December 2013 and 31 December 2012 is presented in the table below:

	2013		*2012*	
	Amount RUR'000	*%*	*Amount RUR'000*	*%*
Russian banks and financial institutions	19,189,122	63.1%	18,385,048	72.4%
Russian post	1,747,064	5.7%	1,730,141	6.9%
Energy sector	1,734,957	5.7%	1,570,776	6.2%
Metallurgy	1,704,955	5.6%	1,280,233	5.0%
Manufacturing	1,538,978	5.1%	–	–
Construction and development	1,259,045	4.1%	–	–
Petrochemical	1,095,485	3.6%	–	–
Communications	–	–	713,192	2.9%
Other	2,153,368	7.1%	1,714,847	6.6%
	30,422,974	**100.0%**	**25,394,237**	**100.0%**

As at 31 December 2013, the maturity of these securities was ranging from February 2014 to September 2045 (from April 2013 to February 2041 as at 31 December 2012) and coupon rates were ranging from 4.95% to 15.0% (from 6.9% to 20.0% as at 31 December 2012).

As at 31 December 2013, the most significant share of a single issuer was 8.7% (8.6% as at 31 December 2012) in the total portfolio of corporate bonds and bonds of companies with state participation. These bonds were maturing in April 2018 – September 2045 (December 2013 – February 2041 as at 31 December 2012) and bearing coupon rate of 7.6%-10.8% (7.6%-10.8% as at 31 December 2012).

As at 31 December 2013, the Group pledged securities as collateral under sale and repurchase agreements and lombard loans. The value of these securities formed a part of Amounts due to the CBR of RUR 23,051,572 thousand (Note 25) (RUR 17,433,124 thousand as at 31 December 2012) and a part of Deposits from customers of RUR 28,912 thousand (RUR 393,554 thousand as at 31 December 2012) (Note 24). As at 31 December 2013, Deposits and balances from banks (Note 26) did not include securities pledged under sale and repurchase agreements and Lombard loans (125,064 thousand as at 31December 2012).

Mortgage backed bonds and corporate Eurobonds under IFRS 12 requirements are treated as unconsolidated structured entities. Max exposure equals to carrying value of Corporate Eurobonds.

19. Loans to customers

	2013 RUR'000	*2012 RUR'000*
Loans to individuals		
Consumer loans	56,498,908	41,724,042
Credit cards	4,804,139	3,532,545
Mortgage loans	164,620	223,106
Car loans	–	4,227
Other	212,226	154,855
Total loans to individuals	**61,679,893**	**45,638,775**
Loans to corporate entities and finance lease receivables		
Loans to corporate entities	4,676,021	6,077,850
Loans to small and medium size companies	389,909	579,795
Finance lease receivables	108,008	204,086
Total loans to corporate entities and finance lease receivables	**5,173,938**	**6,861,731**
Gross loans to customers	**66,853,831**	**52,500,506**
Less: provision for loan impairment	(6,388,316)	(4,086,214)
Net loans to customers	**60,465,515**	**48,414,292**

As at 31 December 2013, the carrying value of loans to the ten largest borrowers was RUR 4,382,213 thousand which represented 6.6% of gross loan portfolio (or 3.5% of total assets). As at 31 December 2012, the carrying value of loans to the ten largest borrowers was RUR 4,557,334 thousand which represented 9.2% of gross loan portfolio (or 5.1% of total assets).

As at 31 December 2013, the Group recorded an impairment provision of RUR 77,566 thousand against these loans (RUR 42,350 thousand as at 31 December 2012).

(In thousands of Russian Rubles, unless otherwise indicated)

19. Loans to customers (continued)

Industry analysis of the loans to corporate entities

Loans to corporate entities were issued to legal entities residing only in the Russian Federation and operating in the following economic sectors:

	2013 RUR'000	*2012 RUR'000*
Commercial real estate (operating and leasing)	3,412,778	3,879,050
Manufacturing	344,633	695,802
Other real estate	270,535	140,461
Construction	270,711	386,310
Trade	249,183	14,333
Agriculture	80,000	125,000
Hotel industry	–	107,619
Insurance	30,000	395,708
Leasing	18,181	106,806
Public sector	–	80,612
Finance	–	134,575
Other	–	11,574
	4,676,021	**6,077,850**

As at 31 December 2013, loans of RUR 30,000 thousand in total granted to corporate entities operating in the insurance sector were sale and repurchase agreements concluded with a third party.

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

	Corporate	*Small and medium size companies*	*Finance lease receivables*	*Consumer lending*	*Credit cards*	*Mortgage*	*Car*	*Other loans to individuals*	*Total*
At 1 January 2013	**(283,506)**	**(70,971)**	**(16,835)**	**(3,203,795)**	**(489,984)**	**(7,820)**	**(3,757)**	**(9,546)**	**(4,086,214)**
(Charge)/reversal for the year	88,042	16,670	11,018	(5,837,218)	(659,191)	11,628	6,270	4,334	**(6,358,447)**
Recoveries	–	(27,056)	(3,785)	(1,198)	–	(21,816)	(8,278)	(1,571)	**(63,704)**
Loans written off as uncollectible	113,844	25,125	–	3,470,030	490,053	13,755	5,765	1,477	**4,120,049**
At 31 December 2013	**(81,620)**	**(56,232)**	**(9,602)**	**(5,572,181)**	**(659,122)**	**(4,253)**	**–**	**(5,306)**	**(6,388,316)**
Individual impairment	(31,829)	–	–	–	–	–	–	–	**(31,829)**
Collective impairment	(49,791)	(56,232)	(9,602)	(5,572,181)	(659,122)	(4,253)	–	(5,306)	**(6,356,487)**
	(81,620)	**(56,232)**	**(9,602)**	**(5,572,181)**	**(659,122)**	**(4,253)**	**–**	**(5,306)**	**(6,388,316)**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**315,526**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**315,526**

	Corporate	*Small and medium size companies*	*Finance lease receivables*	*Consumer lending*	*Credit cards*	*Mortgage*	*Car*	*Other loans to individuals*	*Total*
At 1 January 2012	**(355,483)**	**(92,030)**	**(82,465)**	**(831,131)**	**(16,541)**	**(16,845)**	**(9,652)**	**(3,013)**	**(1,407,160)**
(Charge)/reversal for the year	(11,939)	(33,826)	44,240	(3,229,349)	(502,407)	8,975	17	(7,039)	**(3,731,328)**
Recoveries	–	(42,662)	–	(83,629)	–	(14,067)	(7,842)	(1,840)	**(150,040)**
Loans written off as uncollectible	83,916	97,547	21,390	940,314	28,964	14,117	13,720	2,346	**1,202,314**
At 31 December 2012	**(283,506)**	**(70,971)**	**(16,835)**	**(3,203,795)**	**(489,984)**	**(7,820)**	**(3,757)**	**(9,546)**	**(4,086,214)**
Individual impairment	(218,592)	–	–	–	–	–	–	–	**(218,592)**
Collective impairment	(64,914)	(70,971)	(16,835)	(3,203,795)	(489,984)	(7,820)	(3,757)	(9,546)	**(3,867,622)**
	(283,506)	**(70,971)**	**(16,835)**	**(3,203,795)**	**(489,984)**	**(7,820)**	**(3,757)**	**(9,546)**	**(4,086,214)**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**339,134**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**339,134**

(In thousands of Russian Rubles, unless otherwise indicated)

19. Loans to customers (continued)

Industry analysis of the loans to corporate entities (continued)

Interest income accrued on individually impaired loans was RUR 5,118 thousand for the year ended 31 December 2013 (RUR 56,350 thousand for the year ended 31 December 2012).

Analysis of collateral

The breakdown of loans to customers (net of impairment) by type of collateral as at 31 December 2013 was as follows:

RUR'000	*Corporate*	*Small and medium size companies*	*Finance lease receivables*	*Consumer loans*	*Credit cards*	*Mortgage loans*	*Car loans*	*Other loans to individuals*	*Total*
Real estate	3,657,281	206,910	–	–	–	155,018	–	34,266	**4,053,475**
Motor vehicles	4,792	385	–	–	–	–	–	12,659	**17,836**
Goods and materials	–	–	98,406	–	–	–	–	–	**98,406**
Securities and equity investments	538,625	17,790	–	–	–	–	–	79,948	**636,363**
Other collateral	224,932	–	–	–	–	1,579	–	–	**226,511**
No collateral	168,771	108,592	–	50,926,727	4,145,017	3,770	–	80,047	**55,432,924**
Total loans to customers	**4,594,401**	**333,677**	**98,406**	**50,926,727**	**4,145,017**	**160,367**	**–**	**206,920**	**60,465,515**

As at 31 December 2013 and 31 December 2012, the loans secured by Other collateral were mainly secured by guarantees issued by third parties.

The breakdown of loans to customers (net of impairment) by type of collateral as at 31 December 2012 was as follows:

RUR'000	*Corporate*	*Small and medium size companies*	*Finance lease receivables*	*Consumer loans*	*Credit cards*	*Mortgage loans*	*Car loans*	*Other loans to individuals*	*Total*
Real estate	4,258,741	432,997	–	–	–	205,470	–	75,422	**4,972,630**
Motor vehicles	11,157	6,548	–	–	–	–	432	3,818	**21,955**
Goods and materials	–	–	187,251	–	–	–	–	–	**187,251**
Securities and equity investments	855,967	39,958	–	–	–	–	–	11,883	**907,808**
Other collateral	167,478	21,744	–	–	–	2,815	10	4,319	**196,366**
No collateral	501,001	7,577	–	38,520,247	3,042,561	7,001	28	49,867	**42,128,282**
Total loans to customers	**5,794,344**	**508,824**	**187,251**	**38,520,247**	**3,042,561**	**215,286**	**470**	**145,309**	**48,414,292**

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

Finance lease receivables

The breakedown of finance lease receivables as at 31 December 2013 was as follows:

	Not later than 1 year	*Later than 1 year and not later than 5 years*	*Total*
Gross investment in finance leases	81,289	46,761	**128,050**
Unearned future finance income on finance leases	(6,573)	(13,469)	**(20,042)**
Net investment in finance leases	**74,716**	**33,292**	**108,008**

The breakedown of finance lease receivables as at 31 December 2012 was as follows:

	Not later than 1 year	*Later than 1 year and not later than 5 years*	*Total*
Gross investment in finance leases	154,873	85,279	**240,152**
Unearned future finance income on finance leases	(13,794)	(22,272)	**(36,066)**
Net investment in finance leases	**141,079**	**63,007**	**204,086**

(In thousands of Russian Rubles, unless otherwise indicated)

20. Movements in Other impairment and provisions

Movements in Other impairment allowances and provisions were as follows:

	Other assets (Note 23)	*Provision (Note 29)*	*Total*
31 December 2011	**33,185**	**47,559**	**80,744**
Charge/(reversal) (note 14)	(7,134)	60,775	**53,641**
Write-offs	(2,526)	–	**(2,526)**
Redemption of obligations	–	(70,970)	**(70,970)**
31 December 2012	**23,525**	**37,364**	**60,889**
Charge (note 14)	97,016	95,414	**192,430**
Write-offs	(33,152)	–	**(33,152)**
Redemption of obligations	–	(81,796)	**(81,796)**
31 December 2013	**87,389**	**50,982**	**138,371**

As at 31 December 2013, the Group created a provision of RUR 50,982 thousand (RUR 37,364 thousand as at 31 December 2012) for litigation against the Group in accordance with IAS 37.

21. Investment property

The Group owns a number of other real estate properties, part of which is occupied by the Group and the excess space is typically rented out. Real estate occupied by the Group forms a part of Property, equipment and intangible assets (Note 22) and the remaining (rented out) real estate forms a part of Investment property. In particular, the Group owns a fifteen story building of 12,635 square meters in Moscow City area located at the address 14 bld. 1 Krasnopresnenskaya nab., Moscow, Russian Federation. The Group occupies a part of the building and rents out the other part (this part of the building forms the major part of Investment property).

Management estimates the fair value of all real estate properties based on the results of annual independent appraisals.

	2013 RUR'000	***2012 RUR'000***
Fair value at the beginning of the year	1,679,713	110,765
Additions	165,006	–
Disposals	–	(8,800)
Transfer from/to property and equipment (note 22)	(104,901)	1,305,607
Revaluation (note 11)	89,184	272,141
Fair value at the end of the year	**1,829,002**	**1,679,713**

During 2013, the Group recognised rental income in relation to investment property in the amount of RUR 4,425 thousand (RUR 4,773 thousand as at 31 December 2012) (Note 9).

(In thousands of Russian Rubles, unless otherwise indicated)

22. Property, equipment and intangible assets

	Land and buildings RUR'000	*Leasehold improvements RUR'000*	*Computers RUR'000*	*ATMs RUR'000*	*Motor Vehicles RUR'000*	*Furniture and equipment RUR'000*	*Construction in progress RUR'000*	*Intangible assets RUR'000*	*Total RUR'000*
Cost/revalued amount									
As at 1 January 2013	**1,419,076**	**51,790**	**181,865**	**680,120**	**40,310**	**216,991**	**–**	**224,798**	**2,814,950**
Additions	104,577	884	128,790	152,920	16,169	90,274	–	111,147	**604,761**
Disposals	(8,438)	(48,618)	(22,278)	(5,616)	(2,713)	(17,403)	–	(60,515)	**(165,581)**
Disposals of subsidiaries	–	–	(276)	–	–	(185)	–	–	**(461)**
Transfer from investment property (Note 21)	104,901	–	–	–	–	–	–	–	**104,901**
Revaluation	114,085	–	–	–	–	–	–	–	**114,085**
Elimination of accumulated depreciation on revalued assets	(24,968)	–	–	–	–	–	–	–	**(24,968)**
As at 31 December 2013	**1,709,233**	**4,056**	**288,101**	**827,424**	**53,766**	**289,677**	**–**	**275,430**	**3,447,687**
Depreciation									
As at 1 January 2013	**–**	**(49,791)**	**(134,859)**	**(207,086)**	**(15,645)**	**(140,071)**	**–**	**(128,941)**	**(676,393)**
Depreciation charge	(33,406)	(1,240)	(31,997)	(156,161)	(7,504)	(34,729)	–	(66,487)	**(331,524)**
Disposals	8,438	48,618	21,969	4,197	2,131	17,097	–	60,515	**162,965**
Disposals of subsidiaries	–	–	268	–	–	126	–	–	**394**
Elimination of accumulated depreciation on revalued assets	24,968	–	–	–	–	–	–	–	**24,968**
As at 31 December 2013	–	**(2,413)**	**(144,619)**	**(359,050)**	**(21,018)**	**(157,577)**	**–**	**(134,913)**	**(819,590)**
Carrying value as at 31 December 2013	**1,709,233**	**1,643**	**143,482**	**468,374**	**32,748**	**132,100**	**–**	**140,517**	**2,628,097**
Carrying value as at 31 December 2012	**1,419,076**	**1,999**	**47,006**	**473,034**	**24,665**	**76,920**	**–**	**95,857**	**2,138,557**

	Land and buildings RUR'000	*Leasehold improvements RUR'000*	*Computers RUR'000*	*ATMs RUR'000*	*Motor Vehicles RUR'000*	*Furniture and equipment RUR'000*	*Construction in progress RUR'000*	*Intangible assets RUR'000*	*Total RUR'000*
Cost/revalued amount									
As at 1 January 2012	**523,756**	**70,757**	**203,996**	**384,379**	**46,585**	**202,573**	**1,023,642**	**180,836**	**2,636,524**
Additions	1,700	353	20,101	300,289	10,711	56,965	2,160,157	43,962	**2,594,238**
Disposals	(19,547)	(19,320)	(42,232)	(4,548)	(16,986)	(42,547)	(1,023,641)	–	**(1,168,821)**
Transfer to investment property (Note 21)	–	–	–	–	–	–	(1,305,607)	–	**(1,305,607)**
Transfer	854,551	–	–	–	–	–	(854,551)	–	**–**
Revaluation	66,827	–	–	–	–	–	–	–	**66,827**
Elimination of accumulated depreciation on revalued assets	(8,211)	–	–	–	–	–	–	–	**(8,211)**
As at 31 December 2012	**1,419,076**	**51,790**	**181,865**	**680,120**	**40,310**	**216,991**	**–**	**224,798**	**2,814,950**
Depreciation									
As at 1 January 2012	**–**	**(67,417)**	**(144,958)**	**(90,941)**	**(23,766)**	**(143,071)**	**–**	**(84,738)**	**(554,891)**
Depreciation charge	(12,556)	(1,694)	(28,618)	(119,329)	(8,050)	(32,834)	–	(44,203)	**(247,284)**
Disposals	4,345	19,320	38,717	3,184	16,171	35,834	–	–	**117,571**
Elimination of accumulated depreciation on revalued assets	8,211	–	–	–	–	–	–	–	**8,211**
As at 31 December 2012	–	**(49,791)**	**(134,859)**	**(207,086)**	**(15,645)**	**(140,071)**	**–**	**(128,941)**	**(676,393)**
Carrying value as at 31 December 2012	**1,419,076**	**1,999**	**47,006**	**473,034**	**24,665**	**76,920**	**–**	**95,857**	**2,138,557**
Carrying value as at 31 December 2011	**523,756**	**3,340**	**59,038**	**293,438**	**22,819**	**59,502**	**1,023,642**	**96,098**	**2,081,633**

(In thousands of Russian Rubles, unless otherwise indicated)

22. Property, equipment and intangible assets (continued)

Revalued assets

As at 31 December 2013, buildings were revalued by Management based on the results of an independent appraisal. The value of the buildings increased by RUR 114,087 thousand as at 31 December 2013 (increased by RUR 66,826 thousand as at 31 December 2012). The positive revaluation of RUR 23,098 thousand was recognised through the profit and loss (Note 11) (as positive revaluation of RUR 8,982 thousand in the profit and loss as at 31 December 2012) and as positive revaluation of RUR 90,989 thousand through other comprehensive income and revaluation reserve (as positive revaluation of RUR 57,844 thousand through other comprehensive income and revaluation reserve as at 31 December 2012). As at 31 December 2013, the Group recognised a positive revaluation of:

- RUR 23,098 thousand through the profit and loss (RUR 8,982 thousand as at 31 December 2012) (Note 11);
- RUR 90,987 thousand through other comprehensive income and revaluation reserve (RUR 57,845 thousand as at 31 December 2012).

As at 31 December 2013, the carrying value of land and buildings if the land and buildings were not revalued would be RUR 1,634,945 thousand (RUR 1,458,873 thousand as at 31 December 2012).

23. Other assets

	2013 RUR'000	*2012 RUR'000*
Advances to suppliers	337,460	163,640
Security deposit placed with MasterCard Europe	75,277	60,745
Repossessed assets	61,300	45,389
VAT receivables related to non-banking operations	58,080	177,704
VAT receivables related to leasing operations	21,937	33,921
Receivables related to settlement services	9,216	14,176
Settlements with personnel	5,363	2,486
Current income tax assets	5,159	6,448
Advance tax payments other than VAT and income tax	989	1,687
Receivables on cash transfer transactions	–	6,129
Other	2,455	501
	577,236	**512,826**
Impairment allowance in respect of advances to suppliers (Note 20)	(87,389)	(23,525)
	489,847	**489,301**

As a result of collection efforts on defaulted loans, the Group repossessed real estate and other collateral. These assets were classified as inventory according to IAS 2 and were measured at the lower of cost and net realisable value.

According to IAS 2, the Group recognised a decrease of RUR 18,255 thousand in the value of repossessed residential real estate collateral as at 31 December 2013 (RUR 4,086 thousand as at 31 December 2012).

24. Current accounts and deposits from customers

	2013 RUR'000	*2012 RUR'000*
Individuals		
Current accounts and demand deposits	1,663,078	1,224,515
Term deposits	72,433,317	54,934,678
Corporates		
Current accounts and demand deposits	4,112,173	4,181,442
Term deposits	2,537,624	1,891,492
Liabilities under sale and repurchase agreements	28,912	393,554
	80,775,104	**62,625,681**

The ten largest customers placed RUR 3,774,042 thousand and RUR 3,713,674 thousand in total in current accounts and term deposits with the Bank as at 31 December 2013 and 31 December 2012 respectively. These balances represented 4.7% and 5.9% of the total amount of current accounts and deposits from customers as at 31 December 2013 and 31 December 2012 respectively.

(In thousands of Russian Rubles, unless otherwise indicated)

24. Current accounts and deposits from customers (continued)

As at 31 December 2013 and 31 December 2012, the Group did not have customers whose holdings with the Bank exceeded 10% of the total amount of current accounts and deposits from customers.

According to the Russian legislation, the Group is obliged to repay amounts placed by individuals in term deposit accounts upon request of a customer. In case a term deposit is repaid upon request of a customer prior to maturity, interest is typically calculated based on the interest rate on demand deposits, unless a different interest rate is specified in the agreement.

As at 31 December 2013, the Group pledged corporate bonds of RUR 32,037 thousand as a collateral under sale and repurchase agreements with corporate entities (Note 18).

As at 31 December 2012, the Group pledged corporate bonds, bonds of companies with state participation, government and municipal bonds of RUR 459,432 thousand as a collateral under sale and repurchase agreements with corporate entities (Note 18).

25. Amounts due to the CBR

	2013 RUR'000	***2012 RUR'000***
Sale and repurchase agreements	22,446,018	16,931,746
Loans secured by guarantee	973,212	501,240
Lombard loans received from the CBR	605,554	501,378
	24,024,784	**17,934,364**

As at 31 December 2013, the Group pledged corporate bonds, bonds of companies with state participation, government and municipal bonds (corporate bonds, bonds of companies with state participation, government and municipal bonds as at 31 December 2012) of RUR 27,678,299 thousand (RUR 20,691,121 as at 31 December 2012) as collateral under sale and repurchase agreements and borrowings from the CBR (Note 18).

26. Deposits and balances from banks

	2013 RUR'000	***2012 RUR'000***
Loro accounts	138,783	18,374
Deposits	107,442	32,084
Sale and repurchase agreements	–	125,064
	246,225	**175,522**

As at 31 December 2013, the Group had two counterparties whose balance of RUR 212,895 thousand (RUR 157,146 thousand as at 31 December 2012) exceeded 10% of total deposits and balances from banks. This balance represents 86.5% (89.5% as at 31 December 2012) of deposits and balances from banks.

As at 31 December 2013, the Group had no pledged bonds as collateral under sale and repurchase agreements with other banks. As at 31 December 2012, the Group had government and municipal bonds of RUR 146,743 thousand pledged as collateral under sale and repurchase agreements with other banks (Note 18).

27. Debt securities issued

	2013 RUR'000	***2012 RUR'000***
Promissory notes	2,082,087	1,753,040
Domestic bonds issued	1,995,695	–
	4,077,782	**1,753,040**

On 18 June 2013, the Group issued non-convertible demestic bonds of RUR 2,000,000 thousand with the nominal coupon rate of 11.25% and effective coupon rate of 11.87% maturing in June 2016 and with the offer date in June 2014.

(In thousands of Russian Rubles, unless otherwise indicated)

28. Subordinated debt

During the twelve-months period ended 31 December 2013, the Group received from SovCo Capital Partners B.V., the parent company of the Group, a subordinated loan of USD 22,300 thousand with an annual interest rate of 14% .

Principal ’000	*Currency*	*Counterparty*	*Interest rate*	*Issue date*	*Maturity date*	*2013 RUR’000*	*2012 RUR’000*
25,000	USD	FMO*	3m Libor+ 4.5%**	24.10.2008 22.01.2009	15.10.2018	881,615	814,138
22,300	USD	SovCo Capital Partners B.V.	14.0%	16.12.2013	16.12.2063	734,119	–
16,000	USD	SovCo Capital Partners B.V.	6.4%	29.05.2012	29.05.2022	–	489,419
5,000	USD	SovCo Capital Partners B.V.	15.0%	26.07.2012	26.07.2022	–	154,395
7,000	USD	SovCo Capital Partners B.V.	15.0%	15.08.2012	15.08.2022	–	216,152
5,000	USD	SovCo Capital Partners B.V.	15.0%	04.07.2012	04.07.2022	–	154,395
						1,615,734	**1,828,499**

* Nederlandse Financierings-Maatschappijvoor Ontwikkelingslanden N.V.(“FMO“).

** According to the Subordinated term facility agreement with FMO the interest rate was 3 Month LIBOR + 4.5 per cent. per annum until and including 31 December 2013 and 3 Month LIBOR + 6.5 per cent. per annum thereafter.

According to the terms of the Subordinated term facility agreement with Nederlandse Financierings-Maatschappijvoor Ontwikkelingslanden N.V. (“FMO”), FMO is additionally entitled to additional fees of two per cent of the profit before income tax expense. As at 31 December 2013, the Group accrued additional fees of RUR 59,470 thousand (RUR 51,979 thousand as at 31 December 2012) payable to FMO in accordance with terms of the Subordinated term facility agreement with FMO. Additional fees were accounted for as a part of subordinated debt effective interest rate.

In 2013, the Group repaid prior to maturity four subordinated loans of USD 33,000 thousand, borrowed from SovCo Capital Partners B. V.

29. Other liabilities

	2013 RUR’000	*2012 RUR’000*
Payables to personnel	288,763	304,354
Payables to suppliers	140,665	143,743
Taxes payable other than VAT and income tax	127,363	77,028
Accrued expenses on obligatory deposit insurance	66,565	52,262
Provision for litigations and contingent liabilities (Note 20)	50,982	37,364
Current income taxes payable	20,650	117,595
VAT payable	1,602	1,254
Obligations under lease payments	825	825
Other	42,943	34,355
	740,358	**768,780**

(In thousands of Russian Rubles, unless otherwise indicated)

30. Deferred tax

Movements in temporary differences during the twelve-months period ended 31 December 2013 and 31 December 2012 were as follows:

		Origination and reversal of temporary differences			*Origination and reversal of temporary differences*			
	2011	***In the income statement***	***In other compre-hensive income***	***2012***	***In the income statement***	***In other compre-hensive income***	***Disposed in business deconso-lidation***	***2013***
Tax effect of deductible temporary differences:								
Other liabilities	36,226	34,977	–	**71,203**	(16,329)	–	3,014	**57,888**
Loans to customers	(135,188)	111,478	–	**(23,710)**	172,821	–	(9,954)	**139,157**
Deferred tax asset	**(98,962)**	**146,455**	**–**	**47,493**	**156,492**	**–**	**(6,940)**	**197,045**
Tax effect of taxable temporary differences:								
Financial instruments at fair value through profit or loss	(46,206)	14,433	–	**(31,773)**	9,061	–	–	**(22,712)**
Investment property	(7,581)	(2,719)	–	**(10,300)**	(592)	–	5,025	**(5,867)**
Property, equipment and intangible assets	(13,839)	(143,240)	(11,568)	**(168,647)**	(48,608)	(18,198)	(7,497)	**(242,950)**
Debt securities issued	2,316	(7,679)	–	**(5,363)**	4,945	–	–	**(418)**
Subordinated debt	(1,159)	155	–	**(1,004)**	126	–	–	**(878)**
Other assets	36,109	(33,858)	–	**2,251**	(126,313)	–	(6,695)	**(130,757)**
Deferred tax liability	**(30,360)**	**(172,908)**	**(11,568)**	**(214,836)**	**(161,381)**	**(18,198)**	**(9,167)**	**(403,582)**
Deferred tax asset	**73,233**	**(4,060)**	**–**	**69,173**	**(63,681)**	**–**	**–**	**5,492**
Deferred tax liability	**(202,555)**	**(22,393)**	**(11,568)**	**(236,516)**	**58,792**	**(18,198)**	**(16,107)**	**(212,029)**

31. Charter capital and other capital contributions

As at 31 December 2013 and 31 December 2012, the charter capital was RUR 1,906,004 thousand.

On 11 January 2012, 24 January 2012, 20 February 2012 and 29 March 2012 at the extraordinary General meetings of participants it was decided to distribute dividends of RUR 876,741 thousand to the participants from the net profit earned in 2011. Dividends were fully paid in proportion to units of participants in March 2012.

On 30 May 2012, TBIF Financial Services B.V. ("TBIF"), which owned 50% interests in the Group with the total nominal value of RUR 1,121,179 thousand, announced its withdrawal from the participation in the Group. On 30 May 2012, SovCo Capital Partners B.V. acquired 70% of TBIF's interest in the Group (35% of the Group's net assets with nominal value of RUR 784,825 thousand). The remaining 30% of TBIF's interest in the Group (15% of the Group's net assets with nominal value of RUR 336,354 thousand) were redeemed by the Bank for RUR 961,619 thousand. As a result of these transactions, SovCo Capital Partners B.V. became the sole participant in the Group.

As at 31 December 2012, the Group recognised its rights under a call option granted to a related party for the amount of RUR 307,654 thousand as Other capital contributions into Bank's net assets attributable to participants (Note 35).

32. Commitments

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

The Group provides financial guarantees to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to five years. The Group also provides guarantees by acting as settlement agent in securities borrowing and lending transactions.

(In thousands of Russian Rubles, unless otherwise indicated)

32. Commitments (continued)

The breakdown of commitments by category was as follows:

*Contractual amount**	*2013 RUR'000*	*2012 RUR'000*
Guarantees	1,442,702	1,453,498
Loan and credit line commitments	4,080,686	2,230,980
	5,523,388	**3,684,478**

* The contractual amounts reflected in the table assume that commitments are advanced in full.

The total outstanding contractual commitments to extend loans do not necessarily represent future cash outflows, as these commitments may expire or terminate without being funded.

The Group did not have any non-cancellable operating leases as at 31 December 2013 and as at 31 December 2012.

33. Contingencies

Litigation

In the ordinary course of business, the Group is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints, will not have a material adverse effect on the financial condition or the results of future operations of the Group. From 2011 thought 2013, the Group was subject to litigations mainly in relation to up-front lending commission which the Group charged the borrowers until 2010 and third party insurance policy sold by the Group to the borrowers at the loan origination. The total amount of these legal claims was:

- as at 31 December 2013: RUR 267 million (related to the years 2011–2013) of which the Group settled RUR 217 million within the same period of 2011–2013;
- as at 31 December 2012: was RUR 172 million (related to the years 2011–2012) of which the Group settled RUR 135 million within the same period of 2011–2012.

The Group created provisions for litigations in relation to the unsettled amount of RUR 50 million and of RUR 37 million as at 31 December 2013 and as at 31 December 2012 (Note 29). Management believes that the amount of potential future claims against the Group cannot be measured with sufficient reliability.

Taxation contingencies

Russian tax, currency and customs legislation as currently in effect is subject to varying interpretations, selective and inconsistent application and changes, which may occur frequently, at short notice and may apply retrospectively. Management interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in their interpretation and application of this legislation and assessments. It is therefore possible that transactions and activities of the Group that have not been challenged in the past may be challenged at any time in the future. As a result, additional taxes, penalties and interest may be assessed by the relevant authorities. Fiscal periods remain open and subject to review by the tax authorities for three calendar years immediately preceding the year in which the decision to conduct a tax review is taken. Under certain circumstances, tax reviews may cover longer periods.

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

(In thousands of Russian Rubles, unless otherwise indicated)

34. Risk management

Risk management is one of the most important Group's internal processes. The ultimate goal of Group risk management policy is to ensure that all significant types of risk are identified early and are appropriately mitigated.

Risk management policies and procedures

The Group manages the identification, assessment and mitigation of current and emerging risks through a rigorous governance process and robust risk management tools and processes. Risk management policies and procedures are reviewed regularly to reflect changes in market conditions, products and services offered as well as emerging best market practices.

The Board of Directors of the Group (the "Board") has overall responsibility for the establishing risk management framework, overseeing the management of key risks, reviewing the Group risk management policies and procedures and approving significant counterparty exposures.

The Management Board is responsible for implementation of risk management and risk mitigation measures and making sure that the Group operates within the established risk limits.

Application of risk management policies is subject to a regular review by the Internal Audit Department.

Financial risks, such as credit, market and liquidity risks, are managed through the Credit Committees and the Asset-Liability Committee ("ALCO").

The primary types of risks affecting the Group are:

- market risk (which includes interest rate, currency and prepayment risks);
- credit risk;
- liquidity and funding risk;
- operating risk.

Market risk

Market risk is defined as the risk that unfavourable market moves (including changes in and increased volatility of interest rates, market-implied inflation rates, credit spreads and prices for bonds, foreign exchange rates, equity, property and commodity prices and other instruments) lead to reductions in Group's earnings and/or net asset value.

The Group has a number of market risks, the principal ones being: interest rate, currency and prepayment risks.

Market risk is managed within a Management Board approved framework using a range of metrics to monitor the Group's profile against its stated risk appetite and potential market conditions. High level market risk exposure is reported regularly to appropriate committees for monitoring and oversight by the senior members of Management. Matching assets and liabilities are offset against each other and interest rate swaps are also used to manage the residual exposure to within the non-traded market risk appetite. Exposure arising from the margin of interbank rates over Central bank rates is monitored and managed within the non-traded market risk appetite through appropriate hedging.

(In thousands of Russian Rubles, unless otherwise indicated)

34. Risk management (continued)

Market risk (continued)

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the fair value of the financial instruments or the future cash flows from financial instruments. The Group sets limits on the level of mismatch of interest rate repricing that may be undertaken. The sensitivity of the fair value of such instruments includes the effect of the reasonably possible changes in risk-free interest rates for one year. The above parameter is measured by reference to the effect of the fair value of such fixed-rate instruments held as at 31 December 2013 and 31 December 2012. Such measurement envisages applying the assumption of a parallel shift of the yield curve.

Currency	*Increase in basis points*	*Change in net interest income 2013*	*Change in net assets attributable to participants 2013*	*Change in net interest income 2012*	*Change in net assets attributable to participants 2012*
RUR	100	(1,383,179)	(1,383,179)	(886,945)	(886,945)
USD	100	(98,738)	(98,738)	(11,345)	(11,345)

Currency	*Decrease in basis points*	*Change in net interest income 2013*	*Change in net assets attributable to participants 2013*	*Change in net interest income 2012*	*Change in net assets attributable to participants 2012*
RUR	100	1,383,179	1,383,179	886,945	886,945
USD	100	98,738	98,738	11,345	11,345

The table below shows Group's non-trading financial assets and liabilities with interest rate risk exposure . The Group's assets and liabilities are included at carrying amount and categorised by the earlier of contractual re-pricing or maturity dates.

The position as at 31 December 2013, was as follows:

	Less than 1 month RUR'000	*1 to 3 months RUR'000*	*3 months to 1 year RUR'000*	*1 to 5 years RUR'000*	*More than 5 years RUR'000*	*Non-interest bearing RUR'000*	*Overdue RUR'000*	*Total RUR'000*
Assets								
Cash and cash equivalents	3,847	628,973	–	–	–	10,054,850	–	**10,687,670**
Mandatory cash balances with the CBR	–	–	–	–	–	772,536	–	**772,536**
Placements with banks	15,916	24,161	1,725,914	826,602	–	–	126	**2,592,719**
Loans to customers	2,131,911	5,098,073	17,547,487	33,102,386	121,755	–	2,463,903	**60,465,515**
Investment in associates	–	–	–	–	–	3,000	–	**3,000**
Investment in car leasing joint venture	–	–	–	–	–	420,752	–	**420,752**
Investment property	–	–	–	–	–	1,829,002	–	**1,829,002**
Property, equipment and intangible assets	–	–	–	–	–	2,628,097	–	**2,628,097**
Goodwill	–	–	–	–	–	283,538	–	**283,538**
Deferred tax asset	–	–	–	–	–	5,492	–	**5,492**
Other assets	–	–	–	–	–	489,847	–	**489,847**
Total assets	**2,151,674**	**5,751,207**	**19,273,401**	**33,928,988**	**121,755**	**16,487,114**	**2,464,029**	**80,178,168**
Liabilities								
Amounts due to the CBR	23,051,572	–	973,212	–	–	–	–	**24,024,784**
Deposits and balances from banks	–	65,458	133,366	13,351	–	34,050	–	**246,225**
Current accounts and deposits from customers	10,771,532	4,963,914	19,414,294	45,625,289	75	–	–	**80,775,104**
Debt securities issued	667,755	404,111	2,610,810	388,121	6,985	–	–	**4,077,782**
Subordinated debt	–	–	–	881,615	734,119	–	–	**1,615,734**
Deferred tax liabilities	–	–	–	–	–	212,029	–	**212,029**
Other liabilities	–	–	–	–	–	740,358	–	**740,358**
Total liabilities	**34,490,859**	**5,433,483**	**23,131,682**	**46,908,376**	**741,179**	**986,437**	–	**111,692,016**
Net position as at 31 December 2013	**(32,339,185)**	**317,724**	**(3,858,281)**	**(12,979,388)**	**(619,424)**	**15,500,677**	**2,464,029**	**(31,513,848)**

(In thousands of Russian Rubles, unless otherwise indicated)

34. Risk management (continued)

Market risk (continued)

The position as at 31 December 2012, was as follows:

	Less than 1 month RUR'000	*1 to 3 months RUR'000*	*3 months to 1 year RUR'000*	*1 to 5 years RUR'000*	*More than 5 years RUR'000*	*Non-interest bearing RUR'000*	*Overdue RUR'000*	*Total RUR'000*
Assets								
Cash and cash equivalents	56,864	–	–	–	–	9,365,645	–	**9,422,509**
Mandatory cash balances with the CBR	–	–	–	–	–	776,562	–	**776,562**
Placements with banks	1,728	3,283	10,826	286	–	–	333	**16,456**
Loans to customers	2,477,739	3,765,616	14,145,538	26,247,560	131,592	–	1,646,247	**48,414,292**
Investment in associates	–	–	–	–	–	5,880	–	**5,880**
Investment in car leasing joint venture	–	–	–	–	–	368,560	–	**368,560**
Investment property	–	–	–	–	–	1,679,713	–	**1,679,713**
Property, equipment and intangible assets	–	–	–	–	–	2,138,557	–	**2,138,557**
Goodwill	–	–	–	–	–	345,943	–	**345,943**
Deferred tax asset	–	–	–	–	–	69,173	–	**69,173**
Other assets	–	–	–	–	–	489,301	–	**489,301**
Total assets	**2,536,331**	**3,768,899**	**14,156,364**	**26,247,846**	**131,592**	**15,239,334**	**1,646,580**	**63,726,946**
Liabilities								
Amounts due to the CBR	17,433,124	–	501,240	–	–	–	–	**17,934,364**
Deposits and balances from banks	143,438	–	32,084	–	–	–	–	**175,522**
Current accounts and deposits from customers	4,860,227	3,657,951	8,244,290	41,681,731	38	4,181,444	–	**62,625,681**
Debt securities issued	–	160,415	1,091,602	487,944	13,079	–	–	**1,753,040**
Subordinated debt	–	1,303,557	–	–	524,942	–	–	**1,828,499**
Deferred tax liabilities	–	–	–	–	–	236,516	–	**236,516**
Other liabilities	–	–	–	–	–	768,780	–	**768,780**
Total liabilities	**22,436,789**	**5,121,923**	**9,869,216**	**42,169,675**	**538,059**	**5,186,740**	**–**	**85,322,402**
Net position as at 31 December 2012	**(19,900,458)**	**(1,353,024)**	**4,287,148**	**(15,921,829)**	**(406,467)**	**10,052,594**	**1,646,580**	**(21,595,456)**

Currency risk

The Group has assets and liabilities denominated in several foreign currencies. Foreign currency risk arises when the actual or forecasted assets denominated in a foreign currency mismatch the liabilities in the same currency. Group's policy requires that total currency risk exposure must not exceed 10% of net assets attributable to participants.

The sensitivity of the Group's profit or loss for the year and net assets attributable to participants relative to changes in the foreign currency exchange rates as at 31 December 2013 and 31 December 2012 is as follows:

	2013		***2012***	
	Profit or loss RUR'000	***Change in net assets attributable to participants RUR'000***	***Profit or loss RUR'000***	***Change in net assets attributable to participants RUR'000***
20% appreciation of USD against RUR	(12,139)	(12,139)	(3,970)	(3,970)
20% depreciation of USD against RUR	12,139	12,139	3,970	3,970
20% appreciation of EUR against RUR	(7,345)	(7,345)	(2,098)	(2,098)
20% depreciation of EUR against RUR	7,345	7,345	2,098	2,098

(In thousands of Russian Rubles, unless otherwise indicated)

34. Risk management (continued)

Currency risk (continued)

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

	RUR RUR'000	*USD RUR'000*	*EUR RUR'000*	*Other RUR'000*	*Total RUR'000*
Assets					
Cash and cash equivalents	6,731,872	1,893,343	2,062,455	–	**10,687,670**
Mandatory cash balances with the CBR	772,536	–	–	–	**772,536**
Placements with banks	200,450	2,392,269	–	–	**2,592,719**
Financial instruments at fair value through profit or loss					
- Held by the Group	16,150,886	470,234	–	–	**16,621,120**
- Pledged under sale and repurchase agreements	25,642,376	2,067,960	–	–	**27,710,336**
Loans to customers	58,324,534	2,140,133	848	–	**60,465,515**
Investment in associates	3,000	–	–	–	**3,000**
Investment in car leasing joint venture	420,752	–	–	–	**420,752**
Investment property	1,829,002	–	–	–	**1,829,002**
Property, equipment and intangible assets	2,628,097	–	–	–	**2,628,097**
Goodwill	283,538	–	–	–	**283,538**
Deferred tax asset	5,492	–	–	–	**5,492**
Other assets	414,267	75,580	–	–	**489,847**
Total assets	**113,406,802**	**9,039,519**	**2,063,303**	**–**	**124,509,624**
Liabilities					
Amounts due to the CBR	24,024,784	–	–	–	**24,024,784**
Deposits and balances from banks	14,986	212,720	18,519	–	**246,225**
Current accounts and deposits from customers	71,437,285	6,337,715	2,997,388	2,716	**80,775,104**
Debt securities issued	3,551,703	219,855	306,224	–	**4,077,782**
Subordinated debt	–	1,615,734	–	–	**1,615,734**
Deferred tax liability	212,029	–	–	–	**212,029**
Other liabilities	737,107	3,251	–	–	**740,358**
Total liabilities, other than net assets attributable to participants	**99,977,894**	**8,389,275**	**3,322,131**	**2,716**	**111,692,016**
Net balance sheet position as at 31 December 2013	**13,428,908**	**650,244**	**(1,258,828)**	**(2,716)**	**12,817,608**
Net off-balance sheet position as at 31 December 2013	**(511,163)**	**(710,939)**	**1,222,102**	**–**	**–**
Net position as at 31 December 2013	**12,917,745**	**(60,695)**	**(36,726)**	**(2,716)**	**12,817,608**
Credit related commitments	**5,284,176**	**231,566**	**7,646**	**–**	**5,523,388**

(In thousands of Russian Rubles, unless otherwise indicated)

34. Risk management (continued)

Currency risk (continued)

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

	RUR RUR'000	*USD RUR'000*	*EUR RUR'000*	*Other RUR'000*	*Total RUR'000*
Assets					
Cash and cash equivalents	4,444,469	2,199,827	2,778,213	–	**9,422,509**
Mandatory cash balances with the CBR	776,562	–	–	–	**776,562**
Placements with banks	16,456	–	–	–	**16,456**
Financial instruments at fair value through profit or loss		–	–	–	**0**
- Held by the Group	9,185,381	317,269	–	–	**9,502,650**
- Pledged under sale and repurchase agreements	21,297,296	–	–	–	**21,297,296**
Loans to customers	45,959,898	2,453,780	614	–	**48,414,292**
Investment in associates	5,880	–	–	–	**5,880**
Investment in car leasing joint venture	368,560	–	–	–	**368,560**
Investment property	1,679,713	–	–	–	**1,679,713**
Property, equipment and intangible assets	2,138,557	–	–	–	**2,138,557**
Goodwill	345,943	–	–	–	**345,943**
Deferred tax asset	69,173	–	–	–	**69,173**
Other assets	489,301	–	–	–	**489,301**
Total assets	**86,777,189**	**4,970,876**	**2,778,827**	**–**	**94,526,892**
Liabilities					
Amounts due to the CBR	17,934,364	–	–	–	**17,934,364**
Deposits and balances from banks	138,834	21,888	14,800	–	**175,522**
Current accounts and deposits from customers	54,955,042	4,982,618	2,683,616	4,405	**62,625,681**
Debt securities issued	696,523	825,632	230,885	–	**1,753,040**
Subordinated debt	–	1,828,499	–	–	**1,828,499**
Deferred tax liability	236,516	–	–	–	**236,516**
Other liabilities	768,409	371	–	–	**768,780**
Total liabilities, other than net assets attributable to participants	**74,729,688**	**7,659,008**	**2,929,301**	**4,405**	**85,322,402**
Net balance sheet position as at 31 December 2012	**12,047,501**	**(2,688,132)**	**(150,474)**	**(4,405)**	**9,204,490**
Net off-balance sheet position as at 31 December 2012	**(2,777,929)**	**2,648,433**	**129,496**	**–**	**–**
Net position as at 31 December 2012	**9,269,572**	**(39,699)**	**(20,978)**	**(4,405)**	**9,204,490**
Credit related commitments	**3,578,271**	**84,841**	**21,366**	**–**	**3,684,478**

Prepayment risk

Prepayment risk is the risk that the Group may not receive the projected return from its assets because some customers repay loans earlier or later than expected.

The Group identifies the prepayment risk only for consumer loans. During 2013, the amount of consumer loans repaid prior to maturity was RUR 10,895,549 thousand or 32.03% of expected payments (during 2012, the amount of consumer loans repaid prior to maturity was RUR 7,428,288 thousand or 31.4% of expected payments). The Group's current year financial results and equity at the end of the current reporting period would not have been significantly impacted by changes in prepayment rates because such loans are carried at amortised cost and the prepayment right is at or close to the amortised cost of the loans and advances to customers.

(In thousands of Russian Rubles, unless otherwise indicated)

34. Risk management (continued)

Credit risk

Credit risk is defined as the risk that parties with whom the Group has contracted fail to meet their obligations (both on- or off-balance sheet). Adverse changes in the credit quality of the Group's borrowers and counterparties, or in their behaviour, would be expected to reduce the value of the Group's assets and increase the Group's write-downs and allowances for impairment losses.

Over the last five years, the global banking crisis and economic downturn has driven cyclically high bad debt charges, arising from the Group's lending to both retail and corporate customers. Group performance will remain strongly linked to the macroeconomic environment and other factors, including, inter alia, decelerating economic growth in Russian Federation, lower consumer spending, consumer over-indebtedness, unemployment increases and rising interest rates being possible impacts to the Group's exposures. The possibility of further macroeconomic downside risk remains.

The Group takes many mitigating actions with respect to this principal risk. The Group manages its credit risk in a variety of ways such as:

- through prudent and through the cycle credit risk appetite and policies;
- clearly defined levels of authority (including sound credit scoring models and credit policies for retail customers and independently sanctioned and controlled credit limits for commercial customers and counterparties);
- robust credit processes and controls; and
- well-established Group committees that ensure distressed and impaired loans are identified, considered, controlled and appropriately escalated and appropriately impaired (taking account of the Group's latest view of current and expected market conditions, as well as refinancing risk).

The Credit Committee is a standing body of the Group, authorised to make decisions on all issues relating to the credit operations of the Group. Credit risk policy is defined by Group's Credit Committee with input from the Risk Department and approved by the Management Board. The Risk Department is generally responsible for applicatoin the operating procedures and policies established by the Credit Committee, for the regular valuation of guarantees and collateral, either automatically or based on an expert opinion, both during the approval phase for a new loan or upon the renewal of the credit application.

The Group has policies and procedures for the management of credit exposures (both for on-balance sheet and off-balance sheet) including guidelines to limit commercial portfolio concentration. The Group's Credit policy establishes:

- procedures for review and approval process of different kinds of credit products;
- methodology for the credit assessment of lessees under leasing contracts;
- methodology for the credit assessment of borrowers (commercial and retail);
- methodology for the credit assessment of issuers and insurance companies;
- methodology for the evaluation and monitoring of collateral;
- procedures for the ongoing monitoring of loans and other credit exposures;
- procedures for collection process for different borrowers and lessees.

Reviews of the policies, methodologies and procedures are undertaken at least annually and incorporate internal and external audit review and challenge.

All retail loan applications are reviewed by the Risk Department through the statistical models, loan application data verification procedures and other factors, including, inter alia, applicant's indebtedness, source of income, history with the Bank etc. Some retail loan application are subject to additional verification conducted by Economic Security Department. All underwriting procedures are approved by the Credit Committee.

The Group does not consider commercial lending as strategic and takes a highly selective approach to commercial lending, particularly to the new to the Bank corporate borrowers. Commercial loan applications are checked by client managers and then are passed on to the Risk Department. The Risk Department produces an independent report based on structured analysis focusing on the customer's business, reputation, history with the Bank and financial performance. Financial Monitoring Department and Economic Security Department independently review every commercial loan application and produce a report reflecting their opinion, in particular whether the Credit policy requirements are met. During the loan approval process, an assessment of the value of guarantees and collateral, their legal enforceability and the guarantor's ability to meet its obligations is undertaken. Every commercial loan application must be approved by the Credit Committee and/or the Board depending on the amount of the loan.

(In thousands of Russian Rubles, unless otherwise indicated)

34. Risk management (continued)

Credit risk (continued)

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

The Group's maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets on the balance sheet and off balance sheet credit related commitments. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

The table below shows the maximum exposure to credit risk for the components of the consolidated statement of financial position, including derivatives. The maximum exposure is presented on gross basis before the effect of mitigation through the use of master netting and collateral agreements.

	Notes	*Maximum exposure 2013*	*Maximum exposure 2012*
Cash and cash equivalents (excluding cash on hand)	16	6,795,522	6,215,694
Placements with banks		2,592,719	16,456
Financial instruments at fair value through profit or loss	18	44,331,456	30,799,946
Loans to customers	19	60,465,515	48,414,292
Other assets (less settlements with tax authorities)	23	403,682	269,541
		114,588,894	**85,715,929**
Credit related commitments	32	5,523,388	3,684,478
Total credit risk exposure		**120,112,282**	**89,400,407**

Where financial instruments were recorded at fair value, the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

The effect of collateral and other risk mitigation techniques is shown in Note 19.

(In thousands of Russian Rubles, unless otherwise indicated)

34. Risk management (continued)

Credit quality of loans to individuals

The credit quality of loans to individuals is assessed and managed by the Group based on the number of days overdue. The tables below show the credit quality of loans to individuals based on the number of days overdue as at 31 December 2013 and 31 December 2012.

As at 31 December 2013:

	Gross loans RUR'000	*Impairment RUR'000*	*Net loans RUR'000*	*Impairment to gross loans %*
Consumer loans				
- Not past due	47,463,967	(467,049)	46,996,918	0.98%
- Overdue less than 30 days	2,647,498	(422,708)	2,224,790	15.97%
- Overdue 30-89 days	1,666,728	(849,659)	817,069	50.98%
- Overdue 90-179 days	1,778,849	(1,311,124)	467,725	73.71%
- Overdue 180-360 days	2,941,866	(2,521,641)	420,225	85.72%
Total consumer loans	**56,498,908**	**(5,572,181)**	**50,926,727**	**9.86%**
Credit cards				
- Not past due	3,785,863	(50,657)	3,735,206	1.34%
- Overdue less than 30 days	269,036	(46,809)	222,227	17.40%
- Overdue 30-89 days	203,729	(109,042)	94,687	53.52%
- Overdue 90-179 days	205,211	(156,507)	48,704	76.27%
- Overdue 180-360 days	340,300	(296,107)	44,193	87.01%
Total credit cards loans	**4,804,139**	**(659,122)**	**4,145,017**	**13.72%**
Mortgage loans				
- Not past due	144,184	(1,442)	142,742	1.00%
- Overdue less than 30 days	10,590	(529)	10,061	5.00%
- Overdue 30-89 days	1,272	(127)	1,145	9.98%
- Overdue 90-179 days	4,672	(934)	3,738	19.99%
- Overdue 180-360 days	3,651	(1,095)	2,556	29.99%
- Overdue more than 360 days	251	(126)	125	50.20%
Total mortgage loans	**164,620**	**(4,253)**	**160,367**	**2.58%**
Other loans to individuals				
- Not past due	207,439	(2,699)	204,740	1.30%
- Overdue less than 30 days	551	(55)	496	9.98%
- Overdue 30-89 days	939	(94)	845	10.01%
- Overdue 180-360 days	1,736	(1,227)	509	70.68%
- Overdue more than 360 days	1,561	(1,231)	330	78.86%
Total other loans to individuals	**212,226**	**(5,306)**	**206,920**	**2.50%**
Total loans to individuals	**61,679,893**	**(6,240,862)**	**55,439,031**	**10.12%**

(In thousands of Russian Rubles, unless otherwise indicated)

34. Risk management (continued)

Credit quality of loans to individuals (continued)

As at 31 December 2012:

	Gross loans RUR'000	*Impairment RUR'000*	*Net loans RUR'000*	*Impairment to gross loans %*
Consumer loans				
- Not past due	36,231,367	(283,200)	35,948,167	0.78%
- Overdue less than 30 days	1,498,256	(194,928)	1,303,328	13.01%
- Overdue 30-89 days	994,321	(444,198)	550,123	44.67%
- Overdue 90-179 days	1,134,733	(759,734)	374,999	66.95%
- Overdue 180-360 days	1,865,365	(1,521,735)	343,630	81.58%
Total consumer loans	**41,724,042**	**(3,203,795)**	**38,520,247**	**7.68%**
Credit cards				
- Not past due	2,693,019	(23,373)	2,669,646	0.87%
- Overdue less than 30 days	236,175	(36,507)	199,668	15.46%
- Overdue 30-89 days	177,326	(91,287)	86,039	51.48%
- Overdue 90-179 days	173,287	(126,847)	46,440	73.20%
- Overdue 180-360 days	252,738	(211,970)	40,768	83.87%
Total credit cards	**3,532,545**	**(489,984)**	**3,042,561**	**13.87%**
Mortgage loans				
- Not past due	199,390	(1,993)	197,397	1.00%
- Overdue less than 30 days	7,049	(352)	6,697	4.99%
- Overdue 30-89 days	3,113	(311)	2,802	9.99%
- Overdue 90-179 days	134	(27)	107	20.15%
- Overdue 180-360 days	7,850	(2,352)	5,498	29.96%
- Overdue more than 360 days	5,570	(2,785)	2,785	50.00%
Total mortgage loans	**223,106**	**(7,820)**	**215,286**	**3.51%**
Car loans				
- Not past due	383	(4)	379	1.04%
- Overdue 30-89 days	39	(16)	23	41.03%
- Overdue 90-179 days	170	(102)	68	60.00%
- Overdue 180-360 days	3,635	(3,635)	–	100.00%
Total car loans	**4,227**	**(3,757)**	**470**	**88.88%**
Other loans to individuals				
- Not past due	117,573	(2,151)	115,422	1.83%
- Overdue less than 30 days	24,863	(1,220)	23,643	4.91%
- Overdue 30-89 days	368	(37)	331	10.05%
- Overdue 90-179 days	1,038	(311)	727	29.96%
- Overdue 180-360 days	10,423	(5,237)	5,186	50.24%
- Overdue more than 360 days	590	(590)	–	100.00%
Total other loans to individuals	**154,855**	**(9,546)**	**145,309**	**6.16%**
Total loans to individuals	**45,638,775**	**(3,714,902)**	**41,923,873**	**8.14%**

(In thousands of Russian Rubles, unless otherwise indicated)

34. Risk management (continued)

Credit quality of loans to corporate entities

The following table provides information on the credit quality of the loans to legal entities and finance lease receivables as at 31 December 2013:

	Gross loans RUR'000	*Impairment RUR'000*	*Net loans RUR'000*	*Impairment to gross loans %*
Loans to corporate entities and finance lease receivables				
Unimpaired loans and finance lease receivables	4,180,554	(50,625)	4,129,929	1.21%
Impaired loans and finance lease receivables:				
Impaired loans and finance lease receivables:	891,982	(39,290)	852,692	4.40%
- Not past due	44,461	(21,329)	23,132	47.97%
- Overdue less than 90 days	56,941	(36,210)	20,731	63.59%
- Overdue more than 90 days and less than 1 year	993,384	(96,829)	896,555	9.75%
- Overdue more than 1 year	315,526	(31,829)	283,697	10.09%
Total impaired loans and finance lease receivables	**677,858**	**(65,000)**	**612,858**	**9.59%**
Individual impairment	**5,173,938**	**(147,454)**	**5,026,484**	**2.85%**

The following table provides information on the credit quality of the loans to legal entities and finance lease receivables as at 31 December 2012:

	Gross loans RUR'000	*Impairment RUR'000*	*Net loans RUR'000*	*Impairment to gross loans %*
Loans to corporate entities and finance lease receivables				
Unimpaired loans and finance lease receivables	6,270,999	(74,793)	6,196,206	1.19%
Impaired loans and finance lease receivables:				
- Overdue less than 90 days	274,864	(55,421)	219,443	20.16%
- Overdue more than 90 days and less than 1 year	81,157	(42,254)	38,903	52.06%
- Overdue more than 1 year	234,711	(198,844)	35,867	84.72%
Total impaired loans and finance lease receivables	**590,732**	**(296,519)**	**294,213**	**50.20%**
Individual impairment	339,134	(218,592)	120,542	64.46%
Collective impairment	251,598	(77,927)	173,671	30.97%
Total loans to corporate entities and finance lease receivables	**6,861,731**	**(371,312)**	**6,490,419**	**5.41%**

Impairment assessment

Collectively assessed allowances

Impairment allowances are assessed collectively for losses on loans to customers that are not individually significant (including car loans, mortgage loans, consumer loans, and loans to corporate entities and finance lease receivables) and for individually significant loans where there is no objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review. The Group estimates impairment allowances for loans to individuals based on statistics in relation to past historical losses and, in some cases where there is sufficient statistical data available, based on peer group statistics for comparable loan groups. The Group estimates impairment allowace for commercial loans based on an analysis of the future cash flows for impaired loans or based on the statistics in relation to past losses on loan portfolios for which no indication of impairment is identified.

(In thousands of Russian Rubles, unless otherwise indicated)

34. Risk management (continued)

Credit quality of loans to corporate entities (continued)

Loan impairment results from one or more events that occurred after the initial recognition of the loan and that have an impact on the estimated future cash flows associated with the loan, and which can be reliably estimated.

The objective indicators of loan impairment include the following:

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

Individually assessed allowances

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

Liquidity and funding risk

Liquidity risk is defined as the risk that the Group has insufficient financial resources to meet its commitments as they fall due, or can only secure them at excessive cost. Funding risk is defined as the risk that the Group does not have sufficiently stable and diverse sources of funding or the funding structure is inefficient. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of financial institutions. It is unusual for financial institutions ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

Liquidity and funding risk appetite is set by the Board and this statement of the Group's overall appetite for liquidity risk is reviewed and approved annually by the Management Board.

The Group's liquidity and funding position is underpinned by its significant customer deposit base, and has been supported by stable funding from the wholesale markets and Central Bank of Russian Federation as well as by the diversified portfolio of highly liquid assets, which the Group maintains in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

Daily monitoring and control processes are in place to address regulatory liquidity requirements. The Group monitors a range of market and internal early warning indicators on a daily basis for early signs of liquidity risk in the market or specifi c to the Group; The Bank was in compliance with these ratios throughout the years ended 31 December 2013 and 31 December 2012.

The Group carries out stress testing of its liquidity position against a range of scenarios on monthly basis. The results of stress testing are reviewed by ALCO monthly. The Group's liquidity risk appetite is also calibrated against a number of stressed liquidity metrics.

The liquidity management policy of the Group requires:

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

The Treasury Department receives information from business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. The Treasury Department then provides for an adequate portfolio of shortterm liquid assets to be maintained, largely made up of shortterm liquid trading securities, loans to banks and other interbank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole.

(In thousands of Russian Rubles, unless otherwise indicated)

34. Risk management (continued)

Liquidity risk and funding (continued)

The following tables show the undiscounted cash flows on the Group's financial liabilities, guarantees and unrecognised loan commitments on the basis of their earliest possible contractual maturity. The total gross inflow and outflow disclosed in the table is the contractual, undiscounted cash flow related to the financial asset, liability or commitment. The Group's expected cash flows related to these financial liabilities and unrecognised loan commitments may vary significantly from this analysis.

Financial liabilities As at 31 December 2013	*Demand and less than 1 month*	*From 1 to 3 months*	*From 3 months to 1 year*	*From 1 to 5 years*	*More than 5 years*	*Total gross amount outflow*	*Carrying amount*
Amounts due to the CBR	23,051,572	–	1,048,007	–	–	**24,099,579**	**24,024,784**
Deposits and balances from banks	34,049	65,458	136,199	14,231	–	**249,937**	**246,225**
Current accounts and deposits from customers	10,844,429	5,028,562	20,468,494	54,741,213	77	**91,082,775**	**80,775,104**
Debt securities issued	670,345	407,530	2,753,370	456,564	12,875	**4,300,684**	**4,077,782**
Subordinated debt	7,497	22,995	106,134	595,133	5,331,066	**6,062,825**	**1,615,734**
Other liabilities	93,925	646,433	–	–	–	**740,358**	**740,358**
Total financial liabilities	**34,701,817**	**6,170,978**	**24,512,204**	**55,807,141**	**5,344,018**	**126,536,158**	**111,479,987**
Credit related commitments	**2,892,671**	**687,039**	**953,396**	**990,282**	**–**	**5,523,388**	**5,523,388**

Financial liabilities As at 31 December 2012	*Demand and less than 1 month*	*From 1 to 3 months*	*From 3 months to 1 year*	*From 1 to 5 years*	*More than 5 years*	*Total gross amount outflow*	*Carrying amount*
Amounts due to the CBR	17,458,212	–	538,760	–	–	**17,996,972**	**17,934,364**
Deposits and balances from banks	143,623	–	32,846	–	–	**176,469**	**175,522**
Current accounts and deposits from customers	9,052,196	3,702,300	8,642,992	51,021,301	39	**72,418,828**	**62,625,681**
Debt securities issued	–	161,530	1,155,043	586,571	23,247	**1,926,391**	**1,753,040**
Subordinated debt	22,805	525,275	84,679	565,819	1,592,478	**2,791,056**	**1,828,499**
Other liabilities	77,719	746,414	–	–	–	**824,133**	**768,780**
Total financial liabilities	**26,754,555**	**5,135,519**	**10,454,320**	**52,173,691**	**1,615,764**	**96,133,849**	**85,085,886**
Credit related commitments	**1,596,939**	**565,663**	**764,075**	**757,801**	**–**	**3,684,478**	**3,684,478**

(In thousands of Russian Rubles, unless otherwise indicated)

34. Risk management (continued)

Liquidity risk and funding (continued)

The following table shows the breakdown of monetary assets and liabilities by remaining contractual maturity dates as at 31 December 2013:

	Less than 1 month RUR'000	*1 to 3 months RUR'000*	*3 months to 1 year RUR'000*	*Subtotal Less than 1 year RUR'000*	*1 to 5 years RUR'000*	*More than 5 years RUR'000*	*Subtotal More than 1 year RUR'000*	*No maturity and overdue RUR'000*	*Total RUR'000*
Assets									
Cash and cash equivalents	10,058,697	628,973	–	**10,687,670**	–	–	**–**	–	**10,687,670**
Mandatory cash balances with the CBR	103,019	47,475	185,679	**336,173**	436,363	–	**436,363**	–	**772,536**
Placements with banks	15,915	24,161	1,725,915	**1,765,991**	826,602	–	**826,602**	126	**2,592,719**
Financial instruments at fair value through profit or loss									
Held by the Group	16,621,120	–	–	**16,621,120**	–	–	**–**	–	**16,621,120**
Pledged under sale and repurchase agreements	27,710,336	–	–	**27,710,336**	–	–	**–**	–	**27,710,336**
Loans to customers	2,131,911	5,098,073	17,547,487	**24,777,471**	33,102,386	121,755	**33,224,141**	2,463,903	**60,465,515**
Investment in associates	–	–	–	**–**	–	–	**–**	3,000	**3,000**
Investment in car leasing joint venture	–	–	–	**–**	–	–	**–**	420,752	**420,752**
Other assets	354,501	16,348	94,334	**465,183**	24,664	–	**24,664**	–	**489,847**
Total assets	**56,995,499**	**5,815,030**	**19,553,415**	**82,363,944**	**34,390,015**	**121,755**	**34,511,770**	**2,887,781**	**119,763,495**
Liabilities									
Amounts due to the CBR	23,051,572	–	973,212	**24,024,784**	–	–	**–**	–	**24,024,784**
Deposits and balances from banks	34,049	65,458	133,367	**232,874**	13,351	–	**13,351**	–	**246,225**
Current accounts and deposits from customers	10,771,532	4,963,914	19,414,294	**35,149,740**	45,625,289	75	**45,625,364**	–	**80,775,104**
Debt securities issued	667,755	404,111	2,610,810	**3,682,676**	388,121	6,985	**395,106**	–	**4,077,782**
Subordinated debt	–	–	–	**–**	881,615	734,119	**1,615,734**	–	**1,615,734**
Other liabilities	93,925	646,433	–	**740,358**	–	–	**–**	–	**740,358**
Total liabilities	**34,618,833**	**6,079,916**	**23,131,683**	**63,830,432**	**46,908,376**	**741,179**	**47,649,555**	**–**	**111,479,987**
Net position as at 31 December 2013	**22,376,666**	**(264,886)**	**(3,578,268)**	**18,533,512**	**(12,518,361)**	**(619,424)**	**(13,137,785)**	**2,887,781**	**8,283,508**
Cumulative gap as at 31 December 2013	**22,376,666**	**22,111,780**	**18,533,512**	**18,533,512**	**6,015,151**	**5,395,727**	**(13,137,785)**	**(10,250,004)**	
Credit related commitments	**2,892,671**	**687,039**	**953,396**	**4,533,106**	**990,282**	**–**	**990,282**	**–**	**5,523,388**

(In thousands of Russian Rubles, unless otherwise indicated)

34. Risk management (continued)

Liquidity risk and funding (continued)

The following table shows the breakdown of monetary assets and liabilities by remaining contractual maturity dates as at 31 December 2012:

	Less than 1 month RUR'000	*1 to 3 months RUR'000*	*3 months to 1 year RUR'000*	*Subtotal Less than 1 year RUR'000*	*1 to 5 years RUR'000*	*More than 5 years RUR'000*	*Subtotal More than 1 year RUR'000*	*No maturity and overdue RUR'000*	*Total RUR'000*
Assets									
Cash and cash equivalents	9,422,509	–	–	**9,422,509**	–	–	**–**	–	**9,422,509**
Mandatory cash balances with the CBR	112,117	45,359	102,230	**259,706**	516,856	–	**516,856**	–	**776,562**
Placements with banks	1,728	3,283	10,826	**15,837**	286	–	**286**	333	**16,456**
Financial instruments at fair value through profit or loss									
Held by the Group	9,502,650	–	–	**9,502,650**	–	–	**–**	–	**9,502,650**
Pledged under sale and repurchase agreements	21,297,296	–	–	**21,297,296**	–	–	**–**	–	**21,297,296**
Loans to customers	2,477,739	3,765,616	14,145,538	**20,388,893**	26,247,560	131,592	**26,379,152**	1,646,247	**48,414,292**
Investment in associates	–	–	–	**–**	–	–	**–**	5,880	**5,880**
Investment in car leasing joint venture	–	–	–	**–**	–	–	**–**	368,560	**368,560**
Other assets	235,935	47,504	137,455	**420,894**	68,407	–	**68,407**	–	**489,301**
Total assets	**43,049,974**	**3,861,762**	**14,396,049**	**61,307,785**	**26,833,109**	**131,592**	**26,964,701**	**2,021,020**	**90,293,506**
Liabilities									
Amounts due to the CBR	17,433,124	–	501,240	**17,934,364**	–	–	**–**	–	**17,934,364**
Deposits and balances from banks	143,438	–	32,084	**175,522**	–	–	**–**	–	**175,522**
Current accounts and deposits from customers	9,041,671	3,657,951	8,244,290	**20,943,912**	41,681,731	38	**41,681,769**	–	**62,625,681**
Debt securities issued	–	160,415	1,091,602	**1,252,017**	487,944	13,079	**501,023**	–	**1,753,040**
Subordinated debt	–	489,419	–	**489,419**	–	1,339,080	**1,339,080**	–	**1,828,499**
Other liabilities	71,717	697,063	–	**768,780**	–	–	**–**	–	**768,780**
Total liabilities	**26,689,950**	**5,004,848**	**9,869,216**	**41,564,014**	**42,169,675**	**1,352,197**	**43,521,872**	**–**	**85,085,886**
Net position as at 31 December 2012	**16,360,024**	**(1,143,086)**	**4,526,833**	**19,743,771**	**(15,336,566)**	**(1,220,605)**	**(16,557,171)**	**2,021,020**	**5,207,620**
Cumulative gap as at 31 December 2012	**16,360,024**	**15,216,938**	**19,743,771**	**19,743,771**	**4,407,205**	**3,186,600**	**(16,557,171)**	**(14,536,151)**	
Credit related commitments	**1,596,939**	**565,662**	**764,076**	**2,926,677**	**757,801**	**–**	**757,801**	**–**	**3,684,478**

(In thousands of Russian Rubles, unless otherwise indicated)

34. Risk management (continued)

Liquidity and funding risk (continued)

The table presented above shows assets and liabilities of the Group by their remaining contractual maturity as at 31 December 2013 and 31 December 2012, with the exception of securities included into financial instruments at fair value through profit or loss as at 31 December 2013 and 31 December 2012. As at 31 December 2013 and 31 December 2012, securities included into financial instruments at fair value through profit or loss are shown in the category “Less than 1 month”, because Management believes that all of these financial instruments could be sold within one month in the normal course of business or the Group can pledge these financial instruments as a collateral for loans from the CBR.

The amounts in all the tables shown above represent carrying value of the assets and liabilities as at the reporting date and do not include future interest payments

According to the Russian legislation, term deposits of individuals may be withdrawn before maturity. However Management believes that in spite of this early withdrawal option and the fact that a substantial portion of customer accounts are on demand, diversification of these customer accounts and deposits by number and type of depositors, and the past experience of the Group indicates that these customer accounts provide a long-term and stable source of funding for the Group.

The Group has undrawn lines of credit with the CBR. Accordingly, the Group in its liquidity forecasts estimates that the liquidity gaps in the table below will be sufficiently covered by the continued retention of current accounts and deposits from customers, as well as the undrawn credit line facilities from the CBR.

Operational risk

Operational risk is the risk of loss arising from inadequate or failed internal processes, human error, fraud or external events.

The principal operational risks currently facing the Group are:

- IT systems and resilience: the risk of loss resulting from the failure to develop, deliver or maintain effective IT solutions. The resilience of IT in terms of its availability to customers and colleagues is of paramount importance to the Group;
- information security: the risk of information leakage, loss or theft. The threat profile is rapidly changing; in particular increasingly sophisticated attacks by cybercrime groups;
- external fraud: the risk of loss to the Group and/or its customers resulting from an act of deception or omission;
- customer process: the risk of new issues, process weaknesses and control deficiencies within the Group’s customer facing processes as the business continues to evolve.

The Group operates a robust control environment with regular review and investment. Significant investment has been made in IT infrastructure and systems to ensure their resilience and to enhance the services they support, in recognition of the importance of the ongoing availability of the Group’s services to its customers. The Group continues to invest in IT and information security control environments including user access management and records management to address evolving threats.

The Group adopts a risk based approach to external fraud management, reflecting the current and emerging external fraud risks within the market. This approach drives an annual programme of enhancements to the Group’s technology, process and people related controls; with emphasis on preventative controls, supported by real time detective controls – wherever feasible. The Group has developed a mature and robust fraud operating model with Group-wide policies and operational control frameworks.

Material operational risks are reported regularly to appropriate committees, attracting senior management visibility, and are managed via a range of strategies: avoidance, mitigation, transfer (including insurance), and acceptance.

(In thousands of Russian Rubles, unless otherwise indicated)

35. Related party transactions

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

Total remuneration included in employee compensation (refer Note 12):

	2013 RUR'000	*2012 RUR'000*
Members of the Board of Directors	31,856	45,235
Management	173,673	98,006
	205,529	**143,241**

The outstanding balances with related parties as at 31 December 2013 were as follows:

	Participants of Parent Group RUR'000	*Joint venture* RUR'000*	*Key management personnel** RUR'000*	*Other related parties RUR'000*	*Total RUR'000*
Loans outstanding at 1 January, gross	**–**	**106,806**	**96,455**	**381,138**	**584,399**
Loans issued during the year	23,024	887,465	456,387	1,005,484	**2,372,360**
Loan repayments during the year	(23,024)	(981,056)	(485,708)	(984,601)	**(2,474,389)**
Other movements	–	–	(1,238)	323,213	**321,975**
Loans outstanding at 31 December, gross	**–**	**13,215**	**65,896**	**725,234**	**804,345**
Less: allowance for impairment at 31 December	–	(159)	(813)	(9,644)	**(10,616)**
Loans outstanding at 31 December, net	**–**	**13,056**	**65,083**	**715,590**	**793,729**
Deposits at 1 January	**17,149**	–	**76,466**	**134,643**	**228,258**
Deposits received during the year	–	–	239,343	284,582	**523,925**
Deposits repaid during the year	(17,162)	–	(76,772)	(191,441)	**(285,375)**
Other movements	13	–	18,305	157,618	**175,936**
Deposits at 31 December	**–**	**–**	**257,342**	**385,402**	**642,744**
Financial instruments at fair value through profit or loss at 1 January	–	–	–	–	**–**
Financial instruments at fair value through profit or loss bought	**2,979,347**	–	–	–	**2,979,347**
Financial instruments at fair value through profit or loss sold	**(2,971,083)**	–	–	–	**(2,971,083)**
Financial instruments at fair value through profit or loss at 31 December	**8,264**	**–**	**–**	**–**	**8,264**
Current accounts at 31 December	**82,770**	**1,693**	**81,277**	**369,811**	**535,551**
Subordinated debt at 1 January	**1,014,360**	–	–	–	**1,014,360**
Subordinated debt received during the year	732,918	–	–	–	**732,918**
Subordinated debt repaid during the year	(1,010,900)	–	–	–	**(1,010,900)**
Other movements	(2,259)	–	–	–	**(2,259)**
Subordinated debt at 31 December	**734,119**	**–**	**–**	**–**	**734,119**
Guarantees received	–	–	–	388	**388**

* Joint venture is a contractual arrangement whereby the Group and the LLC "Sollers" undertake an economic activity that is subject to joint control for LLC "Sollers–Finance" (Note 40).

** Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group; the Group's key management personnel are the members of Management and the Board of Directors.

(In thousands of Russian Rubles, unless otherwise indicated)

35. Related party transactions (continued)

The outstanding balances with related parties as at 31 December 2012 were as follows:

	Participants of Parent Group RUR'000	*Joint venture* RUR'000*	*Key management personnel** RUR'000*	*Other related parties RUR'000*	*Total RUR'000*
Loans outstanding at 1 January, gross	**500,057**	**118,698**	**61,791**	**400,222**	**1,080,768**
Loans issued during the year	–	809,805	107,491	449,410	**1,366,706**
Loan repayments during the year	(500,057)	(821,697)	(72,798)	(240,680)	**(1,635,232)**
Other movements	–	–	(29)	(227,814)	**(227,843)**
Loans outstanding at 31 December, gross	**–**	**106,806**	**96,455**	**381,138**	**584,399**
Less: allowance for impairment at 31 December	–	(641)	(1,199)	(5,402)	**(7,242)**
Loans outstanding at 31 December, net	**–**	**106,165**	**95,256**	**375,736**	**577,157**
Deposits at 1 January	**316,894**	–	**45,239**	**247,019**	**609,152**
Deposits received during the year	1,229,884	–	74,595	28,656	**1,333,135**
Deposits repaid during the year	(1,491,644)	–	(41,449)	(223,665)	**(1,756,758)**
Other movements	(37,985)	–	(1,919)	82,633	**42,729**
Deposits at 31 December	**17,149**	**–**	**76,466**	**134,643**	**228,258**
Current accounts at 31 December	**518**	**429**	**26,295**	**51,709**	**78,951**
Subordinated debt at 31 December	**1,014,360**	**–**	**–**	**–**	**1,014,360**
Guarantees received	–	–	36,648	1,935,577	**1,972,225**

* Joint venture is a contractual arrangement whereby the Group and the LLC "Sollers" undertake an economic activity that is subject to joint control for LLC "Sollers–Finance" (Note 40).

** Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group; the Group's key management personnel are the members of Management and the Board of Directors.

In April and May 2012, the Group sold a controlling stake in one of it's subsidiaries to a related party and bought non-controlling stake in non-related entity from a third party for a cash consideration of RUR 307,654 thousand. Under the call option agreement concluded with the same related party just after the sale-purchase the Group is able to buy back the stake in sold subsidiary at any time for the consideration of non-controlling stake in other entity.

In August 2012, the Group amended the call option with a related party according to which the Bank obtained the right to require the related party to sell controlling stake in subsidiary with the nominal value of RUR 307,654 thousand for one Euro to the Bank.

As a result of these transactions, the Group retained control over its subsidiary and continued consolidating the subsidiary (Note 3).

Amounts included in the consolidated income statement for the year ended December 31, 2013 in relation to related party transactions were as follows:

	Participants of Parent Group RUR'000	*Joint Venture* RUR'000*	*Key management personnel** RUR'000*	*Other RUR'000*	*Total RUR'000*
Interest income	1,980	6,208	15,788	87,541	**111,517**
Interest expense on deposits	(36)	–	(9,343)	(16,274)	**(25,653)**
Interest expense on subordinated loans	(63,993)	–	–	–	**(63,993)**
Provision for loans impairment	–	–	(762)	36,771	**36,009**
Fee and commission income	176	101	1,027	618	**1,922**
Other income	4,132	–	52	2,159	**6,343**
General administrative expenses	(12,071)	–	(1,432)	(28)	**(13,531)**

* Joint venture is a contractual arrangement whereby the Group and the LLC "Sollers" undertake an economic activity that is subject to joint control for LLC "Sollers–Finance" (Note 40).

** Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group; the Group's key management personnel are the members of Management and the Board of Directors.

(In thousands of Russian Rubles, unless otherwise indicated)

35. Related party transactions (continued)

Amounts included in the consolidated income statement for the year ended December 31, 2012 in relation to related party transactions were as follows:

	Participants of Parent Group RUR'000	*Joint Venture* RUR'000*	*Key management personnel** RUR'000*	*Other RUR'000*	*Total RUR'000*
Interest income	24,818	32,054	9,605	86,531	**153,008**
Interest expense on deposits	(23,224)	–	(4,402)	(38,629)	**(66,255)**
Interest expense on subordinated loans	(48,924)	–	–	–	**(48,924)**
Provision for loans impairment	–	–	291	(2,341)	**(2,050)**
Fee and commission income	94	95	702	563	**1,454**
Other income	4,533	–	–	1,868	**6,401**
General administrative expenses	(6,464)	–	(919)	(2,559)	**(9,942)**

* Joint venture is a contractual arrangement whereby the Group and the LLC “Sollers” undertake an economic activity that is subject to joint control for LLC “Sollers–Finance” (Note 40).

** Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group; the Group’s key management personnel are the members of Management and the Board of Directors.

36. Fair value of financial instruments

The following disclosure of the estimated fair value of financial instruments is made in accordance with the requirements of IFRS 7 *Financial Instruments: Disclosures*. Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm’s length transaction other than in forced sale or liquidation. As no readily available market exists for a large part of the Group’s financial instruments (specifically extended loans) at which such financial assets would be traded on a regular basis, judgment is necessary in arriving at fair value based on current economic conditions and the specific risks attributable to a given instrument. The estimates presented herein are not necessarily indicative of the amounts the Group could realise in a market exchange from the sale of its full holdings of a particular instrument.

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- level 2: techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

(In thousands of Russian Rubles, unless otherwise indicated)

36. Fair value of financial instruments (continued)

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

	Fair value measurement using			
	Quoted prices in active markets (Level 1)	***Significant observable inputs (Level 2)***	***Significant unobservable inputs (Level 3)***	***Total***
Assets measured at fair value				
Financial instruments at fair value through profit or loss	38,660,408	5,671,048	–	**44,331,456**
Assets for which fair values are disclosed				
Cash and cash equivalents	10,687,670	–	–	**10,687,670**
Mandatory reserves with the Central Bank of the Russian Federation	–	–	772,536	**772,536**
Placements with banks and other financial institutions	–	–	2,592,719	**2,592,719**
Loans to customers	–	–	60,345,030	**60,345,030**
Other assets	–	–	489,847	**489,847**
Liabilities for which fair values are disclosed				
Amounts due to the CBR	–	–	24,024,784	**24,024,784**
Deposits and balances from banks	–	–	246,225	**246,225**
Current accounts and deposits from customers	–	–	78,573,796	**78,573,796**
Debt securities issued	2,000,000	–	2,082,087	**4,082,087**
Subordinated debt	–	–	1,615,734	**1,615,734**
Other liabilities	–	–	740,358	**740,358**

As at 31 December 2012	***Level 1***	***Level 2***	***Level 3***	***Total***
Financial assets				
Financial instruments at fair value through profit or loss	28,552,242	2,247,704	–	**30,799,946**
	28,552,242	**2,247,704**	**–**	**30,799,946**

The following table shows transfers from level 1 to level 2 of financial assets and liabilities which were recorded at fair value:

	2013 RUR'000
Financial instruments at fair value through profit or loss	
Bonds of companies with state participation	1,584,944
Corporate bonds	601,856
Government and municipal bonds	246,476

The financial assets presented above were transferred from level 1 to level 2 as they ceased to be actively traded during the year and fair values were consequently obtained using valuation techniques using observable market inputs.

(In thousands of Russian Rubles, unless otherwise indicated)

36. Fair value of financial instruments (continued)

Financial assets at fair value through profit or loss

Trading securities valued using a valuation technique or pricing models primarily consist of unquoted equity and debt securities. These securities are valued using models which sometimes only incorporate data observable in the market and at other times use both observable and nonobservable data. The non-observable inputs to the models include assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry and geographical jurisdiction in which the investee operates.

Movements in level 3 financial instruments measured at fair value

During the year ended 31 December 2013 and 31 December 2012, the Group had no transfers of financial instruments from level 1 and level 2 to level 3 of the fair value hierarchy.

Fair value of financial assets and liabilities not carried at fair value

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

	Carrying value 2013	*Fair value 2013*	*Unrecognised gain/(loss) 2013*	*Carrying value 2012*	*Fair value 2012*	*Unrecognised gain/(loss) 2012*
Financial assets						
Cash and cash equivalents	10,687,670	10,687,670	–	9,422,509	9,422,509	–
Mandatory reserves with the CBR	772,536	772,536	–	776,562	776,562	–
Placements with banks and other financial institutions	2,592,719	2,592,719	–	16,456	16,456	–
Loans to customers	60,465,515	60,345,030	(120,485)	48,414,292	48,636,601	222,309
Other assets	489,847	489,847	–	489,301	489,301	–
Financial liabilities						–
Amounts due to the CBR	24,024,784	24,024,784	–	17,934,364	17,934,364	–
Deposits and balances from banks	246,225	246,225	–	175,522	175,522	–
Current accounts and deposits from customers	80,775,104	78,573,796	2,201,308	62,625,681	61,874,666	751,015
Debt securities issued	4,077,782	4,082,087	(4,305)	1,753,040	1,753,040	–
Subordinated debt	1,615,734	1,615,734	–	1,828,499	1,828,499	–
Other liabilities	740,358	740,358	–	768,780	768,780	–
Total unrecognised change in fair value			**2,076,518**			**973,324**

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements.

Cash and accounts with the Central Bank of Russia

The carrying value of cash and accounts with the CBR approximates their fair value due to relatively shortterm maturity of these financial instruments.

Amounts due from and to credit institutions

For financial assets and financial liabilities that are liquid or having a short term maturity (less than three month) it is assumed that the carrying amounts approximate to their fair value.

Loans and advances to customers

The estimate was made by discounting of scheduled future cash flows of the individual loans through the estimated maturity using prevailing market rates as at the respective year end.

(In thousands of Russian Rubles, unless otherwise indicated)

36. Fair value of financial instruments (continued)

Debt securities issued

Fair value of debt securities issued is assed based on the available market quotes of bonds issued at the year end.

Due to customers

The estimate was made by discounting of scheduled future cash flows of the term deposits through the estimated maturity using prevailing market rates as at the respective year end.

37. Business combination and disposal of subsidiaries

During the 4th quarter 2013, following Group's strategy for reduction of non-core business operations LLC "Leasing Company Razvitie" and LLC "Regionalnaya Lisingovaya Compania" have exchanged their participatory shares of one another. As the result of such exchange the Group deconsolidated its subsidiaries LLC "Leasing Company Razvitie" and LLC "BKA" as they ceased to comply with criteria of consolidation. The financial result from such deconsolidation is immaterial.

38. Goodwill

The goodwill held in the Group's balance sheet is tested at least annually for impairment in compliance with IAS 36 *Impairment of Assets*.

Goodwill acquired through business combinations with indefinite lives have been allocated to one cash–generating unit (Retail Banking).

The carrying amount and movements of goodwill allocated to each of the cash-generating units were as follows:

	Retail banking RUR'000
Goodwill as at 31 December 2011	**407,479**
Impairment	(61,536)
Goodwill as at 31 December 2012	**345,943**
Impairment	(62,405)
Goodwill as at 31 December 2013	**283,538**

Identified impairment of goodwill relates to extinguishing loan portfolios which were acquired by the Group as a part of LLC Credit Island "Primorye" in March 2008.

39. Capital adequacy

The Group maintains and actively manages capital base to cover risks inherent in the business. The adequacy of the Group's capital is monitored using, among other measures, the ratios established by the Basel Capital Accord 1988 and the ratios established by the CBR in supervising the Group.

During 2013, the Group complied in full with all its externally imposed capital requirements.

In accordance with the Basel Capital Accord 1988, regulatory capital consist of Tier 1 capital, which comprises charter capital, retained earnings, including current year profit, less goodwill. The other component of regulatory capital is Tier 2 capital, which includes subordinated long term debt.

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

(In thousands of Russian Rubles, unless otherwise indicated)

39. Capital adequacy (continued)

CBR capital adequacy ratio

The CBR requires banks to maintain a capital adequacy ratio of 10% of risk–weighted assets, computed based on RAL. As at 31 December 2013 and 31 December 2012, the Bank's capital adequacy ratio on this basis was as follows:

	2013	***2012***
Main capital	11,334,731	6,229,610
Additional capital	2,585,755	2,962,224
Total capital	**13,920,486**	**9,191,834**
Risk weighted assets	**97,960,536**	**80,310,992**
Capital adequacy ratio	14.21%	11.4%

Capital adequacy ratio under Basel Capital Accord 1988

The Group's capital adequacy ratio, computed in accordance with the Basel Capital Accord 1988, with subsequent amendments including the amendment to incorporate market risks, as at 31 December 2013 and 31 December 2012, comprised:

	2013	***2012***
Tier 1 capital	12,534,065	8,815,439
Tier 2 capital	1,615,734	1,828,499
Total capital	**14,149,799**	**10,643,938**
Risk weighted assets	**86,545,330**	**67,314,681**
Tier 1 capital ratio	14.5%	13.1%
Total capital ratio	16.3%	15.8%

40. Share of investments in a joint venture

The Group has a 50% interest in LLC "Sollers-Finance" which provides car leasing services for the legal entities in Russian Federation. Under IAS 31 *Investment in Joint Ventures* (prior to the transition to IFRS 11), the Group's interest in LLC "Sollers-Finance" was classified as a jointly controlled entity and the Group's share of the assets, liabilities, revenue, income and expenses were proportionately consolidated in the consolidated financial statements. Upon adoption of IFRS 11, the Group has determined its interest to be a joint venture and it is required to be accounted for using the equity method. The effect of applying IFRS 11 is as follows:

Deemed cost of Sollers-Finance LLC

	As at 1 January 2012
Cash and cash equivalents	3,571
Loans to customers	562,197
Premises and equipment	13,101
Deferred tax assets	2,187
Other assets	42,821
Total assets	**623,877**
Due to other banks	311,636
Deferred tax liability	9,150
Other liabilities	20,365
Total liabilities	**341,151**
Deemed cost of joint venture	**282,726**

(In thousands of Russian Rubles, unless otherwise indicated)

40. Share of investments in a joint venture (continued)

Impact on the income statement

	For the year ended 30 December 2012 RUR'000
Decrease in Interest income	(189,519)
Decrease in Interest expense	42,148
Decrease in Net interest income	**(147,371)**
Decrease in Allowances for loan impairment	13,097
Decrease in Net interest income after allowances for loan impairment and other impairment	**(134,274)**
Decrease in Fee and commission income	(10,357)
Decrease in Fee and commission expense	8,448
Increase in Net fee and commission income	**(1,909)**
Decrease in Other impairment and provisions	10,992
Decrease in Other operating income	(19,992)
Increase in Share of profit of car leasing joint venture	47,760
Decrease in Operating income	**(97,423)**
Decrease in Personnel expenses	48,679
Decrease in Other general administrative expenses	36,241
Decrease in Profit before income tax expense	**(12,503)**
Decrease in Income tax expense	12,503
Net impact on profit after tax	**–**

Impact on the statement of financial position

	As at 31 December 2012 RUR'000
Decrease in Cash and cash equivalents	(3,524)
Decrease in Loans to customers	(866,447)
Increase in Investment in car leasing joint venture	368,560
Decrease in Property, equipment and intangible assets	(18,814)
Decrease in Goodwill	(43,108)
Decrease in Deferred tax assets	(1,795)
Decrease in Other assets	(85,410)
Decrease in Deposits and balances from banks	593,035
Increase in Current accounts and deposits from customers	(215)
Decrease in Deferred tax liability	2,367
Decrease in Other liabilities	55,351
Net impact on net assets attributable to participants	**–**

(In thousands of Russian Rubles, unless otherwise indicated)

40. Share of investments in a joint venture (continued)

The summarised financial information of Sollers Finance LLC is presented below:

	As at 31 December 2013 RUR'000	*As at 31 December 2012 RUR'000*
Cash and cash equivalents	3,790	7,477
Loans to customers	2,133,605	1,839,700
Property and equipment	47,876	37,626
Other assets	143,165	174,408
Total assets	**2,328,436**	**2,059,211**
Due to credit institutions	1,439,026	1,290,699
Amounts due to customers	116	2,176
Other liabilities	134,009	115,434
Total liabilities	**1,573,151**	**1,408,309**
Net assets	**755,285**	**650,902**
Group's share in net assets	377,643	325,451
Goodwill included in the carrying amount of the investment	43,109	43,109
Carrying value of the investment in car leasing joint venture	**420,752**	**368,560**

	For the year ended 31 December 2013 RUR'000	*For the year ended 31 December 2012 RUR'000*
Interest income	575,113	411,080
Interest expense	(154,817)	(116,350)
Allowance for loan impairment	(61,569)	(48,176)
Non-interest income	61,742	45,789
Non-interest expense	(255,747)	(196,821)
Profit for the year	**164,722**	**95,522**
Dividends received from the car leasing joint venture during the year	20,020	–

41. Principal consolidated subsidiaries

Included in the table below is the list of the principal consolidated subsidiaries and joint ventures of the Group as at 31 December 2013 and 31 December 2012:

		Voting rights	
	Relationship	***2013***	***2012***
LLC "Leasing Company Razvitie" (Note 37)	Subsidiary	–	100.00%
LLC "Regionalnaya Lisingovaya Compania"	Subsidiary	100.00%	100.00%
LLC "BKA" (Note 37)	Subsidiary	–	100.00%
LLC "Investicii v nedvizhimost"	Subsidiary	100.00%	100.00%
LLC "Sollers–Finance"	Joint venture	50.00%	50.00%
LLC "Avtozaim"	Special purpose entity	100.00%	100.00%
OJSC "Kostromskoy ipotechniy operator"	Associate	25.00%	49.00%

(In thousands of Russian Rubles, unless otherwise indicated)

42. Events subsequent to the balance sheet date

During January 2014, the Group received two subordinated loans of USD 31,170 thousand with an annual interest rate of 14% from SovCo Capital Partners B.V.

On 13 February 2014, the Group issued non-convertible bonds of RUR 2,000,000 thousand with the nominal coupon rate of 12% and effective coupon rate of 12.36% maturing in February 2019.

Acquisition of CJSC GE Money Bank

Background

On 6 February 2014 (the “acquisition date”), the Group acquired from GE Capital Europe Limited 100% of the voting shares of CJSC GE Money Bank (“GEMB”) following required regulatory approvals by Federal Antimonopoly Service and the Central Bank of the Russian Federation.

GEMB specialises in unsecured consumer lending, credit cards and deposit products. At the acquisition date, GEMB network comprises 51 offices and 90 points of sale and is present in 52 Russian predominantly large cities (Moscow, Saint Petersburg, Nizhny Novgorod, Kazan, Ekaterinburg, Krasnodar, Novosibirsk, Samara, Rostov-on-Don, Chelyabinsk, Ufa and others).

For the Bank, the rationale for the acquisition was to become a federal bank present in circa 48 out of 83 federal subjects of Russian Federation, procure high quality, low risk retail loan portfolio, acquire a range of intellectual properties, IT technologies and market leading retail banking practices (corporate governance, risk, etc.) as well as increase capital.

As at the acquisition date, the Bank had two interbank deposits of RUR 2,558,734 thousand in total placed with GEMB.

Acquired assets and liabilities

Provisional fair value of GEMB assets, liabilities and equity as at the acquisition date is presented below.

	RUR’000
Assets	
Cash and cash equivalents	2,214,134
Mandatory cash balances with the Central Bank of the Russian Federation	155,868
Placements with banks	107,183
Loans to customers, gross	25,635,998
Provision for loan impairment	(2,148,884)
Property, equipment and intangible assets	295,994
Tax prepayment	231,677
Deferred tax asset	261,594
Other assets	323,669
Total assets	**27,077,233**
Liabilities	
Deposits and balances from banks	3,273,396
Current accounts and deposits from customers	7,803,915
Other borrowed funds	6,922,636
Other liabilities	95,416
Total liabilities	**18,095,363**
Equity	
Share capital	490,247
Other capital contributions	7,327,219
Retained earnings	1,164,404
Total equity	**8,981,870**
Total equity and liabilities	**27,077,233**

(In thousands of Russian Rubles, unless otherwise indicated)

42. Events subsequent to the balance sheet date (continued)

Acquisition of CJSC GE Money Bank (continued)

Bargain purchase gain (provisional amount)

	RUR'000
Consideration transferred	5,294,909
GEMB equity as at the acquisition date	(8,981,870)
Bargain purchase gain	**(3,686,961)**

Dividends received

On 7 February 2014, the Group received from GEMB dividends of RUR 3,000,000 thousand.

Acquisition costs

In 2013, the Bank bore certain expenses related to the acquisition of GEMB as presented below. Acquisition costs were expensed as incurred during financial year ended 31 December 2013.

	RUR'000
Advisory, legal, accounting, valuation and other professional fees	(39,850)
Internal acquisitions department compensation incl. bonuses	(18,540)
General administrative costs	(3,650)
Total acquisition costs	**(62,040)**

Contingent liabilities

As a part of the acquisition of GEMB, the Group assumed a number of contingent liabilities including:

- Transitional Service Agreement ("TSA agreement") which relates to GE Capital Europe Limited providing the Bank certain IT – related services for up to 18 months from the acquisition date;
- Contingent liability related to rent of premises for GEMB headoffices in Moscow;
- HR costs which relate to employee arrangements specific to GE Group of companies.

	RUR'000
TSA agreement	(197,409)
Rent	(155,802)
HR costs	(449,623)
Total contingent liabilities	**(802,834)**

Mr. Sergey Khotimsky
Chief Executive Officer

Mr. Andrei Osnos
Chief Financial Officer