OJSC OTP Bank

Financial Statements
for the Year Ended 31 December 2013

OJSC OTP BANK

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OJSC OTP BANK

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

Management is responsible for the preparation of the financial statements that present fairly the financial position of Open Joint Stock Company "OTP Bank" (the "Bank") as of 31 December 2013, and the results of its operations, cash flows and changes in shareholders' equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

In preparing the financial statements, management is responsible for:

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

Management is also responsible for:

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

The financial statements for the year ended 31 December 2013 were approved by the President of the Bank on 31 March 2014.

On behalf of the Management Board:

President	**Acting Chief Accountant**
G. Chesakov	**E. Nikanorova**
31 March 2014	31 March 2014
Moscow	Moscow

Открытое акционерное общество «ОТП Банк» г. Москва

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Russia

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INDEPENDENT AUDITOR'S REPORT

To: Shareholders and Board of Directors of Open Joint Stock Company "OTP Bank"

We have audited the accompanying financial statements of Open Joint Stock Company "OTP Bank", which comprise the statement of financial position as at December 31, 2013, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for 2013, and notes comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Open Joint Stock Company "OTP Bank" as at December 31, 2013, and its financial performance and its cash flows for 2013 in accordance with International Financial Reporting Standards.

Deloitte & Touche

31 March 2014
Moscow, Russian Federation

Golovkova A.Y., Partner
(certificate № 01-000102 dated 17 October 2011)

ZAO Deloitte & Touche CIS

Аудируемое лицо: Открытое Акционерное Общество «ОТП Банк»

Свидетельство о государственной регистрации №1027739176563 от 11 сентября 2002 года

Лицензия на привлечение во вклады и размещение драгоценных металлов №2766 от 4 марта 2008 года.

Генеральная лицензия на осуществление банковских операций №2766 от 21 июня 2012 года.

Место нахождения: 125171, г. Москва, Ленинградское шоссе, д.16А, стр.1.

Независимый аудитор: ЗАО «Делойт и Туш СНГ»

Свидетельство о государственной регистрации № 018.482. Выдано Московской регистрационной палатой 30.10.1992 г.

Свидетельство о внесении записи в ЕГРЮЛ № 1027700425444, выдано 13.11.2002 г. Межрайонной Инспекцией МНС России № 39 по г. Москва.

Свидетельство о членстве в СРО аудиторов «НП «Аудиторская Палата России» от 20.05.2009 г. № 3026, ОРНЗ 10201017407.

OJSC OTP BANK

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2013
(in thousands of Russian Rubles unless otherwise stated)

	Notes	2013	2012
Interest income	3	34 850 635	31 046 773
Interest expense	3	(7 553 257)	(6 049 401)
Net interest income before impairment of interest earning assets		**27 297 378**	**24 997 372**
Impairment of interest bearing assets	4	(19 606 841)	(10 085 170)
Net interest income		**7 690 537**	**14 912 202**
Net gain on financial assets and liabilities at fair value through profit or loss	5	489 462	700 111
Net gain/(loss) on foreign exchange operations	6	276 964	(414 126)
Fee and commission income	7	5 999 976	5 210 330
Fee and commission expense	7	(2 898 950)	(2 331 071)
Net gain/(loss) on financial assets available-for-sale		1 311 381	(8 751)
Recovery of other provisions/(other provisions)	4	68 630	(164 402)
Other income	8	29 676	55 794
Net non-interest income		**5 277 139**	**3 047 885**
Operating income		12 967 676	17 960 087
Operating expenses	9	(11 907 860)	(9 880 651)
Profit before income tax		**1 059 816**	**8 079 436**
Income tax expense	10	(183 739)	(1 666 083)
Profit for the year		**876 077**	**6 413 353**
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss:			
Revaluation of property and equipment		75 539	32 271
Deferred tax relating to revaluation of property and equipment	10	(15 108)	(6 452)
Total items that will not be reclassified subsequently to profit or loss		**60 431**	**25 819**
Items that may be reclassified subsequently to profit or loss:			
Net change in fair value of financial assets available-for-sale		1 038 620	665 474
Net change in fair value of financial assets available-for-sale transferred to profit or loss		(1 449 969)	(20 707)
Exchange differences on translating foreign operations		-	(4 711)
Deferred tax relating to revaluation of financial assets available-for-sale	10	82 270	(128 953)
Total items that may be reclassified subsequently to profit or loss		**(329 079)**	**511 103**
Total other comprehensive income		**(268 648)**	**536 922**
Total comprehensive income		**607 429**	**6 950 275**
Earnings per share – basic and diluted (RUR, per share)	11	0.003	0.023

The financial statements are approved for issue by the Management Board and signed on its behalf on 31 March 2014.

President
G. Chesakov

31 March 2014
Moscow

Acting Chief Accountant
E. Nikanorova

31 March 2014
Moscow

The notes on pages 8-68 form an integral part of these financial statements.

OJSC OTP BANK

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

	Notes	31 December 2013	31 December 2012
Assets			
Cash and cash equivalents	12	8 844 946	6 549 339
Obligatory reserve with the Central Bank of the Russian Federation		1 057 694	1 162 133
Financial assets at fair value through profit or loss	13	597 937	128 683
Due from banks and other financial institutions	14	8 728 959	12 937 997
Loans to customers	15	105 634 919	101 828 771
Financial assets available-for-sale	16	13 616 315	15 773 894
Financial assets held-to-maturity	17	169 264	154 363
Property, equipment and intangible assets	18	3 261 259	2 619 150
Investment property	19	11 137	58 797
Deferred tax assets	10	723 208	-
Other assets	20	1 074 651	691 263
Total assets		**143 720 289**	**141 904 390**
Liabilities and equity			
Liabilities			
Due to other banks	21	8 601 924	10 345 962
Financial liabilities at fair value through profit or loss	13	215 466	326 553
Customer accounts	22	86 826 020	83 070 933
Debt securities issued	23	15 567 715	16 262 215
Current income tax liabilities		186 758	164 930
Deferred tax liabilities	10	-	202 650
Other liabilities	24	2 430 946	2 389 511
Subordinated debts	25	2 401 219	2 258 824
Total liabilities		**116 230 048**	**115 021 578**
Equity			
Share capital	26	4 423 768	4 423 768
Share premium	26	2 000 000	2 000 000
Financial assets available-for-sale revaluation reserve		429 093	758 172
Property and equipment revaluation reserve		472 782	412 351
Retained earnings		20 164 598	19 288 521
Total equity		**27 490 241**	**26 882 812**
Total liabilities and equity		**143 720 289**	**141 904 390**

The financial statements are approved for issue by the Management Board and signed on its behalf on 31 March 2014.

President
G. Chesakov

31 March 2014
Moscow

Acting Chief Accountant
E. Nikanorova

31 March 2014
Moscow

The notes on pages 8-68 form an integral part of these financial statements.

OJSC OTP BANK

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2013
(in thousands of Russian Rubles unless otherwise stated)

	Share capital	Share premium	Financial assets available-for-sale revaluation reserve	Property revaluation reserve	Foreign currency translation reserve	Retained earnings	Total equity
Balance as at 31 December 2011	**4 423 768**	**2 000 000**	**242 358**	**387 684**	**4 711**	**12 874 016**	**19 932 537**
Profit for the year	-	-	-	-	-	6 413 353	6 413 353
Other comprehensive income							
Exchange differences on translating foreign operations	-	-	-	-	(4 711)	-	(4 711)
Revaluation of property, net of deferred tax	-	-	-	25 819	-	-	25 819
Net change in fair value of financial assets available-for-sale, net of deferred tax	-	-	532 380	-	-	-	532 380
Disposal of financial assets available-for-sale	-	-	(16 566)	-	-	-	(16 566)
Total other comprehensive income for the year ended 31 December 2012	**-**	**-**	**515 814**	**25 819**	**(4 711)**	**-**	**536 922**
Total comprehensive income for the year ended 31 December 2012	**-**	**-**	**515 814**	**25 819**	**(4 711)**	**6 413 353**	**6 950 275**
De-recognition of property and equipment revaluation reserve	-	-	-	(1 152)	-	1 152	-
Balance as at 31 December 2012	**4 423 768**	**2 000 000**	**758 172**	**412 351**	**-**	**19 288 521**	**26 882 812**
Profit for the year	-	-	-	-	-	876 077	876 077
Other comprehensive income							
Revaluation of property, net of deferred tax	-	-	-	60 431	-	-	60 431
Net change in fair value of financial assets available-for-sale, net of deferred tax	-	-	830 896	-	-	-	830 896
Disposal of financial assets available-for-sale	-	-	(1 159 975)	-	-	-	(1 159 975)
Total other comprehensive income for the year ended 31 December 2013	**-**	**-**	**(329 079)**	**60 431**	**-**	**-**	**(268 648)**
Total comprehensive income for the year ended 31 December 2013	**-**	**-**	**(329 079)**	**60 431**	**-**	**876 077**	**607 429**
Balance as at 31 December 2013	**4 423 768**	**2 000 000**	**429 093**	**472 782**	**-**	**20 164 598**	**27 490 241**

President
G. Chesakov

31 March 2014
Moscow

Acting Chief Accountant
E. Nikanorova

31 March 2014
Moscow

Открытое акционерное общество «ОТП Банк»

The notes on pages 8-68 form an integral part of these financial statements.

OJSC OTP BANK

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2013
(in thousands of Russian Rubles unless otherwise stated)

	Notes	2013	2012
Cash flows from operating activities			
Profit before tax		1 059 816	8 079 436
Adjustments for:			
Allowance for impairment losses on interest bearing assets		19 606 841	10 085 170
(Recovery of other provisions)/other provisions		(68 630)	164 402
Net change in fair value of financial assets held for trading		6 373	(2 282)
Net change in fair value of derivative instruments		(379 422)	472 369
Loss on disposal of property, equipment and intangible assets		1 787	41 817
Net (gain)/loss on operations with financial assets available-for-sale		(1 311 381)	8 751
Depreciation charge on property, equipment and amortization charge on intangible assets		779 581	635 421
Gain from translation of foreign currency transactions		(755 981)	(251 078)
Net change in interest accruals		(1 149 900)	(1 517 744)
Net change in other accruals		297 538	449 902
Gain on revaluation of property and equipment		-	(2 381)
Dividends received		(179)	(122)
Income from associate		-	(19 479)
Cash flows from operating activities before changes in operating assets and liabilities		**18 086 443**	**18 144 182**
(Increase)/decrease in operating assets			
Obligatory reserve deposit with the Central Bank of the Russian Federation		104 439	(186 407)
Financial assets at fair value through profit or loss		(201 300)	360 576
Due from banks and other financial institutions		5 590 563	(7 014 459)
Loans to customers		(21 068 563)	(18 960 754)
Other assets		(404 244)	(410 145)
Increase/(decrease) in operating liabilities			
Due to other banks		(2 194 083)	(1 511 040)
Customer accounts		2 008 112	16 644 090
Debt securities issued		(772 095)	2 054 937
Other liabilities		(145 095)	431 521
Cash inflow from operating activities before taxation		**1 004 177**	**9 552 501**
Income tax paid		(1 020 607)	(1 905 406)
Net cash (outflow)/inflow from operating activities		**(16 430)**	**7 647 095**
Cash flows from investing activities			
Purchase of property, equipment and intangible assets		(1 302 084)	(739 157)
Proceeds on sale of property, equipment and intangible assets		1 807	5 346
Purchase of financial assets available-for-sale		(12 305 260)	(22 761 184)
Proceeds on disposal of financial assets available-for-sale		15 793 247	14 652 559
Dividends received		179	122
Net cash (outflow)/inflow from investing activities		**2 187 889**	**(8 842 314)**
Cash flows from financing activities			
Repayment of subordinated debt		(1 500)	(10 161)
Net cash outflow from financing activities		**(1 500)**	**(10 161)**
Effect of changes in foreign exchange rate fluctuations on cash and cash equivalents		**125 648**	**(64 660)**
Net increase/(decrease) in cash and cash equivalents		**2 295 607**	**(1 270 040)**
Cash and cash equivalents, beginning of year	12	**6 549 339**	**7 819 379**
Cash and cash equivalents, end of year	12	**8 844 946**	**6 549 339**

Interest paid and received by the Bank during the year ended 31 December 2013 amounted to RUR 7 057 890 thousand and RUR 33 205 368 thousand, respectively.

Interest paid and received by the Bank during the year ended 31 December 2012 amounted to RUR 5 008 567 thousand and RUR 28 475 666 thousand, respectively.

President
G. Chesakov

31 March 2014
Moscow

Acting Chief Accountant
E. Nikanorova

31 March 2014
Moscow

The notes on pages 8-68 form an integral part of these financial statements.

(in thousands of Russian Rubles unless otherwise stated)

1. ORGANISATION

OJSC "OTP Bank" (the "Bank") is an open joint stock company, which was incorporated in the Russian Federation (the "RF") in 1994. The Bank is regulated by the Central Bank of the Russian Federation (the "CBR") and conducts its business under general license number 2766 dated 4 March 2008. The Bank's primary business consists of retail banking and commercial operations. These operations include receipt of funds on deposits and lending to corporate clients, small businesses and individuals, issue of guarantees, servicing clients on import and export operations, cash settlement services, operations with securities, foreign currency, derivative financial instruments, borrowing and issuing funds in the interbank loan market.

The registered office of the Bank is located at: 16A Leningradskoye shosse, bld. 1, Moscow, 125171, Russian Federation.

As of 31 December 2013 and 2012 the Bank had 7 branches in the Russian Federation.

The Bank is the parent company of a banking group which consists of the following entities:

Company	Country of operation	Ownership interest, % 2013	Ownership interest, % 2012	Type of operation
Open Joint Stock Company "OTP Bank"	RF	Parent company	Parent company	Commercial bank
Limited Liability Company "Gamayun"	RF	100.00	100.00	Catering

The Limited Liability Company "Gamayun" is not consolidated as at 31 December 2013 and 31 December 2012 as it is immaterial.

As of 31 December 2013 and 2012, the following shareholders owned the issued shares of the Bank.

	31 December, 2013, %	31 December, 2012, %
First level shareholders:		
OTP BANK PLC	66.12	66.07
ALLIANCE RESERVE LLC	31.71	31.71
Other	2.17	2.22
Total	**100.00**	**100.00**

Being the sole owner of ALLIANCE RESERVE LLC, OTP BANK PLC ultimately holds 97.83% of the Bank's shares as of 31 December 2013 (31 December 2012: 97.78%), so the Bank is a subsidiary of OTP BANK PLC and OTP BANK PLC is the ultimate controlling party for the Bank (Parent Bank).

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

Other basis of presentation criteria

These financial statements have been prepared on the assumption that the Bank is a going concern and will continue in operation for the foreseeable future.

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

These financial statements have been prepared on the historical cost basis except for certain financial instruments and properties that are measured at fair value, as explained below.

Functional currency

Items included in the financial statements of the Bank are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The functional currency of the Bank is the Russian Rouble ("RUR"). The presentation currency of the financial statements of the Bank is the RUR.

Offsetting

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. Income and expenses are not offset in the Statement of Profit or Loss and Other Comprehensive Income unless required or permitted by any accounting standard or interpretation.

Recognition of interest income and expense

Interest income and expense are recognized on an accrual basis using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. The discounting period is equal to the expected life of the financial instrument, or if applicable, to a shorter period.

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

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

Recognition of gain/loss on repurchase and reverse repurchase agreements

Gain/loss on the sale of the repo/reverse repo instruments is recognized as interest income or expense in the income statement based on the difference between the repurchase price and purchase price accrued up to reporting date using the effective interest method.

Other income and expense recognition

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

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

Cash and cash equivalents

Cash comprises cash on hand and cash on correspondent accounts of the Bank. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Amounts that are subject to restrictions on their availability are not included in cash and cash equivalents.

Obligatory reserve deposit with the CBR

Obligatory reserve deposits with the CBR comprises funds deposited with the CBR and not used to finance the Bank's current operations and hence they are not considered as part of cash and cash equivalents for the purposes of the cash flow statement.

Financial instruments

The Bank recognizes financial assets and liabilities in its Statement of Financial Position when it becomes a party to the contractual obligation of the instrument. Regular way purchases and sales of financial assets and liabilities are recognized using settlement date accounting.

Financial assets and liabilities are initially recognized at fair value. The historic cost of financial assets not at fair value through profit or loss is adjusted for transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

The accounting policies for subsequent re-measurement of financial instruments are disclosed below.

Financial assets

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

Financial assets at FVTPL

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

A financial asset is classified as held for trading if:

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

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

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

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend and interest earned on the financial asset and is included in the 'other gains and losses' and 'interest income' line item, respectively, in the Statement of Profit or Loss and Other Comprehensive Income. Fair value is determined in the manner described in Note 31.

Financial assets held-to-maturity

Financial assets held-to-maturity are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Bank has the positive intent and ability to hold to maturity. Financial assets held-to-maturity are measured at amortized cost using the effective interest method less any impairment.

If the Bank were to sell or reclassify more than an insignificant amount of financial assets held-to-maturity before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as available-for-sale. Furthermore, the Bank will not classify any financial asset as held-to-maturity during the following two years.

Financial assets available-for-sale

Financial assets available-for-sale are non-derivative financial assets that are are not classified as (a) loans and receivables, (b) financial assets held-to-maturity or (c) financial assets at FVTPL.

Listed shares and listed redeemable notes held by the Bank that are traded in an active market are classified as AFS and are stated at fair value. The Bank also has investments in unlisted shares that are not traded in an active market that are also classified as AFS and stated at fair value based on valuation estimate. Fair value is determined in the manner described in Note 31. Gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated in the financial assets available-for-sale revaluation reserve, with the exception of other-than-temporary impairment losses, interest calculated using the effective interest method, dividend income and foreign exchange gains and losses on monetary assets, which are recognised in profit or loss. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

The fair value of AFS monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period. The foreign exchange gains and losses that are recognised in profit or loss are determined based on the amortised cost of the monetary asset. Other foreign exchange gains and losses are recognised in other comprehensive income.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of each reporting period.

Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate.

Securities repurchase and reverse repurchase agreements

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

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

The Bank enters into securities repurchase agreements and securities lending transactions under which it receives or transfers collateral in accordance with normal market practice.

The transfer of securities to counterparties is recorded in case when all risks and rewards are transferred.

Impairment of financial assets

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

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

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

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

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

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

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset.

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

Interest income on overdue and impaired loans is accrued in the amount based on bank’s estimate of future cash flows on each loan or group of collectively assessed loans.

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

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

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

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

Renegotiated loans

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

Write off of loans

Loans are written off against allowance for impairment losses if the following conditions take place:

- The loan is overdue for more than 365 days;
- There were no payments for principal and interest for more than 365 days.

Derecognition of financial assets

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

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

On derecognition of a financial asset other than in its entirety (e.g. when the Bank retains an option to repurchase part of a transferred asset), the Bank allocates the previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognized in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

Financial liabilities and equity instruments issued

Classification as debt or equity

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

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Bank are recognised at the proceeds received, net of direct issue costs. Equity instruments issued and paid before January 1, 2003 are recognized at their cost restated for inflation.

Repurchase of the Bank's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Bank's own equity instruments.

Financial liabilities

Financial liabilities are classified as either financial liabilities 'at fair value through profit or loss' or 'other financial liabilities'.

Financial liabilities at FVTPL

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

A financial liability is classified as held for trading if:

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

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

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

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the ‘interest expenses’ line item in the Statement of Profit or Loss and Comprehensive Income. Fair value is determined in the manner described in Note 31.

Other financial liabilities

Other financial liabilities, including due to other banks, customer accounts, debt securities issued, subordinated debt and other financial liabilities are initially recognized at fair value, less transaction costs.

Further, other financial liabilities are carried at amortized cost. Interest expense is calculated applying the effective interest rate.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

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

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

Derecognition of financial liabilities

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

Operating leases

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

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Property, equipment and intangible assets

Land and buildings are stated in the Statement of Financial Position at their revalued amounts, being the fair value at the date of revaluation, determined from market-based evidence by appraisal undertaken by professional independent appraisers, less subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the reporting date.

Any revaluation increase arising on the revaluation of property and equipment is recognized in the property and equipment revaluation reserve, except for the extent that it reverses a revaluation decrease for the same asset previously recognized as an expense, in which case the increase is credited to the Statement of Profit or Loss and Other Comprehensive Income to the extent of the decrease previously charged. A decrease in the carrying amount arising on the revaluation of an asset is charged as an expense to the income statement to the extent that it exceeds the balance, if any, held in the property and equipment revaluation reserve relating to a previous revaluation of that asset.

Depreciation on revalued buildings is recognised in profit or loss. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the properties revaluation reserve is transferred directly to retained earnings.

Land is not depreciated.

Furniture, equipment and other fixed assets and intangible assets are stated at cost less accumulated depreciation and accumulated impairment losses. The Bank doesn't have internally generated intangible assets.

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

Buildings	1%-20%
Other property and equipment	3.3%-50%
Intangible assets	10%-33.3%

Leasehold improvements are amortized over the contractual lease term of the related leased asset. Expenses related to repairs and renewals are charged when incurred and included in operating expenses unless they qualify for capitalization.

An item of property and equipment/intangible asset is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Impairment of tangible and intangible assets

At the end of each reporting period, the Bank reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Bank estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of 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 which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Investment property

Investment property includes assets used to earn rental payment. Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value. Gains and losses arising from changes in the fair value of investment properties are included in profit or loss in the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

Taxation

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

Current tax assets and liabilities

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

Deferred tax assets and liabilities

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

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Bank expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax for the year

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Operating taxes

The Russian Federation also has various other taxes, which are charged on the Bank’s activities. These taxes are included as a component of operating expenses in the Statement of Profit or Loss and Other Comprehensive Income.

Other provisions

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

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Contingencies

Contingent liabilities are not recognized in the Statement of Financial Position but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognized in the Statement of Financial Position but disclosed when an inflow of economic benefit is probable.

Fiduciary activities

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

Foreign currencies

In preparing these financial statements, transactions in currencies other than the Bank's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences on monetary items are recognised in profit or loss in the period in which they arise.

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

	31 December 2013	31 December 2012
RUR/1 US Dollar	32.7292	30.3727
RUR/1 Euro	44.9699	40.2286

Collateral

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

Equity reserves

The reserves recorded in equity on the Bank's Statement of Financial Position include:

- Available-for-sale investment reserve which comprises changes in fair value of available-for-sale financial assets;
- Property and equipment revaluation reserve which reflects change in fair value of buildings;
- Foreign currency translation reserve which is used to record exchange differences arising from the translation of the net investment in foreign operations.

Critical accounting judgments and key sources of estimation uncertainty

The preparation of the Bank's financial statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities at the reporting date and the reported amount of income and expenses during the period ended. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations (see below), that the Bank management has made in the process of applying the Bank's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Held-to-maturity financial assets

The Bank management has reviewed the Bank's held to maturity financial assets in the light of its capital maintenance and liquidity requirements and has confirmed the Bank's positive intention and ability to hold those assets to maturity. The carrying amount of the held to maturity financial assets is RUR 169 264 thousand (2012: RUR 154 363 thousand). Details of these assets are set out in Note 17.

Key sources of estimation uncertainty

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

Impairment of loans to customers

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

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

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

As of 31 December 2013 the loans to customers totalled RUR 131 811 115 thousand (31 December 2012: RUR 125 298 112 thousand), and allowance for impairment losses was RUR 26 176 196 thousand (31 December 2012: RUR 23 469 341 thousand). Details are set in Note 15.

Valuation of financial instruments

As described in Note 31, fair value of financial instruments is calculated by the Bank based on market information available, if any, and proper evaluation methods. However, professional judgment is required to interpret market data in order to calculate fair value. Changes in assessment may influence the fair value recognized in financial statements. The Russian Federation still has some typical features of a developed market, but the economic environment still restricts operations in financial markets. Market quotations may be outdated or reflect transactions at residual value and, thus, sometimes do not reflect fair value of financial instruments. All market information available has been used for measurement of fair value of financial instruments.

The Bank's management believes that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments.

Property carried at revalued amounts

Buildings and investment properties are carried in the financial statements at fair value. The date of the latest appraisal was 31 December 2013. As of 31 December 2013 the carrying value of revalued buildings amounted to RUR 1 134 072 thousand (31 December 2012: RUR 1 038 340 thousand). Details are set in Note 18.

Investment property carried at revalued amounts

Certain investment property is measured at revalued amounts. The date of the latest appraisal was 31 December 2013. The next revaluation is preliminary scheduled at 31 December 2014. The carrying value of revalued property amounted to RUR 11 137 thousand and RUR 58 797 thousand as at 31 December 2013 and 2012, respectively. Details of the valuation techniques used are set out in Note 19.

Recoverability of deferred tax assets

The Bank regularly assesses the possibility of recognition of deferred tax assets. Recognized deferred tax asset is the amount of income tax which can be offset against future income tax and is recognized in the Statement of Financial Position. Deferred tax assets are recognized to the extent that utilization of respective tax benefit is probable. Assessment of future taxable profit and tax benefit probable for recovery in the future is based on expectations of the management which are considered reasonable in current conditions. Deferred tax asset amount recognized in the Statement of Financial Position amounted to RUR 723 208 thousand as at 31 December 2013 (31 December 2012: RUR 202 650 thousand - deferred tax liability). Details on deferred tax assets and liabilities movements are set out on Note 10.

Application of new and revised international financial reporting standards (IFRSs)

Amendments to IFRSs affecting amounts reported in the financial statements

In the current year, the following new and revised Standards and Interpretations have been adopted and have affected the amounts reported in these financial statements.

Standards affecting the financial statements

Amendments to IAS 1 *Presentation of financial statements (amended June 2011).* The Bank has applied the amendments to IAS 1 titled *Presentation of Items of Other Comprehensive Income* in advance of the effective date (annual periods beginning on or after 1 July 2012). The amendment increases the required level of disclosure within the Statement of Profit or Loss and Other Comprehensive Income.

The impact of this amendment has been to analyse items within the Statement of Profit or Loss and Other Comprehensive income between items that will not be reclassified subsequently to profit or loss and items that will be reclassified subsequently to profit or loss in accordance with the respective IFRS standard to which the item relates. The financial statements have also been amended to analyse income tax on the same basis. The amendments have been applied retrospectively, and hence the presentation of items of comprehensive income have been restated to reflect the change. Other than the above mentioned presentation changes, the application of the amendments to IAS 1 do not result in any impact on profit or loss, comprehensive income and total comprehensive income.

IFRS 13 *Fair Value Measurement*. The Bank has applied IFRS 13 for the first time in the current year. IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The scope of IFRS 13 is broad; the fair value measurement requirements of IFRS 13 apply to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except for share-based payment transactions that are within the scope of IFRS 2 *Share-based Payment*, leasing transactions that are within the scope of IAS 17 *Leases, and measurements* that have some similarities to fair value but are not fair value (e.g. net realisable value for the purposes of measuring inventories or value in use for impairment assessment purposes).

IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under IFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, IFRS 13 includes extensive disclosure requirements.

IFRS 13 requires prospective application starting 1 January 2013. In addition, specific transitional provisions were given to entities such that they need not apply the disclosure requirements set out in the Standard in comparative information provided for periods before the initial application of the Standard. In accordance with these transitional provisions, the Bank has not made any new disclosures required by IFRS 13 for the 2012 comparative period (please see Note 31). Other than the additional disclosures, the application of IFRS 13 has not had any material impact on the amounts recognised in these financial statements.

New and revised IFRSs in issue but not yet effective

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

IFRS 9 *Financial Instruments*
Amendments to IFRS 9 and IFRS 7*Mandatory Effective Date of IFRS 9 and Transition Disclosures*[2]
Amendments to IFRS 10, IFRS 12 and IAS 27*Investment Entities*[1]
Amendments to IAS 32 *Offsetting Financial Assets and Financial Liabilities*[1]
Amendments to IAS 36*Impairment of Assets*[1]
Amendments to IAS 39*Financial Instruments: Recognition and Measurement*[1]
Amendments to IFRIC21*Levies*[1]

[1]Effective for annual periods beginning on or after 1 January 2014, with earlier application permitted. Disclose effect of changes if expected.
[2] Effective for annual periods beginning on or after 1 January 2015, with earlier application permitted. Disclose effect of changes if expected.

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

Key requirements of IFRS 9:

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

The management of the Bank anticipate that the application of IFRS 9 in the future may have a significant impact on amounts reported in respect of the Bank's financial assets and financial liabilities (e.g. the Bank's investments in redeemable notes that are currently classified as available-for-sale financial assets will have to be measured at fair value at the end of subsequent reporting periods, with changes in the fair value being recognised in profit or loss). However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until a detailed review has been completed.

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

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

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

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

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

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

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

Amendments to IFRS 7 Financial instruments: Disclosures. The Bank has applied the amendments to IFRS 7 titled Disclosures – Offsetting Financial Assets and Financial Liabilities in the current year. The amendments to IFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement. The amendments have been applied retrospectively. As the Bank had no offsetting arrangements, the adoption of the amendments did not affect disclosures or amounts in the financial statements.

(in thousands of Russian Rubles unless otherwise stated)

3. NET INTEREST INCOME

Net interest income for the year ended 2013 and 2012 comprises:

	2013	2012
Interest income comprises		
Interest income on loans to customers	33 080 362	29 409 689
Interest income on financial assets available-for-sale	1 395 963	811 942
Interest income on balances due from banks and other financial institutions	349 457	780 900
Interest income on financial assets held-to-maturity	16 083	13 303
Interest income on financial assets at fair value through profit or loss	8 770	30 939
Total interest income	**34 850 635**	**31 046 773**
Interest expense comprises		
Interest expense on customer accounts	5 370 953	3 855 014
Interest expense on debt securities issued	1 407 060	1 630 808
Interest expense on balances due to other banks	627 378	418 812
Interest expense on subordinated debt	147 866	144 767
Total interest expense on financial liabilities recorded at amortized cost	**7 553 257**	**6 049 401**
Net interest income before impairment of interest bearing assets	**27 297 378**	**24 997 372**

4. IMPAIRMENT OF INTEREST BEARING ASSETS AND OTHER PROVISIONS

The movements in allowance for impairment losses of interest bearing assets were as follows:

	Due from banks and other financial institutions	Loans to customers	Total
31 December 2011	**4 072**	**13 481 289**	**13 485 361**
Recovery of allowance/(allowance)	(4 072)	10 089 242	10 085 170
Assets write-off	-	(2 991)	(2 991)
Disposal of assets	-	(98 199)	(98 199)
31 December 2012	**-**	**23 469 341**	**23 469 341**
Allowance	-	19 606 841	19 606 841
Assets write-off	-	(14 107 784)	(14 107 784)
Disposal of assets	-	(2 792 202)	(2 792 202)
31 December 2013	**-**	**26 176 196**	**26 176 196**

The loans that were written off against allowance for impairment were overdue for more than 365 days and there were no payments for principal and interest on these loans for more than 365 days.

(in thousands of Russian Rubles unless otherwise stated)

The movements in other provisions were as follows:

	Other assets	Other liabilities		Total
		Provision for credit commitments	Legal proceedings	
31 December 2011	**70 512**	**44 228**	**5 809**	**120 549**
Provision	38 214	98 250	27 938	164 402
Write-off against provision	(381)	-	(8 288)	(8 669)
31 December 2012	**108 345**	**142 478**	**25 459**	**276 282**
Provision/(recovery of provision)	49 668	(124 292)	5 994	(68 630)
Write-off against provision	(5 393)	-	(20 011)	(25 404)
31 December 2013	**152 620**	**18 186**	**11 442**	**182 248**

5. NET GAIN ON FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

Net gain on financial assets and liabilities at fair value through profit or loss comprises:

	2013	2012
Net gain on operations with derivative financial instruments	503 515	682 441
Net (loss)/gain on financial assets and liabilities held for trading	(14 053)	17 670
Total net gain on financial assets and liabilities at fair value through profit or loss	**489 462**	**700 111**

The Bank enters into derivative financial instruments to manage currency and liquidity risks and such financial instruments are held primarily for trading purposes.

6. NET GAIN/(LOSS) ON FOREIGN EXCHANGE OPERATIONS

Net gain/(loss) on foreign exchange operations comprises:

	2013	2012
Translation differences, net	755 981	251 078
Dealing, net	(479 017)	(665 204)
Net gain/(loss) on foreign exchange operations	**276 964**	**(414 126)**

(in thousands of Russian Rubles unless otherwise stated)

7. FEE AND COMMISSION INCOME AND EXPENSE

Fee and commission income and expense comprise:

	2013	2012
Fee and commission income		
Plastic cards operations	2 689 380	2 517 062
Cash operations and settlements	1 787 333	1 632 269
Intermediary services	1 257 319	795 119
Use of a remote access system	68 235	62 884
Foreign exchange operations	67 286	72 205
Documentary operations and issue of guarantees	62 955	61 334
Currency control agent's functions	41 938	43 963
Encashment operations	6 513	7 899
Banknote transactions	3 371	3 794
Other	15 646	13 801
Total fee and commission income	**5 999 976**	**5 210 330**
Fees and commission expense		
Intermediary services	2 321 467	1 810 269
Plastic cards operations	419 139	355 296
Financial market operations, including transactions with securities	80 995	74 101
Settlements and money transfers	59 696	63 672
Encashment operations	8 112	13 528
Banknote transactions	4 890	3 982
Depositary services	2 900	2 353
Other	1 751	7 870
Total fee and commission expense	**2 898 950**	**2 331 071**

8. OTHER INCOME

Other income comprises:

	2013	2012
Income from rent of safe boxes	16 510	17 994
Property operating lease	7 606	6 452
Income from associate	-	19 479
Reversal of loss on revaluation of property and equipment of prior periods	-	3 007
Other	5 560	8 862
Total other income	**29 676**	**55 794**

(in thousands of Russian Rubles unless otherwise stated)

9. OPERATING EXPENSES

Operating expenses comprise:

	2013	**2012**
Staff costs	5 408 984	4 641 587
Social Taxes	1 275 912	1 041 795
Operating lease	934 350	786 480
Depreciation and amortization expense (Note 18)	779 581	635 421
Taxes other than income tax	776 222	644 886
Telecommunication and information technology	512 200	365 007
Postal and other delivery costs	560 417	412 451
Professional services	377 576	95 766
Advertising expenses	330 706	273 061
Repairs and maintenance expenses	308 098	336 275
Payments to the Deposit Insurance Fund	224 837	189 213
Security expenses	109 229	97 171
Stationary and office expenses	104 510	184 219
Business trip expenses	72 749	50 935
Other expenses	132 489	126 384
Total operating expenses	**11 907 860**	**9 880 651**

10. INCOME TAX

The Bank provides for income tax based on the tax accounts maintained and prepared in accordance with the tax regulations of the Russian Federation, which may differ from IFRS.

The Bank is subject to certain permanent tax differences due to non-tax deductibility of certain expenses and tax-free regime for certain income.

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

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

Tax effect of temporary differences is presented below.

(in thousands of Russian Rubles unless otherwise stated)

Tax effect of temporary differences as of 31 December 2013 and 2012 is presented below:

	31 December 2013 Net deferred tax asset/ (liability)	Tax effect on profit or loss	Tax effect on other comprehensive income	31 December 2012 Net deferred tax asset/ (liability)	Tax effect on profit or loss	Tax effect on other comprehensive income	31 December 2011 Net deferred tax asset/ (liability)
Due from banks	-	-	-	-	(264)	-	264
Financial assets at fair value through profit or loss	(69 675)	(51 586)	-	(18 089)	52 482	-	(70 571)
Loans to customers	913 372	857 945	-	55 427	(312 782)	-	368 209
Financial assets available-for-sale	(95 105)	(2 057)	82 270	(175 318)	80 498	(128 953)	(126 863)
Financial assets held-to-maturity	(6 559)	(587)	-	(5 972)	(1 559)	-	(4 413)
Property, equipment and intangible assets	(279 943)	(55 122)	(15 108)	(209 713)	(14 390)	(6 452)	(188 871)
Investment property	1 078	(236)	-	1 314	210	-	1 104
Investments in associated companies	-	-	-	-	(8 117)	-	8 117
Other assets	138 225	59 714	-	78 511	40 484	-	38 027
Financial liabilities at fair value through profit or loss	43 093	(22 218)	-	65 311	41 546	-	23 765
Debt securities issued	3 230	7 474	-	(4 244)	1 044	-	(5 288)
Other liabilities	232 372	(11 397)	-	243 769	108 668	-	135 101
	880 088	781 930	67 162	30 996	(12 180)	(135 405)	178 581
Less: unrecognized deferred tax asset	(156 880)	76 766	-	(233 646)	(28 537)	-	(205 110)
Net deferred tax assets/(liabilities)	**723 208**	**858 696**	**67 162**	**(202 650)**	**(40 717)**	**(135 405)**	**(26 529)**

Relationships between tax expenses and accounting profit for the years ended 31 December 2013 and 2012 are explained below:

	2013	2012
Income before tax	**1 059 816**	**8 079 436**
Tax at the statutory tax rate (20%)	211 963	1 615 887
Change in deferred tax asset not recognized	(76 766)	28 537
Prior year income tax	15 260	-
Tax effect of the base taxed at different rates	(14 024)	(6 346)
Tax effect of permanent differences – non-deductible expenses	47 306	28 005
Attributable income tax expense	**183 739**	**1 666 083**
Current income tax expense	1 042 435	1 625 366
Change in deferred tax	(858 696)	40 717
Attributable income tax expense	**183 739**	**1 666 083**

(in thousands of Russian Rubles unless otherwise stated)

11. EARNINGS PER SHARE

Basic earnings per share are calculated by dividing profits owned by the Bank's shareholders by the average weighted number of ordinary shares outstanding for the year. The Bank holds no ordinary shares which could potentially dilute earnings per share. Thus, diluted earnings per share are equal to basic earnings per share.

	2013	2012
Net profit for the year attributable to owners of the Bank	876 077	6 413 353
Weighted average number of ordinary shares for purposes of basic and diluted earnings per share (thousand of shares)	279 788 785	279 788 785
Earnings per share – basic and diluted (RUR, per share)	**0.003**	**0.023**

12. CASH AND CASH EQUIVALENTS

	31 December 2013	31 December 2012
Cash on hand	3 310 747	2 876 630
Balances on correspondent accounts with the Central Bank of the Russian Federation	3 924 455	2 565 112
Balances on correspondent accounts with banks	1 609 744	1 107 597
Total cash and cash equivalents	**8 844 946**	**6 549 339**

Liquidity, geographical, currency and interest rate risks are disclosed in Note 33.

13. FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets at fair value through profit or loss comprise:

	31 December 2013	31 December 2012
Financial assets held for trading:		
Derivative financial assets	359 781	91 446
Government bonds	238 156	37 237
Total financial assets at fair value through profit or loss	**597 937**	**128 683**

As of 31 December 2013 federal loan bonds amounting to RUR 35 319 thousand (31 December 2012: RUR 37 237 thousand), were restricted by the Central Bank of Russian Federation. Collateral represented by these securities enables the Bank to use the one-day and automatic overdraft loans while transfer payments through the current accounts with the Central Bank of the Russian Federation.

As at 31 December 2013 government bonds totalling RUR 202 837 thousand were pledged under repurchase agreements with other banks (see Note 21).

(in thousands of Russian Rubles unless otherwise stated)

Financial liabilitiies at fair value through profit or loss comprise:

	31 December 2013	31 December 2012
Financial liabilities held for trading:		
Derivative financial liabilities	215 466	326 553
Total financial liabilities at fair value through profit or loss	**215 466**	**326 553**

14. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

Due from banks and other financial institutions comprise:

	31 December 2013	31 December 2012
Term deposits	8 728 959	12 937 997
Total due from banks and other financial institutions	**8 728 959**	**12 937 997**

As of 31 December 2013 the Bank had term deposits with the Parent Bank amounting to RUR 7 928 208 thousand (31 December 2012: RUR 10 651 782 thousand), which exceeded 29% (31 December 2012: 39%) of the Bank's equity.

As of 31 December 2013 the Bank had restricted guarantee deposits in clearing institutions amounting to RUR 52 257 thousand (31 December 2012: RUR 32 083 thousand).

Liquidity, geographical, currency and interest rate risks are disclosed in Note 33.

(in thousands of Russian Rubles unless otherwise stated)

15. LOANS TO CUSTOMERS

Loans to customers comprise as of 31 December 2013 and 2012 comprise:

	31 December 2013	31 December 2012
Loans to individuals		
Consumer loans to individuals at points of sale	52 660 131	53 948 307
Plastic card overdrafts	44 118 374	38 847 076
Cash loans to individuals	22 840 049	20 500 283
Mortgage loans to individuals	5 651 989	6 617 582
Car loans to individuals	595 794	995 305
Total loans to individuals	**125 866 337**	**120 908 553**
Loans to legal entities		
Loans to legal entities	5 944 778	4 389 559
Total loans to legal entities	**5 944 778**	**4 389 559**
Total loans to customers before allowance for loan impairment	**131 811 115**	**125 298 112**
Less: allowance for loan impairment	(26 176 196)	(23 469 341)
Total loans to customers	**105 634 919**	**101 828 771**

The table below shows the analysis of loans and allowance for loan impairment as at 31 December 2013:

	Gross loans	Allowance for impairment	Net loans	Allowance for impairment to gross loans
Loans to individuals collectively assessed for impairment				
Consumer loans to individuals at points of sale				
Not past due	37 788 996	(317 257)	37 471 739	0,84%
Loans up to 30 days overdue	2 195 601	(447 179)	1 748 422	20,37%
Loans 31 to 60 days overdue	948 731	(459 238)	489 493	48,41%
Loans 61 to 90 days overdue	813 718	(500 118)	313 600	61,46%
Loans 91 to 180 days overdue	2 331 975	(1 702 492)	629 483	73,01%
Loans over 180 days overdue	8 581 110	(8 125 860)	455 250	94,69%
Total consumer loans to individuals at points of sale	**52 660 131**	**(11 552 144)**	**41 107 987**	**21,94%**
Plastic card overdrafts				
Not past due	31 047 538	(204 752)	30 842 786	0,66%
Loans up to 30 days overdue	2 473 210	(313 445)	2 159 765	12,67%
Loans 31 to 60 days overdue	920 235	(370 853)	549 382	40,30%
Loans 61 to 90 days overdue	718 297	(425 946)	292 351	59,30%
Loans 91 to 180 days overdue	1 639 847	(1 237 879)	401 968	75,49%
Loans over 180 days overdue	7 319 247	(6 983 643)	335 604	95,41%
Total plastic card overdrafts	**44 118 374**	**(9 536 518)**	**34 581 856**	**21,62%**
Cash loans to individuals				
Not past due	17 709 546	(89 450)	17 620 096	0,51%
Loans up to 30 days overdue	1 002 415	(177 391)	825 024	17,70%
Loans 31 to 60 days overdue	374 913	(182 989)	191 924	48,81%
Loans 61 to 90 days overdue	301 860	(192 470)	109 390	63,76%
Loans 91 to 180 days overdue	702 980	(552 260)	150 720	78,56%
Loans over 180 days overdue	2 748 335	(2 642 894)	105 441	96,16%
Total cash loans to individuals	**22 840 049**	**(3 837 454)**	**19 002 595**	**16,80%**

(in thousands of Russian Rubles unless otherwise stated)

	Gross loans	Allowance for impairment	Net loans	Allowance for impairment to gross loans
Mortgage loans to individuals				
Not past due	4 211 170	(8)	4 211 162	0,00%
Loans up to 30 days overdue	181 246	(1)	181 245	0,00%
Loans 31 to 60 days overdue	35 917	-	35 917	0,00%
Loans 61 to 90 days overdue	22 039	-	22 039	0,00%
Loans 91 to 180 days overdue	41 032	(1 007)	40 025	2,45%
Loans over 180 days overdue	1 160 585	(410 009)	750 576	35,33%
Total mortgage loans to individuals	**5 651 989**	**(411 025)**	**5 240 964**	**7,27%**
Car loans to individuals				
Not past due	253 018	(138)	252 880	0,05%
Loans up to 30 days overdue	11 493	(329)	11 164	2,86%
Loans 31 to 60 days overdue	1 743	(283)	1 460	16,24%
Loans 61 to 90 days overdue	365	(104)	261	28,49%
Loans 91 to 180 days overdue	5 953	(3 144)	2 809	52,81%
Loans over 180 days overdue	323 222	(320 946)	2 276	99,30%
Total car loans	**595 794**	**(324 944)**	**270 850**	**54,54%**
Total loans to individuals	**125 866 337**	**(25 662 085)**	**100 204 252**	**20,39%**
Loans to legal entities				
Loans to legal entities individually impaired				
Not past due	1 291 279	(79 043)	1 212 236	6,12%
Loans 31 to 60 days overdue	42 729	(21 494)	21 235	50,30%
Loans 91 to 180 days overdue	10 169	(10 169)	0	100,00%
Loans over 180 days overdue	421 011	(396 854)	24 157	94,26%
Total loans to legal entities individually impaired	**1 765 188**	**(507 560)**	**1 257 628**	**28,75%**
Loans to legal entities collectively assessed for impairment				
Not past due	4 177 585	(6 546)	4 171 039	0,16%
Loans 91 to 180 days overdue	2 005	(5)	2 000	0,27%
Total loans to legal entities collectively assessed for impairment	**4 179 590**	**(6 551)**	**4 173 039**	**0,16%**
Total loans to legal entities	**5 944 778**	**(514 111)**	**5 430 667**	**8,65%**
Total loans to customers at 31 December 2013	**131 811 115**	**(26 176 196)**	**105 634 919**	**19,86%**

(in thousands of Russian Rubles unless otherwise stated)

The table below shows the analysis of loans and allowance for loan impairment as at 31 December 2012:

	Gross loans	Allowance for impairment	Net loans	Allowance for impairment to gross loans
Loans to individuals collectively assessed for impairment				
Consumer loans to individuals at points of sale				
Not past due	40 810 405	(433 177)	40 377 228	1,06%
Loans up to 30 days overdue	1 761 498	(255 155)	1 506 343	14,49%
Loans 31 to 60 days overdue	845 473	(293 368)	552 105	34,70%
Loans 61 to 90 days overdue	663 494	(310 316)	353 178	46,77%
Loans 91 to 180 days overdue	1 671 614	(992 153)	679 461	59,35%
Loans over 180 days overdue	8 195 823	(7 366 149)	829 674	89,88%
Total consumer loans to individuals at points of sale	**53 948 307**	**(9 650 318)**	**44 297 989**	**17,89%**
Plastic card overdrafts				
Not past due	24 288 678	(79 263)	24 209 415	0,33%
Loans up to 30 days overdue	2 146 757	(128 437)	2 018 320	5,98%
Loans 31 to 60 days overdue	932 189	(194 535)	737 654	20,87%
Loans 61 to 90 days overdue	725 888	(266 422)	459 466	36,70%
Loans 91 to 180 days overdue	1 682 287	(957 673)	724 614	56,93%
Loans over 180 days overdue	9 071 277	(7 856 189)	1 215 088	86,61%
Total plastic card overdrafts	**38 847 076**	**(9 482 519)**	**29 364 557**	**24,41%**
Cash loans to individuals				
Not past due	16 212 286	(47 330)	16 164 956	0,29%
Loans up to 30 days overdue	690 096	(99 513)	590 583	14,42%
Loans 31 to 60 days overdue	294 692	(132 161)	162 531	44,85%
Loans 61 to 90 days overdue	208 626	(124 477)	84 149	59,67%
Loans 91 to 180 days overdue	455 484	(333 633)	121 851	73,25%
Loans over 180 days overdue	2 639 099	(2 354 243)	284 856	89,21%
Total cash loans to individuals	**20 500 283**	**(3 091 357)**	**17 408 926**	**15,08%**
Mortgage loans to individuals				
Not past due	5 357 282	(1)	5 357 281	0,00%
Loans up to 30 days overdue	54 397	-	54 397	0,00%
Loans 31 to 60 days overdue	54 881	-	54 881	0,00%
Loans 61 to 90 days overdue	34 531	-	34 531	0,00%
Loans 91 to 180 days overdue	29 500	(325)	29 175	1,10%
Loans over 180 days overdue	1 086 991	(373 560)	713 431	34,37%
Total mortgage loans to individuals	**6 617 582**	**(373 886)**	**6 243 696**	**5,65%**
Car loans to individuals				
Not past due	636 184	(37)	636 147	0,01%
Loans up to 30 days overdue	23 149	(117)	23 032	0,51%
Loans 31 to 60 days overdue	4 994	(359)	4 635	7,19%
Loans 61 to 90 days overdue	5 110	(424)	4 686	8,30%
Loans 91 to 180 days overdue	8 057	(1 756)	6 301	21,79%
Loans over 180 days overdue	317 811	(231 702)	86 109	72,91%
Total car loans	**995 305**	**(234 395)**	**760 910**	**23,55%**
Total loans to individuals	**120 908 553**	**(22 832 475)**	**98 076 078**	**18,88%**
Loans to legal entities				

	Gross loans	Allowance for impairment	Net loans	Allowance for impairment to gross loans
Loans to legal entities individually impaired				
Not past due	1 676 163	(25 560)	1 650 603	1,52%
Loans over 180 days overdue	661 868	(554 008)	107 860	83,70%
Total loans to legal entities individually impaired	**2 338 031**	**(579 568)**	**1 758 463**	**24.79%**
Loans to legal entities collectively assessed for impairment				
Not past due	2 048 523	(54 630)	1 993 893	2,67%
Loans over 180 days overdue	3 005	(2 668)	337	88.79%
Total loans to legal entities collectively assessed for impairment	**2 051 528**	**(57 298)**	**1 994 230**	**2,79%**
Total loans to legal entities	**4 389 559**	**(636 866)**	**3 752 693**	**14,51%**
Total loans to customers at 31 December 2012	**125 298 112**	**(23 469 341)**	**101 828 771**	**18,73%**

Movements in allowances for impairment losses for the years ended 31 December 2013 and 2012 are disclosed in Note 4.

The table below summarizes the amount of loans analyzed by type of collateral, rather than the fair value of the collateral itself:

	31 December 2013	31 December 2012
Unsecured loans	122 002 915	115 194 456
Loans collateralized by mortgages and other property rights	7 184 922	7 526 676
Loans collateralized by pledge of inventories and equipment	1 477 530	1 332 201
Loans collateralized by pledge of automobiles and other transport	585 453	778 382
Loans collateralized by pledge of equity securities and other financial assets	420 712	390 622
Loans collateralized by goods in turnover	111 873	52 411
Loans collateralized by other collateral	27 710	23 364
	131 811 115	**125 298 112**
Less: allowance for impairment losses	(26 176 196)	(23 469 341)
Total loans to customers	**105 634 919**	**101 828 771**

(in thousands of Russian Rubles unless otherwise stated)

The table below summarizes the amount of loans analyzed by industry:

	31 December 2013	**31 December 2012**
Analysis by sector		
Individuals	125 866 337	120 908 553
Real estate and rent	2 098 817	1 703 821
Trade	2 748 780	1 732 886
Construction	438 052	256 636
Finance and operating leases	216 491	14 652
Manufacturing	209 302	378 019
Transport and communication	100 812	217 876
Services	83 222	-
Publishing and printing	10 690	64 823
Agriculture	7 869	10 913
Other	30 743	9 933
	131 811 115	**125 298 112**
Less: allowance for impairment losses	(26 176 196)	(23 469 341)
Total loans to customers	**105 634 919**	**101 828 771**

For the year 2013 the Bank disposed of loans to customers amounting to RUR 2 961 606 thousand (2012: RUR 167 120 thousand). The allowance for loan losses at the date of disposal amounted to RUR 2 792 202 thousand (2012: RUR 98 199 thousand). Total proceeds from disposal amounted to RUR 169 404 thousand (2012: RUR 68 921 thousand). The difference between net carrying amount of the loans and proceeds from disposal was charged to impairment of interest bearing assets in the Statement of Profit or Loss and other Comprehensive Income. All risks and rewards on the disposed loans were transferred to counterparties at the dates of disposal.

For the year 2013 the Bank received non-financial assets by taking possession of collateral it held as security with fair value of RUR 49 207 thousand (2012 – RUR 104 581 thousand). As of 31 December 2013 part of such assets in the amount of RUR 102 524 thousand (31 December 2012: RUR 102 687 thousand) was included in other assets. The remaining part was sold during 2013 and 2012.

As of 31 December 2013, included in loans to customers were loans of RUR 472 135 thousand (31 December 2012: RUR 717 964 thousand), the terms of which were renegotiated. Otherwise these loans would have been past due or individually impaired.

As of 31 December 2013 included in loans to customers is accrued interest income, less allowance for impairment losses, in the amount of RUR 3 003 749 thousand (31 December 2012: RUR 3 490 859 thousand). Accrued interest on impaired loans as of 31 December 2013 amounts to RUR 1 160 129 thousand (31 December 2012: RUR 1 651 741 thousand).

As of 31 December 2013 loans amounting to RUR 1 705 132 thousand (31 December 2012: RUR 2 555 741 thousand) that are individually impaired are collateralized by the Bank's promissory notes, pledge of real estate, motor vehicles, equipment, goods in turnover and other collateral with fair value of RUR 3 705 533 thousand (31 December 2012: RUR 3 576 666 thousand).

Liquidity, geographical, currency and interest rate risks are disclosed in Note 33.

(in thousands of Russian Rubles unless otherwise stated)

16. FINANCIAL ASSETS AVAILABLE-FOR-SALE

Financial assets available-for-sale comprise:

	31 December 2013	31 December 2012
Debt securities	13 489 178	15 542 477
Equity securities	127 137	231 417
Total financial assets available-for-sale	**13 616 315**	**15 773 894**

Debt securities comprise:

	Maturity	Nominal annual interest rate,%	31 December 2013	Maturity	Nominal annual interest rate,%	31 December 2012
Government bonds	March 2014- March 2030	6.88-12.00	3 642 918	October 2013-August 2014	6.55-12.00	3 215 829
Eurobonds	October 2014 - without maturity	3.374-9.125	3 497 705	December 2015-without maturity	5.875-7.50	4 282 148
Promissory notes	May 2014-October 2014	7.90-8.00	1 291 654	March 2013-December 2013	4.00-9.22	6 136 793
Corporate bonds	July 2014-September 2032	7.60-9.10	5 056 901	March 2013-April 2022	6.75-9.40	1 907 707
Total debt securities available-for-sale			**13 489 178**			**15 542 477**

In December 2013 the Bank partly disposed of subordinated eurobonds of the Parent Bank. The transaction was executed at fair value of RUR 2 904 588 thousand. The result on this operation amounting to RUR 1 446 519 thousand was included in net gain/(loss) on financial assets available-for-sale.

As of 31 December 2013 financial assets available-for-sale included accrued interest income on debt securities for the total amount of RUR 249 965 thousand (31 December 2012: RUR 592 015 thousand).

As of 31 December 2013 government and corporate bonds amounting to RUR 818 416 thousand (31 December 2012: RUR 4 192 776 thousand) were restricted by the Central Bank of the Russian Federation. Collateral represented by these securities enables the Bank to use the one-day and automatic overdraft loans while transfer payments through the correspondent accounts with the Central Bank of the Russian Federation.

As at 31 December 2013 financial assets available-for-sale included securities pledged under repurchase agreements with other banks totalling RUR 7 072 134 thousand (31 December 2012: RUR 930 760 thousand) (see Note 21).

Liquidity, geographical, currency and interest rate risks are disclosed in Note 33.

17. FINANCIAL ASSETS HELD-TO-MATURITY

Financial assets held-to-maturity comprise:

	31 December 2013		31 December 2012	
	Nominal annual interest rate,%	Amount	Nominal annual interest rate,%	Amount
Eurobonds	8.63	169 264	8.63	154 363
Total financial assets held-to-maturity		**169 264**		**154 363**

Liquidity, geographical, currency and interest rate risks are disclosed in Note 33.

(in thousands of Russian Rubles unless otherwise stated)

18. PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS

Property, equipment and intangible assets comprise:

	Land	Buildings	Other property and equipment	Intangible assets	Capital invest-ments	Total
Cost						
31 December 2011	**5 825**	**1 286 294**	**2 525 431**	**842 860**	**38 447**	**4 698 857**
Acquisitions	-	874	450 889	287 394	-	739 157
Revaluation	-	43 938	-	-	-	43 938
Transfers	-	-	28 342	-	(28 342)	-
Reclassification to investment property	-	(7 672)	-	-	-	(7 672)
Disposals	-	(3 859)	(130 067)	(97 169)	(8 952)	(240 047)
31 December 2012	**5 825**	**1 319 575**	**2 874 595**	**1 033 085**	**1 153**	**5 234 233**
Acquisitions	201	3 272	792 783	484 905	20 923	1 302 084
Revaluation	-	102 610	-	-	-	102 610
Reclassification from investment property	-	47 251	-	-	-	47 251
Disposals	-	-	(81 368)	(139 273)	-	(220 641)
31 December 2013	**6 026**	**1 472 708**	**3 586 010**	**1 378 717**	**22 076**	**6 465 537**
Accumulated depreciation and amortization						
31 December 2011	**-**	**244 912**	**1 519 633**	**399 466**	**-**	**2 164 011**
Charge for the period	-	28 274	370 707	236 440	-	635 421
Revaluation	-	9 417	-	-	-	9 417
Reclassification to investment property	-	(884)	-	-	-	(884)
Disposals	-	(484)	(90 703)	(101 695)	-	(192 882)
31 December 2012	**-**	**281 235**	**1 799 637**	**534 211**	**-**	**2 615 083**
Charge for the period	-	30 737	448 376	300 468	-	779 581
Revaluation	-	27 071	-	-	-	27 071
Reclassification to investment property	-	(407)	-	-	-	(407)
Disposals	-	-	(79 710)	(137 340)	-	(217 050)
31 December 2013	**-**	**338 636**	**2 168 303**	**697 339**	**-**	**3 204 278**
Net book value						
31 December 2013	**6 026**	**1 134 072**	**1 417 707**	**681 378**	**22 076**	**3 261 259**
31 December 2012	**5 825**	**1 038 340**	**1 074 958**	**498 874**	**1 153**	**2 619 150**

As of 31 December 2013 included in property and equipment was fully depreciated equipment of RUR 1 279 210 thousand (31 December 2012: RUR 1 000 752 thousand).

(in thousands of Russian Rubles unless otherwise stated)

As of 31 December 2013 and 2012 the Bank revalued its buildings. The revaluation was performed by appraisers who have experience in the revaluation of properties with similar location and category. The revaluation was performed using the following methods: discounted cash flow approach (income approach), sales comparison approach (comparative approach).

There has been no change to the valuation technique during the year.

As of 31 December 2013 buildings owned by the Bank were recognized at a revalued amount. If the buildings were accounted at historical cost restated for inflation less accumulated depreciation their carrying value at 31 December 2013 would be RUR 607 836 thousand (31 December 2012: RUR 635 115 thousand).

Details of the Bank's buildings and information about the fair value hierarchy as at 31 December 2013 are as follows:

	Level 2	Fair value as at December 31, 2013
Buildings in following regions:		
Omsk	928 704	928 704
Rostov	134 514	134 514
Moscow	70 854	70 854
Total	**1 134 072**	**1 134 072**

There were no transfers between Levels 1 and 2 during the year.

19. INVESTMENT PROPERTY

	31 December 2013	31 December 2012
1 January	**58 797**	**51 876**
Net transfer (from)/to property, equipment and intangible assets	(47 660)	6 788
Change in fair value	-	133
31 December	**11 137**	**58 797**

The Bank applies the fair value accounting model to investment properties.

The properties can be reclassified into and out of Investment Property upon the change of the intention of the Bank with regard to their usage.

As of 31 December 2013 and 2012 the Bank revalued its investment property. The revaluation was performed by appraisers who have experience in the revaluation of properties with similar location and category. The revaluation was performed using the following methods: discounted cash flow approach (income approach), sales comparison approach (comparative approach).

Included into other income for the year ended 31 December 2013 is investment property rental income in the amount of RUR 258 thousand (31 December 2012: 585 thousand).

As of 31 December 2013 and 2012 the Bank had no limitations regarding sale of investment property, as well as regarding distribution of proceeds from their disposal.

As of 31 December 2013 and 2012 the Bank had no material liabilities regarding repairs, current servicing or improvement of investment property.

(in thousands of Russian Rubles unless otherwise stated)

Details of the Bank's investment property and information about the fair value hierarchy as at 31 December 2013 are as follows:

	Level 2	**Fair value as at December 31, 2013**
Investment property	11 137	11 137
Total	**11 137**	**11 137**

20. OTHER ASSETS

Other assets comprise:

	31 December 2013	**31 December 2012**
Other financial assets		
Accrued commission income	78 427	59 994
Receivables on other transactions	48 653	36 297
Unsettled transactions with plastic cards	7 475	9 454
Other financial assets	67	66
	134 622	**105 811**
Less: allowance for impairment losses	(110 244)	(67 270)
Total other financial assets	**24 378**	**38 541**
Other non-financial assets		
Prepayments and receivables on other transactions	929 326	536 353
Property received as collateral under loan agreement	102 524	102 687
Tax settlements, other than income tax	41 711	38 975
Inventories	16 913	12 677
Receivable from staff	2 175	3 105
	1 092 649	**693 797**
Less: allowance for impairment losses	(42 376)	(41 075)
Total other non-financial assets	**1 050 273**	**652 722**
Total other assets	**1 074 651**	**691 263**

Movements in the provision for impairment losses on other assets for the years ended 31 December 2013 and 2012 are disclosed in Note 4.

Liquidity, geographical, currency and interest rate risks are disclosed in Note 33.

21. DUE TO OTHER BANKS

Due to other banks comprise:

	31 December 2013	**31 December 2012**
Loans and deposits from other banks	7 691 057	10 099 760
Correspondent accounts of other banks	910 867	246 202
Total due to other banks	**8 601 924**	**10 345 962**

(in thousands of Russian Rubles unless otherwise stated)

As of 31 December 2013 amount of RUR 1 192 367 thousand (13.86%) (31 December 2012: RUR 6 717 382 thousand (64.93%)), was due to the Parent Bank, which represents significant concentration.

As at 31 December 2013 deposits from other banks comprise loans under repurchase agreements in the amount of RUR 6 127 127 thousand that were settled before 15 January 2014. As at 31 December 2012 in deposits by banks are loans under repurchase agreements of RUR 773 151 thousand that were settled before 9 January 2013.

Fair value of assets pledged and carrying value of loans under repurchase comprise:

	31 December 2013		31 December 2012	
	Carrying value of loans	**Fair value of collateral**	**Carrying value of loans**	**Fair value of collateral**
Corporate bonds	6 127 127	7 274 971	773 151	930 760
Total	**6 127 127**	**7 274 971**	**773 151**	**930 760**

Liquidity, geographical, currency and interest rate risks are disclosed in Note 33.

22. CUSTOMER ACCOUNTS

Customer accounts comprise:

	31 December 2013	**31 December 2012**
Term deposits	64 407 704	59 675 573
Current/settlement accounts and demand deposits	22 418 316	23 395 360
Total customer accounts	**86 826 020**	**83 070 933**

	31 December 2013	**31 December 2012**
Analysis by sector		
Individuals	58 034 133	55 764 623
Trade	6 290 097	7 109 760
Finance and investments	5 632 622	3 943 957
Insurance	4 613 879	3 823 981
Construction	3 206 295	3 133 181
Real estate and rent	2 998 880	2 813 367
Services	1 935 054	2 674 622
Manufacturing and engineering	1 514 914	665 813
Science, education and IT	547 897	898 216
Transport and communication	497 854	486 381
Public activities and charity	375 775	614 675
Agriculture	358 713	264 083
Marketing and advertising	292 558	283 877
Publishing and mass media	235 161	250 094
Food	143 987	172 168
Geological investigations	53 992	65 703
Power and heat generation and distribution	34 921	12 818
Oil & gas production, refining and transportation	13 304	64 106
Finance and operating leases	9 401	3 808
Other	36 583	25 700
Total customer accounts	**86 826 020**	**83 070 933**

As of 31 December 2013 customer accounts from top 10 customer groups of clients amounted to 32,6% of the Bank’s equity (31 December 2012: 35,2%).

Liquidity, geographical, currency and interest rate risks are disclosed in Note 33.

(in thousands of Russian Rubles unless otherwise stated)

23. DEBT SECURITIES ISSUED

Debt securities issued comprise:

	Maturity month/year	Interest rate per annum, %	31 December 2013	Maturity month/year	Interest rate per annum, %	31 December 2012
Bonds	March 2014-October 2014	8.21 - 10.86	14 041 933	March 2014-October 2014	8.21-10.86	14 026 762
Discount promissory notes	on demand - March 2015	1.76 - 10.33	1 507 070	January 2013-June 2013	1.86-10.33	2 216 968
Interest bearing promissory notes	February 2014 - January 2015	7.65 - 9.50	13 030	June 2013	0.08	2 863
Interest/discount free promissory notes	on demand - March 2015		5 682	on demand-March 2015		15 622
Total debt securities issued			**15 567 715**			**16 262 215**

Liquidity, geographical, currency and interest rate risks are disclosed in Note 33.

24. OTHER LIABILITIES

Other liabilities comprise:

	31 December 2013	31 December 2012
Other financial liabilities		
Accrued commission expenses	485 147	272 011
Unsettled transactions with plastic cards	398 080	221 055
Trade accounts payable and fees payable for professional services	292 567	360 264
Settlements on other operations	53 600	71 236
Provision for credit commitments	18 186	142 478
	1 247 580	**1 067 044**
Other non-financial liabilities		
Salary payable	656 254	815 724
Taxes payable, other than income tax	434 717	410 489
Accrued expenses on deposit insurance premiums	57 298	50 946
Advances received	23 655	19 849
Provision for legal proceedings	11 442	25 459
	1 183 366	**1 322 467**
Total other liabilities	**2 430 946**	**2 389 511**

Movements in provision for credit commitments and legal proceedings for the years ended 31 December 2013 and 2012 are disclosed in Note 4.

Liquidity, geographical, currency and interest rate risks are disclosed in Note 33.

(in thousands of Russian Rubles unless otherwise stated)

25. SUBORDINATED DEBT

As of 31 December 2013 and 2012 carrying value of subordinated debt comprised the following:

	Currency	Maturity date	Interest rate %	31 December 2013	Interest rate %	31 December 2012
Subordinated debt from the parent bank	U.S. Dollars	2014	7.05	1 188 720	7.05	1 103 106
Subordinated debt from the parent bank	RUR	2014-2015	6.05-7	569 851	6.05-7	569 837
Subordinated debt from related party	Swiss francs	2014	4.6	627 448	4.6	569 181
Subordinated debt from other companies – third party	RUR	2014-2015	8.25	15 200	8.25	16 700
				2 401 219		**2 258 824**

In the event of bankruptcy or liquidation of the Bank repayment of these debts is subordinate to the repayment of the Bank's liabilities to all other creditors.

Liquidity, geographical, currency and interest rate risks are disclosed in Note 33.

26. SHARE CAPITAL AND SHARE PREMIUM

As of 31 December 2013 and 2012, the authorised and issued share capital of the Bank comprised of 279 788 785 310 ordinary shares with a par value of RUR 0.01 per share carrying equal rights. Each share provides for one vote. All issued ordinary shares are fully paid up.

As of 31 December 2013 and 2012, share premium amounting to RUR 2 000 000 thousand represents an excess of contributions received over the nominal value of shares issued.

The Bank's distributable reserves among shareholders reserves are limited to the amount of its reserves as disclosed in its statutory accounts. Non-distributable funds are represented by a reserve fund, which is created, as required by the statutory regulations, in respect of general banking risks, including future losses and other unforeseen risks or contingencies. The reserve has been created in accordance with the Bank's statute that provides for the creation of a reserve for these purposes of not less than 5% of the Bank's share capital reported in its statutory books.

There were no payments of dividends for the years 2013 and 2012.

27. SEGMENT REPORTING

The Bank discloses information to enable users of its financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates. This matter is regulated by IFRS 8 "Operating segments" and other standards that require special disclosures in the form of segmental reporting.

IFRS 8 defines an operating segment as follows. An operating segment is a component of an entity:

- That engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity);
- Whose operating results are reviewed regularly by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance; and
- For which discrete financial information is available.

(in thousands of Russian Rubles unless otherwise stated)

Information reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance focuses on types of services delivered or provided. The Bank's reportable segments under IFRS 8 are therefore as follows:

- Retail banking – representing consumer loans and mortgages, credit and debit cards, private banking services, private customer accounts, deposits from individuals and small business;
- Corporate banking – cash settlement service, deposits, overdrafts, loans and other credit facilities;
- Treasury – operations in finance markets (borrowing and lending funds in the interbank loan market, issue of debt securities, conversion operations, swaps, note operations, operations in the currency market, with interest rates, repurchase operations with securities).

Segment information for the main operating segments of the Bank is set out below as of 31 December 2013 and for the year then ended, is provided below:

	Retail banking	Corporate banking	Treasury	Unallocated amounts	2013
Interest income	32 685 450	393 402	1 771 783	-	34 850 635
Interest expense	(4 030 505)	(1 340 447)	(2 182 305)	-	(7 553 257)
Internal (expense)/income on funding	(3 450 623)	1 610 729	312 111	1 527 783	-
(Allowance)/recovery of allowance for impairment losses of interest bearing assets	(19 613 737)	6 896	-	-	(19 606 841)
Net interest income	**5 590 585**	**670 580**	**(98 411)**	**1 527 783**	**7 690 537**
Net non-interest income	**3 112 181**	**134 619**	**2 108 109**	**(77 770)**	**5 277 139**
Operating income	**8 702 766**	**805 199**	**2 009 698**	**1 450 013**	**12 967 676**
Operating expenses	(11 332 661)	(285 050)	(290 149)	-	(11 907 860)
(Loss)/profit before income tax	**(2 629 895)**	**520 149**	**1 719 549**	**1 450 013**	**1 059 816**
Income tax	455 940	(90 177)	(298 116)	(251 386)	(183 739)
Net (loss)/profit	**(2 173 955)**	**429 972**	**1 421 433**	**1 198 627**	**876 077**
Segment assets	**100 802 189**	**5 430 668**	**28 048 737**	**9 438 695**	**143 720 289**
Segment liabilities	**66 756 776**	**20 069 244**	**26 786 324**	**2 617 704**	**116 230 048**

Segment information for the main operating segments of the Bank is set out below as of 31 December 2012 and for the year then ended:

	Retail banking	Corporate banking	Treasury	Unallocated amounts	2012
Interest income from operations with counterparties	28 889 199	532 975	1 624 599	-	31 046 773
Interest expense on operations with counterparties	(3 083 996)	(758 495)	(2 086 316)	(120 594)	(6 049 401)
Internal income/(expense) on funding	(2 400 514)	834 344	232 748	1 333 422	-
(Allowance)/recovery of allowance for impairment losses on interest bearing assets	(10 106 569)	16 424	4 975	-	(10 085 170)
Net interest income	**13 298 120**	**625 248**	**(223 994)**	**1 212 828**	**14 912 202**
Net non-interest income	**2 876 296**	**131 794**	**39 795**	**-**	**3 047 885**
Operating income	**16 174 416**	**757 042**	**(184 199)**	**1 212 828**	**17 960 087**
Operating expenses	(9 222 387)	(373 381)	(284 883)	-	(9 880 651)
Profit/(loss) before income tax	**6 952 029**	**383 661**	**(469 082)**	**1 212 828**	**8 079 436**
Income tax expense	(1 433 843)	(78 844)	96 747	(250 143)	(1 666 083)
Net profit/(loss)	**5 518 186**	**304 817**	**(372 335)**	**962 685**	**6 413 353**
Segment assets	**98 076 075**	**3 752 695**	**32 667 646**	**7 407 974**	**141 904 390**
Segment liabilities	**64 908 986**	**18 161 947**	**29 193 554**	**2 757 091**	**115 021 578**

(in thousands of Russian Rubles unless otherwise stated)

Operations between segments are performed as a part of ordinary activities. The Bank operates principally in the Russian Federation.

28. COMMITMENTS AND CONTINGENCIES

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

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

As of 31 December 2013 provision for losses on credit commitments was RUR 18 186 thousand (31 December 2012: RUR 142 478 thousand).

As of 31 December 2013 and 2012, the credit commitments comprise:

	31 December 2013 Nominal amount	31 December 2012 Nominal amount
Unused credit lines	75 663 182	51 287 838
Guarantees issued	2 658 334	4 065 059
Import letters of credit	69 546	402 186
Total credit commitments	**78 391 062**	**55 755 083**

Extension of the loans to customers within credit line limits is approved by the Bank on a case-by-case basis and depends on borrowers' financial performance, debt service and other conditions.

Capital commitments – The Bank had capital commitments in respect of rented premises totaling RUR 35 347 thousand as of 31 December 2013 (31 December 2012: RUR 3 170 thousand).

Operating lease commitments – Where the Bank is the lessee, the future minimum lease payments under non cancelable operating leases of premises as of 31 December 2013 and 2012 are as follows:

	31 December 2013	31 December 2012
Less than 1 year	805 705	731 661
Later than 1 year and not later than 5 years	2 166 106	1 677 520
Later than 5 years	201 226	420 461
Total operating lease commitments	**3 173 037**	**2 829 642**

Legal proceedings – From time to time and in the normal course of business, claims against the Bank are received from customers and counterparties. Management is of the opinion that no material unaccrued losses will be incurred. The movements of provisions for legal proceedings are disclosed in Note 4.

Taxation – Due to the presence in Russian commercial legislation, and tax legislation in particular, of provisions allowing for more than one interpretation, and also due to the probability that tax authorities may make judgments on the Bank's activities which differ from those of the Bank, if a particular treatment based on management's judgment of the Bank's business activities are to be challenged by the tax authorities, the Bank may be assessed additional taxes, penalties and interest. Such uncertainty may relate to the valuation of financial instruments, valuation of provision for impairment losses and the market pricing of deals. The management of the Bank believes that it has accrued all tax amounts due and therefore no allowance has been made in the financial statements. Generally, taxpayers are subject to tax audits with respect to three calendar years preceding the year of the audit. However, completed audits do not exclude the possibility of subsequent additional tax audits performed by upper-level tax inspectorates reviewing the results of tax audits of their subordinate tax inspectorates.

Starting from 1 January 2012 new transfer pricing rules came into force in Russia. They provide the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controllable transactions if their prices deviate from the market range or profitability range. According to the provisions of transfer pricing rules, the taxpayer should sequentially apply 5 methods of market price determination prescribed by the Tax Code.

Tax liabilities arising from transactions between companies are determined using actual transaction prices. It is possible with the evolution of the interpretation of the transfer pricing rules in the Russian Federation and the changes in the approach of the Russian tax authorities, that such transfer prices could be challenged. Given the short period since the current Russian transfer pricing rules became effective, the impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the Bank.

Business environment – The Bank's principal business activities are within the RF. Laws and regulations affecting the business environment in the RF are subject to rapid changes and the Bank's assets and operations could be at risk due to negative changes in the political and business environment.

Operating Environment – Emerging markets such as the RF are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in the RF continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations. The future economic direction of the RF is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

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

In March 2014, sanctions have been imposed by the U.S. and E.U. on certain Russian officials, businessmen and companies. These official actions, particularly if further extended, may result in reduced access of the Russian businesses to international capital and export markets, capital flight, weakening of the Ruble and other negative economic consequences. The impact of these developments on future operations and financial position of the Bank is at this stage difficult to determine.

29. FIDUCIARY ACTIVITY

The Bank provides depositary services to its customers. As of 31 December 2013 the Bank held as the nominee holder for its customers' securities in the amount of 92 098 419 349 securities (31 December 2012: 92 109 601 623 securities).

(in thousands of Russian Rubles unless otherwise stated)

30. TRANSACTIONS WITH RELATED PARTIES

Related parties or transactions with related parties, as defined by IAS 24 “Related Party Disclosures”, represent parties that directly, or indirectly through one or more intermediaries: control, or are controlled by, or are under common control with, the Bank (this includes parents, subsidiaries and fellow subsidiaries); have an interest in the Bank that gives them significant influence over the Bank; and that have joint control over the Bank:

(a) Associates – enterprises on which the Bank has significant influence and which is neither 7a subsidiary nor a joint venture of the investor;
(b) Joint ventures in which the Bank is a venturer;
(c) Key management personnel of the Bank or its parent;
(d) Close members of the family of any individuals referred to in (a)-(c);
(e) Parties that are entities controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (a)-(d);
(f) Post-employment benefit plans for the benefit of employees of the Bank, or of any entity that is a related party of the Bank.

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. The Bank had the following transactions outstanding with related parties:

	31 December 2013		31 December 2012	
	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption
Cash and cash equivalents	**5 103**	**8 844 946**	**1 452**	**6 549 339**
- shareholders	4 536		1 129	
- entities and banks controlled by the shareholders	567		323	
Financial assets at fair value through profit or loss	**253 576**	**597 937**	**63 471**	**128 683**
- shareholders	253 576		63 471	
Due from banks and other financial institutions	**7 928 208**	**8 728 959**	**10 651 782**	**12 937 997**
- shareholders	7 928 208		10 651 782	
Loans to customers	**179 452**	**131 811 115**	**261 638**	**125 298 112**
- key management personnel of the Bank	-		14 260	
- entities and banks controlled by the shareholders	179 452		246 596	
- other related parties	-		782	

(in thousands of Russian Rubles unless otherwise stated)

	31 December 2013		31 December 2012	
	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption
Allowance for impairment loss on loans to customers	**-**	**26 176 196**	**25**	**23 469 341**
- key management personnel of the Bank	-		25	
Financial assets available-for-sale	**2 888 815**	**13 616 315**	**4 477 982**	**15 773 894**
- shareholders	2 770 048		4 180 624	
- entities and banks controlled by the shareholders	118 767		297 358	
Other assets	**49**	**1 074 651**	**120**	**691 263**
- shareholders	49		68	
- entities and banks controlled by the shareholders	-		30	
- other related parties	-		22	
Due to other banks	**1 333 540**	**8 601 924**	**6 700 920**	**10 345 962**
- shareholders	1 192 367		6 500 976	
- entities and banks controlled by the shareholders	141 173		199 944	
Financial liabilities at fair value through profit or loss	**176 694**	**215 466**	**200 352**	**326 553**
- shareholders	176 694		200 352	
Customer accounts	**420 355**	**86 826 020**	**558 477**	**83 070 933**
- shareholders	246 879		233 100	
- key management personnel of the Bank	79 972		210 216	
- entities and banks controlled by the shareholders	90 184		86 873	
- other related parties	3 320		28 288	
Debt securities issued	**1 095 826**	**15 567 715**	**1 094 754**	**16 262 215**
- shareholders	1 095 826		1 094 754	
Other liabilities	**39 439**	**2 430 946**	**60 952**	**2 389 511**
- shareholders	8		4	
- key management personnel of the Bank	39 431		60 948	
Subordinated debt	**2 386 020**	**2 401 219**	**2 242 124**	**2 258 824**
- shareholders	1 758 571		1 672 943	
- entities and banks controlled by the shareholders	627 449		569 181	
Commitments on unused credit lines	**-**	**75 663 182**	**4 809**	**51 287 838**
- key management personnel of the Bank	-		4 739	
- other related parties	-		70	

(in thousands of Russian Rubles unless otherwise stated)

The remuneration of directors and other members of key management personnel was as follows:

	31 December 2013		31 December 2012	
	Related party transactions	**Total category as per financial statements caption**	**Related party transactions**	**Total category as per financial statements caption**
Key management personnel compensation				
Short-term benefits	316 847	5 408 984	367 506	4 641 587
	316 847	**5 408 984**	**367 506**	**4 641 587**

Included in the income statement for the years ended 31 December 2013 and 2012 are the following amounts which arose due to transactions with related parties:

	31 December 2013		31 December 2012	
	Related party transactions	**Total category as per financial statements caption**	**Related party transactions**	**Total category as per financial statements caption**
Interest income	**709 383**	**34 850 635**	**1 124 774**	**31 046 773**
- shareholders	689 804		1 098 859	
- key management personnel of the Bank	1 226		1 367	
- entities and banks controlled by the shareholders	18 353		24 376	
- other related parties	-		172	
Interest expenses	**(450 493)**	**(7 553 257)**	**(567 899)**	**(6 049 401)**
- shareholders	(412 870)		(530 777)	
- key management personnel of the Bank	(7 422)		(7 392)	
- entities and banks controlled by the shareholders	(30 098)		(29 108)	
- other related parties	(103)		(622)	
Net gain on financial assets and liabilities at fair value through profit or loss	**264 816**	**489 462**	**146 264**	**700 111**
- shareholders	264 816		130 651	
- entities and banks controlled by the shareholders			15 613	
Net gain/(loss) on foreign exchange operations	**9 826**	**276 964**	**(417)**	**(414 126)**
- shareholders	9 431		-	-
- key management personnel of the Bank	366		1 446	
- entities and banks controlled by the shareholders	28		203	
- other related parties	1		(2 066)	
Fee and commission income	**1 191**	**5 999 976**	**1 526**	**5 210 330**
- shareholders	73		335	
- key management personnel of the Bank	131		193	
- entities and banks controlled by the shareholders	970		980	
- other related parties	17		18	
Fee and commission expense	**(1 877)**	**(2 898 950)**	**(96)**	**(2 331 071)**
- shareholders	(1 875)		(94)	
- entities and banks controlled by the shareholders	(2)		(2)	

(in thousands of Russian Rubles unless otherwise stated)

	31 December 2013		31 December 2012	
	Related party transactions	**Total category as per financial statements caption**	**Related party transactions**	**Total category as per financial statements caption**
Net gain/(loss) on financial assets available-for-sale	**1 341 648**	**1 311 381**	**-**	**(8 751)**
- shareholders	1 446 520		-	
- entities and banks controlled by the shareholders	(104 872)			
Other income	**616**	**29 676**	**955**	**36 315**
- shareholders	45		44	
- key management personnel of the Bank	-		51	
- entities and banks controlled by the shareholders	571		860	
Operating expense excluding staff costs and social taxes	**(147 516)**	**(5 222 964)**	**(137 165)**	**(4 197 269)**
- key management personnel of the Bank	(2 424)		-	
- entities and banks controlled by the shareholders	(145 092)		(137 165)	

31. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

Some of the Bank's financial instruments are measured at fair value at the end of each reporting period. The carrying amount of other financial assets and liabilities is approximately equal to fair value.

The Bank measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

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

The Bank's valuation approach and fair value hierarchy categorization for significant classes of financial instruments recognized at fair value as at 31 December 2013 is as follows:

	Level 1	**Level 2**	**Level 3**	**Total fair value**
Financial assets at fair value through profit or loss	238 156	359 781	-	**597 937**
Financial assets available-for-sale	13 489 178	-	118 767	**13 607 945**
	13 727 334	**359 781**	**118 767**	**14 205 882**
Financial liabilities at fair value through profit or loss	-	215 466	-	**215 466**
		215 466	-	**215 466**

(in thousands of Russian Rubles unless otherwise stated)

The Bank's valuation approach and fair value hierarchy categorization for certain significant classes of financial instruments recognized at fair value as at 31 December 2012 is as follows:

	Level 1	Level 2	Level 3	Total fair value
Financial assets at fair value through profit or loss	37 237	91 446	-	**128 683**
Financial assets available-for-sale	15 542 477	-	223 639	**15 766 116**
	15 579 714	**91 446**	**223 639**	**15 894 799**
Financial liabilities at fair value through profit or loss	-	326 553	-	**326 553**
	-	**326 553**	**-**	**326 553**

There were no transfers between Level 1 and 2 in the year 2013 and 2012.

The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

Financial assets/ financial liabilities	Valuation technique(s) and key input(s)
Financial assets at fair value through profit or loss and financial assets available-for-sale – quoted securities	Quoted bid prices in an active market.
Derivative financial assets and financial liabilities	Discounted cash flows. Bank adopts multi curve valuation approach for calculating the net present value of future cash flows based on different curves used for determining forward rates and used for discounting purposes. Discounting rates used are directly observable in the active market at the valuation date.
Financial assets available-for-sale – unquoted securities	Net assets based valuation of outstanding assets and liabilities

The fair value of unquoted equity securities available for sale was determined by net assets based valuation. The value of underlying assets and liabilities was significant unobservable input in the valuation process.

The fair value of financial instruments that are not measured at fair value doesn't differ significantly from carrying amount in the Statement of Financial Position.

The reconciliation of Level 3 fair value measurements of financial assets is presented as follows:

	Financial assets available-for-sale – unquoted equities
December 31, 2011	-
Reclassification from investment in associate	207 560
Gain on revaluation – other comprehensive income	16 079
December 31, 2012	**223 639**
Impairment recognized in profit or loss	(104 872)
December 31, 2013	**118 767**

(in thousands of Russian Rubles unless otherwise stated)

32. CAPITAL RISK MANAGEMENT

The Bank's policy establishes a basis for the maintenance of a stable capital base to retain the trust of investors, lenders and market participants. The Bank's capital management is aimed at compliance with capital requirements established by the Central Bank of the Russian Federation, future development of the business, maintenance of the capital base sufficient to ensure compliance with laid down capital adequacy ratio requirement. The Bank controls the capital adequacy ratio, determining the ratio value on a daily basis.

In accordance with effective requirements established by the Central Bank of the Russian Federation, banks must maintain the ratio of capital to risk weighted assets ("capital adequacy ratio") above the established minimum level of 10%.

In 2013 the Bank complied with all external requirements to the capital.

Capital adequacy ratio calculation according to the requrements of the Central Bank of the Russian Federation is presented below.

	31 December 2013	**31 December 2012**
Core capital	22 726 721	23 143 948
Additional capital	3 487 814	1 428 937
Total capital	**26 214 535**	**24 572 885**
Risk weighted assets	**186 879 148**	**151 792 656**
Total capital adequacy ratio	**14.0%**	**16.2%**

33. RISK MANAGEMENT POLICIES

Improvement of risk management quality is one of the priorities of the Bank. In 2013 the Bank continued the work on bringing the Bank's risk management system to the standards of the Parent Bank.

In 2013 as a part of its risk management procedures integration process the Bank continued the work on implementation of principles of general evaluation and risk acceptance, adopted by the Bank's parent, taking into consideration local peculiarities, regulative base of the Central Bank of the Russian Federation and the Basel Committee's recommendations on banking surveillance.

A better transparency of the risk management system is a key task for the successful integration of the Bank in the general risk management system of the Parent Bank. This task is performed, among other, by means of implementation of information systems used in the Parent Bank for risk assessment and control.

The risk management system of the Bank is developed based on continuous processes of risk detection, analysis, evaluation, control and monitoring.

The main risks inherent in the Bank's operations are those related to:

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

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

Credit risk

The Bank is exposed to credit risk which is the risk that one party to a financial instrument will fail to discharge an obligation and, consequently, the other party will incur a financial loss.

The Bank's main priority is credit risk management. Expansion of loan portfolio, a larger market share and launch of new products are performed under obligatory control over credit risk levels.

Credit risk management is carried out in compliance with regulative documents approved by the Bank's Main Credit Committee. The regulations envisage a system approach based on risk awareness, differentiation of responsibilities, monitoring and control over the risk run.

The Bank structures the level of credit risk it undertakes by placing limits to the amount of risk accepted in relation to one borrower or groups of interrelated borrowers and monitors the compliance on a regular basis. The limits are subject to quarterly or more frequent reviews. The Bank's Main Credit Committee sets limits to the level of credit risk accepted in relation to a borrower, a product and industry sector. Limits in excess of the Credit Committee's authority are approved by the Credit Committee of OTP Bank Nyrt. Major credit risks of the Bank are associated with operations in financials markets and corporate and retail lending.

Special attention is paid to managing retail lending risks. The level of risk accepted by the Bank is constantly monitored by portfolios and products, amount of overdue debt, ratio between accepted risk and the level of income from retail lending operations. The Bank gives special importance to scoring models used for credit analysis depending on the type of the credit product, regional features of RF constituent territories and client segment. These models are regularly reviewed and adjusted depending on both external and internal factors. Besides, the Bank applies scoring models on the basis of data of two credit offices. The Bank is constantly improving automated anti-fraud systems. All these arrangements allow to support a stable quality of retail loan portfolio. The Bank also actively collects overdue retail debt both with its own efforts and through six collection agencies, thus improving the portfolio's risk/return ratio. In the year 2013 the Bank increased the amount of employees in the collection department.

In 2013 there were no significant changes in Bank's credit risk policy compared to the year 2012. The main priority in risk policies and procedures development is improvement of risk monitoring and analytical database supporting risk management decisions.

In 2013 special attention was paid to collecting of overdue debts in retail segment including developing relationship with collector agencies.

In 2013 the Bank's approach for lending to retail customers was based on the following principles:

- Focus on continuous improvement of risk management methods and retail lending processes (implementing and testing new projects);
- Optimization of the lending process to maintain a stable level of overdue debts and keep fraud within acceptable limits;
- Attraction of best customers by focusing on targeted groups that the Bank is interested in;
- Cross sale of credit products to current customers;
- Daily monitoring of the loan portfolio.

In 2013 the Bank, as part of its retail loan portfolio risk management, performed the following arrangements:

- In the POS lending segment:
  - Improving of segmentation of loan portfolio to reduce segments with high risk costs and low profitability;
  - Implementation of new concepts in trigger system in order to mitigate risk of fraud (post verification, agents monitoring);
  - New study program for agents to improve risk perception;
- In the segment of credit cards:
  - Implementation of new credit limits extention system for target segments;
  - Revision of credit limits blocking and reducing system;
  - Existing technologies of issuance of credit cards were revised and renewed;
- In the retail lending segment (non-purpose loans):
  - Revision of decision making system and verification systmen to improve profitability;
  - Optimisation of scoring model taking into account credit bureau data;
  - Implementation of statistical model for new products improving scoring system.

The corporate borrower credit risk management system is based on impartial and precise assessment of the borrowers' financial position and their business development prospects; regular monitoring of corporate borrowers' financial position and quality of debt service throughout the lending period; and a careful and balanced approach to loan portfolio management.

In 2013 the following principles of credit risk management were applied in the corporate business segment:

- Selectivity principle and stricter requirements to the borrower's financial situation when attracting new large corporate customers;
- Diversification of the loan portfolio: distribution of the loan portfolio between the largest possible number of borrowers (including by way of reducing the average amount of transactions) and industries;
- Selectiveness when financing economic sectors, based on key performance indicators of the relevant sector, its competitive environment and dependence on borrowings;
- Better monitoring;
- Management of the process of early detection and reduction of bad debt;
- Minimization of possible losses by accepting lending transactions secured by the most liquid and reliable collateral;
- Higher profitability of the corporate business, including by way of selling the Bank's non-credit services to borrowers.

Credit risk of financial institutions (banks, insurance and investment companies) is managed by assessment of the counterparties' financial position, setting and controlling of limits compliance, continual monitoring of financial institutions. The techniques of the counterparties' financial position analysis and approaches to limits setting used in the Bank are in accordance with requirements of the Parent Bank. The Bank uses structured limit system for banks-counterparties, including limits on values of credit, deliverable and pre-deliverable risks in the financial markets.

(in thousands of Russian Rubles unless otherwise stated)

Maximum credit risk exposure

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

The following table presents the maximum exposure to credit risk of balance sheet and off balance sheet financial assets. For financial assets in the balance sheet accounts, the maximum exposure is equal to the carrying amount of those assets prior to any offset or collateral. For financial guarantees and other off balance sheet assets, the maximum exposure to credit risk is the maximum amount the Bank would have to pay if the guarantee was called on or in the case of commitments, if the loan amount was called on, net of provision for impairment loss.

As of 31 December 2013:

	Maximum credit risk exposure	Collateralized exposures	Net exposure after collateral
Balances with the Central Bank of the Russian Federation	3 924 455	-	3 924 455
Balances on correspondent accounts and on accounts with non-banking credit institutions	1 609 744	-	1 609 744
Obligatory reserve deposit with the Central Bank of the RF	1 057 694	-	1 057 694
Financial assets at fair value through profit or loss	597 937	-	597 937
Due from banks and other financial institutions	8 728 959	-	8 728 959
Loans to customers	105 634 919	(8 808 875)	96 826 044
Financial assets available-for-sale	13 489 178	-	13 489 178
Financial assets held-to-maturity	169 264	-	169 264
Other financial assets	24 378	-	24 378
Guarantees issued and other commitments	2 657 595	(264 991)	2 392 604
Letters of credit and other transaction related contingent obligations	69 546	-	69 546
Commitments on loans and unused credit lines	75 645 735	-	75 645 735

As of 31 December 2012:

	Maximum credit risk exposure	Collateralized exposures	Net exposure after collateral
Balances with the Central Bank of the Russian Federation	2 565 112	-	2 565 112
Balances on correspondent accounts and on accounts with non-banking credit institutions	1 107 597	-	1 107 597
Obligatory reserve deposit with the Central Bank of the RF	1 162 133	-	1 162 133
Financial assets at fair value through profit or loss	128 683	-	128 683
Due from banks and other financial institutions	12 937 997	-	12 937 997
Loans to customers	101 828 771	(11 435 159)	90 393 612
Financial assets available-for-sale	15 542 477	-	15 542 477
Financial assets held-to-maturity	154 363	-	154 363
Other financial assets	38 541	-	38 541
Guarantees issued and other commitments	4 065 610	(1 635 525)	2 430 085
Letters of credit and other transaction related contingent obligations	401 185	-	401 185
Commitments on loans and unused credit lines	51 145 810	-	51 145 810

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

(in thousands of Russian Rubles unless otherwise stated)

As of 31 December 2013 the balances with the Central Bank of the Russian Federation including obligatory reserve comprised RUR 4 982 149 thousand (31 December 2012: RUR 3 727 245 thousand). The credit rating of the Russian Federation according to the international rating agencies in 2013 and 2012 corresponded to investment level BBB.

The following table details the credit ratings of non-impaired financial assets held by the Bank as of 31 December 2013 (this information prepared for all financial assets that are neither past due nor impaired):

	AA	A	BBB	<BBB	Not rated	31 December 2013 Total
Balances on correspondent accounts and on accounts with non-banking credit institutions	1 100	202 899	1 185 263	9 248	211 234	1 609 744
Financial assets at fair value through profit or loss	-	23 746	320 626	253 565	-	597 937
Due from banks other financial institutions	-	105 133	695 618	7 928 208	-	8 728 959
Loans to customers	-	-	-	216 491	7 916 510	8 133 001
Financial assets available-for-sale	-	-	8 077 445	5 411 733	-	13 489 178
Financial assets held-to-maturity	-	-	-	169 264	-	169 264
Other financial assets	-	-	-	-	11 224	11 224

As of 31 December 2012:

	AA	A	BBB	<BBB	Not rated	31 December 2012 Total
Balances on correspondent accounts and on accounts with non-banking credit institutions	5 333	578 068	302 870	1 413	219 913	1 107 597
Financial assets at fair value through profit or loss	-	-	65 044	63 471	168	128 683
Due from banks other financial institutions	-	571 708	1 414 352	10 651 782	300 155	12 937 997
Loans to customers	-	-	-	14 652	10 670 909	10 685 561
Financial assets available-for-sale	-	101 523	10 494 310	4 946 644	-	15 542 477
Financial assets held-to-maturity	-	-	-	154 363	-	154 363
Other financial assets	-	-	-	-	37 829	37 829

Banking industry is generally exposed to credit risk through its financial assets and contingent liabilities. With regard to the loans to customers this risk exposure is generally concentrated within the Russian Federation. The credit risk exposure is monitored on a regular basis to ensure that the credit limits and credit worthiness guidelines established by the Bank's risk management policy are complied with.

All overdue financial assets are impaired.

The Bank enters into numerous transactions where the counterparties are not rated by international rating agencies including loans to individuals. The Bank has developed internal models, which allow it to determine the rating of counterparties for internal risk management purposes. Credit rating classification for all loans to customers is based on loan overdue period. The bank has the following credit risk groups:

Credit risk group	Overdue period range
Performing	Below 30 days
To be monitored	Between 30 and 60 days
Below average	Between 60 and 90 days
Doubtfull	Between 90 and 180 days
Bad	Over 180 days

Information about amounts of loans and allowance for loan losses for each credit risk group period is presented in Note 15.

(in thousands of Russian Rubles unless otherwise stated)

Renegotiated loans to customers

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

The table below shows the carrying amount of renegotiated loans to customers by class:

Financial asset class	**31 December 2013**	**31 December 2012**
Corporate loans	173 082	315 313
Mortgage loans	204 834	202 569
Consumer loans	84 251	187 003
Car loans	9 968	13 079
Total renegotiated loans to customers	**472 135**	**717 964**

The banking industry is generally exposed to credit risk through its loans to customers and interbank deposits. With regard to the loans to customers this risk exposure is concentrated within the country. The exposure is monitored on a regular basis to ensure that the credit limits and creditworthiness guidelines established by the Bank's risk management policy are not breached.

Geographical concentration

Country (regional) risk is a risk that a credit institution may incur losses due to the failure of foreign counterparties to fulfill their obligations due to economic, political or social changes, as well as due to specific provisions of national legislation. This risk is controlled by the Bank's Credit Committee. When handling loan applications, market work technologies, the Bank pays a special attention to residence of a potential borrower and to the impact of regional factor on functioning of the technology. More severe requirements are in effect for non-residents as compared to the residents of the Russian Federation. The Bank continuously monitors the recent developments in the world in order to be able to react to the relevant changes in a timely manner. The Bank limits the country risk value in accordance with requirements of the Parent Bank, implements regular country risk control.

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

	Russian Federation	**OECD countries**	**Other countries**	**31 December 2013 Total**
Financial assets				
Cash and cash equivalents	8 629 838	212 088	3 020	8 844 946
Obligatory reserve deposit with the Central Bank of the RF	1 057 694	-	-	1 057 694
Financial assets at fair value through profit or loss	320 626	277 311	-	597 937
Due from banks and other financial istitutions	695 618	8 033 341	-	8 728 959
Loans to customers	105 622 390	12 475	54	105 634 919
Financial assets available-for-sale	9 991 979	3 505 569	118 767	13 616 315
Financial assets held-to-maturity	-	169 264	-	169 264
Other financial assets	24 354	20	4	24 378
Total financial assets	**126 342 499**	**12 210 068**	**121 845**	**138 674 412**

(in thousands of Russian Rubles unless otherwise stated)

	Russian Federation	OECD countries	Other countries	31 December 2013 Total
Financial liabilities				
Due to other banks	7 268 384	1 192 896	140 644	8 601 924
Financial liabilities at fair value through profit or loss	8 522	206 944	-	215 466
Customer accounts	84 429 434	1 376 302	1 020 284	86 826 020
Debt securities issued	15 567 715	-	-	15 567 715
Other financial liabilities	1 247 512	2	66	1 247 580
Subordinated debt	15 200	1 758 570	627 449	2 401 219
Total financial liabilities	**108 536 767**	**4 534 714**	**1 788 443**	**114 859 924**
Net position	**17 805 732**	**7 675 354**	**(1 666 598)**	**23 814 488**

	Russian Federation	OECD countries	Other countries	31 December 2012 Total
Non-derivative financial assets				
Cash and cash equivalents	5 962 735	586 246	358	6 549 339
Obligatory reserve deposit with the Central Bank of the RF	1 162 133	-	-	1 162 133
Financial assets at fair value through profit or loss	100 708	27 975	-	128 683
Due from banks and other financial institutions	1 714 507	11 223 490	-	12 937 997
Loans to customers	101 789 100	39 320	351	101 828 771
Financial assets available-for-sale	11 260 836	4 289 419	223 639	15 773 894
Financial assets held-to-maturity	-	154 363	-	154 363
Other financial assets	38 517	19	5	38 541
Total non-derivative financial assets	**122 028 536**	**16 320 832**	**224 353**	**138 573 721**
Non-derivative financial liabilities				
Due to other banks	3 628 580	6 517 438	199 944	10 345 962
Financial liabilities at fair value through profit or loss	161 699	164 854	-	326 553
Customer accounts	81 840 779	410 319	819 835	83 070 933
Debt securities issued	16 262 215	-	-	16 262 215
Other financial liabilities	1 065 687	1 247	110	1 067 044
Subordinated debt	16 700	1 672 943	569 181	2 258 824
Total non-derivative financial liabilities	**102 975 660**	**8 766 801**	**1 589 070**	**113 331 531**
Net position	**19 052 876**	**7 554 031**	**(1 364 717)**	**25 242 190**

Liquidity risk

Liquidity risk is the risk that the Bank may not be able to meet its financial obligations when they are due or financial losses might be incurred resulting from selling assets with disadvantageous conditions due to inadequate liquidity management, or additional costs due to borrowing additional funds, or lost income due to holding superfluous liquidity.

Goals of strategic liquidity management are:

- Ensuring sufficient liquidity of the Bank, i.e. the fulfillment of its obligations at the lowest possible cost;
- Funding of the planned business growth to avoid forced limitation of the profitable business activity;
- Keeping cushion of unencumbered, high quality liquid assets to withstand a range of stress events, such as deposit withdrawals and loss or impairment of both unsecured and secured assets;
- Ensuring fulfillment with Bank of Russia's ratios, reserve requirements and other regulations.

On its operational level liquidity management aims at daily cash and nostro accounts management to facilitate payments and settlements, as well as to provide compliance with Bank of Russia's reserve requirements and required liquidity ratios.

Recently the Bank has adopted Parent Bank's standards of liquidity management on the basis of the following approaches:

- <u>Operative liquidity management.</u> To assess the state of liquidity on a six month horizon, maturing money- and/or capital market funds, expected core business funding needs (inflows less outflows) and potential size of deposit withdrawal shock* should be subtracted from the size of available liquidity. Positive result indicates the excess liquidity (liquidity exceeds its trigger level), while negative result indicates the shortage of liquidity (liquidity is below its trigger level). Depending on the actual difference between stock of liquidity and its trigger, either investment, or funding decision may be needed.

  *The Bank includes into operative liquidity analysis a stress component, meaning that it has to be prepared for realization of deposit withdrawal shock calculated from historical time series of deposits using VaR methodology at 99% significance level. Currently the size of shock is approx 12% of the overall deposit portfolio.
- <u>Liquidity pool concept.</u> Liquidity pool is a facility where all subsidiaries can submit their excessive FX liquidity in a certain currency and can withdraw funding if they run short of liquidity.
- <u>Liquidity gap analysis/Liquidity ratio report.</u> This report aims to measure liquidity risk by calculating for each significant currency the gap between cash inflows and cash outflows for certain time horizons. Besides, it is structured to enable calculation and reporting of the Basel III liquidity standards (LCR – Liquidity Coverage Ratio; NSFR – Net Stable Funding Ratio)
- <u>Liquid assets management concept.</u> The purpose is to ensure the most profitable investments without endangering the Bank's liquidity position.
- <u>Contingency plan.</u> To manage the Bank's liquidity in a range of stress events, local ALCO has to approve a contingency funding plan on a basis of stress-testing results. It is supposed to contain a list of indicators to detect early crisis symptoms, establish clear lines of responsibility, describe information flows and include other information for the staff, involved in crisis management. The plan should be updated on a regular basis to ensure its operational robustness.

The liquidity management process is coordinated by the Assets and Liabilities Committee (ALCO), which is responsible for developing the Bank's liquidity management strategy, monitoring current liquidity and making decisions on liquidity management.

Function of liquidity risk identification and measurement at the level of the whole Bank is delegated to ALM department, that reports liquidity risk exposure directly to local ALCO and Group ALM on a monthly and weekly basis respectively.

- Intraday liquidity is monitored by another department of Directorate of ALM and Funding, which is responsible for the estimation of the Bank's payment position and optimization of its cash flows.

(in thousands of Russian Rubles unless otherwise stated)

Further is analysis of liquidity and interest rate risks.

	Weighted average effective interest rate	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	31 December 2013 Total
Financial assets								
Fixed interest rate instruments								
Cash and cash equivalents	0.32%	51 898	-	-	-	-	-	51 898
Financial assets at fair value through profit or loss	7.26%	3 186	3 613	-	34 507	196 850	-	238 156
Due from banks	1.97%	7 071 363	1 639 978	-	-	-	-	8 711 341
Loans to customers	41.20%	43 346 928	10 465 427	26 172 314	22 210 880	2 997 746	-	105 193 295
Financial assets available-for-sale	7.80%	41 253	1 851 033	2 966 553	3 032 000	5 598 339	-	13 489 178
Financial assets held-to-maturity	8.63%	169 264	-	-	-	-	-	169 264
Total fixed interest bearing financial assets		**50 683 892**	**13 960 051**	**29 138 867**	**25 277 387**	**8 792 935**	**-**	**127 853 132**
Variable interest rate instruments								
Cash and cash equivalents	0.01%	3 744	-	-	-	-	-	3 744
Loans to customers	20.38%	54 025	3 663	16 236	106 828	260 872	-	441 624
Total variable interest bearing financial assets		**57 769**	**3 663**	**16 236**	**106 828**	**260 872**	**-**	**445 368**
Non-interest bearing financial assets								
		8'789'304						
Cash and cash equivalents		8 789 304	-	-	-	-	-	8 789 304
Obligatory reserve deposit with the Central Bank of the RF		1 057 694	-	-	-	-	-	1 057 694
Financial assets at fair value through profit or loss		80 622	27 814	19 760	231 585	-	-	359 781
Due from banks		17 618	-	-	-	-	-	17 618
Financial assets available-for-sale		-	-	-	-	-	127 137	127 137
Other financial assets		23 302	-	1 076	-	-	-	24 378
Total non-interest bearing financial assets		**9 968 540**	**27 814**	**20 836**	**231 585**	**-**	**127 137**	**10 375 912**
Total financial assets		**60 710 201**	**13 991 528**	**29 175 939**	**25 615 800**	**9 053 807**	**127 137**	**138 674 412**
						-		
Financial liabilities								
Fixed interest rate instruments								
Due to other banks	4.74%	7 841 448	500 658	181 848	-	-	-	8 523 954
Customer accounts	7.72%	24 917 105	10 517 752	27 794 367	5 772 554	-	-	69 001 778
Debt securities issued	9.37%	122 117	8 874 862	6 511 353	53 702	-	-	15 562 034
Subordinated debt	6.35%	-	18 936	2 085 083	282 000	-	-	2 386 019
Total fixed interest bearing financial liabilities		**32 880 670**	**19 912 208**	**36 572 651**	**6 108 256**	**-**	**-**	**95 473 785**
Variable interest rate instruments								
Subordinated debt	8.25%	-	-	11 000	4 200	-	-	15 200
Total variable interest bearing financial liabilities		**-**	**-**	**11 000**	**4 200**	**-**	**-**	**15 200**

(in thousands of Russian Rubles unless otherwise stated)

	Weighted average effective interest rate	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	31 December 2013 Total
Non-interest bearing financial liabilities								
Due to other banks		77 970	-	-	-	-	-	77 970
Financial liabilities at fair value through profit or loss		1 245	129 346	-	84 875	-	-	215 466
Customer accounts		17 820 694	978	2 506	64	-	-	17 824 242
Debt securities issued		1 000	1 612	1 433	1 636	-	-	5 681
Other financial liabilities		1 092 881	38	154 650	11	-	-	1 247 580
Total non-interest bearing financial liabilities		**18 993 790**	**131 974**	**158 589**	**86 586**	**-**	**-**	**19 370 939**
Total non-derivative financial liabilities		**51 874 460**	**20 044 182**	**36 742 240**	**6 199 042**	**-**	**-**	**114 859 924**
Interest sensitivity gap		**17 860 991**	**(5 948 494)**	**(7 428 548)**	**19 271 759**	**9 053 807**		
Cumulative interest sensitivity gap		**17 860 991**	**11 912 497**	**4 483 949**	**23 755 708**	**32 809 515**		
Liquidity gap		**8 835 741**	**(6 052 654)**	**(7 566 301)**	**19 416 758**	**9 053 807**		
Cumulative liquidity gap		**8 835 741**	**2 783 087**	**(4 783 214)**	**14 633 544**	**23 687 351**		

(in thousands of Russian Rubles unless otherwise stated)

	Weighted average effective interest rate	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	31 December 2012 Total
Financial assets								
Fixed interest rate instruments								
Cash and cash equivalents	0.16%	29 690	-	-	-	-	-	29 690
Financial assets at fair value through profit or loss	7.00%	-	808	-	-	36 429	-	37 237
Due from banks	3.29%	12 795 931	-	-	-	-	-	12 795 931
Loans to customers	40.19%	39 420 507	10 969 971	27 569 016	19 707 816	3 572 141	-	101 239 451
Financial assets available-for-sale	7.55%	7 563	1 227 672	5 515 395	8 047 112	744 735	-	15 542 477
Financial assets held-to-maturity	8.63%	6 483	-	-	147 880	-	-	154 363
Total fixed interest bearing financial assets		**52 260 174**	**12 198 451**	**33 084 411**	**27 902 808**	**4 353 305**	**-**	**129 799 149**
Variable interest rate instruments								
Cash and cash equivalents	0.09%	2 513	-	-	-	-	-	2 513
Due from banks	0.13%	28 162	-	-	-	-	-	28 162
Loans to customers	19.01%	27 388	5 003	21 194	145 660	390 075	-	589 320
Total variable interest bearing financial assets		**58 063**	**5 003**	**21 194**	**145 660**	**390 075**	**-**	**619 995**
Non-interest bearing financial assets								
Cash and cash equivalents		6 517 136	-	-	-	-	-	6 517 136
Obligatory reserve deposit with the Central Bank of the RF		1 162 133	-	-	-	-	-	1 162 133
Financial assets at fair value through profit or loss		31 118	167	-	60 161	-	-	91 446
Due from banks		113 904	-	-	-	-	-	113 904
Financial assets available-for-sale		-	-	-	-	-	231 417	231 417
Other financial assets		34 172	1 882	2 338	149	-	-	38 541
Total non-interest bearing financial assets		**7 858 463**	**2 049**	**2 338**	**60 310**	**-**	**231 417**	**8 154 577**
Total financial assets		**60 176 700**	**12 205 503**	**33 107 943**	**28 108 778**	**4 743 380**	**231 417**	**138 573 721**
Financial liabilities								
Fixed interest rate instruments								
Due to other banks	4.80%	3 448 798	551 941	2 028 975	-	-	-	6 029 714
Customer accounts	7.70%	25 268 648	6 463 364	27 018 997	5 359 290	-	-	64 110 299
Debt securities issued	8.87%	835 266	1 138 996	354 792	13 917 539	-	-	16 246 593
Subordinated debt	6.37%	-	17 797	-	2 224 327	-	-	2 242 124
Total fixed interest bearing financial liabilities		**29 552 712**	**8 172 098**	**29 402 764**	**21 501 156**	**-**	**-**	**88 628 730**
Variable interest rate instruments								
Due to other banks	4.68%	-	25 220	4 252 178	-	-	-	4 277 398
Subordinated debt	8.25%	-	-	-	16 700	-	-	16 700
Total variable interest bearing financial liabilities		**-**	**25 220**	**4 252 178**	**16 700**	**-**	**-**	**4 294 098**

(in thousands of Russian Rubles unless otherwise stated)

	Weighted average effective interest rate	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	31 December 2012 Total
Non-interest bearing financial liabilities								
Due to other banks		38 846	-	4	-	-	-	38 850
Financial liabilities at fair value through profit or loss		4 648	129 573	47 319	145 013	-	-	326 553
Customer accounts		18 956 901	1 025	2 665	43	-	-	18 960 634
Debt securities issued		5 087	5 278	3 738	1 519	-	-	15 622
Other financial liabilities		659 197	6 725	399 367	1 755	-	-	1 067 044
Total non-interest bearing financial liabilities		**19 664 679**	**142 601**	**453 093**	**148 330**	**-**	**-**	**20 408 703**
Total financial liabilities		**49 217 391**	**8 339 919**	**34 108 035**	**21 666 186**	**-**	**-**	**113 331 531**
Interest sensitivity gap		**22 765 525**	**4 006 136**	**(549 337)**	**6 530 612**	**4 743 380**		
Cumulative interest sensitivity gap		**22 765 525**	**26 771 661**	**26 222 324**	**32 752 936**	**37 496 316**		
Liquidity gap		**10 959 309**	**3 865 584**	**(1 000 092)**	**6 422 594**	**4 743 380**		
Cumulative liquidity gap		**10 959 309**	**14 824 893**	**13 824 801**	**20 247 395**	**24 990 775**		

The amounts are split according to contractual terms. In the case of no clear contractual terms for monetary assets or liabilities such as for demand deposits or overdrafts the amounts are considered as assets or liabilities up to one month.

The further analysis of maturities of financial liabilities is represented in accordance with a requirement of clause 39 (a) of IFRS 7. The amounts disclosed in the maturity analysis represent undiscounted cash flows under the contracts and do not concur with the balance sheet amounts as a carrying amount is based on discounted cash flows:

(a) Term to maturity of financial liabilities, that are non-derivatives, is calculated for non-discounted cash flows (principal debt and interest) on the earliest date, when the Bank will be liable to redeem the liability;

(b) Term to maturity of financial liabilities, that are derivatives, is calculated for non-discounted cash flows on the earliest date, when the Bank will be liable to redeem the liability;

(c) When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the reporting date.

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	31 December 2013 Total
Due to other banks	7 933 671	509 983	184 247	-	8 627 901
Financial liabilities at fair value through profit or loss	1 245	129 346	-	84 875	215 466
Customer accounts	42 796 373	10 774 744	29 179 059	6 509 124	89 259 300
Debt securities issued	321 649	9 037 936	6 608 206	58 544	16 026 335
Other financial liabilities	1 092 880	38	154 651	11	1 247 580
Subordinated debt	107	38 174	2 168 324	291 986	2 498 591
Liabilities on financial guarantees and letters of credit	145 679	674 146	1 785 345	122 710	2 727 880
Commitments on loans and unused credit lines	75 663 182	-	-	-	75 663 182
Total undiscounted cash flows	**127 954 786**	**21 164 367**	**40 079 832**	**7 067 250**	**196 266 235**

(in thousands of Russian Rubles unless otherwise stated)

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	31 December 2012 Total
Due to other banks	3 491 158	574 194	2 084 699	-	6 150 051
Financial liabilities at fair value through profit or loss	2 219	129 573	47 319	147 442	326 553
Customer accounts	44 292 496	6 644 762	28 388 913	6 081 333	85 407 504
Debt securities issued	871 178	1 310 006	998 420	14 801 202	17 980 806
Other financial liabilities	659 198	6 725	399 367	1 755	1 067 045
Subordinated debt	125	35 942	108 131	2 350 306	2 494 504
Liabilities on financial guarantees and letters of credit	1 300 999	861 313	1 660 607	242 140	4 065 059
Commitments on loans and unused credit lines	51 287 838	-	-	-	51 287 838
Total undiscounted cash flows	**101 905 211**	**9 562 515**	**33 687 456**	**23 624 178**	**168 779 360**

Market Risk

Market risk is the risk of losses due to changes in market prices of a financial instrument. Market risk includes currency, interest rate and other pricing risks.

The Bank is exposed to market risks associated with its interest rate, currency and equity instruments which are subject to general and specific market fluctuations. The Bank uses system of market risk management, including procedures of limits calculation, setting and controlling which mitigate risk exposure and take into account analysis, control and reporting over limits operation. Regular testing of models and risk estimation techniques, based on historical market data and financial results on the Bank's trading operations, is performed in order to provide reliable risk assessment. The ALCO of the Bank is responsible for work coordination of subdivisions, which manage market risk, setting and revision of market risk limits. The Bank sets the following limits: open position limits, VAR-limits and stop-loss limits. The compliance with these limits is monitored on a daily basis by a separate subdivision responsible for assessment of the risk run.

Interest rate risk

Interest rate risk is the risk of losses due to adverse changes of interest rates for assets, liabilities and off-balance sheet instruments of the Bank.

The main sourses of interest rate risk are:

- Mismatch of maturity of assets, liabilities and off-balance sheet instruments and financial instruments with fixed and floating rates (interest rate gap risk);
- Change in the form of yield curve for long and short positions for financial instruments of the same issuer at the date of settlement (yield curve risk);
- Basis risk for restating interest rates of assets and liabilities with matched maturities at the settlement date;
- Dealing with instruments with embedded interest rate options where counterparties have right to choose date of settlements (interest rate option risk).

(in thousands of Russian Rubles unless otherwise stated)

Methods of measuring interest rate risk depend on the risk sourse. Interest rate gap risk is considered to be the most significant risk sourse. To measure this risk the Bank implements widely accepted international practices: gap analysis, duration analysis, which satisifies both Central Bank requirements (letter 15-1-3-6-3995 dd 02/11/2007 “On international approaches (standards) to management of interest rate risk”) and Parent Bank requirements. Based on those practices analysis of interest rate changes is carried out:

- In short term on one year time horizon – effect on profitability due to change in net interest income and other income and expenses depending on interest rates;
- In long term – effect on capital base or economic value of the Bank depending on the present value of future cash flows (in some cases change of those cash flows as well);

Valuation of interest rate risk effect on net interest income (gap analysis) has priority over valuation of interest rate risk effect on economic value (duration analysis) as gap analysis gives more precise estimate of the effect of interest rate changes on operations of the Bank.

As information system and technologies of the Bank develop standard gap analysis is supplemented with interest rate basis and option risk effects estimate, estimate of net interest income change due to change in balance sheet structure (simulation modeling) and stress-testing.

To preserve independence between departments managing interest rate risk and departments dealing with financial instruments sensitive to interest rate changes authority to monitor, measure and manage interest rate risk is deligated to Assets and liabilities management department (ALM).

To manage interest rate risk ALM implements the following instruments:

- Macroeconomic forecasts. According to macroeconomic forecast of interest rate changes and quantitative risk measurements ALM deteremines suitable target interest rate risk position for the Bank.
- Transfer pricing. By adjustment of transfer pricing interest rates ALM stimulates active and passive business operations in specific currency depending on target interest rate risk position in this currency.
- ALM deals. Depending on target interest rate risk position ALM may acquire or issue intstruments with required duration. ALM uses a variety of instruments including futures and forward contracts, interest rate and cross-currency swap contracts.
- Transformation of interest rate risk. In the case of impossibility to manage interest rate gap for short term RUR liabilities and demand for long term assets and also in the case of absence of derivative instruments with required maturity ALM committee may decide to transform interest rate risk for RUR instruments to interest rate risk in foreign currency with simultaneous hedging of foreign currency exchange risk and foreign currency interest rate risk.
- Limits on operations. To reduce interest rate risk limits are set for business operations. ALM interest rate risk position is under ALM committee control and also may be limited. All limits are set according to real level of interest rate risk and must not exceed target level. Capital adequacy and profitability are taken into account in managing interest rate risk.

The following table presents a sensitivity analysis of interest rate risk, which has been determined based on “reasonably possible changes in the risk variable”.

Impact on profit and equity as of 31 December 2013 and 2012 is as follows:

Impact on profit and equity of a change in interest rate by +1%

	Up to 1 month	1 month to 3 months	3 months to 1 year	Total
2013	171 167	99 270	16 814	287 251
2012	218 164	223 092	98 331	539 587

(in thousands of Russian Rubles unless otherwise stated)

Impact on profit and equity of a change in interest rate by -1%

	Up to 1 month	1 month to 3 months	3 months to 1 year	Total
2013	(171 167)	(99 270)	(16 814)	(287 251)
2012	(218 164)	(223 092)	(98 331)	(539 587)

Currency risk

Currency risk is defined as a risk of loss due to changes in foreign exchange rates.

When analyzing the currency risk, impact of external destabilizing factors to the international and local currency markets is taken into consideration.

General management of the Bank's currency positions (in terms of maturity and currency) is carried out by the Bank's collective bodies (the ALCO, the Credit Committee, the Management Board). Presently, the Bank makes a special effort to avoid significant imbalances in the maturity structure of its balance sheet by employing various risk mitigation instruments (borrowing from the Parent Bank and use of derivatives).

On-going management of net foreign currency position is performed by the Bank's Treasury Directorate on the basis of limits set by the Bank's collective bodies and limitations set by the Central Bank of the Russian Federation. The Bank's exposure to currency risk is as follows:

	RUR	USD 1 = RUR 30.7292	EUR 1 = RUR 44.9699	Other currency	31 December 2013 Total
Financial assets					
Cash and cash equivalents	7 264 184	795 909	583 174	201 679	8 844 946
Obligatory reserve deposit with the Central Bank of the RF	1 057 694	-	-	-	1 057 694
Financial assets at fair value through profit or loss	299 794	2 745 766	(1 717 820)	(729 803)	597 937
Due from banks and other financial institutions	693 000	8 018 124	17 835	-	8 728 959
Loans to customers	99 050 951	3 191 301	1 668 441	1 724 226	105 634 919
Financial assets available-for-sale	9 492 850	673 756	3 449 709	-	13 616 315
Financial assets held-to-maturity	-	169 264	-	-	169 264
Other financial assets	23 272	28	1 078	-	24 378
Total financial assets	**117 881 745**	**15 594 148**	**4 002 417**	**1 196 102**	**138 674 412**
Financial liabilities					
Due to other banks	7 624 064	340 221	637 543	96	8 601 924
Financial liabilities at fair value through profit or loss	(3 991 979)	4 479 493	(347 588)	75 540	215 466
Customer accounts	73 664 209	9 003 785	3 910 115	247 911	86 826 020
Debt securities issued	15 455 174	112 541	-	-	15 567 715
Other financial liabilities	1 245 339	2 240	1	-	1 247 580
Subordinated debt	585 050	1 188 720	-	627 449	2 401 219
Total financial liabilities	**94 581 857**	**15 127 000**	**4 200 071**	**950 996**	**114 859 924**
Total net position	**23 299 888**	**467 148**	**(197 654)**	**245 106**	

(in thousands of Russian Rubles unless otherwise stated)

	RUR	USD 1 = RUR 30.3727	EUR 1 = RUR 40.2286	Other currency	31 December 2012 Total
Financial assets					
Cash and cash equivalents	4 860 041	1 051 329	393 638	244 331	6 549 339
Obligatory reserve deposit with the Central Bank of the RF	1 162 133	-	-	-	1 162 133
Financial assets at fair value through profit or loss	2 098 021	(752 423)	(1 216 915)	-	128 683
Due from banks and other financial institutions	2 212 338	10 568 495	157 164	-	12 937 997
Loans to customers	95 018 996	3 795 935	1 048 724	1 965 116	101 828 771
Financial assets available-for-sale	9 940 637	1 428 301	4 404 956	-	15 773 894
Financial assets held-to-maturity	-	154 363	-	-	154 363
Other financial assets	31 788	2 031	4 722	-	38 541
Total non-derivative financial assets	**115 323 954**	**16 248 031**	**4 792 289**	**2 209 447**	**138 573 721**
Financial liabilities					
Due to other banks	2 931 503	5 373 131	366 289	1 675 039	10 345 962
Financial liabilities at fair value through profit or loss	4 020 215	(2 829 657)	70 395	(934 400)	326 553
Customer accounts	67 604 952	10 761 119	4 428 105	276 757	83 070 933
Debt securities issued	15 017 666	1 184 307	60 242	-	16 262 215
Other financial liabilities	1 049 604	4 337	13 103	-	1 067 044
Subordinated debt	586 537	1 103 106	-	569 181	2 258 824
Total non-derivative financial liabilities	**91 210 477**	**15 596 343**	**4 938 134**	**1 586 577**	**113 331 531**
Total net position	**24 113 477**	**651 688**	**(145 845)**	**622 870**	

Currency risk sensitivity

The following table details the Bank's sensitivity to an increase and decrease in the USD and the EUR exchange rates against the RUR. 15% and 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel of the Bank and represents management's assessment of the possible change in foreign currency exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the period for a 15% and 10% change in foreign currency rates.

	31 December 2013		31 December 2012	
	RUR/USD +15%	**RUR/USD -15%**	**RUR/USD +15%**	**RUR/USD -15%**
Impact on profit before tax	32.3%	(32.3%)	1.21%	(1.21)%
Impact on equity	1.2%	(1.2%)	0.36%	(0.36)%

	31 December 2013		31 December 2012	
	RUR/EUR +10%	**RUR/EUR -10%**	**RUR/EUR +10%**	**RUR/EUR -10%**
Impact on profit before tax	11.1%	(11.1%)	(0.18)%	0.18%
Impact on equity	0.4%	(0.4%)	(0.05)%	0.05%

Price risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices whether those changes are caused by factors specific to the individual security or its issuer or factors affecting all securities traded in the market. The Bank is exposed to price risks of its products which are subject to general and specific market fluctuations.

The Bank manages price risk through periodic estimation of potential losses that could arise from adverse changes in market conditions and establishing and maintaining appropriate stop-loss limits and margin and collateral requirements.

For mitigation of the price risk the Bank seeks to diversify its security portfolio. Besides the Bank regularly revalues its portfolio at market value or makes allowance for possible losses on the financial investments for offsetting a loss from unfavorable changes in market conditions. The Bank manages the price risk by applying a system of limits that restricts the volumes of the Bank's trading transactions. These limits are set by the Bank's Asset and Liability Management Department and their observance is controlled on a daily basis by an independent subdivision responsible for the risk level assessment.

The table below represents an analysis of sensitivity to price risk based on the balance sheet position for investments in equity securities at the reporting date.

The results of the analysis of the sensitivity of the Bank profit before tax and equity for the year to changes in prices of securities on a simplified scenario of 1% symmetrical increase or decrease in all equity securities prices are given in the table below:

	31 December 2013		31 December 2012	
	1% increase in securities price	1% decrease in securities price	1% increase in securities price	1% decrease in securities price
Impact on equity	1 017	(1 017)	1 851	(1 851)

Limitations of sensitivity analysis

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

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

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

Operational risk

Operational risk is the risk of loss arising from inadequate or erroneous internal processes, human error, systems failure or external events.

Operational risk management is performed in accordance with internal normative documents of the Bank, which are in compliance with Instructions of the Central Bank of the RF, instructions of the Parent Bank and Basel Committee recommendations. Well-defined division of powers and subdivisions' areas of responsibility in risk management are set in the Bank.

Activity of the Bank's operational risks management includes the following main elements: identification, assessment, monitoring, control and (or) minimization of the Bank's exposure to operational risk as well as distribute authorities to manage operational risk.

The Bank's specially designed software collects information on the facts that operational risk has been realized and losses have been incurred to enable efficient identification of the risk. Collected data are used to develop quantitative techniques of operational risk assessment.

In order to determine potential operational risks the Bank performs annual self-assessment of operational risk, which includes estimation by the Bank of its transactions and business activities in terms of potential exposure to different types of operational risks.

The Bank uses the system of operational risk indication. The system of operational risk indication is maintained in order to prevent exposure to operational risk increase.

For monitoring the level of operational risk and coordinating the activity of operational risk management, and also for development and making decisions on maintaining unique, approved policy for operational risk management the Bank uses collegiate working unit, operating on a continued basis – Committee on operational risks.

To mitigate the operating risk the Bank uses the following primary instruments:

- Improvement of bank technology automation systems and data protection systems (data reconciliation, differentiation of access to information, adjustment and connection of automated checking procedures for diagnostics of erroneous actions, automatic performance of routine repeated actions, etc.);
- Insurance – the Bank uses insurance to cover a number of operating risks;
- Transfer (outsourcing) of risks (e.g. storage and transportation of valuables);
- Control over observance of limits set for transactions;
- Division of powers (no risk concentration);
- Application of the principles “Know your client”, “Know your employee”;
- Other instruments.

For the purpose of mitigation of operational risk the Bank developed and approved Plan of actions for the case of unexpected circumstances using backup automated systems, as well as a crisis management plan.

34. SUBSEQUENT EVENTS

In March 2014 the Bank repaid bonds issued at nominal amount of RUR 8 200 294 thousand.